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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 82/152

10:00 a.m., November 24, 1982

W. B. Dale, Acting Chairman

Executive Directors	Alternate Executive Directors
A. Alfidja	M. K. Diallo, Temporary
	C. Taylor
J. de Groote	H. G. Schneider
B. de Maulde	A. Le Lorier
A. Donoso	J. Delgadillo, Temporary
	C. Dallara
	T. Alhaimus
A. H. Habib	V. Supinit
	T. Yamashita
	M. Casey
A. Kafka	J. R. Gabriel-Peña
G. Laske	G. Grosche
	C. P. Caranicas
	C. J. Batliwalla, Temporary
	J. E. Suraisry
	T. de Vries
	K. G. Morrell
G. Salehkhou	O. Kabbaj
F. Sangare	E. I. M. Mtei
M. Senior	
	L. Vidvei
	Jiang H., Temporary

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

Also Present

African Department: J. B. Zulu, Director; L. M. Goreux, Deputy Director; A. Basu, E. A. Calamitsis, C. V. Callender, K. G. Dublin, Z. Ebrahim-zadeh, C. Enweze, G. Kalinga, J. W. Kratz, T. P. McLoughlin, P. C. Ugolini, A. C. Woodward. European Department: O. Evans. Exchange and Trade Relations Department: S. Kanesa-Thasan, M. Nowak, C. R. C. Saint Etienne. External Relations Department: A. M. Abushadi. Fiscal Affairs Department: M. Holmes, R. R. Schneider. IMF Institute: M. Ndong, Participant. Legal Department: A. O. Liuksila. Secretary's Department: J. W. Lang, Jr., Deputy Secretary. Advisors to Executive Directors: E. A. Ajayi, S. E. Conrado, A. B. Diao, S. El-Khouri, L. Ionescu, G. Jauregui, P. Kohnert, H.-S. Lee, P. D. Péroz. Assistants to Executive Directors: L. E. J. Coene, R. J. J. Costa, G. Ercel, C. Flamant, I. Fridriksson, G. Gomel, M. Hull, J. M. Jones, P. Leeahtam, W. Moerke, J. A. K. Munthali, V. K. S. Nair, J. R. Novaes de Almeida, Y. Okubo, G. W. K. Pickering, J. Reddy, J. Schuijer, D. I. S. Shaw, H. Suzuki, P. S. Tjokronegoro, J. C. Williams, A. Yasseri.

1. THE GAMBIA - REVIEW OF STAND-BY ARRANGEMENT, AND EXCHANGE SYSTEM

The Executive Directors considered a staff paper and proposed decision on a review of the stand-by arrangement for The Gambia and its exchange system (EBS/82/195, 10/25/82).

The Acting Chairman observed that The Gambia's overdue obligation to the Fund for the payment of charges had been settled on November 23, 1982. Because there had been a valuation shift between the time the payment had been initiated and the time that it had been received, the amount actually paid had been SDR 357 less than the amount owed. However, because the payments of the original amount due had been made in good faith, management considered that the outstanding amount should not raise an issue of principle, and he proposed that the Executive Directors go ahead with their discussion.

The Executive Directors accepted the proposal by the Acting Chairman.

Mr. Sangare made the following statement:

> I should like to thank the staff for its work in preparing the midterm review report on The Gambia. The preparation of these papers is often accompanied by difficult discussions during consultations. However, the authorities have been able to reach understanding with the staff on measures to be taken during the remainder of the program.
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> Directors may recall that when the request for the stand-by arrangement in support of the Gambian authorities' stabilization program was discussed last February, the Board expressed general satisfaction with the program's objectives. These include reducing internal and external imbalances as well as a further diversification of the economy. Directors felt that the targets set under the program were realistic and that the measures being taken by the authorities to achieve them were adequate. Since then, the authorities have implemented all the measures and have been successful in meeting all the performance criteria for September 1982. As noted by the staff, the small slippage in total domestic credit in June was due to a delay in the shipment of groundnut exports as a result of factors over which the authorities had no control.
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> The general performance of the economy has also been impressive. The growth of real GDP at 11.2 per cent, though slightly lower than programmed for 1981/82, is still remarkable. The growth in output reflects, among others things, substantial gains in the agricultural sectors as a result of adequate price incentives and good weather conditions. In the meantime, the success on the inflationary front has been better than envisaged under the program, with the GDP deflator decreasing from 12.2 per cent in 1980/81 to 7.8 per cent in 1981/82.

With regard to performance in the fiscal sector, the revenue outturn was basically in line with program target while total expenditure is now expected to be lower than initially projected. Thus, the overall deficit as a percentage of GDP was reduced from 10 per cent in 1980/81 to 8.6 per cent in 1981/82, and the Government's borrowing from the banking system is now under 1 per cent of GDP, lower than originally envisaged.

The balance of payments position also improved in 1981/82 as the current account deficit narrowed from SDR 75.8 million in 1980/81 to SDR 53.9 million, reflecting mainly better export performance as well as a substantial reduction in import demand. Despite the offsetting effect of the reduced level of capital inflow, the overall deficit declined from 4 per cent of GDP in 1980/81 to 0.8 per cent of GDP in 1981/82. Consequently, external payments arrears were reduced by about 35 per cent from D 46.6 million in June 1981 to D 30.5 million in June 1982, exceeding the program target by a wide margin.

The program for 1982/83 is designed to strengthen the gains made in the previous year within the framework of the Five-Year Development Plan which aims at, among others, improving and diversifying the country's economic base. GDP will grow at a slightly lower pace than in the previous year, but it will remain strong at 9.7 per cent. In the meantime, the rate of inflation is projected to remain at about the 1981/82 level.

In order to achieve these objectives, the authorities have increased the allocation to the agricultural sector in the 1982/83 budget. Furthermore, they intend to maintain producer prices at remunerative levels. In this regard, they have announced a 4 per cent increase in the price of groundnuts on top of the 8.7 per cent increase in 1981/82. The price of rice will be maintained at a level that covers costs following a 20.6 per cent increase in 1981/82. To complement the pricing measures, the authorities continue to restructure the capital base in The Gambia Produce Marketing Board (GPMB) and The Gambia Cooperative Union (GCU) through the transfer of a proportion of STABEX receipts to them, among other steps. Measures are also being taken to improve the management of the GCU.

In the fiscal area, the authorities intend to reduce the overall deficit to 8.1 per cent of GDP in 1982/83. To this effect, the authorities have taken measures to raise additional revenue through further increases in petroleum tax of 13-17 per cent, the reform of the company income tax collection procedure, renewed efforts to collect tax arrears, and the strengthening of the administrative infrastructure. On the expenditure side, the authorities intend to extend the preauditing system, which would involve monitoring expenditure at the provincial level. Moreover, the full cost of imported petroleum products is being passed on to consumers, while the price of fertilizer has been raised with a view to eventually eliminating all subsidies by 1984/85.

The authorities are aware of the need to strengthen the financial position of public corporations. In this connection, they intend to implement measures for monitoring their operations during the course of the current fiscal year. In addition, bus fares will be raised as soon as the existing fleet has been rehabilitated and a new fleet of 50 buses has been received.

In the monetary field, real interest rates remain positive following the increase in rates in November 1981. Nevertheless, the Gambian authorities remain committed to further reinforcing their monetary policy in line with the need to contain inflation and achieve a viable balance of payments position.

The balance of payments projections for 1982/83 indicate further improvement, reflecting in part satisfactory export performance and recovery of the tourist industry. The overall deficit is expected to be reduced further, to the equivalent of 0.5 per cent of GDP. The authorities are committed to eliminating arrears. However, because of foreign exchange constraints, they intend to reduce external payments arrears to D 23 million in 1982/83 as programmed.

The staff agrees that the measures being taken are adequate to achieve the program's objectives. I therefore urge the Board to approve the proposed decision on pages 17 and 18 of EBS/82/195.

Mr. Taylor remarked that performance thus far under the stand-by arrangement had been encouraging. Inflation had fallen more rapidly than expected, and the balance of payments situation seemed to be developing positively. At the same time, there had been a relatively rapid recovery of output and, with one minor exception, all performance criteria had been met. While favorable weather conditions had no doubt contributed to the good performance of the economy, the authorities should also be given credit for having implemented most of the measures required and for having taken additional supportive steps.

It was of course difficult to say with any confidence that the economy was "out of the woods," Mr. Taylor continued. External conditions remained adverse, and there continued to be problems related to The Gambia's financial situation. In the circumstances, the staff's claim that the economy had been "set on a course of sustained economic growth" seemed premature. As it was heavily dependent on only one crop, the economy was clearly vulnerable to adverse weather and market developments; and, while external payments arrears had been reduced, they remained significant for a small economy.

Progress in reducing external arrears had on the whole been better than required under the program, Mr. Taylor remarked. However, as he had noted in February 1982, the arrears target for the year had been a modest one. External confidence in the economy would be vastly improved if arrears were to be paid off altogether, and, for that reason, he would have preferred to have seen a further year-to-year reduction built into the program for 1982/83 rather than a relaxation of the pace as currently proposed. Given that the authorities had recently been late in meeting their obligations to the Fund, some further elaboration by the staff on the question of arrears targets and progress in reducing arrears would be welcome.

The improvement in the trade balance might not be as sound as it appeared on the surface, Mr. Taylor considered. One reason for the lower imports had undoubtedly been the destocking associated with low levels of activity and the uncertainties following the events of July 1981. It would thus be only logical to expect a sharp revival of imports in the near future. Another reason for the lower imports had been the recently enacted tariff increases that had been designed to contain domestic demand and to curtail the re-export trade. Given that the re-export trade had led to a net drain on reserves in the past, he appreciated the authorities' reasons for wishing to bring it within the customs "net." The problem with such an approach, however, was that it tended to drive the trade underground, and the result might be to reduce government revenue from entrepôt trade rather than to increase it, so that there might be no real gain to the trade balance. A better solution might be to improve customs procedures and, in that respect, the possible reactivation of the bonded warehouse system would seem to merit serious consideration.

The authorities' cautious fiscal stance and their intention to reduce subsidies were appropriate, Mr. Taylor commented. However, revenues had been falling as a proportion of GDP since 1979, and their projected recovery for 1982/83 was not particularly strong. The possibility of a tariff union with Senegal and the continued reduction in foreign trade taxes served to underline the need to diversify the tax base, and he advised the authorities to press toward that end. In passing, he wondered why the recommendations of the Fund's technical assistance mission on taxes had been only partially implemented. On the expenditure side, the efforts to improve control mechanisms were welcome, and the consolidation of those mechanisms should be pursued. Sudden or sharp reductions in departmental expenditure allocations, however well intended, could disrupt production efforts in the parastatal sector.

The supply-side features of the economy were of particular importance and posed problems that should be carefully analyzed, Mr. Taylor said. The level of resources directed toward agriculture seemed low, and the 4 per cent increase in groundnut producer prices for 1982/83--which implied a fall in real terms--did not appear to give adequate incentives to farmers. The disappointing level of STABEX receipts also highlighted the need for further improvement in financial supervision of The Gambia Produce Marketing Board (GPMB) and The Gambia Cooperative Union (GCU); efforts already taken or intended in that area were of course to be welcomed.

The economy of The Gambia was reasonably competitive with respect to the export of staple goods, Mr. Taylor noted, but diversification of the export base was an important longer-term priority that should perhaps have been touched upon in greater detail in the staff paper. Tourism, fisheries, and small-scale local industries had been somewhat neglected in the recent development program, and, while improvement in such areas was perhaps beyond the immediate concern of the Fund, it would be interesting to hear from the staff or Mr. Sangare whether the proposed Confederation would have any bearing on exports and development priorities.

Remarking on the exchange rate, Mr. Taylor considered that the pegging of the dalasi to the pound sterling had served the economy reasonably well. Nevertheless, the issue of the optimal exchange rate strategy might need to be reviewed, perhaps on the occasion of the forthcoming Article IV consultation with The Gambia. Finally, he could support the proposed decision, including the extension of the approval of exchange restrictions, although he urged the authorities to continue with efforts to remove the arrears that were associated with the restrictions.

Mr. de Maulde agreed with Mr. Taylor that economic performance by The Gambia under the present stand-by arrangement had been satisfactory, since virtually all the performance criteria had been met. GDP at constant prices had increased by 11.2 per cent, inflation had been reduced to 8 per cent, the overall budget deficit had fallen to 8.6 per cent of GDP--which was slightly below the programmed target of 9.2 per cent of GDP--and the current account deficit had been reduced to 27.4 per cent, almost three percentage points lower than programmed. Still, the staff's suggestion that the economy was likely in 1982/83 to perform better than originally expected might be somewhat optimistic. Despite good weather and a 9 per cent increase in producer prices for groundnuts in 1981/82, groundnut deliveries had amounted to only 82,000 tons, well below the program estimate of 100,000 tons. Since producer prices for groundnuts would be increased by only 4 per cent for 1982/83, and since the rate of inflation was expected to be about 8 per cent, producer prices would in fact fall in real terms. Moreover, the price of fertilizers had been increased by nearly 20 per cent in July, and there might not be sufficient incentives for producers to meet the target of 95,000 tons in the coming year. He was also doubtful whether the trade sector would be able to achieve the substantial gains projected, particularly since the tighter institutional relationship with Senegal could induce a reduction in re-export activities.

It was difficult to assess the performance of The Gambia on the external side, Mr. de Maulde said, because the re-export trade represented almost one half of total exports, and a large proportion of the re-export trade consisted of unofficial exports. He would be grateful to the staff for any information about the methodology used to estimate unofficial exports. Based on the figures in the staff report, it appeared that the improvement in the current account in 1981/82 had been due mainly to a decline in merchandise imports resulting from tariff increases and had owed little to the performance of the export sector. Export earnings had been well below the program target, not only because of the lower than programmed exports of groundnuts but also because of the decline in imports, which had meant a reduction in re-exports. In the circumstances, he had some doubt about whether exports would increase by 30.8 per cent as forecast by the staff for the 1982/83 program. The volume of groundnut production and exports might well be below target, and it was far from certain that prices for groundnuts and groundnut oil would recover before the second half of 1983. In that regard, he wondered how the staff had come to the conclusion that the terms of trade would greatly improve during the revised program period.

Even if imports were not to increase to the extent projected, it was uncertain that such a development would bring about a sizable reduction in the current account deficit, since a reduction in imports would involve a proportional reduction in re-exports, Mr. de Maulde commented. As a whole, the current account deficit might turn out to be higher than projected, although some improvement might be achieved by increasing the proportion of export proceeds surrendered to the banking system. Like Mr. Taylor, he would welcome any additional information that might be available about the bonded warehouse scheme being considered by the authorities. Finally, he wondered whether the difficulty encountered by The Gambia in meeting its repurchase obligation to the Fund had been only the result of accidental or technical factors, or whether it was an indication of real problems in the area of external payments. If the latter, The Gambia might find it difficult to meet the performance criterion related to external arrears for December 31, 1982; he would welcome any information the staff might care to provide on that question.

Miss Diallo noted that The Gambia had experienced economic and financial difficulty over the previous several years, largely because of poor performance in the groundnut sector as a result of the vagaries of the weather. In addition, the expansionary credit policy followed by the authorities had led to unsustainably high import demand, a depletion of the country's limited foreign reserves, and the emergence of external payments arrears. It was thus comforting to hear from the staff and from Mr. Sangare that the economy had performed well under the stand-by arrangement, with all program targets having been met or surpassed and with quantitative performance criteria having been observed throughout the review period. It was satisfactory that problems constituting a source of concern on the occasion of the February 1982 discussion seemed fully under control, and that the authorities were continuing to make significant progress in their effort to put the economy back on track.

During the first nine months of the program, largely as a result of the Government's efforts and favorable weather conditions, there had been a recovery in the agricultural sector that had resulted in an 11.2 per cent growth in real GDP in 1981/82, Miss Diallo continued. At the same time, sound demand management measures undertaken by the authorities had led, inter alia, to a reduction in the rate of inflation that was well below the program target. In the fiscal field, the determined efforts of the authorities to bring about a favorable budgetary position had been paying off; indeed, in terms of GDP, the overall fiscal deficit had been reduced from 10 per cent in 1980/81 to 8.6 per cent in 1981/82. And borrowing by the Government from the banking system was currently at less than 1 per cent of GDP, lower than originally forecast.

On the external side, Miss Diallo commented, better export performance and a substantial reduction in import demand had been instrumental in reducing the current account deficit from SDR 75.8 million in 1980/81 to SDR 53 million in 1981/82. As a consequence, the overall balance of payments deficit had been reduced from 4 per cent of GDP to 0.8 per cent of GDP in 1981/82. The authorities were also to be commended for their efforts to reduce external arrears by 35 per cent, thus exceeding program targets.

Despite the efforts of the authorities and the progress already achieved, the high level of recurrent budget expenditures continued to constrain the country's development, Miss Diallo remarked. In the circumstances, she welcomed the authorities' decision to strengthen the gains made over previous years within the framework of the Five-Year Development Plan, which placed emphasis on diversifying the country's economy base. Important measures toward that end had already been taken, including an increase in the budget allocation to the agricultural sector in 1982/83 and the extension of price incentives to agricultural producers. Also, important measures taken to raise additional revenue through strengthening tax administration and collection should go some way toward alleviating The Gambia's problems. Because the authorities seemed to be implementing the stand-by program successfully, and because there was reason to believe that they would persevere in their efforts to make the required adjustment, she could fully support the proposed decision.

Mr. Dallara stated that he too was broadly in agreement with the staff appraisal and could support the proposed decision. The Gambian authorities were to be commended for their determined and, thus far, largely successful efforts to implement the adjustment program. The overall results in the external sector and in key aspects of domestic policy and performance had been encouraging, although, as the authorities themselves recognized, serious difficulties remained that called for a continuation of the adjustment effort.

One key to the progress that had been achieved and to future economic prospects was pricing policy, Mr. Dallara considered. The price increases that had effectively eliminated subsidies on rice and petroleum products were welcome, as was the 19 per cent increase in fertilizer prices that had been announced in July. However, the proposed deadline of June 1985 for eliminating the subsidy on fertilizers did not seem to be appropriate, and the authorities should perhaps accelerate the pace of the subsidy reduction. Recent increases in producer prices were also welcome, although he wondered whether the staff was fully satisfied with the levels of producer prices, how they compared with those in neighboring countries and the rest of the world, and what was the mechanism by which they were adjusted. In particular, he would be interested in the staff's views on groundnut prices. In passing, he noted from Table 4 in the Appendix of the staff paper that the percentage change in the volume of groundnut deliveries had turned out to be only half of what had been expected for 1981/82. He would appreciate any additional information that the staff or Mr. Sangare might provide on the outlook for groundnuts in 1982/83.

Remarking on fiscal policies in general, Mr. Dallara remarked that he had been pleased about the effective use of expenditure controls and the fact that the overall fiscal deficit had been less than anticipated. However, the external position remained difficult, and he wondered why the pace of adjustment was projected to slow in 1982/83. The program had originally encouraged a reduction in the fiscal deficit equal to 1 per cent of GDP during 1982/83--from 9.2 per cent to 8.2 per cent--but at present envisaged a reduction of only 0.5 per cent of GDP, from 8.6 per cent to 8.1 per cent. There appeared to be scope for more progress in the fiscal area, particularly given the staff's suggestion that "the high level of recurrent budgetary expenditure continues to constrain the development effort" and the need to continue and intensify measures to reduce the balance of payments deficit. While the external sector continued to show improvement, progress in certain areas had been as slower than expected, and a greater effort to reduce external imbalances was therefore required. The authorities' determination to reduce external arrears was welcome; however, like Mr. Taylor, he was somewhat uncomfortable with the continued existence of arrears, which he urged the authorities to eliminate as soon as possible.

Regarding the external accounts, Mr. Dallara said that he would appreciate confirmation from the staff that the trade statistics included estimates of re-export volume; like others, he hoped that a breakdown of The Gambia's exports and re-exports could be provided. With respect to external public debt, he noted that reported debt service obligations would rise from D 13 million in 1981/82 to D 38 million in 1985/86, which represented nearly a threefold increase. While the debt service ratio appeared to be relatively low--projected to reach a maximum of only 14.8 per cent in 1985/86--he was concerned that it might in fact understate the burden of debt service on the real economy because of the distorting effects of re-exports. In the circumstances, he strongly encouraged the authorities to continue to exercise prudence in contracting external public debt.

In sum, Mr. Dallara concluded, while the significant progress that the authorities had achieved thus far was welcome, the effort to adjust should be accelerated during the period ahead. In that context, he wished to re-emphasize the importance to be attached to the medium-term prospects of countries--like The Gambia--that adopted adjustment programs supported by Fund resources. In FY 1984/85, approximately 53 per cent of The Gambia's total amortizations would be repayments to the Fund; and the figure would rise to 61 per cent in 1985/86. The Gambia was thus a case in which the Fund's general emphasis on a member's medium-term prospects had a direct bearing on the continuing parallel emphasis on the need to safeguard the Fund's resources. In that respect, he hoped that any future reports on The Gambia would provide a more detailed analysis of the country's medium-term prospects.

Mr. Suraisry remarked that it was clear that the authorities of The Gambia had made good progress toward overcoming the country's difficult economic problems. Imbalances had been reduced, the growth rate had been increased, and inflation had been contained. Moreover, with one minor exception, all performance criteria under the program had been met. With the assistance of some favorable exogenous factors, the authorities had in fact been successful in implementing policy measures that had carried the adjustment process beyond the goals set forth in the original program, and they deserved commendation for their efforts. Nonetheless, the economy had not yet fully recovered from its main weaknesses. The overall budget deficit remained large, gross official reserves were low, and the ratio of debt service payments to export earnings had increased since 1981/82. The effort to adjust should therefore be continued.

On a technical matter, Mr. Suraisry said that he would appreciate some clarification of the data presented in Table 3. The information concerning the annual percentage change in exports gave the impression that the export projection for 1982/83 had been revised upward; however, it was clear from Table 6 that the export projection had in fact been revised downward. In view of the confusion, he wondered whether the approach to presenting information in Table 3 had been appropriate.

Mr. de Vries agreed with others that the economy of The Gambia had shown improvement in the fiscal sector and in the balance of payments; at the same time, the rate of growth had been high, and some reduction in arrears had taken place. Nonetheless, a number of difficult problems remained. Despite the introduction of a preauditing system designed to improve expenditure control, the high level of recurrent expenditures posed a burden on the economy. It would be desirable if government expenditures could be redirected more toward developing the economy of The Gambia, and the authorities should continue with efforts to improve administrative weaknesses. There was also a need to strengthen the finances of the public corporations and to reinforce monetary policy.

The situation with respect to groundnuts production had been carefully analyzed in the staff report, Mr. de Vries noted. There appeared to be some disequilibrium between the prices of the final product and the prices of inputs and, like others, he would be interested in hearing whether that distinction had been at the root of the relatively disappointing production in the groundnuts sector. As noted by Mr. de Maulde, the improvement in the balance of payments had come about primarily through a reduction in imports rather than through an increase in exports.

The matter of arrears in The Gambia was worrying, Mr. de Vries continued. He hoped that the difficulties experienced by the authorities in meeting obligations to the Fund were not an indication that The Gambia would have problems in meeting its goal of reducing arrears further. He could support the proposed decision.

The staff representative from the African Department, remarking first on Tables 3 and 6 in EBS/82/195, noted that the staff had attempted to indicate original program projections and revised estimates for both fiscal years 1981/82 and 1982/83. The projected increase in exports for 1982/83 of 30.8 per cent had to be seen in the fuller context of performance in the previous two years. The 9.7 per cent increase in 1981/82 had followed a year in which exports had actually fallen by 26.2 per cent, so that the recovery projected in 1982/83 followed much the same trend as in 1981/82. The high percentage increase was mainly due to higher volume expectations for 1982/83.

Several Directors had questioned The Gambia's inability to meet its obligations to the Fund on time and had wondered in that respect how meaningful the targets for arrears might be, the staff representative recalled. The problems that the authorities had experienced in meeting their obligations to the Fund had been primarily technical; while they had issued instructions for the payment to be made, they had not provided all the information necessary for the transaction to be consummated, and there had thus been a delay. That was not to say, of course, that the foreign exchange situation was not a problem; it was, but seasonal elements played an important role in the difficulty faced by the authorities. The groundnut season began early in the calendar year and, since groundnuts were the main export of the country, there was little foreign exchange being produced by that sector at present. Also, tourism was not expected to pick up until December/January. In the meantime, imports of necessary products were continuing. Nonetheless, beginning in January, the foreign exchange situation should improve, and the staff was confident that the arrears target would be met. The authorities seemed genuinely concerned about the arrears problem in The Gambia, and they had been making diligent efforts to resolve it. In 1981/82, for example, the reduction in arrears had been substantially better than expected under the program, and he had no doubt that the authorities would make an effort to meet or surpass the program targets for 1982/83.

The question had been raised by Mr. Taylor of why so few of the Fund's technical assistance recommendations had been taken into account by the authorities in formulating the budget for 1982/83, the staff representative noted. In its paper, the staff had highlighted only one or two of the very important recommendations that had been implemented, and, while it was true that the authorities had not acted on all the recommendations, they had adopted a great many of them.

The adequacy of resources directed toward the agricultural sector had been questioned by one or two Directors, the staff representative recalled. Mr. Taylor, in particular, had pointed out that the increase in producer prices would be only 4 per cent for 1982/83 and that the amount of resources from STABEX to the agricultural sector was fairly small. He would not argue with those facts; however, the 4 per cent increase in 1982/83 followed rapidly on the increase of 8.7 per cent in producer prices for groundnuts in the previous fiscal year. Also, before the program had been negotiated with the authorities, the Government had been retaining the bulk of STABEX receipts; since then, substantive progress had been made by the authorities in recognizing the role of STABEX and earmarking some resources from it for The Gambia Produce Marketing Board. The authorities had also made some institutional changes in the agricultural sector, which showed their recognition of the importance of that sector in the economy. First, The Gambia Cooperative Union was being restructured with technical assistance from the IBRD. Second, the Government had transferred a substantial amount of resources to The Gambia Produce Marketing Board to help alleviate the difficulties of that organization. Third, the authorities were attempting to come to grips with fertilizer subsidies in order to ease the financial burden of the GPMB. Finally, the Government was attempting to support the agricultural sector through its development budget. For example, in 1981/82, resources directed to the agricultural sector had represented 14.5 per cent of the development budget and that ratio would increase to 31.1 per cent in 1982/83. More could of course be done, and the staff would continue to review the matter in the context of further consultations with the authorities.

It was difficult to comment on the effect of the Confederation on exports, the staff representative continued. All that was known at present was that agreement on the Confederation had been reached in principle and that the modalities were being discussed. There were no substantive documents or papers available to the staff on the matter. The staff had, however, received a commitment from the authorities--at the level of the Vice Presidency--that there would be no major changes in The Gambia's financial or economic system that would have implications for the Fund program.

It had been noted that, despite an increase in producer prices in 1981/82 and good weather, groundnut production had fallen, the staff representative remarked. Mr. de Maulde had asked, in that context, whether it was likely that the economy would do better in 1982/83. The staff and the authorities had no doubt that producer pricing policies had been instrumental in increasing farmer response in the agricultural sector, especially since they had been announced in The Gambia ahead of the planting season, so that farmers had been given advance notice about the prices that they would receive. The authorities had been delighted with the response of the farmers to the producer pricing policies and did not feel that the poor performance in groundnut production had been due to inadequate producer prices. It should perhaps be noted that, while weather conditions had been favorable, they had been less favorable than had been expected. For 1982/83, indications were that the projected level of 95,000 tons might be exceeded.

The estimation of re-exports was a difficult matter, the staff representative commented. However, it had been agreed with the authorities that the best way to estimate re-exports in the circumstances was to base re-export figures on CFA purchases by the commercial banks in The Gambia. The measure was not a perfect one, of course, because there was the possibility of double counting--in the sense that part of the CFA francs being measured could represent receipts from official exports--and because the measure might underestimate the revenue from re-exports. The matter was being studied with an eye to improving the method of estimating re-exports.

Regarding questions on the staff's projection for a 30 per cent increase in exports in 1982/83 and a 21 per cent increase in the terms of trade, the staff representative observed that the analysis of price behavior in the export sector had been based on export unit prices expressed in local currencies, and export prices would increase in local currency terms. The weakening in groundnut oil prices would not play a great role in The Gambia because most of The Gambia's exports were in the form of nuts rather than oil. Still, the projections indicated that, on account of groundnut oil, the same percentage decrease in export prices would be registered in 1982/83 as in 1981/82, when a conversion had been made from local currency into foreign currency. As a consequence, the improvement in the terms of trade that was being projected was based on the fact that, on the export side, export unit values would be much higher in 1982/83 than in 1981/82. In addition, some of the assumptions made at the time when the program had been negotiated were beginning to change. First, the oil situation on present projections was not quite as unfavorable as it had been when the program had first been negotiated. In addition, the staff had originally been looking toward rapid increases in import prices other than oil. Based on world economic outlook estimates, the latest assumption was that import prices would certainly rise in 1982/83, but not quite to the extent estimated earlier. The combination of factors that he had mentioned on the export and import sides should help to explain the improved projections for the terms of trade.

The authorities were still considering the bonded warehouse scheme, the staff representative noted, although the details had not yet been worked out. He agreed with Mr. Taylor and Mr. de Maulde that the scheme should prove to be useful once implemented as a way of mobilizing foreign exchange for The Gambia. Prospects for its use should become clearer in early 1983 on the occasion of the Article IV consultation mission with The Gambia.

Regarding questions by Mr. Dallara on the level of producer prices in The Gambia and whether the mechanism for producer price adjustments was adequate by comparison with mechanisms in other countries, the staff representative remarked, first, that the authorities had improved the system by announcing producer price increases in advance of the growing season. Also, the mechanism was being reviewed to see whether other changes might be helpful. On the adequacy of the level of producer prices, he noted that the producer price for groundnuts in The Gambia had been increasing over the past five years and, in both nominal and real terms, was higher than prices in neighboring countries. At present, the margin between producer prices and export prices set by The Gambia Produce Marketing Board seemed adequate, but the situation would remain under review.

It had been suggested by Mr. Dallara and Mr. de Vries that there appeared to have been some weakening of fiscal adjustment under the program, the staff representative from the African Department commented. The question of fiscal adjustment should perhaps be seen against the background of the attempted coup d'état in July 1981. The situation at present could have been far worse because the revenue base had disintegrated in 1981 and expenditures had been poised to take off in an uncontrolled fashion. The adjustment program had given the authorities the ability to control and stabilize a potentially explosive situation. Of course, the figures did seem to suggest a weakening in fiscal adjustment, but it was important to remember that the original program targets had been based on an expectation of revenue increases under the program. At present, revenues were declining somewhat. Moreover, expenditures were projected to increase by far less in 1982/83 than had been suggested by the original program targets. The overall deficit had declined from 10 per cent in 1980/81 to an average of 8.2 per cent for 1981/82 and 1982/83, by comparison with the original program targets of 8.7 per cent in those two years. The concept of the average was important because the program period in The Gambia spanned part of two fiscal years. In any event, as noted in the appraisal, the staff was not entirely satisfied with the fiscal situation in The Gambia; it would be discussing the matter with the authorities in future to see what further improvements could be made.

The staff representative from the Exchange and Trade Relations Department said that there was no disagreement between the staff and the authorities about the need to eliminate arrears as soon as possible. In assessing the adequacy of the pace of arrears reduction, Directors should consider three factors. The first was the overall balance of payments position envisaged in the program and the competing claims for foreign exchange in relation to imports needed to revive the economy. In that regard, account should be taken of the very low reserve position of the country. Second, the pace of reducing arrears depended heavily on the level of arrears at the beginning of a program period. Where the level was low, it was possible to provide for the complete elimination of arrears, perhaps even within the program period. Third, much depended on whether the reduction in arrears was intended to be achieved solely through a cash settlement or in part through a debt rescheduling exercise. In cases like that of The Gambia, where no debt rescheduling was envisaged as part of the program, the settling of arrears on a cash basis tended to slow the process.

Beyond the three factors he had mentioned, the staff representative continued, the staff took due account of the conclusions of the Executive Board regarding Fund policy on the elimination of arrears in Fund programs. Executive Directors had agreed that, "when payments arrears are large in relation to a member's available foreign exchange resources, it may not be possible to aim at the elimination of the arrears within the program period. Special arrangements may be needed for the renegotiation of outstanding debt obligations when debt problems are particularly severe. Depending on the member's circumstances and the length of the program, it may not be possible in the early stages of a program to reach an understanding with the member that goes beyond requiring the avoidance of any further increase in arrears." Those conclusions contemplated a full range of situations in which the pace of reduction in arrears could be minimal in certain cases and quite rapid in others.

Mr. de Vries said that, in raising a question on arrears, he had only been wondering whether the difficulties experienced by The Gambia in meeting obligations to the Fund were in any way indicative of the willingness or ability of the authorities to reduce them.

The Acting Chairman considered that the difficulties with respect to repurchase obligations to the Fund in no way implied that The Gambia would be less successful than others in reducing arrears. The Gambia had never been in arrears to the Fund in the past, and the arrears to which he had referred at the beginning of the discussion had been eliminated, except for SDR 357 that remained because of the valuation change during the course of payment. Moreover, the charges due to the Fund had been for the quarter ended October 31, 1982, so that the authorities had been in arrears for less than one month. In addition, the authorities had not been notified about the charges until after the conclusion of the quarter--when the calculations had been made--so that the actual delay in payment to the Fund had been quite short. In fact, the authorities had done their best to arrange for delivery of payments to the IMF before November 22, 1982, but there had been some difficulty in mobilizing funds from other sources.

Mr. Sangare recalled that several questions had been raised about the appropriateness of the level of producer prices, especially in light of the 9 per cent increase in 1981/82 and the 4 per cent increase in 1982/83, together with the 20 per cent increase in the price of fertilizer. It should be remembered that the fertilizer price had been quite low, so that the increase by 20 per cent was not impressive. Moreover, the full import price of fertilizer was not passed on to farmers, although the Government intended to reduce and finally eliminate the subsidies on that product in future. The authorities had long been seeking ways of providing greater incentives in the agricultural sector in order to assist farmers in making better resource allocation decisions. Indeed, as stated in the letter to the Managing Director, the agricultural and pricing policies would continue to be geared toward strengthening production incentives and improving resource allocation through the price mechanism.

Regarding the suggestion by Mr. de Maulde and Mr. de Vries that the improvement in the balance of payments seemed to have resulted more from a decrease in imports than from an increase in exports, Mr. Sangare remarked that exports had been adversely affected by delays in the shipment of groundnuts. For example, three ships had been late in arriving in The Gambia because of a storm off the Mauritanian coast. Exports had also been affected by stringent regulations in Europe and the low demand for crude oil.

On the concern expressed by Mr. de Maulde and others about the possible accumulation of new external payments arrears, Mr. Sangare agreed with the Acting Chairman that the recent difficulties experienced by the authorities in meeting repayment obligations to the Fund should not be taken as an indication of any lack of willingness or ability by the authorities to repay other arrears. The authorities had accumulated other arrears equivalent to D 30.5 million in June and D 30.79 million in September 1982, but the amounts were well below the program targets for those dates. The staff paper indicated that the accumulation of additional arrears had mainly been due to delays in shipments; the authorities were strongly committed to eliminating those arrears and conforming to the program targets.

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

The decision was:

1. The Government of The Gambia has consulted with the Fund in accordance with paragraph 27 of the letter of intent attached to the stand-by arrangement for The Gambia (EBS/82/17, Sup. 1, 2/24/82) in order to reach appropriate understandings with the Fund.

2. The letter of October 8, 1982 from the Vice President and Acting Minister of Finance shall be attached to the stand-by arrangement for The Gambia, and the letter of January 14, 1982 annexed to it shall be read as supplemented by the letter of October 8, 1982.

3. The Fund extends approval (under Decision No. 7223-(82/133), adopted October 6, 1982) for the maintenance by The Gambia of the restrictions arising from the existence of external payments arrears until May 30, 1983, or the completion of the next Article IV consultation, whichever is the earlier.

Decision No. 7251-(82/152), adopted
November 24, 1982

2. UGANDA - STAND-BY ARRANGEMENT - WAIVER AND MODIFICATION

The Executive Directors considered a staff paper and proposed decision concerning a waiver and modification of the stand-by arrangement for Uganda (EBS/82/196, 10/22/82; and Sup. 1, 11/15/82).

The Deputy Director from the African Department remarked that, on November 18, 1982, the Cabinet had approved the various measures described in EBS/82/196, Supplement 1 for increasing foreign exchange sales by the Bank of Uganda. At the same time, the Cabinet had approved an increase in the prices of petroleum products, ranging from a 25 per cent increase for gasoline to a 100 per cent increase for kerosene. Taking into account the most recent price increases, the average price of petroleum products would have been raised, on average, by 88 per cent from May 1982 to December 1982, which far exceeded the depreciation of the shilling at the first window. The new price of gasoline was equivalent to $5.70 per U.S. gallon at the first window and would be equivalent to $2.30 per U.S. gallon if calculated at the rate of U Sh 250 per U.S. dollar, which was the rate that had prevailed in the previous three auctions. It appeared in the circumstances that an important step toward a progressive unification of the exchange system had been taken.

Mr. Sangare noted that performance under the program had been satisfactory; all but one of the performance criteria had been met to date. Table 1 of EBS/82/196, Supplement 1 showed that government borrowing at the end of September had been U Sh 3.6 billion below the program ceiling and that the reduction in external arrears had been SDR 20 million, by comparison with a program target of SDR 5.5 million. The fiscal situation had also improved; revenues had exceeded projected levels, and expenditure control measures had contained the growth in expenditure. In the meantime, agricultural and industrial production continued to increase, and the export quota for coffee for the year ended September 1982 had been met. Production and exports of tea, tobacco, and cotton had also increased substantially.

The one performance criterion that had not been met related to the sale of foreign exchange by the Bank of Uganda at the second window under the temporary dual exchange system, Mr. Sangare continued. As Executive Directors would recall, the authorities had agreed that the Bank of Uganda would sell through the second window a minimum of $8 million in foreign exchange during each four-week period from the introduction of the scheme through December 31, 1982. However, sales had been lower than expected, amounting to only $13 million for the first 12 weeks, as against the required minimum of $24 million. One reason for the low volume of sales was the general lack of familiarity with the new arrangements. Moreover, importers preferred to use the parallel market because it was more convenient and because there were high charges on transactions conducted through official channels. Those that had expressed a desire to participate in the auction scheme had encountered delays in obtaining necessary documentation from the Uganda Advisory Board of Trade.

The authorities had taken a number of measures designed to reduce the cost of importing through official channels, Mr. Sangare remarked. An effort had also been made to cut the time that it took for the Uganda Advisory Board of Trade (UABT) to issue import licenses, and both the 1 per cent fee charged by the UABT and the 5 per cent advance deposit had been suspended. Import duties were to be reduced; in the meantime, the issuance of import licenses to importers with their own foreign exchange had been suspended, and certain items--including motor vehicles, spare parts, and tires--had been transferred from the first window to the second window. The authorities were prepared to further expand the list of imports at the second window in order to ensure that sales would be increased to $24 million by end-December 1982. In the circumstances, the authorities would appreciate approval by the Executive Board of a waiver of the performance criterion relating to the minimum amount of foreign exchange sales over each four-week period at the second window, to be replaced by a minimum amount of $24 million for the period up to December 1982.

Mr. Dallara stated that, in general, waivers should be granted by the Executive Board on a very selective basis, and only after a detailed and thorough consideration both of the circumstances surrounding the failure to meet a performance criterion and of the policy changes that might be part of the request for a waiver. He had reviewed the Ugandan case with considerable care and believed that the request merited the support of the Executive Board for several reasons. First, the necessarily experimental nature of the exchange rate arrangements in Uganda seemed to call for modification of the system as experience was gained. Second, and more important, the performance of the Ugandan economy during the first quarter of the current program had been generally satisfactory and had continued the trend toward adjustment that had been initiated during the previous program. Third, all other performance criteria for end-September had been met. Finally, the Fund mission to Uganda had succeeded in reaching understandings with the authorities on policy measures and performance criteria for the remainder of the program period. In that regard, he looked forward to seeing a detailed analysis of economic performance on the occasion of the mid-term review of the stand-by arrangement and of the forthcoming Article IV consultation.

With regard to the proposed decision, Mr. Dallara urged the authorities to persevere in their efforts to identify and eliminate the problems that had prevented a sufficient amount of foreign exchange from being sold through the second window. In particular, a concerted effort needed to be made to expedite the issuance of import permits. Finally, on a more general matter concerning exchange rate policy, he wished to reiterate a point that he had made in August when the Executive Board had considered Uganda's request for a stand-by arrangement. While recognizing the need for transitional exchange rate arrangements in Uganda's current circumstances, the authorities should move as expeditiously as possible toward unification of the rate at a market-determined level.

Mr. de Vries considered that the Ugandan case was one in which a waiver was justified, and he could support the proposed decision. The program was basically on track, and there had been some experimental difficulties with one of the performance criteria. On a technical point, he wondered why the Ugandan authorities had been asked to sell more foreign exchange at the second window rather than less foreign exchange at the first window; either course would seem to meet the basic objective of helping to unify the exchange rate.

Mr. de Groote remarked that the Ugandan economy seemed to be on its way to recovery after a long period of uncertainty. The efforts of the authorities had produced satisfactory progress in the third quarter of 1982, particularly in the areas of the budget, the money supply, and external arrears. Improved collection of tax arrears and better control of expenditures had had a positive effect on the consolidated budget. Moreover, the 7 per cent increase in the broad money supply in the third quarter of 1982--compared with a 40 per cent increase for the same period in 1981--showed the determination of the authorities to control monetary aggregates. External arrears had been reduced by SDR 20 million in the third quarter of 1982, a development that was far better than expected. Furthermore, since there had been no new external borrowing on commercial terms during the period, Uganda had been able to pay back some 16 per cent of the estimated external payments arrears to Fund members by end-June 1982.

On the negative side, Mr. de Groote continued, consumer goods prices had shown a tendency toward volatility in recent months, apparently because of transportation difficulties and uncertainties related to exchange rate movements. He assumed that the Government would take appropriate steps to neutralize those factors, especially as the transportation difficulties in Uganda created problems for the exports of some neighboring countries.

In the Executive Board discussion of the stand-by arrangement on August 11, 1982, several Directors had mentioned that a further upward adjustment in interest rates would be necessary, Mr. de Groote recalled. He hoped that the authorities would be able to reach understandings with the Fund on interest rate policy that were consistent with the performance criteria indicated in the memorandum.

With respect to the performance criterion setting forth the minimum amount of foreign exchange to be sold through the second window by the Bank of Uganda, Mr. de Groote noted that, for several reasons, the authorities had failed to observe the requirement during the first quarter of the program period. First, there had apparently been a shortage of foreign exchange; second, import costs--which included high duties on most imports, import license fees, charges for inspection, and advance deposits on imports--had been high; third, there had existed a number of obstructive bureaucratic formalities related to the issuance of import licenses; and, finally, traders had had difficulty in familiarizing themselves with the new techniques. So long as those factors continued to depress imports, the establishment of an efficient auction system would not eliminate the parallel market--which would continue to be competitive--and the goals of the program would not be met. He understood from the supplementary staff paper that appropriate steps and corrective measures would soon be undertaken by the authorities, and he could therefore go along with the proposed waiver and decision. Finally, he hoped that the rescheduling of external debt falling due in 1982/83 within the framework of the Paris Club would make a positive contribution to Uganda's balance of payments.

Mr. Morrell said that he too could support the proposed decision regarding the waiver of the performance criterion relating to the sales of foreign exchange from the second window and the new criterion applying to the period ending December 31, 1982. It was unfortunate that the factors that had inhibited sales of foreign exchange at the second window--particularly the difficulty and cost in obtaining import licenses--had not been dealt with earlier. However, the authorities had recently taken steps to remedy the situation; those moves had contributed to the relaxation of other trade restrictions.

Mr. Grosche welcomed the indication that Uganda's economic and budgetary performance in the first quarter of the program period had been satisfactory, although the performance criterion regarding the minimum amount of foreign exchange to be sold by the Bank of Uganda through the second window had not been observed. The appropriate functioning of the dual exchange rate system was a key feature of the Fund program and, while the weekly auctions seemed to have contributed to reducing the differential between the official and parallel market rates, they had failed to make the expected contributions to budget revenues. Nonetheless, the shortfall in profits from foreign exchange sales had not led to a deterioration in the budgetary performance because of compensating measures, in particular improved collection of tax arrears and the application of stringent expenditure controls. The authorities should be commended for having prevented slippages in the budget, and he hoped that the new measures to improve the functioning of the second window would allow for improved contributions to budget revenues and would facilitate progress toward the reunification of the exchange rate.

Recognizing that the dual exchange rate system in Uganda was to be only temporary, Mr. Grosche said that he would appreciate from the staff a timetable for the unification of the two markets, perhaps as part of the staff paper to be distributed in January 1983. Also, since other sources of revenue would be necessary once the unification of the exchange rate system had been achieved, the forthcoming paper might provide Executive Directors with more information about how it was expected to raise those revenues.

Mr. Taylor considered that the request by Uganda for a waiver and modification of the performance criterion was sensible in the circumstances, and he had no difficulty supporting it. His only question was related to the indication by the staff that one reason for the low sales through the second window was that the Bank of Uganda had perhaps set the reserve price too high. He wondered whether the staff felt that the latest rate of U Sh 250 per U.S. dollar was appropriate.

Mr. de Maulde said that, like others, he had no difficulty supporting the proposed waiver and modification of the stand-by arrangement. The performance of the economy in the third quarter of 1982 had been satisfactory, and all performance criteria had been met except the one for which a waiver was being requested. The remedial measures implemented by the authorities should permit an increase in sales of foreign exchange from the second window, especially as certain important items had been transferred to that window; the modified performance criterion that required a minimum of $24 million to be sold by end-December did not seem unreachable.

Like Mr. Taylor, he had noted that the exchange rate at the second window had declined to U Sh 250 per U.S. dollar, Mr. de Maulde continued. Since there had also been a reduction in the differential between the official rate and the parallel market rate, the parallel rate seemed to have declined substantially over the previous three months. He would be grateful for staff clarification on the point, and for an indication of whether some depreciation of the exchange rate at the first window might not be necessary if there were to be any advance toward merging the two rates.

Mr. Delgadillo observed that the failure of the authorities to observe one performance criterion should not overshadow the important adjustment thus far achieved in reducing domestic imbalances and bringing about a recovery in the external sector. A major element in the success of the program to date had been the marked improvement in budget performance during the third quarter of 1982 and the strict adherence to limits on net domestic credit and credit to the Government. Also important was the fact that domestic output had increased, in spite of the strong stabilization measures undertaken by the authorities. Agricultural and industrial production had continued to rise during the third quarter of 1982 as a result of increases in the minimum producer prices and the freeing of most other prices; furthermore, the supply base of the economy had been widened with the increased availability of spare parts and raw materials imported under IDA credits.

The measures introduced to improve the functioning of the dual exchange rate system should permit a more efficient allocation of foreign exchange and lead toward the unification of the two rates, Mr. Delgadillo commented. In the circumstances, he could accept the proposed waiver and support the program under the proposed modified performance criterion.

Mr. Casey noted that the breach of the performance criterion governing the amount of foreign exchange to be sold by the Bank of Uganda at the second window had been caused by delays in setting up the new auction system, by bureaucratic delays in issuing import licenses, and by tax avoidance on the part of those who still preferred to use the parallel market. Also, as pointed out by Mr. Taylor, the reserve price had probably been too high. While the difficulties he had mentioned were understandable, he wondered why they had not been foreseen, especially since Uganda had been receiving technical assistance in several areas, including that of foreign exchange markets.

Among the measures designed to correct the situation had been the decision to reduce import duties, thus giving importers an incentive not to use the parallel market, Mr. Casey commented. He wondered whether the reduction in import duties would significantly affect the fiscal targets of the program, particularly on the revenue side, especially as the Government presumably had received less revenue than expected from exchange profits. The transfer of more import items from the first window to the second should help to boost demand at the second window; it was an important step forward.

The authorities should be commended for their intention progressively to narrow the exchange rate differential between the two windows, although an effort should be made as soon as possible to unify the exchange system as a whole, Mr. Casey remarked. In that regard, there seemed to be merit in Mr. Grosche's suggestion for a timetable for the ultimate unification of the system. The problem for the authorities was not simply a matter of finding a single equilibrium exchange rate; it was also a matter of eliminating the bureaucratic machinery of import licensing, trade administration, and so on that stifled external trade. At present, an extraordinary amount of red tape was involved in importing or exporting even the simplest commodity.

When the current stand-by program had been approved by the Executive Board, a number of Directors had inquired whether interest rates should not be increased, Mr. Casey recalled; at the time, the savings rate had been -16 per cent in real terms, and he wondered whether any action had since been taken on interest rates. Greater interest rate flexibility might, after all, facilitate the ultimate unification of the exchange markets. Also on the occasion of the approval of the stand-by arrangement, several Directors had suggested that traditional exports should be shifted to the second window, and he wondered whether any consideration had been given to such a shift, which would have the effect of increasing the supply of foreign exchange at the second window rather than the demand for foreign exchange.

Remarking on the draft decision and its reference to paragraph 35c of the stand-by arrangement, Mr. Casey said that he assumed that the second sentence of that paragraph--which stated that the Bank of Uganda "will sell at this window at least 30 per cent of any cash grants or loans other than IMF purchases that may be received during the period"--would be maintained. In passing, he wondered why IMF purchases were not to be sold at the second window. He hoped that a Paris Club rescheduling exercise could be completed successfully as soon as possible.

Mr. Caranicas stated that, like others, he could accept Uganda's request for a waiver and modification of the stand-by arrangement. At one time, Uganda had been known as the "Pearl of Africa"; indeed, in the 1960s, it had been one of the most prosperous countries on the continent. Unfortunately, political events and social upheavals had reversed that situation, and Uganda was currently among the poorest of African nations. However, the country had the natural resources, climate, and people to make it possible to reverse the situation, and he was happy to be able to note on the occasion of the 20th anniversary of Uganda's independence that the policies of the present Government were appropriately directed toward that end.

The Deputy Director of the African Department, responding first to questions on the dual exchange market, observed that the ratio between the official and parallel markets had been slightly more than 30:1 in May 1981. By August 1982, when the program had been reviewed by the Executive Board, the rate of exchange at the second window had been U Sh 100 per U.S. dollar, and the rate at the parallel market had been about U Sh 400 per U.S. dollar, a ratio of about 4:1. Since then, the parallel market rate had fallen to U Sh 300 per U.S. dollar, while the rate at the first window had been increased to U Sh 102 per U.S. dollar. In the past, economic agents had exploited the large discrepancy between the parallel and official rates for their own interests; but it was not an easy matter to eliminate the parallel market because to do so would result in a reduction of profits for a number of "important" people. It was difficult to say whether the current rate of U Sh 250 per U.S. dollar was the appropriate rate for the parallel market; it might need to be reduced somewhat further, since available data suggested that less than $100,000 per week had been sold at the current rate.

The possibility of a timetable for the unification of rates had been discussed with senior officials in Uganda, and a timetable had in fact been agreed upon, the Deputy Director continued. However, it would not be appropriate to announce in advance what the rate of exchange at the second window would be in future; to do so might cause people to wait to buy at the second window. The rate at the first window had, effectively, already been depreciated, and it would be depreciated further, but he would prefer not to go into detail on the matter.

Duties on some items had been as high as 300 per cent and might well have favored the parallel market--where duties could be avoided--the Deputy Director observed. For that reason, the Cabinet had decided to make selective reductions in duty rates of 30-50 per cent, depending on the items. It was difficult to say whether those reductions would lead to an increase in government revenues; while duties would be lower, they would cover a larger number of items. The increase in the price of petroleum products would of course have a substantial impact on the receipts of the Government because tax fraud in that area was virtually impossible.

The volatility of prices in Uganda had been partly due to the system of decontrols, the Deputy Director remarked. Competition in countries like Uganda was not perfect, and there might be traders who would take advantage of temporary shortfalls in order to increase their profit margins.

Remarking on interest rate policy, the Deputy Director noted that the authorities had agreed to take some action to increase rates. In order to maintain focus on the particular question under discussion, the staff had decided not to mention those increases in its report; however, a full report covering the interest rate question and others would be presented to the Executive Board in January 1983. For the present, it could be noted that, in general, the problem of mobilizing deposits in Uganda could not be resolved simply through interest rate policy.

As to whether traditional exports--such as coffee and cotton--should be shifted to the second window, the Deputy Director commented that Uganda had succeeded in meeting its coffee export quota in the coffee year ended September 1982. The coffee quota had been raised in 1982 in order to take account of an export shortfall in the previous year; however, the quota in the coffee year ending September 1983 would be 19 per cent lower, and, at current prices, the staff did not feel it would be particularly difficult to mobilize the necessary amount. As for cotton, the estimate was for a threefold to fivefold increase in production for 1982, which was quite good. The staff had discussed the matter with the World Bank, and the general view was that increasing producer prices was helpful so long as prices were not increased too often during the same crop year. In any event, the problem of prices of coffee, cocoa, cotton, and tea would be reviewed on the occasion of the staff mission at end-April 1983. Assuming there was a follow-on program, any changes would be implemented in advance of the 1983/84 program year.

With respect to Mr. Casey's question of why IMF purchases were not sold at the second window, the Deputy Director of the African Department observed that the Bank of Uganda purchased foreign currency obtained from the Fund at the first-window rate; when the money was sold at the second-window rate, the Bank of Uganda received a profit, which was transferred to the Treasury. Unfortunately, profits in the month of September had been lower than expected because the amount sold at the second window rate had been lower.

Mr. Sangare assured Executive Directors that the Ugandan authorities remained committed to implementing all performance criteria in order to achieve the objectives of the program. The important progress already made in that direction was noteworthy, especially given the difficulties experienced in the functioning of the dual exchange market. As suggested by the staff, there were a number of influential people opposed to the move toward unification, but the authorities were certainly committed to the goal.

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

The decision was:

1. Uganda has consulted with the Fund in accordance with paragraph 10 of the stand-by arrangement for Uganda (EBS/82/125, Sup. 1, 8/13/82). The Fund finds that, in view of the circumstances described in EBS/82/196 (10/22/82) and Supplement 1 (11/15/82), no additional understandings are necessary pertaining to the nonobservance of the target for sales of foreign exchange referred to in paragraph 4(a)(iii) of the stand-by arrangement for Uganda and set out in paragraph 35(c), first sentence, of the memorandum attached thereto. In these circumstances, Uganda may proceed to request purchase under the stand-by arrangement.

2. The target for sales of foreign exchange referred to in paragraph 4(a)(iii) of the stand-by arrangement for Uganda and set out in paragraph 35(c), first sentence, of the memorandum attached thereto, shall be changed to minimum sales required of US$24 million for 1982.

Decision No. 7252-(82/152), adopted November 24, 1982

3. SENEGAL - REQUEST FOR STAND-BY ARRANGEMENT

The Executive Directors considered a request by Senegal for a one-year stand-by arrangement in an amount equivalent to SDR 47.25 million or 75 per cent of quota (EBS/82/198, 10/26/82).

The Deputy Director of the African Department made the following statement:

The negotiation of the proposed financial program for 1981/83 has been made in three stages, as indicated in the paper before us (footnote 1, page 3, EBS 82/198). Mr. Ousmane Seck, Minister of Economy and Finance, was the head of the Senegalese delegation during the last stage of the negotiations which took place in Toronto during the Annual Meetings. Minister Seck, who resigned from his Cabinet position on November 6, has been replaced by Mr. Mamoudou Touré, former Director of the African Department in the IMF. Since November 17, Mr. Touré holds the position of Minister of Economy and Finance in addition to the position of Minister of Planning and Cooperation, which he has held since September 1981.

The authorities have implemented important policy measures regarding the marketing of groundnuts and the distribution of groundnut seeds and fertilizers. A favorable report in this regard was received from a World Bank agricultural mission that left Senegal on November 20. However, the world price of groundnut products has continued to decline sharply. As indicated in EBS/82/198, the 1982/83 program had been established on the basis of the price projections issued by the Commodities Division in June 1982. In the revised projections issued by the Commodities Division in November, the price of groundnut oil for 1983 has been lowered by 18 per cent, and prices in the second half of 1982 are likely to be, at least, 25 per cent lower than had been assumed in the projections issued last June. Although a shortfall in the world prices of groundnut products had already been anticipated in EBS/82/198, the shortfall may be greater than had been expected, and it may be difficult not to exceed the targets set for the overall budget deficit and the current account deficit. Although statistical information on credit at the end of September is not yet available, there seems to be some possibility that the September subceiling on net credit to Government may have been exceeded.

A review mission is scheduled to arrive in Dakar on December 6 to assess the situation and consider with the authorities the additional measures required to preserve the major objectives of the program. These discussions will be held only two months before the presidential and parliamentary elections.

The Senegalese authorities have presented a request to reschedule their external debt falling due to Paris Club members in 1982/83, and a meeting to consider this request is scheduled to be held in Paris on November 29.

Mr. Alfidja made the following statement:

My authorities in Dakar are fully appreciative of the continued understanding shown by both the staff and management throughout the frank but always cordial discussions that have led to the present request. They wish to reiterate their firm commitment to ensuring a very close cooperation between Senegal and the Fund.

The imbalances characterizing the Senegalese economy are deep-rooted and structural in nature, and their correction inevitably dictates a long-term approach. The required adjustment efforts involve actions aimed at solving problems in the short run as well as in the long run. In the short run, swift and strong corrective measures are required to stabilize both the internal and external financial positions of the country, whereas, in the long run, policymakers must address issues relating to the diversification of the productive base of the economy, the mobilization of domestic resources for the financing of a stronger investment program, and manpower training and employment.

The two types of actions mentioned above have been clearly identified and formulated by the Senegalese authorities in collaboration with the Fund and World Bank staff, as can be seen from the original extended arrangement, the stand-by program just ended, and the one proposed for 1982/83.

In the short run, policy actions are aimed at containing government expenditures and restoring financial balance in the public sector. To this end, efforts are to be directed toward keeping the wage bill in the public sector in check as well as to government subsidies and arrears. Regarding subsidies, a significant upward adjustment in the prices of several basic consumer goods, as well as in transportation and electricity, has been effected to better reflect market conditions and reduce subsidy outlays. Arrears on external debt were liquidated in full by the end of June 1982.

The longer-run aspects of the adjustment effort in Senegal involve actions directed to questions of supply and resource allocation. In this respect, the investment program under the fifth Four-Year Development Plan for the 1981-85 period becomes crucially important, as does the role of the IBRD, in the battle for the recovery and satisfactory growth of a more diversified economy in Senegal. The authorities have put heavy emphasis on directly productive investments, and this shift in policy should lead to a rise in the share of such investments in total capital outlays from 45 per cent in the previous development plan to 70 per cent in the current plan. The determined efforts by the Senegalese authorities to successfully carry out their medium-term plan for economic and financial recovery have received the welcome support of the IBRD, which has extended to Senegal a structural adjustment loan and development credits amounting to a total of $30 million and SDR 22.9 million over the period from March 30, 1981 through June 30, 1983. The bulk of this assistance is directed to the agricultural sector for the restructuring of rural development agencies.

The strong and courageous adjustment measures undertaken during the 1981/82 program have made it possible not only to halt the deterioration of the economy, but even to reverse the adverse trend in a significant fashion. The overall fiscal deficit was reduced from the equivalent of 13.4 per cent of GDP in 1980/81 to 9.4 per cent of GDP in 1981/82 and is expected to fall to 7 per cent in 1982/83. The current account deficit decreased from 21 per cent of GDP in 1980/81 to 15 per cent in 1981/82 and is expected to fall further to 12.4 per cent in 1982/83. The Senegalese authorities are to be commended for their determined efforts to carry out the adjustment dictated by the country's current economic and financial situation, but they are fully aware that the efforts must be stepped up and sustained for several more years. This awareness of the adjustment requirements has been translated into yet another stand-by program for which the authorities are seeking the support of the Fund. The program for 1982/83 is a continuation of the adjustment efforts undertaken thus far, a consolidation of the gains achieved, and a further attempt to bring about a viable financial position both internally and externally. It is a strong, courageous, and ambitious program, which aims at reducing the overall fiscal deficit and the external current account by two-and-a-half percentage points each, while at the same time generating positive domestic savings in an amount equivalent to 2 per cent of GDP.

In the real sector of the economy, policy action is being directed to agriculture and to manpower training and employment. Actions are being undertaken, with technical assistance from the IBRD, to restructure the public enterprises in charge of activities in the rural sector, with a view to ensuring efficiency in the operations of these parastatals and greater productivity in this sector. Starting with the 1982/83 crop, the responsibility of groundnut marketing and processing will be borne by the oil mills, which will receive an export subsidy (or pay a levy to the Caisse de Péréquation et de Stabilisation des Prix (CPSP)) determined at the beginning of the marketing season and adjusted at the end of the season to reflect movements in the export prices for groundnuts. Another major change relates to the policy with respect to seeds. Starting with the 1982/83 crop, seeds will no longer be distributed freely to farmers; instead, producers will have the option of keeping their own seeds--and being paid for doing so--or receiving seeds from the national stockpile in proportion to their sales to the oil mills. Fertilizers will be distributed by the Société Industrielle des Engrais du Sénégal (SIES), and the authorities intend to reduce subsidies on fertilizers by 25 per cent in 1983/84. It is worth mentioning that the new policy on groundnuts and fertilizers will be monitored by the IBRD and that disbursements of the second tranche of the structural adjustment loan are made conditional on the implementation of the new measures.

With respect to employment and manpower training, the 1982/83 program puts great emphasis on matching manpower training with the requirements of the economy. Technical assistance has been sought from the IBRD in this field, with a view to adapting the system to the new policy.

In the fiscal field, the consolidation of government accounts has made it possible to present the budget in a meaningful way and to use it as a viable policy instrument. The policy stance remains one of restraint, as under the 1981/82 program. On the revenue side, the tax effort has been sustained and even stepped up significantly. The price of sugar for sweet milk was raised by 50 per cent in November, while the rate of import duties was increased by five percentage points across the board. Draft legislation for an increase of 30 per cent in the tax on alcoholic beverages and 50 per cent on cola nuts has been introduced to the National Assembly, which is to convene in the next few days. On the expenditure side, current expenditures will be allowed to grow by only 9 per cent in 1982/83, which implies a decline in real terms. Emphasis is being put on containing expenditures on wages and salaries, which should increase by only 6.5 per cent. As for capital expenditures, priority is to be given to projects for which external financing has been obtained.

In the external sector, the 1982/83 program aims at promoting nontraditional exports through an increase in the rate of export subsidies--from 10 per cent to 15 per cent--and an expansion of the list of eligible exports. An area of particular concern for the authorities is the strained debt situation. Fortunately, they are fully aware of the need for an extremely cautious policy stance in this field. The debt rescheduling obtained from the Paris Club will undoubtedly help to support the adjustment efforts of the Senegalese Government.

Mr. Taylor said that he was in broad agreement with the staff appraisal and could support Senegal's request for a further one-year stand-by arrangement. Senegal was grappling with its economic problems through a series of one-year stabilization programs, which appropriately contained important elements of structural adjustment. When it was evident that adjustment was going to take a long time, it was particularly important to maintain a medium-term perspective. He noted that it had been more than two years since the previous Article IV consultation with Senegal. He hoped that it would not be long before the Executive Board would be given another opportunity to discuss the economy's longer-term prospects in the course of an Article IV consultation.

The authorities were to be commended for meeting all the performance criteria under the 1981/82 program, Mr. Taylor continued. Unfortunately, despite the progress made thus far and the soundness of economic policies, the situation remained difficult. Prospects for the terms of trade continued to be unfavorable, and the external debt situation--even allowing for rescheduling--remained strained. The most recent news about further shortfalls in groundnut prices underlined the precariousness of the economic situation. The importance of groundnuts in total exports--together with the economy's continued reliance on imported oil--seemed to be inhibiting any improvement in the balance of payments. Since the exchange rate was not available as an adjustment tool, a heavy burden fell on demand management policies. Domestic consumption continued to exceed GDP, and it was clear that consumption would need to be restrained for a number of years to come.

In such a difficult case as that of Senegal, direct assistance by the Fund could not be sufficient, Mr. Taylor considered. However, it could be an important catalyst in the debt rescheduling process and could be helpful in encouraging much bilateral assistance. The staff had clearly indicated that Senegal's balance of payments was likely to require emergency financing for at least the next five years. In the circumstances, and because debt rescheduling served only to postpone rather than to eliminate financial difficulties, he wondered whether enough was being done at present to secure adjustment. Perhaps consideration should be given to stimulating direct inward investment or otherwise generating additional flows that did not add to the country's debt.

For the short term, Mr. Taylor said, policies under the 1982/83 program seemed to be appropriate; however, recent developments suggested that more would need to be done if the program's objectives were to be met. Good progress had been made thus far in reducing the fiscal deficit and consolidating the Government's accounts, but performance of the parastatals could be improved further, particularly with respect to the operation of the Stabilization Fund, and it would thus be important to give particular attention in the December review to progress in restructuring the groundnut sector and the Stabilization Fund.

While welcoming the proposal to reduce domestic payments arrears, Mr. Taylor wondered whether the pace of that reduction might not be increased, particularly given the better than expected production of groundnuts in 1982. He understood, of course, that the fall in prices for groundnut products might make it difficult to speed up the reduction in arrears, but a determined effort should be made. On the revenue side, the authorities were to be commended for having achieved their revenue targets in the previous year, although he noted that the achievement of revenue objectives in the coming year would require a more vigorous tax collection effort. In that regard, there appeared to be a problem of revenue elasticity, and he wondered whether a Fund technical assistance mission might not review the progressivity of the tax system to see how revenues might be increased.

The reduction of excessive subsidies in Senegal had been handled with appropriate steadiness and sensitivity, Mr. Taylor considered. Senegal had benefited by coming to the Fund early and by preparing the public well in advance for the subsidy cuts and for the back-loading of disbursements under the program. Perhaps others could learn from Senegal's experience. The move to centralized financial controls had also been well managed, although control of public expenditure remained an essential task. In that regard, there appeared to be little scope for any immediate increase in real public expenditure, at least not while the significant domestic arrears of the public sector remained outstanding.

In the area of monetary policy, the formula for adjusting the domestic credit ceilings as described in Appendix II of Annex B seemed to allow for appropriate flexibility, Mr. Taylor remarked. In that regard, he noted that a sharp increase had been provided for in banking credit to the Government, even before the most recent developments. He gathered, however, that even the increased ceilings might be exceeded, a development that would be worrisome. It was clear that credit expansion of the sort contemplated could spill over into aggregate demand in the economy and might boost imports and create inflationary pressures. Perhaps a less inflationary means of countering the domestic arrears problem could be found.

The supply side of the economy would require attention in future, Mr. Taylor considered. Agriculture remained the central source of growth, and prospects for the agricultural sector would improve only when commodity prices began to show some buoyancy and when worldwide interest rates began to fall. In the meantime, however, it was essential to implement fully the agriculture development program, to continue to remove distortions inherent in the price incentive system, and to do as much as possible to introduce realistic import substitution programs. The staff had commented in some detail on the outlook for phosphates under the Four-Year Development Plan, although it had said little about ways and means of diversifying the productive base of the economy in other respects. The existence of strong domestic markets seemed to suggest that fisheries and cash crop production were candidates for development support; on the other hand, the staff had referred to excessive productive capacity for processed foods and some mechanical products. He wondered, in the circumstances, whether there might not be scope for a fuller review--perhaps by the IBRD--of development opportunities in Senegal together with a more concerted assessment of prospects in overseas markets.

Finally, Mr. Taylor observed, the debt service ratio was projected to exceed 25 per cent in 1986 and beyond. While a further decline in world interest rates and better terms of trade would ease the burden of the debt service ratio, neither development could be counted on with much certainty. He therefore agreed with the staff that the achievement of a sustainable balance of payments position would require steady progress in promoting exports, diversifying the economy as much as possible, and reducing the current deficit through the remainder of the 1980s.

Mr. Dallara remarked that the staff paper and Mr. Alfidja's opening statement contained information that raised a number of concerns, particularly with respect to the question of whether it might not have been more appropriate to have determined precisely what had been happening to the credit ceilings before bringing Senegal's request to the Board. Before continuing with his intervention, he wished to hear more about how the staff had arrived at its decision to bring the request before the Board at the present moment.

The Deputy Director from the African Department noted that, following the circulation of the staff paper, an effort had been made to gather the most up-to-date information on recent developments, although final data were unavailable. Senegal exported groundnut products, mainly groundnut oil; in June 1981 and May 1981, the price for oil had been $1,185 per ton. In the third week of November, it had been only $455 per ton, a figure close to the average price of $446 per ton in 1971. Since there was a guaranteed price to producers and a margin from the farm gate to the port, the Government lost money on each ton of groundnut oil exported. Hence, a good groundnut crop was ironically not good for the budget, because it increased the deficit. Crop credits had been provided in December 1981 for the previous campaign, and those credits had to be repaid before December 1982. If not, they would have to be reclassified, although the result would be the same.

In the circumstances, the staff had felt it necessary to express its concern about whether the performance criteria regarding net credit to the Government for the end of 1982 could be met, the Deputy Director remarked.

The submission to the Executive Board could of course have been postponed--which would also have meant the postponement of the Paris Club discussions--and brought to the Board in February or March 1983, following the elections. However, the staff had felt that it would be inappropriate to wait until March 1983 to present to the Executive Board a program for a 12-month period ending in June 1983.

The Acting Chairman added that, having recently discussed the matter with the staff at some length, he had concluded that the decision to bring Senegal's request to the Board at the present moment had been appropriate. Apart from the considerations already mentioned by the Deputy Director of the African Department, it should be remembered that the exchange rate of the CFA franc had depreciated against the dollar and, in the final analysis, it was the CFA franc price of groundnut oil that determined the effect on the budget. He had also been conscious of the long delay that would necessarily follow if Senegal's request was not pursued in the Board at present. Since the Senegalese authorities had taken a number of important structural and demand management measures to deal with their situation, it seemed appropriate that the Board should discuss their request for a stand-by arrangement.

The staff representative from the Exchange and Trade Relations Department observed that, even as the staff and the authorities had been designing the program, there had been some concern about the potential decline in groundnut prices, and it had been expected that the entire program would have to be reviewed at mid-year. In view of the elements of uncertainty, the staff had provided for only a small purchase at the time of the approval of the program; the stand-by arrangement was for 75 per cent of quota, and the first purchase was equivalent to only 9 per cent of quota. The small initial purchase was another of the considerations that had been taken into account in deciding to bring the request to the Executive Board at the present stage.

Mr. Dallara stated that he had found the arguments of staff and management to be persuasive and, in light of their comments, could support the program. Nonetheless, the additional information provided by the staff regarding developments in the groundnut market underscored some of his concerns about the adequacy of the pace of adjustment under the program. Both the total amount and the phasing of disbursement seemed appropriate, and he could agree with the staff that the proposed program, if successfully followed, should result in a consolidation of the progress that had been achieved under the previous stand-by arrangement.

As noted in the staff appraisal, Mr. Dallara continued, all performance criteria had been met, and progress toward agreed adjustment goals had been meaningful, as evidenced by the 4 per cent reduction in the ratio of the government deficit to GDP and the 5.5 per cent reduction in the current account deficit to GDP. He had also been impressed by the progress made in reducing domestic subsidies. In the proposed 1982/83 program, moreover, both the government deficit and the current external account deficit were to be further reduced to 2.5 per cent. If achieved, those objectives would represent continued adjustment; however, in light of the latest information provided by the staff, he wondered whether that adjustment would be sufficient. His concern was further highlighted by the indication of the staff that the current program "will have to be followed by strong adjustment programs for several years." While developments in groundnut prices were clearly beyond the control of the Senegalese authorities, they pointed to the need for an accelerated adjustment effort, and he would appreciate staff views regarding the adequacy of the pace of adjustment in current circumstances. Also, he wondered whether the staff might provide some indication of the general direction of any additional steps that might be required in light of the deteriorating conditions in the groundnut markets. Finally, in future staff reports, he would welcome a more detailed analysis of the medium-term prospects for the economy, and he could agree with Mr. Taylor that an Article IV consultation with Senegal should be held as soon as practicable.

The Executive Directors agreed to continue their discussion of Senegal's request for a stand-by arrangement in the afternoon.

4. EXECUTIVE DIRECTOR

The Acting Chairman bade farewell to Mr. Gabriel-Peña at the conclusion of his service as Alternate Executive Director to Mr. Kafka.

DECISIONS TAKEN SINCE PREVIOUS BOARD MEETING

The following decisions were adopted by the Executive Board without meeting in the period between EBM/82/151 (11/19/82) and EBM/82/152 (11/24/82).

5. VIET NAM - UNENFORCEABILITY OF EXCHANGE CONTRACTS - REQUEST BY THE UNITED STATES FOR CERTIFICATION

The Director of the Legal Department is authorized to reply to the inquiry of the General Counsel of the Board of Governors of the U.S. Federal Reserve System as proposed in the Attachment to SM/82/219.

Decision No. 7253-(82/152), adopted
November 23, 1982

6. FINLAND - TECHNICAL ASSISTANCE

In response to a request from Finland for technical assistance, the Executive Board approves the proposal set forth in EBD/82/288 (11/19/82).

Adopted November 23, 1982

7. APPROVAL OF MINUTES

The minutes of Meetings 82/85 through 82/87 are approved. (EBD/82/283, 11/15/82)

Adopted November 19, 1982

8. EXECUTIVE BOARD TRAVEL

Travel by Executive Directors as set forth in EBAP/82/398 (11/22/82), EBAP/82/400 (11/18/82), EBAP/82/401 (11/22/82), and EBAP/82/402 (11/23/82) is approved.

APPROVED: April 29, 1983

LEO VAN HOUTVEN
Secretary