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#8

INTERNATIONAL MONETARY FUND

FILES

Minutes of Executive Board Meeting 76/98

10:00 a.m., July 7, 1976

H. J. Witteveen, Chairman

Executive Directors	Alternate Executive Directors
	C. P. Caranicas
P. Åsbrink	J. H. Kjaer
S. Y. Cross	
	H. G. Schneider
	M. Finaish
L. Dini	E. O. de Toledo
B. J. Drabble	D. Lynch
	S. Sevilla
	W. Rasaputram
A. Kafka	W. Temple-Seminario
K. Kawaguchi	M. Wakatsuki
	A. Malek, Temporary
P. Lieftinck	
H. R. Monday	
E. Pieske	M. Berger, Temporary
W. S. Ryrie	P. Kent
F. Suárez	R. Guarnieri
	J. Foglizzo
	R. S. Deane
A. W. Yaméogo	

R. V. Anderson, Acting Secretary
K. S. Friedman, Assistant

Also Present

Administration Department: P. Thorson, Director. European Department: L. A. Whittome, Director; L. G. Manison. Exchange and Trade Relations Department: C. D. Finch, Deputy Director; E. Elmholt, T. Sweeney. Fiscal Affairs Department: S. Al-Khuri, U. Okonkwo. Legal Department: J. Gold, General Counsel and Director; G. P. Nicoletopoulos, Deputy General Counsel; R. C. Effros, A. Liuksila. Middle Eastern Department: J. W. Gunter, Acting Director; A. K. El Selehdar, Deputy Director; A. S. Ray, Deputy Director; F. A. Abdullah, G. T. Abed, R. C. Barth, D. Danker, S. Eken, A. S. Gerakis, H. E. Jakubiak, J. Prust, A. S. Shaalan, S. von Post. Treasurer's Department: R. J. Familton, Deputy Treasurer; R. G. Di Calogero. Western Hemisphere Department: E. W. Robichek, Deputy Director; O. E. Albertelli. O. Gronlie, T. F. Lehwing. Personal Assistant to the Managing Director: D. W. Green. Advisors to Executive Directors: C. Bouchard, J. K. E. Cole, F. K. Hussein. Technical Assistants to Executive Directors: V. Alipui, S. Arancibia, D. Berthet, J.-M. Bisson, I. M. Cobbold, J. M. Cock Londoño, R. De Beckker, K. L. Deshpande, G. Heyden Q., R. Khonsary, H. Kuroda, C. J. Lohmann, A. G. Morris, A. K. Mullei, K. Nakayama, C. C. Ozumba, S. K. Panya, M. Pietinen, E. Sacerdoti, S. B. Satyal, A. van Dorssen, L. F. Vílches, M. A. Wasfy, P. Zimmer, A. G. Zoccali.

1. EXECUTIVE DIRECTORS

The Chairman welcomed Mr. Dini and Mr. Rasaputram to the Executive Board.

2. APPROVAL OF MINUTES

The draft minutes of Meetings 76/28, 76/30, and 76/31 were approved.

3. SECOND GOLD AUCTION - HANDLING OF INFORMATION

The Executive Directors, meeting in restricted session, took the following decision:

> The Executive Directors accept the Chairman's proposals concerning the handling of information for the second gold auction.

Decision No. 5135-(76/98) TR, adopted
July 7, 1976

4. GRENADA - EXCHANGE SYSTEM

The Executive Directors considered a staff paper and a proposed decision on the exchange system of Grenada (EBS/76/303, 7/6/76).

Mr. Drabble said that the paper presented the relevant background information. In the circumstances, the proposed decision was entirely appropriate.

Mr. Cross asked whether the change in the system represented a depreciation or an appreciation of the currency.

The staff representative from the Western Hemisphere Department replied that the authorities were merely changing the peg from the pound to the U.S. dollar on the basis of the cross rate on June 30, 1976. The change was from a provisional rate to a central rate, and it did not involve an appreciation or a depreciation of the currency.

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

The decision was:

1. The Government of Grenada has communicated to the Fund a rate of EC$2.70 per US$1 to take effect as a central rate from July 7, 1976.

2. The Fund notes the central rate communicated by the Government of Grenada.

Decision No. 5136-(76/98), adopted July 7, 1976

5. UNITED KINGDOM - CERTAIN NON-METROPOLITAN AREAS - EXCHANGE SYSTEMS

The Executive Directors considered a staff paper and a proposed decision on the establishment of a central rate for the non-metropolitan territories of Antigua, Dominica, Montserrat, Saint Christopher-Nevis-Anguilla, Saint Lucia, and Saint Vincent (EBS/76/302, 7/6/76).

Mr. Kent noted that, like Grenada, the non-metropolitan territories used the East Caribbean dollar and were adopting a central rate by changing the peg from the pound to the U.S. dollar. The decision did not constitute any change in the value of the currency. The terms of trade of the territories had been adversely affected recently, as their imports were the equivalent of around 75 per cent of GDP and their exports tended to be at fixed prices. The change in the exchange system was probably overdue, since other former members of the British Caribbean Currency Area, which had preceded the E.C.C.A.--Trinidad and Tobago, Guyana, and Barbados--had already pegged to the U.S. dollar; some time had been needed for all the governments of the non-metropolitan territories to agree to change the peg. The draft decision was therefore fully acceptable.

In response to an inquiry by Mr. Foglizzo, Mr. Kent said that EC dollars would be exchanged for U.S. dollars at a fixed rate, which included an administrative charge.

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

The decision was:

1. The Government of the United Kingdom has communicated to the Fund a rate of EC$2.70 per US$1 to take effect as a central rate from July 7, 1976 for the currency of its non-metropolitan territories of Antigua, Dominica, Montserrat, Saint Christopher-Nevis-Anguilla, Saint Lucia, and Saint Vincent in respect of which it has accepted the Articles of Agreement in accordance with Article XX, Section 2(g).

2. The Fund notes the central rate communicated for the East Caribbean Currency Authority dollar by the Government of the United Kingdom.

Decision No. 5137-(76/98), adopted July 7, 1976

6. AFGHANISTAN - 1976 ARTICLE XIV CONSULTATION

The Executive Directors considered the staff report and proposed decision for the 1976 Article XIV consultation with Afghanistan (SM/76/102, 5/21/76). They also had before them a report on recent economic developments in Afghanistan (SM/76/124, 6/11/76).

Mr. Caranicas made the following statement:

I wish to thank the staff for its papers on Afghanistan, especially the report for the 1976 Article XIV consultation, which gives a clear and concise picture of economic developments in 1975/76 and the prospects for 1976/77. In today's fierce struggle of the nations of the Third World to overcome abject poverty and raise their living standards, particularly by the least developed among the developing countries, of which Afghanistan is one, it is gratifying to see that, even better than last year, the country is performing well. This is all the more remarkable as Afghanistan is a landlocked nation, possesses few natural resources and suffers from a harsh climate. Its geopolitical situation and strategic importance are furthermore a constant cause of uncertainties because of the oppressive presence of a superpower on the north and prevailing insecurity along its eastern boundaries.

During the past year economic developments continued to be favorable. With agriculture providing jobs for about 75 per cent of the labor force and accounting for approximately half of the gross national product, generally good weather conditions helped the population reap another abundant crop. Other factors leading to a better situation were the continued expansion of extension services, better distribution of fertilizers and increased output of cash crops--sugar and cotton--as well as harvests of food grains in quantities to maintain self-sufficiency.

The availability of domestically produced raw materials helped industrial production. Strong foreign demand for a range of products also benefited the industrial sector; most notably, a new fertilizer plant began full scale operation.

All these factors combined led to an estimated growth rate of real gross domestic product of about 3 to 5 per cent, approximately equal to that of 1974/75. This satisfactory output performance has been accompanied by the maintenance of sound domestic finances. A substantial increase in the foreign assets of the banking system and a decline in net domestic assets over the first eleven months of the period 1975/76 had the effect of a slight increase in liquidity--compared with that in the previous year--of about 14 per cent.

Developments in the Government's financial position were the major cause of a decline in net domestic assets. An estimated increase in total expenditures of about 30 per cent and in total receipts of almost 18 per cent caused the overall budget deficit to reach Af 1,919 million, as compared with Af 642 million in the previous year.

However, net external financing exceeded the overall deficit with the result that the authorities were able to reduce substantially net borrowing from the banking system for the second consecutive year.

The rate of inflation in Afghanistan has remained substantially below the world average and even fell during the first three quarters of 1975/76 to quite a moderate rate. This could be explained by a good supply situation, and by the containment of expansion of domestic liquidity to a level that the economy could absorb without generating excessive pressure on resources. In addition, the Government's policy has been explicitly aimed at limiting the impact of rising trends on the cost of living and on the prices of basic commodities. To this end certain custom duties were temporarily reduced, particularly on some essential commodities, while the adverse impact of high prices of sugar and petroleum was cushioned through subsidies; at the same time retail prices of these imports were raised. Moreover, the appreciation of the national currency also helped contain domestic inflation.

When the Executive Directors discussed the 1975 Article XIV consultation report on July 16, 1975, the initial expectation for 1975/76 was for a small deficit because of a deteriorating external position. The terms of trade had been worsening at that time as lower international prices were prevailing for the country's major export items. But, as a result of a combination of various factors--lower imports, firming export markets and a substantial increase in unrecorded exports--the balance of payments recorded an unprecedented surplus of over SDR 50 million, a result also of a reduced level of external debt servicing coupled with higher foreign aid, both loans and grants.

The afghani's upward trend--a move reinforced by an accumulation of foreign exchange reserves--continued as a further consequence of the strong external position. This led to an attempt by the Central Bank to insulate exporters from the adverse effects such an appreciation might have had by standing ready to buy export proceeds at lower rates than those offered in the market.

Prospects for 1976/77 are good. Further growth in real terms can be expected. Although the overall deficit may widen sharply, mainly because of a substantial increase of development expenditures, foreign aid financing on a large scale and domestic bank borrowing--of approximately Af 1.2 billion, a sum not exceeding markedly the budgeted amount for the previous year--will probably reduce the balance of payments surplus.

The combined effect of the likely external and budgetary positions is expected to yield a rate of liquidity expansion within the economy's absorptive capacity. One may therefore be confident that financial stability will be maintained in the foreseeable future.

As for the longer-term perspective, because of the availability of substantial aid from abroad--mainly under the foreign aid agreements with the Soviet Union and Iran--increasing attention is being paid by the authorities to measures designed to accelerate economic growth. Although all details have not yet been drawn up, a new Seven-Year Plan is coming into being. Financing and investment allocations of the Plan's program are still under review, but the bulk of Af 170 billion devoted for development expenditures is to be financed principally by foreign aid. Project preparation is being improved, and efforts are being made to avoid the pitfalls of the recent past that led to poor implementation of the development programs.

Regarding the exchange system, the authorities made a considerable simplification during the past year. All transactions now take place at free market exchange rates, except specified government transactions and those with the People's Republic of China; there remains only one bilateral payments agreement with a Fund member.

Mr. Finaish commended the authorities for the economic stability that had been achieved during the previous year. Agriculture, the largest sector, had performed satisfactorily, and there had been some growth in, and diversification of, the industrial sector. Inflation was not a major problem, and its containment was assisted not only by the good supply situation, but also by the authorities' prudent financial policies. Despite the substantial growth in government expenditure, the indebtedness of the Government to the banking system had been reduced for the second consecutive year. In fact, the monetary expansion that had occurred was attributable solely to the growth in foreign assets. That in turn reflected the unexpected strength of the balance of payments; a record balance of payments surplus had been recorded, despite some further moderate appreciation of the afghani. The measures simplifying the exchange system were welcome, and the policies mitigating the effect on exports of the appreciation of the currency were appropriate, given the economy's circumstances.

The short-term prospects, both internal and external, Mr. Finaish said, were generally favorable for the launching of the new Seven-Year Development Plan. Especially important was the availability of substantial amounts of aid, primarily from neighboring countries, for a large variety of purposes. The staff had rightly emphasized the importance of administrative and planning reforms. He was encouraged by the determination of the authorities both to improve the quality of investment projects and to increase the rate at which they were implemented. Success in those areas should assist them in achieving their major target, namely, an increase in the rate of economic growth.

Mr. Cross noted that the substantial amount of foreign assistance had enabled the authorities to raise the level of public investment well above that which could have been supported by national financial resources alone. According to the staff, nearly 90 per cent of the fiscal deficit was to be financed from abroad. The availability of foreign assistance was certainly welcome, and the Government's determination to accelerate the rate of economic growth was commendable, but he was worried that the short-term expansion of public sector activity might be excessive.

It seemed likely, Mr. Cross continued, that the uncertainty about the role of the private sector in the economy had discouraged both domestic and foreign private investment. At the same time, the Government's emphasis on making increases in public expenditures was worrisome because the existing planning effort and project preparation were inadequate. He fully agreed with the staff recommendations concerning administrative and planning reforms, but it might have been overgenerous in concluding that an increase of 18 per cent in the supply of money was acceptable in the light of both the strong balance of payments position and the ample supply of reserves. A more growth-oriented strategy was perhaps justified, but the five-fold increase in the overall government deficit projected by the staff seemed overlarge, especially as it was based on foreign aid flows, which could of course be interrupted at any time. The Government should be cautious in its attitude toward permitting increases in public spending on the basis of aid inflows.

He wondered, Mr. Cross said, whether the application of a special depreciated rate for exports was the most appropriate way of attempting to limit the adverse consequences of the effective appreciation of the exchange rate. The aid inflows should be seen as temporary, and the appreciation of the currency did not therefore seem justified by the underlying economic conditions. Might a more flexible exchange rate regime not have been a more appropriate response to developments in 1975? Finally, the trend toward a more liberal and simplified exchange system was welcome, but he doubted whether the staff approval of even a temporary use of multirate practices was appropriate.

Mr. Lieftinck commented that the Government's financial position had greatly improved, and that it had been able to speed up the development program largely because of a considerable amount of foreign assistance. Although the pace of growth was still fairly slow, a continuously high level of foreign assistance together with improvements in development project preparation and execution should enable the Government to step it up. However, the staff had noted that a rate of monetary expansion of 18 per cent was expected in 1976/77; while it felt that that was not a cause for concern because the balance of payments position was strong, it nevertheless cautioned that if the pressure on domestic resources intensified, "particularly if currency balances presently held by the private sector were activated, it would be advisable for the authorities to keep monetary and price developments under close review over the course of the year." They should also monitor closely developments in the fiscal area since, in the absence of the large aid inflows, they would have to face a sizable deficit in 1976/77. It seemed wise either to scale down somewhat the investment program, or to increase domestic revenues. Although certain taxes had been increased, some others had been reduced. While offering encouragement to the authorities in their efforts to speed up the development program, the Fund should also caution them about the need to maintain a reasonable balance between public revenue and expenditure.

Thus far, Mr. Lieftinck continued, nearly all the Government's development expenditures had been covered by foreign revenues. In the coming year, however, the proportion would fall to 90 per cent, thus requiring the Government to finance 10 per cent through bank financing, which would of course result in a corresponding expansion of liquidity. The portion covered by foreign resources could fall still further in the future.

Mr. Berger agreed with the staff that the developments in the external and financial sectors had been essentially satisfactory, despite some adverse factors, such as the increase in oil prices and the deficiencies in public administration. The balance of payments performance in recent years had been good largely because of the substantial amounts of foreign assistance, and, in general, the Government was in a good position to develop the economy and to accelerate real growth.

There was, however, a clear need for a more active development policy, Mr. Berger stated. Afghanistan was a relatively poor country, and, despite the sizable aid inflows, the level of production since 1960 had grown only slightly faster than the rate of population growth, and most of the people had experienced no improvement in their standard of living. Although capital outlays accounted for around 40 per cent of total public expenditures, the authorities had failed to provide sufficient incentives for increases in production and in private investment. Previous development policies had been only modestly successful because of the uncertainty about the general economic stance of the Government, the absence of a clear government position on the role of the private sector, and the weak public administration. It was particularly unfortunate that private initiative was being inhibited by government regulation.

The authorities' intention of undertaking institutional reforms to solve the problems that he had mentioned was greatly welcome, Mr. Berger said. Even a large public development program could not be successful in the absence of efficient administration and a favorable climate for private domestic and foreign investment. Indeed, further large development expenditures would represent a misallocation of the country's quite limited resources if the underlying economic conditions were not improved first. In the external area, some progress had been made both toward simplifying the exchange system and toward reducing the number of bilateral trade agreements. But further efforts in those directions were required; for instance, the official rate, which was unrealistic in comparison with market rates, should be eliminated. The introduction for protective reasons of quantitative limits on imports was regrettable, since, as the staff had noted, they would hamper industrial efficiency.

Mr. Sevilla thought that the staff analysis of public investment in Afghanistan was particularly useful. After carefully studying the situation, the staff had recommended administrative and planning reforms to improve investment decision making in both the public and private sectors. The authorities had given highest priority to long-term investment that would not yield returns for some time yet. Because the population was large and the amount of trade was relatively small, greater emphasis should be given to short-term projects with quick yields. The staff had wisely given a great deal of thought to Afghanistan's development situation--especially with respect to public investment--as well as to the financial position, and he hoped that it would continue to do so in the future.

The Deputy Director of the Middle Eastern Department, responding to Mr. Cross' question about the advisability of using a special exchange rate as an incentive for exports, explained that the Government was in effect providing a subsidy; the central bank purchased the proceeds of exports at a depreciated rate and then sold them to the Government at the same rate. As the pace of development activity picked up, it seemed likely that the extent of the subsidy--which reflected the difference between the free market rate and the rate at which the central bank purchased exchange from exporters--would be reduced.

The staff had not expressed greater concern about the expansion of domestic liquidity, the Deputy Director commented, because it was highly unlikely that the investment targets of the development plan would be fully met. The present plan, which had been introduced in March 1976, called for expenditures of Af 170 billion over 7 years, while the previous plan--the Third Five-Year Development Plan--had involved expenditures of Af 20 billion. The staff had hesitated to caution the authorities about the dangers of large development expenditures in the coming period because, under previous development plans, actual expenditures had fallen far short of the targets; in fact, actual expenditures under the third Plan had been some 20 per cent less than the amount in the second plan.

Mr. Caranicas thanked Executive Directors for their useful comments. He hoped that other developing countries could, like Afghanistan, obtain adequate amounts of foreign assistance to help them in their development plans and in increasing their living standards. Although Afghanistan apparently had not made a great deal of progress, it was important to bear in mind that the country had started from a very low stage of development. Afghanistan, which was landlocked and which was categorized as a "most seriously affected" country, had a number of structural problems, including a dearth of trained people and a public administration unprepared to take full advantage of the available foreign assistance. The authorities were to be commended for their continuing efforts to improve the situation, but more time was needed for significant progress to be made. They were grateful for the foreign assistance given to them especially by Iran and China; it would help them to step up the pace of economic development, and in so doing they could bring the expanded domestic liquidity resulting from the aid inflows more easily under control so that it could be absorbed by the economy.

The authorities had recently introduced a measure on foreign and domestic investment which would probably help improve gradually the investment climate, Mr. Caranicas said. They also planned to take certain steps in the area of public investment. In addition, they were conscious of their shortcomings in public administration, including planning and overall economic policy formulation. They thought that the new Seven-Year Plan could serve as the basis for making progress in that area as well.

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

The decision was:

1. This decision is taken by the Executive Directors in concluding the 1976 consultation with Afghanistan pursuant to Article XIV, Section 4, of the Articles of Agreement.

2. In 1975/76, economic conditions in Afghanistan were generally satisfactory. The balance of payments was in strong surplus, and government net deposits with the banking system rose due to the receipt of substantial foreign assistance. There was some increase in the rate of growth of domestic liquidity and upward pressure on domestic prices. The Fund welcomes the commitment of the authorities to accelerate the pace of economic development and believes that administrative and planning reforms directed at improving investment decisions in both the public and private sectors should be given special consideration.

3. Substantial progress has been made by Afghanistan in improving the exchange system and reducing bilateralism. The Fund notes the intention of the authorities to further rationalize the exchange system through elimination of the official exchange rate and hopes that it will be found possible to terminate the bilateral payments agreement with a Fund member. The Fund approves the maintenance of Afghanistan's remaining multiple currency practices and restrictions, as described in SM/76/124 (6/11/76), until July 31, 1977.

Decision No. 5138-(76/98), adopted
July 7, 1976

7. SYRIAN ARAB REPUBLIC - 1976 ARTICLE XIV CONSULTATION

The Executive Directors considered the staff report and proposed decision for the 1976 Article XIV consultation with the Syrian Arab Republic (SM/76/98, 5/17/76; and Sup. 1, 6/24/76). They also had before them a report on recent economic developments in the Syrian Arab Republic (SM/76/133, 6/23/76).

Mr. Finaish made the following statement:

On behalf of the authorities of the Syrian Arab Republic and myself, I wish to thank the staff for their reports on the 1976 Article XIV consultation which so clearly identify and analyze the problems as well as the opportunities before the Syrian authorities.

Throughout the 1970s, the Syrian Arab Republic experienced high rates of economic growth, which were particularly impressive in 1974 and 1975. With the help of financial assistance from the Arab oil exporting countries, the Syrian Arab Republic has expanded considerably its expenditures for social and economic development and thereby set the pace both for the rapid recovery following the setbacks caused by the 1973 war, and for the sustained high rates of growth since then. Development expenditures doubled in each of the years 1974 and 1975, while the growth of current expenditures was primarily associated with the exigencies of defense and a limited price support program affecting basic consumption commodities. The stepped-up economic activity and the consequent sharp increase in liquidity inevitably led to pressures on domestic resources. These were moderated to some degree by the sharp growth of imports made possible by the liberalization of the trade and exchange system in force since 1973. Nevertheless, inflationary pressures persisted under the impact of increasing supply bottlenecks, especially in the areas of skilled manpower, raw materials, and distribution systems.

The Syrian authorities take a long-run, development-oriented view of the problems and prospects of their economy. They are fully aware of the dilemma of development reflected in the inevitable trade-off between the goal of rapid economic growth on the one hand and the goal of price and monetary stability on the other. The Syrian authorities have attempted to pursue the former objective while striving to provide the basis for achieving the latter. They have taken advantage of the propitious availability of external financial assistance and have directed the bulk of it toward the development effort with the aim of augmenting the productive capacity of the economy and of raising the standard of living of the Syrian people. Nevertheless, in recognition of the attendant inflationary pressures, they have begun to take measures in the demand management field to dampen inflation in the short run while expending every effort to expand the domestic production base and augment resource supplies in the long run.

On the demand side, the authorities have taken measures to raise budget revenue from taxes on income and property. They have continued to effect financial and administrative reforms in the public economic sector with the aim of raising this sector's net financial contribution to budget revenue and to foreign exchange receipts. Furthermore, they have initiated a reassessment of the financial implications of the current Five-Year Plan (1976-80) with the objective of reducing expenditure targets to within the limits of available resource supplies. More comprehensive measures to strengthen the structure of the budget and of the balance of payments continue to be under urgent consideration by the authorities. On the supply side, the authorities firmly believe that the heavy investments in agriculture, industry, and infrastructure would soon begin to provide the necessary resources for further sustained growth together with a reduction in dependence on external financial aid. The reform of the exchange and trade system under way over the past three years, including the unification of the exchange rates and the liberalization of trade, and especially the recent moves toward closer coordination of economic policies with neighboring Jordan, will continue to have a positive impact on the Syrian economy.

It is to be noted, however, that, as in the case of so many countries in the troubled area of the Middle East, the success of these policies in the Syrian Arab Republic is closely linked to the achievement of a greater degree of political stability, based on justice, in the region as a whole.

In conclusion, I am in general agreement with the staff appraisal and support the proposed decision, as amended.

Mr. Lynch thought that the average rate of growth--9 per cent--since 1970 was extremely good; in fact, even in 1974 and 1975 high rates had been recorded while most other countries had suffered from the depression. Of course, Syria had benefited from large aid inflows totaling the equivalent of 70 per cent of export receipts, but it had also paid a price in the form of an increase in inflationary pressures and a rather unhealthy budget position; public sector expenditures had risen rapidly, while the supply of money had increased 46 per cent in 1974 and another 38 per cent in 1975. The wish of the authorities to accelerate the pace of development was fully understandable, and he did not mean to imply that the level of aid should be cut back, but it was desirable that there should be a certain balance between the aid inflows and the internal contributions to the development effort. The authorities were, however, clearly aware of the potential dangers of overreliance on foreign assistance, and they were taking commendable steps to improve the situation. The staff recommendations that the authorities should adopt a more comprehensive approach to demand management, introduce more substantial measures to improve public finances, and adopt a more active monetary policy merited close consideration. He accepted the proposed decision.

Mr. Cross commented that the impressively rapid growth in Syria had been induced by foreign aid, and he agreed with the staff that certain serious potential dangers existed. The fiscal and foreign exchange positions were somewhat unstable because the oil pipeline agreement with Iraq had broken down. Excessive reliance on external aid seemed particularly questionable in view of the overall economic and political environment; any substantial slackening of the aid inflow would apparently leave Syria somewhat overexposed, as planned budget expenditures exceeded domestic resources, and the short-term external debt had increased sharply in relation to traditional exports, which had been stagnating.

While the reassessment of the 1976 budget and of the development program was encouraging, Mr. Cross considered, major fiscal measures and a more effective monetary policy would create a sounder basis for stable expansion. In addition, a reduction in the reliance on controls should be achieved over the longer run, since they caused distortions and the misallocation of resources. Acceptance of the price and investment implications of the rising pressure on domestic resources seemed to be a prerequisite for the creation of policies aimed at vigorous and sustained growth. Finally, because of the uncertainties about the external sector, it would be useful to receive more information concerning the composition of aid inflows, and the medium-term prospects for the domestic petroleum industry.

Mr. Caranicas commended the authorities on their policy stance and noted that a considerable amount of foreign aid mainly from OPEC countries, had helped Syria to increase its development expenditures and achieve a balance of payments surplus. Relying on foreign assistance to support the development program did not seem to pose a serious danger for the authorities, since they could probably count on continued assistance from those countries. The recent doubling of development expenditures had not prevented the Government from increasing current expenditures considerably; they were clearly necessary for defense purposes. The authorities were to be congratulated for having liberalized the trade and exchange systems, and for having made a good effort to achieve significant growth together with general stability.

The staff representative from the Middle Eastern Department explained that, during 1974 and 1975, known official aid to Syria had amounted to around $700 million, excluding the value of the assistance from Iraq. The aid from that country was based on a 1973 agreement under which Iraq supplied Syria with up to 2 million tons of crude petroleum a year at a concessionary rate ($3.05 per barrel for 1975). That amount had met about two thirds of Syria's domestic requirements, thus permitting it to export all of its own output of crude petroleum. In addition, Iraq had paid Syria somewhat in excess of $100 million in pipeline transit dues. No agreement had yet been reached with Iraq for 1976. The staff had no data on the composition of the aid.

The medium-term prospects for production and exports of oil were not, clear, the staff representative said. The information available to the staff suggested that during the period 1976-1980 oil production and exports could be expected to decline by some 10 per cent to 15 per cent. However, there were preliminary indications that additional oil reserves had been found; the staff, however, had no information either on the extent of the new discoveries or on how they might affect the prospects for exports.

Mr. Finaish thanked Executive Directors for their useful comments. The authorities were aware of the potential dangers of overreliance on external financial assistance, and they did not see it as a substitute for domestic resources. As the staff had noted, certain steps had been taken to reduce the danger of inflation and to lessen the reliance on aid inflows; for instance, income and property tax measures had been introduced, financial and administrative reforms had been made in the public sector--including a unified accounting system--and managers had been given more freedom to set produce prices so as to ensure a minimum rate of return on public investment. The authorities were, moreover, reassessing both the development plan and the 1976 budget to keep expenditures under control. Since most of the aid was being channeled to the development effort, the supply capacity could be expected to increase in the near and immediate future; that development, and other measures that had been introduced to encourage traditional exports, would help the balance of payments.

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

The decision was:

1. This decision is taken by the Executive Directors in concluding the 1976 consultation discussions with the Syrian Arab Republic pursuant to Article XIV, Section 4, of the Articles of Agreement.

2. The Syrian economy continued to experience a high rate of real growth in 1975 as sizable foreign aid receipts helped finance sharply high levels of government expenditures. Rapid monetary expansion originating from fiscal operations and from the acceleration in bank credit to the public economic sector gave rise to pressures on resources. The Syrian authorities have recently become aware of the dangers of the inflationary impact of current policies and have taken some measures to raise budget revenues and to scale down expenditure targets. The Fund hopes that the Syrian authorities will proceed further to more comprehensive policies aimed at strengthening budgetary operations and achieving an appropriate price structure in the public economic sector.

3. The balance of payments continued to be in overall surplus as a result of official transfers. However, the trade deficit widened under the pressures of rising domestic demand despite rapid growth in export receipts from crude petroleum and phosphates. The Fund believes that the authorities should aim to expand the country's traditional exports as a means of strengthening the payments structure and notes the change in the rate of the Syrian pound

effective April 24, 1976. The Fund welcomes the continued progress of liberalization in the exchange and trade system, including the elimination of a number of bilateral payments agreements and hopes that the one remaining payments agreement with a Fund member will be terminated as soon as possible.

Decision No. 5139-(76/98), adopted
July 7, 1976

DECISIONS TAKEN SINCE PREVIOUS BOARD MEETING

The following decisions were adopted by the Executive Directors without meeting in the period between EBM/76/97 (7/2/76) and EBM/76/98 (7/7/76).

8. PAKISTAN - COMPENSATORY FINANCING - PURCHASE TRANSACTION AND RECLASSIFICATION

1. The Fund has received a request by the Government of Pakistan for the purchase of the equivalent of SDR 72.5 million under paragraphs 2, 3, and 4 of the Decision on Compensatory Financing of Export Fluctuations (No. 4912-(75/207), adopted December 24, 1975). The Government of Pakistan has further requested, under paragraph 10 of the aforementioned decision, that the equivalent of SDR 18.0 million out of the purchase equivalent to SDR 24.0 million made on October 16, 1975 in accordance with Decision No. 4497-(74/143), adopted November 11, 1974, as amended, be reclassified and treated for all purposes of the Decision on Compensatory Financing of Export Fluctuations as a purchase under paragraphs 2, 3, and 4 of the Compensatory Financing Decision.

2. The Fund agrees to these requests and grants the necessary waiver of the conditions of Article V, Section 3(a)(iii) of the Articles of Agreement on the repurchase terms set forth in the cable to the Fund dated June 24, 1976 (EBS/76/262, Sup. 1, 7/2/76).

Decision No. 5140-(76/98), adopted
July 6, 1976

9. VENEZUELA - ACCEPTANCE OF OBLIGATIONS OF ARTICLE VIII, SECTIONS 2, 3, AND 4

The Fund notes that Venezuela has accepted the obligations of Article VIII, Sections 2, 3, and 4 of the Articles of Agreement, with effect from July 1, 1976 (SM/76/151, 7/2/76).

Decision No. 5141-(76/98), adopted
July 6, 1976

10. HAITI - TECHNICAL ASSISTANCE

In response to a request from the authorities of the Republic of Haiti, the Executive Board approves the proposal set forth in EBD/76/136 (7/1/76).

Adopted July 6, 1976

11. MEETING OF LEGAL ADVISORS OF THE UNITED NATIONS SYSTEM - FUND REPRESENTATION

The Executive Board approves Fund representation at a meeting of Legal Advisors of the United Nations System to be held in Geneva as set forth in EBD/76/135 (6/30/76).

Adopted July 2, 1976

12. CONDUCT OF BOARD WORK - MOVEMENT OF QUORUM TO MANILA

1. In connection with attendance at the 1976 Annual Meeting and the preceding meetings of the Interim Committee and Development Committee, a quorum of Executive Directors shall be available at headquarters in Washington through close of business on Monday, September 27, 1976, and again on Tuesday, October 12, 1976. In the interim a quorum shall be available in Manila, the Philippines, beginning on Saturday, October 2, 1976, and shall remain available there through Friday, October 8, 1976.

2. During the period beginning September 28 and ending upon the return to Washington of the Managing Director or the Deputy Managing Director, a senior officer in the Fund's headquarters will be authorized by the Managing Director to act as head of the staff on matters not requiring the attention of the Executive Board.

3. Not later than August 20, 1976, the following notice shall be dispatched by the Secretary to all Fund members and their fiscal agencies:

> In connection with attendance at the 1976 Annual Meeting of the Board of Governors and preceding meetings of the Interim Committee and Development Committee in Manila, the Philippines, it is expected that the Executive Directors and their Alternates, the Managing Director, the Deputy Managing Director, and the Secretary of the Fund will be absent from Washington approximately from the close of business on September 27 to October 12. Accordingly, I am directed to inform all members

that while there may be some slight delay in handling business requiring reference to the Executive Directors during this period, every effort will be made to do so in the time prescribed by the Fund's Rules and Regulations (EBAP/76/160, 6/30/76).

Adopted July 6, 1976

13. EXECUTIVE DIRECTOR - EX GRATIA PAYMENT TO FORMER TECHNICAL ASSISTANT

The Executive Board approves the proposal set forth in EBAP/76/163 (7/2/76).

Adopted July 6, 1976

14. EXECUTIVE BOARD TRAVEL

Travel by Executive Directors set forth in EBAP/76/161 (7/1/76) and EBAP/76/162 (7/2/76) is approved.

APPROVED BY THE EXECUTIVE BOARD:
Meeting 76/158, 11/29/76

H. JOHANNES WITTEVEEN
Chairman

W. LAWRENCE HEBBARD
Secretary