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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 92/157

10:00 a.m., December 30, 1992

R. D. Erb, Acting Chairman

Executive Directors	Alternate Executive Directors
M. Al-Jasser	
	A. Raza, Temporary
	Wei B.
T. C. Dawson	
J. de Groote	B. Szombati, Temporary
E. A. Evans	A. M. Tetangco, Jr.
R. Filosa	S. Vori, Temporary
I. Fridriksson	
	N. Tabata
	T. Kanada, Temporary
J. E. Ismael	K. T. Hetrakul
	K. Link
	J. C. Jaramillo
	F. A. Quirós, Temporary
	G. Y. Glazkov, Temporary
	P. Bonzom, Temporary
	E. Martínez-Alas, Temporary
A. Mirakhor	
L. J. Mwananshiku	B. S. Dlamini
D. Peretz	
G. A. Posthumus	
	Y.-M. T. Koissy
	B. Esdar
A. S. Shaalan	Y. Y. Mohammed
	G. F. Murphy
	J. Jamnik, Temporary
A. G. Zoccali	M. Estela

J. W. Lang, Acting Secretary
S. W. Tenney, Assistant
S. L. Yeager, Assistant

Also Present

IBRD: L. Forget, Legal Department, E. A. Gerken, Latin America and the Caribbean Regional Office. European I Department: P. Doyle, D. N. Lachman, F. M. Lakwijk, L. J. Lipschitz, T. van der Willigen, E. J. Zervoudakis. External Relations Department: G. P. Newman, H. Puentes. Fiscal Affairs Department: V. Tanzi, Director. Legal Department: W. E. Holder, Deputy General Counsel, H. Elizalde, P. L. Francotte. Policy Development and Review Department: J. Ferrán, Deputy Director; T. Leddy, Deputy Director; G. C. Anayiotos, R. T. Harmsen, G. R. Kincaid, P. Mylonas, A. G. Santos, P. J. P. Szymczak. Secretary's Department: A. Jbili, M. Miller, A. Mountford. Treasurer's Department: D. Williams, Treasurer; G. Wittich, Deputy Treasurer; J. E. Blalock, S. I. Fawzi, M. B. O'Brien, G. S. Tavlas. Western Hemisphere Department: S. T. Beza, Counsellor and Director; M. E. Bonangelino, M. R. Figuerola, K. Gerhaeusser, J. P. Guzman, M. E. Hardy, E. S. Kreis. Advisors to Executive Directors: J. M. Abbott, L. E. Breuer, L. Dicks-Mireaux, W. Laux, R. Meron, N. Toé. Assistants to Executive Directors: B. Abdullah, D. A. Barr, Chen M., J. A. Costa, C. D. Cuong, A. Galicia, C. Gaseltine, M. E. Hansen, J. Jonas, P. K. Kafle, V. Kural, G. J. Matthews, F. Moss, S. del C. Olgiati, D. Saha, F. A. Sorokos, A. Viirg.

1. CZECH AND SLOVAK FEDERAL REPUBLIC - CESSATION OF MEMBERSHIP, ALLOCATION OF ASSETS AND LIABILITIES, AND SUCCESSION TO MEMBERSHIP IN THE FUND

The Executive Directors considered a staff paper on the cessation of membership and the allocation of assets and liabilities of the Czech and Slovak Federal Republic and succession to membership in the Fund by the Czech Republic and the Slovak Republic (EBS/92/218, 12/21/92; Sup. 1, 12/23/92; and Cor. 1, 12/22/92). They also had before them a staff paper on the calculation of quotas for the Czech Republic and the Slovak Republic (EBS/92/213, 12/16/92).

Mr. de Groote said that he had recently received a communication from the Minister of Finance of the Slovak Republic, which read:

> I am writing this letter to you under instruction from the Prime Minister, Mr. Meciar, concerning the determination of the Slovak Republic's quota in the Fund. We understand that this issue is scheduled to come up for discussion by the Executive Board of the Fund on December 30, 1992.
>
> I am informed that the proposal that has been presented to the Executive Board is to split the quota of the former Czech and Slovak Federal Republic between the Czech Republic and the Slovak Republic in a 2.29:1 ratio. I regret to inform you that the Slovak Government cannot proceed on this basis.
>
> As you are well aware, the Czech and Slovak Governments have agreed, after months of sensitive and difficult negotiations, to split the assets and liabilities of Czechoslovakia in a 2:1 ratio. This agreement was announced by Mr. David Williams in a letter dated November 10, 1992 and it was included in a memorandum signed by the Minister of Finance of the Czech Republic, Mr. Kocarnik, and the Minister of Finance of the Slovak Republic, Mr. Toth, on December 14, 1992.
>
> At this very sensitive stage of negotiations between the political representatives of the Czech and Slovak Republics, the decision, inconsistent with the agreed division of assets and liabilities, will create serious tension between the two republics. There is every reason to believe that our acceptance of the proposed Fund formula could jeopardize the successful conclusion of the negotiations on the division of the assets and liabilities of Czechoslovakia. Indeed, certain statements have already been made in the press, citing the action being proposed in the Fund as the basis for questioning the validity of the understanding already reached on the 2:1 ratio.
>
> In these circumstances, I must ask you to urge the management of the Fund and the Executive Board not to create, quite unwittingly, I suppose, a serious political problem for the Slovak

Government, which could be the source of unnecessary political conflict. The difference between the 2.29:1 ratio and the 2:1 ratio is not great in terms of the Fund quota of Slovakia, but it is of enormous significance for us in the context of the division of Czechoslovakia's resources between the two republics.

Moreover, please keep in mind that we are not seeking an increase in the overall quota of the two republics compared with the original quota of Czechoslovakia. I hope, therefore, that the Executive Board and the Fund's management will be able to take into account these very genuine concerns and agree to split the quota of Czechoslovakia on the basis of the 2:1 ratio. I understand that this is acceptable not only to the Slovak Government, but also to the Czech Government.

Finally, I would like to inform you that I personally, as the Minister of Finance, and all members of the Slovak Government are looking forward to close cooperation with the Fund to foster prosperity in the Slovak republic.

As Directors were aware, the Constitutional Act of November 25, 1992 clearly stated that the Fund quota of Czechoslovakia, as well as its assets and liabilities in the Fund, should be divided according to the principles set by the Fund, Mr. de Groote continued. In their letters of agreement, the Prime Minister of the Czech Republic had referred to the 2.29:1 ratio, while the Prime Minister of the Slovak Republic had referred only to the staff calculations, without quoting any specific figures.

The Slovak authorities were fully aware that, in accepting the Constitutional Act, they had agreed in principle to whatever quota was proposed by the staff, Mr. de Groote added. However, it was the Slovak authorities' understanding that the acceptance of a quota always took place after the Executive Board carefully considered the situation of the country in relation to the Fund membership as a whole. Indeed, that had been the case when the initial quota of Czechoslovakia was determined. Therefore, they expected the Board to come to an agreement on the size of the quota of Slovakia based on the staff paper currently under consideration, but taking into account the agreed division of assets on a 2:1 ratio.

The Slovak authorities had indicated in their communication that the 2:1 ratio was acceptable not only to themselves, but also to the Fund and the Czech Government, Mr. de Groote noted. However, the Czech authorities had recently informed him that they would regard any change from the staff proposal as a concession made unilaterally to the Slovak Republic. It was the Czech authorities' understanding that, by agreeing to the Constitutional Act and informing the Fund of their intention to succeed to the membership of Czechoslovakia, both republics had agreed to accept the results of the staff's quota calculations.

Mr. Wei considered that it was important to take into account the particular circumstances of the Czech Republic and the Slovak Republic. In cases involving new applications for membership, it was crucial for the Fund to strictly adhere to its established formulas for calculating quotas. However, in the case currently under consideration, both of the countries succeeding Czechoslovakia's membership in the Fund had already agreed on a division of its assets and liabilities according to a 2:1 ratio. The Executive Board should take the wishes of the authorities into careful consideration.

Mr. Dawson remarked that the current situation was unsatisfactory. The staff paper on quota calculations for the Czech Republic and the Slovak Republic clearly noted the Governments' agreement to divide the assets and liabilities of Czechoslovakia in a 2:1 ratio. However, it also indicated that the authorities of both republics had been informed of the quota calculations prepared by the staff and that they were expected to accept the proposed decision. Moreover, the letters from the authorities of both republics contained in the supplement to EBS/92/218, indicated either explicitly or implicitly that both the Czech and Slovak authorities would accept the quotas proposed by the staff. In the light of those considerations, the recent communication from the Slovak authorities had placed the Fund in an awkward situation, in which it could be used as a stake in political negotiations between the two republics. He wondered whether the staff could comment on how the current situation had arisen.

The Treasurer noted that the fundamental criteria for the division of the assets and liabilities of Czechoslovakia between the two republics were: the territorial principle; the proportion of inhabitants of the Czech Republic and the Slovak Republic, which was the basis for the 2:1 ratio; and the criteria to be set by the Fund in dividing Czechoslovakia's quota and assets and liabilities in the Fund. The agreement on those criteria was part of the Constitutional Act of November 25, 1992. The calculation of quotas for the Czech Republic and the Slovak Republic had been carried out according to the traditional methods used by the Fund in calculating quotas for all new members. While the staff had taken into consideration the preference of the authorities for use of a 2:1 ratio in dividing the quota of Czechoslovakia between the two republics, that division could not be justified using the Fund's standard methodology.

The Deputy General Counsel stated that the methodology used by the Fund to calculate quotas had been explained to the authorities of Czechoslovakia, as well as the authorities of the Czech Republic and the Slovak Republic, at the outset. The authorities had agreed that the division of assets and liabilities, as well as the Fund quota, of Czechoslovakia among the successor states would be determined as a result of the Fund's quota calculations. That understanding was incorporated in the Constitutional Act of November 25, 1992.

While the agreement to divide the assets of Czechoslovakia in a 2:1 ratio had been taken into account in the provisions of the

Constitutional Act for other purposes--including the distribution of assets and liabilities in the World Bank--it was understood that the division of assets and liabilities in the Fund would be determined by the Fund, the Deputy General Counsel noted. Indeed, it was for the Executive Board to recommend the terms and conditions of membership for all applicant countries.

It was clear, from the communications that had recently been received by Mr. de Groote, that the Czech and Slovak authorities understood the membership procedures, the Deputy General Counsel considered. Accordingly, the authorities were required to make two separate statements. The first statement was to accept the allocation of assets and liabilities among the successor states; the second, which was to follow Board consideration of appropriate quotas, was to accept the proposed terms and conditions of membership.

Mr. de Groote said that the membership process, which could be very complicated, was not always clearly understood by the authorities of applicant countries. In the case currently under consideration, the Czech authorities had received the impression that the Fund staff--which they had referred to as the "management" in their communication--was to take a decision on an appropriate division of Czechoslovakia's quota. In line with that understanding, the Prime Minister of the Czech Republic had announced to the public the division of Czechoslovakia's quota between the two successor states in a 2.29:1 ratio. That announcement had led to confusion on the part of the Slovak authorities, who were disturbed when they received the impression that a decision on quotas had been taken prior to the current Board discussion.

Mr. Peretz commented that the Fund needed to adhere to its traditional methods in determining quotas for all new members. The staff papers for the current discussion clearly were in line with the traditional practices of the Fund. It was important to bear in mind that the agreement on the division of assets and liabilities between the two successor states was based on political criteria rather than the objective formulas used by the Fund to calculate quotas. In the light of that consideration, and the previous communications from the Czech and Slovak authorities, indicating that they would accept the quotas determined by the Fund, he agreed with Mr. Dawson that the current situation was unsatisfactory. He wondered whether the most recent communication from the Slovak authorities took precedence over their previous communications.

Mr. de Groote considered that the two communications that had been received from the Slovak authorities were not contradictory. It was the Slovak authorities' view that the quota calculations presented by the staff in EBS/92/213 should not be seen as a Fund decision on appropriate quotas for the successor states of Czechoslovakia. Nevertheless, they remained willing to accept any division of Czechoslovakia's quota agreed by the Board. The most recent communication was to ask the Executive Board to take into account the agreement on a division of assets in a ratio of 2:1 in considering appropriate quotas for the Czech and Slovak Republics.

The staff representative from the European I Department stated that the staff had discussed the methodology used in calculating Fund quotas with both the Czech and Slovak authorities in September 1992. In all of the discussions between the staff and the authorities, it had been made clear that the division of assets in a 2:1 ratio, which had been agreed by the authorities for political reasons, would not apply to the division of Czechoslovakia's quota in the Fund. For that reason, the Constitutional Act of November 25, 1992 clearly provided for a departure from that ratio. While the specific 2.29:1 ratio proposed by the staff was not known at the time of the discussions with the authorities, the staff had made it clear that the ratio used by the Fund to divide Czechoslovakia's quota would likely be higher than 2:1.

The views expressed by the Slovak authorities in their recent communication to Mr. de Groote had come as a surprise to the staff, the staff representative commented. It had been the staff's understanding that both the Czech and Slovak authorities would accept the decision taken by the Board on the appropriate terms and conditions of membership.

The Treasurer stated that, during the missions to Bratislava and Prague, the staff had clearly explained the methodology that would be used to calculate quotas for the Czech and Slovak Republics. It had also been made clear to the authorities that the staff would submit a paper on the calculation of quota to the Executive Board for consideration.

While the staff had discussed the data to be used in calculating quotas extensively with the authorities of both the Czech Republic and the Slovak Republic during the missions, it had not been able to give any indications about the size of the actual quotas that might be proposed, the Treasurer noted. The actual calculation of quotas had to take place at the Fund headquarters after the data had been refined, and the staff paper on the working of the quota formulas had to go through the normal clearance process with staff and management before being circulated to the Executive Board. Nevertheless, as soon as the staff paper on the calculation of quotas was finalized it had been sent to the Czech and Slovak authorities at the same time it was distributed to Executive Directors. The working of the quota formulas was explained to the authorities again at that stage. However, the staff had not received any communication from the authorities on the actual quotas that had been submitted to the Board for consideration.

Mr. Evans noted that the letter from the Slovak authorities, indicating that the Slovak Republic agreed that its share in the quota, assets, and liabilities of Czechoslovakia would be as specified by the Fund had been received in the Fund after the staff paper on the calculation of quotas had been sent to them. Therefore, he wondered whether the letter from the Slovak authorities, dated December 17, 1992 had been drafted by the staff.

He also wondered whether the staff currently had an original copy of that letter.

Mr. Posthumus recalled that the staff paper on the calculation of quotas for the successor states of Yugoslavia had been circulated to Executive Directors before it was sent to the authorities of the successor states. He did not know why the successor states of Czechoslovakia were treated differently. According to the procedures for cases involving succession set forth in EBD/92/146 (7/15/92), the Board should recommend appropriate terms and conditions of membership to the authorities of the Czech Republic and the Slovak Republic at the present stage. It would then be for those republics to accept or decline the terms offered.

The Deputy General Counsel commented that the staff had contributed to the wording of the letter from the Slovak authorities dated December 17, 1992. An original copy of that letter had been received in the Fund. However, as Mr. Peretz had noted, the more recent communication from the Slovak authorities, which was based on the current situation, clearly superseded all previous communications. Thus, the original assumption of the staff that the authorities would be willing to accept any staff proposal on the division of Czechoslovakia's quota was no longer valid.

At the same time, however, Mr. Posthumus was correct to point out that, according to the membership procedures for cases involving succession, it was for the Executive Board to decide upon the terms and conditions of membership to be offered to the successor states, the Deputy General Counsel noted. The case of Czechoslovakia was somewhat different from that of Yugoslavia in that following adoption of the proposed decision, the Czech Republic and the Slovak Republic would succeed to membership upon acceptance of the terms and conditions; no further Board decision would be required.

Mr. Esdar stated that he agreed with Mr. Dawson that the current situation was awkward. In the circumstances, he wondered whether it would be advisable to delay taking a decision in order to give both of the successor states a further opportunity to review the current situation with a view to reaching agreement.

Mr. Mirakhor asked whether there was any legal precedent to suggest that the Fund had an obligation to calculate quotas for all new members, even in cases involving succession.

The Deputy General Counsel responded that, although there was no prior decision by the Board indicating that a certain methodology had to be followed in cases involving succession, the Articles of Agreement set forth the principles to be followed by the Fund in determining quotas for all members.

Previous staff papers on the division of assets and liabilities in cases similar to that of Czechoslovakia, such as Yugoslavia, indicated that the quotas of successor states should be determined in accordance with the methodology traditionally used by the Fund, the Deputy General Counsel noted. In that respect, it should be emphasized that any deviation from the established formulas used to determine quotas for all members could set an important precedent for future cases. It might not be desirable to allow successor states to agree--perhaps for political reasons--to the division of assets and liabilities in the Fund.

It also should be emphasized that, in cases involving the sequential succession of states, it was possible for certain states not to accept the allocation of assets and liabilities determined by the Fund or not to accept membership in the Fund, the Deputy General Counsel continued. In such cases, the division of assets and liabilities of the country that was being dissolved could become subject to arbitration. In that event, it would be important for the Fund to be able to defend the approach it had taken.

While it would be possible in legal terms for the Board to delay taking a decision on the terms and conditions of membership for the Czech Republic and the Slovak Republic, the clear intention of the Constitutional Act of November 25, 1992 was to provide for a clean succession that would allow both republics to become members of the Fund on January 1, 1993, the Deputy General Counsel said. Any delay in taking a decision at the present stage could be problematic in that Czechoslovakia would have ceased to exist by the time the Board could return to the matter.

The Treasurer noted that, aside from the legal issues that had been raised, the only practical way to assess the relative economic positions of the Czech Republic and the Slovak Republic with respect to the Fund membership as a whole was to calculate their quotas on the basis of the formulas used to determine quotas for all members. Given the need to determine appropriate quota shares for new members relative to the overall ranking of the Fund membership, it could set a very dangerous precedent to accept any arbitrary division of assets and liabilities in cases involving succession.

Mr. Mirakhor remarked that he differed with the staff. As there was no legal basis to assume that the division of assets and liabilities in cases involving succession had to be determined as a result of the staff's quota calculations, he did not see how the Board's decision on that matter would be binding on the countries currently under consideration.

Mr. Al-Jasser stated that, although there was no legal precedent on the division of assets and liabilities in cases involving succession, he agreed with the staff about the need to be practical. If the division of a member's quota was left to the successor states, it would be very difficult to ensure appropriate ranking of members within the Fund. For example, if one of the successor states agreed to trade a portion of its quota share for additional territory or other assets, a situation could arise in which some states would have nearly all of the quota share of the state that had dissolved, while other successor states would have almost no quota share. The only way to avoid such a situation--which would clearly be untenable in an organization such as the Fund, where voting shares were based on quotas--

would be to adhere to the traditional methods used to determine quotas for all members.

Mr. de Groote said that he agreed with previous speakers on the need to be practical. In that connection, it should be noted that the division of assets and liabilities in a 2:1 ratio was reasonable, as evidenced by the staff's quota calculations. The Slovak authorities had not asked the Board to deviate substantially from the 2:29:1 ratio proposed by the staff; they had merely asked Directors to use judgment--as was always the case--in adjusting actual quotas to take into account an agreement that was politically acceptable to both parties.

As to whether the Board should delay taking a decision at the present stage, it was important to bear in mind that the proposed decision was only to offer the Czech Republic and the Slovak Republic membership on the terms and conditions set forth in EBS/92/213, Mr. de Groote noted. It would be for the authorities to decide whether or not to accept the terms offered. Moreover, in the event that a decision on the succession of the Czech Republic and the Slovak Republic to the membership of Czechoslovakia was postponed, it would be difficult to determine who should be responsible for Czechoslovakia's current obligations to the Fund, especially since that country would cease to exist at midnight on December 31, 1992.

Mr. Peretz considered that Mr. de Groote's remarks on the need to avoid postponing a decision on the succession of the Czech Republic and the Slovak Republic to the Fund membership of Czechoslovakia were convincing. As Mr. de Groote, who was the Executive Director in the Fund looking after the interests of those countries, had indicated that both of the successor states could accept a division of Czechoslovakia's quota along the lines suggested in EBS/92/213, he could support the proposed decision.

Mr. Mirakhor noted that in all cases involving succession, there was a possibility that the Fund's decision on the division of assets and liabilities could be submitted to arbitration. In such an event, the Fund would need to defend its position on legal grounds as well as on the basis of practicality.

The Deputy General Counsel said that Articles II and III of the Fund's Articles described the functions of the Executive Board and the Board of Governors in determining members' quotas. Those Articles also specified that in making such determinations, there was a need to ensure that the quotas of new members would be comparable with those of other members in similar situations. Thus, the proposed decision could be defended from both a legal and a practical standpoint.

Mr. Dawson commented that the current awkward situation had arisen apparently owing to either a lack of communication or a lack of understanding between the staff and the authorities. He wondered whether the staff had made any efforts to persuade the Czech and Slovak authorities to accept the proposed division of Czechoslovakia's quota.

The staff representative from the European I Department noted that the Fund's resident representative in Prague had made several visits to Bratislavia over the past couple of weeks in an effort to make himself available for discussions with both the Czech and Slovak authorities. Nevertheless, the resident representative had not received any communications from the authorities with respect to the staff proposal.

Mr. Posthumus remarked that he wondered whether the staff had really been in a position to discuss the staff proposal with the Czech and Slovak authorities, especially since the Board had not yet met to consider the matter. If any mistake had been made by the staff with respect to the Czech and Slovak Republics, it was in contacting the authorities too early and in failing to dissuade them from commenting on the staff proposal prior to the Board discussion.

Nevertheless, he agreed with previous speakers that it would not be desirable to delay reaching an agreement on the terms and conditions of membership for the Czech Republic and the Slovak Republic, Mr. Posthumus concluded. He could support the proposed decision.

Mr. Dawson said that he agreed with Mr. Posthumus that it would have been preferable to follow the usual membership procedures in the case of the Czech Republic and the Slovak Republic. However, that procedure had not been followed, and given the time constraints involved in trying to finalize the succession of those two republics by January 1, 1993, it was not possible to start such a procedure at the present stage. Therefore, the Board was being asked to take a decision that might not be acceptable to all the parties concerned. He wondered whether any efforts had been made to avoid the current impasse from arising.

Mr. Esdar stated that he agreed with Mr. Dawson that the Board had been placed in a very delicate situation. Nevertheless, from the staff's comments, it seemed that the authorities had been contacted and that they had given the staff reason to believe that both of the successor states were prepared to accept the staff proposals. In the circumstances, any delay in taking a decision might serve only to reopen all the issues related to the division of the assets and liabilities of Czechoslovakia and, thus, further complicate negotiations between the Czech Republic and the Slovak Republic. Nevertheless, to acknowledge the concerns that had been expressed by the Slovak authorities, it might be helpful to include in the proposed decision a provision that would allow the Board to reassess the quota shares of the Czech Republic and the Slovak Republic in the context of the next general review of quotas.

Mr. Evans commented that he agreed with Mr. Peretz and other speakers that the Board should not delay adopting the proposed decision. In doing so, the Board should make it clear that quotas were determined by the Fund, not by individual members, even if those members had reached a prior agreement among themselves.

He differed with Mr. Dawson's comments on the approach that had been taken by the staff, Mr. Evans said. In the circumstances, the staff had carried out its work in the most efficient manner. It was clear that the political understanding that had previously been reached by the two republics had become invalid.

Mr. Dawson remarked that he could support the proposed decision. Nevertheless, he continued to hold reservations about the way the membership applications of the Czech Republic and the Slovak Republic had been handled. The staff should have either delayed sending the staff paper on the calculation of quotas to the authorities until after the Board had considered that paper, or it should have begun consultations with the authorities on the proposed quotas earlier, with a view to securing the support of both sets of authorities before the staff paper was brought to the Board.

Mr. Glazkov commented that he agreed with previous speakers that it might create a dangerous precedent to deviate from the formulas traditionally used by the Fund to calculate quotas for all members. The Fund did not really have a choice in this situation as to whether to adhere to its quota calculation or not, because there was no--and could hardly be--commitment by the Czech authorities to their new reduced quota. He agreed with Mr. de Groote and Mr. Esdar that any delay in taking a decision on membership for the Czech Republic and the Slovak Republic could further complicate the current situation. Therefore, he could support the proposed decision.

Mr. Mirakhor stated that he agreed with other speakers that it was for the Fund to determine quotas for new members. However, there was a conceptual difference between cases involving new applications for membership and cases involving succession. The Fund did not have a clear mandate to calculate quotas for successor states, especially when there was a prior agreement among those states on the division of assets and liabilities.

Mr. Bonzom said that he agreed with Mr. Dawson that the Board had been placed in a very unsatisfactory position. Nevertheless, as Mr. de Groote had indicated that both the Czech Republic and the Slovak Republic would, albeit reluctantly, accept the decision of the Board on the division of Czechoslovakia's assets and liabilities in the Fund, he agreed with other speakers that the Board should not delay adopting the proposed decision.

Mr. Al-Jasser commented that the situation with respect to the Czech Republic and the Slovak Republic was unsatisfactory, especially as most Directors had come to the current discussion expecting to celebrate the most civilized secession, to which all parties were agreeable.

At the present juncture, all the issues related to the succession of the Czech and Slovak Republics, which should have been addressed prior to the Board meeting, had been examined at length, and no convincing argument against the staff proposal to divide the quota of Czechoslovakia between the successor states in a 2.29:1 ratio had been presented, Mr. Al-Jasser noted. Therefore, he saw no reason to delay adopting the proposed decision.

Mr. Fridriksson commented that he agreed with previous speakers that the Board had been placed in an unfortunate situation. Nevertheless, from the current discussion, it was clear that the methodology used to determine quotas for new members had been thoroughly explained to the authorities and it had been made clear to them that it would likely result in a division of Czechoslovakia's quota at a somewhat higher ratio than the 2:1 ratio agreed by the authorities. In the circumstances, he saw no reason to delay adopting the proposed decision.

Mr. Wei said that he shared some of the concerns expressed by Mr. Mirakhor. At the present stage it was not clear that both of the successor states would accept a decision along the lines of the staff proposal. Indeed, it was clear that the division of Czechoslovakia's assets in a 2.29:1 ratio was not the first preference of at least one of the parties concerned. As the difference between the ratio of 2.29:1 proposed by the staff and the ratio of 2:1 agreed by the successor states was not substantial, the Board should be flexible in trying to find a ratio that would be more acceptable to all concerned.

Mr. de Groote noted that the communications from the Czech authorities had clearly indicated that they could accept the division of Czechoslovakia's assets and liabilities, including its quota, resulting from the staff's calculations. While the Slovak authorities had expressed a preference for use of a 2:1 ratio, he was confident they would be willing to accept the staff proposal. The current difference of view between the Czech and Slovak authorities called for the Fund to take a decision on the most appropriate ratio to be used to divide Czechoslovakia's quota between the successor states.

The Treasurer recalled that, in their discussions with the staff, the Czech and Slovak authorities had expressed a preference for use of the 2:1 ratio, which had been agreed for other purposes, to divide Czechoslovakia's assets and liabilities in the Fund. However, the authorities had expressed that view as only a preference; they had not insisted on proceeding on the basis of that ratio.

Mr. Ismael stated that he agreed with previous speakers that the Board should not delay taking a decision on the terms and conditions of membership for the Czech Republic and the Slovak Republic. In taking such a decision, the Board should be impartial. While it should avoid being dogmatic about the quotas calculated by the staff, it should also remain within reasonable limits in taking into account judgmental considerations. In the case currently under consideration, he wondered whether the quota of Czechoslovakia could be divided by a coefficient somewhere around the midpoint between 2.29:1 and 2:1, namely, 2.145:1.

Mr. Murphy considered that the 2:1 ratio originally put forward by the Czech and Slovak authorities and which might have been supported could not now be seen as an alternative, since there was no longer an agreement between the two successor states on that ratio. In the circumstances, he felt compelled to support the proposed decision.

Mr. Dawson said that, while there was merit to Mr. Ismael's suggestion, he agreed with Mr. Murphy that only the staff proposal could be accepted in the current circumstances, in which there was no longer an agreement on the division of assets between the two successor states.

He differed with Mr. Mirakhor on whether cases involving succession should be treated differently from other applications for membership, Mr. Dawson commented. Nevertheless, the way in which the current case had been brought to the Board prohibited Directors from exercising judgment in coming to an agreement on appropriate quotas for the Czech and the Slovak Republics. That was not the case with respect to the determination of quotas for other new members.

Mr. Kanada stated that he agreed with previous speakers on the need to apply the standard methodology used by the Fund to determine quotas for all members. He supported the proposed decision.

Mr. Filosa commented that it would not be sensible to delay taking a decision on the terms and conditions of membership for the successor states of Czechoslovakia. From the current discussion, it seemed that the Slovak authorities had changed their position on the division of Czechoslovakia's assets and liabilities in the Fund at the last moment. In the circumstances, the staff proposal was not only an appropriate alternative, but it was also the only alternative that would be defensible in the event that the division of Czechoslovakia's assets and liabilities was submitted to arbitration.

A prior political agreement between two countries should never form the basis of Board decisions, Mr. Filosa remarked. He differed with Mr. Dawson on the way the case currently under consideration had been handled. The authorities had been given ample opportunity to comment on the staff proposal, and they had done so only at the last moment. In the circumstances, the Fund had no choice but to proceed on the basis of the standard methodology used to determine quotas for all members. He supported the proposed decision.

Mr. Zoccali said that he agreed with other Directors that the current situation with respect to the division of Czechoslovakia's assets and liabilities in the Fund was unfortunate. Nevertheless, he could support the proposed decision. He hoped that every effort would be made to ensure the timely confirmation of the proposed terms and conditions of membership by the authorities.

The Treasurer stated that the procedures followed in the case of the successor states to Czechoslovakia were not different from those followed with respect to other applications for membership. The staff had visited both countries to discuss the membership procedures with the authorities and to collect the data needed to calculate quotas. The staff had not discussed the actual quota calculations with the authorities during those visits, and the authorities had not had any direct input on the final recommendations of the staff. The staff had forwarded copies of the staff paper on the calculation of quota to the authorities--which was not an unusual practice in cases involving membership. However, the staff had not made an effort to persuade the authorities to accept the staff proposals; it would be contrary to the established membership procedures to do so.

In cases where membership applications were taken up for consideration by ad hoc committees, it was usual for either the Executive Director looking after the interests of the applicant or the Chairman of the committee to seek the applicant's acceptance of the recommended terms and conditions of membership before the committee's report was submitted to the Executive Board for approval, the Treasurer noted. In the case currently under consideration, and as is the case of Yugoslavia, the Executive Board itself was asked to offer the terms and conditions of membership to the two successor states of Czechoslovakia directly.

Mr. Dawson considered that the membership process--in particular with respect to the negotiation of the proposed terms and conditions of membership--had been different in the case of the Czech and Slovak Republics, because an ad hoc committee had not been asked to make preliminary recommendations before a final decision was brought to the Board. In the light of that unusual procedure, the staff should have discussed its recommendations with the authorities before the staff paper on the calculation of quotas was brought to the Board. Because no such dialogue had taken place before the current discussion, the Board was left with no choice but to endorse the staff proposal.

The Acting Chairman considered that it would not be appropriate for the staff either to discuss its quota proposals directly with the authorities of applicant countries or to try to persuade them to agree with those proposals prior to the Board discussion. As in other cases, where applications for membership were given preliminary consideration by ad hoc committees, it was up to the Executive Director looking after the interests of the applicant to discuss the quota proposed by the staff with the authorities. To the extent that the staff was brought into such discussions, it should be on only a technical basis.

As in all cases involving membership, the Board applies its judgment in determining whether or not the staff recommendations for the Czech Republic and the Slovak Republic were appropriate, the Acting Chairman stated. It should be made clear to the authorities of both the Czech Republic and the Slovak Republic that the proposed quotas were in line with the traditional methods used by the Fund in calculating quotas for all members. It should also be made clear that the data that had been used to calculate the proposed quotas were based on the division of assets and liabilities agreed by the authorities.

Mr. de Groote commented that he was grateful to Directors for agreeing to take a decision for the current discussion. He was certain the Czech and Slovak authorities would accept the terms and conditions of membership offered. He agreed with other Directors that it was important to send a clear signal to the international community that it was for the Fund to determine the quotas of all members.

Looking to the future, both the Czech Republic and the Slovak Republic hoped to continue their warm and cooperative relationships with the Fund, Mr. de Groote said. While the Czech Republic did not expect to require financial support from the Fund in the foreseeable future, the Czech authorities hoped to benefit from the Fund's policy advice and technical assistance. The Slovak Republic would likely seek an arrangement with the Fund in the near future, and the Slovak authorities looked forward to a long and fruitful association with the Fund.

The Executive Board took the following decision:

1. In the light of the Constitutional Act of the Federal Assembly of the Czech and Slovak Federal Republic (hereinafter "the CSFR") on the Dissolution of the Czech and Slovak Federal Republic of November 25, 1992, the Fund finds that the CSFR will cease to exist, and therefore will cease to be a member of the Fund, as of January 1, 1993, subject to receipt by the Fund of confirmation of the dissolution of the CSFR from the Czech Republic and the Slovak Republic.

2. (a) The Fund also finds that, upon cessation of membership of the CSFR in the Fund, the Czech Republic and the Slovak Republic shall be the successors to the assets and liabilities of the CSFR in the Fund (hereinafter "the successor(s)"), including those in the SDR Department, and determines that their respective shares in such assets and liabilities shall be as follows:

Czech Republic	69.61 percent
Slovak Republic	30.39 percent

(b) If a successor successfully challenges its share of the assets and liabilities as determined in (a) above before an arbitral tribunal established under Article XXIX(c), the share of the other successor, if it has not modified as a result of arbitration, shall be adjusted pro tanto.

3. The successors may succeed to the membership of the CSFR in the Fund in accordance with the following terms and conditions:

(a) The successors shall succeed simultaneously to membership in the Fund when:

(i) each successor has notified the Fund, within the period prescribed in the proviso in (c) below that it agrees that its share in the assets and liabilities of the CSFR in the Fund is as specified in paragraph 2 of this decision;

(ii) each successor has notified the Fund that it agrees, in accordance with its law, to succeed to the membership of the CSFR in the Fund in accordance with all the terms and conditions prescribed in this decision, and that it has taken all steps necessary to enable it to succeed to such membership and carry out all of its obligations under the Articles of Agreement; and

(iii) neither successor has any overdue financial obligations to the Fund or in the SDR Department.

(b) The quota of a successor shall be as follows:

Czech Republic	SDR 589.6 million
Slovak Republic	SDR 257.4 million

(c) The successors may succeed to the membership of the CSFR in the Fund pursuant to this decision not later than six months after the date of this decision, provided that the Fund has received the notifications referred to in paragraph (a)(i) above not later than one month after the date of this decision. The Fund may decide to extend such periods until such later dates as it may determine.

4. For purposes of this decision, membership in the Fund shall be deemed to include participation in the SDR Department.

Decision No. 10248-(92/157), adopted
December 30, 1992

2. ARGENTINA - EXTENDED ARRANGEMENT - REVIEW, REQUEST FOR WAIVER AND MODIFICATION OF PERFORMANCE CRITERIA, AND PROGRAM FOR SECOND YEAR

The Executive Directors considered a staff paper on the review under the extended arrangement for Argentina together with the second-year program (EBS/92/210, 12/15/92; and Sup. 1, 12/28/92).

Mr. Zoccali made the following statement:

My Argentine authorities would like to thank Fund management and the staff for the frank, constructive discussions regarding the program parameters for the second year of the extended arrangement and for the catalytic role played by the Fund in securing the official external enhancement resources required for the full normalization of Argentina's relations with its commercial bank creditors.

The authorities have been laying the foundation for renewed growth through more stable, transparent, and market-based rules. During the last two years, currency convertibility, tax and trade reform, privatization, and the liberalization of real and financial markets have served to restore private sector confidence and to stretch out planning horizons after years of disinvestment.

Inflation has fallen to the lowest level in decades, while economic activity has been growing rapidly. The average increase of consumer and wholesale prices during the 12 months ending November 1992 was 10.2 percent, down from 58.4 percent a year earlier. Similarly, real growth for 1992 is projected at 7 percent, following a 5 percent increase in 1991. Moreover, the expected attainment during 1992 of an overall fiscal surplus of 0.8 percent of GDP points to the underlying sustainability of the policy framework.

As was pointed out in the staff report, the September 30, 1992 quantitative performance criteria were observed with substantial margins, and the end-December targets are also expected to be met. With respect to the reform of the social security system, incorporated as a structural benchmark of the program for end-October, my authorities have submitted to Congress a proposal entailing a self-financing pension and retirement scheme that, at the same time, will foster private savings, enlarge the domestic capital market, and help intermediate longer-term resources to renewed investment opportunities arising from privatization, deregulation, and the systematic downsizing of public sector activities. The significant efforts made since midyear to develop the widest possible political consensus are beginning to bear fruit in terms of general acceptance of the proposed reform. In view of other important legislation recently adopted, including the new central bank charter, the authorization for the full privatization of the oil company (YPF), and the revamping of the audit and control mechanisms over budgetary expenditure, enactment of the social security reform is expected before the conclusion of the next program review.

Cognizant of the importance of the reform, my authorities have been adapting the proposal in light of legitimate concerns while keeping intact both its overall objectives and the underlying fiscal targets for the program period. The fully capitalized system will be accompanied by an increase in the retirement age to 65 years for both men and women from the present levels of 60 and 55 years, respectively, taking effect gradually from date of enactment. Additionally, workers' contributions toward the new system will be mandatory while preserving their right to choose among pension fund administrators. The fact that the new system would be in place in January 1994 and that all employees would now be part of the capitalized system, compared with only those 45 years old or younger in the earlier proposals, raised the question of equivalency that the staff addresses in its paper. In this regard, my authorities wish to highlight the fact that public sector expenditure in the second half of 1992 already takes into account the increase in pensions to their legal minimum, thus terminating the accumulation of arrears under the present system earlier than programmed. This represents an additional fiscal effort of 0.4 percent of GDP, which would translate into an over-compliance for 1992 of approximately 0.6 percent of GDP. For the program period 1992-94 as a whole, fiscal performance would actually exceed the adjusted program projection by 0.5 percent of GDP, with a balance in the overall public sector accounts throughout.

With respect to currency policy issues, my authorities share the broad thrust of the staff appraisal, particularly the need to enhance competitiveness through structural reforms aimed at lowering costs. Consequently, I will briefly address the major issues of concern, namely, the sustainability of the fiscal and trade positions and the consistency of monetary policy.

On the fiscal front, the degree of consolidation cannot be overlooked as the overall balance of the combined public sector shifted from a deficit of 3.3 percent of GDP in 1990 to a surplus of 0.8 percent of GDP in 1992. Excluding revenues from privatizations, the overall balance is projected to show a deficit of only 0.4 percent of GDP in 1992 and a surplus, after full debt-service payments, of 0.9 percent of GDP in 1993.

While strong economic activity has contributed to revenue growth, the fiscal reform has been resolutely centered on the fight against tax evasion and the simultaneous simplification of the tax structure, broadening the value-added tax base on the one hand and eliminating distortive taxes such as those on exports and bank debits on the other. General government revenue, excluding privatization receipts, rose as a percentage of GDP from 17.5 in 1990 to 25.5 in 1992 and is expected to reach 27.2 in 1993. Further reductions in tax evasion, particularly of social security taxes, are envisaged during 1993-94. Centralized cross-checking between value-added tax collection and social security contributions by the Secretariat of Public Revenue is expected to contribute to their growth.

In this context, public expenditure, excluding interest payments, is projected to be 0.8 percent of GDP higher than programmed for 1992, reaching a level of 23.3 percent of GDP. Having increased pensions to the legal minimum, thus eliminating the accumulation of arrears for an important segment of the population with fixed incomes, and having selectively adjusted remunerations, particularly to key echelons of the public administration to build up the capacity for policy implementation, my authorities are intent on containing further spending pressure and increasing the productivity of that expenditure. The 1993 Budget Law enacted on December 23 will come under the procedures of the new law on Financial Administration and Control of the Public Sector. This is viewed as a milestone for enhanced fiscal discipline as it integrates into one system the budgetary, accounting, treasury, and public debt areas. The Treasury will thus be in a position to effectively implement the procedure of quarterly authorizations of expenditure pari passu with projected revenue. The aforementioned legislation also establishes an effective linkage between the individual internal audit offices at each public sector entity and two new external audit administrations, reporting to the Executive and Legislative Branches, respectively.

The trade deficit, estimated at US$1.2 billion for 1992, has been linked by some to the real appreciation of the peso, in view of its fixed parity with the U.S. dollar since April 1991. In assessing the trade imbalance, the level and composition of imports deserve particular attention. Despite their trebling since 1990 as a result of trade liberalization and strong economic activity, they represent only 8 percent of GDP and comprise mostly intermediate and capital goods, with a direct bearing on future productivity gains. At the same time, exports are projected to grow in 1992 by 6.2 percent in value terms, notwithstanding the weak international environment and regional spillover effects.

The external measures announced last November should be viewed as motivated by trade and not exchange rate considerations. The statistical tax on imports excludes most capital goods and is considered to be temporary in nature. My authorities believe that any distortions should be eliminated as the pent-up demand for imports tapers off or as additional exports result from increased private investment in nontraditional sectors and a conclusion to the Uruguay Round of trade negotiations. It is also important to take stock of the fact that the same package of trade measures also included the elimination of the Patagonian industrial promotion scheme and further diluted the remaining industrial subsides.

This being said, Argentina's external trade flows should continue to expand as a result of the full-fledged process of privatization and the structural transformation under way at the macro and micro levels. As these changes translate into greater efficiency and reduced costs, historical real exchange rate comparisons influenced by bouts of past hyperinflation become unreliable at best. Moreover, statistically significant indicators of competitiveness have yet to incorporate the effects of the elimination of foreign exchange controls, export taxes, fuel oil and gas oil taxes, the deregulation of port services, and renewed access to foreign financing, to name but a few of the simultaneous changes taking place in the economy today. Consequently, my authorities have reaffirmed their commitment to convertibility and to the nominal anchor. Measures were introduced to advance substitutability between the peso and the dollar, reducing in the process both transaction and financial costs. Thus, given the fiscal stance described above, the authorities were able to reverse the exchange market uncertainties that briefly appeared last November. Central bank sales of foreign exchange, amounting to US$230 million, have given way to record purchases of about US$1.3 billion in December, reflecting in part seasonal liquidity needs. Nevertheless, future sales of foreign exchange should be expected as part of the normal functioning of the convertibility scheme.

Sizable capital inflows are responsible for the overall surplus in the balance of payments projected for 1992. The reversal of decades of capital flight continues and is accompanied by regained access to external financing by a growing number of domestic borrowers. The main difference between this experience and that of the late 1970s and early 1980s in this regard is that these equilibrating flows are private and are taking place in the context of a major modernization drive of the economy. To the extent that the marginal efficiency of investment exceeds the cost of its financing, there is no ex ante reason to anticipate future problems. Moreover, increasing private sector foreign liabilities are a sign of confidence in the policy framework and, perhaps more important, of a growing commitment to price and exchange rate stability at the microeconomic level.

With respect to monetary policy, the sustained pace of remonetization after the hyperinflationary troughs of 1989-90 has been accompanied by a further drop in inflation. M4, defined as M3 plus foreign currency deposits, has increased by almost 100 percent in GDP terms since the Convertibility Law was introduced and now approaches 18.5 percent. This level is similar to that reached at the height of the Austral Plan but is still below that of earlier historical peaks or those prevailing in traditionally more stable economies. Higher levels of monetization in Argentina would benefit intermediation by reducing the operational costs/deposits ratio, thus allowing for further declines in spreads and interest rate differentials, particularly for those borrowers that do not yet have access to external resources. This being said, my authorities have shown caution in reducing the high legal reserve requirements during the current year, which, for example, still stand at 71 percent for demand deposits, a higher level than originally envisaged under the program. In this same vein, swap operations to smooth intramonthly liquidity needs have been undertaken in limited amounts so as not to unduly influence market interest trends, which are a key variable of adjustment in the present policy framework.

The recent measures introducing, inter alia, checking accounts in dollars and new flexibility for banks to integrate part of their legal reserves on peso deposits also in dollars will help to strengthen the financial system, reduce the risks of runs on deposits, and produce greater interest rate convergence between the domestic and international money markets. An important externality of Argentina's bimonetary arrangement is that the dollar may be used for all transactions, except the payment of wages and taxes. With the dollar in wide usage, the contractionary effects of an unanticipated flight from the peso could be expected to be limited.

The recent signing of thel140Xdebnd debt-service reduction accord with commercial bank creditors on December 6 marks the final major hurdle for the complete normalization of the public sector's external contractual obligations. Strict adherence by the participating official institutions to the planned sequence of authorizations of enhancement resources is deemed essential in view of the substantial amounts of collateral to be acquired. Total public indebtedness, both domestic and external, including obligations to pensioners and suppliers, will thus have been reduced to approximately 42 percent of GDP by end-1993, lowering the country's exposure to interest rate risk and enhancing the prospects for sustained medium-term external viability.

Extending his remarks, Mr. Zoccali stated that with respect to Minister Cavallo's supplementary letter dated December 24, 1992 on the envisaged timetable for congressional action on the Administration's social security reform proposal, he wished to inform the Board that the Budget and Social Security Committees of the Chamber of Deputies had met the previous day with less than full attendance in view of the end-of-year date, and regrettably had not been able to conclude their deliberations, leaving the issue for further study and consideration when Congress reconvened in extraordinary summer session in February 1993.

The proposal was complex, with many aspects that inevitably slowed down the consensus-building process, Mr. Zoccali observed. That in no way suggested that the door to reform was being closed, as the fundamental characteristics seemed to be widely accepted, in particular, the advantages of a contributory system under which each individual accrued pension rights through his own contribution compared with the continuation of the more uncertain distributive system and the need to increase the retirement age as an alternative to increased tax pressure. His authorities would continue to exert every effort to achieve approval of this important legislation and did not see that development as adversely impacting on the fiscal program for

1993 or altering the schedule for implementation of the capitalized system on January 1, 1994 as envisaged. Directors would recall the successes of his authorities in adapting legislation to reach a consensus in light of changing circumstances while at the same time preserving the overall program objectives.

As to inflation performance for December, preliminary numbers suggested a continued downward trend, with the consumer price rate estimated at 0.5 percent and wholesale prices declining by a similar amount, Mr. Zoccali remarked. For the year as a whole, consumer prices would have increased by less than 18 percent compared with 84 percent in 1991, and wholesale prices by less than 3 percent compared with 57 percent in 1991.

Mr. Martínez-Alas made the following statement:

Efforts to stop high inflation have been an almost permanent characteristic of Argentina's stabilization attempts over the last decades. In this context, we are pleased to see that during 1992 more progress was made toward achieving a low-inflation environment. Moreover, the focusing of the adjustment effort on the goal of price stability has effected a change in the macroeconomic regime. Recent progress has been underpinned both by the wide range of structural measures taken and by the fixed exchange rate arrangement under the umbrella of the Convertibility Law. In this setting, achieving a rapid convergence of inflation to international levels is particularly important to the continued success of Argentina's stabilization program.

Development in price indexes in recent months show an encouraging trend, particularly at the level of wholesale prices. Consumer prices, however, grew at a relatively high rate during 1992. This growth reflects increases in prices of nontradable goods, which is a common phenomenon in stabilization attempts that use the exchange rate as a nominal anchor. Future inflation developments are of particular concern in this program. We would be interested to hear what the staff sees as driving forces behind inflation in this case; also what actions could the authorities undertake to halt the process of increase in the relative price of nontradable goods, which is likely to continue in view of the robust growth of aggregate demand and the good investment opportunities in Argentina?

The authorities' commitment to continue reducing the distortions that still hinder the economy's potential growth is impressive. We consider this second-year program to be strong and well balanced--a program that fully deserves the support of the Fund and the international community. Two issues are, however, a source of concern and potential risk: the remaining structural rigidities in production costs and the expected levels of capital inflows. These concerns are related to the need to maintain and improve external competitiveness and the likelihood of the need for a tighter financial policy stance owing to smaller than expected capital inflows.

The planned introduction of measures to address structural rigidities in the supply side of the economy, including, for example, greater flexibility in collective bargaining agreements, the introduction of private pension funds, and the elimination of marketing boards, is a welcome development. These measures will surely contribute to the reduction of unit labor costs and the enhancement of external competitiveness. All these elements should not be overlooked when analyzing the degree of overvaluation or undervaluation of a currency. On this point, we concur with Mr. Zoccali that, given the structural changes that have taken place, "historical real exchange rate comparisons influenced by bouts of past hyperinflation become unrealistic at best."

The impressive economic recovery and the interest rate differential have prompted substantial capital inflows that, in turn, have helped to sustain the economic turnaround. Nevertheless, the discipline of a fixed exchange rate and the importance of maintaining external competitiveness will require swift policy actions, in the event that capital inflows taper off. If this occurs, the authorities would be well advised to firmly sustain their efforts to reduce inflation.

The steady reduction in Argentina's per capita income during the 1980s was due to pervasive and high inflation rates. These, in turn, were the result of stabilization efforts that had fallen short of what was needed. More recently, however, the authorities have shown their commitment and readiness to implement difficult measures and, as a result, Argentina has regained the confidence of domestic economic agents and the international community. This is indeed another important structural change. Moreover, the debt- and debt-service restructuring agreement reached with commercial banks will be instrumental in fostering a more attractive climate for foreign investment and will further improve the possibilities for balanced growth with external viability.

Let me once again commend the considerable progress made under the extended arrangement and the strength of the second-year program. We would encourage the Argentine authorities to persevere in their adjustment efforts and to make the most of this opportunity to turn their backs on the inflationary past. The distortions caused by the excessive use of the inflationary tax have hurt particularly the poorest segment of the population, which is the least able to make the necessary accommodations to avoid it. With these remarks, we support the proposed decision.

Mr. Dawson made the following statement:

The impressive progress Argentina has made under its economic reform program is continuing. The quantitative performance criteria for the latest review period have all been met, and follow-on steps in key reforms in the areas of taxation, public expenditure, the financial sector, and the monetary system have been implemented. Exceptionally strong demand in 1992 has led to faster than expected growth, a significant current account deficit, and an inflation rate that is dramatically improved over recent years but still worrisome for a country committed to a hard currency peg.

The heady expansion of 1991 and early 1992 seems to have moderated in recent months. As the turbulence and euphoria of the early successes of the reform program settle down, economic and financial relationships should sort themselves out into more durable patterns. When this happens, we will have a clearer view of the long-run sustainability of the prosperity that has recently re-emerged in Argentina. Trying to sort through the evidence available today, however, we are concerned that some key elements of the economic program could be drifting off track.

In view of the commitment to a fixed dollar parity, the deterioration of the trade and current account positions in 1992 requires careful evaluation. Mr. Zoccali has enumerated the reasons this swing in the trade position is benign, or even healthy. He argues that it reflects the repatriation of capital based on restored confidence and new opportunities for foreign investors. The trade account has to widen to accomplish the real capital inflow investors are trying to achieve. Also, much of the import boom is in investment goods, and these will provide the real resources and higher productivity to service the capital inflows. Furthermore, the indices of real exchange rate movements are unreliable indicators of competitiveness, given the history of hyperinflation. His argument also includes a hint of what could be called "the Lawsonian maxim," namely, that an external imbalance based on private sector savings and investment decisions, undistorted by public policy, is not a matter of concern since it will be self-correcting when it is no longer financeable.

Up to a point, these are forceful arguments. In the background, however, the pattern of inflation and earnings appears to be still moving on a trajectory that will retard the profitability of Argentina's tradable goods sector. For the year, inflation as measured by the consumer price index is still about 18 percent. This may be moving down to the 12-percent range, but with the dollar price of internationally traded goods essentially flat, the price and cost relationship for Argentine goods is on a deteriorating path. The staff report also notes that the peso was at a relatively appreciated level when it was linked to the dollar.

We are not sure what to make of the low rate of the wholesale price increase. Does this reflect the pressure of international markets? Even if it does, the gap between wholesale and consumer prices indicates an underlying pattern of service and labor costs that must be out of line with the general trend of productivity growth. The Argentine authorities' practice of averaging consumer and wholesale prices to come up with a composite measure of inflation is unhelpful. It may result in a more agreeable number but it deflects attention from what appears to be a pattern of growing wage and price distortions. The external measures adopted in November were a clear indication that the authorities themselves had become concerned about the way trade flows were developing, even if they insisted the measures were not a reaction to ongoing real currency appreciation.

To make the fixed dollar link viable in the medium term, Argentine costs and prices will need to conform to the general pattern of dollar prices. If the fixed rate strategy is to work, labor markets will need to achieve some of the same flexibility that has been introduced in product and financial markets. This aspect of Argentina's reforms needs to be given more prominence. Tax and social benefit reforms are addressing some of the rigidities of the labor market, but a good deal more needs to be done. Under the current system of centralized agreements, inflexible costs and employment terms have been adopted. We are pleased to see that reforms are contemplated for the first half of 1993 that would allow for the decentralization of collective bargaining for small and medium-sized firms. Such reforms should be extended more broadly to create a labor market that is more responsive to the new economic dynamics that the Argentine strategy is trying to instill.

Internal savings need to replace some of the temporary bulge in external savings flows if the economy is to settle onto a more sustainable growth path. The program targets agreed for 1993 are designed to achieve a further improvement in public sector savings equivalent to 1.4 percent of GDP. A small increase in the primary surplus in 1993 would be part of the public sector contribution to a better balance between internal and external savings. Public sector savings efforts are to be sustained into 1994. We believe this is appropriate to insure that the financing requirements of the Government can be met without putting pressure on the new currency board monetary arrangements. However, we would appreciate further comment from the staff on whether this degree of fiscal discipline will be adequate to achieve both the moderation and the rebalancing of demand that seem to be called for to maintain overall macroeconomic balance.

We are disappointed that the proposed comprehensive reform of the social security system has not yet received Congressional approval. In view of the social as well as economic significance of this reform, however, we can appreciate the need for widespread political support for the proposed legislation. We are satisfied that this important reform is still moving forward and look forward to its enactment before the next program review as suggested by the authorities in their request for a waiver.

Major progress has been made in rationalizing and consolidating public sector debt. With the conclusion of the debt agreement with commercial bank creditors, external arrears will have been eliminated. Current obligations are being met, and most internal arrears have also been liquidated, although, pending enactment of the social security legislation, unpaid pensions remain to be resolved. Mr. Zoccali has pointed out that the public sector balance in 1993--including all interest expenses, but excluding privatization receipts--will be in surplus by 0.9 percent of GDP. This is a truly impressive achievement when set against the public sector financial disorder of the 1980s.

We are pleased that Argentina's reforms have proceeded to the point where its Brady debt plan can now be executed. We believe that the sweeping market-oriented economic reforms that are being implemented are exactly the sort of policies we had in mind when the international financial community endorsed Secretary Brady's proposals for debt and debt-service reduction. We are happy to support today's decision, particularly regarding the acceleration and disbursement of set-asides and augmentation of the arrangement to support the debt agreement with the commercial banks.

Mr. Tabata made the following statement:

The good performance of the Argentine economy in 1992 is impressive. The economy is growing strongly--by 7 percent annually--helped by large capital inflows. Although the rate of inflation is higher than expected, it is notable that the wholesale price index increased by only 3 percent this year.

In addition, we commend the authorities for having observed all the performance criteria for 1992, excepting the structural measures related to the social security reform. It is regrettable that this performance criterion once again was not observed. However, in view of the controversial character of this reform, it is likely to take a certain amount of time to pass the Congress. I can therefore go along with the requested waiver.

I am pleased to note that fiscal policy will continue to be tight next year and, as a result, an increase in savings is programmed. In order to realize the targeted savings, the strengthening of the tax administration and, at the same time, adherence to the quota ceiling on expenditures are essential. In particular, mandatory expenditures, such as pensions, which are expected to grow rapidly, should be examined.

I welcome the recent decline in the monthly inflation rate. Careful attention should, however, be paid to the development of monetary aggregates. Although the economy is still in the late stages of monetization, the time is likely to come when the authorities will have to prepare measures to stabilize the slowdown in capital inflows.

In light of the uncertain prospects for inflation, I am somewhat puzzled by the intended further reduction in the reserve requirement ratio in 1993. Does this mean that the authorities already have more effective tools than the reserve requirement to implement monetary policy? If efficient money markets have not yet been created, the authorities should exercise caution in reducing the reserve requirement ratio.

As to structural policy, in view of the sizable appreciation of the peso in real terms since 1991, it is imperative to utilize the benefits of appreciation--namely, a decline in the prices of imported goods. If wage increases are restrained in line with productivity gains through the reform of the wage determination system, the decline in the prices of intermediate goods caused by the peso appreciation will surely help to improve competitiveness.

In the external sector, it is worrisome that capital flight was reversed in November. I would appreciate the staff's views on the reason for the reversal. I suspect that the expectations of foreign investors have changed somewhat.

I am pleased to note that the authorities and the commercial banks have signed an agreement on restructuring Argentina's foreign debt. This operation will improve the medium-term balance of payments outlook and normalize Argentina's relations with its commercial bank creditors. I fully endorse the use of Fund resources in this operation. Let me take this opportunity to confirm that the Japanese authorities will support this operation and that the Export-Import Bank of Japan is prepared to extend loans to Argentina.

The Argentine authorities have made commendable efforts in stabilizing the economy. The restructuring of commercial bank debt will be an important milestone in this regard. Much remains to be done, however, in both the macroeconomic and structural areas. I strongly hope that the authorities will continue their efforts under the program and that Argentina will become one of the best examples of economic recovery in Latin America. With these remarks, I support the proposed decision.

Mr. Quirós made the following statement:

Since 1989 the Government of Argentina has been pursuing a program of economic adjustment and structural change in order to reduce inflation to international levels, achieve sustained economic growth, restore external viability, and free the economy from excessive state regulations. To attain these goals, the Government has been implementing, with great success, sound macroeconomic policies that have included important changes in fiscal and monetary policies as well as in the design and undertaking of necessary structural reforms. As we are in general agreement with the thrust of the staff report, we will restrict our comments to a few points that we believe deserve special emphasis.

Particularly noteworthy has been the regularization of the public debt, both external and internal. Regarding the former, on December 6, 1992, an agreement was signed with foreign commercial bank creditors on a comprehensive debt- and debt-service reduction package. It is expected that the multilateral financial institutions, including the Fund, will support this operation in the near future in order to achieve the final implementation of the commercial bank package estimated to reach US$3.7 billion. In view of the importance of such an arrangement for Argentina's economic future, and in view of the country's steadfast adjustment, we strongly favor the proposed Fund support for this program.

As to other forms of external finance, it is clear that large capital inflows have been instrumental in fostering investment and in supporting the overall growth of the economy in Argentina since 1991. However, as this form of finance cannot be maintained indefinitely, we welcome the authorities' emphasis on fostering domestic savings, both public and private. This should alleviate pressures on the balance of payments and should provide for a more sustainable growth pattern in the medium term.

Inflation continues to be a concern. As emphasized in the staff report, the convergence of inflation to international levels will be crucial in ensuring the program's continued success. Consequently, it will be necessary to exercise both continued fiscal restraint and a tight monetary policy, within the bounds of the fixed exchange rate, in order to reduce inflation as measured by the consumer price index as envisaged. Further progress in structural reforms will also be instrumental on this front, particularly the removal of distortions and restrictions in labor markets. In this regard, the extension to large firms of the regulations governing collective bargaining agreements in small firms would enhance the probability of success of the disinflation strategy. In any event, we are in full agreement that developments with respect to inflation and the external account need to be carefully monitored by the authorities to maintain the momentum of the economic program.

The final outcome of the strengthening of policies regarding the social security and the publicly financed health insurance system will also play a crucial role in the medium-term program. The Congress will begin discussions on this important matter in the near future. We are pleased to note that recently, the authorities have informed the Fund that if amendments to the legislative package are offered, their objective is to ensure that the overall economic impact of the reform will not be less favorable than the original proposal. Health care appears to have developed into a worldwide problem as increasing costs seem to be affecting the capacity of both developed and developing countries to provide the necessary physical, mental, and social well-being to large portions of their populations.

We should emphasize the success of the Argentine Government in designing and implementing a solid and effective privatization program that has not only rendered the country with ample financial resources to reduce the debt burden but has also effectively reduced the size of the public sector and public payrolls in an impressive way. Perseverance in this area will facilitate the increase of public savings in the medium term that is necessary for a strong medium-term growth path. We support the proposed decision, including the waiver.

Mr. Bonzom made the following statement:

The year 1992 was, in almost all respects, a very good one for Argentina's economy. Growth and investment increased further and substantially; fiscal consolidation continued; inflation was reduced by the end of the year to single-digit monthly rates and, owing to large capital inflows, official reserves reached the level of nine months of imports. Those were the results of the determined and courageous stance taken by Argentine economic policy in favor of adjustment and structural reforms in the framework of a fixed exchange rate regime.

At the same time, 1992 marked two major steps in the direction of the full normalization of Argentina's relations with the international financial community. In July, the Paris Club rescheduled maturities falling due until March 1995. It is most encouraging to note that the staff does not project any further rescheduling in its medium-term scenario. Moreover, this December, an agreement on debt and debt-service reduction was finalized with commercial banks. This latter agreement took months to materialize, and it is safe to assume that a favorable outcome could have been obtained somewhat earlier, had we implemented rules allowing for more fungibility in the use of Fund enhancements.

It is hoped that those two major agreements will enable Argentina to close the chapter of the 1980s debt crisis and to look forward to further strengthening the basis of a sustainable growth path. This will be achieved, inter alia, by maintaining a substantial level of non-debt-creating capital inflows and by limiting--and eventually, reversing--whatever the supposed merits of the "Lawsonian" theory--the recent trend toward the deterioration of the external current account. The stability of these inflows and, more generally, the viability of the balance of payments position will, in turn, hinge crucially on the continued acceptance of the logic of the fixed exchange rate policy that has served the country so well in the last two years. Further convergence of inflation trends will be essential in this regard.

Since I am in broad agreement with the thrust of the staff's appraisal, I would like to focus on three areas of policymaking that will be crucial in achieving the convergence of inflation--namely, fiscal consolidation, monetary policy, and structural reform.

On fiscal consolidation, good progress has been made during 1992 in strengthening the budgetary primary and overall balances. However, some overshooting of objectives regarding expenditures has occurred, mainly owing to increases in wages and pensions. By contrast, capital expenditures were, once again, cut substantially, and the program envisages for 1994 a further reduction, to only 1 percent of GDP, in this crucial category of outlays. Avenues for reaching the necessary, further fiscal consolidation must thus concentrate on maintaining a high level of revenue mobilization and on streamlining current expenditures.

As to revenue mobilization, we fully concur with the authorities' emphasis on further improving tax administration, especially against tax evasion, and on promoting, in the provinces, tax reforms that are consistent with the objective of financial stabilization. In view of the need to contain inflationary pressures, we also agree with the staff that any tax reduction should be made conditional on the realization of a satisfactory revenue path. As to current expenditures, there is clearly a need to exercise restraint on wages and pensions, which tended to grow excessively last year.

Monetary policy is essentially determined by exchange rate developments. I have noted, in this regard, the strong and encouraging export performance achieved this year, in circumstances characterized, inter alia, by the continued appreciation of the real exchange rate. In this general context, and given the overwhelming policy objective, we fully share the staff's recommendation for, and the authorities' intention of, proceeding cautiously with the necessary reduction of admittedly high reserve requirement ratios. Such caution will be instrumental in achieving the no less necessary deceleration in the rate of growth of monetary aggregates.

Together with fiscal consolidation and monetary caution, structural reforms must continue to play a key role in ensuring, on a long term basis, the competitiveness of Argentina's economy. Much progress has already been made also in this area, including in 1992. I refer especially to trade liberalization, privatization, and financial sector modernization. In this light, and looking forward, we agree, first, with Mr. Zoccali's indication that the statistical tax should be considered as "temporary in nature"; with the idea of reviewing progress on privatization at the mid-1993 review; and with the authorities' intention to further improve bank supervision. The staff has also made helpful suggestions to increase the efficiency of the labor market.

All these measures would certainly help ensure the continued improvement of the productivity of the economy, especially in the nontradable goods and services sector, which seems to have been relatively less affected by the discipline imposed on other sectors by the exchange rate regime.

In conclusion, my authorities are confident that the continuation of the policies carried out since 1990 and the full implementation of the obligations contained in the recent debt agreements with foreign creditors will enable Argentina to consolidate and reinforce the remarkable results already registered. In light of the recent achievements, the respect of the program's performance criteria, and the authorities' intentions--especially as regards an early and favorable vote on the social security reform--we fully support the proposed decision.

Mr. Jamnik made the following statement:

We commend the authorities for the impressive results achieved during the first year of their extended arrangement. In particular, we welcome the fact that all performance criteria for end-September were observed with substantial margins and that, by all indications, those for end-December will also be met. Economic growth is expected to remain strong for the second consecutive year, and inflation, although still high, has subsided to levels that are broadly consistent with program objectives. Argentina also continues to make reasonably good progress in the area of structural reform.

With the recent conclusion of a Brady-style commercial bank rescheduling agreement, Argentina has also taken a major step in re-establishing relations with external creditors. However, there have also been a few disquieting developments recently. We refer in particular to the temporary increase since November in the statistical tax on imports in an effort to reduce the current account deficit and slow the outflow of currency. This back-sliding in trade liberalization, evidently under pressure from domestic producers of tradable goods, is worrisome, especially coming at a time when the economy is relatively strong. It clearly raises concerns about further backtracking in the future, especially if economic conditions deteriorate and pressures to ease policies intensify. It also sends the wrong signal to enterprises, encouraging them to continue to count on a change of the rules and possibly an eventual devaluation of the currency, rather than to implement cost-reducing measures to improve their international competitiveness. In our view, it is important that the authorities move quickly to phase out the statistical tax on imports and refrain from similar action in the future.

I would note that the discussion of external policies in the staff report is sparse, and I would welcome comments by the staff or Mr. Zoccali as to how soon the authorities might expect to return to a more liberal tariff regime.

Unlike Mr. Dawson, and as we have pointed out on other occasions, we hold the view that the deterioration of the current account should not in itself be a source of concern, particularly if it is associated with a recovery in private investment financed by capital inflows. To the extent that the current account deficit reflects private decisions with respect to savings and investment rather than large government deficits, there is less reason for concern. If, however, trends in domestic inflation and the external accounts make it necessary to take action to safeguard competitiveness, given the fixed exchange rate currency board approach, a further tightening of macroeconomic policies would be necessary, particularly on the fiscal side, in addition to accelerated action on structural reforms to lower costs. Alternatively, the authorities might consider moving toward a more flexible exchange rate system. However, as the currency board approach has lent considerable credibility to the Argentine stabilization program to date, any such move should be considered carefully.

To facilitate rapid convergence of domestic inflation to international levels, there is an urgent need to proceed with further structural reforms, especially to promote greater labor market flexibility. In this regard, the recent measures to decentralize collective bargaining and increase labor mobility in small and medium-sized enterprises are especially welcome. However, as suggested by the staff, such measures should be extended to large firms.

On the fiscal front, the authorities' primary surplus targets are ambitious. Further improvements in tax administration and especially tighter expenditure control will be necessary to attain these objectives. It is also important that the federal authorities continue to maintain pressure on the provinces to observe expenditure limits and pursue required financial and structural reforms. While we note that the financial situation of the provinces has improved this year, in view of the extravagance of certain provinces in the past, close monitoring of the situation will be necessary to ensure that the trends in provincial finances remain consistent with the authorities' overall medium-term fiscal objectives.

In supporting the proposed decisions, we offer our encouragement to the Argentine authorities as they focus on their 1993 program objectives.

Miss Vori made the following statement:

In the past two years, Argentina has made outstanding progress toward macroeconomic stabilization and the consolidation of structural reforms. The authorities have proven successful in replacing the long-standing inflation-prone stance of economic policy with a realistic approach founded on fiscal consolidation, tight control of inflation, and structural measures.

The adoption of the currency board arrangement in the context of the Convertibility Law of March 1991 lies at the heart of the new course of action. Since then, inflation has rapidly declined, and the recovery of confidence has contributed to strong capital reflows that have helped to finance investment growth and advance privatization efforts.

The agreement reached with the commercial banks regarding the term sheet for the debt-reduction package crowns the Government's efforts to restore the country's solvency. The ambitious schedule for the restructuring of debt and debt-service payments contained in the agreement is comprehensive and cost efficient. The contribution of the Fund, which includes augmented resources for interest support as well as the collateralization of principal of reduced interest for bonds, is in accordance with the agreed guidelines on this issue. All necessary conditions have been satisfied--namely, the country is implementing a strong program, the track record of program implementation and timely payments to the Fund is excellent, the level of own resource use in the debt-reduction exercise is sufficient, and augmentation is necessary for an efficient use of resources. The agreement reached with the commercial banks constitutes an asset for the Government in terms of strengthening confidence and gathering full support for keeping the program on track.

The adoption of the currency board approach has been the cornerstone of Argentina's economic policy. It implies, however, that only the fiscal instrument is available to fight against inflationary pressures and contain aggregate domestic demand. The fiscal consolidation effort must continue, and the achievement of the targeted surplus in the overall public sector balance for 1992 and coming years must be considered as a priority.

In this regard, this chair welcomes the firm track record on public expenditure growth, which has been ensured by the application of ceilings. It is also heartening that the reform of the tax system has started to bear fruit, with an increase of 2 percentage points in tax revenues relative to GDP. This has also allowed the transfer of resources from the Central Government to the provinces, which goes toward a greater decentralization of the budget. It is imperative, however, that in the process of restabilizing the provinces by assigning them the management of the health and education systems, they should have adequate resources to cope with the principal budgetary discipline that must be respected also at the decentralized level. In this regard, it is necessary that the restriction placed on borrowing from provincial banks be maintained.

It is regrettable that the reform of the social security system aimed at moving it toward a self-funded basis has suffered further delay. However, this chair recognizes that such an agreement requires the consensus of social and political parties. Since the reform is an important element of the program, this chair continues to hope that the legislation is nearing approval by the Congress. As the delay will not adversely affect the fiscal program for 1993, this chair can go along with the proposed decision.

In the monetary area, the authorities' strong commitment to deflationary policies has spurred massive capital inflows and has led to rapid remonetization of the economy. The speed of this process has been particularly impressive. The M4/GDP ratio has increased from practically nil to 18 percent in two years. The present ratio, although not yet comparable to that prevailing before the episodes of hyperinflation, should, nevertheless, be carefully monitored by the authorities, since structural changes and financial innovation could have determined a break in the structural parameter of velocity. Therefore, prudence in lowering the reserve requirement for the banking system is recommended.

The pace of capital inflows is projected to decline following the completion of the privatization process and other internal and external developments, including, for example, the North American Free Trade Agreement between the United States, Canada, and Mexico, which will channel large capital flows into the latter country. The financial instability of major neighboring countries threatens to adversely affect investor confidence in Argentina. Recent developments in the Argentine stock market show that in the four months ending November 1992, prices have declined by about 70 percent. I would appreciate staff comment on the prospects for diminished reliance on capital inflows and the effect of such a development on the stability of Argentina's financial system.

In the external area, trade liberalization, strong economic activity, and import as well as export growth have produced a marked deterioration in the current account. This is to be expected when opening up an economy where the traditional sector consists for the most part of exports and there is a strong dependence on imports for consumer capital goods. In fact, Mr. Zoccali has indicated that imports largely comprise intermediate capital goods, which contribute to investment and productivity growth. However, competitive developments need to be watched closely for a their relevance, for the credibility, and the sustainability of the currency arrangement.

In this regard, two points should be emphasized. First, consumer price inflation, at 18 percent a year, is still high, reflecting structural bottlenecks and a lack of competitiveness, particularly in the service sector. I would be interested to hear the staff's views on the effect of deregulation, structural reforms, and inflation on the service sector. The effect of the increase in the value-added tax should also start to wear off, thus contributing to a further deceleration in the rate of growth of consumer prices. The second point is that the need to safeguard competitiveness should prompt the authorities to stand ready to resist the demand for wage increases to justify productivity gains. This chair wonders whether the increase in the public wage expenditure/GDP ratio from a programmed level of 3.3 percent to 3.9 percent is compatible with such an approach, especially in view of the sizable labor shedding following the downsizing of public sector activities.

With these comments, I support the proposed decision.

Mr. Peretz made the following statement:

I generally agree with the staff assessment of Argentina's good achievement under the extended facility. Indeed, the signing earlier this month of the debt agreement with commercial bank creditors is itself another indication of Argentina's success in winning back investor confidence by the pursuit of sensible economic policies.

That said, there are some areas where the authorities will need to exercise particular care in the months ahead. Last November's foreign exchange difficulties, although brief, highlight the crucial importance of maintaining confidence in the economic program at what could be a critical juncture. On this, I particularly support the staff's assessment about the need to tackle the decline in private savings, which has probably contributed to the worsening of the trade balance. Whatever the merits of the Lawsonian arguments about the trade balance--which I believe have considerable force--there is cause for concern about the decline in private domestic savings in Argentina.

I particularly share the concern of previous speakers about the further delay in enactment of the proposed social security reform. This is an important reform. I would hope to see a real boost to domestic capital markets from the transfer of social security contributions to private funds, as, indeed, has happened in Chile. This, in turn, should encourage saving and investment in Argentina. The postponement is disappointing. It will be important to use the intervening period to strengthen the financial system in preparation for the change. In that connection, I strongly welcome measures to improve banking supervision in Argentina. There are still worrying elements of instability in the banking system, particularly in the weak--or, in some cases, possibly insolvent--public sector provincial banks.

The pressure on the exchange rate in November and the trade measures introduced in its wake raise, as Mr. Dawson suggested, some questions about competitiveness and the level of the real exchange rate. Like others, I believe that the trade measures that were introduced in November, particularly the increase in the statistical tax on noncapital imports, are at best an imperfect and inefficient answer. At worst, they will delay and make more difficult the needed domestic adjustment. Even if they have not contributed to the continuing high level of consumer price increase in 1992, there must be a risk that they will do so in 1993, thereby threatening the program target. I therefore welcome Mr. Zoccali's assurances that this is intended to be a temporary measure, and I would strongly urge that it will genuinely be a temporary measure. All too often, temporary measures of this sort become permanent.

Like others, I agree that early action to improve labor market and wage flexibility will be essential in this context as a contribution to the fight against inflation. The measures proposed for small and medium-sized firms will need to be extended quickly to the remaining 40 percent of the work force.

As to the fiscal stance, I am reassured that the further delay of the social security reform will not adversely affect the fiscal outcome for 1993 or the implementation date for the reform of January 1994. I might have hoped, however, for a somewhat more ambitious target for the primary surplus in 1993. Certainly, it will be important to ensure that any tax reductions, such as those referred to on page 5 of the staff paper, are accompanied by expenditure reductions or evidence of higher revenue. I would add that there must be some risk that pressure on the exchange rate will re-emerge some time over the course of next year. In view of the sharp impact that such pressure would have on the level of interest rates under the exchange rate regime in Argentina, this seems to be a further reason for seeking to buttress monetary policy as much as possible with an ambitious fiscal policy.

I welcome in this respect the steps being taken to introduce stricter controls and accountability to public expenditure. I continue to feel, however, that there is a real problem in expenditure control in the provinces, which are benefiting from windfall revenue gains without any strong checks on the use to which those funds are put. I would be interested to hear from the staff what is being done to improve expenditure monitoring and control in the provinces, and when, as a first step, it will at least be possible to secure data on their income and spending.

With respect to the debt-reduction agreement, my authorities considered carefully the proposed early disbursement of set-aside funds, which will be disbursed two to three months ahead of the probable conclusion of the agreement with the banks, which is now expected in early March or some time in April. The gap between disbursement and final use is, I believe, a while longer than in past agreements of this kind. I certainly recognize the complications that would arise in this case from a postponement of disbursement until later, but I am also concerned about the risk of setting a precedent for future cases, perhaps cases where the adjustment effort by the country concerned has been less impressive and sustained. The prime consideration for the use of Fund resources in Brady-type agreements must be the strength of a country's economic program. In Argentina's case, there has been an excellent and sustained track record, one that I applaud. On that basis, I can agree in this instance to the early disbursement of set-asides. But I would welcome confirmation that there is no question of setting a precedent for future cases where the track record may be less impressive. I would also welcome staff comment on this issue; in particular, it would be useful to know what would happen if, against all present expectations, the agreement with the banks fell through at the last moment after the set-aside funds have been disbursed.

The staff representative from the Western Hemisphere Department, commenting on the driving forces behind inflation in Argentina, stated that to date, there had been a strong growth in aggregate demand, with both consumption and investment rising sharply. On the investment side, the increase had been linked particularly to direct inflows of capital. In fact, those inflows had been a major factor behind the general boom. On the consumption side, the increase in activity and overtime work had resulted in a rise in take-home pay in real terms. Consequently, wages had been fairly strong in the past 12-18 months, even though wage rates set under collective contracts had fallen in real terms and had tended to lag. Evidence suggested that demand pressures were tapering off, but the staff was monitoring developments closely, and as of October, indicators were still pointing to strong growth. More recent price behavior might be a sign that the pressure of aggregate demand was tapering off.

As to actions to deal with the strong rise in prices of nontradable goods, the staff would recommend better deregulation, and in particular, labor market deregulation, the staff representative remarked. In that respect, it should be noted that little had been achieved as yet in deregulating labor markets. There had been efforts by the Government to decentralize labor contracts, and a decree passed in November 1991 was aimed in that direction. That decree had, however, been challenged in the courts as being contrary to the legislation on collective contracts. The proposals mentioned in the staff report for deregulating small and medium-sized enterprises had not yet been adopted, and early action in that area would be critical.

The other aspect to reining in demand was to continue with tight macroeconomic policies so as to keep inflation under control, the staff representative continued. In that respect, the staff considered that the degree of fiscal discipline envisaged for 1993 ought to be sufficient to moderate demand and maintain overall balance. The fiscal program should generate higher public sector savings in 1993. At the same time, an effort had been made to create room for a further reduction of distortionary taxes. While the degree of fiscal discipline appeared to be adequate at the moment, the staff strongly agreed with Directors that its adequacy would have to be kept under close review and that the authorities would need to stand ready to take any measures necessary as developments warranted.

On reserve requirement policy in 1993, the staff viewed the reduction of the reserve requirement as a structural reform aimed at removing distortions in the operation of the financial system, the staff representative explained. Currently, the reserve requirement on demand deposits was 71 percent, and the average reserve requirement was 35 percent. That created a large gap between lending and deposit rates. The aim of the authorities was to reduce that distortion over time. In view of the rapid growth of monetary aggregates in 1992, the authorities had moved less rapidly than had been originally anticipated in that area, and they would continue to proceed in a gradual manner in light of market developments so as to avoid contributing to monetary pressures.

In the staff's view, the reversal in capital flows in November should be viewed as a temporary manifestation of doubts about the sustainability of the Argentine model, the staff representative commented. The sequence of events was interesting, in that the reversal of capital lines took place following the announcement of trade measures rather than before. Thus, capital markets appeared to have viewed those measures as sending the wrong signals in terms of the authorities' commitment to the fixed exchange rate model. The authorities' strong subsequent reaction in restating their commitments had rapidly reassured markets, and the outflow of some US$250 million in November had been followed by an inflow of US$1.3 billion in December.

As to stock market developments, the stock market index had risen from 148 in January 1991 to 840 in May 1992, an increase of 460 percent the staff representative recalled. Between May 1992 and November 1992, however, the index had fallen to 354, a fall of 58 percent; and in December 1992, it had recovered by about 19 percent. Thus, even after the correction to more realistic expectations, the stock market was still considerably higher than it had been at the beginning of the convertibility regime.

With respect to changes in capital inflows, a moderate reduction would not necessarily be a cause for concern and might even be welcome in terms of diminishing inflationary pressures, the staff representative stated. If, however, capital flows fell off rapidly, the economy could experience a recession, and in that event the staff would urge the authorities to adhere to the fiscal and monetary discipline of the program.

The staff had little up-to-date information on provincial finances, the staff representative from the Western Hemisphere Department commented. In Argentina's federal system, the Central Government did not have the power to require provinces to submit timely and detailed financial accounts. The Government was devoting considerable attention to provincial financial reform and had made strides in that area in the past year, particularly in reallocating expenditures to the provinces and in the agreement by which provinces had changed the revenue-sharing formula so as to channel a larger share of revenues toward the social security system. Under a World Bank provincial sector reform loan, efforts were being made to encourage reform and compliance in the area of provincial finances. The Fund staff would also continue to emphasize action in that area.

The Deputy Director of the Policy Development and Review Department stated that the period between the Board's approval of the use of resources for debt reduction and the conclusion of the debt-restructuring operation for Argentina might indeed be rather longer than in other cases. For

Mexico, the period had been two months, for the Philippines, about a week, and for Venezuela, only a few days. If the expectation that the operation for Argentina would take place in early March 1993 were realized, the period between disbursement and use of the Fund's reserves would be about nine weeks. In that case, the staff's proposal would not set a precedent. In any event, the proposed decision provided that the operation had to be concluded within 120 days of the decision's approval, so that if the agreement with commercial bank creditors was not completed in that period, the matter would have to be brought back to the Board for further consideration. The draft decision provided that the resources had to be used for the debt operation in accordance with the guidelines; otherwise, there would be an obligation for repurchase. He understood that pending the debt operation, the funds were to be placed in an escrow account by Argentina.

Mr. Al-Jasser made the following statement:

The dynamism exhibited by the Argentine economy during the past year has been spectacular. The growth in output and investment in 1992, together with the decline in inflation, are impressive achievements, which undoubtedly owe much to the authorities' firm pursuit of economic and structural reform and financial stability.

The authorities' adjustment program is underpinned by the U.S. dollar peg and full convertibility of the peso, and the anti-inflation discipline of this arrangement has served the economy well. In view of the key role of the dollar peg in the adjustment process, it is essential that the authorities pay due heed to the policy demands of the peg. In raising this issue, I do not wish to diminish the authorities' considerable achievements during the past two years, but rather to highlight what is required to safeguard Argentina's success.

Under the fixed exchange rate regime, maintaining an adequate level of competitiveness is a prerequisite for balanced and sustainable growth in Argentina. In turn, this requires convergence toward the level of international inflation and improvements in productivity. Since the introduction of the fixed peg, there has been a significant real appreciation of the peso, and while I recognize that inflation is on a downward trend, it still remains well above international levels. For the present, the recent widening of the current account deficit reflects, in large part, a recovery in private investment financed by private capital inflows, and can therefore be viewed in a positive light. However, if the drift in external competitiveness were to continue, there is a risk that the current account deficit may deteriorate for less benign reasons, rather than improve as projected, and would be unsustainable under the current exchange rate regime. Moreover, and without wishing to sound too much like the doomsayer, such a development could undermine the confidence of external investors and thereby provoke a relapse in capital inflows as dramatic as the recent revival.

I do not wish to sound pessimistic about economic prospects in Argentina. Indeed, the commitment to the program's objectives demonstrated by the authorities thus far is praiseworthy and augurs well for the future. Instead, my cautionary note is intended to highlight what I consider to be the policy priority for the year ahead, namely, a rapid reduction in inflation close to international levels, in order to safeguard competitiveness. At the same time, I acknowledge that the impact of the wide array of structural reforms on competitiveness that Mr. Zoccali has detailed may not yet be captured in conventional measures of competitiveness. Nevertheless, this should not detract from the importance of attaining a durable improvement in competitiveness, through a sustained improvement in inflation and productivity as well as structural reforms that improve the efficiency of markets, particularly the labor market.

By contrast, actions such as the trade measures introduced in November 1992 have a one-time effect on competitiveness, which will be eroded unless the more fundamental cause, namely, cost and price inflation, is addressed. Furthermore, the recent trade measures do not encourage efficiency among producers, and, therefore, may damage prospects for competitiveness over the longer term. On this point, I strongly encourage the authorities to phase out the recently increased statistical tax on imports.

The importance of reducing inflation and encouraging domestic savings to finance investment point to the need for continued restraint in fiscal and monetary policies. On fiscal policy, I note that the improved revenue performance in 1993 is based on strengthened tax administration. However, the revenue yield from administrative measures is inevitably accompanied by somewhat more uncertainty than increases in tax rates. Accordingly, revenue developments will need to be followed closely, and any further reductions in taxes should await clear evidence that overall revenues are on track. To ensure that the authorities' deficit target is met, it is also essential that no slippages occur on the expenditure side, and I welcome the monitoring of quarterly limits on spending.

I welcome the planned reform of the social security system, which should ensure its solvency over the long term. Therefore, I am disappointed that this reform has not, as yet, won congressional approval. However, this situation is understandable, and, indeed, predicting the timetable of legislative action is always a difficult task. Therefore, while performance criteria of this sort are a useful means of sustaining the momentum of reform, a waiver is also appropriate when a delay, such as a failure to win legislative approval for a reform, occurs. In this respect, it is clear that the authorities are committed to the social security reform and that congressional approval will be forthcoming without undue delay. Moreover, I am reassured by the authorities' undertaking to ensure that the overall economic impact of the reform will not be less favorable than under the original proposal. Therefore, I support the waiver and modification of the performance criterion.

As to other structural reforms, I concur with the staff's recommendations. In particular, the importance of labor market reform, which would enhance competitiveness and efficiency on a dynamic and lasting basis, cannot be overstated. Therefore, I encourage the authorities to act expeditiously in this area and to extend the proposed measures to include large firms.

The various indicators of competitiveness, namely, movements in the consumer and wholesale price indices, unit labor costs, and the strength of exports appear to give divergent signals about recent developments in external competitiveness. In light of the importance of this issue, a study of competitiveness that would pull together all the available disparate evidence, including the potential impact of the recent structural reforms, would be a worthwhile adjunct to the next review or Article IV consultation with Argentina.

With these remarks, I support the proposed decisions.

Mr. Posthumus made the following statement:

In the last three years Argentina has come a long way in reforming and liberalizing its economy. Its external sector, once one of the most protected in Latin America, has been completely liberalized. A comprehensive agenda of privatization has been nearly completed. The tax system has been rationalized and simplified while the revenue base has been expanded from 18 percent of GDP to 26 percent of GDP. More recently, Argentina has regularized payments to both its foreign and domestic creditors, including pensioners, and the labor code is being liberalized. However, the 18 percent rate of inflation in 1992, while certainly an achievement considering the hyperinflation that prevailed only two years ago, poses nonetheless a threat to the stability of Argentina's economy. The main problem is whether the competitive position of exports can be sustained. The peso, which was already at a relatively appreciated level when the fixed peg was introduced, has subsequently appreciated by a further 18 percent. The problem is twofold: the real appreciation erodes the current account position, but the more imminent danger concerns the capital account; the persistence of inflation indicated in Chart 1, which shows that since the second quarter of 1992 inflation has remained constant and has not shown any further decline, may give rise to concerns in the markets about the sustainability of the nominal exchange rate policy. Continued strengthening of macroeconomic policies is vital.

As to the current account, the authorities bought some time by raising the rate of the uniform import tax--the "statistical tax"--by 7 percentage points and at the same time compensating exporters for the incidence of certain indirect taxes. These measures amount to an adjustment of the real effective exchange rate, but they can have only a limited effect if inflation continues. In addition, they should be temporary.

While inflation as measured by the consumer price index rose by over 40 percent since the introduction of the fixed peg, the wholesale price index rose by only 6.5 percent during that period. This inordinate divergence between the two indices requires some explanation, but none is provided in the staff paper. The authorities, regarding the wholesale price index as a measure of inflation, stressed that its level is consistent with the exchange rate regime. They may be lulled into false complacency. Assuming that the wholesale price index does represent prices at the factory or farm gate, there is a problem of potential wage pressures, for while wage claims would be based on the consumer price index, the relevant price index for the producer is the wholesale price index. In view of the wide divergence between two indexes, even if wage claims would be moderate and would allow for some erosion of real wages, as far as producers are concerned, such wage increases would present a substantial erosion of their profitability.

The staff paper does not give a clear picture of monetary developments. The staff uses M4 as a relevant monetary aggregate, lumping together liquidity and financial assets. It is therefore difficult to judge to what extent capital inflows have been sterilized. Also, deposit rates may not have been positive in real terms; the interbank lending rate was 16 percent, and deposit rates could not have been much above it. The inflow of capital would be explained by the full convertibility of the peso: in spite of the low, or negative, level in real terms, nominal interest rates in Argentina are considerably higher than in the United States, and since the peso can be freely converted into dollars, their nominal level continued to attract capital inflows.

At the structural level, the banking system is not fully competitive, and publicly owned banks prevail. The provincial banks--those owned by the provinces--have been allowed to keep lower reserve ratio to offset the restructuring costs. This is a situation that has to be closely monitored.

Mr. Esdar said that he wished to join other speakers in commending the Argentine authorities for the progress achieved by privatization and by deregulation of the trade and payments regime, which were important steps to overcome internal and external imbalances and to embark on a sustainable growth path. Nonetheless, there remained areas of concern. Inflation was still too high, and the external position remained vulnerable, as illustrated by a relatively large current account deficit and the high dependence on short-term private capital inflows.

The program agreed for 1993 seemed to address adequately the areas of concern, Mr. Esdar remarked. However, he wished to join those speakers who had emphasized the need to achieve further progress in the reduction of inflation. While he very much welcomed the positive developments during the past weeks in that respect, further progress would contribute to halting the erosion of external competitiveness illustrated by the considerable real appreciation of the Argentine peso in the past 18 months.

In view of the limited room for maneuver for monetary policy, a strengthening of fiscal consolidation would help to further restrain demand pressures, Mr. Esdar considered. To that end, he wondered whether the envisaged lowering of tax burdens could be offset by additional expenditure cuts. Progress in deregulating labor markets and in introducing more flexibility into the collective bargaining process would be crucial for a lasting reduction of inflation.

On the external sector, Mr. Esdar said that he believed that the increase in the trade deficit in 1992 should be given appropriate attention, especially as it had been accompanied by a loss of external competitiveness. The reversal of capital flows that had been observed temporarily in November should be regarded as a warning signal as well.

A convincing anti-inflationary policy course embedded in structural reforms was the most promising way to stabilize capital inflows and improve external competitiveness without undermining the objective of the stable exchange rate anchor, Mr. Esdar commented. He supported the proposed decision.

Mrs. Szombati made the following statement:

> I would like to commend the Argentine authorities for the successful economic performance of the recent past under the comprehensive stabilization and structural reform program. The authorities have made good use of the extended arrangement by focusing on reforms within their growth-oriented adjustment and external debt-reduction strategies. The impressive progress with privatization and deregulation, which have triggered large capital inflows, as well as the liberalization of the trade and payments system and improvements in the tax system have already generated a strong response of the economy, which is well reflected in the

expansion of GDP growth, the increase in fiscal savings, and the easing of inflation.

The 1993 program is appropriately centered on the further deceleration of inflation as well as on the achievement of a sustainable rate of economic growth and investment by strengthening domestic savings and continuing fundamental reforms. A full implementation of all program elements, particularly in the fiscal area, together with a desirable improvement in the external accounts are imperative for achieving these key objectives. I broadly agree with the staff assessment and recommendations and will comment only briefly on the main policy areas.

Fiscal policy is the key area for promoting domestic savings and for combating inflation. The 1993 objective of strengthening the primary fiscal balance through improving tax administration and containing outlays for national administration requires careful surveillance over both revenue and expenditure performance. In this connection, we welcome the reinforced control over the collection of taxes and social security contributions as well as the continuation of the quarterly limits on spending. In addition, we also support the staff's advice to the authorities to apply special caution in deciding whether to pursue a tax reduction. We are disappointed with the delays in the planned reform of the social security system. Since this reform and the shift to private financing of pensions would represent a fundamental step toward the long-term improvement of the fiscal position as well as increase domestic savings, undue delays in its approval by Congress could harm the success and the credibility of the program.

While the burden of anti-inflationary restraint falls on fiscal policy, there is still a need for caution in the relaxation of monetary policy instruments, particularly in the reduction of reserve requirements. Although better mobilization and intermediation of domestic savings and external resources require a reduction of high reserve requirements, steps in this direction should be based on a careful evaluation of inflation and balance of payments developments.

Argentina's external position remains vulnerable over the longer term. The need for strong export performance, as the staff observes, highlights the importance of preserving competitiveness, particularly in light of the current real appreciation of the exchange rate. As both Mr. Zoccali and the staff have pointed out, financial policies need to be geared to slowing down the rate of inflation to international levels, whereas structural policies that are determining cost factors are equally important to enhance the efficiency of the economy. I particularly agree with the staff on the need to accelerate labor market deregulation and liberalization as well as on the need for the early implementation of a more efficient social safety net.

We welcome Argentina's agreement with the commercial banks on the debt and debt-service reduction and interest rate rescheduling program. We concur with the financing plan that supports this impressive and innovative package. Based on the encouraging performance to date and the strong program for the second year of the extended arrangement, we support the enhancement of the Fund's financial assistance. In sum, I support the proposed decision.

Mr. Link made the following statement:

For most Latin American countries, the 1980s have often been recognized as years fraught with economic problems: disappointing growth rates, growing indebtedness, and high inflation rates. The 1990s have shown that this trend can be reversed. Some progress is visible in a number of countries; Argentina is definitely among them.

Argentina's administration has made serious attempts to tackle the considerable fiscal imbalances at all levels of the public sector--one of the cornerstones of every economic stabilization program. The combined balance of the public sector is expected to rise from a slight deficit in 1992--0.4 percent of GDP--to a considerable surplus in 1993--0.9 percent of GDP. In the light of the past and compared with some neighboring countries, this achievement alone has to be considered to be a great performance.

The most remarkable picture of this fiscal recovery is that it is not a result of reduced government expenditures alone but also of an effort in tax collection. The internal revenue service has been expanding its staff and improving their training and their equipment. As a result, tax receipts are expected to rise significantly, from 14 percent of GDP in 1991 to almost 17 percent of GDP in 1993.

Progress is not limited to fiscal policy but includes monetary and exchange rate policy as well. Taken together, the reform of public finances, the tightening of monetary conditions, and the stabilization of the exchange rate have resulted in a sharp reduction of inflation. Consumer prices in 1992 rose faster than in the industrial countries but the price increases were well below the level that Argentina experienced in 1990 and 1991.

All of these achievements in economic policy have begun to restore private sector confidence, as a number of indicators clearly show. Domestic consumption and investment as well as industrial production are rising. Moreover, private capital has begun to flow into the country again.

Argentina's ability to turn the achievement of short-term stability into durable growth and improved international competitiveness will depend on the success of current and future structural reform and privatization projects. The Memorandum of Economic Policy shows that the Administration did not spare any effort in proposing and implementing such projects.

One major effort is the financing reform of the social security system, which permits the Government to increase pensions to the legal minimum and thereby raise the average pension. This reform will also make it possible to stop the accumulation of arrears to pensioners, which were equivalent to 1 percent of GDP as of August 1992. A seemingly small but important step was the central bank law of October, which established the autonomy of the Central Bank and restricted its power to extend credit to the Government and the banking system. Another example of wise structural reform is the deregulation of port activities, which has made Argentina's exports cheaper and has reduced exporters' costs by about 10 percent.

One of the most important forthcoming reforms is aimed at increasing labor market and wage flexibility. Small and medium-sized firms will be free to conclude collective bargaining agreements at a decentralized level. One of the main advantages of small and medium-sized firms is their flexibility. This and other measures will allow the small and medium-sized firms--which employ 60 percent of Argentina's labor force--to keep or to regain their flexibility. If Argentina wants to improve the competitiveness of its private sector vis-à-vis other competitors on the same continent or worldwide, much depends on the success of this reform.

I have already mentioned the reform of the social security system. An equally important aspect of this reform is the creation of private pension funds, which will establish a potentially large pool of savings that can be channeled into domestic investments. These private pension funds will at the same time widen the capital market base. And, a better capital market helps to prevent capital from leaving the country. The Administration of Argentina should continue to give the reform of the social security system high priority.

I support proposed decisions.

Mr. Shaalan made the following statement:

The Argentine authorities deserve much of the credit for the marked improvement in economic performance over the past two years. The fundamental change in the monetary and exchange systems brought about by the Convertibility Law, and made credible by strong fiscal measures, has been instrumental in restoring macroeconomic stability after years of serious financial problems. This has, in turn, created a much firmer ground for structural reforms, which are being pursued with vigor. Economic performance since the last review clearly indicates that the multiyear program supported by the extended facility continues to be broadly on track. I can support the proposed decisions, including the waiver related to the social security reform.

Let me offer a few additional observations.

An issue that is highlighted in the staff paper and commented on by Mr. Zoccali is the competitiveness of the tradable sector. There is no doubt that the current exchange system needs to be supported by measures, primarily structural, aimed at containing domestic costs if an erosion in competitiveness is to be avoided. What is less clear, however, is the extent to which competitiveness, or lack of it, is already a problem. The large difference in the behavior of the consumer price index and the wholesale price index complicates the picture. Other considerations mentioned by Mr. Zoccali are also relevant, and raise questions about the use of real effective rate comparisons to evaluate competitiveness. I wonder whether there has been any attempt to go beyond the usual indicators of competitiveness, which have serious limitations, and try to measure competitiveness of the Argentine economy on the micro or sectoral level.

Whether competitiveness has already eroded or not, it is noteworthy that medium-term balance of payments projections now show a larger current account deficit than had been forecast in the last program review. However, to the extent that the current account is being financed through autonomous flows, and as long as foreign savings are used efficiently by private investors to boost potential growth and exports, as opposed to what Mr. Dawson maintains and in agreement with Mr. Murphy, the deficit should not necessarily be a matter of concern. While the productivity of investment is a relatively complicated measure, the level of private investment usually is not. However, I have noticed that in Table 3 of the staff paper, private investment includes capital spending by provincial governments as well. It would be useful if the staff could provide information on private sector investment separately.

While I generally share the staff's policy recommendations, both structural and macroeconomic, it is not fully clear what is implied by the middle paragraph on page 11 of the main paper. More specifically, it is stated that "if capital inflows were to taper off, the authorities will need to be prepared to hold the line or even reinforce macroeconomic policies and accept a slow-down in economic activity if necessary." Could the staff clarify its policy advice here. Presumably, given Argentina's monetary and exchange system, capital inflows, which are motivated by interest rate differentials, will continue until the differential declines to what the market perceives as the risk premium on peso assets. To the extent that capital inflows and interest differentials decline as a result of normal arbitrage, it is not clear why the fiscal surplus should be increased, as seems to be implied by the staff's advice.

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

DECISIONS TAKEN SINCE PREVIOUS BOARD MEETING

The following decisions were adopted by the Executive Board without meeting in the period between EBM/92/156 (12/23/92) and EBM/92/157 (12/30/92).

3. AFGHANISTAN - DECISION CONCLUDING 1992 ARTICLE XIV CONSULTATION

1. The Fund takes this decision in concluding the 1992 Article XIV consultation with Afghanistan.

2. Afghanistan continues to maintain restrictions on the making of payments and transfers for current international transactions in accordance with Article XIV, Section 2, except for multiple currency practices and exchange restrictions, as described in SM/92/225 (12/23/92) that are subject to Fund approval under Article VIII. The Fund encourages Afghanistan to eliminate these restrictions as quickly as possible.

Decision No. 10249-(92/157), adopted
December 29, 1992

4. ALGERIA - DECISION CONCLUDING 1992 ARTICLE XIV CONSULTATION

1. The Fund takes this decision relating to Algeria's exchange measures subject to Article VIII, Section 2(a), and in concluding the 1992 Article XIV consultation with Algeria.

2. Algeria maintains the restrictions on the making of payments and transfers for current international transactions described in SM/92/225 (12/23/92) in accordance with the transitional arrangements under Article XIV, Section 2, except for the exchange restriction arising from the prohibition on the availability of foreign exchange for certain specified imports, which is subject to approval under Article VIII, Section 2. The Fund encourages Algeria to eliminate the restrictions that are subject to Article XIV as quickly as practicable, and urges the removal of the exchange measure that is subject to Article VIII as soon as possible.

Decision No. 10250-(92/157), adopted
December 29, 1992

5. ANGOLA - DECISION CONCLUDING 1992 ARTICLE XIV CONSULTATION

1. The Fund takes this decision relating to Angola's exchange measures subject to Article VIII, Sections 2(a) and 3, and in concluding the 1992 Article XIV consultation with Angola.

2. As described in SM/92/225 (12/23/92), Angola maintains restrictions on payments and transfers for current international transactions in accordance with the transitional arrangements under Article XIV, Section 2, except for the exchange restrictions evidenced by external payments arrears that are subject to approval under Article VIII, Section 2(a), and a multiple currency practice arising from the operation of a temporary dual exchange rate market, which is subject to approval under Article VIII, Section 3. The Fund encourages Angola to reduce its reliance on the exchange restrictions subject to Article XIV, and urges the authorities to eliminate as soon as possible the external payments arrears and the multiple currency practice that are subject to Article VIII.

Decision No. 10251-(92/157), adopted
December 29, 1992

6. AZERBAIJAN REPUBLIC - REPRESENTATIVE RATE FOR AZERI MANAT

The Fund finds, after consultation with the authorities of the Azerbaijan Republic, that the representative rate under Rule O-2(b)(ii) for the manat against the U.S. dollar is the rate obtained on the basis of the fixed relationship of the manat to the Russian ruble and the representative exchange rate for the

Russian ruble in the Moscow Interbank Foreign Currency Exchange (the "interbank market") as ascertained by the Central Bank of Russia. (EBD/92/308, 12/22/92)

Decision No. 10252-(92/157), G/S, adopted December 28, 1992

7. JORDAN - STAND-BY ARRANGEMENT - REVIEW OF EXTERNAL FINANCING

The Fund decides that the third review on the financing of the program contemplated in paragraph 4(e) of the stand-by arrangement is completed. (EBS/92/217, 12/22/92)

Decision No. 10253-(92/157), adopted December 28, 1992

8. SOCIALIST PEOPLE'S LIBYAN ARAB JAMAHIRIYA - DECISION CONCLUDING 1992 ARTICLE XIV CONSULTATION

1. The Fund takes this decision relating to exchange measures of the Socialist People's Libyan Arab Jamahiriya subject to Article VIII, Sections 2(a) and 3, and in concluding the 1992 Article XIV consultation with the Socialist People's Libyan Arab Jamahiriya.

2. The Socialist People's Libyan Arab Jamahiriya continues to maintain restrictions on the making of payments and transfers for current international transactions in accordance with Article XIV, except for the multiple currency practice and exchange restrictions, as described in SM/92/225 (12/23/92), that are subject to Fund approval under Article VIII, Sections 2(a) and 3. The Fund urges the authorities to liberalize the exchange system and to eliminate the restrictions and the multiple currency practice as soon as possible.

Decision No. 10254-(92/157), adopted December 29, 1992

9. MALAWI - DECISION CONCLUDING 1992 ARTICLE XIV CONSULTATION

1. The Fund takes this decision in concluding the 1992 Article XIV consultation with Malawi.

2. Malawi maintains restrictions on the making of payments and transfers for current international transactions described in SM/92/225 (12/23/92), in accordance with Article XIV, Section 2.

The Fund encourages the authorities of Malawi to liberalize these restrictions as soon as possible.

Decision No. 10255-(92/157), adopted
December 29, 1992

10. MALTA - DECISION CONCLUDING 1992 ARTICLE XIV CONSULTATION

1. The Fund takes this decision in concluding the 1992 Article XIV consultation with Malta.

2. Malta maintains restrictions on the making of payments and transfers for current international transactions in accordance with Article XIV in the form of limitations on certain invisible payments and transfers vis-à-vis residents of countries outside the former sterling area as described in SM/92/225 (12/23/92). The Fund welcomes the announcement of exchange liberalization measures to take effect from January 1, 1993, and encourages Malta to remove any remaining restrictions maintained under Article XIV.

Decision No. 10256-(92/157), adopted
December 29, 1992

11. MONGOLIA - DECISION CONCLUDING 1992 ARTICLE XIV CONSULTATION

1. The Fund takes this decision in concluding the 1992 Article XIV consultation with Mongolia.

2. Mongolia maintains restrictions on the making of payments and transfers for current international transactions in accordance with Article XIV, Section 2, as described in SM/92/225 (12/23/92). In addition, the restrictive features of bilateral payments agreements with two Fund members and the exchange restriction evidenced by external payments arrears are subject to approval under Article VIII, Section 2(a). The Fund encourages Mongolia to liberalize the measures maintained under Article XIV, Section 2, and urges Mongolia to eliminate the restrictions that are subject to Fund approval including the restrictive features of bilateral payments agreements with Fund members.

Decision No. 10257-(92/157), adopted
December 29, 1992

12. VIET NAM - DECISION CONCLUDING 1992 ARTICLE XIV CONSULTATION

1. The Fund takes this decision in concluding the 1992 Article XIV consultation with Viet Nam.

2. The restrictive allocation of foreign exchange for the payment of invisibles as described in SM/92/225 (12/23/92) constitutes a restriction on the making of payments and transfers for current international transactions and is maintained by Viet Nam in accordance with Article XIV, Section 2. The Fund encourages Viet Nam to eliminate as quickly as possible this restriction.

Decision No. 10258-(92/157), adopted
December 29, 1992

13. ZAIRE - DECISION CONCLUDING 1992 ARTICLE XIV CONSULTATION

1. The Fund takes this decision relating to Zaïre's exchange measures subject to Article VIII, Sections 2 and 3, and in concluding the 1992 Article XIV consultation with Zaïre.

2. As described in SM/92/225 (12/23/92), Zaïre maintains restrictions on the making of payments and transfers for current international transactions in accordance with Article XIV, Section 2, except that the exchange restrictions evidenced by external payments arrears and the multiple currency practice arising from the segmentation of the exchange market are subject to approval under Article VIII, Sections 2(a) and 3. The Fund encourages Zaïre to take appropriate steps to remove the remaining restrictions maintained under Article XIV, and urges elimination of the restrictive measures that are subject to Article VIII as soon as possible.

Decision No. 10259-(92/157), adopted
December 29, 1992

14. ADMINISTRATIVE TRIBUNAL - ESTABLISHMENT - GOVERNORS' VOTE

The Executive Board approves the report of the Secretary (EBAP/92/147, Sup. 1, 12/22/92) on the canvass of votes of the Governors on Resolution No. 48-1, with respect to establishment of an Administrative Tribunal for the Fund (EBM/92/127, 10/21/92) for submission to the Board of Governors. The Governors' vote on the Resolution is recorded as follows:

Total affirmative votes		1,388,167
Total negative votes		0
Total votes cast		1,388,167
Abstentions recorded	24,954	
Other replies	0	
Total replies		1,413,121
Votes of members that did not reply		43,665
Total votes of members		1,456,786

Decision No. 10260-(92/157), adopted
December 23, 1992

15. EXECUTIVE BOARD TRAVEL

Travel by an Executive Director and by an Advisor to Executive Director as set forth in EBAM/92/141 (12/22/92) and by Assistants to Executive Directors as set forth in EBAM/92/142 (12/22/92) is approved.

APPROVED: June 29, 1993

LEO VAN HOUTVEN
Secretary