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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 82/72

10:00 a.m., May 26, 1982



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

| Executive Directors | Alternate Executive Directors |
|---|---|
| | O. Kabbaj |
| J. Anson | C. Taylor |
| A. Buira | |
| | H. G. Schneider |
| | A. Le Lorier |
| R. D. Erb | |
| | S. R. Abiad, Temporary |
| T. Hirao | T. Yamashita |
| | F. A. Tourreilles, Temporary |
| R. K. Joyce | |
| A. Kafka | J. R. Gabriel-Peña |
| B. Kharmawan | V. Supinit |
| | F. Sangare |
| | G. Winkelmann |
| G. Lovato | C. P. Caranicas |
| S. Nana-Sinkam | A. Alfidja |
| M. Narasimham | A. S. Jayawardena |
| | S. El-Khouri |
| J. J. Polak | |
| | B. Legarda |
| | K. V. Jännäri, Temporary |
| Zhang Z. | Tai Q. |

L. Van Houtven, Secretary
R. S. Franklin, Assistant

Also Present

D. T. Brand, Principal Representative for South Africa. Administration Department: R. Tenconi, Director; M. Russo, Deputy Director; C. Ahl, D. A. Anderson, H. Ayeb, G. E. Gondwe, J. D. Huddleston, J. G. Keyes, J. B. Muelken. African Department: S. E. Cronquist, M. Reichardt. European Department: U Dell'Anno, A. Knöbl, L. J. Lipschitz, H. O. Schmitt, P. van den Boogaerde, J. R. Wein, Exchange and Trade Relations Department: J. M. Boyd, B. B. Aghevli, K. B. Dillon, R. R. Selby. IMF Institute: R. Y. Bone, Participant. Legal Department: S. A. Silard. Research Department: C. Kemzura. Treasurer's Department: R. Nöe. Western Hemisphere Department: M. Caiola. Personal Assistant to the Managing Director: N. Carter. Advisors to Executive Directors: C. J. Batliwalla, C. Bouchard, S. E. Conrado, A. B. Diao, G. Jauregui, L. Ionescu, P. D. Peroz, F. Yeo T. Y. Assistants to Executive Directors: H. Alaoui-Abbdallaoui, L. Barbone, T. A. Connors, R. J. J. Costa, A. Halevi, Jiang H., J. M. Jones, P. Kohnert, V. K. S. Nair, J. R. Novaes de Almeida, Y. Okubo, J. G. Pedersen, C. N. Pinfield, J. Reddy, D. I. S. Shaw, O. Üçer, J. C. Williams, J. F. Williams.

1. SOUTH AFRICA - 1982 ARTICLE IV CONSULTATION

The Executive Directors considered the staff report for the 1982 Article IV consultation with South Africa (SM/82/76, 4/20/82). They also had before them a report on recent economic developments in South Africa (SM/82/89, 5/11/82). Mr. Deon Brand, Principal Resident Representative for South Africa, was present for the discussion.

Mr. Brand made the following statement:

As is evident from study of the staff report for the 1982 Article IV consultation with South Africa as well as from the latest report on recent economic developments, the economic scenario in South Africa has changed quite considerably since the previous consultation two years ago. The implications of these changed conditions for internal and external adjustment, unfortunately, are serious and therefore require carefully considered and strictly executed coordinated plans of action. In view of the urgent need to foster adjustment, the present consultation with South Africa came at an opportune time.

In this regard I wish at the outset to place on record my authorities' appreciation and gratitude to the management and staff for the most efficient and constructive way in which the consultations with them have once again been conducted. My authorities agree with the broad thrust of the analysis and with the description of the developments and policies contained in the staff papers.

The changed conditions to which I have referred relate to the substantial decline in the price of gold and in world demand for South Africa's primary exports, and a massive worsening of the external current account of the balance of payments which the South African economy faced in the course of 1981. In addition to this, the economy has also been plagued by considerable inflationary pressures.

There is no doubt that in particular the monetary policies followed by my authorities up to late 1981 retarded the adjustment process. In retrospect, coordinated measures taken at an early stage to foster adjustment would to some extent have lessened the worsening of the balance of payments, requiring a lesser adjustment effort now to redress the position. In this regard, it is always easier with hindsight to express an opinion on what should have been done. Apart from the uncertainties that existed at that time about the duration of the unfavorable external conditions and the seriousness of supply constraints, judgments about the timing and scope of adjustment efforts are paticularly difficult in South Africa because of the extreme difficulty of foreseeing developments in the gold market. Such developments, of course, play a pivotal role in the economy.

As it became clear that the world recession would last longer than initially expected and as the downward trend in the price of gold continued, the financial policy stance in 1981 gradually shifted from one of accommodation to one designed to bring about adjustment. At the time when the budget for the 1982/83 financial year had to be framed, my authorities had to consider several difficult factors. On the internal side, the fact that the rate of unemployment among less skilled people did decrease initially, but stabilized at too early a stage, coexisted with an unacceptably high rate of inflation. For domestic reasons and in line with my authorities' desire to improve the economic well-being of all the population groups of the country, it was considered imperative on the one hand that the employment position should not be allowed to deteriorate. On the other hand, it was considered equally important for continued emphasis to be placed on containing demand pressures as far as possible. The choice of instruments to be employed in this precarious balancing act therefore required careful consideration so as to prevent as far as possible one priority from being undermined by the pursuit of another.

Any attempt to stimulate, for employment purposes, economic activity through the budget would have been counterprodutive. It would not have encouraged growth and thus employment in the longer run. On the contrary, inflationary pressures would most likely have been rekindled with detrimental consequences for the international competitiveness of the economy, prolonging unnecessarily the present balance of payments problems. It is hoped that the approach of consolidation and adjustment that was decided upon eventually, would restrict to a minimum any sacrifices that would temporarily be required on the employment side in order to promote inter alia price stability and external adjustment in the economy.

With regard to the external side, policies have been designed to facilitate adjustment of the balance of payments. Interest rates have during the course of 1981 been allowed to rise considerably and are now, for the first time in several years, positive in real terms. However, my authorities would like to avoid overkill in the management of money and credit. The broad objective of policy is to hold growth of money slightly below the rate of inflation. In March 1982, broad money (M-2 and M-3) still was higher (24 per cent and 18.5 per cent, respectively) than a year earlier. Although some special factors had distorted the money stock upward in March, my authorities regard such a monetary expansion clearly as excessive. They feel that, as the rise in interest rates affects the demand for credit, monetary growth should diminish in the near future; in April the cash base was only about 12 per cent above the level of a year earlier.

In general, it may be noted that fiscal policy has shifted decisively toward restraint. The intention is to restrict government spending during the current year as much as possible without disrupting the provision of essential services. The latest budget provides for an increase in expenditure of 11.5 per cent. The medium-term objective of my authorities is to increase the share of resources available to the private sector. In line with this objective, between 1976/77 and 1980/81 public spending as a proportion of GDP has been reduced from 27.5 per cent to 23 per cent. No backtracking of this progress is envisaged for 1982/83. It may also be mentioned that the Minister of Finance is adamant that the financing of the budget deficit will not require any recourse to bank credit this year. The deficit before borrowing is budgeted to amount to about R 2.3 billion--that is, about 2.75 per cent of GDP. This is not considered excessive in terms of the level of domestic saving, the growth potential of the South African economy, and the need to contain unemployment. This percentage is also unchanged from the 1981/82 percentage. It is further pertinent to note that during the first five weeks of the 1982/83 financial year, the Treasury and the Reserve Bank have through a primary issue, and tap sales of government stock, already raised virtually the full amount of nonbank financing provided for in the budget statement from nonbank sources. The monetary authorities are furthermore continuing these efforts in an attempt to provide a further cushion to any possible adverse developments in both revenue receipts and expenditure.

The exchange rate policy pursued by my authorities has remained flexible to promote adjustment of the external payments position and also to help mitigate the potential conflict between the objectives of adjustment and growth. My authorities do not intend to change the basic liberal approach to import control that had been followed during the past few years, and they regard the import surcharge as a temporary revenue raising measure, to be removed when circumstances permit.

At this stage, it is still too early to make conclusive deductions on the basis of available statistics about the progress made with the adjustment of the South African economy, particularly in the light of the fiscal measures introduced in the budget in March. It is expected, however, that these measures will start to affect in earnest domestic production and expenditure in the second half of 1982. The following developments would, on the one hand, seem to confirm that a shift from expansion to adjustment is taking place:

(i) some decline in the utilization of productive capacity occurred in the first quarter of 1982;

(ii) retail sales at constant prices declined by 1.6 per cent from March 1982 to April 1982;

(iii) wholesale sales at constant prices declined by 4.3 per cent from February 1982 to March 1982 (a decline was also registered on a 12-month basis both for wholesale and retail sales at constant prices);

(iv) the number of new motor vehicles sold in April 1982 declined by 13.7 per cent compared with March 1982 and by 1.4 per cent compared with April 1981. On the other hand, the balance of payments remained weak during the first quarter of 1982. Export markets remained depressed, the price of gold fell further, and although imports declined somewhat in real terms, their level remained high. My authorities remain convinced, however, that as soon as the effects of the budgetary measures as well as the monetary and exchange rate policies fully take hold, substantial downward pressure would be exerted on demand in general, and imports in particular, thereby reducing the pressure on the balance of payments.

My authorities concur with the staff's view that the prospects for growth in the South African economy during 1982 are not good, especially relative to the past two years. They also share the staff's view that although the balance of payments could be expected to improve later in the year, the inflationary picture is unlikely to show much improvement in the short run. However, after a period of consolidation and adjustment my authorities are confident that our economy will be able to share in an eventual recovery in world demand from a more balanced position.

Mr. Erb stated that he was in general agreement with the staff appraisal. The expansionary monetary policy in 1981 had delayed adjustment and, while a more effective policy seemed to have been adopted recently, the delay had cost the authorities a loss of control over monetary aggregate growth and had also led to an increase in inflation and inflationary expectations and a larger than expected current account deficit. The cost of adjustment would have been less if more timely policy corrections had been made in the monetary area.

He hoped that some of the recent policy changes--such as the move to allow interest rates to affect underlying demand and supply pressures and the steps to create a competitive market for government securities and to restrain the monetization of government debt--would be made more permanent, Mr. Erb continued. Also, it would be helpful if the authorities could rely more on market signals rather than direct controls in the monetary sector. It was his understanding that a commission looking into the monetary system and monetary policy in South Africa had made recommendations much along those lines, and he wondered whether Mr. Brand or the staff could indicate any further reforms contemplated by the authorities in the monetary and credit fields. Of some concern to him was the policy of allowing unrestrained credit to farmers at below market rates while restricting credit to other sectors, and he also had doubts about the desirability of imposing a maximum interest rate on certain bank lending. On another issue connected with monetary policy, he understood that the seasonal flow of tax receipts in South Africa could have a large monetary impact, and he wondered whether the authorities were considering ways of dealing with the problem.

Generally speaking, he had been struck by two elements in the staff papers covering the macroeconomic experience of South Africa over the previous decade, Mr. Erb said. The first was the shortage of skilled labor, and the other was the strong domestic impact of external fluctuations in commodity prices, particularly of gold. It was doubtful that a sustained high level of output growth would be attainable in South Africa so long as higher demand was constrained by labor factor supply limits. The shortage of skilled labor thus contributed to inflation and to the current account disequilibrium; in the circumstances, the authorities should increase their efforts to introduce more effective training and better use of the large pool of unskilled labor in the country along the lines suggested in the staff report.

With respect to the impact of external commodity price developments, Mr. Erb wondered whether alternative asset management techniques might be devised so that the authorities could more adequately cope with the effects of export price fluctuations and thus lessen the prospect of repeated cycles of overexpansionary developments followed by the need for rapid retrenchment. The problems faced by South Africa with respect to commodity price fluctuations were similar to those experienced by other raw material commodity producers, and he wondered whether similar solutions might not be applied. For example, it might be better to treat the rent component of the gold price as an asset, the sale of which could be treated as a capital flow rather than as an export. With such an approach, it would be possible for the South African authorities to decide at any given moment whether it made sense to invest the return from the sale of the asset in either the domestic economy or in external assets.

In concluding, Mr. Erb said that he had noted with some concern the imposition of the import surcharge in South Africa. If the surcharge was primarily designed to raise revenue rather than to ease the balance of payments, he could agree with the staff that it should be replaced by a more general measure to end discrimination against imports. So far as the surcharge affected only imports, it had a detrimental protectionist impact.

Mr. Polak agreed with the staff that important policy weaknesses had been evident in South Africa until recently. There had been too slow a response to the gold boom of 1979/80, the interest rate had been kept at too low a level for too long a period, and monetary policy had been far too expansive. Moreover, the Central Bank had become involved in a forward exchange cover policy that had clearly been unwise and had had to be abandoned rather quickly. As he understood it, however, the policy weaknesses had been corrected, and a strong adjustment policy was currently being followed, in which both the fiscal and monetary components played their respective roles and in which due reliance was being placed on the exchange rate. In light of the policy shift, he could agree with the staff's endorsement of South Africa's fundamental adjustment policies.

The staff might have done more work on the question of the separate capital market rate in South Africa, Mr. Polak considered. A reference had been made in the background paper to the "securities rand," introduced some three years previously as a first step toward the ultimate goal of a unified floating rate. However, the staff had given no indication of what progress was being made toward that goal, and he had been led to wonder whether the use of the "securities rand" as a way of cutting the exchange market for foreign investment might be more related to a fixed-rate system and whether it was in fact consistent with a logical approach to the optimal use of capital.

Another matter of interest was South Africa's gold marketing policy, Mr. Polak continued. The staff had noted on page 7 of its paper that "the authorities indicated that their gold marketing policy was to base sales on balance of payments needs," and he wondered whether that description could not as easily have applied during the period of fixed gold prices. At that time, it had probably made sense to base sales of gold on balance of payments needs because the balance of payments fluctuations in South Africa had not been caused by fluctuations in the price of gold itself. Hence, it had been possible for the country to hold virtually all its reserves in gold, which could be sold on the market if a balance of payments deficit arose and withdrawn from the market when there was a balance of payments surplus. At the present time, however, fluctuations in the price of gold were one of the important cyclical difficulties experienced by South Africa, and the policy currently being followed appeared to add to those fluctuations by superimposing fluctuations in the value of reserves on fluctuations in the value of exports. It was clear that South Africa had been accumulating gold in 1979/80 when the price was high, and selling it during 1981/82 at a time when the gold price was relatively low; and it was the low gold price that was the cause of the balance of payments deficit in South Africa. The policy seemed to him to go in a direction opposite from that taken by other primary producers, who tended to accumulate export products when prices were low and to sell them when prices were higher. Put another way, it seemed odd for the South African authorities to hold in reserves--which were supposed to constitute a buffer against balance of payments fluctuations--the same item that was the cause of those fluctuations. It might be better for them to hold in reserve some other asset that was more stable, such as foreign exchange.

Mr. Taylor said that it was clear from the staff papers that the course of the South African economy had been somewhat erratic in recent years; in particular, as noted by both previous speakers, there had been an overexpansion of domestic demand in 1980 and early 1981. To a great extent, fluctuations in the price of gold had been at the root of those uneven developments, although economic policy had to bear some of the responsibility. The monetary and fiscal stance had become too expansionary in 1980/81, and the maintenance of exchange control had probably also made adjustment to gold price fluctuations more difficult than it might otherwise have been. In the circumstances, he welcomed the tightening of monetary and fiscal policies begun in 1981. Although belated, the changes seemed to have placed them on the right track.

In spite of the welcome changes in economic policy and the recent weakness in oil prices, there appeared to have been little progress in the fight against inflation, at least in 1982, Mr. Taylor continued. With GDP well below the 5 per cent growth rate apparently needed to contain unemployment, the situation in the labor market seemed set to weaken, a development that might help to mitigate wage pressures. On the other hand, it would be difficult to tackle the worrisome unemployment problem before inflation was brought under control. In that connection, he found the conjunction of high unemployment and the shortage of skilled labor to be surprising and he hoped that it would be possible to do more to upgrade and retrain unskilled labor so as to relieve what was an important constraint on the economy.

Two areas of economic policy deserved a somewhat more detailed discussion, Mr. Taylor considered. While the shift toward positive real interest rates and the breaking of the link between the commercial banks' prime rate and the bank rate should help to make nonbank financing of the fiscal deficit somewhat easier and should encourage capital inflows, he was concerned that an interest rate ceiling remained in force for certain bank lending. There was a social rationale for such a ceiling, although the failure to allow the full impact of real interest rates to be felt in the economy could prolong the period of adjustment. He therefore agreed with the staff that the remaining interest rate ceiling should be reviewed. Also, the operations of the Land Bank appeared to be somewhat in conflict with an efficient monetary policy. The upswing in agricultural financing at preferred rates provided through the Land Bank in response to the large maize crop in 1981 must inevitably have diverted loan finance away from traditional short-term government paper. Moreover, the returns to commercial banks on their obligatory lending to the Land Bank were currently significantly below the prime rate, and the subsidization of farmers through preferential interest rates appeared to be creating significant difficulties in the area of monetary and credit control. He wondered whether any thought had been given to subsidizing farmers directly rather than through the route of credit subsidization. A more direct approach would at least permit the removal of an important distortion of monetary policy.

With respect to the external sector, Mr. Taylor welcomed the authorities' objective of limiting the current account deficit to 3.5 per cent of GDP in 1982, although he was concerned about the key assumptions underlying that target. Achievement of the objective appeared to depend heavily on the projected 14 per cent fall in the volume of imports, an estimate that suggested that perhaps imports were being expected to take on too large a share of the burden of adjustment. Also, he had some doubts about the projected recovery in exports, particularly given that mineral prices were likely to remain depressed and gold prices were declining. In light of those considerations, he would appreciate a comment from the staff on the plausibility of the current account targets.

Given the uncertain prospects for the external sector, Mr. Taylor continued, flexibility in the conduct of external policy--particularly in the management of the exchange rate--would be needed. One could appreciate that the volatility of export earnings posed awkward choices for the authorities in South Africa, as it did for other commodity exporting economies, and it would be interesting to know whether the authorities intended to continue their policy of allowing market forces to determine the level of the exchange rate following the recent depreciation of the rand to below parity with the dollar. Finally, he noted in passing that it might have been useful for the Fund's surveillance activity if the staff had given some consideration to the implications of South Africa's monetary and exchange rate policy for other members of the Rand Monetary Association.

The staff representative from the European Department, recalling questions on the operations of the Land Bank and on the ceiling on interest rates for certain bank lending, noted that the staff had stressed to the authorities that the policies of unrestrained credit extension to farmers at below market rates and of maintaining an interest rate ceiling on certain bank lendings should both be reviewed because they led to problems for monetary control. As to whether a straight subsidy might not be preferable to the current "hidden" subsidy in Land Bank lending, he agreed with Mr. Taylor that a straight subsidy might have the advantage of making it clear that someone had to pay for the subsidy in the form either of higher taxes or of higher interest rates, if monetary policy was not to be undermined. A Commission of Inquiry into the monetary system in South Africa was preparing a report to be issued later in the year; it was expected that the report would recommend further efforts toward a market-oriented monetary policy. As noted by Mr. Erb, the seasonal flow of tax receipts did indeed create monetary problems, and the authorities were attempting to deal with the matter by introducing greater flexibility in debt management.

With respect to issues related to fluctuations in commodity prices, particularly the price of gold, the staff representative observed that some of the suggestions in the annex to the report on recent economic developments would, if implemented, meet some of the concerns raised by Mr. Erb. For example, a greater use of a stabilization account, possibly held in foreign assets, would have been helpful. The staff had also noted that some easing of capital controls would have beneficial effects by allowing a buildup of foreign assets. As for questions regarding the rent component of the gold price, it should be mentioned that the tax rate rose progressively as the profits of the gold mines increased, so that the tax system did facilitate the use of fiscal policy for stabilization.

The Financial Rand System in its current form had existed only since 1979, the staff representative continued. A similar system--the Security Rand System--had been established in 1962 as a way of helping to avoid capital outflows, at least on a net basis. Recently, the discount between the financial rand and the commercial rand had narrowed quite significantly because the commercial rand had depreciated and because some increased interest in direct investment by foreigners in South Africa had increased the value of the financial rand.

With respect to questions on South Africa's gold marketing and reserve management policies, the staff representative observed that a major portion of official reserves was held in the form of gold; for example, of the total reserves of SDR 3 billion at end March, approximately SDR 2.4 billion had been held in gold. Such a policy was understandable so long as gold played a major role in the monetary system, and the authorities' continuation of the policy at present might reflect their view that, at least in practice, gold still played such a role. The authorities had used their gold holdings when necessary for balance of payments financing. Indirectly, the holdings were helpful in increasing the borrowing capacity in the short term, though the authorities thought that, in the medium term, confidence in their management of the economy was more important; more directly, they used gold in swap arrangements. The authorities had indicated a preference for using gold for balance of payments financing rather than for selling the asset outright. In the long run, it was difficult to say which method of reserve management was the more beneficial, although it was clear that, if the authorities had converted gold into foreign exchange in 1980 when the price had been high, they would have had a higher foreign exchange reserve available in the present time of need.

As to the plausibility of the current account projections, the staff representative from the European Department noted, first, that balance of payments data for the first quarter of 1982 were not yet available. However, judging from trade returns through March, it was clear that the current account had been weak in the first quarter, with the deficit amounting to perhaps more than R 1.3 billion, or approximately 40 per cent of the projected deficit for the year as a whole. The main reason for the weakness had been the fall in export values, especially gold exports. Import volumes, on the other hand, had already fallen below the level of a year earlier. It was impossible to judge at present whether the 1982 balance of payments forecast contained in the staff report would be fully realized, although the staff was confident that the external position would improve significantly once the adjustment policies took full effect in the months ahead. The projected 14 per cent fall in the volume of imports for 1982 as a whole had been based on past evidence, which suggested that imports had historically been quite sensitive to cyclical movements. The export projections might turn out to be optimistic, particularly if the recovery abroad should be weaker or delayed longer than currently expected. In the circumstances, the extent of the current account improvement would depend crucially on developments in the export markets as well as in the price of gold. However, the authorities had indicated their willingness to take additional measures if required.

Mr. Brand confirmed his authorities' intention to maintain flexibility in the area of exchange rate policy. It continued to be their long-term objective to move toward a unified exchange rate system that would be flexible, subject to management by the Central Bank. It was also hoped that, at that stage, exchange controls for nonresidents could be abolished altogether.

His authorities were prepared to be more flexible in the area of interest rates as well, Mr. Brand continued, particularly if it should prove in the near future that the measures already taken were insufficient. On the labor side, they remained concerned by the shortages of skilled labor and intended, inter alia, to proceed on an increased scale with the sorts of retraining mentioned by some members of the Board. Unfortunately, the problem was not one that could be solved in the short term. Finally, Mr. Taylor's question on the effects of South Africa's policies on other members of the Rand Monetary Area might perhaps best be answered in the context of the forthcoming staff study on the advantages and disadvantages of membership in currency unions.

The Chairman made the following summing up in concluding the discussion:

> Executive Directors agreed that the delay in adjusting policies in 1981 had compounded the balance of payments problems that had arisen as a result of the decline in the price of gold and sluggish world demand for South Africa's primary exports. They observed that expansionary monetary policy and, more generally, the slow policy response to the changed economic environment had contributed to keeping the rate of price inflation well above the average of that in the country's main trading partners, a stance which had contributed greatly to the size of the adjustment problems with which South Africa is now coping.
>
> Noting that domestic costs had been sharply increased by widespread shortages of skilled labor, Directors urged that training programs for upgrading the skills of the labor force be accelerated. Such programs would also contribute to improving the supply performance of the economy in the medium term and to reducing unemployment.
>
> Directors generally agreed that the external adjustment policies now being implemented, with the aim of reducing the current account deficit of the balance of payments as a proportion of GDP to a level well below that reached in 1981, were appropriate. They welcomed the flexible use of exchange rate policy, the measures taken to control the growth of the monetary aggregates, and the fiscal austerity reflected in the recent budget. It was, in particular, urged that more flexible interest rate policies--including the abolition of existing ceilings, if possible--should be used, and it was stressed that a phasing out of direct controls would improve the economy's performance.
>
> Although it was recognized that the imposition of the 10 per cent import surcharge was intended as a revenue-raising measure, Directors noted that the surcharge distorted trade and they urged its removal as soon as possible. With regard to the gold marketing policy in South Africa, interest was expressed in alternative techniques of reserve management to smooth out the effects of

volatile export prices on the domestic economy and the balance of payments and reserve position of South Africa.

Directors commended the authorities for their readiness to take additional measures, which might be needed to ensure the achievement of their external payments objective.

## 2. STAFF COMPENSATION - 1982 ADJUSTMENT

The Executive Directors, meeting in restricted session, considered management's proposal for the 1982 adjustment in staff compensation (EBAP/82/165, 5/4/82). They also had before them a paper on the same subject prepared by the Staff Association Committee (EBAP/82/175, 5/18/82).

The Staff Association Committee was allowed to be present for the presentation of its paper to the Board.

Following the withdrawal of the Staff Association Committee, the Executive Board discussed management's proposal and took the following decision, pending a similar decision by the Executive Board of the World Bank: 1/

> The Executive Board agrees to increase salaries for all staff by 7.5 per cent with effect from May 1, 1982 and to increase appropriations for the Administrative Budget for FY 1983 accordingly.

Adopted May 26, 1982

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1/ On May 27, 1982, the Executive Directors of the World Bank also took a decision to increase salaries for all staff by 7.5 per cent with effect from May 1, 1982.

DECISIONS TAKEN SINCE PREVIOUS BOARD MEETING

The following decisions were adopted by the Executive Board without meeting in the period between EBM/82/71 (5/24/82) and EBM/82/72 (5/26/82).

3. EXECUTIVE BOARD TRAVEL

Travel by Executive Directors as set forth in EBAP/82/146, Sup. 1, Cor. 1 (5/24/82), EBAP/82/179 (5/21/82), EBAP/82/180 (5/24/82), and EBAP/82/184 (5/25/82), and by an Advisor to an Executive Director as set forth in EBAP/82/74, Sup. 1 (5/21/82), is approved.

APPROVED: October 22, 1982

JOSEPH W. LANG, JR.
Acting Secretary