

INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 92/93

10:00 a.m., July 22, 1992

R. D. Erb, Acting Chairman

Executive Directors

M. Finaish
I. Fridriksson

B. Goos
J. E. Ismael
A. Kafka

G. A. Posthumus
C. V. Santos

A. Végh

Alternate Executive Directors

A. Al-Tuwaijri
T. P. Thomas, Temporary
Deng H., Temporary
G. C. Noonan, Temporary
M. E. Hansen, Temporary
V. Kural, Temporary
H.-Y. Lee, Temporary
B. Bossone, Temporary

S. Shimizu, Temporary

I. Martel
H. Golriz, Temporary
L. J. Mwananshiku
D. Sparkes, Temporary

M. Galan, Temporary

L. Van Houtven, Secretary and Counsellor
L. Collier, Assistant

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Also Present

IBRD: E. Scanteie, Africa Regional Office. African Department:
E. L. Bornemann, Deputy Director; G. E. Gondwe, Deputy Director; M. Adande,
R. O. Carstens, R. A. Franks, F. Le Gall, A. B. Petersen, M. W. Plant,
L. Schuknecht, E. J. G. Verreydt. Legal Department: J. K. Oh. Policy
Development and Review Department: M. E. Edo, J.-C. Nascimento. Western
Hemisphere Department: G. G. Raymond. Advisors to Executive Directors:
F. A. Quirós, B. A. Sarr, N. Toé. Assistants to Executive Directors:
M. C. Arraes Vinhos, A. Giustiniani, W. Laux, R. Meron, L. F. Ochoa,
E. H. Pedersen.

1. MADAGASCAR - 1992 ARTICLE IV CONSULTATION

The Executive Directors considered the staff report for the 1992 Article IV consultation with Madagascar (SM/92/117, 6/11/92). They also had before them a background paper on recent economic developments in Madagascar (SM/92/133, 7/6/92).

Mr. Santos made the following statement:

Over the past 18 months, economic and financial developments in Madagascar have been influenced by major political and social disturbances. Prolonged strikes by private and public sector employees have affected almost all sectors of the economy, and administrative activity was virtually paralyzed for a number of months. The situation was made worse by the drought in the southern part of the island. In the event, economic and financial management was severely disrupted, and the third annual arrangement under the enhanced structural adjustment facility (ESAF) could not be concluded before the expiration of the three-year commitment period, in May 1992.

The impact of these developments was such that real GDP contracted by about 7 percent in 1991, inflationary pressures increased, and the fiscal deficit widened. In the external sector, a compression of imports resulted in a small reduction in the current account deficit, but, due to a virtual depletion of international reserves, external arrears accumulated.

Against this background, a transitional Government was appointed in January 1992 with the task of convening a National Conference to revise the constitution and prepare the country for multiparty elections which are expected to be held at the end of this year. It should be emphasized that, in spite of the very difficult socioeconomic conditions, my Malagasy authorities are determined to implement policies aimed at addressing the slippage that occurred in 1991 and improving the overall economic and financial situation.

The authorities recognize that a reduction in the fiscal deficit is essential to macroeconomic stabilization, and they are taking action in this regard. Since the civil unrest in the second half of 1991 had severely constrained revenue collection, they are giving the highest priority to the collection of tax arrears. In addition, a comprehensive administrative reform in customs and other revenue collection agencies has been undertaken so as to improve their efficiency. A system of verification of import invoices has also been put in place with the assistance of an international firm, and petroleum taxes have been revised upward.

On the expenditure side, the authorities' objective is to limit current outlays, particularly the wage bill. Thus, no salary increase will be granted in 1992, and a freeze on the size of the civil service has been imposed. Moreover, following a review of some 30,000 cases that is in the process of being completed, the authorities intend to stop paying civil servants who are found to be in irregular status. The expected saving from this review is equivalent to the salary of about 5,000 civil servants.

It is my authorities' view that the fiscal measures being implemented will result in a significant turnaround of the current balance equivalent to 3 percentage points of GDP in 1992. The overall fiscal deficit, on a commitment basis and excluding grants, is also expected to decline from 6.2 percent of GDP in 1991 to about 3.7 percent of GDP in 1992.

With regard to monetary and credit policies, the authorities remain committed to the objective of shifting to a system of monetary control that relies on indirect instruments and to continue with the restructuring of the banking system. In this context, they have taken steps to put the state-owned rural development bank (BTM) on a sound financial footing and have announced their intention to privatize it. My authorities are concerned about the accumulated losses incurred by the Central Bank over the past five years. The losses are mainly due to the assumption by the Bank of previous debt rescheduling agreements and the foreign exchange risks involved therein. A recent Fund technical assistance mission examined this issue, and it is expected that its recommendations would help the authorities in the restructuring of the Central Bank's balance sheet.

The external sector suffered considerably from the 1991 events as disruptions in port activities led to delays in export shipments. Furthermore, the shortage of foreign exchange hampered the implementation of the open general license system and resulted in the accumulation of external arrears. However, despite these difficulties, the Government ensured that obligations to international organizations were met.

My authorities recognize that the competitiveness of the Malagasy economy was adversely affected by the exceptional developments that took place in the external sector. They are of the view that these developments are transitional and that with a return to normalcy and better control over fiscal and monetary aggregates, the small appreciation in the real effective exchange rate of the Malagasy franc that took place between March 1991 and March 1992 could be reversed rapidly. Nevertheless, they have not abandoned the flexible exchange rate policy, and they will

continue to monitor closely developments in the external sector in order to preserve the competitiveness of the economy.

While there was a slowing down in the pace of implementation of structural reforms in 1991, the authorities are determined to speed up this process in order to reduce production bottlenecks and impediments to exports. To this end, they intend to give a new impetus to the reform of the public enterprise sector and to promote private sector participation in economic activities as envisaged in the 1990 policy framework paper. Also, an action plan for the reform of the civil service is under preparation, and the last phase of the tariff reform is expected to be implemented in 1992. As the political situation stabilizes, the authorities believe that the momentum of growth will pick up, especially in the export processing zone where significant private investments have already been made.

In conclusion, it should be stressed that, despite the unusually difficult circumstances, the Malagasy authorities have endeavored to follow policies that are conducive to an improvement of the economic and financial situation of the country. With a return to political stability, it is the authorities' firm intention to strengthen the adjustment program with continued Fund assistance. In this context, they are encouraged by the general support in the Executive Board to extend by one year the cutoff date for access to ESAF resources and to consider resuming Fund support for countries for which the commitment period had expired with undrawn balances. They look forward to an early resumption of negotiations with the Fund staff on a program that could merit continued Fund support under the ESAF.

Mrs. Martel made the following statement:

After a worsening of the economic situation in 1990 owing to policy slippages and a sharp deterioration in the terms of trade, further setbacks were experienced in 1991, mainly as a consequence of political instability. The most striking features of the financial evolution in 1991 are the rapid decline in the already low level of government revenue, the maintenance of a high level of inflation, and the plummeting of the gross domestic savings rate. These recent developments clearly point to the need for the Malagasy authorities to take early and decisive actions in order to regain control of the fiscal and monetary situation. In this regard, I fully share the staff's recommendations, although I have some nuances as concerns the external sector. Actually, the strong performance of nontraditional exports highlights, in my view, the fact that Madagascar is beginning to reap the fruits of structural measures adopted in 1988-89. Although progress in structural reforms was uneven over the past two years, the trend

of liberalizing the economy is being pursued, and I am encouraged by the results of export diversification and by the authorities' commitment to carry on the divestiture process, including that of the banking sector.

Against this background, I would like to make the following remarks on the policy measures described in the staff report.

It is clear that priority should be accorded to implementing strict fiscal policy to stop the accumulation of domestic and external arrears. Most of the progress in narrowing the fiscal deficit has to be achieved on the revenue side. Major reforms of the personal income and company tax system were implemented in 1988, and the last phase of a comprehensive tariff reform will be carried out this year. But revenue collections remain constrained by disappointing performances of the tax and customs administrations. Therefore, I share the staff's view that the authorities should not delay the implementation of the proposed measures, namely, to recover taxes in arrears since 1991, and to establish new customs collection procedures and a new system of pricing and taxation of petroleum products.

On the expenditure side, every effort should be made to contain current expenditure growth in line with the objective of restoring a primary surplus to the budget. In this regard, I particularly welcome the authorities' decision to impose a freeze on salaries and on the size of the civil service in order to avoid losing the ground gained since 1989 in downsizing the civil service by almost 11,000 employees. A substantial and swift source of savings can certainly be obtained by removing from the payroll the ghostworkers identified in the 1990 civil service census.

These measures are, in my view, appropriate to turn the fiscal situation around, provided the budget is approved as soon as possible.

Concerning monetary policy, I can concur with the authorities' objective to shift toward a system of monetary control using indirect instruments that would enable the Central Bank to better monitor monetary aggregates, notably through a more active role for interest rate policy. However, there is clearly a more urgent need to stop the deterioration of the situation of the Central Bank, the BTM, and, to a lesser extent, the National Bank of Commerce (BFV). The lack of control over the BTM is indeed one of the main causes of the authorities' past inability to control broad money growth. Concerning the Central Bank and the accumulation of quasi-fiscal losses, I share the authorities' concerns and I think that an early restructuring is warranted to allow the Central Bank to resume its normal operations.

As far as the BTM is concerned, it is crucial that a comprehensive restructuring plan be implemented in a timely manner as a first step toward its privatization. I note, in this regard, that the authorities are prepared to move in this direction, and I welcome their intention to shift the control of the BFV to the private sector.

As to structural reforms, despite delays in policy implementation, Madagascar achieved considerable progress in making the business environment more conducive to private investments. This is evidenced by the steady growth of gross domestic investments from 8.5 percent of GDP in 1985 to 17 percent of GDP in 1990, a trend that was disrupted only by the political turmoil in 1991.

Moreover, the growth of nontraditional exports and the development of banking activities and the tourism sector underscore the success of the diversification process of the economy. I therefore encourage the authorities to pursue the liberalization effort, with the assistance of the World Bank and donors, namely, through further restructuring and privatization of parastatals.

Concerning the external sector, I would add some nuances to the staff's assessment. The staff urges the authorities to consider the role that exchange rate policy could play to strengthen the external competitiveness of Madagascar. While not challenging the fact that the balance of payments situation is very weak, I somehow understand the reluctance of the Malagasy authorities to proceed with another adjustment in 1992. I would point to the fact that nontraditional exports are growing at a fast rate: nontraditional exports now represent 70 percent of total exports, instead of 35 percent as in 1985, which points to an increase in value of 55 percent; that the real effective exchange rate is today lower by 8 percent than its pre-1991 level; and that, in the present political situation, the inflationary risk associated with any nominal depreciation is likely to be very high. It seems to me, thus, that fiscal and monetary consolidation should be considered an absolute priority for 1992.

Turning now to the financing gap, I noted in Table 4 of the staff report that, given the expected narrowing of the current account deficit excluding official transfers, the financing gap in 1992 would in fact be closed by a normal flow of donors' and creditors' assistance. This clearly indicates that, provided the fiscal, monetary and structural measures envisaged by the authorities are implemented, Madagascar does not face an unmanageable financial situation. Moreover, certain important measures, like the re-establishment of the open general license system, would be greatly facilitated by a resumption of sufficient external assistance inflows. I therefore think that, with the authorities' commitment to carry on the overall

liberalization of the economy, such a policy package deserves the support of the international community, and the Fund has a particular catalytic role to play in this regard.

Ten days ago, the Board took the decision to allow countries with undrawn balances under previous ESAF arrangements to conclude with the Fund a new arrangement within a three-year framework. We strongly urge the Malagasy authorities to take advantage of this opportunity at the earliest possible date. We would wish the staff to explore as soon as possible with the Government of Madagascar when a program could be negotiated that would allow for the re-establishment of access by Madagascar to ESAF funds. I would appreciate any comment by the staff on the schedule that could be envisaged in the present circumstances.

Madagascar's financial imbalances call for early corrective measures from the Government, but it is also clear that the economy, and especially the productive base, is moving in the right direction and that the authorities' adjustment efforts in this difficult transition period will not be sustainable in the absence of the international financial community's support.

Mrs. Hansen made the following statement:

This report makes discouraging reading for all of us who wish Madagascar well. From a record of modest but steady gains in the late 1980s, the country slipped into pervasive and serious decline in 1991. While we understand the reasons, we strongly urge the Government to act forcefully to re-establish a stable macro-economic environment and resume structural adjustment.

We agree with the staff's assessment that a strict fiscal policy continues to be a critical prerequisite for stabilization. Notwithstanding the transitional nature of the current Government, we are puzzled as to why no budget has yet to be presented for approval. This would seem to be the essential first step toward the macroeconomic stabilization that the authorities desire.

On the expenditure side, we are concerned by the staff report's suggestion that spending pressures are intensifying in 1992, as seen in the 29 percent rise in targeted "operating expenditures," the significant increase in capital expenditure, the rise in domestic interest payments, and the need to eliminate domestic payments arrears. Thus, we agree with the staff that the authorities need to establish clear expenditure priorities corresponding to available revenues. With regard to operating expenditures, we question the need for an additional 9 government ministries and would appreciate it if the staff or Mr. Santos could shed some light on the rationale. We would also underline

the importance of maintaining the freeze on salaries and hiring. Indeed, with 30 ministries and nearly 100,000 civil servants, of which 30,000 may be in irregular status, the public sector appears to offer ample opportunity for reducing expenditure. We hope, therefore, that the action plan for the reform of the civil service will be completed and implemented promptly. We also welcome the Government's intention to privatize a number of enterprises in 1992, and we would welcome any details that it may be able to provide on its plans.

It is clear that a substantially greater revenue effort is required to carry out even a scaled-back expenditure program and to allow room to provide for some limited private sector credit without intensifying existing inflationary pressures. Therefore, we agree with the staff that priority should be given not only to implementation of the proposed improvements in customs procedures and the elimination of exemptions under the transaction tax and consumption tax, but also to immediate efforts to recover tax arrears from 1991.

In the interest of attaining a more stable monetary policy environment, we support the staff's recommendations for a more active interest rate policy, greater transparency in the operations of the Central Bank, and a strengthening of the Central Bank's financial position through the elimination of its quasi-fiscal losses. In this connection, we are pleased to see that the Fund's Monetary and Exchange Affairs Department (MAE) has provided technical assistance to the Central Bank, and we would be interested in knowing whether the authorities have reacted to any of the recommendations in the MAE Department's final report issued in May.

We are also concerned about the weak financial condition of the BTM and the resulting complications for the conduct of monetary policy. We welcome indications that the authorities intend to privatize this bank as soon as possible, and we would be interested in knowing whether an action plan or timetable for privatization has been prepared.

With regard to external policy, we agree that Madagascar should maintain--and indeed has little choice but to maintain--its flexible exchange rate policy. In this connection, I was heartened by Mrs. Martel's comments; however, I would take issue with her conclusion that the process of export diversification and the recent appreciation of the currency argued for a more stable rate. To the contrary, the basis for export diversification was established during the longer period when the authorities were pursuing tighter policies along with a flexible exchange rate policy. Perhaps the staff could comment on how the relative appreciation of the currency is calculated, given that the

consumer price index seems to be inadequate. Also, because of the inadequacy of the index, is it possible to obtain an accurate picture of what the real exchange rate has been doing?

That being said, it should be emphasized that the effectiveness of this policy will depend on a simultaneous strengthening of the authorities' financial policies, so that the competitiveness gains from exchange rate adjustments are not immediately lost. We also urge the authorities to reinstate the open general license system so as to re-establish the basis for a more efficient allocation of foreign exchange.

Looking ahead to the prospects for a future program in Madagascar, we welcome indications that the authorities wish to agree on such a program that could be supported by Fund resources. However, the fact that only one year of ESAF resources remains for Madagascar, and that these resources are to be made available only under an exceptional decision by the Board, is all the more reason to expect a strong program with appropriate prior actions. While this may be difficult, given Madagascar's recent political history, we see this as a prerequisite for Madagascar to begin to regain the ground lost since mid-1991.

We recognize that Madagascar has gone through difficult times in its political and economic history, and we wish the authorities success in bringing this chapter in its history to a satisfactory close.

Mr. Goos made the following statement:

It is disappointing to note from the staff report that, after many years of continued Fund involvement, Madagascar is still facing severe macroeconomic imbalances, and restoration of a viable balance of payments position remains elusive, as indicated by the substantial external financing gaps expected for this year and the medium term and the renewed accumulation of domestic and external arrears.

I am in broad agreement with the staff's policy recommendations, which, if vigorously implemented, could bring about major improvements in economic and financial performance in Madagascar. It is all too obvious that a major fiscal effort is needed. The rather low tax ratio in Madagascar as well as the disappointing revenue performance of excise taxes and the value-added tax indicate that there is ample room for improvement on the revenue side. On the expenditure side, it appears that the inflated wage bill would offer significant scope for fiscal savings. However, it remains unclear whether the authorities will be able to implement the necessary corrective measures. The delays in suspending

salaries of civil servants in irregular status and the recent increase in travel allowances mentioned in the report do not bode well in that regard.

On monetary policy, I endorse the emphasis placed by the staff on an appropriately restrictive policy stance as a precondition for bringing down inflation. To this end, the authorities should adopt a more active role for interest rate policy with a view to securing generally positive levels of interest rates in real terms and a less erratic expansion of monetary aggregates than observed in the past.

I am confident that implementation of financial policies along those lines would go a long way toward meeting the staff's concern about Madagascar's international competitiveness. Such policies could be expected to rapidly narrow the spread between the official and parallel market exchange rates and strengthen Madagascar's reserve position. At any rate, before giving any consideration to exchange rate action, the authorities should first demonstrate their ability to restore and maintain financial discipline, in the absence of which any gains in external competitiveness resulting from currency devaluation would be quickly eroded by higher inflation and increasing cost pressures. Also, the exchange rate indices shown in Chart 2 do not appear to indicate any major deterioration in external competitiveness--although I note Mrs. Hansen's comments on the inadequacy of the consumer price index and would suggest that the GDP deflator could have been used by the staff. Madagascar has experienced impressive rates of growth in export volume in recent years, including 1991, when export growth was positive in volume terms notwithstanding the severe political disruptions. Other steps that should precede any exchange rate action include deregulation in the export sector, quality improvement, as well as reviews of existing sector strategies, such as the one undertaken recently for vanilla.

Finally, let me reiterate my concern about the Malagasy economy's poor prospects, which can be largely traced to the fact that many of the recommendations made by this Board, including during the previous Article IV consultation discussion (EBM/91/26, 2/22/91), have not been implemented by the authorities. Therefore, it would appear prudent to provide the authorities with a sufficient period of time to establish a satisfactory track record of policy implementation before the possibility of a Fund-supported program would be explored. Such a program should be based on strong and credible policy actions promising the restoration in due course of a sustainable balance of payments position. Failure so far to achieve that objective, despite more than a decade of continuous financial support from this institution, clearly calls for an unambiguous demonstration of the

authorities' commitment and ability to adjust, including implementation of strong prior actions.

Mr. Posthumus made the following statement:

The Article IV consultation report for Madagascar provides an extensive and thorough review of the situation in Madagascar. The staff appraisal has my support, with one exception, namely, the advice on exchange rate policy, and I will return to this issue later. First, however, I would like to raise a more general issue. Madagascar has had intensive relations with the Fund as witnessed by Appendix I. Since 1980, Madagascar has had seven stand-by arrangements, one SAF arrangement, and one ESAF arrangement; of these nine arrangements, six were not completed. As a consequence, Fund credit outstanding was not excessive as of April 30, 1992. This may lead to a feeling that everything is fine in the relations between Madagascar and the Fund, because everything is fine in their financial relations.

Yet, we must ask ourselves whether the Fund's record in its relations with Madagascar is satisfactory. Prima facie, the Fund has not been very effective. Perhaps, Madagascar's problems would be even greater without our advice, but I do not think that this is an appropriate description of what our role should be. In a large number of countries, a reversal of economic policies and developments has proved to be possible, and the Fund has been instrumental in this reversal. Perhaps the Fund should be more selective with its stand-by and ESAF arrangements. Perhaps we should try to better identify those situations in which a Fund-supported program can make a difference before we embark on a program. Perhaps the creditors should be even more supportive than they already are, because debt-service ratios of more than 50 percent are excessive and a burden that may prevent a real reversal of developments.

In this respect, I should like to mention another element in our policy advice as set out in the appraisal, namely, helping a country to establish priorities. I underlined the measures that the Malagasy authorities are supposed to take, and I have no criticism to make of any of them. In fact, I can add a few, such as the need to address the nonperforming assets portfolio of the Central Bank and of the BTM. But the staff appraisal indicates that the authorities have to take a large number of measures, all without delay and urgently.

All these measures have to be taken by a Government consisting of 30 ministries--a government structure not conducive to efficient policymaking and implementation. Clearly, priorities

must be established, even more so now that the present Government will be in place only until the end of 1992.

On exchange rate policy, I am slightly puzzled by the staff's analysis of the exchange rate stance and its impact on the external sector. The staff made heavy weather of the fact that over the 12 months between March 1991 and March 1992 the real effective exchange rate appreciated by 4 percent and that the authorities have not adjusted the nominal rate since November 1991. However, during 1991, the real effective exchange rate depreciated by 12 percent and, compared with 1990, competitiveness, if measured by developments in the real effective rate of exchange, actually improved according to Table 1 in the staff report. Under the circumstances, a more frequent adjustment of the nominal rate could have been counterproductive in that it would have led to an acceleration in the inflation rate. Over the past few years, inflation may have been too high, but it does not appear to have been accelerating. Real exchange rates have been stable over the past few years as well, according to Chart 2 in the staff report, and I therefore do not understand why Mrs. Hansen and Mrs. Martel seem not to fully agree with each other. Of course, this position would be affected if the data used were inadequate, as suggested by Mr. Goos.

Finally, I support the staff appraisal, but I would suggest that henceforth an effort be made to establish priorities in the staff's policy advice. An indication of priorities is all the more important in the absence of a Fund-supported program.

The staff representative from the African Department reported that the budget had been approved on July 17. The final version had not yet been received, but the staff believed that it was very similar to the presentation in the staff report.

As to the possibility of a new ESAF arrangement, a few words on recent political developments might be in order, the staff representative continued. In the last half of 1991, there had been a move against the President; finally, in October 1991 an agreement had been reached among all parties concerned to form a new transitional government, designed to represent all political and social interest groups, all regions of the country, and so forth. As a consequence, the ministries had increased from 21 to 30, and the Government, which had started functioning in January--when the staff mission had visited Madagascar--was not particularly effective, as reflected in the late approval of the budget. Because of the government changes, it had been difficult to establish priorities for the staff's recommendations. A new constitution, originally scheduled for approval in March-April, would be ratified on August 19, 1992 at the time of a general referendum. Two months later, presidential elections would take place, and the staff hoped that shortly afterward, when the 1993 budget was being

considered in Madagascar, a mission could discuss the possibility of a new program for 1993.

The final report of the technical assistance mission of the Monetary and Exchange Affairs Department had been presented to the authorities in May, the staff representative noted. The report included several options for dealing with the losses and nonperforming assets of the Central Bank. However, under the existing political conditions, it had not been possible for the authorities to take any action. An action plan had been worked out, however, for the BTM, and a consultant had been hired to complete a dossier so that privatization could proceed as soon as possible. Of course, an exact timetable could not be established for finding a purchaser for such a large bank, which represented 40 percent of the banking system of Madagascar.

The staff had intensive discussions with the authorities on the exchange rate, although hampered by the deficiency of the consumer price index, the staff representative from the African Department remarked. The staff had tried to assist the authorities in updating the 20-year old index, but it had not been possible under the current circumstances. As a consequence, the available data showed that the real effective exchange rate was about the same as it had been in mid-1987, following the large devaluation that was supposed to establish an equilibrium rate. In fact, exports were not rising, and in 1992 they seemed to be declining again; reserves were very low; internal and external financial imbalances were widening; and excess liquidity in the banking system had reached the point where some banks had refused to accept deposits. To some extent, the exports could not move because of problems with the communications system, the road system, and the harbor, in part resulting from strikes. At present, it was difficult to make an accurate assessment of what could be done, but he could assure Directors that the staff would discuss intensively with the authorities all the factors that had been mentioned, particularly deregulation, the need for tight fiscal and monetary policies as a prerequisite, and a solution to the external imbalances.

The staff representative from the Policy Development and Review Department, commenting on the suggested use of the GDP deflator instead of the consumer price index with reference to Chart 2 in the staff report, noted that the statistical problem was a general one, given that the national income statistics themselves were problematic. Nevertheless, the staff had prepared alternative calculations using the deflator, which showed a somewhat higher rate of real effective appreciation. Chart 2 followed the normal Information Notice System, whereby the staff used consumer price indices produced by member countries. The next staff mission would look into the matter, and then provide a qualitative description of the numbers using the deflator, thereby providing Executive Directors guidance with respect to alternative indicators.

The staff representative from the African Department, responding to a question, explained that it was difficult to ascertain the spread between

the official and parallel market rates, but a few months previously the staff had determined that the spread was between 20 percent and 30 percent and could reach as high as 50 percent for very large transactions. The increase over recent years was another indication of the large imbalances. The commercial banks had, to a large extent, taken over the function of the Central Bank by allocating foreign exchange to the private sector, according to their rules. They had a large number of dossiers pending action, and they were allocating foreign exchange only to their best customers. As a consequence, parallel market transactions had increased.

Mr. Goos remarked that, as he had stated repeatedly in the past, the problems described as factors behind the spread did not necessarily provide justification for exchange rate action. Analysis of the appropriateness of the exchange rate should be based on other factors, including the profit situation of exporters. If the statistics were deficient, and if the allocation by the banking system of foreign exchange was not working properly, such indicators could not be relied upon. He wondered whether it would be possible to review the profitability of the export sector.

Mrs. Martel said that she supported the remarks made by Mr. Goos. There was still no clear evidence of a major deterioration of the Malagasy external position that would warrant an important correction of the exchange rate. She had some sympathy for the authorities' view that the immediate effect of a devaluation on domestic prices would certainly place pressures on the Government to increase salaries that might be difficult to resist in an electoral year. In that regard, it should be recalled that the last important devaluation, which had occurred in January 1991, had led to a very large increase in salaries and in the rate of inflation.

Mrs. Hansen observed that it was important to focus on what Directors agreed on: the necessity of strong financial policies, regardless of the exchange rate system that was chosen. She suspected that, with strong policies, the exchange rate would be rather stable, which would make the debate on the merits of a flexible or fixed exchange rate system academic. Nevertheless, she disagreed with Mr. Goos about the inappropriateness of looking at the spread between the parallel and official market exchange rates. The parallel market, while not perfect, was a more accurate reflection of supply and demand in the foreign exchange market. Of course, as noted by Mrs. Martel, the authorities were understandably reluctant to make an exchange rate adjustment in the face of a difficult domestic political situation, but that was not sufficient reason for the Fund to advocate a postponement of adjustment.

Mr. Goos stated that, while supply and demand were reflected in the spread between the parallel and official market rates, they were affected first by the appropriateness of financial policies. Negative real interest rates vis-à-vis the official exchange rate would not surprisingly lead to depreciation in the parallel market rate. With strong financial policies, the exchange rate would remain stable. Therefore, policy advice to the authorities to effect a discretionary exchange rate change, as they had done

a year previously, was cause for concern. Without strong financial policies and without further proof of a competitiveness problem, he saw no case for such a change.

Mrs. Martel added that, to date, there had been no clear evidence of a major deterioration of the Malagasy external position that would warrant a correction of the exchange rate. A devaluation could lead to strong inflationary pressures, and, recalling the events of January 1991, she could sympathize with the position of the authorities on that point.

Mr. Noonan made the following statement:

I agree with the staff appraisal of the situation in Madagascar and wish the transitional Government every success in managing its heavy agenda of political, economic, and financial reform.

Because I agree with the staff assessment I propose to raise only one issue: an acceptable level of probity, and hence effectiveness, in the public service. I would like to emphasize that in raising this issue for Madagascar, I do not wish to imply that it is especially peculiar to that country. It is, unfortunately, an issue of far more general application.

I infer from the staff report that one of the problems that Madagascar had experienced in the past was the failure of the public service to perform its functions in an effective, or even acceptable, way. Again, I emphasize that I am not implying that I see this as a serious problem only for Madagascar. Nevertheless, without an acceptably effective tax administration, which seems to be the case, and without reasonably satisfactory performance by other crucial branches of the public service, it is difficult to imagine how government can function effectively. And, of course, without reasonably effective government, it is difficult to see how any Fund program can be expected to be implemented.

Of course, any public service can mismanage and misappropriate public funds. But only those that are likely to get away with it are likely to do so in a systemic way. In other words, abuses are most likely where there is a systemic balance of benefits and costs in favor of those who abuse the system. This balance must be changed to be the other way around, incorporating, as a major cost, very rigorous penalties for those found to be abusing their public service positions. There should also be a high risk of being found out for those who are abusing their positions. It seems to me that, in countries like Madagascar, where a balance against abuses may be underdeveloped, changing this situation should have the highest priority. In changing the situation, consideration might be given to the possibility that a

contributory factor to this state of affairs may be that the audit function is not well developed. Even where proper audits are conducted, it would seem that follow-up action, and especially the imposition of deterrent penalties for improper use of public funds, could be greatly improved.

In this context, I note that an audit of the BTM has just been completed, and on this basis the authorities will determine the necessary steps to follow. The long-standing problems of the BTM reflect what is euphemistically described in the staff report as poor management and lack of control over its loan portfolio. I would like to know from the staff whether effective deterrent action has been taken as a result of this recent audit and, if so, to learn some of the details of such action.

Until serious efforts are taken to ensure a degree of probity in the public service, and I am not referring only to low standards in high places but also to a general laxity about probity in the public service as a whole, I find it difficult to see how there can be effective public administration. Without effective public administration, there cannot be effective government. Without effective government, I find it difficult to see how balance can be restored to the public finances and the more general economy.

Mr. Mwananshiku made the following statement:

Madagascar's experience in 1991 is but another reminder that politics and economics are intertwined. The political problems disrupted the process of economic reform, contributing to the worsening of financial imbalances and to increased balance of payments pressures. Maintaining the political consensus that is now in place is, therefore, a necessary condition for laying the basis for improved economic performance.

The staff report has stressed the need for a rapid return to a stable macroeconomic framework, calling it the main challenge for the authorities. The basic advice is to strengthen demand-management policies, which the staff feels is "urgently required to reduce financial imbalances and dismantle the obstacles to economic growth and financial stability." One cannot question the importance of prudent demand-management policies. The high wage bill, equivalent to 55 percent of domestic revenue in 1991, is one of the areas that must be dealt with. However, it must also be stressed that efforts aimed at ameliorating the country's economic problems must be seen as something more than a demand-management exercise. In fact, it would seem that, in an economy such as Madagascar's, the distinction between macroeconomic stabilization and long-term structural change does not have much meaning. It is

unlikely that the former can be sustained in the absence of an expanding economy that is rooted in structural change and a favorable external environment.

What are some of the issues that define the long-term economic problems of Madagascar? One is the weakness of the export sector. Table 1 in the staff report shows that export earnings declined in six of the past seven years, while the volume of exports increased in all but two years during the same period. This is obviously a case where export diversification is needed in order to improve the prospects for external viability. In this connection, the staff report points to the lack of an active exchange rate policy as one of the factors affecting the export sector, citing the 4 percent real effective appreciation of the Malagasy franc during March 1991-March 1992; but it is not clear whether frequent devaluations would do much, since the export sector had performed poorly for many years even when the real effective exchange rate had been depreciating. Table 1 also shows the prolonged worsening of Madagascar's terms of trade, and it is not clear whether devaluations would be an effective tool under the circumstances. Another problem in the external sector is the high debt-service burden, projected at more than 87 percent of exports of goods and services for 1992. This is an untenable situation that requires some bold initiatives in terms of debt relief.

Regarding the prospects for economic growth, two points should be noted. The authorities need to make additional efforts to attract foreign direct investment. Table 6 in the staff report shows a drop in 1991 from an already relatively low level, and the medium-term projections do not show a significant increase. The second point is that the overall level of investment needs to be increased. However, this is constrained by the external financing gap. In this context, I would refer to the debt-relief issue. In addition, I would emphasize the need for increased flows of concessional resources.

Finally, I hope that the authorities and the staff can work out a program in a timely manner that can be supported by the ESAF.

Mr. Sparkes said that, as he agreed with most aspects of the staff appraisal, he would comment only on the conditions for resumed Fund support of Madagascar. It was difficult to see how a new Fund-supported program could be agreed until there was a greater degree of political stability, which would depend on the outcome of the elections later that year.

Before a new program was agreed, the authorities would need to demonstrate their commitment by taking a substantial body of prior actions

to stabilize the economy, correct external imbalances, and resume structural reforms, Mr. Sparkes continued. If, as Mrs. Martel had suggested, Madagascar was to receive access to the remaining undrawn ESAF resources under its previous program, the authorities would have to agree on a new three-year program. It would be important to ensure that adjustment did not falter as soon as the remaining ESAF resources ran out. He continued to believe that such assurance would best be achieved by spreading the remaining ESAF resources evenly over the life of the new three-year program, rather than making all the concessional financing available during the first year.

Mr. Golriz made the following statement:

We are in broad agreement with the staff appraisal and conclusions. Political turmoil in the second half of 1992 suspended already slow structural reforms, and even reversed them in some instances, notably in the external sector. Most of the performance criteria were not observed, despite the authorities' efforts to overcome economic and financial imbalances.

For the time being, the main task of the authorities seems to be regaining sociopolitical stability in order to restore the confidence of the private sector. Moreover, structural reforms should gain momentum in the framework of the new legislation. The privatization process should be continued to relieve the overburdened Government of commercial and trading activities. We welcome the authorities' intention to carry out the liquidation and privatization of a number of enterprises in 1992, and we would appreciate staff comments on the progress made in this respect.

The fiscal deficits, which are the main source of imbalances, should be reduced through stemming the expansion of the civil service sector, encouraging a more active role for the private sector, and containing wage increases in the public sector. In this connection, like some other Directors, we were surprised to note that the number of ministries has been increased from 21 to 30 in the new Administration. On the revenue side of the budget, a 67 percent increase in domestic revenue requires immense efforts. Expenditures, therefore, should be contingent on the realization of revenues to the extent possible.

The external sector is another area in need of an immediate plan of action in order to reverse the existing unfavorable trends. Given the inflation differential between Madagascar and its trading partners, an adjustable exchange rate system is justified to restore and maintain export competitiveness. In this respect, however, we share the views expressed by some Directors that a prudent fiscal policy stance is a prerequisite for any adjustment in the exchange rate system. Meanwhile, a more aggressive policy stance in the external sector should be

implemented to broaden the export base by exploring potential areas such as tourism. The tourism industry's performance during 1986-90 affirms the contributions that this sector can make to the economy should the country mobilize its own as well as external resources for this purpose. I support the proposed decision.

Mr. Deng made the following statement:

Madagascar has made substantial achievements in developing the economy since the country embarked on comprehensive adjustment in the late 1980s. Real GDP averaged 3.5 percent a year during the period 1988-90. For the past year, however, such momentum could not be maintained owing to political changes, policy slippages, poor weather, and unfavorable external conditions. Real GDP contracted by 7 percent, while inflation increased to 14.1 percent, and there was a marked deterioration in Madagascar's external account. The authorities face a great challenge in moving the economy back on track. Since we are in broad agreement with the staff's appraisal, we would like to make just a few comments.

On the fiscal front, given that domestic revenues fell by 23 percent in large part because taxes were not always collected, the authorities are stepping up efforts to collect taxes in arrears from 1991. Collection of import duties and taxes will be improved by putting into place a system run by a specialized international company. In our view, the sharp contraction of economic growth--particularly the sharp decrease in exports--also contributed to the decline in revenue. The authorities should continue to give top priority to implementation of tax reform policies so as to increase revenue.

Regarding expenditure, obviously personnel outlays comprise the largest burden on the budget. For the past two years, the Government has been reducing the number of budgeted civil service positions, and this should be continued. It is also important for the authorities to undertake comprehensive reforms to enhance the efficiency of the public enterprises since a number of them have been operating at a loss.

On the monetary front, the authorities have made it a goal to move toward a system of monetary control using indirect instruments. In our view, there are three issues for the authorities to address. First, the Central Bank, while improving its deteriorating financial position, should have strict control of the money supply in order to curb inflation. Second, domestic resource mobilization through indirect means--particularly a correct interest rate policy--is encouraged. According to page 16 of the background paper, domestic bank financing decreased to

minus 1.2 percent of GDP in 1990. Correcting this situation is essential. And third, given that 40 percent of the loan portfolios of the three government-owned banks are nonperforming, the Central Bank should strengthen its supervision over their operations.

Lastly, concerning energy policy issues for Madagascar, the reform program formulated with the World Bank should be firmly implemented by the Government. The country cannot go on paying for imported oil at a price as much as \$60 a ton higher than world market levels.

Mrs. Martel said that her earlier comments on Madagascar's access to ESAF funds had been based on the discussion and summing up by the Chairman of the review of the operations of the SAF, ESAF, and ESAF Trust (EBM/92/86, 7/10/92). In that summing up, the Chairman had stated that "In cases in which the three-year commitment period under the ESAF had expired with undrawn amounts, renewal of the ESAF support that had been available under the original arrangements could be considered only when the member was prepared to adopt comprehensive and strong adjustment policies within a three-year framework, and with objectives that were broadly in line with those underlying the original ESAF-supported programs. It was agreed that approval of new arrangements for those members--in an amount not exceeding the undrawn balances--should take place within the proposed new cutoff date...."

Mr. Shimizu stated that he supported the proposed decision and endorsed the remarks made by Mr. Goos on the future program. The staff reported that the audit of the BTM had just been completed; he would appreciate further elaboration on the results of the audit and on the restructuring of the bank's portfolio. Privatization would not necessarily improve the balance sheet of the BTM, and he was interested in learning from the staff what measures the authorities had taken or planned to take to improve the balance sheet.

The staff representative from the African Department explained that the banking system essentially consisted of four banks: BNI; BMOI, which was privately owned and functioned very well; BFV, of which 20 percent was owned by an Italian company, and which functioned fairly well; and BTM, which was state owned. The BTM was a problem notably because it had extended loans to parastatals that were unable to repay them. A year or two previously, a new computerized accounts system had been introduced, and it had not functioned well initially. Management had lost control of the BTM's operations for a while, and as a result some department heads in outlying branches had extended loans without having them properly approved by the Board of Directors. Consequently, the authorities had relieved the Managing Director and many department heads of their responsibilities, and the bank was being run by temporary management drawn from an auditing company in Madagascar. That company had performed the audit according to Malagasy regulations,

rather than international auditing rules, and the staff had requested another audit, which a French company had almost completed.

Another company had been retained to prepare a dossier on the bank and its audit so that interested private parties could assess the situation, the staff representative continued. The timetable indicated privatization before the end of the year, but meeting that target date would be difficult, because several interested parties had already decided that the bank was too cumbersome to be taken over. However, other parties had expressed interest recently, contacts had been established, and everyone hoped that the target could be met.

The staff representative from the Policy Development and Review Department remarked that the staff was preparing a study of the profitability of the export sector. Preliminary findings suggested that coffee and sugar were incurring significant losses, which had increased over the past two or three years, while textiles and vanilla were profitable and holding steady. The next mission would discuss those findings with the authorities with a view to addressing the export situation and the policy instruments suggested by Directors to address that problem.

On the phasing of ESAF resources proposed by Mr. Sparkes, further bilateral discussion would be useful, the staff representative observed. The staff had assumed from the discussion referred to by Mrs. Martel that application of the Board's conclusion did not require phasing of the amount in the original arrangements over three years. If the authorities had a strong program, and if they met the various conditions that Directors had discussed, problems could arise in phasing the remaining amount--about 38.6 percent of quota. The staff had proceeded on the assumption, subject to Directors' views, that with a strong program, the remaining amount would be disbursed within the next year of the arrangement.

Mr. Sparkes said that, while he recognized the validity of the text of the conclusions of the discussion on the ESAF review, he nevertheless considered it important, in view of Madagascar's record of completing relatively few of its recent Fund arrangements, that an incentive be provided to ensure that the member would complete a new three-year program. He would look carefully at the way in which the staff proposed to provide that incentive.

Mr. Goos asked how the second and third annual arrangements could be supported if the full amount available under the ESAF was disbursed in the first year. He realized that some Directors were working toward the establishment of a successor facility to the ESAF; but before any decision could be reached in that regard, it would be particularly imprudent to use the Fund's general resources in support of second- and third-year enhanced structural adjustment arrangements in the situation of Madagascar.

Mr. Santos remarked that his authorities had already taken a position on exchange rate policy, an issue that had provoked some discussion by

Mr. Goos and Mrs. Martel on one side, and Mrs. Hansen on the other. The authorities' policy stance resulted not from a reluctance to take action, as suggested by one speaker, but from the fact that a case for a major correction of the exchange rate had not been established. As the authorities had emphasized in discussions with the staff, they considered that the major financial and budgetary imbalances were responsible for the disruption of the foreign exchange market, and that those imbalances were related to the temporary political instability in the country. That situation could be easily reversed, and forthcoming discussions with the staff could provide the opportunity to discuss those issues further, although he believed that the authorities would be supported by the comments of Mr. Goos, Mrs. Martel, and Mr. Posthumus.

The authorities had been trying for some time to reach an understanding with the staff on an ESAF-supported program, but that had not been possible because of staff and management's caution with respect to the impact of political instability on the program's implementation, Mr. Santos commented. The authorities would probably argue that the need to establish a track record over a period of time did not seem to be in the spirit of the discussion for the last review of the ESAF; at that time, Directors had considered that there should not be a long period between interruption of the previous program and implementation of another program. That stance was very important to his authorities, because, to correct the problems in the economy, they would like to have a program in place as soon as possible under the conditions described by the staff.

On the phasing of disbursements under a new program, Mrs. Martel had referred to the conclusions of the recent Board discussion, and the staff had emphasized that phasing would depend clearly on the strength of the program, Mr. Santos said. His authorities hoped that a successor ESAF arrangement would be in place to finance fully the three-year program.

The comments made by Mr. Noonan were quite interesting, Mr. Santos commented. Mr. Noonan had stated that he was not referring specifically to Madagascar; the problem was widespread. He himself was unsure whether the problem could be characterized as one of ethics or of management; perhaps it was related to the quality of portfolios. In the case of the latter, he would agree with Mr. Noonan that the problem was a real one that affected not only developing countries but also well-developed and organized financial systems. As to Madagascar, the staff had already described the actions taken by the authorities to regularize the situation of the BTM and the banking system in general.

Mrs. Hansen remarked that perhaps the discussion on the exchange rate had suffered from a lack of precision. There were two questions: first, what was the appropriate exchange rate system; and second, when was the appropriate moment for an exchange rate adjustment if there was a flexible system. On the first, she considered that removing the possibility of an exchange rate adjustment from Madagascar's arsenal of policy tools was a grave mistake. Madagascar had accomplished more extensive export

diversification than a number of other countries on the continent. Because the case for an exchange rate devaluation had not been argued convincingly, the conclusion should not be reached that a fixed exchange rate system was necessary or appropriate.

On the second question, she was rather agnostic, Mrs. Hansen commented. The calculation of the real effective exchange rate seemed lacking--she did not think the staff would disagree--because of inadequate data on the domestic inflation rate. During the next mission, the staff would take into consideration a number of other factors in order to reach a more balanced view of the appropriate time for an adjustment.

Mr. Goos remarked that he would agree that the exchange rate should not be removed as a policy instrument available to the authorities in order to maintain external competitiveness.

He did not consider that the establishment of a satisfactory track record over a sufficient period was inconsistent with agreed procedures under the ESAF, Mr. Goos continued. His understanding was that, if there was a disruption of an ESAF arrangement owing to policy failure, and if there were serious doubts about the ability of the authorities to continue with proper adjustment, it would be appropriate to await the re-establishment of a satisfactory track record. In that context, he recalled that the staff had stated that it hoped to agree on a program for 1993 following the elections, the installation of the new Government, and the introduction of the 1993 budget, but the staff had not set a time period for the establishment of a credible track record. He wondered whether policies formulated in October or November would provide a sufficient basis for agreement on a program for 1993.

Mr. Santos commented that the staff report and his earlier statement indicated clearly that the authorities had not abandoned the exchange rate as a policy instrument; they were, however, reluctant to use it because a clear case had not yet been made. The authorities would consider the macro- and microeconomic effects of exchange rate action, as described by the staff, at the time of the next mission.

The staff representative from the African Department explained that it was important in the case of Madagascar to realize that the decisive policy tool was the budget, which operated on an annual cycle. To influence the budget, negotiations would have to begin in October or November. The staff envisaged that it would be necessary to review in early 1993 the first quarter results, noting how the new Government and a new political system were able to implement the agreed measures. Doing so would represent a track record of several months.

Mr. Santos observed that all would agree that it might be difficult to determine, at an early stage, the ability and determination of the new Government to implement a program. Another course of action might be the establishment of a clear list of priorities with respect to the measures

identified in the staff report, and, in that connection, a determination of some prior actions that could, over a sufficient period of time, help to establish a good track record. It was very important to have a program in place so that the authorities could stabilize the general situation as soon as possible.

The Acting Chairman made the following summing up:

Executive Directors expressed concern about the severe deterioration of Madagascar's economy in 1991-92, in large part related to social and political unrest. There had been a contraction of economic activity, and large financial imbalances and external payments arrears had emerged. Directors pointed in particular to the widening of the fiscal deficit, which was largely attributable to weaker revenue collection.

Directors welcomed the Government's intention to redress the economic and financial situation and to strengthen demand management in the period ahead. However, they stressed the need for forceful and prompt action in view of the large financing gaps anticipated in the public finances and the balance of payments, and the downside risks in the authorities' fiscal projections. It was urgent that a major improvement in revenue performance be achieved by strengthening customs administration, in particular through the establishment of new customs procedures, but also by vigorously implementing the new system of pricing in the context of the program with the World Bank, and by raising the yield from taxes on domestic transactions.

Speakers also emphasized that, notwithstanding greater efforts at revenue collection, expenditure restraint would have to play a significant role in the fiscal adjustment. In addition to containing the wage bill as projected, partly through a strict freeze on the size of the civil service and the removal of ghost workers, the authorities would be well advised to reduce their targeted level for other expenditures. The need to look at the structure of ministries and the decision-making process and implementation to ensure efficient and responsive government was also suggested.

Directors stressed that, along with fiscal restraint, the Central Bank would need to exercise firm control over the monetary aggregates so as to ease pressures on domestic prices and the balance of payments. In this context, they called upon the authorities to reinforce interest rate policy, with emphasis on greater transparency and flexibility in determining interest rates in the money market, and on promoting interest rates that are positive in real terms. Improved management of the rural development bank (BTM) and the privatization of this bank were considered essential to the restoration of monetary control. The

intention of the authorities to strive toward greater use of indirect instruments of control of monetary aggregates was also welcomed.

Given the weaknesses in the balance of payments and the depletion of freely available reserves of the Central Bank, together with an unfavorable external environment, Directors underlined the need to strengthen the external position. In this regard, speakers agreed that the restoration and maintenance of financial discipline should constitute the first priority. They also noted the positive performance of exports, including non-traditional exports, in the period before the recent political disturbances. While it was pointed out that the spread between the official and parallel market exchange rates had recently widened, it was difficult to make an accurate assessment at this stage of the state of competitiveness of Madagascar's export sector, and, consequently, speakers were not agreed on the appropriate role of exchange rate policy in Madagascar in the near future. With respect to the import sector, the authorities were encouraged to reintroduce the open general license system.

Noting that progress in structural reforms had largely come to a halt in 1991, Directors urged the authorities to begin again to implement structural measures in a number of areas with a view to improving the allocation of resources and attracting foreign investment. Directors stressed that a comprehensive package of measures was required in order to restore private sector confidence, reduce the financial imbalances, and enhance external competitiveness, and thus lay the foundations for sustained economic growth and medium-term viability. Recognizing the desire of the authorities to move toward agreement with the Fund on resumption of the use of resources under the enhanced structural adjustment facility, several Directors stressed that--against the background of the Fund's long involvement in Madagascar and the member's recent record of program implementation--Madagascar should strengthen policy implementation, move decisively to adopt a medium-term adjustment program, and, in that context, re-establish a credible track record that could attract the renewed support of the international community, including the International Monetary Fund.

It is expected that the next Article IV consultation with Madagascar will be held on the standard 12-month cycle.

The Executive Board then took the following decision:

1. The Fund takes this decision relating to Madagascar's exchange measures subject to Article VIII, Section 2(a), and in concluding the 1992 Article XIV consultation with Madagascar, in the light of the 1992 Article IV consultation with Madagascar

conducted under Decision No. 5392-(77/63), adopted April 29, 1977, as amended (Surveillance over Exchange Rate Policies).

2. Madagascar maintains the restrictive exchange measures described in SM/92/117, in accordance with Article XIV, except that the limits on the availability of foreign exchange for travel, the administrative allocation of foreign exchange for the making of certain current payments, and the restrictions evidenced by some external payments arrears are subject to Fund approval under Article VIII, Section 2(a).

Decision No. 10086-(92/93), adopted
July 22, 1992

DECISION TAKEN SINCE PREVIOUS BOARD MEETING

The following decision was adopted by the Executive Board without meeting in the period between EBM/92/92 (7/20/92) and EBM/92/93 (7/22/92).

2. EXECUTIVE BOARD TRAVEL

Travel by an Executive Director as set forth in EBAM/92/50 (7/20/92) and by an Assistant to Executive Director as set forth in EBAM/92/46, Supplement 2 (7/20/92) is approved.

APPROVED: March 19, 1993

LEO VAN HOUTVEN
Secretary

