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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 76/71

10:00 a.m., May 5, 1976

H. J. Witteveen, Chairman
W. B. Dale, Deputy Managing Director

Executive Directors	Alternate Executive Directors
	C. P. Caranicas
P. Åsbrink	J. H. Kjaer
S. Y. Cross	T. Leddy
	H. G. Schneider
	F. K. Hussein, Temporary
B. J. Drabble	D. Lynch
R. Gavaldá	S. Sevilla
S. Jagannathan	W. M. Tilakaratna
	W. Temple-Seminario
	M. Wakatsuki
B. Kharmawan	
	T. de Vries
	J. K. E. Cole, Temporary
	E. Sacerdoti, Temporary
	G. Laske
W. S. Ryrie	P. H. Kent
F. Suárez	
J. H. Wahl	
R. J. Whitelaw	R. S. Deane
	S. Nana-Sinkam

W. L. Hebbard, Secretary
D. H. Ross, Assistant

Also Present

P. J. Bull, Former Alternate Executive Director. African Department: M. Barnea, E. L. Bornemann, S. E. Cronquist, J. W. Kratz. European Department: L. A. Whittome, Director. Exchange and Trade Relations Department: H.-M. Flickenschild, T. Sweeney. Fiscal Affairs Department: J. Harnack. Legal Department: J. Gold, General Counsel and Director; G. P. Nicoletopoulos, Deputy General Counsel; R. C. Effros, P. R. Lachman. Research Department: J. J. Polak, Economic Counsellor and Director. Secretary's Department: J. A. Kay. Treasurer's Department: W. O. Habermeier, Treasurer; G. Wittich. Bureau of Language Services: J. S. Haszard, Director. Information Office: J. H. Reid, Director. Office in Europe: L. M. J. van Houtven, Director. Personal Assistant to the Managing Director: D. W. Green. Advisor to Executive Director: A. Malek. Technical Assistants to Executive Directors: V. Amiel, C. J. Batliwalla, M. Berger, D. Berthet, T. Bilget, J.-M. Bisson, I. M. Cobbold, A. Doizé, B. Goos, G. Heyden Q., R. Khonsary, H. Kuroda, E. Leung, A. G. Morris, A. K. Mullei, K. Nakayama, C. C. Ozumba, M. Pietinen, S. B. Satyal, S. P. Upasani, A. van Dorssen, L. F. Vílches, M. A. Wasfy, P. Zimmer, A. G. Zoccali.

1. EXECUTIVE DIRECTORS

The Managing Director welcomed Mr. Kent as Alternate Executive Director to Mr. Ryrie and bade farewell to Mr. Bull.

2. APPROVAL OF MINUTES

The draft minutes of Meetings 75/204, 75/205 and 75/206 were approved.

3. BURUNDI - EXCHANGE SYSTEM

The Executive Directors considered a paper on the exchange system of Burundi, together with the staff's analysis and recommendation (EBS/76/203, 5/3/76).

The staff representative from the African Department said that the depreciation was part of a stabilization program in support of a stand-by arrangement and, possibly at a later date, of an extended arrangement.

Mr. Cole commented that he agreed with those Executive Directors who, at EBM/76/69 (4/30/76), had asked for more statistical data and charts in papers presented to the Executive Board on exchange rate adjustments by member countries. However, if the inclusion of such material unduly delayed consideration of adjustments, it would merely be of historical interest to Executive Directors. The proposed action was part of a set of complementary domestic and external policy measures aimed at promoting economic development through the stimulation of export growth and diversification, as well as import substitution. The Executive Directors would shortly have an opportunity to examine the proposed exchange rate action in the context of Burundi's request for a stand-by arrangement.

Mr. Drabble observed that Burundi's principal export was coffee, and that its price was likely to be substantially higher in international markets in 1976 than in earlier years. In that connection, he was surprised that the forecast increase for coffee exports had not been larger than indicated in EBS/76/203; did the staff have figures for the projected volume and price increases for 1976? In any event, as the conditions for the export of coffee were so much more favorable than they had been for some time, he wondered whether devaluation was a necessary or appropriate policy for Burundi at the present time.

One argument cited by the staff, Mr. Drabble continued, was that there had been a sizable levy on exports that had caused producer receipts to be somewhat inadequate; a greater incentive was needed to increase production. He recognized that in an economy such as that of Burundi the sources of government revenue were limited. Nonetheless, it was disturbing that the need to maintain government revenue should be cited as justification for a currency devaluation. In view of the rise in coffee prices, even a modest reduction of the levy on exports might have been sufficient to improve production incentives without an exchange rate adjustment.

Mr. Kharmawan wondered whether an exchange rate adjustment was necessary when demand for Burundi's principal export commodity was increasing. Was it necessary to provide an extra incentive for the export of coffee or might the authorities not have been better advised to have waited for the recovery in the world economy to generate increased revenues? While the country had a balance of payments problem, it might be contradictory to depreciate on the one hand and to step up investment--which would necessarily result in increased imports--on the other. If the effect of the depreciation was to restrict imports, what would happen to the program to expand investment?

The staff paper, Mr. Kharmawan considered, made a judgment with respect to the medium term without producing evidence that the depreciation would contribute to the attainment of the medium-term goals of the authorities. He could go along with the proposed decision.

The staff representative from the African Department remarked that the forecast for 1976 assumed a considerable increase in the price of coffee, but a fall in the volume of exports. The exchange rate adjustment virtually restored the exchange rate vis-à-vis the U.S. dollar that had existed prior to February 22, 1973, when Burundi had not followed the U.S. devaluation. The measure had been taken at the present time because the authorities intended to increase investment substantially and later to enter into an extended Fund facility arrangement. The medium-term policies for such an arrangement had not yet been worked out fully and, therefore, the authorities had requested a stand-by arrangement.

The need for increasing investment was clear, the staff representative indicated, as the economy had grown slowly for several years. The Government felt that the administrative bottlenecks that had previously impeded growth had been eliminated. Presently it was urgent to increase the investment effort, which would be concentrated on the agriculture and export sectors. The exchange rate action--by permitting an increase in producer prices--would facilitate the achievement of a faster rate of growth of exports and of the economy.

Mr. Kharmawan said that the staff should have weighed the impact of the depreciation on the domestic price level.

The Executive Directors then turned to the proposed decision, which they approved.

The decision was:

1. The Burundi authorities have communicated to the Fund a rate of FBu 90.00 = US$1 to take effect as a central rate on May 3, 1976. They intend to continue to avail themselves of the wider margins under Executive Board Decision No. 3463-(71/126), adopted December 18, 1971, as amended by Executive Board Decision No. 4083-(73/104), adopted November 7, 1973.

2. The Fund notes the central rate communicated by the Burundi authorities and their intention to continue to avail themselves of wider margins.

Decision No. 5065-(76/71), adopted
May 5, 1976

4. TRUST FUND - TERMS AND CONDITIONS OF INVITATION TO BID IN THE FIRST GOLD AUCTION

The Executive Directors, meeting in restricted session, considered a paper on the terms and conditions of the invitation to bid in the first gold auction on behalf of the Trust Fund (EBS/76/195, 4/28/76).

The Executive Directors took the following decision:

The Executive Directors aprrove the terms and conditions of invitation to bid in the first gold auction on behalf of the Trust Fund as set out in EBS/76/195 (4/28/76) with certain changes. (See EBS/76/195, Supplement 1, 5/5/76; and Correction 1, 5/6/76).

Decision No. 5066-(76/71), adopted
May 5, 1976

5. TRUST FUND - DECISION AND INSTRUMENT

The Executive Directors, meeting in restricted session, were informed of a change in SM/76/35, Revision 3 (5/4/76).

6. GOLD AUCTIONS AND RESTITUTION - SUMMARY OF CONCLUSIONS

The Executive Directors, in restricted session, discussed a paper (EBS/76/198, 4/29/76) containing the summary of conclusions on gold auctions and restitution prepared in the light of agreements reached at EBM/76/63 (4/21/76) except for paragraph 3(b) on the procedures for deciding on the quantity and price of the gold awards, which reflected a proposal by the Managing Director. They also had before them a paper providing background material on the disposition of gold under Schedule B, paragraph 7(a) of the proposed second amendment (EBS/76/199, 4/29/76).

The Executive Directors agreed to continue their discussion in the afternoon.

DECISIONS TAKEN SINCE PREVIOUS BOARD MEETING

The following decisions were adopted by the Executive Directors without meeting in the period between EBM/76/70 (4/30/76) and EBM/76/71 (5/5/76).

7. PROPOSED SECOND AMENDMENT OF THE ARTICLES OF AGREEMENT - GOVERNORS' VOTE

The Executive Board approves the report of the Secretary (DAA/75/10, Supplement 2, 5/3/76) on the canvass of the votes of the Governors on Resolution No. 31-4, effective April 30, 1976 with respect to the Proposed Second Amendment of the Articles of Agreement, approved by the Executive Board (EBM/76/51, 3/24/76) for submission to the Board of Governors.

In favor of Resolution	313,154
Votes of members not cast	9,410
Votes against	1,550

Decision No. 5067-(76/71), adopted
May 3, 1976

8. EXECUTIVE BOARD TRAVEL

Travel by Executive Directors as set forth in EBAP/76/101 (4/29/76), EBAP/76/102 (4/30/76), EBAP/76/104 (5/3/76) and EBAP/76/105 (5/3/76) is approved.

APPROVED BY THE EXECUTIVE BOARD:
Meeting 76/128, August 25, 1976

WILLIAM B. DALE
Acting Chairman

JOSEPH W. LANG, JR.
Acting Secretary