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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 83/39

3:00 p.m., February 25, 1983

J. de Larosière, Chairman
W. B. Dale, Deputy Managing Director

Executive Directors	Alternate Executive Directors
A. Alfidja	W. B. Tshishimbi
	C. Taylor
	H. G. Schneider
B. de Maulde	
	J. Delgadillo, Temporary
R. D. Erb	J. C. Williams, Temporary
	T. Alhaimus
	S. R. Abiad, Temporary
	Jaafar A.
	Y. Okubo, Temporary
R. K. Joyce	D. I. S. Shaw, Temporary
	H. Arias, Temporary
	G. Grosche
G. Lovato	
R. N. Malhotra	A. S. Jayawardena
	S. El-Khouri, Temporary
J. J. Polak	
A. R. G. Prowse	K. G. Morrell
G. Salehkhou	O. Kabbaj
F. Sangare	E. I. M. Mtei
	E. Portas, Temporary
	L. Vidvei
Zhang Z.	Wang E.

J. W. Lang, Jr., Acting Secretary
J. C. Corr, Assistant

Also Present

B. Legarda, Consultant. African Department: J. B. Zulu, Director; O. B. Makalou, Deputy Director; A. G. A. Faria, C. A. François, E. Sacerdoti, M. Sidibe, D. E. Syvrud, N. E. Weerasinghe, A. C. Woodward. Asian Department: H. Neiss, Deputy Director; C. M. Browne, S. P. O. Itam, A. N. Mansur, M. R. P. Salgado, D. A. Scott. Central Banking Department: S. P. Leite. Exchange and Trade Relations Department: M. Guitian, S. Kanesa-Thasan, J. P. Lipsky. External Relations Department: G. P. Newman. Fiscal Affairs Department: P. S. Heller, G. A. Mackenzie, O. Pettersen. Legal Department: G. P. Nicoletopoulos, Director; Ph. Lachman, J. M. Ogoola. Research Department: G. I. Brown, K.-Y. Chu, N. M. Kaibni, B. R. H. S. Rajcoomar. Treasurer's Department: W. O. Habermeier, Counsellor and Treasurer; D. Williams, Deputy Treasurer; M. N. Bhuiyan. Bureau of Statistics: C. A. Patel. Personal Assistant to the Managing Director: N. Carter. Advisors to Executive Directors: E. A. Ajayi, C. J. Batliwalla, P. Kohnert, H.-S. Lee, P. Péterfalvy. Assistants to Executive Directors: R. Bernardo, J. Bulloch, M. Camara, T. A. Connors, R. J. J. Costa, M. K. Diallo, C. Flamant, I. Fridriksson, J. M. Jones, M. J. Kooymans, W. Moerke, V. K. S. Nair, J. K. Orleans-Lindsay, J. Reddy, J. Schuijer, D. I. S. Shaw, P. S. Tjokronegoro, M. Toro.

1. PHILIPPINES - STAND-BY ARRANGEMENT, AND PURCHASE TRANSACTION - COMPENSATORY FINANCING FACILITY

The Executive Directors resumed their consideration from the previous meeting (EBM/83/38, 2/25/83) of a request by the Philippines for a one-year stand-by arrangement equivalent to SDR 315 million (EBS/83/24, 1/31/83), together with a request for a purchase equivalent to SDR 188.55 million under the compensatory financing facility (EBS/83/29, 2/3/83; and Sup. 1, 2/23/83).

The staff representative from the Asian Department, continuing his response to Directors' questions, stated that the Philippine authorities had indicated to the staff that the import surcharge had been imposed purely as a temporary measure; in due course, it would be replaced by more appropriate taxes. The staff would have preferred a domestic tax, but the authorities believed that the low profitability of enterprises and the need to encourage production and consumption suggested that the time was not appropriate for domestic taxes. The tax had been imposed at 3 per cent, rather than the 1 per cent discussed with the staff; therefore, it had generated more revenues than envisaged in the program.

The suggestion had been made that the imposition of such a tax was contrary to the spirit of import liberalization and tariff reductions that the authorities sought, the staff representative continued. However, notwithstanding the adverse external environment, the authorities were continuing to liberalize imports and to reduce tariffs; despite the import surcharge, the overall result would be lower effective protection for domestic industry than had been the case ex ante. In addition, there was also a proposal to realign indirect taxes in the context of a World Bank structural adjustment loan. At present, the indirect tax system resulted in higher rates on imported goods than on domestic goods. As a result of the proposed reform, the effective protection of domestic industry would be lowered further.

The question had been raised whether hidden subsidies influenced the pricing policies of public enterprises, the staff representative noted. In general, the pricing policies of public corporations covered operating costs, but the profits generated were lower than a normal rate of return. Since many of the public corporations had substantial, even ambitious, investment programs, it was not possible to finance those programs from internal resources under present pricing policies; therefore there had been in the recent past an increase in equity contributions and loans from the budget. It was expected that there would be significant increases in tariffs in 1983, for example, in electricity and in water. A further important measure expected to be undertaken in the near future was the adjustment of oil prices to take account of the substantial depreciation of the peso against the U.S. dollar in the previous two years. That measure would generate additional resources for the public sector in 1983.

Commenting on credit policy, the staff representative observed that the government deficit and the overall public sector deficit would be substantially reduced in 1983. There would, nevertheless, be a need for credit, although on a smaller scale than in 1982. Given that public sector need for credit, if the overall credit expansion had been smaller, there would have been insufficient credit for the private sector. A Director had commented that the inflation target for 1983 was rather high; in addition to public sector pricing adjustments, the exchange rate depreciation of the previous six months would have added over 3 percentage points to the inflation rate, other things being equal. That development would also have created additional credit needs. Even under the present credit ceilings, the authorities had to reconcile themselves to a 2 per cent real growth rate in the economy, the lowest growth rate in a decade. The staff, therefore, believed that it would be correct to describe the credit policies as tight; any further tightening would lead to even lower economic growth.

Several Directors had noted that, following a substantial depreciation in the real effective exchange rate in the two years ended in the third quarter of 1978, there had been a fairly substantial appreciation in the following two years, the staff representative remarked. Those developments were largely the result of the linkage of the peso to the U.S. dollar at that time. Since then, the authorities had pursued a more active policy, and they had been depreciating the peso against the U.S. dollar. Nevertheless, until recently, the dollar had been appreciating against other major currencies; therefore, the real effective rate of the peso had not fallen. The authorities were aware of the need to improve their export competitiveness; they had been following the exchange rate policies indicated to Directors by the staff at the beginning of the morning meeting (EBD/83/38).

The loan recovery problems of the financial public corporations, particularly the Development Bank of the Philippines, were of concern to the Fund staff, the staff representative went on. However, it was an area more directly within the competence of the World Bank, which had been actively involved in trying to improve the situation. As for wage policy, the staff had indicated that the guidelines suggested that wage increases should be in line with productivity increases, both in the public enterprise sector and in the private sector. In the private sector, there was essentially a free market; in 1982, wage increases had not kept pace with the rise in the cost of living. In the nonenterprise public sector, the authorities were not planning a general cost-of-living increase in wages and salaries in 1983, although there could be special, probably small, adjustments in particular areas.

One Director had suggested that the presentation of the information in Table 3 of EBS/83/24 had been unclear because all the data had been related to the outstanding stock of liquidity, the staff representative noted. The staff had consciously followed that approach, not uncommon in previous staff reports, in the belief that it would facilitate understanding of monetary developments. In the Philippines, the staff had believed it to be particularly appropriate because the outstanding stock of credit to the public sector was low. The percentage increases, therefore, appeared high. The staff had believed that, by relating the relative credit flows to the private and public sectors to a common base, it would be easier to understand the adjustments that had been taking place. For example, in 1981, the respective flows, private to public, had been in the ratio of 8/19; the ratio had increased, in favor of the public sector, to 14/17 in 1982, but was expected to decline to 8/15 in 1983. In Chart 3 on page 14a of EBS/83/24, the staff gave percentage changes in net domestic assets without relating them to the outstanding stock of liquidity.

The question had been raised whether the World Bank considered the distribution between current and capital expenditures in the government budget to be appropriate, the staff representative continued. The Bank considered that the changes in the 1983 program were in the right direction. A mission was being proposed to investigate the question further within the next few months, but, at the present stage, the Bank was not in a position to say that the present distribution was optimal. With regard to the investment program, the World Bank position was that it was broadly appropriate. The Bank had been concerned about insufficient maintenance expenditures in the past, and it remained somewhat concerned that the scale of the investment effort could outrun resources; therefore additional resource mobilization would be important. However, the Bank considered the sectoral distribution appropriate; it also believed that some of the decisions taken to reduce or postpone projects had been in the right direction.

Inconsistencies between the stand-by paper and the compensatory financing facility paper were more apparent than real, the staff representative observed. First, in EBS/83/29 (the compensatory financing paper) periods were described in years ending in September, whereas in EBS/83/24 (the stand-by arrangement paper) calendar years were used. Furthermore, the percentage changes described would differ because SDRs had been used in EBS/83/29, whereas U.S. dollars had been used in EBS/83/24, and the conversion factors had changed between 1982 and 1983. A further factor had been the exceptionally weak export performance in the last quarter of 1982, partly related to problems arising from the negotiations of quotas on textile exports to the European Community. 1982 had also been a bad year for primary commodity exports. In its balance of payments projections and debt projections, the staff had been using assumptions derived from the World Economic Outlook exercise, not special assumptions built into those particular projections.

The staff's confidence that the 1982 expenditure overruns would not recur in 1983 had been questioned, the staff representative noted. In 1982, the effort to cut back on expenditures had been made almost halfway through the year; therefore, it had been difficult to persuade the spending agencies to fall in line when some of the procedures allowing them to spend were already in motion. The situation in 1983 was different because the cutbacks were being made before the beginning of the budget year. There had been a lengthy process of consultation with the spending agencies, an exercise that the staff had followed in detail. The public corporations had also been issued guidelines; the staff had been informed of the planned adjustments in that area.

Appendix Table VIII provided some information on the share of various types of taxes in the tax structure, the staff representative went on. The share of direct taxation in total tax revenue was about 30 per cent, and the share of excise duties at specific rates was about 15 per cent. Monetary conditions in 1983 would be tighter than in 1982; therefore, the availability of nonbank financing for the budget deficit would be somewhat less. In addition, the contribution from the social security institutions was expected to be lower in 1983. Nevertheless, nonbank financing would be higher in 1983 than it had been in 1981.

The Philippines required additional resource mobilization over the medium term, the staff representative commented, and the staff had been urging the authorities to try to improve the revenue structure and the revenue effort. However, in the present circumstances, the authorities had been unwilling to make a large-scale revenue effort through additional discretionary measures. Nevertheless, they had taken some measures for the 1983 program. With regard to Fund technical assistance in the fiscal area, the major effort had been the so-called "Bird Mission" in 1974. Detailed recommendations had been made to the authorities, and, subsequently, several changes had been made in the tax system, although not all had been along the lines recommended by the mission report. In 1980, the Fund had provided technical assistance in the customs field, and, recently, a staff member from the Fiscal Affairs Department had participated in a World Bank mission to formulate proposals in connection with the realignment of the indirect tax system.

The suggestion had been made that the staff might be overestimating the impact of the measures to encourage workers' remittances through official channels, the staff representative recalled. A substantial increase in workers' remittances had taken place in 1982, although not to the extent projected. The authorities' explanation was that incentives policies had not been fully in place at that time. Since then, as indicated in EBS/83/24, a number of measures had been taken, and the authorities were examining further possible improvements.

Commenting on the debt situation, the staff representative noted that all external debt statistics in the Philippines--short-term, medium-term, and long-term--covered both the public and the private sectors; in that sense, they were comprehensive. While short-term debt statistics had been collected for a long time, they had been improved only recently. Short-term debt, defined by the authorities as nonbank debt, had not been included as a performance criterion mainly because reliable series going back in sufficient detail to enable quarterly ceilings to be set did not exist. However, revolving trade credits and fixed short-term credits, generally owed to foreign banks, were covered by the undertakings given by the authorities. As indicated in Appendix Table IX, bank debt was regarded as reserve liabilities.

While external adjustment would be substantial in 1983, there would still be an overall deficit of approximately $600 million in the balance of payments, the staff representative continued, of which about half would be financed by the Fund; the remainder would be financed by an increase in reserve liabilities because it was not considered appropriate to reduce reserve assets at the present stage. At the end of 1982, the total outstanding medium-term and long-term debt was estimated to have been $11.7 billion, and was expected to increase to $13.22 billion by the end of 1983. Total short-term debt as defined by the authorities--i.e., the debt of the nonbanking sector, including Open Accounts and Documents against Acceptance (O/As and D/As)--amounting to $4.16 billion at the end of 1982, was expected to rise to $4.3 billion at the end of 1983. Total reserve liabilities of the banking system at the end of 1982 had been $8.1 billion, and were expected to increase to $8.4 billion by the end of 1983. Part of those reserve liabilities were liabilities of the foreign currency deposit units borrowed from abroad, particularly through six-month certificates of deposit. Some were redeposited or lent abroad, so that, to some extent, the reserve liabilities were matched by reserve assets.

The staff had made estimates of the exposure of the nonresident commercial banks in each of the above categories, the staff representative from the Asian Department added. In medium-term and long-term debt, the exposure at the end of 1982 was estimated to have been $7.1 billion, and at the end of 1983 it was expected to be $7.6 billion to $7.7 billion. In short-term debt, the liabilities to foreign commercial banks were expected to remain constant at $3.1 billion. The reserve liabilities of the banking system owed to foreign banks were estimated to have been $6.3 billion at the end of 1982, and to rise to $6.6 billion at the end of 1983, as a result of the banks' financing about $300 million--approximately half--of the overall balance of payments deficit by increasing reserve liabilities. In percentage terms, the increase in exposure of the commercial banks in medium-term and long-term debt would be about 7 per cent to 8 per cent in 1983. In total debt, including public and private, long-term and short-term, but excluding reserve liabilities, exposure would increase by about 6 per cent. If reserve liabilities were included, contrary to the authorities' definition of debt, the increase in the exposure of commercial banks would be between 5 per cent and 6 per cent.

The staff representative from the Exchange and Trade Relations Department commented that the remarks made by Directors echoed points raised during the discussion of the previous Article IV consultation with the Philippines. The performance of the Philippine economy over the previous 20 years could not be regarded as wholly unfavorable. There had been some critical external problems in the late 1960s and early 1970s, but, since then, performance had been better than that of a number of members that had recently requested Fund support. In a sense, the Philippines had never wholly overcome its external problems, but neither had it allowed the problems to reach a critical level. It could be argued that the long and close financial relationship with the Fund had, in fact, been instrumental in that regard.

The key issue was the sustainability of the balance of payments, the staff representative suggested. The amounts of external debt were significant, but they did not pose an unmanageable problem. They called for appropriate economic management, to link expenditure and demand to available resources, rather than for drastic measures. Relative to that of some other countries, the debt service ratio was fairly high, but, on the other hand, the budget deficit was small. However, as was well known, such comparisons could be misleading. Whatever the size of the budget deficit, if the economy was unable to finance it, it would be unsustainable in practice. The question was not the size of the deficit but how to generate sufficient savings and boost the productivity of investment.

Many Directors had referred to the mismanagement of investment, the staff representative continued. As the staff had pointed out in EBS/83/24, the World Bank had undertaken some assessments in that area; and it was clear that, as the productivity of investment improved, so would the viability of the balance of payments. However, there was the issue of the respective areas of responsibility between the Fund and the Bank. To the extent that investment was normally considered an area within the competence of the World Bank, it was less easy for the Fund to design programs that provided a guarantee of the productivity of investment. Furthermore, the issue was inherently difficult; economics was an inexact science, and recommended policies did not always attain the objectives being sought. For example, as a Director had noted, an important area concerned the improvement of the administrative capability of governments and the management of human capital. However, it was not easy to set criteria by which to measure such improvement. While the Fund's technical assistance efforts attempted to help in that regard, the contribution was necessarily limited. Finally, it was worth remembering that a "sustainable balance of payments position" was not a static concept. What was sustainable at one point in time might be unsustainable at another. Adjustment policies had to be modified, sometimes tightened, sometimes made expansionary, in the light of changing circumstances.

Commenting on the external debt position, the staff representative pointed out that, while short-term debt had not been included as a performance criterion, it came within the review clause, which was a performance criterion. The staff believed that that approach provided an adequate means of satisfying the requirements of the program. The focus on short-term debt, while not necessarily appropriate in every case, hardly constituted a new approach; there had been Fund programs in the past that had included short-term debt in the foreign borrowing ceilings. The perception that management of foreign borrowing was an increasingly difficult area was leading the staff to pay more attention to the short-term debt issue.

One Director had raised the question of whether domestic credit flows should be measured relative to total liquidity or relative to the stock of credit, the staff representative noted. There were merits in both approaches; in many Western Hemisphere programs, credit was often measured relative to liquidity. The advantage in measuring domestic credit flows relative to the stock of domestic credit itself was that both the numerator and the denominator had the same dimensions, as they were based on the same concept. It could be argued that the outstanding stock of money or liquidity was a function of both supply and demand, whereas the stock of domestic credit could be seen as purely a money supply factor. From that perspective, the flow of credit should be measured against the stock of credit. However, if a country had negative net international reserves, as many countries had at times, the implication was that the stock of credit could be substantially larger than the stock of money. In such a case, it might be preferable to measure credit relative to total liquidity to assess the extent of credit expansion.

Finally, with regard to the tradeoff between bank financing and nonbank financing of the budget deficit, the staff representative from the Exchange and Trade Relations Department added, even if nonbank financing of the budget had not declined, there would not necessarily be more bank financing available to the rest of the economy. The more the nonbank sector lent to the Government, the less it would have available to lend to the banks. In that case, the banks would have less to lend to the private sector.

The staff representative from the Research Department, referring to a question that had been raised about the export data, confirmed that the apparent discrepancy between the data in EBS/83/29 and the data in EBS/83/24 was purely the result of the currency used, SDRs in the first and U.S. dollars in the second. Specifically, the decrease in exports for calendar year 1982, expressed in SDRs, was about 7 per cent, whereas it was about 13 per cent expressed in dollars. For the shortfall year, i.e., the year ended September 1982, the decline in exports in SDRs was about 7 per cent. In the same year, the Philippine exports of manufactured products had fared slightly better than those of some other countries exporting similar products. The manufactured exports of the Philippines had increased by 6 per cent in U.S. dollar terms, compared with 5 per cent for the manufactured exports of Korea, and 2 per cent for those of Hong Kong and of Singapore.

Mr. Prowse remarked that he had been impressed by the depth of thought and analysis contained in Directors' comments, which had been vigorous, rigorous, and comprehensive. The discussion had also reflected the high quality of the staff papers; it had been an appropriately searching discussion because the amounts involved in the requests were substantial.

The Philippine economy had been judged against high standards of performance, Mr. Prowse continued. While by no means perfect, the economic performance of the Philippines over the previous two decades had been satisfactory, relative to that of other developing countries and, indeed, of some industrial countries. Perhaps there had been insufficient recognition of the realities and the achievements of the Philippine economy and of its management. Trade liberalization, for example, had been outstanding in the face of adverse external trading circumstances. The complete decontrol of interest rates was a matter for commendation. The energy program was impressive, as was the achievement of a satisfactory wages policy. The continuation of real growth was also an achievement, and the adjustment achieved by the Philippine economy deserved Directors' commendation. It was worth emphasizing that, if the terms of trade had been maintained at the 1980 level, the balance of payments would have been broadly in balance in 1982. Therefore, the suggestion that the longstanding and fruitful series of arrangements between the Philippines and the Fund had not produced adjustment missed the point. Adjustment had been made, but in a dynamic situation. There could be no such thing as a once-and-for-all adjustment. The Philippines had been making adjustments to changing circumstances in the way that all economies were required to do, including many larger and more sophisticated economies. It could be reasonably argued that the Philippines' association with the Fund had been a success, not the basis for reservations.

His Philippine authorities would welcome the suggestion that there should be consideration of a further, perhaps longer, arrangement between the Philippines and the Fund once the stand-by had been completed, Mr. Prowse stated. Like those Directors who had put forward the suggestion, the authorities saw the mid-term review as important. They were aware that the bulk of the purchases under the stand-by were to be made following the mid-term review, and that the review was an opportunity to consider the ongoing relationship.

In 1981 and 1982, a number of important changes had been made in revenue administration, Mr. Prowse recalled. There had been a shift to gross income taxation to plug loopholes arising from the use of deductions. The withholding tax system for interest and dividends had been improved and expanded. There had been an extensive overhaul of the mechanics of the tax system with the introduction of computerization, and there had been a major reorganization of personnel in the revenue managing agency. Directors should bear in mind the effect of the economic slump on tax revenues in the Philippines. In that regard, the import surcharge was important. The basic objective of the surcharge was to produce revenue and to act as a cushion against the uncertainty of the yield of other measures. The cost of setting up the system had not justified the modest 1 per cent levy discussed with the staff; therefore, the authorities had decided on a higher levy. The authorities had also stated that the surcharge was a temporary measure, to be replaced when the yield from other measures was rising and when additional measures could be appropriately put in place. For example, the authorities had under consideration new and modified taxes on the whole range of oil products. One possible alternative, mentioned by a Director, might have been a value-added tax, but such a tax would have been administratively difficult and would have taken time to put into place. An import surcharge could be implemented relatively quickly. In addition, public resistance to the surcharge was less because the public did not view the import liberalization program as wholly beneficial. The surcharge had also had the minor benefit of dampening import demand slightly without prejudicing the liberalization program.

Commenting on credit expansion, Mr. Prowse said that, in addition to the points made by the staff, Directors should note that the base of net domestic assets in the private sector was four or five times as large as that in the public sector, so that comparison of percentage changes could be somewhat misleading. In addition, the relative growth in the two sectors had to be seen against the recession in private sector activity and the financial crisis that the Philippines had undergone in 1981, a crisis that had had severe effects on the private sector's financial structure.

The question of the sustainability of current account deficits had been admirably analyzed by the staff, Mr. Prowse continued. Again, Directors should compare the Philippine position with that of other countries. The deficit of about 8 per cent of GNP in 1982 and the target of 6 per cent in 1983, was not out of line with comparable economies. For example, in 1975 all non-oil developing countries had had an average deficit of 9.8 per cent of GDP. As recently as 1980, it had been 9.5 per cent, and about the same in 1981. One Director had suggested that traditional exports such as commodities and agricultural products had not suffered from protection. However, such products had indeed suffered from protection. Sugar and coconut were clear examples. There were escalating tariffs on copra oil in important markets, and there were subsidies on competing products in major markets. Of course, low prices and weak demand had also played a significant role. However, it was a question of recognizing achievements as well as shortcomings. On an index basis of 1982 as 100, nontraditional exports, i.e., manufactures, had been at 28 in 1977. Over the same period, traditional exports had increased in value on an index basis only from 89 to 100.

Mr. Erb commented that he continued to believe that the presentation of the information in Table III of EBS/83/24 had been inadequate. For example, public sector credit had been about 8 per cent of net domestic assets in 1980, whereas it would have increased to almost 25 per cent by the end of 1983. That very large increase had not been explicit in the kind of analytical presentation used in Table 3. Therefore, supplementary information would have been useful. On a separate point, the criticism of economic management in the Philippines by some Directors had not been based on an abstract notion of perfection, but on concern about the ability of the Philippines to continue to perform at what had been the outer limits of its borrowing capacity each year; for that reason, adjustment was most important and timely at the present stage.

The growth of the net international reserves of the banking system was worrisome, Mr. Erb added. Whether they were defined as debts or not was less important than the fact that a withdrawal of such deposits could have as detrimental an effect on the economy as a withdrawal of short-term or medium-term debt. Perhaps, therefore, there should have been a more explicit acknowledgment in the performance criteria that an increase in net liabilities would have been desirable. In that connection, there could have been a trade-off between net liabilities and the longer-term debt ceilings. An increase in the medium-to-longer-term debt ceilings could be acceptable if it could be linked to a reduction in short-term borrowing. It was not clear whether that kind of flexibility was permitted under the performance criteria.

The staff representative from the Exchange and Trade Relations Department said that, insofar as the Philippine authorities classified all foreign external liabilities of the banking system as reserve liabilities, those reserve liabilities could carry medium-term or long-term maturities. However, he agreed with Mr. Erb that there was a close relationship between the international reserve liabilities that a country incurred and its external debt position. To keep short-term debt, as defined in the Philippines, unchanged at the cost of incurring substantial reserve liabilities would be a matter of concern. The question could be discussed with the authorities further at the time of the mid-term review.

The Chairman noted that, in the present difficult circumstances, the international banking community was particularly interested in Fund programs in support of adjustment efforts in those countries with large external debts. The total external debt of the Philippines, including medium-term, short-term, and the net liabilities of the banking system, approached 50 per cent of GNP, a high ratio. It was, therefore, a matter of concern. Furthermore, the stock of external debt of the Philippines was expected to increase by close to 12 per cent during 1983, although the increase in the exposure of the commercial banks would be less, about 8 per cent.

Given that the debt ratios were high relative to those of many other countries, the Chairman continued, it had been fully appropriate for the Board to undertake such a long and thorough discussion. It was a prime example of the Fund's surveillance role. The outcome of the discussion would be regarded as a signal by the international banking community; it was, therefore, especially important that the program be structured in such a way that it would be successful in producing a sustainable balance of payments position for the Philippines.

It was striking that a large number of Directors had felt that, after 20 years of almost continuous collaboration with the Fund, the performance of the Philippine economy had been disappointing in recent years, the Chairman observed. Given the heavy debt service burden, the external situation was under strain, and the authorities had no alternative but to reduce the current account deficit from the present 8.5 per cent of GNP to 6.2 per cent, as envisaged in the program. Directors had wondered whether the proposed pace of adjustment was not too gradual in view of the external market conditions. It was clear that the authorities could not afford any slippage from the program as currently structured. If anything, they might have to strengthen the proposed measures in the course of the year, especially if the external environment turned out to be less favorable than projected by the staff. In that regard, the importance of reducing the fiscal deficit had been emphasized by all Directors. The program target of a reduction to 1.8 per cent of GNP had been considered a minimum.

While continued firm control on expenditures was crucial to the fiscal effort, the Chairman added, measures were also needed to arrest the recent worrisome decline in revenues. Executive Directors had placed particular emphasis on the need to take meaningful revenue measures. While noting the expressed intentions of the authorities, some Directors had stressed that the pace of the tax reform effort had been too slow. They had stressed, in particular, the need to replace the import surcharge by domestic taxes as soon as possible.

While expressing their commendation for the freeing of interest rates, the Chairman observed, several Directors had wondered whether monetary and credit policies were sufficiently tight, and whether the public sector, in particular the public enterprises, might not absorb too large a share of financial resources. Directors had also urged the Philippine authorities to be flexible in their exchange rate policy. On all those issues and others, Directors had stressed the importance of the mid-term review in order to assess both the effectiveness of the adjustment under way and the prospects for possible future collaboration with the Fund. In that context, a number of Directors had noted the importance of medium-term considerations, especially with regard to the investment program.

The Executive Directors then took the following decisions:

Stand-By Arrangement

1. The Government of the Philippines has requested a stand-by arrangement for the period from February 25, 1983 to February 28, 1984 in an amount equivalent to SDR 315 million.

2. The Fund approves the stand-by arrangement attached to EBS/83/24, Supplement 1.

3. The Fund waives the limitation in Article V, Section 3(b)(iii).

Decision No. 7338-(83/39), adopted
February 25, 1983

Purchase Transaction - Compensatory Financing Facility

1. The Fund has received a request from the Government of the Philippines for a purchase of SDR 188.55 million under the Decision on Compensatory Financing of Export Fluctuations (Executive Board Decision No. 6224-(79/135), adopted August 2, 1979).

2. The Fund notes the representation of the Philippines and approves the purchase in accordance with the request.

3. The Fund waives the limitation in Article V, Section 3(b)(iii).

Decision No. 7339-(83/39), adopted
February 25, 1983

2. LIBERIA - 1982 ARTICLE IV CONSULTATION, AND REVIEW UNDER STAND-BY ARRANGEMENT

The Executive Directors considered the staff report for the 1982 Article IV consultation with Liberia and mid-term review of the stand-by arrangement for Liberia (EBS/83/22, 1/28/83; and Sup. 1, 2/24/83). They also had before them a report on recent economic developments in Liberia (SM/83/34, 2/18/83).

The staff representative from the African Department stated that the National Bank of Liberia had announced an increase in commercial bank reserve requirements, effective February 1, 1983, from 15 per cent to 30 per cent.

Mr. Sangare made the following statement:

> When the Board discussed Liberia's request for a stand-by arrangement last September, it was clear at the time that the economy continued to face serious difficulties. The Government's decision to continue with its stabilization efforts was therefore welcomed by Directors. It was noted that the first two stabilization programs had led to improvements in economic management and to some progress in restoring confidence in the economy, and the hope was expressed that the current program would consolidate the gains and establish the basis for sustained economic growth.
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> To date, the program remains on course, a further demonstration of the authorities' determination to do whatever is necessary to stabilize the economy. Indeed, this has not been easy, as the task of economic management has been rendered more difficult by the prolonged recession in the international economy which has depressed demand for Liberia's major exports, namely, iron ore, rubber, and timber. The authorities have had to make difficult choices at a time when real GDP is projected to decline further by 1.8 per cent, continuing the trend that began in 1980, and the level of unemployment is rising. As recently as last November, LAMCO, one of th two leading iron ore producers, laid off a third of its work force, while Firestone, the largest rubber producer, has informed the Government of its intention to close one of its plantations. Apart from the short-run impact on employment and economic activity, the situation has highlighted the fact that Liberia's economic problems are structural and go beyond the short-term issues of a stabilization program. The authorities are aware of this fact, and have indicated that the present program was to be a first step toward a medium-term adjustment effort aimed at putting the economy on the path of sustained economic growth.
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> Against this background, the authorities have directed their attention toward diversifying production within the context of the second four-year development plan covering July 1981 to

June 1985. Highest priority is being given to the development of the agricultural sector and, in particular, the production of foodstuffs to reduce dependence on external sources. The expansion of the manufacturing sector, especially small-scale industries, is also being emphasized. Meanwhile, the authorities are working to improve the investment climate as an incentive to both domestic and foreign private investors.

On the fiscal side, the 1982/83 budget projected a growth of 8 per cent in revenues over the previous ar, a figure based on assumptions of improved tax collection ana a recovery in economic activity. However, it now appears that this target will not be achieved as a result of the continued deterioration in the economic situation. In the meantime, slippages in expenditure have made the situation more difficult. By the end of November 1982, the authorities had become convinced that further policy action was necessary to keep the budget deficit within manageable limits. Accordingly, prompt action was taken to reduce expenditure, effective January 1, 1983, including cuts of up to 25 per cent in salaries of government employees. On a net basis, this would save approximately $23 million in the current fiscal year in the wage bill. The decision has also been taken to postpone a part of the Government's investment program, a move expected to reduce the development budget by $9.2 million below the original target for 1982/83. It should be stressed, however, that the basic investment priorities of the Government have not been altered, as indicated by the fact that the agriculture and forestry sector is still expected to account for the largest share of expenditure under the development budget.

The authorities have intensified their efforts to enforce the collection of taxes, with special attention being focused on individual income tax collection in order to offset the projected loss in revenue resulting from the reduction in salaries. A hut tax has also been reintroduced in the rural areas and is expected to yield about $1.5 million. With these measures, together with an increase in receipts from grants, the overall deficit is expected to be held at $85 million, only $2 million above the original program target. The extent of adjustment efforts is highlighted by the fact that the ratio of the budget deficit to GDP is expected to decline by more than 3 percentage points from the level recorded in the previous year, that is, from 10.2 per cent in 1981/82 to 7 per cent in 1982/83. As a result of this positive development, government borrowing from the central bank will be limited to $32 million compared with $44.5 million in 1981/82.

Efforts to improve the performance of public corporations so as to reduce their dependence on budgetary transfers remain an important element of the Government's strategy to strengthen its financial position. In this connection, all public corporations are to effect economies in their wage bills in keeping with the policy now in effect for government employees. A comprehensive program aimed at addressing the longer-term goal of improved efficiency in those corporations to be retained in the public sector is also being developed with assistance from the World Bank. Corporations not kept by the Government will either be operated as joint venture or sold outright to the private sector.

The recorded money supply, which declined by 11 per cent in 1981, increased by 23 per cent during the first nine months of 1982, easing somewhat the tight liquidity situation which has prevailed in recent years. Nevertheless, the liquidity situation remains worrisome. Private sector credit has grown by only 4 per cent in the first three quarters of 1982 after declining sharply for two consecutive years and is still well below the level reached in December 1979. Indeed, the situation has not been helped by the reluctance of foreign commercial banks to maintian their exposure to Liberia.

Government borrowing from the National Bank in 1982/83 is ecpected to exceed the ceiling under the present stand-by arrangement by $2 million. Given the difficult circumstances under which they have had to operate, the authorities are seeking the approval of the Fund for the ceiling on net credit to the Government to be increased from $30 million as originally agreed to $32 million.

The reserve requirement of the National Bank was raised to 30 per cent effective February 1, 1983, a move which could help to improve the financial position of the bank, regularize the present situation of high excess reserves, and limit pressure on its foreign exchange reserves. Interest rate policy continues to be guided by the need to mobilize domestic savings. In this regard, the National Bank has maintained the rates on its certificates of deposits at more than 5 percentage points above comparable rates in New York. With the progressive restoration of confidence in the economy, sales of these certificates should increase.

Exports are expected to decline by a further 6 per cent after a fall of 8 per cent in 1981/82, reflecting the continued weakening of markets abroad for the country's principal exports. However, the overall balance of payments position is likely to turn out better than expected. The deficit is now projected at $49 million compared with the original estimate of $63 million. It is to be noted that gross international reserves, which were virtually nil in 1981/82, are expected to increase to $22 million by the end of the program period.

Liberia's debt service ratio remains low at 13.3 per cent as a result of debt relief from official creditors and commercial banks. Debt payments to Paris Club members falling due between July 1980 and June 1983 were rescheduled in December 1980 and December 1981. An agreement on refinancing of amortization payments due to London Club banks, covering the period July 1981-June 1983, was signed last December. As regards the medium-term outlook, the debt service burden is projected to double by 1985/86 before declining slightly in 1986/87. Of course, much will depend on the strength of the recovery in the world economy and the attendant impact on demand for the country's exports.

It is worth reaffirming that my authorities remain committed to the implementation of the program and intend to maintain the close cooperation with the Fund which has developed over the years.

Mr. Erb commented that the supplement to EBS/83/22 provided a concise presentation of the current situation regarding Liberia's arrears in connection with the oil facility. Could the staff provide similar updated information on the other areas covered in Attachment III to EBS/83/22? He noted the explanations given by the staff to account for the emergence of delays in the disbursements under the current stand-by arrangement, but he wondered to what extent the delays had exacerbated the Government's cash flow problems. Had the interest on arrears owed to the London Club banks been repaid and, if not, why not? Assuming the interest arrears owed to London Club banks were still outstanding, what provisions were being made to pay them, and on what basis did the staff assume that Liberia would be more successful under present conditions than in the past? With regard to the oil facility arrears, on what basis did the staff conclude that the banks involved, which were reluctant to agree to one of the two proposals, could be persuaded to agree to an acceptable proposal by May 14, 1983?

The staff correctly emphasized the importance of maintaining the exposure of commercial banks in Liberia, Mr. Erb continued. Nevertheless, neither of the alternatives being considered in connection with the oil facility would maintain that exposure. Renewal of the facility at $37.5 million, while representing an increase from the present $26 million in arrears, would represent a decline from the $50 million outstanding under the facility as recently as the previous summer. The terms of the lead bank's proposals would also allow for further steady reduction from the new ceiling. As for the London Club Agreement, some of the banks involved had made short-term bridging loans that had eased some of Liberia's more acute liquidity problems. None of those banks, however, had made new loans, and the agreement permitted a steady reduction in outstanding Liberian debt, beginning from the implementation of the agreement, probably within the coming two weeks. Moreover, the reductions in commercial bank exposure were occurring when Liberia was receiving relatively large amounts of new financing from the Fund and from official donors, which had also provided three successive years of debt relief on more generous terms than those offered by the banks. SDR 12 million of the SDR 30 million that Liberia would have available upon Executive Board approval of the review would be paid to banks to implement the London Agreement signed by the Government of Liberia in December 1982; the result would be a net reduction in commercial bank exposure.

The Fund had been engaged in a number of negotiations with the commercial banks with regard to the necessity of maintaining adequate levels of commercial bank financing for members that had undertaken adjustment programs supported by Fund resources, Mr. Erb noted. He and his authorities had strongly supported the Fund's management in those negotiations. It was imperative that the principles of good conduct on the part of the commercial banks, which had been established for larger borrowers, be adhered to even when the amounts involved were smaller.

Commenting on Liberia's performance under the stand-by, Mr. Erb expressed broad agreement with the staff appraisal. The Liberian authorities were to be commended for the courage that they had shown in implementing their adjustment program. The critical area in the current program was fiscal policy, and, in that regard, the authorities had shown a strong commitment to adjustment. The decision to reduce salaries for all public sector employees provided a basis for a more balanced fiscal position in coming years, provided the resolve was maintained. The revised budget went a long way toward achieving a realistic reduction in expenditures by rationalizing the proposed cuts. He invited the staff to comment further on the statement contained in the appraisal that some government agencies' functions might be impaired by the cuts. The cuts could be counterproductive if they were excessively drastic.

When the stand-by had been originally considered by the Board (EBM/82/129 and EBM/130, 9/29/82), Mr. Erb went on, his chair and others had welcomed the decision to increase development expenditures. However, while he understood the reasons behind the decision to reduce the domestic development budget by 14 per cent at the current stage, he invited the staff to comment further on the impact that such a reduction might have on the medium-term prospects for Liberia. He accepted the proposal to increase the fiscal deficit from $83 million to $85 million in FY 1982/83. However, the staff had referred to nonbudget expenditures of $2.4 million; how had those arisen, and to what extent did they account for the increase in the deficit? He shared the concern of the staff that, because of the tight budgetary position, no reduction in domestic arrears appeared possible in the current fiscal year. It was a matter with important ramifications for the authorities' objective of restoring confidence in the financial management of the country. Admittedly, it was an extremely difficult area to control. At the time of the approval of the stand-by, his chair had agreed with the decision not to make domestic arrears a performance criteria. However, his authorities continued to believe that resolute action was needed in that area if the climate of confidence was to be restored.

In the external sector, the improvements in the deficit on the current account and on the overall balance of payments projected for 1982/83 were welcome, Mr. Erb observed. One concern in that area related to the large debt service obligations facing Liberia. There appeared to be a significant degree of uncertainty regarding the actual size of Liberia's external debt. How confident did the staff feel with regard to the debt statistics? Was it an area in which technical assistance from the Fund might be beneficial?

Mr. Taylor recalled that, during the Board's discussion in September 1982, most of those who had spoken had expressed concern at the serious conditions facing the Liberian economy; a number of speakers had said that there seemed to be little margin for slippage in the program. Since then, the real economy had continued to deteriorate, and prospects looked gloomy. GDP, which had declined by a total of 6 per cent in the previous three years, was projected to decline by about another 2 per cent in 1983, largely reflecting a projected massive decline in iron ore production. A 7.5 per cent fall in GDP in four years, when the population had grown by about 13 per cent, undoubtedly put severe restraints on living standards. About 60 per cent of the population lived by subsistence agriculture, so that perhaps many of the workers laid off in the major export industries would manage to find some temporary employment in the nonmonetary sector of the economy. Nevertheless, Directors ought to be concerned and sympathetic with regard to the economic outlook.

The fundamental solution to Liberia's problems lay in progress toward diversification of the economy, particularly into modern agriculture, Mr. Taylor considered. Such progress would be essential to reducing the economy's heavy dependence on the relatively volatile industrial demands of the developed world in industries such as automobiles and construction. The relative lack of discussion in the staff report on the question of diversification and the prospects for agricultural development was somewhat surprising; perhaps there was a need for an Article IV consultation to review those issues in more detail, insofar as they were susceptible to macroeconomic measures within the competence of the Fund.

Commenting on the proposal to modify the performance criterion with regard to credit to the Government, Mr. Taylor endorsed the request. However, it seemed to leave a number of basic issues unanswered. The staff had concluded in September 1982 that, if the position did not improve, more fiscal action would be needed. In fact, the authorities had taken a series of courageous moves in an attempt to correct the slipping fiscal situation, but, even allowing for those, the authorities currently believed that they could not reduce the overall deficit below $85 million. Therefore, they had requested a modification of the performance criterion by $2 million. There still remained little margin for error. Even though the change was small, the staff remained doubtful that the new ceiling could be met without considerable difficulty. In its appraisal, the staff stated that the various cuts in public expenditure "will be difficult to achieve, and may impair the functioning of some government agencies." The staff added that it "believes that there are reasonable prospects for achieving the budget target for the remainder of the program period." On that basis, it supported the requested modest increase in the fiscal ceiling.

The apparent ambivalence on the part of the staff was somewhat puzzling, Mr. Taylor continued. Admittedly, the issues were difficult. He invited the staff to outline what further options might be available to the authorities to keep within the fiscal ceiling. To some extent, the seriousness of the fiscal problem had been cushioned by the growth of domestic arrears. He shared the staff's continued concern that no reduction in domestic arrears was in prospect for the present fiscal year, an illustration of the difficulty of the fiscal situation.

The re-emergence of significant external arrears during the second half of 1982 was a matter of serious concern, Mr. Taylor observed, indicating the difficult nature of the external payments problems confronting the authorities. Attachment III of SM/83/34 indicated that what had been perceived in September 1982 as a small, perhaps temporary, problem of about $10 million of arrears on oil imports had grown into much larger and more widespread arrears to many institutions and banks by the beginning of November. Even allowing for the fact that the staff's definition of arrears was strict, the problem was worsening. The information supplied in the supplement to SM/83/34 seemed to suggest that at least the arrears arising from oil payments were in the process of being rescheduled under one of two possible agreements. Both of the possible reschedulings were acceptable to the Liberian authorities; they would probably be acceptable to the Executive Board. However, perhaps the banks could be more forthcoming, as Mr. Erb had suggested. He invited the staff to comment on that question.

Other arrears existed, Mr. Taylor added, for example, those outstanding to the London Club. There were also arrears outstanding to the Paris Club. Any further information the staff could provide regarding the total arrears accumulated since December 1, 1982 would be useful. Apparently, the arrears could not be eliminated at the moment. Nevertheless, the staff proposed to allow Liberia to draw the second tranche under the program, but to make further drawings conditional on the complete elimination of the arrears by May 14, 1983. It was a far from ideal solution, but, if it was the only way to make progress, the Executive Board would have to accept it. Given the deterioration of the situation, the staff should keep Directors closely informed on progress made in regard to arrears on the oil facility over the coming few weeks, since the outcome of those discussions would significantly affect the room for maneuver available to the authorities.

The question of technical assistance to Liberia was important, Mr. Taylor remarked. Liberia deserved and had received important technical assistance from both the Fund and the World Bank. Did the staff know when the results of the recent technical mission to Monrovia to study the important question of the mobilization of domestic savings would become available? Had the study also covered incentives for inward investment, a potentially valuable area? The authorities' acceptance of the World Bank's recommendations on public corporations was welcome. Did the staff know when the reform project resulting from that work was likely to be discussed by the Executive Board of the Bank?

Mr. Salehkhou noted that the Liberian economy had faced recurrent problems in recent years. The difficulties had been exacerbated by weak commodity markets, recession in industrial countries, and other external factors. There were equally serious domestic difficulties, however, related to fundamental structural imbalances in the economy. Such problems had led, inter alia, to a loss of confidence, continuous declines in production, payments arrears, and declines in exports and revenues.

On the external side, export prices and volumes had declined, Mr. Salehkhou continued, and Liberia had had to contend with a declining share for its exports to the industrial countries, which had been undergoing a recession. The loss of export revenue had, in turn, led to a decline in budget revenue. Such adverse effects had also led to declines in GDP during the previous three years. On the domestic front, the general financial operations of the public corporations had been unsatisfactory, with cost overruns, heavy dependence on government subsidies, and declining efficiency. The money and banking sector was also a potentially serious area in the domestic economy, requiring a restoration of confidence and, hence, of savings. Major rationalization efforts should be made in that area.

Under such difficult circumstances, the authorities had taken bold measures to ease the problems, Mr. Salehkhou commented. There had been a drastic cut in the salaries and wages of public employees, sharp cuts in the budget, and a more realistic distribution of resources for other recurrent spending. The development budget had also been cut in order to cope with reduced revenues. The authorities were optimistic that those cuts would bring the budget deficit close to the program target. In that context, their request for an increase in the performance criterion on bank financing for April and June 1983 should be supported.

Despite the admittedly painful measures already adopted by the Government, much remained to be done, Mr. Salehkhou considered. As long as the present uncertain external environment existed, it was essential for the authorities to take comprehensive stock of available and potential domestic resources, and to try to make further use of available domestic resources, if only because the outlook for continued capital inflows was highly uncertain, given the present financial conditions in the international capital markets. Furthermore, there seemed to be a need for a complete rationalization of the exchange rate system. The system in its present form could not function as a policy instrument in the hands of the Government. Further rationalization of the banking system was also called for with a view to enhancing public confidence.

In the area of public enterprises, Mr. Salehkhou noted, the Government had taken steps to improve efficiency. He welcomed the Government's decision to accept the World Bank's recommendations and he looked forward to the preparation of the public enterprises' reform project, to be completed by the World Bank. There was also a need to strengthen the private sector and to provide it with facilities and with the confidence to increase its contribution to the economy. Despite the obvious setbacks, the authorities ought to be commended for the progress already achieved. He hoped that a continuation of the arrangement with the Fund would help to ease some of the difficulties that they were facing. He fully supported the proposed decisions.

Mr. Vidvei recalled that, during the Executive Board discussion of Liberia's request for a stand-by arrangement in September 1982, he had commented at length on the extremely severe economic difficulties facing the country. Those points remained valid. The courage and the commitment demonstrated by the authorities were impressive. The problems had been serious in 1982, and the international economic situation had led to further deterioration. The recent harsh measures in the area of government expenditures reflected the resoluteness of the authorities. In reality, they had little choice, given the limited policy instruments at their disposal, the continued lack of confidence, and the bleak outlook for the world economy.

However, the question might be asked whether the Fund could do more to ease the economic burdens faced by Liberia, Mr. Vidvei continued, and whether it could give the authorities more time to carry through reforms in the economy. Some of the reforms were time-consuming, particularly improvements in the public management of the economy. As the staff had pointed out, recovery in the industrial world was essential for the growth of the Liberian economy in the medium term. In that respect, Liberia was not unique; the same consideration applied to other debt-ridden less developed countries. The sooner satisfactory growth in the industrial countries was regenerated, the quicker recovery would come in the less developed countries, and the quicker would be the restoration of confidence and normal conditions in international capital markets.

In September 1982, he had recommended an increase in the reserve requirement for banks, Mr. Vidvei noted, and the staff had made the same recommendation in EBS/83/22. Therefore, he welcomed Mr. Sangare's statement that such action had been taken. Furthermore, in September he had expressed anxiety about the premium on the certificates of deposit. Since then, the premium appeared to have grown even larger. While the tremendous difficulties involved in restoring confidence in the financial system were understandable, further comments by the staff or Mr. Sangare would be welcome. Finally, he continued to support the adjustment efforts of the Liberian authorities and the Fund program. Besides providing financial assistance to Liberia, the Fund should be generous in responding to possible further requests from the authorities for technical assistance.

Mr. Grosche remarked that the Liberian authorities had demonstrated determination in implementing a severe adjustment program, for which they should be commended. Unfortunately, for a small, open economy like Liberia's, a prudent adjustment policy was only one condition for improving economic performance. Another important condition was the recovery of major industries, such as iron ore, rubber, and timber, which in turn depended heavily on upswings in Western Europe and the United States. As long as the weak demand for Liberian exports continued, the appropriate course of economic policy would be difficult. Mr. Taylor had correctly identified the need for diversification, but diversification took time.

In light of the experience with the current stand-by arrangement, Mr. Grosche continued, he was confident that the Liberian authorities would continue to implement steadily the necessary adjustment policies. He supported the proposed decisions, notwithstanding his unease, shared by Mr. Erb and Mr. Taylor, with regard to the timely elimination of external arrears.

The staff representative from the African Department stated that the staff had discussed the question of external arrears thoroughly with the authorities in November and December 1982. The authorities had provided the staff with full information, and the staff had used a strict definition of arrears. On return from the mission, he had sought information from various institutions to find out more about the arrears. For example, the World Bank had said that all payments due to it were within its customary 60-day grace period. Other institutions that he had spoken to had been able to make similar statements with regard to payments owed to them. Thus, the staff's conclusion was that technical assistance to Liberia would be vital, because the Liberian authorities themselves did not have a clear picture of the arrears situation. A staff member from the Central Banking Department had just completed a recent visit to Liberia to discuss the question with the authorities. The World Bank had also sent a mission for the same purpose.

The question of how best to proceed with regard to the oil facility had been raised, the staff representative noted. As of June 30, 1982, $47.5 million had been outstanding under the facility. The total available to Liberia had been $50 million, but actual drawings had fluctuated, depending on oil deliveries and other factors, between $37.5 million and $47.5 million. The proposed restoration of the facility to the level of $37.5 million, therefore, seemed reasonable and feasible. The staff had participated in meetings with the banks and the Liberian authorities on two occasions since the Executive Board's approval of the stand-by arrangement, and the lead commercial bank believed that it would be possible to reach a solution at $37.5 million. A small number of banks were reluctant to agree to the proposal, but it appeared possible that arrangements could be worked out with the majority of banks, with some alternative arrangements made for the reluctant group.

A further issue was the rescheduling of debt owed to the London Club banks, the staff representative continued. The London Club had agreed to the rescheduling of $27 million in amortization payments due, and the authorities had committed themselves to using their next drawing from the Fund to eliminate interest in arrears, which was not rescheduled. Therefore, the only immediate reduction in the exposure of those banks would be in the amount of the 5 per cent down payment under the London Club Agreement.

One Director had asked why there had been an increase in nonbudget expenditures of $2.4 million, the staff representative observed. The largest portion of the increase had arisen from the Government of Liberia's purchase of equity in the West African Agricultural Corporation, and smaller amounts had been spent on miscellaneous items, such as payments for radio equipment ordered in earlier years, and payments to the oil corporation.

The question had also been raised, the staff representative went on, whether there was not a certain element of contradiction in the staff's view that the authorities could meet the performance criteria for the second quarter of 1983 and its view that the authorities would have great difficulties in doing so. In fact, there was no contradiction. Achievement of the targets would be possible with strenuous efforts on the part of the authorities. The staff had stressed the need to engage in an active revenue collection program, and, in January, the Finance Minister himself and senior members of the Finance Ministry had personally taken part in a collection effort that had raised about $400,000 of taxes in a few days. The authorities had assured the staff that they intended to continue such efforts. Nevertheless, there might have to be further cuts in the development budget and in some other recurrent expenditures. The impact would be felt in agriculture, public works, and education, and it was inevitable that the quality and quantity of services would be affected. However, the authorities realized that such action was part of the necessary restraint that they had committed themselves to. The staff believed that they would be successful, if they continued the commitment shown thus far.

The staff agreed with those Directors who had commented that the mobilization of domestic resources would be essential, the staff representative added, and the Central Banking Department and the Legal Department had recently completed a report on that question. The report would be made available to the authorities within a week. However, it did not cover incentives for investment inflows, as one Director had wondered. That subject was being studied by Liberia's National Investment Commission. The staff also agreed with the point made by one Director that the subject of agricultural diversification could have been covered more fully in EBS/83/22, an important objective of the authorities' economic program. A World Bank staff member had accompanied the Fund staff on the recent mission, during which the staff had sought changes in the development budget that would maximize the flow of resources to the agricultural sector. However, agriculture had had to bear some of the brunt of the overall reductions. The premium on certificates of deposit (CDs) had also been mentioned by a Director; the interest rate had been overwhelmingly influenced by political uncertainties. The CDs did not play an important economic role.

It had been suggested that Liberia needed more time to adjust than was provided for in the Fund's program, the staff representative from the African Department commented. The Fund had been providing assistance to Liberia for several years, and adjustment had been taking place. However, circumstances, particularly the external environment, had continually changed, mainly in a worsening direction. At the time of the initial discussions with the authorities in the middle of 1982, the outlook for Liberia's exports of iron ore and timber had seemed reasonable. However, by September, despite the adjustment measures taken by the authorities, the outlook had worsened. The staff had had to inform the authorities that, while the measures taken had been courageous, more needed to be done. Thus, he agreed with those Directors who had emphasized that the medium-term outlook for Liberia depended on recovery in world markets. Given the adjustment measures already taken, Liberia stood in a good position to take early advantage of any upturn in world demand.

The staff representative from the Exchange and Trade Relations Department commented that the question of the Fund's role in debt rescheduling discussions with commercial banks raised issues beyond the Liberian case under discussion. It was correct to point out, as one Director had noted, that, even if the banks agreed to the $37.5 million arrangement in the oil facility for Liberia, the amount available under the facility would be below the peak level prevailing in the middle of 1982. In addition, under the separate London Club Agreement, there would be a progressive reduction in the exposures of the banks involved over the period of the agreement. The key question was how should the Fund persuade commercial banks to provide debt financing, not only in larger programs, but also in smaller ones. Liberia was not the only example in which the banks had proved difficult, even though they were being asked only to maintain, not to increase, their exposure. Another problem was that, in many instances, the commercial banks had been charging high rates of interest on the amount in arrears. He hoped that the Executive Board discussion of the forthcoming staff paper on the Fund and foreign debt problems would provide an opportunity for Directors to offer guidance to the staff on relations with commercial banks in that sensitive area. The important operational question that had to be discussed was whether the Fund should hold its programs in abeyance until all commercial banks involved in rescheduling had reached agreement, or whether the Fund should go ahead on the basis of what it considered a reasonable effort by the banks.

Mr. Sangare stated that Directors should bear in mind the difficult situation that the Liberian authorities had had to face over the previous three years. Although the measures taken had not proved sufficient, the slow progress could be attributed not to a lack of effort by the authorities, but rather to exogenous factors over which they had no control. The authorities had done their best to stay within the framework of the three successive stand-by programs, even to the extent of taking measures that Directors had described as "courageous." In the present circumstances, few governments could take measures such as reducing wages and salaries by between 16 per cent and 25 per cent while freezing hiring and abolishing all subsidies on rice, a basic food. Most of the measures taken had been unpopular and painful, but the Government had not hesitated to take them, although they had come into office on the basis of offering improvements in the living standards of the people. Liberia was an open economy and could not resist the impact of the world recession. Therefore, while the authorities were committed to continuing their efforts, everything would depend on improvements in the world economy. He recalled that, when the program had been agreed with the authorities, the export price for Liberia's major products had been expected to be 6 per cent higher than had, in fact, turned out to be the case. As a result, the current account deficit had been larger than expected, and fiscal receipts had been lower. Those developments illustrated the difficult external environment faced by the authorities.

Commenting on the proposed decision, Mr. Sangare observed that the date proposed for the elimination of arrears was a matter for concern. A number of Directors had expressed doubts that that deadline could be achieved, a doubt that he shared. Factors beyond the control of the authorities made it difficult to be specific about the date by which arrears could be eliminated completely. Taking into account all the circumstances, a more permissive form of words would be preferable. Given the weakness of the export sector, described in the staff paper, it was unrealistic to set a date as definite as May 14, 1983. Therefore, he proposed that the last sentence of the decision should be amended to read: "...after May 14, 1983, unless there are understandings between the Fund and Liberia on any outstanding external arrears." As he had already noted, his authorities were committed to eliminating the external arrears and to continuing their cooperation with the Fund. They would be negotiating with the banks, and, in that regard, the provision of Fund financing would be helpful. He hoped that Executive Directors could agree to the modification of the decision.

The staff representative from the Exchange and Trade Relations Department recalled that, when the program had been discussed with the authorities in 1982, the assumption had been that there would be no arrears at all. Subsequently, there had been extensive discussion in the Executive Board on the question of how to deal with the $10 million of arrears that had emerged between the time of the discussions with the authorities and the Executive Board discussion. In that context, Executive Directors had taken a specific decision to the effect that further purchases would be contingent on understandings being reached on the elimination of arrears. Since then, arrears had increased further. The staff believed that the problem of the $26 million of arrears outstanding, currently the subject of negotiations between Liberia and the banks, could be resolved by the date proposed in the decision. The date had been set not with reference to export prospects, but in relation to the negotiations on the oil facility.

Mr. Sangare said that he agreed that the central issue was not exports; however, economic factors were closely interrelated. Assumptions had changed since the time of the initial design of the program. His authorities were absolutely committed to restoring confidence in their economy and, therefore, to eliminating arrears. Nevertheless, they believed that some additional room for maneuver would be useful.

Mr. Erb commented that his authorities had wondered whether it was appropriate to take a decision on the issue at the present meeting, in light of the uncertainties regarding the oil facility arrears. However, having weighed the pros and cons, they had decided that the program deserved support. At one point, he had believed that it might have put more pressure on the banks to come to an agreement if the Executive Board had decided not to discuss the program until the arrears question had been resolved. However, he had come around to the view that taking the decision as drafted could strengthen the hands of the Liberian authorities in their negotiations with the banks.

The staff representative from the African Department said that he had been following the situation closely. The Government of Liberia was totally committed to resolving the external arrears problem; he believed that there was ample time to do so by May 14. If the banks showed continued reluctance to come to an agreement, the management of the Fund might wish to consider what action would be appropriate in those circumstances.

Mr. Sangare commented that, on that understanding, he could accept the decision as drafted.

The Chairman made the following summing up:

> In acknowledging the strong and courageous measures taken by the Liberian authorities to contain public expenditures and to keep their adjustment programs on track despite a recession in their major export markets, Directors expressed concern over the level of domestic budgetary arrears, and they stressed that continued improvements in the management of government operations were especially important for the adjustment process in Liberia.
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> Directors urged the authorities to persist in their efforts to enforce tax collections, to mobilize additional tax resources, and to contain expenditures. Some Directors emphasized the importance of rationalizing the public corporations, and they welcomed the joint project with the World Bank. The need for agricultural diversification was noted.
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> Directors expressed concern over the increase in external arrears since the fall of 1982, and they stressed the importance of a fair, cooperative, and uniform treatment of the different categories of arrears incurred by banks.
>
> Executive Directors commended the Liberian authorities for their efforts to maintain interest rates at realistic levels. That policy was all the more important given the constraints on exchange market policies. They also noted the recent increase in reserve requirements to reduce pressures for capital outflow. Some Directors indicated the need to increase savings mobilization, and they welcomed the interest and receptivity of the Liberian authorities concerning the work of the Fund technical assistance mission in that area.

The Executive Board then took the following decisions:

Decision Concluding 1982 Article XIV Consultation

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

2. The Fund notes that Liberia has no restrictions on payments and transfers for current international transactions. The Fund welcomes the intention of the Liberian authorities to eliminate external payments arrears by May 14, 1983.

Decision No. 7340-(83/39), adopted
February 25, 1983

Review Under Stand-By Arrangement

1. Liberia has consulted the Fund in accordance with paragraph 4(c) of the stand-by arrangement for Liberia (EBS/82/169, Supplement 1, 10/1/82) and paragraph 24 of the letter of intent of July 21, 1982 attached to the stand-by arrangement for Liberia in order to reach understandings on budgetary policy and on the elimination of external arrears and to review the progress under the program.

2. The letter of the Minister of Finance and Governor of the National Bank of Liberia of December 9, 1982, shall be attached to the stand-by arrangement for Liberia, and the letter of July 22, 1982 shall be read as modified and supplemented by the letter of December 9, 1982. Accordingly:

(i) the reference, in paragraph 4(a)(iii) of the stand-by arrangement, to paragraph 22 of the letter of July 22, 1982 (relating to the limit on net credit of the public banks to the Government), shall be read as a reference to paragraph 7 of the letter of December 9, 1982; and

(ii) Liberia will not make purchases under the stand-by arrangement that would increase the Fund's holdings of Liberia's currency in the credit tranches beyond 25 per cent of quota or increase the Fund's holdings of that currency resulting from purchases of supplementary financing or borrowed resources beyond 12.5 per cent of quota during any period after May 14, 1983, while Liberia has any outstanding external arrears.

Decision No. 7341-(83/39), adopted
February 25, 1983

3. MALI - STAND-BY ARRANGEMENT - MID-TERM REVIEW

The Executive Directors considered the staff report for the mid-term review of the stand-by arrangement for Mali (EBS/83/25, 2/2/83).

Mr. Alfidja made the following statement:

I would like to thank the staff for the comprehensive and excellent report on the medium-term review of the one-year stand-by arrangement approved by this Board on May 21, 1982.

Even before the approval of the stand-by arrangement, the Malian authorities were already implementing a number of economic reforms aimed at improving the economy's performance and the attainment of a viable external payments position. This was done in cooperation with the Fund and the World Bank. As was indicated by this chair in May last year, the Malian case may be described as one of a voluntary application of economic and financial policy instruments for self-restraint. The particular areas of concern for policy reforms were in public finance, the operations of state enterprises, and in agriculture. The necessary measures for reform, together with further measures for a more effective economic and financial management, were to be implemented in the context of the Five-Year Development Plan, 1981-85, and Mali's proposed membership of the West African Monetary Union.

As stated in EBS/83/25 (p. 21) the economic and financial performance of the Malian economy in 1982 was broadly favorable, and these commendable results have been achieved despite the difficult developments in the international economic scene.

Mali's real GDP for 1982 registered an increase of 4.5 per cent, which was close to that forecast by the staff under the program. Agricultural output, particularly cereal production, made a significant contribution to the economy's growth. The large cereals crop harvested during the year improved the food supply, and led to a significant reduction in the rate of inflation during the year.

In public finance, measures pursued went a long way in reducing the imbalances in the budget. On account of additional direct tax measures introduced under the program, and coupled with a better administration of indirect taxes, budget revenues in 1982 were estimated at MF 77.6 billion, close to the program target of MF 78.9 billion. The determination of the authorities to control expenditures also proved successful. The staff has estimated that total outlays for 1982 were MF 87.8 billion, compared with the forecast of MF 88.8 billion. This reflects the efforts of the authorities to contain recruitment, control the level of personnel establishment, limit transportation and relocation expenses, and reduce expenditures on scholarships. As in the previous year, no general wage increases were granted in 1982. Broadly, measures for improving the monitoring of budget execution and controlling treasury operations alleviated the burden on the government budget. These measures were particularly effective in the Special Funds, which in the past had taken a large part of government revenues. The domestic arrears of the Treasury were reduced. Also reduced, in accordance with the program target, were external arrears of the Treasury, the Post Office, and public enterprises.

Although measures taken to rehabilitate the postal checking system were among the most important in the 1982 program, the objective of separating its operations from those of the Treasury was not fully attained. As the staff has pointed out, to rehabilitate the large state enterprises is an enormous task that will take several years. The reduction in their operational losses fell far short of the targets. The financial position of the import-export organization, SOMIEX, still gives cause for concern. However, the authorities succeeded in strengthening the efficiency of the operations of the electricity agency and the railroad enterprise. The losses of the cereal marketing agency, OPAM, were reduced by raising its tariffs and redefining its functions.

In the area of monetary and credit policy, developments were also in accordance with the program's undertakings. The expansion of credit both to the economy and to the Government remained below the ceilings established. Interest rates on bank deposits were increased in May 1982 in line with those prevailing in the neighboring countries. These results indicate the determination of my Malian authorities to continue pursuing a restrictive monetary policy.

The overall improvement in the performance of the economy had a favorable effect on the balance of payments position where developments were broadly in line with the program's objectives. The current account deficit is estimated to decline from SDR 201.3 million in 1981 to SDR 182.2 million in 1982, less than the program forecast of SDR 190.2 million. On account of higher official transfers and capital inflows, the overall balance of payments deficit is expected to be smaller than planned.

In line with the policy to alleviate the burden of the external debt service on the balance of payments and in accordance with the undertakings under the program, the authorities did not contract any new external loans on nonconcessionary terms during 1982.

As far as 1983 is concerned, the Malian authorities have now outlined the policies that they intend to pursue. These policies will be a continuation of their efforts to rehabilitate the public sector and to strengthen the basis for further progress in the stabilization of the country's economic and financial position in the medium and long term. They are fully aware that although commendable progress was achieved in 1982, the overall economic prospects for 1983 do not appear favorable.

The budget for 1983 aims at further fiscal restraint. The central government deficit will be reduced by placing limits on extrabudgetary expenditures and maintaining a significant surplus on the Special Funds. In order to attain the projected budgetary revenue increase of 10.7 per cent during the year, the authorities will continue with their policy of efficient tax administration. With the strengthening of the controls already established for personnel expenditures and since no general wage increase is planned for 1983, total expenditures may be within the planned limits.

The reforms already adopted for the rehabilitation of the state enterprises will be supplemented with a package of measures of both a short-term and a long-term nature based on the recommendations of the report prepared with World Bank financial assistance. Particular attention will be paid to the restructuring of SOMIEX and the cereal marketing agency OPAM in order to further reduce the gap between market and official retail cereal prices needed.

Monetary and credit policy in 1983 will continue to be restrictive so as to ensure that the gains achieved in the past are not eroded.

Finally, my authorities would like the continued support of the Fund and other international agencies which have assisted in the successful implementation of the adjustment policies. The measures that the authorities have implemented under the program should be regarded as a transitional stage toward the formulation of a medium-term program for which Fund and World Bank support is envisaged.

Mr. de Maulde commented that it was gratifying to consider a case in which performance criteria had been fulfilled or exceeded. In Table 3 of EBS/83/25, the staff documented well the fact that the Malian authorities had implemented a large number of courageous measures that had brought about substantial progress in the fields of public finance, of money and credit; consequently, good results had been recorded in the external sector.

At the same time, the real economy had performed well, Mr. de Maulde continued, since real GDP had increased by 4.5 per cent in 1982. The growth was completely unrelated to the Fund's program; its cause was favorable climatic conditions that had resulted in a good cereal crop. Unfortunately, the forecast for 1983 was less auspicious. There had been a severe lack of rainfall in the second half of 1982 in the northern part of the country closest to the Sahara. Consequently, cereal production was forecast to decline by some 15 per cent, livestock by about 20 per cent, and real GDP by about 4 per cent. The prospects illustrated clearly how fragile the economies of sub-Saharan countries were and how dependent they were on the vagaries of nature. It became all the more important for those countries to take decisive and fundamental action with regard to the basic structure of their economies. The Malian authorities had clearly begun to realize what was needed.

Three facts were particularly encouraging, Mr. de Maulde considered. First, the authorities had their priorities right. The letter from the Minister of Finance, attached to EBS/83/25, indicated clearly that all necessary policies would be implemented in order "to strengthen the basis for future economic developments." Second, Mali was one of the too few cases of close and efficient cooperation between the Fund and the World Bank. Third, the action of the Malian authorities was being taken in the medium-term perspective of a five-year plan, a wholly appropriate approach to the country's problem. For those reasons, Mali fully deserved the support extended by the Fund in the past; he strongly hoped that such support would be continued in the future.

Although the Malian authorities were committed to a far-reaching reform of the public sector with the help of the World Bank, Mr. de Maulde noted, results remained behind expectations. He emphasized the need to take rapid action with regard to SOMIEX, since the necessary steps had already been well identified in its case. The present situation, in which the losses arising from its distribution activities were financed by profits from cotton exports, represented a levy on agricultural producers in favor of consumers, who were primarily urbanites, creating counter-productive distortions. It was essential that retail prices should be brought into line with real market prices; although the process had already begun, a good deal remained to be done. Furthermore, the operating cost of SOMIEX should be curtailed as soon as possible through closures of retail stores and personnel reductions, as outlined in the present program.

A second matter of concern was the recruitment policy in the public service, Mr. de Maulde continued. The authorities should be commended for having contained recruitment in 1982, resulting in an increase in the wage bill of only 2.6 per cent. However, that result had been achieved mainly through temporary closure of professional schools in 1981, an action that had reduced the number of graduating students. In 1983, the recruitment of a larger than normal graduating class was expected, entailing a 12 per cent increase in personnel expenditures, although no general wage increase was contemplated. The result would be an 8 per cent increase in budgetary expenditures, obviously not a step in the right direction. It was, therefore, urgent that the authorities should proceed with their intention to formulate and to implement effectively a new medium-term recruitment policy.

A third problem deserving consideration was the reform of postal checking operations, Mr. de Maulde remarked, since it appeared from the staff report that the action implemented under the program--the establishment of a Reserve Fund to be the counterpart of purchases from the IMF--had suffered delays. The authorities had agreed to supplement the resources of the Reserve Fund and to make up for the leakages that had occurred in the use of the IMF resources. He was confident that the measures would enter into effect rapidly. As pointed out by the staff, other measures would be required to rehabilitate the postal and telecommunications services and to insulate its financial operations from those of the postal checking system. He invited the staff to provide information on the review being carried out on those problems, if it had been completed.

Mr. Salehkhou commented that the Malian economy's performance in 1982 had been satisfactory. Agricultural output had increased by 8 per cent, industrial production had grown somewhat less rapidly, and there had been a decline in value added by government services in line with the containment of government expenditures. Overall, GDP was estimated to have increased by 4.5 per cent, a result greater than projected. It should be compared to the negative growth rates in 1980 and 1981.

In the area of public finance, the government deficit had been reduced, and budgetary revenues would be close to program targets, Mr. Salehkhou noted. Tax revenues had also increased as a result of better administration of taxes. However, taxes in international trade had stagnated due to difficulties in collecting them from state import-export companies whose overall economic viability had come under considerable pressure. The public enterprise system remained a weak area in the economy, and efforts should be made to reorganize it. There had been a substantial operating deficit for such enterprises in 1982, according to the staff's estimate. In the letter of intent, the Minister of Finance had outlined some of the difficulties associated with the weak performance of the public enterprise system. It was apparent, however, that far-reaching measures were needed, aimed at the complete renovation and reorganization of the various public companies. He hoped that further assistance from the World Bank for that important area of the economy would be forthcoming.

In the external sector, improvement had been marginal, and much remained to be done, Mr. Salehkhou commented. Exports remained almost one third of imports, and there was a sizable negative balance in the services account of the current balance. Such a disequilibrium in the trade balance could not be sustained; there was need for a continuation of the adjustment program to achieve the ultimate objective of a sustainable external balance. Therefore, he welcomed the authorities' intention to continue to pursue their efforts to rehabilitate the public sector in 1983 and to lay the foundation for successful development in the future. He also endorsed their intention to seek a further stand-by arrangement with the Fund. He supported the proposed decision.

Mr. Abiad said that he, too, supported the proposed decision. The staff had made it clear that the performance of Mali's economy during the relevant period under the current stand-by arrangement had been quite encouraging. The prudent and tight fiscal and monetary policies followed, and the measures taken during 1982, demonstrated the authorities' seriousness and determination to reduce the domestic and external imbalances and to steer the economy toward a path of sustainable growth. Indeed, the budget deficit had been reduced, and many of the program's main objectives for 1982 had been attained. A number of the measures envisaged in the program, aimed at improving the efficiency and finances of public sector enterprises, had been introduced.

In the external sector, the overall balance of payments was estimated to have declined by much more than had been expected, Mr. Abiad continued. As a result of good weather and the implementation of measures in the program, the performance of the economy had improved: output had risen and the rate of inflation had slowed. However, imbalances remained large, calling for sustained adjustment efforts over a number of years.

However, the prospects for 1983, Mr. Abiad observed, seemed to be clouded by uncertainties relating to the impact of bad weather on cereal production and livestock and, hence, on real GDP growth and the supply of goods. The higher import prices arising in part from the relatively large exchange rate adjustment might lead to inflationary pressures. Nevertheless, the authorities had confirmed their determination to continue with their adjustment efforts. As stated in their letter of intent, they had already worked out the various policy options that should allow them to consolidate the gains of adjustment and to make further progress in reducing the budget and current account deficits and in introducing reform measures in a number of areas. In emphasizing the authorities' firm commitment, Mr. Alfidja had pointed out that the measures already implemented, and those envisaged under the current program, should be regarded as transitional toward the formulation of a medium-term program with the Fund. He hoped that negotiations to that effect would be successfully concluded, especially given Mali's established record of cooperation with the Fund.

Mr. El-Khouri congratulated the authorities for the commendable progress that they had made in recent months in correcting the imbalances in their economy. Real economic growth had been more favorable than expected, and inflation had been sharply reduced. The economic and financial objectives of the program had been broadly met, and all the performance criteria had been observed. As Mr. Alfidja had stated, Mali was a good example of voluntary self-restraint.

Commenting on the program, Mr. El-Khouri said that he had again found it useful to have a table summarizing the progress made in implementing the agreed measures, Table 3 of EBS/83/25. He hoped that it would be general practice in future staff papers to include such a table. Performance on the fiscal side had been encouraging, in particular the improvements in tax collection and administration that had resulted in buoyant revenue growth. He also welcomed the successful efforts to control current expenditures, particularly the restraints on recruitment and wages, together with the improved control over the operations of the Special Fund. The reduction in domestic arrears was further evidence of the progress being made.

The prudent monetary stance of the authorities deserved commendation, Mr. El-Khouri continued. Bank credit to the Government had been contained within the program ceilings. In the external sector, the overall balance of payments deficit in 1982 was likely to be well below the original forecast. The reduction in external arrears was a welcome development that should serve to strengthen Mali's creditworthiness. The one area in which performance had not lived up to expectations was the public enterprise sector. Although some progress had been made toward reducing the operating losses of public enterprises, there seemed to be room for further restructuring of the state export-import company and the Cereal Marketing Board. Such reforms would take time. He was glad to see that a comprehensive plan for reform was being drawn up with the assistance of the World Bank.

The authorities' intention to seek a further arrangement with the Fund when the current one expired was welcome, Mr. El-Khouri considered. An extended arrangement might be appropriate, given the longer-term nature of Mali's problems. Such an arrangement could provide an appropriate framework within which to build on the recent stabilization measures. He fully supported the authorities' efforts to adjust the economy, and he looked forward to a continuing successful relationship between Mali and the Fund.

Mr. Williams commended the authorities for successfully meeting all the quantitative performance criteria, and for the overall success achieved by Mali in 1982. He supported the staff's position regarding the critical need for decisive measures in 1983, if progress was to continue toward the goal of reducing the financial and structural imbalances in the economy. Prospects for production in 1983 were less favorable than in 1982, owing to the drought; consequently, the challenge facing the authorities would be much greater. Continued courage and resourcefulness on their part would be necessary.

Substantial progress had been made in eliminating the distortions resulting from inappropriate pricing policies, Mr. Williams continued. Nevertheless, further increases in producer prices were required. In addition, like Mr. de Maulde, he believed that further changes were needed with regard to retail prices. He was glad that the issue was under consideration by the authorities.

Commenting on fiscal policy, Mr. Williams noted that both revenue and expenditures were to increase in 1983, but that the overall fiscal deficit was to be lower. Given the prospects for lower agricultural production in 1983, diligence would be essential if the revenue targets were to be met. An important factor leading to increased expenditures would be the return to normal school operations. Rigorous discipline would be required in the management of Mali's fiscal affairs if the adjustment efforts were to continue to progress. He supported those Directors who had spoken in favor of improving the postal system, an issue that had been treated adequately in the staff paper. Finally, Mali's entry into the West African Monetary Union had been delayed beyond the period envisioned in May. He invited the staff or Mr. Alfidja to comment on the implications arising from that delay for the assumptions underlying the adjustment program.

The staff representative from the African Department commented that, as one Director had pointed out, policy implementation had fallen below expectations in three main areas: public enterprises, the formulation of an effective recruitment policy, and the reform of the postal system. The staff had drawn the attention of the authorities to the areas, as reflected in the staff appraisal. With regard to the reform of the postal system, the authorities had recently completed a detailed report on the functioning of the Reserve Fund. The report would be submitted to the Government soon, and some decisions were expected in the coming weeks.

Mr. Alfidja stated that with regard to the question of the entry of Mali into the West African Monetary Union (WAMU), progress had been made since the previous meeting of the heads of state of WAMU in Abidjan. All the main technical problems had been solved, but some political issues still had to be resolved. The latest information available to him indicated that temporary solutions had been worked out, and it was expected that a compromise would be reached among the parties involved. In future discussions on the issue with Mali, the Fund should show the same kind of flexibility that it had shown to date. Discussions with the authorities should proceed on the assumption that the problem would be solved, but if, for political reasons, it was not, the Fund should take that into consideration and make the same kind of flexible assumptions as in the current stand-by arrangement.

The question of recruitment policy was important to any discussion of how to correct imbalances and to deal with fiscal deficits in African economies, Mr. Alfidja continued. Wages and salaries often constituted the major portion of the budget. However, the problem could not be solved even in the medium term. It was long-term because it was linked to the question of reform of the educational system as a whole. Since the problem was common to many countries and since it had been raised in the Executive Board on more than one occasion, perhaps the Fund should look at it in detail, in cooperation with the World Bank and the International Labor Organization. All aspects of the issue should be considered: not just how to balance the budget, but also the implications for education, how to deal with future recruits already moving through the educational system, how to define an appropriate wage or recruitment freeze, the ability or inability of the private sector to absorb a portion of those emerging from the educational system in the immediate future, and the like. Many countries other than Mali had a commitment to pay for education of their people from elementary school to university, with the understanding that the graduates would serve their country for ten years at the end of their education. It would be unrealistic to demand rapid changes in such policies.

The Chairman noted that Mr. Alfidja had raised an issue that was relevant to a number of Fund programs in Africa. The staff was engaged in discussions with several authorities; it might be appropriate to systematize such work, perhaps with the assistance of other relevant organizations.

The Executive Board then took the following decision:

1. Mali has consulted with the Fund in accordance with paragraph 3(b) of the stand-by arrangement for Mali (EBS/82/68, Sup. 1, 5/21/82) and the letter of the Ministry of Finance dated March 12, 1982, attached to the stand-by arrangement, in order to reach understandings subject to which purchases may be made by Mali under the stand-by arrangement.

2. The letter dated November 26, 1982 from the Minister of Finance shall be attached to the stand-by arrangement for Mali as representing further understandings reached for the remaining period of the arrangement. Accordingly, the ceilings on bank credit to the economy for end-December 1982 shall be in accordance with paragraph 6 of the letter of November 26, 1982.

Decision No. 7342-(83/39), adopted
February 25, 1983

4. EIGHTH GENERAL REVIEW OF QUOTAS - REPORT AND PROPOSED RESOLUTION

The Executive Directors considered their report on the review of quotas for the Eighth General Review, together with a proposed Resolution for the Board of Governors (EBD/83/51, 2/25/83).

The Deputy Secretary stated that a press release would be issued on the Board's discussion. One part would deal with the quota increase, the other with the extension of the General Arrangements to Borrow. Both parts would be issued to the press on March 1, 1983, one day after the letters to Governors would be sent by the Secretary.

The Deputy Treasurer noted that a minor addition was needed in paragraph 8 of the Report of Executive Directors. After the words "paragraph 6 above," the sentence should read "and with adjustments indicated in paragraph 7 above."

Mr. Erb suggested that the phrase should read "with rounding adjustments."

The Chairman observed that, in paragraph 7 of the report, one of the two instances of the word "Committee" should be deleted.

The Executive Board then took the following decisions:

I. Report

The Executive Board adopts the Report of the Executive Board to the Board of Governors entitled "Increase in Quotas of Fund Members--Eighth General Review," set forth in EBD/83/51 (2/25/83).

Decision No. 7343-(83/39), adopted
February 25, 1983

II. Proposed Resolution (See Attachment)

1. The Board of Governors is requested to vote without meeting pursuant to Section 13 of the By-Laws upon the proposed Resolution entitled "Increases in Quotas of Fund Members--Eighth General Review: Resolution of the Board of Governors."

2. The Secretary is directed to send the Report of the Executive Board and the poposed Resolution, both entitled "Increase in Quotas of Fund Members--Eighth General Review," to each member of the Fund by rapid means of communication on or before March 1, 1983, and urge members to vote on the Resolution as soon as possible.

3. To be valid, votes must be cast by Governors or Alternate Governors and must be received at the seat of the Fund on or before 6:00 p.m., Washington time, on March 31, 1983. Votes received after that time will not be counted.

4. The effective date of the Resolution of the Board of Governors shall be the last day for voting.

5. All votes cast pursuant to this decision shall be held in the custody of the Secretary until counted, and all proceedings with respect thereto shall be confidential until the Executive Board determines the result of the vote.

6. The Secretary is authorized to take such further action as he shall deem appropriate in order to carry out the purposes of this decision.

Decision No. 7344-(83/39), adopted
February 25, 1983

APPROVED: August 3, 1983

LEO VAN HOUTVEN

Resolution of the Board of Governors:
Increase in Quotas of Fund Members--Eighth General Review

WHEREAS the Executive Board has submitted to the Board of Governors a report entitled "Increases in Quotas of Fund Members--Eighth General Review" containing recommendations on increases in the quotas of individual members of the Fund; and

WHEREAS the Executive Board has recommended the adoption of the following Resolution of the Board of Governors, which Resolution proposes increases in the quotas of members of the Fund as a result of the Eighth General Review of Quotas and deals with certain related matters, by vote without meeting pursuant to Section 13 of the By-Laws of the Fund;

NOW, THEREFORE, the Board of Governors hereby RESOLVES that:

1. The International Monetary Fund proposes that, subject to the provisions of this Resolution, the quotas of members of the Fund shall be increased to the amounts shown against their names in the Annex to this Resolution.

2. A member's increase in quota as proposed by this Resolution shall not become effective unless the member has notified the Fund of its consent to the increase not later than the date prescribed by or under paragraph 3 below and has paid the increase in quota in full, provided that no increase in quota shall become effective before the date of the Fund's determination that members having not less than 70 per cent of the total of quotas on February 28, 1983 have consented to the increases in their quotas.

3. Notices in accordance with paragraph 2 above shall be executed by a duly authorized official of the member and must be received in the Fund before 6:00 p.m., Washington time, November 30, 1983, provided that the Executive Board may extend this period as it may determine.

4. Each member shall pay to the Fund the increase in its quota within 30 days after the later of (a) the date on which it notifies the Fund of its consent, or (b) the date of the Fund's determination under paragraph 2 above.

5. Each member shall pay 25 per cent of its increase either in special drawing rights or in the currencies of other members specified, with their concurrence, by the Fund, or in any combination of special drawing rights and such currencies. The balance of the increase shall be paid by the member in its own currency.

		Proposed Quota (In millions of SDRs)
1.	Afghanistan	86.7
2.	Algeria	623.1
3.	Antigua and Barbuda	5.0
4.	Argentina	1,113.0
5.	Australia	1,619.2
6.	Austria	775.6
7.	Bahamas	66.4
8.	Bahrain	48.9
9.	Bangladesh	287.5
10.	Barbados	34.1
11.	Belgium	2,080.4
12.	Belize	9.5
13.	Benin	31.3
14.	Bhutan	2.5
15.	Bolivia	90.7
16.	Botswana	22.1
17.	Brazil	1,461.3
18.	Burma	137.0
19.	Burundi	42.7
20.	Cameroon	92.7
21.	Canada	2,941.0
22.	Cape Verde	4.5
23.	Central African Republic	30.4
24.	Chad	30.6
25.	Chile	440.5
26.	China	2,390.9
27.	Colombia	394.2
28.	Comoros	4.5
29.	Congo, People's Republic	37.3
30.	Costa Rica	84.1
31.	Cyprus	69.7
32.	Denmark	711.0
33.	Djibouti	8.0
34.	Dominica	4.0
35.	Dominican Republic	112.1
36.	Ecuador	150.7
37.	Egypt	463.4
38.	El Salvador	89.0
39.	Equatorial Guinea	18.4
40.	Ethiopia	70.6

		Proposed Quota (In millions of SDRs)
41.	Fiji	36.5
42.	Finland	574.9
43	France	4,482.8
44.	Gabon	73.1
45.	Gambia, The	17.1
46.	Germany	5,403.7
47.	Ghana	204.5
48.	Greece	399.9
49.	Grenada	6.0
50.	Guatemala	108.0
51.	Guinea	57.9
52.	Guinea-Bissau	7.5
53.	Guyana	49.2
54.	Haiti	44.1
55.	Honduras	67.8
56.	Hungary	530.7
57.	Iceland	59.6
58.	India	2,207.7
59.	Indonesia	1,009.7
60.	Iran, Islamic Republic of	1,117.4
61.	Iraq	504.0
62.	Ireland	343.4
63.	Israel	446.6
64.	Italy	2,909.1
65.	Ivory Coast	165.5
66.	Jamaica	145.5
67.	Japan	4,223.3
68.	Jordan	73.9
69.	Kampuchea, Democratic	25.0
70.	Kenya	142.0
71.	Korea	462.8
72.	Kuwait	635.3
73.	Lao People's Democratic Republic	29.3
74.	Lebanon	78.7
75.	Lesotho	15.1
76.	Liberia	71.3
77.	Libya	515.7
78.	Luxembourg	77.0
79.	Madagascar	66.4
80.	Malawi	37.2

		Proposed Quota (In millions of SDRs)
81.	Malaysia	550.6
82.	Maldives	2.0
83.	Mali	50.8
84.	Malta	45.1
85.	Mauritania	33.9
86.	Mauritius	53.6
87.	Mexico	1,165.5
88.	Morocco	306.6
89.	Nepal	37.3
90.	Netherlands	2,264.8
91.	New Zealand	461.6
92.	Nicaragua	68.2
93.	Niger	33.7
94.	Nigeria	849.5
95.	Norway	699.0
96.	Oman	63.1
97.	Pakistan	546.3
98.	Panama	102.2
99.	Papua New Guinea	65.9
100.	Paraguay	48.4
101.	Peru	330.9
102.	Philippines	440.4
103.	Portugal	376.6
104.	Qatar	114.9
105.	Romania	523.4
106.	Rwanda	43.8
107.	St. Lucia	7.5
108.	St. Vincent	4.0
109.	São Tomé & Principe	4.0
110.	Saudi Arabia	3,202.4
111.	Senegal	85.1
112.	Seychelles	3.0
113.	Sierra Leone	57.9
114.	Singapore	250.2
115.	Solomon Islands	5.0
116.	Somalia	44.2
117.	South Africa	915.7
118.	Spain	1,286.0
119.	Sri Lanka	223.1
120.	Sudan	269.7

		Proposed Quota (In millions of SDRs)
121.	Suriname	49.3
122.	Swaziland	24.7
123.	Sweden	1,064.3
124.	Syrian Arab Republic	139.1
125.	Tanzania	107.0
126.	Thailand	386.6
127.	Togo	38.4
128.	Trinidad and Tobago	170.1
129.	Tunisia	138.2
130.	Turkey	429.1
131.	Uganda	99.6
132.	United Arab Emirates	385.9
133.	United Kingdom	6,194.0
134.	United States	17,918.3
135.	Upper Volta	31.6
136.	Uruguay	163.8
137.	Vanuatu	9.0
138.	Venezuela	1,371.5
139.	Viet Nam	176.8
140.	Western Samoa	6.0
141.	Yemen Arab Republic	43.3
142.	Yemen, People's Democratic Republic of	77.2
143.	Yugoslavia	613.0
144.	Zaïre	291.0
145.	Zambia	270.3
146.	Zimbabwe	191.0