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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 91/109

10:00 a.m., August 23, 1991

R. D. Erb, Acting Chairman

Executive Directors	Alternate Executive Directors
	B. R. Fuleihan, Temporary
	A. Raza, Temporary
	D. Powell, Temporary
	Deng H., Temporary
	Q. M. Krosby,
	S. B. Creane, Temporary
	V. Kural, Temporary
	N. A. Espenilla, Jr., Temporary
	B. Bossone, Temporary
	A. F. Mohammed
	I. Fridriksson
	B. Esdar
	C. D. Cuong, Temporary
	P. L. Rubianes, Temporary
	J.-L. Menda, Temporary
	H. Dognin, Temporary
A. Mirakhor	
	L. J. Mwananshiku
	P. Wright
	R. Thorne, Temporary
	Z. Trbojevic
C. V. Santos	
	R. Marino
	A. G. Zoccali
	K. Ishikura, Temporary
	S. Shimizu, Temporary

L. Van Houtven, Secretary and Counsellor
K. S. Friedman, Assistant

<u>Also Present</u>
IBRD: R. Blake, Africa Regional Office. African Department: M. Touré, Counsellor and Director; E. L. Bornemann, Deputy Director; E. A. Calamitsis, Deputy Director; S. E. Cronquist, R. Franco, M. Kabedi-Malangu, A. C. Kouwenaar, S. M. Nsouli, A. B. Petersen, G. Sensenbrenner, M. G. Spencer. Exchange and Trade Relations Department: T. Leddy, Deputy Director; S. Kanesa-Thasan. IMF Institute: R. E. Daumont. Legal Department: H. Elizalde. Advisors to Executive Directors: J. M. Abbott, L. E. Breuer, A. R. Ismael, S. von Stenglin. Assistants to Executive Directors: T. Berrihun, Duan J., E. H. Pedersen, M. A. Hammoudi, O. A. Himani, J. Jamnik, P. Kapetanovic, S. Rouai, J. W. van der Kaaij.

1. REPORT BY MANAGING DIRECTOR

At an informal meeting held on August 21, 1991, the Managing Director said that he had recently spent several days in Algeria at the request of the Prime Minister, who had wished to touch base with management after the turbulent period that had begun in the country just a day after the Executive Board had adopted a stand-by arrangement for Algeria. The Prime Minister had wished to make it absolutely clear to the Fund that, despite the extremely difficult political situation, his Government was fully committed to the thrust of the current adjustment program. The Prime Minister had stressed that, although the program had been negotiated with his predecessor, the current Government remained committed to the program. Immediately after his visit, a staff mission had started work in Algeria on the first review under the arrangement. Of course, there were some difficulties in one or two sectors, but the commitment of the country to continue with the reforms was clear, and the discussions between the staff and the authorities had been constructive.

He had then spent a day in Rome, where Prime Minister Andreotti had conveyed his views on relations with the U.S.S.R. after the London Summit that had taken place two weeks earlier, the Managing Director continued. The Prime Minister had wished to know more about the Fund's plans concerning Special Association and had expressed his confidence in the Fund's ability to handle the matter with care and innovation.

He had also spent two days with the authorities of Mauritius, the Managing Director said. He had been particularly interested to witness at first hand the extraordinary economic performance of that small island country. At present, the authorities faced problems that had arisen from the success of their adjustment efforts: unemployment had been eliminated over the previous five years, and the country faced a serious lack of labor as well as overheating in the economy. The authorities were making a substantial effort to address the situation, and the Prime Minister had told him that he wished to fight inflation seriously but first had to complete the national elections, which were to take place in early September 1991. Presumably the authorities would soon have a program aimed at cooling off the economy. The performance of the enterprises established in the free-processing zone had been remarkable. In that sector, the key problem was the scarcity of manpower.

He had then visited Uganda at the time of the celebration of the twenty-fifth anniversary of the founding of the Bank of Uganda, the Managing Director commented. He had been struck by the country's richness of natural resources but also by the destruction resulting from 15 years of political turmoil and mismanagement. One of the key problems facing the country was the need to deal with that destruction and the more recent AIDS epidemic. He had met with the authorities and President Museveni, who in a public statement had said that, while he had long thought the Fund and the World

Bank had not been serving the developing countries well, he now felt that member countries in difficulties should approach those institutions early rather than late in the development of the problems facing their economies.

One of the issues that he had discussed with the Ugandan authorities was the timing of the exchange and trade liberalization, about which the Government still had some reservations on the administrative side, while manufacturers were very hesitant to see changes made, the Managing Director went on. Another problem was the need for an equitable resolution of the issue of the disposition of property of Asian residents who had been abruptly expelled from the country in 1972. For some time, the Fund and World Bank staff and management had advised the authorities that the most important symbol of their commitment to opening the economy would be a resolution of the Asian properties issue and an invitation to the property owners to return to Uganda to contribute to the success of the new program. He was pleased that the authorities seemed to recognize the wisdom of that advice; two days previously he had learned that an agreement with the Bank on the approach to be taken in that respect had been agreed.

He had also met in Uganda with donor representatives, the Managing Director said. He had explained to them the thrust of the program for a third annual arrangement under the ESAF. He had been impressed by the fact that the donor community shared the Fund's appreciation for what was being done in Uganda and for the authorities' genuine commitment to the adjustment program. He had also reviewed with the administrator in charge the Program to Alleviate Poverty and Social Costs of Adjustment (PAPSCA); that program was being managed by only a few officials, apparently to the full satisfaction of the World Bank.

In Tanzania, he had had contacts with the authorities, the President of the country, and former President Nyerere, who was now head of the South Commission, the Managing Director remarked. The meeting with the former President had been positive and helpful; although Mr. Nyerere had often questioned the Fund's basic philosophy in the past, it was evident that currently he held a more favorable opinion of the Fund, and that, despite some remaining differences in a few areas, he was satisfied that the Bretton Woods institutions were acting in the most efficient way possible to improve living conditions in Africa.

He had discussed with the Tanzanian authorities the exchange and trade regime, the Fund's view that the authorities' timetable for parastatal reforms was too slow, and the social objectives of the authorities' adjustment program, the Managing Director recalled. He had also discussed with the authorities their financial sector reform, which included important measures, particularly the full opening of the financial sector to foreign capital--an extraordinary development in the context of Tanzania's history. He had met with Tanzania's donor representatives to explain to them the goals of the adjustment effort and to impress upon them the need for timely disbursement of contributions, which were an essential ingredient for the implementation of the exchange market reform. Finally, he had had interesting meetings with members of the academic community; such meetings were especially interesting for him in countries such as Tanzania, where there had long been conceptual debates about structural adjustment programs.

The Executive Directors took note of the Managing Director's statement.

2. EXECUTIVE DIRECTORS

At an informal meeting held on August 21, 1991, the Managing Director bade farewell to Mr. Yamazaki upon the conclusion of his service as Executive Director and welcomed Mrs. Krosby as Alternate Executive Director for the United States.

3. TOGO - 1991 ARTICLE IV CONSULTATION

The Executive Directors considered the staff report for the 1991 Article IV consultation with Togo (SM/91/140, 7/12/91). They also had before them a background paper on recent economic developments in Togo (SM/91/151, 8/2/91).

The staff representative from the African Department noted that, according to recently received data, government revenue in 1991 was likely to fall significantly short of the level anticipated in the staff report. In the first half of 1991, tax revenue had declined by CFAF 7 billion compared with the same period in 1990. In the best of circumstances, only a partial reversal could be expected in the second half of 1991.

Mr. Santos made the following statement:

> The Togolese economy was beset by a number of unfavorable developments in 1990: drought conditions prevailed for most of the year, production and export of phosphates dropped sharply, transit trade levelled off, and the oil import bill was much higher than projected. As a result, real GDP stagnated, and the internal and external imbalances were larger than projected. Inflation, however, was kept under control, and significant progress was made in the implementation of structural reforms.
>
> Although the Government pursued prudent macroeconomic policies, these developments had a negative impact on government finances, where tax revenue declined by 1.6 percent from the 1989 level. Difficulties in the administration of the tax system related to the decision to make public enterprises subject to taxes also contributed to this decline. On the expenditure side,

despite overruns in outlays mainly by autonomous agencies, the level of expenditure was kept at about the level programmed, owing to lower investment spending. As a result, the overall deficit, including grants, though higher than projected under the program, declined to 2.9 percent of GDP in 1990 compared with 3.8 percent in 1989. In the external sector, the current account position widened to 5.6 percent of GDP in 1990, from 5.2 percent in 1989. Money and credit policies remained tight and were in line with the program targets.

With weather conditions returning to normal and production and exports of phosphates recovering in 1991, indications are that there will be an improvement in economic and financial performance. However, the social and political climate in Togo is undergoing major changes, and a National Conference has been convened to decide on the political future of the country. While these developments are constraining the Togolese authorities' efforts in the execution of the adjustment program, they have nevertheless endeavored to implement measures along the lines of the medium-term program and to follow prudent macroeconomic policies.

In the fiscal sector, the consolidated fiscal deficit, including grants, is projected to decline to 2.7 percent of GDP in 1991, despite the losses in indirect tax collections owing to the social disturbances that occurred earlier in the year and the increase in salaries and benefits that were granted to civil servants and students in response to their claims, as well as the need to ease social tension. Partly to counter these increases, the authorities have identified current expenditure cuts of CFAF 6.1 billion, which include a substantial cut in defense spending.

The Government is also pursuing its program of structural reforms. As regards public administration, the diagnostic studies of three ministries have been completed, and preliminary reports were presented to the authorities last April, in accordance with the plan agreed with the World Bank. Action plans are being prepared and should be ready by the end of the year. The authorities have also proceeded with the second phase of the reform of the public enterprises, as programmed.

In the monetary sector, the BCEAO has strengthened monetary policy and credit targets have been respected. The reform of the Togolese banking system is proceeding as planned, and the measures taken with respect to the Togolese Development Bank have strengthened its financial position. As regards the Caisse Nationale de Credit Agricole (CNCA), the liquidation process started in June

1990 has continued, with all its branches now closed. It is expected that by September the CNCA will have reimbursed all private sector deposits. Similarly, the restructuring of the Libyan-Togolese Bank is proceeding as planned.

In the external sector, the recovery of the phosphates sector and the better weather conditions are expected to lead to an increase of about 8 percent in export earnings, while imports, benefitting from a lower oil import bill, are projected to increase by about 5 percent. These developments should help the current account deficit, including grants, to fall to about 5.6 percent of GDP in 1991.

As I noted, the uncertainties related to the social and political climate have affected the adjustment efforts of the Togolese authorities. However, they have continued to implement structural reforms, and they remain committed to the adjustment process, which they view as the only way to put the economy on a sustainable growth path and thus address the problems facing the country. It is understood that the strategy for the next phase of adjustment will be dependent on the consensus that is expected to emerge from the National Conference that is currently taking place in Lomé.

Mr. Shimizu made the following statement:

In the 1980s, Togo succeeded in improving its economic conditions; the economy began to grow healthily, fiscal and external deficits were reduced, and inflation was brought down.

Since 1990, however, Togo seems to have been losing its momentum. Although consumer prices were kept low, the external gap widened, the fiscal target was not met, and GDP hardly grew. Therefore, it is important for the Togolese economy to regain its momentum and good economic performance through the maintenance of appropriate adjustment policies.

As this chair noted during the previous Article IV consultation with Togo, for that country, as for other franc zone countries, prudent fiscal policy is at the heart of macroeconomic adjustment. It is regrettable that the authorities failed to generate enough revenue to meet expenditures and that revenue fell short of the program target.

In fact, not only tax revenue but also nontax revenue declined in real terms during the late 1980s. The ratio of revenue to GDP declined by 6 percentage points since 1986. This declining trend illustrates the fragility of the fiscal position. In light of the current fiscal deficit, 6 percent of GDP without grants in 1990, it is imperative to prevent a further decline in revenue, even though the tax burden is relatively large. I am interested to learn whether the staff discussed with the authorities any measures to prevent or reverse this declining trend of revenue.

It is unfortunate that the current political situation is putting pressure on the authorities to increase expenditure. The staff reports that if all the demands of interest groups were met, the deficit would increase to 9.2 percent of GDP. Clearly, such concessions and the deficits are not tolerable. I urge the authorities to keep expenditure under control.

On the monetary front, it is commendable that the rate of inflation has been kept quite low thanks to the high real interest rates. We welcome the continued tight monetary policy. At the same time, however, I am afraid that the high interest rates--about 8 percent in real terms in 1990--may have been depressing economic activity. We, therefore, agree with the staff's recommendation to reduce the tax on interest payments.

This being said, while a reduction in interest rates will encourage private activity, we have to consider its effects on tax revenue. I would appreciate it if the staff could give us an estimate of the reduction in tax revenue.

Togo's external position is highly dependent on prices and the volume of a few traded commodities, as is illustrated by the medium-term outlook. Therefore, it is important for the authorities to maintain external competitiveness. The authorities managed to keep real effective exchange rates stable during the late 1980s, although the nominal exchange rate has appreciated steadily. In this regard, tight fiscal and monetary policies are particularly important under the franc zone regime in order to preserve competitiveness.

In light of the current difficult political situation, it is understandable that the authorities feel they have to compromise to some extent. It is encouraging to see in Mr. Santos's statement that the authorities are committed to the adjustment program, because the best way to improve the welfare of the Togolese people in the long run is to follow prudent economic policies in cooperation with the Fund.

Mrs. Krosby made the following statement:

Togo is going through an important political transition at an economically awkward time. The zeal for sustaining economic adjustment seems to be eroding just at a time when a little reinforcement is needed. When new political arrangements are set in place the authorities will need to turn their attention promptly to consolidating the gains that have been made over the last decade and avoiding a relapse into a cycle of fiscal and payments complications.

The staff report conveys an impression of emerging weakness on several fronts. After progressive improvements during the 1980s, growth stagnated last year, the current account deteriorated, and the fiscal position weakened. While these trends seem to have been initiated by factors beyond the authorities' control, indecisive policy responses have allowed problems to accumulate.

On the fiscal side, revenue shortfalls were intended to be offset by expenditure tightening, but this was not forthcoming. Total expenditure was above program levels, with investment spending bearing the brunt of ineffective attempts to achieve a fiscal saving. This is particularly disappointing since, at the time of last year's midterm review under the ESAF arrangement, the Board authorized waivers from the financial performance criteria to cover earlier fiscal slippage. Financing the fiscal shortfall through a renewed buildup of domestic arrears also runs contrary to one of the ESAF program conditions.

Developments this year seem to have moved the policy stance further away from the desired path. Tax revenues are down, and the options proposed for making up revenue shortfalls seem unlikely to be met. Expenditure plans are under considerable pressure. The staff indicates that proposed containment measures may be of doubtful feasibility, and resistance to further expenditure pressures may not be tenable.

At this stage, it is the trends more than the magnitudes that are disturbing. However, continued delays in addressing these problems could unravel a great deal of hard-won adjustment. This would be an unhappy inheritance to bequeath a new Government with unseasoned political institutions. We would urge the authorities to lay the groundwork now for ensuring fiscal discipline.

The staff review indicates that long-term adjustment in the public sector has not been complemented by improved vitality in the private sector. We would be interested in some further discussion by staff on this aspect of Togolese development. What actions are under consideration that might foster a more dynamic private sector? From the staff review, we have the impression that regulation and public sector intrusion still dull incentives and frustrate initiative.

The brief comments on the enterprise zone, for example, indicate that complicated permissions limit the number of firms involved. A requirement for enterprises to contribute to a national investment fund sounds like a scheme for diverting private corporate cash flow to finance public enterprise investment. Slow pay by the public sector has the same effect. The tax on interest payments is another burden on the private cost of capital.

While monetary policy is to be commended for its excellent success in controlling inflation, bank credit to the private sector suffers because of continuing public sector requirements. The staff indicates that credit targets for this year may be a little tight even though interest rates are relatively high. Perhaps the staff could elaborate on this since unnecessary tightness would seem to fall most heavily on the private sector.

The medium-term scenarios presented by the staff merely reinforce the impression that sustained careful fiscal management will be required to establish long-term external viability. Emerging wage/cost pressures in particular could place strains on external viability, given the constraints imposed by the exchange regime.

Togo has a had a long and productive relationship with the Fund. We would hope that when domestic political arrangements have been settled the authorities would move quickly to complete arrangements for a third-year arrangement under the ESAF.

Mr. Thorne made the following statement:

There has been a depressing deterioration in Togo's economic performance over the last year or two. The weak position in which it finds itself contrasts starkly with the favorable outlook that was seen in the Board discussions in June of last year. Some weakening was predicted even then, as the good weather conditions and high phosphate prices then were always likely to reverse themselves over time. Further falls in coffee and cocoa prices and last year's sharp rise in oil price also contributed to the more than doubling of the trade deficit and the stagnation of GDP.

But exogenous factors have certainly not been the only factors in Togo's poor performance recently. Such factors were already largely known at last November's midterm review, but 1990 growth still turned out to be 2 percent below the projected figure then, while the budget deficit is turning out significantly higher, for reasons which are not fully explained by the slow economy. Instead, it is mainly the authorities' failure to adopt more resolute policies. Unless the Interim Government is able to agree and implement a tough fiscal program, the authorities are in danger of losing altogether the hard-won budget control that has been gained in recent years. An appropriately tough program would also be necessary before the Board can consider a third-year arrangement under the ESAF.

I would say in this connection that I entirely agree with the Managing Director's remarks in his recent speech in Uganda that new governments need to establish as quickly as possible the basic framework for a viable economic system, and it is dangerous to countries' health to talk of a less demanding standard of performance in such cases. I, therefore, also welcome the statement by Mr. Santos that the Togolese authorities remain committed to the adjustment process, and I hope that this will continue to be true of the consensus that finally emerges in that country.

Perhaps the most worrying feature of Togo's fiscal position is the projected growth in the civil service wage bill resulting from the end of the freeze on promotions. In 1990, when the freeze was still in place, the wage bill had already risen back above 40 percent of total current expenditure. Now, combined with the 5 percent salary rise and popular pressure for further price rises, there is a risk of a sharp fiscal deterioration, and with it a substantial loss of competitiveness. Togo's membership of the CFA franc zone makes wage discipline absolutely vital. I note in this connection that the staff papers give figures for minimum and maximum wages for various professions, but without any information on the distribution between these two bounds. Is the staff able to provide any information on trends in average wages as well as in the extremes?

The other classes of government expenditure that showed particularly strong growth in 1990 do not have very propitious names. "Extrabudgetary expenditure" and "other" seem to be the categories in question. Is the staff able to say anymore about these items and the likelihood of their growth slowing?

I would encourage the authorities to follow through on their intention to reduce defense spending, but I have some concerns about spending on education and health, which have shown only a small increase, despite the original focus placed on them in Togo's arrangement under the ESAF. Investment has also borne the brunt of the authorities' efforts to curtail the deficit. Clearly the quality as well as the quantity of investment is important, but my impression is that the split between capital and current spending is unbalanced.

On the revenue side, I acknowledge the current difficulties over raising taxes, and I am not surprised by the staff's news that tax revenues in 1991 are likely to be less than the paper originally assumed. This makes it all the more imperative that the broadening of the tax base be tackled as a matter of urgency. Could the staff comment on how much effect such a broadening is likely to have?

It is encouraging that the momentum of structural reform seems broadly to have been maintained, and I would urge the authorities to ensure that this continues, and that individual elements of the timetable for reform do not slip further. I was concerned to see, for instance, that concrete measures to reform the labor market have now been put off to end 1991.

The further deterioration in the estimated trade deficit for 1990 and 1991 compared with the midterm review figures is also disappointing, particularly as the 1990 terms of trade did not deteriorate quite as much as expected, and oil prices have fallen back. I note, however, that an even sharper rise than before is projected in cotton and phosphate export earnings for the medium term. Is there not a risk that the doubling of cotton earnings and rise of two thirds of phosphate earnings between 1990 and 1995 is overoptimistic? Perhaps the staff could comment.

Even with this estimated medium-term improvement, the projected external financing gap for 1991 through to 1995 is a source of concern, especially as it assumes that the Paris Club will grant the requested extension of its end-August deadline for a third annual arrangement under the ESAF, but I wonder whether the estimated gap of CFAF 8.2 billion for 1991 may nevertheless be overstated, particularly as over three quarters is accounted for by the assumed rise in net foreign assets for that year. This follows four years of reserves increases, and I wonder whether the staff could explain why such a large further increase is assumed. On the assumption that that CFAF 8 billion financing gap does exist, how do they propose that it can be closed? This question will be particularly important if Togo progresses to a third-year arrangement under the ESAF.

The main area of the economy where Togo has consistently met its performance criteria, as others have noted, is monetary policy. Net domestic asset growth has been consistently below target, and banking system reform is proceeding on schedule. If anything, there seems to have been overperformance in this area. The level of credit to the private sector, as Mrs. Krosby noted, actually fell in 1989, despite a programmed rise, and credit and money supply growth were again below target in 1990, both in nominal and in real terms. Real interest rates remain very high. All this suggests a severe squeeze on domestic demand feeding back to lower tax revenue, and a better balance between fiscal and monetary adjustment is needed. However, the authorities should avoid any temptation to direct credit, and I hope that this is not the implication of strengthening institutional support for small and medium enterprises.

In conclusion, I encourage the authorities to pursue a vigorous and immediate program of fiscal adjustment to retain control of the budget deficit and cost pressures. Only with such a program can domestic savings be bolstered, arrears avoided, and a viable third-year arrangement under the ESAF be envisaged.

In closing, I would also note that despite the continuing absence of restrictions on external payments and transfers, Togo remains an Article XIV member. I would like to repeat my chair's suggestion of a year ago that Togo accept the obligations of Article VIII status.

Mr. Menda made the following statement:

The staff is right to stress the significant progress realized by Togo during the 1980s. The strategy of fiscal adjustment, accompanied by structural reforms and the stabilizing role of the franc zone mechanism, have paid off well. The overall fiscal deficit (excluding grants) was reduced to about 6 percent of GDP, the current account deficit was brought down from 16.5 percent to 9.7 percent in 1989, and inflation was virtually eliminated. This strategy of competitive disinflation allowed an improvement in competitiveness between 1986 and 1990, when the real effective exchange depreciated by around 10 percent.

It is true, however, that economic performance was less favorable in 1990, with the emergence of some signs of adjustment fatigue, aggravated by the fact that growth has been slow to respond and that unemployment has remained high. In the meantime, a process of political change has been initiated, which, we hope, will have soon a favorable conclusion. Therefore, 1991 clearly constitutes a year of transition, and we hope that the process of adjustment and structural reform will resume rapidly, since we believe that it is the only way to put Togo back on a growth path.

The staff report is perfectly clear on the issues to be addressed by the authorities. I will therefore only make three comments.

First, after the increase in the wage bill of 10 percent granted at the beginning of the year, it will be of the utmost importance that fiscal adjustment be resumed. A continued increase in government savings is indeed essential in order to crowd in private sector activity.

During the past two years, some difficulties have emerged for fiscal revenues to reach the targeted level. We agree with the authorities that the tax burden is already heavy and that tax increases would be counterproductive. Given the considerable fiscal pressure on certain categories, especially new enterprises, which led to an increase in the activity of the informal sector, the recommended course of action seems to be a broadening of the tax base as well as further improvement in tax administration.

On the expenditure side, given recent overruns, it will be essential that current expenditure be submitted to strict controls and that domestic arrears be progressively eliminated.

As to monetary and exchange rate policy, I would like to stress the stabilizing effect of the franc zone mechanisms in the case of Togo. The strategy of competitive disinflation followed by the authorities has indeed led to an almost complete elimination of inflation and the maintenance and even improvement of external competitiveness. I would also note that, in a period of internal uncertainties, the franc zone mechanisms clearly help to maintain internal and external stability, the maintenance of an orderly exchange market, and free capital movements.

Monetary policy has remained appropriately tight, and the reform of the banking system has been proceeding well. I would, however, fully agree with the staff that, given the high level of interest rates in Togo, the authorities should reduce the tax on interest payments.

Third, looking at structural reforms and the medium-term prospects of the economy, the focus will need to be on the much-needed response from the supply side of the economy in order to resume a substantial rate of growth. To this end, two elements are of particular importance. First, although much progress has been achieved in the implementation of structural reforms, including in the area of privatization, much remains to be done. I would emphasize the need to elaborate a medium-term civil service employment strategy in order to streamline public expenditure. Preliminary reports have already been presented to the authorities on this issue, and it will be important that measures be rapidly taken. Another crucial area is the achievement of the second phase of the reform of public enterprises.

In the medium term, it appears that the prospects for growth will depend to a large extent, given the small size of the domestic market, on regional economic cooperation and coordination. The Fund will certainly have a role to play in this process. It could indeed be damaging if the policies of competitive disinflation implemented successfully in Togo and other countries were threatened by policies of competitive devaluation recommended in neighboring countries. Closer coordination of Fund-supported programs in the region should therefore play an important role.

In conclusion, we hope that Togo will emerge from the recent political changes with renewed energy in order to pursue the already successful adjustment process. I hope that the authorities will rapidly conclude a third-year arrangement under the ESAF.

The staff representative from the African Department said that, in the context of the objective of preventing a further drop in the tax revenue ratio, the staff agreed with the authorities that it would not be useful to focus on an increase in tax rates. An increase in some specific rates might be needed, but not a general increase. The authorities should concentrate on efforts to broaden the tax base, although it was difficult to quantify the likely effect of such efforts.

The staff did not expect a dramatic improvement in revenue collection in the near future; the likely magnitude was some billions of CFA francs, but not tens of billions, the staff representative commented. The measures to increase revenues would take time to be fully implemented and have a positive effect. However, the shortfall thus far in 1991 could be reversed rapidly, because it was due mainly to temporary factors--the disruptions to the economy experienced in the first half of 1991. The tax on interest rate earnings would have a fairly significant impact--perhaps CFAF 1 billion to CFAF 1 1/2 billion in revenues. That tax should therefore be seen in the context of the overall fiscal picture.

As to monetary policy, the limits referred to in the staff report were normative indications given by the BCEAO; they were not directly operational, the staff representative explained. The BCEAO was moving toward a system of allowing the markets to determine credit expansion and, in that connection, of permitting interest rates to play the key role. The staff had meant to suggest that, given the expected demand for money in the economy, there seemed to be room for additional credit expansion.

The excess current expenditure of CFAF 1.6 billion noted in the staff report was related to autonomous agencies, the staff representative said. The precise composition of materials and salaries in that category was not known. In addition, there had been expenditure of CFAF 0.9 billion relating to the takeover by the BNP of the BIO; the states had had to cover certain losses, and part of the maturities due to that institution had been bought back.

As to the country's economic prospects, the question of how to encourage the private sector was a general one of development, the staff representative remarked. Togo did indeed face the problem of having a very small domestic market, and greater regional cooperation would therefore be most helpful. Togo could undertake further liberalization, thus facilitating private investment decisions; the authorities could ensure that all the measures taken to allow free exportation of products were actually carried out. Some administrative delays could be eliminated. Hence, to enhance the country's economic prospects, a combination of measures could be implemented by Togo and other countries.

In assessing Togo's export prospects it was useful to note that although the price projections might appear to be somewhat optimistic, the staff representative remarked, they were based on the standard Fund-wide price projections for phosphates. The figure for cotton exports was more than 5 percent per year. A World Bank cotton project was currently being implemented, and the export volume projections in that area were based on the expected results. While the performance of phosphate exports in 1990 had been poor owing to a sharp drop in volumes, it appeared that Togo was bouncing back thus far in 1991, which helped to explain the increase in export projections.

The staff did not have clear indications of average wages in the private sector, the staff representative from the African Department said. The staff believed that those wages had been following very closely wages in the public sector and had thus risen fairly moderately in recent years

Mr. Mwananshiku made the following statement:

> The Togolese authorities have made considerable progress in addressing the country's structural and financial problems. Important steps have been taken in the restructuring of public enterprises and in the area of tax and tariff reform. The authorities continue to pursue a restrained monetary policy within

the framework of the West African Monetary Union. In addition, in 1988 and 1989 there was a remarkable rebound of output and economic activity; and, over the past three years, price stability has been broadly restored.

Following the overall improvement registered in 1988-89, Togo's economic and financial situation deteriorated in 1990, owing largely to circumstances beyond the authorities' control. Despite the exogenous shocks, the authorities continued to make commendable progress, particularly in the implementation of major structural reforms. Notable reform measures were also initiated in the area of public administration.

From 1991 on, strong performance in the area of fiscal policy will become critically important to generate domestic public savings and improve the weak external situation. While we recognize the successful efforts made to increase tax revenue, we note that the overall fiscal situation remains fragile. The revenue base needs to be broadened and the recurrent outlays tightly contained.

Togo appears to have had some difficulty since 1988 in steadily increasing phosphate exports, owing to environmental concerns by its major trading partners in the European Community as well as the fall in demand from Eastern Europe. In fact, in 1990 declined by almost one fourth of the level in 1989. We would welcome an explanation by the staff of how the projected increase of 14 percent in phosphate exports in 1991 is going to be realized, given the existing market access difficulties.

We share the staff's concern about the likely erosion in the competitiveness of Togo's exports if the recent increase in the government wage bill is also applied to the rest of the economy. We are encouraged to see in the staff report that the authorities, who are conscious of the resource constraints, intend to limit wage increases to the minimum.

The implementation rate of the public investment program in 1989 and 1990 was less than 80 percent, as a result of technical delays in project preparation and difficulties in putting the expected foreign financing into effect. The 1991 budget allows for a significant increase in investment expenditure and assumes a 95 percent implementation rate, which, by 1989 and 1990 standards, is a considerable improvement. What significant changes, particularly in the area of project preparation, are expected to take place in the course of 1991 and to result in such a high rate? Staff comment on this point will be appreciated.

We wish the authorities success in their difficult endeavor.

Mr. Trbojevic said that he wondered whether the staff was certain that the resources to finance the budget deficit would be obtained. In addition, as re-export earnings had reached 30 percent of overall revenues in 1990, he wondered what were the main markets in which the Togolese were buying goods and re-exporting them and what the prospects for that trade were. It was his impression, especially given Mr. Santos's statement, that the Togolese Government was firmly committed to implementing reforms.

Mr. Esdar said that he fully agreed with the staff appraisal. He was pleased that, despite the difficult situation in Togo, the authorities had stressed their determination and commitment to adhere to the medium-term adjustment program supported by an arrangement under the ESAF. However, given the weakening of the economic situation and the envisaged increase in the wage bill, he agreed with previous speakers that the authorities should be urged not to jeopardize the program achievements made thus far by deviating from the path of fiscal adjustment. A less ambitious fiscal stance would weaken the competitive position but prolong the adjustment process and make it even more difficult, thereby possibly increasing social tensions.

The external situation of Togo remained vulnerable, Mr. Esdar considered. That fact was demonstrated both by the remaining financial gaps and the sensitivity of the external fiscal position to export or oil price fluctuations. That situation underlined the need to maintain and even improve the competitive position through fiscal and monetary discipline.

With respect to the external position, he had noted from the medium-term outlook that cotton exports in nominal terms were estimated to increase by 25 percent in 1991, 15 percent in 1992, 16 percent in 1993, and even 20 percent in 1994, Mr. Esdar said. He wondered whether those projections were not excessively optimistic, as for neighboring countries like Mali, confronted with the same situation on the world market and having a similar production structure, increases of only 6 percent to 7 percent annually were expected in the same period. A more cautious approach seemed justified also by the fact that the International Cotton Advisory Committee in Washington expected for the years ahead a surplus production of cotton, which might indicate decreasing prices. Some additional reaction by the staff would be welcome; he was not fully convinced by the answers the staff had provided thus far.

He hoped that the political transition period would be completed soon, Mr. Esdar said, and that a convincing, credible macroeconomic stabilization process would be re-established, leading to an agreement with the Fund on the third annual arrangement under the ESAF.

Mr. Mirakhor commented that the staff report, as well as Mr. Santos's statement, provided a clear assessment of the economic situation in Togo during 1990 and early 1991. The Togolese authorities should be commended for taking steps toward political liberalization while continuing with economic adjustment. Especially noteworthy were the authorities' efforts at maintaining the momentum of implementing the structural elements of their program and their continued commitment to adhere to the overall policies underlying the medium-term program supported by the ESAF. Nonetheless, he, like Mrs. Krosby and others, was concerned that failure to assume a tougher fiscal stance might undermine the gains made thus far. He wondered about the wisdom of asking the private sector to contribute to a national investment fund. Moreover, he was concerned about the high level of interest rates, and he wondered whether that level was discouraging further private investment rather than encouraging savings. Given the stable monetary situation, high unemployment, and the absence of inflation, he also wondered whether the staff considered it advisable to suggest lowering interest rates to encourage private investment.

He generally agreed with the staff appraisal, Mr. Mirakhor said, and he hoped that the Togolese people would succeed in their efforts at political liberalization while the authorities tried to further emphasize fiscal and structural adjustments needed to improve the efficiency of the economy.

Ms. Powell stated that she broadly agreed with the comments of previous speakers. She wondered about the prospects for financing the projected fiscal gap, which apparently would be wider than had been projected. She also wondered whether the staff could provide an update of the status of domestic and external arrears. The staff report noted that external arrears had re-emerged in March 1991 and that the prospects for reducing domestic arrears would depend on the authorities obtaining external financing.

The staff representative from the African Department said that it was difficult to be sure that the financing gap could be financed. There were some indications that certain donors might be willing to provide additional financing, provided, of course, that policies were brought back in line with the staff recommendations. There might be some scope also for additional domestic financing. In that connection, there was an institutional constraint in the sense that the authorities could not rely on bank financing beyond what was allowed within the limits of the regional monetary union. However, the authorities were interested in considering the issuance of government paper, which could help mobilize domestic savings. Of course, if financing were not provided, there would be a problem of increasing arrears. Indeed, external arrears had risen further since March 1991 and currently stood at more than CFAF 3 billion. The staff did not have fully up-to-date information on the domestic arrears, but he assumed that there might have been some further increase rather than the decline that the staff had hoped for.

As to re-exports, the related imports came from a wide range of countries, mostly from the EC, but increasingly from Asian countries, the staff representative said. The items were re-exported mainly to landlocked neighboring countries, but also still to Nigeria and to Benin. The staff had been fairly cautious in assuming little growth in re-exports in the future.

The outlook for cotton exports in 1991 was quite firm, the staff representative commented. The cotton crop was in, and part of it had already been sold under forward contracts. The validity of the projections of growth of cotton exports beyond 1991 would depend on whether or not the commodity price projections proved to be realistic. The staff was assuming a 5 percent annual increase in prices as well as a further increase in volume as the World Bank-supported cotton project took hold.

Some measures were being taken to increase the investment implementation capacity, the staff representative noted. In addition, the authorities were raising the limit above which the administrative procedures became more intensive and presidential approval of investments was required; that step should allow some improvement in the implementation of the investment program. Nevertheless, the staff believed that the 95 percent implementation rate projected by the authorities was highly ambitious. The staff suspected that the implementation rate might increase slightly but would be quite close to its level in 1990.

As a member of a monetary union, Togo would have to coordinate an interest rate policy adjustment with the other members of the union, the staff representative from the African Department said. For some of those countries, it would appear very difficult to consider lowering interest rates.

Mr. Esdar commented that the overproduction of cotton that had been projected for future years might put downward pressure on prices. It might be helpful to consider including in programs for cotton producers something like a contingency mechanism in the event of weaker than anticipated cotton exports.

The staff representative from the African Department responded that it would appear useful to consider contingency mechanisms and to advocate certain positive responses if projections did not turn out to be accurate. The staff would discuss that option with the authorities. At the moment, the staff's projections were in line with standard Fund wisdom, which might need to be revised.

Mr. Santos noted that Directors had expressed some disappointment with the authorities' performance after 1990, and particularly with what some speakers had identified as a certain level of adjustment fatigue. As Mr. Menda had suggested, the performance also reflected the sluggish conditions prevailing in the economy and the related high level of unemployment. However, those conditions had not prevented the authorities showing their determination to pursue the policies agreed under the program; in that connection, the staff had clearly shown that the authorities had been fully prepared in the first quarter of 1991 to cut expenditures by CFAF 7 billion in response to the limitation on available resources.

The wage bill situation was the result of the political and social conditions that had prevailed in the country for most of 1991 and which were still not fully settled, Mr. Santos commented. The National Conference was expected to end its work soon, and everyone hoped that the new conditions would give a new momentum to the country's adjustment efforts. In any event, the authorities had thought that the wage bill adjustment was unavoidable; in order to create the minimum conditions necessary to resume a dialogue with all the partners concerned, some concessions would need to be made at the level of salaries, given the very tough rules on salaries that had prevailed since 1983. Finally, he hoped that the authorities would soon be ready to resume discussion with the staff on a third-year arrangement under the ESAF.

The Acting Chairman made the following summing up:

> Directors were in broad agreement with the thrust of the staff appraisal. They noted that Togo had made significant progress in the 1980s in addressing its external and domestic imbalances, while maintaining reasonable growth and inflation records. In this context, the stabilizing effect of Togo's participation in the West African Monetary Union was also noted. However, while recognizing that the economic and financial deterioration in 1990 reflected to some extent exogenous developments, including the unfavorable weather conditions and the political turmoil since last October, Directors expressed concern that underlying policies may have also contributed to that deterioration. Particular attention was focused on fiscal policy, and there was concern expressed that the target on the fiscal deficit had not been met for the second year in a row because of a revenue shortfall and insufficient control of expenditure. At the same time, growth stagnated last year and the external current account position deteriorated. Directors expressed their concern that, unless these disturbing trends were promptly reversed, particularly through a strengthening of fiscal policy, there was a danger that the progress achieved in the 1980s might be reversed.

Directors commended the authorities for their prudent monetary policies and noted that the recent reforms in the context of the West African Monetary Union should contribute to increasing the role of the market mechanism. They expressed some concern, however, that the public sector financing requirement could crowd out the private sector's access to credit. Directors also commented favorably on the progress made in implementing the structural reforms that were included in the program.

Directors emphasized the need to reduce the fiscal deficit in 1991 and beyond. In that context, the authorities would need to regain firm control over expenditure and, in particular, resist pressures for wage increases and other demands for increased current expenditure, including military expenditures. Some Directors observed with concern the sharp cuts in investment expenditure from programmed levels during the past two years. Concern was also expressed that the expenditure on health and education may have been too restrained. Directors also stressed that the fiscal deficit reduction objective should be achieved, principally by reducing nonproductive expenditures, carefully reviewing sectoral priorities, and broadening the tax base, rather than by increasing tax rates, particularly given the relatively high level of taxation in Togo. Directors were concerned that the recently granted increases in public sector wages would not only worsen the fiscal position, but could also spread to the private sector, which would adversely affect the competitive position of Togo's economy. Directors also stressed the importance of measures designed to strengthen the role of the private sector and improve the functioning of the labor market.

More generally, Directors underscored the importance of continuing the structural reforms and translating the findings of studies that have been done into concrete policy measures. They encouraged the authorities to further enhance the efficiency of the public sector through the reform of public administration, the civil service employment strategy, and reform and divestiture of public enterprises. The authorities were also urged to continue their efforts to improve Togo's competitiveness through reductions in factor costs and measures to improve the regulatory framework and the tax environment for the private sector.

Directors pointed out that Togo's prospects depended importantly on developments in the region and encouraged greater collaboration within a regional context. The authorities were also encouraged to move to Article VIII status.

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

4. MALI - 1991 ARTICLE IV CONSULTATION

The Executive Directors considered the staff report for the 1991 Article IV consultation with Mali (SM/91/144, 7/18/91). They also had before them a background paper on recent economic developments in Mali (SM/91/155, 8/9/91).

Mr. Santos made the following statement:

> The Malian economy performed well in 1990. Helped by more favorable weather conditions, the country's economic and financial position turned out better than expected. The agricultural as well as the other sectors registered positive real growth. Overall, real GDP is estimated to have grown by 2.2 percent compared to a projection of 0.3 percent. The fiscal position improved, as nontax revenue and receipts from special funds and annexed budgets were higher, while expenditure was on target. In the external sector, despite lower export receipts due to a shortfall in gold exports and higher imports resulting from increased economic activity, the current account position improved, mainly on account of higher private transfers.
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> As to structural reforms, the authorities maintained the thrust of their efforts, and a wide range of measures were taken, as indicated in Table 1 of the staff report. Noteworthy are the measures taken in the cotton and cereals sectors, where the activities of the enterprises were streamlined and their management strengthened. Further progress was made in liberalizing the price and market systems, and a one-step window was established to facilitate the establishment of new private enterprises. With regard to public enterprise reform, delays occurred, and by year-end fewer enterprises had been privatized than had been programmed.
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> The authorities pursued their efforts to restructure the economy and to reduce further the internal and external imbalances in 1991. However, as described in the staff report, political and social unrest leading to the formation of an interim Government in April has necessitated a reassessment of Mali's overall economic situation. The interim Government has, nevertheless, affirmed its commitment to financial reforms and has not hesitated to take far-reaching measures to keep the adjustment program on track. The main challenge is in the fiscal area, where, as a result of damage caused to administrative buildings, notably the tax and customs offices, the revenue collection capacity of the Government has been adversely affected. At the same time, the Government is faces a large reconstruction bill.

To meet this challenge as well as to try to make up for some of the losses suffered earlier, the authorities are following appropriately tight fiscal and monetary policies and are endeavoring to implement structural reforms, along the lines of the medium-term adjustment program. The task of the authorities has been eased by the assistance provided at the meeting of the "Friends of Mali" held in Paris on July 3 of this year.

As mentioned above, the main problem facing the Malian authorities is in the fiscal area. To contain the revenue shortfall, the authorities are putting extra emphasis on reconstructing the tax and customs administration and on reconstituting taxpayers' files. The surveillance and verification role of the Société Générale de Surveillance (SGS) has been expanded, and the Government has also decided to expand its cost recovery of services through the expansion of user charges. Moreover, the introduction of special charges on services, the rationalization of the tariff system, and the replacement of the sales tax by a broader value-added tax are expected to contribute positively to revenue earnings. As a result of these measures, it is expected that total revenue loss would be contained at about 10.4 percent in 1991.

On the expenditure side, the emphasis is on reducing outlays so as to counter the effects of the projected revenue shortfall. Thus, low-priority expenditures have been reduced and in some cases eliminated, and expenditure control has been strengthened through, inter alia, the integration of special funds and annexed budgets into the general budget. The authorities expect that these steps will help to reduce current expenditure by 6.6 percent from the comparable figure in 1990, despite the increase in the wage bill. In this regard, it should be noted that the interim Government was faced with a demand for a 50 percent increase in salaries. Cognizant of the adverse effects of such an increase on the economy, the authorities negotiated with the unions, and an agreement was reached for a bonus only. At the same time, the authorities have not hesitated to pursue the policy designed to reduce the size of the civil service. They have courageously moved forward with this policy and have extended it to the military as well. It is thus expected that a total of 3,000 positions will be eliminated by year-end. However, and as noted above, the Government will be undertaking a reconstruction program, which is estimated at about CFAF 10 billion. As a result, total expenditure in 1991 is estimated to increase by 15.5 percent and thus contribute to a widening of the budget deficit, on a commitment basis and including grants, to 6.6 percent of GDP.

As regards structural policies, the authorities are steadfastly pursuing the reforms in the different sectors. Thus, measures to liberalize the goods and labor markets have been taken. New Investment and Commercial Codes have been introduced to facilitate the development of the private sector. In addition, the Government is reviewing the Mining Code with a view to reducing the role of government in this sector. In the agricultural sector, the restructuring of the cotton sector and of the cereals sector is being actively pursued. The authorities have also speeded up the reform of the public enterprise sector to make up for past delays. Thus, four enterprises have been liquidated and the privatization process for four others is quite advanced. They are expected to be completely privatized by the end of the year. Furthermore, the authorities, with the assistance of the World Bank, have extended the program of public enterprise reforms. The plan of action involves privatization, liquidation, or recapitalization of 22 additional enterprises.

The March events are also expected to impact adversely on the external accounts position, as the current account deficit, excluding official transfers, is projected to increase to 16 percent of GDP, mainly as a result of higher imports for reconstruction and for the rebuilding of stocks. Cereals imports are also expected to increase owing to poor domestic harvests, while exports are projected to increase slightly. However, the overall balance of payments is expected to show a surplus due to higher external financial assistance.

In conclusion, the Malian authorities remain committed to the objectives of the adjustment program and, despite the difficult conditions, are steadfastly pursuing policies aimed at regaining the momentum of adjustment. They hope that an agreement can be reached soon with the Fund in support of the Government's efforts aimed at deepening economic and financial reform.

The staff representative from the African Department made the following statement:

The Malian authorities have informed the staff that, on the basis of preliminary data, total cumulative revenue at end-June 1991 amounted to CFAF 48.3 billion, compared with a target of CFAF 48.8 billion under the macroeconomic framework. The authorities have also reported that the reconstruction of the tax and customs administrations is proceeding as envisaged. A salary premium was granted to civil servants in July 1991, equivalent to an average wage increase of 4.9 percent in 1991. This premium is consistent with the Government's objective of holding the wage bill to CFAF 41 billion in 1991. Net bank credit to the Government amounted to CFAF 3.7 billion and domestic bank credit to CFAF 98.7 billion at end-June 1991, compared with the respective ceilings of CFAF 5.3 billion and CFAF 101.3 billion.

External budgetary assistance reached CFAF 15.3 billion during the first semester of 1991, against CFAF 19.5 billion programmed. There was an accumulation of CFAF 2.5 billion in external payments arrears at end-June 1991, in addition to the external debt service under renegotiation. The Government intends to eliminate these payments arrears before end-August 1991. Domestic payments arrears were eliminated at end-June 1991, as programmed. The Government has neither contracted nor guaranteed any new nonconcessional loans.

A national conference took place between July 29 and August 12, 1991. It adopted a charter for political parties, an electoral code, and a constitution providing inter alia for a multiparty system in the context of a parliamentary democracy. The constitution will be submitted to a referendum shortly. Municipal, legislative, and presidential elections are to take place within the next five months.

Ms. Creane made the following statement:

We would like to compliment the Malian authorities on their strong economic performance in 1990. Building on firm financial policies in preceding years, in 1990 nearly all planned structural and economic reforms were accomplished, and economic targets were met or exceeded--including critical ones, such as the fiscal accounts, economic growth, the balance of payments, and inflation. Against this background, the dramatic changes earlier this year brought about a severe financial setback, with heavy damage to private and public administrative and productive capacity. We congratulate the authorities on their prompt response to these developments by quickly resuming efforts on economic reform and adjustment.

As Mr. Santos points out in his statement, the critical focus for the Malian economy in the period ahead will be on avidly pursuing fiscal discipline. Due to the destruction of tax records, revenue collection will be slippery, and the intake for the year is now expected to be sharply lower compared with original estimates. We were pleased, therefore, to see that the total cumulative revenue by the end of June was relatively close to the targeted level. This is an indication that the authorities are making strong efforts to reconstruct the customs and tax administrations. We strongly encourage them to persevere.

On the expenditure side, with the wage bill now increased to the limit recommended under the current program, the fiscal base will be particularly vulnerable for the remainder of the period. We would encourage the authorities to take advantage of their current wide support to publicize the need to keep the public payroll tightly in rein. The progress in decreasing the number of public sector employees, through improvement of parastatal management, by removing ghost workers, and the with successes of the voluntary departures program, in addition to eliminating pay surpluses and perks, should have a salutary effect on the budget's outcome.

The authorities have been able to keep inflation at a manageable low level. In addition to sticking to fiscal targets, continued restrained credit policy will be needed while allowing for the provision of adequate credit to the private sector. The recent and ongoing reforms of the financial sector, including the restructuring of the Development Bank, as well as the introduction of more subtle monetary policy tools, and maintenance of positive real interest rates, will contribute to successful policy implementation.

As to other structural reforms, encouraging steps taken to spur private sector investment should also be extended to small and medium-size enterprises. While the privatization program of the public enterprise sector is proceeding, we understand that the authorities have been unable to fully utilize the benefits as collection efforts of payments due have seriously lagged sale dates. Moving toward nearly full price liberalization earlier this year is an important step, and we would encourage the authorities to allow complete market determination of prices by discontinuing controls on petroleum products as well.

The staff's medium-term outlook expects that the extremely high level of imports this year due to food and reconstruction needs will fall off in 1992, leading to a narrowing of the current account deficit as a percentage of GDP. This will bring the deficits back to the trend levels assumed prior to the developments this spring. If so, Mali will have successfully been able to limit the disruptive effects on the balance of payments, despite having lost ground prepared by previous years' reform efforts. Closing the circle, we found particularly striking the staff conclusion that the need for exceptional balance of payments financing for future years will strictly be a function of success on the fiscal accounts.

Therefore, we strongly encourage and wish the authorities success in their continuing efforts to pursue strong fiscal policies and to adhere closely to all targets under the monitored economic adjustment program.

Mr. Dognin made the following statement:

Mali has indeed had a good track record for the two and a half-year adjustment program supported by the Fund under the stand-by and structural adjustment arrangements. The achievements set forth in Table 1 of the staff report as regards implementation of the 1990 adjustment program are quite impressive, on both the macroeconomic and structural fronts. The overall fiscal deficit (excluding grants) was reduced to 8.2 percent of GDP, the current account deficit brought down to 14.2 percent of GDP, from 17.1 percent in 1988, and inflation was maintained at a level of 1.2 percent throughout the period. This stabilization process led to a significant improvement in competitiveness between 1986 and 1990, with a real effective exchange rate depreciation of around 25 percent.

With such a background, Mali should be able to regain the momentum of adjustment interrupted in the aftermath of the March 1991 coup d'état. Nevertheless, faced with the difficulty of assessing the real impact of recent events and in view of its probable magnitude, we agree with the strategy adopted by the staff. The "monitorable" macroeconomic framework will provide a sound basis for assessing the ongoing progress made by the authorities in the second half of 1991.

During this transition period, the authorities will have to take every necessary corrective measure, particularly on the fiscal side, to limit the effects of these events on growth, inflation, and the balance of payments.

As I agree with the thrust of the staff report, I will now limit my comments to a few specific points. In view of the widening of the budgetary deficit by more than 5 percent of GDP projected for 1991, it is urgent to enhance revenue mobilization. In this regard, the reconstruction of the customs and tax administration, including of course the reconstitution of taxpayers' files, is a high priority for the short term. The authorities should also devote the utmost attention to improving tax and customs efficiency by completing their computerization and accelerating the expansion of the role of the surveillance company (Société Générale de Surveillance).

On the expenditure side, we welcome the greater transparency achieved by incorporating special funds and annexed budgets into the general budget. Regarding total expenditures in 1991, the 15.5 percent increase is indeed a major setback in the adjustment process, but it could have only limited consequences on amounts over the medium term for three reasons.

First, the main part of this increase is related to reconstruction outlays, mainly on destroyed administrative buildings. Second, the increase in the wage bill, by around 8 percent, can be considered as relatively limited compared to what has been granted elsewhere in Africa under similar political circumstances and given the level of civil service salaries, which is one of the lowest in the franc zone countries. Nevertheless, in the future, the authorities should firmly adhere to a policy of wage restraint in order not to hinder the competitiveness of the economy.

Third, for the coming years, the courageous step taken by the authorities in embarking on a comprehensive program of voluntary departures will more than mitigate the impact of the wage increase granted in 1991. In this regard, we would appreciate additional information from the staff on what impact the projected 3,000 position cuts will have on the wage bill by the end of the two-year departure program.

Of course, further efforts are needed to cut lower-priority expenditures to finance structural reforms and increase both investments and social outlays.

On monetary policy, there is little to add to the staff report. We have no doubt that the objectives will be reached by pursuing the present tight monetary stance under the framework of the reformed monetary and credit instruments adopted by the WAMU. Particular attention should be paid to the liquidity of the newly restructured financial institution of the postal checking system (SCPCE).

As for structural reforms, considerable progress has been achieved so far in liberalizing prices and streamlining the regulatory environment. The restructuring of the cotton sector, which is instrumental for medium-term growth in Mali, seems to be well under way.

I fully endorse the emphasis placed by the staff report on promoting the development of the private sector as a medium- to long-term strategy to foster growth and diversify the economy. To reach this goal, the authorities should maintain the pace of divestiture and restructuring of the public enterprise sector.

Moreover, the revision of the mining code, which limits the Government's participation to 20 percent in new mining ventures, as well as the attempt to simplify the procedures for obtaining licenses for exploration and exploitation, will certainly contribute to stimulating investments in the mining sector.

As to the external sector, the situation of Mali remains very fragile. The external current account deficit will drop to 16 percent of GDP in 1991, mainly in connection with the impact of the civil disturbances and the reconstruction outlays on imports.

As stated by the staff, the favorable prospect of requiring no further exceptional budgetary assistance beyond 1992 is highly contingent on the fiscal situation, and thus on the authorities' ability to closely monitor budgetary developments and prevent inflationary pressures. In this regard, we welcome the authorities' determination to pursue monetary and incomes policies consistent with their strategy of competitive disinflation.

With respect to external payment arrears accumulated at end-June 1991, we welcome the statement by the staff noting the authorities' intention to clear these arrears before end-August 1991.

Before concluding, we would like to commend the interim Government for its commitment to take corrective macroeconomic measures and to pursue courageous structural reforms under difficult circumstances, while paying more attention to poverty issues and to the provision of safety nets. This, together with the democratic stance of the authorities, will contribute to enhancing the popular support for the objectives of adjustment. The staff should be also commended for its well-focused report.

In conclusion, we endorse the staff appraisal and hope that the efforts already under way within this "monitorable" macroeconomic framework will soon lead to the conclusion of an arrangement under the ESAF.

Mr. Ishikura made the following statement:

Since I basically agree with the staff appraisal, I will be brief. Like previous speakers, we commend the fact that the performance criteria and the financial benchmarks under the 1990 adjustment program were observed and that almost all the structural measures envisaged in the arrangement under the SAF were implemented. However, it is regrettable that the political and social unrest early this year hampered the smooth continuation of economic adjustment. We hope that the authorities will take the necessary measures without delay to minimize its adverse effect on the economy.

In the fiscal area, there is an urgent need to rebuild the tax and customs administration as soon as possible. The staff's statement shows that revenue in the first half of 1991 nearly reached the targeted level under the Government's macroeconomic program. This is welcome. Even so, the fiscal deficit this year is anticipated to be substantially larger than in 1990, owing mainly to the increased outlays for reconstruction. To cope with this situation, it is essential on the expenditure side to continue the effort to contain the wage bill, mainly through streamlining and reducing the public service, even though the wage level might be relatively low compared with that of neighboring countries, as Mr. Dognin pointed out.

As regards structural policies, in order to achieve sustainable growth over the long run, it is imperative to promote private sector activity and to encourage private investment. For this purpose, the authorities are right to pursue structural reforms to liberalize prices, trade, investment, and employment. We endorse the further acceleration of public enterprise reform, in conjunction with support from the World Bank.

The medium-term outlook for the balance of payments shows that, given continued appropriate adjustment measures and cautious external debt policies, Mali's debt situation is expected to gradually improve over the next couple of years. This being said, the Malian authorities are still faced with difficult policy challenges in light of the high level of external debt and the extremely low per capita income. Moreover, the economy remains vulnerable to exogenous factors, such as export price fluctuations and changes in weather conditions. For the foreseeable future, Mali will have to continue to rely heavily on external assistance. In this regard, much of the disbursement of the external resources is directly or indirectly linked to the adjustment program. This makes timely implementation of the program and its uninterrupted continuation all the more important. We hope that the authorities will persevere with their economic adjustment.

Mr. Mwananshiku made the following statement:

Since Mali embarked on its economic reforms in 1982, progress has been hampered by the vagaries of the weather, policy slippages, unfavorable export prices, structural bottlenecks, and the untimely inflow of external financial assistance. Nevertheless, the authorities have lately demonstrated their commitment to reform, as almost all key measures under the 1990 adjustment program were fully implemented.

Although the preparation for a Fund-monitored program was temporarily disturbed by the political events of March 1991, the thrust of economic reform was barely affected. The strength of the adjustment effort, however, was weakened by the disruption of the customs and taxes departments and the massive destruction of public property. In this regard, the authorities' willingness to implement appropriate corrective policies to regain the momentum of adjustment is welcome.

The admission of Mali to the West African Monetary Union introduced a new mechanism of exchange rate determination and monetary management that has helped to keep inflation under control. The authorities are now focusing on the supportive fiscal and structural policies to reinforce macroeconomic stability in the economy.

In this regard, the restoration and strengthening of revenue administration, the increased flexibility in the wage policy, and the scheduled privatization of the remaining public sector enterprises will go a long way to improve fiscal performance, which has been a major source of policy slippages in the past. The successful implementation of the Voluntary Departure Scheme will also help to trim the civil service wage bill in the long term and provide valuable experience to other countries pursuing similar reforms.

In the monetary sector, we encourage the authorities to continue with the restructuring of the banking system and the introduction of market instruments of monetary control so as to achieve increased confidence and enhanced efficiency of the financial system. The elimination of bank financing of the public sector deficits is critical to the maintenance of financial stability.

On the structural front, we encourage the authorities to continue with the liberalization of pricing and trade policies, as this would facilitate the expansion of the country's export base, thus reducing the vulnerability of the external sector to exogenous shocks.

The timely inflow of foreign financial assistance, including debt relief and technical assistance to complement these efforts, is crucial to the success of the reform. The staff has rightly observed that Mali will continue to depend on external assistance in the medium term.

The staff representative from the African Department said that, with respect to the potential savings in the wage bill resulting from the voluntary departures program, the total expenditure in 1991-92 was estimated at about CFAF 8 billion, and the annual savings were estimated at about CFAF 2.6 billion. As the departures occurred in the second half of 1991, the savings in 1991 were estimated at about CFAF 1.3 billion.

Mr. Trbojevic said that he supported the corrective policies that the Government had introduced following the civil disturbances in March 1991. Mali had suffered a setback in its adjustment program as a result of the coup in March 1991, which had weakened the budgetary and external sector positions substantially. The new Government had put in place corrective policies, and the staff appraisal was satisfactory.

The average wage increase per civil servant of 11.7 in 1991 was the first adjustment in government salaries since 1986, Mr. Trbojevic noted, but it nevertheless seemed high, given the accumulative inflation--as measured by the GDP deflator--during the period 1985-1991 of 6.7 percent. Given the limited financial resources of Mali and the necessity to build up an appropriate infrastructure and productive capacity, it was of the utmost importance that such salary increases not become a practice to be exercised in the future.

As to the financing of the balance of payments in the period up to 1994, the financing of the huge current account deficit and of domestic investments depended heavily on inflows of official transfers and loans, Mr. Trbojevic remarked. He wondered whether the staff had any indication that those flows would actually occur. He also wondered whether China and the U.S.S.R. had already agreed to cancel the debt service on their loans to Mali.

Mr. Esdar commented that he fully supported the thrust of the staff appraisal, and especially the recommendation to re-establish and strengthen the reform process. His major points had already been covered by previous speakers and, therefore, he would limit himself to wishing Mali all the best in its difficult transition period.

Mr. Mirakhor said that he particularly appreciated the information provided in Table 1 of SM/91/144, in which the program objectives were given along with their present status. He generally agreed with the thrust of the staff appraisal and believed that, with the impressive record of achievements thus far, the Malian economy would be able to overcome the political difficulties of recent months and return to a strong path of adjustment and growth. The authorities should be commended for reaffirming their commitment to regaining the momentum of adjustment, as was reiterated in Mr. Santos's statement. He wondered whether a new development plan would be drawn up by the authorities, as the most recent one was for the period ending in 1991.

Mr. Wright made the following statement:

As the staff appraisal says, the Malian economy clearly suffered a severe setback in the past year, and the projections show that the lasting effects of lower government revenue and higher imports will further increase the country's deep dependence on external finance. I might mention in passing that the scale of this external assistance in the areas both of official transfers and official nonmonetary capital disbursements seems to have increased somewhat in comparison with the situation at the time of the previous Article IV consultation--that is to say, both the amount received in 1990 and the projections of future receipts--and I wonder whether the staff can comment on why these figures have increased so sharply. Not only, of course, will there be a continued dependence on external finance, but also there are, as other speakers have pointed out, substantial risks that the situation will turn out even worse than predicted.

It seems to me that a key question is how lasting the deterioration in the budget and trade balances will be. I have to say that I found this question difficult to answer in looking at the staff report because of the lack of projections beyond 1991 for any table except the one containing the balance of payments components. In particular, I missed figures on the likely pace of improvement of the fiscal deficit and its trend following the sharp jump this year. I wonder whether the staff can give an indication of the likely evolution of the fiscal balance from 1992 onwards and the main risks in that area.

As others have pointed out, the authorities are clearly right to place a very high priority on the reconstruction of the customs and tax administrations. Until this has been completed, or at least an accurate assessment is made of the long-run loss of revenue, the authorities should be very wary about increases in expenditure, even on important restructuring outlays.

Others have referred to the reform of the civil service; that was clearly an important part of Mali's original structural adjustment facility arrangement, and the authorities are right to pursue it. But the latest proposals will add greatly to the cost of the exercise, and I have some misgivings about this. The size of the wage bill increase in 1991 is rather alarming, and the precedent set by the unfreezing of three years' worth of automatic promotions not only imposes an immediate cost, of course, on the budget but also runs the risk of increasing inflation expectations. It goes without saying that there is never a right time for an unfreezing of this kind, but given the particular turmoil and uncertainty in the fiscal accounts, I wonder whether it really was opportune to unfreeze in this way just at the moment.

The planned voluntary departures program is also welcome in principle, but the cost in terms of the resulting compensation package is rather high. I was unclear about the basis for the staff calculation. By my reckoning, based on 20 percent of staff being let go and being given four years of wages, the total cost of the package over two years should amount to about 80 percent of the normal annual wage bill, or closer to CFAF 30 billion than to the CFAF 9 billion mentioned by the staff. As a more general point, I wonder whether such costly compensation is necessary, and whether it is properly targeted at the areas of the civil service where employment cuts are most required. For example, I wonder whether there is a danger that ghost workers or those close to retirement may benefit disproportionately.

Total current expenditure is projected to decline this year, but this largely reflects the planned elimination of last year's extrabudgetary expenditure. The paper refers to cuts in lower-priority capital expenditure, such as official travel and Presidential expenses, which will at least partly offset the increase in the wage bill. The extent of this offset is not fully clear to me; it seems unlikely to be very large, and I wonder whether the staff can give any more details on what other cuts are planned, and on whether the administrative capacity exists to ensure that they are properly carried out.

Monetary policy seems to me to have remained sufficiently tight, and, indeed, there seems to be scope for more of the burden of restraint to be shouldered by fiscal policy instead. One element of the monetary data which caught my eye, however, was the sharp rise in crop credit in the first quarter. I wonder whether this is a seasonal development or whether it partly reflects the effects of the recent drought. I would be grateful to be reassured that this element is temporary and, in particular, does not represent a return to selective credit allocation policies.

More generally, while I welcome the intention to move toward a more market-based system of monetary control, I wonder whether the staff could elaborate on the benefits of this--particularly in the area of private sector savings--given the relative lack of sophistication of the financial system. Do we need to take any account of that factor in assessing the benefits?

There are several factors which suggest that the medium-term balance of payments forecast is very fragile. The projected increase in cotton export earnings seems to me to be particularly uncertain; it depends heavily on a trend increase in the international price of cotton and, of course, on the continuous adjustment of producer prices by the CMDT. The much larger figures for inflows of net private transfers than previously predicted depend on the recent higher level of workers' remittances being sustained. I wonder whether that can be relied on, given that at least one factor recently has probably been the effect of the drought, and I can imagine that there might be some offset as the effects of the drought are mitigated. There will perhaps be a lower level of private transfers than expected, and the assumed Paris Club rescheduling rests on approval of a new Fund program. Even with these assumptions, heavy external budgetary loans and transfers will still be required. All of this emphasizes the need for restraint of imports; I found it somewhat implausible that the much higher figures throughout the medium-term forecast can be blamed wholly on drought alleviation and the need for reconstruction.

In conclusion, Mali has had severe problems over the past year, and clearly there will be no easy solution to the problems caused by loss of revenue and the poor harvest. Necessary extra investment and reconstruction can only be financed by cuts elsewhere and by higher domestic saving if an unsustainable debt burden is not to be built up. The longer these measures are delayed, of course, the greater the eventual adjustment will need to be.

Mr. Mohammed said that the successful economic performance of Mali under the stand-by and structural adjustment arrangements in the 1988-90 period had undoubtedly been set back by what Mr. Santos had referred to as the "March events." It was heartening to find, however, that the interim Government was determined to regain lost ground by adopting appropriate corrective actions and by its commitment to the pursuit of key structural reforms in the transitional period. It was understandably difficult for the interim authorities to formulate a comprehensive medium-term strategy in the run-up to elections under a new constitution. However, the adoption of a monitorable macroeconomic framework on the basis of quantitative financial targets should make it possible to follow progress toward a policy framework for the 1992-94 period that would allow a Fund-supported program to be put in place.

It was noteworthy, Mr. Mohammed continued, that, despite domestic difficulties, Mali's external competitiveness had been maintained by the adherence to a nominal exchange rate anchor, which had contributed, together with restrained monetary and incomes policies, to maintaining a rate of inflation considerably lower than that of its trading partners and competitors. In that context, the decision to make an adjustment to government salaries and to grant a premium for the first time since 1986 might not be as risky as Mr. Wright had suggested, especially when combined with the implementation of the voluntary departures program. It was encouraging to learn from Mr. Santos's statement that that policy was being extended to the military as well.

As Mr. Wright had pointed out, the balance of payments projections ran beyond 1991 but the budget projections did not, Mr. Mohammed said. In the past three years, the overall balance of payments had been in surplus largely because the budget deficit had been covered by large official transfers. While, according to the projections, 1991 again showed an overall balance of payments surplus, the surplus was expected to tail off in the following three years. He wondered whether that balance of payments projection was in effect saying something about the fiscal outcome underlying the balance of payments improvement.

The staff representative from the African Department commented that the average wage increase of 11.7 percent in 1991 should be seen in the context of the fact that there had been no adjustment or cost of living increase in Mali over the past five years. Furthermore, all automatic promotions had been frozen. The labor unions had recently demanded a 50 percent increase in wages from the Government in order to compensate for what they felt was the erosion in real wages. The Government had reacted by granting civil servants only three out of the five promotions that had been frozen in previous years, and by granting a bonus equivalent to 5 percent of the wage bill, rather than a direct salary increase, which would have made the increase permanent.

The staff and the new Government had discussed the wage issue at length, and the authorities regarded the containment of the increase to 11.7 percent as a major effort relative to the demands of the labor unions, the staff representative continued. At the same time, the labor unions considered that solution to be highly unsatisfactory. Nonetheless, the wage bill had been projected in the policy framework paper for 1990-93 to be contained to a maximum of CFAF 40 billion, and the increase mentioned in the current staff report was from the basis of a much lower outcome for the previous year as a result of improvements that had been made in administrative procedures. Hence, effectively, the increase in the wage bill that was being looked at was only CFAF 1 billion above the target of CFAF 40 billion under the original medium-term projections. In future years there would likely be savings arising from the massive voluntary departures program.

As to the cost of that program, the reduction of the civil service was not taking place only through the actual payments under the program, the staff representative continued; it was being supplemented by a restrained recruitment policy, which was not compensating for the normal retirement and attrition in the civil service. In addition, tougher procedures had been instituted to enhance the control over the wage bill. The cost of the departures program also reflected the fact that many of the civil servants leaving under the voluntary departures program were in the lower categories of the civil service, and thus had lower salaries. The staff estimated that the program yielded a rate of return of 25 percent to 30 percent per year on the investment of CFAF 8 billion.

The questions about the projected large current account deficit and the likelihood that the financial flows envisaged would actually occur were related to the question whether any assumptions had been made about the budget beyond 1991, the staff representative remarked. For the balance of payments, the only external financing incorporated after 1992 related exclusively to foreign-financed investment projects that were in the pipeline. There were indications that financing for those projects had already been secured. In 1992, the only exceptional budgetary financing included had to do mainly with disbursements from the World Bank that had already been committed and which were related to the voluntary departures program and other structural reforms. Thus, the projections for the balance of payments assumed that the budget would not require further exceptional financial assistance beyond 1992. The staff had not wished at the present stage to make projections for the budget beyond 1991 and incorporate them in the staff report, as the authorities had yet to make explicit their budgetary policy for 1992; it was only on that basis that medium-term budgetary projections could be undertaken.

The exclusion of debt service to China and the U.S.S.R. had been made on the basis of the recurrent and traditional moratoria that China and the U.S.S.R. had been granting to Mali, the staff representative explained. The latest information was that the Malian authorities had been in touch with the Chinese and Soviet authorities to request that the outstanding debts be converted into grants.

The staff had made some very preliminary estimates of the evolution of the budget beyond 1991, the staff representative commented. Under the monitorable macroeconomic framework that had been set up, the quarterly targets for revenue were set in such a manner that a normal revenue situation would be restored by the last quarter of 1991. Therefore, the projections for revenue incorporated in the previous policy framework paper would be expected to be the basis for revenue mobilization in the future.

On the expenditure side, the Government was expected to continue to generate economies related to the Presidency and travel as well as other lower-priority expenditure in future years, the staff representative said. In addition, further savings relating to the wage bill were expected. Hence, the structure of the budget would continue to improve over the medium term.

As Mr. Wright had suggested, crop credit was indeed a seasonal factor, the staff representative commented. The issue of the effectiveness of a market-based system for monetary control was at the heart of the reforms being undertaken in the West African Monetary Union. The monetary authorities were well aware of the current limitations in terms of the low level of development of financial markets in the Union's member countries, and that was why the reforms were being phased in. The monetary authorities had started by pursuing a high real interest rate policy, but it had been accompanied by credit ceilings that were to provide a safeguard should the high real interest rate policy not be sufficient to contain credit to the levels expected. They were also expecting to introduce reserve requirements in the near future; they were developing a creditworthiness rating system that would improve the qualitative control of credit; and they were strengthening significantly bank supervision through the newly established Banking Supervision Commission, which had been auditing banks.

As to workers' remittances, the data base had been revised by the authorities on the basis of more comprehensive information than had been available in the past, which partly explained the upward adjustment that the staff had made for the volume of remittances in future years, the staff representative said. But there had also been another factor: a bank in Mali had opened a branch in France, and there had been an increase in remittances through that branch, which was expected to continue. There was also increased confidence in the Malian banking system following the reform of the Banque de dévelopement du Mali.

The authorities planned to continue preparing rolling three-year public investment programs, the staff representative from the African Department commented. The interim Government was examining whether or not it would be useful to prepare a new five-year plan to provide strategic objectives; no decision had been made.

Mr. Santos said that he agreed with Mr. Mohammed's reaction to Mr. Wright's appraisal of the level of adjustment of civil service salaries in 1991. The authorities considered that, given the corrective measures that were to be taken on other items of expenditure, together with the voluntary departures program, the salary adjustment would not have a significant effect on inflation and competitiveness. Executive Directors' assessments would be greatly welcomed by the authorities, who would feel encouraged in the pursuit of their efforts aimed at deepening the economic and financial reforms in Mali.

The Acting Chairman made the following summing up:

> Directors concurred with the thrust of the staff appraisal. They commended the authorities on the considerable progress made in recent years in promoting economic growth and reducing domestic and external financial imbalances, while managing to keep

inflation low in the context of Mali's participation in the West African Monetary Union. Directors were concerned, however, about the setback to the Malian economy in early 1991, as a result of the destruction of administrative facilities and private property during the events leading to the coup d'état. They noted, in particular, the resulting weakening of the government revenue mobilization capacity, and delays in implementing structural measures, especially those related to public enterprise reform. They welcomed the resolve of the authorities to resume quickly and actively the necessary adjustment policies and to pursue key structural reforms to regain, during the remainder of 1991, some of the ground that had been lost.

Directors considered that the authorities were focusing appropriately on limiting the impact of the recent events on the budgetary situation. The reconstruction of the customs and tax administrations deserved to be given high priority. However, speakers were concerned about the impact of the wage increases granted in 1991 and about the cost of the voluntary departures program. They stressed that the pursuit of a policy of wage restraint was central to stabilizing the Government's wage bill. They commended the authorities for cutting back on lower-priority expenditure in order to provide more adequately for essential outlays on maintenance and for increased development expenditures as well as for the required reconstruction outlays. They emphasized that the efforts on the fiscal front had to be reinforced by a restrained credit policy, taking into account the needs of the private sector. Directors pointed out the progress made in restructuring the banking system, supported by the reform of monetary policy instruments.

Directors emphasized that the ongoing structural reforms were critical to fostering the growth of the private sector. They welcomed the abolition of virtually all price controls and the introduction of measures to liberalize the labor market. The elimination of the remaining price controls on petroleum products was also encouraged. Directors considered it essential to step up the reform of public enterprises in order to widen the scope for private sector activity and reduce the budgetary burden of the public enterprise sector. The steps being taken to increase productivity in the agricultural sector were also welcomed.

In sum, against the background of the serious disturbances in early 1991, Directors commended the Government for its efforts to resume strong macroeconomic and structural policies at a time when the country is undergoing major political reforms. Directors urged the authorities to pursue steadfastly the policies envisaged.

It is expected that the next Article IV consultation with Mali will take place on the standard 12-month cycle.

DECISIONS TAKEN SINCE PREVIOUS BOARD MEETING

The following decisions were adopted by the Executive Board without meeting in the period between EBM/91/108 (8/2/91) and EBM/91/109 (8/23/91).

5. CENTRAL AFRICAN REPUBLIC, MALI, AND MAURITANIA - ARTICLE IV CONSULTATIONS - POSTPONEMENT

Notwithstanding the period of three months specified in Procedure II of the document entitled "Surveillance over Exchange Rate Policies" attached to Decision No. 5392-(77/63), adopted April 29, 1977, as amended, the Executive Board agrees to extend the period for completing the next Article IV consultation with the Central African Republic, Mali, and Mauritania to the dates indicated in EBD/91/234.

Decision No. 9795-(91/109), adopted
August 5, 1991

6. FINLAND - 1991 INTERIM ARTICLE IV CONSULTATION

The Fund notes the staff report for the 1991 interim Article IV consultation with Finland (SM/91/157) and declares the consultation completed.

Decision No. 9796-(91/109), adopted
August 22, 1991

7. ISLAMIC REPUBLIC OF IRAN - EXCHANGE SYSTEM

The approval for the retention by the Islamic Republic of Iran of certain exchange restrictions and multiple currency practices, granted under Executive Board Decision No. 9483-(90/104), adopted June 29, 1990, and extended under Decision No. 9725-(91/64), adopted May 1, 1991, is extended until September 30, 1991 or the completion of the 1991 Article IV consultation with the Islamic Republic of Iran, whichever is earlier. (EBD/91/234, 7/31/91).

Decision No. 9797-(91/109), adopted
August 5, 1991

8. LIBERIA - OVERDUE FINANCIAL OBLIGATIONS - REVIEW FOLLOWING DECLARATION OF INELIGIBILITY - POSTPONEMENT

The review of Liberia's overdue financial obligations to the Fund provided for under paragraph 5 of Decision No. 9396-(90/50), adopted March 30, 1990, as amended, is postponed to a date to be determined by the Managing Director, when, in his judgment, there is once again a basis for evaluating Liberia's economic and financial situation, the stance of economic policies, and its cooperation with the Fund, and in any event not later than February 27, 1992. (EBS/91/137, 8/19/91)

Decision No. 9798-(91/109), adopted
August 22, 1991

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

The Executive Board approves the report of the Secretary (EBAP/91/156, Sup. 2, 8/7/91) on the canvass of votes of the Governors on Resolution No. 46-3, with respect to remuneration of Executive Directors and their Alternates, approved by the Executive Board (EBM/91/86, 6/26/91) for submission to the Board of Governors. The Governors' vote on the Resolution is recorded as follows:

Total affirmative votes		640,400
Total negative votes		216,733
Total votes cast		857,133
Abstentions recorded	55,700	
Total replies		912,833
Votes of members that did not reply		37,192
Total votes of members		950,025

Decision No. 9799-(91/109), adopted
August 7, 1991

10. 1991 ANNUAL MEETING - FORMAL NOTICE AND BRIEF AGENDA

The Executive Board instructs the Secretary to communicate the formal notice and brief agenda for the 1991 Annual Meeting by cable and by airmail letter to all Governors and Alternate Governors. (EBD/91/226, 7/24/91)

Adopted August 2, 1991

11. RULES AND REGULATIONS AMENDED SINCE 1990 ANNUAL MEETING

The Executive Board approves the letter to the Chairman of the Board of Governors submitting for review by the Governors the text of the amendment to the Rules and Regulations adopted since the 1990 Annual Meeting and the proposed resolution for the Board of Governors, as set forth in EBD/91/237 (8/2/91).

Adopted August 8, 1991

12. ANNUAL REPORT, 1991 - TRANSMITTAL TO BOARD OF GOVERNORS

The Executive Board approves the transmittal of the 1991 Annual Report to the Board of Governors under cover of the letter set forth in EBD/91/73, Supplement 1 (8/1/91).

Adopted August 6, 1991

13. AUDIT REPORT, 1991 - TRANSMITTAL TO BOARD OF GOVERNORS

The Executive Board approves the proposed letter set forth in EBAP/91/178 (7/15/91) transmitting, for consideration by the Board of Governors, the Report of the External Audit Committee for the financial year ended April 30, 1991.

Adopted August 5, 1991

14. ALBANIA - TECHNICAL ASSISTANCE

In response to a request from the Albanian authorities for technical assistance in the fiscal field, the Executive Board approves the proposal set forth in EBD/91/247 (8/16/91).

Adopted August 21, 1991

15. BULGARIA - TECHNICAL ASSISTANCE

In response to a request from the Bulgarian authorities for technical assistance in the central banking field, the Executive Board approves the proposal set forth in EBD/91/223, Supplement 1 (8/16/91).

Adopted August 21, 1991

16. COLOMBIA - TECHNICAL ASSISTANCE

In response to a request from the Colombian authorities for technical assistance in the fiscal field, the Executive Board approves the proposal set forth in EBD/91/238 (8/7/91).

Adopted August 12, 1991

17. REPUBLIC OF MOZAMBIQUE, AND VIET NAM - TECHNICAL ASSISTANCE

In response to requests from the Mozambican and Vietnamese authorities for technical assistance in the fiscal field, the Executive Board approves the proposal set forth in EBD/91/233 (7/31/91).

Adopted August 5, 1991

18. NICARAGUA - TECHNICAL ASSISTANCE

In response to a request from the Nicaraguan authorities for technical assistance in the central banking field, the Executive Board approves the proposal set forth in EBD/91/231 (7/30/91) and Correction 1 (8/2/91).

Adopted August 2, 1991

19. UGANDA - TECHNICAL ASSISTANCE

In response to a request from the Ugandan authorities for technical assistance in the central banking field, the Executive Board approves the proposal set forth in EBD/91/240 (8/12/91).

Adopted August 15, 1991

20. ACCESS TO FUND ARCHIVES

The Executive Board approves the proposal relating to the use of material in the Fund archives as set forth in EBD/91/241 (8/12/91).

Adopted August 15, 1991

21. APPROVAL OF MINUTES

The minutes of Executive Board Meetings 90/124 through 90/145 are approved.

22. EXECUTIVE BOARD TRAVEL

Travel by Executive Directors as set forth in EBAP/91/184, Supplement 1 (8/7/91), EBAP/91/197 (8/1/91), EBAP/91/205 (8/13/91), EBAP/91/206 (8/16/91), and EBAP/91/207 (8/20/91), and by Advisors to Executive Directors as set forth in EBAP/91/203 (8/8/91), EBAP/91/206 (8/16/91), and EBAP/91/207 (8/20/91) is approved.

23. TRAVEL BY MANAGING DIRECTOR

Travel by the Managing Director as set forth in EBAP/91/208 (8/21/91) is approved.

APPROVED: January 21, 1992

LEO VAN HOUTVEN
Secretary