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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 82/68

10:00 a.m., May 21, 1982

J. de Larosière, Chairman
W. B. Dale, Deputy Managing Director

Executive Directors	Alternate Executive Directors
	H. Alaoui-Abdallaoui, Temporary
	C. Taylor
	M. A. Senior
	H. G. Schneider
B. de Maulde	A. Le Lorier
R. D. Erb	
	S. R. Abiad, Temporary
	T. Yamashita
J. C. Iarezza	
	D. I. S. Shaw, Temporary
	J. R. Gabriel-Peña
	F. Yeo T. Y., Temporary
	J. M. Jones, Temporary
	G. Winkelmann
	C. P. Caranicas
S. Nana-Sinkam	A. Alfidja
	V. K. S. Nair, Temporary
	S. El-Khouri
	L. Ionescu, Temporary
	B. Legarda
J. Sigurdsson	
	Tai Q.

A. Wright, Acting Secretary
K. S. Friedman, Assistant

Also Present

African Department: J. B. Zulu, Director; R. J. Bhatia, Deputy Director; L. M. Goreux, Deputy Director; O. B. Makalou, Deputy Director; Buu Hoan, R. O. Carstens, S. E. Cronquist, R. E. Daumont, P. J. Duran, A. G. A. Faria, Y. Fassassi, R. Franco, C. A. François, S. M. Nsouli, J. Perejoan-Mustaros, M. Reichardt, S. L. Rothman, E. Sacerdoti, M. Sidibe, A. Tahari, U. Wilson. Exchange and Trade Relations Department: W. A. Beveridge, Deputy Director; A. Abisourour, S. Kanesa-Thasan, P. Neuhaus. External Relations Department: A. M. Abushadi. Fiscal Affairs Department: E.-A. Conrad, M. Z. Yucelik. IMF Institute: M. Huybrechts. Legal Department: J. M. Ogoola, S. A. Silard. Treasurer's Department: A. M. Al-Samarrie. Personal Assistant to the Managing Director: N. Carter. Advisors to Executive Directors: C. Bouchard, A. B. Diao, M. A. Janjua, P. D. Peroz, F. A. Tourreilles. Assistants to Executive Directors: L. Barbone, M. J. Callaghan, M. K. Diallo, J. L. Feito, F. G. Guena, A. Halevi, P. Kohnert, J. R. Novaes de Almeida, Y. Okubo, J. G. Pedersen, E. Portas, J. Reddy, J. C. Williams, J. F. Williams.

1. MALI - STAND-BY ARRANGEMENT

The Executive Directors considered a request from Mali for a stand-by arrangement equivalent to SDR 30.375 million (EBS/82/68, 4/20/82).

The staff representative from the African Department said that since the previous discussions with the Malian authorities in March 1982, which had led to the preparation of EBS/82/68, the staff had received indications that the program was being implemented as planned. An interministerial committee had been established at the end of March to monitor and evaluate the progress and performance under the program.

In addition to measures adopted in the first quarter of 1982 in the areas of taxation, tariffs, consumer prices, and public enterprise reform, the staff representative went on, the authorities, as had been envisaged, had increased interest rates on deposits. They were also considering raising the producer price for paddy rice to MF 120 per kilogram, a level twice that in 1979 and consistent with world market prices. In view of the marked increase in the producer prices for other export commodities, mainly cotton, over the previous two years and the weakening of world market prices, the other producer prices would not be increased in 1982. Following the large increase in the domestic production of cereals in 1981/82 and the liberalization of the cereals market, retail prices for millet and sorghum had declined substantially (between September 1981 and early 1982) and were now at levels close to the intervention price of the cereals marketing agency (OPAM). There were also indications that credit expansion during the first quarter of 1982 had been below the program target.

Since the last discussions, progress had also been made on the various important technical assistance studies that had been financed by the World Bank to improve the management of the economy, especially in the areas of public enterprises, cereals marketing, agricultural agencies, the groundnut sector, and government payroll management, the staff representative explained. Those studies were to be completed before the end of the year and would form the basis for further specific actions in 1983. The Fund had also provided a fiscal advisor to assist the Ministry of Finance in strengthening budgetary control and in monitoring extrabudgetary operations, particularly the special funds, and a candidate for the position of Fund resident representative in Bamako had been selected and agreed with the authorities. The technical assistance from the Fund would play an important role in helping to ensure strict implementation of the program in the difficult area of public finance, where most of the deviations from the targets had occurred in the past.

The successful implementation of the program, the staff representative from the African Department concluded, was expected to be facilitated in 1982 and 1983 by a projected recovery in the production of cotton, which had been adversely affected in 1981 by a shift toward the production of cereals, the output of which had sharply declined in previous years because of unfavorable weather conditions. Reflecting more adequate rainfall at the time of planting in April and May 1982, production of cotton was now projected to regain the level of 120,000 tons of earlier years, while production of cereals was expected to remain at the relatively high level of 1.1 million tons.

Mr. Nana-Sinkam made the following statement:

Let me start by extending to the management and the staff team, led by Mr. Christian François, the deep appreciation of my Malian authorities and myself for the patience, dedication, and understanding shown in the long and often very difficult negotiations that form the background of the excellent, concise, and well-balanced document under consideration. My Malian authorities have asked me to pay a special tribute to the French authorities, through my colleague representing France, for their important contribution, which has enormously facilitated the discussions and the conclusion of the present program.

The Malian case may be considered accurately as one of the few cases in which a country, after courageously recognizing the errors of the past in the application of some of its economic and financial policy instruments, has accepted deliberately to apply self-restraint for more than a year before concluding an adjustment program with the Fund.

During that period of transition, the Malian authorities have taken significant measures to improve the efficiency of their economy, which for a number of years had ceased to reflect its potential for growth. Even despite the setback in their negotiations on other fronts, the Malian authorities have been courageous enough to assume the highest probability of success on their side.

A Five-Year Development Plan (1981-85) constitutes the framework of the authorities' economic and financial development strategy. The emphasis has been put effectively on the role of the private sector in the development process with a diminishing role for the public sector; the objective is to achieve a sound economic balance between the two domains. The official agricultural producer prices have been aligned with those prevailing in the neighboring countries and will be adjusted regularly to a remunerative level in order to enhance agricultural production. With technical assistance from the World Bank, the authorities have restructured the Agricultural Marketing Board with the objective of increasing its efficiency. In addition, strong measures have been taken to improve the extension service in the agricultural sector.

The government monopoly over the marketing of cereals has been abolished (totally liberalizing trade in these commodities) coupled with the establishment of an Agricultural Development Bank with foreign capital. To ensure an effective role for the private sector in the economic development process of the country, the state enterprises are being restructured so as to reach financial equilibrium in 1985 for those remaining financially manageable; others are to be closed down.

Measures have been taken to improve tax collection and tax administration. The restructuring of the state enterprises and the liberalization of their pricing system will lead to, among other things, the gradual reduction and elimination of subsidies. The achievement of that objective and a tight control over expenditure will alleviate the burden on the government budget.

Other fiscal measures have been taken, including increases in the retail prices of a number of essential goods by amounts ranging between 10 per cent and 30 per cent, and an increase in the price of all petroleum products, bringing the price of a gallon of gasoline to approximately $3.50 (one of the highest in the world).

Because of its detrimental impact on the government budget for years, the educational system has been modified. Scholarships are allocated on the basis of planned manpower needs of the economy and the availability of financial resources.

In view of the country's negotiations to join the West African Monetary Union, the restrictive monetary policy pursued by the authorities has been strengthened to match the one in force in the Monetary Union to facilitate Mali's entry.

To alleviate the burden of the external debt service on the balance of payments, the country has decided to accept foreign borrowing only on concessionary terms unless it is linked directly to a productive project. The results of these different measures are partially summarized in Table 3 on page 7 of EBS/82/68.

The package of measures and reforms I have just described represents a clear and courageous reorientation of policy, and resembles the contents of a strong adjustment program in the higher credit tranches concluded with the Fund, except that the measures were implemented voluntarily during the negotiations on the actual program presented for the Board's consideration. I would stress the word voluntarily to exclude any presumption that the effective implementation of these different measures constituted preconditions for concluding an adjustment program with the Fund.

In the 1982 adjustment program, emphasis is on reinforcing the financial policies initiated in 1981 as well as on the adoption of additional measures and steps to make the financial system viable.

In the economic field, the objective will be the return to positive gross domestic savings through the rehabilitation of public enterprises, the reduction of government and state enterprise deficits, and the improvement of the pricing system and of the sound investment policies being pursued in the agricultural sector.

The external policies will focus on the gradual reduction of the debt service ratio to a manageable level through the elimination of any recourse to nonconcessional borrowing, and through sizable sizable debt relief from friendly creditor countries and the elimination of two thirds of the estimated amount of external arrears at the end of December 1981.

The assumption, the targets, and the principal elements underlying the 1982 program are clearly summarized in Table 6, pages 13 and 14 of EBS/82/68.

The principal instruments envisaged for the implementation of the program are within the reach of the authorities and, provided the basic assumptions (which under the prevailing circumstances seem realistic), are sustained, particularly assumptions 1 and 2, the forecast targets will definitely be achieved.

To ensure a high probability of success in the implementation of the program, every minister directly or indirectly concerned with the program has been requested, at a ministerial cabinet meeting chaired by the head of state, to approve the measures related to his department. The entire Government is therefore strongly and politically committed to the implementation of the program.

The technical assistance from France, the Fund (including a Fund resident representative to be appointed shortly), and the World Bank will be instrumental in the close monitoring of the implementation of the program.

The authorities are aware that the difficulties facing the Malian economy are basically structural in nature. This is why they have decided with a strong political resolve to implement such a substantial amount of adjustment in 1982. Yet they consider the present program a transition toward a medium-term adjustment program within the framework of the extended Fund facility to cover the last three years of the Five-Year Development Plan for 1981-85.

There is no doubt that this is one of the most comprehensive and yet realistic (in the prevailing circumstances and on the basis of the underlying assumptions) adjustment programs discussed by the Board. I strongly recommend its approval to Executive Directors.

Mr. Erb stated that he strongly approved of the proposed stand-by arrangement, as it was clear that the authorities had recognized that a comprehensive program of a structural nature was essential to restoring the economy to a sound footing. The staff and Mr. Nana-Sinkam had noted that the authorities' strong, broad-based political commitment had been the key to the array of adjustments that had been voluntarily made to date and that the Government expected to make in the future.

With regard to agriculture, Mr. Erb said that the authorities were to be commended for their courageous decision to bring producer prices in line with prices in the world market and in neighboring countries. The authorities were also to be strongly commended for the recent increases in the retail prices of millet and maize. It would be useful to have the staff elaborate on its statement on page 21 that "the authorities are committed to follow flexible policies in enforcing" the maximum price of millet and maize; the flexibility should perhaps be in the setting of the maximum price and not in the enforcement of it. He would follow with particular interest the evolution of the World Bank's comprehensive technical assistance project in the agricultural sector. Agricultural policies would influence the balance of payments directly, through their impact on imports and exports, and indirectly, through their effect on the government budget. With the exception of Air Mali, the largest projected deficits for 1982 in the state enterprise sector were those of the agriculture-related firms.

Commenting on areas that were in the domain of the Fund's expertise and that would have an important bearing on Mali's ability to achieve a sustainable balance of payments position in the medium term, Mr. Erb remarked that it would be useful to have the staff comment further on the negotiations for Mali's entry into the West African Monetary Union. What direct effects, and indirect implications, would Mali's membership have on its efforts to move toward a sustainable balance of payments position? He was particularly interested in the possible impact of the interest rate, money growth, and exchange rate policies that would be required as a member on Mali's savings, investment, and external price competitiveness, all of which would influence the evolution of the country's balance of payments. A related matter was the changes in the structure of the financial payments system that might be necessary, after entry into the West African Monetary Union, to facilitate savings and to allocate them to the most productive investments; that matter was particularly important in the light of Mali's present negative real savings rate. He also attached great importance to the steps that the authorities were taking to restore confidence in the Postal Checking System.

It would be useful to receive the staff's comments regarding the impact of Mali's tax structure on the allocation of resources in the country and its broad prospects for the economy, Mr. Erb said. For instance, the tax rate on cattle had recently been increased by 20 per cent, and he wondered whether there was not a danger that the higher tax might lead to a shift in herds away from Mali to neighboring countries. He also wondered whether the tax system did not require more attention in the future in addition to the technical assistance that had been provided in 1981.

The Government had recently introduced a medium-term development plan, Mr. Erb noted. How did the staff see Mali's economy and balance of payments position evolving in the medium term? Did the staff have any preliminary views on the elements of the new development plan that were of special significance for the effort to restore domestic growth and to achieve a sustainable balance of payments position?

Mr. de Maulde remarked that, following the difficult situation of the 1970s, the authorities had in the past two years adopted a number of measures that, as the staff had concluded, constituted a courageous reorientation of economic policy. The introduction of the measures clearly showed the authorities' willingness to deal with the difficulties in the areas of public finance, state enterprises, and agriculture. In support of the recently adopted development plan for 1981-85, the authorities had negotiated a one-year adjustment program. The targets under the program for the various external accounts and the overall external deficit seemed to be sensible and feasible, and the planned reduction in arrears and a freeing of government deposits with the Postal Checking System seemed to be both necessary and important. The proposed phasing of the assistance under the stand-by arrangement--including the first installment, which represented 40 per cent of the total--was an appropriate way of supporting the effort to achieve a prompt improvement in Mali's payments system.

The fiscal objectives under the program also seemed to be feasible, Mr. de Maulde went on. The measures that the authorities had agreed to introduce included new taxes, improved administration, and a tight expenditure policy, all of which should help to reduce the overall government deficit. The authorities were to be commended for having adopted difficult measures such as the blocking of any general wage increase in the period of the adjustment program. The plan for establishing a unit in the Ministry of Finance to monitor the operation of the special funds was certainly welcome, as it would ensure the effective control of public sector operations.

He agreed with the staff, Mr. de Maulde went on, that the rehabilitation of the large public sector enterprises might take some time, perhaps several years. Nevertheless, a strong effort should be started as soon as possible. The planned closing of nonviable public enterprises, the transfer of nonstrategic enterprises to the private sector, the increases in sales prices, and the containment of production costs were difficult and courageous measures. The staff had mentioned that a comprehensive survey of the public enterprises was being conducted with the assistance of the World Bank, and he would be glad to receive any information about the relationship between the operations of the Fund and those of the World Bank in Mali.

Agriculture was of course the most important sector after the public enterprises, Mr. de Maulde commented, and the authorities were to be commended for their willingness to maintain remunerative producer prices.

Mali was obviously not an easy case, Mr. de Maulde remarked, and, although the proposed program was appropriate, there was some risk of slippages occurring. The implementation of the program should be carefully monitored and, in that connection, the decision to designate a resident representative of the Fund in Bamako was very welcome.

Mr. El-Khouri stated that he warmly supported Mali's request for a stand-by arrangement. The adjustment program in support of the arrangement was a good one and it showed the authorities' determination to correct the existing domestic and external imbalances.

The adjustment process in Mali had actually been started in late 1980, Mr. El-Khouri noted. Since then, many important corrective measures had been implemented, including sharp increases in the producer prices for a number of agricultural commodities, significant adjustments in the consumer prices of petroleum products and in the prices of a number of other essential products, a restructuring of the state enterprise sector with a view to greater private participation, and a tightening of fiscal discipline. As a result, the aggregate loss of the state enterprises had been significantly reduced in 1981 and the fiscal situation had improved; there had been a considerable reduction in the absolute size of the central government budget deficit and of the consolidated fiscal deficit, excluding the sharp rise in interest payments caused by factors outside the control of the authorities. The program for 1982 provided for a further reduction in both the fiscal deficit/GDP ratio and in the absolute size of the deficit. The authorities were certainly to be commended for the measures that they had taken.

It would be useful to have the staff comment further on the major elements of the program that were likely to be affected by the entry of Mali into the West African Monetary Union, Mr. El-Khouri remarked. Which matters were negotiated when a country wished to enter a currency union? It would also be useful to know which factors had been taken into account in limiting the provision of assistance under the proposed stand-by arrangement to the equivalent of 75 per cent of quota.

Mr. Abiad said that he agreed with the thrust of the staff appraisal and supported Mali's request for a stand-by arrangement. It was clear from the staff paper that, during the past two years, the authorities had introduced a range of reform measures in a number of areas where the need for corrective action had been identified. The policy changes had been courageous on both the supply and the demand sides: in addition to introducing a number of policy measures in the area of supply in 1981, the authorities had maintained a tight demand management policy. As a result, both the budget and balance of payments deficits had been reduced, an achievement that augured well for the overall performance of the economy in the coming years.

Still, the nature and magnitude of Mali's economic problems called for a continuing reform effort in the years ahead, Mr. Abiad went on. The 1982 program was a comprehensive one and showed the authorities' determination to consolidate the gains that had been made in recent months. In certain areas the program seemed to be rather ambitious, especially in the light of the structural, institutional, and resource limitations of the country. The staff had stated that the amount of adjustment being sought in 1982 was substantial and would require strong political resolve. Fiscal policy was to be further tightened, and the authorities were committed to undertaking wide-ranging structural reforms for which adequate resources would have to be made available over several years.

Much seemed to be expected from Mali under the one-year stand-by arrangement, Mr. Abiad remarked. The case of Mali gave the impression that the distinction between a short-term stabilization program and a medium-term program oriented toward structural reform was becoming increasingly blurred. It would be useful to have the staff elaborate on the kinds of measures which, in addition to those provided for under the 1982 program, Mali would have been expected to introduce if it had requested an extended arrangement rather than a one-year stand-by arrangement.

On the fiscal side, Mr. Abiad went on, the proposed program constituted a further improvement over 1981. Although mobilizing additional revenue in a low-income country like Mali was a difficult task, the authorities deserved credit for strengthening the tax administration and introducing other tax reforms.

Externally, Mr. Abiad said, the expected improvement in 1982 in both the current account and the overall balance of payments, as well as the reduction in the external payments arrears, would constitute substantial progress in the right direction. However, most of the underlying factors that had subjected the balance of payments to pressures for a number of years were structural in nature and would have to be addressed on a continuing basis. In that context, the Mali franc had been depreciated by a significant amount since mid-1980, but the response of the export sector had not been satisfactory; exports had declined sharply in 1981 and were expected to recover only marginally in 1982. It would be useful to have further comments by the staff on the effectiveness of exchange rate adjustment in Mali, especially in the light of the severe constraints on supply. It was his impression that an advantage for Mali of joining the West African Monetary Union was that accumulated debt of SDR 171 million would be written off. Finally, the program for 1982 constituted a major adjustment effort and, if the authorities succeeded in implementing a substantial portion of it, it would warrant further Fund assistance.

Mr. Jones stated that he supported Mali's request for a stand-by arrangement. The economic situation in Mali had been difficult for many years; the growth rate of GDP had been unsatisfactory, savings rates had been negative, and both the budgetary position and the balance of payments had been weak.

During the previous two years, Mr. Jones went on, the authorities had taken the initiative in implementing a number of corrective measures covering several areas of the economy, particularly public finances, state enterprises, and agriculture. The improvement in tax administration, together with the introduction of measures to contain the growth in expenditure, had led to a decline in the central government budget deficit from MF 20 billion in 1980 to MF 14 billion in 1981. In addition, the operating losses of the public corporations had been substantially reduced in 1981, reflecting the increase in retail prices of goods sold by those corporations and the restructuring efforts by the Government. In the agricultural sector, the producer prices for a number of crops had been raised as an incentive to production, and the Agricultural Development Bank had been established to assist farmers.

The program for 1982 was evidence of the authorities' determination to maintain the effort to reform the economy, Mr. Jones considered. It was important to note that, although the program covered only one year, it was part of the Government's overall medium-term strategy embodied in the new Five-Year Development Plan for 1981-85.

The details of the program showed that it was designed to move the economy in the right direction, Mr. Jones remarked. New revenue and expenditure control measures were expected to reduce further the budget deficit from the equivalent of 2.4 per cent of GDP to 1.5 per cent, and the deficits of the state enterprises were expected to be cut by 30 per cent. The payments arrears of the public sector were also projected to fall to about half the level of 1981, and the credit targets that had been established reflected the need to reduce both the external payments disequilibrium and the inflationary pressures in Mali. Interest rates on deposits had been increased to levels near those prevailing in the West African Monetary Union in order to encourage savings and to prevent capital flight. Producer prices paid to farmers were to be maintained at remunerative levels to stimulate output, and stress was being placed on high-yielding development projects that could be undertaken by private investors and local communities. The authorities also intended to take steps to increase the efficiency of the rural development program.

Externally, Mr. Jones observed, the current account deficit was expected to decline in 1982 after having grown steadily in the period 1979-81. Given the projected increase in the inflow of net official transfers and capital, the overall balance was expected to drop sharply. Nevertheless, the current account deficit was still very large, and efforts would be needed to reduce it to a level that would be sustainable in the medium run.

Mr. Legarda stated that the proposed decision should be approved. He commented in passing that the staff paper was a particularly good one. The staff had lacked full data on the economy, but it had taken a pragmatic approach, and its report reflected the close cooperation between the Fund and the authorities.

Mali continued to face serious economic problems that were structural in nature and would have to be tackled over a long period, Mr. Legarda continued. In effect, the program for 1982 was the first step in the medium-term adjustment effort; it constituted a comprehensive and integrated approach toward solving some of the problems facing the authorities. The 1982 program provided for better control of government expenditure and recruitment, new tax measures, reform of state enterprises, and a reduction in price subsidies.

While the 1982 program was commendable, Mr. Legarda went on, the staff had correctly noted that it would be difficult to implement, particularly in the light of Mali's relatively limited administrative capability. The amount of adjustment under the program was substantial and would require strong political resolve. The authorities had courageously recognized the errors of the past and had deliberately accepted self-restraint for more than a year before negotiating the adjustment program with the Fund. Further technical assistance from the Fund in the various fields where it was clearly required would be helpful.

The importance of the recent reversal of the Treasury's absorption of private sector deposits through the Postal Checking System should be underscored, Mr. Legarda considered. The earlier trend had undoubtedly had fairly harmful effects on the private sector and on the smooth operation of normal economic activities, and its reversal was indeed welcome.

Interest rates on deposits were to be raised, Mr. Legarda noted, and lending rates were to be made approximately equal to those in neighboring countries. The adjustments to date had been in the right direction, but further action might well be needed; there might have to be a full harmonization of interest rates when Mali entered the West African Monetary Union. He looked forward to hearing the answers to Mr. El-Khouri's questions concerning Mali's membership in the regional arrangement. He also looked forward to receiving the promised staff study on currency unions.

Mr. Sigurdsson said that the concise summary of the financial program for 1982 contained in Table 6 was particularly helpful. The Malian authorities had already adopted courageous measures, particularly increases in prices, to deal with the very difficult economic situation. The program for 1982 clearly demonstrated the authorities' continued resolve to undertake difficult adjustment measures, and the proposed decision should be approved.

The 1982 program contained a substantial fiscal element, Mr. Sigurdsson noted, and Mali was a good example of the importance of Fund technical assistance in the fiscal area in strengthening the financial structure necessary both for the design and for the implementation of a successful adjustment program. The need to follow up the provision of fiscal technical assistance should be stressed. The effect of the fiscal system on the allocation of resources was particularly significant, and he hoped that the Fund would be able to assist the authorities in developing a fiscal system and overall public sector that was equitable, efficient, and conducive to economic growth.

He, like some previous speakers, Mr. Sigurdsson remarked, was concerned about the practical effects of Mali's joining the West African Monetary Union; and, in passing, he too looked forward to the distribution of the long-promised staff paper on currency unions. He hoped that the staff would speak further at the present meeting on the main benefits for Mali of joining the West African Monetary Union.

Commenting on the form of the 1982 program, Mr. Sigurdsson noted that the performance criteria for bank credit to the Government and total bank credit were expressed in terms of a bank of upper and lower limits. While the upper limits constituted the actual performance criteria, consultations with the Fund's management would be called for as soon as the lower limit was exceeded. The provision for such consultations was in addition to the scheduled staff visit in July 1982, a full review by the Fund before the end of November 1982, and an additional review when the terms of Mali's entry into the West African Monetary Union were known. Hence, there seemed to be an exceptional battery of review clauses for a one-year stand-by arrangement, and he was uncertain as to whether they were really necessary. Overfrequent reviews might well not be very productive, and he wondered why the elaborate review provisions were being proposed for a period in which there would also be a Fund resident representative in Mali.

The staff representative from the African Department said that the technical aspects of Mali's entry into the West African Monetary Union had been worked out, and the financial assistance that was to accompany the entry had been agreed in principle. A political decision, at the level of the conference of heads of state, still had to be taken, however, and a meeting was scheduled for the latter part of 1982. Hence, at present, there were no practical or technical obstacles to the entry of Mali into the West African Monetary Union.

One of the most important technical matters in the negotiations on Mali's entry into the West African Monetary Union had been the $200 million or more of external liabilities of the Central Bank of Mali vis-à-vis the French Treasury, the staff representative explained. A related problem was the unfavorable portfolio of the Central Bank; more than 50 per cent of the credits that had been extended by the Central Bank through the banking system were in fact bad debts, and a substantial cleaning of the portfolio of the Central Bank would be necessary before Mali could join the West African Monetary Union. Hence, the entry of Mali into the regional arrangement had been subject to Mali's obtaining financial assistance and to the taking of steps to ensure that, in future, the circumstances that had caused the unfavorable portfolio of the Central Bank would be eliminated. Accordingly, Mali had had to decide, prior to entering the West African Monetary Union, to rehabilitate most of the major public enterprises so that they could meet the more stringent rules for participating in the regional arrangement. That practical difficulty had in fact already been dealt with.

It was important to note, the staff representative from the African Department went on, that the entry of Mali into the West African Monetary Union would not in itself constitute a major institutional and monetary reform, as Mali had been a part of the French franc area since 1968 and, accordingly, had maintained a fixed exchange rate vis-à-vis the French franc and the CFA franc. In addition, Mali had had the same trade and exchange system as the other members of the West African Monetary Union and had been able to take advantage of the Operations Account with the French Treasury. Hence, Mali's entry into the West African Monetary Union should be seen as a transformation of a special, transitory monetary arrangement with France into a participation in a multilateral monetary arrangement. In terms of policy, participation in the West African Monetary Union would imply a substantial increase in interest rates and the adoption of much more stringent rules on access to the rediscount facility of the Central Bank. Mali would have the benefit of being able to consolidate all of its external liabilities under the Operations Account with the French Treasury in the form of a very long-term intergovernmental loan at a low interest rate. Mali would also receive financial assistance to increase the equity capital of the banks and the main public enterprises; that assistance probably would not be available in the absence of Mali's entry into the West African Monetary Union.

The Chairman added that the fact that, once Mali joined the West African Monetary Union, it would be in a multinational institution within the French franc zone instead of being in the present bilateral relationship with France also had the advantage that the rules governing monetary relationships would be easier to enforce and apply. It was typically difficult for a single country in a multilateral central bank to avoid fulfilling its monetary obligations. Failure to fulfill its obligations meant that one participating country was asking the other participants to shoulder the burden of, say, its large payments deficit. A bilateral monetary relationship was more political in character. Mali would feel greater encouragement to observe the rules of the West African Monetary Union as a member country than as a nonmember.

The staff representative from the African Department commented that the savings ratio in Mali was undoubtedly very low; it had been declining during the previous ten years. The staff expected that, under the 1982 financial program, there would be a small decline in the negative savings ratio and, perhaps, even a positive savings ratio. The substantial increase in the negative savings ratio in previous years had resulted from the growing budget deficit, the accumulation of arrears, and the rising level of public enterprise losses. At the same time, the level of private savings in Mali had increased significantly in comparison with savings in other African countries.

The 1982 program, the staff representative went on, stressed the need to reduce the public sector deficit and to improve financial intermediation by increasing interest rates and, more important, by restoring confidence in the financial system, particularly through reducing the substantial amount of government arrears, building confidence in the banking system, which was owned largely by the Government, and reestablishing the liquidity of the Postal Checking System. Mali's financial system was relatively limited; the entire country was covered by only a dozen banks, and an increase in the banks' interest rate alone probably would not have a substantial effect on savings. However, the Postal Checking System operated throughout the country and was a potentially important source of savings in the rural areas. However, as the Postal Checking System was closely linked with the Treasury, it had become virtually illiquid in the previous several years. The measures designed to rehabilitate the Postal Checking System were among the most important parts of the 1982 program and were seen by the staff and the authorities as a prerequisite for resuming financial intermediation in Mali. A large part of the resources provided by the Fund under the proposed stand-by arrangement would be used for a special fund that would be available to meet possible reductions in deposits with the Postal Checking System once its liquidity was restored. There had been some concern that, once the deposits with the Postal Checking System were unfrozen, depositors would immediately withdraw all their deposits and the system would become a net absorber of liquidity instead of a net source of credit.

It was true that the lending rates in Mali were fairly low, although close to those prevailing in neighboring countries, the staff representative said, but a further increase in those interest rates would probably have no effect on the demand for credit, as more than 75 per cent of the domestic credit to the private sector was actually absorbed by public enterprises, which did not react to increases in interest rates. On the contrary, an increase in interest rates would simply be added to the losses of the public enterprises. Hence, at the present stage, the goal should be to improve the financial situation of the public enterprises and to restructure completely the financial liabilities of the sector by writing off bad debts, consolidating short-term bank credit, and increasing the capital subscriptions of the banks. Such actions were a prerequisite to increasing the lending rates in Mali above the present level.

The authorities were obviously facing major structural difficulties and had been interested in a three-year Fund-supported program, the staff representative commented, but the staff had preferred a one-year stand-by arrangement. Although the stand-by arrangement was for a period of one year, it should be viewed in a medium-term framework and, indeed, most of the important measures under the 1982 program were of a medium- and long-term nature, as they were designed to achieve substantial changes in institutional arrangements, the role of public enterprises, and the marketing agency, and would certainly not produce noticeable effects in the short run. The experience of the Fund with Mali suggested that it was best to start the adjustment effort with a one-year program. The staff hoped that, on the basis of a successful implementation of the 1982 program, a strengthening of the administrative capability of the country, and improvements in the country's statistical base, it would be possible to negotiate an arrangement for a longer period than one year at the end of the 1982 program period.

In determining the amount of Fund resources that should be made available under the proposed stand-by arrangement, the staff representative continued, the staff had taken into account not only the balance of payments deficit--which by itself would not have justified a large volume of assistance--but also the sizable external and domestic payments arrears. In 1982, the overall balance of payments deficit and the reduction in the external payments arrears would be financed mainly by the use of Fund resources.

What appeared at first glance to be a relatively elaborate system of reviews under the 1982 program, the staff representative explained, was justified by the need for the staff to ensure the strict implementation of the program in view of both the relatively weak performance under previous Fund-supported programs for Mali and the limited administrative capability of the country. Although three reviews were mentioned in the program, the first "review" would in fact involve only a staff visit to ensure that implementation of the program had begun. The most recent contact with the authorities prior to the actual agreement on the program in February 1982 had been some time ago, in November 1981. The second review would be a formal mid-term review, but could probably take place when the staff examined with the authorities the effects of Mali's entry into the West African Monetary Union, if that occurred before the end of 1982. Hence, there might well be two reviews rather than three.

It was clearly advantageous to have a two-tier credit ceiling under the 1982 program, the staff representative went on. There were always leads and lags in a country that relied heavily on agricultural products that could be adversely affected by weather conditions and transportation bottlenecks. The staff had felt that it would be unfortunate if the implementation of the program was delayed by, say, problems with the transportation system that led to nonobservance of the performance criteria. The two-level credit ceiling provided some flexibility in the implementation of the 1982 program without detracting from the restrictiveness of the credit ceiling.

The flexibility that had been introduced in the pricing policy of the cereals marketing agency was important, the staff representative considered. The staff felt that both the enforcement of the ceiling and the adjustment in the intervention price by the marketing agency should be flexible. Fortunately, recently available information indicated that the discrepancy between the actual and intervention prices had become relatively small. There might be a need to adjust the intervention price in the coming year in response to the authorities' liberalization policy. As for the tax on cattle, it had remained unchanged since 1972, even though livestock was the most important source of income in Mali. There were relatively few different kinds of taxation in Mali, and the staff felt that the livestock sector should be subject to greater taxation than in the past, although, for practical reasons, the sector was particularly difficult to tax. In any event, the recent 20 per cent increase in the tax rate on cattle was clearly not excessive. The Fund planned to provide further technical assistance in 1982 in order to review the tax system in Mali. In particular, the staff expected to assist the authorities in reviewing the income tax schedule, which, in the eyes of the staff, had been inadequate since the introduction of tax cuts in 1981.

It was not uncommon, the staff representative explained, for many African countries to experience a substantial lag between the depreciation of the exchange rate and the related change in producer prices on the one hand, and the response of production in the country in which the depreciation had occurred on the other. Production depended considerably on weather conditions; as a result, the change in output could run counter to the expected response to adjustments in the exchange rate and producer prices. Output also depended to an important extent on marketing arrangements and the provision of extension services, both of which had been relatively weak in Mali in the past several years. In any event, in the case of Mali, the depreciation had effectively taken place after the planting season and could not have affected production in 1981 and 1982. The staff hoped that the upward trend in producer prices would continue in the coming months in response to the depreciation that had taken place in 1981 and 1982, and that those developments together would help to maintain the competitiveness of Mali's exports.

The staff representative from the Exchange and Trade Relations Department commented that the kind of two-tier credit ceiling that would be included in the stand-by arrangement for Mali had been used in a few previous cases. The staff had found that the two-tier approach was one way of enabling the Fund to become involved in the effort to solve a particular problem in a member country well before there was any danger of the member failing to adhere to the performance criterion. As for the proposed reviews, the first one, in July 1982, would be in the form of a staff contact with the authorities in Mali; in most previous cases, such contacts had not been categorized as formal reviews and had rarely been mentioned as such in the staff report. Instead, the staff usually mentioned that it intended to remain in close contact with the authorities, and such contacts were not thought to constitute the kind of review that was a part of the conditionality approved by the Executive Board. The review that was to take place upon the entry of Mali into the West African Monetary Union was a special one. As for the effects of entry into the West African Monetary Union on the program, the only assumption that was built into the program was that the interest that would accrue on liabilities to the Operations Account in 1982 would be consolidated. Once all the details of membership were known, the performance criteria under the 1982 program might well have to be changed, and particularly the ceilings on credit to the Government and total credit. As a result, there would have to be a special review of the program when all the details of membership had been finalized. However, that review might well coincide with the mid-term review that was scheduled for November 1982. Membership in a currency union essentially involved a trade-off between a country's full control over policy, particularly monetary policy and exchange rate policy, in return for benefits in the form of balance of payments support from a pool of resources belonging to the membership of the currency arrangement as a whole. The negotiations were often difficult, as each potential member had to calculate for itself the likely costs and benefits of joining a regional arrangement; and, of course, political factors were also involved. Hence, it was not uncommon for such negotiations to last for a long period.

Commenting on the length of the proposed stand-by arrangement, the staff representative said that the staff had felt that one year, rather than a longer period, would be appropriate, because Mali had experienced difficulties in implementing Fund-supported arrangements in the past. In addition, there was considerable uncertainty at the present stage whether it would be possible to prepare a three-year program that included the projections and other details that the Executive Board had come to expect of extended arrangements. The uncertainty had to do in part with the lack of details on the major step of joining the West African Monetary Union.

Responding to a further question by Mr. El-Khouri, the staff representative from the Exchange and Trade Relations Department said that, if a staff representative had been stationed in Mali for some time, the proposed staff contact mission scheduled for July 1982 probably would have been unnecessary.

Mr. Erb said that he wondered whether any thought had been given to the possibility of restoring confidence in the Postal Checking System by offering an interest payment for the period in which deposits in the system had been frozen. The amount of the payment could cover the loss of interest that the depositors could have earned in that period. The extra payment could encourage depositors to keep their money in the Postal Checking System instead of withdrawing it when the deposits became unfrozen.

The staff representative from the African Department responded that Mr. Erb's idea was certainly worth exploring. Of course, the authorities might well find it difficult to overcome the present budgetary restraints and make the extra payment.

Mr. Nana-Sinkam commented that, in examining the likely effects of Mali's entry into the West African Monetary Union, Executive Directors should bear in mind the fact that at some time in the past Mali had been a member of the Union. The Malian authorities had left the Union in the belief that their particular economic system was not consistent with the requirements of the regional arrangement; and they had wished to gain full control of the issue of currency. After a while, the authorities had preferred to enter into a bilateral arrangement with France and had found that it too did not meet their needs.

The present arrangements for participation in the West African Monetary Union were attractive to Mali, Mr. Nana-Sinkam went on. For instance, no major decisions affecting the Union were taken without the concurrence of all six participants. As a result, all the participants in the Union were committed to its major activities and actively worked to support them. Joining the regional arrangement would have both direct and indirect benefits for Mali. For instance, the country's external debt would be consolidated. Mali's implementation of the proposed stand-by arrangement, and particularly the restoration of a sound position for the public enterprise sector, would place the country in a good financial position to participate effectively in the Union and to continue moving the economy in the right direction. The negotiations on a country's entry into the West African Monetary Union were naturally difficult, and all of the present members had to agree. Certain bilateral problems had to be solved before all of the members of the West African Monetary Union were likely to concur in Mali's entry. However, progress had been made in recent months, and a final decision on Mali's application would almost certainly be made by the end of 1982. Indeed, the decision had been delayed in recent months only because all the heads of state had not been able to participate in a joint meeting. Meanwhile, Mali would continue to implement the Fund-supported stabilization program, which should improve the country's financial position and ensure that, as a new member of the Union, Mali's economy did not place a burden on the other participants.

Increasing interest rates in Mali would in itself not solve the problems facing the economy, Mr. Nana-Sinkam considered. The interest rates in the country would have to be harmonized with the rates of the other members of the West African Monetary Union once Mali joined, but most people in a very low-income country like Mali had very little room to increase their savings in response to adjustments in interest rates; many Malians used all their income to purchase basic necessities. On the other hand, restoring confidence in the banking system was a crucially important objective. To that end, the authorities would have to substantially reduce, and eventually eliminate, the public sector deficit, including the losses that had been incurred by the public enterprises that had been a drain on the Treasury. Reducing the payments arrears would help to restore confidence in the banking system.

A suggestion had been made by Mr. Erb, Mr. Nana-Sinkam recalled, for making an extra interest payment as a part of the effort to restore the normal functioning of the Postal Checking System. In considering that idea, Executive Directors should be aware that the deposits in the system consisted mainly of the salaries of civil servants, and payment of interest on those deposits might not be considered appropriate. The Postal Checking System in Mali was quite different from the postal checking systems in some industrial countries. Still, Mr. Erb's idea could perhaps be usefully explored with the Malian authorities.

The question had been raised, Mr. Nana-Sinkam remarked, why the particular figure of 75 per cent had been chosen for the volume of assistance under the proposed stand-by arrangement. That specific amount of access to the Fund resources had not been an objective of the authorities. They viewed the proposed stand-by arrangement as a transition toward a medium-term adjustment program under the extended Fund facility. Moreover, they were aware that, if they encountered short-term problems in the coming months, they could readily request further access to Fund resources equivalent to 25 per cent of quota.

The authorities had concurred in the scheduled number of reviews of their performance under the proposed stand-by arrangement, Mr. Nana-Sinkam said. They were well aware that the reviews made an important contribution to the implementation of the program. The authorities wished to be certain that, before requesting an extended arrangement, they fully implemented the proposed stand-by arrangement. That effort would be facilitated by maintaining close contact with the staff.

The two-tier credit ceiling under the proposed stand-by arrangement was quite useful, Mr. Nana-Sinkam considered, especially in the light of the fluctuations in the amount of financing available to the country from one year to the next. As for the tax on cattle, the Malian people had become relatively specialized in raising cattle and, until recently, the tax rate on cattle had not been increased for a number of years. The new rate did not pose any danger of encouraging cattle breeders to move their operations to neighboring countries.

In a developing country, Mr. Nana-Sinkam went on, a devaluation usually had a direct and fairly immediate effect on imports. The effect on exports, however, depended upon the elasticity of exports in the country concerned; in the case of Mali, the country was a price taker on the world market. Even if producer prices were already appropriate and could respond immediately to a devaluation, there was no guarantee that the available production would actually be exported; for instance, Mali had been able to export only a small proportion of the total amount of available coffee output. In any event, it was important to note that Mali itself had not decided to devalue. In fact, the Mali franc had merely followed the devaluation of the French franc.

If the assumptions behind the proposed stand-by arrangement proved to be accurate, Mr. Nana-Sinkam said, he was fully confident that the 1982 financial program would be successfully implemented. The authorities hoped that the next step would be the acceptance by the Executive Board of an extended arrangement with Mali to coincide with the final years of the development plan for 1981-85.

The Chairman said that the staff study on currency unions was well under way, and he hoped that it could be distributed to Executive Directors in late June or July 1982. As for the economic situation in Mali, it was clear that the financial position was not viable. The debt service ratio, excluding any financial restructuring, was 18 per cent in 1981, and the current account deficit had been the equivalent of 21.9 per cent of GDP. Those figures were very high, and it was abundantly clear that Mali, a poor country, had been overburdened by the cumbersome and inefficient public sector, including the Central Government, the educational system, the public services, and the state enterprises.

The authorities were in the process of making needed corrections, the Chairman continued. The public enterprise sector--which had been a major source of dissavings and had absorbed a considerable portion of the meager available resources--was being restructured. Some of the public sector enterprises were being returned to the private sector. The steps that the authorities were taking in that area were important and welcome. A number of public enterprises had been kept open and, while it was true that their losses had been reduced mainly because of adjustments in prices and tariffs, there was still a clear need to reduce their operating costs. He was not yet convinced that the authorities had taken sufficient action to reduce those costs.

Management and staff, the Chairman continued, had recommended a one-year arrangement with Mali, rather than an extended arrangement, because of the country's performance under previous programs. If management and staff became convinced that the authorities were determined and able to increase the efficiency of the operation of the state enterprises, in addition to merely raising their prices, he would be pleased to pursue negotiations with the authorities on a program designed to solve the structural problems facing the economy. The authorities would have to make significant progress not only in updating the tariff structure, but also in dealing with overstaffing and other inefficiencies in the public sector enterprises. For the moment, it was important to show the authorities that the Fund was very supportive of the courageous steps that they had taken--especially to increase producer and consumer prices--but to stress to the authorities the need for assurance that further action was forthcoming. The coming World Bank mission to complete a study on the public sector in Mali was very important. Fund staff and management would rely heavily on the recommendations of that mission in considering other forms of collaboration by the Fund with Mali in the coming months.

Mr. Nana-Sinkam said that he agreed with the Chairman that the Fund should be cautious in moving toward an extended arrangement with Mali. The authorities clearly wished to have such an arrangement only when they were in a good position to ensure that they could implement it successfully. They strongly wished to improve the financial position of the state enterprises and hoped to complete the task by 1985; they fully understood that the effort would have to be gradual and could not be accomplished in a single year. The authorities had succeeded in making some progress in improving the financial position of the major state enterprises, whose net operating deficit had fallen from MF 22.6 billion in 1979 to an estimated MF 5.8 billion in 1982. It should prove possible, within the framework of an extended arrangement, to eliminate the deficit by 1985.

The Executive Board then turned to the proposed decision, which it approved.

The decision was:

1. The Government of Mali has requested a stand-by arrangement for the period from May 21, 1982 to May 20, 1983 for an amount equivalent to SDR 30.375 million.

2. The Fund approves the stand-by arrangement set forth in EBS/82/68, Supplement 1.

Decision No. 7111-(82/68), adopted May 21, 1982

2. SENEGAL - STAND-BY ARRANGEMENT - REVIEW AND MODIFICATION

The Executive Directors considered a staff paper on a review and modification of the stand-by arrangement for Senegal (EBS/82/51, 3/26/82).

Mr. Nana-Sinkam made the following statement:

The December 1981 review of the one-year stand-by arrangement gave the Senegalese authorities and the Fund the opportunity to assess the progress achieved in the implementation of the program in the first six months. More important, it was the time when the Senegalese authorities were expected to have available more reliable estimates for agricultural production in general and, groundnut production in particular. As I stated during our discussion last September, the role of the groundnut sector in the performance of the Senegalese economy is so crucial that the full success of any recovery program in Senegal remains dependent upon the performance of output in that sector. The December review was also aimed at assessing the performance of the instruments adopted by the authorities to facilitate a close monitoring of the program. Under the realistic two-stage approach that was embodied in the Senegalese program, an aim of the December review was to reach new understandings on the performance criteria for the second part of the program as well as on additional adjustment measures needed for further progress in the stabilization of the country's economic and financial situation.

Since the last review mission in January 1982, the authorities have been implementing the program effectively, which is without doubt a demonstration of their determination to hold to their objectives even without the related Fund financial assistance.

As for the groundnut sector, which represents the backbone of the Senegalese economy, it now appears that the 1981/82 performance has been relatively good. Although well below the average 1 million tons a year recorded in the past, groundnut production is expected to be very close to the 800,000 tons forecast by the program. Unfortunately, all the potential positive consequences of this welcome result on the rest of the economy have been seriously hampered by a steep and untimely fall in the world market prices of groundnut products. This unfortunate development will put an additional and unfair adjustment burden on Senegal at a time when the country has, as we all know, very little room for maneuver to put its economy back on track. In its report, the staff indicates that the export price of groundnut oil had fallen by 40 per cent during the six-month period ended January 1982, and that it was 20 per cent below combined production and marketing costs. This is the type of phenomena I had in mind when I stated during the last Board discussions on the Senegalese program that "for countries that are price takers such as Senegal, fluctuations in international prices required governments to be extremely cautious in increasing producer prices, to avoid creating unrealistic expectations that might lead to the need of subsidies if international prices later fell"; while it is true that price incentives are indispensable, they are not the only factors explaining the good or bad agricultural sector performance in many African countries. Despite the strong arguments that were made during the September Board discussions on Senegal, we still believe that the Fund and the World Bank staff should continue to pursue a cautious approach when giving advice to member countries regarding what may be considered as adequate incentives to producers in the agricultural sector.

It is clear that my Senegalese authorities are prepared to follow this advice with flexibility and pragmatism. They have already taken very courageous and significant measures affecting both producer and consumer pricing policies. They intend to hold to their commitment of providing farmers with an adequate supply of seeds and fertilizers while eliminating waste and unnecessary subsidies. Following the 1981 round of price increases and the December review, the authorities recently increased the prices of rice, wheat flour, sugar, and bread by 31 per cent, 42 per cent, 25 per cent, and 25 per cent, respectively. They have also made several adjustments in the value-added tax, the tax on services, and the tax on salaries, as described on page 9 of EBS/82/51. Together with tight current expenditure control and a selective pruning of the capital expenditures, the above measures will reduce the budget deficit to about 5.5 per cent of GDP.

The Government deficit and that of the Stabilization Fund remain in line with the program forecasts despite the abovementioned fall in the world prices of groundnut products, which is an indication of additional strenuous efforts on the part of the Senegalese authorities.

In the monetary field, my Senegalese authorities are convinced that by committing themselves to eliminating external payments arrears and by making concrete proposals for the reimbursement of the internal debt, they are paving the way for a smooth functioning of the Senegalese banking system and a better allocation of credit in favor of the productive sector. The interest rate structure has recently been reviewed to reflect the international situation.

In the external sector, the overall balance of payments deficit is not expected to amount to more than SDR 66 million in 1982, less than half the 1981 level. The current account deficit is projected to be SDR 41 million, less than at the inception of the program. Despite this improvement, my Senegalese authorities remain very concerned about the considerable weight of their external indebtedness and the heavy and unsustainable reliance on external sources for financing their development efforts. With the help of the Fund, the World Bank, and some friendly countries, they have now designed and undertaken profound structural reforms to correct the serious imbalances of their economy. As stated by many speakers during our last discussions on Senegal, this is not going to be an easy task, but rather a long process for which sustained Fund support will be required. The next Fund mission, which is due in Dakar next week, will have an opportunity to assess more accurately the success in the implementation of the ongoing program and to start the discussions that, I hope, will lead to a new medium-term adjustment program. In this context, today's discussions and comments by my colleagues will provide a useful guideline to both the staff and my Senegalese authorities.

I will not conclude without expressing to Mr. Goreux and the members of his team the sincere appreciation of my authorities and myself for their patience and understanding, without which the present excellent paper could not have been produced.

Mr. de Maulde remarked that the staff paper clearly showed that the main objective of the stand-by arrangement--to check the process of financial deterioration in Senegal that had started in 1977--had been achieved. The authorities had implemented an impressive list of courageous measures, including increases in consumer prices and various budgetary moves.

The most striking development had been in the area of exports, Mr. de Maulde continued. As Mr. Nana-Sinkam had noted, in 1981/82 the crop of groundnuts had been very good, but the export price had fallen by 40 per cent in the second half of 1981. Chart 2 showed that between 1970 and 1982 the purchasing power of Senegal's groundnut exports had declined by about 50 per cent, and that the deterioration in the balance of payments had been caused mainly by the low level of export receipts which, in turn, had been due to price factors rather than volume factors. The volume of imports in the period 1970-82 had been fairly steady and had not been a factor in the deterioration of the external payments position. In those circumstances, he doubted whether austerity measures could have prevented the increase in the external payments deficit. Moreover, he also doubted whether the external payments position could return to, and stay in, balance if the trend in export prices evident in the past two years were to continue in the coming period. A number of developing countries faced similar problems, and, in the absence of the stabilization of the purchasing power of their primary products--including groundnuts in Mali--there was naturally some doubt whether the adjustment efforts in those countries could succeed. Finally, the proposed decision should be approved.

Mr. Taylor said that basically he agreed with the staff appraisal. The proposed modifications in the stand-by arrangement for Senegal were acceptable.

The economy had continued to make steady progress despite the very difficult external environment, Mr. Taylor observed. The authorities had implemented far-reaching measures, particularly in the areas of pricing and fiscal policies and, in so doing, they had shown an impressive determination to bring the economy back on track. Given the large size of the external and domestic imbalances, there was inevitably some way to go before stabilization would be achieved, but the authorities' resolve and their positive approach to adjustment were most encouraging.

The emphasis in the present stand-by arrangement had correctly been on demand restraint, primarily through a reduction in the fiscal deficit, Mr. Taylor commented. The general orientation of the stabilization effort was appropriate to Senegal's circumstances in the short run. Indeed, the focus on fiscal adjustment was perhaps inevitable given the institutional limitations on the use of exchange rate and interest rate policy. Having given immediate priority to stabilization, the stand-by arrangement had paid only marginal attention to the question of the medium-term evolution of the economy. That approach was understandable, but it was clear that thought must be given to a strategy for tackling the deep-rooted structural weaknesses of the economy.

Whenever necessary, Mr. Taylor considered, a stand-by arrangement should pay due attention to supply-side requirements as well as to the need for demand restraint; that approach was particularly called for when a stand-by arrangement was thought to be one in a series of such arrangements. In the case of Senegal, the unfavorable outlook for the terms of trade and the country's heavy reliance on the groundnut sector and imported oil underscored the importance both of formulating macroeconomic policies and of establishing development priorities. It seemed likely that in the coming months Senegal would concentrate on stabilizing its economy and that further Fund support, probably in the form of another stand-by arrangement, would be requested by the authorities. Henceforth, the necessary adjustments should be viewed in a rather broader perspective than had been the case thus far. There were a few comments in EBS/82/51 that implied that the staff was already thinking along those lines. The mission scheduled for May 1982 should focus on supply and resource allocation questions and on the authorities' longer-term plans--in conjunction with the World Bank--and particularly on measures to improve the operations of the Stabilization Fund.

Maintaining effective control of public expenditure would continue to be an essential task in the coming months, Mr. Taylor commented, and restraining public sector wages would be a particularly difficult but important part of that effort. The recent reinforcement of the unit responsible for monitoring the public sector wage bill was welcome, but he wondered whether the staff was satisfied with the effectiveness of the monitoring and control techniques for other kinds of expenditures. He was pleased with the progress that had been made in tabulating public sector arrears and with the inclusion of a performance criterion governing the reduction of the arrears.

In the period immediately ahead, Mr. Taylor continued, the main area of concern was the parastatal sector, and he hoped that the authorities would give priority to following through their stated intention of extending the inventory of payments arrears to those undertakings. The steps that they had taken to limit the accumulation of public enterprise arrears were welcome, but a reduction might be even more valuable.

Commenting on monetary policy, Mr. Taylor said that the flexibility that had been built into the credit ceilings was appropriate, but the growth of domestic credit permitted under the ceilings seemed to be fairly sizable. Was the staff confident that the credit ceiling was sufficiently tight to discourage a resurgence of inflationary pressures?

The staff had said relatively little about either the interest rate policy or the structure of interest rates in Senegal, Mr. Taylor went on. Mr. Nana-Sinkam had mentioned that a review of interest rates had recently taken place, but further comment would be useful. Did the staff feel that interest rate policy could play a somewhat more active role than in the past in generating domestic savings? Of course, that effort would soon be constrained by the requirements of membership in the West African Monetary Union.

The projection of a substantial increase in export earnings for groundnuts in 1982 plus the deposit by a friendly country in the Central Bank of Senegal should help to improve the external position, but only for the time being, Mr. Taylor remarked. He hoped that the authorities would not relax or delay the process of correcting the balance of payments. The relaxation of the present firm policies would have serious implications for the external debt ratio, which was already approaching precarious levels.

Mr. Abiad considered that the authorities were to be commended for the serious efforts that they had made to reduce the imbalances in the economy despite the very difficult domestic and external conditions. All the performance criteria for the first six months of the program had been observed. The ceiling on total domestic credit for end-December 1981 had been exceeded because of a favorable development--the large groundnut crop--and the proposed modification of the ceiling for that period was warranted. The authorities had been maintaining a very restrained fiscal policy, and they intended both to keep that stance and to improve their control over the public finances. The progress that they had made in those areas in the first part of the program had been somewhat slower than had been expected because of a number of developments, many of which were exogenous in nature.

There were indications, Mr. Abiad continued, that the pressure on the balance of payments would ease somewhat in 1982 as a result of the large groundnut crop, the lagged effect of the effective depreciation of the CFA franc, and an increase in capital inflows. It would be useful to have a further comment on the factors, other than the relatively large size of the crop, that were expected to contribute to the fivefold increase in groundnut export earnings in 1982, despite the depressed world price. Mr. Nana-Sinkam and Mr. de Maulde had correctly stressed the vulnerability of the adjustment efforts by the developing countries whose economies heavily depended on a small number of commodity exports, the prices of which were exogenously determined.

In the light of the concerted efforts that the authorities had made to deal with the difficult problems facing Senegal's economy, Mr. Abiad stated, he had no difficulty in approving the proposed decision. A further comment by the staff on the reasons for the rephasing of the purchases under the stand-by arrangement would be helpful.

Mr. Legarda commented that Senegal had made good progress under the stand-by arrangement. All the performance criteria for the first six months had been observed, a substantial effort had been made to contain the public sector deficit, and satisfactory progress had been made in inventorying the payments arrears of the Central Government. The financial program was to be reinforced by the addition of two performance criteria. Thus far, the emphasis under the program had been on demand restraint, particularly in the fiscal area, but the program included supply and resource allocation measures as well as needed institutional reforms.

Export earnings from groundnut products were expected to increase fivefold in 1982, despite the sharp decline in the world price of groundnut oil, Mr. Legarda observed. The good groundnut crop was not expected to relieve the pressure on public finances because the exports of groundnut products would have to be subsidized by the Government. That situation was indeed unfortunate, and Mr. de Maulde had usefully underscored the difficult position of countries like Senegal whose economy was subject to serious harm as a result of adverse fluctuations in world prices of commodity exports. It was much easier to note the need for Senegal to diversify its economy than for the authorities actually to meet that objective. The problem had both development and supply-side adjustment elements, and it was important to consider what the Fund was able to do, in the context of the programs that it supported, to help countries like Senegal. It would certainly be helpful to conduct reviews of progress under stand-by arrangements as promptly as possible. In the case of Senegal, the performance criteria for March 31 and June 30, 1982 were only being established at present. Senegal had a desperate need for foreign exchange, and any delay would, at the least, be inconvenient. The proposed decision was acceptable.

Mr. El-Khouri stated that he supported the proposed decision. When the present stand-by arrangement had gone into effect in September 1981, the authorities had already adopted a number of important corrective measures in the areas of prices, taxation, and expenditure control in order to reduce the imbalances in the economy. As a result, all the quantitative performance criteria for end-September and end-December 1981 had been met. Additional strong measures had been taken in January and February 1982. The most significant action--and a very sensitive one in political terms--had been the sharp increase in the price of rice. The authorities were to be commended for the courageous steps that they had taken and, in view of the continued large imbalances in the economy, they should be urged to keep the economy on the present path.

The actual level of net claims on the Government had been much lower than the relevant ceiling, Mr. El-Khouri noted. On page 5 of EBS/82/51, however, the staff had mentioned that, during its visit to Senegal in December 1981, it had discovered that the target for the budget deficit was likely to be largely exceeded. He wondered why the staff had thought in December 1981 that additional measures would be needed to correct the budget when the credit component of the deficit had been well below the ceiling under the stand-by arrangement.

The proposed modification of the phasing of the purchases under the stand-by arrangement had been prompted by the fact that, although the quantitative performance criteria had been met, understandings regarding the public wage bill and Stabilization Fund had not been observed, Mr. El-Khouri remarked. Under the proposal, the final purchase under the stand-by arrangement would occur in June 1982. Would that purchase be contingent upon the adoption by the authorities of specified measures in May, in conjunction with the scheduled review mission? Whatever measures were adopted in May were unlikely to have much effect on the economy before the end of June no matter how substantial the measures might be.

He was worried, Mr. El-Khouri went on, that the credit ceilings might be difficult for the authorities to adhere to. The ceiling on net credit to the Government was a kind of moving target and had to be continuously adjusted in the light of various factors. Accordingly, there might well be practical difficulties in observing the target.

Mr. Erb said that, in the light of the additional measures that had been adopted and of the progress that had been made in adjusting the economy in the right direction, the proposed decision should be approved. Significant changes in prices had been made, but he wondered how the new prices compared with world market and regional prices, and how flexible the process of adjusting prices would be over time. What was the underlying process controlling prices?

As previous speakers had noted, Mr. Erb continued, Senegal was greatly dependent on groundnut production and conditions in international markets. What progress had been made in diversifying the economy? Fish and shellfish exports had accounted for 10 per cent of total exports in 1979, compared with 5 per cent in 1976, and he wondered whether that trend had subsequently been maintained. What opportunities existed to substite for food imports? Those kinds of questions were consistent with Mr. Taylor's concern about the need for structural adjustments under future programs in Senegal. What were the prospects for additional World

Bank efforts in Senegal, including possible further structural adjustment lending? In sum, he was pleased with the direction of the actions that the authorities had taken, but he was still concerned about the magnitude of the balance of payments adjustments that would have to be made in the coming year or so; he therefore looked forward to the scheduled reviews of progress under the stand-by arrangement.

Mr. Jones stated that the authorities were to be commended for the broad-based measures that they had introduced. All of the performance criteria had been met and, after declining for two consecutive years, real output was expected to show a marked improvement in 1982 while real GDP was projected to grow substantially. Moreover, inflationary pressures were expected to lessen, and the fiscal deficit was projected to be reduced as a proportion of GDP. The balance of payments would probably remain under pressure, but a marked improvement was nevertheless anticipated.

The economy was moving in the right direction as a result of the measures that the authorities had adopted, Mr. Jones commented, and there was reason to hope that the program for 1982 would lay the foundation for achieving a rate of economic growth and a balance of payments position that would be sustainable in the long run. To encourage production and improve the supply situation the authorities were reviewing the producer prices with a view to formulating a comprehensive policy under which future adjustments would reflect trends in world market prices. Fiscal expansion had been a major source of the deterioration in Senegal's economic and financial position in the past, and the authorities had adopted a number of measures to contain the public sector deficit and to reduce the payments arrears. Furthermore, additional tax measures had been introduced to strengthen budgetary revenues. On the expenditure side, the freeze on public sector wages until June 1982 and the suspension of recruitment in the public sector should limit the growth of the wage bill. In addition, expenditure on roads, housing improvements, and equipment for the local authorities had been reduced. Monetary policy had been designed to accommodate the needs of the Government, including the reduction in payments arrears and the amortization of external debt. He had no difficulty in accepting the proposed decision.

A Deputy Director of the African Department, responding to Mr. Legarda's question on the apparent delay in the review, explained that a mission had visited Senegal in June and July 1981 to negotiate the one-year stand-by arrangement, and a second mission had taken place early in December 1981 to conduct the formal mid-term review. The mission that was scheduled to visit Senegal in May 1982 would actually combine the main review of the performance under the stand-by arrangement with the negotiations on a possible new stand-by arrangement. Hence, there had not been a particularly large number of actual and scheduled missions to Senegal. However, there had been some delay in the drawings, in part because of the fairly elaborate formula for the credit ceiling. When the program had initially been formulated, it had included an adjustment to take into account the uncertainty regarding balance of payments loans and grants to Senegal in the coming months. If such loans and grants were not taken into account, Senegal could conceivably appear to have either observed the credit ceiling with ease, or to have exceeded the ceiling merely because a loan or grant had been made a short while later than had been originally expected. Hence, the adjustment factor had been introduced in the formula on the basis of the staff's best guess about the future disbursement of balance of payments loans and grants. Accordingly, the credit ceiling was to be reduced by the amount by which actual loans and grants exceeded the estimate; on the other hand, the credit ceiling would be increased by less than the amount by which actual loans and grants were below the estimates.

The formula had been made even somewhat more elaborate at the time of the negotiations of the credit ceilings for March and June 1982, the Deputy Director continued. The staff had done so because of the possibility that there would be a deposit by a friendly country of about $110 million in the Central Bank; there had been no absolute certainty that the deposit would actually be made. Accordingly, the formula for the credit ceiling had been changed to make allowance for the deposit, and the decision had been made to treat the deposit exactly like the use of Fund resources. Under that approach, the deposit could be used as a substitute for the use of Fund resources without affecting the credit ceiling and, in fact, the delay in the purchase from the Fund that Mr. Legarda had noted had not created problems for the authorities because part of the deposit from the friendly country had been used as a substitute for the delayed purchase.

There had naturally been some question about the best use of the extra resources made available by the deposit from the friendly country, the Deputy Director recalled. The staff had felt that one of the main problems in the economy was that the Government had not paid many of its bills to the private sector. The resultant lack of liquidity in some enterprises had meant that, even though they were relatively efficient, they ran a great risk of bankruptcy merely because of the accumulation of arrears by the Government. Hence, the formula for the credit ceilings had been changed to provide for the possibility of accelerating the repayment of government arrears. At the same time, the staff had wished to be somewhat cautious and had indicated that no more than CFAF 10 billion could be used to make the accelerated payments, which would be the equivalent of about one third of the total deposit by the friendly country.

It was useful to bear in mind, the Deputy Director continued, that the main objective of the staff mission in May 1982 was to prepare the 1982/83 program, which would be addressed primarily to the need to reduce current public expenditure. As speakers had noted, controlling such expenditure continued to be an important objective for Senegal.

It was true, as Mr. Legarda had noted, that Executive Directors were being asked to consider at present performance criteria for a date that had already passed, namely, end-March 1982, the Deputy Director remarked. However, EBS/82/51 had been circulated before March 31, and the negotiation on the ceiling for end-March had been finalized well before then, in early January. It could thus be clearly seen that the performance criteria for end-March had been tentatively agreed some time ago; the authorities had had ample opportunity to adjust in advance their credit policies to the end-March ceiling. The latest information available to the staff indicated that the end-March credit ceiling would be observed; indeed, it was quite likely that credit to the Government would be substantially less than was provided for under the ceiling, thereby repeating the pattern that had been observed at end-December 1981.

There was some feeling by Executive Directors, the Deputy Director noted, that there was a lack of flexibility in Senegal's interest rate policy. In fact, however, despite the sensitivity of the interest rate issue, the authorities of the Banque Centrale des Etats de l'Afrique de l'Quest (BCEAO) had taken significant action; they had decided to alter the interest rate structure by raising rates by 2 percentage points in April 1982. As a result, the interest rate structure of the BCEAO countries included relatively high rates by African standards and, indeed, the rate on borrowing was positive in real terms.

Reasonable progress in controlling government expenditure and arrears had been made by the new unit that had been created under the Minister of Finance and Economy, the Deputy Director noted. As a result, the staff had been able to include ceilings on arrears of the Government in the stand-by arrangement. During the next visit to Senegal the staff should be able to learn more about the level of the arrears of the key public enterprises, and ceilings on those arrears could perhaps be included. The staff attached great importance to reducing the arrears, which had constituted one of the main problems facing the economy.

Substantial progress had also been made in consolidating the government accounts, the Deputy Director stated. The traditional presentation of the budget had not been easy to read, and the staff hoped to be able to present a consolidated budget in its next report. The staff had estimated that there had been a substantial reduction--about 3 percentage points--in the consolidated budget deficit in 1981/82 compared with 1980/81.

It was clear, the Deputy Director said, that the world price for groundnuts was very low. The price for groundnut oils in March 1982 had been 43 per cent below the average price in the first half of 1981. In April 1982 the world price, expressed in U.S. dollars, had risen by 5 per cent, and the staff had forecast a relatively moderate further increase in 1982 and 1983. Still, the price of groundnut oil in March 1982, in nominal terms, had been lower in the past only during six months of 1976 and before the commodity boom of 1973.

A World Bank mission was currently in Senegal to study how agricultural policy could be improved in general, and how the production of basic foodgrains in particular could be stimulated, the Deputy Director remarked. An important first step had been the recent increase by almost one third in the price of rice. The previous very low price had not helped to stimulate the production of that basic food. In addition, the export subsidy scheme, which had been in place for about two years, had had some positive results in stimulating exports of selective non-traditional products. Given the unfavorable outlook for groundnut exports, some thought should certainly be given to the possible expansion of the export subsidy scheme.

The staff attached considerable importance to improving the position of the parastatal enterprises, the Deputy Director commented. In addition, an audit had been made of the Stabilization Fund and its peripheral activities, and the staff expected to be able to review the results during the coming visit to Senegal.

The staff had already given some thought to the need for medium-term adjustments in Senegal, the Deputy Director went on. Further adjustments in the coming several years would probably be needed if Senegal was to achieve a sustainable balance of payments position.

In the past, the Deputy Director recalled, the authorities had responded to the cultivation of a good groundnut crop by lessening the restrictiveness of their demand management policies. They now understood that such an approach should not be applied in the coming years, and that they should continue to limit the wage bill, restore savings, and maintain the restrictive demand management policy stance for some time in order to enable the country to attain equilibrium in the balance of payments.

The World Bank's structural adjustment loan to Senegal was being made in two tranches, the Deputy Director of the African Department explained. The first tranche had been disbursed, and the World Bank mission now in Senegal was considering the agricultural policy that should be maintained in the coming period as a condition for Senegal's gaining access to the second tranche, which was equivalent to $20 million. The decision on the second tranche of that loan would probably coincide with the negotiations on a possible stand-by arrangement for 1982-83.

The staff representative from the Exchange and Trade Relations Department commented that it was useful to distinguish between two kinds of reviews with the Fund of the performance of a member country under an arrangement. A review with the Fund always involved the preparation of a report for consideration by the Executive Board, but there were several others. One of them was meant to result in understandings between the Fund and the country that were similar to a performance criterion governing further purchases under the arrangement. It was that kind of review that had taken place in December 1981 in Senegal. Accordingly, further purchases by Senegal could not have taken place until the Executive Board had approved the draft decision in EBS/82/51. The review that was to take place in May 1982 did not involve understandings with the Fund; therefore, the final purchase under the present stand-by arrangement would be conditional only upon Senegal's meeting the June 1982 performance criteria.

Mr. Nana-Sinkam said that, while the evolution of the interest rate structure in Senegal should be watched closely, it did not have a major impact on the economy. There was little likelihood that individuals could borrow money from a bank and invest it profitably in the main area of economic activity in Senegal--the agricultural sector--particularly in the light of the difficulties in increasing commodity exports.

He fully agreed with Mr. Taylor, Mr. Nana-Sinkam continued, that, despite the large size of the deposit in Senegal by a friendly country, the authorities should not relax their stabilization effort. Indeed, the Government would have to do everything possible to continue implementing the 1982 program. The increase in export revenues and the deposit by a friendly country in the Central Bank reflected the authorities' determination to encourage the adjustment process. Diversification was naturally difficult in a country like Senegal, but the authorities were making some progress in nontraditional exports through the export subsidy scheme. The staff could of course usefully discuss the matter of diversification with the authorities during the coming mission.

The balance of payments adjustment effort in Senegal would have to be maintained for several years, as stated by Mr. Erb, Mr. Nana-Sinkam continued. It was important to understand, however, that progress would not be fully within the control of the authorities. For instance, a decline in groundnut production for export might well be caused by factors beyond the influence of the authorities. That problem could of course be dealt with by diversifying the economy, but diversification could only be achieved in the longer run. The comments that Executive Directors had made would help the staff and the authorities to establish an appropriate program for 1982-83.

The Chairman commented that the authorities had implemented the stand-by arrangement in a courageous manner. The review that had been conducted in December 1981 had been critical. Without it, the important measures that had been adopted in January and February 1982--particularly the price adjustments--probably would not have been introduced. The actions of the authorities had clearly shown their resolve to implement the program.

However, the Chairman went on, the current account deficit was still very large--equivalent to about 21 per cent of GDP--and the debt service ratio was about 18 per cent when rescheduling was taken into account and 28 per cent without it. The situation in Senegal was obviously not viable, and a heavy hand would have to be maintained on demand for a number of years to come. There would have to be a substantial reduction in the balance of payments deficit, and private consumption and government expenditure would have to be checked. There appeared to be no scope for any real increase in public expenditure under the next budget, the increase in GNP and in the production of groundnuts. The volume of government arrears would have to be reduced, and current expenditure would have to be strictly monitored. Management and staff would attach great importance to the setting of the limits on the wage bill. It had been noted that the expansion of recruitment had been one of the main causes in the slippage in the public sector during the past year.

The Executive Board then turned to the proposed decision, which it approved.

The decision was:

1. Senegal has consulted the Fund in accordance with paragraph 5 of the letter of August 29, 1981 attached to the stand-by arrangement for Senegal (EBS/81/184, Supplement 1, September 16, 1981) in order to reach appropriate understandings with the Fund.

2. The letter of February 4, 1982 from the Prime Minister and the memorandum annexed thereto shall be annexed to the stand-by arrangement for Senegal, and the letter of August 29, 1981 and memorandum annexed thereto shall read as supplemented and modified by the letter of February 4, 1982 and memorandum annexed thereto.

3. Accordingly,

a. the ceiling on total domestic credit for end-December 1981 shall be amended in accordance with the letter of February 4, 1982 and the memorandum annexed thereto.

b. paragraph 2a of the stand-by arrangement for Senegal shall be amended to read as follows:

"Purchases under this arrangement shall not, without the consent of the Fund, exceed the equivalent of SDR 7.87 million until December 15, 1981; the equivalent of SDR 15.75 million until March 15, 1982; the equivalent of SDR 31.50 million until June 15, 1982; and the equivalent of SDR 47.25 million until September 1, 1982."

c. paragraph 4a of the stand-by arrangement for Senegal shall be amended to read:

"a. during any period in which the data at the end of the preceding period indicate that

(i) the limits on total domestic credit of the banking system described in paragraph 3b of the memorandum attached to the letter of February 4, 1982; or

(ii) the limits on net bank credit to the Government described in paragraph 3b of the same memorandum; or

(iii) the limits on contracting new government and government-guaranteed external debt described in paragraph 3a of the same memorandum; or

(iv) the minimum reduction in payments arrears of the Central Government described in paragraph 3c of the same memorandum are not observed; or"

Decision No. 7112-(82/68), adopted
May 21, 1982

DECISIONS TAKEN SINCE PREVIOUS BOARD MEETING

The following decisions were adopted by the Executive Board without meeting in the period between EBM/82/67 (5/6/82) and EBM/82/68 (5/21/82).

3. GRENADA - EXCHANGE SYSTEM

The approval of Grenada's multiple currency practice under Decision No. 6855-(81/79), adopted May 11, 1981, is extended until September 30, 1982 or Board discussion of the request for a stand-by arrangement by Grenada, whichever is earlier. (EBD/82/110, 5/5/82)

Decision No. 7113-(82/68), adopted
May 7, 1982

4. GUYANA - RESCHEDULING OF REPURCHASES

Guyana has proposed that repurchases equivalent to SDR 1,093,750 each due not later than January 30, 1982 and April 30, 1982, in accordance with Executive Board Decision No. 5703-(78/39), adopted March 22, 1978 as amended by Executive Board Decision No. 6862-(81/81), adopted May 13, 1981, be rescheduled to be made not later than May 31, 1983. The Fund agrees to the proposal of Guyana. (EBS/82/81, 5/7/82)

Decision No. 7114-(82/68), adopted
May 20, 1982

5. MAURITIUS - EXCHANGE SYSTEM

The approval of Mauritius' multiple currency practice under Paragraph 3 of Decision No. 7020-(81/160), adopted December 21, 1981, is extended until August 31, 1982, or the completion of the 1982 mid-term review of the present stand-by arrangement with Mauritius, whichever is earlier. (EBS/82/79, 5/4/82)

Decision No. 7115-(82/68), adopted
May 7, 1982

6. SDR DEPARTMENT - PAYMENT OF NET CHARGES AND ASSESSMENT FOR FINANCIAL YEAR ENDED APRIL 30, 1982

The Executive Board notes the course of action set out in EBS/82/80 (5/5/82).

Decision No. 7116-(82/68), adopted
May 7, 1982

7. OPERATION OF FUND ACCOUNTS - AUTHORIZED SIGNATORIES

1. On and after May 1, 1982, the following officials of the International Monetary Fund are authorized to operate (i) the Fund's No. 1, securities and gold accounts held in the General Resources Account of the General Department; (ii) the cash and investment accounts held in the Special Disbursement Account of the General Department; (iii) the cash and investment accounts held in the Borrowed Resources Suspense Account in the General Department; (iv) the cash and investment accounts held in the Subsidy Account; (v) the cash and investment accounts held in the Trust Fund Account; and (vi) the cash and investment accounts held in the Supplementary Financing Facility Subsidy Account, as follows:

(a) The Managing Director together with the Deputy Managing Director, or either of them together with any one of the officers listed under (b) or (c) below.

(b) Any two of the following signatories, or any one of them together with any one of the signatories listed under (a) or (c):

(1) The Treasurer
(2) The Deputy Treasurers
(3) The Advisor, Treasurer's Department
(4) The Assistant Treasurers
(5) The Assistant Treasurer for the Financial Relations Division
(6) The Chief of the Accounts and Financial Reports Division
(7) The Chief of the Administrative Expenditures Division
(8) The Chief of the Borrowed Resources and Investment Division
(9) The Chief of the Operations Division for General Resources
(10) The Chief of the Operations Division for SDRs and Administered Accounts

(c) Any one of the signatories listed under (a) or (b) together with any one of the following:

(1) The Assistant Chief of the Accounts and Financial Reports Division
(2) The Assistant Chief of the Administrative Expenditures Division
(3) The Senior Operations Officer--Borrowed Resources and Investment Division
(4) The Senior Operations Officers--Operations Division for General Resources
(5) The Senior Operations Officers--Operations Division for SDRs and Administered Accounts
(6) The Cashier

2. Any one of the signatories mentioned above shall be and hereby is authorized to operate the Fund's No. 2 Accounts and administrative accounts.

3. The foregoing officials, in conformity with this Decision, are hereby authorized and empowered in the name and on behalf of the Fund for its own account or on behalf of the Subsidy Account in accordance with paragraph 1 of Executive Board Decision No. 4773-(75/136), adopted August 1, 1975, or on behalf of the Trust Fund in accordance with Section III, Paragraph 1 of the Instrument annexed to Executive Board Decision No. 5069-(76/72), adopted May 5, 1976, or on behalf of the Supplementary Financing Facility Subsidy Account in accordance with Section 11 of the Instrument contained in Executive Board Decision No. 6683-(80/185) G/TR, adopted December 17, 1980, to open and operate cash, securities, and investment accounts with such banks and other institutions as have been or shall be designated as depositories of the Fund in accordance with Article XIII, Section 2, of the Articles of Agreement of the Fund, and with international financial institutions with which investments may be placed; to arrange for the deposit in such accounts of gold or currencies which shall be paid or payable to the Fund and any or all securities held by or to be delivered to the Fund; to execute and deliver any and all such drafts, endorsements, delivery orders, certificates, and other documents; to take any or all such other action as they shall deem necessary or proper in order to effect deposits in such accounts and withdrawals therefrom; and to issue such orders, demands, and instructions and to take all such other action as they shall deem necessary or proper in order to arrange for the safekeeping of such gold, currencies, and securities, the maintenance of such accounts, the withdrawal of any such gold, currencies, and securities therefrom, and the delivery of any such gold, currencies, or securities by any such depository or other institution.

4. This decision supersedes Executive Board Decision No. 6995-(81/147), adopted November 23, 1981. (EBAP/82/160, 5/3/82; and Correction 1, 5/5/82).

Decision No. 7117-(82/68), adopted
May 7, 1982

8. EXTERNAL AUDIT COMMITTEE

The Executive Board approves the change in the nominee from Mexico to the 1982 External Audit Committee. (EBAP/81/259, Supplement 2, 5/10/82).

Adopted May 13, 1982

9. ASSISTANT TO EXECUTIVE DIRECTOR

The Executive Board approves the appointment set forth in EBAP/82/164 (5/4/82).

Adopted May 6, 1982

10. ASSISTANT TO EXECUTIVE DIRECTOR

The Executive Board approves the appointment set forth in EBAP/82/170 (5/6/82).

Adopted May 7, 1982

11. INDONESIA - RELEASE OF INFORMATION

The Executive Board approves the proposed transmittal set forth in SM/82/88 (5/4/82).

Adopted May 7, 1982

12. APPROVAL OF MINUTES

The minutes of Executive Board Meetings 81/151 through 81/155 are approved. (EBD/82/106, 4/30/82)

Adopted May 6, 1982

13. EXECUTIVE BOARD TRAVEL

Travel by Executive Directors as set forth in EBAP/82/85, Supplement 1 (5/17/82), EBAP/82/167 (5/5/82), EBAP/82/168 (5/6/82), EBAP/82/169 (5/6/82), EBAP/82/174 (5/11/82), and EBAP/82/176 (5/19/82), and by an Advisor to Executive Director as set forth in EBAP/82/166 (5/5/82) is approved.

14. STAFF TRAVEL

Travel by the Acting Managing Director as set forth in EBAP/82/172 (5/7/82) is approved.

APPROVED: October 22, 1982

JOSEPH W. LANG, JR.
Acting Secretary