INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 83/121

10:00 a.m., August 24, 1983

W. B. Dale, Acting Chairman

| Executive Directors | Alternate Executive Directors |
|---|---|
| | T. Ramtoolah, Temporary |
| | H. G. Schneider |
| | P. D. Péroz, Temporary |
| A. Donoso | |
| R. D. Erb | |
| | S. R. Abiad, Temporary |
| | T. Yamashita |
| J. E. Ismael | |
| | M. Casey |
| A. Kafka | |
| | G. Grosche |
| | G. Gomel, Temporary |
| | A. S. Jayawardena |
| | V. K. S. Nair, Temporary |
| | J. E. Suraisry |
| | T. de Vries |
| | M. J. Kooymans, Temporary |
| G. Salehkhou | A. A. Agah, Temporary |
| | E. I. M. Mtei |
| | J. L. Feito |
| | A. K. Juusela, Temporary |
| | C. Taylor |
| Zhang Z. | |

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

<u>Also Present</u>

B. Legarda, Consultant. African Department: S. M. Nsouli. Asian Department: H. O. Roden, M. Zavadjil. Exchange and Trade Relations Department: D. K. Palmer, Associate Director; W. A. Beveridge, Deputy Director. External Relations Department: H. P. Puentes. IMF Institute: A. A. Alsalami, Participant. Legal Department: J. K. Oh, S. A. Silard. Research Department: L. Alexander, N. M. Kaibni, E. A. Milne, T. K. Morrison. Secretary's Department: A. Wright, Deputy Secretary. Western Hemisphere Department: E. Wiesner, Director; J.-P. Amselle, M. A. Da Costa, E. Decarli, J. E. Gonzalez, M. E. Hardy, Z. Hodjera, M. C. Spinola, G. Terrier, F. van Beek. Advisor to the Managing Director: E. W. Robichek. Advisors to Executive Directors: S. R. Abiad, T. A. Connors, P. Kohnert. Assistants to Executive Directors: E. M. Ainley, H. A. Arias, R. Bernardo, J. Bulloch, M. Camara, M. B. Chatah, M. K. Diallo, M. Eran, C. Flamant, N. U. Haque, H. Kobayashi, W. Moerke, V. K. S. Nair, G. W. K. Pickering, C. A. Salinas, J. Schuijer, D. I. S. Shaw, M. Toro, J. C. Williams.

1. DOMINICAN REPUBLIC - REVIEW UNDER EXTENDED ARRANGEMENT, AND PURCHASE TRANSACTION - BUFFER STOCK FINANCING FACILITY - INTERNATIONAL SUGAR AGREEMENT

The Executive Directors considered a staff paper and proposed decision on a review under the extended arrangement for the Dominican Republic (EBS/83/155, 7/28/83) together with a request from the Dominican Republic for a purchase equivalent to SDR 12.643 million under the decision on the buffer stock financing facility (EBS/83/157, 7/28/83; and Sup. 1, 8/22/83).

Mr. Kafka made the following statement:

My Dominican authorities are grateful for the staff's report which they consider a basically correct record of recent economic events. They also agree with what they consider the main conclusion, namely that substantial adjustment has taken place since the inception of the program. Actually, two points merit special emphasis. In the first place, considerable adjustment had already taken place during the second half of 1982. Furthermore, under the program the Dominican Republic has not only met all performance criteria without exception, but actually overperformed in respect of five out of the six performance clauses or, if one wishes to exclude the ceilings regarding additional foreign debt, on four out of five performance clauses. Moreover, performance has been vastly superior than programmed with respect to the current account of the balance of payments: the projected deficit for 1983 is less than two thirds of the one which was programmed, it is in fact less than three fourths of the deficit foreseen for 1985, the last year of the program and less than one third of the deficit registered in 1982. Capital inflows have so far been below program despite some lending not expected initially, but it is legitimate to expect the delay to be overcome shortly. In this connection, my authorities wish particularly to thank Mr. Dale for his unceasing effort to produce a compromise. In any case, the delay is in no way dependent upon action by the Dominican authorities; the latter have, moreover, indicated that all necessary measures would be taken to compensate for any deficiencies in capital inflows. In this context, the Sugar Council has already achieved cost reductions as well as sugar sales subject to advances equal to the record level of US$42 million realized in 1982, i.e., US$6 million more than the amount targeted, as mentioned in footnote 1 of page 13, and Venezuela will supply approximately US$14 million of oil import credits for the last four months of 1983. Government savings are now projected to be slightly below what was programmed; the increase in central government revenues was well beyond expectation, and, in fact, practically up to the level expected originally to be reached only in 1984, while there was an unexpected increase in expenditures, the overall public sector deficit is expected to be as programmed, if the residual deficit is realized. Financing of the deficit, precisely for the reasons already mentioned regarding the delay in the availability of capital inflows, has so far had to rely on domestic sources to a larger extent than expected. This in turn was reflected in a larger share of domestic bank credit expansion to the public sector and a correspondingly lower one to the private sector, and to a larger increase than programmed in central bank foreign liabilities; this increase reflects deferred amortization payments under the refinancing arrangements. Fixed capital formation was slightly below expectation. Private sector savings have increased beyond expectation and have more than made up for the slight shortfall in public sector savings but not for the shortfall in foreign capital inflow.

I should also mention that there have been, as the staff shows very clearly, far-reaching advances in unifying the exchange rate system, which will continue as programmed. And there have been equally important advances in making the interest rate respond to economic forces. It is also noteworthy that despite a reduction in explicit and implicit subsidies, the rate of inflation as measured by the consumer price index has remained as low as in the past two years, probably the lowest in Latin America and the Caribbean. Another point which needs to be mentioned is that bonds issued to finance the housing program reflect essentially advances on additional revenues expected, particularly from the new sales tax which will start to be collected in January. All this was achieved despite the extremely unfavorable world market conditions facing the Dominican Republic reflected in a further deterioration in the terms of trade this year.

I have insisted on these corrections of emphasis because they indicate the care and dedication with which the Dominican authorities are prepared to proceed to enforce their adjustment program. For these reasons, my authorities feel that difficulties that any country might experience in carrying out a program are not likely, in this case, to pose any danger to its success. They feel that their record entitles them to be credited with sufficient determination to take any measures that may become necessary so that there is not only reasonable assurance but a fair certainty that the program will continue to be successfully carried out.

I have nothing to add to the staff's excellent paper on the use of Fund resources under the buffer stock financing facility, which is a clear-cut case.

Finally, I would like to add that the formulation of the medium-term investment program is proceeding. The authorities are merely waiting for the completion and discussion of the economic report of the World Bank to put the program into its final shape. They are eager to do this as quickly as possible.

Mr. Erb recalled that, when the request for an extended arrangement for the Dominican Republic had been discussed by the Board earlier in the year, he had expressed a number of concerns regarding the structural adjustment elements of the program and had indicated that it might be better suited to a one-year or two-year stand-by arrangement. Since then, the authorities had made good progress in reducing the public sector deficit, in part because of their success with more efficient tax administration. However, he was troubled by the fact that current expenditure was running above programmed levels while investment spending had fallen short of targets. He looked forward to improvements in the overall fiscal position of the public sector as the tax system was reorganized and strengthened, and he hoped that the authorities would maintain their commitment to reducing dependence on trade taxes.

He shared the concern of the staff that the tax credit certificates issued on behalf of the National Housing Institute might significantly diminish government revenue in 1984 and beyond, Mr. Erb continued. In the circumstances, the authorities should carefully monitor the issuance of the certificates and their effects on future revenues. Also, the good efforts of the authorities to reduce the deficit of the public sector enterprises--and particularly of the sugar company--should be continued. In the area of monetary policy, while the interest rate structure appeared to be satisfactory in relation both to domestic inflation and to international interest rates, continued monitoring of the interest rate structure would be important.

On the external side, Mr. Erb said, he shared the authorities' disappointment in the level of foreign capital inflows during 1983, and he commended their intention to take compensating domestic measures if necessary to ensure that program targets were attained; in that regard, action might be necessary sooner rather than later. With respect to efforts to adjust the effective exchange rate, the authorities should move promptly toward a unification of the rate, which in his view was a necessary precondition for the successful diversification and medium-term strengthening of the domestic economy. Developments on the exchange rate side would weigh heavily in his assessment of the second and third year of the program.

The Dominican Republic authorities should be commended for nearly halving outstanding payments arrears in the first six months of the program, Mr. Erb commented. He hoped that the reductions would be continued, and that the authorities would redouble their efforts to reduce delays in paying off letters of credit. He was encouraged to note that the rescheduling agreement with commercial banks had been nearly concluded.

While sharing the authorities' satisfaction with accomplishments to date, he remained disappointed in the review, which he had hoped would provide a clearer direction for structural adjustment, Mr. Erb said. While the demand management elements of the program seemed to be satisfactory, the structural adjustment component--including adjustments in the exchange rate regime--was not adequate. A more detailed structural adjustment program would need to be put in place as the basis for the second and third year of the extended arrangement and he expected the World Bank to collaborate actively in the formulation of the structural adjustment strategy. Given the types of investment problems facing the Dominican Republic, the expertise and financing of the World Bank should be brought more prominently into the picture.

Mr. Suraisry stated that he was in general agreement with the analysis in the staff papers and could support the proposed decisions. The request by the Dominican Republic for a purchase under the buffer stock financing facility fully statisfied the requirements of the relevant decisions; in particular, the recent performance of the authorities under the extended arrangement provided convincing evidence of their cooperation with the Fund.

With respect to the extended arrangement itself, Mr. Suraisry considered that the authorities should be commended for the progress they had made in tackling the imbalances in the economy. Inflation had been reduced, the fiscal and external accounts had improved significantly, and arrears were being eliminated as scheduled. All the performance criteria had thus far been met, and the program for the first year seemed to be on track. Nonetheless, the economic situation remained difficult. In particular, it was not clear whether the authorities would be able to secure the external financing necessary for the program's success; hence, there was no room to relax the adjustment effort.

On the fiscal side, much had been done to increase revenues, Mr. Suraisry observed. The authorities should, however, continue the process of strengthening tax administration and improving tax collection; the introduction of a general sales tax could boost revenues further, and every effort should be made to implement such a tax by the end of the year. It would also be important to maintain strict control over current expenditures, which were at present running above budget. In that regard, there might be scope for further streamlining of the operations of the public sector enterprises, and he agreed with the staff that the authorities should withhold further transfers to the housing construction program if the agreed fiscal targets were not met.

On the external side, the better-than-expected improvement in the overall balance of payments position was encouraging, despite the uncertainties surrounding the level of external financing, Mr. Suraisry commented. He was happy to note that the authorities were prepared to take compensating domestic measures if there were shortfalls in external assistance. Also, the shift in transactions from the official to the parallel market appeared to be going smoothly, and the dual rate system was serving a useful purpose as a transitional measure; however, he encouraged the authorities to move to a unified exchange rate as soon as possible. Finally, he shared Mr. Erb's concern about the lack of detail in the staff paper on the structural measures that had been or would be adopted to stimulate savings, investment, and growth over the program period. He hoped that such measures would be covered in full when the staff prepared the program for the second year.

Mr. Grosche agreed that the Dominican Republic had made substantial progress in implementing the program: all performance criteria had been observed, and the adjustment of the economy had been remarkable. Nevertheless, considering the severe internal and external imbalances that the country had been facing when the program had become effective, there remained much to be done to put the economy on a sound footing.

External financing problems were being alleviated through the restructuring of foreign debt, Mr. Grosche observed. However, there were reasons for worrying that financing might not be sufficient to permit achievement of the program's balance of payments objective in 1983. He therefore attached great importance to the authorities' readiness to take compensating policy measures if sufficient financing could not be secured. On the fiscal side, he welcomed the major strengthening of tax administration, which was reflected in a stronger-than-expected performance of revenues. Nevertheless, he had noted with some concern that current spending was running above budget projections, and that it was unlikely that a current account surplus would be achieved as planned. The Government was apparently prepared to cut back on capital expenditures, particularly on those relating to housing construction, in order to meet the target; but a stronger emphasis on limiting current expenditures might be called for.

Like previous speakers, Mr. Grosche said, he was troubled about the way in which the housing construction program was being financed. Insofar as it was financed through the issuance of tax credit certificates, sizable claims on revenues could be created in 1984 and beyond. He strongly supported the staff's view that the housing construction program should be kept under close review to ensure that the fiscal targets were achieved. The authorities' argument that the yield of the certificates should be sufficient to prevent them from being redeemed quickly had some merit, considering the relatively low inflation rate at present; but problems could arise if inflation were to accelerate. Finally, the request of the Dominican Republic for a purchase under the buffer stock financing facility was clear cut, and he could support the proposed decision.

Mr. Casey observed that the economic situation in the Dominican Republic appeared to have improved somewhat in the past year, despite the problems faced by the authorities in the external sector. Even with lower-than-expected capital inflows, the current account balance of payments deficit was expected to improve by around US$100 million through lower imports and service payments. The reduction in the deficit of the nonfinancial public sector demonstrated the authorities' commitment to the adjustment process. If there were any doubts about the success of the program, they lay in the uncertainty surrounding the level of foreign financing for the remainder of the program period. In that regard, he welcomed the readiness of the authorities to take compensating adjustment measures if the level of external financing should turn out to be lower than envisaged. He was also encouraged by Mr. Kafka's statement that the delays in capital inflows would be overcome shortly; in that context, he understood that the commercial banks had agreed to a refinancing package and that some agreement had been reached with respect to the refinancing of the US$60.8 million export financing loan to the State Sugar Company (CEA) in conjunction with the World Bank cofinancing agreement.

On the fiscal side, Mr. Casey continued, the authorities should be commended for the adjustment to date, and particularly for the improvement in revenues. However, like others, he remained concerned about the ability of the authorities to control current expenditures. The first four months of 1983 showed a substantial increase from the same period in 1982 in the purchase of goods and services, and in transfers to the private sector and to public sector enterprises. The Government had not completely corrected the serious difficulties in the state enterprises, although its efforts seemed to be in the right direction. He wondered whether the Electricity Corporation should not perhaps be considering increasing charges at an early opportunity in order to cover operating expenses. Also, he had questions about the appropriateness of the new tax credit certificates earmarked for the National Housing Institute, especially since there were uncertainties about when those certificates might be used to reduce tax liabilities. The system could conceivably lead to an "overhang" and make the formulation of fiscal policy more difficult in future.

Commenting on the external side, Mr. Casey noted that the improved current account seemed to be sufficient to offset the lower-than-expected capital inflows. Besides, as mentioned by Mr. Kafka, capital inflows should increase with agreement on the commercial bank refinancing package. On another matter, he observed that the performance criterion relating to external arrears might not be fully comprehensive, since it seemed to apply only to the indebtedness of the central bank. Finally, he welcomed the measures taken to shift more transactions to the parallel exchange market. It had been pointed out during the discussion of the Dominican Republic's request for an extended arrangement that the link to the U.S. dollar would be difficult to break; nevertheless, an early unification of the exchange rate would be in the best interest of the Dominican Republic in the long run. In any case, a prudent approach seemed to be called for, partly because of the high debt service obligations that were likely to fall due in 1985 and beyond. In conclusion, he could support the proposed decisions.

Mr. Taylor observed that he had no difficulty with the proposed decision for a purchase under the buffer stock financing facility. With respect to the extended arrangement, the action taken by the Dominican Republic authorities to adjust the domestic economy was welcome, although his own authorities continued to have strong doubts about whether the case was well suited to an extended arrangement. Those doubts concerned both the need for extended Fund support and the scope of adjustment envisaged under the program.

The Dominican Republic had faced severe external problems during 1982, but its position at present looked far more stable, and the projections in the review paper suggested that the current situation was fairly sustainable, Mr. Taylor continued. For example, the public sector deficit was projected to remain modest at around 3.7 percent of GDP, and the current account deficit was expected to fall below 2 percent of GDP in 1983. Moreover, if the rescheduling was successful, the debt service ratio was projected to fall below 30 percent, at least until 1985. In the circumstances, it was not altogether clear that the Dominican Republic was suffering a serious payments imbalance of the sort required for a drawing under the extended Fund facility. The question could be raised of whether it would be necessary for the authorities to draw the full amount of Fund credit envisaged under the program, and whether the member might not use the Fund's approval of its policies mainly to gain greater access to commercial credit. It was possible that Fund support might be needed more later if the increased debt service ratio could not be smoothed out through rescheduling; with that possibility in mind, the authorities should perhaps give serious consideration to limiting drawings under the extended arrangement at present.

With regard to the scope of adjustment in the Dominican Republic, Mr. Taylor said that he had found little indication of specific policies designed to remedy the structural weaknesses of the economy, even though the guidelines of the extended Fund facility called for comprehensive structural adjustment policies. Like others, he believed that it was important for extended arrangements to contain a clear delineation of the structural adjustment being pursued throughout the three-year period, not only for the benefit of the economy concerned but also to maintain the credibility of the Fund as an institution that was dedicated to economic adjustment. In the case of the Dominican Republic, it was regrettable that the adjustment objectives and strategy for pursuing them were not yet clearly drawn for the second and third years of the arrangement; it was also disappointing that the disbursement of a nonproject loan from the World Bank was apparently no longer contemplated for 1983. He would appreciate hearing from Mr. Kafka or the staff about the likelihood of any structural adjustment loans from the World Bank. On balance, while his authorities continued to have doubts about the suitability of an extended arrangement for the Dominican Republic and would have preferred a short-term stabilization program, they could go along with the proposed decision.

Turning to the program itself, Mr. Taylor agreed with others that the authorities had made commendable progress toward meeting the fiscal targets, although he was disappointed at the increase in current expenditures, especially since the projections for government revenues in 1983 had been revised downward. In that regard, he queried the observation in the staff paper that the current level of tax collection was relatively "buoyant."

On the supply side, little had been said in the staff papers about the price controls maintained by the Price Stabilization Institute, although he assumed that the controls remained in force at current levels, Mr. Taylor continued. He had also found little discussion of subsidies, and wondered whether the staff considered the tariff rates charges by the public sector to be adequate.

With respect to the external side of the economy, he welcomed the projected improvement in the current account deficit to about 1.9 percent of GDP in 1983 as a result of declining imports and lower interest rates overseas as well as of higher revenue from tourism, Mr. Taylor said. Following the expected rescheduling of commercial bank loans, the country would continue to rely heavily on official organizations for the bulk of its external financing requirements. The Caribbean Basin Initiative might be expected to help cover that need, but he would be interested in hearing whether any efforts were being made to encourage private investment--particularly direct private investment--as a sustainable alternative to official sources of finance. The action being taken to regularize the debt position with the commercial banks was welcome, and he noted from the staff paper that the authorities were also considering an approach to the Paris Club. He would appreciate hearing from the staff or Mr. Kafka some indication of how much official debt might be involved in such a rescheduling process. The progress made in reducing payments arrears was also welcome, and the objective of reducing them by US$100 million by the end of the year seemed achievable. Finally, the absence of a timetable for unification of the exchange rate was disappointing. The improvement in the current account deficit raised the question of whether the continuation of multiple currency measures could be justified, and his authorities attached importance to the elimination of those practices before the conclusion of the extended arrangement.

Mr. de Vries observed that the Dominican Republic authorities had achieved some success in their efforts toward stabilization during the first year of the program. However, an extended arrangement required a structural, medium-term component as well, and he agreed with others that progress in that area was somewhat disappointing.

He hoped that the various measures already adopted by the authorities would have positive effects, Mr. de Vries continued; in particular, it would be helpful if arrears could be cleared up shortly. As he understood it, there were some US$450 million in arrears that would be rescheduled with the banks; however, another US$250 million would have to be repaid during the program period.

Like others, he was concerned that the authorities had not yet been able to clarify their medium-term and longer-term adjustment strategy, Mr. de Vries remarked. For structural adjustment to take place over the medium term, it was important that action should begin at an early stage and, while some stabilization had taken place in the first year of the program, a clear strategy had not yet been outlined for the later years. It was encouraging to note from Mr. Kafka's statement that the authorities had only been awaiting an assessment by the World Bank of the investment program before embarking on such a strategy; however, he was somewhat concerned by the argument that their record showed their determination to take any measures "that may become necessary...." In his view, an active rather than a reactive strategy was required if the extended arrangement was to be successful.

Mr. Donoso stated that he was in broad agreement with the staff appraisal and could support the proposed decisions regarding the review of the extended arrangement and the use of Fund resources under the buffer stock financing facility. The program under review had been framed in late 1982 by the Dominican Republic authorities to deal with a severe deterioration in the public sector finances and increasing difficulties in the balance of payments position. A comprehensive set of measures in the fiscal, monetary, and external fields had been designed and successfully implemented through the first half of 1983.

With respect to fiscal policy, the program aimed at sharply reducing the public sector deficit through measures adopted on both the revenue and expenditure sides, Mr. Donoso observed. In that context, progress already made toward the implementation of tax measures and improved management of the public enterprises should be underscored because they reflected the commitment of the authorities to adjust promptly.

On the external side, an increased number of transactions had been transferred to the parallel foreign exchange market, thus allowing a larger-than-projected reduction in the current account deficit and offsetting in part the lower level of available foreign financing, Mr. Donoso commented. The shift was a particularly welcome development in view of the continuing uncertainty about the prospective flow of external financing. In that regard, action had already been taken to reduce liquidity in the financial system and, together with the sale of stabilization bonds by the Central Bank, had made a welcome contribution to reducing pressures on the balance of payments. Moreover, he was encouraged by Mr. Kafka's indication that shortfalls in external financing might be overcome soon, hence eliminating what in his view was the main obstacle to the successful implementation of the program.

Not only had the authorities met all the performance criteria thus far under the program, they had gone even further in implementing corrective measures in all those areas in which eventual departures from the target might emerge, Mr. Donoso said. Their full commitment to the objectives of the program had allowed for the sizable adjustment already made and was a clear sign that further progress could be achieved. Finally, he could support the request for a purchase under the buffer stock financing facility, which met all the requirements of the relevant decision.

Mr. Feito, expressing his support for the proposed decisions, agreed with others that significant progress had been made in the first year of the program, resulting in a substantial adjustment of the economy. All quantitative performance criteria had been met or bettered--some by an ample margin--and the macroeconomic results thus far in 1983 were highly satisfactory.

The authorities should be strongly commended for their determination to implement the financial program and achieve the needed adjustment, Mr. Feito commented. Their efforts in the fiscal area were particularly noteworthy: a major strengthening of tax administration, initiated in

1982, had resulted in a strong performance of revenues and a considerable reduction in the deficit of the nonfinancial public sector. Further tax measures were being put in place, including a 50 percent increase in the excise tax on cigarettes and a lesser increase in the excise tax on liquor. On the expenditure side, delays in the implementation of the public investment program had resulted in less-than-projected investment spending. The short-term effects of that delay might have been beneficial to the adjustment effort; however, he hoped that the difficulties encountered in some of the projects financed by the World Bank and other international institutions could be resolved quickly. The financial performance of the major public sector enterprises had improved considerably, and the domestic financing requirements of those enterprises for 1983 were expected to be in line with program projections. He welcomed the authorities' indication that they would make further reductions in central government expenditures if any overruns occurred.

With regard to the external sector of the economy, Mr. Feito considered the improvement attained in the overall balance of payments and the reduction in external payments arrears to be encouraging. However, the uncertainty surrounding the availability of foreign financing for 1983 had already begun to have an adverse effect on the balance of payments, making the adjustment effort more difficult and testing the determination and ability of the authorities to carry out the stabilization program. As noted by the staff, shortfalls in foreign financing had already caused reduced imports of goods and services, and had resulted in a larger-than-projected reduction in the current account deficit and a greater-than-envisaged cut in the standard of living of the population. The refinancing package with the commercial banks was an essential element of the stabilization process, and agreement on that package had apparently already been reached. Nonetheless, there remained uncertainties about the magnitude of capital inflows in the period ahead. He noted Mr. Kafka's encouraging indication that the authorities intended to take compensating policy action if called for by further shortfalls in capital inflows; he hoped that the expected capital inflows would materialize so that the mix of adjustment and financing would not be unduly unbalanced.

The staff representative from the Western Hemisphere Department explained that the structural adjustment component of the program had not been clearly delineated in the review mainly because the World Bank's assessment of the public investment program had not yet been completed. The staff of the World Bank expected to discuss its report with the Dominican Republic authorities early in September, and a consultative donor group meeting would take place at the beginning of December; at that time the Fund staff would have a better basis on which to explore in greater detail the appropriate structural elements to be incorporated in the second year of the program. World Bank involvement in the Dominican Republic had been increasing; for example, the Bank was reviewing the situation of the state sugar company--the CEA--with an eye to proceeding with disbursements of a loan approved in 1978. Furthermore, the 1978 proposal for a cofinancing arrangement that had been part of the originally proposed loan had been revived in connection with the refinancing arrangements being worked out with the commercial banks. The World Bank was also nearing agreement with the Electricity Corporation on certain loans to that entity. The possibility of a structural adjustment loan was still under consideration; further progress would depend on the completion of the Bank's review of the public investment program.

With regard to questions on tariffs in the Dominican Republic, the staff representative noted that tariffs of the Electricity Corporation had been raised a number of times, most recently over a period of 15-18 months ended May 1982. On the basis of that substantial rate increase, it had been projected that the finances of the Electricity Corporation would show a sharp turnaround in current operations from 1982 to 1983, and that turnaround had in fact begun. However, as pointed out in the staff paper, the Corporation had run into some difficulties as a result of weather conditions that had increased electricity consumption while reducing the availability of hydroelectric power. The World Bank was reviewing the operations of the Electricity Corporation, as well as the need for tariff adjustments, and was considering various investments that might help to reduce the cost of operation. The Fund would continue to be in close contact with the World Bank staff on those matters.

A number of Directors had commented on the increase in current expenditures in the Dominican Republic, the staff representative recalled. One explanation of that increase--which had not been referred to in the staff paper--concerned a statistical break in the series related to a change in certain accounting practices by the new Administration. In the past, fairly large amounts of current expenditures had been included in the capital outlays for various investment projects; the new officials in the Ministry of Planning had decided to change that practice so that, to some extent, the increase in current expenditures was overstated.

In response to a question by Mr. Taylor on the efforts of the authorities to encourage direct foreign investment, the staff representative observed that modifications to the legislation governing foreign direct investment had recently been enacted. Those modifications should eliminate some of the obstacles to foreign direct investment that had been posed by the previous code, which had, for example, made it difficult for firms operating in the country to apply their retained earnings to investment in activities other than those they had traditionally pursued.

With regard to the amounts that might be involved in a Paris Club rescheduling of debt to official creditors, the staff representative remarked that, while the figures were tentative, it was apparent that some $60 million in amortization and interest payments might be put forward for consideration by the Paris Club. Finally, with regard to Mr. Taylor's technical question concerning the apparent inconsistency between the figures in Table 7 of the staff paper and the statement by the staff that revenues were "buoyant," he noted that revenue collections had begun to increase sharply in September 1982 as the new Administration had moved to improve tax administration. The continued strength of revenues could be seen from Table 12 of the paper, which showed that revenues had increased by more than one third between January-April 1982 and January-April 1983.

Mr. Kafka stated that, in his view, quite far-reaching structural adjustment had taken place in the Dominican Republic, particularly in respect of the exchange rate unification. Given the long history of parity between the peso and the U.S. dollar, unification was a difficult process; however, the authorities had progressed as rapidly as could be reasonably expected, and there was every intention on their part to continue toward the goal of unification. In other areas of structural adjustment, the delay in formulating a medium-term investment program in conjunction with the World Bank had not been the fault of the authorities of the Dominican Republic. It was to be hoped, however, that the investment program would soon be discussed and approved so that the medium-term adjustment strategy could be formulated.

On a more general matter, Mr. Kafka said that he had noted of late that certain of his colleagues had a tendency to stress primarily the dangers to the implementation of a program, dangers which of course always existed. Certain other Directors, noting that the implementation of a program was progressing well, sometimes questioned whether the program had been necessary in the first place. It was an illusion to believe that financing from the private banks would be forthcoming without strong financial support by the Fund and other official entities for a country's adjustment program; indeed, the existence of a relatively long-term program like an extended arrangement with the Fund was often a necessary precondition for commercial bank financing.

The Executive Board then adopted the following decisions:

Review Under Extended Arrangement

The Fund and the Dominican Republic have completed the review contemplated in paragraph 4(c) of the extended arrangement for the Dominican Republic and in paragraph 3 of the letter of January 14, 1983, attached thereto. No new understandings are necessary regarding circumstances in which purchases may be made by the Dominican Republic until January 20, 1984.

Decision No. 7493-(83/121), adopted
August 24, 1983

Purchase Transaction - Buffer Stock Financing Facility - International Sugar Agreement

1. The Fund has received a request by the Government of the Dominican Republic for a purchase of the equivalent of SDR 12.643 million under the decision on Buffer Stock Financing Facility: The Problem of Stabilization of Prices

of Primary Products (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 Buffer Stock Financing Facility: 1977 International Sugar Agreement (Decision No. 5597-(77/171), adopted December 16, 1977.)

2. The Fund determines that this purchase would be in conformity with the Decisions, notes the representations of the Dominican Republic, waives the limitation in Article V, Section 3(b)(iii), and approves the purchase in accordance with the request.

Decision No. 7494-(83/121), adopted
August 24, 1983

## 2. GRENADA - 1983 ARTICLE IV CONSULTATION, AND REQUEST FOR EXTENDED ARRANGEMENT

The Executive Directors considered the staff report for the 1983 Article IV consultation with Grenada together with a request for an extended arrangement equivalent to SDR 13.5 million (EBS/83/164, 8/9/83). They also had before them a report on recent economic developments in Grenada (SM/83/182, 8/11/83).

Mr. Casey made the following statement:

It is now almost three years since Grenada first requested an extended arrangement. Negotiations have been conducted in good faith by both sides several times since then but for various reasons they were not successful.

In May 1981, a one-year stand-by arrangement--76 percent of quota--was approved as a compromise. All purchases were made except the last one because understandings were not reached on ceilings covering the last few months of the arrangement. It is important to note, however, that in the event these ceilings were adhered to, and the stand-by arrangement helped considerably in stabilizing the economy.

Grenada then commenced negotiations for a follow-on stand-by arrangement--though their preference was still for an extended arrangement--but agreement could not be reached at that time. The presently proposed arrangement must, of course, be judged on its own merits, which are considerable. In addition, the proposed extended arrangement should be seen as the successful culmination of a difficult, though productive dialogue that has continued for several years.

Despite unfavorable developments abroad, a hurricane in 1980, and a drought in 1982, the economy grew by about 3 percent a year in real terms over the last four years. Growth was largely investment-led, with the emphasis on construction and infrastructure. This year public sector investment will slow down but tourism is expected to offset this to a large extent. The recovery in tourism is noteworthy because it indicates that the exceptional natural attractions of the country are overcoming unfavorable publicity which itself is beginning to weaken. It also indicates that the new airport--which, incidentally will still be relatively small by comparison with others in the region, (see Appendix I)--will yield a sizable internal rate of return.

The rate of inflation has declined from around 20 percent a year in the early 1980s to about 5-6 percent at the present time. This good performance mirrors international trends, of course, but increased domestic food supplies and much more moderate wage increases also helped significantly.

The overall fiscal deficit was 7.5 percent of GDP in 1979 and grew to 33 percent in 1982, reflecting burgeoning capital outlays especially on the airport. Up to 1980 the deficits were relatively easily financed by foreign grants and concessional loans, but more recently there has been increasing reliance on foreign commercial loans--mostly suppliers' credits for airport equipment--and on the domestic banking system. It should be noted that over the last few years, the current fiscal situation improved considerably, moving from a deficit of 2.3 percent of GDP in 1978 to a surplus of 2.7 percent in 1982. The nonfinancial public enterprises also moved to a surplus on their operations. The authorities were clearly playing their part in mobilizing public sector savings to contribute to their ambitious public sector investment program (PSIP). Unlike most other countries at a crucial stage of development, Grenada received no assistance from the World Bank. The airport project is now almost completed. The remaining cost of some $15 million is already covered by committed grants and suppliers' credits.

The current balance of payments deficit widened from 7 percent of GDP in 1979 to 33 percent in 1982. The growth in the deficit largely reflected developments on the fiscal side and, in much the same way, was self-financing. The problems were compounded, however, by deteriorating terms of trade and low foreign demand, especially in relation to nutmeg and tourism. Fire damage in one of the main hotels also affected tourism. The balance of payments position would have been considerably worse, however, were it not for an impressive growth in nontraditional exports, reflecting the success of the Government's strategy of diversification. Total exports, including tourism, recovered in early 1983. As the bulk of external financing is concessionary, the debt service ratio--4.5 percent in 1983--is manageable although it will rise over the medium term as grace periods expire. It is expected to peak at about 12.5 percent in 1985/86.

Between 1978 and 1981, the local commercial banks were quite liquid. Outstanding credit to the public sector declined, while credit to the private sector grew by about 12 percent a year. Since then, however, bank liquidity became very tight as the Government had no recourse but to tap the banks for additional credit. The liquidity ratios of the banks fell to very low levels at end 1982. The authorities were aware of the potential dangers of this situation and stood ready to take corrective action. Market interest rates moved upward and are now, on average, close to positive in real terms.

The proposed adjustment program is designed to reduce the internal and external imbalances and lay the basis for sustainable growth. Because the overall fiscal and current balance of payments deficits are so large, reflecting in part inadequate multilateral aid to Grenada in the last several years, correction requires adjustments that can truly be termed structural (see Appendix II). It should also be noted that the proposed drawings are much below the enlarged access limits and are evenly phased despite the fact that Grenada's financing need is front-loaded.

The overall fiscal deficit is programmed to fall from 38 percent of GDP in 1982/83 to 16 percent in 1985/86. Nonconcessionary financing is to fall from 11.5 percent of GDP in 1982/83 to almost zero in 1985/86. In the case of a member of the East Caribbean Currency Authority (ECCA), this is where the main performance criterion operates--monitored on a quarterly basis. In addition, the reserves of government-owned commercial banks have to be rebuilt. There is also a restriction on new commercial borrowing. The remaining performance tests relate to consultations with the Fund, exchange and trade restrictions, and a mid-term review before the 1984 budget.

Public sector savings are programmed to reach almost 6 percent of GDP by the end of the period--a very high figure by international standards. To this end, a substantial tax package was introduced in June. The annual increase in the central government wage bill is to be held to 5.5 percent a year from January 1984 on.

The PSIP will be largely concentrated on infrastructure. Over the three-year period outlays on the airport will average only 15 percent of total capital spending. Thus, the airport project will no longer dominate the PSIP; in fact, the agricultural sector will receive far more attention. The World Bank has given a general endorsement to the sectoral investment priorities of Grenada. Although the PSIP is expected to be financed without any difficulty, mainly from grants and concessionary loans, the program includes a contingency fund for unforeseen local currency expenditures.

The external side will mirror the fiscal correction. The current balance of payments deficit is expected to fall from 33 percent of GDP in 1982 to 16.5 percent of GDP in 1985/86. Improved air access is expected to increase not only tourism but private sector exports as well.

The overall balance of payments will continue to show a small deficit, however. This is mainly because external grants to, and borrowings by, the public sector are expected to fall. In addition, domestic banks are expected to reduce their foreign indebtedness. However, private investment is expected to increase over the program period but not rapidly enough to offset the other trends. The overall balance of payments deficits will be financed exclusively by Fund drawings. There are no external arrears and none are envisaged. The trade and payments system is a relatively liberal one and will become more so at the earliest possible opportunity.

Because the real effective exchange rate appreciated markedly over the past two years, the Government will consult with the other member governments of the East Caribbean Central Bank (ECCB)--to be established in October 1984--on the regional exchange rate level and system at an early opportunity.

Monetary policy aims at rebuilding the liquidity of the banking system and providing adequate credit for the private sector. This implies a reduction in outstanding public sector debt from the banks and a reduction in special deposit requirements. Selective credit controls will be used as far as possible to channel credit toward productive private sector activities. Interest rates seem reasonable at present and the authorities will review interest rate policy in consultation with the other members of the ECCB.

In conclusion, this is a good quality program in which the main targets are ambitious but achievable. The performance criteria and adjustment measures are consistent with the targets and are well tailored to the economic characteristics of a small open economy that is a member of a currency union.

The authorities of Grenada wish to express their gratitude to the staff for the excellent manner in which they conducted the Article IV consultation and the negotiations for an extended arrangement.

Mr. de Vries stated that he had difficulty with the requested extended arrangement in all its aspects: the case for the arrangement had not been well made, and it had been presented to the Board at a bad time and through a poor procedure.

With regard to the problems of procedure, Mr. de Vries observed that there had been a long delay since the previous Article IV consultation with Grenada. Normally, under such circumstances, the consultation would be held in advance of any request for an arrangement; but that procedure had not been observed in the case of Grenada. Moreover, the pressure for a quick decision had come at a time when a number of staff members most closely concerned with Grenada had been absent from Fund headquarters. While the Western Hemisphere Department had made an admirable effort to keep Directors fully informed on the case, the hurried procedure had tended to put the request in an unfavorable light from the very beginning.

As to the substance of the program, Mr. de Vries remarked that he saw no major adjustment in the budget deficit, apart from the natural reduction that would arise from the completion of the airport project. Reductions in other expenditures, excluding those on the airport, would lead to only a marginal decline in the budget deficit from around 19.5 percent of GDP to 16 percent of GDP, a level that, according to experience, was not sustainable in the medium term.

Commenting on monetary policy, Mr. de Vries recalled the indication by Mr. Casey that interest rates were "close to positive in real terms." The implication was that such rates remained negative, and he saw no evidence of the intention to deal with the continued existence of negative rates. In the area of wages, it was apparent that, while a reduction was needed, real wages would remain at their current level, even if the current wage program was successful.

Investment was another area that gave him difficulty, Mr. de Vries continued, mainly because the proposal to go ahead with an extended arrangement without a clear assessment of the investment program by the World Bank seemed to be a departure from Fund policy. The ambitious public sector investment program was expected to remain at almost 25 percent of GDP, and yet the World Bank had made no clear pronouncement on the matter. Two years previously, the Managing Director had informed the authorities of Grenada that any request for an extended arrangement would raise concerns among Executive Directors about the investment program. The Managing Director had stated that "the Board has clearly indicated on a number of occasions that the Fund should not engage in an extended Fund facility with a member when there is an investment program or a single project which would dominate an investment program without having an indication from the World Bank that the thrust of the investment program or its particular projects are appropriate." As the World Bank had not made a clear judgment on the feasibility of the various aspects of the investment program, he found it difficult to understand the rationale for bringing the request for an extended arrangement before the Board.

His attitude toward Grenada's request was also influenced by the exchange rate of the East Caribbean dollar, which was substantially overvalued, Mr. de Vries said. He understood of course that the rate could be changed only by agreement of all members of the ECCA and that Grenada could take no action by itself. However, without some action, no structural adjustment was possible. Also, Grenada maintained a multiple currency practice and the authorities had given no indication that they were taking concrete action to correct it.

On a related matter, Mr. de Vries said, he was curious about the authorities' optimism about a revival of tourism. Why should tourists select a country with an overvalued currency and the remnants of "unfavorable publicity"? Also, the number of cruise ships to Grenada had fallen drastically, and they were not likely to increase once the airport was completed. Finally, he noted that it had taken a long time to put a fire-damaged hotel back into operation, even though none of the rooms had been damaged; such delays served only to reduce confidence in the public sector investment program.

The lack of adjustment in Grenada had been explained in part by Mr. Casey's suggestion that a number of areas of the economy required no adjustment and that adjustment efforts in other areas--particularly with regard to exchange rate and monetary policy--were hampered by Grenada's membership in the ECCA, Mr. de Vries observed. Hence, Grenada was left with a large balance of payments need resulting from an ambitious public sector investment program, and the request for an extended arrangement, if approved, would involve the Fund in the financing of development aid. That was not to say that Fund financing was inappropriate when a country had a development program; and it was possible that Fund assistance could result in increased investment.

To clarify the appropriateness or inappropriateness of Fund financing of development, Mr. de Vries went on, it was important to remember that the business of the Fund was to finance the consequences of previous policy mistakes while those mistakes were being rectified by the authorities. That concept was given practical and operational significance under Article I of the Articles of Agreement, which spoke of the temporary use of the Fund's resources. The Fund was empowered to give assistance "to shorten the duration and lessen the degree of disequilibrium in the international balances of payments of its members." The Fund was able to provide resources to members because it had available deposits of monetary reserves that members put at the institution's disposal on the understanding that they would be used for temporary balance of payments financing. The system was a logical one and should be followed. Unfortunately, Grenada did not appear to be requesting a temporary use of Fund resources; rather, the money would be financing an investment program. According to the staff, the program was a good one and would strengthen Grenada's economy; but the Fund staff did not have the expertise to pass judgment on investment programs and, even if it did, the judgment was irrelevant because it was not the business of the Fund to finance either sound or poor investment programs.

He had received no specific instructions from any of his authorities with respect to Grenada's request, Mr. de Vries noted. However, all his authorities expected that he would apply Fund policies in making a judgment about any particular program submitted to the Executive Board.

He was willing to be convinced that his analysis of the situation in Grenada was faulty, but he had to say that, even if it was only half correct, he would be obliged to withhold his support for Grenada's request.

Mr. Taylor stated that, like Mr. de Vries, he was concerned about the short notice that Directors had been given to deal with Grenada's request. The staff had indicated that there had been some technical difficulties in producing the paper earlier and that the authorities were seeking rapid approval so that they could draw on the Fund's resources at the end of August; however, he was not convinced that those factors justified the haste with which Grenada's request had been brought to the Executive Board. Discussions between Grenada and the Fund had been proceeding for a long time, and he would have thought that Directors should have been given a little more time to review the somewhat controversial recommendations that had been put before them. He would appreciate a clearer explanation of the timing problems from Mr. Casey or the staff.

Turning to the substance of the request, Mr. Taylor said that his authorities had very strong doubts about the appropriateness of an extended arrangement in Grenada's case. Those doubts concerned both the need for an extended arrangement and the degree of adjustment proposed in the paper, and they were very similar to those that had been put forward by Mr. de Vries. In general, the economy of Grenada did not seem to be in the type of situation that the Executive Board had decided would be appropriate for extended support. The economy had been growing at a real rate of around 3 percent a year over the past four years, and the large balance of payments difficulties experienced in 1982 and 1983 were not so much the result of structural maladjustments or an inherently weak balance of payments position as of the building of the international airport. That judgment was borne out by the balance of payments projections in Table 4 of the staff paper, which showed very little improvement in the current balance through 1986 apart from the improvement that would be brought about because of the completion of the airport project. He recognized, of course, that Grenada's export performance had been adversely affected by weather conditions and a deterioration in the terms of trade, but he was not convinced that those difficulties warranted Fund support of the magnitude and duration proposed.

While he had found much to commend in the objectives and policy intentions of the authorities, he had serious doubts about whether the adjustment envisaged was sufficient to warrant the approval of an extended arrangement at the present stage, Mr. Taylor continued. He agreed with Mr. Casey that Fund conditionality should be designed to fit the circumstances of the particular economy concerned. But Mr. Casey also seemed to be saying that Grenada was prevented in some key areas from taking structural action by institutional factors, while in other areas the structural problems were minor, and that structural action therefore needed to be concentrated on fiscal action. He himself did not find that statement a convincing basis for extended Fund financing because the implied approach seemed far from the comprehensive policy approach laid down in the extended Fund facility decision.

So far as the fiscal situation was concerned, the large government budget deficit in 1983 was substantially attributable to the construction of the international airport, which accounted for 60 percent of the public investment program, Mr. Taylor went on. While the completion of the airport project would relieve much of the pressure on the budget, it would still be important for the authorities to keep current expenditures connected with the airport under control, particularly if they were to follow through on their intention to reduce recourse to nonconcessional financing over the next three years.

The commitment of the authorities to maintain realistic public utility tariffs was welcome, Mr. Taylor said. He hoped it would prove possible for the nonfinancial public sector enterprises to become self-financing. Moreover, the authorities' intention to hold down public sector wage costs was welcome, although the effects of the wage policy would not become apparent until 1984. On the revenue side, he was pleased to note that a review of the tax system was contemplated.

Commenting on the supply side, Mr. Taylor considered the authorities' intention to place greater emphasis on measures to promote increased earnings in agriculture and tourism to be appropriate. The steps already taken to encourage private initiative and to check the expansion of the public sector were welcome; in particular, the reversal of the import monopoly of the state trading corporation and the introduction of a new investment code were steps in the right direction. However, it was equally important for the authorities to build up an appropriate infrastructure and to improve the efficiency of farming. What was not clear from the staff papers was when the policy intentions of the authorities--commendable as they were--would be translated into higher export earnings.

Given the importance attached by the authorities to an integrated package of infrastructural improvements in agriculture and tourism, Mr. Taylor added, he was curious about the lack of a reference in the staff paper to a clear endorsement by the World Bank of the public sector investment program. The staff had indicated that, in September 1982, the World Bank had judged the sectoral composition of the program to be generally appropriate, but that endorsement had specifically excluded the airport and, as he understood it, the Bank had been unable to state since that time that the airport project was economically justified. Elsewhere in the paper, it was noted that the World Bank was considering a loan to the private agricultural sector in the near future, but even that information was somewhat sketchy; and he would appreciate a clearer report from the staff or Mr. Casey on the current stance of the World Bank with regard to that loan.

On the external side, the sharp real appreciation of the East Caribbean dollar must surely have contributed to the decline of exports of goods and services over the past few years, Mr. Taylor said. Without a more realistic exchange value for the East Caribbean dollar, even the fairly weak and tentative growth projections for exports and tourism might be overoptimistic. He therefore encouraged the authorities of Grenada to join other members of the ECCA in a review of the exchange rate level. If such a review did not lead to a change in the exchange rate, it would be crucial for the authorities of Grenada to hold down wage costs and other current expenditures if the objectives of the program were to be achieved.

In sum, he had serious doubts about the nature of the cooperation with, and assistance from, the Fund that was being proposed, and he was concerned that there were large gaps in the design of adjustment policies, Mr. Taylor commented. The Grenada authorities had commendable objectives and good intentions in several, though not all, policy areas; but his own authorities had strong doubts whether those added up to the sort of comprehensive structural adjustment that an extended arrangement should encompass. In the circumstances, he would have preferred to see a proposal for a one-year stand-by arrangement, and he looked forward to the explanation by the staff of why that approach had not been adopted. It was only with the very greatest reluctance that he was able to go along with the proposed decision for an extended arrangement.

Mr. Erb stated that, while he did not believe that the proposed program met the requirements of an extended arrangement, his criticism of it was not meant to detract from the efforts of the Grenadian authorities to build a diversified economic base. In particular, the authorities should be commended for the priority that they attached to investment and to the need to improve Grenada's infrastructure. However, like any other country, Grenada had the responsibility of bringing its overall investment expenditures into line with the available financial resources provided by domestic savings and foreign sources of capital, and it was that obligation that was at the heart of his difficulties with the request.

It was apparent that Fund resources would be inappropriately used essentially to substitute for other sources of financing, Mr. Erb continued. Moreover, the sorts of structural adjustments that were consistent with an extended arrangement were not in evidence in Grenada. It might be that such structural adjustments were not needed, as had been suggested by Mr. Casey; however, if that were so, then a one-year stand-by arrangement would be far more appropriate than an extended arrangement. Based on his analysis of the case, he had been given the authority by officials in the U.S. Treasury not to support Grenada's request for an extended arrangement.

On specific elements of the proposed program, Mr. Erb said that, like Mr. de Vries, he had wondered whether the balance of payments position at the end of the program was likely to be sustainable. The current account deficit as a percentage of GDP would remain quite large; indeed, those deficits extended well beyond the program, and that led him to wonder whether potential resource flows at that time would be sufficient to finance the deficit.

The expected reduction in the overall fiscal deficit under the program was substantial, Mr. Erb considered; and the projected increase in the current balance was desirable, given that the low overall domestic savings rate did not provide sufficient resources to finance the type of investment expenditures the Government was planning. However, for the most part, the reduction in the overall deficit was related to the expected completion of the airport, which would reduce the magnitude of capital expenditures by a considerable amount after 1983/84. Other capital expenditures, unfortunately, were expected to increase beyond the first year of the program, in part offsetting the reduction of expenditures on the airport. In short, it was apparent that the authorities were planning to continue a very active investment program over the next three years. Other sources of financing would therefore be needed, and he was surprised in that respect that the staff had paid so little attention to Grenada's need to increase the rate of domestic private savings. Perhaps a larger increase in interest rates than contemplated under the program would be necessary to encourage greater private savings.

Like other Directors, he would have welcomed a more active World Bank involvement in the program, Mr. Erb commented. It was difficult to determine from the staff paper the role of the World Bank and how it viewed Grenada's investment program; indeed, the very short commentary on page 6 of the paper left him with more questions than confidence in the program. Given that Grenada's investment program was the main cause of both the government deficit and the external deficit, it was surprising that the World Bank had not been more actively involved.

He also had problems with developments on the exchange rate side, Mr. Erb remarked. It was clear that Grenada's membership in the ECCA made it difficult for the authorities to effect an adjustment in the overall exchange rate; however, given the number of other countries in the region that were also being affected by the appreciation of the Caribbean dollar, much greater attention needed to be placed on reaching agreement within the ECCA on an exchange rate adjustment. In that regard, he supported those who had queried whether the tourist industry in Grenada would recover as projected, given the exchange rate shifts in other countries within the region. The sharp appreciation of the East Caribbean dollar would make it difficult for Grenada's exports and tourist receipts to respond as vigorously as expected.

The authorities of Grenada were right to place emphasis on the encouragement of private sector investment, Mr. Erb said. The success of their efforts would have an important bearing on the attainment of the current account adjustments projected under the program; if there was any lag in private sector investment or any shortfall in the expected inflow of foreign capital, the authorities would experience financing difficulties during the course of the program.

Turning to procedural issues, Mr. Erb noted that, because of the delay of more than two years since the previous Article IV consultation with Grenada, it would have been preferable to have held an Article IV consultation discussion prior to the discussion of the extended arrangement. His chair had long held the general view that, especially when the gap between Article IV consultations was great, the consultation should be held before a proposed program was brought to the Board; and such an approach was even more important in Grenada's case because the Fund had earlier committed resources to Grenada under a stand-by arrangement that had not been completed. In that regard, he was surprised that the staff paper had not given a more detailed explanation of why the previous program had not been concluded as expected, particularly since the likely natural reaction to the appearance of a failed program was a skeptical attitude toward any new program. Also, he agreed with Mr. de Vries that the waiver of the four-week rule between the circulation of papers and the Board discussion had made assessment of the program particularly difficult.

Mr. Grosche considered that any extended arrangement should meet two basic conditions: first, it should ensure that steady progress was being made toward a sustainable external position; and, second, the economic strategy supported by the Fund's resources should be adequate to resolve the member's problems. He had serious doubts that the program proposed in connection with Grenada's request for a three-year extended arrangement met those two conditions.

As for the appropriatenesss of the economic strategy, Mr. Grosche noted that the Government's development efforts were concentrated on a massive investment program, amounting to 24 percent of GDP each year over the program period. While large public investment programs were not necessarily a cause for concern, it was crucial that the investment projects should be appropriate to the particular needs of the country. In making that assessment, the Fund relied to a great extent on the expertise of the World Bank; he was therefore concerned by the World Bank's statement that it had not been in a position to judge the economic or financial merits of Grenada's investment program. In the circumstances, he wondered how the Fund could be satisfied that the member had presented a program that was adequate for the solution of its problems.

The conditions set forth in paragraph 2(b) of the decision on the extended Fund facility had also not been met, Mr. Grosche continued, because the adjustment path had not been clearly delineated over the three-year period. The projected reduction in the current account deficit from 26.7 percent of GDP to 16.5 percent of GDP over the program period seemed sufficient; however, much of that reduction was related to the completion of the airport project. In absolute terms, the current account deficit would in fact be increasing substantially and would fall by only a minor amount in relation to GDP. In that light, it was not clear that a drawing of 300 percent of quota was justified.

The main purpose of Grenada's adjustment program was the financing of a balance of payments deficit created largely by an ambitious investment program, the merits of which had not been sufficiently evaluated, Mr. Grosche remarked. What made the envisaged adjustment even more questionable was the rather optimistic forecast for an upturn in tourism. The staff itself had underlined the uncertainties of the projections, and a more cautious view might thus have been more realistic. In conclusion, while his initial preference was to abstain from taking a position on Grenada's request, he would reserve his decision until he had heard the views of other Directors and the responses of the staff.

Mr. Gomel stated that he could support Grenada's request for a extended arrangement, despite some reservations about certain features of the program. The need for an extended arrangement existed; indeed, the analysis offered by the staff showed that there was a sufficiently strong case for the use of Fund resources. The imbalances in the public finances and external accounts had reached disturbing proportions. Important investment projects remained to be implemented in various areas of infrastructure and productive activity in order to sustain domestic output growth in the medium term, and the public investment program that the authorities had undertaken seemed to be directed toward that goal. Still, the medium-term policy framework was not clear from the staff paper; moreover, the authorities' reliance on the beneficial external economies of the large airport project currently nearing completion seemed somewhat overplayed. Positive spillover effects were certainly to be anticipated in the areas of tourism and agricultural and manufacturing exports. However, the magnitude of the outlays involved in the airport were large and, even though they had been mainly covered by grants and concessional loans, he had some doubts about the appropriateness of the authorities' development and resource allocation priorities. The hesitancy of the World Bank to assess the merits of the airport project and the investment program in general served only to increase those doubts, and he would appreciate further elaboration by the staff on the Bank's attitude toward Grenada's investment program. On the other hand, he welcomed Mr. Casey's statement that, over the period of the extended arrangement, airport-related outlays would average only 15 percent of public sector capital spending, while a much larger emphasis would be placed on agricultural infrastructure to widen and diversify Grenada's productive base.

On the fiscal side, Grenada's progress thus far toward meeting the program targets seemed reasonably good, Mr. Gomel noted. Public sector savings had turned positive in 1982 and were projected to rise considerably over the three-year period of the program. Capital expenditures, which had risen sharply in 1981/82, were expected to taper off in the following years. However, current spending should be curtailed more forcefully than was currently planned. Its projected rise as a percentage of GDP, despite a tight salary policy, was not a welcome development. Finally, he attached considerable importance to the review clause and to the monitoring of progress in attaining the program targets before the second and third years of the arrangement.

Mr. Ramtoolah observed that Grenada's economy had of late been adversely affected by a combination of factors. The world recession, together with the lack of an adequate airport, had impeded the full growth of the tourist industry; indeed, receipts from tourism--the second most important source of foreign exchange in Grenada--had declined by 23 percent between 1981 and 1982. Moreover, a hurricane in 1980 and a drought in 1982 had severely affected agricultural output, and the terms of trade had deteriorated because Grenada's most important cash crop--cocoa--had declined in price by 47 per cent between 1979 and 1982. Nevertheless, real GDP had increased by an annual average rate of 2.8 percent between 1979 and 1981, the latest year for which data was available. Also, the fight against inflation had been quite successful; from an average rate of 20 percent in 1980/81, inflation had declined to 5.5 percent between 1982 and 1983, reflecting lower increases in import prices because of the appreciation of the East Caribbean dollar and an improvement in domestic food supplies.

The public sector deficit had increased sharply from 7.5 percent of GDP in 1979 to 33 percent of GDP in 1982, mostly because of a dramatic increase in capital expenditures, Mr. Ramtoolah continued. The major portion of the increase in expenditures was tied to the construction of a new international airport, which should boost the receipts of the tourist industry. However, current expenditure as a percentage of GDP had fallen over the same period because of restraints in the growth of expenditure on other goods and services.

The developments he had depicted in the real sector had translated into a corresponding deterioration in the external sector, Mr. Ramtoolah remarked. The current account deficit had increased from 1 percent of GDP in 1978 to 33 percent of GDP in 1982. Although the deficits had largely been financed by foreign grants or concessional loans, the level of external debt had increased appreciably over the past five years. However, given the concessional nature of most of the external loans, debt servicing had been low and was expected to remain unchanged in 1983. Faced by a deterioration in the economy's internal and external finances, the authorities of Grenada had launched a major investment program for the three-year period 1983/84 through 1985/86, to be supported by Fund resources under an extended arrangement. The authorities' intention was to reduce the overall fiscal deficit and to bring about an increase in public sector savings by almost 3 percent of GDP over the program period while reducing the use of nonconcessional financing.

The boost in investment would touch all sectors of the economy, including agriculture, construction, communications, industry, and tourism, Mr. Ramtoolah commented. At the same time, the authorities were sparing no efforts to make their program a success. A new investment code had been drawn up in April 1983, providing guarantees and fiscal incentives to both local and private foreign investment. The authorities were also gearing their policies toward enabling the private sector to play an increasing role in the economy. A liberalization of import policies had been undertaken as well; for example, the authorities had decided to restrict the operations of the import monopoly, the State Trading Corporation. On the basis of the considerations he had mentioned, he could support Grenada's request for a purchase under the extended Fund facility.

Mr. Suraisry considered that the authorities of Grenada had made commendable efforts over the past three years to lay the foundation for sustained and broad-based economic growth. An investment program had been put in place, and considerable fiscal adjustment had been achieved with the help of a successful stand-by arrangement with the Fund. Economic growth had been positive, and inflation had been reduced from 20 percent to 5.5 percent, while wage increases had moderated. The central government budget had moved into a surplus on current account, and the financial position of the public sector enterprises had been markedly strengthened. Although foreign borrowing had increased to finance the investment program, the debt service ratio had remained manageable. The encouraging developments he had mentioned demonstrated a firm commitment by the authorities to restructuring the economy over the medium term and to cautious demand management policies in the short run. The extended arrangement recommended by the staff for approval should provide an appropriate framework for completing the diversification process on the one hand and for reducing the fiscal and external imbalances on the other.

He was happy to note that the public investment program had recently been revised in line with available concessional financing, most of which had already been secured, Mr. Suraisry continued. While individual projects in the program had not been assessed by the World Bank, it was encouraging to note that the Bank had endorsed the general emphasis on agriculture and tourism and was currently considering a loan to the agricultural sector. The success of Grenada's development strategy would depend to a considerable extent on the response of the private sector to the opportunities created by the new infrastructure. The recent moves to encourage domestic and foreign investment--such as the introduction of a new investment code--were thus timely and appropriate.

On the fiscal side, Mr. Suraisry remarked, continued restraint would be essential in order to raise public sector savings and reduce the overall deficit to a more sustainable level. A firm stand on public sector wages was important if current outlays were to be held down and international competitiveness was to be maintained. He hoped that the authorities would also ensure that the major public enterprises continued to be self-sufficient and that they would allow those enterprises to follow realistic and flexible pricing policies. He could fully support the request for technical assistance in revising Grenada's tax structure so as to make it possible to remove the tax on foreign exchange transactions at an early date.

The immediate prospects for the external side of the economy were reasonably encouraging, with projections for an increase in export prices and tourism, Mr. Suraisry observed. However, the projected increase in the debt service ratio in the period through 1985/86 underlined the need for cautious borrowing policies and careful monitoring of outstanding debt. Moreover, the recent marked appreciation of the East Caribbean dollar had added to the domestic adjustment burden, and he looked forward to the forthcoming review of regional exchange rate policies by the newly established East Caribbean Central Bank.

The Grenadian authorities had made a good beginning at implementing their adjustment strategy, Mr. Suraisry considered. The policies currently in place seemed well designed to meet the objectives of an extended arrangement and deserved the support of the Fund. He had of course taken note of the doubts and reservations expressed by some of his colleagues, and he would be listening with great interest to the staff's replies. On the other hand, the positive signs in Grenada's economy could not be ignored. The authorities had made good progress toward stabilization under the 1981 stand-by program, and the promised review of the tax structure should make it possible to eliminate the remaining multiple currency practice. It was likely that the exchange rate would be revised, and useful steps to encourage private sector initiative had already been taken by the authorities. On balance, therefore, he was prepared to support the proposed decision.

Mr. Mtei said that he too wished to record his support for the proposed decision and to comment on some of the concerns put forward by his colleagues. It was clear that Grenada's membership in the ECCA made it impossible for the authorities to take autonomous action regarding the overvalued currency. However, many other currency union members whose currencies were overvalued had obtained assistance from the Fund, and it would not be appropriate to treat Grenada any differently.

With regard to the suggestion that the Fund, in agreeing to the extended arrangement, would be financing development, Mr. Mtei observed that the Fund had negotiated programs with a number of member countries that had concurrently been undertaking large development projects. Provided that the Fund was satisfied that the Government was taking measures to redirect investment funds properly in future, the use of Fund resources should not be denied. In Grenada's case, 80 percent of the expenditure on the airport project--which had been financed mainly through grants and long-term loans--had already been spent. Hence, while the project was obviously a large one, it had been financed under terms that had appeared attractive to the authorities. As some US$56 million had already been spent on the project, it would be unfair of the Fund to expect Grenada not to complete it. There was no doubt that the authorities had made commendable efforts to restructure and diversify the economy, and he believed that Fund resources should be used to assist in furthering that effort so that the economy could be placed on a sound footing.

On another matter, Mr. Mtei remarked that the debt service ratio in Grenada was calculated to be at only 4.5 percent, which was low by any standard. He thus found it odd that Grenada's request should engender such a strong negative reaction from some of his colleagues, particularly since the authorities had committed themselves to devoting only 15 percent of capital outlays to the airport project over the three-year period of the arrangement. Finally, in response to those who had criticized the procedures that had been followed in bringing Grenada's request to the Executive Board, he recalled that the waiver of the four-week rule had been requested and approved; and even the further delay had been accepted without objection.

Mr. de Vries replied that he had accepted the proposed delays in the circulation of the papers only because he had not wished his opposition alone to prevent the current Board discussion; however, he had specifically reserved the right to voice his complaints on the matter of procedure, which he had done.

Mr. Kafka observed that all speakers apparently felt that the Grenadian program was properly directed. For his part, he could agree with the staff and Mr. Casey that the program also had important and sufficient structural adjustment aspects. In particular, investment was being appropriately redirected. Moreover, Grenada had already shown determination in successfully adjusting its situation in the recent past. Hence, despite some doubts, he could support the program and the proposed decision.

With regard to the timing of Grenada's request, Mr. Kafka noted that some of the pressure for waiving the four-week rule stemmed from other Fund rules concerning the disbursement of borrowed funds, which could take place only at certain times. It might be useful to give thought to changing the disbursement rules, especially if that could be done without excessive financial loss to the Fund.

Mr. Abiad said that, on the basis of the information and analysis in the staff paper, Grenada's program--in support of which the extended arrangement with the Fund was requested--seemed reasonable and, as noted by Mr. Casey, its main targets, while ambitious, seemed achievable. Moreover, he endorsed Mr. Casey's view that Fund conditionality needed to be tailored to the specific circumstances of the economy in question. He, too, wished to record his chair's support for the proposed decisions.

Mr. Nair recalled that discussions on a possible extended arrangement for Grenada had begun some three years previously, although the negotiations had not been finalized during the period for various reasons. Now that a proposal for an extended arrangement had been brought to the Executive Board, he had to conclude that the basic groundwork had been completed and that some effort had been made by Grenada to meet the standards for an extended arrangement with the Fund. In the circumstances, he was willing to give the country the benefit of the doubt and to support the proposed decision.

Mr. Zhang and Mr. Agah stated that they also could support the program and proposed decision.

The staff representative from the Western Hemisphere Department observed that, in designing programs in East Caribbean countries, the staff had been obliged to rely heavily on fiscal policies because there was so little scope for autonomous use by individual governments of exchange rate and monetary policies as adjustment tools. The problem of course was not limited to the East Caribbean area; throughout the entire Caribbean region, there was a strong preference for fixed exchange rates, and the staff had held difficult and protracted discussions in connection with practically all programs in the region on the matter of adjusting the exchange rate or using it as a policy tool.

In response to questions on the World Bank's reaction to the investment program, the staff representative remarked that Grenada's desire for a new airport project had become apparent some 15 years previously, and a substantial effort had been made during the mid-1970s toward firming up a project for the building of a new airport in a better location. The World Bank had been involved in preliminary technical studies for that project and, in 1978, had recommended that a new airport should be built near the capital, the site on which the airport was currently being constructed. Before approving the project, the World Bank had demanded a feasibility study to determine the optimum length of the runway; however, following the change of government in Grenada, the new Government had received so many commitments of grant aid that it had been able to go forward with a more ambitious airport project than originally envisaged because it had been assured that much of the construction work and materials would be furnished by Cuba free of charge. On that basis, the work on the airport had begun, but the World Bank, because the feasibility study had not been done, had been unable to endorse the program at that time and had felt constrained to maintain its position, even though the airport at present was 80 percent completed. While the World Bank had specifically reserved its endorsement of the airport project, it considered that the remainder of the investment program was broadly in line with the country's development priorities, and it was attempting to begin a new policy dialogue with Grenada. A project identification mission was set to visit the country shortly to firm up an agricultural credit project, which it was hoped would be placed in the Bank's lending program for 1984.

Several Directors had considered that the projected adjustment under the program would result mainly from the termination of the airport project and that the expected budget deficit of 16.5 percent of GDP at the end of the program period would still be too high to be sustainable, the staff representative recalled. It was true that the completion of the airport project would bring an end to some heavy expenditure and would represent some reduction in the budget deficit. However, in the staff's view, the adjustment in Grenada was essentially in the use of nonconcessional financing. Much of the public investment program would be financed through committed aid flows from various sources; indeed, of the EC$278 million of the investment program, only EC$12 million was not committed or financed. Hence, most of the investment would be sustained by the level of public sector savings and by aid flows. And the authorities had undertaken to make no net recourse to nonconcessional sources of financing over the program period. In the circumstances, an assessment of the sustainability of the budget deficit was really a judgment about the sustainability of aid flows; and, in the staff's view, such flows were more firmly committed for Grenada than for many other countries for which three-year programs had been discussed. Seen in that light, the current account deficit of the balance of payments was essentially the counterpart of the aid flows. In judging the balance of payments position, it should be remembered that the overall deficit was defined to be the use of Fund resources; and, to the extent that the authorities were not contemplating borrowing from the ECCA, a major element of the program was a buildup of the country's international creditworthiness, in particular, a buildup of its own international reserves.

Given that background, the staff representative continued, he would argue against those who felt that the Fund's resources would be mainly used to finance development in Grenada. The resources were clearly circumscribed in their use and were dedicated largely to rebuilding the country's reserve position in three ways. About one third of the gross lending under the program would come back to the Fund during the three-year period in the form of repurchases, and that could be regarded as a rollover of debt but not as an increase in development financing. Another third of the gross resources would be used to rebuild the foreign assets of the two government-owned commercial banks. In most programs where a country had its own central bank, there would be a rebuilding of the country's own official reserves; in Grenada's case, because of the institutional arrangements, the rebuilding of official reserves in effect showed up as a rebuilding of the foreign assets of the government-owned banks. Finally, the authorities had undertaken not to use any available resources that might accrue to them in the East Caribbean Currency Authority during the program period. In that sense, the program should be seen as an underwriting of the financial stability and medium-term financial viability of the country and not as the financing of an overambitious development program.

With regard to questions on wages, the staff representative observed that, if the investment program was largely to be financed through aid flows and domestic savings, the authorities must be committed to increasing domestic savings substantially over the program period. The projected 6 percent surplus in public sector savings was respectable by any standard and involved a significant effort on the part of the authorities, especially given the expenditure commitments on interest payments and the operating costs of the airport that would need to be faced. The program envisaged facing those expenditure pressures while increasing savings further through a very restrictive wage policy; the authorities were committed to reductions in public sector wages in real terms.

On the matter of interest rates in Grenada, the staff representative noted that the structure at present was far less problematic than it had been a year previously. Indeed, the criticism on interest rates presented in most consultations with East Caribbean countries was probably no longer valid because, with inflation rates down to a level of 5-6 percent, deposits rates were positive or very close to positive for long-term deposits, and lending rates in the range of 9-12 percent were by no means out of line. Grenada's interest rate structure was very similar to that in other East Caribbean countries, and the differential between interest rates in Grenada and interest rates abroad had been largely eliminated. While the staff agreed that there was a need to encourage private sector savings and foreign capital inflows in Grenada, it was clear that financial savings in most Caribbean countries were not particularly responsive to marginal changes in interest rates, particularly deposit rates. Hence, while a review of interest rates in the East Caribbean region would be useful, he doubted that it would lead to further increases in rates.

With regard to questions about the tourism projections in the program, the staff representative from the Western Hemisphere Department remarked that Grenada currently accounted for less than one half of one percent of total Caribbean tourism. Hence, the addition of only one charter flight every two weeks would make a substantial difference to Grenada's tourism projections, and that could be accomplished without dealing with the larger question of competitiveness. Of course, it could be concluded that the exchange rate had been moving in an undesirable direction, but it could not be said that Grenada was not competitive in terms of prices; for example, hotel prices for comparable facilities were less than one half those in other countries, including neighboring countries. The main problems of the tourist industry in Grenada were related to air access to the country and to arrangements with tour operators and hotel chains. The Government was attempting to address those problems specifically, and it was hoped that improvements would result in the not too distant future.

The Deputy Director of the Exchange and Trade Relations Department, responding to those who felt that a one-year stand-by arrangement would have been more appropriate than an extended arrangement, recalled that Grenada had been requesting an extended arrangement with the Fund for a number of years. The staff during that time had indicated that it had a preference for a one-year stand-by arrangement and, in making its assessment, the staff had been guided by the summing up by the Managing Director at the conclusion of EBM/81/73 (4/28/81) on the matter of Fund collaboration with the World Bank. The Managing Director had stated that, where small countries desiring an extended arrangement with the Fund had an investment program dominated by a very large project, a positive assessment of the investment program by the World Bank would be required before a proposal for the extended arrangement could be submitted to the Board.

However, the Deputy Director continued, circumstances in Grenada had changed as the airport project neared completion. As calculated, at present, expenditure on the airport would constitute only 15 percent of the investment program over the three-year period of the arrangement and could therefore not be regarded as dominant. Hence, the staff had reviewed Grenada's request for an extended arrangement in terms of general policy on such arrangements and in the light of proposals that had been approved for other members of the Fund. The staff had based its assessment on a number of criteria, some of which had been mentioned by Executive Directors in the course of the discussion. One requirement was for a sufficient mobilization of resources, and the staff had concluded that the policy intention for a 6 percent surplus in public sector savings, together with prior actions, met that criterion. In general, fiscal policy was such that the member's debt service position would be kept under control; debt service would not be a problem because of the commitment of the authorities with respect to reliance on concessional financing during the program period. Another criterion on which the staff had based its assessment was the insistence on a reduction in reliance on restrictions. In the case of Grenada, the only restriction to be removed was the multiple currency practice referred to by Mr. de Vries and others. Grenada had agreed to make changes in that area. To be able to do so would require revenue replacement measures, and technical assistance from the Fund directed toward finding new sources of revenue would be helpful. An additional criterion related to the necessary desire and political support for implementing the program. There was no question of the authorities' willingness to implement the program, and they had taken significant measures to raise revenue and increase savings, including the recent action to increase taxation. Hence, on those points, the staff had been satisfied that the requirements for an extended arrangement had been met.

There were two important areas where the staff continued to have some difficulty, the Deputy Director said. First was a concern about the appropriateness of the exchange rate. Grenada had agreed to a reduction in real wages over the program period, which should provide some relief on the fiscal side and aid competitiveness; moreover, the staff had been pleased to note that the Minister of Finance had been able to subscribe to paragraph 16 of the letter of intent, which stated that the Government of Grenada would review with other countries in the ECCA the regional exchange rate level at an early opportunity. There was of course no assurance that such a review would lead to early action on the exchange rate. The second area of concern to the staff was related to interest rates and the level of private savings. While some progress had been made in the previous 12 months, more could be done. With those thoughts in mind, the staff felt that a cautious approach was needed; hence, the recommendation was for 300 percent of quota over the three-year period. There was provision that a significant part of the Fund's resources would be used to build up the foreign exchange position; and a review clause--also as a performance clause--had been incorporated to cover 1984.

In response to questions on the timing of the proposed arrangement in relation to the Article IV consultation schedule, the Deputy Director of the Exchange and Trade Relations Department observed that, on the occasion of the previous Article IV consultation, a decision had not been reached on whether Grenada should be on the 12-month or the 24-month consultation cycle. Because of the differences of view on the appropriateness of an extended arrangement, it had been decided to place the member on a 24-month cycle. In the event, a mission had been planned for earlier than May 1983, but delays had occurred because the relevant staff had been deeply involved in a negotiation with another member in the area. The May mission had been briefed to conduct the consultation and also to begin discussions on a program, and the staff had felt that the program contemplated was sufficiently detailed that a follow-up mission would probably be required. The idea had been to go ahead with the consultation discussion in the Executive Board and later to conclude discussions on a program with Grenada. However, the authorities had been prepared to act promptly and negotiations had moved forward rapidly. With negotiations completed, the proposed program had been submitted to the Executive Board for discussion at the same time as discussion of the Article IV consultation.

Mr. de Vries noted that the discussion of the proposed program had raised serious questions among a number of his colleagues, and he sensed a strong preference from some of them for a one-year stand-by arrangement rather than an extended arrangement. He wondered whether, during the discussion in the afternoon, management might be persuaded to change the proposed decision as a compromise. The World Bank's position on Grenada's investment program was at present unclear, although there were indications that greater clarification might be possible in a few months. The exchange rate of the currency union was so far out of line that, again in a short time, corrective action might have to be taken. His preference was to approach the authorities of Grenada and to indicate that, in terms of existing Fund policy, the program did not qualify for an extended arrangement at the moment. He considered that, at a time when the Fund was engaged in an effort to gain members' agreement to a large quota increase, it should not support an extended arrangement for a program that did not meet the institution's agreed criteria. Such a move might give some member governments pause about accepting the quota increase.

Mr. Casey said, first, that his own view of the degree of support for an extended arrangement with Grenada was somewhat different from that of Mr. de Vries. Second, he wished to make it clear that the authorities of Grenada would not accept a one-year stand-by arrangement as a substitute for the extended arrangement.

The Executive Board agreed to resume its discussion in the afternoon.

DECISIONS TAKEN SINCE PREVIOUS BOARD MEETING

The following decisions were adopted by the Executive Board without meeting in the period between EBM/83/120 (8/15/83) and EBM/83/121 (8/24/83).

3. OPERATION OF FUND ACCOUNTS - AUTHORIZED SIGNATORIES

1. On and after August 15, 1983, the following officials of the International Monetary Fund are authorized to operate (i) the Fund's No. 1, securities and gold accounts held in the General Resources Account of the General Department; (ii) the cash and investment accounts held in the Special Disbursement Account of the General Department; (iii) the cash and investment accounts held in the Borrowed Resources Suspense Account in the General Department; (iv) the cash and investment accounts held in the Trust Fund Account; and (v) the cash and investment accounts held in the Supplementary Financing Facility Subsidy Account, as follows:

(a) The Managing Director together with the Deputy Managing Director, or either of them together with any one of the officers listed under (b) or (c) below.

(b) Any two of the following signatories, or any one of them together with any one of the signatories listed under (a) or (c):

(1) The Treasurer
(2) The Deputy Treasurer
(3) The Senior Advisor, Treasurer's Department
(4) The Advisor, Treasurer's Department
(5) The Assistant Treasurers
(6) The Assistant Treasurer for the Financial Relations Division
(7) The Chief of the Accounts and Financial Reports Division
(8) The Chief of the Administrative Expenditures Division
(9) The Chief of the Borrowed Resources and Investment Division
(10) The Chief of the Operations Division for General Resources
(11) The Chief of the Operations Divison for SDRs and Administered Accounts

(c) Any one of the signatories listed under (a) or (b) together with any one of the following:

(1) The Assistant Chief of the Administrative Expenditures Division
(2) The Assistant Chief of the Financial Relations Division
(3) The Assistant Chief of the Operations Division for General Resources
(4) The Senior Operations Officer - Borrowed Resources and Investment Division
(5) The Senior Operations Officers - Operations Division for General Resources
(6) The Senior Operations Officers - Operations Division for SDRs and Administered Accounts
(7) The Cashier

2. Any one of the signatories mentioned above shall be and hereby is authorized to operate the Fund's No. 2 Accounts.

3. The foregoing officials, in conformity with this Decision, are hereby authorized and empowered in the name and on behalf of the Fund for its own account, or on behalf of the Trust Fund in accordance with Section III, Paragraph 1 of the Instrument annexed to Executive Board Decision No. 5069-(76/72), adopted May 5, 1976, or on behalf of the Supplementary Financing Facility Subsidy Account in accordance with Section 11 of the Instrument contained in Executive Board Decision No. 6683-(80/185) G/TR, adopted December 17, 1980, to open and operate cash, securities, and investment accounts with such banks and other institutions as have been or shall be designated as depositories of the Fund in accordance with Article XIII, Section 2, of the Articles of Agreement of the Fund, and with international financial institutions with which investments may be placed; to

arrange for the deposit in such accounts of gold or currencies which shall be paid or payable to the Fund and any or all securities held by or to be delivered to the Fund; to execute and deliver any and all such drafts, endorsements, delivery orders, certificates, and other documents; to take any or all such other action as they shall deem necessary or proper in order to effect deposits in such accounts and withdrawals therefrom; and to issue such orders, demands, and instructions and to take all such other action as they shall deem necessary or proper in order to arrange for the safekeeping of such gold, currencies, and securities, the maintenance of such accounts, the withdrawal of any such gold, currencies and securities therefrom, and the delivery of any such gold, currencies, or securities by any such depository or other institution.

4. This decision supersedes Executive Board Decision No. 7117-(82/68), adopted May 7, 1982.

Decision No. 7495-(83/121), adopted
August 22, 1983

4. SIERRA LEONE - CHANGE IN REPRESENTATIVE RATE FOR SIERRA LEONEAN LEONE

The Fund finds, after consultation with the Sierra Leonean authorities, that the representative exchange rate for the Sierra Leone leone under Rule O-2(b)(i) against the U.S. dollar is the mid-point of the buying and selling rates. The Central Bank of Sierra Leone will notify the Fund of changes in the rate and will advise of any change in the definition of the representative rate for the Sierra Leonean leone.

Decision No. 7496-(83/121) G/S, adopted
August 18, 1983

5. URUGUAY - STAND-BY ARRANGEMENT - WAIVER OF PERFORMANCE CRITERIA

1. Uruguay has consulted with the Fund in accordance with paragraphs 4 and 11 of the stand-by arrangement for Uruguay (EBS/83/43, Supplement 1, April 26, 1983) and paragraph 25 of the letter dated February 1, 1983 from the Minister of Economy and Finance and the President of the Central Bank of Uruguay attached thereto.

2. The communication dated August 17, 1983 from the Minister of Economy and Finance and the President of the Central Bank of Uruguay shall be attached to the stand-by arrangement for Uruguay, and the letter dated February 1, 1983, attached to the stand-by arrangement, shall be read as supplemented and modified by the letter of August 17, 1983.

3. The Fund finds that in light of the letter dated August 17, 1983 no additional understandings are necessary concerning the nonobservance of the performance criteria relating to the target for the balance of payments and the limit on the net domestic assets of the Central Bank for June 30, 1983 and that Uruguay may make purchases under the stand-by arrangement.

Decision No. 7497-(83/121), adopted August 23, 1983

6. <u>COOPERATION COUNCIL FOR ARAB STATES OF THE GULF (GCC) - TECHNICAL ASSISTANCE</u>

In response to a request by the Cooperation Council for Arab States of the Gulf (GCC) for technical assistance the Executive Board approves the proposal set forth in EBD/83/209 (8/10/83).

Adopted August 23, 1983

7. <u>ASSISTANT TO EXECUTIVE DIRECTOR</u>

The Executive Board approves the appointment set forth in EBAP/83/212 (8/12/83).

Adopted August 17, 1983

8. <u>APPROVAL OF MINUTES</u>

a. The minutes of Executive Board Meeting 83/47 are approved. (EBD/83/210, 8/10/83)

Adopted August 17, 1983

b. The minutes of Executive Board Meetings 83/48 through 83/51 are approved. (EBD/83/213, 8/17/83)

Adopted August 23, 1983

9. EXECUTIVE BOARD TRAVEL

Travel by Executive Directors as set forth in EBAP/83/211 (8/15/83) and EBAP/83/213 (8/16/83) and by an Advisor to an Executive Director as set forth in EBAP/83/215 (8/19/83) is approved.

APPROVED: February 17, 1984

JOSEPH W. LANG, Jr.
Acting Secretary

## DATA ON SELECTED CARIBBEAN AIRPORTS

| | Area (Sq. miles) | Population | Runway Length (feet) | Runway Width (feet) |
|---|---|---|---|---|
| ANTIGUA | 108 | 70,000 | 9,000 | 150 |
| ARUBA | 70 | 66,000 | 8,997 | 148 |
| BAHAMAS | 4,405 | 210,000 | 11,000 | 150 |
| CURAÇAO | 210 | 156,000 | 11,187 | 197 |
| DOMINICAN REPUBLIC | 18,817 | 4,836,000 | 11,000 | 197 |
| GUADELOUPE | 530 | 327,000 | 11,499 | 148 |
| JAMAICA | 4,411 | 2,072,000 | 8,565 | 150 |
| MARTINIQUE | 1,100 | 325,000 | 10,827 | 148 |
| PUERTO RICO | 3,500 | 3,210,000 | 10,002 | 200 |
| ST. LUCIA | 238 | 120,000 | 9,000 | 150 |
| TRINIDAD | 1,980 | 1,100,000 | 9,500 | 150 |
| VENEZUELA | 352,140 | 12,361,000 | 11,483 | 148 |
| BARBADOS | 166 | 259,000 | 11,000 | 150 |
| GRENADA | 133 | 120,000 | 5,250 (old)<br>9,000 (new) | N.A. |

Source: Caribbean Tourism Demand Study (1980) - Steinenberger.