DOCUMENT OF INTERNATIONAL MONETARY FUND AND NOT FOR PUBLIC USE

April 10, 2000

To: Members of the Executive Board

From: The Secretary

Subject: **Final Minutes of Executive Board Meeting 97/94**

The following correction has been made in EBM/97/94 (9/10/97):

Page 24, Decision No. 11573-(97/94): date of adoption corrected to read "September 10, 1997"

A corrected page is attached.

Att: (1)

Other Distribution:
Department Heads

made in structural reforms, particularly with respect to the liberalization of external current account transactions, deregulation of key economic sectors, and fiscal reform. Nevertheless, Madagascar's debt burden remained high and the economy continued to be vulnerable to external shocks. Directors emphasized that much more remained to be done to meet Madagascar's pressing development needs and to reduce poverty. To foster conditions conducive to investment and sustainable growth, Directors encouraged the authorities to persevere with disciplined macroeconomic policies, push forward with structural reforms, and establish a transparent regulatory and legal framework.

Directors welcomed the authorities' adoption of the supplementary budget for 1997, which aimed at broadening the tax base and strengthening tax administration. Noting the weaknesses in revenue performance, Directors emphasized that safeguarding the revenue target would require a decisive follow-up to strengthen the large taxpayer unit and the customs administration, elimination of tax exemptions, and the rigorous collection of tax arrears. Directors also attached importance to applying the new mechanism for the collection of petroleum taxes and the speedy broadening of the value-added tax.

Directors urged the authorities to maintain strict expenditure control and to accord priority to infrastructure and human capital development. They also emphasized the importance of improving the government's payment record. Directors urged the authorities to proceed expeditiously to devise a comprehensive long-term strategy for civil service reform so as to achieve an efficient and reliable public service, which was crucial to improve the business environment.

Directors noted that the continued pursuit of a prudent monetary stance was needed to consolidate the progress with reducing inflation. Further fiscal consolidation and a prudent monetary stance would also support exchange rate stability. Directors stressed that the orderly restructuring and privatization of the two ailing state-owned banks would be essential in enhancing the efficiency and soundness of the banking system.

Directors urged the authorities to accelerate structural reforms, particularly privatization and trade liberalization. They welcomed the government's decision to prepare some 50 public enterprises for privatization within a year. Priority should be given to the privatization of the largest enterprises, while ensuring transparency in the process and using proceeds foremost to cover divestiture costs and debt-service payments of privatized enterprises.

Directors welcomed the normalization of Madagascar's relations with external creditors. They observed that continued progress with macroeconomic and structural reforms would help to maintain donor support and investor confidence.

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

The Executive Board took the following decision:

1. Madagascar has consulted with the Fund in accordance with paragraph 2(d) of the first annual arrangement under the Enhanced Structural Adjustment Facility (EBS/96/167, Sup. 1, 11/20/96) and paragraph 5 of the letter dated September 18, 1996 from the Prime Minister.

2. The letter from the Malagasy authorities dated July 26, 1997 shall be attached to the first annual ESAF arrangement for Madagascar, and the letter dated September 18, 1996 shall be read as supplemented by the letter dated July 26, 1997.

3. The Fund decides that the midterm review contemplated in paragraph 2(d) of the first annual ESAF arrangement for Madagascar has been completed and that, notwithstanding paragraph 2(a)(vii) and paragraph 2(b)(i) of the first annual ESAF arrangement relating to the floor on petroleum tax collection and the operation of the large taxpayer unit, respectively, Madagascar may request disbursement of the second loan specified in paragraph 1(c)(ii) of that arrangement. (EBS/97/159, 8/21/97)

Decision No. 11573-(97/94), adopted
September 10, 1997

2. REPUBLIC OF MOZAMBIQUE—INITIATIVE FOR HEAVILY INDEBTED POOR COUNTRIES—PRELIMINARY ASSESSMENT OF ELIGIBILITY

The Executive Directors considered a paper, prepared jointly by the staffs of the Fund and the International Development Association, presenting a preliminary assessment of the Republic of Mozambique's eligibility for assistance under the Initiative for Heavily Indebted Poor Countries (EBS/97/158, 8/21/97).

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

The staff has received the following additional information on recent developments during a visit to Mozambique in late August.

The overall performance of the Mozambican economy continued to be strong in the first half of 1997. The macroeconomic objectives of the ESAF-supported program are being achieved, the exchange rate has been stable, and confidence is on the rise. In the first half of 1997 real GDP grew at an annual rate of 6-7 percent, with most sectors showing significant increases, while inflation fell to 3 percent. If recent trends continue, both growth and inflation would be significantly better than programmed for the year as a whole.

The authorities have been making determined efforts to implement their program, though the monetary stance has diverged from the original plans because money demand has been stronger than expected. The higher money demand has been driven by higher real interest rates and a more dynamic economy. Broad money rose by 11 percent in the first half of 1997, significantly faster than the programmed 6.4 percent, despite the fact that the