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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 93/1

10:00 a.m., January 6, 1993

R. D. Erb, Acting Chairman

Executive Directors	Alternate Executive Directors
	A. A. Al-Tuwaijri
	A. Raza, Temporary
	Wei B.
T. C. Dawson	
	J. Jonas, Temporary
E. A. Evans	
	S. Vori, Temporary
	J. A. Solheim
	A. Törnqvist, Temporary
	N. Tabata
	S. Shimizu, Temporary
	K. T. Hetrakul
D. Kaeser	K. Link
	J. C. Jaramillo
K. G. Kagalovsky	A. V. Mozhin
J. P. Landau	I. Martel
	P. Bonzom, Temporary
	P. A. Merino, Temporary
	M. A. Hammoudi, Temporary
	B. S. Dlamini
	J. Dorrington
G. A. Posthumus	O. Havrylyshyn
C. V. Santos	Y.-M. T. Koissy
S. Schoenberg	B. Esdar
	Y. Y. Mohammed
	J. Jamnik, Temporary
A. G. Zoccali	

J. W. Lang, Acting Secretary
K. S. Friedman, Assistant

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Also Present

IBRD: J. M. Biderman, Europe and Central Asia Regional Office; P. Callier, F. Kaps, Africa Regional Office. African Department: M. Touré, Counsellor and Director; E. A. Calamitsis, Deputy Director; G. E. Gondwe, Deputy Director; J. A. Clément, P. Dhonte, I. A. H. Diogo, C. A. François, E. C. Harris, J. Kakoza, J. Le Dem, P. S. Lopes, J. Mueller, T. N'Guessan, J. T. Reitmaier, E. Sacerdoti, A. Tahari. European I Department: M. Russo, Director; J. R. Artus, Deputy Director. European II Department: J. Odling-Smee, Director; E. Brau, Deputy Director; E. Hernández-Catá, Deputy Director; W. W. Camard, L. Hansen, A. Knöbl, A. Lahiri, T. Saavalainen, J. Wein, B. Zavoico. External Relations Department: S. J. Anjaria, Director; P.-M. Falcone, H. Puentes, M. Seeger, J. Starrels. Fiscal Affairs Department: A. G. A. Faria. Legal Department: W. E. Holder, Deputy General Counsel; P. de Boeck, J. M. Ogoola. Monetary and Exchange Affairs Department: M. Guitian, Associate Director. Policy Development and Review Department: J. T. Boorman, Director; T. Leddy, Deputy Director; D. Burton, A. G. G. Bennet, P. Gajdeczka. Research Department: J. Baras, G. J. Schinasi. Secretary's Department: R. S. Franklin, M. J. Miller, A. Jbili, A. Mountford, P. B. Smith. Bureau of Statistics: K. Yao. Treasurer's Department: H. Flinch. Western Hemisphere Department: S. T. Beza, Counsellor and Director. Advisors to Executive Directors: Hon C.-W., W. Laux, Y.-H. Lee, R. Meron, J.-C. Obame, B. A. Sarr. Assistants to Executive Directors: D. A. Barr, J. H. Brits, Chen M., D. Desruelle, H. Dognin, R. G. Ferrillo, M. E. Hansen, T.-M. Kudiwu, J. Mafararikwa, S. del C. Olgiati, E. Quattrociocche, P. L. Rubianes, T. P. Thomas, R. Thorne, V. Verjbitski, A. Viirg.

1. EXECUTIVE DIRECTOR

The Acting Chairman welcomed Mr. Havrylyshyn as Alternate to Mr. Posthumus.

2. REPUBLIC OF ESTONIA - REVIEW UNDER STAND-BY ARRANGEMENT

The Executive Directors considered a staff paper on the first review under the 12-month stand-by arrangement with Estonia approved on September 16, 1992 in an amount equivalent to SDR 27.9 million (EBS/92/209, 12/11/92; and Sup. 1, 12/31/92).

Mr. Solheim made the following statement:

Although the authorities have been facing increasingly difficult problems, all the quantitative performance criteria set for end-September 1992 have been met. With a real GDP fall of about 35 percent from 1990 to 1992, and with a real wage decline of nearly 65 percent in the corresponding two-year period, the Estonian population has experienced a substantial drop in their standard of living. As has been the experience with countries in Eastern Europe, there is reason to believe that the transformation of the Estonian economy is not fully reflected in the statistical data. It always takes some time before developments in the new sectors of the economy are fully accounted for in official statistics. This explanation does not, however, claim that the output decline has not been very deep.

The fall in output now appears to have reached its trough. In fact, to some extent, the harsh measures were taken with the understanding that substantial foreign assistance would be forthcoming, laying the basis for the transformation of the economy. Even though the Estonian authorities are thankful for the G-24 financing commitments, as well as other forms of foreign assistance, it is regrettable that the disbursements of external assistance have been so slow.

As set out in the staff papers, the authorities have implemented major reform measures, and considerable progress has been achieved in a number of important areas. The authorities regret, however, the delays that have occurred in the privatization of enterprises. This was due to slow resolution of restitution issues, as well as administrative problems with the bidding process. These problems are being solved, and the sale of the 38 enterprises originally advertised is again in progress.

The recent strong rise in trade with Western markets is a noteworthy and welcome development. Estonia has been successful in turning to Western markets as well as to Latvia and Lithuania

to make up for shortfalls in trade with the Russian Federation and other CIS countries. The positive trade developments reflect the reduction of trade barriers and the opening up of the Estonian economy, and the introduction of a stable currency. Estonia has also benefited from its geographical proximity to the Nordic countries.

However, extremely difficult problems will remain in the period ahead, and Estonia is likely to undergo many of the experiences of Eastern European countries, i.e., that the magnitude of output and income decline may turn out to be stronger than originally expected, and that it takes considerable time before the effects of price liberalizations and market reforms are reflected in structural changes of the economy. As in any democratic society--and probably even more so in a young democracy--views may differ markedly between different political groups about some aspects of the authorities' policy stance. In Estonia there has remained, however, a broad consensus behind the main thrust of the present reform policies and the efforts to develop Estonia to an independent, market-based economy.

Although the strong trade growth with the West represents a positive factor, the collapse in trade with the Russian Federation and other countries of the Commonwealth of Independent States (CIS) has contributed significantly to the drop in output and has removed a major market for products, where no alternative markets, in reality, exist. The Estonian industrial sector has traditionally been characterized by a high degree of concentration, heavy reliance on inputs imported from the former Soviet Union (FSU), and strong dependence upon the FSU market for its exports. The inefficient intercountry payments system between the FSU countries has contributed to the collapse of trade. Therefore, it is welcome that the Fund is stepping up its efforts to improve monetary and payments arrangements among the countries of the FSU in order to stimulate their interregional trade flows.

As clearly pointed out in the staff papers, the most urgent issue facing the Estonian authorities is the problems in the banking sector. The problems are due partly to factors outside the control of the Estonian banking sector and of the Estonian authorities, i.e., the freezing--or annexation--of Northern Estonian Bank (NEB) and Union Baltic Bank (UBB) foreign currency deposits with the former Vneshekonombank (VKB) in Moscow. It must be admitted, however, that some of the problems are also self-inflicted, i.e., bad banking practices and mismanagement, particularly with respect to Tartu Commercial Bank (TCB). As stated in the staff paper, the consequences for both the economy and the financial system, although serious, do not appear to have been severe.

The Estonian authorities are deeply concerned about the serious problems in the banking sector, and, as outlined in the supplement to the staff paper, they have recently proposed a package that will secure continued operations of the NEB and UBB in the form of a merged new bank, while the TCB is to be liquidated. The decision of the authorities to handle the crises in, respectively, the NEB and UBB, and the TCB, in a different manner, must be seen in light of the different origins of the problems. Actually, it could be argued that a re-opening of the TCB would contain elements of moral hazard.

Even though the option of the Estonian authorities differs somewhat from the package proposed by the staff, there has been close cooperation between the authorities and the staff on this matter. In addition to an urgent need to change the structure and strengthen the management of Estonian banks, it is essential to develop effective banking supervision. The authorities agree with the importance of dealing resolutely with the banking problems, and they are looking forward to reviewing these issues further in the near future with the MAE technical mission scheduled for mid-January, and the midterm review of the stand-by arrangement, starting in end-January.

In retrospect, the decision of the Estonian authorities to introduce its own currency--the kroon--based on the currency board principle, has proved to be a fortunate one. The institutional arrangements of the currency board have undoubtedly reduced the scope for political inventiveness and thus contributed to a strengthened policy discipline. The restrictive stance of monetary policy--and subsequent slow growth of monetary aggregates--must be seen in light of this. Moreover, as touched upon earlier, it is an important factor behind the positive development of Estonia's foreign trade flows.

Owing to the significant initial undervaluation of the kroon, the competitive edge of the industrial sector remains substantial. The authorities are, however, well aware of the fact that the rate of inflation has to decelerate markedly during 1993 if the credibility of a foreign exchange policy, based on the currency board principle, is to be maintained. Furthermore, the authorities recognize that the financial involvement of the Bank of Estonia in the bank rescue operation has to be carefully balanced against the risk of undermining the integrity of the currency board. Consequently, the use of the Bank's reserves will be limited to avoid this danger.

My Estonian authorities want to express their appreciation for the continued close dialogue with the Fund, and they are very grateful for the strong interest and cooperation shown by

Mr. Knöbl and his associates, and by the Fund staff who have participated in the technical assistance programs to Estonia.

Mr. Dawson made the following statement:

Estonia's performance in the first few months of its stand-by arrangement has been good. A firm macroeconomic policy has been executed with determination, and there are preliminary signs that the economy is stabilizing after its precipitous deterioration over the past two years. The third-quarter performance criteria were met, and good progress is being made in implementing the priority structural policies. We are particularly pleased by the new Government's strong commitment, spelled out in Prime Minister Laar's November 9 letter to the Managing Director, to continue the economic policies that were the original basis for the stand-by arrangement.

Keeping the adjustment policies on track is going to require determined effort in the months immediately ahead. The staff review appropriately highlights several pressure points that can be expected to develop. The smooth execution of fiscal policy through the third quarter is likely to be more difficult going forward. Energy costs and social security expenditures will be more pressing, while revenue flows are clouded by poor results in many large state enterprises. To date the authorities have shown a good deal of flexibility in restraining expenditure to keep it within available revenues. This practice will need to be continued until the economy regains its footing. In this regard, we support the decision to limit the average increase in wages below the increase that was allowed in the minimum wage and to delay further adjustments in the minimum wage. We also agree it will be necessary to be cautious about expanding social expenditures, needed though they may be, until the required resources are more clearly available.

The staff identifies growing tax arrears by important state enterprises as an expanding cloud over fiscal position. Part of this is a by-product of the recent bank failures, but most of it seems to be attributable to poor operating results of these corporations. We believe it is essential that tax collection be pressed with all appropriate speed. Allowing tax arrears to persist provides informal and unstructured financial relief to corporations that need to systematically restructure themselves. Some financial accommodation may be needed, but this ought to be done in an orderly rather than a haphazard way. The scope of the required adjustment will be clearer if the accounts are transparent. On the other side, the revenue requirements of the Government should not be undermined by relaxed enforcement of the tax liabilities of government-owned entities.

The review indicates that interindustry arrears are a large and continuing problem, particularly within the state enterprise sector. What steps are being taken to regularize this situation? Can these claims and liabilities be formalized and used as building blocks for more orderly and sophisticated financial intermediation?

Keeping very close to a balanced budget is an essential element in the economic strategy Estonia is following, since bank financing of government deficits is strictly circumscribed under the currency board arrangements. So far, we are favorably impressed with the early success of this monetary regime, in terms of both its public acceptance and its curtailment of inflationary pressures.

The public acceptance of the new deutsche mark-backed currency is attested to by the switching of money holdings out of foreign currency deposits into both kroon currency and kroon deposits. Bank credit extension has been severely restrained, partly because credit standards have had to become more flinty-eyed, and money growth has slowed abruptly. The adjustment has not been particularly easy, but the regime change has forced a sharp correction in inflation expectations. We believe it is important that the currency board arrangements be sustained and strengthened.

We fully agree that the recent banking crisis is a problem that requires urgent correction as well as precautions that a repetition be avoided. We would be interested in further comments by the staff or Mr. Fridriksson on the differences between the solution that has been proposed by the authorities and the recommendations made by the staff team. As we understand the authorities' proposal, it would be less costly to public resources, since one of the three banks, the TCB, would be liquidated rather than recapitalized. Although the overall public cost would be reduced, more of the burden would fall on the Bank of Estonia. Also, the Bank of Estonia would be expected to commit a larger portion of its surplus foreign exchange reserves to underwriting the liquidity of the surviving merged bank.

We fully agree with the staff that solvency and liquidity considerations of such bank rescue operations need to be kept distinct. Likewise, we believe it is essential that the integrity of the Bank of Estonia not in any way be called into question by its participation in such rescue operations. Allowing the TCB to be liquidated can serve as a warning that the discipline of the currency board will not be undermined by a willingness to bail banks out of bad credit decisions. But it can also erode depositor confidence in the integrity of the banking system, thereby delaying the development of a well-functioning financial system.

This is a difficult judgment, and we will have to hope the authorities have found the proper balance.

Given the weak state of the economy and of major state enterprises in particular, weak credits must be a latent problem throughout the banking system. We would urge the authorities to move with deliberate speed to put in place an adequate system of bank supervision to guard against a repetition of similar banking failures.

In a different area, privatization plans seem to have made considerable progress and have been moving forward on a relatively fast timetable. Given this, we are not quite sure what to make of the authorities' decision to review and re-evaluate bidding arrangements for disposing of a number of public enterprises. Is this a shift in policy, or had planned privatization been inadequately prepared? Could the staff provide some additional background on these developments?

Overall, we believe Estonia is doing a highly commendable job of implementing a difficult adjustment program in very trying circumstances. We fully support today's proposed decision.

Mr. Schoenberg made the following statement:

Like most other countries in the process of transformation, Estonia faces a difficult and daunting task. It is therefore most welcome that the adjustment program is broadly on track, and the authorities, like those of Latvia discussed two weeks ago, deserve our respect for the decisiveness in the pursuit of the reform program, despite the enormous amount of problems.

Many of these problems follow a familiar pattern: a sharp drop in output as a result of a breakdown in regional trade and sharp terms of trade reduction; increasing interenterprise arrears; and escalating budgetary pressures aggravated by the emergence of tax arrears of public enterprises. However, there are some positive developments. It might be worth mentioning them, as good news at this stage of the adjustment process is so rare.

The most impressive good news is the apparent success in redirecting exports to Western markets. For 1992, exports to countries outside the former Soviet Union are now expected to be more than two times as large as assumed under the original program. This is indeed a welcome surprise and stands in sharp contrast to the experience in most other transforming economies. In praising the redirection of exports, I would like, however, not to be misunderstood; such redirection from one region to another cannot be an objective in itself, of course, though it is

indispensable in the case of the Baltic republics to the extent that trade with other countries of the former Soviet Union, for whatever reasons, that cannot be preserved is channeled into other areas. Indeed, it might be quite instructive if the staff could elaborate more on the reasons for the apparent flexibility of the Estonian economy. Should this be interpreted as an early indication of an emerging supply response and a more rapid adjustment of enterprises to the new conditions than expected? To what extent is this outcome influenced by the adoption of a currency board, which obviously helped to strengthen the confidence in the krone and facilitated international transactions?

Other good news is that the decline in output has seemed to come to an end. However, this has to be qualified against the background of an initial fall in output, which exceeded that experienced in other countries. Also, caution in assessing future output projections seems to be appropriate because of the increase in interenterprise arrears and tax arrears cases; enterprises are still at a rather early stage in the process of adjustment.

Estonia's monetary arrangements--that is, the adoption of the currency board--has served the country well, as demonstrated by the reduction in the rate of underlying inflation. Given the experiences in other reforming countries, a decision to leave, at least initially, relatively little scope for an autonomous monetary policy seems to be very prudent. Needless to say, this particular kind of arrangement imposes a large degree of financial discipline, particularly on the budget side.

While fiscal performance in 1992 has been impressive so far, it is nevertheless important that the authorities stick to their commitment of a balanced budget in the period ahead, despite the apparent difficulties in achieving this target. It is crucial that Estonia remain within the limits set by available resources, and that there be no illusions about what can be financed and what cannot. In this context, the rather high ratio of fiscal expenditure to GDP and the fact that this ratio is expected to have increased in the second half of 1992 compared with the first half suggest that there might be further need to contain government expenditure. Though it is reassuring to note from the supplementary paper that the negative impact of the banking crisis has been limited so far, and that the authorities have taken action to address the problems of the insolvent banks, the true potential danger of the crisis in the banking industry, in terms of a threat to the confidence in the central bank and the currency, may not have been fully grasped yet. This crisis underlines the need for rapid and thorough reform of the financial sector.

In this context, I would like to know what progress has been made in developing a plan for the restructuring and privatization

of the banking system as a whole, which, according to the letter of intent, was envisaged until November 30 last year. Also, like Mr. Dawson, I would like to learn the reasons for the authorities' decision not to follow the staff proposal for the recapitalization of the banks. Given the limited availability of financial resources, both of the Government and of the central bank of Estonia, is it prudent, and contrary to the initial staff recommendation, not to have depositors share, at least to some extent, in the financial losses of the insolvent banks concerned? Is the intended recapitalization sufficient to cover all nonperforming loans of the banks involved? What is the likelihood that similar problems could emerge for other banks and that further resources would be needed for a recapitalization?

I have two final comments on the privatization process in Estonia. First, regarding the restitution process, I found it unfortunate that there seems to be no definite deadline for filing restitution claims for some groups of involved persons. This could lead to an undue delay in the finalization of the restitution process, which will be a time-consuming process anyway. The resulting uncertainties about property rights could prove, as we have painfully experienced in eastern Germany, to be a major obstacle to investment and a stumbling block for economic activity. I understand that there might be serious political consequences in the months ahead, but I would like to encourage the authorities to set a final deadline as soon as possible, and also to look for ways to accelerate the process of clarification of property rights, including a more widespread use of compensation vouchers. In addition, could the staff indicate what the dimensions of the restitution problems are?

The second point relates to the information provided in the supplementary paper on the operation of the Estonian privatization agency. According to this information, the authorities have decided to review the list of firms eligible for sale and the procedures used to select between bids. Whatever the merits of alternative approaches in selecting between bidders might be, I think it is definitely not advisable to change the rules after the offer for sale has already been made. This could only frustrate efforts on the side of interested international investors and raise doubts about the seriousness of the authorities' intentions. I am relieved, therefore, to learn from Mr. Solheim's statement that these problems appear to be solved by now.

In conclusion, the Estonian authorities have made remarkable efforts to cope with a most difficult situation, and I do not have any difficulties in supporting the proposed decision.

Mr. Jonas made the following statement:

The Estonian authorities have embarked on a very ambitious program of economic reform. The results achieved so far, as reflected, inter alia, in the observance of performance criteria for the third quarter, are commendable. Also, the favorable trend in export reorientation is an important signal of initiation of real adjustment in the economy. Furthermore, the Estonian authorities are rewarded for their nonaccommodating policy by the increased confidence in the kroon. The basic policy task of the authorities in the period ahead will be to maintain and accelerate the momentum of real sector adjustment and at the same time reinforce and preserve a degree of price stability that will not undermine the working of the currency board and the competitiveness of domestic producers. The most serious problem with this policy mix is that, in the short run, under given domestic financial constraints, these goals may be, to a certain degree, substitutive rather than complementary.

The specific monetary and exchange rate arrangement in the form of a currency board has its benefits in the quick establishment of confidence in the currency. At the same time, however, the significantly curbed degree of discretion in the conduct of monetary policy represents an important constraint in addressing the structural problems, especially in the financial sector. In addition, this arrangement puts more burden on fiscal policy, which is already under strong pressure due to the slump in economic activity, difficulties in collecting revenues, and the increased demand for budgetary support from many segments of the population.

Our chair favored the introduction of a currency board in Estonia at the time of the discussion of the program, and we continue to believe that it can contribute significantly to macroeconomic stabilization. However, like the staff, we noted with concern the development in the banking sector, especially the support of liquidity of selected banks by the Bank of Estonia, without addressing the underlying problems. Such unconditional assistance deprives the Estonian authorities of the possibility of using their scarce financial resources in a more efficient way. I would strongly urge the Estonian authorities to channel any financial assistance to both the banking and nonbanking business sectors only as a part of complex rehabilitation strategy and avoid any ad hoc bailing out. In this respect, I welcome the announcement of a package of measures dealing with the problems of the banking sector.

As the experience of the other former centrally planned economies shows, the problems of bad loans of the banking sector and interenterprise arrears are usually so extensive that they cannot

be properly addressed without the financial involvement of the government. This is obviously the case in Estonia too. However, due to the current government budget constraint, the potential scope for the involvement of the Government is very small, and the budgetary outlook for 1993 does not offer any reason to expect an improvement in this respect. Similarly, as in the recently discussed case of Latvia, the adjustment capacity of the Estonian economy has reached its limits, and traditional recommendations to restrict budgetary expenditures in order to save resources for rehabilitation of the business and banking sectors may be unrealistic.

I see two additional possible sources of financing the necessary state involvement in the restructuring of the banking sector and in addressing the problems related to interenterprise arrears, namely, revenues from selling state assets, and foreign financial assistance. With respect to the first possibility, I would like to ask the staff to comment on the future financial prospect of the Treuhand-like agency assigned to handle the large privatization in Estonia. As for the second source, I noted with disappointment that foreign assistance did not contribute much until now, as the traditional gap between promised and disbursed assistance occurred also in the case of Estonia. I strongly hope that the disbursement will proceed more quickly in 1993.

An additional indirect way to assist the business sector is to reconsider the current system of importing subsidized consumer goods. These imports adversely affect the demand for domestic products, exacerbate financial problems of enterprises, and increase the demand for imports. There is no doubt about the beneficial effects of foreign competition on the behavior of domestic producers. However, subsidized imports could add to the effects of structural problems and harm even potentially viable firms.

To conclude, I hope that, in the future, too, we will discuss how to maintain, and not how to re-establish, macroeconomic equilibrium in Estonia. The Estonian authorities have so far achieved remarkable progress in reforming the economy, and I am delighted to note the commitment of the new Government to continuing in this direction. I support the proposed decision.

Mr. Bonzom made the following statement:

The Estonian Government has committed itself to a rapid transformation of Estonia into a market economy. As the staff report points out, this courageous policy is already bearing fruit: the core rate of inflation is decreasing, the decline in industrial output is ebbing, domestic and foreign confidence in

the kroon is growing, and foreign trade is being reoriented rapidly.

My authorities are pleased to observe that all the quantitative performance criteria for the third quarter of 1992 under the stand-by arrangement have been met, and that progress on structural policies is being achieved. We strongly congratulate Estonia on this record, which was obtained in spite of the persistence of extremely difficult circumstances, among which the strains on the payment systems within the former Soviet Union are prominent.

There are three main and partially linked areas of concern as regards economic developments in Estonia: the fragility of the banking system; the pressures on the Government's budget; and the effects of the still high inflation rate on the competitiveness of the economy. I would like to address these three areas.

The staff is right in pointing out that solving the banking crisis is the "most urgent" task ahead. This crisis was caused, in part, by circumstances well beyond the control of Estonia, and it has already significantly stretched the limited capacity of the central bank to assist the banking sector. It also has significant systemic consequences, as it tends to exacerbate the already worsening interenterprise and tax arrears problems. And, as stressed in the recent paper entitled "Operations of the Estonian Currency Board," it also tends to increase the tendency to hold notes instead of deposits, thus reducing bank reserves and further impeding the limited flexibility of the currency board system in allowing for short-term fluctuations in broad money.

It is thus essential to address adequately both the liquidity and solvency aspects of the crisis. Like the staff, we have noted the authorities' intention to make the rescue operation consistent with the obligations imposed by the currency board system and, thus, to strictly limit the cash contribution of the Bank of Estonia. This is indeed a crucial requirement. We also tend to find, like Mr. Solheim, that the authorities' solution could have the advantage of reducing the incidence of moral hazard by liquidating the bank that had most significantly engaged in poor loan operations. Improving banking supervision would also help in this regard. We are concerned, however, about the apparent "takeover" of commercial bank operations by the central bank, which would entail, temporarily, I would hope, a reversal of previous, welcome structural reforms. We would appreciate some comments by the staff on this question as well as on the mechanisms envisaged for the future payment of interest and capital on the bond issues.

Let me add that this crisis should not conceal the progress made in improving the clearing system and promoting

the decentralization, at the commercial bank level, of foreign exchange operations.

Courageous efforts have also been made, so far, in the budgetary area: the fiscal outcome for the first three quarters of 1992 was better than envisaged, and decisions have already been taken with a view to reversing the deterioration that has appeared more recently. In a currency board system, the room for fiscal deficits is, at best, very limited and the risks of crowding out even more obvious than in other systems. It is thus paramount that the authorities accommodate the understandable need to protect the most disadvantaged, primarily through further cuts in other categories of outlays and the improvement of tax administration. Looking further ahead, the establishment of a proper, cost-efficient, and targeted safety net will be essential to smooth the consequences of the probable increase in the official unemployment rate.

The pursuit of a sound fiscal position will also prove crucial to the continued improvement of Estonia's price performance. In fact, all areas of economic policy on which the authorities have some leeway should contribute to this objective. This is especially the case of the incomes policy, on which the authorities' recent stance and intentions appear very commendable. Paying attention to the level of incomes is especially warranted, since, as is noted in the paper on the currency board, average wages tend to be substantially higher in Estonia than in the other Baltic states. The contribution of structural policies to price restraint, especially through the fostering of a competitive private sector, will also be crucial. In this regard, it is somewhat reassuring that, as indicated by Mr. Solheim, the recently delayed privatization procedure is now again in progress.

I have just two other points in conclusion. First, the staff is right in pointing to the need for a rapid initiation of external assistance. It is noteworthy, in this regard, that the first disbursement on the EC loan, which was decided last November, should be made this month. Second, I would ask the staff if it has any recent information on whether progress has also been made before the end of 1992, as earlier envisaged, on such important pieces of legislation as the monopoly, enterprise, and accounting laws. This being said, I fully support the completion of the present review.

The staff representative from the European II Department remarked that the Bank of Estonia was addressing the issue of interenterprise arrears. The banking crisis had complicated the issue, and no specific steps to resolve it were likely to be taken until the situation became clearer.

The main difference between the proposals by the staff and the authorities for dealing with the banking crisis was that the Prime Minister felt that the cost to the Government of bond issues was so high that further issues were unlikely to win the approval of Parliament, the staff representative remarked. All bond issues had to be approved by Parliament. The bulk of the cost of the crisis was being borne by the commercial bank depositors. In addition, the staff had been concerned about increased involvement by the Bank of Estonia. Apparently, however, the Prime Minister and the Governor of the Bank of Estonia agreed that the financial involvement of the Bank of Estonia would be strictly limited and, therefore, would be consistent with the program.

During the staff's brief visit to Estonia in December 1992 to discuss the banking crisis, it had appeared that a change in the personnel of the privatization office and in the attitude of the Government might delay the privatization process, the staff representative commented. However, it now appeared that, while the personnel had changed, the Government had reconsidered and reconfirmed its view on privatization and had decided that it should go ahead as planned. The emphasis on bids might be increased somewhat. More than 100 bids had been received for the 38 enterprises that had been offered for sale; the bids were currently being reviewed, and decisions on them would be made fairly soon.

It was difficult to identify the reasons for the apparent relatively great flexibility of the Estonian economy and the quick reorientation of its pattern of trade, the staff representative said. Confidence in the currency was probably one of the factors, combined with the fairly competitive exchange rate to start with. In addition, the Estonians were more familiar with the workings of a market economy than some of the other countries in transition, and Estonia had historically maintained close contacts with Finland--particularly in the form of joint ventures--and Sweden.

The Bank of Estonia had begun the process of restructuring and privatizing the banking sector, the staff representative noted. As of January 1, 1993, the capital requirement for banks had been increased, which should initiate a process of elimination, through mergers, of some of the smaller banks.

Part of the proceeds of privatization sales would be used to finance restitution, the staff representative commented. Another part would go to the budget.

The takeover of the merged bank by the Bank of Estonia was to be merely temporary, the staff representative noted. The merged bank was to be sold as soon as feasible.

The interest on the bond issue would be paid for mainly through seigniorage--interest on the foreign reserves of the Bank of Estonia--which would be shared as profits of the central bank with the Government, the staff representative explained.

The new Government had been falling slightly behind in introducing the competition and enterprise law, the staff representative from the European II Department said. It would probably be introduced in Parliament before the end of January 1993.

Mr. Dorrington made the following statement:

I found the staff paper, the supplement, the staff paper on the currency board, and Mr. Solheim's statement all commendably frank, clear, and concise. But their tasks were all easy by comparison with that of the Estonian authorities, and it is they who deserve by far the greatest respect for their unwavering commitment to reforms in very difficult circumstances. They have matched words with deeds and, indeed, have overperformed in some respects. I agree with much of what has already been said, and I wish to make only a few points.

I feel I must comment on the problems of the banking sector, which are obviously of the utmost urgency. While reasonable people can and do differ on precisely the best way forward, and some of the arguments and distinctions are important, time should not be wasted in arguing over fine details. However, it is essential that the route chosen does not undermine the currency board, which has served Estonia so well. The original staff proposal certainly satisfies that condition, but I would certainly be content with something along the lines the authorities propose, provided that it does not take any risks with the currency board. I certainly agree with the comment by Mr. Solheim regarding moral hazard. And I was pleased to see that a new MAE mission is imminent.

The size of the bank spreads seems exceptionally high and will be a further factor inhibiting deposits. I understand that the spreads of the healthier banks are smaller, and the position should be normalized in parallel with bank restructuring. I would appreciate staff views on the speed with which this might occur.

Others have remarked on fiscal policy and tax arrears. I just have one question. Perhaps the staff could comment on the extent to which the emergence of tax arrears is due to liquidity problems associated with the banking crisis--and, hence, will be solved when that crisis is resolved; or, alternatively, the extent to which the arrears are a reflection of more deep-seated problems or of an unwillingness to pay if one can avoid it. To the extent the arrears problem is not a result of the banking crisis, is a solution in prospect?

I welcome the commitment to make expenditure cuts as necessary, but the scope of this must be limited to some extent; the

authorities will need to work to introduce mechanisms for bond finance if deficits look unavoidable.

It is obviously essential to get inflation down to maintain the viability of the exchange rate peg. I can accept capital controls as having a useful interim buffer role, especially while the banking system remains weak. As the staff paper on the currency board notes, in the medium term the capital account will be the main channel through which base money will grow.

It is obviously very encouraging that there has been significant growth in trade with Western European markets, and this is perhaps the most significant contribution that the West can make in ensuring the successful transition from command to market economies.

I support the revised proposed decision.

Mr. Shimizu made the following statement:

The authorities are to be commended for their efforts at transforming their economy to a market-oriented one in difficult circumstances. I am pleased to note that the authorities observed all the performance criteria for end-September. I also welcome the fact that the three of four important structural policies in the Memorandum on Economic Policies were implemented. However, despite some favorable signs, such as the increase in industrial output last fall and the increase in trade with industrial countries, the Estonian economy still has to go through a difficult and painful process of transformation, and I strongly hope that the authorities will continue their efforts under the arrangement. Since I am in broad agreement with the thrust of the staff appraisal, I will touch upon a few points.

On fiscal policy, I am impressed by the fact that the authorities had an overall budget surplus in 1992. In 1993, however, it is likely that as economic difficulties continue, tax revenue will stagnate and expenditure pressures will mount. Therefore, in order to maintain fiscal discipline, further vigilance on fiscal policy will be essential. In particular, given the large presence of the public sector in the economy, a reduction in current expenditures is needed. As for capital expenditures, I am concerned that the low level of capital expenditures will surely have an adverse effect on future output. I would like to hear from the staff about the prospects for capital expenditure in 1993.

It is worrisome that three major commercial banks were closed in November as a result of both the freezing of their deposits in Moscow and their nonperforming assets. In order to avoid a recurrence, the authorities are encouraged to proceed with financial

sector reform, such as strengthening bank supervision, improving bank management, and recapitalizing banks. Regarding Moscow's freezing of deposits, I would like to hear from the staff whether other banks' assets have been similarly frozen and, if so, how those banks are affected.

On structural policy, it is regrettable that progress in some areas has been slow. In particular, I am afraid that the authorities' re-evaluation of the privatization process would delay privatization. In light of the need to establish a viable private sector, the authorities are urged to expedite privatization.

With these remarks, I support the proposed decision.

Mr. Kagalovsky made the following statement:

There is no doubt that the profound stabilization and reform efforts of the Estonian authorities deserve our full support. Given the fall in real GDP of about 35 percent and the decline in real wages of nearly 65 percent over the past two years, the scale of adjustment is really very impressive. However, it is also clear that very serious dangers lie ahead. With the continuation of industrial decay, the fiscal revenue base will further dwindle, while the pressure for a general wage increase may intensify following the 50 percent minimum wage increase in October. Should the fiscal situation deteriorate, the prospects for rapid reduction of the inflation rate could be jeopardized. Under the system of a pegged exchange rate, this could lead to erosion of competitiveness and make a devaluation unavoidable. In that event, the credibility of the whole monetary arrangement would be undermined.

Another potential danger is associated with the banking crisis and forthcoming rescue operation. As the Vnesheconombank (VEB) is involved, I wish to respond in more detail. For many decades, the VEB was the official foreign trade bank of the U.S.S.R. After the state monopoly on foreign trade operations was lifted and individual enterprises were allowed to conduct foreign trade on their own several years ago, they were obliged to deposit their foreign exchange proceeds in the VEB. However, the U.S.S.R. authorities had never distinguished between deposits of individual enterprises and their own foreign exchange reserves that were also kept in the VEB. It is not true that deposits of Estonian enterprises were frozen by the VEB; they were wasted by the U.S.S.R. authorities, together with deposits of hundreds of other enterprises from all the former U.S.S.R. republics. By the time of its dissolution, the U.S.S.R. had become a bankrupt country, and the default of the VEB was announced in December 1991.

Let me also remind you that Estonia had already benefited from a unilateral denouncement of any responsibility for the

former U.S.S.R. debts. In this situation, we would certainly expect the Estonian authorities to do more to prevent illegal smuggling of raw materials from Russia and their subsequent re-export.

It is regrettable that, as a result of the absence of appropriate payments arrangements, trade between Estonia and Russia has been falling. Perhaps a more extensive use of national currencies in trade transactions would be the best possible solution to this problem. I welcome the decision of the Estonian authorities to allow Estonian commercial banks to open ruble accounts with commercial banks in Russia. Russian commercial banks will be allowed to open kroon accounts with commercial banks in Estonia quite soon.

I wish the Estonian authorities well in their stabilization and reform efforts, and I support the proposed decision.

The staff representative from the European II Department said that the pace of the reduction of the current fairly large interest spread in the banking sector would depend on how quickly the situation in the banking sector normalized. If the banking crisis was resolved satisfactorily, the spread could be expected to narrow.

The tax arrears were not due solely to the banking crisis, the staff representative remarked. The staff paper mentioned a figure of some EEK 360 million as of October 1, 1992, and that amount had since grown to approximately EEK 600 million. That increase was related to the banking crisis, but the initial amount certainly reflected difficulties in the state enterprise sector.

The volume of capital expenditure in the 1993 budget would be relatively low, the staff representative noted. However, the budget was not the normal channel of public investment in Estonia. Much of that investment was carried out at the state enterprise level.

Only some of the banks had been affected by the banking crisis, the staff representative from the European II Department observed. There had not been a run on the healthy banks, and much of the new banking business was shifting toward those banks. Thus far, the banking crisis had been limited to three banks.

Mr. Dorrington commented that presumably one should not be optimistic about the likelihood that the original amount of arrears of EEK 360 million could be eliminated in the coming period.

The staff representative from the European II Department responded that Mr. Dorrington's presumption was correct.

Mr. Solheim made the following statement:

At the outset, I would like to thank Directors for their continued interest in the situation in Estonia and for their many useful comments and suggestions. After all, it is only about 3 1/2 months since the last discussion in the Board. My Estonian authorities will be duly informed about the views expressed by Directors in the Board today.

The staff representative from the European II Department has dealt comprehensively with the questions posed by Directors, and I will therefore limit my comments to a few issues that, in particular, have drawn the attention of Directors.

A number of Directors have expressed concern about the process of privatization. My authorities agree that the process has been slower than desirable, and they are firmly committed to implementing a privatization process in broad accordance with the Fund program. As has been the experience in many of the Eastern European countries--and as has been usefully commented upon by Mr. Schoenberg today--the restitution issue is a complicating and delaying factor with delicate political overtones. On Mr. Dawson's question concerning the reasons for the recent privatization problems, the delay in the sales of enterprises was influenced by serious mismanagement in the Estonian Privatization Agency. The management is now changed, and the Government has nominated a new cross-party supervisory board for the agency.

On the banking problems, all Directors have, not unexpectedly, touched upon this issue. As Directors are fully aware, in cases of serious banking problems there will usually exist a number of alternative options. Whether one solution is preferable to another will often be a question of political priorities. It is, however, essential that certain basic principles are adhered to. As stated by all Directors, in the case of Estonia it is particularly crucial that the central bank's involvement does not undermine the credibility of the currency board. The rescue package of the Estonian authorities is formulated with this point in view.

On Mr. Dawson's question about whether, respectively, the staff's or the authorities' proposed solution will be the least costly, the ultimate answer may depend upon whether it is considered in a broader, macroeconomic perspective, or is only looked upon as the costs for owners, depositors, and the authorities. With regard to the costs of the Government and the central bank, at least at the outset, the rescue package of the authorities appears to be the cheapest. In light of the potential future problems in the Estonian banking sector, I agree with some of the Directors that the liquidation of Tartu Commercial Bank may be the

right solution, as it will give the appropriate incentive signals to bank managements as well as to bank customers.

However, many major and important decisions are not yet taken with regard to the problems in the Estonian banking sector, and my authorities look forward to discussing these issues with the forthcoming MAE technical mission and the review mission, both due in the course of this month. In response to Mr. Bonzom's concerns, I want to underscore that the Bank of Estonia has no intention of operating the merged bank on a permanent basis. Nevertheless, it should be kept in mind that similar solutions have been chosen in many industrial countries for a temporary period of time.

I appreciate Mr. Kagalovsky's comments on Vneshekonombank, and I will revert to this issue on a bilateral basis. I may also do this on some of his other points, including the question of iron smuggling.

With regard to the currency board issues, I want to thank Mr. Bennett for his very instructive paper, about the "Operations of the Estonian Currency Board." It is a pity, however, that it was not circulated before late yesterday afternoon. In the time ahead, it will be interesting to compare the experiences of Estonia and the other FSU countries with regard to choice of currency system.

One of the basic premises for macroeconomic stability is a stable currency. As touched upon by Mr. Fridriksson in his concluding remarks on the recent Board discussion on Latvia, one of the Nordic countries has taken an initiative to try to mobilize external financing beyond what has already been committed--primarily within the Nordic group, but also from some other industrial countries--in order to further strengthen the external reserves of Estonia and the other Baltic countries. How much this effort will yield remains to be seen. The availability of this potential additional assistance will be directly linked to a successful completion of the next midterm review under the stand-by arrangement with the Fund. If the initiative on such a buildup of reserves is carried out, one will in fact achieve the same objectives as a formal stabilization fund.

Finally, my Estonian authorities know that the stabilization and transformation process will be a painful one also in the period ahead. Although Estonia may encounter even more difficulties in the later parts of the program, the commitment and aspirations of my authorities remain strong, and they consider it absolutely essential to maintain the momentum of the present reform policies.

The Acting Chairman commented that the delays in the disbursement of the G-24 financial assistance, both to Estonia and to the other Baltic states, had been a cause for concern. That assistance--and particularly its timely disbursement--was of critical importance for the viability of the programs of those countries. The same matter had arisen in the context of the recent discussion on Latvia. The BIS was in the process of bridging the first tranche of the EC contribution to the G-24 financing, and he expected that assistance to be disbursed within the coming few days. It was his understanding that negotiations on the contributions by certain other G-24 participants were proceeding. Nevertheless, he hoped that Directors would inform all their authorities about the urgent need for quick disbursement of the assistance that had already been pledged, and the Fund staff would certainly be available to assist the authorities of countries making assistance available and the authorities in the Baltic states, to overcome any bureaucratic or other obstacles to a speedy conclusion of the negotiations with donors.

Mr. Dawson said that it would be useful to have a formal mechanism for keeping Directors informed of G-24 pledges and disbursements to both the Baltic countries and some other countries. Tracking pledges and disbursements would facilitate Directors' efforts to encourage their authorities to respond.

The staff representative from the European II Department responded that the staff would install a mechanism for keeping the Board informed of G-24 pledges and disbursements.

The Executive Board approved the following decision:

> The Fund decides that the review contemplated in paragraph 4(c) of the stand-by arrangement is completed and Estonia may proceed to make purchases in accordance with the stand-by arrangement, provided that Estonia may proceed to make a purchase through February 14, 1993 for up to a cumulative amount under the arrangement equivalent to SDR 12,787,500, notwithstanding the non-availability of the data for end-December 1992.

Decision No. 10262-(93/1), adopted
January 6, 1993

3. COTE D'IVOIRE - 1992 ARTICLE IV CONSULTATION

The Executive Directors considered the staff report for the 1992 Article IV consultation with Côte d'Ivoire (SM/92/204, 11/20/92). They also had before them a background paper on recent economic developments in Côte d'Ivoire (SM/92/224, 12/23/92).

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

Since the issuance of the staff report (SM/92/204), the staff has received from the Ivoirien authorities revised estimates of the outturn of the public finances for 1992, based on the results through November. According to these estimates, the primary fiscal deficit amounted to CFAF 2.5 billion (0.1 percent of GDP) in 1992, compared with a deficit of CFAF 20.4 billion (0.8 percent of GDP) projected by the staff in the consultation report. This improvement reflects primarily the inclusion of some CFAF 35 billion in additional government revenue resulting from compensation operations, i.e., an offsetting of Treasury and other government arrears against tax arrears accumulated before end-December 1991. Primary expenditure is estimated to have been roughly equal to the amount envisaged by the staff, as additional payments tied to the compensation operations were counterbalanced by reductions in other current outlays, as well as slightly lower expenditure on the wage bill and investment. With the interest due on the public debt, the 1992 overall fiscal deficit is estimated by the authorities at 13.4 percent of GDP.

The authorities have also communicated details of the 1993 government budget recently approved by the National Assembly. The budget envisages a substantial improvement in both tax revenue and revenue from other sources, which would keep overall revenue at the 1992 level after the above-mentioned compensation operations. Savings are anticipated in the wage bill, as a result of new limitations on the length of civil service, as well as in other current expenditure, more than offsetting a projected rise in capital outlays. The budget thus envisages a shift in the primary fiscal balance to a surplus of CFAF 10 billion, or 0.4 percent of GDP. The staff is seeking clarifications from the authorities concerning some of the assumptions underlying the budgetary projections for 1993.

The effective disbursements of multilateral and bilateral foreign assistance in 1992 amounted to CFAF 157 billion, close to the level projected in the staff report. At the end of December 1992, France extended a loan of CFAF 27.5 billion to Côte d'Ivoire, which will be used largely to meet external debt-service obligations. A Stabex transfer of CFAF 24 billion, related to a shortfall in export receipts in 1991, has recently been approved for Côte d'Ivoire, and it will be disbursed in 1993, subject to a number of specific conditions. In view of the relatively small improvement in the primary fiscal balance and the limited prospects for mobilizing additional resources, however, the overall financial outlook for 1993 will continue to pose serious problems.

Mr. Santos made the following statement:

Recent economic and financial developments in Côte d'Ivoire should be assessed against the backdrop of the continued deterioration of the country's terms of trade that has frustrated the authorities' adjustment efforts. Indeed, the efforts made in recent years to stabilize the economy were overwhelmed by the severity and duration of the external shocks. Côte d'Ivoire's predicaments not only bear testimony to the vulnerability of the economy to adverse exogenous factors, but also bring to light the structural nature of the imbalances that could best be addressed in a medium- to long-term context. Thus, the turnaround in economic activity expected at the inception of the 1991-92 economic program, supported by a stand-by arrangement with the Fund, did not materialize, and most of the economic and financial targets set under that program could not be achieved.

It is in such a difficult economic environment that my authorities have been pursuing their adjustment efforts and, to a certain extent, have succeeded in many areas. I will highlight in my statement some of the progress achieved to date and the thrust of my authorities' strategy for further adjustment.

Since 1989, the Ivoirien authorities' main strategy has centered on achieving fiscal consolidation that could enable them to normalize relations with domestic and external creditors and on implementing key structural reforms that could enhance the economy's supply response. With regard to fiscal adjustment, it should be recognized that substantial progress has been made in reducing the primary fiscal deficit from 7.5 percent of GDP in 1989 to 0.1 percent of GDP in 1992. This result was achieved mainly through sharp cutbacks in total expenditure, while budgetary revenue in relation to GDP stagnated, reflecting the depressed level of economic activity, the continued erosion of the tax base, and a sharp decline in export levies. However, with the continued increase in interest due on the domestic and external public debt, the overall fiscal deficit, on a commitment basis, registered a reduction of 4 percentage points of GDP over this period, which proved modest in relation to the size of the fiscal disequilibrium. As a result, the payment difficulties already experienced were exacerbated.

On the structural front, reforms were carried out in the main sectors of the economy in order to alleviate bottlenecks, improve efficiency, and increase growth potential. In this regard, substantial progress has been achieved in enacting various pieces of legislation aimed at deregulating the labor and goods markets and promoting the competitiveness of the economy. Further measures to reduce factor costs for local industries and accelerate the restructuring of ailing industries were also implemented as

envisaged. Concerning the financial sector, the rehabilitation of the banking system is proceeding well, and, as a result, the liquidity and profitability of some banks have been restored. The introduction of indirect monetary policy instruments and the strengthened prudential regulations should lead to enhanced confidence in the banking system and should foster financial intermediation.

With regard to the agricultural sector, the reform of the Agricultural Price Stabilization Fund (CSSPPA), including the adoption of a new pricing system, was put in place. However, the implementation of the new system of average forward export sales used to determine producer prices raised a dilemma for the authorities. The implicit producer prices for coffee would have implied further cuts in the income of a large number of coffee farmers, with potential long-term damaging impact on this sector and disruptive effects on the social situation. Therefore, the authorities took advantage of the relatively favorable situation of cocoa prices to maintain unchanged, on a temporary basis, the nominal producer prices for coffee. Concerning the privatization of public enterprises, despite some difficulties in maintaining the original schedule of divestiture, the process will now be accelerated, with some 15 enterprises slated to be privatized in early 1993. Reforms in the areas of health, education, and social services are also under way, with priority for measures that would raise the productivity of these services and improve their targeting, while holding their costs down.

My authorities' strategy for the medium term will continue to focus on fiscal consolidation and the completion of the structural reforms. A normalization of relations with domestic and external creditors will require a significant improvement in the primary balance. With the contraction of the domestic economy and the uncertain prospects of the prices of primary products, achieving this fiscal objective will be a challenging one. Nevertheless, my authorities will continue to explore all possible avenues to ensure durable improvement in the public finances. The successful completion of the structural reforms should complement the fiscal effort and enhance the flexibility and the responsiveness of the economy of Côte d'Ivoire. These reforms are essential to improve employment opportunities and to begin to reverse the decline in per capita income without which the adjustment process will run the risk of stronger domestic opposition. The authorities will continue to focus on the restoration of private and public investment to a level commensurate with the country's development needs and the restoration of the economy's competitiveness. Moreover, the important macroeconomic and structural policies that are already in place will continue to be strengthened and regional cooperation will be reinforced.

Finally, my authorities are in broad agreement with the staff's analysis on the size of the adjustment that is still needed, and they do not underestimate the difficult policy options underlying the internal adjustment process. They stand ready to continue their policy dialogue with the staff on the elaboration of a credible medium-term adjustment program that would constitute an adequate basis for the resumption of growth.

Mr. Dawson made the following statement:

Despite a few isolated bright spots, Côte d'Ivoire's overall economic situation and outlook remain depressingly bleak. Primary export markets continue to be quite soft, and without the necessary preconditions for successful diversification into other activities, GDP has shrunk for the fifth year in a row. Meanwhile, notwithstanding the approval of a Fund stand-by arrangement for 1991-92, Côte d'Ivoire's enormous macroeconomic imbalances have grown still larger, and the prospects for macroeconomic stabilization appear dimmer than before.

In his statement, Mr. Santos seems to attribute these developments mainly to the continued deterioration in the terms of trade, the vulnerability of the economy to adverse exogenous factors, and the structural nature of Côte d'Ivoire's imbalances. We do not dispute these observations about the Ivoirien economy. Our conclusion, however, is that Côte d'Ivoire's adjustment strategy, confined, as it is, to fiscal adjustment and incremental structural change, is singularly ill suited to the country's problems and its need to diversify the economy, reduce external vulnerability, and hasten the reduction of macroeconomic imbalances. In our view, the current strategy simply is not working.

As the staff report makes clear, aside from a massive reduction in the size of the government wage bill, which the authorities believe would be politically untenable, Côte d'Ivoire has about reached the limits of fiscal adjustment. Aside from the large wage bill, primary expenditure has been pared back drastically. Although there is no doubt some room for further cutbacks, for example, by bringing coffee and cocoa producer prices into line with market realities, Côte d'Ivoire appears to be approaching the point where further cuts in current expenditure would be counterproductive.

At the same time, revenue collections have been disappointing, and the staff report holds out little hope that revenues will improve. The hoped-for gains on tax administration have failed to materialize, and the authorities' ability to increase taxes on the formal sector appears quite limited if they are to avoid driving economic activity to the informal sector and further eroding competitiveness.

Although some welcome structural change is under way, the reform process is painfully slow and is hampered by poor fiscal performance. Not surprisingly, the gains in competitiveness appear extremely modest in relation to the 36 percent appreciation of the real effective exchange rate for Côte d'Ivoire since 1985 or, worse, in relation to the competitiveness gains on the part of a number of other developing countries pursuing more effective adjustment and export strategies. Moreover, what improvements in competitiveness have been achieved in some areas, such as more flexible labor policies, are probably more than outweighed by other, adverse developments, such as the effect of renewed accumulation of domestic payments arrears on the integrity of the financial system and business confidence.

In short, although continued structural change is essential, insufficient progress is being made on this front to redress Côte d'Ivoire's severe and deepening competitiveness problems. And, as the staff report points out, without a substantial improvement in government finances, certain structural reforms crucial to increased competitiveness, such as the lightening of companies' tax burdens and the complete rehabilitation of the financial sector, will have to be indefinitely postponed.

In our view, it is inescapable to conclude that the current strategy is unworkable and that Côte d'Ivoire's situation is unsustainable. Either there must be substantially more fiscal adjustment, notably through a massive reduction in the size of the public sector wage bill, or there must be a more comprehensive strategy that includes a change of nominal exchange rate, in addition to fiscal consolidation and structural change. The decision is, of course, up to Côte d'Ivoire to make, but whichever strategy is adopted, it must be an effective one. The current strategy is not.

The staff report refers to Côte d'Ivoire's need for debt reduction. I am not in a position at this point to say how the United States may view such a request in the future. However, I could not envision much international support for debt reduction until there was firm evidence that Côte d'Ivoire's policies were such that new debt problems would be avoided. Clearly, no such evidence exists under current policies.

Perhaps the most encouraging note in the staff report is that, "the authorities expressed keen awareness of the difficulties...of adjusting efficiently to the loss of external competitiveness and terms of trade developments without the instrument of the nominal exchange rate." For our part, we continue to believe that Côte d'Ivoire has considerable economic potential, and that the country deserves better than the current policy mix has been able to deliver. Therefore, we encourage the

authorities to continue working with the Fund and the Bank to develop a comprehensive adjustment strategy that will be worthy of international support and will enable Côte d'Ivoire to look forward to a brighter economic future.

Mr. Evans made the following statement:

The basic question raised by this staff report and consultation, in the light of the failure of the latest stand-by arrangement, is how the Fund can best assist Côte d'Ivoire in the future.

That was also the basic question when the stand-by arrangement was approved, albeit without the support of some Directors. The lack of universal support at that time did not result, as it so often does, from a perception of a lack of commitment on the part of the authorities. Rather, it was because the staff report on that occasion indicated quite clearly that the chances of success of the stand-by arrangement were minimal, given the policy mix adopted. The stand-by arrangement failed, as it was bound to do, and it is arguable that Côte d'Ivoire's predicament is now worse than it was at that time. Certainly, the debt problem has worsened, and arrears both domestic and international, have grown.

In addressing the problem this time around, with the constraints imposed by exchange rate policy remaining, the staff appears to be no closer to a workable solution. The illustrative policy scenario that the staff has devised as a basis for further discussion is said to bring Côte d'Ivoire no closer to achieving external viability. Clearly, a Fund program could not be based on such a policy package.

While these problems have more than one facet, the overriding constraint is imposed by the inability of the exchange rate to adjust to the substantial terms of trade loss incurred in the second half of the 1980s. If the exchange rate is not to be permitted to assist in the adjustment, it is inevitable that the adjustment must occur entirely in reduced domestic living standards. The issue is not whether this decline in living standards will occur--as it must do so; rather, it is a question of how the burden will be shared. In refusing to make the adjustments to the public sector wage bill that are necessary to attack the fiscal and debt problems, the authorities are declining to face up to the inevitable consequences of their exchange rate policy.

If the Fund is to assist Côte d'Ivoire, there is no choice other than for the staff to confront the authorities with these realities. Until the realities are faced, there can be no prospect of a successful program, with or without Fund support.

Mr. Landau made the following statement:

From the remarkable, comprehensive, and clear staff report, I will quote one sentence that, in my view, summarizes the whole situation of Côte d'Ivoire: "The terms of trade fell by 3 percent in 1991, and are projected to decline by another 2 percent in 1992, bringing the cumulative loss since 1985 to 45 percent."

This terms of trade shock had a triple impact on Côte d'Ivoire's economic situation. First, it led to a loss in real income and output equivalent to 12 percent of 1985 GDP. This, in turn, deprived the Central Government of important tax revenue and strongly impeded the efforts of fiscal consolidation implemented by the authorities. Second, it created a distortion in relative prices between tradable and nontradable goods. The long delay in correcting those distortions has had dramatic consequences for Côte d'Ivoire's economic growth: it triggered a decline in the tradable goods sector, whose share in GDP fell from 35 percent in 1986 to 26 percent in 1991; and it created huge inequities in relative incomes, as urban incomes--especially public wages--managed to be protected at the expense of those of rural farmers. Finally, it created tensions and imbalances in the public finances, which resulted in mounting arrears both on internal and external creditors, and a looming financial crisis. Third, this heritage from past mistakes is reflected today, materialized in an unsustainable internal and external public debt. For instance, if fully met, total obligations on external debt would be equivalent today to either the totality of primary expenditures, or overall tax receipts. As noted by the staff, this situation has severely eroded the financial system in Côte d'Ivoire and undermined overall confidence.

By no means have the authorities stayed passive in the face of those mounting difficulties. Especially during the last two years, they have reacted in several ways in tackling the situation.

First, they underwent a significant and continuous fiscal consolidation effort, which, as underlined by Mr. Santos in his statement, has produced an improvement in the primary balance equivalent to 7.5 percent of GDP in four years. Despite the slow progress in tax administration reforms, the overall ratio of tax in percentage of GDP has been maintained over that period, so that the total loss in tax revenues can be explained by the fall in output. Primary expenditure has been significantly reduced, by more than 10 percent in nominal terms during the past two years. Obviously, this effort has penalized public investment, whose share in GDP has fallen by half, and which might now be below the minimum required to ensure sustainable growth in the future. Hence, the bulk of future fiscal consolidation should come now

from action on other current expenditures. I shall come back to this later.

Second, the authorities have embarked on a comprehensive and broad-ranging financial and financial sector reform. Under the aegis of the World Bank sectoral adjustment loan, existing public arrears have been securitized and rescheduled over a long period, mostly at favorable interest rates. This opens the way for future buy-backs aiming at alleviating the debt burden. Moreover, the banking sector has undergone deep restructuring, with the re-establishment of a sound balance sheet situation for most important banks through portfolio reallocations, recapitalization, and privatization.

Third, structural reform has been effectively advanced in a number of fields. Prices have been liberalized, the labor market has been deregulated, and the public sector has been rationalized. Significant privatization has occurred, including among public utilities.

All of this, however, is certainly insufficient to eliminate the consequences of past mistakes. As clearly shown by the staff in its indicative scenario, the achievement of a primary surplus of about 5 percent of GDP is a condition for stabilizing both domestic and external debt as a percentage of GDP and thus reaching a sustainable financial situation. This is all the more necessary as new shocks in the terms of trade in 1992 have not been absorbed through agricultural internal price readjustment and thus will entail a future burden on public finances.

How can this be done? I shall make three remarks. I share the staff's assessment that a significant improvement in tax revenues rests, in the future, on the recovery of output, which would require a marked improvement in supply conditions. As shown by the illustrative scenario, modest growth--on the order of 2 percent a year--would yield, in this regard, the desired result, provided of course that expenditure growth is contained. This could and should be achieved through persistent structural reform.

As a complement, tax reform should be pursued actively. I would just mention, in this regard, the very weak returns on real estate tax, as well as the abnormally low number of economic agents effectively paying the VAT (on the order of 3,500).

However, the bulk of the adjustment effort should now come from the reduction of current public expenditures. This means that, in the future, efforts to adjust the wage bill downwards cannot be avoided, as they have in the past. Indeed, the wage bill of the public sector, as a percentage of GDP, in Côte d'Ivoire is among the highest--if not the highest--in Africa.

Some consideration should be given, first, to reducing the number of civil servants. The recruitment has been kept to a minimum--indeed, the net number has been slightly reduced. But further efforts should and could be made.

But the most essential steps are to be taken elsewhere in the economy. There is no alternative to a strong reduction of the public wage levels in real terms. It is a precondition of fiscal consolidation. It is a necessity from the point of view of equity and the re-establishment of a more normal relative income position. It is also the key to the re-establishment of internal and external competitiveness.

It is well known that a strategy different from the one courageously pursued by the authorities has been advocated in many circles. This strategy would be based on nominal devaluation of the currency. It would certainly not deter the real adjustment in incomes--especially in public wages--which is unavoidable. It would do so by increased inflation. Looking at the very interesting table on pages 94 and 95 of the background paper, concerning bilateral nominal and real exchange rates, one fact stands out clearly: although some countries in Africa and elsewhere have managed to gain over Côte d'Ivoire a significant competitive advantage, they have done so at the price of huge nominal devaluations. On average, looking at Côte d'Ivoire's direct competitors, less than one third of the nominal depreciation has been translated into a real exchange rate advantage. In many of those countries, the surge in inflation has brought important economic and social dislocations, which sometimes have interrupted the implementation of Fund programs. This is why my authorities fully support the choice made by Côte d'Ivoire to absorb the huge external shocks that this country had to face through internal adjustment. They stand ready, in the future, to assist Côte d'Ivoire in its efforts, as they have done in the past.

Mr. Törnqvist made the following statement:

When the stand-by arrangement for Côte d'Ivoire was discussed in the Board in September 1991, several chairs, including this one, voiced considerable skepticism. The skepticism was twofold. First, it was doubtful whether the proposed program was ambitious enough to lead to medium-term external viability. Second, it was unclear whether the Ivoirien authorities really were prepared to undertake even the, in our view, relatively modest measures of adjustment and reform that the program entailed.

Unfortunately, the skepticism proved to be justified, at least on the second point. The program soon went off track, and the midterm review could not be completed. It should be admitted, however, that some commendable initiatives have been taken in the

area of structural reforms, primarily in the agricultural sector, but to some extent also in the financial sector.

On the whole, however, the policies of the authorities have been inadequate. Due to this, to a large extent, but partly also due to adverse circumstances, the overall situation has deteriorated further. The economy has continued to shrink, productive activity has continued to shift into the informal sector, and confidence has been eroded further. As a result, external and internal government arrears have continued to accumulate. Instead of starting to free itself from the debt trap, Côte d'Ivoire is now caught in it even more firmly. Thus, the country now finds itself in an even more difficult situation than at the time of our last discussion.

What can be done in this situation? We broadly agree with the analysis and recommendations of the staff. The authorities have to concentrate on tackling the three main weaknesses in the economy, namely, the fiscal disequilibrium, the public debt overhang, and the lack of international competitiveness.

As to the fiscal disequilibrium, we can only underline the crucial necessity of cutting government expenditures radically. This will only be possible if the Government is prepared to reduce its wage bill substantially. It is deplorable that so little has been done in this respect so far. We wish to join the staff and other speakers in urging the authorities to take decisive action on the wage bill very soon.

To restore international competitiveness will not be an easy task, given the fact that the authorities have ruled out the use of one important instrument, namely, the exchange rate. This is a choice the authorities have to make themselves. However, it is important that they fully realize the consequences of this choice. It makes the need for economic adjustment and far-reaching structural reforms even more pressing. As I said earlier, some good reform initiatives have been taken, but this is just a beginning. A lot remains to be done. We do hope that the authorities will develop a greater sense of urgency in this respect than they have done so far.

We note that, despite their difficult financial situation, the Ivoirien authorities have continued to meet all their obligations to the Fund impeccably, for which they deserve credit.

Mr. Esdar made the following statement:

The staff report provides a very candid and clear picture of the precarious economic situation in Côte d'Ivoire, characterized by imbalances in the budget, a dramatic deterioration of external competitiveness, a deteriorating external situation, and an increase in domestic and external arrears. Without a radical and comprehensive reorientation of economic policy there is no realistic chance to overcome these severe imbalances and to regain the confidence of donors and private investors.

The critical reform areas are convincingly put forward in the staff report. They include fiscal consolidation by further cutting expenditures, with the main focus on the public wage bill, and by increasing revenues; expediting structural reforms, especially in the areas of the civil service, public enterprises, and the agricultural price stabilization fund; and regularization of domestic and external arrears as a critical precondition to re-establishing normal relations with domestic and external creditors.

In addition, the staff rightly emphasizes the crucial need for Côte d'Ivoire to regain external competitiveness, which, in the staff's view, could be achieved by either fiscal adjustment, or, as an alternative, by a devaluation of the exchange rate.

Given the magnitude of the problem, I have some doubts whether the authorities of Côte d'Ivoire in fact have the choice of two different options. In my view both elements--fiscal and wage restraint, and a downward adjustment of the exchange rate--have to be used at the same time to overcome the existing imbalances.

There are certainly linkages between the extent to which both instruments can contribute. A larger adjustment of the exchange rate can certainly ease the burden for fiscal adjustment and vice versa.

However, a full substitution of an exchange adjustment by fiscal measures seems to be a very risky approach. On the one hand, the room for wage policy is certainly limited, given the need to generate broad political support. On the other hand, the staff, in its illustrative scenario, clearly demonstrates that even if political constraints are neglected, a strategy based only on structural reform and improvement of the fiscal balance would be insufficient to bring Côte d'Ivoire close to achieving external viability and to ensure an increase in real per capita income.

Mr. Dlamini made the following statement:

The Ivoirien authorities have, since mid-1989, embarked on adjustment and restructuring measures aimed at reducing fiscal imbalances and improving the economy's external competitiveness, despite the continued deterioration in the terms of trade, arising mainly from weaknesses of world prices for the country's main export crops--cocoa and coffee.

As noted in the staff report, significant progress has been made in the areas of fiscal consolidation and structural reforms. Despite the progress achieved in these areas, the fiscal position of the Government has not improved sufficiently to generate the surpluses required to meet the country's domestic and external debt obligations. In particular, owing to the continued deterioration in the terms of trade and the heavy debt burden, economic activity in Côte d'Ivoire has shown considerable contraction over the past five years, making the task of adjustment and restructuring all the more difficult.

The staff report clearly highlights the difficult prospects facing the country in the medium term. After several years of large fiscal imbalances and negative growth, conditions for a resumption of sustainable growth in real per capita GDP and a healthy external position over the medium term seem difficult to attain.

In these circumstances, it is critically important that the level of savings and investment be increased in order to reverse the economic decline of recent years. A further tightening of the fiscal stance, although a difficult task in the prevailing circumstances, and the reform of the ailing banking sector, are therefore necessary. These measures, by raising the degree of confidence in the financial sector, should facilitate the creation of the environment that will help to attract more foreign direct investments.

Since the existing foreign exchange rate regime cannot be used to improve the external competitiveness of the economy, the burden of adjustment falls on domestic financial policies and structural reforms. The authorities should therefore endeavor to implement cost-cutting measures in export production and achieve efficiency gains through further strengthening of the restructuring process.

Both the authorities and the staff have recognized the fact that, even with the implementation of strong and broad-based adjustment measures, Côte d'Ivoire would continue to depend heavily on exceptional external financing over the medium term. Thus, the support of the international financial community would

be essential if the country is to successfully complete its restructuring program.

Mr. Dorrington made the following statement:

The staff paper rightly identifies the need for Côte d'Ivoire's future policy to address simultaneously three areas: fiscal policy, competitiveness, and the public debt. Without strong action in all three areas, it is difficult to see how external viability can be achieved.

I agree with the staff that achievement of a substantial primary fiscal surplus is essential if domestic and nonrescheduled external debt is to be serviced adequately. In the absence of robust growth in activity, the prospects for stronger revenue seem bleak.

This makes it even more necessary for action to be taken on the spending side, including the civil service wage bill. But there seems no clear plan for how large cuts here can be achieved, with the Government apparently ruling out significant cuts in nominal wage rates and reform of staffing levels making little progress at present. Thus, it is very difficult to see how the required substantial primary surpluses will be achieved. The 1993 budget appears to be a further step in the right direction, but I agree with the staff supplement that leaps, rather than steps, are necessary.

Probably the most disturbing recent development has been the continued, essentially unchecked, growth of domestic and external arrears. The danger is that this will develop into a vicious circle. Extensive Paris Club rescheduling, for example, cannot be expected if the authorities are not meeting their post-cutoff-date obligations. We are told that interest rates have been raised to slow capital flight, although the tightening hardly seemed necessary on domestic grounds and will not be helpful in encouraging fixed investment. Perhaps the staff could comment on the reasons for the capital flight.

Perhaps the greatest recent progress has been on structural reform. But here, as in other areas, while the direction has been right, the speed has been inadequate for the size of the task. As Mr. Santos puts it, in many areas the authorities have succeeded to a certain extent.

Radical action is essential to address the loss of competitiveness since the mid-1980s. Precise measurement is not possible, but the estimates that can be made all point in the same direction. The uncompetitiveness can be seen in absolute terms as well as in changes. By way of illustration, a survey of living

costs in 98 major cities around the world last March ranked Abidjan tenth most expensive, ahead of Zurich and London. African countries outside the CFA franc zone ranked mostly among the cheapest.

The authorities have stated their intention to preserve their current exchange rate parity. If that is their wish, then the logical consequence is that to restore competitiveness, as is essential, they must take responsibility for sufficient domestic adjustment, and in particular on wage costs. This will require far more radical action than we have seen to date. It would certainly not be sensible even to contemplate a Fund program until the question of competitiveness has been plausibly and urgently addressed, one way or another.

There has been some repetition in my statement of points made by earlier speakers. That is a sin of nonlead speakers, but I think it is essential that there be no doubt as to how widely and strongly held some of the views I have expressed are.

Mr. Kaeser made the following statement:

As has been pointed out by other speakers, the situation of Côte d'Ivoire is characterized by internal and external economic problems that require a drastic long-term adjustment process coupled with a comprehensive debt-rescheduling strategy. I will limit my comments to some specific points.

Let me begin by stressing the importance of the fiscal adjustment. In this respect, we agree with the staff that a significant reduction of the wage bill of civil servants is of major importance to balancing the budget. On the revenue side, it is necessary to increase government income by improving tax collection and enlarging the tax base. The Government must also proceed with the structural reforms of the economy. The privatization process has an important role to play in this regard, especially as it will contribute to alleviating the burden of the fiscal adjustment.

Like some previous speakers, one could argue that the best way for Côte d'Ivoire to alleviate the adjustment burden and to improve its external competitiveness would be to leave the West African Monetary Union (WAMU) and to devalue its currency. There is no doubt that this quick fix might help in the short term. However, by itself, this apparently painless measure will never be sufficient. And there is a real danger that it could become the substitute, rather than the complement, of the badly needed adjustment process. After having severed its link with the stability anchor of the WAMU, Côte d'Ivoire could become trapped in a devaluation spiral that would put inter alia an end to its very

impressive price performance. I wonder whether it would be wise to push Côte d'Ivoire into this vicious circle and to weaken seriously the WAMU, which, after all, has served well as an instrument of monetary and financial discipline in the region.

Mr. Jamnik made the following statement:

The staff report has provided us with a frank and sobering assessment of recent developments in the Ivoirien economy. Fifteen months ago, when the Board considered Côte d'Ivoire's seventh request for a stand-by arrangement, this chair supported the program, albeit reluctantly, in the hope that it would provide the catalyst for a substantial strengthening of adjustment efforts. Regrettably, this strengthening did not materialize, and, in fact, even the modest objectives of the program were not achieved. Now, the authorities' latest reaffirmation of their commitment to adjustment rings somewhat hollow. We see little in Mr. Santos's statement or the staff's update that would cause us to change our assessment.

The staff and previous speakers have rightly focused on the weaknesses in fiscal administration, the absence of international competitiveness, and the seriousness of the debt problem. The authorities themselves seem to be fully cognizant of these formidable obstacles. What seems to be absent, and in our view has been absent for far too long, is the will to institute the difficult decisions required to address these problems.

The time for "containing" the wage bill and "limiting" current expenditures has long passed. The hope of "substantial improvement" in revenues has consistently proven to be ill founded. The expectation of boosting international competitiveness in the context of an unrealistic fixed exchange rate has been, and we fear will continue to be, elusive. And advancing the notion that extensive debt reduction, without credible macroeconomic policies, will somehow be the panacea to Côte d'Ivoire's economic and financial problems is, quite simply, disingenuous.

While we recognize the difficult current environment in Côte d'Ivoire, this recognition simply adds to our regret that valuable opportunities have been missed in the past, when, in fact, the environment was more conducive to strong and sustained adjustment. The staff's recommendations clearly outline the path that the authorities must embark upon. We urge the authorities to design and implement a sound framework of policies that would truly reaffirm their commitment to adjustment, and to do so with a much greater sense of urgency and resolve.

Mr. Hammoudi made the following statement:

As Mr. Santos points out in his opening statement, the severity and duration of the external shocks that have hit the Côte d'Ivoire economy have greatly complicated the authorities' adjustment efforts. The shortfall in tax revenues, due to the continuing decline in real GDP, and the relentless fall in Côte d'Ivoire's terms of trade were the main causes of the missed performance criteria. We note that progress was made on the structural front, although in some areas--namely, the restructuring of the agricultural price stabilization fund, the reform of the civil service, and the authorities' privatization program--the pace of reform was less satisfactory.

Some speakers believe that the authorities' problems have been compounded by the nature of the exchange system, which disavows the instrument of a nominal exchange rate. I do not share this opinion, and I wonder whether the staff could elaborate on this matter.

While fiscal policy should be the centerpiece of a reinforced domestic adjustment strategy, the authorities' task is made more difficult by the narrow and shrinking domestic resource base, the uncertain prospects of the prices of primary products, and the need to reduce taxes as part of the effort to improve competitiveness. Moreover, there would appear to be little room for maneuver on the expenditure side, given the fact that the cutbacks that have been implemented have led to social tensions. Further drastic cuts, especially in the area of the civil service, could serve to exacerbate these tensions. Could the staff comment on this subject?

The diversification of the economy is of the utmost importance, but this will take time and require resources. While there may thus be limited possibilities in the immediate future, I wonder whether the staff can tell us about the prospects for diversification over the medium term.

Despite the immensity of the task facing the authorities, we welcome the fact that they stand ready to continue their policy dialogue with the Fund with a view to elaborating the policy requirements of a credible medium-term adjustment program. In this endeavor, it is important that the authorities address decisively and simultaneously the need to re-establish public sector financial balance and normalize relations with domestic and external creditors, and restore international competitiveness by deepening the process of structural reform. We believe that such a comprehensive program of action would set the conditions for the international community to provide the necessary accompanying exceptional support--including a significant alleviation of the

external debt burden--and thereby facilitate an early return to economic growth and external viability.

Mr. Wei made the following statement:

The Côte d'Ivoire authorities have pursued a comprehensive adjustment strategy since mid-1989 and have made considerable progress in correcting the financial imbalances as well as in the area of structural reforms. However, due to the persistent decline in the terms of trade and the lack of strong policy measures to give an impetus to the economy, GDP growth has declined for five consecutive years. The authorities are encouraged to introduce a credible medium-term program to address the issue so as to achieve a sustainable economic growth. As we are in broad agreement with the thrust of the staff's appraisal, we will only make some brief remarks.

On fiscal policy, the authorities are encouraged to take measures to increase revenues and further curtail expenditures. While the staff understandably has the view that the scope for revenue enhancement in the present economic context is narrow, there is still room for the authorities to make efforts to improve revenue collection--for example, by enhancing customs administration reform. On the expenditure side, the authorities should consider measures to compress the Government's wage bill through a combination of reductions in staffing levels and transfers to public entities.

In the area of structural reforms, the authorities are encouraged to continue their efforts to reform the pricing structure of coffee so as to eliminate its subsidies to the CSSPPA. The authorities are also encouraged to continue with reforms regarding the program of voluntary departure for civil servants.

On the external debt issue, which is the most serious problem facing the country, in our view, priority should be given to halting the deteriorating economy and restoring positive real growth. In this respect, emphasis should be put on the diversification of the economy as well as the enhancement of international competitiveness. Thus, it is urgent that the authorities consider adjusting the exchange rate to a realistic level. Meanwhile, the creditors should reschedule the country's external debt on terms as concessional as possible, so that the country can gain sufficient time to rebuild its economy. Otherwise, it is hard to imagine how its arrears can be eliminated.

We understand that it will take considerable time to design a comprehensive program to address the above issue. However, the

authorities are urged to work out such a program as early as possible.

The staff representative from the African Department remarked that capital flight was not a new phenomenon for Côte d'Ivoire. It had begun to accelerate in 1988 in the context of the difficulties in the banking sector, and there had been relatively large capital outflows in 1989 and 1990. In 1992, despite the rumors in the press of a possible change in the parity, the capital flight was not large. Because of the regional monetary system, and the full convertibility of the currency, there had always been free transfer of capital among the members of the system. Hence, the movement of capital within the currency zone had been relatively large but had not increased significantly after the steep rise in 1988 and 1989.

Regarding the more general question raised by Mr. Hammoudi, the Ivoirien authorities were keenly aware of the difficulties and limitations of their present strategy and were ready to consider all possible avenues for expanding their policy options, the staff representative commented. The authorities believed that there was a need to address simultaneously the three main challenges: fiscal consolidation; restoration of competitiveness and growth; and reorganization and reduction of the domestic and external debt. In advance of the next round of discussions with the authorities, the staff had included in the report an illustrative scenario showing the possible results and limitations of reinforced domestic adjustment. In that context, the staff had specifically included the resumption of satisfactory economic growth and the prospects for bringing Côte d'Ivoire closer to viability.

While the authorities would probably be ready to discuss a large number of options, they recognized the great advantage of Côte d'Ivoire's membership in the CFA zone and the need to preserve the monetary cohesion of the zone, the staff representative continued. It was in that context that the authorities had recently reaffirmed the commitment, made by the Head of State in July 1992, to reinforce the domestic adjustment strategy and to deepen their regional cooperation by introducing elements of multilateral surveillance of budgetary policy. There was clearly a link between the implementation of a common monetary policy and the implementation of a common budgetary policy and other policies in order to strengthen the value of the common currency. It was in that context that discussions among the members of the WAMU were currently taking place.

Côte d'Ivoire evidently had a large potential for diversification, the staff representative from the African Department noted. Although cocoa and coffee were very important in total exports, the country was also exporting a large variety of other products. Diversification was taking place, but extremely slowly, as a substantial improvement in the price structure in favor of the tradables sectors was a prerequisite for successful diversification.

Mr. Esdar recalled that he had encouraged the authorities not to neglect the exchange rate instrument. That did not mean that Ivory Coast should leave the monetary union. Problems of competitiveness were common to Côte d'Ivoire and other countries in the region. Therefore, it might be possible to find solutions that would involve both maintaining the important exchange rate anchor of the zone and improving competitiveness through the exchange rate instrument.

Mr. Dawson commented that his chair had a record of being skeptical about the usefulness of exchange rate anchors. In his initial statement, he had made the same point that Mr. Esdar had just made. Mr. Kaeser might have oversimplified the policy options facing the authorities. He himself had stated that either there must be substantially more fiscal adjustment, notably through a massive reduction in the size of the public sector wage bill, or there must be a more comprehensive strategy that included a change of the nominal exchange rate in addition to fiscal consolidation and structural change. Directors who were calling for an exchange rate adjustment were certainly making that suggestion as part of a package that included fiscal consolidation and structural change. That approach would not lead to the kind of vicious circle that Mr. Kaeser seemed to fear.

Mr. Landau considered that everyone would probably agree that there was a need for strong downward adjustment of public wages in real terms. How that adjustment should happen was a matter of judgment; several different strategies could be conceived. A downward real adjustment of public wages was the crux of the adjustment program now, and speakers seemed to agree that if that problem was not solved, no other problem facing the economy could be solved.

Mr. Santos remarked that his authorities, having chosen a particular path of adjustment, had tried to implement appropriate policies that would have had the desired impact had it not been for the extremely difficult external environment that Côte d'Ivoire had faced recently. That environment had played an important role in the present economic situation and had made it difficult to achieve some of the key objectives under previous programs as well.

He wished to emphasize, Mr. Santos continued, that, as the staff had described in its supplementary paper, the authorities had laid an important foundation with the structural reforms under way in various sectors of the economy. That foundation would have an impact on all the areas to which Directors had called attention. It was useful to recall that the 1992 Article IV consultation with Côte d'Ivoire had taken place in the context of a regional consultation: all the members of the WAMU had been encouraged to face their common difficulties in the context of a regional orientation for their adjustment policies. His authorities in Côte d'Ivoire highly valued their membership in the WAMU, and they gave a high priority to reinforcing the cohesion among the zone members. At the conclusion of those regional discussions, the many constraints on the economic recovery of those countries were analyzed, and the authorities in Côte d'Ivoire had assessed the

clear choices for strengthening the internal adjustment process. His authorities looked forward to continuing the policy dialogue with the Fund and World Bank on the medium-term path that would be compatible with the regional orientation.

The Acting Chairman made the following summing up:

Directors noted that Côte d'Ivoire continues to face an extremely difficult economic and financial situation, marked by a continuing decline in real GDP, severe pressures on public finances, and a large buildup of domestic and external payments arrears. While recognizing the adverse impact of external developments--and particularly the sharp declines in Côte d'Ivoire's terms of trade since 1985--Directors expressed disappointment at the weak economic performance under the program supported by the recent stand-by arrangement, which had precluded the conclusion of the midterm review discussions prior to the expiration of the arrangement in September 1992. In particular, Directors observed that the programmed improvements in the Government's primary fiscal balance were not achieved in 1991-92, as revenue had fallen short of the targeted levels, the civil service wage bill had not been reduced--either in absolute or in relative terms--and cuts in total expenditure were borne largely by development outlays. In addition, owing to the fiscal slippages, there was a further accumulation of payments arrears. Directors commented that the continued lack of economic diversification, the failure to restore competitiveness, and the persistently low rates of domestic savings and investment had substantially worsened the prospects for a return to sustainable growth and balance of payments viability over the medium term.

Directors recognized and welcomed the progress made by the authorities in some areas of structural reform--including the rehabilitation of the banking sector and the liberalization of the price and labor legislation--but at the same time they regretted the disappointingly slow progress in implementation of the privatization program, restructuring the agricultural price stabilization fund, and reforming the civil service. They also noted that the lack of domestic budgetary resources had hindered some further structural reforms, notably in the banking and industrial sectors, and had led to delays in the disbursement of external program assistance.

While not underestimating the adjustment efforts undertaken by the authorities in the context of a difficult environment, Directors stressed that Côte d'Ivoire needed to adopt a stronger and more comprehensive approach in its economic policy in order to rapidly and convincingly reduce the sizable financial imbalances, and re-establish the conditions for sustainable growth and external viability. Such a strategy should seek to bring about a more

equitable and efficient distribution of the adjustment burden, in light of the uneven distribution experienced in recent years.

In this context, Directors emphasized that a substantial improvement in fiscal performance was required in 1993 and beyond. They considered a sustainable improvement in revenue collection to be essential, in particular through a broadening of the tax base and a reinforcement of the tax and customs administrations. However, in view of the present weakness of the economy, as well as the need for tax reductions as part of an effort to improve competitiveness, Directors emphasized that most of the fiscal adjustment would have to be made through further reductions in current expenditures, notably with respect to the government wage bill, which most Directors saw as unavoidable and, indeed, necessary to support the economic adjustment.

Directors considered the recent restructuring of the Government's domestic debt as an important step in the direction of resolving the crisis of state indebtedness, but at the same time expressed concern that the renewed accumulation of domestic payments arrears in 1992 would endanger the ongoing rehabilitation of the financial system and the return of confidence in the economy. Directors emphasized that every effort should be made to regularize the outstanding domestic payments arrears as soon as possible.

Directors were of the view that the authorities should accelerate the implementation of structural reform measures in order to improve supply conditions and increase the flexibility of the economy. This would need to be a continued element of the reform process. As the structural reforms implemented thus far had not significantly improved competitiveness, they considered that the reform effort had to be intensified and deepened. In particular, greater efforts were needed to reduce domestic costs, liberalize the trading system, and restructure the public sector through the privatization of state enterprises and the reform of the civil service.

Directors noted Côte d'Ivoire's continuing difficulties in meeting its external debt-service obligations. They regretted that Côte d'Ivoire had been unable to honor its commitments under the most recent Paris Club rescheduling and had accumulated additional external payments arrears in 1992. They also expressed disappointment that so little progress had been made in normalizing relations with commercial bank and other private creditors. Directors noted that, in the framework of a substantially strengthened adjustment effort, Côte d'Ivoire's financial rehabilitation would also require a more comprehensive approach to the problem of the existing external debt and the associated large financing gaps projected for the future.

Directors urged the authorities to adopt a credible medium-term program of policies to restore competitiveness and to lay the basis for sustained economic growth and external viability. Strict implementation of such a program would be required for Côte d'Ivoire to obtain the substantial exceptional assistance needed to manage its adjustment effort successfully. Directors recognized the advantages of Côte d'Ivoire's membership in the CFA franc zone. A number of speakers expressed serious doubts that external viability with sustained growth could be achieved solely through a reinforcement of internal adjustment, given the magnitude of the remaining imbalances and distortions and the need to distribute equitably the burden of adjustment. They therefore urged the authorities to consider seriously all possible policy options for strengthening their adjustment effort. Some others encouraged the authorities to continue to emphasize and, indeed, strengthen their internal policies, including fiscal and structural policies, and, in that context, effect a major adjustment in nominal public sector wages.

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

Mr. Esdar said that the language on the exchange rate might give the impression that some Directors favored using the exchange rate instrument. As he had stressed, the authorities had no alternative to remaining in the CFA franc zone. The real alternative was to adjust the level of the exchange rate within the franc zone.

The Acting Chairman responded that it was with Mr. Esdar's view in mind that he had pointed to the advantages of Côte d'Ivoire's current arrangements in the CFA franc zone. He had mentioned that some Directors saw the need for an exchange rate adjustment, but none of those Directors had suggested that Côte d'Ivoire should leave the CFA franc zone. The issue was not the membership in the CFA franc zone but rather the current arrangements in the zone.

Mr. Dawson said that he agreed with the Acting Chairman. Directors had suggested making adjustments in the zone arrangements, not eliminating those arrangements altogether.

Mr. Evans remarked that the text that the Acting Chairman had read made no mention of the term "exchange rate," even though that term had been used by most speakers. The message that was being sent by the majority of Directors needed to come through much more clearly than it did in the summing up in question. Sending a clear message had been put off too long as it was.

The Acting Chairman said that he wondered whether Directors would wish to be so explicit in writing. The essence of what Directors meant to say could be conveyed without explicitly referring to it.

Mr. Landau considered that the proposed text of the summing up seemed to meet Mr. Evans's concern. Mr. Evans and the Acting Chairman were saying that the authorities' present strategy was insufficient and would not meet with success, and that other strategies were needed to restore competitiveness. The message that the summing up was meant to send was clear.

Mr. Dawson stated that he agreed with Mr. Evans. The text on exchange rate policy in the summing up should be more explicit. The proposed text ran the risk that it could be interpreted as an endorsement of the CFA franc zone. In a sense the text was meant to provide such an endorsement, but in another sense it was not meant to do so. Directors were not challenging the zone and the way it functioned. However, a clear majority of the Board was questioning, if not challenging, the appropriateness of the present exchange rate level. By failing to be somewhat more explicit about the exchange rate question in the summing up, there might unfortunately be an implication that there was an unqualified endorsement not only of the system but also of the level of the exchange rate in the system.

Mr. Posthumus considered that it would be unwise to call explicitly for an exchange rate change in the summing up. He preferred the approach that the Acting Chairman had proposed.

The Acting Chairman said that, in order to convey the message about the exchange rate to the authorities in an absolutely clear manner, he could send them a letter making that point explicitly; in comparison with the summing up, that would be an even more confidential way of conveying the message.

Mr. Santos stated that he agreed with Mr. Posthumus. He would feel very uncomfortable with any approach that would move far away from the one taken in the proposed summing up. Everyone understood the message that was being sent, and there was therefore no need to be more explicit.

Mr. Evans commented that the Board was in danger of doing what it had done when it approved the stand-by arrangement for Côte d'Ivoire. At that time, there was a substantial feeling in the Board that if the authorities wished to stick with an unchanged exchange rate, the program that was being proposed simply would not hang together. That conclusion was still valid. The authorities could conceivably stick with the present exchange rate, but, if they did so, they would need a much more significant domestic adjustment than they currently had in mind. That message needed to be clear to the authorities.

Mr. Landau commented that many people inside and outside the Fund believed that the level of the nominal exchange rate should be changed, and the difference between the Fund and the rest of the world was that the Fund had managed up to the present to make its message clear but in a responsible manner. He would not wish the Fund to lose that comparative advantage. The proposed summing up was clear, and anyone with some familiarity with the

issue under discussion would understand exactly what message the text was meant to send. That text was written in a responsible manner, and he wished to leave it that way.

Mr. Esdar commented that he agreed with Mr. Landau that it would be wise to be more careful in the text on the exchange rate instrument, which was of course a sensitive instrument. He strongly supported the suggestion that the message should be conveyed to the authorities in a letter from the Acting Chairman.

Mr. Dawson said that he continued to feel that the text of the summing up should be more explicit than the Acting Chairman had suggested. As a compromise, he could accept the suggestion to have the Acting Chairman communicate in a confidential but more explicit fashion to the authorities the concerns that were clearly shared by Directors with respect to the exchange rate. As Mr. Evans had recalled, there had been considerable reluctance by some Directors to approve the stand-by arrangement, and those Directors had in a sense been proven correct. Taking the same position in the summing up that was taken at the time of the approval of the stand-by arrangement would run the danger of sending the wrong message.

The Acting Chairman commented that the text of the summing up could be left basically as he had presented it, and he could convey the more specific advice on the exchange rate in a direct communication to the authorities.

The Executive Directors accepted the Acting Chairman's proposal and concluded their discussion on Côte d'Ivoire.

4. UNAUTHORIZED DISCLOSURE OF INFORMATION

The Acting Chairman made the following statement:

> I would like to discuss with you issues that arise from the leak of the world economic outlook document on the morning of the Board's discussion of that paper (EBM/92/152, 12/16/92). Directors will recall that Mr. Kafka raised the question of whether there should be an investigation. This was discussed briefly recently in the Board, and I said that I would reflect on it, discuss it with the staff, and come back to you with some views. In this connection, we have been addressing a couple of questions. First, is this a good case to investigate? Second, what guidelines should any investigation follow? Third, what should we expect as a result of such an investigation?
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> By way of background, I would note that we have had a history of leaks of world economic outlook documents over many years. In the present instance, we know the particular journalist who has again succeeded in obtaining if not the entire document, then at least an extract. Against this background, there is the fact that

the world economic outlook document itself is quickly released to the public as soon as the Board discussion takes place. The question naturally arises, therefore, as to whether the factor of imminent public release may not play a role in the treatment of the draft document by recipients. Perhaps we are dealing here with a certain complacency that has in fact been building up over time, so that prematurely releasing the document is seen as merely breaking an embargo. This case is different in a sense from a leak of a Board discussion, which involves information that is never intended for the public and the leak of which endangers the way we do our work.

The related issue concerns the scope of a possible investigation. If we were to have an investigation, and to conduct it in a serious way, I think that it would involve the tracking of the documents that were distributed prior to the Board discussion. There were 310 documents made available to offices of Executive Directors, 48 to staff at Fund Headquarters, 1 to the World Bank, and 4 to the Fund's office in Europe, which then distributed a copy to designated persons in the OECD, the EC, and the BIS. There was also one copy to the office in Geneva. If we were to have an investigation, I think that we would need to proceed by investigating all recipients. I do not see a basis on which we could a priori say that some recipients have a higher probability than other recipients of having leaked the world economic outlook document, and this is why I said at the start that this would mean in fact going back to each recipient of the leak.

I mention this because this is the way that the major investigations in the past--and there have not been many--have been conducted. We know from experience that any skilled outside investigator would need to proceed, document by document, to track down each text in the period from the date of circulation on December 4 to the date of the Board discussion on December 16, and would seek to find any further disclosure or distribution of the document.

If we were to follow past experience with outside investigations, the results of the investigation would be reported on the staff side to the Managing Director, and on the part of Executive Directors to the Dean of the Executive Board. We also know from previous investigations that such an exercise would be both time consuming and costly, and that it would be necessary to involve the full cooperation and collaboration of a number of officials in member countries if we are going to try to track individual documents. In reflecting on the approach to investigations in the past and what would be involved, I must say that I am skeptical that such an investigation in this particular episode would be worth our while.

I have an alternative suggestion for Directors to think about, namely, to conduct a more general review--using this as a good case in point--of the practices that were followed by the various recipients of the world economic outlook document in this case. This could involve, for example, contacts with the staff members of the Fund, a step that, in terms of the number of people involved, would be relatively easy to do. It would also involve some discussion with the recipients in other organizations, such as the OECD, the BIS and the EC. With respect to the membership, where most of the copies went, individual Directors could discuss with their authorities the methods that were used in this particular case to protect the security of the document. This would mean that we would not undertake the kind of investigation that I was referring to before, under which we try to track down what happened to each document; instead, we would make inquiries with your authorities to see what procedures were put in place in this case. Then, with this background in mind, we might have some insight into the extent to which the ultimate recipients of this document need to better understand the requirements for security. It would be useful to know whether, in fact, they do permit extra copies to be made, and the extent to which there is thus additional internal circulation within governments, and what additional protection of the document is provided for security purposes.

In undertaking this kind of review of this particular episode, we would have in mind how the Fund could improve the security of its documents in the future. It seems to me that, with this kind of an approach, which would be less intensive and probably less costly than a more thorough investigation, we could learn about how to shape the future evolution of our security policy and the way that the documents are classified.

This alternative has certain disadvantages. It does not pursue the matter with the same intensity and depth as a full-scale investigation, although I doubt whether an investigation would in fact be successful. I think that it is perhaps more important for us to bring into the discussion governments and other organizations that receive our documents, and their internal recipients of these documents, to focus on how the security can be improved. I suggest that Directors think about this approach and come back in, say, a week's time, to see whether that approach would be agreeable. One possibility would be to set up a small working group, perhaps one or two senior staff, and one or two Directors, to flesh out this approach and eventually report back to the Board on the findings of the review by those who participate.

Mr. Dorrington said that he was attracted by the idea of a small working group that would report its findings to the Board. The review that

the Acting Chairman had mentioned would be helpful irrespective of whether or not the Board decided to conduct an investigation. He was concerned about the distinction the Chairman had made between breaking an embargo, on the one hand, and leaking a document that was not to be published or leaking portions of a Board discussion, on the other hand. Obviously, there were questions of degree, but the breaking of an embargo could indeed prejudice the discussion at the Board and could prejudice the final document, which could otherwise be amended as a consequence of the Board discussion. There was clearly a need to remove the complacency to which the Chairman had referred. Finally, when a crime was committed, the police did not interview each and every individual in the country concerned. Therefore, the suggestion that the investigation would involve interviews with some 400 people, to start with, was worrying. It seemed apparent that the channel by which the document had been leaked in the past was based in Paris, which might suggest that some sources were the more likely source of the leak than others.

Mr. Landau commented that the leak might have been expected to have occurred in a large city that housed international organizations and had an active press and a well-developed financial market. In any event, the kind of comprehensive investigation that the Chairman had suggested would be completely inappropriate; it would change the whole spirit of the Fund and risk making the Fund the laughingstock of the world. Suggestions concerning that approach should certainly be abandoned.

Another possible approach, as he understood it, was to have Directors ask their authorities to be more responsible themselves in a kind of coordinated manner, Mr. Landau continued. However, some Directors had mentioned on previous occasions that they had to ensure a wide circulation of papers within their own administration, and that necessity should be taken into account. In brief, every effort should be made so that leaks would become more difficult to accomplish; in other words, the solution was to prevent the possibility of leaks in the future. Accordingly, he continued to favor numbering particularly sensitive documents and restricting their circulation as much as possible. The kind of inquiries that the Chairman had mentioned would inevitably place considerable strain on the cooperative spirit of the Fund.

Mr. Dawson recalled that the Chairman had asked whether the case under discussion was a good one to investigate. In his view, he could not imagine a better case, as the Board and management had made an explicit point, ahead of time, to warn members of the Board and the staff that the WEO document was a particularly sensitive one. In that connection, management had made a point of controlling the document's distribution. As to the guidelines for such an investigation, they could be narrowly honed, as there was clearly a pattern of news reports originating in a European capital. A news story, similar in style to the latest one on the WEO and which he suspected was written by the same individual, had appeared in the summer of 1992, on the alternative scenarios on EC growth; that story had caused some controversy at the time. Hence, the investigation could be more narrowly focused than

the Chairman had suggested, or the Board could agree to apply a more restrictive distribution in unfortunately somewhat of a presumptive fashion.

As he had mentioned on previous occasions, he did not expect investigations into leaks to produce concrete results, Mr. Dawson said. Hence, it seemed more useful to focus on further restricting the distribution of selected Fund documents. He doubted whether numbering the documents would effectively restrict their distribution; the reporter who received a numbered document would be unlikely to indicate the number of the document in his news story or to an investigator.

Mr. Evans considered that the leak in question warranted an investigation because the information that the WEO documents had been leaked from Paris helped give the investigation a head start. He suspected that an investigation would disclose that the document had been leaked because its provision to the public was not seen as a serious breach of the rules, given the imminence of the document's publication. Of course, the leaked document was no more than a draft, and considerable mischief could be done in comparing drafts with final documents. Hence, the leak was a serious breach and should be investigated. He suspected that the OECD was the source of the leak. He saw no need for the OECD to receive the WEO document, especially as the final version was published soon after the appearance of the draft.

Mr. Schoenberg said that he was more concerned about leaks of Board discussions than leaks stemming from the premature publication of documents. Experience in the Bundesbank suggested that it would be impossible to have a successful investigation that involved tracing some 500 documents. Peer pressure should help to stem further leaks of Board discussions, which undermined the Board's effectiveness.

Mr. Dawson remarked that there was a risk that information about the investigation itself might be leaked, which would be embarrassing to the Fund. Still, in the past, Directors had expressed concern about leaks of documents as well as of Board discussions.

The Acting Chairman remarked that one of the purposes of the review would be to address the question of whether other institutions and national capitals had adequately absorbed the message that Fund documents should not be released prematurely. The decision to number the documents and restrict their distribution had been taken quickly, and it was possible that the additional attention to confidentiality that the numbering implied was in fact not fully absorbed by all the recipients. One of the purposes of the review would be to see whether, in the future, when the Board wished to subject a document to special security, recipients would have in place a system to control the document's distribution.

When a serious investigation was undertaken, the Acting Chairman continued, there could not be an a priori assumption about where the guilty party might or might not be located. After all, in the case at hand, the

first reference to the leak was in press reports originating in Little Rock, Arkansas, not Paris. Pinpointing a particular party as being more likely to be guilty than another would create problems vis-à-vis the Fund and that party. It might be useful to reflect on the matter further and return to it in about one week.

He also wished to draw the Board's attention to an incident concerning the staff report for the 1992 Article IV consultation with South Africa, the Acting Chairman commented. He had learned that the Director General of Finance of South Africa had released the 1992 consultation report to the general public and at the time had said that he was doing so "in the light of the growing awareness of, and interest in, macroeconomic policy, and with a view to stimulating wider and more representative debate on vital policy issues." The Director General had also indicated his intention to release future reports for public information after they had been discussed in the Executive Board.

He had been in touch with the office of the special representative of South Africa to the Fund and was drawing to the attention of the Government the fact that the consultation report, being a Fund document, should be handled in accordance with the guidelines established by the Executive Board, the Acting Chairman noted. In addition, he had mentioned that the Board's current view was that such reports should be released to the public only if the Board approved. He mentioned that incident particularly to point out that it raised a broader question. He did not wish to open the floor for a debate on the matter now, but at some stage the Board would have to consider the issue of how, and under what conditions, to extend permission to authorities who wished to use Fund documents for their purposes--for example, as stated by the Director General of Finance of South Africa. The Board had discussed that issue before and would need to find an occasion in the future to come back to it. At the present stage, he merely wished to bring the matter to the attention of Directors.

Mr. Dorrington commented that the longer an investigation into the WEO document release was delayed, the more difficult it would be to have a successful outcome--the probability of success would be reduced from what everyone admitted was already a low level--and the greater would be the danger the exercise would appear to be a farce. If there was a consensus on having a fairly small working party of certain Directors address the issues, as he favored, then there might be little point in waiting a week before deciding that that was the best way forward. Directors could start now to think about the constitution of that working party.

Mr. Landau said that he did not see the rationale for having a working group. He was prepared to discuss the matter as long as necessary in the Board.

Mr. Dawson commented that, if some kind of investigation was to be undertaken, there was no need to wait another week to begin. Perhaps the Board could take the matter up again as soon as January 8.

The Acting Chairman said that a working group of one or two senior staff and one or two Directors could conduct a review of staff and members in parallel. The group could frame the general questions that would be asked of participants in such a review, consolidate the findings, and report to the Board upon the completion of that review.

Mr. Landau remarked that there was already a well-established procedure for discussions of policy matters among the Board, the staff, and management. He saw no reason to depart from that procedure. Perhaps the matter could be discussed in an appropriate committee.

The Executive Directors agreed to take up the matter of the unauthorized disclosure of information on January 8, 1993.

DECISIONS TAKEN SINCE PREVIOUS BOARD MEETING

The following decisions were adopted by the Executive Board without meeting in the period between EBM/92/158 (12/30/92) and EBM/93/1 (1/6/93).

5. COMPENSATORY AND CONTINGENCY FINANCING FACILITY - REVIEW - EXTENSION OF DEADLINE

The Fund shall review the Decision on the Compensatory and Contingency Financing Facility (Decision No. 8955-(88/126), adopted August 23, 1988, as amended) not later than March 31, 1993. (EBD/92/309, 12/23/92)

Decision No. 10263-(93/1), adopted December 31, 1992

6. AUDIT COMMITTEE, FY 1993 - COMPOSITION AND NOMINATIONS

The Executive Board approves the Managing Director's recommendation that Bolivia, Japan, and the Syrian Arab Republic be invited to submit nominations of persons to serve on the External Audit Committee for financial year 1993 and confirms the nominations set forth in EBAP/92/171 (12/22/92).

Adopted December 31, 1992

7. EXECUTIVE BOARD TRAVEL

Travel by Executive Directors as set forth in EBAM/92/144 (12/29/92) and EBAM/92/146 (12/31/92) and by Advisors to Executive Directors as set forth in EBAM/92/145 (12/30/92) and EBAM/92/146 (12/31/92) is approved.

APPROVED: August 13, 1993

LEO VAN HOUTVEN
Secretary