0404

NOT FOR PUBLIC USE

INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 87/117

10:00 a.m., August 4, 1987

R. D. Erb, Acting Chairman

Executive Directors	Alternate Executive Directors
	E. T. El Kogali
	J. M. Jones, Temporary
	Jiang H.
	M. K. Bush
	D. C. Templeman, Temporary
	H. S. Binay, Temporary
	E. C. Demaestri, Temporary
	A. M. Othman
	M. B. Chatah, Temporary
	B. Goos
J. E. Ismael	
	J. E. Zeas, Temporary
	M. Foot
	D. McCormack
	G. D. Hodgson, Temporary
Mawakani Samba	
Y. A. Nimatallah	I. A. Al-Assaf
	E. Ayales, Temporary
J. Ovi	
	G. Pineau, Temporary
	G. P. J. Hogeweg
	C.-Y. Lim
	B. Tamami, Temporary
A. K. Sengupta	L. E. N. Fernando
	A. Vasudevan, Temporary
K. Yamazaki	
	R. Manfredi Selvaggi, Temporary

J. W. Lang, Jr., Acting Secretary
R. S. Franklin, Assistant

1. Bhutan - 1987 Article IV Consultation . . . . Page 3
2. Mauritius - 1987 Article IV Consultation . . . . Page 10
3. Liberia - 1987 Article IV Consultation; and Overdue Financial Obligations - Review Following Declaration of Ineligibility . . . . Page 22

4. SFF Subsidy Account - Additional Subsidy Payments for July 1, 1985 through June 30, 1986 and Subsidy Payments for July 1, 1986 through June 30, 1987 . . . . . Page 38
5. Executive Board Travel . . . . Page 39

Also Present

IBRD: D. Reese, F. Aynur Sumer, Africa Regional Office. African Department: A. D. Ouattara, Counsellor and Director; E. L Bornemann, C. V. Callender, J. Damon, S. L. Rothman, G. H. R. Tersman. Asian Department: P. R. Narvekar, Director; U. Baumgartner, W. M. Tilakaratna. Exchange and Trade Relations Department: G. Bélanger, K. Flug, S. Kanesa-Thasan, S. Tiwari. Fiscal Affairs Department: V. Tanzi, Director; W. Huyser, P. Stella. Legal Department: S. A. Silard, J. V. Surr. Treasurer's Department: J. E. Blalock, P. J. Bradley, J. C. Corr. Advisor to Executive Director: K. Yao. Assistants to Executive Directors: N. Adachi, S. Guribye, K.-H. Kleine, V. K. Malhotra, T. Morita, J. A. K. Munthali, L. M. Piantini, S. Rouai, H. van der Burg, D. A. Woodward.

1. BHUTAN - 1987 ARTICLE IV CONSULTATION

The Executive Directors considered the staff report for the 1987 Article IV consultation with Bhutan (SM/87/155, 7/8/87). They also had before them a background paper on recent economic developments in Bhutan (SM/87/171, 7/20/87).

Mr. Sengupta made the following statement:

On behalf of the authorities of the Royal Government of Bhutan, I thank the staff of the Fund for the excellent 1987 Article IV consultation report and the accompanying report on recent economic developments.

At the discussion of the previous consultation report in 1985, Executive Directors commended the Bhutanese authorities for their prudent economic policies, which had been instrumental in the maintenance of financial stability, a sound external position, and economic growth. They underscored that continuation of such policies would provide a framework within which the existing development strategy should be pursued.

As the staff report makes abundantly clear, economic policies since our last discussion have not changed and have been characterized by caution and pragmatism. They are oriented toward achieving a higher rate of growth within a framework of price and financial stability and cultural and environmental integrity.

Economic performance in the past two years has been notable. Real GDP is estimated to have gone up by 2-3 percent in 1985 and 5-6 percent in 1986. There is near self-sufficiency in the food situation, with paddy production recording an increase of 10 percent between 1984 and 1986. Production of potatoes and fruits has of late become increasingly popular in view of their strong export prospects. The Government provides the needed incentives for changing cropping patterns and improving farming practices. Extension services are provided free. The Government has also launched an agricultural credit program, which provides short-term and medium-term loans mainly for acquisition of agricultural inputs and livestock, terracing, fencing, and maintenance of irrigation channels. In respect of forestry, which accounts for about 7 percent of GDP, there is an ongoing project, financed by the World Bank, for new planting. Moreover, emphasis is given to salvage operations to prevent bark beetle infestation.

The commissioning of the Chukha hydroelectric project late in 1986 has dramatically changed the outlook for industrial development and for revenue generation for the budget. There are also plans for further development of hydroelectric resources for meeting local energy needs, during the Sixth Five-Year Plan period (1987/88 to 1991/92).

The industrial sector in Bhutan is small, accounting for about 4 percent of GDP. About 80 percent of industrial output consists of cement, wood products, processed fruits, and alcoholic beverages and is largely oriented toward the Indian market. Most large industries are in the public sector, but the Government intends to gradually increase the share of ownership of the private sector. Privatization began in fact about three years back, beginning with government auto shop and main transport routes. Moreover, almost 20 percent of the shares of the Penden Cement Authority have already been sold to the private sector. The Government has also launched a program to train Bhutanese nationals for entrepreneurial and managerial jobs. In addition, the Government has taken a decision to allow foreign investment in the area of agroindustries in order to facilitate inflows of modern technology and to promote exports.

Bhutan has continued to follow pragmatic financial policies. From the current year, viz., 1987/88, the fiscal year was shifted from April-March to July-June, to facilitate release of funds early at the beginning of the fiscal year, since much of the revenue collection is generally done in the first three months of calendar years. It will facilitate discussions with the Government of India. Also, it would coincide with the annual plan and budget discussions at the spring session of the National Assembly, thereby avoiding some expenses on travel to headquarters by district officials. The current year, however, will have a period of 15 months.

The fiscal position had generally been one of balance until 1984/85; in the following two years, however, it turned into one of imbalance. This was mainly a reflection of the sharp rise in foreign financed capital expenditures. The large increase in spending in these years was essentially due to the investments made for four projects--Bhutan Board Products, Bhutan Chemical and Carbide, Gedu Wood Manufacturing Corporation, and Dungsum Cement Project. The Government contribution to these projects increased the total budgetary appropriation. Besides, the Government has introduced the program budget system, as a result of which a number of activities and projects which had hitherto been treated outside the budget have been brought under the purview of the social sector departments, particularly in the education, health, public works, animal husbandry, and agriculture sectors. Moreover, revenue performance which was somewhat weak in 1985/86 due to transitory factors (such as the timing of profit transfers from public enterprises, and shortage of alcoholic spirits, causing a fall in excise revenues) had shown a strong improvement in 1986/87, with growth in revenues almost 30 percent, primarily due to higher corporate taxes. As a result, the bulk of the borrowing from the domestic banking system of 1985/86 was repaid in 1986/87. Also, for the first time, the Chukha hydroelectric project yielded significant revenues, equivalent of Nu 22.70 million.

The 1987/88 budget is expected to show a further improvement in revenue performance, and the current projections of receipts from excise duties and corporate taxes indicate large increases of 26 percent and over 150 percent, respectively, on a 12-month basis. The amount of Nu 80 million, which was outstanding from the sale of electricity from the Chukha project in 1986/87 was realized in 1987/88. The present estimate of receipts from this project for 1987/88 is Nu 100 million. This estimate, however, as the staff report notes, could turn out to be lower than the final receipts, in which event, the budget outturn would be even more favorable than now forecast. It is expected that there would be a further net repayment of the amounts borrowed by the Government from the domestic banking system during the current fiscal year.

Monetary growth has in recent years been influenced by growing monetization and by a progressive replacement of Indian rupees by the domestic currency. In 1986, however, the rate of increase of broad ngultrum money stock slowed, reflecting a possible slowdown in monetization, as well as an adjustment to the earlier rapid increase in currency with the nonbank public, and a decline in domestic credit caused by improvement in the fiscal position in 1986/87.

The interest rate structure has traditionally been conducive to the growth in domestic savings. Interest rates on bank deposits of less than one year maturity moved upward during the past two years, giving rise to a considerable increase in quasi-money. In 1986, however, the rate of growth in quasi-money showed some deceleration, partly because of the strong competition from the mobilization efforts of the Unit Trust of Bhutan (UTB), and the higher yields that UTB offers on its schemes, viz., unit shares, fixed-term units, and recurring deposits.

The private sector demand for credit is generally very limited. The credit needs of the economy are taken care of by the Bank of Bhutan and by the special credit scheme administered by the Royal Monetary Authority (RMA). Disbursements under the latter scheme, which are facilitated by the funding from the UNCDF and IFAD, rose sharply in 1985 and 1986. Efforts are currently being made to establish an industrial credit program geared toward the development of small industrial units, with support from the Asian Development Bank.

In the external sector, the large inflow of foreign aid has been traditionally sufficient to cover the deficit in the current account and to provide for an increase in reserves. As a result, the overall balance has been in surplus. Trade with India continues to be virtually unrestricted and predominant. But third country transactions too have in recent years gained in importance. As Bhutan has incurred convertible currency debt on a significant scale, albeit on soft terms, the authorities have taken several measures to boost third country exports. Apart from subsidization, the Government has entered into transit agreements with India for facilitating overseas trade through Calcutta and for overland routes to Bangladesh and Nepal. In addition, the Export Development Corporation of Bhutan assists private export traders in finding markets, arranging transport and ensuring payments for exports to markets outside India. The medium-term outlook is generally favorable, and the staff projections in this regard are basically similar to those of the Royal Monetary Authority.

Mr. Yamazaki made the following statement:

Bhutan's economic performance since the previous consultation has broadly been satisfactory. The Chukha hydropower project came on stream, and agricultural output expanded. Inflation, which basically follows the price movement of India, has been moderate, and the external position has remained strong.

Completion of the Chukha project, which sets the stage for higher growth of energy-intensive industries through low-cost power supply, should also have a beneficial effect on government revenue. According to SM/87/171, the pilot farming project has resulted in an almost doubling of rice yields through adoption of new rice varieties and intensive cultivating methods. Forestry and tourism have also shown a high growth potential within a constraint of expressed concern by the authorities on the need for environmental and cultural conservation. The Sixth Development Plan provides an appropriate framework for realizing this growth potential, and I count on a cautious and pragmatic approach of the sort traditionally taken by the authorities in implementing the development strategy.

As I can broadly endorse the staff analysis and appraisal, I will concentrate on a few specific policy areas. First, on fiscal policy, I am pleased to note that the temporary deterioration in the fiscal position in 1985/86 has been largely rectified through elimination of transitory factors and through generous support from India. Continued heavy reliance on foreign assistance, however, would argue for caution against excessive expansion in the public sector unless much higher than expected domestic resource mobilization can be realized.

Second, the difficulty of expanding the private sector is well illustrated by a lack of a response to a special fund created in the Bank of Bhutan to meet the credit needs of small entrepreneurs. Nevertheless, the authorities should be alert to the risks of compensating for the lack of private initiative by expanding public commercial investment.

Third, I support the cautious attitude of the authorities toward foreign borrowing. While most of the foreign debt consists of borrowing on concessional terms, and although the current level of the debt is clearly manageable, a recent acceleration of disbursements and the expected rise in the debt service burden in the coming years point to the need for caution. Further efforts will be required for promoting exports to third countries in order to accommodate a growth of imports from third countries without incurring further debt as well as to promote healthy diversification of industries according to comparative advantages based on international prices. In this connection, I can support provision of modest subsidies and tax concessions for promoting third country exports. Caution will be required, however, in undertaking excessively ambitious projects to improve logistics if they involve large commercial borrowing. A more positive attitude toward foreign investment, particularly if it involves an element of technological transfer, could have beneficial effects in alleviating the debt burden as well as in developing industries.

Shortage of both skilled and unskilled labor poses a most serious problem in economic development and is likely to constrain the realization of natural growth potential in the coming years. An improvement in the literacy rate and school enrollment, therefore, has to be tackled as a matter of urgency. On a related matter, it is essential for proper economic analysis and planning to have reliable statistics, and I urge the authorities to make further efforts in this area. Finally, in extending the best wishes of this chair for continued success in the authorities' cautious, prudent, and pragmatic economic policies, I can support the proposed decision.

Mr. Goos commended the Bhutanese authorities for their generally cautious, pragmatic, and judicious economic policies, which seemed to have served the country well, as evidenced by the considerable real growth rates achieved persistently over recent years and by the absence of external financing difficulties. His reading of the staff report made him confident that the foreseeable policy stance would not give rise to any immediate problems. However, for the longer term, the staff had rightly pointed out some potential weaknesses that could have a negative impact on the dynamism of Bhutan's economy and, hence, its growth potential. He hoped that the authorities, in formulating future policies, would give due consideration to the staff's recommendations.

Mr. Sengupta agreed with Mr. Goos that many of the suggestions in the staff report were well taken, and he was certain that his Bhutanese authorities would take account of the staff's recommendations in formulating their policies.

Among the recommendations highlighted in the report was the suggestion that efforts toward privatization be intensified, Mr. Sengupta noted. The authorities believed that private initiative should be encouraged in Bhutan's economic development, but they had noted that problems of manpower and training hampered the push toward greater private sector activity. The staff itself, following the previous consultation, had shown some appreciation for the constraints on privatization in Bhutan. Nonetheless, the authorities were establishing training facilities and offering various incentives to encourage private entrepreneurship, and they fully expected that some of those individuals released from employment in public sector companies would begin to open up private businesses.

The role of foreign investment in Bhutan had been mentioned by Mr. Yamazaki, who had also indicated his awareness of the Bhutanese authorities' sensitivities about the effects of foreign investment on their culture, Mr. Sengupta remarked. Nonetheless, the Government had taken a number of decisions to invite foreign investment which brought in new technology; that was particularly true in the agricultural sector. The medium-term scenario also showed an increase in tourism, an area that the Bhutanese authorities recognized could be expanded. However, any such expansion must take account of the sensitivities of the Bhutanese nation to the various influences that tourism naturally brought with it.

Another constraint to growth and development in Bhutan was evident in the export data, Mr. Sengupta continued. Basically, cardamom was the one item exported to countries other than India, where, because of transport and cost advantages, it was more profitable to export other items on the list. Even the medium-term scenarios showed no substantial increase in exports expected. It was basically service receipts which were projected to expand in the medium term.

Finally, Mr. Sengupta said, he had received from his Bhutanese authorities a communication thanking the Fund for the assistance of the Fund's fiscal advisor, whose recommendations had been instrumental in enabling the authorities to achieve the reorganization of the Department of Revenue and Customs in a relatively short time. Moreover, the fiscal advisor's report on fiscal policy of the Royal Government of Bhutan had been of great help in improving and restructuring the Bhutanese tax system. The advisor had also been entrusted with the preparation of a tax manual, with changing the traditional budget system into a program budgeting system, and with establishing a new, unified accounting system.

The Acting Chairman made the following summing up:

> Executive Directors, supporting the staff appraisal, expressed satisfaction with the course of economic developments since the previous consultation and commended the authorities' cautious and pragmatic policies. Over the past two years, output has expanded in important areas, sizable investments have been undertaken, and financial policies have been generally supportive of reasonable price stability and a strong external position.

Directors noted with satisfaction that budgetary performance strengthened in 1986/87 following a setback in the previous year that largely reflected temporary factors. With sizable additional revenues from the newly completed Chuckha hydroelectric project, the budgetary outlook for 1987/88 and the coming few years appears to be relatively comfortable.

Planned investments and development priorities which concentrate on agriculture and industries based on domestic resources were supported and considered appropriate to Bhutan's circumstances. Over time, and in light of the availability of foreign assistance, efforts would be needed to strengthen the underlying public finance position by containing expenditures and, more generally, the size of government, as well as by strengthening domestic resource mobilization. It was also suggested that, to an extent consistent with their desire to protect their culture and the environment, the authorities could take advantage of the possibilities offered by foreign investment.

The steps the authorities have initiated aimed at developing exports to third countries were welcomed, and it was urged that these be continued and strengthened.

On the matter of external borrowing, Directors encouraged caution in approving projects involving external financial requirements and suggested that a prudent approach should be taken to commercial borrowing.

It was noted that while the availability of statistical information has improved somewhat, partly as a result of the Fund's technical assistance in the fiscal and monetary fields, continued high priority needs to be given to strengthening the statistical framework.

It is expected that the next Article IV consultation with Bhutan will be held under the bicyclic procedure with the next discussions under the simplified procedure.

The Executive Board then took the following decision:

1. The Fund takes this decision in concluding the 1987 Article XIV consultation with Bhutan, in the light of the 1987 Article IV consultation with Bhutan conducted under Decision No. 5392-(77/63), adopted April 29, 1977, as amended (Surveillance over Exchange Rate Policies).

2. The restrictions on the making of payments and transfers for current international transactions, as described in SM/87/171 (7/20/87), are maintained by Bhutan in accordance with Article XIV, Section 2. The Fund encourages the authorities to administer these restrictions in a liberal manner.

Decision No. 8671-(87/117), adopted
August 4, 1987

2. MAURITIUS - 1987 ARTICLE IV CONSULTATION

The Executive Directors considered the staff report for the 1987 Article IV consultation with Mauritius (SM/87/168, 7/15/87). They also had before them a background paper on recent economic developments in Mauritius (SM/87/182, 7/27/87).

The staff representative from the African Department observed that three important developments had occurred since the issuance of the staff report on Mauritius. First, a date of August 31, 1987 had been set for the general election in Mauritius. Second, the Cabinet had approved salary increases, effective July 1, 1987, of 10-16 percent for private sector and civil service workers. Third, the Cabinet had authorized the Bank of Mauritius to issue two new types of eight-year savings bonds: one would carry an interest rate of 14 percent payable yearly; the other would be redeemable tax free at maturity at three times the amount invested. According to the staff's calculations, the latter type of bond would yield 14.7 percent tax free on an annual basis.

Mr. Mawakani made the following statement:

The Mauritian economy continued to expand strongly in 1986/87, helped by favorable external conditions and prudent domestic policies. Output is estimated to have grown by about 7.6 percent in 1986/87 and was broad based. Inflation was reduced to approximately 1 percent and the employment situation improved markedly. The internal imbalance was further reduced, and the surpluses in the external accounts increased. In the fiscal area, the overall budget deficit including grants is estimated to have been reduced to about 3.3 percent of GDP, compared to 5 percent budgeted. The external sector continued to strengthen in 1986/87, with the current account (including grants) registering a surplus of 8.7 percent of GDP. This economic success had, however, created new types of economic problems. Bottlenecks have begun to appear in the labor market and in the industrial space, and excess liquidity is being accumulated in the banking system. Furthermore, workers' expectations have been raised by the sustained economic growth registered in recent years.

In the real sector, a shortage of labor for certain categories of work has begun to develop, and in the Export Processing Zone (EPZ) industrial space has become scarce. To cope with this situation, the authorities are looking at various schemes to help the labor force acquire the necessary skills and they have approached the World Bank for an industrial finance project loan to build new industrial estates.

In the fiscal area, the strong economic activity and greater compliance with regard to income tax payments--after the lowering of the rates--as well as improved tax collection have helped to reduce the deficit. No new tax measures were introduced over the past year, and tariffs on several imports were actually removed or lowered. On the expenditure side, the increase in current outlays was less than had been budgeted and is estimated to have grown by 10.5 percent, compared with 12.7 percent projected. As to the increase in capital expenditure, it should be noted that in the past several years, because of the need for fiscal restraint, a certain number of investment projects had to be canceled, despite their importance to the structural development of the island. With a more stable economic environment, the authorities feel that they need to undertake some of the most urgent ones. The increase stemmed mainly from an acceleration in the pace of the construction of the new airport terminal, which has become a necessity with the high growth of the tourist industry and from improvements and new construction of roads and highways. Close attention will be paid to the recurrent costs of these investments so as to avoid an excessive burden on the budget.

With regard to wage policy, as indicated in the staff report, several factors have made the wage increase unavoidable. As was mentioned on page 17 of last year's staff report, EBS/86/252, "Since 1981, a review of the public sector pay levels has been intermittently in progress. This review is likely to be brought to a conclusion during the fiscal year 1986/87. The final pay decision will be based on the findings of the Pay Research Bureau, a public agency charged with review of the pay levels in the public sector." The conclusions have now been published, and the authorities must take action based on them. The Mauritian authorities understand the adverse effects that an excessive wage increase could have on the economy and they will, therefore, implement carefully the wage increase proposed by the Review Board. Its spillover effects to the private sector and the potential adverse effects on the competitiveness of Mauritian exports are understood. It is also important to note that with the improvement in the economy, pressure has been built on the Government to take action to correct the decline in real wages. Consequently, a manageable level of increase is being granted in order to avoid undue pressure on the budget. The authorities intend to monitor the situation closely and take any measure that might become necessary to reduce its impact on the balance of payments.

On monetary and credit policies, as the staff report indicates, the authorities have been quite successful in controlling aggregate demand in order to alleviate pressure on both the balance of payments and prices. The policy followed allowed interest rates to remain relatively high without adversely affecting investments. Nevertheless, this policy has enabled excess demand to be curbed while at the same time allowing priority sectors to have sufficient credit. However, despite the prudent policies being implemented, the authorities are concerned about the high level of liquidity in the economy; they, therefore, agree that some change in the operation of the financial system is needed, especially in view of the openness of the Mauritian economy. They are also aware that an effective control of domestic credit is needed to consolidate progress painfully achieved over the past years. To control the excess liquidity, the authorities plan to issue special bonds with tax free interest and they intend also to review the cash and liquidity ratio requirement of banks with a view to encouraging banks to continue accepting time deposits.

For 1987/88 and the medium term, the authorities intend to continue with the same set of market-oriented policies that have served the Mauritian economy well. As in the past, they intend to create the appropriate environment to encourage investment. Efforts to further open up the economy will continue, and the policy of flexible exchange rate will be maintained. Though present policies have been successful, the authorities realize that their strategy needs to be constantly reviewed and adapted to changing world conditions. Despite these efforts, the authorities are concerned about the growing protectionist tendency in industrial countries that could hamper the growth potential of their economy. Faced with this unfavorable prospect, they are encouraging investors to diversify into other goods and services. Moreover, within that strategy of diversification, the authorities have removed all import quotas and almost all exchange restrictions. As a result of these policy measures, the Mauritian economy is expected to show further improvement in 1987/88.

Given the comfortable external position, the authorities have some room for maneuver in the restructuring and the diversification of the economy. Their efforts will also be directed toward strengthening the revenue base of the Government and reducing the share of revenue from taxes on international trade. However, in view of the Mauritian economy's vulnerability to unfavorable weather conditions and exogenous factors, the authorities feel that they need to accumulate more reserves to shield the economy from these factors. As a result, they would prefer not to consider an acceleration of repurchases from the Fund at the present time.

Mr. Foot made the following statement:

It is a pleasure to note the excellent adjustment record of Mauritius and the extent of the turnaround achieved in the last few years, particularly given that the external environment has not been particularly favorable.

In a sense, this consultation has occurred earlier than desirable. The previous Article IV consultation discussion took place in the Board only in November 1986, and we shall now have to wait 24 months for a further discussion. Also, without a budget until after the elections this fall, there is inevitably a policy hiatus at present. All we can do today, therefore, is to offer pointers for the way ahead after the elections.

We can of course be encouraged by the clear recognition by the authorities of the need for a substantial tightening of fiscal policy after the election and avoidance of bank financing by the Government. So far as possible, this restraint needs to be cast in a forward-looking program which both widens the tax base and continues to keep expenditure properly in check. So far as revenue is concerned, the continuing overreliance upon revenue from international trade taxes must be tackled. On the expenditure side, one cannot help wondering whether the size and timing of the proposed increases in public sector pay have more to do with the timing of the next election than with the urgent need to redress imbalances. Table 2 of SM/87/182 suggests that over the nine years to 1985/86, central government earnings have actually risen slightly faster than elsewhere in the economy, albeit more slowly than the consumer price index. Also, given that inflation is currently very low but that significant inflationary pressures appear to be on the verge of erupting, there would seem to have been a case for a more cautious timetable for necessary wage increases, linked closely to appropriate reforms of the civil service.

These inflationary pressures indeed are the biggest cloud on the horizon. Percentage increases in narrow and broad money of over 30 percent bode ill for maintaining a very low rate of inflation. The authorities can do something about the situation by pressing ahead with reforms in the monetary sector, which could increase the authorities' ability eventually to regulate the economy by indirect means. For now, I suppose that the intention to issue high-interest bonds to the domestic nonbanking sector is the best that can be done to curb liquidity. But I cannot help feeling, from a narrow point of view, that one should not be encouraging a government with a relatively good fiscal record to be borrowing at the high real rates of interest currently available in Mauritius. Indeed, I cannot help wondering--on a personal basis--whether Mauritius would not have been better served in the last year by a different policy mix that might have prevented some or all of the 10 percent real exchange rate depreciation that occurred. I would welcome staff thoughts on this point.

Finally, I shall address the question of what Mauritius should do with its growing reserves. The staff says it would be prudent for Mauritius to accelerate Fund repurchases, but I am not clear on what basis such action would be prudent. Surely we are not talking about the relative cost of Fund money vis-à-vis the interest to be earned on reserve holdings. The authorities are right to be keen on holding sizable precautionary balances; I have an open mind on the outcome and I would welcome staff comment on how Mauritius fits the spirit of the guidelines for early repurchase.

Mr. Templeman made the following statement:

The achievements of the Mauritian authorities in recent years have been remarkable with regard to real economic growth, job creation, inflation, the balance of payments and foreign debt situation, fiscal adjustment, and deregulation and liberalization in several areas. Also, the economic outlook, in general, seems rather promising.

However, it is the responsibility of this Board to point out any signs of weakness or possibilities for improvement, as well as to give praise. The main immediate problem that needs watching concerns the building of inflationary pressures. These derive from the rapid rise in liquidity, wage demands, labor shortages, and pressures to expand the public sector's capital spending. This possible danger point has been highlighted in the staff report and by Mr. Foot. The Mauritian authorities have referred to various monetary measures which might be taken to absorb excess liquidity and have recognized the need to restrain wages, perhaps taking advantage of already rising wages to reduce consumer subsidies. I wonder whether the staff is satisfied by these assurances, especially taking into account the decision just made on wages.

The fiscal outcome will also have an effect on monetary expansion; yet revenue and expenditure measures to reduce the deficit to the targeted level of 4 percent of GDP have not yet been taken. Furthermore, we share the staff view that a somewhat lower target would have been advisable. As for the possibility of reducing some subsidies and transfers, we wonder in what areas these reductions might occur. Table XXI of SM/87/182 shows that there have been substantial increases in expenditures for pensions and for transfers to the public enterprises involved in civil aviation, the post and telecommunications, and sewage disposal. Presumably, the possible cuts in consumer subsidies referred to in connection with wage increases might include reductions in subsidies to these public enterprises. But, we also wonder whether a problem is not in the making in the form of rising pension costs. We strongly support the idea of a general review of public expenditures for incentives, subsidies, and transfers; and we note that a projection of the overall fiscal outlook for the medium term would have been useful.

It is suggested in the staff report that exchange rate flexibility may have to be used to offset wage increases and cuts in customs tariffs. While not ruling this out, we feel that there is some inflationary risk in accommodating a rise in wage costs in this manner. And currency depreciation to offset customs tariff reductions could undermine the effort to introduce more competition into the domestic market.

The outlook for the balance of payments and foreign debt situation seems rather favorable. We would only underline the point made by staff about the sensitivity of the external position to demand management policies and to adequate incentives for the growth of export industries.

In the latter connection, I note the reference to protective measures in North America as a major impediment to the continued rapid expansion of Mauritius's textile industry. While it is true that there exists a bilateral agreement between Mauritius and the United States to prevent surges of imports of textiles and apparel, the annual growth rate of Mauritian exports to the United States under the EPZ arrangement has, nonetheless, averaged 79 percent over the past four years, representing nearly 32 percent of the growth of total EPZ exports between 1982 and 1986.

Very important efforts are currently underway in Mauritius to deregulate and reform some domestic markets and to liberalize international trade. In the first area, price deregulation has apparently already gone quite far. Reforms of the tax system and of public enterprises are contemplated, and the staff has made some useful suggestions with regard to relaxation of direct monetary controls and development of financial markets. Regarding international trade, we welcome the past elimination of import quotas, and of most exchange restrictions, the fostering of foreign investment, and the initial step toward reductions in customs tariffs in collaboration with the World Bank. However, a continuing maximum tariff rate of 127 percent certainly seems high. We assume that the maximum rate will be substantially reduced at a later stage in the tariff reform program.

Mr. Pineau made the following statement:

Because I broadly share the staff's views on the present economic situation in Mauritius, I can be brief. The recent performance of the economy and its short-term prospects remain favorable. Economic activity is still buoyant, and the country does not suffer from any major imbalances. The favorable comments this chair made last year are thus still valid.

I would only stress the need for cautious financial policy, in particular in the monetary area. Some liquidity problems, largely linked to the impressive strengthening of the external position, are clearly mounting and should be addressed early enough to prevent inflationary risks. In the same vein, the authorities would be well advised to keep wage developments under close control after the recent pay raises granted to civil servants. In any case, if household purchasing power is to increase significantly, as it seems to be doing, I fully endorse the staff's view that the authorities should take that opportunity to cut back on public transfers.

In a longer-term perspective, the diversification of the economic base must remain a high priority matter, and I urge the authorities to expedite the implementation of the Sugar Action Plan. A successful diversification out of the sugar industry will hinge at some point on a better educated population possessing more appropriate skills. The emergence of some important labor shortages at a time when unemployment stands at 12 percent of the work force is a disquieting sign in this respect.

Mr. Othman made the following statement:

Like others, we are quite impressed by the performance of the Mauritian economy over the past few years. The adjustment policies followed during those years, which were supported by a number of stand-by arrangements and drawings on the special facilities, have to a very large extent achieved their objectives.

It is true that these financial arrangements and facilities, together with favorable external and weather conditions, have helped; but these factors alone could not have produced the economic turnaround Mauritius is experiencing today.

The sound and persistent adjustment policies of the Mauritian authorities as outlined in the statement of Mr. Mawakani deserve our commendation, as does the successful cooperation between the Fund and Mauritius in formulating and implementing these policies.

The major task facing the Mauritian authorities in the period ahead is, in our view, how to consolidate the gains achieved and reduce the continued vulnerability of the Mauritian economy. This will require speed in implementing structural adjustment policies designed to diversify the production and export base and a strengthening of the revenue base by broadening the tax structure and reducing excessive reliance on taxes coming from international trade.

We agree with the staff that in the light of the liquidity situation, the overall budget deficit for 1987/88, which is estimated by the staff at 5.91 percent of GDP, could have adverse implications for prices and the external position. We note, however, that the authorities' target for the 1987/88 deficit (4 percent of GDP) is in line with the staff appraisal. We also note the authorities' intention to put into place additional fiscal measures to meet that target. We hope that the 1987/88 budget, which will be presented in October, will indeed contain such measures.

The proposed wage and salary increase is estimated to add about Mau Rs 1 billion to the economy's wage bill (about 4.6 percent of GDP), a percentage higher than the authorities' figure for the 1987/88 budget deficit. This development should provide a convenient opportunity to review consumer charges and tariffs of public utilities and other parastatal agencies and to cut down on consumer subsidies in order to offset part of the expenditure. In this connection, we appreciate the authorities' intentions to monitor the situation closely and take any measures that might become necessary to reduce any adverse impact on the balance of payments. We would have liked to see more elaboration of the impact of the wage increase on the labor shortage, especially in the sugar sector where wages are already significantly high.

On the monetary front, we share the staff's concerns regarding the liquidity situation, and we welcome the issuance of two types of special bonds to the nonbank public in order to absorb some of the excess liquidity. Of course, further monetary tightening will depend on the speed with which additional fiscal measures are put in place.

Finally, I congratulate the authorities for their economic policies and for their external debt management. While early repurchases to the Fund would be welcome, we would be content with allowing Mauritius more flexibility in its external debt management. What is important in our view is for the momentum already achieved to be sustained and strengthened in the years ahead.

Mr. Vasudevan said that he was broadly in agreement with the staff appraisal and, like others, could commend the recent economic performance of Mauritius. It was important, however, to keep watch for of the inflationary pressures that could build up because of the large liquidity overhang. In the circumstances, particular emphasis should be given to maintaining wage policies and reviewing cash and liquidity ratios. In addition, restraint should be placed on fiscal expenditures; regular monitoring in that area would be useful in order to avoid any undue pressure on the balance of payments. Finally, he could support the proposed decision.

The staff representative from the African Department, responding to questions on the policy mix in Mauritius, observed that the authorities had set for themselves the objective of attaining a particular level of reserves over time, and the issue was which policy instrument should be given emphasis to achieve that objective, while maintaining balance and reducing pressures in the rest of the economy. During discussions with the staff, the authorities had pointed out that they had been successful in maintaining credit ceilings in order to prevent any leakages associated with expansion of credit through imports that could thereby nullify their efforts to increase external reserves. On the other hand, they recognized that in order to absorb liquidity, and thus reduce inflationary pressures, it was necessary to increase real interest rates and maintain them at a fairly high level. Thus far, the authorities had shown some reluctance to depart from a policy that had been so successful; but he tended to agree with Mr. Foot and Mr. Templeman that the policy would have to be monitored carefully and that changes along the lines recommended in the staff report might have to be made.

Subsidies on rice and flour had been reduced substantially in the past three or four years, and the authorities were committed to further reductions, the staff representative noted. With respect to the reduction of subsidies in other areas, the staff had recommended that the authorities review the operations of the parastatal enterprises, particularly the utility companies, with a view to increasing charges so that the burden on the budget arising from transfers to those enterprises could be reduced. While the authorities recognized that an increase in electricity rates might be a good idea, they felt that changes should be effected only as part of an overall development plan and might best be instituted after the elections, if and when the authorities were given a clearer mandate for such changes.

The staff tended to agree with Mr. Templeman that an indication of the overall fiscal outlook for the medium term would have been useful, the staff representative commented. The usual practice was to ask the authorities to present medium-term fiscal projections in conjunction with the balance of payments and monetary projections. In the case of Mauritius, the authorities had been working on a medium-term investment program that it was hoped could be integrated at a later stage in the capital budget. That program had not yet been completed, which was one reason why the authorities had not done further work on the medium-term budget projections. Another reason was the natural caution of the authorities ahead of the elections and their sensitivity regarding budgetary policies, which formed the basis for the medium-term forecasts.

Some speakers had commented on the staff's view in the appraisal that it would be prudent for Mauritius to accelerate repurchases to the Fund, the staff representative recalled. He hoped Executive Directors did not think that the staff was being self-serving in its statement; the staff believed that it would be better for the authorities to build up available Fund resources--through early repurchases--than to place the money where it could be used for other purposes. Early repurchases were one way of ensuring that the resources would be available when needed. Moreover, because of the sharp increases in external reserves, Mauritius might well be a candidate for designation; the latest data suggested that reserves were equivalent to 309 percent of quota. And, given Mauritius's strong balance of payments showing in the past, and the underlying positive trends at present, the likelihood was increased that Mauritius would become a candidate for designation.

Finally, in response to those who wondered whether the staff was satisfied with the steps the authorities had taken to absorb liquidity, the staff representative reiterated that the authorities had been successful in absorbing liquidity in the past by maintaining high interest rates, and he saw no reason why they should not continue to be successful in the future.

Mr. Mawakani stated that he would limit his remarks to the areas of wage policy, capital expenditures, and growth and adjustment. The Mauritian authorities were well aware of the adverse effects that an excessive wage increase could have on the economy. The action they had taken in increasing wages should not be construed as a relaxation of fiscal discipline. In fact, given the reductions in real wages that had occurred during the past 5-6 years, the increase could justifiably have been much larger, but the authorities had prudently agreed to an increase that was manageable and would not affect the competitiveness of Mauritian goods.

Several factors should be taken into account in reviewing the level of capital expenditure, which had been quite low in recent years, averaging 2.3 percent of GDP in the past four years, Mr. Mawakani continued. A number of important projects, including road repair and construction, had been delayed; however, with the improved financial conditions, the authorities had felt that they could safely undertake those projects, especially as they would not impose any undue burden on the budget. Besides, it was important to invest in infrastructural projects to ensure growth. As for the new airport terminal, it should be pointed out that the present facilities were inadequate to handle the large number of users, equivalent to 200,000 annually, or about 20 percent of the population. In the circumstances, a new terminal was needed, and the authorities had taken steps to speed up its construction.

Remarking on growth and adjustment in Mauritius, Mr. Mawakani said that there was no doubt that the six stand-by arrangements with the Fund and the two World Bank structural loans had been very important in helping Mauritius to eliminate its deficit and to restructure the economy. Mauritius qualified as a showcase of what the Fund wanted its programs to achieve. Unfortunately, among African countries, Mauritius was a rare success story. That having been said, it was possible that Mauritius had certain characteristics that made it more receptive to Fund programs, and a study of the Mauritian case might be helpful. Perhaps such a study could be done as an appendix to the paper on the design of Fund programs. In the meantime, he would offer his own views on a few of the special characteristics that had enabled Mauritius to achieve success under Fund programs.

First, Mr. Mawakani observed, the very fact that it had taken six successive stand-by arrangements and two structural adjustment loans to remove the imbalances and put Mauritius on the path toward strong economic growth suggested that adjustment, to be successful, must be effected over a medium-term period. Second, while Mauritius had been adjusting its economy, the only income losses it had suffered had been due to bad weather conditions. It had not suffered from wide fluctuations in export receipts due to changes in the world price of its main agricultural export, sugar. Mauritius had a guaranteed quota and remuneration price with the EC, a benefit not available to many other adjusting countries. Third, when Mauritius had begun to diversify toward the production of goods, it had been given access to industrial country markets, especially those of the European Communities. Fourth, the savings ratio in Mauritius was relatively high by comparison with that in most developing countries; and the high ratio had helped private investors and had reduced the necessity for recourse to external borrowing. Fifth, most of the foreign investors already had markets for exports, which reduced the uncertainties associated with the marketing of Mauritian products.

The characteristics he had highlighted were only a few of those which made Mauritius a special case, Mr. Mawakani considered. Many of the other countries in his constituency had been operating under Fund programs for a number of years but were far from showing the type of progress exhibited by Mauritius. Perhaps the design of Fund programs, especially for African countries, could benefit from a study of the Mauritian case.

The Acting Chairman made the following summing up:

> Directors were in broad agreement with the thrust of the assessment in the staff report for the 1987 Article IV consultation with Mauritius. Directors commended the Mauritian authorities for their successful management of the economy in recent years, particularly for the prudent financial and structural policies that have been followed. Directors noted in particular that the rate of economic growth had increased, that the fiscal and balance of payments situations had improved considerably, and that the rate of inflation had been sharply reduced. Directors

noted further that these achievements had occurred within a framework that also permitted increasing liberalization of the exchange and trade system, a relaxation of price controls, and the repayment of external debt without recourse to debt rescheduling.

At the same time, Directors expressed some concern about future inflation prospects in light of the rapid growth in liquidity and the recent wage increases. Directors thus urged the Mauritian authorities to continue to implement prudent monetary and fiscal policies and to consolidate the current fiscal improvement. They noted that achievement of a further reduction in the budget deficit to at least 4 percent of GDP for FY 1987/88 would require additional revenue measures as well as expenditure restraint.

On the revenue side, Directors encouraged the authorities to reduce dependence on taxes on international trade by broadening the tax base. With a view toward restraining expenditures, they suggested that the growth of capital expenditures and subsidies, the rise in pensions, and transfers to public enterprises should be carefully controlled. In light of the recent wage increases, the preparation of the 1987/88 budget would be a convenient time to review consumer charges and tariffs of public utilities and the parastatal agencies and to reduce consumer subsidies.

Directors observed that the large wage increase granted recently could be expansionary if countervailing policies were not implemented. Directors also noted the existence of labor shortages and a high level of unemployment and suggested that structural rigidities in the labor market be reduced.

Directors cautioned that although Mauritius's medium-term balance of payments prospects were favorable, the economy remained vulnerable to weather conditions and other exogenous factors as well as a reliance on a few commodity exports.

While commending the authorities for their success in expanding exports, Directors urged that structural adjustment policies to diversify the production and export base--particularly the Sugar Action Plan--be accelerated and that measures be implemented to diversify agricultural and domestic production. They recognized that future rapid growth in exports was dependent to an important extent on Mauritius being able to secure adequate access to external markets for its products and services.

Directors urged the authorities to continue to implement measures to improve the efficiency of the financial system. They indicated that the authorities could implement measures to develop and broaden a market for financial instruments without jeopardizing other measures to control excess liquidity. In this context, they noted the authorities' decision to issue special bonds in order to absorb some of the existing excess liquidity and encourage additional domestic savings, but they also commented on the relatively high cost of this method of absorbing liquidity. They stressed that a more effective use of the cash ratio and liquidity requirements would help in the management of excess liquidity and reduce undue reliance on credit ceilings.

Mauritius is on a bicyclic consultation procedure. It is expected that the next full Article IV consultation will be held in 24 months.

The Executive Board then took the following decision:

1. The Fund takes this decision in concluding the 1987 Article XIV consultation with Mauritius, in the light of the 1987 Article IV consultation with Mauritius conducted under Decision No. 5392-(77/63), adopted April 29, 1977, as amended (Surveillance over Exchange Rate Policies).

2. With the exception of the restriction on travel allowance described in SM/87/182 (7/27/87), which is maintained in accordance with Article XIV, Section 2, Mauritius maintains an exchange system that is free of restrictions on the making of payments and transfers for current international transactions.

Decision No. 8672-(87/117), adopted
August 4, 1987

3. LIBERIA - 1987 ARTICLE IV CONSULTATION; AND OVERDUE FINANCIAL OBLIGATIONS - REVIEW FOLLOWING DECLARATION OF INELIGIBILITY

The Executive Directors considered the staff report for the 1987 Article IV consultation with Liberia (SM/87/170, 7/15/87), together with a paper on the further review of the matter of Liberia's overdue financial obligations to the Fund following a declaration of ineligibility to use the Fund's resources (EBS/87/158, 7/13/87). They also had before them a background paper on recent economic developments in Liberia (SM/87/180, 7/24/87).

Mr. Jones made the following statement on behalf of Mr. El Kogali:

On behalf of my Liberian authorities, I wish to express appreciation to the staff for preparing a comprehensive and well-balanced report. The paper shows clearly that Liberia's economic problems worsened in 1986/87. Real GDP declined further and the budget deficit widened from an already unsustainable level. The balance of payments position also suffered deterioration, resulting in the rapid accumulation of external payments arrears.

The Liberian authorities have made several attempts in the recent past to address the imbalances in their economy, but with minimal success. The problems have persisted to a large extent because of external factors. For instance, just in the last 18 months, Liberia's terms of trade has deteriorated by about 10 percent, amounting to a loss of export earnings of about $60 million, while the depreciation of the U.S. dollar has increased the country's overdue obligations to the Fund by some $43 million.

The authorities are aware, however, that slippages in domestic policies have tended to exacerbate the unfavorable impact of the external environment. More recently, there has emerged a heightened sense of awareness that the burden of halting the decline in the economy remains a major responsibility of the Government, and, concomitantly, there is a renewed commitment to a major reorientation of economic policies as a matter of the utmost urgency. In this connection, the consultation exercise was used to seek the staff's advice on the thrust of the adjustment effort in general as well as on the specific policy measures which have been incorporated in the program for 1987/88. Given the large prevailing imbalances, which have emerged over the years, the authorities are aware that the present effort must be sustained over the medium term.

The authorities, of their own volition, have committed themselves to making available to the staff monthly data to verify the observance of the financial targets and ceilings established for the 1987/88 program. They hope that its successful implementation will create the environment for renewed cooperation between themselves and the international community in order to mobilize the level of concessional aid that will enable them to proceed with the medium-term restructuring of the economy.

Central to the adjustment strategy, particularly from the standpoint of financial stability, are the steps that are being taken to reduce the budget deficit. It is expected that the deficit for 1987/88 will decline by about 6 percentage points in relation to GDP, compared with 1986/87.

The program establishes three basic objectives for fiscal policy: (1) keeping the Government current in respect of new obligations to the private sector; (2) eliminating wage arrears; and (3) assisting the process of rebuilding the interbank check clearing system. Achievement of these objectives is crucial to the restoration of financial stability and the rebuilding of confidence in the economy.

Measures aimed at rationalizing the tax system and improving collection procedures are already being implemented. The import tariff system, for instance, has been simplified in order to facilitate tax administration at Customs and discourage irregularities. Earlier this year, a new procedure for the payment of most taxes was instituted, requiring direct deposit of taxes with commercial banks in order to reduce tax evasion. This procedure has since been extended to log exporters and is working well. In addition, effective July 1, 1987 all revenues from public corporations and receipts from other government agencies ment are to be transferred to the Ministry of Finance. Revenue collection is also expected to benefit from efforts being made to improve the technical capability of the Ministry of Finance with the help of experts to be provided under a technical assistance project sponsored by the United States.

The targeted reduction in the budget deficit will require sharp cuts in expenditure. The wage bill is expected to be reduced by more than $13 million compared with 1986/87, and no intra-agency budgetary transfers will be allowed for the purpose of increasing outlays for personnel. Sharp cuts are also planned for other recurrent expenditures, excluding interest on the public debt. After adjusting for the amount budgeted for government gasoline, this expenditure item is expected to be reduced by 41 percent in nominal terms, reflecting, inter alia, cutbacks in spending for construction, a 50 percent reduction in foreign travel, and a 25 percent reduction in the allocation for diplomatic representation. There will be no extrabudgetary expenditure in 1987/88. To ensure effective control over expenditures, a monthly budgetary allocation process already has been put in place to alert the authorities to the need to make adjustments in case revenue projections do not materialize. Monitoring procedures are expected to benefit from the technical assistance project mentioned earlier.

Efforts to improve the performance of public corporations are continuing. Meanwhile, arrangements are scheduled to be completed very soon for the sale of the Liberia Petroleum Refining Corporation. The possibilities for selling other public corporations are also being duly considered.

Rebuilding confidence in the banking system remains a priority of the Government, and it is considered that, as a first step, sustained effort must be made to ensure the smooth operation of the interbank check clearing system. A framework for achieving this objective was established in March of this year, the details of which are contained in a memorandum of understanding to which the Ministry of Finance, the National Bank, and the commercial banks are signatories. There are indications that on the whole the system is beginning to function as expected.

The short- and medium-term prospects for the Liberian economy are not encouraging. With the recent decision by LAMCO (the main iron ore company) to reduce production and exports, coupled with the austerity measures being implemented by the Government, it is estimated that real GDP will decline by 9.5 percent in 1987/88. This comes on top of the 1 percent drop in real output in 1986 and a nearly 3 percent average annual rate of decline over the period 1980-85. The baseline medium-term scenario of the staff is also alarming, suggesting the possibility of a further drop in economic activity up to 1991/92. If this were to happen, Liberia would have experienced 12 successive years of economic decline. The consequences of such a situation on the standard of living and the social fabric of the country cannot be overemphasized.

In the circumstances, the authorities agree that fiscal discipline, which is being emphasized in the current program, must be adhered to as a necessary condition for financial stability and eventual economic recovery. However, they are aware that putting Liberia on the path of economic growth will necessitate a direct effort to remove structural bottlenecks, improve the allocation of resources, and increase the level of investment. This will require financing on a scale that, for all practical purposes, cannot be generated domestically. Thus, while the authorities are committed to doing what they can to improve the prospects for the economy, it is clear that they need an increased inflow of external resources to support a medium-term program of adjustment which emphasizes economic growth.

Extending his remarks, with a focus on Liberia's overdue obligations to the Fund, Mr. Jones said that the authorities wished to assure Directors that they remained committed to normalizing relations with the Fund. As a token of that commitment, they had authorized a payment to the Fund of $500,000. They had intended to make a larger payment but were unable to do so at present. The authorities had embarked on a major adjustment effort, which they hoped would enable them to become current not only with the Fund but with all creditors. They also hoped that their efforts would receive support from the international community.

Mr. Ayales made the following statement:

The coincidence of this review on overdue obligations to the Fund and the Article IV consultation provides an opportunity for the Board to conduct a more thorough assessment of Liberia's economic situation and its ability to settle its overdue obligations.

We learn with great concern, however, both from the staff papers and from Mr. El Kogali's very informative statement, that the overall situation has deteriorated further during the past year. Internally, the fiscal imbalance grew by nearly 5 percentage points of GDP to exceed 18 percent of GDP; the displacement of dollar bills brought the banking system to a near standstill, provoking shortage of liquidity problems, which may, however, translate into a large expansion of liquidity. On the external front, we note that the terms of trade worsened and that arrears continued to increase.

In facing these difficulties, the authorities have embarked on a new economic program embedded in the budget for fiscal year 1987/88, although it is mostly oriented toward a fiscal correction. Thus, we do not have clear indications of how the Government intends to cope with the problems of its foreign debt and mounting arrears or with the issue of the monetary standard that should be adopted. In these circumstances, the hesitance of the international financial community to respond is understandable, but it has created a policy impasse.

In our opinion, the staff report does not suggest realistic approaches for emerging from this impasse, even though we recognize the difficulties involved in this attempt. Without trying to provide any such approaches myself, I shall concentrate on those issues, the solution of which is crucial to an overall improvement in Liberia's situation and, particularly, for settling its obligations to the Fund.

At the outset, the staff report addresses in a very interesting fashion the issue of reliability of statistics, especially those regarding national accounts. The statistical problem hampers an accurate assessment of the situation and the appropriateness of following alternative policies; unfortunately, this issue is not pursued, for example, when the staff discusses the feasibility of the fiscal program or the likely realization of the medium-term scenarios presented in the report. As a consequence, one has to rely more on economic intuition than on statistical analysis.

We concur with the staff that the fiscal deficit needs to be reduced promptly. The present level is clearly unsustainable and, moreover, there appear to be some unnecessary expenditures, which could be eliminated without a significant recessionary impact. However, the magnitude and scope of the required reduction, in the face of past experience, raises some doubts about the feasibility of fiscal adjustment. The current shadow program, designed in collaboration with the Fund and subject to monthly monitoring, should be able to give early indications on how strictly the measures are being enforced. This project, as it develops, should give a timely signal to the international community about the pace and depth of the adjustment.

On the monetary standard, the report seems to indicate that until a decision is made on the standard to be adopted, further measures for fiscal adjustment must wait. However, from our point of view, the choice on the monetary standard should be made a function of feasible fiscal adjustment.

The record of policy slippages does not bode well for a dollar standard, but there is a more fundamental reason to avoid this solution. The return to a dollar standard would entail a deflation, and the experience of the United Kingdom and other countries that tried to reimpose a gold standard shows that the social costs may be too high.

The alternative scenario (referred to in the report as the "normative scenario"), built on the assumption of issuing a national currency and effecting a devaluation, appears to be overly optimistic. Although the text does not provide enough information on which additional measures are to be adopted, besides a relatively minor fiscal correction, the outcome is substantially better: higher rates of GDP growth and a sustainable balance of payments. We think that the monetary standard adopted should follow the fiscal adjustment but that the adjustment envisaged in the second scenario, together with the monetary standard, cannot generate a greatly improved scenario.

Finally, regarding growth prospects, it is clear that with dwindling savings, fiscal adjustment becomes a necessity. It is not possible, however, to minimize the burden of foreign debt. With a debt service ratio above 50 percent, growth is not a realistic possibility. I have described the situation in Liberia as an impasse, and I believe that at this stage only tangible results in complying with the shadow program may trigger the confidence of the international financial community. The next step will have to be a commitment by the authorities to settle Liberia's obligations to the Fund to facilitate an arrangement with the creditors.

In supporting the proposed decision, we urge the authorities to move swiftly along the lines here proposed.

Mr. Hodgson made the following statement:

I have only three points to make in today's discussion on Liberia. First, on the matter of policy, we strongly support the staff's diagnosis and recommendations. During last year's discussion, we emphasized that financial stability in Liberia could be restored only through strong and unwavering fiscal action, and that point seems all the more true today. We also emphasized that the authorities would need to make a clear decision on the reform of the exchange arrangement, an area where the Fund has given technical advice but where a decision has yet to be taken. At present, prospects for Liberia are extremely bleak. However, the staff has provided some small measure of hope through its normative scenario, which shows that with the correct adjustment policies, growth can be restored; and there is a possibility of strengthening the balance of payments position.

My second point concerns credibility. Confidence within the Liberian economy and support from abroad will not be restored until the authorities have adopted a consistent and credible set of policies. Although we acknowledge that measures to improve the budgetary allocation process have been taken, and the Liberian authorities have established a series of monitoring targets in a kind of shadow program, we will need to see tangible results before any conclusions about the authorities' policy commitment can be drawn. In particular, the authorities must decide on the shape of their exchange arrangement and must fully implement supporting policies if their policy position is to be accepted as credible.

My third point deals with the matter of arrears generally, as well as with Liberia's arrears to the Fund and the ability of the institution to do anything about them. The Fund, the multilateral development banks, and bilateral development agencies can help only those ready to help themselves. On this point, Liberia's situation is unclear. The failure of the authorities to make any meaningful payment to the Fund since the last review is clearly not a sign of good faith; and a proposed payment of $500,000 is indeed only a token to which we do not give much weight. More important, the continuing growth of arrears to the Fund and to the World Bank makes it extremely difficult for the international financial community to come to Liberia's aid. If, as suggested in Mr. El Kogali's statement, the authorities expect increased external resources to help their adjustment program, then it is up to the authorities themselves to demonstrate that they intend to cooperate fully with international organizations. Finally, we support the proposed decision.

Ms. Bush said that she continued to be disappointed that Liberia had made no payments to the Fund and that the authorities had yet to implement a comprehensive adjustment program. The data in the staff papers indicated a severe deterioration in the finances of the official sectors in Liberia, while the parallel economy grew, as internal and external economic activity went unrecorded. The staff had also presented an outline of a fiscal program for 1987 that would lead to a substantial reduction in the fiscal deficit, while leaving only a small amount of resources for the Fund. In that regard, she recalled that the authorities had indicated earlier their intention to pay $1.5 million, and she found it disappointing that even that modest amount had not been paid. While she appreciated the indication that $500,000 had been authorized and that additional amounts might be forthcoming, she could not ignore that, in view of the size of the arrears problem, such small payments must be followed up quickly with an agreement on a comprehensive adjustment program that would allow full clearance of arrears to the Fund and ensure that Liberia was put back on track toward economic and financial viability.

Remarking on some of the economic measures under consideration, Ms. Bush agreed that a decision must be taken promptly on the nature of the exchange rate regime. The Fund had prepared a comprehensive study that she hoped would be given careful consideration by the authorities. The success of any currency reform entailed the support of a well-honed administrative effort that would augment the potential for improved fiscal performance. With domestic and international confidence at an all time low, rapid progress in fiscal consolidation and a strengthening of administrative controls would be required if the reform effort was to engender confidence. In that regard, action on some major privatization efforts could certainly provide a boost to government inflows if administrative efforts ensured transparency in such transactions. She welcomed the efforts being made to restore a clearing function to the banking system but noted that the success of those efforts could be assured only if supporting measures were put in place.

As her colleagues were aware, the U.S. authorities were providing significant technical support to the Liberian authorities with the aim of assisting them in implementing their newly formulated fiscal plan, Ms. Bush continued. However, U.S. assistance could generate results only if the Liberian authorities themselves made a strong effort to bring their finances under control.

Clearly, the present financial disarray represented heavy costs and lost opportunities for broader growth and development, at least for the near term, as private capital had fled the country, Ms. Bush commented. She urged the authorities to demonstrate their commitment to adjustment by implementing fully the measures under discussion with the Fund staff and whatever other measures might be necessary to effect a comprehensive adjustment program. Perhaps, in time, progress could lead toward renewed interest by the international donor community in supporting Liberian reforms.

With regard to Liberia's overdue obligations, Ms. Bush recalled suggestions made by Mr. Dallara during a discussion in the Board on Peru the previous week. One of those suggestions had been for the Fund to communicate in some way with other multilateral institutions with a request that they take into account the relevant country's arrears to the Fund in their lending operations and in their relationships with the country concerned. There were obviously differences between Liberia and Peru, especially with respect to the stance taken by them toward overdue obligations to the Fund. Nevertheless, the Liberian arrears situation had serious consequences for the Fund and for other members, and she would welcome the reaction of her colleagues to the idea of informing other multilateral institutions--either in a letter or in some other form--of Liberia's arrears to the Fund and asking those institutions to take that information into account in their relations with Liberia.

Another possibility--which had been discussed on other occasions in a more general sense with respect to countries in arrears--was the sale of the member's currency by the Fund, Ms. Bush noted. With respect to

Liberia in particular, it was her understanding that the Fund had accepted promissory notes denominated in Liberian dollars, and it might be even more difficult in such unusual circumstances to sell the member's currency. She would, however, appreciate staff views on the potential for the Fund selling Liberia's currency.

Mr. Goos, noting his agreement with the comprehensive staff appraisal, urged the Liberian authorities to implement the staff's recommendations as a matter of utmost priority in order to establish the credibility of their ongoing adjustment effort. The cost of any further delays in producing tangible and convincing results were obvious and already emerging as a result of previous policy failures.

Part of Liberia's economy had already gone underground, while developments in the official sector exhibited clear features of forced adjustment, as evidenced by the drying up of foreign capital inflows and the alarming prospects for economic growth, Mr. Goos continued. Recent stabilization efforts were both encouraging and worrisome. They were encouraging because they seemed to reflect the authorities' recognition of the seriousness of the situation and their willingness to initiate adjustment; on the other hand, they were worrisome because they seemed to constitute only a holding operation, without offering the prospect for fundamental improvements in the economic situation or the prospect for a prompt settlement of arrears to the Fund.

While he was appreciative of the draconian cuts in current expenditure envisaged under the pro forma budget for 1987/88, as well as the steps to strengthen expenditure control and tax administration, he felt that more resolute steps to increase fiscal revenues would have been more in line with the precarious situation of the country and would have lent additional credibility to the adjustment effort, Mr. Goos continued. Similarly, he would have thought it more appropriate if the authorities had given higher priority to the reform of the exchange arrangement and if they had committed themselves in a more detailed manner to the reform of the public sector enterprises. The shortcomings in the current adjustment effort were all the more disappointing because they could delay the response of Liberia's creditors and donors that would be necessary to help clear the external arrears, including arrears to the Fund. In that latter regard, while welcoming a resumption of payments to the Fund, he joined others in expressing his disappointment that the payments fell considerably short of the full settlement of Liberia's overdue obligations and even short of previous indications from the authorities about the amount of payments they intended to make. In conclusion, therefore, he urged the authorities to strengthen their adjustment effort along the lines recommended by the staff and to promptly settle Liberia's arrears to the Fund.

While he could support Ms. Bush's suggestion to in some way make other multilateral institutions aware of Liberia's continued nonobservance of its obligations to the Fund and to ask them to take that information into account in their own relations with Liberia, Mr. Goos said that he continued to feel that informal channels of communication, rather than letters, should be used.

Mr. Chatah made the following statement:

Like others, we are disappointed at the continued deterioration of the Liberian economy and the authorities' failure so far to formulate a comprehensive approach to deal with the economic and financial crisis which has plagued Liberia in recent years.

We agree with Mr. El Kogali that exogenous developments such as terms of trade losses have been a factor in the economic downslide. On the other hand, most developing countries have faced a similarly adverse environment in recent years and not many of them have managed to allow their economic and financial policies to compound the problem as much as in the case of Liberia.

Clearly, the task facing the Liberian authorities is enormous, particularly in light of the prolonged period of deterioration. But this is all the more reason to avoid a further aggravation of the difficulty by delaying the needed actions.

One of course has to acknowledge, and indeed welcome, the steps that have been taken recently, particularly in the fiscal area. But in our view, these steps fall quite short of the comprehensive and mutually reinforcing approach which is urgently needed. It should also be added that Liberia's track record in policy implementation and in meeting targets is not such that one can be totally confident regarding even the limited steps that are envisaged for the coming fiscal year. The fiscal outcome in 1986/87 is a case in point.

I will not address specific policy issues, since I am broadly in agreement with the staff on the basic elements of the adjustment and reform program which is required. Such a program should clearly be a wide-ranging one with specific measures that deal in a decisive manner with the fiscal situation, the crisis in the banking sector, public enterprises, and the exchange system.

Regarding the medium-term outlook, I agree with Mr. El-Kogali that the baseline scenario is rather alarming. But again, this should motivate the authorities to move faster and in a more determined way than is assumed in that scenario. On the other hand, in looking at what the staff has called "the normative scenario," which assumes a broader adjustment effort, one wonders whether the projections of capital flows are not too conservative. Although caution on the part of the staff is justifiable, it is possible to envisage a stronger improvement in the capital flight situation and in official medium- and long-term capital inflows.

This, of course, is likely to occur only if the Liberian authorities succeed in regaining credibility and the confidence of the international community and the Liberian private sector.

Finally, on Liberia's overdue obligations to the Fund, while we note the authorities' intention to make small partial payments, we continue to be concerned about the apparently low priority which is given the obligations to the Fund by the Liberian authorities. In this connection, I believe it is useful to underline that, in considering future Fund assistance and the degree of access to Fund resources, the Fund cannot ignore whether or not the country has been giving priority to its financial obligations to the institution. In conclusion, we can support the proposed decision.

Mr. Foot agreed with Ms. Bush that Liberia's credibility was at an all time low. His rereading of the opening statement issued by Mr. Abdallah for the previous year's Article IV consultation had left him depressed because he had found in that statement many indications of good intentions by the authorities. It had been said, for example, that they were convinced that a prudent policy must remain central, that institutional reforms had been implemented, that determined efforts were being made to broaden the tax base and that some $7 million would be used to make partial repayment to the Fund with regular payments thereafter. Those intentions were in sharp contrast to what actually had happened since the previous consultation.

For the present consultation, he was concerned about the delay in the decision on currency reform, Mr. Foot continued. The Fund's technical assistance report on that reform had been in the authorities' hands for nearly six months, and he was convinced that any further requests by Liberia for Fund technical assistance must be reviewed in light of the use made of previous technical assistance. In any event, he hoped that action on the report could be taken fairly quickly and that an effort would be made to implement the currency reform together with adequate supporting policies.

He would appreciate hearing from the staff whether the Liberian authorities had in fact reduced the wage arrears to the public sector that had been intended for implementation in July, Mr. Foot said. Also, he wondered whether under the recent arrangements between the United States and Liberia, any of the U.S. experts were yet in place. On Ms. Bush's suggestions for dealing with the matter of Liberia's arrears, he remained opposed to the idea of selling the currency of a member in arrears as a way of meeting those obligations. Such an approach had been explored and rejected on other occasions. His feeling was that the most likely outcome of such an approach would be to demonstrate that the maintenance of value provisions of the Articles were useless and irrelevant; and the Fund might be faced with some awkward presentational problems in due course.

In a similar vein, Mr. Foot considered that it would not be appropriate for the Fund to send letters to other multilateral institutions asking them to take into account Liberia's overdue obligations to the Fund when reviewing their own relations with Liberia. As the World Bank had suspended disbursements recently, the number of aid donors or providers of concessional loans to Liberia was small indeed; and one could only assume that those lending or providing aid to Liberia were doing so in full recognition of Liberia's situation.

Mr. Ismael stated that he wished to associate himself fully with the points made by Mr. Hodgson. Furthermore, he was not inclined to support Ms. Bush's idea that the Fund management should send letters to third parties regarding relations with its members.

Mr. Nimatallah observed that it was difficult to characterize the position adopted by the authorities in Liberia. Were they unaware of the problem? Were they aware of the problem but unwilling to make an effort to resolve it? Were they aware of the problem and willing but unable to take steps to resolve it? As a first step, the Fund should perhaps inform the President of the country that the problem was serious and that action must be taken to resolve it. If such action were not effected once the Fund had explicitly made the authorities aware of the problem, the Fund would then be justified in adopting a course of action along the lines proposed by Ms. Bush. While the amounts of aid or concessional financing still being provided by others might be small, they could be acting as a "tranquilizer" that lulled the Liberian authorities into believing that drastic action was not called for. Of course, if the authorities were unable, for political, technical, or other reasons to repay the Fund, an effort should be made--with the help of the Fund and/or the United States--to resolve those political or technical problems in a way that would enable Liberia to meet its obligations to the Fund and other organizations. In sum, he would propose that the Fund send a delegation to the President of Liberia to ensure that he was aware of the problem. If that step did not set in motion the process of reducing Liberia's arrears to the Fund, the institution should inform other multilateral organizations of Liberia's arrears to the Fund and should ask those organizations to refrain from providing further injections of aid or concessional resources. Finally, he would invite the United States to send some technical experts to Liberia--perhaps joined by an expert from the Fund--with a view to finding solutions to the arrears problem. If the Fund and the world community cared about Liberia, it should put some pressure to bear on the Government to take action to extricate itself from its difficulties. The alternative was to ignore Liberia and let the authorities fend for themselves.

Mr. Ovi said that he was among those who deplored the apparent lack of willingness on the part of the Liberian authorities to settle Liberia's obligations to the Fund. However, he was not attracted to the idea of the Fund sending a letter to other multilateral institutions along the lines recommended by Ms. Bush. He agreed with Mr. Foot that the stage had been reached at which lending to Liberia from the World Bank had ceased and aid in general was drying up. In the circumstances, there seemed little reason for a letter along the lines proposed by Ms. Bush.

The staff representative from the Exchange and Trade Relations Department, responding to questions, observed that, first, wage arrears had indeed been reduced by 50 percent in July. Second, on the U.S. technical assistance program, the head of the mission had been in Liberia for some time, and it was planned that others would arrive late in the third quarter or early in the fourth quarter of the current year. The intention had been to have the mission in place and operating by the end of the year, but it might be somewhat longer before the experts became operational in the various ministries and the National Bank.

On the broader question of the importance of fiscal adjustment in 1987/88 for the longer-term adjustment process, the staff representative remarked that it had not been the intention of the staff to suggest that nothing more should be done on the fiscal side until other parts of the adjustment package were in place. As he saw it, there were two aspects to the issue. In the short term, fiscal adjustment was essential to any overall adjustment package; and it was important in the view of both the staff and the authorities that the fiscal policy for 1987/88 be strictly adhered to. However, in focusing on the reform of the currency system, the staff had been attempting to suggest that reliance only on fiscal adjustment meant that the adjustment of fiscal policy would have to be that much greater in Liberia if the authorities were to return to a U.S. dollar standard, mainly because a large portion of the excessive issue of coins in the past few years would have to be retired; and a large surplus would have to be generated through fiscal policy in order to remove the excess coins from the system.

The staff representative from the Treasurer's Department, responding to Ms. Bush's suggestion regarding the use of the Fund's holdings of Liberian currency, recalled that the general matter of the sale or use by the Fund of its holdings of the currencies of members in arrears to the Fund had been discussed in the Board in an earlier meeting on the basis of a paper prepared by the staff. At the time, several possible options had been reviewed, and the conclusion of the analysis had been that in almost every case, significant practical or legal problems would be involved in attempting to deal with the problem of arrears by selling or using the Fund's holdings of the currencies of members in arrears. In the course of preparing the paper for that meeting, the staff had looked specifically at the Liberian case because of its unique currency system, and its conclusion had been that the same difficulties would arise with respect to the Liberian currency as would be experienced in an effort to sell or use the Fund's holdings of the currency of any other overdue member.

The staff representative from the Legal Department added that the promissory notes to which Ms. Bush had referred were nonnegotiable and noninterest bearing and were accepted by the Fund under Article III, Section 4 of the Articles of Agreement. However, the Fund had the right when it needed the currency involved to demand encashment of the notes. The encashment would occur in the currency represented by the notes, which in Liberia's case was the Liberian dollar. If the country refused encashment, that would be a violation of an obligation under the Articles of Agreement. If the country honored the Fund's request for encashment, then the Fund would be able to attempt to sell the country's currency in the operations and transactions of the Fund. In such circumstances, because the Liberian dollar was not a freely usable currency, Liberia would have an obligation under Article V, Section 3(e) to exchange its currency for a freely usable currency, and failure to do so would be the violation of the obligation under that provision of the Articles of Agreement.

The details he had outlined showed that the Fund was protected legally and that any problems that might arise had to do with the effectiveness of the protective provisions. The difficulty was how to enforce obligations that members were not observing.

Mr. Jones said that he had little to add to the staff's responses to questions by Directors and would limit himself to highlighting one or two broad issues. A number of Directors had questioned whether the adjustment program in Liberia was sufficiently comprehensive and whether the authorities were committed to carrying out the program. He saw the steps taken recently as representative of a new awareness by the authorities of the need to come to grips with Liberia's problems. The authorities understood that policy slippages in the past had played a major role in the deteriorating situation in Liberia, and they intended to make corrections where necessary. However, adjustment in Liberia would take some time to bear fruit. In that respect, the suggestion of punitive measures such as requests to other multilateral agencies to cut off aid or resources to Liberia did not in his view serve any useful purpose at the present stage. Indeed, most of the institutions in question had already ceased lending to Liberia. What was important now was to encourage the Liberian authorities to proceed with adjustment. If they could demonstrate that they were serious about their adjustment efforts, the international community would then come to their aid. As matters stood at present, it would be difficult for Liberia on its own to meet the kinds of debt obligations coming due and to make the massive adjustment effort necessary without some assistance from the international community.

On the question of the monetary standard in Liberia, Mr. Jones assured his colleagues that the authorities were taking the staff's recommendations under advisement. While they would not wish to take any action without being fully aware of the implications of that action, the authorities were agreed that the process of adjustment could best be served if there were additional instruments through which the Government could effect its adjustment effort.

On another matter, Mr. Jones observed that the authorities were committed to the privatization process. However, it took time to sell some of the corporations in question, and what was seen by some as slow progress should not be taken as an indication of lack of interest in privatization on the part of the authorities.

The Acting Chairman made the following summing up:

Directors were in broad agreement with the thrust of the staff appraisal. They expressed deep concern that the economic and financial situation of Liberia had continued to deteriorate, as reflected in the substantial increase in the budget deficit and the further rapid accumulation of domestic and external arrears--including arrears to the Fund--to unprecedentedly high levels. The breakdown of the functioning of the monetary and the banking system and the continuation of a substantial discount for the Liberian dollar on the parallel market were also seen as symptoms of Liberia's severe economic difficulties. Directors expressed deep disappointment that Liberia has made no progress in settling its arrears to the Fund and that arrears have increased substantially since the Board discussion of January 21, 1987.

Recalling earlier discussions, including earlier Article IV consultation discussions, Directors stressed that the large financial imbalances must be addressed without delay. They noted the plans outlined by the authorities in the budget for 1987/88 to initiate the process of re-establishing budgetary discipline. But Directors stated that the efforts envisaged for the coming year would need to be not only sustained but significantly strengthened and broadened while being closely monitored. Directors thus urged the authorities to initiate without delay the formulation of a strong and comprehensive adjustment program to ensure progress toward economic and financial viability over the medium term. They were of the view that such a program would have to include, in particular, further progress in controlling expenditures and substantial efforts to improve revenue collections, an improved profitability and competitiveness of domestic production, and a strengthening of the performance of public enterprises.

Such a program would also need to include exchange arrangements with a realistic and flexible exchange rate policy aimed at promoting the efficient use of the sparse foreign exchange resources that are available, improving the competitiveness of the traded goods sector, and bringing foreign currency resources back into official circuits. Directors noted in this context that a study of the exchange arrangement had been prepared at the request of the authorities by a Fund technical assistance mission, and presented to the authorities in early 1987. Directors expressed the hope that the recommendations included in the report would be implemented at an early stage.

With regard to the public enterprises, Directors regretted that little progress had been achieved with respect to the plans announced earlier to privatize wholly or partially certain enterprises and to improve the operational efficiency of others. They hoped that this process would be resumed without delay.

Directors regretted that the authorities were not giving higher priority to the settlement of their overdue obligations to the Fund. They noted the authorities' expressed intention to make payments to the Fund of $6 million in 1987/88, and the statement of the authorities that payments to the multilateral institutions would be given priority in case increases in revenues or further reductions in expenditures can be achieved during the course of the year. They deeply regretted that the authorities had not made even the token payment which they had informed the staff would be made before the Board meeting. Directors also observed that the payments presently envisaged by the authorities in 1987/88 fell substantially short of repayment obligations falling due and would result in a further increase in arrears to the Fund during the coming year. They stressed that the continued accumulation of arrears could only make the problem more intractable and that full and prompt settlement was needed to restore normal financial relations between Liberia and the Fund.

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

The Executive Directors then turned to the proposed decision:

The staff representative from the Treasurer's Department observed that to take account of actual developments, the draft text should be modified by deleting in paragraph 2 the words referring to a recent payment by Liberia.

The Executive Board then took the following decision:

1. The Fund has reviewed further the matter of Liberia's continuing failure to fulfill its financial obligations to the Fund.

2. The Fund deeply regrets the continuing failure of Liberia to fulfill its financial obligations to the Fund and again urges Liberia to make full and prompt settlement of those obligations.

3. The Fund notes the intentions of the authorities on fiscal adjustment for fiscal year 1987/88 as an initial step toward addressing Liberia's problems and again stresses the urgent need for Liberia to adopt a comprehensive program of economic and financial adjustment.

4. The Fund will review the matter of Liberia's overdue financial obligations to the Fund again not later than six months after the date of this decision.

Decision No. 8673-(87/117), adopted
August 4, 1987

DECISIONS TAKEN SINCE PREVIOUS BOARD MEETING

The following decisions were adopted by the Executive Board without meeting in the period between EBM/87/116 (8/3/87) and EBM/87/117 (8/4/87).

4. SFF SUBSIDY ACCOUNT - ADDITIONAL SUBSIDY PAYMENTS FOR JULY 1, 1985 THROUGH JUNE 30, 1986 AND SUBSIDY PAYMENTS FOR JULY 1, 1986 THROUGH JUNE 30, 1987

1. In accordance with Section 10 of the Instrument establishing the Supplementary Financing Facility Subsidy Account, as amended, additional subsidy payments shall be made with respect to charges paid on holdings of currency referred to in Section 7 of the Instrument for the period July 1, 1985 through June 30, 1986, in the amount indicated to each of the eligible members as listed in Column 2 of Table 1 of the attachment to EBS/87/166 (7/28/87).

2. In accordance with Section 10 of the Instrument establishing the Supplementary Financing Facility Subsidy Account, as amended, subsidy payments shall be made with respect to charges paid on holdings of currency referred to in Section 7 of the Instrument for the period July 1, 1986 through June 30, 1987, in the amount indicated to each of the eligible members as listed in Column 5 of Table 1 of the attachment to EBS/87/166.

3. The subsidy payments shall be made to each eligible member on August 4, 1987, or as soon thereafter as the member has paid all overdue charges, if any, on balances eligible for the subsidy.

Decision No. 8674-(87/117) SBS, adopted
August 3, 1987

5. EXECUTIVE BOARD TRAVEL

Travel by an Advisor to Executive Director as set forth in EBAP/87/171 (7/31/87) is approved.

APPROVED: March 2, 1988

LEO VAN HOUTVEN
Secretary