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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 87/73

10:30 a.m., May 13, 1987

R. D. Erb, Acting Chairman

Executive Directors	Alternate Executive Directors
	E. T. El Kogali
	Jiang H.
	M. Lundsager, Temporary
	E. L. Walker, Temporary
	H. S. Binay, Temporary
	M. Hepp, Temporary
M. Finaish	
	B. Goos
	D. V. Nhien, Temporary
	J. Hospedales
	M. Foot
H. Lundstrom	O. Isleifsson, Temporary
	D. McCormack
Mawakani Samba	
	I. A. Al-Assaf
	L. Filardo
	E. Ayales, Temporary
H. Ploix	V. Rousset, Temporary
G. A. Posthumus	J. de Beaufort Wijnholds
	I. Sliper, Temporary
G. Salehkhou	M. A. Hammoudi, Temporary
	L. E. N. Fernando
K. Yamazaki	
	N. Kyriazidis

L. Van Houtven, Secretary and Counsellor
S. L. Yeager, Assistant

Also Present

IBRD: P. D. Berlin, Western Africa Regional Office. African Department: R. J. Bhatia, Deputy Director; G. E. Gondwe, Deputy Director; L. M. Goreux, Deputy Director; K. Bourhane, E. A. Calamitsis, J. W. Kratz, S. N'guiamba. Exchange and Trade Relations Department: L. A. Whittome, Counsellor and Director; J. T. Boorman, Deputy Director; S. J. Anjaria, S. Kanesa-Thasan, V. P. G. Schoofs. External Relations Department: K. J. Russell. IMF Institute: M. A. Dessart, S. El-Khouri, O. B. Makalou. Legal Department: A. O. Liuksila, J. M. Ogoola, J. K. Oh. Middle Eastern Department: A. S. Shaalan, Director; P. Chabrier, Deputy Director; S. H. Hitti, Z. Iqbal, M. F. Melhem, C. Sassanpour, A. Tahari. Research Department: R. R. Rhomberg, Deputy Director; L. Alexander, N. M. Kaibni, M. Kumar, R. Pownall, B. E. Rourke. Treasurer's Department: S. I. Fawzi, D. Gupta. Advisors to Executive Directors: L. P. Ebrill, M. B. Chatah, A. Ouanes, G. Pineau, Song G., N. Toé, A. Vasudevan. Assistants to Executive Directors: A. R. Al-Abdullatif, F. E. R. Alfiler, J. R. N. Almeida, M. Arif, O. S.-M. Bethel, F. Di Mauro, G. K. Hodges, A. R. Ismael, K.-H. Kleine, V. K. Malhotra, R. Manfredi Selvaggi, T. Morita, G. Seyler, B. Tamami, H. van der Burg.

1. PEOPLE'S REPUBLIC OF THE CONGO - REVIEW UNDER STAND-BY ARRANGEMENT

The Executive Directors considered a staff paper on the review under the 20-month stand-by arrangement for the People's Republic of the Congo (EBS/87/82, 4/15/87) approved on July 15, 1986.

Mr. Mawakani made the following statement:

When the Board concluded the 1986 Article IV consultation with the People's Republic of the Congo in February 1987 (EBM/87/25, 2/9/87), Directors noted that in spite of very difficult conditions, the Congolese authorities had made strenuous efforts to adjust their economy to the precipitous decline in oil revenues. In a rather short period of time, wide-ranging reform measures in the areas of pricing, marketing, public enterprises, and recruitment policies were implemented, and adjustments were made with respect to financial policies and public investment. Nonetheless, these measures turned out to be insufficient to counteract the adverse developments that had emerged in the economy. As a result, the pace of program implementation appeared to have been weakened.

The fact that some targets were not reached under the 1986 program should not be construed as an indication of a lack of commitment on the part of the authorities to pursue the adjustment program. As I mentioned on the occasion of the 1986 Article IV consultation, certain projects could not be stopped because of the commitments that had been made. Furthermore, owing to technical factors, the implementation of some of the tax measures were delayed. Therefore, their effects were felt too late in the year. There were also delays in the disbursement of some exceptional foreign loans, which prevented the liquidation of outstanding external arrears. The continued fall in the world price of oil below the projected price of $15 a barrel under the program and the sharp depreciation of the U.S. dollar were also factors that contributed to the worsening of the economic and financial situation. As a result, export receipts from oil fell by 57 percent in 1986 compared with the 47 percent decline that was originally projected. Very few countries would be able to withstand such a wide variation in earnings without adverse effects on their economy, especially a developing country such as the Congo. Nevertheless, the authorities made serious efforts to reduce the domestic and internal imbalances. Thus, in the fiscal sector, current expenditure, excluding interest payments, was reduced by 12 percent in 1986, government investment expenditure was reduced by 61 percent and public enterprise expenditure was reduced by 31 percent. In the external sector, imports were reduced by 32 percent, in SDR terms, from their 1985 level. Although the authorities introduced additional revenue measures toward the end of the year, these could not reverse the situation in 1986.

Concerned at the deteriorating economic and financial situation, the authorities are taking additional measures in 1987 so that the objectives set for 1987 can be reached. These are well described in the staff report. Nonetheless, I would like to emphasize that public investment will be further reduced by about 42 percent in 1987, with a redirection of priorities from large infrastructural projects toward more directly productive sectors. The investment program will be more tightly controlled, and the reform of the public enterprise sector will be pursued with World Bank assistance. Moreover, a series of additional revenue-raising as well as expenditure-reducing measures have been introduced, which should reduce current expenditures by 23 percent and contain the budgetary deficit, on a commitment basis, at about 6.5 percent of GDP. This restrictive fiscal stance will be reinforced by a tight monetary policy. In the external sector, a further decline in imports by about 16 percent, in SDR terms, is projected.

These additional measures are expected to bring the program back on track, and the authorities are therefore requesting Board approval for a rephasing of purchases for the remainder of the stand-by arrangement. In view of the efforts being made by the authorities and their determination to continue with the adjustment program, I would ask Directors to support the Congolese authorities' efforts by approving the proposed decision.

Mr. Rousset made the following statement:

Eighteen months after its adoption, the program is on track, the Congo having achieved impressive results in curbing government expenditures. The current expenditures of the consolidated central government operations have been reduced by 24 percent and capital expenditures have been cut by four fifths. At the same time, many structural measures were implemented in the areas of pricing, marketing, and public enterprises with a view to diversifying the economy and promoting production in the non-oil sector. Considering the magnitude of these reforms, it is not surprising that some slippages occurred. Nonetheless, the slippages should not detract from the authorities' considerable efforts, which are commendable.

We welcome the efforts that will be made in 1987 to adhere to the original financial objectives, although the targets have been slightly changed to offset the price declines for most of the Congo's exports. As a result of these adverse external developments, real GDP is forecast to decrease by 2.5 percent rather than increase by 4 percent as originally expected.

The authorities are making an effort to redress the financial situation by mobilizing additional revenues through a wide variety of taxes and by controlling expenditures more effectively. Important steps have also been taken to improve the structure of the public investment program by concentrating on priority projects.

But certainly, the more fundamental action to be taken in 1987 will be the reform of the public enterprise sector. In this area, the progress made in designing a program to be supported by the World Bank is very much welcome. I understand that a mission is currently in the field to negotiate the specifics of a structural adjustment credit. We look forward to the approval of this project by the World Bank.

In sum, this review, which was long overdue, demonstrates the authorities' continuing commitment to the program they initiated in June 1986. I therefore support the proposed decision.

Mr. Ayales made the following statement:

We would like to commend the Congolese authorities for their determination to continue to pursue their adjustment efforts after the weak economic performance during 1986, which was severely affected by unfavorable developments brought about by the steep decline in world oil prices.

In the context of an unexpected, severe economic recession characterized by a drastic deterioration in the terms of trade, the authorities satisfactorily implemented several of the measures envisaged in the program. We welcome the steps taken in the areas of pricing, marketing, public enterprises, and recruitment. They were all in the right direction, as they addressed key financial and structural problems facing the Congo, and we look forward to continued progress in the future.

There were, however, some slippages in the implementation of other elements of the program, both in the fiscal and external sectors. Public expenditure--both capital and current--exceeded the programmed amount by a wide margin. As a result, despite some adjustment in the Government's financial position owing to a satisfactory performance on the revenue side, bank financing and the accumulation of domestic arrears were higher than planned. More worrying, however, was the outcome in the external sector. The decline in the price of oil, compounded by the slippages in the implementation of fiscal policies, brought about a further deterioration in the external current account deficit.

The authorities, nevertheless, have continued their adjustment efforts during 1987 by taking a wide range of measures to limit the deviations from the original targets. The revised program should help redress the current process of economic and financial deterioration. We particularly welcome the reformulation of fiscal policy in a framework of expenditure-reducing and revenue-raising measures in the face of the abrupt decline in oil revenues, and encourage the authorities to continue with the flexible pricing and marketing policies initiated in 1986. The adoption of the comprehensive reform of the public enterprise sector in conjunction with the World Bank is also welcome and should promote growth in the non-oil sector.

The medium-term outlook is not encouraging. The Congo's prospects depend critically not only on the continued pursuit of strong adjustment policies, but also on developments in oil prices and the exchange rate of the CFA franc vis-à-vis the U.S. dollar, which are clearly beyond the authorities' control. It is extremely important, therefore, that the Government should maximize its efforts to diversify the economic base and exports, and broaden the sources of government revenues.

In spite of optimistic assumptions regarding fiscal revenues and expenditures, as well as imports and exports, financing gaps in the budget and the balance of payments will continue until a viable position is achieved by 1992. In this regard, we would welcome firmer assurances that satisfactory arrangements to fill those gaps are being completed. In the circumstances, not only must the authorities sustain their adjustment efforts and adopt policies to changing circumstances, but exceptional financing, including debt relief, will also be necessary.

The task ahead of the authorities is a difficult one, given the magnitude of the imbalances and the little room for maneuver. Furthermore, as Mr. Mawakani mentioned during the discussion on the 1986 Article IV consultation last February, a viable internal and external financial position over the medium term can only be achieved through economic diversification away from oil, which, in the context of the rigidities characterizing the Congolese economy, could be a lengthy process.

We believe that the present program addresses the most difficult problems facing the country, and that the authorities are committed to follow the course they have indicated. We therefore support the proposed decision.

Mr. Al-Assaf made the following statement:

In 1986 the Congolese economy experienced difficulties. Like other oil-dependent countries, the Congo was hit hard by adverse developments in the world oil market. As a result, and also owing to past expansionary policies, some key targets of the adjustment program were not met, including the targets for public investment, noninterest current outlays, the external current account deficit, and the Government's domestic arrears. The authorities were, however, successful in implementing a number of essential policy measures that were envisaged under the program. I commend them for that success.

The Congo has considerable natural resources. With the right incentives, the appropriate institutional framework, and good management, these resources should make a larger contribution to GDP. In particular, the country has long-term potential in the agricultural, forestry, and fishing sectors. Investments in these sectors would have both a low-import content and a high yield. In this context, I welcome the continued efforts to adopt more flexible pricing and marketing policies, which will create an environment conducive to investment.

As for other aspects of the program, I am encouraged by the authorities' decision to take appropriate measures to limit the deviations from the original program targets. These measures will be taken despite adverse external developments, including lower oil prices and appreciation of the CFA franc. A word of caution is due here in view of the medium-term outlook, which is not very encouraging: the authorities should persevere with their implementation of these measures even if oil price developments are more favorable than anticipated. Even in the absence of policy slippages, financing gaps will persist through 1991. Furthermore, because of debt rescheduling, the debt service burden will be heavy through the 1990s.

For these reasons, the country cannot afford to allow any slippages in the program. The realization of short- and medium-term objectives hinges on the strict and vigorous enforcement of program policies. I am therefore encouraged by the authorities' commitment to reach the program objectives for 1987, as evidenced by the additional measures that have been taken on the fiscal and monetary fronts.

Finally, in view of the country's further need for financing, it is important to establish the appropriate environment to ensure access to this financing. In this context, I am encouraged by the authorities' intention to eliminate external arrears, which would be an important step in that direction. I support the proposed decision.

Mr. McCormack made the following statement:

Last July, when the present stand-by arrangement was approved in principle by the Board (EBM/86/116, 7/15/86), this chair expressed the view that continued weakness in the world oil market suggested that the projected current account deficit for 1986 might be somewhat optimistic, and that export receipts and real GDP growth might turn out to be somewhat weaker than anticipated. Moreover, despite the Government's efforts to promote export diversification, it appeared optimistic to expect a substantial reduction in the current account deficit for the non-oil sector. In short, there was a very real threat that slippages would occur under the proposed arrangement. Unhappily, in the event, slippages did occur.

The Congo has had to pursue adjustment policies in more unfavorable economic and financial circumstances than had been envisaged at the start of the program. Against this difficult background, in 1986 the authorities implemented the measures envisaged under the program with respect to pricing, marketing, reform of public enterprises, and public sector recruitment. Although these measures differed somewhat from those suggested by the staff at the time of the 1986 Article IV consultation, the authorities, on March 17, 1987 announced a number of significant new tax measures designed to mitigate the impact of the oil revenue decrease on overall tax receipts. The authorities are also determined to contain noninterest current expenditure and to reduce investment spending.

A substantial reduction in investment spending is a matter of concern for any developing country. However, I am heartened to see that both the level and the structure of the investment program have been agreed with the World Bank and that, as this chair had recommended at the time of the program's approval in principle, investment spending is to be reoriented toward the productive sectors of the economy. In this connection, it is important that the investment program should serve to reinforce efforts toward diversification of the Congo's economic base. The staff notes that the Congo has considerable potential to develop its forestry and agricultural sectors, without requiring large investments and imports. Such development seems to be an entirely sensible course to pursue in view of the tight external financing constraints that the Congo will face over the medium term.

In sum, we agree with the staff's appraisal insofar as it stresses the difficulties facing the Congo's economy in the years ahead. We would stress also that the implementation of the adjustment measures envisaged for 1987 needs to be carefully monitored and vigorously enforced. In view of the determination of the Congolese authorities, evidenced by the measures that they have taken so far, we are prepared to support the proposed decision.

Mrs. Walker made the following statement:

We welcome the fact that the authorities have taken the steps necessary to bring the stand-by program back on track, and we urge them to take all possible precautionary measures to ensure that it remains on track for the remainder of the program period. This is particularly critical in light of the Congo's difficult economic and financial position, and the possibility that even stronger adjustment measures may be required to reach medium-term balance of payments viability and return to a more desirable path of economic growth. These comments do not imply, however, that the authorities have not taken significant adjustment measures during the past year. Indeed, they have done so in a number of important areas. But much remains to be done, and there is no room for further slippages. In this regard, I am encouraged by Mr. Mawakani's statement that the slippages that have occurred thus far do not reflect a lack of commitment by the authorities to the program.

Regarding the program for the remainder of 1987, declining oil prices have had an adverse impact on program targets. Most troublesome is the projected decline in real growth by 2.5 percent, compared with the originally projected increase of 4 percent. Clearly, any future increase in growth must be derived mainly from the non-oil sector, particularly from the timber and agricultural sectors. In this regard, we welcome the authorities' intention to continue shifting investment away from costly infrastructure projects toward the more productive sectors so that growth can resume in the non-oil sector. Continuation of a flexible pricing policy will be essential in this regard. Are there any specific plans for price liberalization in the remainder of the Fund program or in conjunction with the World Bank's structural adjustment loan?

The slippages in fiscal policy during the past year were unfortunate. However, with the revenue and expenditure measures called for during the remainder of the year, the budget deficit as a percent of GDP will be kept close to the original program target. We welcome the establishment of more strict controls over expenditures by each Ministry to ensure that these targets are met, and we hope that the administrative procedures required to meet these goals have been put into place. Continued fiscal consolidation, in combination with continued tight monetary policy, will certainly be needed in 1988.

The balance of payments outlook is difficult, with a large financing gap each year before a viable position can be achieved in 1992. While the projected gap for 1987 can be filled, additional adjustment efforts must be made to reduce the gaps in the future and to ensure that they can be filled. Therefore, we agree with the staff that the implementation of contemplated adjustment

measures in 1987, including those structural measures to be included in the program in support of the World Bank's structural adjustment loan, must be implemented with vigor and monitored carefully, particularly during the next review of the Fund-supported program.

Finally, the phasing of purchases involves two purchases--one upon the observance of the end-April performance criteria and completion of the review, and another to be rephased during the remainder of the program period. We recognize that the decision to phase the purchases in this manner rests in part on oil receipts, that the authorities have taken a number of measures to bring the program back on track, and that the first purchase under the arrangement was small. However, the member was out of compliance for quite some time--since the first purchase last August. The measures taken to bring the program back on track took a while to put in place, and the lost time was costly. In other instances, when a country has been out of compliance for a prolonged period, missed drawings were either dropped or rephased by extending the program period. In our view, the exception made for the Congo may not necessarily be appropriate. Therefore, I would appreciate staff comment on why this particular phasing was chosen. In addition, in the future we would appreciate a clear explanation in the staff paper of the reasons for the particular phasing of purchases.

Finally, we support the proposed decision and urge the authorities to persevere in their adjustment efforts.

Mr. Goos made the following statement:

I should like to commend the authorities on their unwavering strong commitment to adjustment, notwithstanding the difficult external circumstances they are facing in the implementation of their program. It is particularly encouraging to see that they have adopted the Board's recommendation at the conclusion of the 1986 Article IV consultation with the Congo to further strengthen fiscal adjustment and to adhere to their course of structural reform.

At the same time, however, it is undoubtedly a matter for concern that, contrary to original expectations, the economy is likely to remain in deep recession and, even worse, that non-oil GDP is suffering continued heavy declines. It appears that the protracted slump in economic activity is directly related to, and probably the inevitable result of, previous policy shortcomings, including long-standing neglect of the productive sectors and bloated public expenditures for largely unproductive purposes.

The problems accumulated in the course of many years cannot be expected to disappear overnight. Accordingly, the economy needs to be given some time to respond effectively to the new incentives provided by the ongoing structural reform and to employ the resources previously absorbed by the government sector. This consideration, of course, argues also for continued efforts in the areas of structural reform and financial adjustment.

In sum, I am confident that the authorities' adjustment course envisaged for 1987 and beyond remains appropriate under the difficult circumstances of the country. I therefore can endorse the staff appraisal and the proposed decision.

Mr. El Kogali made the following statement:

The People's Republic of the Congo is a small developing member country, which is fully cooperating with the Fund to find solutions to its economic and financial problems. It is currently implementing a program supported by a stand-by arrangement in an amount equivalent to SDR 22.40 million, of which SDR 9.5 million has been utilized and SDR 12.9 million remains undrawn. According to the staff report, the authorities have "satisfactorily implemented the measures envisaged under the program in the area of pricing, marketing, public enterprise, and recruitment policies." This was achieved under difficult circumstances. Agricultural prices were raised to match prices in neighboring countries, the number of products and services subject to price regulation was reduced from 38 to 20; the price of sugar was raised twice in less than a year; the export monopoly for coffee and cocoa was abolished; new recruitment of civil service was reduced by one half; the wage bill was reduced by at least 5 percent; and electricity and water tariffs were raised by 7.5 percent, while post and telecommunications tariffs were raised by 20 percent. Six key public enterprises were reformed as specified in the program and their financial positions improved. The Congo maintains an exchange system that is free from restrictions on payments and transfers in current international transactions. All in all, we have a classical package of Fund policies being implemented.

But because of exogenous factors, namely, the fall of oil prices and of the exchange rate of the U.S. dollar, slippages occurred. Public investment exceeded the amount programmed owing to difficulties in halting or scaling down work on certain projects and delays in the implementation of tax measures and in transfers to the Treasury of receipts from local sales of refined petroleum. Therefore, performance criteria for end-September and end-December were not observed.

I would like to comment on the application of these performance criteria, particularly the quantitative ceilings and their relation to the design of the program. First, the authorities have implemented all measures agreed upon under the program. The measures designed to raise additional revenue were somewhat delayed, even though they would not have generated adequate revenues to reduce the Government's recourse to domestic credit to within the prescribed ceilings. The problem was related mainly to the unrealistic expenditure cuts that had been recommended in the program as well as to the greater than anticipated shortfall in total revenues. As the staff paper indicates, the authorities found it impossible to halt or scale down ongoing projects. Nevertheless, significant adjustment was made in respect of public investment expenditure, which was reduced from CFAF 192 billion in 1985 to CFAF 84.5 billion in 1986. In the circumstances, it is clear that the target of CFAF 65 billion was too ambitious and unrealistic. That target did not take into account the physical constraints involved in halting or scaling down these programs. Furthermore, a shortfall in total revenue of 32 percent was perhaps too precipitous to allow for prompt and adequate adjustments on the expenditure side that would have enabled the authorities not only to stay within the prescribed ceilings but also to release sufficient resources to liquidate arrears as programmed.

In the circumstances, it would have been highly commendable if adjustments had been made to the ceilings earlier to take account of the strong adverse movements that were principally outside the authorities' control. Given the tight ceilings that had been placed on credit to the Government, it is not surprising that the end-September and end-December ceilings could not be observed. I am afraid that in this instance, the quantitative ceilings are being applied rigidly. I believe the authorities have strongly demonstrated their commitment to the program and are moving in the right direction, with significant progress having been made thus far. It is therefore regrettable that the review could not be completed earlier and that necessary adjustments to the ceilings could not have been made to enable the authorities to continue purchases under the arrangement. It is even more regrettable considering that this economy was highly centralized and that the authorities took many bold actions to loosen the rigorous controls. Furthermore, the amounts of the purchases involved are relatively small, and the Congo is not heavily indebted to the Fund. If the authorities had been allowed to make purchases, it would have perhaps given them the necessary incentive to press ahead with their adjustment efforts. I think in this instance the Fund should have exercised flexibility to meet the authorities half way as a means of encouraging them to persist with an austere program.

In this light, I find the proposal for phasing the remaining purchases somewhat inappropriate. A financing gap amounting to SDR 70 million will be financed by a structural adjustment loan from the World Bank, an African Development Bank loan, and exceptional bilateral assistance. In restrospect, the gap could have been reduced somewhat if all three purchases from the Fund were made available following the completion of this review and satisfactory compliance with the end-April ceilings. I would appreciate staff or Mr. Mawakani's views on this matter.

Finally, I wish to express my fears concerning the 1987 program, which, again, appears to be heavily predicated upon large expenditure cuts. For example, public investment is expected to be reduced by as much as 42.4 percent. It is stated in the staff paper that many infrastructural projects have been completed or halted and that expenditure for the one remaining road project will be limited to CFAF 5.5 billion. In the light of the experience in 1986, I wonder whether these expenditure reductions are realistic and, indeed, advisable. There are significant costs associated with the stoppage of an ongoing project. Do we have a full assessment of those costs? In the light of recent experience in the region, caution needs to be exercised in recommending such rapid adjustment and severe measures.

I support the proposed decision and wish the authorities well in their endeavors.

Mr. Hammoudi remarked that he deeply appreciated the substantial efforts made by the People's Republic of the Congo in an adverse world economic situation. Indeed, despite the sharp decline in oil revenues, the Congo continued to face its economic problems with courage and realism.

The authorities were implementing their adjustment program even though technical problems rendered the achievement of some measures, especially in the tax field, more difficult, Mr. Hammoudi observed. Austerity was being introduced in the management of the budget by reducing government expenditures, including the investment program. The restructuring of the public sector was being implemented with the technical assistance of the World Bank. In the external sector, measures had been taken, and imports had been cut. He supported the proposed decision.

The staff representative from the African Department, commenting on the growth objective for 1987, remarked that the authorities had estimated a 2.5 percent decline of real GDP in 1987, compared with the originally estimated increase of 3.6 percent, largely owing to developments in oil production. Initially, production coming on stream in 1987 had been expected to increase output by 6 percent; new production was expected to come on stream mainly in 1988, and the estimate of real

oil GDP had been revised downward to a negative 1.4 percent. Non-oil real GDP, which had been expected to increase by 1.9 percent in 1987, was at present forecast to register a decline of 3.3 percent. In some productive sectors, particularly agriculture and timber, an increase in output was expected; most of the decline in output would occur in the services sector, largely owing to developments in the oil sector.

The program for 1986 had included a large array of measures to increase price liberalization, the staff representative observed. The authorities were committed to continuing their liberalization effort as well as flexible pricing policies. Already in 1987, transportation and sugar prices had been increased. At present, the authorities and the World Bank were negotiating more detailed measures and the staff expected to brief the Board on the outcome and on the additional measures to be implemented at the time of the next review.

Regarding the realism of the investment plan for 1987, it should be noted that in 1986 the authorities had been able to reduce the investment program sharply--by about 50 percent, the staff representative commented. The slippages that had occurred in 1986 were largely due to the fact that the revised budget had been implemented only in May 1986 and that there had been some difficulty in halting some of the projects. The authorities, having discussed the details of the investment program with the World Bank, were confident that the objective for 1987 was reasonable.

The staff had accepted the authorities' request regarding the phasing of purchases in 1987 for two reasons, the staff representative from the African Department remarked. First, although some slippages had occurred in 1986, the authorities had made a commendable, significant adjustment effort. Moreover, although it had been necessary to change the original program targets, and the deviations from them were small, and the authorities would also be undertaking considerable adjustment in 1987. A second reason, which also underlay the delay in completing the review, was that at the time of the 1986 Article IV consultation discussions there was no agreement on the 1987 budget. After lengthy discussions, however, an agreement had been reached, and the authorities had strengthened their adjustment effort. Consequently, expenditure reduction in 1987 was expected to be larger than initially forecast, although it was difficult to compensate fully for the impact of the shortfall in oil receipts. In light of the adjustment already undertaken, the staff felt that the proposed phasing of purchases would provide an appropriate signal to the authorities.

The staff representative from the Exchange and Trade Relations Department, commenting on the phasing of purchases following a prolonged period of noncompliance, remarked that the basic rationale continued to be that Fund resources should be made available to a member in accordance with its adjustment effort, as reflected in the attainment of program objectives. If, following a substantial period of noncompliance, a multiyear program could be brought back on track according to its original objectives, purchases were released to the member. In those instances

where no waiver or phasing of purchases was requested, the member might be permitted to make those purchases that had been missed, once the program was back on track. In other instances where there was likely to be some delay in achieving the objectives of the program, purchases might be rephased or dropped. For the Congo, the staff had proposed a middle course: the member would be permitted to make two purchases upon the completion of the review and evidence of compliance with end-April performance criteria. The phasing did not represent an exception to policy, but rather was a reasonable approach in light of the circumstances of the Congo.

Mr. Mawakani said that he was grateful for Directors' constructive remarks on the review of the financial program of the People's Republic of the Congo and for their support for the authorities' courageous efforts to address the imbalances facing the country.

The staff had covered all of the issues that were raised during the discussion, Mr. Mawakani noted. He would therefore only reiterate the commitment of the Congolese authorities to the adjustment program, despite continued adverse external developments, such as the declining trend in world commodity prices and the volatility in financial markets. The additional measures introduced earlier this year were an expression of that commitment.

Finally, he wished to express the Congolese authorities' appreciation to creditors for the financial assistance provided to them, especially in the form of debt rescheduling, Mr. Mawakani concluded.

The Executive Board then took the following decision:

1. The People's Republic of the Congo has consulted the Fund in accordance with paragraph 4 of the stand-by arrangement for the People's Republic of the Congo (EBS/86/138, Supplement 2), as contemplated in the third paragraph of the letter of the Minister of Finance and Budget dated May 31, 1986 attached to the stand-by arrangement, in order to review policies, establish performance criteria for the remaining period of the arrangement, and reach understandings subject to which further purchases may be made by the People's Republic of the Congo under the stand-by arrangement.

2. The letter from the Minister of Finance and Budget dated March 26, 1987 shall be attached to the stand-by arrangement for the People's Republic of the Congo, and the letter of May 31, 1986 shall be read as modified and supplemented by the letter dated March 26, 1987.

3. Accordingly, the references in paragraph 4(a) of the stand-by arrangement to paragraphs 16, 17, and 19, and Table 1 of the annexed memorandum (relating to the performance criteria on total domestic credit, net credit to the Government, domestic

arrears, external payments arrears, and nonconcessional external loans contracted or guaranteed by the Government), shall comprehend references to paragraphs 16, 18, and 20, and Annex 1 of the letter dated March 26, 1987.

4. Paragraphs 2(a) and 4(a)(iv) of the stand-by arrangement are hereby amended to read:

2(a) Purchases under this stand-by arrangement shall not, without the consent of the Fund, exceed the equivalent of SDR 9.50 million until May 29, 1987, the equivalent of SDR 13.80 million until August 14, 1987, the equivalent of SDR 16.66 million until November 14, 1987, and the equivalent of SDR 19.53 million until February 14, 1988.

4(a)(iv) the target for the reduction and elimination of existing external payments arrears and the intention on nonaccumulation of new external payments arrears referred to in the third sentence of paragraph 20 and in Annex 1 of the letter dated March 26, 1987,

5. The Fund finds, pursuant to paragraph 4 of the stand-by arrangement, that the review contemplated in the third paragraph of the letter dated May 31, 1986 is completed, and that no further understandings with the Fund are necessary and the People's Republic of the Congo may resume making purchases under the stand-by arrangement.

Decision No. 8584-(87/73), adopted
May 13, 1987

2. SYRIAN ARAB REPUBLIC - 1986 ARTICLE IV CONSULTATION

The Executive Directors considered the staff report for the 1986 Article IV consultation with the Syrian Arab Republic (SM/87/37, 2/1/87; and Sup. 1, 5/11/87). They also had before them a background paper on recent economic developments in the Syrian Arab Republic (SM/87/64, 3/6/87).

Mr. Finaish made the following statement:

Like many other economies in the region, the Syrian economy has been under considerable pressures since 1982. The slowdown in workers' remittances and the decline in external assistance, which largely reflected the general economic slowdown in neighboring oil exporting countries, have substantially reduced the flow of foreign exchange into the economy. Furthermore, the unusually adverse weather conditions during the period 1982-84

resulted in a significant decline in agricultural production and in overall output growth. To contain the impact of these developments on the balance of payments, a major effort was undertaken to curtail imports. As a result, however, input shortages occurred, particularly in the manufacturing sector where output levels declined significantly. The manufacturing sector was also affected negatively by an electricity shortage, which was caused by the lack of water due to the filling of the new Turkish dam on the Euphrates. Thus, by 1985 it was clear that a broader policy response was needed to adjust to the new external environment if growth and financial stability were to be restored.

Such a response can indeed be seen in the wide range of macroeconomic and structural measures taken since late 1985. These measures have aimed at two main objectives. The first is to reduce consumption to levels that are compatible with resource availability and thus ease the pressures on the external position. The second objective is to improve efficiency and resource allocation in order to enhance productivity and growth and also reduce the demands on the budget.

In evaluating the broad adjustment strategy, as well as the specific policy measures taken by the Syrian authorities, it is important to keep in mind the following considerations. First, the authorities attach particular importance to the social and political implications of economic policy and thus do not view adjustment from a merely technical standpoint. Second, while the authorities see room for reducing government expenditures and expanding the role of the private sector, they continue to place primary emphasis on the public sector in the context of a planned economy. Third, the unsettled regional situation and the fact that part of the country remains occupied make it inevitable that a relatively large portion of the country's resources be devoted to security and defense purposes. With these constraints, however, what has been done in the recent period in terms of economic adjustment, both financial and structural, should not be underestimated.

In the fiscal area, total expenditures were reduced by about 2 percentage points relative to GDP in 1986. This, together with increased revenues resulting mainly from the improved financial position of public enterprises and the reclassification of professions to higher tax brackets, has led to a more than 3 percent reduction in the budget deficit, before grants. Although grants declined substantially in 1986, the overall deficit, including grants, was significantly lower than in 1985 as a percentage of GDP. The recently announced 1987 budget reflects a further tightening of fiscal policy. Budgeted expenditures have been reduced by about 5 percent from their 1986 level, while revenues are projected to increase significantly. The fiscal outcome

will also be helped by additional measures, which have recently been taken and which have not been incorporated in the budget. These include a substantial increase in gasoline prices in January 1987 and a luxury consumption tax that will come into effect in June 1987. Furthermore, income tax reform is currently being discussed in the Parliament and has a good chance of being passed this year.

Monetary developments in the recent period have reflected the policy of fiscal restraint. The rate of liquidity expansion in 1986 is estimated to have been relatively low at 10 percent, mainly as a result of the decline of net recourse to the banking system by the public sector, compared with a rate of 19.4 percent in 1985 and more than 25 percent in 1984. The authorities expect monetary restraint to be maintained in 1987, particularly in light of the continued reduction in the budget financing requirements. As far as interest rates are concerned, consideration is currently being given to amending the law that sets loan rate ceilings in order to allow greater flexibility in the future.

The pricing measures that have been taken since late 1985 represent the centerpiece of the structural reform policy of the Syrian authorities. Since that time there has been a discrete shift in policy toward economic pricing while limiting subsidies to a few essential items. Even there, the authorities' intention is to achieve balance in the Price Stabilization Fund over time. This reorientation of pricing policy has aimed at three main objectives: first, to improve allocative efficiency and enable public enterprises to operate on a sound commercial basis; second, to reduce consumption, which had reached unsustainable levels; and third, to facilitate the reform of the exchange system. The initial price increases in late 1985 were followed by further adjustments in 1986. These included a number of essential items, such as gasoline prices, which were increased by up to 38 percent in September 1986 and a further 74 percent in January 1987. This was intended, in part, to contain the growth of domestic oil consumption associated with the electricity shortage, which led to increased use of generators by many establishments. Moreover, substantial increases in procurement prices in the agricultural sector have also been implemented, which are expected to contribute to the improvement in agricultural production in 1987. The magnitude of the price adjustments undertaken since 1985 is reflected in the substantial increase in the consumer price index, amounting to about 50 percent in 1986. Since public sector wages were not increased in 1986 and the wage increase of last April fell substantially short of the increase in consumer prices, real wages have declined considerably.

As part of their policy of structural reform and in an effort to increase production, the authorities have been encouraging private sector participation. Within the framework

of a planned economy, the private sector is being directed toward specific areas of economic activity, sometimes in partnership with the public sector. Moreover, the authorities are trying to increase the availability of foreign exchange to the private sector by allowing exporters to retain 50-70 percent of their export proceeds to be used for necessary inputs. Foreign direct investment in agriculture is also being encouraged by providing certain tax exemptions and export privileges. With the decine in real wages, the authorities are hopeful that Syria will become more attractive to foreign investors.

With respect to the exchange rate, it has been the authorities' policy since 1985 to bring about a gradual depreciation in the effective rate. It is important that the recent exchange rate measures be understood in that context. The most significant of these measures is the introduction in August 1986 of a promotional rate, which is on a competitive footing with the exchange rate in the unofficial market. The promotional rate--which covers remittances, tourism, and a number of other transactions--was further depreciated in February 1987. The enforcement of strict controls over the unofficial market in 1986 was aimed at stemming speculation in the unofficial market and to facilitate the introduction of the new promotional rate. It is true that the number of exchange rates has increased, but the authorities consider this as part of their effort to achieve a gradual effective depreciation. At the same time, the authorities have been shifting transactions to more depreciated rates. Clearly, exchange rate policy is a delicate matter, and the authorities are trying to follow a path that is acceptable to the public and that can facilitate the pricing reforms to which they attach particular importance.

Syria's external position continues to be difficult. However, the magnitude of the balance of payments adjustment in 1986 should not be underestimated. As a result of financial tightening and import restraint, as well as the improvement in the oil balance, the current account deficit was reduced by about one half in 1986. In fact, had it not been for the drop in external assistance the overall external position would have been in approximate balance. Despite this improvement, payments difficulties have arisen, and some external arrears have accumulated. The authorities are giving the highest priority to the settlement of these arrears. As far as the balance of payments outlook is concerned, the authorities are hopeful that their adjustment policies and the further improvement expected in the oil balance will lead to a significant improvement in the external position, particularly in 1988.

In conclusion, the authorities have responded to the worsening external environment of recent years by a wide range of policy measures, financial as well as structural. They recognize

that the current economic situation requires that these policies be continued and strengthened. They are indeed committed to doing so within an adjustment framework which also gives due regard to social priorities and objectives.

Mr. Al-Assaf made the following statement:

Over the past few years, Syria has been facing difficult economic and financial problems. These difficulties were due to a variety of factors, some within and others beyond the control of the authorities. They included the drought, the slowdown in economic activity in the region, and the associated decline in workers' remittances and external grants. Moreover, the unsettled political situation in the region has necessitated heavy defense spending and put strong pressures on the fiscal and balance of payments positions.

The adverse effects of these exogenous factors were further compounded by a complex exchange rate system, an expansionary fiscal policy, and price and other controls. As a result, growth declined sharply with the economy's total output in 1986 remaining virtually at its 1981 level. Furthermore, these factors have resulted in even more stringent foreign exchange constraints. The fiscal and the balance of payments positions have widened, and inflation has accelerated sharply.

Recognizing the magnitude of these imbalances, the authorities embarked, in 1985, on a gradual fiscal adjustment, which was intensified in 1986. The authorities' continued fiscal efforts are reflected in the budget for 1987, which aims at containing expenditures and strengthening revenues by as much as 24 percent compared with actual revenues for 1986. While this fiscal target may be ambitious, especially on the revenue side, such a goal may well be within reach, in view of the untapped resources in the economy. I commend the authorities for these efforts and urge them to adhere to their fiscal adjustment plan, thereby not only reducing the large external imbalance, but also helping contain recent inflationary pressures.

Looking ahead, there is a need to resume a sustainable level of economic growth. The authorities recognize that it is therefore important to enhance the efficiency of the economy and to promote exports. It is also important that the private sector is encouraged to play a larger role in the economy. Syria has always had an active and capable entrepreneurial class. Investment by the private sector as well as foreign investment can be encouraged by introducing appropriate incentives, by reforming the exchange system, and by streamlining administrative controls.

Commendable steps have already been taken involving a wide-ranging price adjustment. However, in the area of exchange rate policy, the experience of other countries suggests that a multiplicity of rates, seldom operates effectively, in practice, either to meet medium-term balance of payments objectives, or to provide the desired tax and subsidy effects. Aside from contributing to the emergence of an underground economy, multiple exchange rate systems are difficult to administer and tend to introduce distortions into the price-cost structure, that are conducive to resource misallocation. Equally important is the effect of multiple rates on exports: the present system imposes a heavy implicit tax on certain exports. In view of the need to strengthen export-led growth and enhance the efficient allocation of resources, the reform of the exchange rate system needs to be accelerated.

To achieve its export-oriented growth objective, Syria will also need to enhance its access to international capital markets and to foster an economic environment at home that would attract increased foreign investment, including the repatriation of Syrian residents' funds from abroad. It is important to emphasize that these objectives can only be achieved if external arrears are altogether avoided. Furthermore, the experience of a number of countries shows that there is a risk that once a country begins to accumulate arrears, it becomes difficult for it to secure the needed external financing to redress the situation. I therefore urge the authorities to strengthen their adjustment efforts to the extent feasible, so as to avoid the accumulation of external arrears.

In view of the magnitude of the imbalances and the severe foreign exchange shortages, it will be understandably difficult for the authorities to strike the appropriate balance between the urgent need to adjust and the need to avoid severe disruptions to the economy. I therefore fully concur with Mr. Finaish that given the constraints facing the authorities, what has been achieved so far in terms of adjustment, both financial and structural, should not be underestimated. Moreover, what is important is not so much the elimination of the imbalances overnight, but the implementation of appropriate policies to move the economy in the right direction. I believe that the authorities' fiscal program and their intent to reform the exchange rate system will do just that.

Finally, I support the proposed decision.

Mrs. Walker made the following statement:

The economy of the Syrian Arab Republic is clearly facing strains. The past several years have been characterized by slow growth and high budget and external payments deficits. These

deep-seated internal and external imbalances appear to be the result of a combination of factors, including exogenous events and inappropriate policies. Some measures taken by the authorities since late 1985 to deal with these imbalances have had some positive effects. However, unless a comprehensive adjustment plan is developed that can eliminate many of the structural impediments to growth and recovery, these piecemeal steps may not result in the desired overall improvement in the economy.

In the fiscal area, past expansionary policies have placed additional pressure on the need to cut spending further in the most recent budget. Although the 1987 budget calls for an 11 percent increase in revenue and a 5 percent decrease in expenditure compared with 1986, experience suggests that budget estimates are not always fulfilled. In addition, it is worrisome that several measures recently taken are not reflected in the budget. Particularly troublesome is the significant salary increase awarded on April 1, 1987, since in the past the authorities had cited the fact that wages had not increased as one indication of the severity of their adjustment efforts. In this light, I am not convinced that the budget goes far enough in reducing expenditure. Regarding the proposed tax reform, I would be interested to hear staff comments on its potential impact on future budgets.

The most recent changes in pricing policy are welcome, particularly since wages were held down and fiscal policy was restrained. However, the recent wage increase may adversely affect some of the gains achieved. We encourage the authorities to remove remaining rigidities in price determination and to introduce a more flexible pricing policy that will allow for more timely adjustments in the future. In addition, prices determined on a market-oriented basis rather than a cost-plus basis may be more appropriate and could lead to a better use of resources.

The outlook for real growth may be somewhat improved in 1987 compared with 1986. Weather conditions and the incentives introduced by the authorities in 1986 to attract foreign investment and to encourage some additional involvement of the private sector should help increase output in the agricultural sector. However, activity in the manufacturing sector is expected to continue its downward trend; I note that private investment in this sector continues to be hampered by import restrictions and foreign exchange shortages. In our view, the private sector could play a more useful role in both the agricultural and the manufacturing sectors. We would therefore urge the authorities to improve private sector access to credit and foreign exchange for trade and investment purposes. Mr. Finaish has indicated that the authorities are trying to increase the availability of foreign exchange to the private sector; does the staff think this effort is enough?

The external imbalances are large, although it is difficult to get a clear picture of the situation, particularly in the medium term, in view of the limited statistics available. The data limitations have been noted in previous Board discussions on Syria, specifically in the area of external debt, and I wonder if the authorities are working to improve the data deficiencies? It is clear that the balance of payments situation is not viable, particularly since the overall deficit was financed largely through a buildup in external arrears. We urge the authorities to eliminate these arrears as soon as possible, particularly the arrears to the World Bank.

The recent changes in the foreign exchange system, while effecting a considerable depreciation of the currency, have also resulted in a more complex system as well as a wider spread between rates. Furthermore, such a system does not help alleviate the severe foreign exchange constraint--particularly in the private sector--which is adversely affecting performance in the economy. In addition, I agree with Mr. Al-Assaf regarding the negative effects of multiple rates on the economy. We also agree with the staff recommendation that the exchange system be simplified considerably in the near future. In the meantime, we can support the proposed decision.

The staff representative from the Middle Eastern Department remarked that three measures recently taken by the authorities were not reflected in the 1987 budget. First, the wage increase was expected to add about LS 2.5 billion to the wage bill. A second measure, the increase in retail prices of petroleum products in January 1987, was expected to add almost an equivalent amount--LS 2.1 billion--in budget receipts. Thus, those two measures appeared to offset one another. A third measure levied a tax on certain luxury items. The staff did not yet have the basic data needed to fully evaluate the effect of those measures on the 1987 budget.

Although the budget for 1987 as described in the supplement to the staff report did not reflect as steep a decrease in expenditures as the authorities had indicated at the time of the consultation discussions, in view of the high increase in domestic prices in 1986, it would have been difficult to achieve an actual freeze in current expenditures in nominal terms, the staff representative considered. Overall, the 1987 budget was predicated on an increase in tax revenues by 24 percent compared with 1986. That increase would have to be achieved without the benefit of tax reform, which had been under consideration for several years. It was expected that once implemented, the tax reform would have a significant impact on revenue, for two reasons: it would bring into the taxation network a wider range of incomes, particularly in the agricultural sector; and, equally important, it would aggregate income from various sources under the tax schedule.

The recent foreign exchange incentives would increase private sector access to foreign exchange, but in compartments, the staff representative noted. Entities having ready access to foreign exchange might not use it efficiently while other entities lacking sufficient access might have to curtail imports of inputs leading to lower exports. A more generalized market for foreign exchange, providing equal access to firms on a basis of competitive bidding, would be more efficient and useful for the economy.

The authorities recognized the need for a more comprehensive and consolidated approach to the external debt situation, the staff representative from the Middle Eastern Department added. In that regard, the staff had no information on what steps were being taken to improve external debt statistics.

Mr. Finaish remarked that the Syrian authorities were aware that the economy was facing difficulties, and they agreed with the staff that there was a need to continue and strengthen their adjustment effort over the coming period. As speakers and the staff had noted, some of those difficulties could be attributed to important exogenous factors that had emerged since 1982. Nonetheless, the significant steps that the authorities had taken since late 1985 should not be underestimated; they represented major shifts in the orientation of policies and had led to important progress in several areas. The extent of price adjustments, for example, had caused the consumer price index to increase by about 50 percent in 1986, and some domestic prices--such as gasoline prices--even exceeded the international level. As for the recent wage increase, it should be viewed in light of the fact that there had been no increase in 1986 and that there had been a significant reduction in real wages owing to price increases.

Although the number of exchange rates had recently been increased, the effective rate had depreciated, Mr. Finaish noted. Indeed, the establishment of the new rates should facilitate the gradual depreciation of the currency envisaged by the authorities. In that regard, the timing and form of exchange rate measures had to be viewed in the context of the authorities' efforts to make pricing adjustments acceptable to the public. While their objectives were clear and were broadly in line with the staff's assessment, the authorities' general approach to economic policy was pragmatic. The exact path and pace of adjustment therefore depended not only on technical considerations but also on political judgment.

The external position remained difficult, Mr. Finaish commented. The 1987 budget included additional measures on taxes and prices to help redress imbalances, and the adjustment effort was indeed being strengthened. The authorities were giving the highest priority to settling their external arrears, particularly arrears to the World Bank. In that regard, it should be noted that some seven or eight countries in the World Bank were at present in a position similar to Syria's.

The Acting Chairman made the following summing up:

Directors were in agreement with the staff appraisal. Speakers expressed concern regarding the continued stagnation in real growth, accelerating inflation, and the severe fiscal and payments imbalances. While recognizing that exogenous factors, including drought, the decline in oil prices, falling workers' remittances, lower levels of official aid, and the unsettled situation in the region, had adversely affected economic performance, inadequate policies, pervasive economic controls, and structural rigidities were also cited as important factors underlying the weak performance.

Directors noted the reduction in the overall fiscal deficit in 1986 and a sharply lower growth rate of domestic liquidity. They stressed, however, that there was a need to strengthen further the fiscal stance in 1987 and, in particular, to adopt measures aimed at increasing budgetary receipts and further reducing current outlays.

Directors commended the authorities for implementing wide-ranging price adjustments in 1986 as a means for restraining domestic demand and for strengthening public finances as well as reducing cost/price distortions. However, concern was expressed that the recent public sector wage increase might work to weaken the progress that had been made on prices. With regard to the exchange system, Directors considered the measures taken during 1986 and early this year as steps in the right direction. Directors welcomed these actions, which resulted in a considerable effective depreciation of the Syrian pound. They were concerned, however, with the proliferation of rates and the widening spread between the most appreciated and the most depreciated rates, which would have severe negative effects on the economy. The authorities were thus urged to adopt measures aimed at simplifying the exchange system--including unifying the various exchange rates at a realistic level at an early date--and at facilitating access to foreign exchange for productive private sector activity. Directors also called upon the authorities to work toward a speedy elimination of external payments arrears.

Directors believed that a restrained domestic demand policy should be complemented by supply measures designed to facilitate the resumption of economic growth. In this context, the need for loosening controls, encouragement of foreign investment, appropriate pricing of inputs including foreign exchange and credit, improvement in the performance of the state enterprises, and the increase in investment and business opportunities for the private sector were emphasized. The importance of maintaining data that provided adequate coverage and currentness was also noted.

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

The Executive Board then took the following decision:

1. The Fund takes this decision relating to the Syrian Arab Republic's exchange measures subject to Article VIII, Sections 2 and 3, and in concluding the 1986 Article XIV consultation with the Syrian Arab Republic, in the light of the 1986 Article IV consultation with the Syrian Arab Republic conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

2. Syria's present exchange regime involves multiple currency practices and exchange restrictions subject to Article VIII, as described in SM/87/64. The Fund notes the changes that have been made in Syria's exchange arrangements, which result in effective depreciation of the currency. The exchange system in Syria, however, has become more complex, and the Fund hopes that as soon as possible the authorities will take the necessary steps for the elimination of arrears on external payments, the establishment of a unified exchange system, and the liberalization of exchange restrictions. The Fund notes that the Syrian Arab Republic maintains three bilateral payments agreements with Fund members and hopes that these agreements will be terminated as soon as possible.

Decision No. 8585-(87/73), adopted
May 13, 1987

3. COMPENSATORY FINANCING OF FLUCTUATIONS IN COST OF CEREAL IMPORTS - REVIEW

The Executive Directors considered a staff paper on the review of the decision on compensatory financing of fluctuations in the cost of cereal imports (SM/87/86, 4/8/87).

Mr. Mawakani remarked that he had no difficulty in going along with the proposed decision. The cereal component of the compensatory financing facility had so far served the membership well and had enabled the Fund to play an effective role in helping member countries to cope with fluctuations in their cost of cereal imports. He agreed with the staff that despite the expected continuation of the favorable world food security situation over the next two years, some members might still require the Fund's assistance under the facility, and therefore it should be maintained.

Because the decisions integrating the two components of the compensatory financing facility had constrained members' use of the cereal facility, his chair strongly believed that a separate facility should be established to help finance cereal import costs, Mr. Mawakani explained.

Finally, he wondered whether the staff could elaborate on its statement that "certain aspects of the decision may also need to be reviewed in the context of the ongoing review of the compensatory financing facility." What aspects did the staff have in mind?

Mr. McCormack recalled that in the past his chair had expressed reservations about the appropriateness of special facilities that were not intended for use by the entire membership. He continued to have doubts about any approach that made balance of payments assistance conditional on unfavorable developments in a particular area of the balance of payments. Such an approach raised doubts about the equality of treatment of members and did not take into account the possibility that other areas of the balance of payments might, in fact, have improved at the same time, thereby offsetting some of the deterioration in the particular area being considered. The staff paper gave a concise assessment of the use of the cereal component of the compensatory financing facility. It also indicated that no purchase had been made under the cereal decision during the past 16 months, in part because of an improved global food security situation, and in part because of the ample availability of food aid, which was provided on more concessional terms than compensatory financing. All of those issues raised questions about the continuing usefulness of the cereal facility.

Nevertheless, he recognized that the cereal decision was intended to help individual members finance the cost of nonconcessional food imports in situations where food aid from bilateral or other multilateral donors might not be available, Mr. McCormack remarked. Although the Fund was not the ideal organization to provide assistance to countries suffering long-term food-deficit problems, that type of facility had merit as a safety net for those countries where drought or natural disaster had had a serious impact on food production. He therefore could support the proposed decision. His chair intended, however, to review the facility carefully in two years, particularly if no significant use was made of it during the intervening period.

Mrs. Hepp remarked that the low usage of the cereal option in the recent past--the last purchase under the facility had been made in December 1985--was noteworthy. On reviewing the reasons presented by the staff, it was encouraging to learn that the world food situation had improved significantly and that world cereal stocks were now reaching record levels, which were well above the minimum levels required for world food security.

Even if that favorable world food situation continued, individual members experiencing adverse weather conditions might require compensatory financing under the cereal decision, Mrs. Hepp noted. Therefore,

she agreed with the staff that the cereal decision continued to serve its purposes, and accordingly, could go along with the proposed decision.

Mr. Alhaimus remarked that experience with the cereal facility in the past few years had shown that it has in fact played a useful, though understandably limited, role in meeting the needs of several members and that it had functioned in a smooth way with no serious problems encountered in implementation. That had been adequately demonstrated in the staff paper, and he had no difficulty in endorsing the proposed decision.

The limited use of the facility, especially in the past two years, could be attributed mainly to the significant improvement in the world food security situation, Mr. Alhaimus observed. However, other factors included hesitancy on the part of members owing to the three-year rule and difficulties in compiling data. The degree of conditionality was, of course, another factor, although a welcome flexibility had been shown in one case where a higher tranche drawing had not been contingent on the existence of a full-fledged program with the Fund. He hoped that would not represent an isolated case.

The staff did not expect any sharp increase in the utilization of the facility in the coming two years, assuming the food situation remained as favorable as the staff expected it to be, Mr. Alhaimus noted. As experience had shown, however, even with an improved global food supply situation, some members might still encounter unexpected cereal-related difficulties, and thus the cereal facility would be of crucial importance to them. Their recourse to the facility, however, might be further constrained if the ongoing review of the compensatory financing facility led to additional limitations on use of the cereal facility.

Mr. Hospedales noted that the decision on compensatory financing of fluctuations in the cost of cereal imports was being reviewed at a time when the world food security situation had improved significantly, owing in large part to the recovery in world cereal production accompanied by generally declining prices in international markets. As a result, over the last 16 months no member had made use of the cereal decision; but that lack of usage might also be due to an overly restrictive interpretation of one of the requirements in the decision--the test of cooperation with the Fund.

Nevertheless, he remained convinced that the cereal decision was an important instrument in the Fund's arsenal to provide timely relief to countries that were subject to exogenous shocks in the balance of payments and to ensure that their development efforts were not impaired, Mr. Hospedales added.

The facility had proven its usefulness in the past and would do so in the future under similar conditions and with the test of cooperation requirement implemented as originally envisaged, Mr. Hospedales considered. Accordingly, he believed that no modification should be made to the decision and that the decision should be reviewed again before it lapsed on May 13, 1989. He could therefore support the proposed decision.

Mr. Posthumus remarked that his chair continued to support the cereal facility. The facility had operated satisfactorily, and he agreed with the staff that the technical modalities of the facility did not need changing. However, on the occasion of the last review in 1985 (EBM/85/69, 5/3/85), his chair had suggested that it might be worthwhile to re-examine the possibility of improving the facility, particularly with respect to the three-year rule. That feature had originally been incorporated because of a fear of excessive purchases under the facility, which in retrospect, had been exaggerated. His chair therefore continued to favor the abolition of the three-year rule.

At the conclusion of the last review, the Managing Director had indicated that the staff would examine the issues raised by Directors during the subsequent review, and it was therefore disappointing that those issues had not been discussed in the staff paper, Mr. Posthumus continued. For that reason, he wished to reiterate his chair's previous request. It might also be useful to look into Mr. Mawakani's suggestion that a separate facility should be established.

Mrs. Filardo remarked that she was willing to endorse the proposed decision on the condition that the cereal facility should be comprehensively reviewed together with the compensatory financing facility. Underlying that proviso was the question whether the facility had met the need for which it was created. The idea for the facility had originated with the Food and Agriculture Organization and the World Food Council and their concerns about the food-deficit problems of low-income countries. Since the facility was created in 1981, only 13 purchases had been made by 7 member countries, even though many African and Asian countries had experienced food shortages during those years--in some cases, abnormal food shortages, particularly in 1984 and 1985.

The significant improvement in the food security situation as a result of the recovery of world cereal production and more readily available food aid posed several questions as to the usefulness of the facility, Mrs. Filardo continued. Moreover, she had the impression that the facility's procedures were complicated and that there was no clear-cut definition of its conditionality. Those aspects of the facility, together with food surpluses in some areas of the world, and the availability of food aid, had caused food-deficit countries to refrain from using the facility.

The infrequent use of the facility also raised the question whether the conditionality attached to its use at present was appropriate, or, alternatively, whether the principles of conditionality contained in the Board decisions had been faithfully interpreted and effectively applied by the staff, Mrs. Filardo observed. According to the staff paper, "members may not have been able to satisfy some of the requirements of the decision... or the existence of adverse production conditions over many years may have resulted in cereal excesses which were long-term in nature." In view of those considerations, she wondered whether the design

of the facility was not too sophisticated to cope with the problems facing food-deficit countries, which deserved to be treated with simplicity and flexibility in the application of Fund procedures.

Mr. Yamazaki remarked that although experience with the use of the cereal facility was limited, the facility had apparently served the purpose for which it was created and had benefited a number of cereal-importing countries. The use of the facility had been moderate; since the last review in 1985, only two purchases had been made under the facility.

As correctly pointed out in the staff paper, the low usage was mainly due to the favorable global cereal production over the past several years, especially over the past two years when production reached a record high level, Mr. Yamazaki commented. Moderate use of the facility therefore should not be considered as a disappointing development.

Furthermore, the food shortages in some low-income countries have been offset to a considerable extent by food aid, Mr. Yamazaki commented. Indeed, the persistent, serious food problems of member countries could not be dealt with mainly by the cereal facility, which was geared toward mitigating the effects of temporary increases in food-import costs on the balance of payments. While recognizing that fact, he can go along with the proposed decision.

Mrs. Ploix remarked that her initial reaction to the staff paper was that the use of the cereal facility had been so limited over the past two years that the facility had become almost meaningless. That was a dangerous development, which reflected the fact that, over time, the Fund's facilities might become inadequate to address the changing needs of specific portions of the membership.

She welcomed the dramatic improvement in the world food situation and the greater availability of food aid on concessional terms, Mrs. Ploix continued. However, as indicated in the staff paper, even if the present favorable situation persisted, some individual countries might still have to use the facility. The problem of its effective use must then be addressed, and she wished to reiterate the request made by her chair at the time of the previous review in 1985, that some technical specifications--such as the three-year provision or the calculation on a net basis--which constrained actual access to the facility, should be eased.

Moreover, requests for use of the facility would be made mainly by the poorest countries, and in that connection, the problem of the financial cost of the Fund's financing must be raised, Mrs. Ploix commented. She would return to that question during the forthcoming comprehensive review of the compensatory financing facility. She could support the proposed decision on the understanding that the cereal component would not be excluded from the comprehensive review of the compensatory financing facility. The proposed decision should therefore be amended, so as to allow for a further review of the cereal decision, if needed.

Mr. El Kogali made the following statement:

When the Executive Board reviewed the decision on the compensatory financing of fluctuations in the cost of cereal imports in 1985, many Directors, including this chair, voiced reservations regarding the operation of the facility and urged that ways to improve it be considered even before the present review. The record of that discussion indicates that the Chairman also agreed that the Board should reconsider some of the requirements that had hampered increased use of the facility. Moreover, on that occasion a number of Directors felt that use of the facility had been limited mainly because of the restrictive interpretation of the provisions of the decision, the integration of the cereal decision with the compensatory financing facility, and the high level of conditionality. It appears that the staff has made no attempt to set forth specific proposals to improve the procedures under this decision, which could have been considered by the Board today and which would have been in line with what many of us had called upon the staff to do in this review of the cereal facility.

This chair still feels that the low utilization of the cereal facility, even in the last two years, has resulted mainly from the restrictive application of the requirements under the decision, particularly for African countries experiencing drought conditions. More specifically, the staff took the position that the food shortages facing Africa were not of a temporary nature and hence could not be addressed in the context of the cereal decision. By contrast, the apparent improvement in the domestic food situation in a number of these countries as reported in the staff paper shows that the shortfalls were temporary in nature and that the position taken by the staff was unduly restrictive.

The improvement in the food supply as well as the increase in stocks on a worldwide basis has not been uniform across member countries. I agree that a number of countries, including some in Africa, have experienced an improved supply situation mainly because of the return of favorable weather conditions. Moreover, the facility could still prove useful for some member countries facing temporary food shortages. I have no problem with maintaining a facility that focuses on one particular source of balance of payments disequilibrium. In doing so, the Fund is responding to a problem, which is significant, though perennial, for some countries. By extending this form of assistance, the Fund would help these countries, particularly the low-income ones, to insulate themselves against exogenous shocks and to maintain their development efforts.

In conclusion, I wish to re-emphasize the need to address the factors that have hampered an increased use of the facility with a view to improving its operation. The forthcoming review

of the compensatory financing facility should provide an excellent opportunity to do so, and I would urge the staff to give these issues due attention. Finally, I support the proposed decision.

Mr. Fernando made the following statement:

The staff paper gives the impression that the cereal facility has met the needs for which it was designed. But it also points out that although the favorable world food situation is expected to continue for the next two years, individual members may still require assistance.

Many factors have contributed to the low usage of this facility, but one factor mentioned in the staff paper particularly calls for comment: namely, that some members may have hesitated to use the facility because of the potential reduction of the calculated net shortfall for subsequent compensatory financing requests under the three-year rule governing the use of the cereal facility. If there was a good basis for that rule, then it should be possible to assess its impact as a factor on use of the facility with a view to ensuring that the countries affected by serious food shortages are able to meet their food import requirements. I also wonder whether, in view of the humanitarian element involved in such a situation, the facility could not be highly concessional and unconditional. I would appreciate staff comment on these points.

Even though only two purchases were made under the decision in 1985-86, it is striking that the purchase by one country--Morocco--was constrained "by the joint limit on outstanding purchases under the cereal decision of 105 percent of quota." This suggests that under certain circumstances, the maximum access limits should not be strictly applied, particularly where the member has shown the willingness and commitment to take measures to bring about external adjustment. As the case of Morocco shows, the cereal component of the compensable amount was high owing to a sharp fall in production as well as higher cereal prices. As a large number of countries, especially in Asia and Africa, are still vulnerable to these exogenous shocks, there are compelling reasons for the Fund to show continued and increasing awareness of this problem. This chair urges that greater flexibility should be exercised in the administration of the facility and that it should be made quick-disbursing, less conditional, and needs-based. Finally, we support the staff appraisal and the proposed decision.

Mr. Kyriazidis made the following statement:

Recent improvements in world food security have limited members' use of the cereal facility established in May 1981. Despite these developments, however, we believe that the facility appropriately serves the purposes for which it was created--to provide financial support to countries, with a good record of cooperation with the Fund, that are experiencing food shortages due to circumstances beyond their control. Therefore, we have no difficulty in supporting the proposed decision.

Having said this, we want to make three brief points.

First, we believe that the current access limits under the facility are appropriate. The present projections on world food supply do not show any danger of serious shortages. Moreover, the individual access limits of 83 percent of quota on the cereal component as well as on the export component, and the joint limit of 105 percent were constraining only in a few cases and for limited amounts.

Second, the present three-year provision, which obliges a country making a purchase under the cereal decision to make any further compensatory financing requests in the next three years under the cereal option, is somewhat inconsistent with the standard drawing procedure under the compensatory financing facility. Under this provision, an export shortfall that occurs within a three-year period can be partly offset by lower than average cereal imports, as happened in the case of Malawi. Consequently, the compensation a country is entitled to receive for an export shortfall under the compensatory financing facility is reduced. That provision also reduces the incentives for countries to utilize the facility when increases in the cost of cereal imports occur, because of the potential reduction in future purchases with respect to export shortfalls. In view of the character of the facility, which is designed to support vital cereal imports for the neediest countries, we believe that this provision should be reviewed, and, in that regard, we concur with Mr. Posthumus and Mrs. Ploix.

Third, while the computation of the export shortfall utilizes a five-year geometric average centered on the shortfall year, the calculation of an increase in import costs over the same time period utilizes simple arithmetic averages. For Morocco, this method of calculation resulted in a reduction of the compensable amount. We therefore wonder if there is any technical reason for this method of calculating the excess in cereal import costs.

Mr. Lundstrom remarked that his chair was fundamentally skeptical of Fund facilities earmarked for specific items in the balance of payments. Therefore, he reiterated its view that measures for supporting cereal imports should be taken in other forums, especially since the countries in need of such support should receive it primarily in the form of food aid.

It was remarkable that the staff paper did not discuss alternatives to the Fund's cereal facility, even though a number of Directors had been skeptical about the facility when it was reviewed in May 1985, Mr. Lundstrom added. Also, as Mr. Posthumus had noted, the proposal to abolish the three-year rule was not discussed. He would like to see alternatives to the present cereal decision and requested that such alternatives be presented and discussed in the next review of the decision.

Against the background of increasing world cereal production, falling prices, and decreasing cereal imports of developing countries as a group, as well as an expected favorable market situation during the coming years, the need for a special cereal option within the compensatory financing facility might be questioned, Mr. Lundstrom observed. As a matter of principle, the scarce resources of the Fund should be directed toward general balance of payments support. Moreover, the fact that use of the cereal decision had been insignificant reinforced his doubts as to the need for the facility.

Mr. Al-Assaf remarked that he agreed with the staff that the cereal decision continued to serve the purpose for which it was intended and that there was no need to modify the provisions of the decision at present. He therefore supported the proposed decision.

Mr. Foot remarked that his authorities were broadly content with the operation of the facility in the last couple of years. They tended to feel that one major obstacle to its efficient operation was data limitations, but they did not see any easy way of reducing those limitations. In addition, he had considerable sympathy with the view expressed by Mr. McCormack and Mr. Lundstrom on the appropriateness of compensating a particular part of the balance of payments. For the time being, however, he could go along with the proposed decision. The forthcoming comprehensive review of the compensatory financing facility would provide an opportunity to return to some of the questions that had been raised at the present meeting; the wording of the decision as it stood allowed for that possibility and therefore did not need to be changed.

Ms. Lundsager commented that the review of the 1981 decision relating to compensation for fluctuations in the cost of cereal imports provided a useful complement to the Board's ongoing analysis of the compensatory financing facility in general. She shared the reservations expressed by some previous speakers about a facility geared to only one item in the balance of payments. Furthermore, several developments in world cereal markets had already influenced the utilization of the facility and would probably limit its use in the near future. Specifically, the world food

security situation was much improved over that prevailing a few years previously; many countries producing food surpluses continued to provide high levels of food aid; and productivity gains in food-importing countries had been substantial and had reduced overall import needs.

As a result of those developments, purchases under the facility had been limited, and none had been made in the past 16 months, Ms. Lundsager noted. That led to the question: was there a need for the commodity-specific facility?

She recognized that individual countries might experience adverse weather conditions that could lead to a need for commercially purchased food imports, and in fact all ten requests for financing a cereal import excess had been attributed to such developments, which were clearly beyond the control of the members, Ms. Lundsager remarked. For that reason, she could agree to the proposed decision on the condition that any general modifications of the decision that might be required based on further analysis of compensatory financing would be incorporated in the compensatory financing review.

In that regard, she would appreciate staff clarification of the reference made in the staff appraisal to the ongoing compensatory financing review, Ms. Lundsager added. Specifically, what would be the effect of the decision taken at the present meeting on the forthcoming review? If the Board were to change the compensatory financing decision, would the cereals decision be adjusted to ensure consistency between the decisions? And, would another review of the cereal decision have to be conducted?

Mr. Sliper remarked that he could go along with the proposed decision, but that he had some reservations about the cereal facility. He questioned the need for a separate facility to deal with only one aspect of a balance of payments problem. Moreover, he considered that the situations giving rise to requests for use of the facility were more appropriately met through aid rather than through an adjustment program.

In sum, he was not enthusiastic about the scheme but would not press for a termination of the cereal facility at present, Mr. Sliper added. A more fundamental review of the scheme should be undertaken, including the need for a separate facility. That review could take place at the time of the forthcoming comprehensive review of the compensatory financing facility or at the time of the next review of the cereal decision, scheduled for 1989.

Mr. Salehkhou made the following statement:

> I share the staff's view that the cereal decision should continue to serve its intended purpose in providing balance of payments assistance to those members facing increases in the cost of their cereal imports. The decision, although scarcely used, has made a favorable contribution to mitigating the adverse impact of temporary food shortages on the economy of members who

were able to meet the requirements for purchases under the decision. Since the approval of the decision, two members of my constituency have made use of the facility and have found it helpful.

Recourse to the facility has continued to decline in recent years. In fact, since the last review of the decision in May 1985, only two purchases have been made, and none has been made over the past 16 months. I welcome the relative improvement in the world food situation, which contributed significantly to the decline in developing countries' cereal imports and to further reducing to nine the number of countries experiencing abnormal food shortages by end-1986.

The world cereal production outlook appears promising. The projections for the next two years suggest that despite the anticipated stagnation of already low prices, no fundamental changes are expected in cereal production, taking into account the impact of factors such as the producer-support mechanisms in OECD countries and the continuation of productivity gains in cereal-importing countries.

Notwithstanding these welcome signs, the cereal decision should continue to accommodate those countries whose economies are adversely affected by poor weather or natural disasters and require balance of payments assistance to alleviate the burden resulting from increased cereal imports. Moreover, experience suggests that the declining trend of purchases under the cereal decision is not fully explained by improved world food security and the further availability of food aid. I regret to reiterate a concern expressed on a similar occasion: some of the provisions of the decision, including the requirements of the compensatory financing facility, the integrated scheme, the three-year rule, and conditionality, have continued to curtail potential users' access to the facility. These obstacles are well-described in the staff report; the staff, however, fails to recommend--in the light of the Board's last review--the modifications necessary to strengthen the usefulness of this important decision. In this connection, I wish to join Mr. Posthumus, Mrs. Ploix, and others in requesting modification of the proposed decision to ensure its review in the context of the forthcoming compensatory financing review. In view of the generally modest quotas of potential users of the cereal option and the low impact of purchases under the cereal decision on the Fund's liquidity, I believe that steps should be taken to reassess the provisions of the decision to make them more realistic so as to enhance the facility's usefulness to members that have to cope with temporary excesses in cereal import costs.

Mr. Goos remarked that he shared the concerns and reservations that had been expressed about the appropriateness of having a special facility to address particular balance of payments problems. Nevertheless, he had no problems with the staff appraisal and recommendations and could therefore go along with the proposed decision.

The Deputy Director of the Research Department remarked that the staff paper had not dealt with possible modifications of the cereal decision for two reasons. First, the present review was, in a sense, midterm in nature; in 1985 Directors had decided to retain the decision unchanged for a further four-year period, and for that reason modifications in the operation of the cereal facility might more appropriately be considered when the decision was due to expire in 1989. A second reason was the forthcoming review of the compensatory financing facility, of which the cereal facility was a component. Any modification of the cereal decision would have to be examined in that broader context; for example, Directors would be reviewing the compensatory financing facility's primary objective of helping to stabilize a member's balance of payments, which provided the rationale for the cereal option and its three-year rule, as well as other features of the cereal facility that had been addressed by Directors. The staff therefore had considered that it would be appropriate to discuss the aims of the integrated facilities in the context of the comprehensive review. That consideration was reflected in the statement to which Mr. Mawakani had referred, namely, that "certain aspects of the decision may also need to be reviewed in the context of the ongoing review of the compensatory financing facility." The staff paper being prepared in connection with the general review would deal with the issues raised by Directors concerning, among others, the three-year rule, the method of calculating the net shortfall, and conditionality.

Of course, it would have been more convenient if the review of the cereal decision and the review of compensatory financing could have been brought to the Board at the same time; but the cereal decision called for review no later than May 13, 1987, the Deputy Director of the Research Department concluded. He considered that the proposed decision did not need to be amended to take into account the forthcoming review of the compensatory financing facility, but could be modified later, if necessary, in the light of that review.

The staff representative from the Research Department recalled that when the cereal facility was reviewed in May 1985, specific proposals had been made for modifying the rules governing the use of the facility, and at the same time, several Directors had called for a general review of the compensatory financing facility. That comprehensive review was at present under way and had, in a sense, overtaken a separate examination of the recommendations made with respect to the cereal facility. Since the cereal facility was a component of the compensatory financing facility, the staff had considered that the comprehensive review should be completed first; thereafter, the implications of that review for the cereal facility should be assessed. Important aspects of the comprehensive review--for example, the formula for calculating entitlements--would have a direct impact on the rules governing the cereal facility.

Whether an arithmetic or a geometric average provided the best estimate of the trend in cereal imports or of the trend in exports had been extensively examined by the staff in 1980 and 1981, the staff representative remarked. At that time, it was decided that the use of an arithmetic average for estimating the trend in cereal import costs would, over time, provide a better balance between excesses and shortfalls. For the same reason, the trend in merchandise export earnings had been estimated using a geometric average.

The staff paper being prepared for the review of the compensatory financing facility would examine the issues and proposals raised by Directors at the present meeting in the context of that review, the staff representative from the Research Department added.

The staff representative from the Legal Department commented that the proposed decision had been drafted in view of the forthcoming review of the compensatory financing facility. The decision provided for a review of the cereal facility before the facility expired on May 30, 1989, by which time the Board must consider whether the facility should be continued or not. Since the cereal decision was integrated with the compensatory financing facility, following the comprehensive review of that facility, it would be necessary to determine what aspects, if any, of the cereal decision would need to be re-examined. For instance, the test of cooperation and access limits, which applied to both facilities, would be considered in the comprehensive review; any changes in those areas would obviously affect the cereal facility. In the staff's view, the decision as drafted should accommodate the wishes of the Board, and, at the same time, would not disallow any subsequent changes in the light of the forthcoming compensatory financing review.

In response to a procedural question on the timing of the review of the cereal decision, the staff representative from the Legal Department remarked that the deadline for the review could have been extended by a decision of the Board so that the review of the cereal decision could have come to the Board for consideration together with the review of the compensatory financing facility. However, the decision on the scheduling of the two reviews had been made several months previously.

The Executive Board then took the following decision:

> The Executive Board has reviewed Decision No. 6860-(81/81), adopted May 13, 1981, as amended, on Compensatory Financing of Fluctuations in the Cost of Cereal Imports, as required by paragraph 17 of that decision. The next review of the decision shall be conducted not later than May 13, 1989.

Decision No. 8685-(87/73), adopted
May 13, 1987

DECISIONS TAKEN SINCE PREVIOUS BOARD MEETING

The following decisions were adopted by the Executive Board without meeting in the period between EBM/87/72 (5/8/87) and EBM/87/73 (5/13/87).

4. ASSISTANT TO EXECUTIVE DIRECTOR

The Executive Board approves the appointment of an Assistant to Executive Director as set forth in EBAP/87/103 (5/8/87).

Adopted May 12, 1987

5. APPROVAL OF MINUTES

a. The minutes of Executive Board Meetings 86/141 and 86/142 are approved. (EBD/87/123, 5/4/87)

Adopted May 8, 1987

b. The minutes of Executive Board Meetings 86/143 through 86/145 are approved. (EBD/87/125, 5/5/87)

Adopted May 11, 1987

6. EXECUTIVE BOARD TRAVEL

Travel by Executive Directors as set forth in EBAP/87/102 (5/7/87), EBAP/87/102, Supplement 1 (5/11/87), and EBAP/87/104 (5/8/87) is approved.

7. TRAVEL BY MANAGING DIRECTOR

Travel by the Managing Director as set forth in EBAP/87/105 (5/8/87) is approved.

APPROVED: November 25, 1987

LEO VAN HOUTVEN
Secretary