MASTER FILES
ROOM C-130

0404

NOT FOR PUBLIC USE

INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 87/69

10:00 a.m., May 6, 1987

M. Camdessus, Chairman

Executive Directors	Alternate Executive Directors
	E. T. El Kogali
	Jiang H.
C. H. Dallara	E. L. Walker, Temporary
J. de Groote	
A. Donoso	
M. Finaish	T. Alhaimus
	B. Goos
	J. Reddy
A. Kafka	J. Hospedales
T. P. Lankester	M. Foot
H. Lundstrom	H. Fugmann
M. Massé	
Mawakani Samba	
	I. Al-Assaf
G. Ortiz	L. Filardo
H. Ploix	
G. A. Posthumus	J. de Beaufort Wijnholds
	I. Sliper, Temporary
G. Salehkhou	O. Kabbaj
A. K. Sengupta	L. E. N. Fernando
K. Yamazaki	
S. Zecchini	N. Kyriazidis

L. Van Houtven, Secretary and Counsellor
R. S. Franklin, Assistant

Also Present
Staff Association Committee: J. Berengaut, K. Flug, J. E. Greene, A. Muttardy, E. W. Saunders, M. Stuart, M. A. Wallace. Administration Department: G. F. Rea, Director; H. J. O. Struckmeyer, Deputy Director; D. A. Anderson, D. S. Cutler, P. D. Swain. African Department: G. E. Gondwe, Deputy Director; B. W. Ames, D. T. S. Ballali, N. Calika, C. V. Callender, J. K. M. Kinyua, T. Muzondo, P. M. Young. Exchange and Trade Relations Department: S. Kanesa-Thasan. Legal Department: J. M. Ogoola. Treasurer's Department: D. R. Hutton. Personal Assistant to the Managing Director: R. M. G. Brown. Advisors to Executive Directors: E. Ayales, A. Bertuch-Samuels, M. B. Chatah, L. P. Ebrill, S. M. Hassan, G. D. Hodgson, K. Murakami, A. Vasudevan, J. E. Zeas. Assistants to Executive Directors: F. E. R. Alfiler, M. Arif, W. N. Engert, V. J. Fernandez, M. Hepp, G. K. Hodges, L. Hubloue, A. Iljas, O. Isleifsson, A. R. Ismael, S. King, M. A. Kyhlberg, V. K. Malhotra, R. Manfredi Selvaggi, T. Morita, J. A. K. Munthali, C. Noriega, W. K. Parmena, D. Saha, G. Schurr, H. van der Burg.

1. BOTSWANA - 1987 ARTICLE IV CONSULTATION

The Executive Directors considered the staff report for the 1987 Article IV consultation with Botswana (SM/87/88, 4/13/87). They also had before them a background paper on recent economic developments in Botswana (SM/87/95, 4/24/87).

Mr. El Kogali made the following statement:

My authorities in Botswana are grateful to the Fund staff and management for the continued technical assistance and advice that Botswana is receiving.

Directors will find in Botswana a country with no serious financial imbalances or balance of payments problems. In contrast with the difficult financial situation experienced by many African countries, Botswana has sizable fiscal and balance of payments surpluses, a comfortable international reserve position, and no debt service problem. Nevertheless, it has problems of a different nature, as Directors will have noted from the comprehensive staff papers.

The year 1986 was another year of remarkable achievements for Botswana. Continuing the impressive economic and financial performance registered in recent years, GDP grew by 10 percent, the inflation rate was contained at 10 percent, both the budget and balance of payments recorded substantial surpluses, the debt service ratio declined to about 4.2 percent, and official foreign reserves stood at the equivalent of 24 months of imports. This commendable performance was the result of a continued rapid expansion in the mining sector, a depreciation of the U.S. dollar relative to the pula, and the prudent economic and financial policies of the authorities. Notwithstanding this outstanding performance, the authorities remain concerned about the vulnerability of the economy to exogenous developments, which stem from political and economic uncertainties in the region, adverse weather conditions, and the narrow production base of the economy and its overdependence on a single commodity.

The mining sector expanded by 12 percent in 1986, with its share in GDP exceeding 50 percent. Despite the importance that the authorities attach to agriculture for food security reasons, and despite the policy of guaranteed minimum producer prices and accelerated provision of essential inputs, agriculture recorded no real growth in 1986 and its share in GDP declined to about 4 percent because of continued drought. Employment increased substantially in 1985 and 1986 but has not kept pace with the high rate of GDP growth because of the capital-intensive nature of the mining sector. The inflation rate increased slightly to 10 percent in 1986 reflecting mainly the impact of imported inflation from South Africa.

The overall budget surplus continued to strengthen markedly in 1986/87, estimated at 22 percent of GDP compared with 20.8 percent in 1985/86. Total revenue in 1986/87 increased by 26 percent to reach 59 percent of GDP, and total expenditure and net lending rose by 24 percent with current expenditure increasing by 16 percent and capital expenditure by 45 percent. The sharp increase in capital expenditure reflected higher expenditure in economic infrastructure and defense. The performance of nonfinancial parastatals improved in 1986/87 and their gross borrowing declined.

Monetary and credit developments in 1986/87 reflected the large yearly overall surpluses in the external balance and the large increase in government deposits with banks as a result of the rising budgetary surplus. The increase in government deposits led to a decline in net domestic credit, while the overall balance of payments surplus exerted expansionary pressure leading to a rise in broad money and persistent excess liquidity in the banking system. A number of reforms were introduced by the authorities to address the excess liquidity problem. These included measures to enable commercial banks to set their interest rates freely without interference by the Bank of Botswana in setting the prime rate or determining a floor rate and measures to liberalize borrowing by nonresident companies from commercial banks.

Botswana's external sector remained strong in 1986. Both the current account and the overall balance of payments continued to register substantial surpluses, which reached 13.3 percent and 24 percent of GDP, respectively. External foreign exchange reserves in 1986 rose substantially to the equivalent of 24 months of imports. On the exchange rate, the authorities continued to follow a flexible policy with the objective of preserving Botswana's competitiveness and minimizing the impact of imported inflation from South Africa. A cautious external borrowing policy remained in place and the debt service ratio decreased to 4.2 percent.

Botswana's medium-term prospects remain favorable but continue to be shadowed by political and economic uncertainties in the region. Assuming a recovery in the diamond market, and in the absence of adverse developments in the region, a recurrence of a severe drought or unfavorable changes in exchange rates, the economy is expected to grow annually at about 9 percent through 1991 with a recovery in agricultural and manufacturing sectors compensating for the expected slowdown in the mining sector due to a leveling off of diamond production. On prices, the authorities' policy aiming at minimizing the impact of imported inflation, together with the anticipated recovery in domestic food production, is expected to bring inflation rate down to about 7 percent by 1991.

Despite the projected favorable economic and financial situation over the medium term, the authorities remain concerned about three important issues: the need to diversify the economy and broaden the production base; the question of how to channel the excess liquidity in the banking system to provide long-term financing; and the issue of finding means to accelerate development of the country's infrastructure.

The authorities consider the question of how to use the current large diamond resources to broaden the production base and diversify the economy away from the mining sector as the most important policy issue facing Botswana over the medium term. They are aware that diversification is necessary to reduce the country's vulnerability to exogenous factors. It is to be noted that in Botswana's circumstances, the process of economic diversification would require simultaneous promotion of a number of sizable diverse investments covering a wide range of sectors. The authorities intend to proceed cautiously in this direction, particularly in view of the political and economic uncertainties which prevail in the region and the possible effects of adverse exogenous developments. The agricultural and manufacturing sectors continue to receive priority in the authorities' diversification program.

The authorities recognize that the lack of adequate infrastructure is a major constraint on expanding the country's productive capacity and achieving balanced economic expansion. They intend to make use of the public sector savings to allow a more rapid development of the country's infrastructure, but they intend to do that in an orderly and coordinated approach. Work has already been accelerated in a number of areas of social and economic infrastructure, with priority being given to the areas of transportation, education, vocational training, housing, and areas with potential for agricultural and industrial expansion. However, the authorities would like to caution that the process of easing the basic infrastructure bottleneck would require large expenditure outlays and a long gestation period, indicating that a hasty action in this regard could result in considerable risks.

The paradoxical problem of the coexistence of excess liquidity resulting from budgetary and balance of payments surpluses and the severe shortage of domestic long-term financing continue to shadow the authorities' medium-term monetary and credit policies. To address this problem, a number of steps are being taken. The Bank of Botswana will sponsor a refinancing scheme developed with the Fund's assistance to facilitate long-term lending by commercial banks. The authorities are also taking necessary steps to strengthen the National Development Bank and the Botswana Development Corporation and enhance their role to provide long-term financing. The Financial Institutions Act was amended to reinforce the role of the Bank of Botswana, promote modernization of the financial sector and strengthen the capitalization of financial institutions. Furthermore, the Bank of Botswana Act is being reviewed with assistance from the Fund to widen the Bank's role in economic policy. Other measures to liberalize interest rates and borrowing by nonresident companies were also put in place.

The fiscal outlook over the medium term is comfortable, and projections indicate large budgetary surpluses through 1991 and beyond. However, the authorities are increasingly concerned about the Government's overdependence on a single commodity and continue to consider possible means to broaden the tax base, improve the tax structure, and increase the relative importance of nonmineral revenue. In the light of recommendations from the Fund's Fiscal Affairs Department, the authorities started introducing a number of measures to improve the tax structure and broaden its base. These include a broad-based sales tax, a reform of personal and corporate income tax, and market-related valuation of farm assets. These measures are considered by the authorities as a step toward ensuring fiscal stability in the medium and long term.

The medium-term balance of payments outlook will remain favorable. Projections under a medium-term base scenario show an average annual growth rate of about 10 percent for both exports and imports through 1991, with the overall balance of payments registering substantial surplus, reaching its peak in 1987 and then declining to about 10.3 percent of GDP in 1991. Gross official exchange reserves would rise to the equivalent of 34 months of imports in 1991 and the debt service ratio would increase slowly but remain at the low level of 4.5 percent over the five-year period. However, the authorities are aware of the sensitive nature of the projections to changes in the assumptions made regarding the prevailing circumstances and the economic and political uncertainties in the region.

The authorities are committed to maintaining their current policy of a free payments system and a free and flexible exchange rate geared toward achieving a balance between preserving the country's competitiveness and minimizing the impact of imported inflation on domestic economy.

Extending his remarks, Mr. El Kogali said that his authorities were concerned about the suggestion in paragraph 2 of the proposed decision that the limits applying to private and business travel and remittances abroad represented a restriction on payments and transfers. In fact, the limits in question were merely the limits delegated by the Bank of Botswana to the authorized dealers, namely, the commercial banks. A customer of a bank wishing to exceed those limits had merely to apply to the Bank of Botswana, and permission was normally granted if the amount in question could be justified as a bona fide current transaction. The system was therefore nonrestrictive, in that genuine and justifiable transfers were and had always been permitted.

Mr. Foot remarked that the opportunity to discuss the continuing and exceptionally good economic performance of Botswana was a welcome one. Although the country remained clearly overdependent upon diamonds, the authorities should be commended for their prudent use of income from the diamond industry, their refusal to be rushed into grandiose diversification projects that were likely to be uneconomic, and their decision to take the first steps--in collaboration with the Fund--toward widening the tax base and sorting out the problems of excess domestic liquidity. Also encouraging was the fact that, while inflation remained a threat, the authorities had thus far managed to keep the price increase appreciably lower than that in South Africa. In that connection, he welcomed the separate Annex in the staff paper on Botswana's economic links to South Africa.

The short-term outlook described in the staff paper was broadly correct in his view, Mr. Foot continued. Of course, the immediate prospects for revenue from diamonds could well be better than forecast, and the outlook for agriculture could be somewhat worse. The President of Botswana had in fact recently declared 1987 to be another drought-ridden year, and the authorities would be running a full drought relief program until the end of 1988. The measures to broaden the tax base and to reform the existing system seemed well designed, and it was to be hoped that the authorities would press ahead to implement them. Currently, some 14 percent of central government revenue came from Botswana's share of receipts from the South African Customs Union; and there must be some uncertainty over the reliability of that source of revenue.

While recognizing how difficult it must be to mop up the excess liquidity in the domestic banking system, given the absorptive capacity of the economy, he agreed with the staff that the partial exchange loss guarantee on foreign borrowing should be drastically curtailed, Mr. Foot commented. Such a curtailment would help to increase domestic demand for credit while limiting the authorities' exposure to guarantees that, by their nature, would most likely be called when the economy was facing difficulties.

In light of Botswana's favorable performance and rapidly growing reserves, he would be interested in hearing whether consideration had been given to moving Botswana to Article VIII status, Mr. Foot said. If not, the move should be discussed on the occasion of the next Article IV consultation, which the authorities had understandably requested should be on a 12-month cycle. Finally, he would be interested in the staff response to Mr. El Kogali's concerns about the reference in the proposed decision to certain annual limits for private and business travel and remittances abroad. It was his recollection that the proposed decision matched that taken in the previous year, and it was reasonable to ask whether the situation had changed in any way during the intervening 12 months.

Mr. Mawakani made the following statement:

Botswana's recent economic and financial performance has been largely satisfactory. The buoyancy of activity in the mining sector, especially diamond production, coupled with the authorities' prudent economic and financial management have been the main driving force behind this performance. As reported by the staff, prospects for 1987 and the medium term are expected to remain favorable. Since economic and financial developments in Botswana and the authorities' policy orientations are well covered in the staff report and Mr. El Kogali's opening statement, I can limit myself to brief comments on the monetary and external sectors.

On the monetary side, structural rigidities seem to be at the root of the excess liquidity in the banking system reflected in sizable surpluses of the budget and the external accounts. The main cause of this development has been the lack of viable lending opportunities and relatively high interest rates. I note that the authorities are concerned about this situation and are taking positive steps to address it. In this respect, I welcome the refinancing scheme by the Bank of Botswana designed in collaboration with the Fund and the World Bank to improve long-term lending by commercial banks. Also welcome is the new Amendments to the Financial Institutions' Act, adopted with a view to facilitating the modernization and strengthening of the capitalization of those institutions while clarifying and reinforcing the supervisory role of the Bank of Botswana. It was encouraging to note that the measures adopted by the authorities, together with the change in the regulation pertaining to domestic borrowing by nonresident companies and the general reduction in interest rates, are beginning to bear fruit. I would, however, urge the authorities to strengthen other financial institutions. As to the financial policy of the parastatals, the guarantees on exchange rate losses should be reviewed and, if necessary, abolished.

Recent developments in the current account and in the overall balance of payments position have been impressive. Indeed, the current account shifted from a sizable deficit in 1981 to a substantial surplus in 1986. This improvement was mainly a reflection of the quadrupling of diamond export earnings. For 1987 and the medium term, prospects are favorable. Nonetheless, the authorities are aware of the vulnerability of the economy to exogenous factors, particularly the uncertainties in the region and the world diamond market and climatic conditions. However, given the magnitude of bottlenecks facing the economy and the poor absorptive capacity of the private sector, I would encourage the authorities to take advantage of their good financial situation to accelerate the development of the infrastructure and diversification of non-mining activities.

Mrs. Walker made the following statement:

As clearly indicated in the reports before us and in Mr. El Kogali's opening statement, Botswana's economy has performed extremely well during the past several years. Moreover, in light of the continued substantial revenue earnings projected from diamond sales, combined with appropriate economic policies, the medium-term economic outlook appears favorable as well. Fortunately, in spite of the very positive economic and financial position projected, the authorities are aware that several areas need attention, and we support the thrust of their efforts in this regard.

First, in the area of fiscal policy, I noted that while the fiscal position is expected to remain quite comfortable in the near term if diamond revenue is sustained at projected levels--which includes a selling of reserves--the overall budget surplus is expected to be reduced in 1987/88. According to the report, much of the additional expenditure will be used to develop the infrastructure needed to expand the country's productive capacity and achieve more balanced economic growth. Certainly there is room for increased attention to infrastructure, but we urge the authorities to proceed with caution. In this light, I welcome Mr. El Kogali's assurances that the authorities intend to pursue this in an orderly and coordinated fashion. Resisting pressures to relax fiscal policy substantially is also important. In addition, a well thought-out investment program is needed, with careful selection of investment projects that will meet the needs of the economy over the medium term. In this regard, it would seem the World Bank could play a useful role, and I wonder whether the Bank has been involved in the investment program of Botswana. On tax reform, it appears that the recent tax measures can serve as an important safeguard for fiscal stability in the medium term, which again demonstrates the prudence with which the authorities are acting even in the face of the currently comfortable fiscal position.

Second, with regard to monetary policy, I note that the authorities are aware of the excess liquidity in the economy and the need to develop long-term financing to support economic growth. I also recognize that they have taken a number of important steps to address these problems. However, the staff does not believe that the situation will be fully addressed with current policies and urges the authorities to strengthen the measures taken thus far, particularly those relating to the National Development Bank and the Botswana Development Corporation. We urge the authorities to consider these recommendations. In addition, abolishing the scheme for government guarantees on foreign exchange losses for parastatals borrowing abroad appears appropriate.

The diamond sector, on which the economy relies heavily, has clearly provided Botswana with a boost. However, as pointed out in the staff papers and by the authorities themselves, there are risks associated with such dominance of one commodity in the economy. In this regard, economic diversification should be an important goal of economic policy in the medium term. However, it is not clear precisely where the staff feels this diversification should take place. The authorities mentioned agriculture and light industry. Considering the potential impact of exogenous factors, such as bad weather, that can affect agriculture, I am not convinced this is the most suitable area for diversification beyond the immediate goals of the authorities. I would be interested in staff comment on other sectors that may have potential for further development.

The discussion of medium-term balance of payments scenarios was helpful because it pointed out the vulnerabilities of the economy to the volume and price of diamond sales, which highlights the need for diversification, particularly since the authorities are not the sole owners of the diamond company. The need to expand out of the diamond sector also implies the need to maintain the exchange rate for the pula at competitive levels vis-à-vis the Botswana's trading partners and competitors. This will entail striking a balance between finding an appropriate exchange rate level and the desire to maintain low rates of inflation.

In concluding, I have two additional points. First, as Mr. Foot noted, the Appendix on Botswana's linkages to South Africa was helpful and intersting. Second, I wonder about putting Botswana on the standard 12-month cycle. Clearly, if the authorities wish to have a consultation every year, we should honor their wish. But in light of the very favorable external position, I wonder whether it would be possible to place them on the new bi-cycle, whereby they receive the 12-month visit from the staff, but the papers for the consultation are less extensive. I would appreciate comment from the staff on this possibility.

The staff representative from the African Department remarked that the staff report should be corrected in one or two places. First, on page 12 of the report, the staff had indicated that the tax changes for the current fiscal year had taken effect April 1. In fact, they would take effect July 1. Second, on page 26 of the report, it was indicated that five experts were provided by the Fund to Botswana. In fact, one expert had left in October 1986, and only four experts remained in Botswana as of the end of the current fiscal year. Finally, the staff agreed with the authorities that the drought was continuing. When the staff mission had been in Botswana, the assumption had been that the rains would resume in March-April 1987. Unfortunately they had not. The current drought was the longest in the history of Botswana, although the expectation was for more normal weather conditions in the medium term.

Questions raised by Directors covered three major areas: projections for agricultural production; the excess liquidity in the economy; and the matter of diversification, the staff representative continued. Agriculture was not a major sector in Botswana, and, while the authorities intended to become self-sufficient in foodgrains, there would be no effort to become fully self-sufficient in all foodstuffs. In a normal year, Botswana produced 50,000-60,000 tons of grain. However, the economy had not experienced a good crop year since 1980-81, when 57,000 tons of grain had been produced. That number had been reduced drastically to less than 10,000 tons during the most severe part of the drought in 1983-84. Since the recovery of 1985, production had increased, and some 20,000 tons had been produced in 1986. The medium-term scenario suggested that over the next five years, production levels should return to normal.

The authorities were doing all they could to mop up the excess liquidity in the economy, the staff representative noted. However, the process was a complicated one, and the authorities had sought the assistance of a number of donors and institutions, including the Fund. Indeed, the authorities intended to implement most of the measures that had been recently developed with Fund staff advice, although the ones they had implemented thus far, as shown in the report, were inadequate. The staff felt that more could be done, for example, to strengthen the nonbank financial institutions--mainly the National Development Bank--and to implement the Bank of Botswana finance scheme.

Three major issues had been raised regarding the diversification process in Botswana, the staff representative recalled. The first concerned the role of the World Bank in the process; the second was related to the focus of diversification; and the third touched on the slow pace of the diversification process. The World Bank had been heavily involved in Botswana. Indeed, some 60 percent of Botswana's total debt was to multilateral institutions, and most of that was due to the World Bank. The Bank had been involved in agriculture, the cattle sector, and light industry. However, as the staff had indicated, major bottlenecks hampered rapid expansion in Botswana. One of those was the small production base of the economy. Most of the country was desert, and much of the small population of one million was concentrated in the eastern part of the country. In that respect, the process of moving Botswana into the modern world had not been an easy one, although the Government had been working toward that end. Some 40-45 percent of government expenditure was directed to development, mostly on projects providing good returns. Even the rate of expansion of expenditure had been high, at 20 percent or more a year. The authorities were aware that diamonds were a depletable resource and that the price of diamonds was unpredictable. Moreover, as Mrs. Walker had indicated, the Government was only a part owner of the diamond mines. The uncertainties relating to Botswana's main export item, together with the political uncertainties in the region, had led the authorities to move more cautiously than they might otherwise have done.

The appropriate focus of diversification was difficult to establish, the staff representative remarked. In many countries in Africa, agriculture was a sector in which heavy investment and good management could produce positive results, but that was not the case with respect to Botswana. The agricultural sector was small, and its potential was limited, even with irrigation. Botswana was a landlocked country, and the market for exports was limited. The country produced some textiles, which were exported mainly to Zimbabwe, and a number of handicrafts and leather goods, which were exported to Malawi. However, even taking into account those products and a number of other items exported to South Africa, one could see that the scope of the market for Botswana was narrow. Nonetheless, there had recently been an interest in bringing banks into Botswana, and tourism had picked up considerably, particularly since the completion of the new airport in 1985. Finally, it should be noted that the high growth rate of the diamond sector had not scuttled growth of the nondiamond sector. The nondiamond sector itself had grown by some 5 percent a year, which was an impressive rate. This sector had also been the main contributor to employment, because the diamond sector was quite capital intensive. But if one looked at actual rates of growth, it could be seen that employment had grown at a rate of about 9 percent a year in recent years.

The Deputy Director of the Exchange and Trade Relations Department, responding first to the matter of restrictions referred to in the proposed decision, noted that the decision was phrased in precisely the same terms as that adopted in the previous year, and there had been no change in the system since that time. As to whether the limits on travel and remittances in fact constituted restrictions, it should be pointed out that the authorities themselves had indicated that requests for permission to exceed the limits were "normally" granted. Where the authorities had the discretion to grant or deny such permission, the staff must regard the limits as a restriction according to normal practice.

On the cycle of consultations, the Deputy Director observed that at the time of the mission in Botswana, the bi-cycle approach had not been an option open to the Fund or the member. It did however appear that a good case could be made for using the bi-cycle approach for Botswana. That matter would be discussed with the authorities during the 1987 Annual Meetings.

Mr. El Kogali stated that he had little to add to the remarks of the staff except to note that his authorities would probably prefer to remain on a 12-month consultation cycle.

The Chairman made the following summing up:

> Directors were in broad agreement with the views expressed in the staff appraisal. They commended Botswana's continued impressive economic and financial performance, as evidenced by strong economic growth, large budgetary and balance of payments

surpluses, and relative price stability. They commented that this outcome was directly related to favorable developments in the diamond sector and to sound economic management.

Directors noted that, despite the country's current comfortable financial position, there were a number of issues which required the authorities' attention. Those included the continued excess liquidity in the economy which coexisted with an apparent shortage of long-term finance. Welcoming the measures being implemented to deal with these problems, Directors took note of the recent actions to widen the tax base and reform the existing system, and they urged the authorities to strengthen the financial institutions engaged in long-term lending operations and to limit the role of government in providing partial guarantees on foreign exchange losses for parastatals borrowing abroad.

Directors observed that Botswana's medium-term balance of payments prospects remained bright, with the economy forecast to continue to register substantial balance of payments surpluses throughout the medium term and to accumulate further foreign exchange reserves.

Directors concurred with the assessment that the key issue facing the authorities over the medium and long term was how to diversify the economy using the current large resources from the diamond sector. They noted that the lack of adequate social and economic infrastructure appeared to be the major bottleneck to future balanced economic growth. Directors pointed out that a program of carefully selected projects that would provide the necessary infrastructure to support expansion of the agricultural, services, and industrial sectors would facilitate the process of economic diversification while ensuring continued financial stability. It was noted that in these endeavors the World Bank could play a useful role.

Directors concluded by encouraging the authorities to continue to strike an appropriate balance between the desire to maintain low rates of domestic inflation and the need to develop and diversify the economy over the medium and long term.

In view of the favorable economic and financial prospects for Botswana, and the liberal trade and exchange system, the authorities were encouraged to move to Article VIII status in the Fund. Finally, it was observed that Botswana might be a good candidate for the bicyclic consultation procedure. The periodicity of the next Article IV consultation with Botswana will be taken up with the authorities in the light of the views expressed at the forthcoming Board discussion of proposed changes in cycles for consultations.

The Executive Board then took the following decision:

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

2. The Fund notes with satisfaction that Botswana continues to maintain an exchange system that is free of restrictions on payments and transfers for current international transactions except for relatively liberal limits which apply to private and business travel and remittances abroad that are retained in accordance with the transitional arrangements in Article XIV, Section 2. The Fund encourages Botswana to remove these restrictions.

Decision No. 8581-(87/69), adopted
May 6, 1987

2. STAFF COMPENSATION - 1987 REVIEW AND ADJUSTMENT

The Executive Directors, meeting in restricted session, considered a memorandum from the Managing Director on the 1987 review and adjustment of staff compensation (EBAP/87/81, 4/16/87). They also had before them papers on the same subject prepared by the Staff Association Committee (EBAP/87/97, 4/30/87; and EBAP/87/100, 5/1/87).

The Executive Board then took the following decision:

Salaries will be increased by 3.0 percent for Fund staff in Grades A1-B5 with effect from May 1, 1987. The adjustments will be applied to the minima and maxima of the salary scale in accordance with the revised interim salary structure set out in the attachment to EBAP/87/81, Supplement 1 (5/6/87).

The estimated cost of the increases under paragraph 1 above would amount to $4,500,000 for FY 1988 and appropriations for the Administrative Budget for 1988 shall be increased as follows:

Budget Category	Approved Budget	Additional Appropriations	Revised Budget
1. Personnel expenses			
A. Salaries	$105,630,000	$2,500,000	$108,130,000
B. Other personnel expenses	60,830,000	2,000,000	62,830,000
		$4,500,000	

Adopted May 6, 1987

3. EXECUTIVE DIRECTOR

The Chairman bade farewell to Mr. Fugmann at the conclusion of his service as Alternate Executive Director.

DECISIONS TAKEN SINCE PREVIOUS BOARD MEETING

The following decisions were adopted by the Executive Board without meeting in the period between EBM/87/68 (5/4/87) and EBM/87/69 (5/6/87).

4. APPROVAL OF MINUTES

a. The minutes of Executive Board Meeting 86/138 are approved. (EBD/87/119, 4/28/87)

Adopted May 4, 1987

b. The minutes of Executive Board Meetings 86/139 and 86/140 are approved. (EBD/87/120, 4/29/87)

Adopted May 5, 1987

5. EXECUTIVE BOARD TRAVEL

Travel by Executive Directors as set forth in EBAP/87/99 (5/1/87) is approved.

APPROVED: November 12, 1987

LEO VAN HOUTVEN
Secretary