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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 83/1

10:00 a.m., January 3, 1983

W. B. Dale, Acting Chairman

Executive Directors	Alternate Executive Directors
	P.-C. Maganga-Moussavou Temporary
	E. M. Ainley, Temporary
	G. Erçel, Temporary
	P. D. Péroz, Temporary
A. Donoso	
R. D. Erb	C. Dallara
	M. A. Janjua, Temporary
A. H. Habib	Jaafar A.
	T. Yamashita
R. K. Joyce	M. Casey
	H. Arias, Temporary
G. Laske	G. Grosche
	C. P. Caranicas
R. N. Malhotra	
	J. E. Suraisry
	T. de Vries
	K. G. Morrell
	O. Kabbaj
F. Sangare	
	E. Portas, Temporary
	L. Vidvei
Zhang Z.	Wang E.

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

Also Present

H. Barber, Financial Secretary of Jamaica. African Department: J. B. Zulu, Director; O. B. Makalou, Deputy Director; N. Abu-zobaa, F. d'A. Collings, T. T. Gibson, D. J. Goldsbrough, M. Reichardt. Asian Department: S. Ishii. Exchange and Trade Relations Department: W. A. Beveridge, Deputy Director; E. R. J. Kalter, S. Kanesa-Thasan, M. Nowak. Legal Department: J. M. Ogoola, J. K. Oh. Research Department: W. C. Hood, Economic Counsellor and Director; G. I. Brown, K.-Y. Chu, N. M. Kaibni, G. Khatchadourian. Western Hemisphere Department: E. Wiesner, Director; S. T. Beza, Deputy Director; C. E. Sansón, Deputy Director; H. Bierman, D. A. Citrin, O. Gronlie, M. E. Hardy, E. S. Williams, G. Yadav, E. V. Zayas. Advisor to the Managing Director: E. W. Robichek. Advisors to Executive Directors: E. A. Ajayi, J. Delgadillo, P. Kohnert, H.-S. Lee, I. R. Panday. Assistants to Executive Directors: R. Bernardo, M. Camara, I. Fridriksson, J. M. Jones, W. Moerke, V. K. S. Nair, Y. Okubo, C. A. Salinas, D. I. S. Shaw, H. Suzuki, J. C. Williams.

1. ARGENTINA AND MEXICO - REPORT BY ACTING CHAIRMAN

The Acting Chairman made the following statement:

Before turning to the agenda, I wish to report briefly on where we stand with respect to Argentina and Mexico.

You may recall that, during his meeting with bank representatives on November 16 in New York, the Managing Director sought an agreement with the Working Committee of Banks on Argentina on a short-term bridging loan for Argentina of $1.1 billion, and a term loan of $1.5 billion. The bridging loan would be calculated for each bank at 5 per cent of that bank's exposure in Argentina on the relevant date late in 1982, and the term loan at 6.8 per cent of each bank's exposure. It was on the basis of these conditions along with several policy actions to be taken by the Argentine authorities as of the beginning of the year, particularly in the areas of interest rate policy and wages policy, that the Managing Director was to make his final recommendation to the Executive Board with respect to the approval of the Argentine stand-by arrangement.

The Managing Director had indicated that he would have to be informed in writing before the end of 1982 about the availability of these amounts. The arrangements were for the relevant banks to make their written commitments to the group of banks in New York by Monday, December 27 and for an initial disbursement of $600 million under the bridging loan to be made before the end of 1982. That timing did not prove feasible because of the heavy pressures created by this operation and the Mexican operation together.

However, I am pleased to report that late in the afternoon of December 31 the representatives of substantially all the banks and the Argentine authorities signed an agreement for the full amount both of the bridging loan of $1.1 billion and of the term loan of $1.5 billion. All the national groups of banks have met in full their commitments in connection with both these loans. Indeed, at the last moment one slight problem was that the banks had committed slightly more than requested, and procedures had to be agreed for the amounts to be cut back.

We will be exchanging telex messages with the representatives of the banks this morning. The Managing Director must still decide whether he is fully satisfied with the initial measures that I have mentioned, particularly those concerning interest rate and wages policy, before he makes his final recommendation and issues the staff paper on Argentina.

I would like to express my gratitude to Mr. Coene, Mr. de Maulde, Mr. Finaish, Mr. Hirao, Mr. Nimatallah, Mr. Lovato, and Mr. Polak for the assistance that they gave last week in ironing out some technical and other difficulties with the loans for Argentina. Of course, Mr. Teijeiro was active on this undertaking throughout the week.

2. JAMAICA - 1982 ARTICLE IV CONSULTATION, AND REVIEW OF EXTENDED ARRANGEMENT

The Executive Directors considered the staff report for the 1982 Article IV consultation with Jamaica and the review under the extended arrangement (EBS/82/223, 12/6/82). They also had before them a report on recent economic developments in Jamaica (SM/82/232, 12/17/82).

The staff representative from the Western Hemisphere Department made the following statement:

As noted in the staff report, further technical discussions have been held in the past few weeks on the proposed reforms to the exchange system, and new agreements have been reached along the lines already described in the report. The changes in the exchange and trade system are to be announced at the end of this week. Under the new system, exporters of nontraditional agricultural and manufactured products to countries outside the CARICOM area will be permitted to retain 50 per cent of their export proceeds, or to sell them to importers through the commercial banks, in the form of negotiable certificates denominated in foreign exchange. In addition to intermediating these certificates, the commercial banks will also buy foreign exchange at the parallel market rate on a no-questions-asked basis. These provisions will institutionalize the parallel market. However, the existing surrender requirement will be enforced to prevent foreign exchange earnings from the bauxite, sugar, banana, and tourism sectors (including hotels, in-bond shops, car rental agencies, and tour operators), and from certain other sectors, from being sold in the parallel market.

The discretionary aspects of the import licensing system are to be eased, particularly for exporters, who will get licenses for raw materials, spare parts, and capital goods automatically. In practice this will cover any firm that exports, or has a credible plan for exporting. Nonexporters will now be subject to annual global import quotas rather than individual licenses for nonconsumer goods. Within these quotas, licenses will be granted automatically. For consumer goods, quotas will be by broad categories such as "food." Importation by traders--also of raw materials, spare parts, and capital goods--will be subject to quotas of broad categories based on each trader's market share in the preceding 12 months, and licenses will be automatic within each trader's quota. All CARICOM imports will be financed through the parallel market and will receive automatic import licenses. Most private sector imports will be financed through certificates, the World Bank-financed Export Development Fund, or the parallel market, through which will also be channeled resources from various official lines of credit.

In the view of the staff, these changes in the exchange and trade system constitute a moderate improvement compared with the existing system of an illegal, but tolerated, parallel market, retained accounts for certain foreign exchange earners, and a discretionary--but frequently liberal--issuance of "no-funds" import licenses. The staff has, however, indicated that further progress toward a unified exchange system with a liberal import licensing regime will be expected in the course o 1983 or at least by the end of the present extended arrangement (March 1984), and, as noted in EBS/82/223, that a review of the exchange system will be required midway through the next fiscal year.

Mr. Casey said that the staff's reference to the surrender requirement for tourist earnings should have stressed the voluntary aspect of the arrangement. He then made the following statement:

Since the staff papers are fully comprehensive, my comments can be brief.

After several years of "slumpflation," emigration of experienced entrepreneurs and a weak external position, the economy of Jamaica finally began to turn around in 1981. I have circulated a table bringing together the important trends and ratios (see Annex).

As the staff points out, the first year of the extended arrangement (April 1981-March 1982) was successful on virtually all fronts. Indeed, to date, all performance criteria have been met, including the most recent one, dated December 29, 1982, pertaining to the net foreign asset position of the Bank of Jamaica.

The recovery of real GDP would have accelerated into 1982 if it had not been for the slump in world demand for bauxite and alumina and some residual difficulties in agriculture. Nevertheless, the manufacturing and construction sectors and the investment ratio were buoyant in 1982, which will help the diversification process and, we hope, lead in time to a reduction of the high unemployment rate. Tourism also grew strongly as Jamaica made substantial gains in recovering its traditional share of the Caribbean tourist market. Hotel occupancy recovered from about 38 per cent in 1981 to 52 per cent in 1982.

The severe externally caused problems in the bauxite sector have inevitably slowed the pace of adjustment on the fiscal and external accounts and led to an increase in external borrowing and the debt service ratio. The bauxite sector had been expected to contribute over one percentage point to GDP growth in 1982; the actual outcome was more like minus three percentage points. Government revenue from bauxite is now expected to be sharply reduced--by the equivalent of almost 2.5 per cent of GDP--although this will be offset in part by the prepayment arrangements described by the staff on page 15. Given these extraordinary shocks, the authorities have done well to keep the broad architecture of the program in place to date. The extent to which other, and by definition more painful, adjustment measures can be taken for the third year of the program is currently being discussed with the authorities.

Further streamlining of state enterprises and an increased pace of government divestment would appear to be two areas where further adjustment might be achieved without incurring unacceptable social costs. With the inflation rate coming down, it should also be possible to achieve moderation on the wage front.

Despite sterilization measures, credit expansion would appear to be somewhat excessive in relation to the nominal growth of GDP, but this reflects renewed confidence on the part of the private sector, a catch-up effect, and a fall in velocity. In any event, the growth in the monetary aggregates has not been inflationary, since considerable progress has been made with respect to the inflation rate. (The slight acceleration in the CPI to 6.8 per cent in 1982 is due almost entirely to the elimination of government subsidies on public transport.) Interest rates are now positive in real terms and are helping to encourage productive investment.

Ultimate unification of the dual exchange system and the concomitant dismantling of complex regulations are desirable goals which the authorities are actively examining. Several important intermediate steps in this direction have already been taken by the authorities, who see these measures as crucial to the encouragement of the private sector and the drive toward export-led growth. The authortiès are planning to institutionalize the informal market, make the import licensing system more automatic, and relax the foreign exchange surrender requirement of exporters.

My Jamaican authorities wish to express their gratitude to the staff for this incisive Article IV report and review of the extended arrangement.

Mr. Erb remarked that since early 1981 the Government had made significant progress in a number of areas. After seven years of economic deterioration and in the face of a world recession, Jamaica in the two previous fiscal years had recorded positive real economic growth, a decline in inflation, and increases in imports, investment, and employment. In addition, the external arrears had been eliminated. Those positive developments were attributable both to the direct impact of the Government's new policy course and to the significant increase in foreign private and official capital that had been attracted by the Government's actions. The confidence of foreign sources of capital had clearly been enhanced by the Fund's endorsement of the Government's economic policy course.

However, Mr. Erb went on, the rise in the balance of payments current account deficit from 7.5 per cent of GDP in FY 1980/81 to 17 per cent in FY 1981/82 and an estimated 15.5 per cent in FY 1982/83 was worrying. The problem was due in large part to the drop in bauxite and aluminum exports, but the staff had noted that nontraditional exports had been below the programmed level. On page 12 the staff had concluded that sugar and banana exports continued to perform poorly, partly because of delays in implementing structural reforms in those areas. Delays in implementing other structural reforms, including exchange rate adjustments, had also slowed desirable adjustments in imports and exports. The precise empirical relationship between the external current account position and the large fiscal deficit was not clear to him, but the failure to reduce the fiscal deficit significantly had certainly been at the heart of the current account imbalance.

Although a great deal had been accomplished, Mr. Erb remarked, much remained to be done if the Government was to achieve its overriding objective of returning the economy to a path of economic growth that would be sustainable without recourse to special financial assistance. Additional policy steps should be taken sooner rather than later, and it was therefore difficult to agree with the statement in the proposed decision that "no new understandings are necessary regarding policies and measures that Jamaica will pursue during the remaining period of the second year of the extended arrangement." In the coming weeks, the staff should discuss with the authorities the policy measures--particularly structural measures affecting prices, the exchange rate, and the performance of the state enterprises--that would be likely to have a favorable effect on the current account and could be implemented immediately.

In the coming months, Mr. Erb continued, the staff would discuss with the authorities the policies they planned to implement during the third year of the extended arrangement. In the light of developments in the world economy and of the slow pace at which some structural adjustments in Jamaica had been implemented in the first two years of the extended arrangement, the authorities should be strongly urged to re-examine the range of policy options open to them with a view to adopting a stronger and more comprehensive set of adjustment measures in the final year of the arrangement. The staff should give the authorities its analysis of the medium-term prospects of the Jamaican economy, perhaps through a series of scenarios. He hoped that the staff report on the proposed program for the third year of the extended arrangement would include a comprehensive analysis of Jamaica's medium-term prospects. He was not asking the staff to provide precisely drawn forecasts, but its qualitative and, where possible, quantitative judgment would be useful.

Despite what the staff called the authorities' strenuous fiscal effort, Mr. Erb remarked, the budget deficit was projected to exceed the 12 per cent of GDP that had been planned for FY 1982/83. During the previous discussion on Jamaica, he had said that he was worried that the 12 per cent target was not sufficiently ambitious. He agreed with the staff that the bauxite levy receipts were likely to remain low in the third year of the extended arrangement and probably beyond, and that the authorities should therefore act vigorously in other areas to bring the 1983/84 fiscal deficit below the 12 per cent target for 1982/83.

On the expenditure side, Mr. Erb continued, the authorities' attitude toward public sector wages was a cause for concern. The staff had explained that the Government was planning to increase public sector wages for key personnel by at least 70 per cent between FY 1983/84 and FY 1986/87. It was imperative that the authorities hold the line on nominal public sector wage increases, thereby constraining government expenditure and favorably affecting private sector wage settlements. Large public sector wage increases would have the opposite effect. To what extent could the Government directly influence wage settlements?

The performance of the public enterprises had been particularly disappointing, Mr. Erb remarked, and the authorities should be urged to act quickly to improve it. They could take immediate steps that would have a favorable impact on the fiscal deficit and might free capital for more efficient industries.

The authorities had been able to observe all the quantitative performance criteria, but only because the Government had resorted to an unusual financing arrangement with the Bauxite/Alumina Trading Corporation, Mr. Erb commented. How large was that arrangement? Did the authorities expect to use similar arrangements in the future? How would the inclusion of the arrangement affect Jamaica's observance of the performance criteria? Quantitative performance criteria provided a framework within which to evaluate the success of an adjustment effort and, in the long run, an economy was best served when a government acted consistently with the spirit, as well as the letter, of the agreement.

The authorities' intention to formalize the present informal foreign exchange market before the beginning of the third year of the extended arrangement was welcome, Mr. Erb stated. The complementary policies that they intended to adopt to channel more transactions into the formal market were also welcome. The measures to strengthen the informal market should be seen as temporary; the objective should continue to be the ultimate unification of the exchange rate at an equilibrium level. He agreed with the staff that the authorities should be urged to move quickly to unify the foreign exchange markets.

The real effective exchange rate had steadily appreciated since mid-1979, Mr. Erb noted. The official exchange rate should be thoroughly re-examined and kept under close review, especially in the light of the need to develop nontraditional exports and to maintain Jamaica's competitive position in the tourist markets.

The staff had encouraged the authorities to continue deregulating prices, Mr. Erb went on. On page 11 of SM/82/232, it had stressed that "...price controls still represent significant disincentives to domestic production in certain sectors, e.g., domestic agriculture and the manufacturing of food and beverages, and thus contribute to excessive reliance on imports in these categories."

The staff's suggestions concerning the rent control law and the pace of disinvestment were appropriate, Mr. Erb considered. The overall pace of adjustment in Jamaica must be accelerated if the Government was to achieve its main objectives. As for the proposed decision, the multiple currency practices should be reviewed by the Executive Board before the December 31, 1983 date specified in the draft text, and the final paragraph should include a sentence conveying a sense of urgency about the need for further adjustments.

Mr. Ainley said that basically he agreed with the staff appraisal and proposed decisions. At the time of the previous discussion of Jamaica, in April 1982, it had been clear that the authorities had made significant progress in revitalizing the economy and restoring confidence. Although there had been slippages in certain areas, the Government's achievements had been impressive: all the performance criteria had been met; the real rate of growth had been positive; the rate of inflation had fallen; and the balance of payments had been in overall surplus.

The generally bright economic picture had darkened somewhat in recent months as a result of the world recession and domestic setbacks, Mr. Ainley continued. It now seemed certain that the fiscal and balance of payments targets for 1982 and 1983 would not be met, largely because of the prolonged depression in the markets for bauxite and aluminum. But that was not the sole reason. Although tourism had recovered strongly--a remarkable achievement--the performance of the agricultural sector and of nontraditional exports had been disappointing. The authorities had been unable to implement their plans for restructuring the sugar and banana sectors, and their plans for overhauling the public enterprises had not proceeded as quickly as had been hoped. At the same time, inflation had risen again, unemployment remained high, the shortage of foreign exchange had led to the intensified use of a complex informal foreign exchange market, and the economy remained uncomfortably dependent on foreign assistance. The prospects for recovery were certainly more cloudy now than in recent months, and it would be useful to know whether the staff had made preliminary projections for GDP and the balance of payments for the third year of the extended arrangement.

Given that somber background, the authorities were to be commended for having again met the performance criteria, Mr. Ainley said. The question that naturally arose was what steps they should take henceforth. The pace of adjustment had slowed, and the previously agreed path no longer seemed appropriate if the essential objectives of the extended arrangement were to be met. He fully recognized the difficulties that the authorities were facing and the flexible way in which they had responded, but firm corrective action was now required to preserve the gains that had been made and to restore the momentum of adjustment.

Strong action was particularly necessary in the fiscal and exchange rate policy areas, Mr. Ainley went on. The new tax collection and expenditure control procedures that had been introduced were welcome, as they provided a sound basis for improving the budgetary performance. The moves to limit the public sector wage bill and to reduce consumer subsidies were also welcome. Nevertheless, the fiscal deficit was still disappointingly large--more than 15 per cent of GDP--and was likely to remain so in the coming period.

Like the staff, Mr. Ainley went on, he was worried that public and private sector wage settlements would undermine Jamaica's competitiveness, and public sector wage and recruitment policies should be reviewed. In addition, more could and should be done to improve the efficiency of parastatals, which constituted a continuing burden on the Government's scarce resources. To that end, market mechanisms should be permitted to play a greater role in resource allocation. Such recommendations would not be easy to follow, but further progress in the fiscal area could help to promote private sector confidence and investor interest. The staff could have usefully provided additional information on the level of inward direct investment, which was crucially important to the success of the adjustment program. Continued private foreign investment was an essential complement to the increase in domestic savings that had been encouraged by the authorities' more flexible interest rate policy.

As for exchange rate policy, Mr. Ainley continued, the shortage of foreign exchange had been exacerbated by the decline in bauxite revenues. The recent moves to formalize the informal foreign exchange market went in the right direction, and the decision to permit exporters to sell part of their foreign exchange proceeds in the informal market could be a useful first step toward consolidating the two exchange markets. The decisions to ease the application of the discretionary aspects of the import licensing system and gradually to eliminate quantitative import restrictions could make the system run more smoothly and were welcome. Still, it was disappointing that the authorities had found it necessary to maintain a dual exchange market system. Even when the recent improvements were taken into account, the present system seemed complicated and administratively burdensome, and he encouraged the authorities to move toward a unified system as quickly as possible. He wondered whether the review of the exchange system scheduled for the middle of FY 1983/84 might not be brought forward so that the staff and the authorities could benefit from the review before the third year of the extended arrangement began. If so, it might be appropriate to limit the Fund's approval of the multiple currency practice under the proposed decision to 6 months rather than 12 months. Fund approval for 6 months would cover the period before the next review. If that was impracticable, he would have no difficulty in accepting Mr. Erb's proposal.

The staff paper, Mr. Ainley commented, said surprisingly little about the present level of the exchange rate. The staff merely referred briefly to the matter in its appraisal on page 20. However, the staff had noted that there seemed to have been some deterioration in Jamaica's competitive position, and that might have been an important cause of the poor performance of nontraditional exports. He hoped that the level of the exchange rate as well as the exchange system itself would be reviewed by the staff and the authorities during their discussions on the program for the third year of the extended arrangement.

The authorities had made a genuine attempt to turn the economy around, Mr. Ainley considered. The results had been mixed, and there was some risk that the key objectives of the extended arrangement would not be met. In the present unfavorable external environment, the authorities seemed to have little option but to undertake more rapid adjustment, which would give them the best chance of setting the economy firmly on the path of sustained growth. The task would certainly be extremely difficult, but the authorities had shown determination and flexibility in the recent past.

Mr. Laske considered that by and large the authorities had met their commitments under the extended arrangement, although developments in the recent past had not been as favorable as those during the first year of the arrangement. The conditions in the world economy had increased the difficulty in rehabilitating and restructuring the Jamaican economy, and the authorities' determination to move ahead with their plans was highly commendable.

The slippages that had occurred, particularly in wages, were worrying, Mr. Laske remarked. Contracts in both the public and private sectors provided for wage increases far in excess of the rate of inflation. As a result, the economy had had to absorb real increases in incomes at a time when it faced even more serious external problems than had been anticipated. The authorities might wish to consider adopting a more formal incomes policy that would temporarily limit the negotiating partners' ability to increase wages above a specified reference point. Continued sizable real wage increases would hamper the Government's ability to contain inflationary pressures; the increases would boost domestic demand and spill over into the balance of payments position, which was already rather precarious.

The authorities had begun their rehabilitation efforts with the intention of reducing public sector participation in the economy, Mr. Laske recalled. Unfortunately, the Government had not succeeded as much as it had hoped in divesting itself of a number of economic units. Indeed, on balance, the Government's involvement in economic activity had increased since the approval of the extended arrangement. The authorities had recently taken over a refinery and several tourist facilities for reasons that, at first glance, seemed fairly reasonable. In fact, however, the authorities probably would not be much more successful than private operators had been in running the oil refinery on a profitable basis. In agriculture, particularly in the production of traditional exports such as bananas and sugar, the authorities had made only slow progress in reducing the Government's involvement. The authorities should pay closer attention than they had thus far to making significant progress in the effort to return enterprises to the private sector.

Bank liquidity remained ample, Mr. Laske commented, despite the strong private demand for credit, and the small size of the overall balance of payments surplus. It would be useful to receive a further comment on the causes of the substantial bank liquidity. The authorities had wisely decided to mop up the excess liquidity in the banking system through a special issue of securities, and he wondered whether the proceeds of the issue were to be sterilized in the Central Bank or used to finance the budget deficit. If they were used to finance the deficit, the object of the issue could be defeated. In FY 1981, about 30 per cent of the Government's overall deficit had been financed from domestic sources, particularly commercial banks, and in the future the authorities might wish to increase their recourse to nonbank resources.

The staff had presented a convincing argument in favor of early unification of the exchange rates, Mr. Laske considered, but the authorities seemed to believe that little would be gained from such a move at the present stage. Some of the points the staff had made in discussing that issue were well taken; their references to the export sector, which produced most of the traditional exports, the demand for which was highly dependent on the level of economic activity in the industrial countries, were particularly important. As previous speakers had stressed, the relatively poor performance of the nontraditional exports seemed to be closely linked to the appreciation of the exchange rate in real terms, and the authorities should be encouraged to follow the staff's recommendation of an early unification of the exchange rates. A close look at the matter should be taken before the negotiations on the program for the third year of the extended arrangement. Finally, he fully agreed with the staff appraisal.

Mr. Vidvei said that he had been struck by the fact that Jamaica had met all the performance criteria even though the development of many of the important aggregates--including economic growth, government savings, the overall government deficits, exports, and the external current account--had been significantly less favorable than expected. On the other hand, the rate of inflation had fallen sharply in 1981/82 and had probably continued to decline in 1982/83; in both years the rate had been significantly less than expected. To what extent had the unexpectedly low rates of inflation helped Jamaica to meet the performance criteria?

He was somewhat worried about the appreciation of the Jamaican dollar, Mr. Vidvei continued. What was the difference between the official and unofficial exchange rates? The authorities understandably were reluctant to see a depreciation of the currency, but they had to pay due regard to the country's international competitive position. Wages in Jamaica had been growing much more quickly than export prices, and the medium-term effects of that trend could be serious. Finally, although Jamaica had formally met all the performance criteria, the unemployment rate was still high--more than 25 per cent--and he wondered whether the employment situation should not be a cause for concern in the Executive Board.

Mr. Suraisry said that basically he agreed with the thrust of the staff appraisal. After years of declining activity, the Jamaican economy had begun to improve after the implementation of the extended arrangement. The authorities, who had met all the performance criteria for the first six months of the second year of the arrangement and were expected to meet the performance criteria through end-March 1983 as well, were certainly to be commended for their performance.

The foreign exchange markets should be unified as soon as possible, Mr. Suraisry considered. The staff's proposal for formalizing the informal market was a temporary and partial solution to the problems that had arisen from the dual exchange arrangement. Because of the present balance of payments difficulties and other unfavorable economic conditions, it was difficult to unify the foreign exchange markets forthwith, but the authorities should continue the process of unification.

The steps that the authorities had taken since early 1982 to begin removing some of the import restrictions were encouraging, Mr. Suraisry remarked. However, he agreed with the staff that the authorities should be encouraged to continue removing the restrictions in order to contribute to the free-trade system that was in the best interests of all member countries.

The authorities had made commendable efforts to deal with the fiscal deficit, Mr. Suraisry said, but there had been an unanticipated shortfall in the bauxite levy revenues, and the deficit in 1982/83 was now projected to be larger than originally expected. The authorities had been able to observe the performance criterion on net domestic credit to the Government by having the Bauxite/Alumina Company make a prepayment on bauxite sales and by transfering the proceeds to the Central Government. Such financing was not consistent with the definition of "net domestic credit"; it was technically and legally correct, but it involved no real adjustment and was not an appropriate way to remain within a credit ceiling. There was some doubt whether the credit ceiling for the rest of fiscal year 1982/83 would be observed if the special financing arrangement were not repeated.

Monetary policy was basically on the right track, Mr. Suraisry considered. The authorities had succeeded in eliminating the effects of excessive liquidity on the price level by resorting to sterilization measures.

The authorities should carefully reconsider their wage policy, Mr. Suraisry commented. Recent increases in public and private sector wages had exceeded the rate of inflation, which itself had accelerated. Exports would be hurt if the wage increases caused the rate of inflation to rise further. Exports had already suffered from the effects of the appreciation of the Jamaican dollar. Finally, the steps that the authorities had taken to reduce government regulations were welcome, and they should be encouraged to maintain that effort.

Mr. de Vries said that, while the authorities were to be commended for the significant progress that they had made, Executive Directors were clearly concerned about the magnitude of the tasks that remained. After seven years of decline in real national output, an application of the Fund's harsh medicine had resulted in increases in real GNP in the previous two years. Executive Directors clearly felt that the authorities should persevere with their successful adjustment efforts.

The staff had clearly identified the specific areas where further action was called for, Mr. de Vries remarked. Priority should be given to improving the budgetary situation, particularly the performance of the public enterprises. Bauxite receipts had been falling sharply and were likely to stay at a low level in the coming period; the authorities seemed to have no choice but to adjust to that trend. The budget and economic efficiency in general would benefit from the implementation of more price and efficiency-oriented measures in the public enterprise sector.

Monetary policy was another cause for concern, Mr. de Vries continued. Although the rate of increase in consumer prices had fallen rapidly in 1982, net domestic credit had continued rising at roughly the same rate as in 1981, thereby suggesting that the level of liquidity in the economy was excessive.

Action affecting both the exchange system and the exchange rate itself was warranted, Mr. de Vries considered. The exchange rate had been appreciating, rather than depreciating as seemed desirable, and he doubted whether the complex exchange system could create the confidence needed to achieve the revival of investment that was so important to the success of the program. Early unification of the exchange market was clearly called for.

In the long run, Mr. de Vries commented, only a real increase in domestic production and GNP would help to reduce the alarmingly high rate of unemployment. To that end, a number of new measures, mainly of a structural nature, would have to be introduced, the reliance on the pricing mechanism would have to be increased, and additional training should be arranged. Some structural adjustments in wages might be needed in order to attract and keep qualified personnel in the public sector, but for the country as a whole the heavy unemployment suggested that real wages were on the high side.

Commenting on the proposed decision on Jamaica's exchange measures subject to Article VIII, Mr. de Vries said that the discussion in the Executive Board had underscored the Executive Directors' feeling that there was an urgent need for the authorities to act on the exchange rate. Hence, it would be appropriate to make a minor change in the proposed text so as to grant approval of the present exchange rate system only until the Board's review of the program for the third year of the extended arrangement. As for the proposed decision on the extended arrangement, the final sentence lacked the sense of urgency that previous speakers seemed to feel. The sentence in question seemed to be essentially a technical one; the remaining period of the second year of the extended arrangement, which was mentioned in the sentence, was only about three months. The text need not encourage the authorities to adopt additional measures in the short time remaining in the second year of the extended arrangement, but it could reflect the Executive Directors' wish to see them maintain their successful adjustment policy stance by introducing new measures as the evolving situation warranted.

Mr. Morrell stated that he shared the concern that previous speakers had expressed, particularly about the exchange rate. The steps that the authorities had taken in that area were welcome, but their argument for maintaining a dual exchange rate system was not fully convincing. The staff had presented a strong case for the need to review the present exchange rate system, and the proposed decision should be amended accordingly.

The authorities were to be commended for the measures introduced to improve the performance of the public sector utilities, Mr. Morrell continued. Given the high rate of unemployment and the low rate of GNP growth, he fully sympathized with the authorities, supported the efforts that they had made, and hoped that the exchange rate arrangements and the import licensing system could be addressed as soon as possible.

Mr. Caranicas remarked that in many respects Jamaica was a special case. For a number of years before the adoption of the extended arrangement, the economy had performed poorly. The previous development strategy and the basic dynamic advances of the 1960s had centered around import substitution. In a recent interview in Forbes Magazine, the Prime Minister had stated inter alia that "our mission now is to convert the private sector to be an export-oriented machine. To do this, we must have favorable access to a marketplace for exports." Apparently, the Prime Minister had had in mind the possible benefits from the so-called Caribbean Basin Initiative of the U.S. Government. It would probably be difficult for Jamaican manufacturers to take advantage of that initiative if they continued to emphasize production for the Jamaican market, rather than the large regional market. He wondered what kinds of new products Jamaican manufacturers could hope to produce and export to the regional market. Could Jamaica continue to afford the foreign exchange needed to finance imports of raw materials used solely for substitution industries?

He fully endorsed the staff recommendations, particularly those concerning fiscal policy and the exchange system, Mr. Caranicas commented, but he sympathized with the authorities, who felt that further firm policy action might involve unbearable social costs and should be approached cautiously. In his opening statement, Mr. Casey had said that streamlining state enterprises and an increased pace of government divestment appeared to be two areas where further adjustment might be achieved without incurring unacceptable costs. One such example was the policy on civil servants' salaries, which had resulted in some strike action, although the policy had eventually been adhered to. The authorities were clearly acting in good faith, and the considerable progress that they had made in the previous year had helped to increase confidence.

The second paragraph of the proposed decision on the exchange system could be amended to grant approval of the multiple currency practice until the review of the program for the third year of the extended arrangement, Mr. Caranicas considered. The text of the decision on the extended arrangement might be changed to state more clearly that no new understandings were needed in the remaining three months of the second year of the extended arrangement.

The staff representative from the Western Hemisphere Department said that the staff would provide a medium-term analysis of the prospects for the Jamaican economy in its next report. The present projections were that real growth would reach 2-3 per cent in 1983; although bauxite output was expected to decline further, output in other sectors would probably continue to grow. The external current account deficit was projected to continue to be in the range of 15 per cent. The staff felt now, as it had at the time of the adoption of the extended arrangement, that a viable external current account deficit would be equivalent to approximately 10 per cent of GDP and perhaps somewhat less, depending on the flows of concessional aid. Given the recent developments in, and the prospects for, the bauxite industry, its recovery in the immediate future was unlikely. Indeed, bauxite production might never regain the levels of past years. The circumstances called for a determined adjustment effort, so that the Jamaican economy could move closer to a viable fiscal position and, therefore, a viable external current account position.

Jamaica had had considerable difficulty in retaining qualified high-level civil servants, the staff representative explained; the only solution in a period of great fiscal constraint was to adopt a kind of wage-fund approach under which the Government could create a differential in favor of high-level positions. However, the staff felt that there was little scope for a general wage increase. Apart from the example set by the civil service, the Government could directly influence wages only by intervening in the conciliation process. The staff planned to discuss with the authorities a possible formal incomes policy. Such a policy had been implemented in 1978-79, together with the crawling peg exchange rate regime. Though the policy had broadly succeeded in restraining wage growth, it had become a very difficult political issue. The present Government probably would not wish to issue formal guidelines.

In the past, such guidelines had tended to become minimum targets for wage contracts rather than the upper limit on settlements. Hence, there was a feeling in Jamaica that guidelines were counterproductive.

If the special financing arrangement with the bauxite company had been considered short-term borrowing by the public sector, the staff representative said, the Government would have exceeded the ceiling on disbursements of short-term foreign debt. The breach probably would not have been substantial, as the special financing operation had been for $63 million, fairly close to the ceiling on short-term loans of $60 million. However, the staff had not expected the short-term borrowing to be channeled directly to the Central Government. One of the difficulties that the staff had with the special financing was its considerable cost. It was the staff's understanding that the authorities planned similar special financing operations in 1983. The staff would discourage the authorities from doing such operations and would suggest that they should be covered by the performance criteria.

Price controls were causing distortions in the Jamaican economy, especially in agriculture, the staff representative commented, especially as they tended to encourage an unduly high level of imports. The staff hoped that the authorities would make further progress in reducing the price controls. In that connection, the staff intended to work closely with World Bank staff members, who would be discussing with the authorities the policies and programs supporting the second year of the structural adjustment loan at the moment when the Fund staff would be negotiating the third year of the extended arrangement.

The staff was also working closely with the World Bank staff on the exchange system in Jamaica, the staff representative explained. The World Bank's review of the exchange system midway through the second year of its structural adjustment loan would coincide with the Fund staff's review of the program for the third year of the extended arrangement. In the past, the authorities had been reluctant to devalue the currency. They had argued that the economy had experienced so many consecutive years of accumulated distortions that it was very difficult to identify the equilibrium exchange rate. There was much to be said for that argument, and the staff therefore attached great importance at the present stage to improving the exchange system as part of reducing controls on all sectors of the economy, thereby making it easier to determine the equilibrium exchange rate. The creation of a dual market with a floating exchange rate, and the significant reduction in controls on imports should help the authorities to determine the appropriate exchange rate. The staff agreed with the authorities that the new exchange system should be introduced gradually, and that some experience with it should be gained before the issue of the appropriate exchange rate was reopened. The midyear review of the program for 1983-84 might be a convenient occasion on which to begin to assess the results of the new dual market.

The inflow of foreign investment had fallen from $65 million in 1980 to $27 million in 1981, and to $2 million in 1982, the staff representative explained. Direct investment in the bauxite sector had also tapered off. The low level of foreign investment was perhaps a cause for concern, although there had been a drop in foreign investment around the world with the decreasing interest in creating new production facilities in developing countries.

The staff believed that the high level of liquidity--which was not likely to persist--was a consequence of the restoration of confidence in the private sector and of the first positive real rates of interest in Jamaica in a number of years, the staff representative commented. The rapid increase in liquidity seemed to have been a sort of catch-up phenomenon. The ceilings in the program covered all domestic bank credit to the Central Government and security issues in the domestic market. The authorities' open-market arrangements had provided for sterilization; the security issues used to drain funds from the banking system fell within the ceilings and were not compensated by increases in central bank credit to the Government.

The exchange rate in the official market, the staff representative explained, was J$1.78 = US$1.00. The rate in the parallel market appeared to be in the range of J$2.30-2.80 = US$1.00. The large spread between the rates in that market was a reflection of the inefficiencies and illegality of the parallel market. With the recent legalization of the market, the rates were expected to converge toward the official rate. The Bank of Jamaica was expected to intervene in the parallel market.

The continued high level of unemployment had obviously caused difficult social and political problems, the staff representative from the Western Hemisphere Department remarked. The staff had stressed the need for wage restraint precisely because it felt that in the present circumstances increases in real wages would worsen the unemployment problem.

The Deputy Director of the Exchange and Trade Relations Department remarked that the staff had not looked closely at the relationship between the unexpectedly low rate of inflation and the authorities' ability to remain within the credit ceilings. However, presumably the low rate of inflation would have contributed to some improvement in the budget and balance of payments outcome, and would thus have helped the authorities to observe the performance criteria.

The staff had been quite concerned about the high rate of unemployment in Jamaica, the Deputy Director commented. That was one of the reasons why the staff had stressed the need both to maintain wage restraint and to reach an appropriate exchange rate.

The performance criteria had been observed even though the budgetary position had been less favorable than had been expected, the Deputy Director of the Exchange and Trade Relations Department remarked. In the second year of the program, it had been the intention of the staff to include performance criteria that were robust and incorporated all the well-recognized forms of financing. The special financing arrangement that the authorities had subsequently made had been unexpected, and the staff would attempt to negotiate even more robust ceilings on domestic credit and foreign debt for the third year of the extended arrangement drawing. The lesson of the second year of the extended arrangement was that, even though the performance criteria had been observed, a much greater adjustment effort would be required in the final year of the extended arrangement. The experience with Jamaica demonstrated the advantage of the present kind of review and showed the way in which such reviews could supplement performance criteria.

Responding to a further comment, the staff representative from the Western Hemisphere Department said that the central government deficit was larger than had been provided for in the program, while the volume of domestic financing had not exceeded the program level. There had been ceilings on domestic and foreign borrowing by the Government and the selected public sector, but not on short-term borrowing by the nonconsolidated public sector. The Bauxite/Alumina Trading Company, which was part of the nonconsolidated public sector, had borrowed US$63 million and transferred the proceeds to the Government, thereby enabling the authorities to finance the unexpectedly large deficit without exceeding the ceiling on domestic credit. Had that special transaction not taken place, additional domestic financing would have been required, and the ceiling on domestic financing would have been exceeded.

Mr. Erb said that he was worried about the possible impact of such special transactions on the future adjustment of the fiscal deficit. As for the employment situation, he wondered why the high rate of unemployment had not prevented increases in wages.

The staff representative from the Western Hemisphere Department replied that the labor union movement in Jamaica was relatively strong. There were two large federations, each linked with one of the two major political parties, and it was difficult for any government to exercise strong leadership in wage negotiation. If a government tried to restrain wages, workers tended to shift their allegiance to the union supporting the political opposition, thereby eroding the political base of the government in power.

The Acting Chairman remarked that there seemed to be some danger that if high-level civil servants were not given reasonably attractive salaries, they might wish to move to the private sector or seek employment outside the country. A number of former senior civil servants were already working outside Jamaica.

The ceiling on net domestic credit to the public sector had been met in a manner that had been unanticipated at the time of the establishment of the program for the second year of the extended arrangement, the Acting Chairman commented. As a result, the program had not been as tight as had been expected. The staff would try to ensure that the ceiling for the coming period was properly designed.

Mr. Casey remarked that a number of speakers seemed to feel that the pace of adjustment in Jamaica had been rather slow. It was true that the overall government deficit had risen to about 15 per cent of GDP in 1982, but the collapse of the bauxite sector had led to a general lack of revenue buoyancy, above and beyond the loss in bauxite revenue per se. On the other hand, nonbauxite revenues had risen significantly as a proportion of GDP because of the improved tax collection and tightened assessment procedures. In addition, the Government had introduced legislation that would switch a number of specific taxes on a wide range of goods to ad valorem taxes. On the expenditure side, the increase in total government expenditure in relation to GDP in 1982 was a reflection of the larger interest payments that the authorities had had to make. Many other countries had also faced a large debt service burden because of high international interest rates. There had been an element of wage push in the public finances, but the authorities had had no choice but to increase the salaries of high-level civil servants. It was important to bear in mind that, although real wages in the public sector had risen by 5 per cent in 1982-83, they had not risen in the period 1976-81. However, wage moderation would be required in the future, and the authorities would certainly consider Executive Directors' suggestion for introducing a more formal incomes policy.

Capital expenditure had been cut in real terms, Mr. Casey continued. That decision had not been easy to make, because a large part of the infrastructure had become run down during the long period of steadily declining real GDP. In sum, a kind of compression, or automatic adjustment, had occurred on the fiscal side. The overall fiscal deficit had been financed largely by the unexpectedly high level of foreign inflows and through borrowing on the strength of future bauxite sales, the latter admittedly implying the need for a somewhat stronger adjustment in the third year of the extended arrangement. The authorities were well aware of that need, and they were already considering the possibility of tapping nonfinancial resources in the coming period.

The slow pace of government divestment had been caused in part by the shortage of experienced entrepreneurs, Mr. Casey continued. Many of them had left Jamaica in the 1970s and had not returned. As a result, the private sector demand for government properties had been quite limited.

It was important to underscore the significant achievements of the authorities, Mr. Casey said. Inflation had markedly improved, the arrears had been eliminated, and the import restrictions and price controls had been reduced. The pace of adjustment of the balance of payments had been slow, and a sustainable position would not be attained in 1983, barring an unexpected major improvement in the bauxite sector, which accounted for 75 per cent of total exports. The authorities recognized that the performance of other exports, particularly agricultural ones, had been less favorable than expected, and they were determined to improve the situation. On the other hand, interest rates were positive in real terms: the prime lending rate was 13 per cent and the savings deposit rate 9 per cent, compared with the rise in the consumer price index of 6-7 per cent.

The apparently high rates of domestic credit growth were not inflationary and would not adversely affect the balance of payments, Mr. Casey commented. The rates were explained by the catch-up effect resulting from the renewed confidence in the private sector, and the velocity of money had decreased. Domestic credit expansion was expected to slow in the coming period.

The unification of the exchange rate was more important as a means of helping to dismantle the complex regulations than as a way of reducing the exchange rate, Mr. Casey explained. A depreciation was not clearly essential. The recent appreciation of the real effective exchange rate had been moderate, and the real effective exchange rate was now at the same level as the early 1970s. In any event, it was difficult to determine the equilibrium exchange rate in a fairly regulated economy, and it was worth recalling that the devaluation in 1978 had not improved the reserve position. The authorities believed that, because a considerable proportion of total imports were essential and a large proportion of exports were characterized by special institutional features, the sensitivity of import and export prices to exchange rate adjustments was not strong. It was difficult to distinguish between the various factors that affected the balance of payments. For instance, the market share of tourism had increased, but bauxite exports had suffered for reasons other than a decline in competitiveness, which itself was difficult to assess because of the complexity of the exchange rate system. Given the present state of the art of identifying the precisely appropriate exchange rate in an economy, it was wise to be cautious about taking a strong position on the equilibrium exchange rate in the Jamaican economy. However, the authorities were committed to ultimately unifying the exchange rate.

He tended to agree with Mr. Vidvei that the unexpectedly low rate of inflation had helped the authorities to meet the performance criteria, Mr. Casey remarked. It was clearly incorrect to conclude that the spirit of the performance criteria had somehow been breached.

The high rate of unemployment in Jamaica as a whole and in Kingston in particular, where many unemployed persons tended to congregate, was creating social tensions and was clearly a cause for concern, Mr. Casey said. The implementation of stringent adjustment measures was certainly difficult in an economy characterized by considerable unemployment. However, the recent high wage rates had clearly not helped the employment situation.

Mr. Erb recalled that speakers had noted the progress that the authorities had made. They apparently had chosen to focus on the problems facing the economy because the progress that had been made would be undermined or reversed if adequate economic policies were not introduced. The authorities had to act in order to pave the way for the continued economic growth that Jamaica clearly required.

The Acting Chairman made the following summing up:

In discussing the 1982 Article IV consultation with Jamaica, Executive Directors agreed with the thrust of the staff appraisal. They noted that years of economic decline had been reversed in 1981 and that positive growth had been recorded in 1982, despite an unfavorable international economic climate and a substantial drop in the production of Jamaica's principal exports, bauxite and alumina. Directors commented favorably on the sharp decline in the rate of inflation during the same period, but voiced concern that the rate of increase in wages in some secrors in the past two years was adversely affecting the country's competitiveness and was contributing to the continued high level of unemployment. Directors also expressed serious concern about the significant widening of the external current account deficit during the course of the extended arrangement with the Fund to date.

Directors noted that all performance criteria had been observed so far in the second year of the arrangement, although they commented that this had been facilitated by a special financing arrangement between the Government and the bauxite companies that had not been envisaged under the program.

In public finance, Directors emphasized strongly the importance of adopting measures to secure a fiscal adjustment sufficient to make possible a reduction in the dependence on external assistance and the achievement of a sustainable external position, in line with the objectives of the program. They urged the authorities to move speedily to rehabilitate the public enterprises and thereby eliminate their reliance on budgetary support. Directors also recommended that public sector wage policy be reviewed in the light of the fiscal constraints. Because of the temporary nature of recent gains in tax revenue, Directors noted the importance of measures to strengthen the revenue base in a more lasting manner.

In the area of deregulation and divestment, Directors noted that the progress to date had been less than expected and that, in some instances, the public sector had indeed increased its role in production and had increased the scope of controls. Directors cautioned that such action might impede the needed restoration of confidence on the part of the private sector.

Directors noted the elimination of external arrears and welcomed changes that are about to be introduced in the exchange and trade system which would institutionalize the parallel foreign exchange market in the commercial banks, stimulate nontraditional exports, and reduce the restrictiveness of the import licensing system. However, they viewed these measures as only steps toward the needed liberalization of the exchange system and ultimate unification of the market. They approved the multiple currency practice and exchange restrictions until October 31, 1983 but considered that further progress was urgently required in this area and therefore stressed the importance of the review of the exchange system midway through fiscal year 1983/84. Directors also expressed concern about the trade-weighted appreciation of the Jamaican dollar in the official market and urged the authorities to pursue a more flexible exchange rate policy.

In sum, Directors believed that the Jamaican authorities should urgently accelerate the pace of adjustment toward a viable external position, with additional measures in the areas of the exchange and trade system, public finance, the operations of the public enterprises, incomes policy, deregulation and divestment.

The Executive Board then turned to the proposed decisions.

The Deputy Director of the Exchange and Trade Relations Department remarked that the staff usually recommended Executive Board approval of a member's exchange measures for 12 months. However approval for shorter periods had been recommended from time to time. For Jamaica, the staff had recommended the usual 12-month period, which would end on December 31, 1983, but the staff would have no difficulty in accepting the proposal for an earlier date. He was not optimistic that there would be fundamental changes in the exchange system by end-June 1983. The authorities and staff needed some time to assess the likely impact of the proposed changes in the complex exchange system. It might be appropriate to use the date of October 31, 1983, which would coincide with the discussion by the Executive Board of the mid-term review of the program for the third year of the extended arrangement.

Mr. Ainley observed that his main concern about the exchange system was that its great complexity might not encourage the confidence of private investors. Although he fully understood the constraints to which the Deputy Director of the Exchange and Trade Relations Department had referred, the end-June 1983 date might be appropriate. By then, six months of experience with the new system would be available for assessment, and the Executive Directors would be in a better position to judge how the transitional system was working and the direction--preferably toward unification of the exchange rate--in which the authorities were moving. However, he could also go along with extending the approval of the present exchange arrangements until October 31, 1983 if the Board found it generally acceptable.

Mr. de Vries considered that the authorities should be fully aware that during its discussion of the program for the third year of the extended arrangement the Executive Board would wish to take a close look at Jamaica's exchange system, which had raised many problems for speakers at the present meeting. It was appropriate to use the text of the proposed decision to underscore the Executive Board's concern about the exchange system. Hence, Mr. Ainley's proposal to change the date in paragraph 2 of the first draft decision was acceptable. The proposed decisions would permit Jamaica to use Fund resources equivalent to 500 per cent of quota, and approval of the program for the third year of the extended arrangement would enable Jamaica to increase the amount to 600 per cent of quota. Executive Directors did not wish to have a member country use such a large volume of Fund resources when the authorities were maintaining an exchange system in which Executive Directors had little confidence.

Mr. Zhang stated that he preferred to keep the date of December 31, 1983. The staff had made a good case for recommending approval for 12 months rather than a shorter period. Recommending approval for a period of less than 12 months would be tantamount to tightening implicitly the applicable conditionality. The staff was proposing to use the standard approach to a member's exchange system, and there seemed to be no reason to do otherwise.

The Acting Chairman remarked that Executive Board approval of an exchange system was neither routine nor automatic. When approval was given, the usual period was 12 months, but shorter periods had sometimes been recommended. Approving Jamaica's exchange measures for a period of less than 12 months would be one way of sending the authorities a clear message about the Executive Board's view on Jamaica's relatively complex exchange system. The use of a shorter period would not represent a tightening of conditionality. Rather, the Executive Board would be applying an appropriate condition to the particular circumstances of an individual member.

Mr. Casey considered that the usual period of approval was 12 months, and there was no reason to depart from that practice for Jamaica. The amount of resources that Jamaica was using was of little relevance to the question of the appropriate period of approval, and the proposed date of December 31, 1983 fit neatly with the mid-term review of the program for the third year of the extended arrangement. A date as early as June 1983 would be unacceptable to his authorities. Unification of the exchange rate had never been a performance criterion under the extended arrangement; nor had it been even an expectation. The authorities had been expected to make some progress toward ultimately unifying the exchange rate, and such progress had indeed been made.

Mr. Erb remarked that the proposed text of the decision on the exchange system failed to convey any sense of the urgency about the system that the Executive Directors felt at the present late stage of the extended arrangement. Mr. de Vries had appropriately noted that Jamaica would be using nearly the entire amount of the Fund's resources available to it. In addition, the current account deficit remained large, and additional adjustments in the exchange system, as well as in other important areas, were clearly needed to enable Jamaica to record the desired economic growth in the coming period. The decision should be modified to reflect the urgency felt by Executive Directors.

Mr. Malhotra considered that the Acting Chairman's summing up adequately conveyed the sense of urgency felt by some Executive Directors. The summing up was preferable to an amendment of the decision as a way of conveying the Executive Directors' concern to the authorities. Shortening the period of approval at a time when changes had recently been made in the complex exchange system would be inappropriate. The proposed decision sensibly provided that approval would be granted until December 31, 1983, or the completion of the next Article IV consultation, whichever was earlier. As Mr. Casey had stressed, unification of the exchange rate had never been a performance criterion, although it was admittedly a desirable objective. Given the sizable problems with the crucial bauxite sector, the Executive Board should avoid being excessively demanding in its approach to Jamaica.

Mr. Casey remarked that the Fund and the World Bank had agreed to conduct a joint review of the exchange and trade system as a part of the review of the performance under the structural adjustment loan. The review could not be completed before June 1983. It was for that reason that the Jamaican authorities would not wish to see a date as early as June 30, 1983 be included in paragraph 2 of the draft decision.

The Deputy Director of the Exchange and Trade Relations Department remarked that it was true that unification of the exchange rate was not a performance criterion. On the other hand, a purpose of any extended arrangement was to enable the authorities to make substantial progress in simplifying the exchange system.

The Acting Chairman remarked that it was probably impossible to establish a precise performance criterion for an exchange system at any given time. Exchange rates were not subject to the same precise quantification as, say, net domestic assets. However, a member's exchange system was nearly always an important subject of a scheduled review that in itself constituted a performance criterion. Hence, a close examination of Jamaica's exchange system would undoubtedly be a part of the scheduled review of the country's performance under the extended arrangement.

Mr. Caranicas said that he was willing to accept Mr. Casey's explanation and his request to leave the draft text as it was. When there was a division of opinion on the text of a draft decision, the Executive Board traditionally acceded to the wish of the Executive Director concerned.

Mr. Ainley stated that he fully agreed with Mr. Erb that the proposal for changing the date in paragraph 2 of the proposed decision on the exchange system was in no way meant to tighten conditionality in a discriminatory way. The authorities themselves viewed the informal market as a transitional arrangement and had said that the ultimate unification of the exchange rate was one of their own objectives. His proposal was meant to have the Fund review the exchange system as early as feasible in order to encourage the authorities to move in the direction of unification. If the date of June 30, 1983 was impracticable, the date of October 31, 1983 would be fully acceptable. In addition, the summing up could also refer to the Executive Board's concern about Jamaica's exchange system.

Mr. Casey considered that the record of the discussion would clearly show the Executive Directors' concern about the exchange system. There was no need to change the draft text of the decision on Jamaica's exchange measures.

Mr. Erb commented that the discussion and summing up had accomplished his objective in proposing an earlier date for the proposed decision, namely, to underscore the sense of urgency the Executive Directors felt about the need for action to simplify the exchange rate regime. He did not wish to overemphasize that concern; the summing up adequately expressed the importance that Executive Directors attached to further adjustments in the exchange rate system.

The Acting Chairman remarked that the review of the exchange system by the Fund and the World Bank probably could not be completed until October 31, 1983 at the earliest. Executive Directors might wish to amend the second paragraph of the first decision to include the date of October 31, 1983 rather than December 31, 1983. In addition, the third sentence of the penultimate paragraph of the summing up could be changed to read: "They approved with some reluctance the multiple currency practice and exchange restrictions until October 31, 1983 but considered that further progress was urgently required in this area and therefore stressed the importance of the review of the exchange system midway through fiscal year 1983/84."

Mr. Casey remarked that the words "with some reluctance" were unnecessary.

The Acting Chairman said that Mr. Casey's suggestion was acceptable. As for the proposed decision on the extended arrangement, the following sentence could be added to the text: "However, the Fund encourages the Jamaican authorities to proceed rapidly to implement further adjustment policies so as to move toward a more viable and sustainable external payments position."

Mr. Zhang considered that the additional text was rather strong. It seemed to place the entire burden of adjustment on the Jamaican authorities, even though developments in the export markets were not entirely within their control.

Mr. Vidvei said that he could go along with the additional text, although he did not wish to push the authorities too hard. Therefore, the word "rapidly" should be deleted. On the other hand, the text could include a reference to the need to implement an incomes policy, something that was not clearly addressed in the staff appraisal.

The Deputy Director of the Exchange and Trade Relations Department remarked that, without the word "rapidly," the text might give the impression that additional adjustment policies should be implemented forthwith. In any event, containment of money and prices would be crucial elements of the adjustment program and might not need to be mentioned in the text of the decision on the extended arrangement.

Mr. Casey said that an incomes policy had been referred to during the discussion and in the summing up, and it need not be mentioned in the proposed decision. The additional sentence proposed by the Acting Chairman should perhaps say that the Fund encouraged the authorities to "proceed as rapidly as possible" to implement adjustment policies.

Mr. Erb suggested that the text in question should read: "...to vigorously implement further adjustment policies...."

The Executive Board agreed that the additional sentence should read: "However, the Fund encourages the Jamaican authorities to vigorously implement further adjustment policies so as to move toward a more viable and sustainable external payments position."

The Acting Chairman recalled that Mr. Caranicas had mentioned that in the past the usual practice in resolving an issue concerning a particular country had been to give heavy weight to the view of the Executive Director for that country. However, in the recent past that practice had been changing. It was doubtful whether the Executive Board could conduct surveillance adequately if it adhered strictly to the old practice of acceding to the wishe of the Executive Director for the particular country under discussion.

Mr. Caranicas said that the Acting Chairman's comment was well taken. However, in the present case, the Executive Directors seemed to be roughly evenly divided, and it had seemed appropriate to pay particular attention to the view of the Executive Director for the country concerned. If there was a clear majority opposed to the view of the Executive Director for the country concerned, then that view would of course prevail.

Mr. Malhotra remarked that he agreed with Mr. Caranicas. One reason for deferring to Mr. Casey in the present case was that there was no important difference of opinion on the matters at hand between Mr. Casey and the staff.

The Executive Board then approved the proposed decisions, as amended.

The decisions were:

Exchange Measures Subject to Article VIII

1. The Fund takes this decision relating to Jamaica's exchange measures subject to Article VIII, Sections 2 and 3, in the light of the 1982 Article IV consultation with Jamaica conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

2. Jamaica maintains a multiple currency practice arising from the informal exchange market, and restrictions on payments and transfers for current international transactions described

in SM/82/232. In view of the circumstances of Jamaica, the Fund grants approval of the multiple currency practice and these restrictions until October 31, 1983, or the completion of the next Article IV consultation, whichever is earlier.

Decision No. 7283-(83/1), adopted
January 3, 1983

Extended Arrangement

The Fund and Jamaica have conducted a midyear consultation of the program pursuant to paragraph 3(b) of Executive Board Decision No. 7095-(82/56), adopted April 23, 1982, and paragraph 4 of the letter dated March 31, 1982 and attached to the extended arrangement for Jamaica (EBS/81/79, Supplement 3, 4/15/81). It is concluded that no new understandings are necessary regarding policies and measures that Jamaica will pursue during the remaining period of the second year of the extended arrangement. However, the Fund encourages the Jamaican authorities to vigorously implement further adjustment policies so as to move toward a more viable and sustainable external payments position.

Decision No. 7284-(83/1), adopted
January 3, 1983

3. SWAZILAND - 1982 ARTICLE IV CONSULTATION, AND PURCHASE TRANSACTION - BUFFER STOCK FINANCING FACILITY - INTERNATIONAL SUGAR AGREEMENT

The Executive Directors considered the staff report for the 1982 Article IV consultation with Swaziland (SM/82/223, 11/30/82) and Swaziland's request for a purchase under the buffer stock financing facility (EBS/82/204, 11/9/82; and Sup. 1, 12/30/82). They also had before them a report on recent economic developments in Swaziland (SM/82/231, 12/16/82).

The staff representative from the Research Department explained that, according to the latest information, Swaziland's assured market for annual exports of sugar to the European Community (EC) at preferential prices that were negotiated annually was 116,000 tons, rather than the 166,500 tons reported in EBS/82/204. In addition, the following sentence in the first full paragraph on page 5 could be deleted: "In addition, Swaziland has accumulated 1,208 tons in July and a further 1,797 tons in August." That correction, based on the latest information from the International Sugar Organization, did not entail any changes in the proposed purchase, which was based on a stock accumulation in May 1982.

Mr. Sangare made the following statement:

I should begin by thanking the staff for the well-written set of papers on the 1982 Article IV consultation with Swaziland and on Swaziland's request for use of Fund resources under the buffer stock financing facility.

Despite the constraints imposed by being a landlocked country, the Swazi economy continued to grow in 1982, although at a slower pace than in the previous year when real growth of GDP had been 6.6 per cent. However, the real growth rate of about 4 per cent projected for 1982 is still satisfactory when viewed against the background of falling world prices for sugar, Swaziland's most important export commodity, as well as the recession abroad, particularly in neighboring South Africa, which accounts for about one quarter of Swaziland's exports. Agriculture, industrial production, and construction contributed in varying degrees to economic growth in 1982.

The financial position of the Government, which had remained strong during the past two fiscal years, 1979/80-1980/81, weakened in 1981/82, moving from a surplus of E 17.8 million in 1980/81 to a deficit of E 49 million, equivalent to about 8 per cent of GDP. The weakening was due in part to the sharp increase in expenditure, especially capital outlays, which rose from E 42.1 million in 1980/81 to E 71.5 million in 1981/82, and to the drop in revenue from the Customs Union as a result of underrecording of imports, which affected Swaziland's share of revenue from the Union. To finance this deficit, it has been necessary to resort to a drawdown of government deposits. As a result, the net creditor position of the Government declined from a peak of E 85.5 million in March 1981 to E 31.5 million in June 1982.

The external payments position also deteriorated in 1981 with the balance of payments swinging from a surplus of SDR 24.1 million in 1980 to a deficit of SDR 26.4 million in 1981. This was due in part to the fact that the value of exports increased by only 15 per cent in 1981 compared with an average increase of 21 per cent during 1978-80, reflecting a sharp decline in the value of sugar exports resulting from falling world market prices. The situation was compounded by a decline in net capital inflows, both public and private, and a widening service account deficit.

The authorities are aware of these problems and even of the possibility of a further slowdown in economic growth and continued pressure on the balance of payments. They therefore consider it to be of utmost importance to continue with their development strategy, which aims at creating the basis for sustained economic growth and increased employment opportunities within the framework of prudent fiscal and monetary policies.

As in the past, the authorities are giving priority to the development of the agricultural sector, with emphasis on new strategies aimed at raising the productivity of traditional agriculture, where output has not increased in line with investment. Accordingly, a major review of the Rural Development Area Program (RDAP) is being conducted with World Bank assistance in order to determine how best to deploy resources to maximize production. Given the economy's high dependency on sugar production, which is the major activity in the modern agricultural sector, the authorities do not intend any major new investment in this area during the Fourth Plan now under preparation. The production of foodstuffs, particularly maize, will receive more attention with a view to achieving self-sufficiency. In this connection, work has already begun to improve storage facilities, improve herd management on Swazi Nation Land through the establishment of common grazing areas under the RDAP, and develop fattening ranches to reduce pressure on communal grazing areas. A project for the production of cattle feedstock is under consideration, while steps are being taken to increase production of dairy products, particularly milk. It is to be noted that with the exception of maize, prices for agricultural products will continue to be market determined.

The Government's industrial policy continues to stress diversification of production, manpower training, and the development of labor-intensive industries. In pursuit of these objectives, the authorities are currently studying the incentive system, which now includes generous depreciation and training allowances and special provisions for locating outside the existing industrial zones, to find ways of improving its effectiveness. They are also placing major emphasis on attracting foreign investment. Furthermore, the National Industrial Development Corporation of Swaziland (NIDCS) and its subsidiary, the Small Enterprises Development Corporation (SEDCO) are providing assistance to private investors, including the preparation of feasibility studies.

However, a major problem that so far has posed serious constraints on the capacity to expand the country's production has been transportation bottlenecks, particularly those emanating from capacity limits in the rail system and in port facilities in Mozambique. This is one of the main issues that have slowed progress on the development of two new coal mines, which could increase the country's production by about two million tons annually. The authorities are determined to seriously tackle this problem and have initiated discussions with South Africa with a view to securing access to port facilities in that country. A project is also under way to link Swaziland with the South African rail system, with construction expected to begin in May 1983. In addition to the railway expansion, the authorities are considering a number of projects for inclusion in the Fourth Development Plan, while currently engaged in an extensive three-year road maintenance training program with foreign technical assistance.

With regard to the financial situation of the public sector, revenue from the sugar export levy is now expected to be nil owing to falling sugar prices, compared with E 8 million projected at the beginning of the year. Similarly, shortfalls are envisaged in receipts from the tax on corporations. Therefore the revenue target for the 1982/83 fiscal year is unlikely to be achieved. Given this unfavorable outcome, the authorities are making efforts to contain the growth in expenditure, the aim being to keep the overall deficit within 1 per cent of GDP. However, because of the poor prospect for sugar prices and the unlikelihood that the large increase in Customs Union receipts experienced in the current fiscal year will be repeated in the near future, and because the implementation of a number of development projects in coming years will also place a strain on the Government's financial resources, the medium-term fiscal outlook is less promising. In this connection, the authorities are conducting preliminary work on the introduction of a sales tax and are considering ways of improving the performance of those public corporations or governmental enterprises which could be a burden on the budget. Moreover, the authorities intend to maintain their policy of not subsidizing consumer goods and of generally allowing prices to reflect market conditions.

In the monetary field, domestic credit expanded by 51 per cent during the first six months of 1982 as a result of the deterioration in the net creditor position of the Government, which moved from E 52.1 million in December 1981 to E 31.5 million in June 1982, and a 15 per cent increase in credit to the private sector. The banks are now limiting the growth of credit because of the much tighter liquidity position, given their dependence upon government deposits. The authorities have increased interest rates to bring them more in line with those prevailing in South Africa. It is hoped that the increase will encourage savings as well as curb capital flight. They are also considering whether to restrict the placement of government funds with commercial banks so as to encourage them to increase their efforts to mobilize private sector deposits.

With regard to the external sector, the debt service burden of Swaziland is relatively low, equivalent to about 5.7 per cent of 1982 exports of goods and services. The country maintains an exchange system virtually free of restrictions on payments and transfers for current international transactions. The balance of payments is expected to improve in 1982, with a projected deficit of not more than SDR 18 million, compared with a deficit of SDR 26.4 million in 1981. Nevertheless, the improvement is not the result of an increase in export earnings but rather a reflection of the decline in the budget deficit and the increase in interest rates that took place in 1982.

With the softening of the world market for sugar, Swaziland, as an exporting member of the International Sugar Agreement (ISA), was obliged to accumulate special stocks amounting to 6,185 tons of sugar in the 12 months ended June 1982. In this context, my Swazi authorities are requesting a purchase of SDR 0.975 million under the buffer stock financing facility. The staff has indicated quite clearly in EBS/82/204 that the request satisfies all requirements of the buffer stock financing decision. Swaziland has a balance of payments need, as I have already pointed out, and the authorities have demonstrated their commitment to cooperate closely with the Fund in seeking solutions to the country's economic and financial difficulties. I therefore urge the Board to approve the proposed decision on page 7 of EBS/82/204.

Mr. Ainley said that he agreed with the staff appraisal in SM/82/223 and supported the proposed decisions. Swaziland, a small landlocked developing country, was extremely vulnerable to factors over which the authorities had little control. The performance of the main exports, and sugar in particular, was dependent on conditions in international markets. Receipts from the Customs Union with South Africa accounted for a substantial proportion of budgetary revenue, and membership in the Rand Monetary Area limited the scope for pursuing an independent monetary and exchange rate policy. However, within those constraints the authorities had maintained prudent, forward-looking policies, and Swaziland was now much better placed than many non-oil developing countries to cope with the effects of the world recession. The Government's liberal approach to foreign investment and its avoidance of exchange and trade restrictions had contributed to the favorable economic performance in the previous several years and were highly commendable. That the authorities intended to continue the present general approach was encouraging, as was Mr. Sangare's statement that the authorities would give major emphasis to attracting foreign investment in the coming period.

However, the expected slowdown in economic growth and increase in unemployment in 1983 underscored the need to address some of the underlying weaknesses in the economy to which the Managing Director had referred in his summing up of the previous discussion on Swaziland (EBM/81/150, 12/7/81), Mr. Ainley continued. The present review of development planning in Swaziland was welcome, and it would be useful to know when the authorities expected to complete the Fourth Development Plan. Transportation bottlenecks had become a serious problem, and he was pleased to learn that the authorities were doing everything possible to deal with it. They were also trying to diversify into crops other than sugar, which was prudent especially as the present world supply of sugar was excessive, the demand for sugar in world markets was weak, and the outlook for sugar prices was poor. The continuing decline in the price of sugar had weakened the Government's financial position, as income from the sugar levy had fallen while transfers to the sugar mill had been larger than had been expected in the current budget.

He agreed with the staff and Mr. Sangare that the medium-term prospects for the fiscal sector were less promising than they had been, Mr. Ainley said, and that the introduction of measures to diversify the revenue base and to improve expenditure control should not be postponed further. He hoped that the recommendations of the recent Fund technical assistance mission to Swaziland would be implemented as soon as possible. There had been few discretionary tax changes in recent years, and the introduction of a sales tax, perhaps with technical assistance from the Fund, would reduce the reliance on revenue sources beyond the control of the authorities. The tax might also add to the already high rate of inflation and could intensify the upward wage pressures, but those possibilities merely underscored the need to limit the growth in public sector wages and generally tighten the administration of the public finances. While some of the parastatal enterprises enjoyed a sound financial position, others clearly did not, and the differences in performance could be traced in part to the enterprises' pricing policies. A more flexible approach in that area would ease the present and future strains on the Government's financial position.

The authorities had much less room for maneuver in the monetary area than on the fiscal side because of Swaziland's membership in the Rand Monetary Area and the fixed parity with the South African rand, Mr. Ainley commented. The authorities clearly felt that the benefits of the regional arrangements outweighed the costs. Interest rates in Swaziland had to move closely in line with those in the rest of the Rand Monetary Area, and the narrowing of the interest rate differential between Swaziland and South Africa during 1982 had had a positive effect on financial savings and had helped to reduce capital outflows. Hence, he agreed with the staff that further increases in interest rates might be warranted, in part to help to alleviate the pressures on the commercial banks' liquidity position.

The staff's cautionary note in its appraisal on the external sector was appropriate, Mr. Ainley considered. Although the present debt position was fairly comfortable, large-scale foreign borrowing could be expensive and would not provide a lasting solution to Swaziland's problems. The country clearly had to take firm corrective action, particularly in the fiscal sector. He wondered whether the authorities had given any thought to negotiating a stand-by arrangement with the Fund. That possibility should be borne in mind, especially if the expected improvement in the balance of payments was slow in occuring. A stand-by arrangement would help to ensure an appropriate mix of financing and adjustment and would give confidence that additional resources could be attained if they were required. Finally, the considerable weakening in the external accounts since 1980 represented an underlying balance of payments need that fully justified Swaziland's proposed use of the buffer stock financing facility.

Mr. Dallara stated that he broadly agreed with the staff appraisals and accepted the proposed decisions. The economy of Swaziland had performed reasonably well in recent years. The authorities' commendable record of generally sound economic management had helped to promote an efficient allocation of resources and to encourage foreign investment, although recent and prospective developments in a number of related areas, and particularly the fiscal and balance of payments positions, seemed a cause for concern. He had had some difficulty in fully understanding the functioning of all aspects of the economy and the potential effectiveness of various policy measures because of Swaziland's close relationship with the much larger and more complex South African economy.

His main concern, Mr. Dallara continued, was fiscal policy and the implications of the likely fiscal developments for the medium-term balance of payments outlook. The improvement in the fiscal position expected in 1982 and 1983 was due in part to factors that were unlikely to recur. Accordingly, if the authorities were to be able to maintain a sustainable fiscal position in the medium run and achieve their growth and development objectives, they would have to make strenuous efforts to raise revenue and restrain expenditure. The authorities apparently agreed with the staff that diversification of the revenue base was needed, and their willingness to examine the possible introduction of a general sales tax was welcome. In that connection, some of the staff's statements were puzzling. On page 8 of SM/82/223 it was said that "they felt that measures to diversify the revenue base and improve expenditure control could not be postponed further." On the same page, however, the staff had indicated that, while the authorities had already drafted the relevant legislation, they had deferred its enactment for a number of reasons that were mentioned on pages 8 and 10. He fully recognized the need for the authorities to ensure that a proper administrative framework and a broader policy base were established before such fundamental changes in the tax system were made, but he wondered whether they might not delay the making of a timely effort to achieve the needed diversification.

On the expenditure side, Mr. Dallara went on, the scope for increasing control was limited. However, since the options for increasing revenues--particularly in the short run--were clearly limited, an effort to increase expenditure control was clearly necessary. Particular attention should be paid to improving the performance of all nonfinancial public enterprises, and there was little room to continue unproductive capital projects.

He agreed with the staff and Mr. Sangare, Mr. Dallara said, that the balance of payments prospects for the coming several years were not bright and that a substantial adjustment effort would be required. Indeed, in the absence of strong adjustment measures, Swaziland's balance of payments would probably not be sustainable in the medium term. Like Mr. Ainley, he doubted whether the planned Eurodollar borrowing was desirable, especially as it seemed to be an alternative, rather than a complement, to the needed adjustment. It was true that, because of Swaziland's membership in the Rand Monetary Area and the Customs Union, and because of the authorities' commendable commitment to maintain an exchange system free of restrictions on payments and transfers for current transactions, some automatic adjustment would occur. Nevertheless, he was worried that Swaziland's access to the capital markets might discourage the authorities from introducing the necessary adjustment measures. Finally, the request to use the compensatory financing facility met all the relevant criteria.

Mr. Morrell stated that the proposed decisions were acceptable. The authorities' policy stance, and particularly the fiscal restraint, was commendable. The membership requirements of the Rand Monetary Area and the Customs Union had important implications for Swaziland. It would be useful to know when the new staff paper on currency unions was to be brought to the agenda of the Executive Board.

Mr. Malhotra said that he fully supported the proposed decisions.

The staff representative from the African Department remarked that a staff paper on the Rand Monetary Area updating a 1976 paper was in the final stage of preparation.

The period of the Third Development Plan was drawing to a close, the staff representative commented. The World Bank had provided consultants who were to assist in the preparation of the Fourth Development Plan. The period covered by the Fourth Development Plan was to begin soon, but the consultants' report would probably not be available until approximately the end of 1983. However, it seemed clear that the Fourth Plan would be characterized by a reduction in investment in the sugar sector and by an increase in investment to improve the irrigation system in the traditional sector, where productivity was low at present.

The authorities were fully aware of the problems in the fiscal sector and appreciated the need to introduce a sales tax, but they were worried about making such a move, the staff representative said. The staff had pressed the authorities to introduce the tax, and the authorities would probably do so some time during the coming fiscal year. A number of different groups in Swaziland would have to be consulted about the tax proposal, which would obviously bear heavily on participants in the subsistence sector who made purchases in the monetized sector.

Unlike the nonfinancial public enterprises in most other developing countries, the enterprises in Swaziland, generally, automatically adjusted prices in response to cost increases, the staff representative explained. In general, pricing policy in Swaziland was commendable. The main needs were for adjustments of postal rates and the tariffs of the Water and Sewage Board. The authorities were reluctant to increase those rates because of the adverse effect on the low-income groups.

The staff had discussed with the authorities the possibility of negotiating a stand-by arrangement, the staff representative remarked, and the authorities had said that they were worried that their approaching the Fund might be seen as a sign of weakness. The staff had responded that members were being urged to approach the Fund at an early stage in the development of their payments difficulties, and the authorities had mentioned that they might wish to discuss the matter further with the staff early in 1983, in conjunction with their work on the budget for the coming fiscal year. They agreed with the staff that borrowing in the Eurodollar market could not sustain Swaziland's balance of payments position, and that adjustment was clearly needed. However, they stressed that the most recent borrowing was being used to finance several projects--particularly the northern rail link, which would allow the passage of freight from South Africa through Swaziland and the sugar mill--that had a high rate of return and were therefore fully warranted.

The authorities had recently informed the staff, the staff representative from the African Department said, that they intended to continue to bring interest rates closer to market levels pertaining in South Africa. That effort should have a positive short-term effect, particularly on the balance of payments.

Mr. Sangare remarked that, as a number of speakers had noted, the underlying fiscal situation remained weak. The sharp reduction in the budget deficit had been due to an increase in customs union receipts that was unlikely to be repeated. The authorities were fully aware of the problem and were taking steps to contain the growth in expenditure. At the same time, they were considering new sources of revenue, including a sales tax. Most public enterprises in Swaziland had a policy of automatically increasing prices in response to cost hikes; only a few enterprises--notably the water, sewage, and postal services--had lagged behind. The authorities had been concerned that price increases for those services bore particularly heavy on low-income groups. Nevertheless, electricity tariffs were being raised 20 per cent effective January 1, 1983, a move that should have a positive impact on the budget. The authorities were determined not to introduce subsidies on consumer goods.

A reassessment of public sector investment was an important part of the Government's planning process, Mr. Sangare commented. The authorities were still working on the Fourth Development Plan, and part of the exercise was an appraisal of the Government's investment strategy with a view to improving the allocation of resources to maximize output and to diversify the economic base away from its dependence on sugar. In addition, the lack of growth in traditional agriculture was being addressed as a matter of priority. A major review of the Rural Development Area Program was being conducted in order to increase the productivity of traditional farmers by expanding irrigation in the areas used for dry land farming.

Both the reduction in the budget deficit and the increase in interest rates had had a positive effect on the balance of payments, Mr. Sangare remarked. The authorities were fully aware of the need to maintain their prudent fiscal and monetary policies, but observers should not underestimate the adverse effect of external factors on the economy of Swaziland. The sugar market, on which Swaziland relied heavily, remained soft, and protectionist policies had limited the amount of sugar that Swazi producers could export. Like many other countries, Swaziland hoped for an early recovery of the world economy and favored policies promoting international trade.

The authorities did not intend to rely on borrowing in the Eurodollar markets to sustain the medium-term balance of payments position, Mr. Sangare said. They were committed to maintaining prudent policies to cope with the difficulties that undoubtedly lay ahead. Finally, Swaziland's participation in the Customs Union was on balance beneficial; the authorities recognized that the country's membership placed certain restraints on their conduct of fiscal and monetary policy.

The Acting Chairman made the following summing up:

Executive Directors generally agreed with the views expressed in the staff appraisal in the report for the 1982 consultation with Swaziland. They commended the authorities for the continued satisfactory record of economic growth, which had been facilitated by the pragmatic approach to economic management and the strong encouragement to private investment. However, the lack of growth in traditional agriculture, with its adverse implications for future employment prospects, and the unfavorable world market conditions for the main export crop--sugar--were a source of concern. The need to eliminate structural bottlenecks, particularly in transportation, was also stressed in the framework of the next development plan.

Directors welcomed the recent sharp reduction in the government deficit for fiscal year 1982/83, but noted that it was largely due to an increase in customs union receipts that was unlikely to be repeated. Restraint on expenditures and development of new domestic revenue sources was urgently required to avoid a recurrence of larger deficits. In this regard, the desirability of an early introduction of the general sales tax was emphasized, as was also the potential use of Fund technical assistance in implementing such a tax.

Directors commended the policies of allowing prices to reflect market conditions, but expressed concern regarding some recent uneconomic investments and the reluctance to raise prices in a few state enterprises.

Directors welcomed the reduction in interest rate differentials between Swaziland and other members of the Rand Monetary Area. They stressed that a further upward movement in interest rates may well be needed to avoid capital flight and to mobilize domestic savings.

Directors also noted that the immediate prospects for the balance of payments were not favorable. While recognizing the importance of adverse external factors, they felt that adjustment measures, primarily through an adoption of fiscal reforms, were urgently needed to minimize reliance on external borrowing. They noted that Swaziland's external public debt burden was not an immediate source of concern, but stressed the need for prudence and for improved procedures for the recording and monitoring of such debt.

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

The decisions were:

Decision Concluding Article XIV Consultation

1. The Fund takes this decision in concluding the 1982 Article XIV consultation with Swaziland in the light of the 1982 Article IV consultation with Swaziland conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

2. The Fund notes with satisfaction that Swaziland continues to maintain an exchange system which is free of restrictions on payments and transfers for current international transactions.

Decision No. 7285-(83/1), adopted
January 3, 1983

Purchase Transaction - Buffer Stock Financing Facility

1. The Fund has received a request by the Government of Swaziland for a purchase of the equivalent of SDR 0.975 million under the decision on the Buffer Stock Financing Facility: The Problem of Stabilization of Price of Primary Products, Executive Board Decision No. 2772-(69/47), adopted June 25, 1969, as amended by Decision No. 4913-(75/207), adopted December 24, 1975, and the decision on the Buffer Stock Financing Facility: 1977 International Sugar Agreement, Executive Board Decision No. 5597-(77/171), adopted December 16, 1977.

2. The Fund determines that this purchase would be in conformity with the decisions referred to in (1) above, notes the representations of Swaziland, and approves the purchase in accordance with the request.

Decision No. 7286-(83/1), adopted
January 3, 1983

DECISIONS TAKEN SINCE PREVIOUS BOARD MEETING

The following decisions were adopted by the Executive Board without meeting in the period between EBM/82/168 (12/23/82) and EBM/83/1 (1/3/83).

4. GREECE - EXCHANGE SYSTEM

The approval under Decision No. 7154-(82/92) of Greece's exchange restrictions and multiple currency practices is extended until March 31, 1983 or the completion of the ongoing Article IV consultation with Greece, whichever is the earlier. (EBD/82/318, 12/23/82)

Decision No. 7287-(83/1), adopted
December 29, 1982

5. ICELAND - EXCHANGE SYSTEM

The approval of Iceland's multiple currency practice under paragraph 2 of Decision No. 7210-(82/128), adopted September 27, 1982, is extended until December 31, 1983 or the completion of the next Article IV consultation, whichever is the earlier. The Fund urges the Icelandic authorities to adopt alternative solutions to raise revenue which would allow elimination of this practice as soon as possible. (EBD/82/317, 12/23/82)

Decision No. 7288-(83/1), adopted
December 29, 1982

6. SOMALIA - STAND-BY ARRANGEMENT - WAIVER OF PERFORMANCE CRITERION

Somalia has consulted with the Fund in accordance with paragraph 5 of the stand-by arrangement for Somalia (EBS/82/105, Supplement 1, 12/20/82). The Fund finds that in view of the circumstances described in EBS/82/236 (12/20/82), no additional understandings are necessary regarding the nonobservance of the performance criterion on intensification of exchange restrictions. In these circumstances, Somalia may proceed to request a purchase under the stand-by arrangement.

Decision No. 7289-(83/1), adopted
December 27, 1982

7. EQUATORIAL GUINEA - TECHNICAL ASSISTANCE

In response to a request from the Equatorial Guinea authorities for technical assistance, the Executive Board approves the proposal set forth in EBD/82/315 (12/22/82).

Adopted December 28, 1982

8. TUNISIA - TECHNICAL ASSISTANCE

In response to a request from the Tunisian authorities for technical assistance, the Executive Board approves the proposal set forth in EBD/82/313 (12/21/82).

Adopted December 28, 1982

9. ASSISTANT TO EXECUTIVE DIRECTOR

The Executive Board approves the appointment set forth in EBAP/82/442 (12/23/82).

Adopted December 28, 1982

10. EXECUTIVE BOARD TRAVEL

Travel by an Executive Director as set forth in EBAP/82/443 (12/27/82) is approved.

11. STAFF TRAVEL

Travel by the Managing Director as set forth in EBAP/82/444 (12/27/82) is approved.

APPROVED: June 8, 1983

LEO VAN HOUTVEN
Secretary

Jamaica - Main Indicators

(To Accompany Mr. Casey's Statement at
Executive Board Meeting 83/1 - January 3, 1983)

	1980	1981	Est. 1982
	(Percentage change)		
Real GDP	-5.4	2.0	0.4
CPI	28.5	4.8	6.8
Net domestic credit	39.6*	37.0*	29.0*
	(As percentage of GDP)		
Fixed investment	14.5	18.2	22.3
Overall balance of Central Government	-17.0*	-14.1*	-15.3*
Current external deficit	-6.2	-17.1*	-15.4*
Overall external deficit	-2.3	-2.8	0.9*
	(Pro memoria)		
Gross reserves of Central Bank in months of imports	0.6*	1.0*	1.4*
External debt service ratio (in per cent)	15.5	20.7*	23.6*
Unemployment rate (in per cent)	27.3	25.9	26.0

*Fiscal year.