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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 95/78

10:00 a.m., August 23, 1995

Contents

Executive Board Attendance

S. Fischer, Acting Chairman

Executive Directors	Alternate Executive Directors
	A. A. Al-Tuwaijri
	D. Desruelle, Temporary
	B. Andersen, Temporary
L. E. Berrizbeitia	M. B. Alemán, Temporary
	G. F. Murphy
	D. Z. Guti
	J. Shields
K. P. Geethakrishnan	W. Hettiarachchi
	K. Sundara, Temporary
	R. F. Cippa, Temporary
A. Kafka	A. Calderón
	J. Prader
	V. Rigász, Temporary
	H. A. Barro Chambrier
	J. C. Martinez Oliva, Temporary
	B. S. Newman
	J. M. Abbott, Temporary
	T. Fukuyama
	Y. Tahara, Temporary
	M. Daïri
	A. G. Zoccali
	B. Esdar
A. S. Shaalan	Y. Y. Mohammed
D. V. Tulin	
E. L. Waterman	
	O. Havrylyshyn
Zhang M.	Song J., Temporary

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

Also Present

IBRD: N. U. Carrere, Western Africa Regional Office. African Department: G. Devaux. Central Asia Department: H. Neiss, Director. European II Department: H. R. Lorie, G. Shabsigh, H. J. G. Trines. External Relations Department: S. J. Anjaria, Director; P. C. Hole, Deputy Director; P.- M. Falcone, H. P. Puentes. IMF Institute: P. B. de Fontenay, Director. Legal Department: R. B. Leckow. Middle Eastern Department: M. A. El-Erian, Deputy Director; M. D. Knight, Deputy Director; A. Banerji, F. P. Mongelli, A. Salehizadeh, R. A. Valdivieso, V. C. Thai. Policy Development and Review Department: M. Allen, Deputy Director; T. Leddy, Deputy Director; R. T. Harmsen, J. P. Pujol. J. K. Wakeman-Linn. Research Department: M. Mussa, Economic Counsellor and Director; G. J. Schinasi. Secretary's Department: M. J. Miller, W. S. Tseng. Statistics Department: R. A. Elson, Deputy Director. Treasurer's Department: D. Williams, Treasurer; C. A. Hatch. Western Hemisphere Department: E. Hernández-Catá, Deputy Director; E. S. Williams. Office of the Managing Director: S. Sugisaki, Special Advisor; G. R. Saunders, Personal Assistant. Advisors to Executive Directors: S. S. Farid, H. Golriz, J. Justiniano, J. Guzmán-Calafell, R. Kannan, B. Konan, Y. Margoninsky, T. Oya, Y. Patel. Assistants to Executive Directors: S. E. Al-Huseini, P. I. Botoucharov, A. L. Coronel, D. Daco, S. Fukushima, A. Galicia, D. Giga, M. Giulimondi, R. Glennerster, B. Grikinyté, J. Hamilius, R. J. Heinbuecher, O. Himani, Huang X., W. C. Keller, K. Kpetigo, T.-M. Kudiwu, N. L. Laframboise, B. M. Lvin, T. Lwin, M. H. Mahdavian, M. Nemli, H. Petana, J. Roaf, S. Rouai, M. W. Ryan, K. Sakr, F. A. Schilthuis, G. Schlitzer, R. von Kleist.

1. REPORT BY ACTING MANAGING DIRECTOR

The Acting Managing Director, Mr. Fischer, said that he had recently traveled to Japan, Latvia, and Ukraine.

The main purpose of the visit to Ukraine, which took place at the same time as a staff mission, was to discuss with the authorities their views on the continuation of the program as there had been some reports that they were seeking changes in the terms of the program, the Acting Managing Director stated. He had wished to be assured that there was agreement on the current program, as well as to get a sense of the situation and the progress of economic reforms.

He had had a full range of meetings with the economic ministers, the Prime Minister, and the President, the Acting Managing Director continued. Mr. Havrylyshyn had also been present at all meetings. At every meeting there had been strong statements that the Government intended to carry out the program and was taking measures to ensure that; in particular, there had been no attempt to ease up on the inflation targets, where performance had, in fact, been better than programmed. The discussions had been both serious and positive. A few days thereafter, the staff reached agreement with the authorities on additional fiscal measures that would ensure that the program would stay on track in the second half of the year.

There had been some discussion of the difficulties posed by the fact that grain prices in the area were rising, which led to fears on the part of the Ukrainian authorities that exports would be so large that domestic consumption would decline too markedly. There was some discussion on their part of imposing export quotas. Although the Morning Press had reported that they had imposed such measures, the authorities had assured him that they had not done so. In sum, the visit had been extremely interesting and informative. The authorities had been extremely courteous, had done a great deal of work on the details of the program, and were pursuing the program strongly.

In Latvia the situation was very difficult, the Acting Managing Director observed. There was a banking crisis of major proportions, an election to be held in October, and a budget situation that was somewhat off track. There was not a financing problem, however; the Government had, in fact, obtained financing--a sizable loan--from a Japanese financial company. Nonetheless, government spending was significantly above the level envisaged in the program. The mission, which had also been there at the time, had found it difficult to reach an agreement with the authorities on a fiscal program that would bring the program sufficiently back on track for the review to be concluded.

He had met with the Finance Minister, the Prime Minister, and the central bank Governor, the Acting Managing Director remarked. He had also the unusual privilege of being invited to a cabinet meeting, during which the budget and potential budget cuts were being discussed. Thus, he had been able to ensure that the Fund's views were represented at the critical moment. Nonetheless, it was unlikely that there would be an agreement on the budget before the October election. It might, however, be possible to reach an agreement on the measures that were needed shortly thereafter.

He had visited Japan following on the conclusion of the Article IV consultation to discuss some of the views in the staff report for the consultation, which had been discussed by the Board, the Deputy Managing Director stated. Although he was there but a brief time, he was grateful that it had been possible to meet with the Governor of the central bank and with the Finance Minister on a day when the reconstruction of the Government was being considered--and his role in it; nonetheless, he had managed to spare the time for a serious discussion.

He had met also with central bank staff who specialized in banking and monetary policy as well as with officials of the Ministry of Finance who specialized in fiscal policy and banking, the Acting Managing Director continued. He had then met with the presidents of the Export-Import Bank of Japan (JEXIM) and the Overseas Economic Cooperation Fund of Japan (OECF). A week earlier, the yen had depreciated significantly, and the authorities had announced measures and were feeling very confident. They said that they hoped to drive the yen down to about 95 yen per U.S. dollar through coordinated intervention.

He had the impression that the analysis of the banking situation was well in hand and that those with whom he had met in both the central bank and the Ministry of Finance had full information on the situation and on what might be done about it. An advisory commission had been set up to report on the financial system, probably by the end of September. That was viewed as part of a consensus-building effort that will enable the authorities eventually to move ahead and, possibly, to use public funds to deal with the banking situation. The strategy looked thoroughly thought through, and he suspected that it was well on track.

On the macroeconomic side, the authorities had listened carefully to the Fund's views on the need both for an easing of monetary policy and for a substantial supplementary fiscal package at the end of the year, the Acting Managing Director recalled. While the authorities did not say that they agreed with the Fund, compared with previous discussions with the staff, there was some indication there appeared to be considerable acceptance of the views that had been expressed in the Board discussion on Japan.

He wished to thank Mr. Mesaki for the efforts that he and his Government had made to ensure that he met at very high levels with economic policymakers at short notice as well as for the courtesy with which he had been received, the Acting Managing Director concluded.

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

The Executive Directors considered a staff paper on the midterm review under the first annual arrangement for Mauritania under the enhanced structural adjustment facility (ESAF) (EBS/95/127, 8/2/95).

The staff representative from the Middle Eastern Department noted that in Table 1 of EBS/95/127, the programmed and projected figures for the debt service ratio after debt relief, as a percent of GDP, should be corrected to read, for 1995, 20.1 instead of 19.3, and 19.1 instead of 13.8.

Mr. Barro Chambrier made the following statement:

> My Mauritanian authorities would like to express their appreciation to the staff for the invaluable assistance provided to them in the context of their ongoing adjustment program. They are in broad agreement with the staff assessment and the thrust of its policy recommendations. In this statement, I wish to highlight the main elements of the program implementation to date and the challenges facing the authorities in the remainder of the year 1995 and beyond.
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> Mauritania's economic performance during the last quarter of 1994 and the first half of 1995 should be assessed against the difficult environment facing the country, including delays in the disbursement of official external financial assistance, as well as difficulties encountered in the implementation of a comprehensive package of policy and structural measures. Indeed, in view of Mauritania's limited administration capacity, the program objectives appear somewhat ambitious. Nevertheless, despite all these difficulties, Mauritania has made substantial progress in its adjustment process.
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> Real GDP growth, estimated at 4.6 percent in 1994, was higher than projected, and inflation, although higher than planned, was kept at a moderate level. Also, significant progress was made on the structural front, particularly regarding the preparation of the value-added tax, the reform of the public enterprise sector, and the liberalization of the exchange rate system. However, the attainment of some of the program targets proved difficult as envisaged. In particular, the performance criteria and structural benchmarks set for end-December 1994 could not be met. Against this background, in the context of the new ESAF-supported program, the authorities have reoriented their strategy with a view to stabilizing the economy and improving its efficiency. Indeed, they are aware that the pursuit of tight fiscal and monetary policies to contain the resurgence of inflationary pressures, as well as the unification of the exchange rate remain the key elements of their strategy. Thus, the corrective measures adopted

in the key areas of the economy in early 1995 have begun to show encouraging results.

Concerning the public finances, to stem the revenue shortfall and higher expenditures that have contributed to a higher-than-expected fiscal deficit at end-1994, the authorities have intensified their efforts to improve tax administration, accounting procedures, and expenditure controls. These measures, combined with the delayed disbursement of official external assistance, have contributed to an overall satisfactory financial performance during the first quarter of 1995. Thus, a surplus, instead of a deficit, equivalent to 0.7 percent of GDP on an annual basis, was recorded. Despite this encouraging outcome, the authorities are aware of the need to reinforce budgetary discipline and to take additional measures, so as to ensure that the fiscal target for 1995 will be met. In this regard, for the remainder of 1995, they have identified a number of additional measures, which should help achieve their fiscal target. These measures include a further strengthening of tax administration; the broadening of the tax base, mainly of property income; and the reduction of tax exemptions on salaries and income granted to the personnel of some public enterprises. On the expenditure side, the system of expenditure control and accounting methods will be further strengthened. Additional measures are being sought with Fund and World Bank technical assistance.

Monetary policy, which has shown some weaknesses during the latest quarter of 1994, has been tightened since January 1995 mainly through a further increase in the obligatory reserve requirement of the commercial banks. In addition, the frequency and the amounts of treasury bill auctions were increased, with a view to absorbing excess liquidity in the economy, and thereby contributing to the containment of inflationary pressures. Furthermore, the authorities have taken steps to improve the efficiency of the financial intermediation and monetary management, with external technical assistance.

In the external sector, reflecting both export performance and higher private transfers, and a more flexible exchange rate policy, Mauritania's balance of payments position during the first quarter of this year was strengthened. To consolidate these gains and to improve access to the foreign exchange market, the authorities have taken action toward eliminating the remaining foreign exchange restrictions on current account transactions. Moreover, they have adjusted the official exchange rate of the national currency in light of developments in the exchange market, while taking into account the need to build the Central Bank's foreign exchange reserves. In this connection, a decision has been taken to ensure that the unification of the exchange rate is being carried out as envisaged.

Regarding Mauritania's debt situation, while the authorities observed all obligations toward multilateral and Paris Club creditors, the reduction of arrears vis-à-vis non-Paris Club bilateral creditors has not yet taken place. During a recent meeting in Paris, the Mauritanian Government discussed a possible alleviation of its external debt obligations. In the meantime, due to a low per capita income, balance of payments difficulties, and a significant burden of the debt servicing, a concessional flow rescheduling under the "Naples terms" covering obligations through end-1997 was agreed for Mauritania. However, difficulties remain in eliminating arrears with the non-Paris Club bilateral creditors. Given the tight financial position of Mauritania, the authorities are requesting a waiver related to the accumulation of arrears.

On structural reforms, commendable progress continues to be made on several fronts. Concerning the reform of the state-owned insurance company, it should be stated that 66 percent of its equity now belong to the private sector, and the remaining for which the private sector did not show interest was sold to the public enterprises. Since these enterprises are autonomous, the authorities believe that management of the insurance company will improve. At end-June 1995, two enterprises out of five slated for divestiture were privatized, and additional reforms have been introduced in the taxation system as well as the financial and fisheries sectors. The surveillance of the fisheries sector remains an area of concern, and my authorities will endeavor to remedy this situation with an expected financing from the IDA.

Despite the difficulties encountered in meeting some of the program's targets, my Mauritanian authorities remained committed to their adjustment process, as evidenced by the wide-ranging measures implemented in early 1995, including the liberalization of the economy, whose positive effects on the real sector will fully materialize over the medium term. The authorities have also reiterated that they will take additional measures, particularly regarding the need to contain public expenditures to ensure that the program targets for 1995 will be achieved. In this context, they are hopeful that the Board will approve their request for waivers for the nonobservance of some performance criteria and benchmarks.

Mrs. Guti made the following statement:

I would like to support the proposed decision and to endorse the authorities' request for waivers for the nonobservance of some of the performance criteria and structural benchmarks for end-1995. The Mauritanian authorities deserve to be encouraged for having taken adequate corrective action, which should undoubtedly help to improve prospects for attaining the objectives set under the program. In this context, the authorities need to continue to be on guard and avoid further slippages. I am encouraged by the overall results under the adjustment program in 1993-94, with a relatively strong GDP growth recorded in 1994 and a significant slowdown in the rate of inflation.

However, developments in early 1995 have underscored the dangers of complacency, when a relaxation of policies toward the end of 1994 threatened to undermine the program. As outlined by Mr. Barro Chambrier, it is reassuring to know that the authorities have demonstrated a willingness to further tighten their policy stance. When we considered the current program last January, it was generally recognized that Mauritania's heavy external burden constituted one of the major obstacles to the attainment of external viability in the medium term, a situation which was complicated by the existence of external arrears. I am encouraged by the efforts being made to fully eliminate these arrears, and I note that prospects in this respect have significantly improved. Nevertheless, it will be equally important that the authorities endeavor to secure terms on other debts similar to those obtained in the recent Paris Club agreement involving a reduction in the stock of debt. At the same time, the authorities need to work closely and expeditiously with the World Bank on the debt payback operation in order to deal with the commercial component of the country's external debt. All these actions will be crucial in improving medium-term prospects for external viability.

I note that the authorities were able to implement most of the structural measures that were specified under the program and that substantial progress has been achieved on several fronts. These actions are important in order to enhance efficiency in the key sectors of the economy. That being said, I am not certain why the structural performance criterion on the insurance company specified in particular the sale of 100 percent of capital to the private sector by the end of March 1995. Experience in other countries, especially in sub-Saharan Africa, shows that the process of diversification can be slow, even when the enabling legislation is already in place. Perhaps it would have been preferable to specify only the date when the company would be offered for sale rather than include the total number of shares to be sold. I believe that this is an area where the Fund should continue to exercise flexibility while urging speedy action when placing state enterprises for sale.

For its part, the Government needs to continue to enhance its policy implementation in order to underpin greater participation of both foreign and domestic investors.

Mr. Shaalan made the following statement:

I would like to commend the Mauritanian authorities on a much improved financial performance in the first half of the current year. This is particularly so after the policy slippages of the preceding quarter that gave rise to concerns regarding the viability of the 1995 economic program. Undoubtedly, it is true that better terms of trade and the receipt of delayed foreign assistance were important in producing the improved financial outcome. However, the authorities quickly adopted corrective measures in the fiscal, monetary and structural domains to address the deteriorating situation. In light of these developments, I support the proposed decision.

Mauritania currently faces a favorable external environment that is best illustrated by the most encouraging conclusion of the recent Paris Club meeting and, above all, by the staff's projection of a significant reduction in the debt service ratio in 1995 to about 19.1 percent of GDP, about two thirds of the ratio in 1994. Clearly, this is a unique opportunity for the authorities to maintain an appropriately tight financial stance and, in particular, render the implementation of strong structural reform measures a more feasible and socially palatable process. As I am in general agreement with the staff analysis, I will restrict my comments to fiscal policy and structural aspects of the program.

On fiscal policy, I note the ambitious target of reducing the overall fiscal deficit in 1995 by about 3.8 percent of GDP, with most of the reduction originating from an increase in revenues. Despite the disappointing results of the recently introduced value-added tax, the fiscal target is, nonetheless, a realistic one particularly in light of the continued relatively strong growth in the economy and the favorable external environment. The commitment by the authorities to adopt corrective fiscal policies in the event of a continued revenue shortfall from the value-added tax should further reduce the uncertainties associated with fiscal revenue prospects in 1995. In this connection, I am concerned that in its zeal to address the fiscal problem, the staff prematurely called for the introduction of the value-added tax before the necessary infrastructure was in place. I would appreciate staff comment on this point.

With regard to the proposed corrective measures, I find the increase in property taxes and reduction in current expenditures and in tax exemptions to be appropriate. However, I am not convinced that a reduction in capital expenditures, although relatively small, is appropriate in view of the already low and falling rate of capital formation in Mauritania. An even more compelling reason for promoting cuts in capital expenditures as an acceptable corrective measure at this stage is that viewing such cuts as an option could unduly shift the focus of fiscal consolidation from the much more important sources of revenue increase, such as the widening of the tax base and the overall improvement in fiscal administration.

On structural reforms, I welcome the anticipated unification of the exchange rate regime by the end of the year, and the progress achieved in public enterprise reform and in the liberalization of interest rates, which are now positive in real terms. The monetary reforms should greatly contribute to the expected large increase in domestic savings from 8 percent to about 14 percent of GDP in 1995. This dramatic increase in domestic savings in a one-year period prompts me to seek the staff's views on whether this is not too optimistic a forecast.

Finally, a more systematic implementation of structural reforms is called for. This could possibly promote a more active private sector that would diversify economic activity beyond its currently high concentration in the fisheries sector. I would like to underscore in this regard the reform of the regulatory and legal framework that affects investment decisions and for which the World Bank has just approved an IDA credit. I also strongly share the views expressed by Mrs. Guti on privatization. It is only with the implementation of widespread reforms identified in the staff report that Mauritania will be able to move its economy to a higher growth path and possibly to reduce its vulnerability to external shocks.

Mr. Desruelle made the following statement:

The staff paper and Mr. Barro Chambrier's helpful statement point to some difficulties in policy implementation and to remaining areas of vulnerability. At the same time, the highlight the significant efforts that have been made by the authorities this year to correct these slippages and describe the actions they are taking or intend to take to address these areas of vulnerability.

Given these efforts and these actions, and in light of the substantial challenges that the authorities face, not the lease being the unification of the foreign exchange market, the authorities continue to deserve the financial support of this institution. This chair fully supports the proposed decision.

This being said, I would like to comment on four specific aspects of the program.

First, on structural reforms in the fisheries sector, it is encouraging to note that a number of measures affecting this vital sector have been implemented as planned. Yet, some delays have been encountered and much work remains to be done. As pointed out by the staff, it is essential that the authorities firmly adhere to the terms and the calendar of the whole reform of the fisheries sector. Improvement in the management of this natural resource should help stabilize revenues linked to fishing activities.

Second, on the budget, I agree with the staff and the authorities that it was, and still is, important to react to the concerns that the fiscal outcome for the year might not be achieved on the basis of existing policies. In this respect, the compensatory measures described in paragraphs 21 and 22 of the Letter of Intent are welcome. At the same time, as already mentioned by Mr. Shaalan, some of these measures, for instance the reduction in expenditure of the road maintenance enterprise, fall squarely in the domain of the second best. This indicates that important improvements in the management of public finances remain to be made; this is particularly true as regards control of expenditure.

Third, on exchange rate policy, unification of the exchange rate is a major element of this program. I welcome the clear and detailed information given in the staff paper on the design of exchange rate reform. I do not have specific comments on it, except to note that implementation of the required actions and respect of the tight calendar will require very determined efforts.

As to the exchange rate policy envisaged after unification, I confess to remaining less sanguine than the staff on the benefits of flexibility--"subsequent reliance on market forces for exchange rate determination will improve resource allocation, stimulate export diversification, and promote conditions for employment creation." I am concerned that flexibility of the real exchange rate could translate into excessive instability of the nominal exchange rate. I note, of course, and I welcome the fact that macroeconomic stability is one of the criteria to be used in determining the unified exchange rate at the start of phase three of the exchange rate reform.

Fourth and finally, on tariff reform, trade liberalization is important; however, proper attention should be given to the impact of such reform on fiscal revenue. Last January, we noted and welcomed the pragmatic approach of the staff on this issue. We hope that this pragmatic approach is still in force. In particular, any impact of tariff reduction on fiscal revenue should be offset by measures to be formulated in advance of the implementation of tariff reform.

Mr. Daïri made the following statement:

The Mauritanian economy made commendable progress in recent years in achieving satisfactory economic growth and reducing inflation, owing to prudent financial policies and continued structural reform. Since I concur with the staff appraisal and support the proposed waivers, my comments will be brief.

The authorities reacted rapidly to the slippages incurred by end-1994 with an appropriate tightening of monetary and fiscal policies, thereby renewing their commitment to their adjustment program. I am particularly encouraged by their firm intention to achieve these fiscal targets for end-1995 and the identification of additional measures, in this respect, as indicated by Mr. Barro Chambrier. Close attention should be given in particular to reinforcing budgetary discipline in order to strengthen the credibility of fiscal policy. I support the extension of Fund technical assistance to further strengthen the fiscal position.

The authorities' intention to improve the efficiency of financial intermediation and monetary management is welcome. Of particular importance in this respect are the ongoing efforts to improve bank loan recovery, to strengthen central bank supervision, and to broaden competition in the banking sector. However, an appropriate sequencing is required, and the improvement of bank loan recovery should be given the highest priority. The staff's comments on this point would be welcome.

On the privatization program, I share Mrs. Guti's concern regarding the setting of performance criteria for the sale of 100 percent of the Insurance Company, and I agree with her that more flexibility required in this area.

Regarding the unification of the exchange rate, I would welcome staff comment on the link between this unification and the process of trade liberalization and on the appropriate sequencing in these areas.

The staff representative from the Middle Eastern Department said that it was important to note that extensive technical assistance had been provided in preparing for the introduction of the value-added tax. There were some weaknesses in the area of training, which the authorities had recognized and were going to take action on. Also, the authorities were undertaking corrective steps in order to keep taxpayers better informed. The many efforts that had been made to contribute to a successful implementation of the tax needed to be recognized. The corrective actions had continued following the visit of a fiscal expert in the second half of July.

Mr. Shaalan remarked that he was fully aware that the Fund had provided, most likely adequate, technical assistance to the Mauritanian authorities. The thrust of his question was--as the staff itself had indicated in its remarks--that the infrastructure was not present to support the implementation of a value-added tax. It needed to be kept in mind in advising countries to institute certain policies that training took time. The institutional infrastructure needed to be examined carefully and a reasonable assessment made as to whether the country was ready to introduce measures. It made no sense to put a major measure in place in the face of obstacles to its adequate implementation.

The staff representative from the Middle Eastern Department responded that a staff member of the Fiscal Affairs Department had been to Mauritania in November 1994 to assess whether the necessary conditions were in place to ensure the successful implementation of the value-added tax. Some of the recommendations had unfortunately not been implemented, and corrections were being made. If it was a question of drawing a lesson for the future, perhaps more reliance should be placed on long-term technical assistance--in implementing a value-added tax, which the Fund had not been able to provide because of budgetary constraints.

As for the projected increase in domestic savings being perhaps too optimistic a forecast, observance of the objectives in the fiscal area would be crucial, as the authorities were well aware, the staff representative noted. A communication had been received the previous day from the Minister of Finance indicating that he was prepared to undertake corrective measures, if need be, in order to achieve the fiscal objective.

On loan recovery, following a slowdown initially in the year, and after a visit by an expert from the Monetary and Exchange Affairs Department, the staff representative from the Middle Eastern Department added, actions were being taken to renew efforts in order to achieve the objectives set for the year.

Mr. Al-Tuwaijri made the following statement:

> Notwithstanding developments in the last quarter of 1994, Mauritania continues to make very good progress under the ESAF arrangement. I find myself in broad agreement with the staff appraisal, and will limit my remarks to only three points for emphasis.
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> First, the staff places appropriate emphasis on the importance of attaining the 1995 fiscal revenue targets. In this regard, I note the initial difficulties encountered with the introduction of the value-added tax. These difficulties, however, should only reinforce the authorities' determination to ensure further strengthening of tax administration. The authorities' commitment to undertake additional measures in the event of a

revenue shortfall should help bolster confidence and ensure the attainment of the fiscal targets.

Second, the planned unification of the official and parallel exchange rates is an important and welcome step. The successful introduction of a more flexible exchange rate policy will depend to a significant degree on the success of the adjustment process. The development of a more liberal environment for foreign exchange trading is also important, and the authorities' introduction of non-bank dealers earlier this year is welcome.

Third, Mauritania's economic prospects depend to a significant degree on the success of the reform of the fisheries sector. Here, the importance of surveillance of fishing seems paramount. World Bank assistance in this area will be critical, and I encourage the authorities to continue close cooperation with the Bank's staff in this area.

With these remarks, I support the proposed decision.

Mr. Alemán made the following statement:

I would like to commend the Mauritanian authorities for their achievements under the 1993-94 economic program and for their commitment to their objectives for 1995. Despite the adverse conditions in the external sector and difficulties in the management of the adjustment process, their progress, especially in the reduction of the rate of inflation to moderate levels while maintaining an economic growth path, is very remarkable. The problems related to the financial sector were addressed, and arrears were reduced.

However, Mauritania's economy remained vulnerable to domestic and external shocks, due mainly to its lack of diversification and weakness in its economic structure.

In this context, the tightness of financial policy should be strengthened, in order to avoid sharp price increases and maintain inflation within the targets. The fiscal policy should be aimed at improving tax administration and establishing better accounting procedures and expenditure controls. These steps, in addition to the adoption without hesitation of contingency measures on the revenue side, will keep the fiscal accounts in the right direction.

On the monetary side, there has been some loosening related to net bank credit to the Government. The use of some instruments, like the increase in the commercial bank reserve requirements and the frequency and amount of the treasury bill auctions, should contribute to absorb excess liquidity in the economy. I would like to hear further comments by the staff on these issues, especially on the actual rate of reserve.

With regard to external sector policies, the steps taken toward the full implementation of an exchange reform are praiseworthy. However, the risk associated with Mauritania's dependence on the fishing sector and the needed to implement a strong reform in this sector should be noted. The use of adjustable exchange rates should also be taken into consideration, and I would appreciate more details on exchange rate management by Mauritania's authorities.

Finally, I support the Mauritanian authorities' request for a waiver and approve the proposed decision.

Mr. Rigász made the following statement:

The significant further progress of the Mauritanian economy with stabilization and adjustment under the ESAF arrangement during 1994 was unfortunately obscured by an ill-advised relaxation of financial policies in the fourth quarter of the year. And even though the authorities retightened demand conditions in early 1995, managing to get the program broadly back on track by the end of March, a number of the end-March performance criteria were missed. Even worse, the damage in terms of a rekindling of inflationary pressures still persists in 1995.

These unfortunate developments came at a particularly bad time, at the outset of fundamental exchange rate reform, pushing up the parallel market's premium over the official exchange rate and forcing a larger depreciation than would otherwise have occurred. The staff paper states that the program's 1995 inflation target of 3.5 percent may no longer be attainable. In my view, even the revised target of 5 percent seems rather ambitious, as we can expect the parallel market premium to rise substantially in the months preceding the drive to unify the rates, as market participants will be trying to hedge their risks from the initial depreciation of the currency.

As I generally agree with the staff's appraisal, I have only a few more comments.

With respect to the external sector, Mauritania remains extremely vulnerable to external shocks. In an economy where almost 95 percent of exports is generated in only two areas--mining and fisheries--even small changes in volatile international market conditions can rapidly generate internal and external imbalances. Even though the prevailing desert environment does not provide generous opportunities for entrepreneurial activities, creating an attractive climate for private sector growth is

Mauritania's only way of reducing the unfavorable export exposure. In this connection, we welcome Mr. Barro Chambrier's assurances about the authorities' determination to proceed with exchange reform as planned, especially in light of the last few years' gradual decline in the export share of products other than iron ore, fish, and gold exports. I wonder whether the staff could confirm that a dearth of foreign exchange for the importation of essential capital inputs for private sector agents has significantly contributed to this decline.

Full development of the agriculture sector's potential should rank among the Government's top priorities. With population growth approaching almost 3 percent annually and food imports accounting for 25 percent of total value, setting the right incentives will be crucial for promoting domestic food production and reversing the continuing migration of the rural population to urban centers. Despite the increased share of agriculture in GDP, recurrent droughts and other exogenous shocks still represent a serious risk for agricultural output, as evidenced by recent news about serious locust damage to food crop production.

As to the livestock sector, I would be interested in hearing from the staff about the status of the comprehensive action plan that the Government was supposed to complete by mid-1995, and particularly on how the Government is addressing the problem of unrecorded exports.

This being said, we support the proposed decisions.

Mr. Tahara made the following statement:

It is welcome that Mauritania's economic performance in 1994 and in the first half of 1995 in terms of GDP growth, inflation, and external current account balance was broadly in line with the program. Although it is regrettable that some performance criteria have not been met, the authorities should be able to intensify their efforts toward economic adjustment by adopting wide-ranging measures in the latter half of 1995, including unification of the exchange rate and reform of the fisheries sector.

Regarding net credit to the Government and the overall balance of consolidated government operations, the amount of the deviations from the targets is relatively small, and the authorities are committed to continuing to tighten fiscal and monetary policy as well as to implementing institutional reform, including broadening the tax base and improving tax administration.

> The prospects are good that the external arrears will be eliminated by the end of 1995, and I hope the authorities will make a further effort in this direction In addition, the explanation in the staff paper and Mr. Barro Chambrier's statement on the failure to completely privatize the national insurance company is convincing. Taking all these points into account, I can support the proposed decision, including the authorities' request for a waiver for the nonobservance of the performance criteria, and I urge the authorities to make a continuous effort to keep the policy implementation on track.

Mr. Abbott commented that the letter of intent referred to efforts by the authorities to avoid a recurrence of what were called unexplained expenditures. He asked the staff to give some background to what might nevertheless be inexplicable and to indicate the magnitude of the unexplained expenditures.

In light of the human rights situation in Mauritania, and in conformity with U.S. legislation, Mr. Abbott stated that the United States wished to be recorded as abstaining on the proposed decision.

Mr. Song said that the authorities of Mauritania were to be commended for the encouraging progress achieved under the current ESAF arrangement. Since he was in general agreement with the staff's economic appraisal and policy suggestions, he would concentrate his remarks on fiscal policy.

While it was encouraging to note the correct measures taken in the direction of revenue increase and expenditure control, Mr. Song commented that he wished to stress the importance of an improvement in tax administration. In that connection, technical assistance from the Fiscal Affairs Department would be an advisable addition to the current tax administration program. In light of the current account balance and the pressures on the capital account, and despite the remarkable improvement in the budgetary balances over the past two years, a further tightening of fiscal policy was needed.

On structural issues, Mr. Song said that he agreed with Mrs. Guti on the need for flexibility in privatization. He also concurred with Mr. Shaalan's emphasis on capital formation. In conclusion, he supported the proposed decision.

The staff representative from the Middle Eastern Department observed that the staff had taken into account the importance of capital expenditure, and, in coordination with the World bank, had examined closely the proposal to reduce it. The reduction related mainly to road maintenance expenditures that were to have been undertaken by a newly created enterprise. A certain delay in the initiation of operations by the enterprise had opened up a possibility both for saving and for eliminating certain expenditures that appeared not to be urgent.

Concerning exchange rate policy, the official rate had been adjusted with respect to the rate prevailing in the free market, the staff representative said, and the margin was currently approximately 5 percent. So far, there had been no major problems in the implementation of exchange rate policy, although the key importance of continuing to implement tight financial policies in preparation for the unification of the exchange rate was clear to the authorities. As to the relationship to trade liberalization, care had been taken in preparing the tariff reform to sequence the steps in agreement with the proposed stages for the phased-in unification of the exchange rate.

The methodology used by the staff to measure unexplained expenditure was based on monetary data and the execution of the budget, the staff representative from the Middle Eastern Department stated. Two problems had arisen in that connection. First, the monetary data did not include all state deposits relating to counterpart funds for project financing assistance. Thus, as a result of being measured on the financing side, the deficit was being overestimated. The commercial banks responsible for the oversight had been identified, and a better measurement of the new position of the Government had been achieved. The second problem had been that the monthly statement prepared by the Treasury had not allowed a distinction to be made between payments corresponding to the current period and payments corresponding to preceding periods. That problem had been corrected, and starting with data for end-June, the staff had begun to receive the breakdown, permitting a better measurement of the deficit. The reserve requirement currently stood at 3.5 percent, up from 2.5 percent.

Mr. Barro Chambrier thanked Executive Directors for their interest in the Mauritanian adjustment program, and assured them that he would convey the Board's remarks and suggestions to the authorities. As indicated in his opening statement, the main challenges facing the authorities were to stabilize the economy and to lay the foundations for sustained growth. In that connection, the authorities had reaffirmed their intention to pursue a tight financial policy and to strengthen the structural reform measures.

Regarding the public finances, despite the progress made during the first three months of 1995, there were still some concerns about the tax revenue derived from international trade, given the vulnerability of the economy to external shocks, Mr. Barro Chambrier noted. There were also some uncertainties related to the difficulties in achieving the target for the value-added tax, which had been introduced on January 1, 1995. As the staff representative had indicated, a Fund fiscal expert had visited Nouakchott recently in order to identify the problems arising from the introduction of the value-added tax and to assess its implications for the 1996 budget. Based on the expert's recommendation, his authorities had taken steps to broaden the tax base, particularly regarding the public enterprises. They were also considering additional action to reduce public expenditures further. In any event, his authorities had stated that they would spare no effort to meet the 1995 program objectives.

Concerning the exchange rate, his authorities were determined to reduce further the spread between the official and the parallel exchange markets, Mr. Barro Chambrier concluded. That appeared essential to improve resource allocation and the country's external competitiveness. The authorities had implemented several structural reforms in key areas of the economy, but the adjustment process would require continued effort and perseverance to produce the full results. In that connection, continued support from the Fund and the international community would remain crucial for the success of the program.

The Executive Board took the following decision with one abstention:

1. Mauritania has consulted with the Fund on its economic and financial program for 1995 in accordance with paragraph 2(c) of the first annual arrangement under the enhanced structural adjustment facility for Mauritania (EBS/95/2, 1/4/95).

2. The letter from the Governor of the Central Bank of Mauritania, dated July 12, 1995, shall be attached to the first annual arrangement under the enhanced structural adjustment facility for Mauritania, and the letter dated December 14, 1994 on the economic and financial policies for Mauritania, shall be read as supplemented and modified by the letter dated July 12, 1995.

3. The Fund determines that the midterm review contemplated in paragraph 2(c) of the first annual arrangement for Mauritania under the enhanced structural adjustment facility has been completed, and that notwithstanding the nonobservance of the performance criteria specified in paragraphs 2.a.(2), (3), (5), and (9) of the arrangement, Mauritania may request disbursement of the second loan under the arrangement.

Decision No. 11048-(95/78), adopted
August 23, 1995

3. RELEASE OF REPORT - INTERNATIONAL CAPITAL MARKETS

The Acting Chairman observed that some concern had been expressed regarding the procedures for the release of the Fund publication, International Capital Markets. Although the report had been discussed by Executive Directors, and the press had made that clear, some persons outside the Fund had the impression that the matter had not been discussed by the Board. Before calling on the staff to report on the procedures that were followed in releasing the publication, he would invite Mr. Berrizbeitia to place his concerns before Executive Directors.

Mr. Berrizbeitia made the following statement:

We were surprised to learn on August 21, 1996 through a Washington Post report that the latest edition of International Capital Markets had already been released. It is disappointing that the publication was first provided to some newspapers and other institutions, and only afterwards to Executive Board members, who learned of the publication through press reports. We believe it is important to obtain an explanation of why this occurred. In fact, upon learning of the report's publication, we were first confusingly informed that it had been scheduled for release on August 29. Upon learning from outside sources that the report was being distributed, we insisted on receiving copies, but we were told that they were very scarce. Only subsequently were we able to obtain, first, one copy and then, at the end of the day, several additional copies of this report. This experience is worrisome and raised some fundamental questions regarding the Fund's publication procedures.

We are particularly concerned by some sections of the report, which have obviously attracted considerable attention in the press. In particular, the report states on page 7 that "The available data show that pressure on Mexico's foreign exchange reserves during 1994, and in particular just prior to the devaluation, came not from the flight of foreign investors or from speculative positions taken by these investors, but from Mexican residents."

During the discussion in the Board, I had made clear that we disagreed with this statement. Moreover, my Mexican authorities had notified the staff in writing shortly after the Board meeting, and well before the publication of the report, that such a conclusion was doubtful at best, and that the disaggregation of data between residents and nonresidents is subject to considerable uncertainty. Furthermore, during the Board discussion, a number of Directors questioned the distinction between resident and nonresident transactions as presented by the staff and indicated that the evidence was not conclusive. These views were included in the Chairman's summing up of the meeting, which indicated that:

> Several speakers noted that the available data suggested that the capital outflows from Mexico during 1994 had been largely due to the increase in foreign claims of Mexican residents rather than to sales of peso-denominated claims by foreign residents. Other Directors suggested that the difficulties in distinguishing between resident and nonresident transactions meant that the data supporting that view were not conclusive.

In spite of these comments, the staff's reaction--as reflected in the publication--was limited to a small and hardly noticeable footnote on page 8. The report does not reflect an appropriate balance between the two points of views that were clearly expressed in the Board, nor does it reflect the specific comments made by my Mexican authorities on this specific issue. Furthermore, we also understand that there were observations other departments of the Fund regarding this report which questioned the validity of these conclusions.

In another section of the report, it is stated that "Mexico made available only limited economic data during 1994, and now had difficulties preventing market participants from expecting the worst." In this respect, our authorities' comments were opportunely expressed to the staff as follows:

> Economic data published by Mexico during 1994 did not change significantly, either in coverage or timing, with respect to previous years. There was never a deliberate attempt by the Mexican Government to reduce the statistical information that had been made publicly available in previous years. In particular, the information about the level of reserves was given during 1994 in the same dates as in previous years. The paragraph suggests that there was a limitation of information during 1994 which is not true, so it is suggested to delete it.

In this context, at a meeting yesterday of the International Institute of Finance, a senior official stated that he did not consider that the statistical issue has had any significant impact on the Mexican crisis. Several Board members, I believe, were present there and can attest to this fact.

In the event, the staff did not modify this paragraph in any way and did not establish any further contact with my authorities on this issue. This paragraph has served as a starting point for unfair public criticism of Mexico's policy on statistical issues, which could even have adverse market consequences. These press reports certainly have not helped market perceptions of Mexico in the past few days.

In addition to these written comments, we also made some specific comments on monetary policy, which were also not taken into account in the published report. In particular, it is stated on page 5 that "reserve levels had fallen as a result of an expansionary monetary policy in 1994." It was made clear that, as a matter of fact and not of opinion, reserve levels had not fallen as a result of an expansionary monetary policy in 1994, but rather that the fall in reserves had been subsequently sterilized by the central bank. Therefore, the causality between the fall in international reserves and the expansion of domestic credit is not as indicated in the report, but rather the inverse: the increase in domestic credit in 1994 took place because international reserves fell, and these did not fall because domestic credit expanded.

We are concerned about the indifference shown by the staff to the comments of our authorities, as well as to the comments of the Board as reflected in the summing up. This is surprising and worrisome: the impact of these statements on public opinion is strong, even if they are, as I have attempted to suggest, relatively weakly founded.

On behalf of my Mexican authorities, I look forward to a satisfactory clarification of the issues involved in this situation, and I would like the Board to consider whether it would be appropriate to have a public clarification of this issue with a view to neutralizing any possible negative effects that the statements cited may have on market perceptions.

The Acting Chairman asked the staff to clarify the issues that had been raised regarding the procedures for distribution of the report.

The Director of the External Relations Department said that the report had been discussed by the Board and, as always, the staff had indicated in the published version that the analysis was the staff's and should not be attributed to Executive Directors, their national authorities, or the Fund. Moreover, the publication stated that the Board discussion had taken place on May 24, 1995, and that the study had benefited from comments and suggestions from the staff in other departments as well as from Executive Directors. Reports on international capital market reports had been routinely published since about 1980.

The staff very much regretted that in the current instance, the distribution of the publication did not follow standard practice, and that fact had led to the delays and problems to which Mr. Berrizbeitia had referred, the Director stated. For the World Economic Outlook, the staff had developed precise procedures for general distribution of advance copies to the media on the basis of an embargo date, which culminated in a formal press briefing by the Fund's Economic Counsellor. In the current instance, the distribution of the advance copies was intended mainly for academics, officials, and others who had provided input for the preparation of the report, but, unfortunately, that distribution had also included a few journalists, among them, reporters from the Washington Post and the Financial Times, the two newspapers that carried the initial reports on Monday, August 21.

As soon as those reports broke, the staff received a large number of press queries, and at that point the External Relations Department took over the distribution of the publication by ordering extra copies, which could only be prepared in batches, which led to distribution delays, the Director of the External Relations Department explained. Although there was no established practice for distributing advance press versions of the World Economic Outlook to Executive Directors, in general, upon request from an Executive Director's office, the External Relations Department provided advance copies prior to the announced press conference of the Economic Counsellor. In the future, the staff would ensure that documents under embargo were distributed to the media only by the External Relations Department. It had not been able to do that efficiently in the current instance.

Mr. Kafka said that the lesson to be drawn was, first, there should be no distribution, even under embargo, to the press before there was a distribution to the Executive Board. He could see no difficulty arising from simultaneous distribution to the Executive Board and to the press.

Whether the staff alone should be allowed to decide upon the changes to be made to a report prior to its publication and following Executive Board consideration was a more complicated question, Mr. Kafka observed. It was clear that changing the current practice to require submission of edited reports to the Board for final approval would lead to tremendous difficulties. The process would be time consuming and would place a tremendous burden of work on the Board. He would prefer not to take that course, but the alternative was reliance on the staff and the management to exercise careful oversight over what was published, because it was not possible in practice for the public to distinguish between the views of the Fund and those of the staff. For the world as a whole, whatever was published under the imprimatur of the Fund was attributable to the Fund and, therefore, to the Executive Board.

Mr. Shaalan said that he fully shared the concerns of Mr. Berrizbeitia and Mr. Kafka. The issue was a serious one. He wondered whether the disclaimer for the World Economic Outlook, namely, that the publication reflected the views of the Executive Board, also applied to International Capital Markets, and if not, why not?

The Director of the External Relations Department remarked that the World Economic Outlook was issued as a staff analysis, as was International Capital Markets. The disclaimer for the latter indicated that "the study has benefited from comments and suggestions from the staff, from the staff in other Fund departments, as well as from Executive Directors following their discussion of the international capital markets report on May 24, 1995" and that "the analysis and policy considerations are those of the contributing staff and should not be attributed to Executive Directors, their national authorities, or to the Fund." Similar language was used for the World Economic Outlook.

The Economic Counsellor and Director of the Research Department recalled that Mr. Berrizbeitia had raised two substantive points concerning the report that had also been raised in written comments submitted earlier by the Banco de Mexico. The first had been discussed extensively by the staff during the internal review of the draft report. It was concluded then that the available balance of payments data supported the view expressed in the staff paper. Prior to publication, modifications were made to delete references to data that the Mexican authorities regarded as particularly questionable. However, based on the revised balance of payments data cited in the advance copy of International Capital Markets, the staff remained persuaded that the available evidence supported the conclusion that "the pressure on Mexico's foreign exchange reserves during 1994, and in particular just prior to the devaluation, came not from the flight of foreign investors or from the speculative position taken by these investors, but from Mexican residents."

Concerning Mr. Berrizbeitia's second point, the original text, which had been retained in the published version, did not state that economic data published by Mexico deteriorated during 1994, either in coverage or in timing, the Economic Counsellor observed. Rather, the text stated clearly the views expressed by many market participants interviewed during the capital markets mission, namely, that "Mexico had made available only limited economic data during 1994 and now had difficulties in preventing market participants from expecting the worst." The problem with data availability had been recognized as one of the key lessons to be learned from the Mexican crisis, as had been recognized in many discussions of the Executive Board and in the efforts currently under way to strengthen the provision of key economic data. In the staff's judgment, it would have been grossly inappropriate to omit reference to that key issue in the published report.

Mr. Berrizbeitia said that he was grateful for the staff's clarifications. He would not pretend that the position of one chair should alter the substance of the conclusions of a staff document. However, as he had stated earlier, his Mexican authorities believed that the presentation of both substantive issues did not reflect a sufficiently balanced approach. There had been substantial discussion in the Board on resident versus nonresident capital movements, without conclusive result. In view of the many doubts expressed by many Executive Directors, that issue should have been presented in a more balanced way rather than as a reference in a minor footnote.

As to the data issue, it was true that the published document did not refer specifically to the deterioration of the supply of statistical information by the Mexican authorities, Mr. Berrizbeitia continued. However, as drafted, the report could be read as implying that Mexico deliberately withheld information, whereas his authorities had made clear that the rhythm, the timing, and the quality of the information supplied during 1994 was the same as that supplied in prior years.

He was therefore seeking a better nuancing of the presentation, especially when treating sensitive issues, Mr. Berrizbeitia remarked. He concurred with the staff that timely provision of data was a key lesson of the Mexican crisis. Indeed, his Mexican authorities had taken up the issue directly, and were making tremendous efforts to make more information available to markets and on a more timely basis, even by electronic means. Unfortunately, the presentation in the report had led to negative and potentially damaging press reports. Given the fragility and the overall difficult economic situation that Mexico was facing, such news reports did not help market perceptions.

Mr. Daïri said that he fully shared the concerns expressed by Mr. Berrizbeitia and Mr. Kafka. He also saw a contradiction in the view that the crisis was due to the reaction of Mexican residents because they were perceived to be better informed on the developments in the country, and the view that the crisis was due to a lack of information on market developments in the country.

Mr. Kafka remarked that he would like to see a general discussion on the publication of Fund documents, including the procedures to be followed, in releasing publications at an early date.

The Acting Chairman recalled that, earlier, Mr. Kafka had suggested that management take a greater role in ensuring careful oversight of staff publications. Did his latest suggestion supersede that request?

Mr. Kafka said that it did not. Directors could not exempt management from the expectation that it would exercise oversight of what was published under the Fund's imprimatur. The question, however, was not an easy one and merited further discussion. In response to the Acting Chairman, he indicated that an informal discussion would be appropriate.

Mr. Newman remarked that his authorities were discomfited as they had also received phone calls from the press. In the circumstances, the staff and the management might wish to consider some of the procedures that had been advocated in the broader data discussions, for example, having concrete publication dates, and ensuring that sufficient copies would be available immediately following the embargo date.

With regard to the more substantive issue, it was striking that press accounts tended to focus on different aspects of the publication, Mr. Newman continued. The <u>Financial Times</u> in particular had focused on Japanese banking issues, while others had focused on the Fund's views on capital controls, particularly as they related to inflows. It appeared that different reporters had different axes to grind and had chosen those aspects of the summary section that fitted their preconceived conclusions. Had they the much more comprehensive and balanced background sections, their accounts might have been different. The point was that in drafting a summary of a detailed background section, it was incumbent upon the authors to capture the full flavor of the staff's analysis.

That said, he would be reluctant to have the Board act as a censor, Mr. Newman stated. Publication by the staff of their own views was not only important but essential, and would become increasingly so as the Fund strove to strengthen its surveillance. He would be reluctant to see the Board try to control the flow of information to any great extent or to inhibit the staff's efforts in that area. At the same time it was incumbent on the staff to ensure that its presentation reflected all sides of an argument.

The Acting Chairman observed that the report in Monday's Washington Post was simply inaccurate. It was not a matter of a reporter striving for sensationalism but rather of their ignoring the statement in International Capital Markets preceding that quoted. Nor was it a matter of drafting; the staff could not have formulated that section of the publication in a better manner.

Mr. Newman commented that the Washington Post reporter had selectively chosen his quotes to fit an argument that he had set out in a series of articles on the same subject. The press account to which he had referred, on capital controls, had relied on selective quotes from the summary section rather than the background section, which contained a much more extensive and balanced discussion of the issue.

Mr. Geethakrishnan said that he would be interested to know the basis for the selectivity in releasing the report. In his view, copies should have been made available to the entire press. Their accounts could then be expected to neutralize each other.

As the Fund was attempting to be more open and more candid, it needed to be more careful about what was released for general publication, Mr. Geethakrishnan commented. As it was not in the interest of journalists to be factually correct, the Fund should proceed on the basis that they would misquote, misuse, and abuse. He would therefore endorse the suggestion that management would need to screen publications more carefully before their release. He would not like to see proposed publications brought to the Board for approval, as that would be a cumbersome and counterproductive approach. He would also endorse the suggestion of an informal discussion on procedures.

The Director of the External Relations Department explained that the selectivity arose from the past practice of the authors of International Capital Markets of providing copies to certain individuals, including academics and officials from whom input had been obtained, following the report's publication. In the current instance, copies had been sent while the publication was still under embargo. There was no policy of selectivity. For the World Economic Outlook, for instance, advance copies were provided under embargo to all journalists prior to the press conference of the Economic Counsellor.

Mr. Geethakrishnan said he found the clarification to be confusing. How did the names of two journalists come to be included on a list of those providing input?

The Economic Counsellor explained that in the past, the Research Department's International Capital Markets Division, which maintained a list of persons--academics, journalists, and others--with a particular interest in the subject, had sent published documents directly to them. In the current instance, for the first time, the External Relations Department had produced an advance copy of International Capital Markets, which had been provided to the International Capital Markets Division and mailed in the usual fashion. As it was not the intention of the Research Department to produce advance copies of International Capital Markets in the future, the recent experience was not likely to be repeated.

The Acting Chairman said that in the future if copies were to be distributed under embargo, they would be released through the External Relations Department. The recent experience was unique and would not recur.

Mr. Shaalan commented that the dangers of misinterpretation by the press brought to mind the whole issue of openness, transparency, and publications. He hoped that that general issue would be taken up in the informal meeting proposed by Mr. Kafka. He fully shared the view expressed by Mr. Geethakrishnan that there was a danger, particularly with respect to the press, that should not be disregarded.

Mr. Kafka remarked that he would be interested to know how advance copies of International Capital Markets came to be printed and distributed to the International Capital Markets Division.

The Acting Chairman explained that a request had been received in connection with a conference taking place in Aspen for some information on international capital markets. While considering that request, publication of International Capital Markets got under way. In the event, the report was not forwarded to conferees because the list of participants was greater than had been anticipated. The copies already printed thus became "advance copies."

The matter would be discussed further in an informal session, the Acting Chairman stated. Because one press account was, in fact, seriously misleading--the first report in the Washington Post--on Monday the staff had sought to clarify to the press what the report had actually said. He had also sent a letter to the Washington Post, which he expected to appear in that paper on the following day, on what the report had said about the international rescue package.

Mr. Berrizbeitia remarked that he was grateful to the Board for promptly taking up the issues he had raised. He understood that the letter to be published in the Washington Post would deal with a more general issue raised by the report. He wondered whether there was a possibility that the Fund also could clarify in some appropriate matter some of the issues he had raised.

The Acting Chairman observed that "clarification" might not be the appropriate word. There was a disagreement between the staff and the Mexican authorities on certain issues. As to the first issue, he failed to understand the concern about the statement in the report regarding Mexican investors being better informed regarding domestic markets; one would expect them to be better informed about events in Mexico than nonresidents. On the issue of data, as the report did not say that there had been a change in information provision, no clarification was needed.

The Executive Directors concluded for the time being their consideration of the release of International Capital Markets.

4. REPUBLIC OF BELARUS - 1995 ARTICLE IV CONSULTATION AND STAND-BY ARRANGEMENT - POSTPONEMENT

The Acting Chairman remarked that as Executive Directors were aware, following discussions with the Belarussian authorities and in the light of the most recently available information, management had the previous evening requested a postponement of the discussion on the 1995 Article IV consultation with Belarus and Belarus' request for a stand-by arrangement (EBS/95/128, 8/2/95; and SM/95/194, 8/11/95). The Belarussian Deputy Prime Minister and central bank Governor, who were in Washington at present, were very concerned about the decision by management to request a postponement of the discussion. Consequently, Mr. Prader would shortly be proposing that the matter of postponement be discussed in informal session. He understood from the Legal Department that in order to move to an informal session, it was necessary, first, to withdraw the Belarus item from the agenda by a majority of the voting power and then to formally adjourn the current meeting before proceeding to meet in informal session.

The Acting Chairman then proposed that consideration of the Article IV consultation with Belarus and Belarus' request for a stand-by arrangement be withdrawn from the agenda.

Mr. Geethakrishnan said that he understood that the item had already been withdrawn. Was the Board being asked to reaffirm that decision?

The Deputy General Counsel explained that an item could not be formally removed from the agenda without the support of Executive Directors representing a majority of the total voting power. While it was at the discretion of management, upon the request of an Executive Director, to place an item on the agenda, removal of an item required the support of the Board. Such support was now being requested by the Acting Chairman.

The Acting Secretary further explained that the previous evening, he had circulated an agenda to Executive Directors that had included Belarus, with a footnote indicating that confirmation of the item would take place in the morning. That morning, acting on what he thought was the best information, he had indicated that the item would not be discussed.

Subsequently, he had learned that the postponement did not have Mr. Prader's support. Thus, the matter of postponement had to be taken up formally by the Board.

Mr. Tulin said that before submitting the matter to a vote, he would like to hear the views of the Belarussian authorities.

The Acting Chairman remarked that Mr. Prader would convey those views in informal session, where the Board would have the opportunity of a full discussion of the issue.

The Executive Directors approved the Acting Chairman's proposal to withdraw the item on Belarus from the agenda. 1/

DECISIONS TAKEN SINCE PREVIOUS BOARD MEETING

The following decisions were adopted by the Executive Board without meeting in the period between EBM/95/77 (8/4/95) and EBM/95/78 (8/23/95).

5. SDR DEPARTMENT - DESIGNATION PLAN FOR PERIOD AUGUST 15-NOVEMBER 30, 1995

The Executive Board approves the designation plan for the period August 15 to November 30, 1995, as set out in EBS/95/119 (7/26/95).

Decision No. 11049-(95/78) S, adopted
August 4, 1995

6. OPERATIONAL BUDGET FOR PERIOD AUGUST 15-NOVEMBER 30, 1995

The Executive Board approves the list of members considered sufficiently strong as set out in EBS/95/120, page 2, footnote 1, and the operational budget for the period August 15 to November 30, 1995 as set out in EBS/95/120 (7/25/95).

Decision No. 11050-(95/78), adopted
August 4, 1995

1/ The Executive Directors then took up the matter of postponement of the discussion on Belarus in informal session (IS/95/8, 8/23/95).

7. JOINT COMMITTEE ON REMUNERATION OF EXECUTIVE DIRECTORS - GOVERNORS' VOTE

The Executive Board approves the report of the Secretary (EBAM/95/107, Sup. 2, 8/15/95) on the canvass of votes of the Governors on Resolution No. 50-2, with respect to the remuneration of Executive Directors and their Alternates, approved by the Executive Board (EBM/95/65, 7/10/95) for submission to the Board of Governors. The Governors' vote on the Resolution is recorded as follows:

Total affirmative votes	916,413
Total negative votes	467,956
Total votes cast	1,384,369
Abstentions recorded	90,341
Total replies	1,474,710
Votes of members that did not reply	14,477
Total votes of members	1,489,187

Decision No. 11051-(95/78), adopted
August 15, 1995

8. REPUBLIC OF CROATIA - EXCHANGE RESTRICTION - EXTENSION OF APPROVAL

The retention by the Republic of Croatia of the exchange restriction evidenced by external payments arrears is approved until the next Article IV consultation with the Republic of Croatia or October 31, 1995, whichever is earlier. (EBD/95/108, 8/3/95)

Decision No. 11052-(95/78), adopted
August 8, 1995

9. GERMANY, AND MALAYSIA - 1995 ARTICLE IV CONSULTATIONS - POSTPONEMENT

Notwithstanding the period of three months specified in Procedure II of the document entitled "Surveillance over Exchange Rate Policies" attached to Decision No. 5392-(77/63), adopted April 29, 1977, as amended, the Executive Board extends the period for completing the next Article IV consultation with Germany and Malaysia to the dates indicated in EBD/95/108 (8/3/95).

Decision No. 11053-(95/78), adopted
August 8, 1995

10. ZAMBIA - ACCUMULATION OF RIGHTS - EXTENSION OF PERIOD

Paragraphs 1 and 2(c) of the decision on accumulation of rights for Zambia (EBS/92/114, Sup. 2), as amended, shall be further amended by substituting "November 30, 1995" for "August 31, 1995." (EBS/95/81, Sup. 4, 8/17/95)

Decision No. 11054-(95/78), adopted
August 22, 1995

11. ELEVENTH GENERAL REVIEW OF QUOTAS - ESTABLISHMENT OF COMMITTEE OF THE WHOLE

In accordance with Rule D-3 of the Fund's Rules and Regulations, a Committee of the Whole for the Eleventh General Review of Quotas with the Managing Director as Chairman is hereby established. Committee action will not be binding on the Executive Board. Minutes of meetings shall be prepared and circulated for approval of Committee members. (EBD/95/110, 8/3/95)

Adopted August 9, 1995

12. EXTERNAL ASSIGNMENTS PROGRAM - TECHNICAL ASSISTANCE

The Executive Board authorizes the Managing Director to approve external assignments to provide technical expertise under the External Assignments Program for a duration not to exceed three years. (EBAP/95/70, 8/17/95)

Adopted August 22, 1995

13. 1995 ANNUAL MEETINGS - OBSERVERS

The Executive Board approves the proposal to invite observers to the 1995 Annual Meetings of the Board of Governors of the Fund and the Bank, as set forth in EBD/95/106 (8/1/95).

Adopted August 10, 1995

14. EXECUTIVE BOARD TRAVEL

Travel by Executive Directors as set forth in EBAM/95/128 (8/3/95), EBAM/95/132 (8/8/95), EBM/95/133 (8/15/95), EBAM/95/134, (8/21/95); by Advisors to Executive Directors as set forth in EBAM/95/132 (8/8/95), EBAM/95/133 (8/15/95), EBAM/95/133, Supplement 1 (8/18/95), EBAM/95/134 (8/21/95); and by Assistants to Executive Directors as set forth in EBM/95/129 (8/3/95) and EBAM/95/131 (8/7/95) is approved.

15. TRAVEL BY MANAGING DIRECTOR

Travel by the Managing Director as set forth in EBAP/95/65 (8/4/95) is approved.

APPROVAL: March 31, 1997

REINHARD H. MUNZBERG
Secretary