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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 90/117

10:00 a.m., July 20, 1990

R. D. Erb, Acting Chairman

Executive Directors	Alternate Executive Directors
M. Al-Jasser	
G. K. Arora	L. E. N. Fernando
F. Cassell	P. Wright
C. S. Clark	G. C. Noonan
	D. Powell, Temporary
Dai Q.	
T. C. Dawson	M. E. Hansen, Temporary
J. de Groote	J. Prader
E. T. El Kogali	L. B. Monyake
	S.-W. Kwon
E. V. Feldman	
	R. Marino, Temporary
R. Filosa	N. Kyriazidis
M. Finaish	A. M. Othman
M. Fogelholm	I. H. Thorláksson
M. R. Ghasimi	O. Kabbaj
G. Grosche	B. Goos
J. E. Ismael	
A. Kafka	
	J.-F. Cirelli
	A. R. Ismael, Temporary
G. A. Posthumus	G. P. J. Hogeweg
	S. Yoshikuni
	K. Ichikawa, Temporary

L. Van Houtven, Secretary and Counsellor
D. J. de Vos, Assistant
M. J. Miller, Assistant

Also Present

S. Meshboum, Hewitt Associates. IBRD: A. Antonini, R. P. Brigish, Europe, Middle East and North Africa Regional Office. Administration Department: G. F. Rea, Director; D. A. Anderson, S. L. Chung, D. S. Cutler, M. E. Gehringer, A. D. Goltz, J. D. Huddleston, J. P. Kennedy, B. R. Shannon. African Department: M. Touré, Counsellor and Director; E. L. Bornemann, Deputy Director; J. Artus, A. Bio Tchané, G. C. Dahl, P. Marciniak. European Department: M. Russo, Director; P. B. de Fontenay, Deputy Director; M. Guitián, Deputy Director; J. V. Carter, T. van der Willigen, J. F. van Houten. Exchange and Trade Relations Department: J. T. Boorman, Deputy Director; A. Basu, M. E. Edo, R. P. Kronenberg, M. Xafa. External Relations Department: R. R. Brauning, I. S. McDonald. Fiscal Affairs Department: A. Cheasty, P. M. Nagy. Legal Department: H. Elizalde, P. L. Francotte, J. S. Powers. Research Department: J. A. Frenkel, Economic Counsellor and Director. Secretary's Department: C. Brachet, Deputy Secretary; J. W. Lang, Jr., Deputy Secretary; R. S. Franklin, A. Tahari. Treasurer's Department: G. Laske, Treasurer; D. Williams, Deputy Treasurer; O. Roncesvalles. Advisors to Executive Directors: J. O. Aderibigbe, F. E. R. Alfiler, M. B. Chatah, Z. Iqbal, K.-H. Kleine, J.-L. Menda, P. O. Montórfano, P. Péterfalvy, F. A. Quirós, A. Raza, S. P. Shrestha. Assistants to Executive Directors: H. S. Binay, G. Bindley-Taylor, C. Björklund, Chen M., B. A. Christiansen, A. Y. El Mahdi, S. K. Fayyad, B. R. Fuleihan, M. A. Hammoudi, A. Iljas, M. E. F. Jones, L. I. Jácome, P. Kapetanovic, M. Mrakovcic, J.-P. Schoder, M. J. Shaffrey, D. Sparkes, C. M. Towe, Wang J., J. C. Westerweel.

1. CZECH AND SLOVAK FEDERAL REPUBLIC - MEMBERSHIP - REPORT OF COMMITTEE

The Executive Directors considered the report by the Chairman of the Committee on Membership, recommending the approval of a draft membership resolution for the Czech and Slovak Federal Republic for submission to the Board of Governors for a vote by mail (EBD/90/211, 7/19/90).

Mr. Cassell reported that the Committee on Membership had met for a second time on July 18, 1990 (EB/CM/Czechoslovakia/Meeting/90/2), coming to the same consensus that it had reached at its first meeting, to recommend a quota of SDR 590 million for the Republic. He had received, overnight, a cable from the Czechoslovak authorities indicating their willingness to accept the terms and conditions of the Committee.

Mr. de Groote said that the last official statement by the Czechoslovak authorities, as a previous member of the Fund, had been on September 28, 1954 at the Sixth Annual Meeting of the institution at the Mayflower Hotel, Washington, D.C. The final comment of the authorities had been that "Czechoslovakia reserves the right to take whatever further steps it may deem necessary to become again a member of the Monetary Fund." In the time that had elapsed since then, the previous day indeed had not been one of the easiest ones in Prague. There had been a substantial discussion among the Czechoslovak authorities over the Committee's recommendations, with the authorities continuing to believe that the country--in terms of the post-Bretton Woods quota formulas--was more similar to Poland than to Hungary and that it merited, therefore, a commensurate quota. It had been difficult for the Governor of the National Bank to persuade the Government to accept the recommended quota, albeit the Government had accepted the reasons provided and had endorsed the Committee's recommendation enthusiastically, nonetheless.

The two discussions in the Membership Committee had been vigorous, but fair, and he expressed his appreciation to Mr. Cassell and the Committee members for their attention, Mr. de Groote continued. While he and his authorities remained convinced, whatever the merits of the Bretton Woods formula, that the formula did not reflect the relative size of the country in Central Europe, that should in no sense be an impediment to further steps in cooperation between the Fund and its coming newest member. Indeed, the Government had asked him to convey Czechoslovakia's desire to work in a spirit of genuine cooperation with the Fund.

Mr. Fogelholm said that, on behalf of the Nordic countries, he wished to express satisfaction at the consensus reached in the Committee and to welcome Czechoslovakia as a new member, in the probable event of Governors' approval of the membership recommendation.

Mr. Kwon made the following statement:

Like other Directors, I wish to welcome wholeheartedly Czechoslovakia to the Fund as the one hundred and fifty-second member. Recognizing the fact that the Republic was one of the original members of this institution, its return to the institution after three and a half decades is indeed more than welcome.

The issue currently before the Board is to determine an appropriate quota for Czechoslovakia in the light of its economic size as well as other relevant factors, including a balanced relationship with quotas of existing members. This chair has been, and will continue to be, a strong advocate of members' relative positions in the world economy, as measured by the Bretton Woods formula, as a major guiding principle in the distribution of Fund quotas to individual members. It believes further that this principle should be applied in an equitable fashion to all members, including new ones. Initial quotas of new members, however, should also be guided by what has been offered to other new members in the past. Taking all of these factors into consideration, the Committee's recommended quota of SDR 590 million, although broadly in line, appears to be somewhat on the high side with regard to the latter criterion, and not entirely consistent with the former.

I have circulated to all Executive Directors my memorandum to Mr. Cassell, the Chairman of the Membership Committee, regarding the problem associated with the inconsistent treatment of Korea vis-à-vis new members, using the case of Czechoslovakia as an example. As I stressed in my memo, I have no intention of undermining the proposed quota for the Republic, which has been agreed by the Committee on the basis of established criteria, and I still firmly believe that Korea's existing quota cannot, and should not, be used as a comparator in determining the quota. Instead, I raise this issue in the context of the problem of inconsistency in the treatment of existing and new members.

Apart from the Republic, there are four other countries that will be placed on the waiting list for Fund consideration at any time soon, and I presume that the determination of their initial quotas might also be guided by the same principles currently applying to Czechoslovakia. Considering the difficulty in correcting quota discrepancies for existing members, as was noted by Mr. de Groote in his buff statement for the July 16, 1990 Committee meeting, new members tend to have a great advantage over existing members in the negotiations of their initial quotas, which I can see as a premium for new members. However, if this premium continues to be extended to a large number of countries,

it will result in a systematic distortion of the Fund quota structure, and, hence, undermine the credibility of this institution unless serious discrepancies for some existing members are corrected accordingly.

As mentioned in my memo to Mr. Cassell, and as this chair has indicated on a number of occasions in the Board during the recent deliberations on the Ninth Quota Review, Korea has maintained an undeniable track record of cooperation with the Fund in every respect. Nevertheless, its modest request for an ad hoc quota increase has unfortunately not been accepted. If treatment similar to that accorded to Czechoslovakia had been awarded to Korea, its quota should be in the range of SDR 819 million to SDR 1,048 million, as compared to its existing quota of SDR 462.8 million. The statistical comparison table attached to my memo outlines in stark relief this problem of inconsistency, and yet Korea has been forced to wait another five years or more to raise this problem again.

In view of this and the prospect of further new members in the Fund, I am convinced that the time has come for this Board to look anew at all of the problems that exist in the distribution of Fund quotas. We cannot live with this situation forever. There are limits to the tolerance on the part of those existing members whose quotas compare unfavorably with those of new members. My chair would therefore support the Committee's proposed quota for Czechoslovakia on the understanding that any legitimate claims for ad hoc quota increases for existing members--and I emphasize the word "legitimate"--will be considered sympathetically in the near future, if not at present.

The Executive Directors took note of the statement by Mr. Kwon.

The Executive Board then took the following decision:

Membership - Report of Committee

1. The Board of Governors is requested to vote without meeting pursuant to Section 13 of the By-Laws of the Fund on the attached draft Resolution.

2. The Secretary is directed to send the attached report and draft Resolution on Membership for the Czech and Slovak Federal Republic to each member of the Fund by rapid means of communication on or before July 23, 1990.

3. To be valid, votes must be cast by Governors or Alternate Governors and must be received at the seat of the Fund before

6:00 p.m., Washington, D.C. time on August 20, 1990. Votes received after that time will not be counted.

4. The effective date of the Resolution of the Board of Governors shall be the last day allowed for voting.

5. All votes cast pursuant to this decision shall be held in the custody of the Secretary until counted, and all proceedings with respect thereto shall be confidential until the Executive Board determines the result of the vote.

6. The Secretary is authorized to take such further action as he shall deem appropriate to carry out the purpose of this decision.

Decision No. 9505-(90/117), adopted
July 20, 1990

REPORT BY THE EXECUTIVE BOARD

MEMBERSHIP FOR THE CZECH AND SLOVAK FEDERAL REPUBLIC

The Czechoslovak Socialist Republic, now the Czech and Slovak Federal Republic, applied on January 22, 1990 for admission to membership in the International Monetary Fund in accordance with Section 2 of Article II of the Articles of Agreement of the Fund. Pursuant to Section 21 of the By-Laws, the Executive Board has consulted with the representative of the Czech and Slovak Federal Republic and has agreed upon the terms and conditions which, in the opinion of the Executive Board, the Board of Governors may wish to prescribe for admitting the Czech and Slovak Federal Republic to membership in the Fund.

The Executive Board has therefore approved the attached Resolution for submission to the Board of Governors for a vote without meeting pursuant to Section 13 of the By-Laws.

DRAFT RESOLUTION

MEMBERSHIP FOR THE CZECH AND SLOVAK FEDERAL REPUBLIC

WHEREAS, the Czechoslovak Socialist Republic, now the Czech and Slovak Federal Republic, on January 22, 1990 requested admission to membership in the International Monetary Fund in accordance with Section 2 of Article II of the Articles of Agreement of the Fund;

WHEREAS, pursuant to Section 21 of the By-Laws of the Fund, the Executive Board has consulted with the representative of the Czech and Slovak Federal Republic and has agreed upon the terms and conditions which, in the opinion of the Executive Board, the Board of Governors may wish to prescribe for admitting the Czech and Slovak Federal Republic to membership in the Fund;

NOW, THEREFORE, the Board of Governors, having considered the recommendations of the Executive Board, hereby resolves that the terms and conditions upon which the Czech and Slovak Federal Republic shall be admitted to membership in the Fund shall be as follows:

1. Definitions: As used in this Resolution:

(a) The term "Fund" means the International Monetary Fund;

(b) The term "Articles" means the Articles of Agreement of the Fund, as amended; and

(c) The term "SDRs" means special drawing rights of the Fund.

2. Quota: The quota of the Czech and Slovak Federal Republic shall be SDR 590 million.

3. Payment of Subscription: The subscription of the Czech and Slovak Federal Republic shall be equal to its quota. The Czech and Slovak Federal Republic shall pay 22.7 percent of its subscription in SDRs or in the currencies of other members selected by the Managing Director from those currencies that the Fund would receive in accordance with the operational budget in effect at the time of payment. The balance of the subscription shall be paid in the currency of the Czech and Slovak Federal Republic.

4. Timing of Payment of Subscription: The Czech and Slovak Federal Republic shall pay its subscription within six months after accepting membership in the Fund.

5. Increase in Quota Equivalent to an Increase Under the Ninth General Review: The quota of the Czech and Slovak Federal Republic shall be increased to SDR 847 million, to which the Czech and Slovak Federal Republic may consent in accordance with the provisions of the Resolution of the Board of Governors No. 45-2 on the Ninth General Review of Quotas. This increase shall take effect in accordance with the terms of that Resolution and the

Czech and Slovak Federal Republic shall pay the increase in accordance with Article III, Section 3 of the Articles.

6. Exchange Transactions with the Fund and Remuneration: The Czech and Slovak Federal Republic may not engage in transactions under Article V, Section 3, or receive remuneration under Article V, Section 9, until its subscription has been paid in full.

7. Exchange Arrangements: Within 30 days after accepting membership in the Fund, the Czech and Slovak Federal Republic shall notify the Fund of the exchange arrangements it intends to apply in fulfillment of its obligations under Article IV, Section 1 of the Articles.

8. Representation and Information: Before accepting membership in the Fund, the Czech and Slovak Federal Republic shall represent to the Fund that it has taken all action necessary to sign and deposit the Instrument of Acceptance and sign the Articles as contemplated by paragraph 9(a) and 9(b) of this Resolution, and the Czech and Slovak Federal Republic shall furnish to the Fund such information in respect of such action as the Fund may request.

9. Effective Date of Membership: After the Fund shall have informed the Government of the United States of America that the Czech and Slovak Federal Republic has complied with the conditions set forth in paragraph 8 of this Resolution, the Czech and Slovak Federal Republic shall become a member of the Fund on the date when the Czech and Slovak Federal Republic shall have complied with the following requirements:

(a) The Czech and Slovak Federal Republic shall deposit with the Government of the United States of America an instrument stating that it accepts in accordance with its law the Articles and all the terms and conditions prescribed in this Resolution, and that it has taken all steps necessary to enable it to carry out all its obligations under the Articles and this Resolution; and

(b) The Czech and Slovak Federal Republic shall sign the original copy of the Articles held in the Archives of the Government of the United States of America.

10. Period of Acceptance of Membership: The Czech and Slovak Federal Republic may accept membership in the Fund pursuant to this Resolution not later than six months after the effective date of this Resolution, which date shall be the date of its adoption by the Board of Governors; provided, however, that if the

circumstances of the Czech and Slovak Federal Republic are deemed by the Executive Board to warrant an extension of this period during which the Czech and Slovak Federal Republic may accept membership pursuant to the Resolution, the Executive Board may extend such period until such later date as it may determine.

2. MOROCCO - STAND-BY ARRANGEMENT, AND EXCHANGE SYSTEM

The Executive Directors considered a staff paper on Morocco's request for an eight-month stand-by arrangement in an amount equivalent to SDR 100 million (EBS/90/127, 7/5/90; and Cor. 1, 7/13/90).

The staff representative from the African Department indicated that paragraph 12 on page 33 of the staff paper should read "in accordance with paragraph 6," instead of paragraph 5.

Mr. Kabbaj made the following statement:

My Moroccan authorities welcome this renewed opportunity to benefit from the views of the Board on their economic and financial policies at a crucial stage in the formulation of a comprehensive medium-term program. They take this opportunity to thank Directors, management, and the staff for their interest and continued cooperation and advice.

This close cooperation has allowed Morocco to make tangible strides in overcoming, to a great extent, the deep-rooted structural problems aggravated by strong exogenous factors. Indeed, it is to be recalled that at the end of the 1970s, deficits in the budget, as well as in the external current account, were of the order of 17 percent of GDP, while inflation reached double-digit rates.

During the first half of the 1980s, strong financial adjustment measures were implemented, but budgetary and external current account deficits along with inflation--although sharply reduced--remained at high and unsustainable levels. This was probably owing to the insufficient content of structural reforms, but also to the persistence of adverse exogenous factors--namely, the longest drought in Moroccan history, abnormally high interest rates, the misalignment of the dollar, and high oil and commodity prices.

Since 1985, a further tightening of financial policies--together with the firm implementation of far-reaching structural reforms in the fields of trade, fiscal reform, agriculture, public enterprises, and education--have produced, with the exception of 1987, a reasonable rate of growth, a sizable reduction in the

budgetary and external current account deficits, and a considerable reduction in inflation. These outcomes were indeed facilitated by a reversal of most of the adverse exogenous factors, with the return to more normal rainfall and decreases in oil, and other prices, and interest rates.

Through this period, Morocco continued to suffer from a heavy debt overhang. The ratios of external debt to exports of goods, nonfactor services, and private transfers, as well as to GDP, remain excessively high, and the ratio of debt service to GDP remains among the highest in the world. The authorities wish that the magnitude of the debt overhang be duly taken into account in the assessment of past and future relations with the Fund and the rest of the financial community, as is the case for other highly indebted developing countries.

It can hardly be denied that Morocco's potential for economic growth is indeed hampered by this situation, the more so given that unemployment remains at the relatively high rate of more than 15 percent. It should be noted that this figure does not properly reflect the reality of the unemployment situation--especially among youth, who have a much higher incidence of unemployment, and among a growing number of the educated who cannot find jobs. The continuation of such a regrettable situation could, in the view of my authorities, cast some doubt on the appropriateness of the policies pursued and lead to some setbacks in the adjustment process.

It is worth noting that despite the remarkable progress made so far, the Moroccan economy, like that of all developing countries, remains fragile and sensitive to exogenous shocks. This was the case in 1989, when the terms of trade deteriorated by more than 12 percent. The authorities, while agreeing that some slippages in policy implementation occurred, although not intentionally, would have preferred that the staff had made a more balanced presentation of the outcome of the 1989 program, by drawing more attention to the sharp worsening in the terms of trade, which has indeed been substantial, and which should be compared with a forecast of quasi-stability at the inception of the program and with a deterioration of only 3.4 percent at the time of the first program review. If changes in the terms of trade of such a magnitude occur, the other variables cannot--despite the additional measures taken--conform to all of the program projections, and the real economy will not behave as expected.

It is unfortunate that this development occurred at a time when the authorities were contemplating introducing a medium-term program to be supported by an arrangement under the extended facility, and which would contain a debt-reduction component. In

any event, the authorities have been in continuous contact with the staffs of the Fund and the World Bank since the end of 1989 in order to formulate the program in a medium-term framework, so that external viability can be attained by 1993. This objective is based on the important assumption of quasi-stability in Morocco's terms of trade.

The program aims at accelerating growth to an annual rate of 5 percent in 1992-93 and to maintain inflation at about 4 percent, and the external current account is projected to shift from a deficit of 3.5 percent of GDP in 1990 to virtual balance in 1993 and to a surplus thereafter.

To achieve these objectives, the authorities intend to strengthen fiscal policy, restrain monetary policy, and continue to pursue an appropriate exchange rate policy. To this end, courageous measures described in the Letter of Intent and the staff paper have already been implemented, and far-reaching structural reforms continue to be put in place. In this respect, the authorities are committed to the continuation of trade reform, the second phase of the public enterprise reform, the activation of the privatization program, and to a major reform of the credit and financial sector.

The program for 1990 constitutes the first phase of such an important undertaking. The fiscal measures contained in the supplementary budget law passed by Parliament in June 1990, the sizable depreciation of the dirham, and the important measures in credit policy should all be considered as steps in the right direction. The authorities are currently formulating a comprehensive medium-term program, and they will resume discussions with the staff at the beginning of September 1990 on the occasion of the Article IV consultation and the review of the program submitted for the Board's approval. It is my authorities' hope that these discussions could lead shortly to an agreement on an extended arrangement, so that the Moroccan economy could regain its full strength by 1993, fully play its effective role in the North African region under the existing "Arab Maghreb Union," and face the challenges posed by the single European market, its main trading partner.

Finally, the Moroccan authorities have reached an agreement with commercial banks on a consolidation of total medium-term debt, and on a scheme of debt-service reduction once a medium-term Fund-supported program is in place. They have also requested debt relief from the Paris Club, and hope that this debt relief will be granted on more concessional terms than in the past.

Mr. Finaish made the following statement:

The year 1989 was particularly difficult for economic management in Morocco. Although considerable progress continued to be made in the area of structural adjustment, there was a fairly significant weakening in the fiscal performance, owing in part to the effects of adverse exogenous developments, which themselves also directly precipitated a sharp deterioration in the country's external position.

Against this background, the strong effort that the authorities have mounted in the first half of 1990, with a view to restoring the adjustment momentum, is most welcome. And while their 1990 program is seen as a step toward a medium-term program that could serve as a basis for providing Fund support for debt-reduction operations, that is not to say that the program represents merely a holding operation. Indeed, the fiscal effort envisaged under the program is quite substantial, and the same can be said about the structural content of the program, particularly in the area of financial sector reform.

The envisaged fiscal effort was necessitated by, among other things, the need to offset the budgetary impact of the recent dirham devaluation. This should not be much of a factor for the next budget period; but the sharp rise in interest rates that is expected to result from financial sector reforms could entail a significant budgetary cost in 1991. Presumably, the projected increase in interest outlays in 1989 is due partly to this factor. But one would expect this to be a much greater source of pressure on public finances in 1991. I wonder, in this connection, if the staff could provide an indication of the likely fiscal implications for the 1991 budget of the envisaged financial sector reforms.

The amount of debt relief in 1990 attributable to part of the first phase of the restructuring package agreed in principle with the commercial banks is identified in the staff paper, but the effects of eventual debt buy-backs and of interest rate reductions that comprise the second phase of the package are not. My chair is, of course, hopeful that the debt-reduction elements of the package will go through as envisaged, and would like to know if the staff is in a position to provide an indication of the scope of debt relief contemplated under the restructuring package.

I do not wish to reopen the debate on exchange rate policy that Directors had on the occasion of the past Board discussion on Morocco (EBM/89/147 and EBM/89/148, 11/15/89). For one thing, devaluation has already occurred, and there is probably not much merit at this stage in engaging in second guessing. But careful

note should be taken of the staff's statement on the subject, appearing on page 24 of its paper, stating that "the recent devaluation of the dirham was needed to achieve the targeted strengthening of Morocco's external position without placing the entire burden of adjustment on contractionary financial policies." In general, I have no difficulty with this proposition. But it is regrettable that it was deemed necessary to devalue the dirham in the absence of convincing evidence of lack of competitiveness, and even though, as noted by the staff, the real effective exchange rate of the dirham has remained relatively stable in recent years. I suppose that different people could draw different conclusions on what needs to be done in circumstances like those facing Morocco. The conclusion that I would be inclined to draw is that the circumstances of heavily indebted countries--whose debt is owed largely to official creditors, like Morocco--call for greater debt relief by the Paris Club than has been provided so far. Otherwise, it is conceivable that the Fund may increasingly find itself in situations where the effort to ensure attainment of medium-term viability runs counter to the need to adhere to the principle of avoiding competitive devaluations.

My chair believes that the arrangement currently before the Board merits Fund support, and like Mr. Kabbaj, it hopes that the forthcoming discussions between the authorities and the staff will lead to a speedy conclusion of an agreement on an extended arrangement. I support the proposed decisions.

Mr. Cirelli made the following statement:

My chair is pleased that Morocco is cooperating closely with the Fund, through embarking on a new stand-by arrangement. Indeed, such collaboration has been fruitful in the past, with Morocco having embarked on a comprehensive range of measures aimed at transforming its economy rapidly, mobilizing internal resources more efficiently, and attaining much needed rapid growth. The staff paper rightly stresses the significant progress that was made during 1986-88: the rate of growth was above 5 percent on average; the fiscal deficit--although remaining on the high side--decreased steadily; the current account turned into a surplus in 1988; and inflation was reduced dramatically.

However, the economic performance in 1989 was disappointing: growth was sluggish, inflation rose again to 5.3 percent, and the current account reached a worrisome deficit of 3.5 percent of GDP. This outcome resulted partly from external factors, but also from policy slippages, among which the main element was the increase in the overall public deficit, from the 3.5 percent of GDP set originally to 5.7 percent of GDP.

Therefore, a return to a sound path of adjustment was clearly needed; and I welcome the authorities' request for a stand-by arrangement, which illustrates their intention to address the imbalances facing the economy. With this prospect in mind, the brief program envisaged--as rightly underlined by the staff--is part of a comprehensive medium-term framework aiming at restoring external viability by 1993, and at accelerating growth. The staff's analysis demonstrates the feasibility of such a path if the authorities focus their attention on the necessary fiscal adjustment and the implementation of structural reforms. Therefore, the current arrangement is important. But, as stated by Mr. Kabbaj, it constitutes the first phase of a medium-term process that has to be implemented yet. In this regard, its success is a precondition for the conclusion of an extended arrangement, which should follow this stand-by arrangement, and which will facilitate further progress with commercial banks on debt-reduction operations.

The pursuit of a strict fiscal policy is the centerpiece of the adjustment process. It is also indispensable in the medium term, since an increase in savings will be crucial to reaching a higher investment level conducive to a more rapid growth rate. The program's fiscal objectives for 1990 aim at offsetting the slippages that occurred in 1989, and pursuing an overall reduction in the public deficit. While those objectives are certainly ambitious, they appear to be attainable given the measures adopted recently in the supplementary Budget Law. The fiscal adjustment will rely heavily on the revenue side, with total government revenues expected to rise by more than 20 percent. This figure is impressive. However, given that the bulk of the necessary measures have already been implemented, the revenue objective is likely to be met, even if some uncertainties remain--thus underlining the need for the authorities to monitor the implementation of the revenue measures closely. Nevertheless, in view of the fiscal deficit target for 1991, particular attention should be given to buttressing the current reforms by putting in place both revenue and expenditure measures on a permanent basis. This is all the more crucial in preparing the 1991 budget, since some of the 1990 budgetary efforts are based on nonrenewable measures. In addition, the need for such measures is warranted further by the fact that some revenues are foreseen as being transferred to local authorities, and that potential revenue losses might occur following the implementation of the General Income Tax (IGR). Public transfers to local authorities must also be given careful attention.

I have little to add to the staff's comments on monetary policy. I endorse the program's objectives and its more flexible, market-oriented approach to monetary policy. The termination of

credit "encadrement" is certainly an important step. I wonder, however, if, under the present circumstances, that measure could not create an additional risk for the program. The staff could usefully comment on this issue. In the medium term, however, it is clear that such an approach should increase the efficiency of monetary policy, promote savings, and achieve a better allocation of resources.

Regarding structural policies, I would stress the need for Morocco to pursue an ambitious path of reforms and to stimulate the efficiency and competitiveness of the economy. I therefore encourage the authorities to vigorously push ahead their program of privatization and to establish, in the first place, a specific timetable. The reform of public enterprises with the assistance of the World Bank should also be an important area of concern, as a large part of value added to the economy stems from the public sector. The envisaged liberalization of the external trade regime is welcome, particularly their intention to reduce quantitative restrictions and to simplify the tariff structure.

Developments in 1989 have clearly illustrated the fragility of Morocco's external position, as the economy has continued to rely too heavily on phosphate exports. If the recent exchange rate adjustment is to contribute to export diversification and to strengthen revenues from tourism and workers' remittances, it should in no manner substitute for the necessary process of internal adjustment and liberalization.

The recent agreement with the commercial banks should pave the way for much needed debt reduction. My authorities also wish that an appropriate agreement will be concluded between Morocco and the Paris Club, but regret the accumulation of arrears since the beginning of 1990, including those on post cut-off date credits.

France strongly supports the Moroccan authorities in their endeavors and is greatly encouraged by the willingness shown by them to address the current situation.

Mr. Al-Jasser made the following statement:

The Moroccan authorities have undertaken far-reaching structural adjustment measures that merit strong commendation from this Board. It is noteworthy that, even during 1989, when financial policies were relatively lax, structural adjustment continued unabated. As indicated in Mr. Kabbaj's statement, the authorities now propose to strengthen and deepen the process of economic reform with a view to increasing sustainable, noninflationary

growth and to attaining external viability by 1993. Since the 1990 program sets the stage for a medium-term program, possibly with the support of an extended arrangement, I have no hesitation in supporting the authorities' request for a stand-by arrangement.

As I broadly agree with the staff appraisal, I will make the following comments for emphasis. It is obvious that the success of the program rests on the authorities' ability to realize their fiscal objectives. Indeed, given the widespread economic liberalization to date, a tightening of the public finances is essential for the sake of external viability as well as the sound conduct of a monetary policy based on indirect policy tools. Clearly, adherence to the program's fiscal targets is particularly important, given that this is the area in which policy slippages have occurred in the past.

In this regard, I welcome the authorities' recognition of the need for sustainable expenditure and revenue measures. The intention to improve monitoring and control of public expenditures, along with the transfer of some categories of expenditure to local authorities, is particularly encouraging. Moreover, while welcoming the envisaged 20 percent increase in revenues, I hope that this increase will not be achieved mainly through transitory measures.

I trust that the authorities will make every effort to adhere to the 1990 program targets and, more importantly, to sustain this momentum in the medium term. This is all the more important, given that external viability will involve an elimination of debt relief--which, as the staff notes, remains the most important source of financing of the budget. Therefore, it goes without saying that the rationalization of public enterprises merits particular attention in the envisaged medium-term program.

The envisaged improvement in public finances, coupled with a tight monetary stance, should facilitate the implementation of the exchange rate strategy, through improving the economy's cost and price competitiveness. In this context, I support the authorities' strategy to anchor the exchange rate to a basket of currencies of Morocco's main trading partners. This will contribute to the anti-inflationary stance and provide investors with a stable economic environment. In this connection, the staff could usefully elaborate on the manner in which the new system will operate.

It is both heartening and encouraging that, after the authorities' long and tedious efforts, light is appearing at the end of the tunnel. Indeed, medium-term external viability is

within reach, and I trust that the authorities will spare no effort to attain their much cherished objective. I support the proposed decisions.

Mr. J. E. Ismael said that, in determining his position on Morocco's request for a stand-by arrangement, he had basically taken into consideration the following points. First, the Moroccan economy had continued to perform well in 1988, and almost all performance criteria and indicative targets of the 1988 program had been met. However, it had to be regretted that the overall performance of the economy had worsened in 1989, so much so that all end-December 1989 indicative targets could not be met.

That setback could have been avoided if the authorities had responded promptly to the unfavorable reversal of exogenous factors and to the shortfall in tax revenue, Mr. J. E. Ismael continued, and had the amount of public investment not been excessive during the last few months of 1989. He was encouraged, even so, by the authorities' important corrective measures in the first half of 1990. The 1990 program should therefore be seen as representing the authorities' renewed determination to continue with their adjustment effort to reduce Morocco's structural imbalances, achieve financial stability, and stimulate resumption of adequate growth.

The 1990 program had rightly placed emphasis on further efforts in fiscal restructuring to foster a reduction in the budgetary deficit, and therefore inflation, and on reform of monetary policy to broaden and deepen the financial sector with the objective of inducing greater savings and investment, Mr. J. E. Ismael noted. Pursuit of those policies would, at the same time, impose much needed fiscal and monetary discipline. In turn, that would ensure that the benefits of the May 1990 devaluation of the dirham would not be eroded, such that further devaluations to maintain international competitiveness could be avoided.

Morocco had a track record of proven determination in pursuing a broadly based growth-oriented adjustment strategy with good results, Mr. J. E. Ismael stated. He therefore welcomed the authorities' intention to request a comprehensive medium-term program upon completion of the proposed stand-by arrangement, in order to ensure restoration of a fully viable external position by 1993. He considered the economic performance of Morocco in 1989 an exception to the country's well-established record since 1985 and was therefore prepared to endorse the proposed decisions. Nevertheless, he wished to accompany his endorsement with the following important lesson drawn from the recent Moroccan experience. No matter how good an adjustment program was, its success depended ultimately on the authorities' determination and willingness to take prompt, but appropriate, corrective actions in response to any likely deviations stemming from exogenous as well as endogenous factors.

Mr. Goos remarked that he shared previous speakers' disappointment about the setback in 1989 in Morocco's financial performance. The setback was especially worrisome for two reasons. First, slippages in fiscal adjustment seemed to be a perennial problem in Morocco's case, notwithstanding its central place in securing durable improvement in the country's domestic and external economic situation. Second, the financial slippages, particularly the renewed accumulation of domestic arrears, the near doubling of the balance of payments deficit from 1989, as well as the acceleration of inflation, represented problems in areas central to the credibility of the authorities' adjustment strategy and the confidence of market participants, including foreign investors in particular. That was not to ignore the important progress in structural reform made in 1989, and Mr. Kabbaj's reference to the deterioration in the external terms of trade. All Executive Directors, nonetheless, were aware of the importance of stable macroeconomic conditions for the eventual success of structural reforms and the overall stabilization exercise.

Against that background, regrettable as it might be, the postponement of the extended arrangement sought by the authorities appeared appropriate, as it would provide them with another opportunity to demonstrate their ability to meet the demanding standards of such an arrangement, Mr. Goos said. Like other speakers, he welcomed the measures taken thus far to redress the previous years' financial problems, and he found the objectives envisaged for the remainder of 1990 and up to 1993 encouraging, all the more so since they promised the attainment of medium-term viability by the end of that period. That goal seemed long overdue, considering the prolonged use of Fund resources by Morocco.

As for specific policy areas, the importance of financial policy restraint could hardly be overstressed, especially in view of the ongoing worrisome acceleration in the rate of inflation, Mr. Goos commented. Yet, it was precisely in the areas of fiscal and monetary policy where the program raised a number of difficult issues. In the former area, like Mr. Cirelli, he was concerned that the expected improvement in the fiscal position was based largely on nonrecurrent revenue increases; and inasmuch as the tax amnesty and proceeds from privatization were concerned, the expected revenues appeared relatively uncertain. Moreover, he failed to see how the transfer of expenditure items to the local authorities would improve the overall fiscal situation, a point on which clarification by the staff would be helpful.

His concerns in the fiscal area seemed to be all the more relevant considering that the authorities were obviously faced with an enormous adjustment task; the restoration of medium-term viability implied that they would have to find a permanent replacement for debt relief in the order of some 6 percent of GDP, Mr. Goos pointed out. The achievement of the end-1993 fiscal target would thus be tantamount to an overall fiscal effort equivalent to almost 10 percent of GDP. In view of that magnitude of the required adjustment effort, it appeared that the authorities would have to

enlist all available instruments of fiscal consolidation, and they would certainly have to scrutinize all budgetary spending items for additional savings. Consumer subsidies and capital expenditures seemed to be promising candidates for the mobilization of such additional savings. It was noteworthy and worrisome that by end-1990, consumer subsidies would have tripled since 1987, while public capital expenditure would have increased by no less than 50 percent over the same period, raising again the question about the appropriateness of the relative emphasis in the program on growth and stabilization. In the final analysis, there was little room for halfhearted and merely transitory measures. More forceful and durable fiscal consolidation right at the outset of the planned medium-term program would also be called for in view of the relatively pronounced sensitivity of the staff's medium-term projections to external shocks.

He had noted that the payments envisaged under the tax amnesty and the advance in corporate income tax payments were expected to restrain liquidity, Mr. Goos stated. Even so, he wondered whether the envisaged rate of monetary expansion of 9.5 percent, although identical to the projected rate of growth for nominal GDP, would be sufficiently tight. There were several factors coming to mind that would advise caution, including the possible existence of access liquidity resulting from the monetary slippages in 1989; the continued buoyancy of domestic demand; the uncertain effects of the intended abolition of credit rationing--or credit encadrement--and credit liberalization on credit supply and demand; and above all, the inflationary pressures resulting from the recent depreciation. Taking into consideration the J-curve effects on the external account that one would normally expect to result from currency depreciation--an expectation that the staff seemingly did not share--the authorities would be well advised to demonstrate vigorously their commitment to monetary stabilization. At any rate, the uncertainties he had referred to would at least indicate the need for exceptional vigilance in the conduct of monetary policy, combined with the willingness to promptly tighten the policy stance to counter unfavorable developments.

With those remarks, he could endorse the staff appraisal and support the proposed decisions. He added that vigorous pursuit of the policies recommended by the staff should go a long way toward dispelling the doubts about the appropriateness of the authorities' strategy, and thereby forestalling renewed setbacks in the adjustment process, as feared by the Moroccan authorities according to Mr. Kabbaj's opening statement.

Mr. A. R. Ismael remarked that over the past years, Morocco had made remarkable progress in restructuring its economy and reducing its internal and external imbalances. However, weaknesses remained and the economy was still vulnerable to external shocks, as noted by Mr. Kabbaj. His chair therefore welcomed the program of adjustment being implemented by the authorities--in support of which they were requesting a stand-by arrangement--particularly as it contained appropriate measures to reduce further the imbalances while building on the progress made. He especially welcomed

the emphasis placed on growth and agreed that the measures described in the letter of intent appeared adequate to achieve the objectives set.

In the fiscal sector, while regretting the policy slippages that had occurred toward the end of 1989, he was encouraged to see that the authorities had taken strong measures in the first half of 1990 to correct the slippages and to reinforce their adjustment efforts, Mr. A. R. Ismael continued. He noted especially the major reforms of the tax system, which should help to increase revenue. The additional measures being taken to control current expenditure and to monitor closely investment expenditure were also appropriate, and should contribute to reducing the fiscal deficit. However, the fiscal deficit objective for 1990 seemed ambitious and would require strict adherence to all of the elements of the program.

In the external sector, he noted the measures taken to further liberalize the economy and to increase its competitiveness, Mr. A. R. Ismael stated. The tariff reforms being implemented were indeed in the right direction, although his chair would recommend that those reform measures be implemented carefully in order not to have a negative impact on fiscal revenue. The tariff reforms' impact on the external account should also be monitored carefully, so that they did not lead to a policy of constant devaluation.

He welcomed the other structural measures envisaged in the program, and especially those pertaining to the public enterprise sector, Mr. A. R. Ismael said. The envisaged measures should help to improve the efficiency of that sector. More generally, the development of a more efficient and competitive economy would also be helped by the reform of the financial sector and the use of indirect instruments of monetary policy. The projected decline in bank financing to the Government in 1990 and beyond should give the authorities the opportunity to liberalize that sector, which, in turn, would promote savings and improve the allocation of resources. Both were important elements in the strategy to achieve faster growth and a more viable balance of payments position in the medium term.

He also welcomed the medium-term approach taken in the design of the program, and hoped that an agreement could be reached soon between the Fund and the Moroccan authorities on a program that could be supported by an extended arrangement. He supported the proposed decisions.

Mr. Wright made the following statement:

> I wish to comment first on the specific request before the Board. I am disappointed that Directors are considering a request for yet another stand-by arrangement, instead of an extended arrangement, which had been expected. This stop-gap program will prolong even further Morocco's use of Fund resources. But I note that the full articulation of the program that may be supported by the extended facility depends on the finalization of the budget

for 1991; and Mr. Kabbaj has referred to program discussions in September 1990. Perhaps the staff could comment on the likelihood of an extended arrangement being in place before the end of 1990, so that only two disbursements may be made under the stand-by arrangement.

The stretching of the timetable in large part reflects the poor performance under the previous program, which is well documented in the staff report and was discussed at some length at the time of the second review of the previous program. The current stand-by arrangement must then be seen as the shortest of breathing spaces to allow corrections to be made prior to a longer program being adopted. Evaluation of the follow-on program will depend heavily on how quickly this can be achieved.

Central to the adjustment effort is a sharp reduction in the fiscal imbalance. As the staff notes, this requires permanent measures, and the 1990 Budget Law took important steps in this direction. Since the immediate impact will not be revenue neutral, the series of ad hoc measures to supplement revenue in 1990 can be justified; but, as other Directors have pointed out, the authorities should not become dependent on such measures and, in consequence, allow further structural revenue improvements to slip.

On the expenditure side, the planned elimination of most food subsidies is welcome, and I would encourage the authorities to accelerate the timetable if at all possible. More generally, the experience of 1989 also showed the importance of effective monitoring of spending; perhaps the staff could comment further on the technical assistance to be provided by the Fund.

A disturbing feature of performance in 1989 was the accumulation of domestic payments arrears. If the authorities are to demonstrate their commitment to adjustment, unexpected adverse developments in revenue or expenditure must be met by offsetting adjustment, and not by further arrears accumulation.

As far as monetary conditions are concerned, it is clear that after the slippages of 1989, credit conditions have tightened in the first half of 1990. The lower expected dependence on monetary financing of the deficit is particularly welcome. However, a sustained reduction in reliance on monetary financing depends on the availability of alternative sources of funding, which were less forthcoming than expected in 1989. I would be interested to hear the staff's evaluation of the prospects for a lasting increase in nonbank domestic financing. In the longer term, such an increase may be particularly important for domestic liquidity conditions as the temporary effects of the tax amnesty and accelerated corporate

tax payments come to an end. More generally, a lasting reduction in monetary financing will, of course, depend heavily on continued fiscal discipline at a time when financing requirements will include the costs of reducing domestic arrears and when, as Mr. Finaish has pointed out, interest costs may rise as the result of changes to the financial system.

As the staff makes clear, strict fiscal and monetary discipline will be necessary if the benefits of the recent devaluation and subsequent anchoring of the dirham are not to be dissipated. One of the welcome aspects of the program before us is that it does not entail any delay to the timetable for external viability. However, the rate of adjustment, after the slippages of 1989, is considerably more rapid than originally envisaged. In particular, export growth, after the recovery from the effects of the phosphate dispute, is now projected to be more rapid.

The maintenance of competitiveness is therefore essential; while any further slippages in policy may require some flexibility in the exchange rate, this should not be seen as a substitute for sound domestic policies. I would, in this context, be interested to hear from the staff how the inflation projections for Morocco compare with those for its main trading partners. Perhaps this could be treated as a supplement to Mr. Al-Jasser's question on how the exchange rate arrangements are to work. Export growth at the pace projected will also require more diversification and increased efficiency through structural reforms. These have generally been progressing well, but by the time of the next program discussion, I would hope to see more tangible evidence of public sector enterprise reform and divestiture. I note Mr. Kabbaj's concerns about unemployment in this connection, but the best prospect for sustained employment growth lies in structural reform to support macroeconomic adjustment.

The staff's sensitivity analysis illustrates the vulnerability of the external projections to oil and phosphates prices. If the projections are met, however, the loss of debt relief will increase the financing burden of the budget. Both of these factors should serve to remind the authorities of the paramount importance of adhering strictly to program targets, and adjusting to conditions as they change. Clear evidence of sustained commitment will be required when the Board considers any forthcoming request for an extended arrangement to accompany debt-reduction operations. With these remarks, I can support the proposed decisions.

Mr. Feldman made the following statement:

Morocco's relations with the Fund have been intense and fruitful during the 1980s, as reflected in the sequence of stand-by arrangements in support of the country's adjustment efforts, most of them being fully completed during these years. It is in this context that Morocco is requesting a relatively short stand-by arrangement, conceived as a transitional stage toward the adoption of a more comprehensive medium-term program. I support this approach, and endorse the proposed decisions.

Apart from the financial difficulties experienced in 1989--largely associated with a substantial deterioration in the terms of trade--the case of Morocco is particularly illuminating in demonstrating how appropriate economic adjustment efforts, when combined with favorable external conditions and adequate financial support and relief, can contribute to addressing the debt problem while minimizing some of the costs incurred by a country. In fact, Morocco is perhaps one of the few cases where a high degree of external indebtedness and low inflation coexist. In other words, while it is one of the heavily indebted middle-income countries, Morocco has so far avoided the exacerbation of domestic disequilibria usually associated with the debt problem. Notwithstanding this, and as Mr. Kabbaj has pointed out, Morocco has paid a cost during the 1980s in terms of a low rate of per capita growth and very high rates of urban unemployment.

At the current juncture, the crucial question for the authorities will be the design of a medium-term strategy aiming at higher and sustainable per capita growth and external viability, while preserving the progress already achieved in terms of domestic stability.

I broadly agree with the staff appraisal, but wish to note the proliferation of performance criteria in the 1990 program. Nine quantitative performance criteria plus three indicative targets seem to be excessive; I suspect that once the core performance criteria are set, the marginal contribution of additional criteria to the effectiveness of monitoring performance might be relatively small. I agree on the need for deepening fiscal measures, particularly those of structural nature, and on the need for long-lasting measures that can consolidate permanent fiscal discipline.

On monetary policy, although the expected shift from the system of credit encadrement to a policy based on indirect instruments is certainly welcome, the initial impact on interest rates of treasury bills, as well as on other interest rates, merit close attention by the authorities to avoid unnecessary inflationary

pressures or inflationary expectations as a result of this reform In the same vein, the recent devaluation of the dirham, combined with the appropriate degree of fiscal discipline, will contribute to strengthening Morocco's external position and to diversifying exports. At the same time, the anchor to a basket of the country's main partner currencies should certainly help in the pursuit of a low inflation rate.

The staff's sensitivity analysis shows that despite the significant progress made, the Moroccan economy still remains highly vulnerable to external shocks. In the staff's view, this highlights the potential need for additional adjustment, should less favorable external conditions than those assumed develop in the future. I agree with that view, although such conditions will call not only for further adjustment, but also for additional financing. Stability in Morocco has had much to do with an appropriate blend of adjustment and financing. In this respect, I wonder whether the Moroccan authorities have considered and ruled out any kind of contingency mechanism, either within, or independent of, the compensatory and contingency financing facility.

Regarding external debt management, the two-stage approach agreed with commercial bank creditors clearly appears to be positive. In this connection, I would appreciate some clarification, in particular, about the possibility of carrying out debt buy-back operations during the first stage, and about the financial resources that would be utilized in these operations.

In connection with the financing of the external gap for 1990, the staff paper indicates that the financial gap to be filled by bilateral official creditors will amount to SDR 896 million. The staff or Mr. Kabbaj could usefully comment on the progress already made in these negotiations. I support the proposed decisions.

Mrs. Hansen made the following statement:

My chair welcomes the long-awaited agreement between the Moroccan authorities and the Fund on a 1990 adjustment program, not only for its strengthening of the 1990 program, but also for the opportunity it provides for improving Morocco's recent performance record and putting in place the more far-reaching reforms needed to justify an extended arrangement. In this connection, we are encouraged by many of the steps taken by the authorities so far in 1990, particularly the devaluation of the dirham in May and its subsequent anchoring to a basket of currencies, as well as the end-June decision to liberalize interest rates and to abolish the system of bank credit ceilings before end-1990. On the fiscal

side, the additional measures to contain the fiscal deficit in 1990 and the attendant need for bank financing are helpful for the purposes of short-term stabilization, notwithstanding the short-term or ad hoc nature of a number of the measures.

My chair supports Morocco's desire to follow the current arrangement with an extended one. An extended arrangement would enable Morocco to activate the debt and debt-service reduction options of the current agreement with commercial banks, thereby easing the country's debt problem. Moreover, according to present projections, Morocco could, with appropriate medium-term policies supported by an extended arrangement, achieve external viability by 1993. This would be a most welcome development, especially in view of Morocco's prolonged use of Fund resources, including no fewer than two extended and five stand-by arrangements in the past decade--and until now, a continually receding time horizon for achieving external viability. However, as Mr. Goos noted, achieving external viability by 1993 will require a very serious fiscal effort, among other policies. My authorities' ability to support an extended arrangement for Morocco will hinge not only on good performance under the proposed stand-by arrangement, but also on the strength of both the 1991 budget and the accompanying structural reform program.

My chair supports the more long-lasting expenditure and revenue measures identified in the staff paper, including containment of the wage bill, and reductions in subsidies on sugar and vegetable oil, capital expenditure appropriations, and net transfers to the local authorities. In particular, it will be important to ensure that public expenditure is properly directed toward easing the basic constraints on medium- and long-term growth, such as illiteracy, health concerns, and environmental degradation. At the same time, generalized subsidies should be converted into assistance targeted to those in greatest need.

My authorities attach great importance to the privatization and restructuring of public sector enterprises. The large number of firms slated for privatization is quite encouraging, but it is disappointing that the program has not gotten under way more quickly. A specific, and appropriately ambitious, timetable for privatization should be part of any extended arrangement. The staff paper indicates that the authorities intend to restructure, but not privatize, enterprises providing public services. As these restructuring plans are drawn up, we hope it will be borne in mind how critical it is for the development of the private sector that basic public utilities such as water, power, and telephone services operate efficiently. The development of a more

modern, efficient economy will also require that Morocco continue with its program of import liberalization and begin a strong program of financial sector reform.

We agree with the staff on the importance of the authorities' standing ready to take additional adjustment measures, if needed, to keep the adjustment program on course. The paper states that further exchange rate adjustments will probably not be needed, and we hope that this will indeed be the case. However, we would encourage the authorities to remain flexible on this and other policies and to take prompt, appropriate corrective measures as necessary, particularly in the event of unforeseen exogenous developments, which were a key factor in the poor performance under the program in 1989.

On the exchange rate issue, my chair agrees with the staff's view that, despite a stable real effective exchange rate, devaluation of the dirham was necessary--to strengthen Morocco's external position without placing the entire burden of adjustment on contractionary financial policies, and to promote the diversification of Morocco's manufactured exports and tourism, which had slowed in recent years. We expect that these issues will figure prominently in Directors' eventual discussion of the staff paper on the CFA franc arrangements.

We support this short stand-by arrangement in hope that it will lead to a medium-term program that the Fund could support with an extended arrangement. My chair wishes to re-emphasize, however, the importance of good performance under the stand-by arrangement and of the authorities' commitment in the coming months to a strong and comprehensive medium-term program.

Mr. de Groote made the following statement:

After years of successful adjustment based on exemplary cooperation with the Fund, the performance of Morocco's economy in 1989 was somewhat disappointing. This was partly because of problems with the exportation of phosphoric acid, aggravated by a number of still uncorrected institutional and structural weaknesses, and partly because overconfidence based on the comfortable 1988 performance led to untimely moves to expansionary fiscal policy. The 1989 slippages will, paradoxically, be beneficial if they help the authorities recognize the need to reinvigorate their pursuit of structural adjustment. Their request for a stand-by arrangement clearly indicates an intention to persevere in their stabilization efforts and to follow them with structural adjustment. However, I would have preferred to discuss these issues in connection with Morocco's 1990 Article IV consultation, because

the background papers on recent economic developments would have provided a better opportunity to evaluate last year's policies in a structural context. I would be happy to be convinced by the staff representative and Mr. Kabbaj as to the reasons why a joint discussion was not considered.

Concerning the formulation of the performance criteria, I understand that the authorities' immediate task is to offset the effects of the relaxation of fiscal policies through well-known short-term remedies and to prepare the ground for the successful implementation of reforms. But some of the reform measures envisaged by the authorities, among them the liberalization of interest rates, the implementation of tax reforms, and privatization, are so directly linked to the structure of the economy that they may even be necessary during the short-term stabilization phase; and, for this reason, even though the proposed program covers a shorter period than usual--and will be incorporated, if successful, into an extended arrangement--I wonder if it should not have contained structural performance criteria?

As expected, the program for 1990 depends heavily on the success of the fiscal retrenchment and of the accompanying monetary tightening. The major sources of fiscal improvement will be a 15 percent cut in public investment, sizable transfers from public enterprises, and the revenues expected from the fiscal amnesty and acceleration of the corporate income tax. Since the corrective measures were not decided until June 1990, and only five months remain before the end of 1990, the program's fiscal deficit targets seem comparatively ambitious. Does the staff representative already have at his disposal figures for June 1990 that would justify Directors' expectation of an improved fiscal position? To bolster the Board's expectations for improvement, the staff could usefully inform Directors of the most recent available figure on the central government deficit as of June 1990. Since monetary reform is likely to bring a marked bidding up of the interest rate on treasury bills while also inducing excess liquidity, its effects on the fiscal deficit are cause for concern, as mentioned by Mr. Finaish, among other speakers. If interest rates should rise above the predicted levels, will it still be possible to observe the fiscal targets, or will the fiscal situation exert pressures against the tightening called for by monetary policy?

If the Board is under the obligation to make just decisions, Directors are then obliged to take note, with Mr. Kabbaj, that although Morocco has one of the highest debt ratios in the world--and suffered a 12 percent decline in its terms of trade in 1989--the authorities have not deviated from their payment obligations to the Fund. Also, I am particularly interested by Mr. Feldman's suggestion that the program could have included a contingency

element, and by Mrs. Hansen's recommendation in favor of the early adoption of a medium-term program under the EFF. I support the proposed decisions.

Ms. Powell made the following statement:

My chair welcomes the Moroccan authorities' commitment to adopting measures that will correct past policy weaknesses and set the economy on a path to sustained growth and external viability. The May 1990 devaluation provides a useful foundation for this renewed adjustment effort. However, if the new exchange rate is to serve as a durable anchor, it has to be backed by appropriately strong economic and financial policies--particularly by a substantial and sustained fiscal adjustment. It is because of the critical importance of a strong and sustained effort--and despite the ambitious program for 1990--that my chair has some reservations. These relate to Morocco's record of adjustment under previous programs, as well as the viability of the adjustment under the proposed program.

Despite a series of Fund arrangements, and the adoption of important structural adjustments over the past decade, the economy continues to suffer from severe imbalances and structural rigidities. Moreover, although Morocco was able to make the final purchase under its previous stand-by arrangement on the basis of having met the end-September 1989 performance criteria, the indicative targets for end-December 1989 were missed by significant margins. Indeed, the staff's description of the 1989 performance suggests that the end-September performance criteria may have been met by delaying investment expenditure until the last few months of the year. Perhaps the staff could comment on this interpretation.

The fiscal target for 1990 is, as the staff notes, extremely ambitious. However, it appears to place a large emphasis on expenditure constraint, particularly of investment outlays--which, given the results of 1989, may prove difficult to achieve. Moreover, despite the authorities' commitments to eliminate subsidies on sugar and vegetable oils by 1993, consumer subsidies are expected to increase in real terms. My chair is also concerned about the 1990 revenue targets, which imply an unprecedented increase in the yields, as a share of GDP, from the direct and indirect tax systems. Moreover, a significant component of the envisaged revenue gain for 1990 is expected to come from a program of tax amnesty, whose yield is highly uncertain. Such amnesties may have the unfortunate consequence of reducing the future yield of the tax system, by reducing the effective penalty of evasion.

There would also seem to be some risk for the external accounts in 1990. The staff indicates that the substantial reduction in the current account is expected to result from the effects of the May 1990 devaluation. I wonder if this action would be more likely to have a significant impact on real flows in 1991; if so, the 1990 current account may not show the projected improvement.

My chair's final concern reflects the likelihood of achieving the program's ambitious targets for the medium term. The staff candidly acknowledges that success in achieving balance of payments viability will require a substantial commitment to long-lasting structural reforms, especially a strengthened fiscal position. However, it is discouraging to note that many of the necessary revenue and expenditure measures have yet to be fully articulated.

As many of the fiscal measures adopted in 1990--including the provisions for accelerated corporate tax payments and the tax amnesty--will not have any lasting impact, and special factors will depress revenues in 1991, there is a need for sustained reforms of all areas of the fiscal system. On the expenditure side, the letter of intent identifies the better monitoring and control of spending, the privatization of public enterprises, the further transfer of expenditure responsibility to local government, and the reduction in consumer subsidies. On the revenue side, the need for improved tax administration is acknowledged. Moreover, the staff indicates that even if the deficit is reduced to its targeted level by 1993, a successful expansion of the extremely small market for government debt is required to enable the deficit to be financed. Nonetheless, most of the specific details and timing of the required reforms have yet to be established, suggesting that the groundwork for a lasting adjustment still needs to be laid.

The fragility of the program over the medium term and the need for speedy adoption of the necessary measures is underscored by the staff's projections for the balance of payments, which--under fairly optimistic assumptions--implies that exceptional financing will be required over the next three years. If external circumstances were only slightly less favorable than projected, this amount would be substantially affected, as would be the time taken to achieve external viability. In particular, slightly less optimistic assumptions regarding the responsiveness of tourism and transfers to the recent exchange rate adjustment, or a modest reduction in the level of projected phosphate prices, would have severe financing consequences.

Despite these concerns, my chair is prepared to support the program. In part, this reflects the fact that the size of the purchases contemplated are relatively modest, and that a slight decline in total Fund credit is expected. I would encourage the authorities to work quickly to specify more concretely both the timing and the content of the structural measures that will be necessary to achieve the 1991 fiscal target, and lay the basis for a medium-term program. Indeed, my chair would look for substantial progress in this regard before the time of the first review.

Mr. Filosa made the following statement:

The program we discuss today represents the latest attempt to address the significant structural and macroeconomic problems which continue to affect Morocco in spite of the implementation of three Fund programs in less than five years. The basic goal of the program is to compensate for the serious slippages which occurred in 1989, while, at the same time continuing the reforms undertaken in the recent past. In this respect, the program should be seen more as a way of bridging the arrangement expired in December with a possible EFF arrangement to be undertaken in 1991, rather that as a self-contained arrangement with its own independent targets.

Indeed, this two-stage approach appears realistic to me, as it tries first to correct the policy slippages occurred in 1989 and then to achieve more ambitious targets. Nevertheless, the decision to proceed so cautiously indicates that, in spite of a prolonged cooperation with the Fund and the pressing adjustment needs of the country, the authorities are still reluctant to pursue more radical adjustment policies. The need for more radical policies is demonstrated by the sensitivity of the medium-term outlook to external developments, which shows that even mild adverse external shocks would require important additional adjustment measures.

The adoption, at this stage, of a more decisive policy approach, preferably in the form of a medium-term program, would have had two main important vantages. First, the adoption of a medium-term program would have given the authorities stronger incentives to implement with continuity the policies agreed with the Fund. That more continuity in policy implementation is necessary in the case of Morocco is shown by the fact that all the indicative targets set by the old stand-by arrangement for December 1989 have been missed as a result of a disappointing fiscal performance. The authorities should not underestimate the importance of these policy slippages, which were well emphasized by most chairs, including my own, at the time of the second review

of the old program. I feel that the slippages which occurred in 1989 have caused a setback in the country's adjustment and will certainly complicate the task which now lies ahead. Secondly, the adoption, at this stage, of a medium-term framework would have helped to improve the authorities' track record and would have therefore increased the support of the international financial community for the adjustment efforts of the country.

Having made these general remarks, I would like to address three more specific aspects of the program, regarding fiscal, structural, and external policies, respectively.

Regarding fiscal policy, I think that the fiscal revenue objective for 1990 could prove to be set at an optimistically high level. I have two main reasons for this. First, almost one sixth of the improvement in revenues is expected to derive from a fiscal amnesty. Experience in other countries, including my own, suggests that actual revenues from fiscal amnesties systematically fall short of expectations. In this connection, I would like to ask the staff to comment on the basis of the estimated results of the amnesty and whether the tax administration machinery is capable to handle the extra work load which will be caused by the amnesty. Second, I have doubts on whether revenues of privatization can be reasonably included in the 1990 budget, since the legal framework for privatization has yet to be fully established. Also on this point, I would welcome the comments of the staff.

Regarding structural policies, I note that a plan of action for the restructuring of public enterprises should be ready before the end of 1990. I would be therefore interested in hearing from the staff's representative along what lines the restructuring will be organized and whether they expect that the plan will be completed on time.

Finally, on external policies, I note that a substantial increase in exports is expected in 1990. The staff justifies this forecast on the basis of the improved performance of both traditional and nontraditional exports. I would therefore be interested in knowing which components of exports is expected to experience the highest rate of growth and whether there is indication that the recent devaluation has caused any substantial increase in nontraditional exports. I would be interested to hear the staff comments on this point, since the Board's position on the issue was far from being unequivocal at the time of the last review.

In conclusion, Mr. Chairman, I do welcome the renovated adjustment efforts of Morocco. Nevertheless, I would have liked to see, as I have indicated in the course of this statement,

stronger adjustment policies on the part of the authorities. Finally, I support the proposed decision.

Mr. Ichikawa made the following statement:

It is regrettable that the previous stand-by arrangement lapsed, with little being achieved in the area of financial adjustment under the program. The lack of an appropriate response to the unexpected adverse developments on the external front led to a widening of internal and external imbalances. In particular, the authorities' recourse to fiscal stimulus in the last months of 1989 resulted in large deviations of fiscal and monetary performance--as well as in reserves--from original program targets, and failed, at the same time, to fuel growth.

The Moroccan economy clearly needs a new adjustment strategy to ensure viable growth over the medium term. As progress has been achieved in structural areas over the past years, the prospects for restoring momentum in growth are not necessarily dim. Nevertheless, a substantial strengthening of the adjustment efforts is needed in view of the large internal and external imbalances; and my chair thus welcomes the adoption of the stand-by arrangement as the first phase of the revised medium-term strategy.

This being said, there remains uncertainty in regard to both the short- and medium-term prospects. The continued failure to contain fiscal deficits in the past casts serious doubt about successful achievement of the fiscal targets. As fiscal consolidation is of central importance to the macroeconomic adjustment strategy over the medium term, particularly to restoring the domestic savings and investment balance, both structural and short-term measures should be fully integrated. While the program assumes that fixing the exchange rate to a basket of currencies of Morocco's major trading partners will serve as an anchor, my chair's experience suggests that a tight incomes policy, particularly effective wage restraint, would be the best anchor. Unless effective adjustment is achieved in domestic financial policies, the new exchange rate will not be able to ensure the external competitiveness of the economy.

There is also uncertainty about the restoration of external viability. The achievement of external viability hinges upon the elimination of the public deficit, as debt relief has been a large source of that deficit's financing. Moreover, while the staff's baseline scenario assumes a neutral external environment, the alternative scenario demonstrates a considerable downside risk in the medium-term outlook. I wonder whether the staff's estimate of

exogenous impacts in the baseline scenario are sufficiently cautious. Also, I am interested in the staff's comments on incorporating a contingency mechanism into the program, and I have some questions about the availability of exceptional financing. Specifically, the program assumes SDR 900 million in debt relief from bilateral official creditors in 1990, together with SDR 250 million in commercial debt relief to be obtained in the context of debt restructuring. The staff could usefully comment on the Paris Club rescheduling negotiations for 1990, and on the net effect of commercial debt restructuring in the following years.

In the final analysis, the program is very vulnerable to any policy slippages, as well as to external shocks. And in the event of unfavorable external developments and unsatisfactory policy implementation, it could become underfinanced. In addition, as one of the prolonged users of Fund resources, Morocco will damage its credibility with the international financial community if it fails to adjust successfully under the new program. While the authorities intend to proceed with an extended arrangement at a later stage, the uncertainty in the medium-term program needs to be eliminated by that time, through successful adjustment under the proposed stand-by arrangement.

I have little to add to the staff's appraisal of specific policies under the 1990 program. While the fiscal target seems ambitious, I note that the target should originally have been achieved in 1989 under the previous program, and I believe that a larger fiscal adjustment could be achieved by substantially cutting expenditures. While public wage restraint on a nominal basis and other current expenditure restraint, such as a cut-back in consumer subsidies, are warranted, past experience demonstrates the importance of capital expenditure control. In addition to restrictive appropriation, prioritization in expenditure should be established. While I welcome the adoption of the General Income Tax, broadening of the tax base could be achieved more effectively by introducing a value-added tax system. The staff could usefully comment on how the new tax system can effectively avoid revenue slippages, which have occurred repeatedly in past years.

The program does not seem to put sufficient emphasis on parastatal reform and privatization, as the current reform and privatization plan envisages only gradual progress toward the end of 1990. My chair joins other Directors in encouraging the authorities to accelerate the privatization plan.

On the monetary front, financial sector reform and reduction of monetary financing of the public deficit are essential elements of the 1990 program. At the same time, the monetary authorities

need to monitor developments closely and should maintain a tight credit stance, while liberalizing interest rates.

I can endorse the new exchange rate system, along with the ongoing trade liberalization, as necessary measures for the restoration of external competitiveness. However, as I have stressed, success hinges upon fiscal and monetary tightening. Also, I am somewhat concerned about the optimistic current account assumptions of the program; the staff should thus monitor external developments closely, and the authorities should seek to create a more favorable macroeconomic and regulatory environment to promote foreign direct investment.

While the proposed stand-by arrangement represents an important first phase of the medium-term strategy, much uncertainty remains about the successful implementation of the program. Like Mr. J. E. Ismael, I would stress that the authorities should not hesitate to adopt any additional measures that might be necessary to avoid unexpected slippages. Perseverance with the program and a good performance record are needed, not only to ensure smooth progress toward an extended arrangement, but also to justify Morocco's already prolonged use of Fund resources. Like Mrs. Hansen, I hope that progress toward the extended arrangement and the resolution of the debt problem--by means of a debt reduction operation--could reduce Morocco's dependence on Fund resources. I support the proposed decisions.

Mr. Marino said that his chair was gratified to see that Morocco's stabilization program for 1990 had, as a foundation, the four pillars of stabilization. First, it included fiscal strengthening, based on aggressive revenue-raising and expenditure-reducing measures. Those measures would cut the overall fiscal deficit in half to 2.8 percent of GDP in 1990. Second, it encompassed a privatization effort, including privatization of over 110 enterprises in the near future, and a detailed timetable for the privatization program for the next six years. Third, there was a deregulation program with the aim of improving the economic and financial environment for private and foreign investment. That program included the lifting of regulations limiting competition among banks, and the abolition of the system of credit of encadrement. Fourth, trade liberalization would be continued in order to enhance domestic competition and productivity, including the eventual elimination of all remaining quantitative restrictions on imports.

The probability of success under Morocco's stabilization program would certainly be enhanced if the external environment was more favorable in coming years, and by the recent debt agreement reached with the Steering Committee of commercial bank creditors, Mr. Marino continued. The debt agreement would lift an important constraint on the country's growth

prospects by helping to alleviate the debt overhang. He hoped that further negotiations with official creditors would result in substantial debt relief, further boosting Morocco's push toward regaining external liability by 1993.

His chair concurred with the staff appraisal in that strict implementation of the 1990 budget and a 1991 budget consistent with a further reduction in the deficit to 2.0 percent of GDP were necessary conditions to ensuring the success of the program, Mr. Marino stated. He hoped that the Moroccan authorities would implement all of their adjustment measures in a timely fashion, and soon start to reap the benefits of their reforms. As a well-known expert on stabilization had recently said when asked about the optimal timing of adjustment measures, "it is always better to implement them yesterday rather than today, but certainly do not wait until tomorrow." His chair hoped to see in the near future an arrangement under the extended facility with a debt-reduction component, and could support the proposed decisions.

Mr. Thorláksson said that he agreed with most Directors' remarks on the proposed program, particularly the comments regarding Morocco's need to adopt a much stronger fiscal policy than in the past.

He shared the view that the reform of the public enterprise sector constituted one of the key elements of the economic adjustment, Mr. Thorláksson commented. In fact, thorough reform in that area was long overdue. The authorities' efforts to date in reviewing, formulating, and executing necessary privatization and restructuring measures had been too fragmentary. At the second review of the previous stand-by arrangement in November 1989, his chair had been encouraged by Mr. Kabbaj's statement that the privatization process had entered into a more active phase--a phase that, unfortunately, still seemed to be somewhat elusive. He therefore welcomed the fact that a legal framework for privatization would soon be in place. All in all, progress in that area seemed meager in view of the fact that Morocco had already had five stand-by arrangements over the past eight years. The staff or Mr. Kabbaj could usefully clarify the timetable for further action in that area and the possible obstacles to the privatization process.

Like other speakers, he believed that Morocco's economy would gain considerably from a more rapid adjustment aimed at balance of payments viability and sustained noninflationary growth in the medium-term, Mr. Thorláksson stated. The proposed program again lacked comprehensiveness, and consisted basically only of separate economic measures in the context of a stand-by arrangement, this time covering a period of less than one year. That raised some serious concerns about the authorities' ability to formulate and implement comprehensive economic policies within a medium-term framework. It also raised the question of the desirability of Morocco being a prolonged user of Fund resources and the authorities' ability to

meet the economic policy requirements of a much needed debt-service reduction agreement with the commercial banks.

Consequently, he would have preferred to have been discussing today a sufficiently strong adjustment program for Morocco, in the form of an extended arrangement, Mr. Thorláksson pointed out. Nevertheless, in the light of economic developments in 1989, and with regard to the present policy package and the authorities' commitment to formulate a comprehensive medium-term adjustment program, he could support the proposed decisions. In so doing, he also acknowledged Morocco's past record of meeting Fund obligations promptly, and the fact that the outstanding amount of Fund credit to Morocco would decline during the program period.

Mr. Hogeweg made the following statement:

> When the authorities of one of our member countries resume their adjustment efforts after an unwarranted relaxation of policies, they provide Directors with an opportunity to commend them. Needless to say, our praise would be louder, had they not relaxed their efforts before resuming them. Stop and go policies, even if they are influenced by exogenous developments, do not provide the best possible track record.
>
> Morocco's current request for a stand-by arrangement seems to be designed primarily to lay a basis for a postponed, ambitious extended arrangement, which would tackle structural issues, accommodate interest rate reduction of the--relatively small--debt owed to commercial banks, and allow viability to be reached in the medium term. I appreciate that this interval has been built in, and I believe that it is appropriate that access has been set at a level that allows a slight further decline in the Fund's exposure. I support the proposed decisions, but I note the large contribution that official creditors will have to make in filling the 1990 financing gap.
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> In 1989, the Board had an interesting discussion on exchange rate policy in Morocco, during which I was among those speakers who expressed doubts on the need for a "much more active" exchange rate policy, as advocated by the staff. A devaluation has taken place, and I understand that it is intended to keep the exchange rate nominally unchanged vis-à-vis a new basket of relevant currencies. I remain to be convinced that a devaluation was necessary; but I support the idea that if a devaluation is needed, it should be of a one-step nature, together with sufficiently tight domestic policies, to obviate the need for a further slide in the exchange rate and, even, allowing continuing improvements in competitiveness. As such, a devaluation does not substitute for domestic adjustment. I would of course not call this policy "much more active," and neither does the staff. The new adjective

is "appropriate." I admire the creativity of the staff, and not only in the case of Morocco, in finding meaningless words to describe exchange rate policy--albeit I agree that this policy is appropriate.

Fiscal policy is the main area where domestic policies will be tightened, and rightly so, because that is where the slippages have occurred. The staff is certainly correct in advocating long-lasting, over temporary, measures. It struck me that among the long-lasting ones there are transfers of expenditures to local authorities. No doubt this is good for the central government budget, but like Mr. Goos, I thought that the benefit for the economy is less obvious.

On monetary policy, the staff stresses the transition to market-based instruments, which should allow the credit ceilings--currently the main restrictive instrument--to be abolished in 1990. I agree that the strong fiscal effort may provide a good opportunity in this respect, and also that market-based instruments and liberalized interest rates constitute highly welcome structural reforms. At the present juncture I would, however, also stress the importance of sticking to the restrictive stance, in view, as well, of the envisioned exchange rate policy. This may make experiments risky.

It struck me that monetary financing by the Government will continue, but now in the form of treasury bill auctions. It is interesting that the staff considers this to be a positive development, since it allows the creation of a secondary market for these bills on which open market operations can be performed. Yet, it somehow sounds strange that money has to be created in order to establish a mechanism to control monetary expansion.

Mr. Kwon made the following statement:

The proposed program that the authorities intend to implement appears to be a very ambitious one. A strengthening of the adjustment effort across the entire area of macroeconomic policy, particularly in the fiscal area, is envisaged. Improvements in all of the major macroeconomic aggregates are forecast over the program.

My chair has found no faults in what it regards as a praiseworthy attempt by the authorities to implement a large number of measures across a broad spectrum of policies. Indeed, in considering the request for a stand-by arrangement, my chair is especially encouraged by two factors. The first is that the 1990 program is seen by both the authorities and the staff as a step

toward the formulation and implementation of a comprehensive policy strategy, which will lay the basis for a medium-term program. This fact is crucial to the success of any adjustment program.

The second factor is Morocco's recent track record. While the "slate" is not completely "clean" in this regard, and there have been a number of disappointing developments--with imbalances indeed remaining large--it seems, overall, that the authorities have made determined efforts at adjustment since the mid-1980s. There have been setbacks, most recently, and notably, in 1989. However, the fact that the authorities have already taken a number of important measures to date in 1990 is encouraging.

However, there are some potential "shadows" to the program. First, the fact that the adjustment effort is ambitious will require the Government's determined and consistent efforts in implementing a number of measures over the medium term, which is, by no means, an easy task. Second, the "rosy" medium-term outlook is highly sensitive to external developments; indeed, improvements in the major economic aggregates are based on a neutral such environment. As a result, the success of the program will depend not only on the environment remaining neutral, but also on the authorities' prompt and adequate response--including, possibly, additional adjustment measures.

I note that the improvement in the fiscal deficit in 1990 relies heavily on a substantial increase in revenues. The revenue performance in 1989 was below expectations, and was one of the reasons for the substantial overshooting in the budget deficit. The authorities themselves recognized at the time that new and additional revenue measures needed to be implemented. In consequence, my chair is inclined to take a cautious view of the revenue estimates, and believes that a very close watch should be kept on revenue developments.

I note the authorities' decision to anchor the dirham to a basket of currencies with the aim of achieving a low rate of inflation. I trust that the nine countries in the basket can keep their inflation rates low, to the benefit of Morocco. However, there are some risks in anchoring an exchange rate to countries that could experience rapid inflation. The staff notes the importance of pursuing an appropriate and compatible fiscal policy; I would also emphasize the need to keep watch, to ensure that the anchor remains constant with that overall broad objective of the program.

I am encouraged by the staff's assessment that Morocco's capacity to repay the Fund should remain strong, and that the

medium-term program currently being formulated will lay the basis for another Fund-supported program, possibly under the extended facility. Like Mrs. Hansen, however, I would attach great importance to the successful implementation of the current short-term program, as a precondition for a medium-term program. With these comments, I can support the proposed decisions, and wish the authorities every success in their ambitious but worthwhile adjustment efforts.

Mr. Dai remarked that he wished to join previous speakers in supporting the authorities' request for a stand-by arrangement. Although remarkable progress had been made in 1988 as a result of reinforced adjustment efforts and good weather conditions, difficulties remained with fiscal and external imbalances in the Moroccan economy and with structural rigidities. In 1989, economic performance had worsened; none of the indicative targets had been met, owing largely to the worsening in the terms of trade and to some slippage in policy implementation. It was encouraging to note, however, that the authorities had taken some important measures in the first half of 1990 to correct policy weaknesses. They had also formulated a courageous program for 1990, aimed at accelerating growth to 3.5 percent for the year--from 2.2 percent in 1989--while maintaining a low rate of inflation, at 6 percent in terms of the GDP deflator. He broadly agreed with the staff's analysis and appraisal.

It was evident that fiscal policy was of vital importance to the success of the program, Mr. Dai said. According to the authorities' memorandum on economic and financial policy, the overall deficit on a payment order basis would be reduced to 2.8 percent of GDP in 1990, from 5.7 percent in 1989. He encouraged the authorities to undertake the necessary structural measures to ensure that sufficient revenue was generated and expenditure was capped at an appropriate level. He also wished to emphasize that monitoring of public investment was very important as well, and that efforts should be made to ensure that the level of investment commitments were compatible with the financing available. In that context, the Fund's technical assistance would surely be of great help to the authorities in improving the monitoring and control of expenditure, including investment expenditure.

With regard to monetary policy, he welcomed the authorities' reform measures and the tight policy stance that they had maintained, Mr. Dai indicated. He also welcomed their intention to shift from their current policy of credit encadrement to a policy based on indirect instruments. He could endorse the proposed decisions.

The staff representative from the African Department said that he wished to assure Mr. Ichikawa that the program would be fully financed after the next Paris Club rescheduling, set for discussion in the second week of September 1990. The size of the Paris Club rescheduling should not present a problem, as the debt concerned should remain somewhat below the maximum

amount eligible for the Club's rescheduling. The agreement with the Commercial Bank Steering Committee on debt restructuring had been reached about three months previously, and while the requisite paperwork had been slow, the final agreement should be secured fairly soon. It should provide about SDR 252 million of commercial financing in 1990; except for the post-cutoff date debt, all of the principal due to banks in 1990 and for the medium term had been postponed. It was too early to estimate reliably the probable results of the coming second stage of the agreement with commercial banks, which envisaged interest rate reduction, buy-backs, and debt equity swaps. A rough estimate was that interest payments might be reduced by some SDR 70-100 million a year by that second stage, discussion on which had been postponed somewhat until 1991. The amount of debt buy-backs in 1990 would probably be small, owing to lack of resources.

Reform of monetary policy in Morocco was expected to lead to some increase in the interest rate for the Treasury, but not by much, the staff representative indicated. Fully two-thirds of government debt was foreign, and only one third domestic, on which the increase in interest rates would not be substantial. The rate on one year treasury bills had increased from 9 1/2 percent to 10 1/2 percent since the start of the reform in early July 1990. Before the reform, the Treasury had been borrowing from the Central Bank through a commercial bank at a 12 percent interest rate; borrowing through the market would thus not increase interest expenses by much, even if the transfer of central bank profits was reduced somewhat.

The key aspect of the reform of monetary policy was that the Treasury would have to rely on the market for treasury bills for previous, virtually unlimited access to central bank financing, meeting its financing needs the staff representative said. So far, it had been difficult for the Central Bank to conduct an independent monetary policy. While it limited the credit that banks could provide to the economy, it could not control bank liquidity, through increasing the reserve requirements, for instance, as long as the Treasury had discretionary access to central bank financing.

The reform of credit policy would not present an additional risk to the program in 1990 because the shift from the current policy of encadrement would not begin until January 1, 1991, the staff representative explained. But it was true that the shift to indirect instruments of credit control would make it more difficult to estimate credit growth in 1991. In that connection, the rate of growth of the money stock in the current program--9 1/2 percent for 1990--was already tight, given the tendency in Morocco for the money supply to have grown slightly faster than nominal GNP.

The key factor influencing the operation of the new exchange rate system would obviously be the trend in Moroccan inflation, the staff representative stated. The average inflation rate of the countries in the exchange rate basket was currently about 4-4 1/2 percent a year, while it was about 6 percent in Morocco, reflecting in part the direct, and one time only, impact of the recent devaluation of dirham. Once the effect of the

latter was accounted for, Morocco and the partner countries' inflation rates were probably similar. The ability for Morocco to reduce its inflation rate to below that of its trading partners would be extremely important--and was achievable--in view of its rate of about 3 1/2 percent a year in the past two years having, indeed, been below partner country inflation rates.

With the reform of credit policy and the financial sector one would expect the Government to be able to increase gradually its domestic nonbank financing, which had been small, the staff representative observed. The Government should also be able to obtain slightly more external financing in net terms owing to the large repayments currently falling due. Nonetheless, it remained the case that it would not be feasible for the Government to run a deficit over the medium term of more than 1 1/2-2 percent of GDP, because of the loss of debt relief.

The projected increase in fiscal revenues for 1990 was not too ambitious, the staff representative considered. While the staff did not yet have revenue data for end-June 1990, he would point out that the large increase in revenue would come predominantly from the tax amnesty, estimated to provide about DH 1.5 billion. This estimate was not much more than the authorities had received from the last tax amnesty six years previously. The main concern was not the size of the tax amnesty per se, but that the measure, from a structural standpoint, was not a long-lasting but a transitory one. Indeed, one could have legitimate concerns about the tax amnesty's longer-term effect in view of it having been used already in the past.

The transfer of expenditure from the Central Government to the local authorities would of course not reduce total government expenditure, the staff representative continued. Even so, local authorities were receiving increased revenues, obtaining 30 percent of the quickly accelerating receipts from the value-added tax; and they were benefiting, as well, from the reform of local taxation. Without the transfer of new categories of expenditures, in fact, local authorities would have been able to increase their expenditures extremely rapidly on the items they were already covering. Thus, the transfers of new categories of expenditures was a means of avoiding a sharp increase in local spending. In connection with the monitoring of expenditure, the authorities had requested technical assistance and would receive a mission from the Fiscal Affairs Department in August 1990 to that end.

After some preparation, the legal basis for privatization had been put in place, the staff representative remarked. The staff had reason to believe that the first few potential enterprises had been identified, and hoped that privatization would take place over the next three to four months, with some concrete examples in evidence by the time of the first program review. In addition, restructuring and rehabilitation of the parastatals would be a long-term undertaking, with help from the World Bank. That institution's existing program had been concluded, and a second program

was in preparation, probably for the beginning of 1991. The further World Bank program in support of restructuring would be important, particularly as the parastatals would soon stop benefiting from debt relief. The parastatals, indeed, had previously not paid their foreign debt service in terms of either principal or interest. A major financial adjustment would therefore be required.

There were a substantial number of performance criteria in the current program, namely, 10 in total if one included subcategories, the staff representative indicated. Several performance criteria were needed for the budget in Morocco's case, because of the problem of domestic arrears. The criteria were needed to cover the reduction in domestic arrears, the overall deficit, and bank financing. In addition, owing to the large deviation from the target for external reserves under the previous program, a criterion on such reserves was needed. And, given that a key aspect of the proposed program was the prevention of parastatal financing by means of rescheduling, consistency required criteria to be set on bank credit to enterprises to preempt substitution of one means of financing by another--at the expense of private sector credit. The key reform of credit policy was already under way, having been announced at end June 1990. The short length of the program explained the absence of further structural performance criteria.

For an eight-month arrangement, the inclusion of a contingency mechanism for Morocco would not be highly useful, the staff representative commented. Moroccan phosphate products were exported on the basis of yearly contract prices; and interest payments to commercial banks were made with a three-month lag, in that the staff already knew the interest to be paid in September 1990. Given the very short-term nature of the program and the review to be held at end-September 1990--which would influence the next purchase--a contingency element in the program was not necessary. However, in the context of longer-term program, particularly under an extended arrangement, a contingency should certainly be included.

The staff had begun discussions with the authorities on the proposed stand-by arrangement a long time previously, the staff representative remarked. At that time, it was too early to conduct the Article IV discussions. When the discussions for the arrangement were completed in Washington, it was difficult to conduct at the same time the Article IV consultations. A new mission to Rabat would have been needed, and that would have delayed the program inordinately. A staff mission would visit Morocco in September 1990 for Article IV consultation discussions, to be considered by the Board in November/December 1990. During that mission, the staff would also prepare a report for the review of the currently proposed stand-by arrangement, and begin negotiations on an extended arrangement for possible conclusion by end-1990, and Board consideration by, perhaps, January 1991. The key factor in regard to the potential extended arrangement would be the fiscal budget under preparation by the authorities.

Mr. Ichikawa remarked that he wished to clarify that he had not implied that the program was underfinanced. Instead, he had cautioned that the sensitivity of Morocco's current account to policy slippages and exogenous developments--such as in export prices--could widen the country's financing requirements, and could perhaps lead to such a shortfall.

The staff representative from the Exchange and Trade Relations Department commented that there was already a form of implicit contingency mechanism incorporated into the program. The ceilings on net foreign assets provided for a reserve cushion that could be used in conjunction with contingent policy action in the event of exogenous developments. Reserves accumulated prior to, and policy action at the time of the next review, would be relied on.

Mr. Kabbaj noted that the majority of speakers had referred to slippages and a relaxation in budgetary policy in 1989. As explained in his opening statement, the magnitude of exogenous developments partly accounted for those slippages, albeit his authorities wished to point out that no relaxation in the fiscal stance itself had been planned. He would assure Directors that there had been no willingness or decision on the authorities' part to fail to observe the program targets. One should look at fiscal and monetary policy together, along with inflation, in assessing the relative tightness of policy. Morocco was perhaps the only heavily indebted country with a record of low inflation, implying that its fiscal and monetary policies had not been lax.

It should be noted that budgetary slippages had arisen partly in consequence as well of the agreed reforms implemented with Fund and World Bank technical assistance, Mr. Kabbaj observed, intended to have a favorable impact over the medium-term. Indeed, a substantial cause of the investment expenditure overrun had been related to the simplification of procedures for such expenditure, implemented for the first time in 1990--and not to any attempt to observe the September 1990 performance criteria at the expense of overruns later in the year. In addition, the devaluation of the dirham had impacted negatively on the budget equivalent to 0.5 percent of revenue.

In assessing whether fiscal policy had been lax per se, one could examine a major expenditure category such as civil service salaries, Mr. Kabbaj continued. The staff representative had stated clearly in the Board on a previous occasion that the number and salaries of civil servants in Morocco was not unduly high for similar such countries; a similar conclusion had been arrived at in the recent staff paper on the CFA franc zone, in which Morocco's salaries had been compared with those in several sub-Saharan African countries. Moreover, public investment expenditure equivalent to 6-7 percent of GDP was clearly not excessive for a country like Morocco, particularly considering the problems that it had in common with other developing countries, including extensive unemployment and low levels of health and literacy, areas in which the World Bank was making a substantial effort. Neither excessive were Morocco's consumer subsidies--at less than

1 percent of GDP--in comparison with other heavily indebted countries supported by extended arrangements, whose subsidies in the area were sometimes a multiple of Morocco's. He would point out, furthermore, that Table 8 of the staff report indicated that public savings had increased from DH 478 million to DH 8,942 million from 1987 to 1990, or from the equivalent of 0.5 percent of GDP to 4.5 percent of GDP.

In the authorities' view, sufficient attention was not being paid by the international community to the consequences of the debt overhang, Mr. Kabbaj remarked. Table 8 indicated that Morocco owed DH 20 billion in debt service in 1990--DH 8 billion in interest on external debt plus DH 12 billion in amortization due--or 10 percent of GDP, equivalent to 40 percent of fiscal revenues in 1990, and even as high as 60 percent in 1986. Morocco had a most substantial debt overhang. The expected debt relief of DH 8.8 billion indicated by the table entry for the financing gap would amount to only 40 percent of the debt due, such that the country would service 60 percent of debt service through its fiscal budget, as 85 percent of its external debt was to official creditors. The issue of countries heavily indebted to official as opposed to commercial creditors had been raised in the international forum. He hoped that Directors would keep the above factors in mind when they considered a possible extended arrangement for Morocco.

The authorities at the highest level had communicated clearly to management and the staff that Morocco was determined to tackle its fiscal problems--and within a medium-term perspective--with the objective of attaining external viability by end 1993, Mr. Kabbaj emphasized. To demonstrate the country's commitment to effective implementation of the proposed program, a high level committee had been created in February 1990, comprised of the Prime Minister, the key Ministers, and the Advisors to the King, with the intent of proposing immediate action whenever slippages arose. The Government had publicly enumerated its policies for attaining viability within the next three years. A full debate had been held on those policies in Parliament in May 1990, during which the opposition had tabled a motion of nonconfidence, which had been defeated. The coming single European market and liberalization of Eastern Europe militated in favor of the adoption of the Government's measures. As had been noted by the staff representative, in any event, the next program would hinge on the 1991 budget, due for adoption within two months. The Government had agreed to a target fiscal adjustment equivalent to 2 percent of GDP--underpinned by clear understandings with the staff--and he was confident that it would deliver on its commitments during the September 1990 staff mission.

He would differ with some Directors in pointing out that Morocco was one of the first highly indebted countries to have started far-reaching structural reforms with the help of the Fund and the World Bank, Mr. Kabbaj stated. An appendix by the Bank, describing the many structural measures implemented thus far, should be included in the next staff paper. He would note that 85 percent of public enterprise trade was free of restrictions following the implementation of the first phase of the trade reform. As

the staff representative had noted, there had been some delay in financial sector reform, but its broad framework had been agreed and announced already. The matter was being actively pursued with the World Bank. Many speakers had referred to the delays in the implementation of privatization, which had been due mainly to the necessity of building a domestic consensus in favor of the policy. The privatization law had been approved by Parliament, albeit a few administrative problems remained to be tackled in the following few days or weeks, specifically, the creation of two committees to oversee the practical operational aspects of privatization. A list of 110 eligible public enterprises had been published, most of which were profitable concerns in the tourist, banking, and industrial sectors, and the first of which would be the one considered easiest to privatize. Once the administrative problems had been resolved, privatization could proceed expeditiously.

The Executive Board then took the following decisions:

Stand-By Arrangement

1. The Government of Morocco has requested a stand-by arrangement for the period from July 20, 1990 to March 31, 1991 in an amount equivalent to SDR 100 million.

2. The Fund approves the stand-by arrangement set forth in EBS/90/127, Supplement 1.

3. The Fund waives the limitation in Article V, Section 3(b)(iii).

Decision No. 9506-(90/117), adopted
July 20, 1990

Exchange System

The Fund approves the retention by Morocco of the exchange restrictions remaining pending the execution of rescheduling agreements with each official creditor until March 31, 1991.

Decision No. 9507-(90/117), adopted
July 20, 1990

3. 1989 QUADRENNIAL BENEFITS SURVEY

The Executive Directors considered a staff paper on the results of the 1989 quadrennial survey of staff benefits (EBAP/90/73, 3/26/90), together with a paper on the survey's implications for Fund benefits (EBAP/90/73, Sup. 1, 7/5/90) and a paper by the Staff Association Committee (EBAP/90/186, 7/16/90).

The representative of Hewitt Associates, Consultants, stated that the survey which Hewitt Associates had conducted for the quadrennial benefits survey had compared the value of the Fund's benefits with those in various financial, industrial, and public service organizations in France, Germany, and the United States. The intent had not been to determine what benefits cost, but rather, on an actuarial basis, what they were worth. Methodologically, the consultants had determined a sample Fund and Bank population in which each organization had equal weight, since the survey was sponsored by, and covered, both organizations. Actuarial assumptions were then set based on reasonable expectations, founded both on past experience in general, and of the Fund and the Bank in particular. All benefits were assessed against those actuarial assumptions.

Benefits were divided between various groups, the representative from Hewitt Associates went on. Core benefits included retirement, medical and health care, and death and disability benefits. Noncore benefits included, inter alia, leave policies, meal subsidies, and subsidized loans. The consultants had reported on, but had not attempted to value, a small number of miscellaneous benefits that could not be categorized.

The Fund's benefits were generally comparable to those in France and Germany, and a bit more generous in comparison with those in the United States, chiefly because of the modest leave policies in effect in the United States, the representative of Hewitt Associates concluded. However, when the amount of employee-provided contributions to benefits was netted out, the so-called employer-provided benefit value for the Fund was less than in any of the comparator countries. The value of Fund employer-provided benefits was closest to that in the United States, and substantially below the values in France and Germany.

Mr. Grosche stated that the more important supplementary paper had only had a circulation period of two weeks, which had not allowed him enough time to study adequately the staff's numerous suggestions. Thus, his views would only be preliminary. On the matter of the circulation period, he could understand that in cases of country programs--particularly when Paris Club schedulings had to be considered--it was often necessary to shorten the normal period; but he could see no reason for shortening the period in the case at hand. He regretted that the four-week rule on the circulation of papers for the Board's consideration was becoming emptier and emptier.

It was far more difficult to compare benefits with the market than it was to compare cash compensation, Mr. Grosche continued. Of course, there were also certain advantages in that. The assessment of the competitiveness of benefits weighed less heavily in an individual's decision to join or to leave the Fund than direct compensation, which was of the utmost importance. There was a fair margin of maneuver with respect to benefits, and he continued to share the view of the Joint Compensation Committee that the employer-provided value of the Fund's benefit package should be kept approximately in line with the comparator market.

He could not make a final judgment on the quality of the Hewitt study, but he had some doubts as to whether it lived up to its glossy presentation, Mr. Grosche commented. For example, the study had stated that parental leave did not exist in Germany, which was simply not correct. He hoped that other possible errors balanced themselves out. If so, he noted with satisfaction from Hewitt's findings that, in terms of employer-provided values, the level of the Fund's benefits was generally in line with, or somewhat below, the mean of the U.S. comparators. He could therefore conclude that action was not called for, and he was hesitant to take the study as a trigger for a substantial improvement in the Fund's benefits package. He could not support the Staff Association's suggestion to match Fund benefits to the practices of organizations the salaries of which were around the 75th percentile. If, however, a thorough examination of individual Fund benefits revealed that higher employer contributions were deemed appropriate, then the study provided evidence that such adjustments could be accommodated without concern about adding to an overgenerous benefits package.

It was encouraging to note that the recent changes in the Staff Retirement Plan did not pose any problem from the point of view of comparability, nor would the suggestions with respect to possible changes in the Medical Benefits Plan, Mr. Grosche observed. Those two plans represented the bulk of the Fund's benefits package. They had been reviewed--or would shortly be--and most of the attention should be placed on them.

He agreed with the Staff Association Committee that it might be desirable to introduce greater flexibility into the benefits package, but, like the Committee, he believed that caution was warranted, Mr. Grosche continued. Hard-working staff members should be encouraged to take a certain minimum amount of leave in a year. He was also concerned about the administrative burden that a high degree of flexibility might create. However, he was open to further studies, particularly with regard to capital accumulation plans. Clearly, there was not much justification for the separation grant, as the report of the Joint Compensation Committee had shown, and its conversion into a capital accumulation plan would offer a way out of an unsatisfactory situation. He looked forward to a further examination of that suggestion, starting from the assumption of keeping the total value of the benefit which had already accrued to the employee unchanged.

He wished to recall the Joint Compensation Committee's recommendation that interest rate subsidies on salary advances for the purchase of furniture should be phased out, Mr. Grosche stated. He would welcome simplifications in the administration of installation allowances in general, which would eliminate such subsidies at the same time.

He was prepared to consider extending eligibility for installation allowances and the settling-in grant to A1-A8 staff, Mr. Grosche noted.

The Joint Compensation Committee had recommended phasing out the subsidy on the housing loans as well, while the staff had put forward a number

of arguments for its retention, Mr. Grosche went on. Those arguments deserved careful consideration, particularly in light of the fact that--with the exception of the previous year--house prices in the Washington area had risen so quickly that they had outstripped house prices in other areas. The prices of houses, and, implicitly, rents, had also increased much faster than Fund salaries, making the Fund less competitive in attracting new staff. Other employers were recognizing the need to provide financial assistance in high-cost housing areas, and the Fund had to be careful that it did not send the opposite message to prospective new recruits. Nevertheless, he wondered whether it would suffice to retain the loan subsidy as it was, and whether it dealt adequately with both the high cost of housing in the Washington area and the cash housing allowances that were being offered by competitors. Had the staff thought about a housing allowance as well, which could be limited to new staff members, to be phased out over a five to ten year period? Such a limitation might be justified because current staff members had already had the opportunity to purchase real estate in the Washington area at prices that, with hindsight, could be considered low, and were thus in a position to benefit from the increase in prices of the foregoing few years. A housing allowance deserved a closer look, particularly because some expatriates were coming to Washington from areas where housing was much cheaper. In answer to those who might point to the fact that the World Bank did not have even a loan subsidy scheme, he would reply that the Fund recruited a far larger proportion of its staff at the early stages of their careers, when they had few accumulated assets and were frequently entering the housing market for the first time.

With regard to eligibility for the housing benefit, he took the staff's arguments, and could go along with their suggestions, Mr. Grosche noted.

He continued to believe that, on balance, the Joint Compensation Committee's recommendation regarding the loans for the education of spouses and children should be adopted, Mr. Grosche went on. Hence, loans should be provided at the cost of World Bank borrowing. He was glad to note that with regard to advances for urgent personal reasons, the staff was following the Committee's recommendation.

He was not in favor of allowing the conversion of leave into other benefits, but he supported more flexibility in granting emergency leave, Mr. Grosche stated.

He continued to have reservations about the subsidy to the Executive Directors' dining room, but he would admit that the staff had put forward a number of arguments that could not easily be dismissed, Mr. Grosche concluded. He would have no problems in going along with a consensus on that issue.

Mr. Kyriazidis stated that the study appeared to suggest that, given the comparator relationships it had identified, it would be appropriate for the Fund to increase the employer-provided value of its benefit package.

His chair had consistently supported the view that the primary consideration regarding staff compensation in general should be the competitiveness of the institution as reflected in its ability to recruit and maintain an international staff of the highest caliber. The results of the survey lent considerable support to the view that there was room for an increase in employer-provided benefits. Even if the Fund's overall benefits package was pitched to the mean of the comparator markets, there was room for some increase in the employer-provided benefits. If that general conclusion was accepted, the other relevant question posed by the staff would have to be considered--namely, at what level should the Fund pitch its benefits package in order to maintain the desirable degree of competitiveness as an employer. Matching Fund benefits to the practice of organizations, the salaries of which were around the 75th percentile in the comparator markets would appear, at first sight, to be appropriate, were it not for the fact that, as the staff pointed out, that method would raise the combined level of salaries and benefits above the 75th percentile in the market as a whole. Therefore, in view of the budgetary implications, it would perhaps be more appropriate to aim at a standard that would match the combined total to the 75th percentile in the market as a whole. Both of those alternatives should be examined in greater detail, particularly as to their respective effects on the budget, before a firm conclusion was reached. However, moving in that direction seemed desirable, since pitching the salary scale at the 75th percentile and benefits at the mean of the markets did not appear to be compatible with the criterion of international competitiveness.

The Fund should examine the feasibility of giving individual staff members a greater choice in selecting a package of benefits tailored to meet their specific needs, Mr. Kyriazidis went on. Giving staff members a greater choice as to the composition of the package of benefits would be highly desirable, provided that the relative values of covered benefits were determined in such a way as to provide an equivalent aggregate amount to all staff. One important advantage of that approach was that it would allow the Fund's benefits package to be brought closer into line with the markets within the overall spending limits that the Board would adopt. The feasibility of such a plan should, therefore, be studied further, along the lines suggested in the staff paper.

A capital accumulation plan should also be adopted, either as a stand-alone benefit, or as part of a flexible benefits package, Mr. Kyriazidis commented. Such plans were widespread--not only in the comparator markets--and were highly valued by employees. The introduction of such a plan could enhance the attractiveness of the Fund as an employer, and, therefore, its international competitiveness at a limited cost, if it were merged with the separation grant as suggested.

As the Board had just completed the review of the Staff Retirement Plan, consideration of any further adjustments along the lines suggested by some Executive Directors should await the completion of the implementation of the recent changes, as the staff had suggested, Mr. Kyriazidis continued.

He would agree with the staff that the conversion of the separation grant into a savings plan could proceed independently. In the meantime, he would also agree that the separation grant should be maintained at its present level.

He would wait for the report reviewing the Medical Benefits Plan before making any comments on it, Mr. Kyriazidis noted.

On appointment allowances, advances for urgent personal reasons, leave benefits, food services, and possible additional benefits, he agreed with the staff suggestions, Mr. Kyriazidis concluded. He would agree with Mr. Grosche's remark about the need for caution in respect of leave benefits. He failed to see the rationale for the reduction of the interest subsidy on loans for housing or for education of spouse and children, and he would be in favor of maintaining the present arrangements.

The Executive Directors agreed to resume their discussion in the afternoon.

DECISIONS TAKEN SINCE PREVIOUS BOARD MEETING

The following decisions were adopted by the Executive Board without meeting in the period between EBM/90/116 (7/18/90) and EBM/90/117 (7/20/90).

4. SOMALIA - TECHNICAL ASSISTANCE

In response to a request from the Somali authorities for technical assistance in the fiscal field, the Executive Board approves the proposal set forth in EBD/90/206 (7/16/90).

Adopted July 19, 1990

5. ASSISTANT TO EXECUTIVE DIRECTOR

The Executive Board approves the appointment of an Assistant to Executive Director as set forth in EBAP/90/187 (7/16/90).

Adopted July 19, 1990

6. EXECUTIVE BOARD TRAVEL

Travel by Executive Directors as set forth in EBAP/90/190 (7/17/90) is approved.

APPROVED: July 10, 1991

LEO VAN HOUTVEN
Secretary