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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 92/27

11:20 a.m., March 4, 1992

R. D. Erb, Acting Chairman

Executive Directors	Alternate Executive Directors
	A. A. Al-Tuwaijri
G. K. Arora	L. E. N. Fernando
	Chen M., Temporary
C. S. Clark	
T. C. Dawson	
	B. Szombati, Temporary
	R. L. Knight
	J. Papadakis
	B. Bossone, Temporary
	A. F. Mohammed
I. Fridriksson	
	K. Nakagawa, Temporary
B. Goos	
J. E. Ismael	
	P. L. Rubianes, Temporary
	I. Martel
A. Mirakhor	M. J. Mojarrad, Temporary
	J. M. Jones, Temporary
	P. Wright
G. A. Posthumus	
	N. Toé, Temporary
A. Torres	
A. Végh	

L. Van Houtven, Secretary and Counsellor
T. S. Walter, Assistant

Also Present

IBRD: H. Kharas, Asia Regional Office. Exchange and Trade Relations Department: C. Y. Collyns, M. E. Edo, J. H. Felman. Fiscal Affairs Department: J. A. Schiff. Legal Department: R. B. Leckow. Secretary's Department: A. Leipold. Southeast Asia and Pacific Department: C. S. Lee, J. Lin, M. H. Rodlauer, B. Smith. Treasurer's Department: A. W. Lake. Advisors to Executive Directors: J. M. Abbott, M. A. Ahmed, L. E. Breuer, L. Dicks-Mireaux. Assistants to Executive Directors: M. Da Costa, S. Gurumurthi, K. M. Heinonen, W. Laux, M. Mrakovcic, R. K. W. Powell, C. M. Towe, Tin Win, J. W. van der Kaaij.

1. TAJIKISTAN AND UZBEKISTAN - APPLICATION FOR MEMBERSHIP

The Managing Director informed the Board that applications for membership had been received from the Republic of Tajikistan (EBD/92/38, 3/3/92) and the Republic of Uzbekistan (EBD/92/39, 3/3/92).

2. PHILIPPINES - REVIEW UNDER STAND-BY ARRANGEMENT, AND EXTERNAL CONTINGENCY FINANCING UNDER COMPENSATORY AND CONTINGENCY FINANCING FACILITY - PROPOSED ACTIVATION

The Executive Directors considered a staff paper on the first review under the 18-month stand-by arrangement for the Philippines approved on February 20, 1991 and proposed activation of contingency financing under the CCFF (EBS/92/24, 2/11/92).

Mr. Knight made the following statement:

My Philippine authorities wish to express their appreciation for the clear and balanced report prepared by the staff to describe recent economic developments and policy initiatives in the Philippines.

There have been delays since the middle of 1991 in the full implementation of the agreed economic program under the current stand-by arrangement. However, this needs to be kept in perspective; a broader evaluation must also take account of the political dynamics in the Philippines and the authorities' strong endeavors to conform to the spirit of the economic stabilization program in the face of great difficulties.

Despite some recent policy slippages, due partly to continuing problems caused by the eruption of Mt. Pinatubo, the authorities' persistence, aided by timely assistance from the international community, has helped preserve the fiscal program. Indeed, the fiscal targets were significantly outperformed throughout 1991, with the consolidated public sector deficit for the year turning out to be 2.8 percent of GNP, compared with the programmed target of 3.7 percent. The strong 1991 fiscal results were mainly a result of the authorities' continuing efforts--within the limits of their powers, and in a difficult political environment--to curb public expenditures and strengthen revenue generation.

Overall, national government expenditures were cut administratively below the level authorized by Congress. In addition, the consolidated public sector's financial situation was significantly bolstered by firm adherence to commitments on domestic oil prices, notwithstanding the sharp fall in international oil prices. Thus, the Oil Price Stabilization Fund (OPSF), which was a source of fiscal vulnerability not too long ago, has become a positive fiscal element. My authorities are firmly committed to keeping it that way; they are currently taking advantage of the present relatively favorable oil markets to put in place a more automatic price adjustment mechanism to deal in a fundamental way with problems arising in this area.

On a broader front, the Philippine authorities have persevered with trade liberalization and tariff reforms despite their short-term negative impact on fiscal revenues. As early as July 19, 1991, the President, by executive order, simplified the tariff structure and lowered the average rate of protection by 8 percentage points to about 20 percent.

Not unexpectedly, the implementation of revenue measures has proceeded less smoothly than would have been ideal. This is what initially clouded the outlook for 1992, notwithstanding the clear successes in 1991, and posed a stumbling block to an earlier program review. The deficiencies have now been addressed with the implementation of a set of prior actions in the revenue area, including a 16 percent electricity tariff increase, additional forestry charges, and a tax administration reform package that will considerably strengthen tax compliance. The importance of the reforms in tax administration, as described on page 10 of the staff paper, should not be underestimated, given that tax compliance has always been the central weakness of fiscal revenue mobilization in the Philippines.

It is also worth noting that, until the critical mass of revenue measures was put in place, the President twice called Congress to special sessions during the prepresidential election period, thus emphasizing the authorities' determination to adhere to the original program course. With the new revenue measures in place, and with further administrative cuts in expenditures equivalent to 1 percent of GNP below the level authorized by Congress, the 1992 consolidated public sector deficit is now projected at 2.7 percent of GNP, only slightly higher than the original target of 2.5 percent despite the unplanned budgetary outlays for rehabilitation due to the damage caused by Mt. Pinatubo.

Finally, an evaluation of fiscal management would not be complete without acknowledging the considerable progress in public sector corporate reform, which has been pursued with the support of the World Bank. Of 122 government corporations targeted for privatization, 85 have been offered for sale, with completed sales for four fifths of them. These efforts have been complemented by the successful disposal by the Asset Privatization Trust of 67 percent of the 399 nonperforming assets, and by the partial privatization efforts undertaken by many retained corporations.

Overall, the government corporate sector has been reduced from 301 to 78 corporations.

More recently, the Government completed its biggest asset sale with the 67 percent privatization of Philippine Airlines, which, at a price of about $368 million--equivalent to 0.7 percent of GNP--was considerably higher than the Government's base price. Further major asset sales involving the Philippine National Bank and the National Steel Corporation are now in an advanced stage of planning. In addition, as a means of addressing the financial troubles of the National Power Corporation (NPC), the Government is working on a formula for the partial privatization of this key corporation in the context of the wide-ranging management reforms.

In terms of performance criteria, monetary policy has been the only area of underperformance, and, even there, the base money target slippages have not been significant. Since end-June 1991, when there was slippage equivalent to 3.3 percent of the target, the monetary performance has improved to the extent that only a slight slippage of 1.3 percent was recorded in December 1991--for which a waiver is being sought--while the indicative target for January 1992 was outperformed by over 5 percent.

In considering these developments, one should also remember that compliance has been hampered by large-scale external capital inflows and weakened import demand, which have led to a large foreign exchange surplus that could not readily be sterilized. More important, despite the technical difficulties involved in following the performance criteria precisely, broad money--M3--has been held close to envisaged levels, and it is evident that the main policy objective of reducing inflation is being met. The inflation rate was brought down to 10 percent in the year ending January 1992, and no change to the original program target of a reduction in the rate to 7 percent by end-1992 is envisaged.

The balance of payments is now significantly stronger than at the time of the Board's review of financing assurances in June 1991 (EBM/91/79, 6/12/91). Official international reserves reached an all-time high of $4.7 billion at end-January 1992. Moreover, on page 27 of the paper, the staff has judged the program to be fully financed on the basis of both the exceptional financing already obtained under the 1991 Paris Club rescheduling and the existing commercial bank restructuring agreements. Consistent with this scenario, the Philippine authorities have requested that the present stand-by arrangement be extended without additional Fund resource commitments to end-1992, mainly to secure the full relief available under the 1991 Paris Club agreement. This extension request does not necessarily preclude the submission of a more ambitious economic reform program before the completion of the stand-by arrangement, if the new Administration judges that to be in the country's best interests.

The medium-term balance of payments outlook will be further strengthened by the implementation of the authorities' recently concluded comprehensive debt reduction and financing package with creditor banks. The new package, tentatively scheduled for formal signing on April 14, 1992 and expected to close by June 1992, will address the remaining $5 billion in medium- and long-term eligible debt owed to banks by the public sector, including the Central Bank.

The final bank agreement builds upon the terms of the initial agreement reached in August 1991. The menu of options still includes the original two debt-service reduction options, but with lower interest rates in the first two years than were envisaged in August 1991. There is now also a debt buy-back option, reflecting the Philippines' somewhat stronger cash reserve position.

Finally, there is a new money option along lines earlier agreed by the parties. My authorities' initial estimates suggest that the package can potentially provide net incremental cash flow relief of up to $2 billion from the second half of 1992 through 1997, mostly in the form of permanent debt-service savings.

The Philippine authorities naturally wish to consummate this deal at the earliest possible time. It remains their intention, as was made clear at the time of the stand-by arrangement's approval, to request in due course augmented assistance. They hope that the apparent technical difficulties posed by the segmentation issue can be resolved so as not to provide an artificial constraint.

With respect to structural policies, the considerable progress on trade liberalization and reform was cited earlier. One should also note the significant relaxation of investment rules in 1991 and the package of wide-ranging exchange system reforms introduced in January 1992. The latter constitutes an important initial step toward full current account convertibility, which my authorities intend to complete by the end of 1992.

Much remains to be done, but the recent performance record has been encouraging, especially in the critical fiscal area, despite less than optimal political conditions and an unexpected natural calamity. My authorities are optimistic that further progress can be made during the period until the next Board review.

Mr. Arora made the following statement:

The Philippine authorities have made extraordinary efforts to achieve the program targets. Their perseverance was rewarded in 1991 by a significant lowering of the inflation rate, a fiscal balance that was not only better than the previous year's, but even better than what had been programmed, a much-improved current account balance--once again, a case of overperformance--and a healthy gross official reserve position. I agree with Mr. Knight that, taking into account the political dynamics in the Philippines--and also keeping in view the natural calamities to which the country has been repeatedly subjected--what has been done by the Philippine authorities deserves to be applauded by the international community.

Many difficult decisions have been taken, including the implementation of strong revenue measures, tax administration reform, and tariff reforms. Perhaps, and here I speak purely from a comparative perspective, the success of the Philippine authorities in turning the OPSF from a deficit position into surplus could constitute a structural change of major significance for the overall fiscal balance. We in India are still struggling with this problem. Equally, the commitment of the Philippine authorities to the liberalization and opening up of the economy in the face of a setback to the growth process in 1991 should be noted by the international community. Normally, adverse developments in the growth area lead to a slowdown--or even a partial reversal--of the process of liberalization; however, the Philippine authorities have stuck to the policy course charted out in advance without deviation.

One can endorse the principal objectives of the stabilization program and encourage the authorities to pursue a prudent fiscal stance to further moderate inflationary pressure. In this area, a major role will have to be played by the public sector, especially the NPC. Quite apart from preventing an improvement in the country's financial performance, which is long overdue, it needs to be remembered that the serious shortage of electricity is threatening industry in the southern island of Mindanao, and that there are fears that the main island of Luzon may also be affected. A decisive energy strategy is needed to improve operating efficiency and encourage larger investment; otherwise, the electricity shortage could seriously constrain industrial and agricultural growth.

While on the policy aspects, I should add that I was interested to note that a major initiative has been taken to tackle the problem of the large losses of the Central Bank. The facts about the financial distress of the Central Bank are not in dispute: during the period 1986-90, the Central Bank incurred average yearly losses of P 18 billion; losses from foreign liabilities of the Central Bank, which averaged P 75.6 billion, were largest during this period as well.

Broadly speaking, the conduct of monetary policy in the Philippines relies largely on reserve requirements. It has been estimated that the high reserve requirements are largely responsible for the very substantial rise in the cost of financial intermediation, which, at about 7-8 percent, is one of the highest in the world. Predictably, the high real rates of interest and the low returns on reserve requirements have given a fillip to the process of disintermediation.

During 1991-95, the Central Bank's financial condition will deteriorate sharply. It would be unwise to allow the Philippine financial system to be saddled with the escalating burden of central bank losses, as this would impact on fiscal policy in a way that would be detrimental to real growth and make the conduct of appropriate monetary policies a painfully frustrating exercise. Therefore, financial restructuring of the Central Bank is an urgent necessity. I should be grateful if the staff would comment on the measures proposed by the authorities to restore the Central Bank to a viable position, and on the expected time frame of implementation.

On the question of external policies, it is encouraging to hear from Mr. Knight that a comprehensive debt reduction and financing package with creditor banks has recently been concluded and is expected to be formally signed on April 14, 1992. I presume that the debt-service ratio for 1992 takes into account the cash flow relief implied in the package agreed with the commercial banks. Would the staff have any assessment of the debt-service ratios that the Philippines would have to reckon with in a medium-term scenario? I would point out that external debt as a proportion of GNP is still quite high; although the debt-service ratio may have come down from the high of 27.8 percent attained in 1989 to the 19.7 percent projected for 1992, it is a moot point whether the overall policy framework for stabilization and growth can continue to be implemented successfully in a situation of net external resource outflows. According to the Central Bank of the Philippines, there have been net resource outflows in the Philippines every year from 1982 to 1989. The orders of magnitude here are quite significant: in 1987, the resource outflow was $1.8 billion; in 1988, $1.9 billion; and, in 1989, $1.3 billion. It is clear, then, that the debt-management strategy based on the Brady Plan has provided very little room for maneuver to national authorities in terms of augmenting the resource base needed for satisfactory growth.

This brings me to the growth aspect. The economy stagnated in 1991, thus reversing the trend observed in the late 1980s and pointing up the structural weakness in the economy. National savings, including both public and private components, declined. Similarly, gross domestic investment nose-dived, with particularly large cutbacks taking place in fixed investment and construction. The staff anticipates real growth to turn up in 1992; however, it is difficult to visualize the sources for such a growth. The debt-service ratio will remain high in 1992, as will interest payments as a percentage share of national government expenditure, which will account for approximately P 84 billion out of a total expenditure and net lending figure of approximately P 273 billion. Capital expenditure will decline from its already low 1991 level; moreover, net direct foreign investment is not projected to increase significantly.

Given this situation, and given that the tight monetary program implies that real interest rates will remain high, a continued deceleration in the investment rate should dampen the country's growth prospects. This is a matter of serious concern, especially as the absolute number of families below the poverty line increased from 2.9 million in 1971 to 3.6 million in 1988. The slowdown in growth will especially aggravate problems in rural areas, where there is low productivity, landlessness, and high unemployment. In this connection, it is worth noting that, unlike other developing Asian countries, the Philippines is rather unique in having recorded persisting declines in real wages for skilled, unskilled, and agricultural workers over the past two and one half decades. One might expect social and political turbulence to increase if a comprehensive growth strategy directed in large part toward the rural sector is not implemented.

The Finance Minister, Mr. Estanislao, analyzed the policy dilemma in a speech in January 1992. In the process of looking forward to an export-oriented strategy that would provide the momentum for growth, he looked back on the policy failures of the past, which he characterized as "a clear preferential treatment for importers and industrializers who cannot see beyond the confines of our internal market; and a strong bias against exporters and agriculturalists who have manfully scoured world markets for foreign exchange." The recent policy changes give ground for hope that a sustainable growth pattern will arise, ending the discrimination against agriculture. The challenge facing the policymakers is to turn the gains of the 1986-90 recovery into a more permanent growth pattern; however, it is not clear that it will be easy to implement such a strategy against a background of recurring balance of payments crises.

I support the proposed decisions and also endorse the request of the Philippine authorities for augmented assistance at the appropriate time. I also hope, like Mr. Knight, that the segmentation issue will not come in the way of augmented assistance.

Mr. Nakagawa made the following statement:

We welcome this opportunity to discuss the economic situation of the Philippines. We have been waiting for such an opportunity since the summer of 1991. In February 1991, this chair supported the stand-by arrangement for the Philippines (EBM/91/24, 2/20/91); regrettably, however, the authorities were for a long time unable to produce a package of strengthened fiscal measures for 1992.

The staff paper before us today again asks us to make a difficult decision. The recent macroeconomic performance of the Philippines is better than expected and encouraging. Domestic and external deficits decreased in 1991 to below the program targets, and significant progress was recorded in strengthening external reserves. Although the program target was missed, the 12-month inflation rate decelerated toward the end of the year. It is certainly welcome that, despite the fact that the stand-by arrangement was off track for the major part of 1991, the primary macroeconomic objectives were met and economic stabilization promoted.

Nevertheless, I cannot help feeling very concerned about the proposed fiscal package for 1992. My first concern comes from the considerably weakened fiscal deficit target for the National Government, which has increased from P 3.6 billion in the original program to P 9 billion in the revised program. Although I understand that the increased demand for fiscal expenditure on rehabilitation measures resulting from the Mt. Pinatubo eruption worsened the fiscal situation, the degree of weakening from the original fiscal target is a substantial setback from the program as initially envisaged.

My second concern relates to the lack of permanent revenue measures to substitute in the program for the revenues from the temporary levy on non-oil imports, which is expected to expire at end-June 1992. The authorities are not in a position to clearly indicate what revenue measures will be substituted after its expiration, and this chair is concerned about the possibility that, despite the authorities' commitment in 1991 to phase out the temporary levy on imports, it might continue to remain in place after June 1992.

My third and most serious concern is over the lack of concreteness in the National Government's plans to make expenditure cuts equivalent to as much as 1.1 percent of GNP, which are essential to observe the public sector borrowing requirements targets for 1992. Although the agreement with the Fund on the monthly ceilings on the cash budget expenditures is encouraging, I cannot completely erase my doubts about the effectiveness of this agreement, considering the fact that the pressures for additional expenditure will increase as the presidential election comes closer. I wonder whether the staff could provide information about the preliminary results of the test for the January-February 1992 period.

The inflation front is also a cause for concern. The monetary measures needed to check the expansion of monetary aggregates are not described too specifically in the staff paper. In this connection, I would also be interested in learning from the staff whether the authorities complied with the monthly base money target for January 1992.

The program for this year is not as strong as expected, and the prospects for observing the program targets are subject to considerable uncertainty. However, this chair also notes that the authorities' accomplishments so far attest to their firm commitment to implement the needed adjustments. The authorities passed unpopular tax increase bills in the Congress, and they decided to accelerate the sale of public enterprises, thereby maintaining the fiscal framework for 1992 that was agreed with the Fund at end-1991. The Government also implemented the increase in the power tariff--another unpopular measure--before the election. In addition, the domestic and external balances showed a better than expected recovery in 1991.

Taking into account all these factors--which are strong indicators of the authorities' firm commitment--this chair supports the completion of this review. We also believe that this completion will be more productive than would otherwise be the case, as the incoming Government will be better positioned to formulate with the Fund a new medium-term economic program, which will include more fundamental structural reforms to activate the Philippine economy. Nevertheless, I would urge the authorities to persevere with their efforts to achieve the fiscal target this year by strengthening tax administration and maintaining tight control over expenditure, and to strengthen monetary control in order to observe the base money target.

With respect to the timing of the implementation of the debt package with the commercial banks, my authorities believe that, in principle, the package should be carried out under a medium-term Fund-supported program--preferably a new extended arrangement.

This possibility will probably be discussed after the new Government takes office. However, it is also true that implementation of the package before the election will reinforce the authorities' close relations with the international financial community, on which the new Government will need to rely heavily. Moreover, a fresh effort after the election by the newly elected Government to reach another agreement with the commercial banks on the debt package might take considerable time and thereby delay the stabilization of the Philippine economy. After all, the timing of the implementation of the package and the decision on whether the Fund should provide an enhancement for debt operations depend on how the economy of the Philippines develops in the coming period, and on how the international financial community assesses this development. For this purpose, this chair would like the Fund to monitor cautiously developments in the coming months in the context of the next program review.

I support the proposed decisions.

Mrs. Martel made the following statement:

The stabilization program undertaken by the Philippine authorities resulted in a mixed experience in 1991. As underlined in the staff paper, there were three main areas of concern. First, in the fiscal area, the fiscal deficit declined. However, there were steep cuts in capital outlays, too few government revenue measures, and the emergence of a financial crisis in the NPC.

Second, the current account deficit target was met, owing partly to government stabilization policies, and partly to favorable international developments.

Third, monetary targets were not met for most of 1991. Partly because of this, but also because of cost-push developments, the inflation rate did not decline significantly in the first three quarters of 1991.

Recent developments show that some of these problems have been resolved. As a matter of fact, important measures have been taken, including, inter alia, the passage of some revenue measures and the improvement in the financial position of NPC through a substantial rate hike. For 1991 as a whole, fiscal imbalances improved, tighter monetary management was implemented, and the inflation rate decelerated to about 12 percent by the end of the year. The current account deficit was reduced, and the international reserves of the Central Bank recovered. Nonetheless, there was a slight slowdown in growth, estimated at less than 1 percent.

The crux of the adjustment problem in the Philippines lies, on the one hand, in certain structural weaknesses of the external sector and, on the other, in the domestic revenue mobilization system. The external sector is characterized by a high degree of import dependence and a relatively slow-growing and narrow-based export structure. These aspects have led to a recurring history of balance of payments crises. The recourse to a domestic revenue mobilization system to try and resolve external payments crises has proved difficult, as the system has structural rigidities of its own and is characterized by low rates of public and private savings.

Therefore, I agree with the staff that the short-term task is twofold: first, to focus on fiscal adjustment, which will help increase domestic savings and growth; and, second, to continue relaxing external constraints through the maintenance of a stable and small current account deficit.

With respect to the first point, fiscal adjustment is central to the stabilization objectives. A key target in this regard is the reduction of the fiscal deficit to 2.7 percent of GNP in 1992. The manner in which this reduction is achieved is critical to the structural adjustment process, as the success of the fiscal strategy lies in the enhancement of domestic revenues and the careful management of public expenditures.

As far as domestic revenue hikes are concerned, expansion of the tax base and improvements in tax collection are both required, as evidenced by three facts: first, the actual taxes collected have been lower than the amounts targeted in each of the past five years; second, the tax effort in the Philippines lags behind that of neighboring countries; and, third, the system generates less revenue than would be expected from considerations of national income.

Therefore, we welcome the measures recently taken to boost revenues, such as the imposition of more rational ceilings on business deductions, the simplification of the net income tax scheme, the imposition of stiffer penalties for tax evasion, and the setting up of specialized tax courts. Also important is the authorities' initiative to adopt a five-point program to improve tax administration. However, considering the actual prospects, I think that further measures should be taken in the short term, such as a reduction in value-added tax exemptions, or the introduction of a presumptive income level scheme for certain hard-to-tax groups. Staff comment on these points would be appreciated.

Concerning public expenditures, the measures taken to cut back on spending should be extremely cautious, insofar as the reduction of some expenditures could be very damaging to short- and long-term growth. Particularly worrisome in this regard is the drastic reduction in capital outlays planned for 1992: P 48.1 billion has been allocated for capital expenditures, compared with the P 60.5 billion budgeted in the initial program for 1992, and the P 52.4 billion spent in 1991. Meanwhile, following a 9.4 percent increase in 1991, current expenditures will continue to mount; with the revised target for 1992, a 15.4 percent increase is projected. I would appreciate it if the staff could comment on this issue.

Priority should also be given to the careful management of public expenditures, with special attention paid to improving the operational and financial performance of public enterprises. In recent years, the Philippines has attempted both the financial and managerial restructuring of its government corporations. This financial restructuring, which has taken the form of a strong reduction in net budgetary transfers to government corporations, has contributed to greater financial autonomy. Nonetheless, the success attained in the financial restructuring of public enterprises should be qualified by a consideration of both the Government's modest attempts to generate internal cash through a market-oriented adjustment of user charges and the sharp cutback in the size of the overall capital expenditure program of the government corporations.

On the whole, the poor financial performance of some of the 14 monitored nonfinancial public corporations suggests that measures to raise user charges and improve cost control should be undertaken quickly. This conclusion is bolstered by the recent experience of the NPC and the recent actions taken by the authorities. Furthermore, the measures taken to speed up the process of privatization are critical, as privatization generates additional government revenues and decreases future claims on the budget.

Regarding the external sector, the measures aimed at further strengthening the external position and relaxing external constraints are crucial for the success of the adjustment strategy. In this regard, structural measures, such as the liberalization of the exchange system to promote market-oriented exchange rates, the reform of the foreign investment regime, the elimination of both quantitative import restrictions and support to export-oriented activities, and the reform of the tariff system to put in place low and uniform tariffs, are prerequisites for achieving high and sustainable growth. The actions already undertaken by the authorities are steps in the right direction.

Moreover, I very much welcome the agreement reached in principle with the Advisory Committee of the commercial banks. I strongly urge the authorities to come to a rapid and final conclusion on this agreement. As Mr. Knight pointed out, a formal signing could be achieved by mid-April 1992; this is all the more important as the agreement could cover the remaining $5 billion eligible in commercial bank debt and thus promote a return to spontaneous market access. Such an agreement should be supported by our institution.

It is too early to specify the ultimate cost of the debt operations, which will depend on their size and the options chosen. Nevertheless, I would like to know whether the authorities intend to ask for both an acceleration of the set-asides and a specific purchase of up to 40 percent of quota with respect to debt-service reduction. I would appreciate it if the staff could comment on the consequences of such a request for the exposure of the Fund; in this matter, I reiterate the position of this chair regarding the need for more fungibility.

To conclude, this chair does not underestimate the task facing the authorities and feels that, considering the difficulties encountered by this country--notably, the eruption of Mt. Pinatubo--and the progress already achieved, the support of this institution is deserved. Nevertheless, it is clear that the Government has to be strongly committed to implementing thoroughly and following up on the measures required to attain the objectives of the program. With these considerations in mind, I can support the proposed decisions.

Mr. Dawson made the following statement:

The staff appraisal says on page 26 of the paper that "developments in 1991 give cause for considerable satisfaction." We fully agree with this judgement. As Directors will recall, when the Philippine program was approved in 1991, many chairs--including my own--had qualms about the adequacy of the program and even the effectiveness of the Philippine commitment to the program. During the year, there were further doubts when review dates slipped.

In the end, however, with the perspective of a full year, it is clear that 1991 was a year of substantial achievement under the stand-by arrangement. The inflation rate was brought down to single digits, and the balance of payments improved strongly, with the current account deficit cut in half and reserves at a record level. As it usually does, strong adjustment restricted activity, with much of the burden falling on capital spending.

This first review of the Philippine program comes almost seven months behind the timetable originally laid out for the stand-by arrangement. This delay has been disappointing; it has also been entirely appropriate. Important performance criteria, such as that for base money, were not met, and some priority objectives, such as the replacement of the 9 percent import levy, were not fully implemented.

Even so, in looking back over the past year, what stands out are not the lapses in implementing specific aspects of the program, but the authorities' perseverance in seeing that the framework of the program was adhered to. Base money growth, which had overshot the target at end-June 1991, was restrained so that it was back under the original program ceilings by end-1991. Fiscal performance criteria were fully met, although this required frequent improvisations and tenacious administrative action to hold spending within the limits of the disappointingly low available revenue.

The key near-term need is for continued adherence to the stabilization program in order to consolidate the gains that were made in 1991 and build a base for the resumption of sustainable growth and development. We believe that the program that the Philippine authorities have presented for 1992 meets this need. Fiscal containment remains at the center of the Government's 1992 program, as it must. The fiscal plan may lack elegance, but it includes the necessary degree of financial discipline. The consolidated public sector deficit for 1992 is now programmed to be just fractionally larger than the target that had been set in February 1991.

Like almost all observers, we would have preferred a fiscal mix that employed a more sophisticated tax structure with a more responsive revenue administration, and that placed less reliance on suppression of public investment. We particularly would have liked to see the import levy completely eliminated, rather than left in place with only partial coverage at the reduced rate of 5 percent. Selective coverage adds an element of distortion that was not present in the original across-the-board levy, and it runs counter to the objective of import liberalization. An untidy patchwork of additional revenue and spending measures has had to be incorporated into the fiscal mix to keep the program in line with macroeconomic requirements. The result may involve awkward compromises; however, until legislative remedies and true reform are available, we believe that the authorities are to be commended for adhering to a course of overall fiscal discipline.

It is a point of concern that the 1992 program will require spending to be held below congressionally approved levels by an amount equivalent to 1 percent of GNP. This will not be easy ahead to do of a national election, but the strong record of executive discipline in 1991 encourages us to think that the required administrative restraint on spending can be achieved.

Continuing progress on structural reforms is an essential complement to the Fund-supported program. More remains to be done on this front. Financial sector reform seems to be stalled, and it is disappointing that the World Bank's financial sector loan is in suspense because legislation to amend the Central Bank Act has not been completed. Welcome steps have been taken to deregulate the foreign exchange market, but this work needs to be extended. Likewise, the pace of privatization should be stepped up.

The foreign investment regime was liberalized in 1991, and we believe that the authorities need to follow through with a program of positive promotion of inward investment, including active steps to eliminate remaining bureaucratic obstacles. Now that the OPSF imbalances have been corrected, complete deregulation of oil prices should be undertaken so that the OPSF ceases to be an issue in Philippine fiscal affairs.

Overall, we believe that the proposed program for 1992 is appropriate. The monetary and fiscal framework is well structured to meet the objectives of further reducing the inflation rate, consolidating the balance of payments improvements achieved in 1991, and allowing space for a slow resumption of growth. We support the extension of the stand-by arrangement through 1992, which will provide a coherent framework for the early stages of a new Government. Close monitoring and frequent reviews are called for and appropriate. The rephasing of purchases under the program fits the stretched-out schedule for the stand-by arrangement. In sum, we support today's proposed decisions.

The Philippines has recently concluded negotiations on a debt-service reduction deal with its commercial bank creditors. This is a long-awaited development, which we fully support. According to the staff paper, the Philippine authorities have indicated that up to $1 billion may be sought in support from multilateral and bilateral donors, in addition to financing provided out of their own reserves. The authorities are exploring the possibility of the Fund's providing resources to support these debt operations through the use of set-asides from the current arrangement and augmented resources.

The use of set-asides and augmented resources will be matters for the Board to consider when a formal request is presented, and in light of the Philippines' performance under the Fund-agreed program. Program reviews are scheduled to be completed by April 30, 1992 and July 31, 1992. These review dates will be upon us quite quickly. Without prejudging the outcome of these reviews, we believe that it is important to begin to consider how the Fund could participate in providing enhancement to support the debt deal and ensure its success. Amounts, timings, and modalities of such enhancements will need to be closely examined by the Fund, the World Bank, donors, commercial bankers, and the Philippine authorities.

For our part, we believe that the Philippines has established a good overall record in implementing the current stand-by arrangement. Assuming that this continues to be the case, my authorities would be prepared to consider both accelerated set-asides and an augmentation of the current stand-by arrangement, in order to provide interest supports.

Mr. Al-Tuwaijri made the following statement:

The record of the past year is a strong testament to the resolve and commitment of the authorities to their adjustment effort. The adherence to restrained financial policies ensured that the opportunity provided by the favorable external environment was not lost. As a result, an improvement of the imbalances in the economy that exceeded the program objectives was achieved. Of particular merit was the fact that the fiscal deficit target of the program was surpassed, despite difficult domestic circumstances.

This strong performance owed in large part to the authorities' pragmatic response to tax revenue shortfalls, which were associated with weaker than expected economic activity and unexpected expenditure pressures. At the same time, further progress was made on a broader front, with structural reforms being implemented in the areas of tax administration, trade, and investment.

The authorities' efforts during 1991 provide some measure of confidence that the momentum of adjustment will not stall in the months to come. Moreover, several measures necessary to achieve the 1992 program targets are already in place.

I am in broad agreement with the staff's appraisal and shall limit myself to a few remarks for emphasis. Fiscal consolidation, which is central to the stabilization program, continues to be a difficult task, but it is being sustained. The fiscal revenue effort has been strengthened, and it is encouraging that some part of this effort is based on tax legislation that will have a lasting revenue effect. Nevertheless, reliance on transitory privatization proceeds and the remaining portion of the temporary import levy as a source of revenue is still substantial. On the one hand, this reflects the constraints under which the authorities have had to operate while sustaining the consolidation process; on the other hand, I urge the authorities to prevail in finding revenue measures that will yield more durable benefits. Specifically, I would underscore the merits of an approach that seeks to make the tax system nondiscriminatory and more broadly based. This would strengthen revenue mobilization and promote economic efficiency. In this regard, I welcome the measures adopted to improve tax administration and encourage the authorities to extend their efforts expeditiously into the area of customs collection. The elimination of tax avoidance and evasion would help offset the revenue losses associated with the tariff reform and permit a more aggressive timetable for its implementation.

It is unfortunate and counterproductive that, in 1991, the benefits of passing through the decline in international oil prices to domestic prices were largely denied to consumers. Instead, even though the OPSF was running a cash surplus and had eliminated its cumulative deficit, reductions in domestic petroleum prices were offset by an increase in the import duty on crude oil and petroleum products. It is stated that this tax increase permitted a reduction in the rate of the temporary import levy on non-oil imports; however, this discriminatory adjustment in the structure of the levy misses the point that oil is no less an important input to production than capital goods and spare parts, for which the levy has been eliminated.

As regards expenditure restraint, the authorities' task has been complicated by unanticipated additional spending requirements associated with the eruption of Mt. Pinatubo. In the event, the authorities will have to rely once again on executive control to keep spending below budgeted levels and ensure that the fiscal targets are achieved. Although not ideal, this method of expenditure control did prove successful in 1991, and I urge the authorities to make every effort to repeat this success. The new system of monitoring cash releases on a monthly basis will be useful in this regard. However, it would also be helpful if contingency plans were in place to assure that corrective actions, if necessary, could be taken on a timely basis, thereby avoiding the emergence of excessive spending overruns.

As for the public enterprise sector, I welcome the actions that are already under way to improve the performance of the NPC. The adjustment in tariffs is particularly important, as it should lead to an immediate improvement in the NPC's financial situation.

Turning to other aspects of the program, I welcome the proposed improvements for monitoring developments in base money, which should ensure the successful implementation of the monetary program. In view of the fiscal situation, strict adherence to the monetary targets will be essential.

With respect to the external position, the strengthening of net international reserves and the closing of the financing gap for 1992 are positive developments. There remains considerable work to be done on all sides before external viability is restored; nevertheless, I am encouraged by the progress that, according to Mr. Knight's statement, has been made in the discussions with commercial banks on a debt package, as that could reinforce the Government's efforts to restore external viability.

Finally, I welcome the liberalization of the foreign investment regime, which should help to ensure that adjustment and growth can move forward hand in hand. However, I would observe that investment decisions necessarily involve a long time horizon, and that predictability in regulations in this area is important. Thus, it is essential that the provisions concerning List C of the negative list should be kept as transparent as possible.

I support the proposed decisions. This program has already come a considerable way in achieving its original objectives; nevertheless, there is clearly a need for a more comprehensive and longer-lasting program that builds upon the progress achieved thus far.

Mr. Wright made the following statement:

My comments on this program review fall clearly into two parts: backward looking and forward looking. With respect to the performance under the program so far, I have to say that, although the targets for the budget deficit in 1991 were met, I am not convinced that this was due to a significant strengthening of fiscal policy, for which we had all hoped. The fiscal target was achieved because of a surplus from the OPSF that was P 8.5 billion larger than expected, and because of lower than expected interest rates, which led to payments being P 8.7 billion less than envisaged under the program. This outturn was not, therefore, the result of direct actions by the authorities, but largely the product of fortuitous developments in the international economic environment.

Nontax revenues were some P 12 billion higher than projected. This development was welcome, but it reflected one-off asset sales and privatization and cannot be considered as genuine fiscal adjustment of the kind required under a sustainable medium-term reform program. Tax revenue, meanwhile, was significantly below projections, and if we put aside the lower interest payments and the lack of a need for transfers to the OPSF, the level of government current expenditure was actually higher than projected in the program.

Having said this, the largely fortuitous outcome for fiscal policy was the good news. Monetary policy targets were missed for end-June, end-September, and end-December of 1991. And, despite growth and interest rates and oil prices that were lower than expected, the inflation rate was significantly higher than programmed. Although interest rates remain positive in real terms, it remains unclear how money supply growth is to be controlled during 1992. Perhaps the staff could comment further on this point.

Turning now to the remainder of the program period, I note that the completion of this first review has been delayed six months because it has proved difficult for the authorities to build a consensus behind the policy actions needed to carry it forward into 1992. We all recognize that, as it now stands, the program represents a compromise between what is really needed and what the Congress is willing to agree to before the elections; the staff has been quite candid about this. The authorities hope that they can compensate for the revenue measures not agreed--particularly, the extension of coverage of the value-added tax, which no longer seems to be part of this program--by reducing expenditures significantly below the level originally approved in the budget. Moreover, the fiscal measures that have been approved, while important and welcome, are largely administrative; the experience of the Fund suggests that they may be slow to take effect, and that the impact on revenue will be hard to gauge in advance.

In other words, the revised program for this year is now presented as no more than a holding operation, leaving a number of difficulties for the future. The hope is that any new Administration will agree quickly to follow a more ambitious course.

An added complication to the timing of this program is that the authorities would like to use both set-asides associated with drawings under the stand-by arrangement and an augmentation of the arrangement in order to support a debt reduction agreement with commercial banks. Mr. Knight tells us that the authorities would prefer to conclude this deal by June 1992, and I understand that it is likely that they will seek Board approval for the release of these set-asides to be linked to the second review of the program in early May 1992.

I want to make it clear that this chair does not intend to support either a release of set-asides or an augmentation of the arrangement for a debt reduction deal with the banks until a new and significantly strengthened program has been agreed with the incoming Government. The authorities seem to be more concerned with agreeing debt relief with the banks and the Paris Club than agreeing a credible program of economic reforms. However, this chair has consistently pointed out that debt relief serves little purpose unless it is accompanied by a strong and credible economic reform program. Anything less would mean that we are simply bailing out the commercial banks.

I also have considerable doubts whether the Fund's financial assistance is strictly needed in the near future. At the moment, reserves are quite comfortable, and there is no reason to think that this will change before the elections. But the suggestion is that we should urgently grant purchases of SDR 85 million before May 1992. I see little benefit either for the Fund or the Philippines in increasing the Fund's exposure at this time. Assuming that this review is approved, I hope that the authorities decide to use the available purchases as a genuine stand-by, to be drawn down only if needed.

Quite apart from the weak policy framework and the absence of financial need, the proposal to extend the period of this stand-by arrangement to the end of year is, in my view, a rather unsuitable use of the Fund's seal of approval. It is clear that we would not have been asked to do this if it were not for the fact that the Paris Club offered to extend the consolidation period of the 1991 rescheduling agreement to the end of 1992 if suitable conditionality were agreed with the Fund. However, there is no increase in conditionality in this program, and, by approving this extension, the Fund is in my view being somewhat disingenuous with respect to the Paris Club, which has already done considerably more than originally envisaged under the program.

Even if, as others might argue, approving this review does have the effect of moving the authorities in the right direction, I would seriously question whether it is the role of the Fund to approve weak programs for prolonged users of resources on a regular basis, merely because these programs are perceived as being the best compromises possible under the circumstances. The Philippines has now had 11 Fund-supported programs, including 9 stand-by agreements, that have covered virtually the whole period since 1973, not to mention a series of extremely generous Paris Club debt reschedulings. Some reappraisal of the Fund's relationship with the Philippines would seem to be warranted.

In extending this weak program to the end of 1992 with the associated mobilization of balance of payments support, there is a real risk of reducing the pressure on the new Administration to reach agreement with the Fund on the more ambitious program that we all believe to be urgently required. Indeed, in pressing for this issue to be brought to the Board before the elections--and with neither a sufficiently strong program nor an immediate balance of payments need--the authorities could be running the risk of delaying until next year the implementation of the debt reduction deal toward which they have been working.

I was pleased to see in Mr. Knight's opening statement that the extension of the stand-by arrangement, which is designed specifically to exploit the Paris Club agreement, does not preclude the submission of a more ambitious program before its completion--if the new authorities judge it to be in the country's best interests. I suggest that the Board should send a clear and unambiguous signal to the staff and the authorities that we believe that this would very much be in the Philippines' best interests. An early strengthening of the program might then support an early completion of the Brady deal, and I would much prefer to consider an appropriately strengthened program the next time that the Board discusses the Philippines.

The staff representative from the Southeast Asia and Pacific Department said that the fiscal policy that the authorities were pursuing in 1992 represented a pragmatic response to the situation facing them. As the staff had suggested in its paper, the authorities were forced to rely on second-best solutions to some problems, while the resolution of other issues would have to be deferred until a more appropriate time. Nevertheless, when viewed in the context of the difficult domestic and external environment, the 1992 program appeared quite solid.

As some Directors had pointed out, there was room on the revenue side for implementing new tax measures, such as a presumptive income level scheme and a reduction in value-added tax exemptions, the staff representative stated. However, the fact that Congress had recently considered--and roundly rejected--a value-added tax bill that had included the latter measure was a reminder that popular support was needed for such legislation.

Over the longer term, the authorities should put equal or perhaps even more weight on tax enforcement as a means of raising revenues, the staff representative considered. In that connection, the technical assistance that the Fund was extending in the area of tax administration, particularly to the Bureau of Internal Revenue and the Bureau of Customs, was likely to have lasting results.

Seen in an historical context, the projected growth of public expenditures in 1992 in the Philippines was not excessive, the staff representative commented. The budget approved by Congress had generously provided for an increase in non-interest-related spending of about 1 percent of GNP; however, the envisaged cutback in spending would leave the percentage of GNP devoted to non-interest-related expenditures roughly unchanged from the previous year. Part of that amount would be needed for relief and reconstruction in the wake of the series of natural disasters, including the eruption of Mt. Pinatubo, that had beset the Philippines, as well as for the support of development projects funded by foreign donors. Moreover, as some Directors had noted, budgetary constraints would continue to prevent the authorities from making essential investments in infrastructure and the energy sector, including the NPC. In that respect, the Government's long-term objective was to increase its capital outlays.

The monthly monitoring of fiscal developments, although helpful in most circumstances, would be especially crucial to the success of the Philippine program in 1992, the staff representative remarked, as the limited room for maneuver available to the authorities in the pre-election period would make it difficult to take corrective action were the program to go significantly off track. Thus far, the authorities had been successful in implementing their monthly review; in the January-February 1992 period, spending by the National Government had been within the indicative amounts agreed with the staff, while the revenue performance had been slightly better than expected.

Furthermore, on the monetary side, the available data indicated that the program's base money targets had not been exceeded during the January-February 1992 period, the staff representative stated. Concern had been expressed about the authorities' ability to comply with the money supply targets--and meet their inflation objectives--in 1992. However, with the hoped-for economic recovery, that task might actually be easier than it had been in 1991, when the Government had been only partially successful in sterilizing the heavy volume of foreign exchange purchases--equivalent to about one half of the stock of base money--that had accompanied the country's weak economic performance.

The Philippine Government had begun to take steps to reduce drastically the size of the Central Bank's losses, the staff representative noted, because of the adverse effect of the losses on the conduct of financial policies. Fortunately, most of the losses had arisen as result of past mistakes rather than current practices, and the problem could essentially be solved by restructuring the Bank's balance sheet. The Fund and the World Bank were endeavoring to actively support the process, including through the provision of technical assistance to strengthen central bank legislation. It was envisaged that considerable progress would be made in that area over the coming 12 months.

In addition, the authorities planned to implement several measures in 1992 to reduce the losses of the Central Bank, the staff representative continued. The National Government had agreed to limit interest payments on its deposits held at the Central Bank, thus saving the Bank about P 3 1/2 billion--and reducing the net income loss expected in 1992 by approximately 10 percent. Moreover, the Central Bank intended to unwind some of its foreign currency swap arrangements with commercial banks. Unwinding those swaps--many of which had been initiated in 1983 when its reserve position had been very low--was expected to save the Central Bank P 1.5-2 billion in 1992.

Like the rest of the international financial community, the Fund was keenly interested in the outcome of the authorities' debt negotiations with commercial creditors, the staff representative observed. A prompt resolution of that issue, which had been a major political and economic concern in the Philippines, would clear the incoming Government's slate and allow it to focus on the future rather than the past. Although the agreement would not be finalized until mid-April 1992, preliminary indications were that it made sense both economically and financially and could thus be endorsed by the Fund.

In that connection, the staff representative added, the Fund might be asked by the authorities to provide enhancements in support of their debt operations in the form of set-asides and augmented resources. However, as Directors had indicated, the fact that the Philippines had been unable to purchase under the stand-by arrangement during much of 1991 complicated the situation; a decision on the timing and magnitude of the support that could be extended would depend on the length and quality of the track record that the authorities would be able to establish. Unfortunately, therefore, the delays that had been experienced in considering the review under the stand-by arrangement would also serve to effectively postpone any consideration of a request for enhancements.

At present, the staff was listening carefully for feedback from Directors on the appropriate timing of any possible Fund support for the Philippine authorities' debt operations, the staff representative from the Southeast Asia and Pacific Department added. In addition, it was maintaining close contact with the World Bank and other interested multilateral organizations, as well as with the commercial banks themselves. Conversations that the staff had held with commercial bankers suggested that the authorities' objective of concluding the debt agreement by end-June 1992 might be overly ambitious.

The Acting Chairman noted that a consensus had not yet emerged in the Board on whether to support the debt package.

Mr. Clark made the following statement:

> We would be remiss if, despite the weakness in the domestic economy in 1991, we did not acknowledge the authorities' success in containing the fiscal and external balances and inflation. Moreover, the proposed revisions to the program for 1992 reflect in many respects, as the staff notes, a reasonable response to economic circumstances and a pragmatic response to political realities, with perhaps greater emphasis on the latter.
>
> Nonetheless, despite these successes, it is troubling that there is little in the staff appraisal to support the proposal to complete the review and provide waivers for the three sets of performance criteria. In particular, the staff states explicitly that the authorities have not formulated policies of sufficient strength to achieve the program's objectives for 1992; the staff also suggests that expenditure slippages leading up to the May 1992 election may have already occurred.
>
> Given the absence of specific and appropriate fiscal policies in the 1992 program, the staff appraisal gives the unfortunate impression that the recommended decisions are based in large part,

as Mr. Wright indicated, on the need to facilitate the country's relations with the Paris Club, and to accommodate the fact of the upcoming elections. These are not compelling reasons for endorsing the proposed decisions; indeed, they suggest a breach of the Fund's guidelines and surely cast some doubt on the institution's credibility. An unfortunate indication of this is the fact that the authorities are already exploring the possible use of augmented Fund resources to help finance their debt operations.

In the circumstances, the more appropriate course might have been to delay the completion of the review until after the elections or, at a minimum, to rephase the purchases toward the end of the program. Thus, we can support the proposed program, but only with serious concerns and misgivings. Moreover, it should be understood that the support of this chair for future purchases under the arrangement, as well as for a possible augmentation of the arrangement, will be contingent on a fully satisfactory performance in the remaining period of the program.

There are a number of additional areas of concern in the program. First, on fiscal policy, the weakening of the fiscal objectives, as well as the fact that the measures necessary to obtain the relaxed target have not been defined, is an obvious concern. In this context, it is hard to understand why the authorities and the staff would program the re-emergence of a deficit for the OPSF in 1992. The statement on page 15 of the staff paper that recent declines in international oil prices "have led to the expectation of cuts in domestic petroleum prices" seems an inadequate explanation for the net loss of well over 1 percentage point of GNP, especially in view of the seriousness of the fiscal financing gap. I can only hope that, as indicated in Mr. Knight's opening statement, the authorities will adhere to a stronger commitment to avoid any OPSF losses.

Second, I was puzzled by the fact that, unlike in many Latin American programs, the fiscal balance is defined to exclude the quasi-fiscal losses of the Central Bank. As defined, the performance criteria do not constrain the Bank from financing its losses by borrowing from the private sector. Thus, my concern is that the program's constraint on total public sector borrowing is insufficiently binding. Could the staff provide some indication of the reason for the limited scope of the program targets?

Third, the fact that central bank losses have accumulated creates unfortunate doubts regarding the ability of the Central Bank to effect monetary policy--doubts that are substantiated by the recent slippages in the monetary targets. While the authorities' agreement to take steps to minimize the losses in 1992 is encouraging, I cannot help but view the proposed measures as piecemeal, as they do not address the fundamental distortion of the Bank's balance sheet. Like Mr. Arora, I wonder why the authorities were not required--as were other members in similar situations, including one in my own constituency--to recapitalize the Central Bank through the transfer of interest-bearing securities.

Fourth, there was an unfortunate lack of detail in the staff paper regarding the reasons for the unprogrammed increase in base money. Indeed, in describing the breach of the base money target at end-December 1991, the staff states simply on page 7 of the paper that it was due to "an unusually large increase in cash in circulation." Given the usual definition of base money, this explanation is simply tautological. I wonder, therefore, whether the staff could provide a more detailed explanation of the factors that prevented a more effective mopping up of the excess liquidity.

Mr. Végh said that, like other Directors, he endorsed the staff appraisal and supported the proposed decisions. The authorities should be commended because of the improvement in the economic outlook, which had appeared to be rather unpromising a year previously. He hoped that the momentum of adjustment would be maintained.

On the subject of energy pricing, the long-delayed increase in electricity tariffs was welcome, Mr. Végh observed. The increase had followed a bad performance in 1991, which, as had frequently been noted in other countries, had been detrimental from the viewpoint of both efficiency and equity. It was clear that a capital-intensive industry like electricity should be a burden on the capital market, not on the taxpayer; indeed, it could even be a modest source of revenue for the Government.

With respect to oil prices, the elimination of the OPSF deficit was a welcome development, Mr. Végh commented. However, as the staff had argued on page 15 of its paper--and as Mr. Knight had noted in his opening statement--a more automatic price adjustment mechanism should be implemented to allow domestic prices to respond flexibly to world prices and preserve a higher degree of stability for tax revenue from the oil sector.

Finally, on monetary policy, he agreed with other speakers that the increase in central bank interest costs resulting from monetary control operations--as documented on page 16 of the paper and as discussed by Mr. Knight--was a cause for concern, Mr. Végh remarked. Although the fiscal cost of monetary policy and the accumulation of international reserves was a phenomenon that had been discussed extensively in the Board in other circumstances, the staff had not proposed clear-cut solutions--let alone offered recommendations--to the Philippine authorities. In that context, therefore, he shared Mr. Wright's doubts about the outlook for monetary policy in 1992.

Mr. Goos made the following statement:

Although, as many previous speakers have stressed, the Philippine authorities' performance under the program was quite impressive in 1991, I think that this impressiveness was only superficial. A glance behind the figures presented in the staff paper's tables makes it apparent that the progress achieved rested on exogenous factors, with very little adjustment of the underlying imbalances; for example, the trade balance indicates that the improvement in the deficit that was achieved in 1991 fell considerably short of the import savings on oil and oil products.

Perhaps, to the extent that it failed to provide the spark needed to boost domestic confidence, this lack of substantial progress in the adjustment of the underlying imbalances can explain--or at least be said to have contributed to--the steep fall in domestic investment activity. I was somewhat surprised that this relationship was not analyzed in the paper; therefore, I would be glad if the staff could give us its explanation of the private sector's failure to respond positively to the improvements in the macroeconomic environment in 1991. On the face of it, one would expect that a strong decline in the fiscal deficit, coupled with an improvement in the external position, would provide all the ingredients necessary for a strong private sector response. However, the results were disappointing, particularly in light of the Board's discussion at the time of approval of the stand-by arrangement, in which the expectation was expressed that every opportunity would be taken to strengthen existing policies.

Against this background, I found even more worrisome the observation on page 9 of the paper that the developments so far have "reduced the sense of urgency that had existed when the program was initiated." Obviously, there must be very little left now of that sense of urgency, considering that, at the time of the program's initiation, the staff had expressed serious doubts about the adequacy of the agreed policies.

I also share the concerns expressed by other speakers, notably Mr. Wright and Mr. Clark, with respect to the policy undertakings for 1992, the staff's presentation of which I found to be somewhat sugarcoated. Of particular concern is the assertion that the 1992 program will build on the progress already achieved in 1991; frankly speaking, I saw very little progress in that year. Contrary to the staff's projections, I think that the fiscal, trade, and current account imbalances will worsen in 1992. Even one of the more encouraging aspects of the projected developments--the significant decline in the inflation rate--seems to be subject to considerable uncertainties, in view of the authorities' intention to accept a depreciation of the exchange rate in the course of 1992, and in view of the negative impact that the devaluation of the Philippine peso had on inflation in 1991.

Moreover, I am concerned about the absence of visible improvements in domestic confidence. The intended easing of the fiscal policy stance in 1992 could exert stronger pressure on the exchange rate than envisaged by the authorities and the staff, and thereby undermine, or at least complicate, the stabilization effort.

To conclude, I will repeat what I said on the occasion of the approval of the stand-by arrangement in February 1991, namely, that I am concerned that the authorities will miss another opportunity for significant progress toward a viable economic and financial situation. At the same time, I continue to find it difficult to accept the idea that the Board should endorse what I think is merely a holding operation--or, more precisely, a holding operation within a holding operation, in light of how the program was initially introduced to the Board.

This concern is all the more pronounced in view of the fact that, despite the 19 years of almost uninterrupted financial support that the Philippines has received from the Fund, the objective of balance of payments viability remains elusive. I, therefore, agree with Mr. Wright that it is time to reconsider the Fund's financial relationship with the Philippines; I would add that such a reconsideration is overdue. Therefore, for want of a realistic alternative, I can only hope that the new Administration will conclude that a more ambitious economic reform program would be--in the words used by Mr. Knight in his opening statement--in the country's best interests.

Finally, on the issue of the use of set-asides and augmented resources, I can associate myself with Mr. Wright, who, in view of the country's apparently comfortable reserve situation, doubted whether the Philippines really had a balance of payments need that could justify either the use of augmented resources or further drawings under the arrangement.

Mr. Torres made the following statement:

I join other Directors in commending the Philippine authorities for their determination in taking the necessary policy actions to keep alive the adjustment process in 1991, even in the presence of negative and disruptive factors. That determination continues to be present in 1992 with the development of the program before us today, which again faces the challenge of being implemented in difficult circumstances. Their efforts very well deserve our support.

I will concentrate my comments on a few areas. First, most of the concerns that were raised during the Board discussion on the Philippines in February 1991 with regard to the financing of the program and the authorities' ability to comply with the program targets, particularly in the fiscal area, did not materialize. The shortfall in tax revenues and the unplanned spending related to the natural catastrophes were successfully offset by nontax revenues and cuts in other expenditures. The reduction in oil prices made it possible to eliminate the OPSF deficit, and the performance of the nonfinancial government corporations was kept in line with the program. All in all, the authorities were able to reduce the overall fiscal deficit beyond the program target.

However, the nature of some of the offsetting measures again raises some questions about the viability of the pace of fiscal adjustment, particularly in light of the coming elections--a factor that was already taken into consideration in setting the targets for 1992. In this regard, we welcome the approval by Congress of the revenue package, the program to improve tax administration, and the reform plan for the NPC. These measures address the main weaknesses of the public finances. However, they will have to be complemented in 1992 by further cuts in expenditures as have already been contemplated by the authorities. In addition, the privatization process must continue at an accelerated pace; we welcome the steps taken by the Government in this regard.

On the external front, the results achieved in 1991 are encouraging. The stabilization efforts, as well as the favorable external developments, permitted a reduction in the current account deficit below the level envisaged in the program. Results were also positive for the capital account, although the difference in the structure of financial flows from the program estimates created problems in controlling monetary aggregates. As the staff and Mr. Knight pointed out, important progress was achieved in 1991 in securing financing for the program, including through the agreement reached with Paris Club creditors and the initial agreement with commercial bank creditors with respect to the new financing package.

In 1992, a further strengthening of the external position is contemplated, along with an upgrading of the role of market forces in determining the exchange rate. We welcome the steps taken to liberalize the exchange system and allow more flexibility in the mobilization of financial flows. The reform of the tariff system and the Government's intention to further liberalize trade restrictions are also welcome, and we are pleased with the staff's comments regarding the medium-term outlook.

Second, fiscal restraint must be accompanied by a tight monetary policy. In this regard, the behavior of the monetary aggregates was discouraging during the past year, partly because of the significant impact of capital flows. While we recognize the difficulties faced by the authorities in implementing offsetting measures, the possibility of reducing the inflation rate could be negatively affected if the deviations from the targets on excess liquidity that were observed in 1991 were to continue into 1992. Stronger efforts are needed to improve the control of monetary aggregates. The first step has been taken with the setting of monthly indicative targets, and we welcome the information provided by the staff on developments in this area during the first two months of 1992. However, like other speakers, we are concerned about the authorities' ability to react quickly and effectively to any deviation. Perhaps the staff could comment on the instruments of monetary control envisaged in the program, and on the degree of flexibility that the authorities will have in implementing restrictive actions as soon as they are required. In addition, we would like to know whether the implementation of restrictive measures would either weaken the improvement expected in central bank losses or affect the Government's interest payments.

The case that we have had the opportunity to discuss today clearly shows that the authorities' determination to continue with the adjustment process has enabled them to overcome difficult circumstances and, with the support of the international financial community, maintain the program's course. Developments so far have been encouraging, although a resumption of output growth is needed. In light of these achievements--and despite all the concerns that have been expressed today--we support the proposed decisions.

Mrs. Szombati made the following statement:

The Philippine Government's performance during 1991 reflects the considerable headway made in the stabilization program that was begun early that year after the previous program had been derailed by adverse external conditions and policy slippages. Most of the current program's 1991 goals were attained, the most important of which were the substantial reduction in the inflation rate and the strengthening of the external position.

These successes are the more remarkable if we recall that, when the stabilization program was approved, no one was sure that it would be strong enough to make much headway in eliminating the imbalances that were handicapping the economy. Despite the uncertain adjustment outlook, the tightening of fiscal and monetary policies succeeded in gaining the program's broad overall objectives. However, while satisfied with the results achieved under the program, we note with disappointment that fiscal policy relied to some extent on one-shot measures, which brought only temporary, short-term corrections, and that monetary policy was not fully aligned with the program.

The principal program objectives for 1992 are somewhat more ambitious than the past year's, aiming to reduce the annual inflation rate from 12.4 percent to 7 percent by end-1992, and to continue strengthening the external position while accommodating a gradual recovery of growth from the stagnation of 1991. However, like other speakers, we feel that the outlook for the implementation of the planned policies is a cause for concern. The greatest risk is to the fiscal adjustment, which lies at the program's core and is the key to its success in the areas of inflation and external viability. The staff has also made it clear that the lack of a consensus on policy strategy made it difficult for the authorities to formulate the fiscal policy elements of the program, and that the fiscal program before us represents a compromise between what is needed and what can be done. It is encouraging, however, to note that strong prior actions have already been taken, which bear witness to the authorities' commitment to the program.

As we broadly agree with the staff's appraisal of policy implementation during 1991 and the policy package for 1992, I will comment briefly on a few aspects of the 1992 program. In the fiscal area, the authorities have the difficult task of closing a large prospective fiscal gap for 1992. The difficulty is caused in part by the imminence of the 1992 elections, which are apparently exacerbating the job of replacing with more permanent measures some of 1991's fading one-shot correctives. Despite important steps on the revenue side, the Government has been forced to impound funds approved by Congress and introduce a monthly system of control over spending in order to meet fiscal targets. Thus, to the risk that slippages will occur if the authorities do not fully succeed in controlling expenditures is added the risk that new corrective measures will be hard to find if such slippages do occur.

In the area of structural reform, the original program for 1991-92 postponed most long-needed reforms until after the elections; nonetheless, the authorities took steps during 1991 to improve the functioning of the economy. Especially welcome is the reformation of tax administration and collection, which is to be supported by Fund technical assistance. These reforms are part of the fiscal restructuring needed to stabilize public finances over the longer term. Also important are the recent liberalization of foreign investment and the reformation of tariffs and trade, which will do much to improve efficiency and competitiveness. We urge the authorities to accelerate the removal of remaining import restrictions and the reduction of tariffs, including the high protective tariffs on the newly liberalized imports.

In the external sector, a considerable medium-term improvement of the external position is promised by continued financial restraint and further structural reforms, which will provide a solid basis for sustained export expansion. The export rise expected in 1992 should be driven primarily by greater competitiveness, largely supported, in turn, by an exchange rate policy designed to avoid any recurrence of 1991's real exchange rate appreciation.

Finally, we note with satisfaction that the external financing situation has greatly improved since the most recent review of financing assurances in June 1991. We also welcome the significant progress made toward an agreement with the commercial banks on a new debt package, and we support the extension of the stand-by arrangement in order to facilitate the country's external debt-service arrangements with its official creditors. We would like to stress, however, that successful program implementation and significant progress in stabilizing the economy are essential preconditions for gaining the support of the international financial community. I support the proposed decisions.

Mr. Rubianes said that the Philippine authorities should be commended for the good performance of the economy in 1991, which reflected their commitment to adopt important measures and persevere in the maintenance of strong fiscal and monetary policies.

His chair believed that the decline in the rate of inflation made the program estimate of a 7 percent inflation rate by end-1992 a realistic target, Mr. Rubianes continued. Meanwhile, the authorities should continue to adopt measures to stimulate production, attract direct foreign investment, and promote domestic savings. He agreed with other speakers on the need to eliminate the remaining 5 percent temporary import levy as soon as the fiscal actions required to compensate for the loss of those budgetary revenues were adopted.

He looked forward to a comprehensive agreement with commercial bank creditors, including on debt and debt-service reduction operations that required multilateral support, Mr. Rubianes commented. The financing that had been attained justified the requested extension of the period of the stand-by arrangement to end-1992, and he supported the proposed decisions.

Mr. Fridriksson made the following statement:

When the stand-by arrangement was approved by the Board a little over a year ago, this chair was quite critical of the lack of ambition that it portrayed. I am pleased to note that, in many respects, developments turned out to be more favorable than had been foreseen, with performance criteria being observed except in the area of monetary policy.

In view of the progress recorded in 1991, it is disappointing again to face an underambitious program--a program that the staff describes on page 10 of the paper as the "strongest one possible in the circumstances." Monetary policy would have to be tighter to bring about a further reduction in the rate of inflation. Inflation was reduced to an annual rate of 7 percent in the last four months of 1991, but one of the principal objectives of the program for the current year, as stated on page 10 of the staff paper, is "to reduce the annual rate of inflation to 7 percent by year-end"; in other words, no progress is envisaged.

Efforts were made--with some success--to bring monetary developments toward program targets in 1991, but uncertainties persist. As stated by the staff, part of the difficulty experienced in 1991 in observing program targets resulted from wide swings between test periods in the level of base money. To prevent a recurrence of this development, monthly indicative targets are now set for base money, in addition to the quarterly performance criteria. It would appear that more is required than monthly monitoring, which, in any event, should have been a routine matter during the past year, and measures have to be taken to ensure that the set monetary targets are observed.

The Central Bank has incurred significant losses in recent years. They declined somewhat in 1991 but are expected to rise substantially again this year. These losses are of serious concern, and the authorities should be strongly encouraged to eliminate them as quickly as possible. The foreign currency swap arrangements seem to be an important factor in the central bank losses and should, therefore, be promptly unwound.

The deficit on the national government budget is actually projected to be larger in 1992 than was envisaged in the original program, and, despite efforts to improve public enterprise finances, the consolidated public sector deficit is projected to improve only marginally from the past year and, also, to be larger than was planned for in the original program. The import levy introduced in 1991 needs to be phased out, the value-added tax to be improved as planned, and electricity rates to be raised further.

Although monthly targets have again been adopted this year for the purpose of assuring compliance with the fiscal objectives, they may be difficult to meet, primarily because of the weakness of the economy. Moreover, one may perhaps question whether the planned expenditure cuts can be realized.

In view of the low tax collection efficiency rate, the improvements in tax administration are an important and welcome step and should strengthen the revenue side of the budget; however, more is needed.

Long-overdue increases in electricity rates took effect in January and February of 1992. It is also critical that the performance of the NPC be improved. The deficit of the monitored nonfinancial public corporations will remain unchanged in 1992 from the past year.

The external situation improved considerably in 1991, and the medium-term balance of payments outlook is significantly better than it was a year ago, medium-term viability having virtually been attained. However, medium-term viability requires adherence to firm policies, and the relatively weak program for the current year unfortunately raises doubts about the likelihood of further progress.

The rationale for the extension of the program, in addition to extending the consolidation period for additional debt relief, is said to be to provide the new Government, which comes to power in June 1992, with time to formulate its own program. I am not sure about the advisability of expecting a new Government to inherit or to adopt a program that is "the strongest one possible in the circumstances," representing--as indicated on page 27 of the paper--a "compromise between what is needed and what can be done," and the benefits of such action to a new Government may be questioned. I hope that the new Government will be able to adopt stronger policies to consolidate the gains made in 1991 and secure medium-term external viability. With that in mind, it might have been better to stick to the original length of the program, so as to allow a new Government, if it so wished, to enter into negotiations on a new program with the Fund.

Furthermore, I share the concern expressed by others about the two missed drawings being made available at this time. The reserve position of the Philippines is comfortable, and perhaps the authorities should be advised to refrain from making these drawings, which are in any case very small both in absolute terms and as compared with the present level of reserves. The authorities might consider viewing the arrangement as a genuine stand-by arrangement, as suggested by Mr. Wright.

As shown in Annex III of the staff paper, this is the eleventh program that the Philippines has had with the Fund since 1973; I believe that the Philippines also had Fund-supported programs more or less continuously throughout the 1960s. With that in mind, as well as the relatively large exposure of the Fund, the further financial involvement of the Fund needs to be justified by a comprehensive and aggressive economic program. The past year's developments should have challenged the authorities to maintain the momentum of adjustment that seemed to be building up, and the new Government will have to be encouraged to quickly adopt firmer policies than those laid out in the present program.

On the question of the set-asides, I strongly agree with the view expressed by Mr. Wright that a new and more ambitious program needs to be put in place by the new Government before they should be released. With these reservations, I can only reluctantly endorse the proposed decisions.

Mr. Chen made the following statement:

The Philippine authorities should be commended for having successfully achieved most of the objectives of the stabilization program in 1991. In particular, fiscal targets were met despite the shortfall on the revenue side of the budget. The balance of payments was greatly improved, and reserve positions were strengthened. Although it is still somewhat disappointing to note that some base money targets were not observed, it seems that this does not yet constituted a major threat to the program. I believe that, with the implementation of timely supplementary measures, including the strengthening of procedures for the regular monitoring and supervision of future targets on a monthly basis, as well as with the ongoing general tightening of monetary policy, it is still not too late to correct the slippage and turn the program into a success story.

Nonetheless, while I can broadly agree with the assessment of overall program performance contained in both the staff appraisal and Mr. Knight's opening statement, I do have two major concerns. First, the uneven development of inflation in the program period remains a cause for concern. It is, therefore, a challenging task for the authorities to firmly stabilize the inflation rate at a level below 10 percent in the extended program period. Second, in the field of monetary policy, the continuous net income loss of the Central Bank is still a frustrating matter. Although it should be recognized that the authorities have done much during the 1980s to move toward a more market-based monetary control mechanism, including through the institution of primary sales of central bank securities, the recent substantial increase in the sales of central bank bills in open market operations--done mainly for sterilization purposes, or for the absorption of other liquidity--should be put under some sort of reasonable restraint. This is necessary not only to further reduce the potential net income loss of the Central Bank, but also to increase the effectiveness of such an instrument by limiting the volume of issues and the frequency of use. At present, this instrument should not be overused or overburdened in either the fight against inflation or the sterilization process.

Overall, it should again be noted that the 1991 economic performance continued to be mixed. Some of the fundamental problems, such as the stagnation of economic growth, the protracted fiscal deficit, the large outstanding debt obligations, and the structural problems in the financial and public sectors, continue to hamper the economy. Therefore, we urge the authorities to make further courageous efforts to maintain the positive momentum generated by the program in order to tackle, from the relatively solid basis gained thus far, these long-term problems. In general, the domestic environment still needs to be improved.

Finally, the staff is fully justified in reminding us not to forget the circumstances in which the program supported by the current stand-by arrangement was initiated in early 1991. The domestic environment was so difficult at that time that the positive developments achieved in 1991 not only give us considerable satisfaction, but also greatly enhance our confidence that the authorities can achieve future success in implementing the extended program.

With these remarks, I can support the authorities' request for the extension of the program and the related proposed decisions.

Mr. Mojarrad said that he joined other speakers in commending the authorities for their recent performance. He agreed broadly with the thrust of the staff appraisal and, therefore, could support the authorities' request for an extension of the period of the stand-by arrangement.

The staff's analysis of the Philippine economy had raised several questions, Mr. Mojarrad considered. First, in line with the emphasis that had been placed on structural reforms in the financial sector in both the previous extended arrangement and the current stand-by arrangement, the staff had indicated on page 18 of the paper, in its analysis of the medium-term prospects for the balance of payments, that "program loan disbursements will continue to be hampered by the failure to take required policy actions in the financial sector." However, as references to progress made in that area were missing from the paper, further comment from the staff on that point would be welcome.

Second, comment from the staff would also be welcome on the prospects of the authorities' negotiating an arrangement under the enhanced structural adjustment facility, particularly in view of the proposed extension of the current stand-by arrangement, Mr. Mojarrad remarked.

Third, given the fact that the ratio of public savings to GNP had increased while the ratio of public investment to GNP had remained constant, it was not obvious that further improvements in the public savings rate would be sustainable without the implementation of the more fundamental fiscal measures mentioned by Mrs. Martel, Mr. Mojarrad observed.

Fourth, at 12.4 percent, the inflation rate, aided by excess base money growth, had been well above the end-1991 program target of 9.5 percent, Mr. Mojarrad noted. In that respect, he wondered how much of the difficulty in controlling base money in 1991 had stemmed from the built-in bias of Fund-supported programs against allowing the currency to depreciate, even when the net international reserve targets had been met or exceeded.

Fifth, in view of the importance of the five-point tax administration program contained in the authorities' memorandum on economic policies, it was not clear why that program had not been included in the 1989 extended arrangement, Mr. Mojarrad commented.

Finally, Mr. Mojarrad considered, it might be wise to include the NPC among the public corporations to be privatized and converted into a regulated public utility, given the remaining doubts about its financial viability, and--more generally--about the availability of the capital outlays that were needed to generate more electricity to support the development of private investment and general economic activity.

Mr. Posthumus said that, when the stand-by arrangement was approved in February 1991, he had observed that the provision of external support to the Philippine economy could not be justified only by the need for such support; a demonstration of the country's own efforts was also required. That program had not been very impressive--a holding operation, basically--and a fear of the consequences of not approving it had been primarily responsible for its ratification. Regrettably, the lack of enthusiasm that characterized the current discussion suggested that the Board was completing the review of the stand-by arrangement for the same reason, namely, fear of the consequences of not doing so. Therefore, he agreed with the comments that Mr. Wright, Mr. Clark, Mr. Goos, and Mr. Fridriksson had made in that regard; like them, he could support the proposed decisions only with reluctance.

More generally, Mr. Posthumus considered, it was clear from the current discussion that the baggage carried by the Fund as a result of the evolution of the debt strategy, namely, its indirect involvement in debt and debt-service reduction negotiations between official and commercial bank creditors and indebted countries, made it difficult for it to insist on the establishment of strong adjustment programs in those countries. As Mr. Goos had suggested, not only the Philippine authorities, but even many Directors had viewed the approval and extension of the stand-by arrangement under discussion primarily as a means to the end of financing debt restructuring agreements. Nevertheless, it should not be forgotten that, as Mr. Wright had said, it was the Fund's responsibility to approve such arrangements only if strong adjustment efforts were under way.

Mr. Bossone said that, as his chair was satisfied with the performance of the Philippines under the current arrangement, it supported the proposed decisions. Notwithstanding the adverse natural circumstances that had affected the country, as well as the unfavorable external economic conditions and the pre-electoral domestic political climate, the authorities had proved themselves capable of sticking to the program's policy requirements. Their achievement was all the more significant if assessed in the light of the great risks that had characterized the program since its inception, including the possibility that it could go out of control.

Of course, the successful completion of the review of the stand-by arrangement was only a beginning and must be viewed as such by the authorities, Mr. Bossone considered. It should be taken by them as an indication that their action was producing the desired results and, thus, as an encouragement to intensify their policy stance. In that connection, however, the relative lack of strength of the program's overall policy framework was a cause for concern; as previous speakers had noted, the program needed to be reinforced, especially in the fiscal area. In particular, greater efforts would have to be made to improve the revenue side of the budget by enlarging the tax base and upgrading tax administration.

The staff should be in a position to hold discussions with the Administration on ways of strengthening the program's policy package as soon as the evolving domestic political situation enabled the authorities to take on new commitments, Mr. Bossone stated. Meanwhile, the authorities should stick firmly to the program's requirements and avoid any policy slippages.

Mr. Arora noted that Mr. Wright had used impeccable logic in advancing a proposition--which had received strong support from many Directors of developed countries--that the Fund's relationship with the Philippines should be reappraised. In a strictly formal way, Mr. Wright was quite correct: in reviewing the Philippines' stand-by arrangement, the Fund should not be concerned with the repercussions that its decisions might have on the deliberations of the Paris Club and the country's commercial creditors. However, one crucial element was missing from Mr. Wright's thesis: a recognition of the Fund's integral involvement in the debt strategy since the outbreak of the crisis. Because of the overriding importance that the international financial community had attached to maintaining the viability of the commercial banks, a so-called market solution that might have involved only the commercial banks and the countries that had contracted the debt had been rejected as unacceptable. Instead, a solution had been worked out--admittedly an imperfect one--in which the Fund had been charged with giving its seal of approval to the indebted countries' comprehensive adjustment programs as a prerequisite for finalization of debt and debt-service reduction agreements between those countries and the commercial banks.

Playing its assigned role in the debt strategy required the Fund staff and management to continually make judgments on the adjustment programs of indebted countries, such as the Philippines, Mr. Arora continued. Occasionally, it had made mistakes; however, given the social, economic, and political complexities involved, it was difficult to imagine how the Fund could have done a better job in discharging its responsibilities. More important, it must not be forgotten that the relationship of the Philippines with the Fund, including, inter alia, its prolonged use of Fund resources, was--as mandated by the international financial community--an integral part of its overall economic and political relationship with the rest of the world.

The Executive Directors agreed to continue their discussion in the afternoon.

DECISIONS TAKEN SINCE PREVIOUS BOARD MEETING

The following decisions were adopted by the Executive Board without meeting in the period between EBM/92/26 (2/28/92) and EBM/92/27 (3/4/92).

3. OPERATIONAL BUDGET FOR MARCH-MAY 1992

The Executive Board approves the list of members considered sufficiently strong as set out in EBS/92/27, page 2, footnote 2 and the operational budget for the quarterly period beginning March 2, 1992 as set out in EBS/92/27 (2/14/92); Correction 1 (2/18/92); and Correction 2 (2/20/92).

Decision No. 9936-(92/27), adopted
March 2, 1992

4. SDR DEPARTMENT - DESIGNATION PLAN FOR MARCH-MAY 1992

The Executive Board approves the designation plan for the quarterly period beginning March 2, 1992 as set out in EBS/92/26 (2/14/92); Revision 1 (2/20/92); and Revision 1, Correction 1 (2/21/92).

Decision No. 9937-(92/27) S, adopted
March 2, 1992

5. EXECUTIVE BOARD TRAVEL

Travel by an Assistant to Executive Director as set forth in EBAP/92/41 (2/27/92) is approved.

6. TRAVEL BY MANAGING DIRECTOR

Travel by the Managing Director as set forth in EBAP/92/42 (2/28/92) is approved.

7. TRAVEL BY ACTING MANAGING DIRECTOR

Travel by the Acting Managing Director as set forth in EBAP/92/46 (3/3/92) is approved.

APPROVED: September 9, 1992

JOSEPH W. LANG
Acting Secretary