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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 82/23

3:00 p.m., February 22, 1982

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

Executive Directors	Alternate Executive Directors
	A. Yasseri, Temporary
	C. Taylor
	S. E. Conrado, Temporary
	O. Üçer, Temporary
	P. D. Peroz, Temporary
	T. A. Connors, Temporary
	M. A. Janjua, Temporary
T. Hirao	T. Yamashita
	F. A. Tourreilles, Temporary
R. K. Joyce	M. Casey
	G. Jauregui, Temporary
	V. Supinit
	J. A. K. Munthali, Temporary
	G. Winkelmann
G. Lovato	C. P. Caranicas
	A. Alfidja
M. Narasimham	
	S. El-Khouri
J. J. Polak	T. de Vries
A. R. G. Prowse	
	L. Vidvei
Zhang Z.	Tai Q.

L. Van Houtven, Secretary
K. S. Friedman, Assistant

Also Present

D. Venner, Director of Finance and Planning of St. Lucia. M. Stojiljkovic, Alternate Executive Director, IBRD. African Department: O. B. Makalou, Deputy Director. Asian Department: S. Kimura. European Department: M. Dakolias, P. B. de Fontenay, L. G. Manison, A. Mountford, H. Ungerer. Exchange and Trade Relations Department: W. A. Beveridge, Deputy Director; S. Mookerjee, Deputy Director; J. Odling-Smee. Legal Department: G. P. Nicoletopoulos, Director; J. G. Evans, Jr., Deputy General Counsel; G. F. Rea, Deputy General Counsel; W. E. Holder, Ph. Lachman. Middle Eastern Department: G. Tomasson. Research Department: T. Gudac. Treasurer's Department: W. O. Habermeier, Counsellor and Treasurer; R. J. Familton, Deputy Treasurer; D. Williams, Deputy Treasurer; D. Berthet, D. H. Brown, D. S. Cutler, D. Gupta, R. B. Hicks, T. M. Tran. Western Hemisphere Department: A. I. Abdi, E. O. Bell, M. Caiola, M. E. Hardy, Y. Ozeki, F. Rubli-Kaiser, L. M. Valdivieso. Personal Assistant to the Managing Director: N. Carter. Advisors to Executive Directors: S. R. Abiad, E. A. Ajayi, C. J. Batliwalla, A. B. Diao, K. V. Jännäri, Wang E. Assistants to Executive Directors: E. M. Ainley, L. Barbone, R. J. J. Costa, M. K. Diallo, P. Kohnert, J. S. Mair, W. Moerke, V. K. S. Nair, Y. Okubo, J. G. Pedersen, C. N. Pinfield, J. Reddy, J. Schuijer, D. I. S. Shaw, H. Suzuki, J. F. Williams.

1. YUGOSLAVIA - 1981 ARTICLE IV CONSULTATION, AND REVIEW AND CONSULTATION UNDER STAND-BY ARRANGEMENT

The Executive Directors continued from the previous meeting (EBM/82/22, 2/22/82) their consideration of the staff report for the 1981 Article IV consultation with Yugoslavia (SM/82/24, 2/2/82) and a staff report on the review and consultation under the stand-by arrangement for Yugoslavia (EBS/82/20, 1/29/82; Sup. 1, 2/9/82; and Sup. 2, 2/18/82). They also had before them a report on recent economic developments in Yugoslavia (SM/82/31, 2/11/82).

The staff representative from the European Department, commenting on the feasibility of meeting the inflation target of 15 per cent, said that there had been a significant deceleration in the rate of inflation since June 1981 and, if it continued in coming months, the target would be within reach. The expectation that inflation would not exceed 15 per cent was based on the assumption that there would be no significant increase in domestic demand in 1982, and that monetary policy would continue to be restrictive and fiscal policy contractionary. Moreover, the incomes policy had been designed to ensure that there would be no upward pressure on prices resulting from wages. However, the 15 per cent target did take into account the pressure on prices resulting from the increase in interest rates, the expected movement in the exchange rate, and the adjustments in agricultural and energy prices that the authorities were planning to make in order to rationalize the price structure. One of the main questions in the area of price developments was whether those cost pressures could be accommodated through an increase in the velocity of money in 1982.

The staff felt, the staff representative continued, that there was not much room for a further expansion in velocity in 1982. Enterprises were under pressure to avoid price increases in order to maximize their sales and improve their liquidity position. Indeed, the staff believed that the figure of 15 per cent was a kind of ceiling on the rate of price increase in Yugoslavia in 1982, and it had indicated to the authorities that it hoped that the target would not be seen as a prophecy to be fulfilled; the staff had stressed that the demand and cost pressures were not sufficient to cause a significant acceleration in inflation. In that connection, the behavior of public enterprises had been one of the major concerns of the staff, but the federal authorities had assured it that their demand management and incomes policies would keep inflation from exceeding 15 per cent in 1982.

Under Yugoslavia's present pricing system, the staff representative explained, some prices were controlled at the federal and republic levels, but most were set by enterprises. Pricing policy at the federal level served as a guideline for the enterprises; the federal criteria to be followed by the enterprises took into account mainly cost factors and prices prevailing in international markets.

The authorities had stated in their letter of intent, the staff representative noted, that if the rate of inflation in 1982 exceeded 15 per cent, they would adjust the exchange rate to maintain external competitiveness. They had also stated their full agreement with the staff on the role that interest rates could play in economic management, particularly as many decisions on production were taken at the enterprise level. The authorities realized that proper interest rates were one of the appropriate mechanisms that managers of enterprises needed in order to make correct decisions. The main issue in the area of interest rate policy was the magnitude and timing of the needed adjustments. The authorities were worried that significant and abrupt increases in interest rates would adversely affect costs rather than reduce demand. The staff and the Yugoslav authorities were considering the elements that would constitute an appropriate interest rate structure for Yugoslavia in the coming period. As a general rule, interest rates on deposits, especially time deposits, should be sufficiently positive to discourage transfers of financial resources from the household sector to the enterprise sector, and lending rates should be sufficiently high to ensure the efficient allocation of investment resources and to affect appropriately the inventory behavior of enterprises. Yugoslavia's economic system included credit rationing and selective credit controls, but interest rate policy could nevertheless play an important role in investment decisions by enterprises, especially decisions on the use of resources in the medium term.

There seemed to be some feeling among Executive Directors that the export target might be overoptimistic, and that the continued decline in the volume of imports might be unsustainable and could adversely affect the planned expansion of output, the staff representative remarked. However, in the second half of 1981, and particularly in the final quarter, exports to the convertible area had increased significantly. Indeed, there had been a large increase in exports to oil producing countries in the final quarter of 1981; and the authorities had been making every effort to ensure that that trend would continue in 1982. The expected further restraint in domestic demand should free resources for the production of exports, and the adjustment of the exchange rate should help to maintain Yugoslavia's competitive position. Even more important, the Yugoslav authorities had implemented in 1982, for the first time, a well-designed export program. Imports had declined significantly in 1981 and were expected to continue to fall slightly in 1982, mainly because of the continued sluggish domestic demand and partly because of the limited availability of foreign exchange. In addition, conservation measures had resulted in a significant reduction in imports of oil products. The structure of imports had also changed, in the sense that the share of consumer and capital goods had fallen considerably while imports of raw materials had continued to grow in keeping with the overall effort to sustain the growth of the gross social product. The staff felt that, given the present policy stance and the indirect link that existed between imports and the availability of foreign exchange, the balance of payments target for 1982 would be achieved.

A technical question had been raised about the recent trend in the figures for the category "net errors and omissions" in the balance of payments, the staff representative recalled. It was true that significantly large advance payments for imports had been made at the end of 1980. They had probably been made for a number of different reasons, such as the anticipated exchange rate adjustment and expected limited availability of foreign exchange. As a result, a significant amount of the recorded imports in 1981 had been financed in late 1980, and the positive net errors and omissions in 1981 constituted an offsetting entry. That experience would probably not be repeated in 1982. Indeed, in 1981 the volume of foreign exchange and imports had increased significantly in the final quarter.

The question had been raised, the staff representative from the European Department commented, whether the low rate of economic growth in 1980-81 could not have been avoided. The authorities had deliberately chosen to reduce domestic demand, particularly the level of investment, to release resources to the export sector in order to achieve their external objectives. They had attempted also to minimize the adverse effects of the reduction in demand and output by, inter alia, maintaining an appropriate incomes policy in both 1980 and 1981, thereby providing more room than would have been the case otherwise for an expansion of the real social product. The high rate of unemployment was misleading; many of the registered unemployed persons were not in fact without jobs. The real unemployment rate was very low; moreover, the investment policy was designed to permit sufficient growth in productive capacity to absorb the expected increase in the labor force in coming years. In any event, as a matter of established policy and practice, labor employed by enterprises could not be dismissed; labor was a fixed cost for enterprises which, in the present circumstances, could either lower output or increase inventories instead of reducing labor. When the sales of enterprises declined significantly, the income shared by the fixed labor force fell proportionately. Finally, the authorities made a distinction between Yugoslavia's economic and noneconomic sectors. The decline in real wages had been much greater in the noneconomic sector than in the economic sector in both 1980 and 1981.

The Deputy Director of the Exchange and Trade Relations Department commented that the present trade system in Yugoslavia had been established by legislation adopted in 1977-78. The exchange and trade system in Yugoslavia had been comprehensively described in a staff document issued in October 1978; a further brief description of the exchange and trade system in Yugoslavia was contained in the appendix to SM/82/31. Those documents admittedly described the formal system and did not explain fully how the system operated in practice in response to changing conditions. Such information was difficult to gather, but the staff would pay special attention to it during the next consultation discussions with the authorities.

Mr. Polak commented that it was useful to note that the staff had assessed the Yugoslav economy essentially in terms of the same macroeconomic variables that it took into account in assessing more market-oriented economies. Macroeconomic analysis was certainly applicable to Yugoslavia, as the staff representative's remarks on the interest rate policy in particular had clearly shown. The authorities were keenly interested in maintaining an appropriate interest rate policy, and the staff in the near future would undertake a study of the role of interest rates in the Yugoslav economy. Yugoslavia was a highly decentralized economy; all of the usual price variables, including interest rates, played an important role. In the past, there had been some difference of opinion between the staff and the authorities about the economically correct interest rate for Yugoslavia. There was no such difference now. The only issue in the interest policy area was how rapidly Yugoslavia, which had been strongly attached to absolutely fixed interest rates, could disturb vested interests and disrupt established procedures by moving to what the authorities had called in their letter of intent "a more active interest rate policy." The movement toward such a policy was already well under way; the discount rate, which had been very negative in real terms, had been adjusted.

The use of available foreign credit in past years had clearly been excessive, Mr. Polak continued, and the authorities had sensibly decided to attempt to achieve a zero current account balance, or even a small surplus, by 1985. The authorities might not need or wish to adhere to that policy in the longer run, especially if conditions in overseas credit markets became more favorable for borrowers, in which event Yugoslavia, like other developing countries, might benefit from obtaining capital from abroad. Of course, a sudden decision by most developing countries to aim at external current account balance by 1983 would not help the international economic situation. However, in the coming several years, Yugoslavia apparently had no alternative; it seemed best to take a deliberate decision at a relatively early stage to achieve external balance in the coming period, while the authorities still had considerable room for maneuver and a comfortable level of reserves.

The Chairman said that he had been most impressed by the efforts that had been made by the Yugoslav authorities to achieve rapid adjustment, and by the success that they had had. All member countries--surplus or deficit countries and industrial or developing countries alike--should examine the data on Yugoslavia's performance. The current account deficit in relation to gross social product (GSP) had been relatively high in 1979--6 per cent--but it had been falling steadily since then, to 3.6 per cent in 1980, 1.2 per cent in 1981, and less than 1 per cent projected in 1982. The external deficits of a number of other member countries in the recent past had been of the order of 8-15 per cent.

The very sharp decrease in the current account deficit in Yugoslavia had been the result of adopting stringent adjustment policies, the Chairman continued. The four main components of adjustment had been well designed and well applied in Yugoslavia. First, the deficit of the federal government budget in terms of GSP, which had been much too large in 1980, at 1.3 per cent, had been reduced to 0.1 per cent in 1981, and a surplus was projected for 1982. Few countries had done as well. Fiscal restraint was very important in Yugoslavia; indeed, no government could convince the markets that it was pursuing a strong adjustment policy if it did not maintain a sound budgetary position. Second, as a result of the incomes policies in 1980 and 1981, real wages had fallen by about 6 per cent a year.

Few countries had been able to pursue such a stringent incomes policy, thus showing that the Yugoslav Government was putting its house in order, and that the whole country was behind the adjustment effort. Third, in exchange rate policy, the authorities' exemplary attitude had been characterized by flexibility, leading to improved competitiveness. That trend was reflected throughout the economy and was changing relative prices in favor of exports. Fourth, monetary policy had been consistent with the overall restrictive stance, although one might have some doubts about the precise course of monetary policy that was called for, given the rate of inflation, which was still high.

The recent large shift from a low and rigid level of domestic interest rates toward a more flexible system was something that the Fund had strongly favored, the Chairman said, because it had felt that that approach was probably the best way to bring monetary policy into line with the effort to trim and streamline investments, as well as being a means of avoiding the relatively unproductive investments that could have been fostered by a policy of excessively cheap money. The negotiations that the Fund had been carrying on with the Yugoslav authorities on the interest rate question had been crucial to the favorable continuation of the stand-by arrangement. He was pleased to report that, while the Yugoslav authorities had their own concerns about timing and magnitude which they had to take into account, they fully understood the Fund's position.

Yugoslavia's adjustment policy was very strong, and it was working, the Chairman commented. Of course, he understood those who wondered whether it might not have been too strong. But in the present state of the world, the Yugoslav authorities had had no choice. Yugoslavia had to give the international markets a very clear signal that it was making a determined effort. Even if, taking a longer-term view, it would have been easier to overcome Yugoslavia's development problems by accepting a larger balance of payments deficit, for the time being, the authorities did not have that choice. It was better, as Mr. Polak had just said, for the Yugoslav authorities to show very clearly that they were following the path of adjustment rather than to accept larger deficits that would in fact be difficult to finance. It was much better for them to show that they were determined to adhere to their objective, and that they were pursuing it with success, with the assistance of the Fund. It was important to bear in mind that the debt service ratio of Yugoslavia was about 21 per cent, and that the country would have to be vigilant in its effort to bring that figure down to a more sustainable level. In the present circumstances, there was not much scope for new indebtedness.

The Chairman made the following summing up:

> Executive Directors warmly commended the Yugoslav authorities for their persistent and effective stabilization efforts in 1981, particularly with respect to demand management policies. They noted that the policy-induced decline in real domestic demand and incomes, together with adjustments to prices, including the

exchange rate, have now eliminated excess demand and shifted resources to the external sector, while achieving a modest rate of economic growth. Monetary restraint has been maintained despite the liquidity difficulties of enterprises; the operations of the public sector were contractionary; and appropriate price and incomes policies were being pursued. The rise in inflation and the decline in the growth of exports to the convertible currency area in early 1981 were disturbing developments, but Directors were encouraged by the favorable price and exports outcome in the second half of 1981.

Directors welcomed the shift in medium-term policies toward correcting the underlying structural problems of the economy. The policies included in the revised plan for the period 1981-85 would channel a greater proportion of available funds into clearly defined priority sectors. Price policies, including the exchange and interest rate action, would provide the correct signals for the decentralized decision making of enterprises. Directors stressed that the planned reduction in the dependence on foreign borrowing and the attainment of a satisfactory growth rate for employment and output will depend critically on the sustained and rapid expansion of exports and on the increased mobilization of domestic saving. In this context, it was noted in particular that the target date for restoring equilibrium on the external current account had been advanced from 1985 to 1983. The growth of nominal domestic demand will have to be gradually reduced to a level consistent with the growth in the noninflationary productive capacity of the economy, and will need to be reinforced by price and incomes policies. Directors endorsed the action taken on interest and exchange rates but questioned whether the rise in interest rates had been sufficient. They welcomed the intention of the authorities to keep these policies under continuous review and adapt them to the evolving needs of the economy.

With reference to economic policies for 1982, Executive Directors supported the authorities' policies of continued restraint on demand and incomes, and a realistic exchange rate policy. Directors considered that the target of limiting price increases to 15 per cent during 1982, from 39 per cent in 1981, may be difficult to achieve, but that the resolute implementation of the planned monetary and fiscal policies will restrain demand, while the prices and incomes policies will minimize the impact of cost and profit pressures on prices. Directors also regarded the planned expansion of export volume of 8.5 per cent in 1982 to be an ambitious target, especially in view of the sluggishness of world demand. Furthermore, they wondered whether the recent sharp slowdown in imports from the convertible area was sustainable. They therefore concluded that it was all the more important that the intended policy measures should be firmly implemented.

In sum, there was broad agreement among Directors to support fully the Yugoslav authorities' stabilization objectives and their policies to correct underlying structural problems. From a longer-term point of view, some Directors expressed the hope that international conditions would make it possible again for Yugoslavia to achieve its growth objectives by running a sustainable current account deficit offset by long-term capital inflows.

The Executive Board then took the following decisions:

Decision Concluding 1981 Article XIV Consultation

1. The Fund takes this decision relating to Yugoslavia's exchange measures subject to Article VIII, Sections 2 and 3, and in concluding the 1981 Article XIV consultation with Yugoslavia, in the light of the 1981 Article IV consultation with Yugoslavia conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

2. The Fund welcomes the relaxation as of January 1, 1982 of the restriction on the availability of foreign exchange for travel as described in EBS/82/20 (1/29/82), and, in the circumstances of Yugoslavia, the Fund grants approval for the retention of this exchange restriction until the conclusion of the next Article IV consultation with Yugoslavia.

Decision No. 7057-(82/23), adopted
February 22, 1982

Review and Consultation under Stand-By Arrangement

1. The Government of Yugoslavia has consulted in accordance with paragraph 3(b) of the stand-by arrangement for Yugoslavia (EBS/81/5, Supplement 2 (2/2/81), and Supplement 3 (8/27/81) in order to establish performance criteria subject to which purchases may be made by Yugoslavia during the second year of the stand-by arrangement.

2. The letter from the Governor of the National Bank of Yugoslavia and the Federal Secretary for Finance of Yugoslavia, dated January 25, 1982, setting forth the policies and measures which the authorities of Yugoslavia will pursue for the second year of the stand-by arrangement, shall be annexed to the stand-by arrangement for Yugoslavia, and the letter of January 15, 1981, annexed to the stand-by arrangement, shall be read as supplemented by the letter of January 25, 1982.

3. Yugoslavia will not make any purchase under the stand-by arrangement that would increase the Fund's holdings of its currency in the credit tranches beyond 25 per cent of quota or increase the Fund's holdings of its currency resulting from purchases of supplementary financing beyond 12.5 per cent of quota during any period in the second year of the stand-by arrangement in which:

the limits on outstanding domestic credit of the banking system, referred to in the penultimate sentence of paragraph 10 of the annexed letter have been exceeded; or

there has been an increase in credit by the National Bank of Yugoslavia to the Budget of the Federation, as mentioned in the last sentence of paragraph 10 of the annexed letter; or

the limits on foreign debt mentioned in the last sentence of paragraph 14 of the annexed letter have not been observed.

4. Purchases under this stand-by arrangement shall not, without the consent of the Fund, exceed the equivalent of SDR 138.5 million until May 15, 1982, the equivalent of SDR 277 million until August 15, 1982, and the equivalent of SDR 415.5 million until November 15, 1982.

Decision No. 7058-(82/23), adopted
February 22, 1982

2. ST. LUCIA - 1981 ARTICLE IV CONSULTATION

The Executive Directors considered the staff report for the 1981 Article IV consultation with St. Lucia (SM/82/21, 1/28/82). They also had before them a report on recent economic developments in St. Lucia (SM/82/22, 2/2/82).

The staff representative from the Western Hemisphere Department commented that there had been a number of significant developments since the consultation discussions and the publication of the staff reports. On January 16, 1982 the Government in St. Lucia had resigned, an interim Government had been formed, and general elections had been called for by May 1982. In late January the interim Government had agreed to a new three-year civil service wage contract providing increases amounting to 57 per cent over the base established in April 1980. The new contract covered the period up to March 1983, had about one and one-half years retroactivity, and represented a 37 per cent increase over current pay scales; earlier cost of living adjustments had been folded into the new agreement. The new pay scales were to be introduced in April 1982 and the staff estimated that they would represent an increase of about EC$12 million over current pay scales. In addition, there was to be back pay covering the period from October 1980 to March 1982 and amounting to EC$5 million net of taxes and other reductions. The intention was to distribute the back pay during the coming fiscal year in the form of cash payments of EC$500 a person, totaling EC$1.8 million; the rest of the back pay would be distributed in the form of three-year, 10 per cent debentures.

The interim Government had deferred action on parts of the tax package that was described in the staff reports, including the proposal for rescinding certain income tax concessions, the staff representative explained. It had also decided to distribute outstanding retroactive pay to daily-paid workers.

Even without the new expenditure commitments and the deferral of revenue measures, the fiscal situation in St. Lucia would have continued to be very difficult in 1982, the staff representative continued. Arrears to local suppliers, amounting to about EC$3 million, had already appeared. Some steps, mostly technical in nature, were being taken to deal with the fiscal problem. For instance, a system of strict cash budgeting had been implemented, and greater efforts were being made to collect revenues. Moreover, certain expenditures had been pruned, including transfers to several of the state enterprises and municipalities. Some daily-paid workers had been laid off, and the rest had been placed on rotation, thereby creating some savings in the wage bill.

The staff expected that the 1981/82 budget would turn out roughly as described in the staff reports, the staff representative from the Western Hemisphere Department said. The budget for 1982/83, however, would present a major problem. The Government taking office after the coming elections would certainly face a very difficult situation, particularly in view of the expenditure commitments that had already been made. Indeed, without new adjustment measures the situation was likely to be considerably worse than had been indicated in the staff reports, as a number of policy assumptions that had been made when the reports were written were no longer valid.

Mr. Casey made the following statement:

> Some updating of the material that has been provided to Executive Directors is required because of the change in government since the staff papers were written. This task is complicated by the fact that the present interim Government has not been in office very long, and national elections are to be held in May 1982.
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> In the four years preceding 1980, real GDP in St. Lucia grew at an annual rate of about 9 per cent. The contributions to this excellent performance were spread fairly evenly across the different sectors. Serious reversals were experienced in

1980 following a hurricane and an unsettled political situation. There was some recovery in 1981, and it is expected to continue in 1982, especially in the tourist sector. Although the rate of inflation came down to 16 per cent in 1981, the so-called homemade component was far greater than in the previous year. Very large wage settlements were awarded in 1981, the most conspicuous one being to daily-paid government workers; it was in the region of 60 per cent for the two years beginning April 1980. The staff representative from the Western Hemisphere Department has informed you of the more recent wage award, to salaried civil servants, of 57 per cent for a three-year period retroactive to April 1980. However, the bulk of the payments under the most recent award have been postponed until the next fiscal year, and part of the back pay element will take the form of debentures.

Partly as a result of excessive wage awards, the central government finances are expected to deteriorate in fiscal year 1981/82. The current fiscal account will move from near balance in 1980/81 to a deficit of about 3.5 per cent of GDP in 1981/82. This preempting of resources for current expenditure has of course obvious implications for investment and sustainable growth. In view of these domestic trends and several adverse international developments, it is not surprising that the external account has weakened. The current account deficit amounted to more than 40 per cent of GDP in 1981. While this deficit has been largely financed, external financing cannot be relied on indefinitely, however small the amounts might be in absolute terms. Moreover, private external borrowing on commercial terms is not a viable option for St. Lucia at the present stage.

Because of the uncertainties in the present political situation, it is not yet fully clear what form the adjustment measures will take. However, many nonessential daily-paid government workers have already been laid off in response to the difficult financial position and to the need for greater efficiency. Many of the remaining daily-paid government workers are now working on a rotational basis that yields a considerable saving to the Exchequer. In addition, the possibility of extending the 60 per cent pay award over a longer period of time is being actively considered, and in recent weeks a major campaign was launched to collect revenue arrears and to hold the line on expenditures. The authorities realize that they must aim at a sizable surplus in the current account budget within a year or two in order to provide resources for infrastructure development, especially in the agricultural and tourist sectors, where there is a good potential for further development. The expenditure forecast for 1982/83 has been raised to about EC$128 million because of the latest salary increases. The present revenue target is approximately EC$135 million, thus giving a needed current account surplus in 1982/83.

Wide-ranging institutional improvements are being made in support of the new reforms. First, the planning function has been incorporated into the Ministry of Finance. This move, combined with the cash flow monitoring system and the assistance being provided by a Fund Fiscal Affairs Department expert, should help the authorities to regain control of the public finances; emphasis will be placed on expenditure control. Second, there is a strong commitment to making the state economic enterprises self-sufficient and to taking them out of the budget. This policy has already been pushed so far that, for example, the Castries City Council will probably have to sell some property to become self-sufficient. Indeed, my understanding is that the City Council has already sold some property. Third, teams are being sent to the spending ministries to examine their accounts and management structures. Henceforth, even the smallest expenditure or commitment will have to be fully justified and will be sanctioned only if revenues are adequate. Fourth, a tripartite committee of the various social partners will be established to take an overall view of the economy, paying particular attention to wages, productivity, and prices. Indeed, a widely-based consensus already seems to be emerging on these economic matters. Fifth, the authorities have begun to meet regularly with the banks and other institutions, and controls on consumer lending have already been agreed. The banks are willing to accept direction on the allocation of lending between productive and consumer sectors. It is conceivable that the banks' reluctance to increase deposit interest rates will recede in due course. These and other measures will help to improve the public finances in 1982/83 and in the medium term on the assumption that the Government that takes office in May 1982 will continue these reforms and will use the systems for the purpose for which they were created.

The external current account position should improve in 1982, although perhaps not quite as much as was indicated in the staff reports. The capital account will probably be helped by the upward adjustment of interest rates. A sustainable improvement in the external accounts and the attainment of a reserve cushion require a dramatic deceleration in the rate of increase in wage costs. This is crucial, especially in the light of the fixed link to the U.S. dollar and the constraints on policy resulting from St. Lucia's membership in the East Caribbean Currency Authority. The interim Government has expressed the view that negotiations with the Fund on a possible stand-by or extended arrangement should be delayed until after the May 1982 elections. The economy of St. Lucia would greatly benefit from development aid geared to well-conceived investment projects. The authorities in St. Lucia are aware of what needs to be done and are very grateful to the staff for its pertinent and timely advice.

Mr. Taylor commented that Mr. Casey had usefully provided up-to-date information about the kind of consensus that was developing in St. Lucia on the way in which the difficult problems facing the economy should be dealt with. He fully agreed with the staff appraisal; the steady recovery of the economy from the effects of the hurricane in 1980 was encouraging. Real GDP had risen by 3 per cent in 1981 and was expected to grow by more than 5 per cent in 1982, and the external accounts should be strengthened in 1982 by the increase in receipts from banana exports and tourism. But the staff reports clearly showed that St. Lucia faced serious economic problems, which stemmed in part from excessive wage settlements and inappropriate demand management policies. The overall budget deficit was unsustainably large, and the rate of inflation was still high. Moreover, the rate of unemployment had risen to about 15 per cent of the labor force, and external reserves had been virtually exhausted.

The budgetary position was clearly the key policy factor in St. Lucia, especially as the country's membership in the East Caribbean Currency Authority (ECCA) gave the authorities very little room for maintaining independent monetary and exchange rate policies, Mr. Taylor continued. The fiscal position had markedly deteriorated in fiscal year 1980/81 and in the current fiscal year, as revenue growth had fallen short of budget estimates and as expenditure commitments had risen sharply, mainly because of the considerable wage awards in the public sector. The government current account was expected to be in deficit in 1982, and the overall budget deficit was expected to rise as well, reaching the equivalent of about 7 per cent of GDP. Furthermore, arrears to domestic suppliers had accumulated and threatened to rise further. It would be useful to receive some indication of the size of the domestic arrears. Were the authorities expected to make any progress in reducing them in the coming period?

Given the rather worrying background that he had described, Mr. Taylor said, he fully agreed with the staff that there was a pressing need for corrective action to strengthen government finances. The tax measures that had been introduced in November 1981 were welcome, and the authorities should certainly be urged to introduce the additional measures that the staff had described in its report. In particular, they should reconsider the reduction of the consumption tax on petroleum products; that move seemed to be inconsistent with the need to conserve energy and, in the present circumstances, it appeared not to be affordable.

On the expenditure side, Mr. Taylor went on, more effective monitoring procedures than hitherto had been established, but there seemed to be scope for further improving expenditure control; technical assistance from the Fund would be of particular benefit to the authorities. The need for wage restraint should be emphasized, as the large public sector wage and salary awards in 1981 had severely strained government finances and had intensified the pressure for similar awards in the private sector. If that trend were allowed to continue, it would undermine the competitiveness of the export and tourist industries and would cause additional unemployment.

He strongly supported the staff's recommendations on wage policy, Mr. Taylor went on. It was regrettable that the civil service pay agreement seemed to be substantially larger than the staff had expected. It would be important to ensure that the parastatal enterprises passed on to consumers the cost increases represented by the wage awards, thereby avoiding a further drain on public sector finances. The Central Water Authority faced a serious cash flow problem, and there was an urgent need to review the tariffs of the Port Authority and the prices charged by the Electricity Services Limited. If such measures were introduced, the authorities could perhaps aim for a moderate surplus in the central government current account in the present fiscal year. Some such improvement was essential if the authorities were to rebuild foreign reserves. In improving the public finances the authorities would have to rely heavily on public sector savings, as St. Lucia had exhausted its access to ECCA resources and was in no position to borrow abroad on commercial terms. Increasing public savings would have to be given an important priority, particularly in the light of the economy's vulnerability to external conditions and the weather, and because it was a precondition for ensuring that there would be an adequate domestic contribution to the financing of the investment program. Public savings would have to average some 4.5 per cent of GDP in the coming five years if development and infrastructure projects were to be completed on schedule.

Commenting on monetary policy, Mr. Taylor said that it was clear that, although there had been some upward adjustment of commercial bank rates, domestic interest rates--particularly rates on savings deposits--continued to be very negative in real terms. He agreed with the staff that the present structure of interest rates should be re-examined; a general upward adjustment of the rates could provide a stimulus for savings, which would help to finance the budget deficit and take some pressure off the public sector finances. It would perhaps also encourage a more efficient allocation of resources and help to prevent capital outflows. It would be useful to receive further comment on the Government's proposed study of interest rates and on the possibility of St. Lucia acting more independently of the ECCA than hitherto.

He was pleased, Mr. Taylor remarked, that the Fund's mission had been accompanied by representatives from the World Bank and the Caribbean Development Bank. The World Bank's contribution to the staff report on recent economic developments in St. Lucia was very welcome.

A more settled political climate and favorable weather conditions were key elements in St. Lucia's future economic development, Mr. Taylor commented. He hoped that the political climate would be favorable to sound financing of the public sector, thereby setting the stage for inflows of foreign private investment. He agreed with the staff that the authorities should improve the arrangements for monitoring the investment program, and that they needed a clear strategy on the kinds of tourism that St. Lucia should encourage. The Banana Growers' Association was in financial difficulty, and he wondered whether the authorities intended to take steps to assist the banana-growing sector, which accounted for a large proportion of total export earnings.

Externally, Mr. Taylor continued, it would be useful to know whether the staff felt that a devaluation of the East Caribbean dollar was called for. The exchange rate for that currency had not been changed since 1976, and the nominal effective exchange rate had appreciated by some 15 per cent in 1981. There were, of course, certain institutional constraints on such action, but a currency union should benefit its individual participants. He looked forward to examining the matter further in the context of the discussion on the long-promised paper on the cost and benefits of currency unions.

The economy of St. Lucia clearly faced serious problems, and the authorities' task was obviously not an easy one, Mr. Taylor commented. He was pleased to learn from Mr. Casey that they were determined to tackle the problems, but there was still some uncertainty about the thrust of the new measures that were to be implemented after the May 1982 elections. The interim Government had postponed consideration of a possible arrangement with the Fund until after the coming elections. It would be unfortunate if preparations for such an arrangement were held up unduly, and he hoped that preliminary steps could be taken in the period prior to the elections. A stand-by arrangement could help to restore confidence in the economy and would be in keeping with the intention that the authorities had expressed at the time of their emergency use of Fund resources in November 1980.

Mr. Connors said that he agreed with the staff appraisal. The authorities should dampen inflation and reverse the declining trend in the fiscal and balance of payments positions. They planned to take steps to increase revenues, but the need to contain expenditures seemed more important. Public sector salaries had been rising at an excessively rapid rate, thereby adversely affecting the Government's budget position, and the information that the staff representative had provided at the present meeting reinforced his concern about the trend of expenditures in St. Lucia. The high rate of increase in public salaries and wages not only worsened the Government's financial position, but also spilled over to wage settlements in the private sector, thereby hurting St. Lucia's domestic price performance and its external competitiveness. The authorities would have to use their influence to moderate wage demands.

In the light of the past and prospective rate of inflation in St. Lucia, Mr. Connors commented, domestic interest rates should certainly be increased. The staff had clearly concluded that eliminating the present negative real rates of interest would have a beneficial effect on savings, investment, and the balance of payments. Finally, the inability of the Government to meet all its financial obligations and the resultant accumulation of arrears were worrying; such developments underscored the seriousness of the situation in St. Lucia and the need to adopt corrective measures that would have an immediate positive effect.

Mr. Winkelmann remarked that the figures on the origin of GDP on page 14 of SM/82/21 were puzzling; the figure for "other" was very large--52 per cent--and it would be useful to know what activities were covered by that category. The data also showed that the ratio of imports of goods and nonfactor services to GDP in 1981 had been quite high, about 111 per cent. The large external current account deficit and the counterbalancing capital imports suggested that a major portion of capital imports had financed consumption; real per capita GDP was thought to have increased by 1.6 per cent in 1981 while consumption was estimated to have risen by 25 per cent. In the circumstances, was it realistic for the staff and authorities to expect a rate of increase in consumer prices in 1981 as low as 15 per cent?

The spread between central government revenues and expenditures had not been large in 1978 and 1979, Mr. Winkelmann noted, but it had grown rapidly in 1980 and 1981, and the new wage agreement was clearly explosive; it provided for increases in excess of 50 per cent, although over a period longer than one year, and there could be a significant spillover effect. The Government that took office after the May 1982 elections would have to spread the new wage increases over as long a period as possible in order to bring the budget under control. In future, St. Lucia should attempt to adjust wages by smaller amounts and on a more regular basis than hitherto to avoid the adverse effects of occasional large adjustments on important economic variables. He fully agreed with the staff appraisal that the new Government would have to restrain expenditure, particularly on wages, to keep the fiscal situation from deteriorating further.

The staff representative from the Western Hemisphere Department said that the latest information available to the staff showed that the level of domestic arrears had been about EC$2.9 million on January 19, 1982. Payments for utilities had been made, but some transfers to other state entities might have been postponed in an effort to make those entities fend for themselves. Some arrears might accrue as a result of that effort, but there was no indication of the likely amount.

The authorities intended to begin paying wages based on the new wage scale in April 1982, the staff representative continued. The back pay due under the new three-year wage agreement would be distributed during fiscal year 1982/83 partly in cash and partly in debentures.

A staff mission was now making a study of interest rates and related institutional practices in St. Lucia and in the other members of the ECCA, the staff representative explained. As a result, the staff hoped to be able to understand better why there had been a lack of consensus on the need for, and no action to achieve, an upward adjustment in the structure of interest rates.

St. Lucia's Banana Growers' Association, like the comparable associations in the other countries in the region, faced a difficult financial situation, the staff representative commented. The management of the Banana Growers' Association had been changed: the Government had disbanded the previous board of directors, most of whom had been political appointees, and had replaced it with representatives of producers. In addition, the United Kingdom had agreed to provide a managing director and a chief accountant for St. Lucia's Banana Growers' Association. The new management and board of directors would probably wish to rationalize the cost structure in the banana sector, and particularly the costs of the banana packing plants.

There were obvious institutional constraints on the management of the East Caribbean dollar, the staff representative said. It was true that recent wage developments had somewhat eroded St. Lucia's competitive position, but recent trends in the various East Caribbean islands had been quite disparate and, as a result, it would be difficult to achieve a consensus on an issue as sensitive as the exchange rate for the East Caribbean dollar.

Collecting adequate data was particularly difficult in St. Lucia, the staff representative explained. There were no official national accounts, and the relevant Fund staff estimates had been made with the help of the World Bank staff and the secretariat of the East Caribbean Common Market. For instance, the capital inflows to the Hess Oil Company--which maintained a large tanker terminal and storage terminal in St. Lucia--contributed approximately 20 per cent to GDP and accounted for some of the distortion in the figures on total gross investment, as well as imports.

The origin of GDP in St. Lucia was described in detail on page 57 of SM/82/22, the staff representative from the Western Hemisphere Department commented. A fairly large proportion was accounted for by utilities, tourism, and financial services. The figures underscored the low level of productive activity in St. Lucia; agriculture and industry made a relatively small contribution to GDP while services appeared to account for a relatively large proportion.

The Deputy Director of the Exchange and Trade Relations Department commented that an interdepartmental staff group had been working on the paper relating to the costs and benefits of currency unions. Some of the participants had a heavy operational work load, but the paper was due to be circulated in June or July 1982.

Mr. Casey said that he agreed with Mr. Winkelmann that there was a clear need to shift resources from consumption to investment. The authorities seemed to share that view. As for the bunching of wage increases in recent years, there were some mitigating circumstances that helped to explain that practice. Delaying wage adjustments until an urgent need for them had arisen was a tradition in St. Lucia dating from the colonial period. The practice would take some time to change, but he was confident that a proper evolution of wages would occur in due course. In any event, public sector wage increases apparently did not have a strong demonstration effect on private sector wages, particularly because a large part of the private sector was not unionized. Moreover, the wage increases in the public sector were not as alarming as the bunched figures might suggest at first glance; after all, the wage awards covered a three-year period. It was also important to bear in mind the need to attract qualified personnel in the public sector, especially to improve expenditure control.

The decline in the number of daily-paid government workers and the placing of the remaining such workers on a rotational basis had made some room for improving the quality of the public sector personnel. A strong case could not be made for the 60 per cent wage increase for the daily-paid government workers, although, in the final analysis, it might well increase efficiency by promoting some shedding of public sector labor and further job rotation.

The introduction of certain revenue-raising measures--including the tax on gasoline--had been postponed, Mr. Casey explained. However, present gasoline prices in St. Lucia were fairly close to world prices.

There were approximately EC$2.8 million in arrears to domestic suppliers, Mr. Casey continued, and additional arrears might be owed by the state economic enterprises. As the enterprises became increasingly self-sufficient, the arrears would be paid off.

Each of the participants in the ECCA had a different trade pattern, Mr. Casey commented, and a devaluation of the East Caribbean dollar would benefit some of them but not others. The value of the East Carribean dollar was a difficult matter that merited further study.

To an increasing extent, Mr. Casey noted, the Banana Growers' Association had been developing into a producer cooperative rather than a government agency, and the quality of the staff had been improved, partly with financial assistance from the United Kingdom. However, the United Kingdom's quota for bananas from St. Lucia might be reduced in the future, and St. Lucia would have to become more competitive and seek new markets. Diversification was called for in any event because St. Lucia did not have a distinct comparative advantage in the production of bananas; it had to compete with Central American countries that, at least for the time being, enjoyed a significantly higher yield per acre. The need for diversification underscored the usefulness of financial and project identification assistance from abroad.

It was true that interest rates were a problem in St. Lucia, Mr. Casey said. The average interest rate on three-month time deposits was quite negative in real terms and, although the prime lending rate had risen steadily in recent years, it was still only 12 per cent in nominal terms; the present rate of inflation was 16 per cent. As a member of the ECCA, however, St. Lucia could not take unilateral action to raise interest rates. In any event, if, in present circumstances, St. Lucia did raise its interest rates, it would probably experience a capital inflow from other ECCA member countries, which would force interest rates in St. Lucia back to a low level. In addition, there was some question whether savings were particularly sensitive to changes in interest rates--there was no hard evidence one way or the other--and the banks in St. Lucia were not convinced of the desirability of raising interest rates. They were worried about their interest rate spread, and there was some danger that, if interest costs became excessive, banks could be tempted to cease their activities in St. Lucia. The authorities in St. Lucia did not have sufficient influence over the behavior of the banks, although the situation had been improving in recent months. Interest rates in St. Lucia were determined broadly by market forces, thereby suggesting that, although the rates were negative in real terms, they could conceivably be equilibrium rates.

On previous occasions, Mr. Casey recalled, Executive Directors had noted that St. Lucia had used some conditional resources but had not yet devised a comprehensive financial program. There would probably be no further significant improvement in that respect until after the new Government took office in May 1982.

The Chairman made the following summing up:

In concluding the 1981 Article IV consultation with St. Lucia, Executive Directors noted that last year there was some recovery in the economy after reverses experienced in 1980 because of the hurricane and the unsettled domestic situation, and that the recovery is expected to continue in 1982. At the same time, however, domestic inflationary pressures have become very strong and unemployment remains high. Directors expressed serious concern about the pronounced deterioration in St. Lucia's fiscal situation in fiscal year 1981/82 and noted that budgetary difficulties were likely to intensify next fiscal year as a result of recent excessive wage awards in the public service, the deferral of revenue measures, and the emergence of internal arrears in treasury payments.

Directors therefore urged the St. Lucian authorities to take early corrective measures, including both revenue increases and curbs on expenditure, to restore equilibrium in recurrent budgetary operations. In order to achieve this goal, as well as to avoid weakening the country's international competitiveness, there was a pressing need for restraint on wage awards in both the public and private sectors. Also, there is no room at this stage to relax taxation on energy consumption. Directors noted that it would be essential for the future Government to regain control over budget expenditure and to put public entities on a sound financial footing.

Directors supported the staff's view that practical steps should be taken to induce a general upward adjustment of interest rates in St. Lucia in order to stimulate savings, ensure productive use of scarce financial resources, and contribute to safeguarding the country's balance of payments, since the present external deficit is not sustainable.

3. TREATMENT OF RESERVE TRANCHE - ATTRIBUTION OF REDUCTIONS IN FUND'S HOLDINGS OF CURRENCIES

The Executive Directors considered a staff paper containing draft decisions on the attribution by a member of reductions in the Fund's holdings of the member's currency not resulting from a repurchase (SM/82/18, 1/26/82).

Mr. Prowse said that it was his understanding that, at present, a member country with outstanding repurchase obligations could attribute a reduction in the Fund's holdings of its currency either to reduce its repurchase obligations or to build up its reserve position. The proposals in SM/82/18 would apply the same rule to reductions in the Fund's holdings of a member's currency arising from other operational payments by the Fund--remuneration and interest payments--but would not allow reductions to be attributed to the repurchase of a drawing that had originally been financed by borrowed resources, unless the Fund was able to repay the original lender forthwith. The proposals apparently would also make a minor change in the treatment of the Fund's administrative accounts in connection with the calculation of a member country's reserve position.

The staff proposals could be seen as constituting merely an elaboration, or tidying up, of Executive Board Decision No. 6831-(81/65), Mr. Prowse commented. They were certainly consistent with the objective of enhancing the reserve asset nature of the reserve tranche. The main proposals were modest and he could accept them all, especially as they would not have a significant negative effect on the Fund's income and liquidity position.

The proposal for the attribution of other operational payments seemed to be straightforward, Mr. Prowse went on. Such payments should be treated in the same manner as sales of currency by the Fund. However, it was unclear to him what would happen when a member country with outstanding purchase obligations was due to be paid remuneration or interest. Would that country be able to insist that the payments be made in its own currency and then attribute the resulting reduction in the Fund's holdings of its currency to an increase in its reserve position?

The proposed treatment of repurchases financed with borrowed resources was prudent, Mr. Prowse said. It would remove one of the existing risks of a loss of income to the Fund. Finally, the proposal for changing the treatment of the administrative accounts seemed to represent a welcome simplification; it would certainly help officials in central banks to reconcile their statements with those of the Fund.

Mr. Polak considered that the proposals represented small and reasonable changes and were entirely acceptable.

Mr. Hirao said that he was not convinced by the staff's argument that the reserve asset standing of the reserve tranche would be enhanced by the acceptance of the proposal for permitting a member country to enlarge its reserve tranche position when the Fund used its currency to make operational payments. He had stated on previous occasions his belief that further study of the nature of the reserve tranche was required. Nevertheless, the proposal under discussion for broadening the option concerning the attribution of reductions in the Fund's holdings of currencies would be consistent with established policy; there was no reason to treat a sale of a currency by the Fund differently from the use of the currency in the Fund's operations. He could go along with the majority and accept all the proposals, although he assumed that they would be reviewed when the present policy on the floating of the reserve tranche was reviewed, sometime before April 30, 1984.

Mr. El-Khouri said that it would be useful to have the staff clarify certain matters raised in the proposals. It was his understanding that a country receiving remuneration on its reserve tranche position could conceivably be paid either in its own currency or in SDRs, and both the country and the Fund could express a preference. He wondered what happened when the Fund and the member could not agree on the choice of the medium to be used in the payment of remuneration, and whether in that case the Fund might exert pressure on the member country to accept one means of payment rather than another. The proposed decisions apparently would widen the option on attribution now available to member countries; if a country received payment in its own currency, it would have the option of attributing the payment to an increase in its reserve tranche position or to a reduction in its outstanding purchases. He wondered whether the member countries would be able fully to understand such complicated technical details, and whether the proposed widening of the option on attribution was expected to lead to a significant enlargement of reserve tranche positions in the Fund. In assessing the proposals, Executive Directors would find it useful to know the number of countries that were now lenders to the Fund and, at the same time, indebted to it.

Mr. Connors remarked that the proposed changes were essentially technical in nature. He, like Mr. Hirao, looked forward to reviewing the experience with the proposals sometime before April 1984.

Mr. Narasimham commented that the proposals seemed to be a straightforward way of widening the option available to member countries. Countries indebted to the Fund should have flexibility in managing their position in the Fund and their foreign exchange holdings. He looked forward to hearing the answers to the questions that Mr. El-Khouri had raised, and he could go along with the proposals.

Mr. Lovato stated that he could accept the proposed decisions on the assumption that they would be reviewed before April 30, 1984.

Mr. Tourreilles remarked that he could accept the proposals and looked forward to hearing the answers to the questions that had been raised.

The Treasurer said that the Fund exerted no pressure whatsoever on members with respect to the choice between the acceptance of SDRs or domestic currency in the payment of remuneration. The Fund had decided that it should offer a member country SDRs in payment of remuneration but that the country was fully free to opt to receive its own currency instead. There should be no cause for disagreement between the member country and the Fund, because the choice under the existing Fund decision whether to accept SDRs or its own currency rested entirely with the country itself. If the authorities accepted payment in their own currency, they could then decide whether they wished to attribute the payment to an increase in their reserve tranche or a reduction in their liabilities to the Fund. Experience in the coming period and the review that was to be held before April 30, 1984 would help to show whether the option concerning attribution would have a significant impact on the reserve asset nature of the reserve tranche. Finally, one member country was at present both a lender to the Fund and a user of Fund resources.

A Deputy General Counsel added that, while the Articles provided that remuneration was to be paid in SDRs, they also provided that either the member country or the Fund had the choice to require the use of local currency in the payment of remuneration. The Fund's Rules provided that any member wishing to receive its own currency rather than SDRs need only give the Fund a timely notice to that effect. Finally, under the proposed decision on attribution, a member country that was to receive remuneration and had outstanding repurchase obligations could request to receive the remuneration in its own currency and attribute the reduction in the Fund's holdings of its currency to the increase of its reserve tranche rather than to the discharge of its outstanding repurchase obligations.

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

The decisions were:

Amendment of Paragraph 1 of Decision No. 6831-(81/65)

Paragraph 1 of the decision on Attribution of Reductions in Fund's Holdings of Currencies (Executive Board Decision No. 6831-(81/65)), shall be amended to read:

1. (a) Subject to paragraphs (b) and (c) below a member shall be free to attribute a reduction in the Fund's holdings of its currency (i) to any of its obligations to repurchase, and (ii) to enlarge its reserve tranche.

(b) If the reduction results from the sale of a member's currency or from operational payments by the Fund, an attribution may not be made to an obligation to repurchase financed from borrowed resources unless the Fund is obligated or entitled immediately to repay the lender on the occasion of such attribution. A member would be able to combine an attribution under this decision to an obligation to repurchase financed with ordinary resources with a repurchase of an outstanding obligation financed with borrowed resources provided this repurchase and the attribution would result in a joint reduction of repurchase obligations as required under Decision No. 5508-(77/127) and Decision No. 6783-(81/40).

(c) An attribution to create a reserve tranche may only be made if the reduction results from the sale of the member's currency or from operational payments by the Fund in that currency and if the member's obligations to repurchase do not include an obligation relating to a purchase financed through borrowing under the GAB.

Decision No. 7059-(82/23), adopted
February 22, 1982

Balances Held in Administrative Accounts

The balances held in the administrative accounts of the Fund, to the extent that they are not in excess of 0.1 per cent of a member's quota, shall not be considered as part of the Fund's holdings of a member's currency for the purpose of determining a member's reserve tranche position in the Fund and for the calculation of holdings for the purposes of charges (Article V, Section 8(b)(ii)); remuneration (Article V, Section 9(a)); and the determination of a member's entitlement to appoint an Executive Director (Article XII, Section 3(c)).

Decision No. 7060-(82/23), adopted
February 22, 1982

APPROVED: July 16, 1982

ALAN WRIGHT
Acting Secretary