

March 14, 2001  
Approval: 3/21/01

INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 99/53

10:00 a.m., May 12, 1999

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**Executive Board Attendance**

M. Camdessus, Chairman  
S. Fischer, Acting Chairman

**Executive Directors**

A.A. Al-Tuwaijri

B. Esdar

R. Faini

K.A. Hansen  
K.-T. Hetrakul

A. Mirakhor  
J.P. de Morais

A.S. Shaalan

**Alternate Executive Directors**

S.M. Al-Turki  
K. Kpetigo, Temporary  
T.-M. Kudiwu, Temporary  
M. Askari-Rankouhi, Temporary  
J. Nelmes, Temporary  
W. Szczuka  
F. Zurbrugg, Temporary

P. Cabezas, Temporary  
G. De Blasio, Temporary  
L. Pinzani, Temporary  
H. Oyarzábal  
O.-P. Lehmussaari  
Sugeng, Temporary  
C. Josz, Temporary  
M. Nemli, Temporary  
S.D. Melese-d'Hospital, Temporary  
R. Fernandez  
E. Jourcin, Temporary  
M.R. Shojaeddini, Temporary

S. Vtyurina, Temporary  
S. Collins  
O.L. Bernal  
A.F. Al-Faris  
A.G. Karunasena  
S.K. Keshava, Temporary  
O. Kwon  
W.C. Mañalac, Temporary  
Luo Y., Temporary  
Qi J., Temporary  
I.C. Ioannou, Temporary  
A. Kapteijn, Temporary  
D. Fujii, Temporary  
S. Hinata, Temporary

A. Mountford, Acting Secretary  
P. Cirillo, Assistant  
S. Soromenho-Ramos, Assistant

**Sudan—1999 Article IV Consultation; Review of 1998 Staff-Monitored Program; and Medium-Term Staff-Monitored Program**

Staff representatives: Zavadjil, MED; Leddy, PDR

**Guyana—1999 Article IV Consultation; Enhanced Structural Adjustment Facility—First Annual Arrangement—Review, and Waiver of Performance Criteria; and Initiative for Heavily Indebted Poor Countries—Completion Point**

Staff representatives: Yadav, WHD; Seade, PDR

**Also Present**

IDB: G. Castillo. IBRD: A. Agbonyitor and A. dePlaa, Africa Regional Office; E. Favaro and R. Nallari, Latin America and the Caribbean Regional Office; A.D. Slusher, Alternate Executive Director. External Relations Department: S.J. Anjaria, Director; El Tigani Ibrahim. Fiscal Affairs Department: A. Cheasty, A. Cuevas Camarillo. Legal Department: R.C. Baban. Middle Eastern Department: P. Chabrier, Director; D. Burton, Deputy Director; P. Dhonte, Deputy Director; A.P. Kireyev, K. Nashashibi, G. Shabsigh, R. Valdivieso, M. Zavadjil. Monetary and Exchange Affairs Department: C.-J. Lindgren. Policy Development and Review Department: T. Leddy, Deputy Director; G. Jiang, R. Kincaid, J. Lin, C. Muniz B., D. Ross, J. Seade, K. Thugge. Research Department: S.-J. Kim. Secretary's Department: P. Gotur, B.A. Sarr. Treasurer's Department: A.K. McGuirk, A. Muttardy. Western Hemisphere Department: T. Ter-Minassian, Deputy Director; S. Hussein, S.P.O. Itam, M. Torres, E. Weisman, E.S. Williams, G. Yadav. Office of the Managing Director: M. Cross, Personal Assistant; D.A. Citrin, J.A.P. Clément, S. Tiwari. Advisors to Executive Directors: M.A. Ahmed, P.A. Akatu, J.A. Costa, M.H. Elhage, S.S. Farid, M.F. Melhem, H. Mori, H. Ogushi, L. Palei, Y. Patel, E. Rodriguez. Assistants to Executive Directors: A.S. Alosaimi, S.A. Bakhache, J.G. Borpujari, R. Burgess, M. Carlens, V. Dhanpaul, S.N. Kioa, D.H. Kranen, L. Redifer, M.M. Salvador, C.-P. Schollmeier, P. Winje, I. Zakharchenkov.

## 1. REPORT BY FIRST DEPUTY MANAGING DIRECTOR

The First Deputy Managing Director made the following statement:

I went to Ecuador mainly to try to understand the complications of the agreement that we were negotiating, and to meet with a variety of representatives of the civil society. One newspaper report said of my visit that, "The IMF is doing marketing." There was indeed an element of explaining what it was that the Fund agreement was looking to do, and what the Ecuadoreans needed to do. I traveled with Mr. Loser, Mr. Thornton, who heads the negotiations as the mission chief for Ecuador, and Mr. Baker, from the External Relations Department.

Ecuador's central feature, from the viewpoint of making agreements, is the strain in the relations between its two main cities. The capital, Quito, is a large place of government. Guayaquil, on the coast, is an industrial and commercial city and its residents regard themselves as the productive element of the country. They do not see why they should pay taxes, because they do not think the government does any good for anybody. The government in turn complains that these people do not pay tax. It is an extraordinary situation.

In Quito, the reception was fairly friendly. We first met with bankers, who by and large supported what needed to be done in the program, which included getting the budget straightened out, fixing the banking system, and carrying out a series of structural reforms. The bankers understood what needed to be done to clean up the banking system, and although some were concerned that they might lose out in the effort, they agreed with the reasoning. We met with the chambers of commerce and industry for lunch, which was a good discussion. Then we met with the speaker of the congress and the leaders of the parties supporting the government in the congress. That was a less impressive meeting; they were all of the view that if the country's large external debt went away, their problems would be solved. They all had complicated schemes for its elimination, for example that the government could buy up all of the Brady bonds at face value and recapitalize the banks with them. We had a fairly frank discussion about the difficulties of such suggestions. There is a debt problem to resolve with creditors; no silver bullet situation would solve the problem without attending to any of the economy's underlying structural difficulties.

We met with a large group of labor leaders, half of whom were broadly supportive of the government. The others, particularly in the energy sector, were bitterly opposed to any form of privatization. The country has a good deal of oil and without privatization they will probably lose out, but the labor leaders did not appear the least bit interested in that point. We met with the superintendent of banks, the press, and the minister of finance and central bank officials. That was a very busy day of meetings to discuss the program and the issues confronting the country.

The next day we went to Guayaquil, the coastal city, and met with the chambers of commerce and industries and the bankers, who made it clear that they did not quite regard the government as relating to them in any legitimate fashion. Their attitude was "let the government explain what it wants to do, and

then we will see whether we support them." Again, there was some quite frank talk. We met with the mayor of the city, the former president, who explained that when he had taken office, he had fired 10,000 of the 12,000 city employees, and he expected the government to do the same if they were going to get his support.

The current president was not in the country, but we met with him in Santiago, my next stop, where he was at the same conference we were attending. We reviewed the agreement and what the government could do in terms of the negotiations. He was by far the most optimistic, possibly because he had a refined sense of the political dynamics in the country. He also understood what had not been well received by the others whom we met—the line that the international community is now taking on the involvement of the private sector in the country's problems. The others were shocked when we said that the private sector would have to contribute by maintaining its exposure to the country. We did not mind how they did it, but it had to be done, and it was up to the country to start the negotiations and we would be willing to assist.

The president was beginning to understand that, especially following the meeting by the minister of finance the week before in Washington, D.C. with the Managing Director, Mr. Wolfensohn, and Mr. Iglesias. This will be a point of some difficulty, but there is no doubt about the position that the Fund was taking. I thought that it was an interesting and useful visit. Some of the reports we received afterwards suggested that people had understood much more clearly what the Fund was trying to do and why, and that was possibly the main benefit.

In Chile, I attended a conference of the MERCOSUR countries organized by the World Economic Forum, who also organize the meetings in Davos. The participants were primarily Argentinean and Chilean, with somewhat less attendance from Brazil. I had the opportunity to meet with the finance ministers and the central bank governor and board, as well as with many of the leading Argentinean politicians who were present in Santiago for this visit, including Mr. Cavallo, and others who will be prominent in the next government. There were also some Mexican policy makers present.

The meetings were useful to get a feel for what was happening in Latin America. There is a palpable sense of relief about the change in the international situation. They bear in mind the Fund warnings not to become complacent, but are relieved and hope that the situation will further stabilize, and that they can get on with their programs. The Argentine situation is particularly difficult, because election politics are beginning to become apparent. We could be in for a fairly difficult time in the months to come.

Regarding Chile, the country's finance minister explained that it was technically not in a recession because a recession is two quarters of negative GDP growth, and according to the data they only had five months of negative growth. However, I understand that the sixth month of data is about to come out any day now and will show that Chile is indeed in a recession for the first time in eleven years, although they feel that it is lifting. They pursued

somewhat good policies, after a little hesitation on monetary policy in the middle of last year, and with copper prices beginning to pick up, and interest rate spreads coming down, the economy could be bottoming out in the second quarter of 1999.

In Santiago, Mr. Eyzaguirre accompanied us to the meetings with the governor and the finance minister, and in his absence I would like to thank Mr. Costa for the hospitality of the authorities. I also thank Mr. Bernal for the hospitality extended by the authorities in Ecuador.

**2. SUDAN—1999 ARTICLE IV CONSULTATION; REVIEW OF 1998 STAFF-MONITORED PROGRAM; AND MEDIUM-TERM STAFF-MONITORED PROGRAM**

The Executive Directors considered the staff report for the 1999 Article IV consultation with Sudan, the fourth review of the staff-monitored program for Sudan for 1998, and the medium-term staff-monitored program (EBS/99/64, 4/28/99). They also had before them a background paper on recent economic developments in Sudan (SM/99/96, 4/28/99).

The staff representative from the Middle Eastern Department submitted the following statement:

This statement provides updated information on recent economic developments in Sudan that has become available since the circulation of the staff report on the 1999 Article IV consultation, the fourth review of the 1998 staff-monitored program, and the medium-term staff-monitored program (EBS/99/64, 4/28/99). Data on developments in the first quarter are not yet complete, and will be verified by a mission scheduled to visit Khartoum during May 15–25. Overall, this updated information does not change the thrust of the staff appraisal.

In January–February 1999, the authorities continued to adhere to tight fiscal and monetary policies. Net domestic credit of the banking system declined by LSd 9 billion (compared with the programmed increase for January–March of LSd 68 billion) owing to a reduction in net credit to the government, and some build-up of deposits of public enterprises with the Bank of Sudan (BOS).

The overall fiscal deficit during January–March 1999 appears to have been consistent with the program.<sup>1</sup> Net government borrowing increased by about LSd 29 billion, somewhat less than the LSd 35 billion benchmark envisaged under the program. Preliminary data suggest that budget revenue was 10 percent lower than expected. The authorities explain the revenue shortfall by the large number of holidays in the first quarter, which was not fully taken into account in preparing the projection. The shortfall was more than offset by

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<sup>1</sup>Large budget surpluses were recorded in the first two months of the year, but there was a catch-up in spending in March.

lower-than-programmed expenditure, mainly with respect to goods and services and local development outlays.

BOS lending to commercial banks increased by only LSd 2 billion (3 percent) in January–March, so that banking system credit to the private sector remained broadly in line with expectations. However, private sector demand for cash remained high reflecting seasonal agricultural needs, as well as Ramadan and associated holidays. As a result, while broad money growth in January–February was in line with expectations, reserve money growth appears to have been higher than anticipated under the program—an increase of LSd 61 billion in January–February, compared with the LSd 60 billion benchmark for March.

Despite the apparently tight demand management policies, consumer prices increased by 1.1 percent in April, bringing the cumulative increase in January–April to 4.4 percent. The authorities have stated that the increase reflects the above mentioned seasonal factors, an electricity price hike, the recovery of sorghum prices from very low levels, and disruptions to the supply of edible oil due to problems in the irrigated sector. Because of price falls in February–April 1998 (monetary policy was tightened sharply in January 1998), year-to-year inflation rose to 22 percent in April 1999, from only 8 percent at end-December 1998.

After significant pressure in late December and in some periods of January–February, the BOS five-day moving average exchange rate stabilized in March–April. The rate stood at LSd 2,470 per US dollar in mid-April, compared with LSd 2,370 per US dollar in end-December.

In March 1999, the authorities began calculating the official exchange rate on the basis of a 5-day instead of a 10-day moving average, and started applying reserve requirements on the basis of weekly averages of reservable liabilities. In addition, after several postponements, on May 9 the first auction of Government Musharaka Certificates (GMC) was held; 352 GMCs with a book value of LSd 5 million each were sold, raising a total of about LSd 1.8 billion. Thus, all structural benchmarks for March and April 1999 were implemented.

Discussions between World Bank staff and a Sudanese delegation took place during the Spring Meetings in Washington. While an agreement has not yet been reached, both sides are consulting internally, and the World Bank is now waiting for a formal proposal from the authorities. An agreement was reached very recently with the OPEC Fund on payments of US\$0.7 million a month. Once a track record has been established, the OPEC Fund will be able to disburse significant amounts, although possibly only starting in the year 2000. Payments to the Arab Fund for Social and Economic Development will begin in July, at a yet to be determined level. Discussions have also been initiated with the Arab Monetary Fund.

According to the Sudanese authorities, payments to creditors other than the Fund in 1999 amounted to US\$6.5 million through May 10, of which



US\$4.4 million in January–March. Payments were made to the African Development Bank, the Saudi Fund, the Islamic Development Bank, and IFAD.

Mr. Morais submitted the following statement:

My Sudanese authorities are appreciative of management's continued support and advice which have been valuable to the improved cooperation Sudan today enjoys with the Fund. They also thank the staff for the constructive discussions that took place during the Article IV consultations and their contributions to the success of the negotiations of the medium-term staff-monitored program. The economic program that has been agreed provides the framework for Sudan to continue its stabilization and structural reform efforts and begin the process to normalize the relations with its foreign creditors. My authorities consider that the staff has produced a fair assessment of Sudan's current economic situation and perceive their advice in major policy issues as supportive of their own economic strategy.

Sudan embarked on economic reforms in the early 1990s against the background of serious macroeconomic imbalances, declining per capita income, and deteriorating social indicators. Much progress has been made in deregulating and opening the economy to private sector participation, liberalizing the foreign trade and exchange regime, and introducing substantial reforms, among others, in the agricultural sector. However, the implementation of macroeconomic stabilization measures has proven very challenging to Sudan, as it took place in an unfavorable environment. In fact, the task has been made particularly difficult by the terms of trade losses, adverse climatic conditions, net outflow of resources, and most importantly, by the continuing US trade and UN political sanctions which have undermined private sector confidence and seriously constrained the performance and liberalization of the economy. It is also important to note that Sudan, a country with a per capita income of US\$280, has been undertaking these reforms efforts with virtually no financial assistance from the international community.

To correct the persistent macroeconomic imbalances and foster a rapid resumption of economic growth, the authorities have, since 1997 and in the context of the 1998 Staff-Monitored Program, wasted no time in redoubling their reform efforts, essentially, through further tightening of demand management policies. As a result, the economy has been growing at about 6 percent on average, inflation has sharply declined from 114 percent in 1996 to 8 percent in 1998, and financial imbalances considerably reduced. The authorities' strong commitment to continue on the path of adjustment and reform is clearly reflected in the wide range of stabilization and structural measures contained in their Memorandum of Economic Policies for 1999–2001. However, in the absence of the much needed external financial assistance and the inability to obtain any debt relief under the current circumstances, the onus will continue to rely solely on the authorities to proceed with the reforms at the pace allowed by domestic developments.

The authorities' goals under the medium-term strategy for 1999–2001, is to consolidate and build upon the gains made over the recent years. The main objectives are to maintain growth at around 5 percent; reduce inflation to

5 percent by 2001; and reduce the external current account deficit (excluding the oil trade and pipeline imports) to 14 percent of GDP by 2001, from 16.9 percent in 1998. Largely because of the adverse impact of sanctions on the economy, growth performance over this period, will be limited to the levels of the previous five years. The program will, therefore, continue to focus on raising the level of domestic savings to finance an increasing demand for public investment, essentially for the social sectors and the needed rehabilitation of infrastructure in the agricultural, energy and transportation sectors.

Higher public savings will be brought about through measures aimed at both enhancing revenue and restraining current expenditures and putting the public finances on a sustainable path. The authorities are committed to improve the transparency of the public sector operations by broadening the budget coverage to include the off-budget operations not previously reported. Total revenues are expected to increase by about 3 percentage points of GDP over the program period, including 1 percentage point per annum from oil revenues which are anticipated to come on stream in the year 2000. Other specific measures to improve revenue performance, include the strengthening of the customs and tax administration starting in 1999, and expediting the preparations for the introduction of the VAT in 2000.

On the expenditure side, priority will be accorded to developing human capital and physical infrastructure critical to the enhancement of economic growth potential. The authorities are also actively engaged in finding a peaceful solution to the civil war in the South which, when achieved, would free part of the military expenditures for more productive uses. As the states have an important role to play in Sudan's fiscal system, the authorities, with the support of Fund technical assistance, intend to develop more effective means of mobilizing resources to finance the activities of the states. The envisaged revenue sharing mechanism in the VAT is one important step in that direction. To ensure the achievement of the fiscal target, expenditure control and monitoring will be further strengthened. In this context, transfers to the states for social purposes will be made conditional upon timely reporting on spending.

Monetary policy will be consistent with the inflation and external objectives of the program. The significant reduction in the financing of the public sector deficit envisaged under the program, will enable the Bank of Sudan to pursue a more effective monetary policy and allow increased credit to the private sector. Through the issuance of the GMCs and the reinforcement of the legal reserve requirements the central bank's capacity to closely monitor domestic liquidity will be further strengthened. This will also enable the BOS to shift to open market operations as the main instrument of monetary control. A major effort will be made to strengthening bank supervision and enforcement of prudential regulations which are seen as important elements to enhance competition and reinforce confidence in the banking system. Given the existing weaknesses in human capacity, the authorities would welcome support in technical assistance to improve their institutional capacity in this area.

The stabilization measures are being implemented concurrently with an ambitious set of structural reforms in the financial and trade sectors aimed at consolidating the progress already achieved. Earlier measures to liberalize the

agricultural and oil sectors have created an enabling environment for increased participation of the private sector. Progress has also been made in the area of public enterprise reform, including in the banking and manufacturing areas, while some roads and energy generating plants have been leased to the private sector operators. Moreover, there are clear signals that this reform program will be extended to such areas as airlines, railways, shipping, energy and telecommunications. Further reforms are also envisaged in the area of regulatory framework, with a view to ensuring an appropriate environment for private sector activities. In this regard, priority will be given to the early completion of the review of the Investment Encouragement Act. Important steps will also be taken to address the needs of the most vulnerable groups of the population, through increased budgetary support to the critical areas of health, education and poverty alleviation.

The implementation of strong financial policies and structural reforms and the coming on stream of oil production will contribute no doubt, to strengthen the external current account position. However, the unsustainable level of external debt, equivalent to 250 percent of GDP, and a debt service ratio of 228 percent of GDP, remains a major impediment to the attainment of external viability. The difficulties confronted in the external sector are also reflected in the fact that after years of adjustment and reform, international reserves will reach a level equivalent to only 3 weeks of imports. Notwithstanding these meager foreign reserves, Sudan has been making enormous efforts to restore normal relations with its creditors. In this context, the authorities have continued to make timely payments to the Fund for the past several years, and have reached agreement on payments to a number of other multilateral creditors.

The Sudanese authorities' have demonstrated their willingness to cooperate with the Fund as evidenced by the commitment to macroeconomic and structural measures and by its record of complying with the schedule of payments intended to reduce their arrears to the Fund, over the past several years. It is, therefore, only natural that this strong performance merits a shortening of the period for converting the medium-term staff monitored program into a rights accumulation program, in order to enable the authorities to benefit at an early stage from the much needed international financial support, that could pave the way for a lasting solution to their large and unsustainable external debt.

Extending his remarks, Mr. Morais asked under what conditions the medium-term staff-monitored program could be converted to a rights accumulation program, and what the process was for the reversal of remedial measures.

Mr. Shaalan and Mr. Elhage submitted the following statement:

We commend the staff for the comprehensive and well-written set of papers, which provide a clear analysis of both the immediate and medium-term challenges facing the Sudanese economy. We also commend the authorities for the continued steady progress in economic management over the past year, despite severe external shocks, and for their adherence to the schedule of monthly payments to the Fund. We are pleased with the overall economic

performance under the 1998 staff-monitored program, as reflected in the satisfactory growth rates realized, generally declining inflation, and improved fiscal and external balances.

Looking ahead, the challenge for the authorities centers on the creation of an environment that provides incentives to private sector initiative and investment. In our view, the 1999–2001 medium-term staff-monitored program (MTSMP) lays the foundation to address the structural weaknesses that continue to keep economic growth below potential. Leading among these are the inadequate physical infrastructure; the fragile and underdeveloped financial system; the weak institutional capacity in public and private sectors; and the severe constraints associated with poor human-resource development. Addressing these critical areas will require the generation of sizable public sector savings. This will require a medium-term strategy to revamp the budget. Additionally, there is the need to provide resources to enhance the social sectors.

The low revenue-to-GDP ratio is at the center of the fiscal problem in Sudan and need to be addressed decisively. The staff report spells out the measures that are needed to improve revenue performance. The immediate focus of reforms would need to include, in addition to broadening the tax base through tax reform and reduction of exemptions, efforts to improve revenue administration. Clearly, to increase the revenue-to-GDP ratio, the introduction of the VAT will be essential. However, as has been discussed during previous Board meetings on Sudan, despite considerable progress in the preparation of this tax, its introduction has proven to be more difficult than envisaged under the last two SMPs. This is not surprising in view of the wide set of issues that needs to be addressed for an effective launch of this endeavor. The limited administrative capacity and the complication of the revenue-sharing arrangements between the central and state governments are issues that need to be addressed before a realistic deadline for the introduction of the VAT can be set. Given the role the states play in the Sudanese fiscal system, if Sudan is to move forward in its fiscal adjustment, the Federal-states fiscal relations including the revenue-sharing arrangement, will have to be addressed with the objective to improve the allocation and efficiency of resources in the public sector. Additionally, stronger efforts are needed to change the profile of government expenditure in favor of capital expenditures.

For the period ahead, it is important that monetary policy remains firmly focused on controlling inflationary pressure and maintaining stability in the foreign exchange market. In this connection, we agree with the staff that the recent rise in inflation is an area of concern and that further corrective measures are needed if inflationary pressures do not abate. To enhance the functioning of monetary policy, completing the developments of indirect monetary policy instruments that are consistent with Islamic banking principles to manage liquidity remains central to the successful implementation of the medium-term program. The successful introduction of the Central Bank Musharaka Certificate during 1998 has been an important first step in this regard. Clearly, to strengthen market-based monetary management, further measures to deepen financial markets and strengthen banking competition and efficiency are needed.

Turning to the real sector, it is important that the government embark on a comprehensive and well-structured privatization program, accompanied by further trade liberalization and banking sector reform. Early action on these issues would encourage private sector participation in the economy and would lower the cost of financial intermediation. In addition, the privatization program would make a major contribution to improving the public enterprises' budget and would ensure higher and more efficient levels of investment and a faster pace of poverty reduction. In this connection, we welcome the authorities' commitment to privatization and their willingness to privatize all public enterprises, including large ones such as the airline company.

The authorities' flexible exchange rate policy appears to be functioning well and in our view it has served Sudan well. On this issue, in the case of an erosion of confidence from a depreciating pound, monetary policy will have to be relied on as the first line of defense and the authorities should avoid using administrative measures to limit foreign exchange demand. Over the medium-term, maintaining confidence in a flexible exchange rate system requires the steadfast pursuit of prudent macroeconomic policy and structural reforms.

Finally, with respect to the foreign debt situation, as indicated in Appendix IV, Sudan's external debt is unsustainable, even with significantly more rapid export growth, and a Paris Club rescheduling on Naples terms. In this connection, we urge the authorities to implement fully and on time the macroeconomic and structural measures agreed on with the staff so as to enhance the possibility of converting the MTSMP into RAP in due time. Such a conversion will represent an important first step to address the unsustainability of Sudan's external debt.

With these remarks, we welcome the steps taken by the Sudanese authorities to build on the gains of the last two years and to set the economy on a path of sustainable growth with low inflation. We wish them every success in meeting the important challenges that still lie ahead.

Mr. Oyarzabal made the following statement:

I would like to thank the staff for a very useful paper. Sudan has traveled a long road after two decades of economic decline. It still has a long way to go, yet the commitment of the authorities in adhering to sound policies has already brought forth favorable results.

The process of liberalization of domestic activity, allowing the private sector to play a more active role, has been an important influence in the recent growth performance. Coupled to this initiative has been the liberalization of prices and the exchange market, and the elimination of subsidies, all of which have been reinforced by tighter demand management resulting in a substantive reduction in inflation, while aiding in unifying the exchange market.

I agree with the staff that recent changes in tariffs and excise taxes are initial steps in the road to substantive economic growth. The internal conflict has an important influence on the fiscal accounts affecting, not only the

possibility of addressing debt services payments, but also a more productive use of those resources through capital expenditures. The narrow scope of the financial system for intermediation is limited. The inefficiencies of public enterprises, as well as the excessive trade barriers, all conspire against the objectives of growth and external viability. The medium-term staff monitored program for 1999–2001, which aims at consolidating the progress already achieved in macroeconomic stabilization, as well as creating conditions for an increase in investment and savings, goes in the right direction.

For Sudan, the relationship with creditors is of central importance in obtaining external viability. Efforts at improving the external position—through the build up of external reserves, increase of debt service payments, the normalization of relations with some creditors, as well as the reduction of assistance, should be supported by measures on the macroeconomic and structural sides.

To protect and strengthen the fight against inflation, tight demand management policies should be maintained. This should also be instrumental in stabilizing the exchange markets. The use of central bank and government debt instruments to conduct monetary policy should help improve monetary controls, as it has been experienced in the past. This has been a useful tool whenever the program has deviated from its objectives. The maintenance of the current exchange rate policy based on market determination should help absorb external shocks, as well as shifts in money demand.

The emphasis on fiscal priorities to invest in social and fiscal infrastructure, while reducing domestic financing are well taken. There is the need to do more on tax administration, the VAT, and the reduction of exemptions under the Investment Encouragement Act.

Banking supervision should be strengthened. Particular attention should be given to a reduction in non-performing loans and to set up provisions against bad loans. I concur with the staff that the decision to give priority to transfers to state-related social spending—in case of expenditure cutbacks—as well as introducing conditionality on these transfers is welcomed. Yet, greater efforts must be made to strengthen the weak financial position of many of the states, as well as the absence of timely data. In this regard, greater efforts should be carried out to improve Sudan's macroeconomic statistics. The technical assistance given by missions should be instrumental in bringing Sudan to a better situation relating to opportune availability of data.

Sudan faces significant challenges ahead. It is highly vulnerable to exogenous shocks. The fiscal accounts still present rigidities and the characteristics of the foreign exchange market also exemplifies the economic vulnerability of the country. Sudan should continue in its efforts to reach agreement with creditors and fulfill the commitments that it has agreed upon in servicing its payments on a timely basis.

In closing, I would like to wish the Sudanese authorities well, and hope that the medium-term staff monitored program can be turned into a RAP in the near future.

Mr. Karunasena made the following statement:

We commend Sudan's recent achievements in improving macroeconomic management, implementation of structural reforms and strengthening its relationship with the Fund and some other external creditors even under difficult domestic and external situations. The economy has responded favorably to the stabilization measures and structural reforms; economic growth remained robust, inflation declined, balance of payments situation improved, and production activities and exports diversified strengthening resilience of the economy to external shocks. It is encouraging that the overall performance under the SMP for 1998 has been satisfactory although there were some delays in implementation of structural reforms. Repayments to the Fund were made according to the agreed monthly schedule while repayments to some other institutional creditors are under consideration even though the amounts are relatively small, compared with corresponding outstanding debt repayment arrears. We are also encouraged by the Sudanese authorities' ambitious objectives, and determination for further improvement in financial policies and to continue economic reforms under the SMP for 1999 and the proposed Medium-Term Staff-Monitored Program (MTSMP) and their commitments to a medium-term program and to improve the relationship with external creditors as spelled out in the Memorandum of Economic Policies for 1999-2001.

There is, however, no margin for complacency and Sudan has still a long way to go. Unsustainable external debt problems, high inflation, low per capita income, internal and external macroeconomic imbalances, and weak social indicators demonstrate the difficult challenges ahead of the authorities. Inadequate infrastructure facilities, persistence structural distortions, weaknesses in the administrative system and institutional framework and less-favorable external relationship make the task even more difficult. However, recent successful experience has demonstrated the authorities' commitment in improving macroeconomic management and addressing the deep-rooted structural issues and their awareness of the necessity of addressing the economic issues within a medium-term comprehensive policy framework in order to find compatible and sustainable solutions. In this context we support the proposed MTSMP as it is a further step in the right direction.

It is encouraging that the authorities have taken corrective short-term measures in early 1999 to contain the emerging inflationary pressure by tightening the monetary policy and postponing some fiscal expenditures. However, delaying public investment, which is already low compared with the required investment, may have adverse impact on the production activities while the short-term monetary policy measures may not have a significant effect on inflationary expectations in the economy. Therefore, measures in containing inflation on a sustainable basis by reducing expansionary fiscal pressure on monetary aggregates and improving efficiency and productivity in the economy through liberalization and structural reforms are crucial in achieving the low inflationary target stipulated in the MTSMP.

We welcome the Bank of Sudan's efforts in moving toward more market-oriented policy measures in monetary management. The acceptance of

the CMC by the market participants is an encouraging development. However, the authorities have to depend, to a large extent, on traditional monetary policy measures in the short run such as legal reserve requirements as the effectiveness of market-oriented policy measures is limited under the early stage of the money market development.

On the fiscal front, medium-term strategy to increase investment in social and physical infrastructure while further reducing domestic financing requires a substantial improvement in government tax revenue. As further rate reductions and simplification of import tariff and tax system have been already envisaged under the medium-term reform agenda, we underscore the necessity of widening the tax base and improving tax elasticity. In this context, expected review and amendment of the Investment Encouragement Act with a view to eliminating the expansion of tax and tariff exemptions granted by different line ministries is a necessary step, as such concessions contributed to an erosion of the tax base. Similarly successful implementation of the VAT system in a revenue enhancing manner is crucial in maximizing its benefits. The authorities must take every effort in preparing adequately as implementation of the VAT effectively requires an efficient tax administration and an effective institutional system as well as well-informed public awareness of the new tax system.

Given the limited external resources more flexibility in the exchange rate is necessary in improving external sector stability. Recent unification of exchange rates and improvement of market orientation in exchange rate determination are important steps in the right direction.

On the structural front, authorities have correctly placed emphasis on further trade liberalization, improvement in regulatory framework for investment, strengthening of bank supervision and enforcement of prudential regulations, and continuation of privatization under the medium-term program.

Sudan's external debt is the most challenging issue as the existing debt level and debt-service ratios are extremely high. As indicated in Appendix IV, the present debt burden of the country would not be sustainable even under a scenario with more rapid growth of exports and a Paris Club rescheduling on Naples terms. Thus it is crucial to implement the MTSMP successfully as it will help Sudan's efforts to move toward a Rights Accumulation Program when supports from creditors would be forthcoming. It also underscores the necessity of normalizing the country's relationship with external creditors by regularizing repayments starting with even small amounts.

As potential risks in the program remain high, authorities' commitment and dynamism are crucial in implementing effectively the intended policy measures and reforms, particularly given uncertainties in the external environment and inherent domestic limitations. The availability of technical assistance (TA) would improve the country's policy implementation capacity, particularly by strengthening the domestic administrative system and institutional structure. We encourage the authorities to expedite their discussions with potential donors and international institutions for technical assistance.



Mr. Mirakhor made the following statement:

The staff deserve commendation for their hard work and dedication that has contributed to the authorities' notable progress in managing the economy under exceptionally difficult circumstances. As Mr. Morais's statement makes clear, Sudan's economy has continued to perform admirably. Despite the adverse impact of the late summer flooding, which was more severe than originally anticipated, and the little external assistance, economic performance in terms of inflation, budget, and balance of payments was in line with the projections made at the time of the third review. More importantly, the real economy continued to forge ahead with growth of 5 percent in 1998 and a projected 6 percent this year. Progress was also made in a number of areas with structural reforms and, although there were some delays, this was more a reflection of the technical complexity of some of the measures and Sudan's limited administrative capacity. In sum, Sudan's accomplishments to date are a tribute to the authorities' commitment to adjustment and reform and to raising the living standards of the people. The authorities should be congratulated for their achievements.

While acknowledging that much has been accomplished, there is no doubt that the task ahead remains formidably difficult. This is all the more so since Sudan lacks access to concessional resource inflows that would, under normal circumstances, have complemented its own domestic efforts to raise savings and investment and eased the costs of adjustment. Given this constraint, the macroeconomic objectives of the economic program for 1999-2000 are, perforce, modest, entailing sacrifices in growth and poverty alleviation targets and limiting the progress that export-led growth could have made toward external viability. Nevertheless, according to the staff, the program as a whole is realistically ambitious and warrants our full support.

Sudan is beginning to enjoy the fruits of sustained adjustment and reform. This is manifested in growing political and popular support for reform and in the receding risk of policy reversal. The challenge for the authorities now is to press ahead on all fronts despite the daunting odds to bear further down on inflation and to create the fiscal space necessary for enhancing investment in social and physical infrastructure. This will require strengthening of revenue mobilization, restraint on non-priority expenditures, and reforms in the area of taxation, expenditure control, and the budgetary process. We welcome the fact that development and social outlays are projected to account for the bulk of the targeted increase in expenditure, and hope that the authorities' efforts to reach a peace agreement in the South will provide scope for a reduction in military expenditures. On fiscal reforms, generally, the complexity of introducing a VAT in a poor country like Sudan and the need to proceed only after careful preparation and consultation are understandable. The new deadline should be respected at all cost. We support the thrust of the other fiscal reforms, including the proposal to gradually reduce direct tax rates.

Given the tight fiscal position and the projected reduction in Bank of Sudan financing of the budget, monetary policy can focus on achieving the program's inflation and external objectives, while providing adequate credit to the private sector to support growth. This is an appropriate strategy. We agree

that it is important for the authorities to develop, as soon as possible, a capacity to conduct monetary policy with new and innovative central bank and government instruments and to support the emphasis that is being placed in the program on developing these instruments. Despite the impressive progress in reducing inflation, it still remains high and the recent rise in price pressures warrants careful monitoring. With limited reserves and no capacity for intervention to smooth out abrupt fluctuations, Sudan has managed its exchange rate entirely on the strength of its macroeconomic policies. This is a commendable record, and we note that the real effective depreciation has had a favorable impact on export volumes and private transfers. Clearly, the best safeguard to risks from a sharp depreciation, which the authorities are concerned about, is the continuation of prudent macroeconomic policies.

There is a number of other important reform initiatives that may lend depth to the medium-term staff monitored program. Improving the regulatory framework and reducing the proliferation of exemptions will have a positive effect on fiscal revenues. While we appreciate the difficulties posed by the absence of resources to finance separation payments, the government's commitment to privatization remains strong. We welcome the actions taken in the sale of the telecommunications company's shares to the public and in handing over important roads and power plants to the private sector. We also strongly support the planned liberalization of the trade regime and the proposal to develop a sound banking sector, and we join staff in urging donors to provide technical assistance to Sudan in the effective provision of social services and improving the social data base.

In conclusion, Sudan's medium-term program holds considerable promise and should help prepare the economy for an early return to normal relations with creditors. The program is not without risks, given that the economy is vulnerable to exogenous shocks and other pressures. Nevertheless and particularly in the light of the authorities' sound track record of policy implementation under difficult circumstances, the risks appear to be manageable, and we are confident that the medium-term staff monitored program will be implemented fully. At the same time we are encouraged by Sudan's adherence to the schedule of payments to the Fund and hope that ways and means will be found to facilitate an early agreement with other creditors, especially the World Bank. Finally, Sudan's strong performance and continued commitment to economic reform warrant consideration of an early conversion of the medium-term staff monitored program into a RAP so as to unlock the much needed international financial support, including finding a durable solution to Sudan's large and unsustainable external debt burden.

Mr. Kwon made the following statement:

At the outset, I would like to commend the staff for preparing the comprehensive and well-analyzed papers on the Sudanese economy. I would also like to commend the Sudanese authorities' continued efforts to undertake the liberalization-cum-stabilization policy measure as was envisaged in the 1997 and 1998 staff-monitored programs. As we have seen in many other developing countries' cases, such policy measures once again proved to deserve undertaking even though painful.

In the Sudanese case, they not only brought generally favorable 1997–1998 macroeconomic outcomes in the short-run reversing from two decades of economic decline, but also in the longer-run laid foundations for improved macroeconomic management based on the market principle. In this regard, the Sudanese economy in recent years, in my view, registered a turning point toward more political and popular acceptance of market-based policies, and as the staff report mentioned, is now in less danger of being reversed.

However, as staff noted, despite the promising initial steps undertaken, the Sudanese economy faces formidable obstacles to achieving sustainable economic growth and external viability. Among the various potential pitfalls and policy endeavors, I would like to focus on three major areas: (i) fiscal sector, (ii) monetary sector, and (iii) external sector.

Considering still evident inflationary pressures as well as insufficiently stabilized exchange market, the tight demand management policy stance should continue, in which tight fiscal policy will be the core, even though in the short run, there will be a difficult trade-off between further reduction of inflation and rehabilitation and development spending.

With this broad policy stance in mind, various policy measures should be developed to lessen medium-term impact of suppressed rehabilitation and development spending on growth potential. Of course, as Messrs. Shaalan and Elhage stated in their insightful preliminary statement, the center of the fiscal problem in Sudan lies in the low revenue-to-GDP ratio. Therefore, in order to improve revenue performance, already planned fiscal reform measures, such as introduction of VAT, reduction of tax exemption and strengthening of tax administration should be implemented without delay.

In addition, every possible supplementary measure should be examined. For example, incentives can be provided for local government to mobilize more resources. To supplement the shortage of government's infrastructure investment spending, more active participation of private sector in infrastructure projects can be encouraged. Peace agreement on internal conflict is also essential to channelizing resources from military expenditure to other priority areas in addition to its favorable impact on enhancing investors' confidence.

Monetary policy should continue to target a gradual further reduction in money growth rate to achieve the inflation and balance of payment objectives. To this aim, I concur with the staff that the recent rise in inflation is of concern and that if inflationary pressures do not abate, additional corrective measures should be undertaken. In addition, the central bank's capacity in liquidity management should be further strengthened. However, as was mentioned in the staff paper, development of indirect financial instruments should strike the balance with the need to resort to traditional instruments, particularly during the initial stage of its introduction.

Bank supervision is another very important area upon which more light should be shed. As the authorities drew attention to the limited qualified human resources available in this area, the Fund's technical assistance would be very

useful. Together with technical assistance in fiscal sector, future plans of technical assistance, if they are to be given in these two areas, should be well-prepared to meet the country's needs.

It is welcome that Sudan plans to reduce trade restrictions, including tariff reduction and elimination of remaining non-tariff barriers. It is also a welcome development that the authorities reiterated their commitment to pay US \$40 million to the Fund and US \$30 million to other creditors this year, and at least US \$60 million to the Fund next year. As staff noted, such an adherence to payments schedule is essential for restoring credibility with creditors.

According to the medium-term projection, even if the current account deficit is reduced further with more rapid export growth and a Paris Club rescheduling on Naples terms is made, Sudan's external debt is expected to be unsustainable. In this regard, I would like to urge the authorities firstly to implement fully all the macroeconomic and structural policy measures envisaged in the MTSMP, and secondly to reach further debt rescheduling agreements with willing creditors as soon as possible. After that, in due course, the MTSMP can be converted to the RAP, which will constitute an important building block to get out of unsustainable vicious circle of debt dynamics.

With these remarks, I wish the authorities every success in their policy endeavors.

Mr. Bernal made the following statement:

In recent years, Sudan's economy has been under permanent surveillance by the Fund. During our more recent discussion, on February 24, the Board welcome Sudan's continued adherence to the economic policies under the 1998 SMP. At that time, we supported the adoption of the program for 1999 and urged the authorities to complete discussions on a medium-term program that could be monitored by the staff. We would like to thank the staff for the set of documents for today's discussion. We share the thrust of the staff appraisal and welcome the authorities' commitment to the medium-term staff-monitoring program.

Despite a more difficult environment, characterized by extensive flood damage, a deterioration in the terms of trade, and difficult domestic and international political relations, the government of Sudan has been able to make major and impressive progress in macroeconomic management. The result has been a recovery in economic growth and a substantial reduction in inflation. However, as the staff clearly explains, external prospects remain highly vulnerable. The current account deficit will be reduced, but it remains unsustainable. And we note that the projection of the level of indebtedness, including a Paris Club rescheduling on Naples terms and notable export growth, do not have a significant impact on the external debt burden of Sudan. We recognize that the program takes into account the current economic circumstances of Sudan, as well as their ability to implement changes. We welcome the commitment of the authorities to their MTSMP, and urge the full implementation of its agenda which should improve public finances, encourage private sector activity, and contribute to better economic performance. Also, the

program will help to prepare the economy for the time when more support from creditors would be forthcoming. We believe that with the full implementation of the program, the conversion of the MTSMP into a RAP would be feasible.

Sudan has a long road ahead to attain economic viability, and we would encourage the authorities to persevere in their efforts. Special emphasis should be given to the timely implementation of the tax reform package, the implementation of the VAT, and the completion of the work to introduce the foreign exchange regulatory framework so that the exchange rate continues to be market determined. Also, to strengthen the banking system, it is required that there be compliance with prudential norms and effective bank supervision. We welcome the authorities' commitment to trade liberalization as well as higher private sector participation. Here, it is important to mention that although the objectives of the authorities seem appropriate, technical and financial support from multilateral and regional institutions are fundamental for their full implementation.

Recent favorable developments under the staff-monitored program for 1998 demonstrate Sudan's willingness to collaborate with the Fund. We are also encouraged by the government's strict adherence to the agreed schedule of payments to the institution, as well as by the financial program for 1999 and the authorities' commitment for the medium-term staff-monitoring program and their efforts to normalize relations with all major creditors.

In conclusion, we can support the staff recommendations and, given the degree of external vulnerability, we urge the authorities to maintain their strong commitment to a timely and full implementation of the MTSMP. With these comments, we would like to wish the authorities every success in their endeavors.

The staff representative from the Middle Eastern Department said that since the preliminary staff statement had been issued, the Sudanese authorities had formally proposed making payments of \$1 million a month to the World Bank, which compared with obligations coming due of \$2.5 million a month. The authorities hoped that those payments could represent the start of a normalization process, and that the Bank could thus begin extending technical assistance to Sudan.

Mr. Al-Tuwaijri made the following statement:

I commend the Sudanese authorities for their continued implementation of adjustment and reform measures under very difficult circumstances. Their sustained efforts over the past few years have paid off in higher growth, lower inflation, an improved fiscal position, and a more resilient economy.

This encouraging progress notwithstanding, important reforms are still to be completed. Additional measures to place the economy on a sustainable high growth path, further reduce inflation, and enhance efficiency top the agenda. The staff monitored medium-term program is an important step towards addressing these issues.

In the fiscal area, the focus on improving the structure of the budget should enhance revenue performance and improve spending efficiency. On the revenue side, efforts are rightly focused on broadening the tax base, through the introduction of VAT, improving tax administration, and creating a revenue structure that is geared toward private sector growth. In this regard, the delays in introducing the VAT are understandable given the limited administrative capacity and the need to prepare carefully for a successful introduction. That said, it is essential that the authorities spare no effort in order to achieve the agreed revenue targets.

Improved revenue performance coupled with further efforts to reduce non-priority spending, and strengthen expenditure control should allow for increased spending on infrastructure while maintaining a tight fiscal stance. Indeed, increased spending to stem the deteriorating infrastructure is critical for achieving and sustaining high growth rates.

The focus of monetary policy on consolidating the gains in inflation reduction is reassuring. Maintaining a tight monetary stance is especially important in view of the recent rise in the consumer price index. In this regard, the introduction of GMC should facilitate achieving this objective by strengthening the ability of the Central Bank to manage liquidity. The ongoing efforts to improve banking supervision and prudential regulations should also facilitate management of monetary policy over the medium term.

In addition to a strengthened macroeconomic stance, achieving the program's objective hinges on promoting private sector investment and restructuring public enterprises. In this regard, the focus on improving the regulatory framework, advancing privatization and reforming the agricultural sector is appropriate. It is important, however to take into account the authorities' administrative capacity.

Turning to the external sector, I am encouraged by the progress made in improving the functioning of the foreign exchange market. More efforts are still needed, however, to deepen the market. In this regard, the authorities' planned measures by end-June are useful steps. In the trade area, I welcome the planned ambitious reduction in Sudan's trade restrictions over the medium term. While these measures will increase efficiency and enhance competition, it is important to ensure that compensating fiscal measures are in place first.

In conclusion, the Sudanese economy has made good progress over the past few years under very difficult circumstances. The authorities' conviction that further adjustment and reform is needed is evidenced by their commitment to the medium-term program before us. I am also encouraged by the authorities' efforts to normalize relations with official creditors.

With these remarks, I wish the authorities further success in their economic management.

Mr. Zurbrügg made the following statement:

Let me start with a few comments on the recent developments and program performance under the staff-monitored program (SMP). I welcome the fact that performance in terms of inflation, the budget and the balance of payments was broadly in line with the estimates provided in the third review of the SMP. However, with some regret I take note that monetary outcome was once again more expansionary than anticipated. There still seems to be limited capacity to conduct monetary policy. Like the staff, I wish to underscore the need to further improve liquidity management. In order to secure the inflation gains achieved so far, the indicative rates for Murabaha should only be reduced in periods when demand pressures are absent. Furthermore, it is highly regrettable that once more the introduction of the VAT is postponed. Given the very low level of revenues, it is of utmost importance to avoid a further postponement.

Turning to the future, I welcome the preparation of a medium-term staff-monitored program (MTSMP) for Sudan. However, I am disappointed with its lack of ambitiousness concerning both the macro-framework and structural reforms.

Regarding the macro-framework, I would have hoped for an acceleration of economic growth. Real GDP is projected to grow at a rate only slightly higher than at the beginning of the nineties. This outlook is surprising because of recent progress in liberalizing of domestic activities as well as the expected emergence of oil exports this year and the anticipated attainment of self-sufficiency in oil products next year. I am also puzzled about the projected development of non-oil private sector investments. Why is there a drop of almost 2 percentage points of GDP in the year 2000? This drop is only partially made up the following year. Moreover, only at the end of the projection period—in the year 2003—the investment level of the early nineties is projected to be reached again. One reason for the modest development of private non-oil investment might be the modest structural reform agenda (including privatization) but I would appreciate some staff comments.

Regarding medium-term structural reforms, I miss some elaboration on the role of the state in the economy (other than the commitment to a banking system based on Islamic principles). This would allow a better assessment of the privatization strategy. I acknowledge constraints from a tiny capital market for a large-scale privatization. However, I wonder how it was decided, which enterprises are to be privatized, and how the investor's interest for larger companies is attracted. As to the banking sector strategy, only a modest program to strengthen bank supervision is presented. Regarding agriculture, the dominant sector of the Sudanese economy, the government intends to retain ownership of the land. Does the staff perceive this as an obstacle to further economic growth? Furthermore, like the staff, I attach importance to the clarification of the role of the public Sudan Gezira Board, as this might help to improve the dilapidated irrigation system.

I find the MTSMP very strong with respect to the external sector, where ambitious trade reforms are envisaged. This will further stimulate economic

growth. I consider the maintenance of a market-determined exchange rate as a cornerstone of the medium-term SMP. Moreover, I fully share the staff's view that some real depreciation might need to occur in 1999. Given the low level of international reserves, interventions in the foreign exchange market are not feasible. I also strongly support the intended completion of the development of indirect instruments of monetary policy.

Finally, I welcome the increased budgetary support for social development and poverty alleviation but regret the lack of specificity. I also welcome the government's efforts to bring the budget classification up to the GFS standards by the end of this year.

To conclude, I support the medium-term SMP 1999 and am looking forward to the next review in three months. I hope that the structural benchmarks in 1999 will be implemented as scheduled and assume that Sudan will adhere to the reduced payment schedule to the Fund. In this respect, I warmly welcome the staff's initial remarks indicating that Sudan has decided to start making debt service payments to the World Bank.

Mr. Jourcin made the following statement:

Overall, Sudan continued to make progress on the macroeconomic and structural fronts. The performance under the 1998 SMP was broadly in line with expectations and preliminary data on developments during the first quarter of 1999 seem to confirm this outcome. Economic growth has remained rather strong, the average rate of inflation has declined markedly, and the overall fiscal deficit has been contained, so as to reach the program's targets. Such a performance is not perfect in every aspect. Indeed, there were temporary lapses as regards macroeconomic objectives as well as a few delays in the implementation of the reform agenda. Given the difficult context Sudan has been facing, notably the impact of adverse climatic conditions, unfavorable terms of trade and the absence of external assistance, these weaknesses do not prevent the country's performance from being acceptable and even satisfactory. Nevertheless, they are meaningful and underline that the results are still very fragile. Inflationary pressures are not fully under control. The revenue-to-GDP ratio is relatively low. The trade balance and the current account register substantial deficits. In sum, a lot remains to be done to consolidate the macroeconomic situation and to improve the quality of the Sudanese performance.

In this perspective, I support the proposed medium-term staff-monitored program which is a step in the right direction. This framework can contribute to make further progress towards macroeconomic stabilization, even if the objectives are quite modest. Sudan has to maintain tight demand management policies and to enforce its performance, notably in the fiscal area. On this last point, the successful introduction of the VAT should be a priority. It is also necessary to improve the performance on the expenditure side in order to increase resources allocated to social and infrastructure sectors. This implies a decrease in military expenditure, which absorbs at the present time a large part of budgetary resources.



Concerning the normalization of relations with creditors, I welcome Sudan's full adherence to the schedule of payments to the Fund and the first agreements reached with other creditors. In this regard, the conversion of the medium-term staff-monitored program into a RAP could be envisaged, as a further step in the improvement of relations with IMF. I would be ready to support this prospect, provided that Sudan continue to make progress in establishing a satisfactory track record. As for the World Bank, I welcome the information given by staff this morning about successful discussions on payments to this institution. The involvement of the World Bank will be particularly relevant, notably in providing technical assistance.

Finally, I would like to underscore that the external debt burden is clearly a major problem for Sudan and remains a challenge to be addressed. Concerning the possibility of a Paris Club rescheduling, mentioned in the report, it should be recalled that such a debt treatment would require a real IMF program, in other words another program than simply a RAP. It would also suppose more support from creditors. We are far from this stage and I encourage the authorities to pursue their efforts.

Mr. Cabezas made the following statement:

I commend the staff for an informative set of documents on the Sudanese economy. Despite the country's unfortunate history of financial relations with the Fund, the ongoing negotiation of a medium-term staff-monitored program for 1999-2001 represents a clear and most welcome sign of the authorities' commitment to continue improving the overall policy environment. However, many important challenges lie ahead, leaving Sudan no margin for complacency after the successful completion of the 1998 staff-monitored program.

One of Sudan's major challenges is to strengthen the efficiency and effectiveness of its social policies. In Sudan, the state governments are responsible for delivering the core of social outlays. We thus welcome the initiative underway to study possible improvements in federal-state government relations. Could the staff comment on the type of problems detected, as well as the scope and timing of the envisaged in-depth study? The conditionality requirement recently introduced by the federal government for continuing the transfer of social purposes to the states lends credibility to the effort to strengthen intergovernmental financial relations. Similarly, we welcome the preparations to implement the much-awaited value-added tax reform. The pending discussion of the VAT revenue sharing scheme in turn raises the broader issue of the incentive structure implicit in the sharing of other tax revenue with the provinces. Such schemes that evolve piecemeal tend to restrict the government's ability to conduct an effective non-distortionary tax policy and often contribute to fiscal paralysis at the provincial level. A comprehensive look at the overall revenue sharing scheme in Sudan at this stage would seem timely. I wonder if the staff could update us on any advances in this area.

The particularities of the relationship between interest rates and money demand under Islamic banking law suggests that the reduction in reserve requirement should not be rushed. The new sets of instruments to manage

liquidity in the economy are just being introduced, and still need to prove their effectiveness. Moreover, an on-demand buy-back policy might turn these certificates into short-term contingent liabilities for the Bank of Sudan, especially in periods of distress. In addition, the authorities have recognized the critical need to strengthen bank supervision and prudential safeguards. They would be well advised not to lose the margins offered by traditional control mechanisms until effective means to control liquidity have been established.

We welcome the ambitious trade reform that is envisaged, which should help to strengthen competition in the domestic market and make the trade regime more transparent to the public. It is important, however, to work in the right sequencing of offsetting revenue measures so as to not weaken the fiscal stance after the tariff reduction. The authorities should be commended for the relaxation of the foreign exchange retention limits on banks and on exporters of cotton and for lifting the surrender requirements on services. Both measures are steps toward a more market-determined exchange rate. Similarly, we welcome the decision by the authorities to shorten to five days the time lag for calculating the moving average to set the official exchange rate for surrender requirements, as well as the 2 percent limit imposed on the difference between the average exchange rate and the daily exchange rate. As pointed out by this chair on a previous occasion, however, the relatively long lag for determining the official rates for the private sector arbitrage should be reduced. With respect to the medium-term macroeconomic assumption for Sudan, private savings are expected to almost double within five years. I would like the staff to clarify the basis for this assumption, which is the cornerstone of the expected improvement in the current account results for the medium term.

We join others in urging the Sudanese authorities to maintain their improved payments performance to the Fund and to prioritize agreements with their willing creditors, in particular the World Bank, and set up a payments scale that will serve to restore technical and other needed assistance. We welcome the decision by the authorities to start normalizing its relationship with the World Bank.

We wish the Sudanese authorities success in implementing their ambitious staff-monitored program.

Mr. Luo made the following statement:

The Sudanese authorities are to be commended for their achievements in economic growth and diversification since 1992, against the background of an unfavorable external environment. I appreciate the authorities' efforts in normalizing their relations with the Fund and other creditors, which will be helpful for Sudan to embark on a Rights Accumulation Program and enter a new stage of development. The envisaged programs for 1999 and the MTSMP are ambitious, especially when the great difficulties and challenges lying ahead of the authorities are taken into account. I believe the objectives of the programs are attainable, given the authorities' strong determination.

I thank staff for the well-written papers and agree with their appraisals. I will limit my comments to some issues for emphasis.

It is quite impressive that in 1998, although import duties declined due to structural reforms, the fiscal outcome was in line with the program, thanks to improved tax administration. I fully understand the authorities' prudence in postponing the introduction of the VAT by six months, since its effectiveness depends very much on careful preparatory work. In any event, I look forward to its introduction, which should add more tax revenue to the fiscal account. On the expenditure side, I support the increase of 3 percent of GDP which is targeted for development and social outlays during the medium-term period.

Despite the authorities' tight monetary policy, which has significantly reduced inflation, the pressure on prices has been high since the beginning of this year, due chiefly to seasonal factors. This points to the importance of maintaining a tight monetary stance. The issuance of the CMCs and GMCs provides useful instruments with which the authorities can conduct monetary policy and mobilize public finance resources. Nevertheless, I note that the market for CMCs is rather thin and that the actual holdings of commercial banks are only half of those programmed. I share staff's views on the drawbacks of the current mechanism of CMCs and would like to stress that the lack of a settlement system is one of the hurdles hampering interbank transactions. I understand that the settlement system can hardly be the top priority on the agenda, but, in my view, it should be established sooner rather than later.

I welcome the authorities' commitment to the market-determined exchange rate. With a view to building up the necessary reserves, the authorities should also refrain from market intervention. I agree with the staff that a real depreciation for 1999 will be favorable for Sudan if supported by a tight monetary policy.

On the structural reforms, I appreciate the authorities' emphasis on the agriculture sector, which accounts for 40 percent of GDP. It is our hope the World Bank's technical assistance will be available soon to this end. The trade reforms, which will involve significant tariff reductions and removal of all non-tariff barriers, are indeed very ambitious. They will help the authorities in developing a market- and export-oriented economy. In the meantime, I share the authorities' view that a durable strengthening of the revenue base is needed.

With these comments, I wish the Sudanese authorities further success in their future endeavors.

Mr. Nelmes made the following statement:

It is clear that the Sudanese authorities face tremendous challenges in improving the standards of living for its citizens, in returning to external viability, and in reintegrating itself into the global economy. As this chair has noted on past occasions, we feel that the Fund should be willing to help Sudan address these challenges, as Sudan continues to help itself.

Over the last year or more, the evidence on this front has been quite encouraging. As the Staff [and other Directors] point out, the authorities have adhered broadly to the economic policies agreed under the 1998 SMP, they

have continued to meet the agreed schedule of repayments to the Fund, and they are strengthening their efforts to normalize relations with other external creditors.

On the basis of this performance, we believe it is appropriate to provide support to Sudan in the form of the proposed medium-term staff monitored program, and with technical assistance where fitting. This being said, however, it bears emphasizing—as the staff notes—that the onus remains on the Sudanese authorities to adhere to the agreed program targets and policy recommendations in a timely manner, including the schedule of repayments to the Fund, and to continue their efforts to normalize relations with other external creditors. Indeed, a further intensification of Fund involvement beyond the proposed medium-term SMP will, at this point in time and in our view, require continued progress on arrears reduction covering a broader range of external creditors.

Under current circumstances, we concur with the Staff's assessment that the medium-term SMP is appropriate and realistically ambitious. On balance, we support the broad thrust of the program, in particular the elements of structural and fiscal reform, and liberalization, and have only a few selective comments and questions.

First, the staff note in paragraph 36 that the goal of monetary policy is to jointly achieve the inflation and balance of payments objectives of the program using money growth as an intermediate target. While monetary policy actions may have some short-run impact on the balance of payments, it is not clear that monetary policy itself should be geared to achieving either short- or long-term balance of payments objectives. In our view, the best contribution that monetary policy can make towards a well functioning economy with rising standards of living is the maintenance of low and stable inflation. Some clarification of the Staff's views and the program's goals in this respect would be welcome.

With respect to the recent surge in inflation, we would argue that despite indications that the resurgence may be the result of temporary seasonal demand effects and adverse price-supply developments, monetary conditions should be tightened sooner rather than later, in order to signal a commitment to achieving the inflation-reduction targets set out in the program.

Turning to the exchange rate, we commend the authorities' decision to maintain a floating exchange-rate regime, especially given Sudan's susceptibility to terms of trade shocks. In this light, and owing to Sudan's large and unsustainable current account deficit, we concur with the staff's assessment that some real depreciation of the exchange rate will probably be unavoidable in 1999, and that the authorities should avoid intervening in the foreign exchange market in an attempt to counter such a movement.

Indeed, in order to limit sharp exchange-rate fluctuations related to transactions in a thin market, the authorities should focus their efforts on measures to deepen the foreign exchange market, through the recommended reforms and by encouraging greater private-sector participation, rather than on

attempting to increase foreign exchange reserves for intervention purposes. In fact, some clarification from the staff on the reasons underpinning the program's target for increasing reserves would be welcome.

With respect to fiscal policy, our main concerns relate to fiscal transparency and the orientation of the government's priorities on military expenditures versus social and development spending.

In reading the Staff report, one can sense a difference of view between the Staff and the authorities over the true degree of transparency in the fiscal accounts. The authorities stress that the budget process is open and accountable, however the staff note that data on the actual executed budgets are deficient, especially for the State governments, and progress in following up on the recommendations of the June 1997 STA mission on government finance statistics has been limited. While the program's recommendations for improving expenditure management and the transparency of the fiscal accounts will hopefully ameliorate matters in the future, we remain concerned about reports that extra budgetary spending on—and foreign financing of—unproductive activities, in particular military activities, may currently be taking place.

In a related vein, it is unfortunate and worrying, as the Staff note in paragraph 10, that domestically financed development outlays bore a larger burden of expenditure restraint in 1998 than did military spending. We welcome the authorities' intention to give priority in the medium-term SMP to enhancing spending on development and social needs, however we would also strongly urge the authorities to reach an agreement on peace in the civil war as soon as possible, so that budgeted military spending can be redirected to the maximum extent possible toward more humane and productive uses.

With these remarks, we wish Sudan every success in the difficult task ahead.

Mr. Lehmuusaari made the following statement:

In light of the very difficult circumstances, Sudan's recent macroeconomic performance has been satisfactory, and I welcome the authorities' continuing efforts to follow the staff monitored program. Progress in implementing the structural components of the program have also come some way, although the delays have been frequent. Limited administrative capacity appears to have been one of the main obstacles to the timely implementation of these reforms.

I support the proposed medium term program and its economic objectives. In particular, I welcome that the planned external adjustment is expected to provide for a limited increase in debt service payments, thereby making progress toward normalizing financial relations with some creditors.

On the program's structural components, one might perhaps question how realistic the goals are, bearing in mind the results attained so far. Will the administrative capacity be any greater in the time ahead?

I agree with staff that, overall, significant risks to achieving the program objectives remain. Nevertheless, if implemented on time, the medium term program will hopefully make the path towards macroeconomic stability more secure, as well as create conditions for increased investments and saving.

As regards Sudan's relations to its creditors, I fully endorse staff's view that payments discipline is essential. This chair has earlier stressed that a starting point for Sudan's economic program should be to aim at enlarging its capacity to meet existing financial obligations. While good policies can go a long way in restoring Sudan's credibility in international financial markets, larger payments to creditors would be a powerful testimony of the authorities' commitment to overcome Sudan's largest economic obstacle—the arrears problem.

In this context, I welcome the progress that has been made so far in reaching agreements on payments to a few multilateral creditors. A normalization of the financial relations with the World Bank should now be high on the agenda, and I welcome the information provided to us today by the staff regarding this issue.

Mr. Collins made the following statement:

I would like to thank the staff for a clear and well-written report. Sudan's economic performance in 1998 was reasonable against the background of constant external shocks. Although there was slippage on net domestic credit, the government made efforts to respond, albeit with a time lag. Aside from the VAT implementation, the 1998 program is almost complete on the structural front, although again with considerable slippages in the timetable. For the medium term, revenue collection must improve and the correct level of revenue must be targeted. In that respect, it is vital that VAT implementation be completed rapidly. This again has been subject to persistent delays, and the authorities must focus on it. Although the revenue-GDP ratio is misleading, owing to the large non-monetized sectors of the economy, revenue levels remain low and must be addressed urgently. A comprehensive approach to revenue raising should be adopted, including the revision of the Investment Encouragement Act to reduce exemptions.

Is the staff comfortable with the quality of statistical data coming from the Sudanese authorities? I fear that the official statistics give a misleading picture of overall economic and social developments, as they cover only part of the country.

I note that the staff is pleased that the government has responded to the Board's concerns about transparency by releasing actual numbers on military expenditures rather than budgetary allocations, although it is disturbing to learn that about a quarter of all budgetary expenditure has been directed to military outlays. Moreover, this is seen by many commentators as an underestimate. There are also reports that the budget does not reflect the extent of external assistance. We should insist that all such external financing be accurately reflected in both the external and fiscal accounts.

We discussed the treatment of Sudan's arrears to the Fund last February and agreed on a strategy that would reduce their repayments in exchange for a small increase in repayments to all multilateral institutions combined. That could in turn prompt additional financing from these sources as well as sorely-needed technical assistance from the World Bank. We made clear that there must be a priority to agree on a repayment schedule with the World Bank. It is good to learn, albeit at the last minute, that such agreement has now been reached. I remind the authorities of our February agreement that any amounts out of the unallocated \$10 million that is not paid to other multilaterals by the end of this year must be paid to the Fund, in addition to the \$40 million already programmed. It looks as though that target will be achieved, now that agreement has been reached with the World Bank. On the more general question of how to deal with the de-escalation of arrears measures, we still await a further staff paper, following discussion in the Board earlier this year. I would be interested to learn when that paper is likely to appear.

At the Board discussion of staff-monitored programs last December, a clear majority of Directors was opposed to extensions beyond a year to 18 months, in principle, other than in exceptional circumstances. I suppose that we have to ask ourselves what is exceptional about the case of Sudan, other than the fact that the depth of its arrears problem is such that there is no realistic prospect of full Fund engagement with them until several years have elapsed. Before a rights accumulation program can be put in place, some staff involvement in program design is better than none. Whilst I can go along with that approach in this case, the Fund should not be exposed to moral hazard through the growth of expectations that we will be locked into this arrangement. The Sudanese authorities must perform, both in terms of program implementation and toward regularization of their financial position with external creditors and with the Fund. The signs thus far have been promising, but these are early days in what will be a long and arduous process.

Mr. Kudiwu made the following statement:

Like previous speakers, we would like to commend the Sudanese authorities for the good progress achieved since the mid-1990s regarding policy implementation, and their adherence to the established payments schedules to the Fund, despite continuous adverse shocks. We are pleased to learn that as a result of the determined implementation of a wide range of liberalization policies, including the opening of the economy to private sector participation, associated with the tighter demand management policies under the 1998 staff-monitored program, significant improvements were recorded in terms of economic growth, inflation and a narrowing of financial imbalances. We commend the authorities for these achievements, in spite of the severe pressure on their limited resources.

Notwithstanding the progress accomplished up to now, it appears, however, that Sudan's economic and financial situation remains fragile, as major impediments continue to hinder sustainable economic growth and external viability. In particular, among the major adverse factors constraining the Sudanese growth potential are: the persistent weak administrative and institutional capacity, the inadequate physical infrastructure, and the weak

financial and foreign exchange intermediation, which all need to be addressed without delay, in order to restore confidence in the economy. As indicated by other speakers, we share the view that Sudan is also confronted with a heavy external debt burden problem, which remains a challenge to be addressed. In this context, we welcome the authorities' perseverance with the program of adjustment in a medium-term context, that will help to achieve sustainable and more rapid economic growth and external viability. In that regard, the broad objectives set for the economic program 1999–2001, which aim at consolidating the progress towards macroeconomic stabilization and creating an environment conducive to a sustained increase in investment and savings, constitute the right policy response. However, as mentioned in Mr. Morais' helpful preliminary statement, we believe that with sufficient external assistance and debt relief, the authorities could make a striking difference in their reform adjustment.

The 1999 program, as described in the authorities' Memorandum of Economic Policies for 1999–2001, is consistent with the achievement of the medium-term objectives. However, as 1999 will be a challenging year for the authorities, policy measures implementation will require additional efforts and discipline on their part to meet the objectives set.

As we are in broad agreement with the staff's appraisal and policy recommendations, we would like to make only some brief remarks on a few policy issues.

On fiscal policy, we note that for 1999, efforts will aim at strengthening revenue collection. However, like previous speakers, we find that, at about 9 percent of GDP, government revenue remains low and we encourage the Sudanese authorities to continue the efforts to improve customs and tax administration and to reduce forcefully the exemptions. The measures introduced late in 1998, inter alia, the strengthening of internal controls, will certainly contribute to improve revenue performance in 1999. However, we encourage the authorities to introduce the VAT without further delays to rapidly improve the fiscal balance and transparency to facilitate the monitoring of the budget process.

On the expenditure side, efforts should focus on reducing non-priority outlays, while directing sufficient resources to social and development sectors. Efforts should also be intensified to speed up the privatization of many of the enterprises targeted, so as to reduce pressure on the public finances.

Regarding structural front, the wide range of structural reforms envisaged in key economic areas, such as fiscal, monetary, exchange and trade system, regulatory framework, privatization, and agricultural reform, appear ambitious and need to be undertaken with a firm determination. As indicated in the staff paper, it is important that these reforms be implemented fully and on time, and allow the Medium-Term Staff-Monitored Program (MTSMP) to be converted into a Rights Accumulation Program (RAP). In order to implement in a successful manner the reform program, we would like to encourage the authorities to work closely with the Fund and World Bank staff.



Concerning the macroeconomic statistics, efforts should be intensified to address the deficiencies prevailing and with the technical assistance required. Could the staff elaborate on the steps being taken to address the Y2K problem in Sudan?

Finally, we believe that Sudan continues to demonstrate clearly its intention to cooperate fully with the Fund. However, the country's economic and financial situation remains fragile and major risks remain that could possibly derail the program. We, therefore, hope that additional assistance from the international community will be forthcoming to help the authorities in their difficult tasks of rehabilitation. With these remarks, we wish the Sudanese authorities well in their future endeavors.

The staff representative from the Middle Eastern Department, in response to questions and comments from Executive Directors, made the following statement:

We are at varying levels of comfort with the quality of data coming from the different sectors. Clearly, the quality of GDP data can be quite weak, especially the basic data from some of the outlying states in the south, which are affected by the conflict. The Sudanese authorities do get some data from the regional statistical offices, but it is difficult to judge its quality. There is quite a sophisticated system of gathering agricultural data, a remnant of 20 or 30 years ago. As the agricultural really drives economic activity in Sudan, this is quite important.

Sudan has an out-of-date price index, based on a 1970 or 1971 survey, but it is gathered regularly, albeit mainly in Khartoum. The authorities do get some data from other parts of Sudan, but too late to be of any operational use. They have also recently began to gather some data on wholesale prices, which is useful.

The central government's fiscal data are quite good, and there is some transparency in the budgetary processes. The differences noted in the staff report stem from the fact that data from the states, which play a crucial role, in providing basic social services, are much delayed. It can take a year or even more to prepare the consolidated accounts of the general government. The other problem is the classification of the federal fiscal data, which should be addressed with the introduction of the GFS standards.

The authorities have responded to the previous Board discussion on military spending by providing figures on the actual expenditures. We are confident that we have been apprised of all of the civilian external assistance. At the moment, such assistance comes from the International Fund for Agricultural Development, based in Rome, and the Islamic Development Bank. If there is any military expenditure that is financed externally, it is not in the budget. There are some rumors in Khartoum to that effect, but the government would strongly deny them.

The monetary data are quite good but there are occasionally sharp movements in some areas (especially other items net of commercial banks) that are difficult to explain. There is a weakness in the external data related to the

classification private transfers and private capital inflows, as in many other countries. Otherwise, the data on the monetary and the external sectors appear to be reasonable.

Monetary policy is geared to keeping the growth of monetary aggregates within the targeted growth rates. Another major concern has been the developments the newly unified exchange market. Data on the monetary aggregates are usually obtained with a time lag, while the data on the exchange rate movements and foreign exchange reserve movements is available on a daily basis, so the governor of the central bank can respond to pressures promptly. The program has targeted an ambitious 5 percentage point reduction in inflation by 2000. Given all of the demands for rehabilitation in the budget, this would be quite an achievement.

The program for 1999 calls for a small increase in foreign exchange reserves, which are virtually nonexistent at the moment, at about one week of imports. The target is to increase them to three weeks of imports by end 1999. Given the thin foreign exchange market, the opportunity for the central bank to buy foreign exchange is quite limited, and it would not be realistic to look for a greater increase in reserves. Nonetheless, the central bank is keen to increase its reserve level, in order to intervene or perhaps smooth short-term fluctuations in supply and demand. The staff has recommended that they abstain from such actions as much as possible, as mentioned in the appraisal.

Regarding fiscal decentralization, the problem is that there is an imbalance between what the states must do, under the constitution, and the revenues that they receive. They are responsible for social and health spending, while at the same time they are financed through a wide array of relatively minor consumption and production taxes. The introduction of the value-added tax will help to solve the problem, because it will be collected at the state level and then shared between the federal and state governments. Because of their weak financial position, the states have resorted to taxation of traded goods, mainly agricultural products moving from the western areas and irrigated schemes where they are produced to port Sudan. They are taxed at the source and also as they move from state to state. This type of taxation has undermined the competitiveness of the traded goods sector, and the authorities have taken steps to limit it, but, again because of the lack of information, we are not sure how much success there has been. Thus, a major review, with technical assistance provided by the Fund, to look at the entire relationship between the federal government and the states would be welcome.

Non-oil investment is not expected to decline significantly in 2000, although the oil project will be completed in 2000, which stimulated substantial investment from outside the oil sector to build the pipeline and make various improvements to the port. Table 7 shows that the increase in private non-oil investment, apart from the high of 11.7 percent of GDP in 1999, is on a mostly straight line of increase. The high investment in 1999 is non-oil but associated in one way or another with the oil sector, as noted above. These are early estimates, and we expect to take a closer look at the data on the next mission.

The Sudanese authorities are committed to privatizing all public companies. There is no particular priority list; the authorities are going to sell whichever enterprises are wanted by investors. So far they have managed to sell some small companies and are interested in selling larger ones, particularly Sudan Airways, although they will have difficulties finding buyers for these, as there are no funds for rehabilitating the companies or for separation payments. The authorities have attempted to advance privatization by handing over some electricity generating facilities and some roads to the private sector. Whenever they have an offer from the private sector, they sell it. We have not discussed the details of the pricing.

Much of the rain-fed agricultural sector is in private hands, including the traditional and big farms. The irrigated sector is more complicated because the large irrigated schemes have a common infrastructure. The running of this common infrastructure is complicated; services are poor and the infrastructure and canals are deteriorating. This is one of the main reasons for the relatively modest growth rates expected in the future; we are not confident that the irrigated sector will be able to recover. It performed well from the mid-1990s to about 1998. This, together with the rain-fed sector expansion and some diversification in agriculture as a result of the reforms, led to strong agricultural growth, which pulled along the rest of the economy. There is no guarantee that that will continue in the next few years, particularly with the poor state of the irrigation infrastructure. The authorities will be satisfied if the growth rates of the past can be maintained, despite the fact that they are implementing structural reforms much more aggressively.

We have not discussed in detail the functioning of the common infrastructure of the irrigated schemes, mainly because the World Bank has not so far been involved in Sudan. The Bank has much expertise in dealing with the irrigated schemes, and relations between the Bank and Sudan appear to be improving. The two areas that the Bank will first address when relations are normalized are the irrigated schemes, particularly the Gezira scheme, which is the largest, and social policies. The question of the ownership of the common infrastructure and land in the agricultural sector should thus be reviewed with experts in the World Bank.

On the question of the Y2K problem, Sudan has a limited level of computerization. However, the central bank and ministry of finance have been encouraged to work with the BIS, which has offered to give the Bank of Sudan some assistance. We will again look into the state of these preparations in our upcoming mission.

The Deputy Director of the Policy Development and Review Department said it was hoped that the revised guidelines on staff-monitored programs would be circulated shortly. The Board had had an initial discussion concerning the de-escalation of remedial measures in the context of the review of the arrears strategy in the run-up to the 1999 Spring Meetings. The Board had requested the staff review the issue further and the resulting paper would be distributed shortly.

Ms. Pinzani made the following statement:

We appreciate the authorities' efforts to maintain a cooperative attitude to the Fund, and to adhere to disciplined policies despite difficult circumstances. We welcome the agreement for the reductions of arrears to the World Bank, but urge the authorities to design a schedule for repayment to all their creditors in line with the commitment already taken. We are confident that at this stage of the stabilization process, the authorities are determined to tackle the issues that continue to make Sudan's economy vulnerable: the internal conflict in the southern states, the enhancement of revenue mobilization, and the deepening of structural reforms.

The resolution of the 15-year-old civil conflict and a major strengthening of human political and civil rights are indispensable, both for general humanitarian reasons and to guarantee the continuation or even augmentation of the international support that Sudan hopes to attract.

We have two concerns with respect to revenue mobilization. First, there is the possibility that the envisaged revenue increase coming from the new oil production could be used to finance military expenditures. Any increase in military spending from its already high level would be unacceptable, and monitoring of military expenditures should be part of the medium-term staff-monitored program. Second, the introduction of the value-added tax has been further delayed, despite the agreement between the federal government and the state on the revenue sharing formula. While this reform is related to delicate political issues, we would like the staff to reach a deeper understanding of the nature of the problem, to design alternative measures, and to avoid the reiteration of unattainable commitments.

We would like to stress the importance of rehabilitating agricultural infrastructure. As agriculture is the growth engine of the Sudanese economy, it is essential that more determined steps are taken to clarify the role of the public agencies that provide supplementary service to the irrigated areas, to review the plan to strengthen the commercial banking system, and to increase efforts to collect the necessary data to quantify the value of basic health and education services required in rural areas.

Ms. Vtyurina made the following statement:

Sudan's recent positive track record has made it possible for it to qualify for the MTSMP. We congratulate the authorities on obtaining this program. We also want to commend the staff on its efforts in designing the program. The program is ambitious, as has been recognized by the staff, especially in light of the uncertain external environment and very limited external support. The three-year time frame allocated for the program envisages various important reforms and we are pleased to see from the MEP that the authorities understand the absolute necessity to implement them. Since our last review of Sudan was just two months ago, I will be very brief and comment on social issues and on structural reforms in trade and privatization.

First, in the social sector, we welcome the authorities' intention to improve revenue-sharing mechanisms with the states, as well as the initiation of the poverty alleviation program; we believe that this process should be closely monitored. As to the statistics on social indicators, I have noted that the data on poverty, health and education provided in the staff papers for the past couple of reviews is not only deficient, but also rather old, dating back to 1996. We understand that there is substantial difficulty in collecting the data, however this should not be an excuse to overlook the seriousness of poverty and health conditions in the country. Newer data would be very helpful in assessing the reality of the situation. So far, the recent data provided by the outside sources suggests that the situation with poverty and health conditions in the south of the country, resulting from floods, famine and civil conflicts, is alarming, if not disturbing. A more elaborate description of the situation along with some statistics in the staff report would have been helpful. Given this, the role of the World Bank in monitoring the social issues is absolutely essential, and we hope that its technical assistance to Sudan will resume soon.

Secondly, the structural reform agenda is very comprehensive and ambitious. In the trade area, we welcome the substantial reduction in the tariff rates over time and further liberalization of the markets. However, as this Chair has previously emphasized, the reduction should be very careful and fully backed up by a stable revenue position. At present, it appears that the current revenue stance allows for only a very gradual reduction in tariff rates, and we urge the authorities to closely monitor this process. On the privatization reform, we commend the authorities for their commitment to the previously designed privatization program, and especially support the decision to concentrate on smaller units since the market sentiment for larger companies is not adequate. The desire to privatize all public enterprises is a welcome step as well, and hopefully will be done at appropriate prices.

Finally, we are pleased to see that the payments to the Fund are made as scheduled and commend the authorities for continuing their efforts to normalize relations with other IFI's.

With this, we wish the authorities success in addressing their new and old challenges.

Mr. Esdar made the following statement:

As other speakers, I welcome the improvements in economic performance achieved so far in Sudan. However, I also note that there are shortcomings, structural bottlenecks, and macroeconomic weaknesses, as well as delays in implementing agreed reform steps. Sudan is still in a fragile situation, and important reforms must still be completed.

The staff-monitored program provides an appropriate framework and I support its general thrust. I share the concerns with regard to the delayed introduction of the VAT, the data situation, the insufficient tax administration, and the cooperation between the central government and the regional entities on military expenditure. Even based on existing data, military expenditures amount to nearly one quarter of all fiscal expenditure, with extremely negative

consequences for investment in the social infrastructure. There has been a remarkable increase in military expenditure in 1998 and 1999, which demonstrates that without overcoming the security situation in Sudan, there will be no real, sustainable solution. On monetary policy, the central bank financing of the government must be reduced and enhancing the efficiency of monetary policy must be given high priority. I welcome the unification of the exchange rate and the liberalization in this regard. The flexible exchange rate must be the basis for the program, and there might be some depreciation forced by the markets. The remaining restrictions must be abolished as soon as possible. On the structural side, I am still concerned about the situation of the financial sector. It is difficult to get a clear assessment of what is going on there, and it might be an area where the World Bank's technical assistance could provide some insights. I strongly encourage the authorities to strengthen banking supervision.

With regard to the form of future cooperation between the Fund and Sudan, we are at an early stage of a staff-monitored program and it is too early to make an assessment today. That will be done in light of the performance under this program and the developments between the Sudanese authorities and other creditors. This program will guide us to 2001, so there is sufficient time to think about these issues.

Mr. Nemli made the following statement:

The Sudanese authorities are to be commended for their continued adherence to prudent economic policies and strict observance of the schedule of monthly payments to the Fund despite the painful external shocks of the past year. Sudan's performance has been characterized by a satisfactory growth rate, lower inflation, and improvement of the fiscal and external accounts.

But Sudan still faces formidable challenges. High and sustainable growth is needed to alleviate the widespread poverty. But Sudan's low fiscal revenues, lack of external assistance, seriously deteriorated infrastructure, weak financial system and limited administrative capacity will require great determination and perseverance to overcome.

In the fiscal area, the primary objectives should be to increase public investment and social outlays without jeopardizing price stability or external viability. In the absence of external financing, it will be vital to find ways of raising the very low level of government revenues. The tax base should be broadened through tax reform and eliminating exemptions. Introducing the VAT will be a key reform. The authorities should redouble their efforts to speed up this complex process and meet the new deadline without any further delays.

On the expenditure side, the policy of restraining non-priority spending should continue. The authorities are correct in deciding to increase developmental and social spending. Since the states are responsible for social outlays, it will be important to reform the relationship between the Federal and state governments. It would be useless to increase the funds allotted to social spending without making sure that the states make efficient use of the money

given them for this purpose. Military spending, which absorbs more resources than capital expenditures and social expenditures together, are still the major drain on the budget. Sudan's chances of making much progress with this vital reallocation of resources will be slight until a peace agreement can be reached putting an end to the civil war in the South.

I agree with the staff that the battle against inflation in Sudan is far from won, and that monetary policy must continue to focus on further reducing inflation and maintaining external viability.

Structural reform efforts should continue. Sudan should further liberalize the trade regime, reform the banking sector, improve the regulatory framework, and keep on with privatization efforts. Promoting private sector participation in all sectors, especially at the level of infrastructure, is an important way of ensuring sustainable growth in Sudan.

I urge the authorities to implement the macroeconomic and structural elements of the medium-term staff-monitored program fully and on time. This would make it possible to consider converting that program into a Rights Accumulation Program.

Mr. Melese d'Hospital made the following statement:

At this stage of the discussion, and as most of my concerns have already been raised, I would just like to go through and briefly second certain comments of previous speakers.

I think Mr. Nelmes, Mr. Collins, and Mr. Esdar hit the nail on the head in their comments regarding the importance of transparency and data provision issues, as well as on the balance between development and nondevelopment expenditures. I would also like to second the comments of Mr. Collins regarding unreported external financing, the length of the proposed staff-monitored program, and the risks of moral hazard in such a program.

I share Mr. Lehmussaari's views regarding the importance of increasing payments to creditors. Ms. Pinzani, I thought, spoke very eloquently on the importance of resolving the civil war and strengthening human political and civil rights. Finally, I would like to second the views of Ms. Pinzani and Ms. Vtyurina on the quality of data on social indicators, and of Mr. Esdar on the importance of avoiding further delays in implementation of agreed reforms.

Mr. Fujii made the following statement:

I am pleased to see the continued encouraging performance of the Sudanese economy under the 1998 Staff-Monitored Program (SMP). While we share concerns about the delay of structural reforms and the recent rise in inflation, the Sudanese authorities are moving in the right direction overall, with commitments to economic liberalization and a tight macroeconomic policy. Needless to say, tremendous challenges to its domestic economy remain to be addressed. Sudan also has unsustainable external debts owed to creditors, including the Fund. In order to improve relations with external creditors,

restoring and strengthening credibility in policy management is critical, and in this regard, the stabilization of the economy and wide-range structural reforms, including trade liberalization, privatization, and agricultural reform, need to be achieved. In this context, I welcome the start of the medium-term SMP, and strongly encourage the authorities to tackle these challenges decisively under the medium-term framework.

I broadly support the staff's policy recommendations, and will comment briefly on monetary and fiscal policies, for emphasis.

I fully agree with the importance of maintaining tight demand management. Tight monetary policy continues to be called for in terms of the recent rise in inflation. In addition, completing the developments of indirect instruments is important for conducting monetary policy more effectively.

On exchange markets, I encourage the authorities to enhance their efforts to deepen the exchange market and facilitate bank intermediation under the new market-determined exchange system.

On fiscal policy, fiscal consolidation should continue to be pursued so as to give more priority to development and social policies. The low revenue-to-GDP ratio clearly remains a matter of concern, and in this regard, revenue enhancement measures, such as decisive preparations for introduction of the VAT, and the strengthening of tax administration through the adoption of a unified tax payer identification number for large taxpayers, should be given high priority. Reducing discretionary exemptions is also important in light of not only broadening the tax base, but also for promoting investment over the medium term.

On the expenditure side, more efforts need to be made to enhance expenditure control and improvements in fiscal reporting, while increasing investment in infrastructure and the social sector. I join my other colleagues in hoping that a peace agreement on internal conflict will lead to a shift of resources from military expenditures to other priority outlays.

Regarding future cooperation with the Fund, I join Mr. Esdar and others in saying that we should focus first on monitoring development of this medium-term program as well as on normalization with other external creditors.

Finally, I welcome the onset of the payment to the World Bank, and I wish the authorities every success in their endeavors in the program implementation and normalization with external creditors.

Mrs. Hetrakul made the following statement:

I join other Directors in commending the Sudanese authorities for their recent achievements. It is encouraging to note that their commitment to adjust and reform has started to bear fruit. However, there is much to be done, and I urge the authorities to implement fully and expeditiously all of the



macroeconomic and structural measures envisaged in the staff-monitored program.

On the external debt issue, I welcome the authorities' agreement to start monthly payments to the World Bank and thus receive necessary technical assistance. This would enable the country to speed up structural reforms. The authorities should try to further normalize the country's relationship with other external creditors, to be able to soon move toward a rights accumulation program.

I encourage the authorities to persevere in their implementation efforts, and wish them success in their endeavors.

Mr. Kapteijn made the following statement:

I associate myself with comments of Messrs. Esdar and Nelmes.

Could the staff comment on reports of increased attacks on oil installations increased threats by the rebels on the oil pipeline? On the concerns expressed about data, my understanding is that the EIU estimated that inflation in 1999 would reach 30 percent, compared with the Fund's figure of 8 percent. In this light, I wonder about the weight of Khartoum in the inflation figures. The staff in 1998 said that Khartoum basically drives the inflation figures, however, in that year an internal government report suggested that inflation was 68 percent in Khartoum, which seems to stand at odds with the overall inflation figure in the staff report.

Mr. Nelmes said that he agreed with Mr. Esdar's suggestion that performance under the medium-term staff-monitored program should be assessed before making a decision on whether to consider a rights accumulation program.

The staff representative from the Middle Eastern Department said that there had been intensified fighting between government forces and the SPLA. The SPLA was targeting the oil-producing areas, although not the main ones or the pipeline, because full production had yet to start. The fighting in Sudan was somewhat seasonal, and the dry season was the high season for fighting. The government had denied that the SPLA had damaged the oil facilities, so it was difficult to tell whether the attacks would continue.

Regarding the inflation estimates of the Economist Intelligence Unit (EIU), the EIU had estimated that inflation would be 30 percent at end-1998, compared with the actual 8 percent according to the official index, the staff representative explained. While the EIU did have interesting information on political issues and was helpful in many respects, there was no actual collection of data. The EIU estimates for the last five years, for example, would show a remarkable appreciation in the Sudanese pound against the U.S. dollar, at a time when the terms of trade were weakening. The data in the staff report was entirely based on the middle income Khartoum index. Unfortunately, the delays in receiving the price data from the other parts of the country were so great that such data was not reliable and would not be useful for policy making purposes. The staff was not familiar with the 68 percent inflation figure and had not seen the relevant internal report referred to by Mr. Kapteijn. According to the official statistics, the average inflation for 1998 was 17 percent and the end-December figure was 8 percent.

Mr. Morais made the following concluding statement:

I thank Directors for their comments on Sudan, and the staff for their responses to questions and comments.

Almost everyone acknowledged the comprehensive progress in policy implementation made by the Sudanese authorities in the past three years. This shows their determination to maintain a disciplined macroeconomic policy stance, in spite of difficult circumstances. The policies laid out in the memorandum of economic policies are consistent with the program objectives. Those objectives are realistically ambitious, given the extremely large social and infrastructure demands on the budget. However, in the absence of external financing support, the adjustment effort has limits. The strategy to deal with Sudan's protracted arrears has delivered in terms of policies, but has failed to provide a medium-term road map for the country and to place it on a sustainable medium and long-term growth and development trajectory.

The Fund has yet to pursue more vigorously its cooperative strategy on overdue obligations and to give a clear indication of the time frame and the condition needed to convert the medium-term staff-monitored program into a rights accumulation program. The authorities are prepared to address the concerns of the donors and normalize relations with the creditor countries. I trust the Executive Board will continue to show flexibility in the cooperative approach in dealing with Sudan.

The Acting Chairman made the following summing up:

Executive Directors agreed with the thrust of the staff appraisal. They noted the significant progress made by Sudan, under very difficult circumstances, to begin reversing two decades of economic decline and to lay the foundation for improved macroeconomic management through price and exchange market liberalization and the elimination of subsidies, reinforced by tight demand management policies. As a result of these reforms, growth had remained robust and inflation had been reduced sharply.

However, Directors stressed that broader and deeper reforms were needed to achieve sustainable economic growth and external viability. In this regard, they underscored that strengthened demand management policies would be critical for lowering inflationary expectations and maintaining orderly conditions in the exchange market. Directors also encouraged Sudan to accelerate reforms in order to address major impediments to growth, in particular in the trade, financial, and social sectors, and to make every effort to improve relations with major creditors.

Directors welcomed the authorities' commitment to consolidating progress toward macroeconomic stability and creating conditions for a sustainable increase in savings, higher investment, and rising debt service payments. They noted that the authorities' medium-term staff-monitored program for 1999–2001 and efforts to improve creditor relations will help to

prepare the economy for the time when further support from creditors would be forthcoming, and the conversion of the staff-monitored program into a Rights Accumulation Program could be considered. This will only be achieved if the macroeconomic and structural measures are implemented fully and on time.

At the same time, Directors noted that the medium-term macroeconomic targets of the program were modest, with no growth acceleration and only slow improvement in the external position, but they saw this as realistic given the difficult conditions facing the country. Directors also acknowledged the risks to program objectives stemming from Sudan's high degree of vulnerability to terms of trade and other exogenous shocks, and from the limited technical assistance at present available outside the macroeconomic field.

Directors expressed concern about the recent rise in inflation, which needed to be monitored carefully. They urged the authorities to improve monetary control by using effectively the new debt instruments, to carefully manage bank liquidity by monitoring the movements of public entities' deposits at the Bank of Sudan, and to abstain from further reduction in the indicative Murabaha rates until demand pressures abate. Directors encouraged the authorities to preserve the market-determined exchange rate and to further improve the functioning of the exchange market. They noted that the recent significant depreciation of the real effective exchange rate had contributed to the strong growth of export volumes and private transfer receipts. Directors urged the authorities to strengthen banking supervision and prudential regulation. In this connection, they called on the authorities to work closely with the upcoming Fund technical assistance mission to evaluate the soundness of the banking system and identify the required corrective measures.

Directors welcomed the medium-term fiscal strategy aimed at increasing investment in the social and physical infrastructure and further reducing domestic financing. However, they noted that, despite the start of revenues from oil, substantial improvement in tax administration was needed to achieve the revenue goals. While acknowledging the administrative difficulties for the implementation of the value-added tax, Directors stressed the critical importance of introducing that tax and regretted the delay in doing so. They also emphasized the need to phase out exemptions under the Investment Encouragement Act, so as to broaden the tax base and improve tax revenue collection. The envisaged further enhancement of fiscal transparency and ongoing efforts to improve fiscal relations between the federal government and the states were welcomed.

Directors encouraged the authorities to reorient expenditures toward more productive uses. They stressed that a peace agreement, while not only desirable in itself, would also help to free up resources for expenditure on poverty alleviation and priority infrastructure. Some Directors emphasized the need for greater transparency on data, including on military spending.

Directors were encouraged by the ambitious transition to an open economy envisaged in the program. They called on the authorities to adhere to their commitments to reduce trade tariffs, remove the remaining non-tariff

barriers, phase out foreign exchange surrender requirements, and eliminate any remaining obstacles to commercial bank foreign exchange intermediation.

Directors found the strong response by the private sector to the structural reforms promising, and called for continued progress in privatization, agricultural deregulation, and human capital development. Directors expressed their concern that dire poverty remains widespread in Sudan, and encouraged donors to provide Sudan with technical assistance for improving social infrastructure and statistics.

Directors urged the authorities to continue making further progress in improving the quality, coverage, periodicity, and timeliness of statistics. In particular, stepped up efforts should focus on the substantial deficiencies in the collection of fiscal and social data from the states, which continue to undermine the formulation of appropriate social policies.

Directors noted Sudan's full adherence to the schedule of payments to the Fund in 1997 and 1998, and urged the authorities to maintain this performance in 1999 and beyond. They welcomed the authorities' commitment to make payments to the World Bank and other non-Fund creditors in 1999, and underscored the importance of Sudan reaching agreements with other creditors as soon as possible. They welcomed the technical assistance that could be provided by the World Bank as a result of the beginning of payments to that institution. Directors reiterated the expectation that any shortfall in payments to non-Fund creditors would be paid to the Fund.

Overall, Directors found that Sudan's performance under the staff-monitored program had been satisfactory, both in terms of policy implementation and payments to the Fund, despite a few delays in implementing structural measures. They strongly encouraged the authorities to persevere in implementing policies in accordance with the medium-term staff-monitored program (MTSMP) and to improve relations with creditors in order for consideration to be given to converting the MTSMP into a Rights Accumulation Program.

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

### **3. GUYANA—1999 ARTICLE IV CONSULTATION; ENHANCED STRUCTURAL ADJUSTMENT FACILITY—FIRST ANNUAL ARRANGEMENT—REVIEW, AND WAIVER OF PERFORMANCE CRITERIA; AND INITIATIVE FOR HEAVILY INDEBTED POOR COUNTRIES—COMPLETION POINT**

The Executive Directors considered the staff report for the 1999 Article IV consultation with Guyana, the midterm review under the first annual arrangement under the Enhanced Structural Adjustment Facility (ESAF), and Guyana's request for waiver of performance criteria (EBS/99/65, 4/28/99), together with the completion point document, prepared jointly by the staffs of the Fund and the International Development Association, on the Initiative for Heavily Indebted Poor Countries (HIPC) for Guyana (EBS/99/70, 5/5/99).

They also had before them a background paper on recent economic developments in Guyana (SM/99/97, 4/28/99).

The staff representative from the Western Hemisphere Department made the following statement:

This statement provides information on developments in Guyana that have become available since the circulation of EBS/99/65 (4/28/99).

Guyana has taken the prior actions envisaged in the program. Effective April 30, 1999, the customs valuation exchange rate was adjusted from G\$144 per U.S. dollar to G\$155 per U.S. dollar, and the maximum rate under the CARICOM Common External Tariff was reduced from 25 percent to 20 percent. The authorities have reaffirmed that steps are being taken to establish the new Revenue Authority by end-May 1999.

Total and domestic borrowing requirements of the nonfinancial public sector were well within the indicative targets for the first quarter of 1999. Preliminary information indicates that the overall balance of the nonfinancial public sector (after grants) registered a surplus of 0.3 percent of GDP (compared with the March indicative target of a deficit of 0.9 percent of GDP), reflecting mainly a slower than expected pace of project implementation. While the central government current surplus was higher than projected, the operating surplus of the public enterprises was below the projected level because of a temporary delay in sugar export shipments arising from a work stoppage. The Guyana Airways Corporation has been privatized, and the negotiations for the privatization of the electricity company have advanced and reportedly could be concluded by end-May.

The wage negotiations with the civil service unions have not been concluded. The government has increased its offer of a general wage increase from 3 to 4.6 percent while the unions continue to demand 40 percent (the program assumes a general wage increase of 6 percent). Work stoppages and demonstrations by public sector workers are proliferating and a prolonged general strike has been threatened.

Monetary policy was broadly in line with the restrictive stance envisaged in the program for end-March 1999. Relative to March 1998, broad money grew by 4.5 percent and currency in circulation rose by 8 percent, compared with 6.5 percent and 14 percent, respectively, projected in the program. Credit to the private sector rose by about 18 percent from end-March 1998, close to the increase of 18.5 percent assumed in the program. Because of the temporary delay in sugar export shipments, the Bank of Guyana rephased its purchases of foreign exchange from the first quarter to the second quarter of 1999. As a result, gross and net foreign assets of the Bank of Guyana fell US\$8 million short of the levels projected for end-March 1999. The Bank of Guyana has stepped up its foreign exchange purchases in May to be in line with the international reserve projection for end-June 1999.

Consumer prices rose by about 6 percent in the first quarter of 1999, with a 12-month increase of only 5 percent in March 1999 (the program

envisages a 5.5 percent increase for 1999 as a whole). The Guyana dollar depreciated from G\$165 per U.S. dollar at end-1998 to G\$179 per U.S. dollar at end-March 1999, but appreciated to about G\$176 per U.S. dollar by end-April 1999.

Mr. Portugal made the following statement:

My Guyanese authorities would like to express their appreciation to the staff for their constructive contribution to the discussions of the 1999 Article IV consultation and the midterm review under the first annual ESAF arrangement. They consider that the staff papers broadly reflect the discussions and understandings reached with the staff. The staff report indicates that the economy continues to perform well in the face of major domestic and external shocks that have threatened to reverse the significant achievements since the beginning of the decade. Despite these setbacks, my authorities are firmly committed to continue to strengthen the implementation of policies and reform to restore the growth achieved in recent years and to make a lasting impact on poverty reduction. In this regard, they expect the continued support of the international community and look forward to the Board's approval of the mid-term review under the first annual ESAF arrangement and the completion point under the HIPC Initiative that will allow them to manage the heavy burden of their external debt, and to invest in social programs to improve the living standards of the people of Guyana.

Guyana has made significant progress towards achieving sustainable growth, improving living standards, and reducing domestic and external imbalances. Since the early 1990s, my authorities have embarked on an economic program which has led to the removal of price controls, simplification of the tariff structure, liberalization of the trade and exchange system, rationalization of government operations through expenditure restraint, tax reform, privatization or restructuring of public enterprises, and enactment of legislation to strengthen the financial sector. GDP grew at an average annual rate of 7 percent. Inflation was reduced from 100 percent to 3.6 percent. The public sector deficit (before grants) was slashed from 15 percent of GDP in 1991 to 3.2 percent of GDP in 1996, while the current account deficit narrowed from 47 percent of GDP to 9 percent in the same period. More than 20 public enterprises were either privatized or liquidated. These results were achieved against a background of a growing debt burden, deteriorating economic and social infrastructure, an unacceptable unemployment level, economic dislocation among the most vulnerable in the society, declining international prices for the country's major exports, drought and, most recently, social unrest.

Following the poor economic performance of the 1980s, Guyana recorded its sixth successive year of economic growth in 1997, with real GDP growth reaching 6.2 percent. This was mainly the result of the dynamism exhibited by all sectors of the economy, in particular mining and quarrying, construction and agricultural sectors. Inflation was reduced from over 100 percent to single digits, the exchange rate stabilized, the public finances and the external current account deficit were substantially improved, and the

international reserves of the Bank of Guyana increased to over four months of imports.

However, in 1998, the economy continued to suffer from the lingering effect of the drought associated with El Niño, and a major collapse in the demand for and prices of its exports arising from the fallout in Asia. As a result, GDP declined by 1.5 percent. Sugar production and other important agricultural crops such as rice were adversely affected by the drought. Sugar production fell by 7.5 percent, while timber production declined by 22 percent. The slowdown in the main productive sectors also negatively affected the performance of the construction and service sectors. Notwithstanding this decline in output, my authorities were able to contain inflation to 4.6 percent, in line with the program. This performance is even more impressive when it is placed in the context of the impact of not only the drought and declining international commodity prices, but also on the pressure placed on domestic demand and investments as a result of the political turmoil following the 1997 general elections.

In 1998, the overall fiscal deficit (before grants) declined from 8.5 percent to 5.1 percent of GDP, compared to a programmed deficit of 2 percent. The program target for the fiscal deficit could not be met owing to a sharp revenue shortfall of 4.5 percent of GDP owing mainly to the downturn in the economy and the less-than-targeted operating surplus of the state enterprises sector. The authorities were able, however, to offset part of this revenue shortfall by cutting back expenditures by 1.6 percent of GDP. In fact, public expenditures were reduced by more than envisaged in the program (from 45.1 percent of GDP in 1997 to 40.4 percent in 1998, compared with 42 percent in the program). In addition, to avoid the inflationary impact of the higher-than-programmed fiscal deficit, the Bank of Guyana kept the growth of currency in circulation below the program level by reducing its holding of foreign reserves. As a result, and because of lower inflows of programmed loans, the central bank was unable to meet the programmed limit on its net domestic assets.

In the external sector, the impact of the El Niño effect coupled with declining international commodity prices resulted in a sharp decline in exports. In particular, sugar exports declined by 2.9 percent, gold exports fell by 9.2 percent, while bauxite, rice and timber exports declined by 12.9 percent, 13 percent, and 23 percent, respectively, all in value terms. This fall in exports was mostly offset by lower-than-projected imports owing to declining oil prices and depressed domestic demand. As a result, the current account deficit fell to 13.5 percent of GDP, marginally higher than programmed. However, the programmed surplus on the capital account was not achieved owing to delays in disbursements of US\$36 million (5 percent of GDP) from multilateral institutions. As a result, the increase in net foreign assets of the Bank of Guyana as well as the build-up in gross and net official reserves were less than targeted. Under these circumstances, the Guyanese dollar depreciated from G\$144 per U.S. dollar at end-1997 to G\$165 per U.S. dollar at end-1998, a depreciation of 9 percent in real effective terms.

Notwithstanding these setbacks, my authorities undertook substantial structural reforms in 1998 aimed at enhancing the efficiency of the public sector, creating a more attractive business and investment environment, including the acceleration of the privatization program, and enactment of legislation to strengthen the financial sector, specifically the Bank of Guyana and the insurance and securities sectors. Reforms in the civil service were substantially completed and work is ongoing to complete the remaining components. Furthermore, my authorities increased social spending from 8.5 percent in 1997 to 9.5 percent of GDP in 1998, half of a percentage point more than in the final HIPC Initiative document. In an effort to ease the burden on the most vulnerable groups in the society, my authorities also enhanced the health care delivery system and strengthened community development programs aimed at reducing the incidence of poverty.

Real GDP is programmed to increase by 2 percent while inflation is expected to reach 5.5 percent mainly as a result of the pass-through effect of the recent currency depreciation. My authorities are committed to maintaining fiscal discipline complemented by sound monetary policy. They will continue the structural reform program with a view to creating an economic environment whereby the government will act as the facilitator and the private sector as the engine of the growth process.

The 1999 fiscal program envisages an overall public sector fiscal deficit (after grants) of 3 percent of GDP with total revenue targeted to increase by half of a percentage point of GDP. The critical components in achieving this target are the recent increase in the customs valuation exchange rate by 7.5 percent, the proposed establishment of the Revenue Authority, and the projected increase in the operating surplus of the public enterprises sector. Despite the passage of legislation and the adoption of the required administrative measures, the establishment of the new Revenue Authority has been held up by a court injunction since June 1998. My authorities have indicated that if there continues to be delays, legislative steps will be taken to bring it into operation.

Total expenditure is targeted to rise by 4 percentage points of GDP owing to increased social sector spending and civil service reform under the program supported by the HIPC Initiative, increased domestic interest payments, and an expanded capital program. The fiscal deficit is expected to be more than covered by already committed concessional loans and privatization receipts.

My authorities have indicated that the higher-than-programmed wage bill in 1998 (8.4 percent of GDP compared to the programmed level of 8.2 percent of GDP) did not significantly impact the targeted expenditure level because of the larger than expected attrition rate achieved in the public sector, continuing a process which has reduced employment in the public sector by 45 percent since 1991. The spill-over effect of the additional salary increase into 1999 is expected to be dampened by further attrition which is expected to further reduce central government employment by around 3 percent. The authorities have indicated that they will continue to pursue careful policies



regarding wages in the public sector, and they emphasize that wage increases will be limited to those agreed in the program.

Monetary policy will be guided by the need to achieve inflation and international reserves targets while maintaining the stability of the exchange regime. My authorities have also recently liberalized the weekly treasury bill auction and reduced the commercial banks legal reserve requirement from 15 percent to 12 percent. To contain the increase in liquidity as a result of the decline in the reserve requirement, the Bank of Guyana will intensify open market operations in 1999. The 1999 program will also allow an increase in credit to the private sector of 12 percent, enough to easily accommodate the projected increase in economic activity. Growth in broad money is expected to be slower than that of nominal GDP.

The external current account deficit is expected to level off to that of 1998 as the external terms of trade stabilize. The inflow of capital is programmed to be marginally more than in 1998, given the steady levels of foreign direct investment projected for mining and forestry sectors. The overall external account is programmed to be in virtual balance while gross official international reserves are projected to reach 4.3 months of imports, and the debt-service ratio is expected to fall to 14.9 percent.

My authorities intend to undertake critical reform measures in 1999 aimed at enhancing private sector participation in the economy and improving the efficiency of the public sector. The structure of GUYSUCO will be further rationalized with a view to making the operations of the company more cost effective and competitive. Also, the government has received the commitment of the Booker-Tate management team at GUYSUCO for the introduction of semi-annual benchmarks related to reducing unit costs of production. My authorities are also committed to implementing the recommendations of the actuarial review of the National Insurance Board. Additionally, new legislation will be tabled to enhance transparency and accelerate the implementation rate of the capital program. My authorities are pleased to report that the privatization of the National Airline is now completed, well ahead of schedule.

The medium-term program incorporates the effects of recent domestic events as well as the volatile external environment. Real GDP growth is expected to average between 3.5 and 4 percent over the medium term while inflation is projected to fall to 3 percent by 2003. The overall fiscal deficit (after grants) is targeted to decline consistently over the programmed period allowing for a concomitant decline in the ratio of public debt to GDP. The external current account deficit is expected to improve over the medium term which, coupled with the proposed HIPC Initiative relief, would reduce the external debt service ratio to 8.5 percent of exports of goods and non-factor services by 2003. Also, the assistance provided under the HIPC Initiative would permit the continuation of the much-needed increase in social spending. The 1999 program envisages a sizable increase in current expenditure on social sectors and civil service reform in line with the Final Document on the HIPC Initiative. My authorities are absolutely committed to achieving the spending targets for education, health, and poverty alleviation envisaged under the HIPC Initiative.

My authorities request that the quantitative performance criteria that were not met be waived. They wish to assure the Executive Board that the adverse domestic and external factors have not diminished their resolve to persevere with the growth-oriented reform and adjustment program. They are committed to achieving the targets identified in the LOI and the provisions under the ESAF arrangement. Guyana is committed to fully implementing the proposed program, but support from the Fund is critical to the final outcome.

Mr. Collins made the following statement:

Over the last nine years, Guyana has made significant progress in economic stabilization, structural reform, and poverty reduction. This has been achieved despite recent political uncertainties, the adverse effects of El Niño and weak commodity prices, and the negative impact of the Asian crisis. Difficult challenges lie ahead, as is clearly evident from the staff documents. But the government's commitment to economic reform has been, and remains, strong.

We therefore welcome the achievement of the completion point under the HIPC Initiative. This is much deserved, and we are confident that Guyana will use the resources released by the debt relief for further strengthening of anti-poverty policies. We therefore support the Fund participating in debt stock reduction, and we urge all other creditors, including, and in particular, the Paris Club, to move ahead with all speed on their delivery of debt relief.

As the staff paper makes clear, HIPC Initiative assistance will reduce the ratio of the NPV of debt-to-exports to 115 percent, within the targeted range of 97 to 117 percent. HIPC Initiative assistance will not, however, be enough to deliver the fiscal sustainability of debt as currently defined under the existing HIPC Initiative structure. The ratio of the NPV of debt-to-revenue at completion point will be 410 percent, well above the 280 percent deemed sustainable. This is a serious concern. However, while we should not endorse a preventable decline in revenues, much of the problem in Guyana's case can be ascribed to factors outside the control of the authorities.

In the context of the HIPC Initiative review, we have always favored a reexamination of the fiscal thresholds—and Guyana's experience is a case in point. We would therefore fully support amendments to the HIPC Initiative that would prevent this situation from recurring. We also believe that actions must be taken to address the situation in Guyana. This includes applying changes made to the Initiative retroactively, and providing further assistance if necessary between now and the point when these changes are agreed upon.

Augmented access to ESAF-sponsored program resources should be used to provide additional assistance in the interim period if necessary. However, further use of ESAF-sponsored program resources should be in addition to, and not instead of, the debt relief required to reduce Guyana's debt to a sustainable level. Although the ESAF-sponsored program is highly concessional, it still results in the unhelpful build up of further external debt in future years.

Turning to the programme itself, we welcome the strong commitment to basic education and poverty reduction, and strongly endorse the need to adhere to clear targets for social sector spending. Resources must be allocated in the most efficient way possible, with due regard to capacity constraints, to ensure the strengthening of the health and education system which underwent a significant decline in the 1980s.

In the light of Guyana's fragile fiscal position, we also welcome the authorities' commitment to restrain public sector wage increases to something close to the projected rate of inflation for 1999, and we trust that the excuses of the previous year will not be allowed to recur. This must, however, go hand in hand with more ambitious efforts to rationalize the civil service. Some progress has been made, and the number of civil servants has already declined. There is, however, more to be done. The new remuneration structure for managerial, professional, and technical positions also needs to be completed quickly in order to help build capacity within the government.

It should be acknowledged that the projected privatization programme is ambitious, and may not be met, given that the more difficult enterprises are now the focus of the privatization effort. More generally, the development of non-traditional industries is crucial for medium-term growth, and the government needs to concentrate on improving the overall climate for business.

Finally, during the discussion at Guyana's decision point at the end of 1997, we expressed concern about Guyana's weak debt management capacity. We therefore welcome the fact that, over the last year, Guyana has been an enthusiastic participant in Debt Relief International's Capacity Building Programme in debt management, which has resulted in important improvements in this area.

Mr. Morais made the following statement:

The staff report points to a mixed performance under Guyana's first year arrangement under the ESAF-sponsored program, largely reflecting a difficult combination of adverse developments including drought, a decline in the demand for and prices of the country's major export commodities, and civil disturbances that hampered government activities and seriously weakened business confidence. Economic growth which had averaged 7 percent annually during 1991-1997 turned negative in 1998, public sector deficits increased, reversing earlier gains, and the external current account widened quite significantly compared with its 1996 level. Along with the decline in macroeconomic performance, the end-December 1998 quantitative performance criteria in respect of net borrowing requirement of the nonfinancial public sector and net foreign domestic asset as well as the respective sub-targets were not met.

While the response by the authorities proved inadequate to address the overall deterioration in the economic environment, the actions taken were consistent with a continued commitment to the reform process. Public sector revenues fell short of the programmed level by about 4.5 percent of GDP in 1998 reflecting the lower level of economic activity and the deterioration in tax

administration associated with civil disturbances. In the effort to offset the revenue decline, the authorities cut back expenditure by about 2 percent of GDP below the programmed level—a reduction of 4.5 percent compared with 1997. Broad money growth remained moderate and this helped to keep inflation close to the programmed target level. In addition, Guyana implemented most of the 1998 structural reform agenda aimed at strengthening the financial sector and improving the business environment. These included the restructuring of the ministry of finance, review of public service rules and the far-reaching progress made toward privatizing several public enterprises. Also, important steps were taken to improve the operation of the state-owned sugar company (GUYSUCO). In the financial sector, the authorities recapitalized the Bank of Guyana and took decisive steps to address the problems of the state-owned Guyana National Cooperative Bank.

The staff in their statement issued today, confirm that the Guyana has taken the prior actions envisaged under the 1999 program, while the broad macroeconomic trends reported appear encouraging. They also note that the state airline has been privatized, while the privatization of the electricity company is nearing completion. Based on these indicators of commitment to the program and Guyana's past record of policy implementation, we support the request for a waiver of the unobserved performance criteria and the completion of this review.

The authorities are taking a realistic approach to the adverse shift in the external environment now facing Guyana and have accordingly taken further important steps toward putting their adjustment reform process back on course. In this regard, it is appropriate that the government's 1999 program places primary emphasis on consolidating public finances and building up of public sector deposits. Given the political difficulty of implementing new tax measures and the limited scope for expenditure reduction in the short run, the success of this strategy will require significant improvements in tax administration, further reduction in the drain on public resources by loss-making public enterprises and, the maintenance of an appropriate restraint on public sector wage increases. It is also essential that the authorities stick to a tight monetary stance, aimed at achieving the programmed targets for inflation and international reserves, while fostering stability in foreign exchange market. Here, we note the important improvements in the conduct of policy, as outlined by Mr. Portugal in his comprehensive statement.

We welcome the progress made in raising social expenditure in 1998 and the commitment to increase such expenditures further in 1999. In view of the shortfall in allocations to the health sector in 1998, we are encouraged by the steps being taken to address the problems of transportation, storage and procurement procedures that have hampered progress. We urge the authorities to ensure the timely realization of these improvements in supporting infrastructure and administrative arrangements.

We also welcome the intention to accelerate and further deepen structural reforms in 1999 with a view increasing private sector participation in the economy and improving the efficiency of the public sector. This has become a more urgent priority in view of the significant deterioration of the

external environment and the medium term growth prospects. In the area of privatization, the authorities seem poised for major advance, given that several public enterprises were brought to the point of sale in the course of last year. Also important is the planned restructuring of the Guyana National Cooperative Bank (GNCB), the continuation of the civil service reforms and the plans for tax and government procurement reforms.

Turning to Guyana's completion point document under the HIPC Initiative, we want to thank the staff for the clear and balanced staff report, which further underscores the importance of the ongoing effort to strengthen the ESAF-sponsored program framework, in order that it can deliver robust debt sustainability. Two issues stand out clearly in this report. First, is the extreme vulnerability of open economies such as Guyana which are highly dependent on commodity exports and concessional external financing. Indeed, in Guyana's case, the recent shocks have considerably lowered growth prospects over the next several years. Moreover, staff simulations point to the possibility of substantial deterioration in debt indicators under plausible assumptions about adverse developments affecting its sugar exports and import demand elasticities. This clearly points to the need to pay greater attention to these countries' vulnerabilities in the ongoing initiative toward strengthening the HIPC Initiative framework. The second issue that stands out in this case is the inherent weakness of the fiscal criteria for the HIPC Initiative as presently specified and indeed, the weakness of the existing debt ratios. In Guyana's case, the change in the government's revenue outlook has been such that HIPC Initiative assistance will not deliver fiscal sustainability until at least 2007; it would take longer still if more recent levels of the exchange rate is used.

Both of these findings point to the need to give more consideration in the HIPC Initiative framework to ratios that are more directly tied to social and poverty indicators. Again in this case, there is no question that the resources released from debt servicing by the HIPC Initiative relief—estimated at 3.5 percent of revenue during 1999–2003 and 2 percent of GDP during 2004–2009—will support substantial additional social expenditures and poverty reduction efforts. However, they clearly will not go far enough. With a population below poverty line at 43 percent, Guyana is going to need more resources in order to come close to the OECD's Development Assistance Committee social and poverty targets.

In line with our views above, we support a reconsideration of Guyana's eligibility for additional assistance under the revised framework under discussion, in line with the consensus on the Board. We would also strongly support the suggestion, in the context of the review of the Initiative, that the staff carefully reexamine the fiscal/openness criteria, with a view to ensuring that fiscal sustainability would be achieved when assistance is delivered at the completion point.

Mr. Oyarzabal made the following statement:

Setting aside the difficult circumstances which Guyana faced on the macroeconomic front in 1998, the performance of the country has improved

substantially since 1990. The results in reaching an annual average growth of GDP from 1991 to 1997 of 7 percent is significant.

The drop in inflation and the stability of the Guyanese dollar were achievements leading in the right direction. The efforts to reduce the public sector deficit, taking into account expenditure restraints, reduction in public sector employment, and sizable increases in the revenues to GDP ratios taken together created an image of strength in the economic base for debt sustainability and growth in the future. The policies implemented by the authorities from 1990 to 1997 also helped to strengthen the external balance until 1997. All of these elements translated into significant progress in reducing macroeconomic imbalances. On the other hand, important structural reforms were implemented related to the elements of price controls, liberalization of external trade, the simplification of the import tariff structure, privatization, rationalization of other public enterprises and the reorganization of the Bank of Guyana. The situation in 1998 which changed dramatically appears to originate basically on exogenous factors related to El Niño which affected major exports, weak commodity prices and civil disturbances.

Although important efforts were made by the authorities, the goal of overall public sector deficit was not met. The authorities in general cut back expenditures, yet responded to pressures by increasing salaries by amounts above those envisaged in the program. The central government's action in carrying out its program for basic education, health and poverty alleviation, somewhat above the targeted 9 percent of GDP, is a welcomed sign that in the medium and longer term will have a favorable effect. On the structural side, I welcome the restructuring of the Ministry of Finance and the review of the public services rules, yet it would be extremely important that the reform of the civil service, as well as the privatization of the electricity company, be implemented in the short run.

Taking note of the commitment of the authorities on the medium-term economic objectives, the efforts to improve tax administration and the efficiency of the tax system, are welcome. The role of the wage bill appears to be a crucial element in achieving the fiscal objectives. Monetary policy, being of a restrictive nature, should be instrumental in helping to achieve the inflation and international reserve targets. In this respect, open market operations of the Bank of Guyana should support the attainment of these objectives. Care must be taken that the banking system does not deteriorate and, judging by the ratio of loan provision to non-performing loans, as well as the average capital adequacy ratio, the authorities are acting in a prudent manner. In any case, banking supervision should be well maintained.

I agree with the staff when they emphasize the need to consolidate further the public sector finances, control the growth of the wage bill, reduce tariff protection, and the need to address the main weaknesses in the banking system.

It seems clear from the staff papers at hand that there is limited scope for further expenditure reduction in the short run. Based on the political situation, implementing new taxes would probably meet with strong opposition.

One could say that the authorities did not initially respond effectively to the deteriorating economic environment. Now, they are taking a realistic approach in dealing with their adjustment reforms. Based on their actions, and their past record, I support their request for a waiver of the non-observed performance criteria.

One issue that stands out in both staff papers, the Art. IV and the HIPC Initiative documents, is the extreme vulnerability of the economy of Guyana. Its dependence on commodity exports and the lack of domestic savings are good examples of this situation. The staff's appraisal of possible weaknesses in debt indicators relating in part to sugar exports requires attention. One could probably make the case of the significance of greater support up front to address the issue of fiscal sustainability and social concerns that might have made a difference in mitigating, to some extent, Guyana's economic vulnerability.

In closing, I would like to support the proposed decisions and wish the authorities success in the challenges they have at hand.

The staff representative from the Western Hemisphere Department said that management had received a side letter from the Minister of Finance on the wage issue. The letter of intent (LOI) included a general reference to the agreement on the wage bill and references to the authorities' intention to take some offsetting measures in case of a wage overrun or any other fiscal deviation from the program path. In the side letter, the authorities had reiterated their commitment to that course of action and clarified the measures that they would take if needed.

Mr. Portugal said that the Minister of Finance had asked him to reassure the Board with regard to the wage policy. The negotiations on a potential wage increase had started with an offer of a 3 percent increase and the minister had made a second offer of a 4.6 percent increase. The authorities were facing a difficult situation given the two-week strike in the civil service, but the authorities were determined to maintain their commitment in the program. A number of services were being operated on a volunteer basis, such as hospitals,

The authorities were agreeable to publicizing a PIN, Mr. Portugal remarked. They had also agreed to the publication of the LOI as soon as the wage negotiations were finished, as the LOI contained indications of the maximum level of wage increase that the authorities were willing to allow, a figure which should not be disclosed in the middle of the negotiations. Once those wage negotiations concluded, the minister would agree to disclosing the LOI.

Mr. Ioannou made the following statement:

In deciding whether Guyana has reached the completion point under the HIPC Initiative one has to assess Guyana's progress in terms of the four conditions set out at the decision point. Our assessment of Guyana's performance in this regard leads us to believe that the above conditions have been broadly met. Regarding the completion of the midterm review under the new ESAF-sponsored program arrangement, we note that Guyana has failed to meet three performance criteria. However, in light of the unforeseen circumstances which the country experienced, we are willing to grant waivers. We would also like to stress that we recognize with some concern the slippages

observed in the fiscal area and encourage the authorities to step up their efforts so as to ensure compliance with program targets. The room for adjustments in the fiscal area is clearly slim as expenditure cuts are constrained on the one hand, by the high debt service burden and on the other hand, by the objective to reduce poverty and improve basic health and education, as envisaged by the HIPC Initiative.

Although the objective of the HIPC Initiative is to reduce the external debt burden of poor countries to sustainable levels, (through a coordinated action by the international financial community), we note with concern that debt sustainability measured by the fiscal indicator would not be attained even after HIPC Initiative relief is provided. This raises the question what, if anything, should be done to address this problem. One possible option might be to increase assistance under the HIPC Initiative to ensure that the NPV of debt would be further reduced. Clearly, this outcome would be inappropriate if the non-sustainability of the debt to revenue ratio was owing to policy slippages. Simply providing more assistance to recipients would send the wrong signal that the more slippages a country commits the more it benefits from the initiative. In our view, in instances where policy slippages lead to an accentuation of the debt problem it may be appropriate for the completion point to be delayed until revenues are raised to a level that the ratio of NPV to revenues conforms to the target set at the decision point.

In the case of Guyana, we feel that consideration of additional assistance at this point in time may be premature. Rather, we encourage the authorities to engage in a thorough review of their entire tax system and we welcome early technical assistance by the Fund in this field. Furthermore, we should not prematurely ascertain that additional HIPC Initiative assistance for Guyana would be forthcoming following a general review of the HIPC Initiative. Such a position would simply increase the likelihood that the government may become more relaxed in implementing its fiscal policy and specifically in resisting wage demands. We also view with caution suggestions for providing other assistance as an alternative to HIPC Initiative relief. Clearly, ESAF-sponsored program assistance is not meant to be an alternative of debt relief under the HIPC Initiative and substituting HIPC Initiative assistance with other loans does not address satisfactorily the structural nature of the debt problem.

With these remarks, I support the proposed decision.

Mr. Zurbrügg made the following statement:

The staff paper presents us with an extremely worrisome situation in Guyana. In our discussion last July, we were under the impression that the slippages that had occurred toward the end of 1997 were of a temporary nature. This was a reasonable assumption, given the strong track record of the authorities under the previous three-year ESAF arrangement. This track record was also a determining factor for our decision to allow Guyana to benefit from an exceptional shortening of the second stage to one year under the HIPC Initiative.



Unfortunately, since our last discussion further policy slippages have occurred and the economic situation has deteriorated significantly. The estimate for real GDP growth in 1998 has been revised downward by an impressive 4.6 percentage points. Following a long period of sustained growth, a negative rate for real GDP per capita is a discouraging phenomenon. This, together with the only gradual resumption of growth, will hamper the authorities' already difficult endeavor to alleviate poverty in Guyana. While exogenous factors contributed significantly to this deterioration, the policy slippages have compounded the difficult situation.

Like in the past, the slippages occurred in the area of fiscal policy. While the structural performance criteria were met, the large fiscal deficit in 1997 stemming from previous slippages could not be corrected. We are now faced with a situation, in which many performance criteria for end-1998 have not been met. Furthermore, the risk for future slippages remains large, given the uncertainties in the domestic political situation.

My major concerns are the following. The key assumption in the 1999 program, namely restraint in public wage policy, is on fragile ground. The staff acknowledges this risk. It is also frank as to the feasibility of implementing offsetting fiscal measures in the case of a large wage overrun. I fully share this concern. Given the significant reduction in expenditure that has been necessary in the past year to contain the deterioration of the fiscal balance, it is difficult to see where additional cuts could be envisaged as contingency measures.

The pressures on expenditures could seriously endanger the goal under the HIPC Initiative to provide more budgetary resources for the social sector. While I welcome the fact that like in 1998, the budget for this year allocates a higher amount of resources to the social sector than anticipated in the HIPC Initiative documents, such an allocation will prove to be extremely difficult to implement under the current circumstances. Furthermore, as pointed out in the HIPC Initiative document, the large increases in allocations have already severely strained the authorities' capacity to channel the resources effectively. It is unclear to me, if the planned measures will allow for a better result this year.

Many of the planned revenue-enhancing measures are characterized by a high degree of uncertainty. The establishment of the Revenue Authority is still unclear and the effective privatization of many public enterprises still has to take place. As experience in other countries have shown, finding buyers can take time. Furthermore, finding strategies to reduce budgetary transfers to these enterprises in case they cannot be sold will prove to be a daunting task.

On the whole, the program is characterized by high downside risks.

In the context of HIPC Initiative assistance, Guyana poses a serious problem. Here we have a country that was eligible under the fiscal window, with the aim at reducing its debt-to-revenue ratio to 280 percent. Given the deterioration of the macroeconomic framework, Guyana would now have a ratio of 410 percent after HIPC Initiative assistance. Clearly, this is not sustainable and definitely does not provide the country with an exit strategy from debt overhang. The staff is understandably uncomfortable with this

outcome, but proposes to go ahead, in order to avoid further delays in providing debt relief. While I agree that we should not wait for possible modifications of the current HIPC Initiative framework in the hope of higher disbursements, I am concerned by the fact that we will be providing scarce HIPC Initiative resources, intended to shift strong performers once and for all into a sustainable debt situation, to a country with an unstable situation and outlook as in the case of Guyana.

Fiscal sustainability is key to achieving a permanent exit from excessive indebtedness. Granting HIPC Initiative assistance in a context of serious policy slippages puts the credibility of the whole HIPC Initiative process into question. I am concerned that by accepting the completion point for Guyana we may not be sending the right signals, neither to other HIPC Initiative candidates, whose reform incentives would be undermined, nor to donors that agreed to the HIPC Initiative with the understanding that it provided a permanent exit from debt overhang.

Based on these remarks, I cannot support the proposed decision. The completion of this review and the disbursement under the HIPC Initiative should be postponed until the program has been put on a more solid footing.

Mr. Jozs made the following statement:

Given Guyana's strong nine-year track record of policy implementation, I can agree to the waiver of performance criteria for the midterm review of the first annual arrangement of Guyana's new three-year ESAF arrangement.

Guyana's performance was impaired by weak commodity prices, shrinking Asian demand for its exports, a drought resulting from El Niño, policy slippages such as the public sector wage increases accepted last year, and the uncertain business climate resulting from tensions between Guyana's two major parties since the last elections. While quick to adjust their macroeconomic policies to offset these setbacks, and successful in keeping their ambitious structural reform program on track, the authorities could not help missing important performance criteria consisting of fiscal, monetary, and foreign reserve accumulation benchmarks. The authorities' determination in the face of these adversities clearly merits a vote of confidence from us in the form of approving completion of the mid-term review of the new three-year ESAF arrangement, which will trigger debt relief under the HIPC Initiative.

Guyana's case shows that the HIPC Initiative does indeed need to be enhanced if it is to offer a true exit from repeated debt rescheduling. Even after debt relief under the current HIPC Initiative, the ratio of the NPV of Debt to fiscal revenues will still be 410 percent, and the current account deficit will still be over 10 percent of GDP in 2003. Quite clearly, the present HIPC Initiative framework of the HIPC Initiative cannot put Guyana's economy on a sustainable path. I agree with the staff's suggestion that Guyana should now be given the assistance it is due under the present HIPC Initiative framework, and that its performance under the remaining two years of the present ESAF arrangements should be the basis of a later reexamination of its eligibility for additional assistance under the enhanced HIPC Initiative.

Guyana's past performance under ESAF-sponsored programs seems to bode well for future performance, though it must be admitted that the resurgence of social tensions since December 1997, most recently manifested in the general public sector strike of the last two weeks, has caused me to question the authorities' ability to continue performing well. An agreement on constitutional reform this summer would greatly boost investor confidence and spur investors' interest in the state-owned enterprises currently being offered for sale.

I generally agree with the 1999 program envisaged by the authorities. The discussion between the staff and the authorities on the second annual ESAF-sponsored program prompts me to offer the following suggestions.

The practice of calculating import duties based on periodical administrative revisions of the exchange rate should be replaced by basing the calculations based on the market exchange rate for the day of the transaction, as in most countries. There is no merit in continuing this administrative practice, which must place the Minister of Finance in an awkward position whenever the administered change in the exchange rate produces an increase in import duties.

The new and welcome spending targets for education, health, and poverty alleviation should be set, as far as possible, in terms of desired outcomes rather than spending levels. Allocating a specified fraction of public spending to health, education, and other desired social purposes in a way guarantees that the resources will be spent effectively in a manner benefitting the poorest. Civic organizations representing the poorest should be consulted to verify that the substantial resources allocated to human development reach the poorest groups, and to obtain the advice of these organizations for making sure they do.

The open-minded approach of the authorities to the fate of the state-owned bank GNCB (retaining state ownership, privatization, or liquidation) should be extended to the three remaining public nonfinancial enterprises. Some of them, such as the sugar monopoly GUYSUCO, still account for a major share of GDP, and their privatization could significantly improve resource allocation in Guyana.

With these remarks, I wish the authorities well in meeting the many challenges that they face.

Mr. Lehmussaari made the following statement:

In our previous discussion on Guyana in July 1998, there was some cautious optimism regarding the possibility of implementing a successful program in Guyana, despite some slippages in the fiscal area that had occurred earlier in the year. The program at that time was considered quite ambitious; now we know better. That program aimed at a growth rate of 3 percent of GDP in 1998, 4.5 percent higher than the actual outcome. More importantly, the program overestimated the volume of export growth by 10 percent. Against this background, let me address some specific issues raised in the staff papers.

Regarding the request for waivers of the performance criteria for end-1998 under the current ESAF arrangement, there were major deviations under the program in 1998 as a result of the exogenous shocks and policy slippages. As a result, several quantitative performance criteria were not observed. Moreover, although all structural performance criteria were observed, the civil service reform and the privatization of the electricity company were not implemented in 1998 as envisaged in the program. Nevertheless, and despite some concern, we are ready to support the request for the waivers under the ESAF-sponsored program review.

On the prospects for the program, Guyana faces difficult political challenges that could continue to damage the implementation of policies and undermine investor confidence. Moreover, as noted by the staff, the government's ability to contain wages is also seriously at risk. This is reflected in the ongoing labor strikes and demonstrations in the country in connection with public sector pay demands that are far above those envisaged in the program. This is a great concern; taking into account the fact that the wage policy plays a critical role in the success of the program, I would have preferred to see this discussion take place after the wage discussions were completed. Meanwhile, I welcome the additional information provided by the staff regarding the wage negotiations.

Regarding the conditions for reaching the completion point under the HIPC Initiative, while Guyana was a good performer up to the decision point, the performance since then has been questionable. With the benefit of hindsight, one wonders whether a two-year interim period might not have been preferable. Nevertheless, my authorities agree that Guyana has satisfied the conditions for the completion point.

I attach great importance to the link between debt relief and poverty reduction and social policies. The close monitoring of social expenditures under the current ESAF-sponsored program is important. With this in mind, I note that Table 3 in the current HIPC Initiative document provides important information on social sector expenditures. These expenditures are projected to increase by 2 percent of GDP from 1999 to 2002, while the resources released from debt servicing by the HIPC Initiative relief amount to 3.5 percent of GDP on average per year during the same period. The addition to the social sector expenditures appears to be substantially lower than the resources released by the HIPC Initiative debt relief. Perhaps the staff could elaborate on the planned uses of those additional resources released through the Initiative.

We are deeply concerned about the fact that debt sustainability, measured by the fiscal indicator, is not expected to be achieved at the time of the completion point. Moreover, I am concerned by the signal that may be sent by granting Guyana debt relief at this point, when it appears that that relief is not sufficient to deliver fiscal sustainability as defined under the Initiative. Nevertheless, on balance I can support the staff's reasoning on the disadvantages of delaying this important decision.

Mr. Newman made the following statement:

Guyana's policy track record since the December 1997 decision point has been disappointing and contrasts sharply with the substantial progress achieved under earlier programs. In particular, the authorities' response to the deterioration in the external environment and the political situation has led the country to miss the quantitative performance criteria under the ESAF-sponsored program and will leave the economy with a level of debt far in excess of the sustainability targets envisaged under the HIPC Initiative. We are concerned that the proposed modifications to the program will not put the economy fully back on track and create uncertainties regarding the authorities' continued commitment to fundamental reform.

We recognize that the deterioration in the external environment contributed to slower growth which adversely affected revenues. However, policy slippages, including the failure to implement key commitments under the ESAF-sponsored program, made a difficult situation even worse. Thus, failure to put into operation the Revenue Authority provided for in the program contributed to further compliance problems and continuing revenue losses. We are pleased to see that the Revenue Authority is expected to become operational by the end of this month, but would note that this is almost one year past the date the Board was informed it had become operational. As important, the program targets on public sector wage increases were not adhered to, as excessive wage increases were agreed to in response to political disturbances. As a result, the budget deficit before grants was almost 9 percent in 1997, and is projected to be roughly the same level in 1999. The wage increases also exacerbated the problem of wage compression among low and higher skilled labor, in direct conflict with the objectives of the program.

The program provides for a modest improvement in the fiscal position although we are not convinced that the measures to achieve this goal are in place. In particular, we are concerned that the current wage negotiations will lead to much higher increases in public sector wages than the 4.6 percent provided in the program. The authorities have agreed to take offsetting measures to achieve program targets, but these measures are not spelled out as part of the program, a side letter notwithstanding (and we've made our views on side letters clear before). In these circumstances, a good case could be made that the current review should not be completed until after the wage negotiations are concluded in order to ensure that the objectives of the program are attainable and to avoid any perceptions the debt relief is being used to finance a higher public sector wage bill.

Another area of major concern is privatization, particularly the delays in restructuring and privatizing the state-owned bank, GNCB. The bank's losses are putting a heavy drain on public finances, to the tune of almost 4 percent of GDP. A new management team, the second this year, is scheduled to provide recommendations a year from now for restructuring. However, non-performing loans have risen to 30 percent and further delays will only make matters worse, with further implications for public finances.

These fiscal problems have important implications for the HIPC Initiative. First, they risk drawing resources away from spending for human development and poverty measures, which are the underlying objectives of the HIPC Initiative program. Although social expenditures for this year are higher than programmed, it appears to be mainly attributable to higher wages in the education sector as a carryover from last year's wage agreement. While a case can be made for some increases in salaries, particularly for teachers and health providers, excessive increases draw resources away from other spending which directly addresses the HIPC Initiative objective of poverty alleviation. Second, the resulting rise in the deficit and its financing were a factor which led to pressure on the Guyanese dollar.

As a result of revenue slippages and exchange rate depreciation, the debt relief envisaged at the decision point will result in a debt/revenue ratio at the completion point which is well above the sustainability level. Achievement of debt sustainability is only possible if countries adopt the fundamental reforms to ensure that the resources released by debt relief are used effectively to promote growth and reduce poverty. Debt relief without sound macroeconomic policies and reform will not succeed in achieving these goals, and we must be careful to avoid creating the wrong incentives and putting the credibility of the HIPC Initiative framework in doubt. Under the current HIPC Initiative arrangement, the amount of relief provided by the international community was fixed at the decision point in order to avoid moral hazard. It is now up to the authorities to implement the measures necessary to achieve the debt sustainability objectives of the program. The international community has a legitimate right to expect that they will do so.

Unfortunately, we do not believe that the policy measures included in the revised program meet this standard. Therefore, we cannot support the proposed decision and wish to be recorded as abstaining.

Mr. Fernandez made the following statement:

It is regrettable to see that Guyana's economic performance suffered a severe setback in 1998, as this tarnishes the good track record established in the previous period. The staff report does an excellent job of describing the difficulties responsible for these slippages. It is important to keep in mind that they are mostly a result of external shocks and a troubled political environment, and that the authorities' program for 1999 incorporates corrective measures. Information provided by the staff on recent developments is also broadly encouraging. I will focus my brief comments on two related critical points: wage policy and the completion point under the HIPC Initiative.

The need for a prompt return to fiscal consolidation and for continued efforts to implement structural reforms cannot be overemphasized. Therefore, I have one main regret regarding the HIPC Initiative timetable, in view of the importance for the economy of controlling the wage policy. Like Mr. Lehmuusaari and others, I would have preferred to wait for an agreement between the trade unions and the authorities before taking a final decision on the completion point. Indeed, the staff report clearly shows that the authorities' significant difficulties in controlling the evolution of the wage bill have had an

impact on the fiscal program and the economy as a whole. Granting debt relief before securing a satisfactory outcome on this critical point may be a mistake, as it weakens the authorities' negotiating position. I must also say that I was not totally reassured by the side letter read to us at the beginning of this meeting, when I compare it with the staff's assessment in Paragraph 53 of the Article IV staff report. Mr. Lehmuusaari also commented on this point.

Given the major challenges facing the authorities and their determination to proceed, I am nevertheless ready to support the proposed decision on the completion of the midterm review under the ESAF-sponsored program. I can also support the proposed decision on the HIPC Initiative under the terms proposed by the staff, although I would have preferred to defer the completion point until the Board had agreed on a new framework for the HIPC Initiative. Indeed—and this point has been stressed by all previous speakers—the outcome of the assistance that will be delivered under the current rules is not satisfactory, to say the least, and we need to provide sufficient room to reconsider this case under the revised framework for the Initiative, provided that Guyana can qualify and meet the requirements for additional assistance.

On the issue of debt relief, I can confirm that Paris Club creditors will discuss Guyana next week and will take decisions in July, provided that the Fund and the Bank Boards are in agreement on the HIPC process. I should also stress the importance of fair burden-sharing among all bilateral creditors on the basis of their relative exposure at the time of the completion point.

I urge the authorities to make every effort to stay the course in a difficult environment, both internally and externally, and wish them success in their challenging endeavors.

Mr. Al-Turki made the following statement:

While Guyana's economic performance was satisfactory during the past few years, developments since late 1997 have complicated the economy's management and caused policy slippages. Last year, output declined and fiscal adjustment was weaker than envisaged in the program.

The authorities are making efforts to bring the program back on track. I am encouraged that the prior actions have been taken, including the adjustment of the customs valuation exchange rate. Regarding the completion point, I will make three brief comments on fiscal sustainability.

First, the staff made the case that the debt to revenue ratio is not sustainable at this stage. This certainly creates a problem. On one hand, it is clear that Guyana would benefit substantially from early delivery of debt relief. On the other hand, it is expected that when a country reaches its completion point, it would have achieved debt sustainability, which is not the case here. To address this issue, the staff has advanced a number of proposals. While I share the concerns raised by previous speakers, I could go along with the proposal to provide larger financing to Guyana under the ESAF-sponsored program, provided the strength of its economic program warrant it. However, I have major concerns regarding a country reaching the completion point without

having fiscal sustainability of debt. It is important that this issue be revisited in the context of the wider review of the HIPC Initiative.

Second, while the program rightly focuses on strengthening fiscal performance, the situation remains risky. Therefore, strict adherence to the agreed measures is crucial. In this regard, it is encouraging that the authorities are determined to improve tax administration and will establish the Revenue Authority by the end of this month. Given that government revenue remains vulnerable to external shocks, it is important to introduce additional measures as needed, and here I am assured by the authorities' commitment, as indicated by Mr. Portugal and the staff.

Third, on the expenditure side, reducing the size of the civil service is an important step toward increasing efficiency in the public sector. Here, while total employment was substantially reduced over the past few years, the steady increase in the wage bill to more than 9 percent of GDP in 1999 is a concern. In this context, accelerating the envisaged civil service reform with the help of technical assistance is even more pressing. Such a reform should help contain the wage bill and allow the needed increase in social spending without undermining the fiscal stance. It should be emphasized that a step up of structural reforms will also go a long way in reducing pressures on the public sector.

With these remarks, I support the proposed decisions and wish the authorities success.

Mr. Askari-Rankouhi made the following statement:

Let me state at the outset that we support the completion of the midterm review under the ESAF-sponsored program arrangement and the proposed decision on the HIPC Initiative completion point.

Guyana had a good track record until late 1997 when external and internal shocks derailed the economy with effects lingering through most of the 1998. The resulting deterioration in the fiscal balance was exacerbated by some policy slippages, notably the large increases in the civil service pay scales. However one can reasonably argue that by and large the program went off-track owing to developments beyond the authorities' control.

It is also reasonable to expect that the authorities take additional measures to offset the effects of exogenous shocks. Indeed, as Mr. Portugal highlights in his statement, the authorities have taken some actions. But, one has to bear in mind the limited capacity of a small economy to offset the effects of external shocks.

Moreover, in a difficult political environment, the government has made significant progress on the structural front, including a substantial reduction in the size of the civil service, restructuring of government operations, privatization and financial sector reforms. The authorities have also managed to increase spending on social programs, which is key to reducing poverty. We welcome the authorities' plan to continue to increase spending in this area, but



urge the staff and the authorities to pay more attention to the quality of social sector expenditure.

Looking forward, the authorities seem to have a credible plan to stabilize the economy and provide the conditions for sustainable growth. There are, however, many uncertainties and risks, arising from both domestic and international developments. On the domestic front, it is critical that the authorities maintain fiscal discipline, particularly in the current wage negotiations with the public sector, and persevere with structural reforms. The debt relief under the HIPC Initiative is necessary to make the economy less vulnerable and allow the authorities to intensify their efforts in poverty alleviation. But, they must be reminded that the HIPC Initiative debt relief will only work if it is accompanied by continued reform and consistent domestic policies. Further policy slippages would be disastrous.

It is regrettable that the debt-to-revenue ratio at the completion point will be well above the sustainable level. But this partly reflects possible flaws in the design of the HIPC Initiative, and I join Mr. Collins and others in supporting amendments to the Initiative to prevent this in future cases.

Mr. Cabezas made the following statement:

The economic results attained by Guyana during 1998 contrast with the comprehensive recuperation shown by its economy from 1991 to 1997, when the control of hyperinflation, together with significant improvements in per capita income and important advances in fiscal accounts, were achieved. The international environment is largely responsible for the poor external balance and the worsening of output performance during 1998, but some policy slippages also contributed to this outcome. For example, the contraction of economic activity, together with the unexpected delay in the establishment of the new revenue authority, lowered expected fiscal revenue by about 4.6 percent of GDP. Despite some corrective measures aimed at curtailing government expenditure, the access with respect to the targeted overall public sector balance after grants of 3.2 percent of GDP led to noncompliance with the targets for public domestic credit in the monetary program.

I would like some further clarification from the staff regarding this government revenue shortfall. First, as one can see from the medium-term projections on Table 1 in the main staff paper, public sector revenues are expected to stabilize at about 35.5 percent of GDP in the near future. The trend shown by public sector revenues during the previous years—especially the figure envisaged in the original program from 1998—suggested a much more ambitious goal. What developments explain the expected decrease in revenues for the public sector, bearing in mind that the loss-making enterprises are about to be shut down and that the current world crisis is expected to ease in the near future? Second, has the expected lifting of the court injunction that held back the starting of the new revenue authority occurred as expected? If not, is the government taking any action to introduce this important revenue-enhancing initiative?

On other fiscal issues, the government's ability to control wage settlement pressures is crucial for the success of the program. Although we welcome the commitment by the government to fiscal consolidation, through its decision to cut public employment during 1998 to control the effect of the higher-than-expected final wage increase, we remain concerned about the negative impact of high wage increases on the overall competitiveness of the country. Our concern in this regard stems from the fact that the increases in government salaries are used as a reference point for wage settlements in other sectors of the economy. Thus, the ongoing negotiations between the government and the public sector unions and the large increases that the workers are expected to receive during this year could significantly affect the projected fiscal balance. Could the staff comment on the developments in these negotiations?

On monetary policy, we note the decrease in the reserve requirement of banks from 15 percent to 12 percent. This measure tends to equalize Guyana's private bank reserve requirements with international financial standards and also imposes a need for heightened intervention, through open-market operations to contain pressures on the foreign exchange market arising from an increase in money supply. As reported by the staff, this has already led to an increase in interest rates from 8.9 percent to 13.2 percent. This result associated with the reduction in reserve requirements suggests that the timing of this policy change was not the most appropriate, especially given the contraction experienced by the economy during 1998 and the slow recovery of economic growth envisaged in the near future. Could the staff comment on other factors that might have justified this policy move at this precise time?

On other monetary and banking issues, we welcome the improvements in the commercial banks' compliance with prudential regulations, which helps to answer the call for further strengthening of bank supervision by the government, in line with the Basle norms.

On the HIPC Initiative, we support the staff proposals to reexamine the macroeconomic framework for Guyana at the time of the discussion of the second annual ESAF-sponsored program, and at the same time we welcome the achievement of the completion point.

We support the proposed decisions and wish the authorities success in their future endeavors.

Mr. Shojaeddini made the following statement:

Guyana has made significant progress in restructuring the economy and improving performance during 1991–1997. However, in late-1997, the economy suffered exogenous shocks from the effects of hurricane El Niño, a sharp drop in export prices, and internal political disturbances, leading to policy slippages. The authorities undertook measures in 1998 that partially offset the adverse effects of these shocks, and have outlined strong corrective measures for 1999 to bring the program back on track, as elaborated in the well-written staff report and Mr. Portugal's helpful statement. Clearly, the external financing and grants continue to be crucial elements to the success of the program.

We agree with the actions proposed in para 44 and 45 of EBS/99/70. Moreover, we concur with the general thrust of the staff appraisal and therefore have only a few comments to make.

Reducing the fiscal imbalance is important to the success of the program. In this respect, we welcome the authorities' willingness to introduce revenue measures in 1999, namely, an increase in the customs valuation exchange rate and improvements in tax administration through the Revenue Authority by end-May 1999.

As for the cost saving effects of privatizing public enterprises or closing them down, while we agree in principle with efficiency gains promised by privatization, forced selling of enterprises in a depressed economic condition does not seem appropriate. We, therefore, encourage the staff and the authorities to consider the privatization plan within the context of the medium-term horizon.

As to fiscal expenditures, the authorities should be encouraged to limit the increase in the wage bill in 1999 to the program level, and to undertake civil service reform in order to meet the medium-term targets. It is also important to meet 1999 spending targets for education, health, and poverty alleviation under the HIPC Initiative. Capital and current outlays in the health sector should be under control to avoid bottlenecks in the provision of public services. Considering that IDB assistance would have been helpful in this respect, we appreciate some explanation as to why more than 60 percent of the approved loans remain undisbursed.

Finally, necessary steps should be taken to enforce prudential regulations and improve bank supervision in line with international standards for creating a healthier financial system.

With these remarks, we support the proposed decisions and wish the Guyanese authorities success in bringing the program back on track.

The staff representative from the Western Hemisphere Department said that the reason that one of the IDB loans had been delayed was that its approval had been linked to the establishment of a new international management team for the GNCB—a measure which had not been put in place in 1998. There had been some difficulty in reaching an agreement with that management team on its terms of reference and on how soon it could be established. That agreement had been reached in January 1999 and the team was already in place, so it was expected that the IDB loan could be disbursed in 1999. The second major loan was related to the privatization of the Guyana Electricity Company (GEC). One of the major foreign investors in Guyana had withdrawn its offer to purchase that company in 1998, because of concerns related to political developments in the country. Since then, there had been advanced negotiations with another foreign investment consortium, and the authorities expected negotiations to be completed soon, so it was expected that that second loan would also be disbursed in 1999.

Regarding the question by Mr. Cabezas about the timing of the reserve requirement reduction, the high reserve requirements were clearly a burden on the banking system and created inefficiencies, the staff representative explained. The authorities were trying to

demonstrate to the banking community that they would like the financial system to move more toward market-oriented policies, and had therefore made a commitment to try to reduce the reserve requirements. It had been bold of the authorities to move forward and take that step, which they would have to compensate for through an aggressive, open-market operation, which would increase their domestic debt burden, as interest rates would be higher. However, they were ready to do it, which was the motivation for the timing.

Regarding the stalled wage negotiations, a new negotiating team had been established and the unions had agreed to resume discussions with the authorities, the staff representative reported. That agreement was a welcome development.

The revenue-to-GDP ratio had declined particularly because of the large drop in GDP, which had happened in a number of countries, the staff representative noted. There had also been some deterioration in the tax administration. The authorities were committed to strengthening that system and the Fund could provide some technical assistance in that area. The authorities would also be looking at the possibility of bringing the customs valuation exchange rate more in line with the market rate.

Regarding Directors' observations that the authorities might not be able to offset large wage increases by increased revenue or other measures, the issue was how much of an increase could be accommodated and how much might be considered excessive, the staff representative observed. For example, if the authorities were able to raise the customs valuation exchange rate to the market level, they could increase revenue by about 1 to 1.2 percent of GDP, which would accommodate an additional general increase in wages of 10 to 12 percent. If the wage increase went beyond that level, the authorities would have to come up with other measures. The staff had also discussed actions that could be taken on the expenditure side. In the past, it had been possible to postpone some investments and curtail current expenditures. However, postponing expenditures was not a good solution, as wage increases represented a permanent increase in expenditure. Increasing the customs valuation exchange rate to market levels would be a better solution, which was why the staff had insisted on that measure rather than on expenditure cuts—although expenditure cuts could provide temporary relief to keep the fiscal deficit within the program targets at least for 1999, as well as in the immediate future if there were delays or problems.

The authorities had been undertaking some of the HIPC Initiative expenditures already in 1998 without having received any debt relief, the staff representative explained. For example, as noted in Table 3, total social spending had increased from 8.4 percent of GDP in 1997 to 9.5 percent of GDP in 1998, without any HIPC Initiative disbursements. This had been done because the authorities wanted to set up a kind of track record and in order to have a well-oiled machinery in place to undertake large increases in social spending. The additional 1 percent point of GDP spending was coming out of their budgetary resources. Between 1998 and 2002, there was expected to be an increase in social spending of 3.2 percent of GDP. In addition, a comprehensive civil service reform was also expected to be financed by HIPC Initiative assistance, although that expenditure was not indicated in the staff report.

Mr. Hinata made the following statement:

First, on the macroeconomic front, this chair broadly supports the thrust of the staff appraisal, so I will comment only briefly.

Although there were external shocks, such as the adverse effects of El Niño, the decline of international commodity prices, as well as political disturbances, the ESAF-sponsored program has come off track, as Guyana did not observe some of its main quantitative performance criteria for end-December 1998, with large deviation from the targets. This is a matter for serious concern. On the other hand, the Guyanese authorities are committed to beginning to take measures, including consolidation of public finances, control of the civil wage bill increase, reduction of the customs tariff, and strengthening of the banking system in 1999, in order to return the program closer to its original path. Overall implementation of structural reform and social sector policies and programs have been broadly satisfied in line with the program. In light of these commendable steps, and in view of the fact that the macroeconomic framework of Guyana will be carefully reexamined at the time of discussion of the second annual ESAF-sponsored program between the staff and the authorities, this chair reluctantly supports the request for a waiver of the unobserved performance criteria and the completion of the mid-term review under the first annual arrangement under the ESAF-sponsored program, with hopes for the authorities' redoubled efforts for economic reform.

Second, turning to HIPC Initiative issues, the staff paper mentioned that Guyana's NPV of debt-to-government revenues ratio is projected at 410 percent, even after HIPC Initiative assistance, and that HIPC Initiative assistance will not deliver the fiscal sustainability of debt. According to the staff's long-term outlook, the current account deficit is estimated to be worse than that of the projection of the discussion of the final HIPC Initiative document in 1997, and will remain at 10 percent of GDP in 2005. It seems to me that the external viability of Guyana might not significantly improve. As some previous speakers mentioned, we feel much sympathy to postpone making the final decision regarding the completion point until the wage negotiation would be completed. However, given the need to provide Guyana with early debt relief, on balance, this chair can reluctantly go along with the staff's view of reaching the completion point under the HIPC Initiative if there is a consensus.

On the issue of additional assistance under the revised framework of the HIPC Initiative, the discussion is ongoing and will take more time to come to conclusion. It is therefore appropriate to deliver HIPC Initiative assistance to Guyana in terms of the present modality.

Therefore, in our view, it is premature to consider whether we could allow for applying the revised framework retroactively to Guyana.

Mrs. Manalac made the following statement:

At the outset, I wish to express support for the authorities' request for waiver of the unobserved performance criteria; the completion of the midterm review under the first annual arrangement of the new 3-year ESAF-sponsored program; as well as support for staff's proposed decision on Guyana's completion point under the HIPC Initiative.

The adverse effects of external shocks on Guyana's economy in 1997, in particular, El Niño and the significant reduction in demand for and prices of the country's major export commodities, as well as the political uncertainties arising from the December 1997 general elections, provided setbacks to Guyana's ongoing reform actions that began a decade ago.

Since the authorities embarked on these reforms, they have established a strong and sufficiently long track record of macroeconomic adjustments and structural changes. More recently, the Guyanese authorities are to be commended for their better-than-expected accomplishments in the areas of basic education and poverty alleviation, in line with their commitments to the HIPC Initiative.

However, this Chair's support does not come without concerns on the policy slippages that have occurred, particularly in the fiscal sector, including the substantial wage increases granted in 1998 that were outside of the program. The clamor for wage increases this year that have led to massive strikes and has again put pressure on government expenditures likewise undermines the authorities' compliance with the program. Moreover, the resultant lower revenues that have resulted in a debt-to-revenue ratio that is estimated to become sustainable only by 2007, notwithstanding the delivery of HIPC Initiative assistance, pose another issue for concern.

A proposal to defer Guyana's completion point was initially thought of by the staff. Recognizing, however, that such a deferment would further delay assistance to the country, the completion point under the HIPC Initiative has been proposed.

I reiterate my support for this proposal, particularly as this would be in line with discussions in the Interim Committee Meeting on how to make the HIPC Initiative more effective, among others. More important, funds from this source would significantly ease pressure in the Guyanese economy.

I welcome the report of the staff that authorities have implemented the prior actions envisaged in the program. I also welcome the information that the overall balance of the nonfinancial public sector is well within the indicative target for the first quarter of 1999. However, I still urge the authorities to remain committed to continuing the reforms already started, particularly in exhibiting a steadfast will to keep on track in the fiscal program.

I wish the authorities further success.

Mr. Keshava made the following statement:

At the outset we would like to support the proposed decision for waiver of unobserved performance criteria, completion of the review under the first annual ESAF-sponsored program and delivering the HIPC Initiative assistance for reaching the completion point.

Since the early 1990s Guyana has established a good track record of macroeconomic stabilization and structural reforms, under successive

ESAF-sponsored programs and several structural adjustment credits extended by the IDA and IDB. Implementation of prudent fiscal and monetary policies has contributed to substantial decline in inflation, strong economic activity, stabilization of exchange rate and the maintenance of international reserves of the Bank of Guyana at over four months of imports. Good progress has also been made in regard to structural reforms, including liberalization of the trade system, privatization or restructuring of public enterprises, strengthening of the private sector, and establishment of regulatory frameworks for securities trading and insurance industry. However, significant fiscal slippage occurred toward the end of 1997 which continued in 1998 and this coupled with major external shocks has led to deterioration in economic performance during 1998 and nonobservance of several performance criteria for end-December 1998. I am sure that measures incorporated in the 1999 Economic program will correct the policy slippages.

The immediate challenge facing the authorities is to consolidate the public finances in the current year as major fiscal slippage since 1997 has taken place. The public sector revenue-to-GDP ratio which reached approximately 40 percent in 1996 came down to 36.4 percent in 1997 and was well below the programmed level in 1998. The authorities are rightly aiming at a conservative level for 1999 after two years of severe revenue shortfall. In this regard, the decision of the authorities to establish the new Revenue Authority by the end of this month and adjustment of customs valuation exchange rate is welcome and will lead to improvement in the fiscal situation. The authorities should consider the recommendation of the staff that the customs valuation rate be raised to the market level in the 2000 budget. We welcome the increase in spending on programs for health, basic education, and poverty alleviation during 1998 and in the 1999 program despite a shortfall in revenue. Adequate steps to avoid bottlenecks in the provision of public service should also be taken in time to utilize the increased outlay. The ongoing and new IDA and IDB projects will supplement the government's efforts to increase provision of social services and achieve sustained economic growth. The pursuit of prudent macroeconomic policies and structural reforms, including in the social sector, will contribute immensely toward alleviation of poverty and reduction of unemployment and sustained economic growth. It is worrying to note that the wage negotiations with the civil service unions are not progressing well and work stoppages/demonstrations are increasingly becoming common and now a general strike has vitiated the industrial climate. However, any increase in wages beyond the programmed level will put severe pressures on the public finances which are already under strain owing to revenue shortfalls.

Guyana should continue with the restrictive monetary policy to achieve the inflation objective and maintain a sound external position. While the authorities have taken several steps to improve bank supervision and banking conditions, they should persevere with their efforts to strengthen prudential regulation, improve bank supervision, upgrade banking skills, and further modernize the operations of the central bank. The ratio of nonperforming to total loans in the banking sector is an area of concern. Greater supervision and improved banking skills should help in reduction of occurrence of nonperforming loans. We welcome the initiative taken by the authorities for restructuring of GNCB with the technical assistance from IDA and IDB. Once

the final report is available on options for GNCB's future, the authorities should take prompt decisions on the future of GNCB which will be critical for the banking sector as a whole.

Turning to the HIPC Initiative, we agree with the staff and other directors that Guyana has satisfied the conditions for reaching the completion point. The assistance under the Initiative will lower the NPV of debt to exports to 115 percent which is within the targeted range of 97 to 117 percent but the NPV of debt to revenue at 410 percent is well beyond the targeted level of 280 percent. This is an area of extreme concern as the HIPC Initiative assistance will not lead to fiscal sustainability of debt in the near future. We support a reconsideration of Guyana's eligibility for additional assistance under the revised framework, when finalized.

With these comments we wish the authorities success in their future policy endeavors.

Mr. Kpetigo made the following statement:

During 1991–1997, Guyana made good progress in implementation of economic and financial policies. Real GDP strengthened and inflation abated. However, in 1998, the economy was subjected to several shocks. Policy slippages occurred and program went off track.

The renewed efforts of the authorities to return the program closer to its original path is welcome. Authorities addressed forcefully the fiscal imbalances and pursued structural reforms targets anticipated in the program. I commend the authorities for their commitment to increase social sector spending covering health, education and poverty alleviation.

Under the proposed strategy, the authorities' intention is to give boost to the revenue by increasing customs valuation of the exchange rate with the support of a new Revenue Authority, and to reduce the public sector deficit by recourse to concessional external loans. While commending the government for its commitment to steadfastly curb the deficit, we share the staff recommendation to raise customs valuation rate at the market level.

A major element of the authorities' fiscal agenda is the need to adjust salaries. Wage gap between public and private sectors is wide and I share the authorities' decision to narrow the gap. This is important to improve efficiency and moral hazard to attract and retain qualified personnel. Given the fragility of the fiscal sector, I urge the authorities to be cautious and be prepared to take additional measures should fiscal imbalances worsen. Moreover, it is essential that competitiveness issues remain at the forefront of the authorities' strategy.

I support the authorities' determination to implement fully the 1999 program under a tight monetary policy so as to reduce inflation and to achieve international reserve targets. They also intend to streamline both the bank reserve requirement and the weekly auctions policies in order to improve the average treasury bill yield and intensify open-market operations. I agree with



the authorities on the necessity to seek technical assistance to that end and ensure prudential regulations enforcement.

On structural reforms, I note the comprehensive divestiture effort made by the government to put on sale all major state enterprises and I encourage them to press ahead with this process. Already, the privatization of the Guyana Airways Corporation has been completed and progress is under way to achieve the electricity company privatization. However, in order to limit the drain on public resources, resulting from revenue shortfalls, I share the staff view that loss-making enterprises be closed down and that the restructuring of other state-own companies be pursued unabated.

Finally, I welcome the serious consideration given to the Y2K problems by the Guyana's authorities and the ongoing actions they are taking to address the matter.

The government adherence to fully implement the social sector agenda contained in the HIPC Initiative document and to improve budget allocations for education, basic health and poverty alleviation in 1999 is appropriate. Like previous speakers I am confident that Guyana will use the resources released by the debt relief for further strengthening of anti-poverty policies. Nevertheless, the ratio of the NPV of debt-to-revenue at completion point remains high. We share the views expressed by Mr. Collins and Mr. Morais as regards a reexamination of the fiscal thresholds. Meanwhile, the authorities intend to persevere with a high degree of concessionality in new external borrowing and I hope that the financial and technical assistance from international institutions will be forthcoming. If fully implemented this agenda could lead to a significant improvement in social indicators during the years ahead.

I share the views expressed by previous speakers and the staff suggesting a reconsideration of Guyana's eligibility for additional assistance under the revised framework in line with the consensus on the Board.

With these remarks we support the proposed decision and wish the Guyana's authorities well in their future endeavors.

Mr. Qi made the following statement:

Guyana's good track record in implementing Fund programs and their substantial achievements during 1996 and 1997 are impressive. Although it is regrettable that some quantitative targets were missed last year mainly owing to external shocks, I am encouraged by the corrective measures taken by the authorities to minimize the impact of the slippages and by their adherence to the schedule of structural reforms. I support the staff's recommendation that the unobserved performance criteria be waived and that the review under the first annual ESAF arrangement be completed, helping the authorities to realize their strong commitment to the economic program for 1999-2003.

I also agree that Guyana has satisfied the conditions for reaching the completion point under the HIPC Initiative and that the assistance should be delivered thereafter. In view of the still high ratio of NPV of debt-to-central

government revenue after the delivery of the assistance under the current HIPC Initiative, I support the staff's proposal that once the revised framework for the HIPC Initiative is agreed, Guyana should accordingly be considered for the retroactive granting of additional assistance. I can also support the idea that augmented access to ESAF-sponsored program resources be provided.

With these comments, I wish the authorities success in fighting poverty and achieving sustainable economic growth.

Mr. De Blasio made the following statement:

We broadly agree with the main thrust of the staff appraisal. During 1998 Guyana had a sharp output contraction. While that was largely attributable to a drop in major exports caused by a number of exogenous factors, policy slippages also contributed. We note in particular the higher-than-planned salary increases that the authorities granted to civil servants. In the context of increasing public expenditure in social sectors in accordance with the HIPC Initiative and of the declining fiscal revenues, the higher-than-envisaged wage bill is one of the major causes of the significant worsening of the public accounts. On the other hand, the authorities have kept monetary policy tight, containing the inflationary pressures stemming from the exchange rate depreciation, and have maintained the momentum of structural reforms. Overall, we regret the nonobservance of five performance criteria and deem that policy slippages have, indeed, played a role. Nevertheless, we note the authorities' positive attitude in taking the appropriate corrective measures and feel reassured by the new program for 1999, which appears sufficiently ambitious.

Thus, we can go along with the waiver of performance criteria, and support the completion of the review. We also particularly welcome the achievement of the completion point for the HIPC Initiative, which would allow the Fund to release to this country badly needed debt relief.

Mr. Sugeng made the following statement:

The El Niño phenomenon and political disturbances continued to impede the Guyanese economy in 1998. Furthermore, the weak export-commodity prices have put another pressure on the economy. As a result, real GDP declined by 1.5 percent, compared with a growth of 3 percent assumed in the program. Even though the external current account deficit (excluding official transfers) narrowed slightly in term of GDP in 1998, it is still bigger than the originally planned program. These unfavorable developments inevitably affected the capacity of the Guyanese authorities in observing some of quantitative performance criteria. Taking into account that the sources of the problems are beyond control of the authorities and the authorities' strong performance record on the adjustment program, this chair has no difficulty to support the request waiver of the unobserved 1998 performance criteria.

The critical challenge faced by the authorities in 1999 is how to put the economy back on sustainable growth path. Mr. Portugal and the staff in their

statements have illustrated that the authorities are taking stronger program to bring the economy back on course. It is also encouraging to note that Guyana has taken prior actions, i.e., adjusting the custom valuation exchange rate and reducing the maximum rate under the CARICOM Common External Tariff. Therefore, we can make our comments brief.

First, we share the staff's view that public sector wage policy is critical to the success of the consolidation of the public finances. We are concerned that the authorities face serious difficulties to contain salary increases for general body of civil servants to no more than 6 percent as there is a big gap between that number and salary increase demanded by the civil service union. In this light, we would like to encourage the authorities to pursue more ambitious revenue target as well as more ambitious expenditure cutting. These measures will give room to authorities in negotiating with the union without jeopardizing the fiscal consolidation program. Therefore, we support the authorities' request for technical assistance from FAD for conducting a comprehensive tax study, including the feasibility of introducing the value-added tax, to strengthen the tax base and revenue collection. On the expenditure side, we encourage the authorities to close down of operation of a major loss-making public enterprises. In this light, we welcome the privatization of the Guyana Airways Corporation and encouraging development on the negotiation for the privatization of the electricity company. In addition, the authorities should also take more ambitious civil service rationalization program in the medium term.

Second, monetary policy should be directed to control inflation. We welcome the encouraging developments on monetary variable which are broadly in line with the projections in the program. However, the authorities should monitor closely the development of consumer price, which increase more than the program envisaged in the first quarter of 1999. The authorities should stand ready to further tighten monetary policy to keep inflation under control.

With these remarks, we support the proposed decisions and wish the authorities every success in overcoming the challenges ahead.

Mr. Donecker made the following statement:

I support the proposed decisions. However, I share many of the concerns expressed by my colleagues, in particular Mr. Newman, about the insufficient program implementation so far. We, too, hope that the authorities will redouble their efforts at economic reform, take a firm stance on the crucial issue of public sector wages, and achieve rapid progress with the installation of the new revenue authority. I also agree with the comments made on the fact that Guyana will not achieve fiscal sustainability after the completion point. However, I do not think that this is the appropriate time to discuss fundamental changes in the HIPC Initiative architecture. We will have to come back to that issue at a later time.

The Chairman said that he shared Mr. Donecker's uneasiness, although the staff had had to balance many contradictory factors. The Board should take into account in its upcoming

discussions on the reform of the HIPC Initiative Guyana's need for a reasonably long period of adjustment. While Guyana had had a long period of adjustment already, there had been slippages. The Board would have to review the way in which the fiscal target was taken into consideration. Slippages in the fiscal domain should not create grounds for further relief, but if the Board was not careful it could arrive at that paradoxical conclusion. The fact that that matter had been discussed in the case of Guyana would provide the Board with elements for reflection when it came to talking about improvements in the facility.

Mr. Lehmussaari wondered why the discussion on Guyana was taking place before the wage negotiations had been concluded. Could the staff comment on the matter, as the wage negotiations were so critical for the program and it would have been much easier if the discussion had taken place once those negotiations had been concluded.

The staff representative from the Western Hemisphere Department said that the staff had urged the authorities to come to quick agreement on the wage negotiations, possibly before the matter came to the Board. However, the authorities had responded that it would tie their hands at the negotiation table if the staff insisted that they complete the wage negotiation in April 1999. Given the anticipated protracted negotiations, the staff had decided to proceed with the delivery of assistance under the HIPC Initiative. The authorities had pointed out that a delay would make it seem as if the international community was not prepared to give political and economic support to their program, which could seriously undermine confidence, reduce investment, derail the recovery expected in 1999, and further weaken the revenue base. Such possible economic dislocation would be more harmful than taking the risk that the authorities would end up with a higher-than-programmed wage increase. The authorities had given the staff assurances that they would keep the fiscal part of the program intact.

Mr. Portugal made the following concluding statement:

I thank management for bringing this issue to the Board today and also thank the staff for the quality of the papers produced. I listened carefully to the comments and to the suggestions made by my colleagues, and will convey them to the Guyana authorities.

I would like to thank my Board colleagues—even those who were not able to support the decision—for their comments, and especially for the support they gave to Guyana. I am grateful that, despite uncertainties and concerns, many Directors were able to support the proposed decision. As a tribute to their support and confidence, I would like to give some explanations and reassurance on some of the issues raised.

Guyana had one important policy slippage, a wage increase that was higher than expected. This has brought the wage bill to 8.4 percent of GDP as opposed to the 8.2 percent of GDP envisaged in the program. The authorities take all deviations from target seriously and are prepared to take corrective measures, despite the fact that, as many Directors have noted, most of the deviations were attributed to external factors beyond the control of the authorities. For instance, the program goal to bring the deficit down from 8.5 percent of GDP to 2 percent of GDP was not achieved, and instead the deficit was brought down to 5.1 percent of GDP. That was because of the decline in economic activity and declining export prices, which meant that revenues were 4.5 percent of GDP below what was envisaged in the program.

The declining revenue was higher than the gap in the fiscal deficit. As well, expenditures were 2 percent of GDP below the level envisaged in the program, so that instead of 42 percent of GDP, they represented 40 percent of GDP. There were also problems with respect to the establishment of the tax revenue authority. The law necessary to establish the authority was established and all of the administrative measures were taken, but the staff that was going to lose their jobs when the new authority was established filed a lawsuit and received an injunction preventing the government from proceeding. The hearing on the matter is almost finished, and the government is confident that it might win that case. There was also a problem in terms of missing the international reserve target. Export prices were low and important exports fell substantially in terms of value; the price of gold dropped by 9.2 percent, bauxite by 12.9 percent, and rice by 13 percent.

There was an important nondisbursement of international loans, especially from the IDB, for the reasons mentioned by the staff. In one case, privatization did not succeed because the buyer declined to proceed. In the other case, there were delays in putting the new bank management team in place. Regarding privatization, I have spoken with the minister, who is in London today talking to private investors. He is confident that he will soon get good news on the privatization of GEC.

The reason for discussing Guyana today instead of waiting is that the country needs debt relief. There are important payments due at the end of the month; without a decision, these payments would not have been affected by debt relief. The authorities have already increased social expenditures to levels half a percent higher than those envisaged in the program, and it would be difficult for them to maintain those increased social expenditures if debt relief was not secured in time. In addition, a delay could have perhaps strengthened the hand of the unions, because they would have known that the government was pressed to reach a decision on the wage increase. I offer these explanations to my Board colleagues as a tribute to their willingness to go ahead with this program, in spite of their legitimate concerns and the uncertainties that remain.

The Chairman made the following summing up:

Directors broadly agreed with the thrust of the staff appraisal. They observed that, notwithstanding the unfavorable exogenous and political developments that affected the economy in 1998, Guyana had made some progress in reducing fiscal imbalances and in implementing structural reforms. They noted, however, that there had been a number of policy slippages, particularly the unprogrammed increase in civil service salaries, which had contributed to the deviations from the program path.

Directors emphasized the importance of fiscal adjustment to help stabilize the economy and set the stage for medium-term fiscal sustainability. They noted that the adjustment envisaged in the 1999 budget was much less than expected in the original program. Directors welcomed the government's efforts to bring the program back on track, including by adjusting the customs valuation exchange rate, privatizing the loss-making public airline company, and enhancing the efficiency of the sugar company. They also welcomed the

ongoing initiative to further reduce the size of the civil service and to introduce a new remuneration structure for the skilled and professional staff. Directors, however, stressed the paramount importance of avoiding excessive increases in the wage bill in 1999, and took note of the authorities' commitment to take any necessary additional measures to achieve the program's fiscal objectives. Several Directors considered that the limited scope for such measures further underlined the need to avoid excessive wage increases. Directors emphasized the importance of early establishment of the Revenue Authority, without further delay, and supported the authorities' recent request for technical assistance from the Fund to improve the efficiency of the tax system. While noting the recent change in the customs valuation exchange rate, some Directors suggested that valuations should be carried out at current market exchange rates.

Directors welcomed the increase in the 1999 budget allocation for expenditure on the social sectors, which they generally saw as consistent with the objectives of the HIPC Initiative. They urged the authorities to take the necessary measures to ensure the achievement of the spending targets for education, health, and poverty alleviation, and to improve the quality and effectiveness of social sector expenditure. A few Directors emphasized that it was essential to prevent HIPC Initiative resources from being diverted to other purposes.

Directors agreed with the restrictive monetary stance to help contain inflation and strengthen the external position. They recognized the positive steps taken to recapitalize, reorganize, and enhance the autonomy of the central bank; and to liberalize interest rates by removal of bid limits in treasury bill auctions. The need to offset the effects of a reduction in reserve requirements by tightening other policies was noted. Directors supported the authorities' efforts to restructure the operations of the large state-owned Guyana National Cooperative Bank, and emphasized the importance of other actions being taken to improve bank supervision and tighten prudential regulations.

Directors encouraged the authorities to press ahead with their privatization program and, in particular, to redouble their efforts to privatize those enterprises that have been brought to the point of sale. They stressed in particular the need to proceed toward the sale of the electricity company.

Directors observed that the delivery of assistance under the HIPC Initiative would lessen the heavy fiscal burden of Guyana's external debt and free resources for social purposes, including for improving the provision of services to the poor through civil service reform. However, they also observed that, partly reflecting adverse recent developments, the fiscal sustainability of Guyana's debt was not yet assured. While HIPC Initiative assistance would lower the NPV of debt-to-exports ratio to within the target range established at the decision point, it would not achieve the fiscal target for the NPV of debt-to-central government revenue of 280 percent. Directors saw this as underscoring the vital need for continued pursuit of prudent debt management policies, strong fiscal adjustment, and structural reforms. Only with such measures would it be possible for Guyana to further improve its debt service

profile and achieve external sustainability in the longer run. They commended the authorities on their efforts to develop Guyana's debt management capacity.

Many Directors considered that, following any agreed revisions to the framework of the HIPC Initiative, Guyana's eligibility for additional assistance could be considered subject to its meeting the relevant requirements, although some Directors expressed reservations concerning such an approach. Some Directors noted that other means could also be used to alleviate Guyana's heavy debt burden, including augmented access to ESAF-sponsored program resources in support of appropriately strong policies.

Directors looked forward to a review by the staff and the authorities of the macroeconomic framework at the time of the discussion of the program to be supported by the second annual ESAF arrangement.

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

The Executive Board took the following decisions, with one objection from Mr. Zurbrugg and one abstention from Mr. Newman:

Decision on review and waiver of performance criteria under ESAF approved with one objection and one abstention. Decision on completion point document for HIPC Initiative approved in principle with one objection and one abstention; decision circulated for approval on a lapse of time basis (see EBS/99/70, Sup. 1, 5/14/99).

1. Guyana has consulted with the Fund in accordance with paragraph 2 of the three-year and first annual arrangements for Guyana under the Enhanced Structural Adjustment Facility (ESAF) (EBS/98/101, Sup. 3).
2. The letter dated April 27, 1999 from the Minister of Finance of Guyana shall be attached to the three-year and first annual ESAF arrangements for Guyana, and the letter dated June 12, 1998 from the Minister of Finance of Guyana, and the Memorandum of Economic and Financial Policies annexed thereto, shall be read as supplemented by the letter of April 27, 1999. Accordingly, paragraph 3(a) of the three-year and first annual ESAF arrangements for Guyana shall include a reference to Tables 4 and 5 of the letter dated April 27, 1999 from the Minister of Finance of Guyana.
3. The Fund determines that the review specified in paragraph 2(d) of the three-year and first annual ESAF arrangements for Guyana is completed, and that no further understandings are needed for Guyana to proceed to request the disbursement of the second loan under the first annual ESAF arrangement for Guyana. (EBS/99/65, 4/28/99)

Decision No. 11955-(99/53), adopted  
May 12, 1999

### DECISIONS TAKEN SINCE PREVIOUS BOARD MEETING

The following decisions were adopted by the Executive Board without meeting in the period between EBM/99/52 (5/7/99) and EBM/99/53 (5/12/99).

#### 4. EXECUTIVE BOARD—REPRESENTATION EXPENSES—AMENDMENT TO BY-LAW 14(F)—GOVERNORS' VOTE

The Executive Board approves the report of the Secretary (EBAM/99/48, Sup. 3, 5/11/99) on the canvass of votes of the Governors on Resolution No. 54-1, with respect to an amendment of Section 14(f) of the By-Laws. The Governors' vote on the Resolution is recorded as follows:

Total affirmative votes	1,468,820
Total negative votes	41,635
Total votes cast	1,510,455
Abstentions recorded	374,749
Other replies	0
Total replies	1,885,204
Votes of members that did not reply	235,018
Total votes of members	2,120,222
Decision No. 11956-(99/53), adopted May 11, 1999	

#### 5. EXECUTIVE BOARD TRAVEL

Travel by Executive Directors as set forth in EBAM/99/68 (5/6/99) and EBAM/99/69 (5/10/99), by Advisors to Executive Directors as set forth in EBAM/99/68 (5/6/99) and EBAM/99/69 (5/10/99), and by Assistants to Executive Directors as set forth in EBAM/99/68 (5/6/99) and EBAM/99/69 (5/10/99) is approved.

APPROVAL: March 21, 2001

SHAIENDRA J. ANJARIA  
Secretary