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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 93/115

10:00 a.m., August 25, 1993

R. D. Erb, Acting Chairman

Executive Directors	Alternate Executive Directors
	S. E. Al-Huseini, Temporary
	M. Ryan, Temporary
	J. B. Wire, Temporary
	J. Prader
	F. Moss, Temporary
	A. Cserés, Temporary
I. Fridriksson	
	S. Ishida, Temporary
K. P. Geethakrishnan	
J. E. Ismael	
D. Kaeser	R. F. Cippa, Temporary
	J. C. Jaramillo
	A. V. Mozhin
G. Lanciotti	
J.-P. Landau	M. Sirat
	P. Bonzom, Temporary
	D. Desruelle, Temporary
	A. Galicia, Temporary
	O. Kabbaj
	H. Golriz, Temporary
L. J. Mwananshiku	B. S. Dlamini
	J. Dorrington
G. A. Posthumus	O. Havrylyshyn
	Y.-M. T. Koissy
	N. Toé, Temporary
S. Schoenberg	G. M. Blome, Temporary
	Y. Y. Mohammed
	G. F. Murphy
E. L. Waterman	
	Wei B.
	Yang X., Temporary
	Wang Y., Temporary
A. G. Zoccali	

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

Also Present

IBRD: B. Moreno, J. Todd, Africa Regional Office, C. I. Wallich, Europe and Central Asia Regional Office. African Department: M. Touré, Counsellor and Director; E. L. Bornemann, Deputy Director; E. A. Calamitsis, Deputy Director; R. Abdoun, E. C. Harris, G. G. Johnson, M. Kabedi-Mbuyi, M. Katz, J. Le Dem, A. Lennblad, J. Mueller, M. W. Plant, E. Sacerdoti, J. C. Williams, I. Zaidi. European I Department: M. Russo, Director, J. R. Artus, Deputy Director; S. Brown, J. R. Franks, A.-M. Gulde-Wolf, J. Odenius, P. M. Thomsen. External Relations Department: S. J. Anjaria, Director. Fiscal Affairs Department: K. Kurihara, W. J. McCarten. Legal Department: J. M. Ogoola. Policy Development and Review Department: J. T. Boorman, Director; T. Leddy, Deputy Director; S. B. Brown, M. Edo, A. K. McGuirk, R. Moalla-Fetini, J. F. van Houten. Statistics Department: T. Morrison, K. O'Connor. Treasurer's Department: G. Wittich, Deputy Treasurer; M. Buchanan, W. Byrne, C. Hatch, Z. Lorie, M. O'Brien. Advisors to Executive Directors: A. Chang Fong, J. Jamnik, N. Mancebo, P. A. Merino, J.-C. Obame, A. Törnqvist. Assistants to Executive Directors: J. H. Brits, A. G. Cathcart, L. Fontaine, C. Gaseltine, N. F. Gregory, N. P. Hahnemann, M. A. Hammoudi, W. C. Keller, K. J. Langdon, B. M. Lvin, G. J. Matthews, S. C. McDougall, N. Prasad, E. Quattrociocche, S. K. Regmi, S. Rouai, P. L. Rubianes, D. Saha, A. Sighvatsson, L. Tase, R. Thorne.

1. EXECUTIVE DIRECTOR

The Acting Chairman welcomed Mr. Sirat as Alternate Executive Director for France.

2. BENIN - ENHANCED STRUCTURAL ADJUSTMENT FACILITY - REVIEW UNDER FIRST ANNUAL ARRANGEMENT

The Executive Directors considered a staff paper on the midterm review under the first annual arrangement under the enhanced structural adjustment facility (ESAF) for Benin (EBS/93/123, 8/2/93; and Cor. 1, 8/2/93).

The staff representative from the African Department made the following statement:

> Since the issuance of the report on Benin, the staff has been informed that budgetary developments through end-June 1993 have been in line with the program. The benchmarks on net bank credit to the Government and total domestic credit for end-June have also been observed.
>
> The member countries of the Central Bank of West African States (BCEAO) and the Bank of Central African States (BEAC) have decided to suspend, effective August 2, 1993, the repurchase of CFA franc bank notes in circulation outside the territories of the two monetary areas. Accordingly, the Bank of France has ceased to accept bank notes issued by the BCEAO and the BEAC. The free circulation of CFA franc bank notes within the territories of the respective central banks of issue (BCEAO and BEAC) is not affected by the measure.
>
> The two monetary authorities have stated that the measure is intended to stem the outflow of capital through the export of bank notes and does not represent the introduction of restrictions on payments and transfers for current international transactions. The convertibility of the CFA franc into French francs through authorized financial intermediaries remains guaranteed.
>
> As a complement to this measure, the two central banks have proposed for adoption by the competent national authorities draft regulations that adjust the existing exchange provisions in each member country pertaining to foreign exchange allocations for travel abroad. While reflecting the action of August 2, 1993, the proposed regulations are also intended to ensure uniformity within each of the two monetary areas. The draft regulations regarding residents of the BCEAO member countries include: (a) a ceiling on the amount of CFA franc bank notes that can be taken out of a BCEAO member country for travel to member countries of the BEAC area (CFAF 2 million per person per trip); (b) a ceiling on the

amount of foreign bank notes for tourist and business travel to France and the Comoros (equivalent to CFAF 2 million per person per trip); and (c) separate allocations for tourist and business travel to destinations outside the Franc zone (equivalent to CFAF 500,000 per trip for tourist travel, and CFAF 75,000 per day up to CFAF 2,250,000 for each business trip). Regarding travel to the BEAC area, as well as to France and the Comoros, no limits exist on the amounts in excess of the bank note allocations that can be taken out in the form of travelers checks and other means of payment. Resident travelers are required to declare in writing at the border, upon arrival or departure, all means of payment in their possession. The limits for both tourist and business travel outside the franc zone are higher than those previously in effect. Nonresident travelers are required to declare upon entry the amount of foreign means of payment in their possession, in order to be able to re-export them upon departure. These provisions entered into effect in Benin on August 10, 1993.

A comprehensive notification will be issued to the Executive Board once revised regulations have been adopted by all member countries of the two central banks, and any necessary clarifications have been obtained by the staff.

The possible economic effects of the measure on Benin are difficult to assess at this early stage, especially as there is a large informal trade with neighboring countries that is conducted in various currencies. The staff understands that at this time there is only a modest discount of the exchange rate of the CFA franc in the informal markets. It is not currently expected that the new regulations will significantly affect Benin's overall financial position.

Mr. Koissy made the following statement:

My Beninese authorities continue to make progress under their macroeconomic and structural reform program supported by the first annual arrangement under the ESAF. As indicated in the staff paper, economic and financial developments in 1992 were broadly satisfactory, with most of the objectives of the program met or even exceeded. Thus, real GDP growth at 4.2 percent was strong and slightly better than programmed, reflecting mainly the good performance in the cotton and the construction subsectors; inflation, as measured by the GDP deflator, remained relatively low; and the budgetary situation improved markedly, owing to a sharp increase in fiscal revenue. Also, the external current account deficit, at 7.3 percent of GDP, was below the program's objective. Moreover, reflecting a strengthening of public confidence in the new domestic banking system, bank deposits increased by more than 30 percent. However, minor deviations occurred in the quantitative targets on net bank credit to the Government and on total domestic credit at end-March 1993. As these have subsequently been met at end-June 1993, my authorities are requesting the necessary waivers.

Taking advantage of the climate of confidence and the stable political environment prevailing in the country, my authorities are endeavoring to build on the progress achieved so far and in this regard have deepened their adjustment efforts. It is expected that real GDP will grow by 4.5 percent in 1993 and inflation will slightly decline, while the primary budget surplus position will be further improved. It is also expected that the external position will improve significantly, with net official reserves increasing to the equivalent of about seven months of imports.

Strengthening the public finances will remain the cornerstone of the authorities' adjustment efforts. In this context, additional measures are being implemented to boost revenue performance and to contain expenditure. On the revenue side, measures aimed at strengthening customs administration have been adopted and the coverage of the value-added tax has been extended to cement. Moreover, a new taxation system for the informal sector, to be enacted with the 1994 budget, is at an advanced stage of preparation. On the expenditure side, the effort will focus on containing the wage bill. To this end, a decision to lay off all nonpermanent personnel, about 1,620 employees, effective June 1, was adopted in March 1993. Also, the number of voluntary departures from the public administration is expected to reach 400 at end-1993. In addition, the Government has decided to contain unallocated personnel expenditure. As a result of these measures and those already in place, the primary budget balance is projected to increase to 2.2 percent of GDP in 1993, from 1.2 percent of GDP in 1992.

Regarding the financial sector, money and credit aggregates are expected to remain in line with the objectives of the program. In furtherance of the progress achieved in this sector, it is the authorities' intention to continue to implement monetary and credit policies aimed at further enhancing public confidence in the banking system. To that effect, emphasis is being placed on the recovery of the liquidated banks' assets, so as to make repayments to all depositors holding claims on these banks. However, given the slow pace of loan recovery, the authorities have recently adopted measures aimed at speeding up the judicial procedures. A target of at least CFAF 14 billion in cumulative loan recovery has been established for end-December 1993.

On structural reforms, the restructuring and privatization of public enterprises are proceeding as planned. As stated in the letter of intent, bids for the privatization of the remaining parastatals such as the insurance company (SONAR), the Savé Sugar Company (SSS), and the Onigbolo Cement Company (SCO) have already been launched. Barring unforeseen difficulties in the negotiations, these enterprises should be privatized by early 1994.

To broaden public support for the adjustment process, the authorities are giving due regard to the social dimension of the adjustment program. It is in this context that they plan to organize a Round Table in October with the aim of establishing a strategy to develop the education and health sectors and to promote job creation for the most vulnerable groups.

In conclusion, as is recognized by the staff, my authorities are pursuing with strong determination the policies envisaged under their adjustment program supported by the first annual arrangement under the ESAF. Although the progress to date has been encouraging, they are well aware that the overall situation remains fragile, given the lack of diversification of the economy and the burden of the external debt. My authorities would like to emphasize the critical importance of bold actions by creditors, including a meaningful reduction in the stock of debt in order to alleviate Benin's debt burden and help to improve the country's medium-term prospects.

Mr. Landau made the following statement:

Benin's performance in 1992 and during the first semester of its ESAF program fully confirms the favorable assessment this chair had given last January. It is also fully consistent with the efforts undertaken since early 1989 and intensified by the new Government since 1991, with a view to adjusting and reforming the economy.

The main objectives for 1992--including for growth, the primary surplus, and the external accounts--have been met and, sometimes, exceeded. It is also welcome that, as indicated in the staff's statement, both budgetary and monetary developments have been fully on track through end-June 1993. In addition, progress has continued in the structural area, and a new agreement has been reached with Paris Club creditors.

To achieve such results, the authorities have continued to demonstrate strong determination, including by adopting difficult additional measures. One of the most significant consequences of those positive developments has been, as indicated by the staff, a "renewed confidence among economic agents," which has materialized with the pursuit of the remonetization of the economy and with the increase in private capital inflows.

I thus fully share the staff's assessment that Benin's efforts deserve the continued support of the Fund in the context of the current ESAF arrangement. I will just comment on a few points related to fiscal policy, the financial area, and the structural and external sectors.

I fully agree with Mr. Koissy's characterization of fiscal consolidation as the cornerstone of the adjustment effort in Benin, and the authorities should be commended for the thrust of their policy in this area, which has resulted in the strengthening of the primary surplus from 0.5 percent of GDP in 1991 to a projected 2.2 percent in 1993.

First, they have increased revenue through the extension--including, again, recently--of the value-added tax base and through a strengthening of tax administration. I concur with the staff that there is room for further action in this area. In fact, the staff mentions that significant progress is being made to better take into account the informal sector, simplify current taxes, and strengthen the relatively weak administration of customs.

Second, it will be crucial to use adequately the additional revenue thus obtained. It is already encouraging that, in the aggregate, expenditures have been kept lower than programmed in 1992. But continued action will be required if the necessary increases in capital and social outlays are to be made fully sustainable.

Specifically, the control over wage expenditures should be further strengthened. Indeed, those wage expenditures still represent, at 77 percent, a relatively large share of primary expenditures--although it should be noted that this share has already declined, from a level of 81 percent in 1989, which is all the more commendable because, in this period, primary expenditures themselves decreased quite significantly in terms of GDP.

In order to reach the authorities' valid goal of not allowing additional resources to translate into higher wage expenditures, I concur with the staff that two main avenues must be pursued. First, it will be crucial to improve the evaluation of the expenditures generated by the continuation of the restructuring plan for the public service. Specifically, new costs should be compensated for by appropriate control of base salaries. Second, the authorities should continue to stand ready to take additional actions in the event shortfalls materialize. The fact that the programmed 1992 target for government employees' departure has been met, although with a few months' delay, is a good omen in this regard.

To conclude on fiscal matters, I would like to welcome the continued reduction in the stock of domestic arrears, which has been made possible by the authorities' cautious budgetary policy. The plan to convert remaining arrears into certificates should contribute to restore further the confidence in the Government's signature.

In the financial area, but still very much linked to the budgetary outcome, given the costs involved, I would agree with the staff on the need to foster further the collection of overdue loans. The authorities' commitment to accelerate this collection and to speed up judicial procedures is most helpful in this regard.

As far as structural reforms are concerned, I welcome the recent liberalization of the insurance sector, and I encourage the authorities to proceed with the ongoing restructuring of public sector firms, including the ongoing privatization of several of those firms.

The continued restructuring of the public sector is certainly one of the factors that justify giving full consideration to the setting of an appropriate, well-targeted, and efficient social safety net. I thus look forward to the conclusions of the October Round Table on this key issue.

Finally, I will make four points on the external accounts. First, it is quite noteworthy that, thanks to its successful efforts at internal adjustment and thus to a lower inflation rate than in partner countries, Benin has been able to stabilize, more or less, its real effective exchange rate for a number of years.

Second, the return of capital invested abroad is a significant sign of improvement for Benin. It will be crucial to continue building the stable economic environment and the favorable general framework that are conducive to the continuation of such a positive trend.

Third, the staff is right to mention in its statement that, after the recent regulations taken by BCEAO and BEAC, "the convertibility of the CFA franc into French francs through authorized financial intermediaries remains guaranteed." Even operations by tourists and businessmen are not fundamentally constrained, owing to high ceilings for notes and to complete freedom for traveler's checks and credit card operations. I also concur with the staff that those regulations thus should not significantly affect Benin's overall financial position. If anything, indeed, they could contribute to accelerating the reintermediation of external trade operations and thus to strengthening further the fiscal position.

Lastly, I would stress the need for negotiations with non-Paris Club creditors to conclude as soon as possible with an outcome that should be along the lines defined with the Paris Club. This would be another welcome contribution to the strengthening of Benin's still-fragile but improving situation.

With these comments, I fully support the proposed decision.

Mr. Geethakrishnan made the following statement:

The staff paper presents a picture of an economy progressing steadily toward program objectives and fully deserving of continued support. The authorities are to be commended on several fronts; we note with appreciation the favorable performance of revenue growth and collection, with the 13.5 percent increase surpassing program estimates. The authorities' commitment to further reform in the various sectors has helped them to register a surplus in the primary balance, with some positive GDP growth and substantial progress on tax reforms, and it augurs well for the future. The action on settlement of verified domestic arrears is also welcome.

I would, however, like to take this opportunity to highlight one major area of concern. This refers to the 19 percent decline in capital outlays attributed to a shortfall in external financing.

In fact, even though investments have registered an overall increase, the Government's investment expenditure was well below programmed levels in 1992. I would like a clarification from the staff on the stated reasons for the decline in the implementation rate and the delay in completing negotiations on new projects. Will the staff inform us of the present level of agreement that has been arrived at, and will such agreements now allow for immediate corrections in the level of investment expenditure?

On this point, paragraph 7 of the Finance Minister's letter, as well as the text of the staff paper, focus attention on the underperformance on the external financing front, with a fall in that financing by 36 percent. As this is because of nondisbursements, I thought that this would be an opportunity to touch on the larger issue of a slowing down in the flow of external assistance to developing countries in general. Later today, the Board will deliberate on the case of Zambia, where a different set of circumstances led to "donor dissatisfaction" and a $100 million shortfall in external assistance. Next month, the Annual Meetings will deliberate on the hard fact that, for yet another year, the World Bank has not been able to climb out of net negative flows. In another paper on the debt situation in developing countries, the staff has made a case for protecting the release of Fund resources until such time as other sources of financing are confirmed, to ensure that adequate funds are available for carrying out adjustment operations. Are we reaching levels of adjustment conditionality that choke the actual flow of resources because of the stringency of donors' demands? If the Fund is waiting for donors to put their money up front first, and the donors are waiting for the Fund, what will be the result? I would like to suggest that the staff review this matter appropriately. Maybe we could discuss this matter when we review the papers on the world economic situation. For now, the staff should respond on issues pertaining to Benin specifically.

To return to Benin, the authorities have committed themselves to a challenging reform process, and I join the others in appreciating their determination to pursue these policies. I also agree that the challenges that remain to ensure sustainable growth with financial equilibrium are formidable; this is all the more reason to ensure that the international community go a step beyond pledging support, to also guaranteeing that such support is disbursed on the basis of a schedule that complements the indigenous reform effort.

Mr. Lanciotti made the following statement:

Within the framework of a previous SAF arrangement and the current ESAF arrangement, Benin has undertaken a comprehensive adjustment effort. The authorities have committed themselves to a program aimed at improving resource mobilization, containing public expenditures, restructuring the financial system, and rationalizing the public sector through enterprise divestitures and civil service reductions. The program has been broadly on track; the authorities need to consolidate the results achieved so far by not losing momentum in their reform efforts. I will offer some comments on a few issues.

The main problem of Benin lies in its low domestically generated savings, which are insufficient to finance the investment needs of the economy. An improvement in the government budgetary situation would help to free resources for private sector development while establishing a climate of confidence necessary to attract capital inflows. In order to continue along this policy of financial restraint, the revenue performance should be strengthened: the current low ratio of taxes to GDP shows that there is still room for broadening of the tax base, to be achieved by further progress in reforming the tax administration and collection procedures.

On the expenditure side, continued restraint and careful rationalization and prioritization of public outlays are required. First, the administrative capacity to implement structural projects needs to be improved, so as to avoid the delays in the disbursement of external assistance, which have caused in the past year an overshooting of the net bank credit to the Government at the expense of credit availability for the crop sector. Moreover, administrative inefficiencies have led to a sharp fall in capital outlays, which runs counter to the country's need to diversify its productive system and improve its infrastructure in order to attract private investments from abroad. Second, tight control on the wage bill should be maintained. The overrun of the target for the wage bill in the past year is attributed to the higher than expected cost of the civil service reclassification operation. Is this departure from projections due to salary concessions to public employees, and what are the prospects for future developments in wage and pension budgetary outlays? Some comments from the staff on this issue would be welcome.

As Mr. Koissy points out in his informative statement, in the context of the rationalization and streamlining of public sector employment, a comprehensive departure program has been designed and enacted with a view to lowering substantially the current high share of personnel outlays in total budgetary expenditures. However, the pace at which the voluntary liquidation of civil servants has proceeded has not been up to the initial provisions. Could the staff comment on the prospects for the implementation of the civil service reform?

On the monetary and financial side, the rapid growth of broad money signals the remonetization of the economy, favored by a renewed confidence in the recovery of economic activity and by the authorities' restructuring and privatization of the banking system. The authorities are encouraged to proceed with the reform of the financial sector and establish an appropriate supervisory framework for sound financial intermediation. Also, efforts are needed to expedite the judicial procedures that regulate the recovery of the overdue loans of the liquidated banks. The statement of the staff representative informs us that the authorities have recently imposed restrictive measures on bank note circulation in order to stem capital outflows. While such measures may serve their purpose in the short term, significant drawbacks for the country's trade may emerge in the longer run. Eventually, the only effective way to prevent capital flight is to induce confidence in the domestic economy by pursuing a coherent strategy aimed at strengthening the country's financial position.

Given the weak external position of Benin, its trade and current account prospects need to be carefully evaluated. In particular, it would be desirable to encourage the diversification of the export structure away from the current single-good model. In order to achieve this, large investments are needed to improve the country's infrastructure, foster the development of small-scale manufacturing, and facilitate the strengthening of nontraditional exports. Equally important, the country's competitiveness needs to be closely watched. Recent events in international foreign exchange markets may lead to some depreciation of the effective exchange rate, which could foster an improvement in Benin's competitive position. However, the monitoring of wage and cost developments is critical to fight off inflationary pressures and prevent further erosion of Benin's external competitive position.

With these comments, I support the proposed decision.

Mr. Ryan made the following statement:

Benin is largely on track with its economic reform and stabilization efforts. The credibility of Benin's commitment in this regard is exhibited by continued sound policy performance and the resulting pick up in growth. The increase in private flows to the country is a vote of confidence in the current direction of the country's economic climate, which we would hope to see sustained and augmented by new investment flows in the future. Toward this end, continued steady progress will need to be made in enhancing the market orientation of the economy and improving fiscal performance.

Benin has had some success in adjusting to competitiveness challenges resulting from the effects on its primary export (cotton) of international price declines and the real appreciation of the currency. Nevertheless, the drop in merchandise exports has highlighted the country's rather narrow productive base and the susceptibility of the external sector to fluctuations in performance. The unexpectedly strong showing among services has helped offset shortfalls in cotton earnings this year, but we concur with the staff's observation that a broader export base is needed, which in turn requires an investment climate that promises a competitive return in the tradable sector. Attracting foreign capital will accelerate this process of diversification, but it will require further efforts to boost competitiveness. In this regard, the staff paper hinted at cost-containing measures under way in the public utilities sector as well as in the cotton sector. While not seeking a preview of the World Bank study on competitiveness, we would be interested in the staff's views on how the competitiveness issue might most effectively be addressed in a broad context of possible adjustment measures.

Sustained improvements in fiscal performance will go far, of course, in generating an environment more conducive to private sector growth. Continued progress on the repayment of arrears as well as deficit reduction are essential. Progress has been made, but challenges remain. Maintaining the primary fiscal surplus is essential. On this score, the wage bill continues to account for a disproportionate share of expenditures--on an absolute basis as well as relative to other countries in the region. Measures taken by authorities to trim payrolls have shown some promise, but they have also fallen short of projections. The expected overrun in expenditures this year is due to wage costs that are nearly 10 percent higher than planned. Given the stated desire to reallocate budget resources toward social objectives and infrastructure, sustained efforts at reducing personnel costs will continue to be essential. This priority appears to be well recognized by authorities. The recent decision to lay off non-permanent employees signaled the Government's commitment in this area--though the budgetary savings do not begin to compensate for the CFA 2.2 billion in wage overruns this year. Clearly, accelerated action is needed.

The burden of reaching end-year budget targets will fall on revenue measures. Here, the focus is on tightening customs administration. The need for further action in this regard is clear. We note, for example, that customs receipts failed to keep pace with the growth in harbor import traffic last year. We would be interested in any preliminary indications on whether the additional customs changes that have been instituted are bearing fruit. The more general goal of broadening the tax base is important. The reported good performance of the value-added tax is encouraging in this regard. In addition, measures to simplify the tax system to capture untapped revenue potential in the informal sector appear sensible. On balance, however, these measures appear only to maintain revenues as a percentage of GDP at a constant share through 1995. Such efforts might have been expected to play a larger role in closing the budget gap over time; we would be interested in learning why this does not appear to be the case.

Regarding monetary developments, we note that net credit to the Government is expected to exceed the end-September benchmarks to compensate for delays in external disbursements. The discrepancy is rather small and appears reasonable so long as expected foreign assistance is forthcoming and end-year targets are met. In this regard, the slight decline in net claims on the Central Government for the year is encouraging, though we note the dependence on debt relief from non-Paris Club creditors in meeting the remaining financing gap. Is there any new information on whether this gap will be covered? Overall, the continued strong demand for nominal money balances is encouraging and reflects additional confidence in the financial system as well as the economy generally.

Benin's comparatively favorable performance in limiting price pressures has helped contain the appreciation of the real effective exchange rate. As noted earlier, however, continued efforts to improve competitiveness are necessary to attract investment, especially foreign capital. In this regard, the expected decline in long-term private capital flows this year appears somewhat at odds with the increase in other external flows. Any light that the staff could shed on this issue would be appreciated. We note the reference to further development of Benin's oil sector and the desire for possible foreign participation. This would seem to be a sensible approach. The negotiation of such an arrangement could serve to provide an important indication of the transparency and receptivity of the country's investment climate.

With these comments, we can support the proposed decision.

Mr. Dorrington made the following statement:

As other Directors have said, in many ways Benin's progress toward achievement of its ESAF objectives is encouraging. While it is always disappointing to see a number of missed benchmarks and requests for waivers, it must be acknowledged that, for the most part, there are extenuating factors, such as delayed external assistance and the unexpected influx of refugees from Togo. On the former, I look forward to staff responses to Mr. Geethakrishnan's very relevant and interesting remarks.

From the staff report it appears that two quantitative financial benchmarks for end-December were missed. However, the benchmark for the reduction in domestic payment arrears was also missed. Unfortunately, this is not mentioned in the text, and, owing to a misprint in Table 1 of Appendix I, one is given the impression that this benchmark was met precisely. Fortunately, however, the equivalent benchmark for March was overachieved. Thus, I make this remark for the sake of accuracy in the record rather than because it is of great concern as such.

I note that both of the missed end-March benchmarks for net bank credit to the Government and domestic credit to the banking system were missed. This was in part because of delayed external assistance. I also note that if the contingency mechanism, which would have been applied in the event of higher than expected external assistance, had been specified symmetrically, then one of these two misses would have been much reduced and the other would have been turned into a hit. This, together with Mr. Koissy's assurance that the corresponding end-June targets have been met, engenders confidence that these misses do not threaten the program as a whole.

On the issue of loan recovery from liquidated banks, I note that recovery proceeded slightly slower than expected because of the slow judicial process. But as Mr. Koissy's helpful statement indicates, steps have now been taken to speed up this process.

Could the staff please tell us how actual recoveries up to end-June compare with the amount programmed?

It is to be regretted that the Government's competitiveness survey, which was promised my mid-March, is yet to materialize and is now not promised until the end of the year. I wonder whether there are any preliminary indications of its findings. I hope that its nonappearance will not be used by the authorities as an excuse for procrastination on measures needed to improve competitiveness. Directors may recall that, when discussing the initial ESAF request, this chair expressed regret that the completion of the survey was not a benchmark. Accordingly, I would urge the authorities to press ahead with the survey as soon as possible, and I suggest that the staff make completion of the survey by end-December a benchmark for the second annual arrangement.

In the initial ESAF request it was intended that ten companies would be privatized between June 1992 and June 1993. Although this target has been achieved, I understand that many of the companies were in fact small enterprises. Among the large companies, the sugar company and the cement company have had the deadlines for submission of bids postponed from end-June to later this year. I hope that we will soon see some acceleration in the program.

Perhaps the most worrying aspect of the review is the delay in--and lower net saving of--limiting the Government's wage bill. The end-December benchmark for the departure of permanent government employees has been missed, although much of the shortfall has since been made up. I note that in the original request an additional 2,000 departures of permanent employees was envisaged for this year; I wonder whether this is still realistic.

As an offsetting measure to the shortfall, the Government has laid off all nonpermanent staff, but this measure has had only a small effect on the fiscal position of just CFAF 0.1 billion a year, although it will have affected the livelihoods of over 1,600 citizens. Such a measure hints at arbitrariness rather than a carefully planned process. It also seems at variance with the objective set out in the initial request that the implementation of the program would not lead to a deterioration in social conditions. I would appreciate comments from the staff, or Mr. Koissy, on this.

In setting the projections for 1993 the staff has assumed that the programmed primary balance will be met; in order to achieve this, tax revenue will need to be increased by 16 percent over its 1992 level. Some of this increase will come from the extension of value-added tax and some from tighter customs administration. However, estimates of the latter are inevitably very uncertain, and thus I wonder how confident the staff is that the revenue target for 1993 will in fact be achieved. It is also encouraging to see that the authorities are putting in place the groundwork for an improved taxation system for the informal sector; in this case, I would urge the authorities to move ahead as quickly as possible, although I do not underestimate the difficulties in doing that.

While there are thus extenuating circumstances surrounding many of the missed benchmarks, I have not heard an explanation for the delay in extending the value-added tax to cement. Perhaps the staff could comment. In any event, action on this has now been taken as well.

Thus, notwithstanding the missed targets, there is much about recent developments that is to be welcomed--and this is reflected in inflows from the Beninese community abroad. Thus, the staff appraisal is supported by a market test, and that is a powerful combination. Thus, I have no difficulty in supporting the proposed decision.

Mr. Moss made the following statement:

Let me first of all commend the authorities for their determined efforts to pursue the adjustment strategy they have set out for themselves. Even though the road ahead is still long, the policy stance has already had a favorable influence on confidence, leading to better than expected output growth and private financial inflows last year. It deserves to be underlined, as is mentioned in Mr. Koissy's statement, that the stable political environment constitutes an important additional asset in this regard, an asset which sometimes seems to be in short supply in the African continent. In this connection, I wonder whether the staff, or Mr. Koissy, could give us any further indication as to whether the inflow of refugees from Togo has now come to a halt, or at least will remain manageable for the Beninese economy.

Let me now revisit the three issues that I addressed in January, at the time of the approval of Benin's first annual arrangement under the ESAF. First, public finances. As I had voiced some doubts as to whether the budget deficit target would be reached in view of the ambitious expenditure reductions envisaged, I am heartened to see that budgetary developments have been in line with the program through end-June 1993, although the more favorable than projected budget deficit outcome in 1992 was largely the result of lower than anticipated capital spending.

As for 1993 and beyond, I see two potential problems on which I would like to hear the staff comment. One, with respect to revenues, concerns the concurrence of, on the one hand, a host of measures to boost tax receipts, inter alia in the customs and the informal sectors, and, on the other hand, a projected drop in the income elasticity of tax revenues below one as of 1994 onwards. The latter development is reflected in the slightly declining ratio of central government revenue to GDP from a level that, as Mr. Lanciotti has remarked, is not very high.

The other potential problem I detect, and which was already addressed by several speakers before me, has to do with the wage bill, and in particular the voluntary departures program. This program targeted a figure of 3,300 civil servants leaving by end-1992, an objective that was more or less reached, albeit with some delay. The same program, however, foresaw an additional departure of 2,000 people in 1993. Reading from paragraph 5 of the authorities' letter, I notice that, after five months into the year, only 52 voluntary departures were realized, and that the annual total will reach 400 at best. If this is the case, the authorities are well advised to proceed with the utmost caution in recruiting new teachers and health personnel as part of their plan to strengthen the social dimension of the adjustment program; if this plan is to be carried out, some downward revision of the base salary scale in the public sector may well become unavoidable.

The second issue of my January intervention concerned the importance of the restructuring of the financial sector. I am pleased to note the progress being made. I hope that the recently adopted measures aimed at speeding up the judicial procedures of recovery of the liquidated banks' assets will indeed contribute to further enhancing public confidence in the banking system. As the most recent World Economic Outlook demonstrates, mobilizing domestic savings to finance investment is of crucial importance for developing countries. Benin is no exception in this regard, and the country will stand to benefit significantly from increases in both public and private domestic savings, also in view of the trailing external assistance to which Mr. Geethakrishnan has pointed. But the prospective stock-of-debt operation by the Paris Club, pending fulfillment of the required conditions by end-1995, will certainly also favorably influence domestic savings over the medium run.

The issue of external debt brings me to my third topic, the external sector. As I remarked last time, Benin seems to be a typical case in which an exchange rate adjustment could make the difference between a continued fragile balance of payments outlook and a healthy current account improvement resulting from a diversified export base. Developments over the past seven months have only reinforced me in this view. First, as Chart 2 in the staff paper shows, Benin's real exchange rate has been appreciating further, albeit moderately, but this has to be viewed against the background of the not so moderate additional decline in the country's terms of trade. Moreover, the outlook for Benin's main export item, cotton, is not very promising. The authorities had pinned their hope on the firming of world cotton prices since last fall, but the upward trend has stalled meanwhile. In fact, when reading the just-released World Bank Revision of Primary Commodity Price Forecasts (dated August 20), expectations are for an excess supply of cotton and, hence, little prospect for an upward price movement.

Second, the capital outflows in the form of bank notes from the CFA franc zone, to which the authorities have responded recently, seem to indicate a weakening of confidence in the ability of the authorities to compensate solely through domestic adjustment for the decline in the terms of trade and the loss in competitiveness. In this respect, I would like to hear the staff elaborate on its assessment that, at this time, there is only a modest discount of the exchange rate of the CFA franc in the informal markets, an assessment that differs from earlier reports on this matter.

Third, in view of the crucial importance of the issue of competitiveness, I, like Mr. Dorrington, was surprised to learn that the study financed by the World Bank on this issue has been delayed by some nine months. Does the staff have any information on the cause for this delay?

With these remarks, I support the proposed decision.

The staff representative from the African Department noted that some of the causes of the external financing shortfall in 1992 were noted on page 3 of the staff paper. The shortfall was not attributable to a slack in foreign assistance to Benin; rather, as the Beninese authorities had explained to the staff, as a result of administrative inefficiency on their part, the authorities had been unable to conclude negotiations on projects, and the related disbursements had been delayed. The authorities had felt that a number of projects in 1992 were in effect new, rather than ongoing, and they were confident that in 1993 the process of project execution and disbursement could be accelerated and the ratio of the execution of investments to total program investment could be increased. That ratio had fallen below 60 percent in 1992, and the authorities' objective was to increase it to at least 70 percent in 1993. In fact, actions had been taken--especially by the amortization fund that administered project investment--to ensure that faster administrative procedures would be introduced.

However, the staff representative continued, there had been a shortfall in program assistance to Benin from a number of particular sources. The delays in World Bank assistance in 1992 were due to delays in meeting the relevant conditionality, and delays in disbursements by the EC--one of Benin's largest donors--were due to the decision to carry over some assistance to 1993. In addition, some bilateral assistance that could have been provided in 1992 was to be more than made up in 1993.

In general, therefore, the staff did not feel that the volume of foreign financial support for Benin was a cause for concern, the staff representative said. The fact that Benin had re-established social order and had introduced a democratic process had encouraged a number of donors to join in supporting the country. The staff was relatively confident that in the coming years Benin would receive an adequate flow of assistance to meet both project and program requirements.

Wage expenditure had been a weak point in 1992 because of the reclassification operation, which had cost more than had been anticipated, the staff representative commented. However, that development should be seen in an historical context. In the 1980s, administrative procedures in Benin were very disorderly; for example, certain promotions had had a financial effect but others had not. It had required considerable work, with Fund technical assistance, to bring the 35,000 government personnel files up to date as of 1986, and some cost overrun had been incurred. The authorities still faced the task of eventually bringing the files current up to 1992, which could be costly if the authorities employed the same procedure followed in 1986. Otherwise, the staff did not expect the authorities' effort at administrative straightening up to have more than very moderate financial consequences. The staff had discussed with the authorities the possibility of revising base salaries in the event promotions were given. It was clear that the prospects for wage expenditures would have to be kept under close review, and the staff would discuss with the authorities their intentions in that area in the context of the 1994 budget. It was useful to note that trade unions were relatively vocal in Benin, which made the authorities' task somewhat more difficult, but no less important.

The pace of voluntary departures, too, should be seen in an historical context, the staff representative considered. There had been 2,000 departures in 1989-90--out of a civil service of 35,000--and an additional 3,300 departures up to March 1993. In total, 12 percent of the work force, including the military, had been laid off under the departures program. It was true that the program envisaged an additional 2,000 departures in 1993; in the first five months of 1993, 1,600 nonpermanent and 100 permanent staff members had left. The staff had reviewed with the authorities the prospects for the coming six months, and it appeared that the authorities might have some difficulty in reaching the original target for 1993.

Data available in June 1993 indicated a healthy acceleration of customs revenues over 1992, the staff representative noted. At the beginning of 1993, the Minister of Finance had introduced measures increasing the penalties for fraud and other violations. The staff hoped that the ambitious target of a 15 percent increase per month in customs revenues could be achieved, and the staff was monitoring the situation closely.

As was noted in the staff paper, part of the financing gap should be covered by rescheduling by non-Paris Club creditors; the relevant negotiations were currently taking place, the staff representative noted. Certain issues remained outstanding with some creditors--for instance, Russia, an important creditor--but the staff hoped that they would be resolved fairly quickly.

The volume of long-term capital inflows was expected to be somewhat smaller in 1993 than in 1992, when a sizable brewery had been sold for CFAF 8 billion, the staff representative remarked. The Government's sales of assets were expected to be smaller in 1993 than in 1992. In that connection, the staff's latest estimates were more cautious than the initial program projections. The staff hoped that its expectations would be exceeded, but it had wished to be relatively prudent.

A decree extending the value-added tax to the cement companies would probably be submitted to the Council of Ministers before the end of August 1993, the staff representative noted. That issue had been contentious: the authorities were worried that the price of cement--an important commodity in Benin, where considerable residential and other construction was taking place--would increase with the extension of the value-added tax. The value-added tax coverage was about 18 percent, and its extension would therefore have led to an 18 percent increase in the price of cement. However, the authorities had decided to increase the transparency of the price, thereby alleviating somewhat the concern about the price level. The staff had stressed to the authorities that the value-added tax was essential; cement companies had been seeking subsidies from the Government, which clearly could not afford to provide subsidies.

The period in which bids would be accepted for the purchase of the sugar and cement companies had been extended, and the staff hoped that there would be buyers, the staff representative said. The companies had a substantial volume of foreign debt and would therefore not be easy to sell. The cement company was relatively efficient, but the sugar plantations were less so, and the staff was less confident than the authorities that buyers could be found and adequate bids would be made.

The staff hoped that the revenue target for 1993 could be achieved, the staff representative commented. The staff was monitoring the situation closely and hoped that the customs measures in particular would have the desired effect.

The situation with respect to the Togolese refugees was still in the process of stabilizing, the staff representative commented. The number of refugees had not increased; in fact, some refugees had returned to Togo in July. An election was scheduled to take place in Togo that very day. Nevertheless, the situation in Togo still was not very stable, and, therefore, some refugees were likely to remain in Benin in the coming period; they would be supported basically by family and relatives, and Benin would receive some support for them from the United Nations and other donors.

The completion of the study on competitiveness had been delayed because the terms of reference had been prepared late and, as a result, the authorities had been late in putting the project up for bid among consultants, the staff representative from the African Department explained. The choice of the consulting company had been made--that step had taken some six months--and the study was expected to be finished in about three months.

Mr. Geethakrishnan remarked that the shortfall in investment outlays had occurred because the authorities had had to negotiate new projects and because of administrative inefficiency in Benin. He hoped that, in the coming year, the administration would be tightened up and the country's absorptive capacity would thereby increase. The problem of inadequate absorptive capacity was particularly interesting to him as, for some years now, his authorities in India had been facing the same problem. In that case, one of the major factors had been the increasing conditionality applied to project assistance by India's donors. Of course, donors were entitled to impose a certain framework of conditions on recipients of their assistance, but to the extent that the conditions imposed strains on the political and social fabric of the recipient country, those were likely to lead to a shortfall in project assistance. That was one reason why many recipient countries had tried to shift from project assistance to program assistance and sectoral loans. In assessing the outlook for an economy, the staff should be aware that conditionality could result in the country's failure to meet optimistic expectations for it.

Mr. Dorrington said that he wondered whether there were any preliminary indications of Benin's competitive position.

The staff representative from the African Department commented that the staff did not yet have any additional information. The staff had seen a study of competitiveness in the region that had dealt thoroughly with the costs of public utilities and some manufacturers. The staff itself had done some analysis of wage costs in Nigeria and Benin and had found that Benin's costs were higher. Hence, the authorities were already aware, independently, of the competitiveness study supported by the World Bank, that in certain lines of production Benin had higher costs than its competitors, and they were trying to address that problem.

The staff representative from the Policy Development and Review Department noted that, with respect to the important issue that Mr. Geethakrishnan had raised, the Development Committee would be considering at its coming meeting a staff paper on adjustment of low-income countries and implications for external financing. That paper would be a follow-up to the paper on resource flows to developing countries that the Development Committee had considered at its previous meeting. Issues relating to aid volumes and the effectiveness of aid delivery and use could be addressed during the Board discussions on developing country financing and the debt situation on September 3, 1993, as well as the Board discussions on the world economic outlook.

The issue of the symmetry of the adjustments to the credit ceilings had been raised by Mr. Dorrington, the staff representative from the Policy Development and Review Department recalled. In the event of excess disbursements, the logic of reducing the credit ceilings was to avoid an increase in the deficit; while the monetary program might still be protected because of the external inflows, the new expenditures might not be sustainable over time and could therefore be a threat to the monetary program in the future. Hence, the adjustment to be recommended in that connection was fairly straightforward. Apparently, Mr. Dorrington was asking why the staff did not apply the same logic on the other side. In that case, there was a need to make a judgment as to whether a disbursement shortfall was temporary or permanent. If it was permanent, clearly there would be some need for fiscal measures in order to protect the monetary program. If it was temporary, the need for corrective fiscal measures would be less apparent. In the case of Benin, the disbursement shortfall in question had turned out to be temporary; the ceilings in June had been observed, and, therefore, the staff had seen no need to specify particular measures to correct for the temporary disbursement shortfall.

Mr. Dorrington said that he had not necessarily wished to challenge the appropriateness of the asymmetry, but rather to note that the fact that the contingency mechanism, had it been symmetric, would have accounted for the shortfall gave one some confidence that the explanation for the shortfall was clear in the short run. That fact, combined with the fact that three months later things were back on target, helped to inspire confidence that there was not a fundamental, underlying problem, but rather merely a temporary problem that could be explained.

Mr. Yang made the following statement:

The authorities have achieved all the macroeconomic targets--in some cases better than programmed--in the face of a shortfall in external assistance and unfavorable external conditions. I therefore commend the authorities for their achievements and commitment to the implementation of reform policies. Their determination to further pursue adjustment policies and adopt strong measures with the aim of attaining sustainable economic growth is also commended. As I am in broad agreement with the staff's appraisal and the views of the previous speakers, I will limit my remarks to a few points.

Regarding fiscal policy, while the authorities have made considerable progress in the improvement of fiscal performance, we note that the upward revised revenue still covers only about 65 percent of the expenditure outlays. In this respect, we share the view that there is an urgent need to enhance revenue by widening the tax base, strengthening tax administration, and accelerating public enterprise reform. On the expenditure side, salaries remain the single largest item by far, accounting for almost 40 percent of total expenditure and costing 60 percent of total revenue. In this regard, the authorities are encouraged to focus on the implementation of various measures aimed at curtailing the wage bill, including taking further steps to streamline the civil service sector.

On the external position, it is encouraging to note that the 1992 current account deficit, before grants, improved markedly from the programmed level in spite of the decline in cotton prices on the international market; and it is anticipated that the 1993 target will also be met. However, to achieve a favorable external account position in the medium or long term, the authorities are urged to redouble their efforts aimed at achieving macroeconomic equilibrium by pursuing a sound economic policy. In order to increase exports, incentive policies should be provided to attract foreign participation, particularly in the expansion of the processing and manufacturing industries. Without doubt, it is necessary for the authorities to pay more attention to agricultural diversification. Regarding its competitiveness, I note that the country's currency has appreciated by 3 percent in real terms, and I would appreciate the staff's elaboration as to the extent such an appreciation has adversely affected Benin's competitiveness and how the impact could be averted in the context of pegging its currency to the French franc. In this connection, in order to meet the additional needs for filling the existing financing gap for this year, particularly taking into account the cost of coping with the newly emerged refugee problem, the international community is urged to provide timely financial assistance.

In conclusion, the authorities have been successful in the implementation of the program supported by the ESAF. However, much remains to be done, particularly when taking account of the country's dependence on external resources and its vulnerability to external changes. We support the proposed decision.

Mr. Dlamini made the following statement:

I would like to join the speakers who have preceded me in endorsing the staff appraisal and to lend this chair's support to the proposed decision. We support, in particular, the authorities' request for a waiver of the performance criteria that were narrowly missed at the end of March. We believe that the factors that led to the delay in the disbursement of the World Bank's assistance, which affected credit to the Government that was reversed in June, were also beyond the control of the authorities.

Overall, the authorities in Benin deserve to be commended for implementing their adjustment program with determination, as demonstrated by the renewed confidence in the economy. They have amply shown that they stand ready to respond decisively when adverse developments threaten to derail the program. For example, the decision taken early in 1993 to lay off nonpermanent employees in the Government, a politically difficult decision, was a testament to the authorities' desire and determination to contain the wage bill which remains problematic.

Thus far, developments under the program have been encouraging, as economic activity has picked up beyond the program's expectations. It is pleasing to note that real GDP growth in 1992 exceeded the program target, and this took place under relatively stable price conditions. The prospective outturn in 1993 is equally encouraging. We can only urge the authorities to remain steadfast in their adjustment effort so as to consolidate the gains made thus far. In particular, we agree with Mr. Koissy that continued fiscal consolidation through revenue-enhancing measures and the containment of the wage bill should remain the centerpiece of Benin's adjustment program.

With these few remarks, we support the proposed decision.

Mr. Havrylyshyn made the following statement:

The continued adjustment efforts followed by the Benin authorities since 1989 are now beginning to bear fruit. This is reflected in the better than expected growth of real GDP (4.5 percent projected for 1993 compared with the original figure of 4 percent); the declining rate of inflation (2.9 percent projected for 1993 against 3.5 percent in 1992); the improvement of the fiscal position with a projected primary surplus of 2.4 percent of GDP (1.2 percent in 1992); and the consolidation of net official reserves. The staff paper further notes that the authorities remain determined to implement policies under the ESAF program, which gives me hope that this performance will continue. In view of all this, I can easily agree with the requested waiver for the nonobservance of the criteria on net bank credit to the Government and total domestic credit as of March 1993.

On the fiscal side, I note with satisfaction the measures taken by the authorities to strengthen the revenue performance. The reform of the tax administration and a further extension of the value-added tax to the telecommunications sector made it possible for budget revenues to be at the projected level in 1992 (12.1 percent of GDP) and even better in 1993 (12.6 percent projected, compared with 12.5 percent programmed). The expenditure performance was also good, but the result was due mainly to the lower than projected capital and nonwage outlays. Salary expenditures, unfortunately, overran the projection because of the slow implementation of the civil service reform (including the process of reclassification of civil servants and voluntary departure program). The measures taken by the authorities at the beginning of this year aiming at limiting the wage outlays, as well as their determination to continue this policy together with a further strengthening of the tax administration, is very encouraging. This will help to implement the staff recommendation, which I fully endorse, that room be created for expenditures directed at supporting economic development.

I note also the progress made so far with the repayment of domestic arrears, and I welcome the authorities' intention to settle the end-1993 stock of arrears through the issuance of non-interest-bearing treasury certificates.

The positive domestic developments during the recent period restored the confidence in the economy, so that the private transfers and capital inflows were higher than expected. This helped to strengthen the external position of Benin, although much remains to be done in the export sector. The vulnerability of Benin's cotton sector (the main source of exports) to exogenous factors, like weather conditions and world price developments, makes it necessary, on the one hand, to diversify the export base and, on the other hand (and most important), to improve competitiveness. The preoccupation of the authorities with strictly implementing the cost-containing measures in the public utilities and in the cotton sector is commendable, but a slight depreciation of the exchange rate could also be an alternative. The competitiveness problem seems to be a common feature of many countries in the CFAF area, and, in this respect, I am eager to see the competitiveness study financed by the World Bank, which is expected to be finalized by the end of this year.

Related to competitiveness is the strategy of diversification of the productive base. Usually, when I read such statements, I worry they mean administrative efforts to pour government funds into Potemkin-like industrial projects. I am pleased to see, however, that the focus of such investment projects will be, I note from page 9 of the staff report, "the need to provide employment opportunities to the more disadvantaged groups of the population." While I did not see the words "labor-intensive projects," it is clear that investments aimed at providing such employment opportunities must be labor-intensive investments. Therefore, I can only commend the authorities on this chosen strategy, and encourage it as one important element in achieving improved competitiveness.

On the side of structural adjustment, the actions taken to privatize public enterprises and to restructure the banking system are welcome, and I endorse the staff view that the judicial system should be rapidly introduced so as to permit a faster collection of the overdue bank loans. We regret the inability to meet the calendar targets for bids on remaining parastatals and, recognizing the difficulties of finding buyers, encourage the authorities to move on this as quickly as possible.

With these remarks, I support the proposed decision.

Mr. Blome made the following statement:

Like previous speakers, I welcome the fact that the main macroeconomic targets of the first annual ESAF arrangement are being met and, in some areas, even exceeded. We should thus commend the authorities for continuing their good track record demonstrated under the previous SAF program. However, I agree with the staff that the challenges for the medium-term adjustment strategy remain considerable. Benin's economy is still little diversified, its saving capacity remains modest, and there are some adverse developments, especially in the area of the public wage bill, which give rise to concern. Therefore, the Government should vigorously continue and--in some areas--even intensify its adjustment efforts in the years ahead. This chair already explained in detail which additional adjustment measures should be taken in this regard during last year's Board discussion about Benin. I can thus limit myself to a few brief remarks in today's midterm review.

Regarding public finances, I note that the ratio of revenue to GDP is still relatively low (12.6 percent in 1993), particularly when viewed against the need to improve physical infrastructure and to ameliorate social conditions. I also learn from page 4 of the staff paper that the share of personnel outlays in total expenditures remains high, which is due partly to slippages in the ongoing reform of the civil service. Finally, I note that public investment projects are still delayed by lengthy administrative procedures, which might impair future growth prospects. These weaknesses should be addressed properly in the framework of the second annual ESAF arrangement.

Concerning monetary policy, I am somewhat puzzled by the fact that the inflation rate remains relatively low (2.9 percent in 1993), although the growth rates of broad money (21.2 percent in 1993) continue to exceed considerably the increase in nominal GDP (7.5 percent in 1993). I wonder whether the strong growth in broad money will not finally lead to a liquidity overhang in the economy, which could give rise to inflationary expectations. The staff's comments would be appreciated.

On external policies, I agree that further efforts are needed to improve competitiveness, as Benin's real effective exchange rate (shown in Chart 2) and its cost structure remain relatively high compared with regional trading partners outside the franc zone. While welcoming that the authorities have already taken a number of cost-containing measures, especially in the public utilities sector and in the cotton sector, I still wonder whether external competitiveness can be sufficiently improved by internal adjustment measures alone. I note, in this context, that the discussion in the franc zone about the adequacy of the current exchange rate has intensified in the last months. The results of these discussions remain to be seen. Still on this subject, I regret that the competitiveness study financed by the World Bank could not be completed on time and will now be finalized only toward the end of this year. The findings of this study could be very helpful for our discussions about this issue.

Finally, on structural policies, I would once again underline the need to diversify agricultural production, develop small-scale manufacturing, and privatize public enterprises with foreign participation. I welcome, in this regard, that the authorities have recently liberalized the insurance sector and have opened up the capital of the state insurance company to private investors. I hope that these liberalization measures will gradually lead to more competition and foreign investment in this area.

With these observations, I can support the proposed decision.

Mr. Cippa made the following statement:

This chair approves the proposed decision. I would like to extend my appreciation for the work done and the results achieved by all parties, and especially for the realistic targeting of the staff and the commitment of the Government to the fulfillment of the program.

As I am in broad agreement with the staff appraisal and the generally positive assessment of previous speakers, I can limit my intervention to a few remarks and questions to the staff regarding an issue that has been dealt with only summarily in the paper--the privatization of public enterprises. I welcome the determination with which the authorities seem to be pursuing this process, but at the same time I have some concerns that I would like to express.

The aims of privatization vary from country to country, and I understand that there can be no universal blueprint. There is, however, a fairly general agreement that private ownership, through exposure to greater competition, can deliver better products or services at lower costs. In this view, the public interest is generally better served by private firms than state-owned enterprises.

But privatization is often designed as a mere fiscal tool to raise cash (or reduce transfers) that can be used to finance government deficits for a year or two. In addition, privatization does not in itself warrant more pressure of competition. For instance, if a state-owned monopoly is sold, without changing the rules of the game that make it a monopoly, there is little hope that it will be better managed. Privatization needs to be coupled with other reforms. How does the staff see the status of implementation of the policies enabling successful privatization?

Is the privatization program in Benin based on any long-term view, or is it considered one of the quickest ways to diminish transfers from the Central Government to loss-making parastatals?

With a tiny domestic market for capital, the firms to be privatized are likely to pass into foreign control, which may prove politically awkward within the context of the new democratic regime. I would be interested to know if there has been any debate in the Parliament on these issues.

Mr. Golriz made the following statement:

A positive supply response strengthened by increasing private transfers to Benin is a clear indication of strength of the ESAF-supported program. It is especially noteworthy that economic recovery has come about despite the influx of refugees and adverse effects of the weak cotton market. As I am in broad agreement with the thrust of the staff's appraisal and most of the issues raised by the previous speakers, I can be very brief.

A major challenge facing the authorities in the short term, as mentioned by Mr. Koissy in his opening statement, is to consolidate the gains already achieved and remove remaining imbalances. Policies chosen to fulfill these goals, as reflected in the authorities' letter of intent, seem timely and proper. In the longer term, however, efforts should be directed at enhancing the country's productive base through diversification.

It is encouraging to note that the authorities are well aware of the vulnerability of the agricultural crop and have decided to foster diversification of the agricultural output. We also share the staff's view that the productivity enhancement is crucial for external competitiveness. We encourage the authorities to finalize as soon as possible the study financed by the World Bank in this regard.

Policies should be designed to help mobilize domestic resources. National savings which, based on Table 1 of the report, stand at around 6 percent, should be promoted by all means, including interest rates that are negative in real terms.

Regarding the fiscal sector, the authorities' efforts to overhaul the tax system, particularly the implementation of a value-added tax, which should be helpful in attempts to tax the informal sector, are commendable.

In order to reduce public expenditures, the authorities have focused on downsizing the public sector by retrenching civil service employment. While this as well as other adjustments are steps in the right direction, a social safety net should be put in place as soon as possible to protect the hard-hit segments of the population and to secure social support for the program.

On the expenditure side, one concern is the low level of capital outlays that we hope will be given priority as conditions permit.

Finally, we welcome the recent agreement reached by the Beninese authorities under the Paris Club on part of its external debt. We urge the authorities to continue their negotiations for the remaining part and encourage the creditors to be supportive of Benin in its adjustment efforts.

With these remarks, we support the proposed decision.

Mr. Al-Huseini made the following statement:

I would like to join other Directors in commending the Beninese authorities on the impressive progress achieved over the past few years. Since the start of the adjustment efforts in early 1989, considerable progress has been made in reducing macroeconomic imbalances, notably by cutting the size of the fiscal deficit through improved tax collection, introducing new taxes, and containing expenditure growth. These measures were accompanied by reasonable progress in the area of structural reform.

Reflecting the adjustment efforts, there has been a marked revival in economic growth in an environment of low inflation, and renewed confidence among economic agents and the large Beninese community abroad. Real GDP grew by 4.2 percent in 1992; the primary fiscal balance recorded a surplus equivalent to 1.2 percent of GDP, and the current account deficit was well below the programmed level. These are impressive accomplishments that need to be further consolidated.

As I concur with the staff's assessment, I will focus on a few issues that are crucial to achieving progress toward sustainable growth in Benin.

The success of the adjustment program over the medium term hinges to a large extent on a further consolidation of the fiscal position. In this connection, the authorities' decisive response to offset the higher than expected wage bill in 1993 is encouraging. The decision to lay off all nonpermanent employees and the implementation of additional revenue measures, notably in the customs area, attest to the authorities' strong commitment to the program. In this context, it is essential that the authorities continue their drive to carry out the needed fiscal reforms in the areas of real estate taxation, external tariffs, and informal sector taxation. More important, as other Directors pointed out, the authorities should increase their efforts to contain wage outlays to provide adequate room for spending on priority social services and infrastructure.

Regarding structural reforms, the authorities' achievements in restructuring the banking sector and in privatizing public enterprises are welcome. An acceleration of these reforms will greatly simplify diversification of the country's productive base and the attainment of sustainable economic growth over the medium term.

With these remarks, I support the proposed decision.

Mr. Bonzom noted that a number of speakers had mentioned the appreciation of the real exchange rate in 1992. In fact, the appreciation had been slight--3 percent. More important, the question of competitiveness, especially of the exchange rate, should be looked at in a medium-term perspective. Indeed, there was no denying the authorities' commendable success in stabilizing the real exchange rate over a number of years without changing the nominal exchange rate. He welcomed the fact that measures contained in the program would help make further progress in that area.

The staff representative from the African Department said that Benin had been relatively successful in containing wages and other costs but would have to continue to move in that direction. Indeed, the staff was aware that the costs facing certain industries in Benin were higher than the comparable costs facing some of the country's competitors. In addition, the authorities should try to increase productivity.

A question had been raised about the rapid increase in broad money and its possibly inflationary impact in the long run, the staff representative recalled. As the staff had noted in the previous paper on Benin, the issue was more one of reconstitution of money balances that had been wiped out, especially bank deposits lost in the banking crisis in 1988, when liquid deposits had dropped from about CFAF 90 billion to CFAF 10 billion. At present, those deposits had returned to the level of CFAF 90 billion, with the new banks that had joined the system. The country's three main banks had gone into liquidation in 1988 and their deposits had been frozen. New banks had subsequently been established, followed by a relatively rapid inflow of funds into those banks. The staff was not worried about the liquidity situation, but it would of course monitor the situation carefully. In fact, to some extent, an increase in broad money was a sign of confidence in the banking system, in which credibility had dropped dangerously low in the past.

There had been some debate in Parliament about the long-term privatization strategy, the staff representative from the African Department remarked. It should be noted that the privatization did not involve the main public utility companies--the electricity and telephone companies--which would continue to enjoy a monopoly position. For the moment, the privatization was focused on manufacturing companies that had been under state control in keeping with the dirigiste emphasis of the 1970s and the 1980s; those companies had been relatively poorly managed. There had been considerable debate in 1992 in Parliament about the privatization of the brewery that was ultimately carried out. The Minister of Finance had emphasized to members of Parliament who opposed loss of control of the brewery to foreign investors--to some extent for nationalistic reasons--that the brewery had not been able to pay taxes to the Government and, in fact, had been recording losses. Soon after its privatization, the brewery had begun to make profits and to pay value-added taxes. Breweries in countries like Benin generally were profitable. Not all the other privatized companies typically enjoyed the same success. The authorities planned to privatize companies that prepared fruit juices and some hotels controlled by the state. In sum, it was clear that privatization in Benin was being carried out in the context of an overall framework and strategy.

Mr. Koissy commented that the economic and structural adjustment process in Benin had begun in 1989 and had been intensified when the new Government took office in March 1991. Since then, substantial progress had been made in improving the country's economic and financial situation. While the climate of confidence in Benin and the political stability in the country had contributed to the success of the adjustment process, it should be recognized that the support of the international community, including the Fund and the World Bank, had played an important role.

Despite that progress, Mr. Koissy continued, external viability in Benin continued to be constrained by the burden of the external debt. For Benin and some other low-income countries in Africa, timely action to reduce their total stock of debt was a prerequisite for moving rapidly toward achieving external viability. He hoped that the recent call made by the Group of Seven leaders at their recent Summit Meeting in Tokyo regarding developing countries' debts would be translated into bold action by Paris Club creditors in the very near future.

The level of Togolese refugees in Benin had stabilized over the past two months, Mr. Koissy said. However, the political situation in Togo was still fragile, and with the boycott of the ongoing presidential election in Togo by the opposition party, the political situation in Togo probably would not stabilize soon, and Benin would therefore likely continue to host a large number of refugees.

The Acting Chairman remarked that, over a long period, Benin had had a relatively stable real effective exchange rate. Indeed, despite the sharp decline in the terms of trade, particularly in the mid-1980s, the real effective exchange rate had recently appreciated somewhat. He wondered whether the staff felt that, in the circumstances, that was a desirable trend.

The staff representative from the African Department responded that, in the circumstances that the Acting Chairman had described, the staff had thought that it would be useful to show in the relevant chart not only the nominal and real effective exchange rate trends, but also the movement in the terms of trade. That approach would serve to underscore the fact that, although Benin, like some other countries, had experienced a serious deterioration in the terms of trade--mainly with the sharp decline in the price of cotton compared with the mid-1980s and also a fall in the price of coffee--the real effective exchange rate had been relatively stable. A country that was affected by serious external shocks could choose to respond by, inter alia, adjusting the exchange rate. For institutional reasons, the authorities in Benin had not adjusted the exchange rate even though the country's external prospects had been seriously worsened by the movement in international prices in the 1980s.

Mr. Bonzom said he had taken note of the staff representative's point. However, it was also fair to recall--as he had done earlier--that the trend of the real effective exchange rate had been much worse before 1987 than in the more recent past; there had been a sharp improvement in that regard over the medium term.

The Executive Board approved the following decision:

1. Benin has consulted with the Fund in accordance with paragraph 2(c) of the first annual arrangement under the enhanced structural adjustment facility (ESAF) for Benin (EBS/92/189, Sup. 1, 1/29/93) and paragraph 25 of the letter from the Minister of Finance of Benin dated November 9, 1992, attached to the arrangement.

2. The letter from the Minister of Finance of Benin dated July 16, 1993 shall be attached to the first annual arrangement for Benin under the ESAF, and the letter dated November 9, 1992 shall be read as supplemented and modified by the letter of July 16, 1993.

3. Accordingly, the indicators referred to in paragraph 3(a) of the first annual arrangement shall include the benchmarks for September 30, 1993 set out in paragraph 17 of the

letter dated July 16, 1993 from the Minister of Finance and in Table 1 annexed thereto.

4. The Fund determines that the midterm review specified in paragraph 2(c) of the first annual arrangement for Benin under the ESAF has been completed, and that Benin may proceed to request the disbursement of the second loan under the arrangement, notwithstanding the nonobservance of the quantitative performance criteria referred to in subparagraphs 2(a)(i) and (ii) of the first annual arrangement for end-March 1993.

Decision No. 10444-(93/115), adopted August 25, 1993

3. FORMER YUGOSLAV REPUBLIC OF MACEDONIA - 1993 ARTICLE IV CONSULTATION

The Executive Directors considered the staff report for the 1993 Article IV consultation with the former Yugoslav Republic of Macedonia (SM/93/171, 8/4/93). They also had before them a background paper on recent economic developments in the former Yugoslav Republic of Macedonia (SM/93/178, 8/13/93).

The staff representative from the European I Department said that the staff had recently been informed that the authorities had removed the limitation on the amount of foreign exchange that the household sector could purchase for the making of payments for current international transactions. In light of the elimination of that limitation and other currently available information, the staff was not aware of the existence of any exchange restrictions subject to Fund jurisdictions that were currently maintained by the former Yugoslav Republic of Macedonia, other than those restrictions imposed against the Federal Republic of Yugoslavia under UN resolutions.

Mr. Posthumus made the following statement:

> Just four months after the former Yugoslav Republic of Macedonia became a member of the Fund, the first Article IV consultation was held. The staff has certainly moved very quickly with the preparations for today's Board discussion. As my former Yugoslav Republic of Macedonia authorities attach great importance to cooperation with the Fund, they are very grateful for the priority that the Fund has given them in starting to establish relations with their country.
>
> The former Yugoslav Republic of Macedonia is in the midst of a political, social, and economic transition that measures up to that of many of the other transition countries. The collapse of the Council for Mutual Economic Assistance (CMEA), the falling apart of the former Socialist Federal Republic of Yugoslavia, the failure of its social and economic system, the wars in the former

Yugoslavia which only the former Yugoslav Republic of Macedonia escaped but which led to large trade problems, and, last but not least, the UN sanctions against the Federal Republic of Yugoslavia are substantial disruptions. Footnote 3 on page 1 of the staff report says it all.

Following independence in September 1991 and the ratification of the constitution in November 1991, the former Yugoslav Republic of Macedonia introduced the denar as its own currency in April 1992. In May 1993, the official exchange rate, which had been repeatedly adjusted but which was of limited importance because of the dominant parallel market, was floated. Official reserves have been built up, though they are still at a low level. Monetary policy has, however, so far been severely hampered by the National Bank's rediscounting of banks' credits to nonviable enterprises. The rediscounting policy will be terminated, but this obviously requires rehabilitation of insolvent banks and the introduction of enterprise financial discipline. An important privatization law has been approved by Parliament, which is a significant step toward the required financial discipline of enterprises.

It should be realized that the former Yugoslav system of social ownership of enterprises and the linkages of enterprises with banks and the banks' linkages with the National Bank present unique problems for the reform effort. Enterprises that were neither government owned nor part of a centrally planned production and distribution system also were, and are, not commercially operated enterprises. The ease with which losses could be financed, and in fact shifted to banks and to the society at large ("socialization of losses"), is an indication of this. The role of federal and republican governments in "arranging" enterprise relations was another form of noncommercial intervention. The authorities are keenly aware of this, and the privatization law, therefore, aims at specific types of ownership. At the same time, banks have to adjust to new, more commercial ways of enterprise as well.

The former Yugoslav Republic of Macedonia authorities broadly share the analysis and the recommendations of the staff as presented in the appraisal. My discussions with the authorities have convinced me that there is broad recognition of what has to be done and how it has to be done. However, the size of the problems is indeed staggering, and the available resources, both human and financial, to tackle them is limited. It is therefore hoped that the Fund will continue attaching a high priority to cooperation with the former Yugoslav Republic of Macedonia, and that it will be possible to quickly move to a Fund-supported program. This would also enable the former Yugoslav Republic of Macedonia to clear its arrears with the World Bank, for which a Fund-supported program is a precondition in the view of donors and the World Bank Board.

The restructuring of the large external debt and payments arrears of the former Yugoslav Republic of Macedonia will, of course, ultimately require an upper credit tranche arrangement. However, the former Yugoslav Republic of Macedonia will certainly need financial support urgently to help it begin both internal and external adjustment. My Netherlands authorities have taken the view that a concerted international effort of financial support with the participation of a number of bilateral and multilateral agencies will be required. The first priority will be to meet financial obligations in the short to medium term, particularly the clearance of arrears to the World Bank in the context of an agreed program, which is a condition for World Bank membership. This, in turn, is crucial for the financing and implementation of a recovery program. The Netherlands authorities are therefore ready to assume the donor coordination role in a support group framework; they hope to organize an informal Support Group meeting in September at the time of the Annual Meetings. The Netherlands' Government would be ready to make a generous financial contribution, the exact amount of which will be determined once greater insight into the financial requirements related to a program becomes available.

Mr. Desruelle made the following statement:

Let me start by thanking the staff for a set of papers that gives a clear perspective on the current situation of the former Yugoslav Republic of Macedonia. The former Yugoslav Republic of Macedonia has been affected by a series of severe external shocks. In this regard, as stated by Mr. Posthumus in his statement, footnote 3 of page 1 of the staff report indeed says it all, with its mention of the collapse of the Socialist Federal Republic of Yugoslavia, the collapse of the CMEA, the loss of annual transfers from the Federal Government, the UN sanctions against the Federal Republic of Yugoslavia, and the disruption to the north-south transshipment routes.

Therefore, it is unfortunately not surprising to find that the authorities of the former Yugoslav Republic of Macedonia are faced with an extremely difficult economic situation. The large fall in the gross social product (GSP) in the past three years, the expectation of a further decline of the GSP in 1993, the still high level of inflation, the growing pressures on public finances, and the accumulation of external arrears are indicators or elements of the present difficulties.

The unfavorable environment has not stopped the authorities from taking measures to stabilize and restructure the economy. On the macroeconomic front, the measures taken in April 1992, namely, the introduction of a new currency and termination of public sector recourse to the banking system, are particularly noteworthy. As Chart 3 of the staff report dramatically demonstrates, these measures led to a sharp fall in the inflation rate from the hyperinflationary levels of early 1992. On the structural front, one especially notes the program for privatization of public enterprises, including the recent adoption of a privatization law. Given the circumstances, the authorities must be commended for these actions.

The task--or more precisely, the daunting task--that the authorities now face is to build upon these positive first steps so as to simultaneously stabilize and restructure the economy. Indeed, a reading of the papers in front of us today leaves no doubt that these two elements, stabilization and restructuring, cannot be separated. Obviously, the success of structural reforms in the short to medium term depends upon macroeconomic stability. Conversely, macroeconomic stability cannot be sustained without enterprise reform and privatization (through its impact on the wage-inflation spiral), banking sector reform (to allow for the smooth operation of a tight monetary policy), or an overhaul of the tax system.

This being said, let me make some specific comments on monetary and fiscal policies and related structural issues.

First, monetary policy. As I said, the termination of public sector recourse to the banking system in April 1992, at the time of the introduction of a new currency, led to a steep decline in inflation. The existence of a wage control law facilitated that fall by dampening the wage-price spiral and limiting the enterprises' need for credit. This latter positive impact of wage controls was shown a contrario in the third quarter of 1992, when the lifting of wage restrictions led to a rise in demand by social enterprises for bank credits and, through the operations of the National Bank's rediscount window, to a large increase in reserve money.

This experience of 1992 and of early 1993 points to the various elements of a comprehensive monetary policy that are needed to bring inflation down. They include a continuation of the policy of avoiding public sector recourse to the banking system, elimination of the passive rediscounting of large-scale bank credits, reinstatement of strong wage control measures, and, more generally, a hardening of social enterprises' budget constraint.

In this respect, the acceptance by Parliament of the termination of passive rediscounting by the National Bank is welcome.

The authorities are encouraged to resist any pressure to extend the one-year phaseout period attached to this measure. Furthermore, it would seem essential for the credibility of the phaseout to start reducing the amount of rediscounted credits early in the one-year period.

On the structural side, the staff report rightly points out that a proper functioning of monetary policy will not be possible without a restructuring of both the enterprise and banking sectors. As to enterprises, the emphasis put by the authorities on privatization is appropriate, as it will, in the medium term, harden budget constraints and make enterprise credit demand sensitive to credit market conditions. One might add, however, that, given the importance of enterprise privatization for both the conduct of macroeconomic policy and for the development of an efficient system of production, a reduction in the rather long periods given to enterprises to submit privatization plans would seem advisable. In the short run, while privatization is taking place, it is essential to increase enterprise discipline, which, as mentioned above, requires reinstating wage controls.

As concerns the banking system, I welcome the staff report's mention that "there was consensus that bank rehabilitation...[was] essential...and should be a priority of the Government." In the meantime--until this rehabilitation is achieved--as it cannot be expected that, given the present structure of the banking system and given the current state of social enterprises, bank credits would be allocated according to market principles, the policy of maintaining quotas for individual banks is entirely appropriate.

Let me now turn to fiscal policy. The authorities should be commended for having maintained the policy of avoiding public sector recourse to the banking system. However, the means used to achieve this goal, namely, delays in wage payments and social transfers, accumulation of arrears on debt payments, and, possibly, development of some arrears in the purchases of goods and nonfactor services, are of a temporary nature, thus pointing to the present fragility of the fiscal situation. This fragility is accentuated by the emergence of additional pressures on the expenditure side of the budget, as indicated in the staff report, as well as by the estimation of a further steep decline in 1993 in the ratio of revenue to GSP.

At the same time, the program of structural reforms requires a reallocation of expenditures. For instance, resources will be needed for restructuring the banking sector, which, as discussed above, has to be a governmental priority. As the experience of other countries suggests, resources may also be needed to facilitate the restructuring of social enterprises and, in particular, the shedding of excess labor.

Therefore, given both the widening imbalances in the fiscal sector and the need to reallocate expenditures, a broad program of reform and restructuring of public finances, addressing both revenues and expenditures, is necessary. In this respect, and on the revenue side, the overhaul of the tax system that the authorities have started to undertake is most welcome. I would appreciate comments by the staff on the impact that can be expected on revenues from the modifications to the profit tax, and the proposed changes to the income tax and sales tax. I would appreciate comments as well on whether additional tax measures would be needed to first stem and then reverse the ongoing decline in the ratio of revenues to GSP.

On the expenditure side, I would therefore agree with the staff that reductions in expenditures of a more permanent nature than delays in payments and transfers should be sought. As in other countries of Central and Eastern Europe, one of the important sources of expenditure reductions could be the adaptation of the social security arrangements and of the social safety net to the new economic situation, with a view both to reducing costs and improving targeting. I agree with the staff that expenditure control should be strengthened. This would be particularly important to avoid a buildup of arrears on purchases of goods and nonfactor services and the concomitant risk of a monetization of these arrears.

Finally, some words on support from the international community for the stabilization and reform efforts of the authorities. The extent of the task the authorities face cannot be underestimated, and there is no doubt that the support of the international community, including the international financial institutions, will be essential. In this respect, the indications given in Mr. Posthumus's statement regarding the development of a strategy to deal promptly with the financial obligations of the former Yugoslav Republic of Macedonia in the short to medium term, including the clearance of arrears to the World Bank, are encouraging. As concerns more specifically this institution, I fully share the view that the former Yugoslav Republic of Macedonia's balance of payments difficulties and debt and arrears problems will ultimately have to be addressed in the framework of an upper credit tranche arrangement. However, given the benefits to be obtained from a prompt implementation of the necessary stabilization measures and reforms, and given the impetus to such measures and reforms that can be provided by timely external support, I would, without prejudice to the technical determination of eligibility, be in favor of an arrangement under the systemic transformation facility (STF). Comments by the staff on the eligibility issue would be welcome.

In conclusion, let me once again commend the authorities for the measures taken so far in response to a series of large economic shocks.

Mr. Ryan made the following statement:

Recent history has not been kind to the former Yugoslav Republic of Macedonia. Relatively less well endowed than its neighbors, the former Yugoslav Republic of Macedonia has proven to be particularly vulnerable to the external shocks of the past few years.

The former Yugoslav Republic of Macedonia's authorities have shown a natural desire to cushion the impact of these shocks on enterprises and workers. As is so often the case, however, such attempts to limit hardships in the short term are only likely to postpone and exacerbate the difficult adjustments that eventually must be undertaken. Indeed, the drift of policies and conditions in the former Yugoslav Republic of Macedonia at the present time points toward continued deterioration unless stronger steps are taken to bring some control to monetary and fiscal policies as well as market discipline to enterprises. While the authorities appear to recognize the need for far-reaching changes, their approach appears somewhat tentative and vulnerable to backsliding in many cases. If the former Yugoslav Republic of Macedonia is to break out of the current slide in output, mounting government and enterprise arrears, and double-digit monthly inflation, firmer efforts will need to be taken to align policies with economic reality.

A broad-based set of market reforms and stabilization measures is required to address the interlinkages between structural rigidities and macroeconomic decline. To direct monetary policy toward price stability--and away from subsidizing credit to non-viable enterprises--it appears that a range of structural measures will be required to complement moves to effective market-based monetary management. These would include efforts to instill some market discipline into enterprises as well as to strengthen the banking sector's balance sheet and prudential orientation.

Privatization ought to be a priority. As the background paper notes, the former Yugoslav Republic of Macedonia's nonagricultural sector is largely socially owned. Self-management of enterprises without hard budget constraints has led to overruns in wages and a run-down in capital stock. Access to easy bank credit under current conditions has undermined the financial system while doing little to enhance enterprises' future viability. This situation is unsustainable and will increase the restructuring costs that will inevitably need to be undertaken. We note the authorities' intention to establish a privatization program, but we share the staff's concern over the large potential for delay in its implementation. For example, giving large enterprises two years to formulate privatization programs under current circumstances does not inspire confidence or reflect the sense of urgency demanded by the situation. It is a little like giving a sick child the opportunity to dictate how and when his bitter medicine will be administered. In all likelihood, the medicine will not be taken soon enough, and the condition will worsen.

No matter how fast privatization is pursued--and we hope it occurs as swiftly as events permit--labor market reform is essential. Freeing up labor practices is critical to boosting social enterprises' productivity and to giving private firms the needed latitude to operate competitively. Some short-term acceleration of unemployment will likely result. The quicker enterprise productivity can be restored, however, the quicker a sustainable turnaround in the economy and the job picture is likely to come about. In the meantime, we would agree with staff on the need for wage controls as an interim measure to counter tendencies toward continued wage inflation.

Fiscal priorities will need to reflect the imperatives of structural reform. Given the scarcity of resources, difficult choices will need to be made in order to rechannel some monies from entitlements, wages, and subsidies to areas supportive of adjustment and future growth. The staff has identified unemployment compensation and bank rehabilitation as areas meriting attention. Bolstering support for the unemployed is presented as a building block for labor reform, which in turn could serve to limit pressures by enterprises for continued credit subsidies that have contributed to the low monetization of the economy. Seen in this context, an enhanced unemployment program emerges as a clear necessity. The need for cuts elsewhere, such as in entitlements, presents difficult political choices, but surely the prospect of continued economic decline if nothing is done presents an even starker picture.

On a broader level, better fiscal management is needed--in part to complement structural reform efforts. Lax expenditure procedures and arrears to enterprises, for example, must not be allowed to undermine the already difficult process of weaning enterprises away from easy credit. At the same time, ending the Government's accumulation of arrears should not be replaced by resorting to central bank financing.

On the external side, it is encouraging to note that the former Yugoslav Republic of Macedonia appears to have maintained export levels despite the set backs in traditional export markets. Maintenance of an open trading system and flexible exchange rate regime should facilitate continued improvement, though this depends, at a very basic level, on the former Yugoslav Republic of Macedonia being able to ship its products once new markets are found. In this regard, we would appreciate the staff's views on how transshipment problems are being addressed so that restructuring efforts might find some reward in increased trade flows.

Finally, the former Yugoslav Republic of Macedonia's growing arrears to international creditors loom large on the list of problems requiring the authorities' attention. While we would agree that the former Yugoslav Republic of Macedonia will require substantial assistance in eliminating and working out its arrears, the country's rather modest debt-service ratio suggests a manageable payments situation once a comprehensive reform program is in place and rescheduling discussions are initiated. This is easier said than done, of course, but the sooner this process starts, the better. The Fund will clearly have a role to play in supporting adjustment efforts, although we understand the scope of possible assistance is under review. On the question of the former Yugoslav Republic of Macedonia's eligibility for the STF, we will be interested in the staff's findings and views and, for our part, will retain an open mind on the issue.

Mr. Dorrington made the following statement:

This is a welcome and early opportunity to discuss the former Yugoslav Republic of Macedonia. I hope that it will not be long before we are able to consider Fund financing for the former Yugoslav Republic of Macedonia's adjustment. The staff has demonstrated its willingness and ability to move quickly; it is now for the authorities to put the necessary policies in place that could command support from the Fund. The staff report sets out a clear framework for what needs to be done.

Of course, I sympathize greatly with the situation the country finds itself in after what Appendix II of the staff report calls "an extraordinary series of external shocks." Furthermore, as Appendix I says, "economic analysis is currently hampered by serious deficiencies in the data." As is usual in Fund papers, these are certainly not overstatements. But I also agree with the staff that "it would be a serious mistake to delay structural reforms because of uncertainty about whether the loss of markets and transshipment routes is of a temporary or permanent nature." The measures advocated by the staff will be of clear benefit to the former Yugoslav Republic of Macedonia in any event. While I recognize that immediate action will be painful and difficult, delay would be worse. In addition, I hope that it will be possible for the authorities to learn from the experience of other economies in the region, and to use that experience as the basis for a political and public education campaign to create the consensus behind reform that is currently lacking.

Setting monetary policy on a sustainable anti-inflationary course is clearly a stabilization priority for an economy still on the brink of hyperinflation. The authorities' agreement on the need to tighten policy is certainly welcome.

But accompanying efforts are essential to redirect policy away from the distortive system of selective credits and, in tandem with this, to address the weakness of banks dangerously exposed to loss-making enterprises. It will be important that the authorities do not succumb to pressure to compromise such measures by the creation of new permanent budgetary subsidies, or by an overcentralized, morally hazardous, and expensive approach to bank restructuring.

I understand that useful suggestions have been made in this area, among others, by the World Bank, in the context of a recently prepared country economic memorandum, and I urge the authorities to adopt and build on these. The introduction of treasury bills, for example, would be a useful, early step in connection with those banks currently not experiencing liquidity and solvency problems.

At this stage of the stabilization process, I agree with the staff that there is no real alternative to the temporary introduction of firm and credible wage controls, including in individual enterprises. I would hope that enterprise privatization, following the implementation of the Privatization Law in June, will soon create the hard budget constraints that will render such control unnecessary. Privatization can, and should be, accelerated by avoiding the presumption that restructuring is always necessary prior to sale. The authorities should also move quickly ahead with the legislation on governance, commercial, labor, and investment reforms needed to maximize the benefits of the process and unlock the private sector's full potential of what the paper refers to as a "relatively efficient capital stock."

The authorities have done well so far in avoiding public sector recourse to borrowing from the banking sector, and I would urge them to continue to do so. Nevertheless, balanced books on a cash basis and an inadequate monitoring of government liabilities conceal an underlying deficit on an accruals basis, which is projected to increase to at least 15 percent of GSP. Even if the authorities withstand further spending pressures for wage and benefits payments, and for agricultural subsidies and servicing of frozen foreign currency deposits, further accumulation of arrears is likely to be unsustainable and helps to preserve the pretense that more fundamental changes are unnecessary.

At the same time, maintenance of the reforms urgently needed to curb inflation carries with it an unavoidable need to reprioritize expenditure--for example, away from the former Yugoslav Republic of Macedonia's unaffordably generous system of pensions and other social benefits, entitlements, and producer subsidies, and toward the immediate costs of unemployment, bank rehabilitation, and infrastructure. It is striking to compare the 13 percent of GSP spent on benefits and entitlements with the 0.6 percent devoted to capital expenditure. An adjunct to this redirection of spending must be the endowment of the Ministry of Finance with the responsibility and tools for rigorous overall expenditure control.

Difficult though they will be, steps in these directions will be essential to create the room and flexibility for financing adjustment. Commitment to such reforms must, I think, be seen as prior actions to any future Fund support. That said, full reform of the pension and benefits systems is inevitably a slow process. I found the staff report rather thin on suggestions for immediate action that the authorities might take on the expenditure side, other than to resist pressures for additional spending. Perhaps the staff could expand on this.

On the revenue side, Fund-assisted efforts to improve tax administration, and the planned simplification and rationalization of the tax system, while very welcome, will also not yield immediate benefits. I agree that tax increases to improve a comparatively low tax effort should not be ruled out. What additional tax measures might the staff have in mind?

Finally, the restoration of relations with the international financial community, particularly with the World Bank, must be a crucial part of the authorities' efforts. As I said in opening, a credible program of reform is the prerequisite for support from the Fund and others. The extent of administrative and institutional weakness also suggests an important early role for coordinated technical assistance from a number of sources in which the Fund can play a part.

Looking ahead, I take assurance from the useful discussion of external shocks in Appendix II of the paper that the staff will take proper account of the impact of all these shocks--including, but not restricted to, the impact of UN sanctions--in its consideration of the appropriate vehicle for, and size of, future Fund support. Like earlier speakers, I wonder whether the staff is currently able to elaborate on this.

The staff representative from the European I Department commented that there were two main problems on the revenue side of the public sector. One was, of course, the collapse of the revenue base linked to the sharp drop in output. But another problem, which the staff had become particularly aware of following a recent technical assistance mission, was the lack of tax compliance. The Social Accounting Office, which was supposed to ensure that socialized enterprises did not pay wages at the expense of tax payments, was no longer enforcing that restriction. Hence, the general deterioration in financial discipline had spilled over into the public sector and was the main reason for the sharp reduction in tax revenues that the staff was projecting for 1993. Therefore, the staff believed that, as far as the immediate measures were concerned, the staff's emphasis on improving financial discipline through wage control laws and by enhancing the role of the Social Accounting Office would have an immediate, significant, and positive impact on tax revenues.

No tax increases were planned for the very near future, the staff representative continued. But the authorities were preparing, with the help of the Fund, the introduction of a value-added tax and a global income tax. It was premature at the present stage to assess what the revenue impact of such taxes would be.

As to the question of the appropriate size of the public sector, the staff representative said, on the one hand the previous share of expenditures of almost 40 percent of GSP was clearly too high compared to the situation in other countries at a similar level of development. On the other hand, the present share of expenditures of close to 22-23 percent was clearly too small. The real issue in that connection was, of course, the quality of spending. There was a clear awareness among the authorities that there was a strong case for increased taxation, provided that the incremental budgetary resources were channeled to reform programs, particularly bank rehabilitation and unemployment compensation.

On the question of immediate spending reductions, the staff had emphasized that there clearly was scope for considerable reduction in subsidies, the staff representative commented. The agricultural sector still received large subsidies and was indeed asking for more to compensate for the loss of selective credits. The staff believed that reducing subsidies should be a priority. In addition, it was important to keep in mind that the adjustment in cash expenditure that had been achieved by reducing expenditures like wages and social transfers--precisely the areas where the staff also believed that reductions should take place. The efforts to achieve reductions should be made in an orderly and sustainable manner by reducing entitlements first. It was important to recognize that the authorities had made considerable efforts in those areas, although not quite in the form that the staff would have preferred.

The transshipment problems had intensified in the sense that transshipment through Serbia was no longer taking place, the staff representative from the European I Department commented. During the winter of 1991/92, there apparently had been no oil shipments from the Greek port of Thessaloniki, which had had severe consequences for economic activity; those shipments had resumed during the subsequent spring. However, the authorities had emphasized that there were still considerable transshipment disruptions of an ad hoc nature, sometimes involving considerable delays or even preventing shipments altogether. The staff had been unable to quantify the extent to which those disruptions had affected exports. The authorities had emphasized that the transshipment problems had forced exporters and importers to seek alternative outlets through Bulgaria and Albania and that they involved transportation costs about three times the normal costs. Hence, while transshipment was taking place, it was considerably more costly than usual. For a few items that required rail access through Serbia and Greece, no transshipment was currently available.

The staff representative from the Policy Development and Review Department said that the staff was reviewing the eligibility of the former Yugoslav Republic of Macedonia to use the STF. The situation was considerably complicated by the effects of the multiple shocks noted in the staff paper. It was obviously difficult to disentangle in a precise way the possible impact on the balance of payments of the systemic change in trading arrangements with the CMEA countries from the other shocks.

There was also the issue of how to treat interrepublican trade for the purpose of STF eligibility, the staff representative continued. Prior to the dissolution of the Federal Republic of Yugoslavia, trade with CMEA countries had accounted for about a third of the Federal Republic's total trade. On that basis, had the Federal Republic remained intact, it presumably would have suffered a substantial trade shock, owing to the transition to market-based trade with former CMEA countries, and, again hypothetically, it was likely that the Federal Republic as a whole would have met the eligibility criteria of the STF. Therefore, one could argue that there was a presumption that at least some of the new republics would also be eligible. It was, of course, possible that some republics suffered more than others because of their greater past dependence on CMEA trade. That brought up the issue of how to treat interrepublican trade. In the staff's view, it would not be entirely logical to conclude that individual republics did not suffer serious balance of payments difficulties from the transition to market-based trade with the former CMEA countries purely because interrepublican trade was large relative to trade with the former CMEA countries.

As to the former Yugoslav Republic of Macedonia in particular, it was estimated that trade with the CMEA countries accounted for at least 30 percent of foreign trade, excluding interrepublican trade, the staff representative continued. Exports to CMEA countries had fallen from about $200 million in 1990 to about $100 million in 1992. Over the same period, total exports, again excluding interrepublican trade, had fallen by more than $50 million, which was equivalent to approximately 70 percent of the former Yugoslav Republic of Macedonia's quota in the Fund. While those developments were also affected by other shocks, measurement problems suggested giving the member country the benefit of the doubt. Hence, it would appear that a case could be made for STF eligibility by the former Yugoslav Republic of Macedonia.

Mr. Wang made the following statement:

The economic situation in the former Yugoslav Republic of Macedonia is very critical, given the fact that the economy has contracted sharply over recent years. The regional conflicts have affected economic activity and further complicated the authorities' macroeconomic management. Lack of an appropriate institutional and administrative framework and the weak macroeconomic policy have contributed to a severe economic imbalance. Despite this, the authorities have made efforts to correct the imbalance and made progress in maintaining a flexible exchange rate policy. As I share the previous speakers' concerns and am in broad agreement with the staff's assessment, I would like to confine myself to a few remarks.

On fiscal policy, the continued widening fiscal imbalance is conspicuous. I understand the difficulties caused by the regional environment, but for the sake of stability and future growth, the authorities are urged to strengthen their budget control and prioritize expenditures to support reform programs. The current measure to control public borrowing by delaying wage payments and social transfers contains the risk of disability, as the authorities are worried that the wage payments and social transfers are approaching levels in real terms that might not be socially tolerable. Therefore, the appropriateness of such measures needs to be reconsidered. The heavy subsidy for the agriculture sector is also worrisome.

We agree with the staff's view that lack of major comprehensive reforms, in particular enterprise reform, has been at the root of the economic problems and severely constrained monetary and fiscal policy maneuvers. Large interenterprise arrears and some administrative measures delaying payment of purchases of goods will threaten the collapse of functions of the national payment system, resulting in a disaster for the whole economy. I appreciate the authorities' efforts at enterprise reform, but I urge them to take further steps. Restructuring public enterprises and hardening their soft budget could significantly enhance the authorities' efforts to stop the wage-price spiral and should therefore become one of the authorities' priorities on the reform agenda. Promoting small business could be one of the helpful alternatives the authorities may consider in restructuring the economy and overcoming the labor market rigidities.

On monetary policy, a grave concern arises from the present policy, which has not been aimed at maintaining price stability but rather at accommodating the public enterprise demand for credit. Such a policy stance could undoubtedly provoke the risk of hyperinflation and severely damage the prospects for stability and economic growth. There appears to be evidence of the risk of losing control over money growth. Given the current status of the central bank in the former Yugoslav Republic of Macedonia, strong efforts should be taken by the authorities to improve the legislative environment to strengthen the autonomy of the National Bank with regard to monetary policy management.

Finally, it is commendable that the authorities committed themselves to keeping their trade regime relatively liberal and the exchange rate policy flexible. The former Yugoslav Republic of Macedonia's current economic situation suggests that external assistance is inevitable and vital for the authorities' efforts to stabilize the economy. The Fund's STF would fit the former Yugoslav Republic of Macedonia's current economic needs. The authorities are encouraged to further strengthen their efforts to normalize relations with the international community. As we learned from Mr. Posthumus's helpful statement, the Netherlands Government would be ready to make a generous financial contribution to help the authorities normalize relations with international organizations. The Netherlands authorities' efforts are much appreciated, and we urge the international community to respond in a positive and timely way.

In conclusion, the authorities face formidable challenges in stabilizing the economy. Given the unpredictable regional situation, they are encouraged to take immediate steps to restructure their economy. Enhancing their institutional and administrative capabilities is essential and urgent for the success of economic stabilization and future growth. It is my hope that, once the regional situation permits, the authorities will, with assistance from the international communities, be able to bring the economy back on a normal growth track.

Mr. Cserés made the following statement:

Since peacefully seceding from the Yugoslav Federation and declaring its independence, the former Yugoslav Republic of Macedonia has suffered from severe economic crises that were largely the result of external factors. The former Yugoslav Republic of Macedonia's attempts to modernize its economy have also entailed transitional costs, but the lion's share of the output decline is attributable to external shocks, which were all the more severe owing to the country's small size and dependence on imports.

Over the past three years, output has fallen by about 40 percent, owing to the regional crisis and accompanying disruption of external relationships. Tension and conflict throughout the region have severely disrupted trade between the republics of the former Yugoslavia, caused a sharp drop in foreign remittances, and virtually eliminated foreign exchange earnings from tourism. The collapse of trade and payments agreements with the former CMEA countries has also severely affected the former Yugoslav Republic of Macedonia, one quarter of whose trade was with these countries. UN Security Council sanctions, particularly Resolution 820 banning all economic transactions with Serbia and Montenegro, have seriously disrupted trade by blocking traditional transport routes and greatly increasing transportation costs. In addition, the former Yugoslav Republic of Macedonia's absorption of at least 60,000 refugees from Bosnia has received inadequate support from abroad.

Along with the dramatic production decline, inflation has been a major cause of concern since independence. In early 1992, the authorities of the former Yugoslav Republic of Macedonia fully monetized the federal budget deficit, triggering hyperinflation. Thereafter, the central bank was granted independence and a macroeconomic stabilization program was launched. This program achieved some early successes, but after the Government fell, control over wages was lost and inflation surged once more. A second attempt to bring the wage-price spiral under control is now under way.

In addition to stronger external financial assistance to help the authorities absorb massive external shocks and support the transition, the following steps will be crucial to keep this stabilization effort on track.

A much more stringent monetary policy must be adopted in the short run to counter present volatile expectations of hyperinflation. On this point, I agree with the statement that one of the first steps should be to phase out the rediscounting of selective credit lines. This would provide more room for maneuver for market-based instruments supported by a flexible exchange rate regime.

The sustainability of a tighter monetary policy will naturally need to be supported by additional policy actions in other areas.

Monetary policy has been severely hampered by the insolvency of most banks, the large fiscal imbalances, and by concerns about wage negotiations. Therefore, the elimination of the economy's present macroeconomic distortions and fundamentally restructuring the banking sector are equally urgent.

Economic stabilization will also require solving the fiscal problems that create continuous pressure to monetize the deficit. The lack of budgetary controls in the self-managed, state-owned sector constantly threatens to renew the wage-price spiral and induce the monetary authorities to act as lender of last resort and restore the special rediscounting credit lines, which jeopardize the anti-inflation stabilization program. Avoiding hyperinflation will depend above all on success in negotiating and safeguarding firm wage restraint.

The restructuring and recapitalization of the banking system will have to continue over the medium and long term, in order to make the financial sector capable of channeling domestic and foreign resources to the private productive sector. It is obvious that the interlocking ownership of the banks and the state-owned enterprises complicates efforts to restructure either sector. This situation would be improved by accelerating privatization and by technical assistance from the Fund in the area of banking supervision.

I support the proposed decision.

Mr. Posthumus recalled that a few days earlier one of his colleagues had told him that "I'm not going to intervene on the former Yugoslav Republic of Macedonia, because the situation is so difficult I wouldn't know what to say." He himself had thought much the same thing on his first visit to the country. However, a number of the authorities were fully aware of what needed to be done, although they had not yet managed to formulate a complete package of policies.

Of all the remarks that had been made during the discussion, those on privatization had been the most helpful, Mr. Posthumus said. It was clear that privatization should occur quickly, and that the policies that the authorities had put in place were not fully commensurate with that priority. Hence, speakers' comments on that issue were welcome.

The STF was designed as a step toward a stand-by arrangement or an upper credit tranche arrangement, Mr. Posthumus noted. In his view, that was clearly the correct approach to the STF; use of that facility should not be seen as an excuse to delay introducing difficult measures. If that point was clearly understood by the authorities--and he would make every effort to ensure that it was--that could strengthen the case that could be made for the eligibility of the former Yugoslav Republic of Macedonia to use the STF.

The Acting Chairman made the following summing up:

Executive Directors agreed with the thrust of the staff appraisal and the staff's policy recommendations. The economy of the former Yugoslav Republic of Macedonia has been subject to major internal and external shocks, which had led to large losses of output and economic imbalances. Inflation remained high, and the risk existed that it could evolve into hyperinflation unless the authorities took immediate action to correct inadequate budget and monetary policies, and also given the absence of wage controls. It was also stressed that structural reforms needed to accompany these macroeconomic policy adjustments.

Directors noted that the tendency of socialized enterprises to protect real incomes and employment and the failure to impose wage controls had compounded the inflationary pressures associated with the collapse of output. Directors urged the early introduction of wage controls and believed that such controls should be maintained until privatization had hardened budget constraints. Otherwise, the prospective further decline in real incomes would be brought about through a further acceleration of inflation.

Directors noted that the need for an immediate and significant tightening of monetary policy was evident. The generally accommodating monetary policy stance had reflected the National Bank's policy of providing large selective credits through its rediscount window. Accordingly, they welcomed the recent decision to phase out the selective credits, a decision that would enable a refocusing of monetary policy on inflation control, and they urged the authorities to implement this quickly. Directors also noted that for an anti-inflationary monetary policy to be sustained, it would need to be supported by a restructuring of the large segment of the banking system that was technically bankrupt.

Noting the projected further reduction in tax revenues, Directors stressed that it was essential that the authorities continue to avoid large-scale recourse of the public sector to the domestic banking system. In this context, Directors observed that the adjustment that has taken place so far in public sector spending has involved payment delays in respect of wages, social expenditure, and other transfers. Directors urged the authorities to avoid this type of disorderly adjustment and, instead, to undertake permanent cuts in expenditures, such as in the existing generous and broad-based benefit programs that were no longer affordable. In this context, a more targeted social benefit program would be called for.

Looking forward, Directors considered that fundamental structural reforms were required to strengthen the economy. They emphasized, in particular, the need to reform the enterprise system and to lift constraints on layoffs. In this regard, they welcomed the recently approved privatization law, emphasizing that this law aims at an early break with the vestiges of the self-management system. Directors noted, however, that budgetary resources would be needed to support structural reforms, reinforcing the need for immediate measures to strengthen the fiscal position, both by focusing on expenditure reductions and also by strengthening the revenue base of the tax system.

Directors noted that the much-reduced size of the domestic market made it particularly important to maintain an open economy. They welcomed, therefore, the resolve to maintain an open and liberal external trade system, as well as the recent move to a market-determined exchange rate for the denar. Directors expressed the hope for a speedy regularization of relations with creditors as a means of unlocking much-needed financial assistance on appropriate terms. Particular mention in that context was made of the arrears to the World Bank. Finally, the hope was also expressed that the former Yugoslav Republic of Macedonia would be in a position to qualify for use of Fund resources, both from the point of view of adjustment and reform policies on which emphasis was placed as well as from the point of view of its eligibility in the context of the STF.

It was agreed that the next Article IV consultation with the former Yugoslav Republic of Macedonia would be held on the standard 12-month cycle.

4. ZAMBIA - 1993 ARTICLE IV CONSULTATION; RIGHTS ACCUMULATION PROGRAM - REVIEW; AND OVERDUE FINANCIAL OBLIGATIONS - REVIEW FOLLOWING DECLARATION OF INELIGIBILITY

The Executive Directors considered the staff report for the 1993 Article IV consultation with Zambia and the midterm review under the 1993 rights accumulation program (EBS/93/120, 7/28/93; and Sup. 1, 8/25/93), and a staff paper on the further review of Zambia's overdue financial obligations to the Fund following the declaration of Zambia's ineligibility to use the Fund's general resources effective September 30, 1987 (EBS/93/136, 8/18/93). They also had before them a background paper on recent economic developments in Zambia (SM/93/174, 8/11/93).

The staff representative from the African Department made the following statement:

> Developments in Zambia since the issuance of the staff report have shown that the policies being pursued in the last several months are having a substantial positive impact. Inflation in August decelerated to 2.4 percent, down from 11.8 percent in July and 15.8 percent in June. M2 grew by only 4 percent in July, following its decline in June, and reserve money has remained within program limits. The annual yield on 91-day treasury bills was 245 percent on August 20, 1993, down from its peak level of 371 percent. A 182-day treasury bill was introduced last week.
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> After depreciating to K 576 per U.S. dollar in early July, the kwacha had appreciated to K 460 by August 23. The spread between the buy and sell rates in the bureau market has recently been about K 80 per U.S. dollar, as banks that had substantial foreign exchange holdings tried to limit their losses. In keeping with their policy of changing petroleum prices to reflect exchange rate (and world oil price) movements, the authorities lowered prices last week by 14.3 percent for some products.

On the fiscal front, the Government made a final wage offer to the public sector unions of a 50 percent wage increase, beginning September 1, 1993, with no retroactivity. The authorities argued strongly that no additional increase could be afforded, and last week the unions accepted the offer. The increase in the wage bill amounts to K 17 billion in the remainder of 1993, increasing nondrought expenditure for the year by 7 percent. The Government is putting in place a variety of measures estimated to be sufficient to fund the increase fully, including increases in the sales and excise taxes. The Government has also established a Commission on the Civil Service to recommend reforms to be implemented in 1994, with particular attention to the size of the civil service and its wage structure.

Concerns about the adequacy of crop marketing arrangements persist, though maize purchases have picked up in recent days. The authorities have released the budgeted funds for maize marketing more swiftly than programmed, meeting their cash budget constraint by delaying fertilizer financing. (Fertilizer is still being imported on schedule, financed by suppliers' credits and foreign aid.) Little commercial bank crop credit has been extended so far, reinforcing concerns about the capacity of the private sector to play a major immediate role in marketing. The liquid asset requirement was reduced by 5 percentage points in early August (rather than in early July as indicated in the letter from the authorities) and by another 5 percentage points on August 23 in an effort to increase the availability of crop financing.

A number of Directors had indicated to the staff that they would like to see more specific language in the decision to clarify that the delayed settlement of SDR 14.3 million will in fact be made up no later than next year. When the time comes to discuss the decision, the staff will be offering a proposed amendment to meet this concern.

Mr. Mwananshiku made the following statement:

My Zambian authorities wish to express their gratitude to both management and staff for the support and assistance they have received in the context of the rights accumulation program. They are also grateful for the assistance received from the international community, including members of the Paris Club.

My authorities are in broad agreement with the staff analysis of the economic and financial developments in Zambia and hope that the proposed decisions will receive the Board's favorable consideration. Board approval of these decisions will ensure the continuation of the rights accumulation program which my authorities see as offering a valuable opportunity to consolidate the many gains achieved so far, including laying a foundation for the sustained development of the economy.

In the course of 1993, the Zambian authorities continued with determination to implement their rights accumulation program. Far-reaching measures were implemented aimed at further liberalization of prices and the exchange and trade system and at reforming the financial sector. Encouraging progress was also made in the area of privatization. The recovery from the 1992 drought, reinforced by the positive impact of the market-oriented pricing policies, resulted in good harvest for many crops, including a bumper crop of maize with an exportable surplus.

As indicated in the staff report, many aspects of the program were satisfactorily implemented in the first half of 1993. For instance, fiscal developments were broadly in line with the program, with revenue exceeding the projected level by a significant margin. Thanks to the policy of fiscal restraint, the budget registered a primary surplus in excess of the targeted amount. However, as anticipated, the overall fiscal balance was in deficit, owing largely to high interest payments on domestic debt, which were triggered by the freeing of interest rates.

On the monetary front, interest rates are now fully liberalized and have been maintained at positive real levels since the introduction of an auction system for treasury bills in January. Since then, the Bank of Zambia has been actively engaged in the tendering of treasury bills in an effort to limit monetary expansion.

One area where performance was particularly disappointing is the reduction of the rate of monetary growth. As indicated in the staff report, reserve money expanded rapidly in the period up to the end of May 1993, giving rise to high rates of inflation. However, once the sources of reserve money growth were identified, measures were implemented to bring monetary expansion under control and tighten fiscal policy.

The payoff has been quite remarkable. Since June, the money supply has continued to contract, resulting in positive developments in a number of related areas. For the first time, the monthly rate of inflation has shown a declining trend and is expected to be less than 3 percent by the end of this month. At the same time, the bank rate has declined by 10 percentage points from its July level, and the exchange rate has continued to appreciate.

Despite the progress that is now becoming evident, the main preoccupation of my authorities remains the restoration of stability to the economy. They recognize that this objective can be achieved only through tight fiscal and monetary policies, taking advantage of the better prospects created as a result of the recovery from the drought.

In the area of fiscal policy, emphasis will be placed on improving revenue performance and restraining expenditure, while restoring public investment and social spending. Within the context of the tightened fiscal stance, the authorities have reached a wage settlement with the unions (with effect from September 1, 1993) and, as agreed with the staff, will implement compensating revenue measures. As for Zambia Airways, the authorities have instructed the company to work out additional cost-cutting measures aimed at restoring its financial well-being. To aid that process, the authorities have withheld part of the Zambia Airways subsidy included in the 1993 estimates. At the same time, the financing of agricultural purchasing is being channeled through the commercial banks.

Monetary policy will continue to be nonaccommodative, and the management of monetary policy will be further strengthened.

Progress will continue in the area of privatization, with the sale of more public enterprises. On the external front, the authorities intend to continue the liberalization of the exchange and trade system, strengthen nontraditional export performance, and improve the efficiency of foreign exchange utilization.

Zambia has made great efforts to normalize its relations with the Fund and other multilateral creditors, despite its very tight foreign exchange position. Since the beginning of 1992, Zambia has met all financial obligations falling due and has made additional payments to reduce its arrears to the Fund by over SDR 50 million. Since the latest review, on April 19, 1993, Zambia's payments to the Fund totaled SDR 38.5 million.

Zambia cleared its arrears to the World Bank in January 1992. However, Zambia had difficulty in the first half of 1993 in demonstrating this exemplary performance as regards its arrears to official bilateral creditors. The relatively low export performance, particularly of copper, the most important export commodity, and a large shortfall of donor assistance have thwarted the authorities' effort to meet their debt obligations to these creditors.

Zambia's overdue obligations to the Fund for the second half of 1993 total SDR 33.8 million. The anticipated shortfall in the programmed donor assistance and the expected continued decline in export earnings are going to severely constrain the international reserve position. In view of the difficult foreign reserve position now facing Zambia, I urge the Board to approve the recommendation by the staff, strongly supported by my authorities, that of the SDR 33.8 million falling due during the second half of 1993, SDR 14.3 million should be paid in 1994 when, we hope, the situation will improve. The postponement of the payment will facilitate the successful implementation of the rights accumulation program, which is necessary not only to normalize relations with the Fund and other creditors but also to lay the foundation for sustainable economic growth and poverty reduction in Zambia--the lofty goals cherished by the Fund.

The Zambian authorities have persevered despite sharp deterioration in the terms of trade, adverse weather conditions, and shortfalls in external assistance. However, in spite of the important progress made, Zambia's economy remains fragile and is vulnerable to external shocks. It is also highly dependent on external aid. My authorities recognize the daunting challenges ahead and remain committed to the rights accumulation program. Continued concessional financial assistance from the international community is essential to underpin their efforts.

Mr. Dorrington made the following statement:

Before I start my comments on Zambia, I wish to thank the staff for circulating yesterday a concise buff bringing us up to date on a number of important developments. This procedure, if at all possible, is to be much preferred to an introductory statement, and I welcome the fact that this appears to be the common practice. We had it on Benin as well this morning.

Turning to Zambia, when we discussed the rights accumulation program in April, Mr. Peretz said that "it is obviously right that the primary objective of the 1993 program is to reduce inflation sharply." It is therefore very disappointing to find that inflation actually accelerated in the first half of 1993.

Having said that, it is very encouraging that the authorities appear to have cooperated fully with the staff in identifying the proximate causes of the acceleration and have acted promptly to take corrective actions, and the staff update inspires confidence that these measures have been effective. This episode underlines the importance of quickly identifying problems, undertaking the necessary analysis, and reacting accordingly. Indeed, it is even better if potential problems can be addressed before they emerge. It is in this context that I warmly welcome the decision by the Bank of Zambia to establish a monetary committee to meet weekly to review the monetary position and to improve procedures. The effectiveness of this committee will, of course, depend on the quality of the inputs to it, and I have in mind two types of inputs--statistical and analytical.

As far as statistics are concerned, the steps being taken with Fund help to improve the quality and timeliness of the key monetary data are very encouraging. With regard to analysis, I hope that the Bank of Zambia will allow the Fund and, indeed, any others who are able and willing, to make a full contribution. Of course, while outsiders can advise, it will remain for the Bank of Zambia itself to take decisions based on these inputs. Perhaps staff, or Mr. Mwananshiku, could comment. For example, are there plans to invite the Fund's resident representative to attend the meetings of the monetary committee?

I would also be interested in any comments regarding measures being taken to improve statistics more generally, and any other steps toward closer monitoring of macroeconomic developments, both by the authorities and by the Fund. Significant moves on all these fronts are essential. Zambia's adjustment program is fragile and cannot afford to see again the degree of slippage in the first half of 1993 before corrective action is taken.

There continued to be a number of specific causes for concern. First, there is continuing pressure on the public wage bill. It is vital that the authorities resist pay increases that are not affordable. I regret the 50 percent general pay increase for civil servants following the implicit increase of 60 percent following tax changes, restructuring, et cetera, but I unambiguously welcome both the fact that this dispute has now ended and that no time has been wasted in taking measures to generate the necessary financing.

In the medium term, Zambia needs to move toward a slim, efficient civil service paying competitive rates to attract top quality staff. Meanwhile, the Government should look at further improvements in the structure of civil service pay, rather than granting across the board increases. I note that retrenchment of civil servants is currently being hindered by relatively large termination benefits, and perhaps the staff could comment on the appropriateness of these.

The second potential cause of macroeconomic instability stems from the bumper maize harvest this year. It is, of course, a cause for celebration that the agricultural sector has bounced back from the drought in this way. I support the Government's approach of withdrawing from direct financing, but it is vital that sufficient crop financing be made available to support the increased output. Thus, if the reductions in the liquid asset ratio mentioned in the staff supplement are necessary to achieve the required financing, then I have no problem with them. I think I detect some skepticism by the staff that these measures may not be sufficient. Perhaps the staff, or Mr. Mwananshiku, might comment.

In any event, in view of the problems of inadequate monetary control earlier this year, I am concerned that the Government should take prompt action to rein in credit once the temporary financing need has past. Close monitoring here will clearly be essential.

I welcome the decision to ban the Bank of Zambia's credit to parastatals, but I note that this may leave potentially viable enterprises in a difficult situation in the short run, with neither access to public credit nor the freedom to borrow privately even when this could be justified on normal economic criteria. This is yet another reason to move quickly to transfer enterprises to the private sector.

Despite the macroeconomic problems, I am glad to see that the Government has continued to make good progress toward liberalizing access to foreign exchange and unifying the exchange rate, despite the unevenness in foreign exchange receipts. I also applaud the Government's strong actions to bring energy prices into line with resource costs, and I welcome the inclusion of the prompt pass-through of changes in import costs as a structural benchmark.

Having made these points, I must confess to being rather confused on two issues that I think you will agree are rather important, the overall stance of fiscal policy and of monetary policy.

With regard to fiscal policy, the distribution of cuts in expenditure does not appear to be the result of a rational assessment of priorities followed by effective implementation. In particular, capital and social spending seem to have suffered from excesses elsewhere. Tax revenue is both low and has been declining as a percentage of GDP. It is not obvious that this mix is appropriate to achieving economic or social objectives. Yet, as Mr. Mwananshiku says, revenue in nominal terms, at least, is above target, as, too, is the primary surplus--both apparently signs of good control. I would welcome staff comments on this.

On monetary policy, all the right things are being done to move toward fully indirect controls. Positive real interest rates have been established. Indeed, while precise measurement is not easy, it is clear the real rates are massively positive. This could be a sign of an underlying inappropriate balance of fiscal and monetary policy, but it is not clear that this is the case. It could be the indirect result of a shortfall of donor assistance in the first half of the year, in which event real rates will presumably decline as aid flows pick up. And perhaps the recent reductions are evidence of this. I also wonder whether high rates are the result of the upturn in investment, or a deterrent to it, or, indeed, both. I would welcome staff comments on all these measures as well.

I would now like to comment briefly on the long-term outlook for Zambia. The projections make for somber reading. Much depends on the successful implementation of the Concola project. The projected growth of nontraditional exports is, as Appendix III notes, ambitious. Even with strong adjustment efforts, it is clear that Zambia will not be able to attain external viability without further debt relief. Continued adherence to the rights accumulation program is essential to attract further relief from the Paris Club. In this context, it is particularly regrettable that arrears have been allowed to re-emerge on official bilateral debt. Zambia was granted exceptional terms by the Paris Club and cannot afford to damage creditor confidence by unilaterally allowing arrears to accumulate. I urge prompt clearance of these arrears. However, I must congratulate Zambia on maintaining its agreed payments to the Fund, despite the difficulties in so doing. While it is regrettable that some payments originally scheduled this year will now be delayed until next, the staff is right to be realistic in revising the schedule. This must be regarded as exceptional and certainly not as a precedent. I also accept the staff argument for not changing the contingency mechanism. This combination of realism and flexibility on the part of the staff, combined with Zambia's performance in keeping to its commitments until new arrangements could be negotiated, is credible on all sides.

Finally, I turn to the draft decision. I was among the Directors wishing to see the change in the phasing of repayments to the Fund explicitly mentioned in the decision, and I look forward to the proposed wording from the staff. I certainly agree with the spirit of all the proposed decisions, and I cannot expect to have any problems agreeing with the amended proposed wording.

Mr. Wire made the following statement:

With Zambia's rights accumulation program now at the one-year mark, we welcome this opportunity to discuss the progress made to date and the challenges that lie ahead. Overall, we are pleased with Zambia's record of cooperation with the Fund over the past year. Zambia has remained current on its obligations, has repaid a portion of its arrears, and, broadly speaking, has stuck with its economic program, though there have been several disappointing slippages since the previous review.

The weakest aspect of recent performance, unfortunately, continues to be the principal focus of this program: the fight against inflation. Inflation was to be brought under control through a sharp deceleration in monetary growth, as well as through a fiscal program that was sufficiently strong to allow large repayments to the banking system. The latter basically materialized; the former did not.

Performance on the fiscal side has been somewhat better than expected and thus did not contribute to the inflationary damage wrought by the loosening of monetary policy earlier this year. We were pleased to see that budgetary targets for end-April and end-June were met, and in this regard we note that the cash budgeting mechanism, while a crude instrument, seems to have served its purpose.

Looking ahead, we welcome indications that the authorities anticipate a larger budget surplus. However, this will not materialize without continued strong efforts to control spending. In this regard, we agree with the staff that the authorities ought to focus on several areas. First, there is a clear need for a broad-ranging reform and drastic downsizing of the public work force, including a less generous compensation program for those laid off. It also will be critically important to ensure that the recently agreed 50 percent wage increase is fully offset by additional revenue measures, as planned.

Furthermore, we strongly urge elimination of subsidies to public enterprises. In this connection, the authorities are to be commended for sticking with the program limitations on subsidies to Zambia Airways and for resisting restructuring plans that would further drain the Government's budget. However, the airline does not appear to be viable in its present form, and we would urge the authorities to move quickly to solve this problem. Finally, we would also concur with the pressing need to restrain agricultural and military spending.

In addition to the satisfactory implementation of fiscal policy, Zambia has also made decent progress on structural reforms and in the area of exchange and trade arrangements. We are somewhat concerned that privatization--in particular, disposition of the first tranche of enterprises--appears to be moving much slower than anticipated at the previous Board discussion on Zambia. However, we welcome indications that the initial program will be completed later this year and that more sell-offs are anticipated.

With regard to the exchange rate system and existing exchange restrictions, we welcome the institutional progress being made toward a more market-determined exchange rate, including the planned establishment of an interbank market next year. However, we join with the staff in urging that the official and market exchange rates be reunified, and that the remaining exchange restrictions be eliminated as soon as possible.

Set against the accomplishments on the fiscal side of the program and on structural reforms, the explosive growth of reserve money earlier this year was quite discouraging. As a result, considerable ground has been given back in the fight against inflation, hyperinflation became a danger, and the credibility of the authorities' commitment to this rights accumulation program clearly was brought into question.

To their credit, the authorities have identified the causes of the runaway money growth and implemented a number of corrective measures. Most of these seem straightforward and follow earlier moves, which we welcome, to liberalize interest rates and introduce a treasury bill system. However, we are still uneasy with the inadequate institutional framework at the central bank, particularly the lack of a balance sheet. In this connection, we strongly share the staff's view that the authorities must make every possible effort to improve both the monetary statistics and the decision-making process for monetary policy.

We welcome the staff's indications that inflation in August, presumably an early estimate, has fallen quite considerably to 2.4 percent, reserve money growth is as expected, and the currency is appreciating. These figures indicate that the authorities' efforts have borne fruit, and that inflation may be coming back into line. Nevertheless, monetary policy must remain tight over the remainder of 1993 to consolidate these gains and ensure that inflation falls to the programmed level by year-end.

Based on the assurances and indications by the staff and by the authorities that the actions taken should bring money growth back on track, albeit from a larger base, to the end-September targets, we can support the proposed waiver for the reserve money performance criterion for end-June.

With regard to the other proposed decisions, we support the draft decision regarding Zambia's overdue obligations to the Fund. In view of Zambia's overall good performance, we also can support the proposed accumulation of rights. We, like Mr. Dorrington, were confused about the SDR 14.3 million.

We have no objection to the proposed postponement until 1994 of SDR 14.3 million of Zambia's planned payments of arrears to the Fund in 1993. However, we would note that this is apparently the first time that such payments under a rights accumulation program have been postponed. We would not like to see this become a regular practice either for Zambia or for other rights accumulation cases. However, we can support this approach in this instance, given that Zambia has remained current, it involves some burden sharing by the World Bank and other donors, and Zambia itself has undertaken some adjustment measures.

In conclusion, we commend the Zambian authorities for the progress they have made on most aspects of their program, and for the corrective measures that have been put in place where their performance has fallen short. If they can reduce inflation and extend the good track record they have established on other aspects of the program, considerable progress will have been made toward the goal of sustained adherence to the rights accumulation program.

Mr. Toé made the following statement:

From the outset, let me state that I am in broad agreement with the staff appraisal and most of the staff's policy recommendations. In particular, I concur with the staff that the most pressing issue facing the Zambian authorities is the need to drastically reduce inflationary pressures in the economy and bring about a stable environment conducive to the realization of the economy's full potential.

It is unfortunate that shortfalls and delays in the disbursements of programmed external financing continued to constrain Zambia's performance under the rights accumulation program. It should be recognized that the rapid increase in reserve money, which has fueled the inflationary pressures in the economy, stemmed, first and foremost, from the acquisition by the Bank of Zambia of foreign exchange in the domestic private market in an attempt to compensate for the severe shortfall in donor assistance. Admittedly, the monetization by the central bank of the losses incurred by the parastatal oil company, ZIMOIL, also added to the liquidity overhang. We are very much encouraged by the authorities' keen awareness of the potential risk of hyperinflation and their determination to maintain a strict policy stance until there is "a very clear and sustained evidence that inflationary inertia has been broken." More generally, we endorse the thrust of the authorities' program for the second half of 1993. We have no difficulty in supporting the proposed decisions, including the request for a waiver of the nonobservance of the performance criteria relating to the ceiling on reserve money and the minimum reduction in external payments arrears.

It is to the credit of the authorities that, in very difficult circumstances, they have been able to meet current debt-service obligations to multilateral creditors, as envisaged under the program. Moreover, the external objectives of the rights program were achieved during the first half of 1993, and progress has been made in the implementation of structural reforms, especially market liberalization and the privatization program. Concerning the latter, we note with interest that discussions are under way with donors and the World Bank on the establishment of a privatization fund to enable Zambia's small-scale investors to buy shares in newly privatized enterprises. Could the staff elaborate further on the specifics of this privatization fund? Given the difficulties that many developing countries encounter in the privatization of public enterprises largely because of the lack of local entrepreneurs and investors, we expect that the successful experience of Zambia in the operations of this fund could be useful for other countries in their privatization programs.

We commend the Zambian authorities for the decisive actions taken in May and June of this year to tighten monetary and fiscal policies in order to mop up the excess liquidity in the economy and bring the program back on track. The decline in reserve money and in the monthly rate of inflation, as indicated by Mr. Mwananshiku in his helpful statement, is a clear indication that the actions taken by the authorities are appropriate. These actions should be sustained in order to bring about a lasting reduction in the excess liquidity and inflationary pressures. While we are pleased with the authorities' response, we are concerned about the continued, albeit temporary, shortfalls in the disbursements of donors' assistance. We share the authorities' view that failure to meet the inflation and growth objectives could undermine the credibility of the program with the population and could threaten the sustainability of the adjustment efforts. In view of the authorities' determination to proceed with the adjustment process, as evidenced by the corrective measures taken, we would urge the donor community to provide, on a timely basis, their financial assistance to support the authorities' efforts.

It goes without saying that adequate social spending and well-targeted measures to alleviate poverty would greatly enhance public support for the program. We, therefore, welcome the increase in the share of public spending on primary education and health care, and the priority being given to improving the delivery of vitally needed social services. However, there appears to be room for improvement in the provision of social safety nets, and we encourage the authorities to take advantage of every available opportunity to do so.

Regarding Zambia's overdue financial obligations to the Fund, we continue to be satisfied with Zambia's record of cooperation regarding both program implementation and payments to the Fund. In view of the shortfall in programmed donor assistance and the difficult foreign reserve position, we believe that the request made by the Zambian authorities to postpone the payment of part of the arrears they originally intended to settle in 1993 is justified, and we can support it. If the proposed decision is to be amended along the lines presented by the staff this morning, we would prefer to link the payment in 1994 of the SDR 14.3 million to the availability of external resources and, more generally, to whether or not the key assumptions, that is, disbursements of donor assistance and export prices for copper and other products, materialize.

To conclude, we are of the view that the staff has convincingly made the case for the continuation of Fund support to Zambia's rights accumulation program. It is critical that, at this juncture, we send strong positive signals to the donor community that the authorities' adjustment efforts merit the full support of all the parties concerned.

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/93/114 (8/6/93) and EBM/93/115 (8/25/93).

5. BRAZIL - REPRESENTATIVE RATE FOR CRUZEIRO REAL

The Fund finds, after consultation with the authorities of Brazil, that the representative exchange rate for the cruzeiro real, under Rule O-2(b)(i), against the U.S. dollar is the prevailing market rate for the U.S. dollar as ascertained and reported by Banco Central do Brasil. (EBD/93/136, 8/12/93)

Decision No. 10445-(93/115) G/S, adopted
August 17, 1993

6. CENTRAL AFRICAN REPUBLIC - OVERDUE FINANCIAL OBLIGATIONS - REPORT AND COMPLAINT UNDER RULE K-1

1. The complaint of the Acting Managing Director under Rule K-1 dated August 6, 1993 (EBS/93/125, 8/6/93) on the Central African Republic is noted. It shall be placed on the agenda of the Executive Board for September 3, 1993.

2. The Fund urges the Central African Republic to become current in its financial obligations to the Fund promptly and to avoid thereby the need for the Fund to take remedial action.

3. Consideration of the complaint in accordance with Rule K-1 particularly affects the Central African Republic. The member shall be informed by rapid means of communication of this matter and of its right to represent its views through an appropriately authorized representative.

Decision No. 10446-(93/115), adopted
August 13, 1993

7. REPUBLIC OF LITHUANIA - REPRESENTATIVE RATE FOR LITAS

The Fund finds, after consultation with the authorities of Lithuania, that the representative exchange rate for the litas, under Rule O-2(b)(i), against the U.S. dollar is the midpoint between spot buying and selling rates for the U.S. dollar in the foreign exchange market as ascertained by the Bank of Lithuania. (EBD/93/134, 8/11/93)

Decision No. 10447-(93/115) G/S, adopted
August 16, 1993

8. ANNUAL REPORT, 1993 - TRANSMITTAL TO BOARD OF GOVERNORS

The Executive Board approves the transmittal of the 1993 Annual Report to the Board of Governors under cover of the letter set forth in EBD/93/29, Supplement 1 (8/4/93).

Adopted August 9, 1993

9. AUDIT REPORT, 1993 - TRANSMITTAL TO BOARD OF GOVERNORS

The Executive Board approves the proposed letter set forth in EBAP/93/49 (7/20/93) transmitting, for consideration by the Board of Governors, the Report of the External Audit Committee for the financial year ended April 30, 1993.

Adopted August 11, 1993

10. EDUCATION ALLOWANCE - EXTENSION OF ADJUSTMENTS TO EXECUTIVE DIRECTORS AND ALTERNATES

The Executive Board approves the recommendation to extend to Executive Directors and Alternates recent adjustments in the education allowance policy for staff. (EBAM/93/148, 8/17/93)

Adopted August 20, 1993

11. APPROVAL OF MINUTES

The minutes of Executive Board Meetings 92/149, 92/153, and 93/1-93/3 are approved.

12. EXECUTIVE BOARD TRAVEL

Travel by Executive Directors as set forth in EBAM/93/149 (8/18/93) and EBAM/93/150 (8/23/93); by Executive Directors and by Advisors to Executive Directors as set forth in EBAM/93/142 (8/5/93), EBAM/93/143 (8/6/93), EBAM/93/146 (8/12/93), and EBAM/93/147 (8/16/93); by an Advisor to Executive Director as set forth in EBAM/93/144 (8/10/93); and by an Assistant to Executive Director as set forth in EBAM/93/126, Supplement 1 (8/6/93) is approved.

13. TRAVEL BY ACTING MANAGING DIRECTOR

Travel by the Acting Managing Director as set forth in EBAP/93/55 (8/19/93) is approved.

APPROVED: December 20, 1993

LEO VAN HOUTVEN
Secretary