EBS/89/203

CONFIDENTIAL

October 20, 1989

To: Members of the Executive Board

From: The Secretary

Subject: Côte d'Ivoire - Letter of Intent

Attached for the information of the Executive Directors is a copy of the letter of intent from the Ivoirien authorities requesting a stand-by arrangement equivalent to SDR 175.8 million. The staff report for the 1989 Article IV consultation with Côte d'Ivoire and its request for a stand-by arrangement will be circulated shortly.

Mr. François (ext. 8510) or Mr. Reitmaier (ext. 7443) is available to answer technical or factual questions relating to this paper.

Att: (1)

MINISTRY OF ECONOMY AND FINANCE

REPUBLIC OF COTE D'IVOIRE
Unity, Discipline, Work

The Minister

Abidjan, October 19, 1989

The Managing Director
International Monetary Fund
Washington, D.C. 20431
U.S.A.

Sir:

1. Despite the undeniable progress achieved throughout this decade in the implementation of adjustment programs, Côte d'Ivoire has been confronted since 1987 by an extremely unfavorable economic environment following the rapid and prolonged drop in the prices of its major export products, in particular cocoa and coffee, which play a predominant role in the economy of the country. This fall in prices, combined with rigidities in the structure of production and marketing costs, as well as with structural weaknesses in the mobilization of central government revenue, has resulted in a considerable deterioration in public finances and the balance of payments position over the past three years. In this unfavorable context, economic activity declined and there was a sizable accumulation of payments arrears, which disrupted the proper running of the economy, the functioning of the banking system, and the external financial relations of Côte d'Ivoire. Efforts on the international level to contain the deterioration in cocoa prices did not fulfill expectations.

2. Conscious of the seriousness of the economic situation, and in view of the persistent weakness of the external prices of the major exports, the Government has decided to introduce--with assistance from the International Monetary Fund, the World Bank, and other members of the international financial community--a comprehensive restructuring and economic recovery plan up to 1993. During the initial stage of this plan, the Government is determined to rehabilitate the government finances, reinvigorate the major agricultural crops sector, and re-establish the conditions necessary for economic recovery commensurate with the country's potential. With this perspective, it will also effect important structural changes that will facilitate the economy's return to competitiveness and the diversification of production so as to reduce the country's vulnerability to the fluctuations in the international economic environment.

3. To carry out these stabilization and restructuring policies successfully without excessive disruption of the country's economic and social development, Côte d'Ivoire must be able to rely on a sizable amount of exceptional external assistance, including debt rescheduling, during the entire period of the plan. Côte d'Ivoire expects to benefit in particular from the various options now under discussion in international fora in order to restructure its commercial debt and rely on

exceptional official assistance in a more concessional form than in the past. To facilitate the mobilization of the new financial assistance needed to support the execution of the 1989-90 program, the Government presented its medium-term strategy for restructuring and economic recovery at a meeting of the friends of Côte d'Ivoire on October 9-10, 1989, organized by the World Bank in cooperation with the International Monetary Fund.

4. To support the implementation of the initial phase of this plan, the Government requests a stand-by arrangement from the Fund in an amount equivalent to SDR 175.8 million for a period of 17 months. It also expects significant financial assistance from the World Bank during the same period to support the restructuring of certain key sectors of the economy. The economic and financial policies that the Government will implement during this period are described in the attached memorandum. Moreover, to ensure Fund assistance over the entire period of the adjustment plan, Côte d'Ivoire intends during 1990 to request that the envisaged stand-by arrangement be replaced by a three-year extended arrangement.

5. The Government considers the policies and measures set forth in the attached memorandum to be adequate for achieving the objectives of the program, but will take any additional measures that may prove appropriate to that end. It will consult the Fund on the adoption of these measures in accordance with Fund policies on such consultations. The Government will provide the Fund with such information as the Fund may request in connection with the implementation of the policies set forth in the attached memorandum.

6. In order to ensure the implementation and the efficient and orderly follow-up of this program, the Government has set up coordinating committees both at the ministerial and at the technical levels.

Very truly yours,

/s/

Moïse Koumoué Koffi
Minister of Economy and Finance

Attachment: Memorandum on Côte d'Ivoire's Economic and Financial Policies for 1989-90

Abidjan, October 19, 1989

Memorandum on Côte d'Ivoire's Economic and Financial Policies for 1989-90

I. Introduction

1. Since the early 1980s, the Government of Côte d'Ivoire has undertaken a series of financial and structural adjustment programs with the support of the International Monetary Fund, the World Bank, and other major multilateral and bilateral partners. These programs have been aimed primarily at reducing the budgetary imbalance, improving the management of public enterprises, and diversifying the economy. Despite a marked deterioration of the terms of trade and a severe drought in 1983, Côte d'Ivoire was able to reduce its domestic and external imbalances sharply between 1981 and 1984, primarily by re-establishing budgetary and monetary discipline. With the rise in commodity prices and the strong appreciation of the U.S. dollar between 1984 and 1986, the financial situation improved and economic growth resumed. However, this recovery proved to be short-lived.

2. Since end-1986, the economic and financial situation has again deteriorated drastically, as a consequence of which the country now faces an extremely serious crisis. This deterioration is due largely to the drop in world prices of cocoa and coffee in terms of U.S. dollars from the levels reached in 1985-86, as well as to the significant rise in the real effective exchange rate of the CFA franc between 1985 and end-1987, which weakened the economy's external competitiveness despite the limited depreciation that has occurred subsequently. This adverse and protracted situation aggravated the long-standing rigidities and distortions in the structure of domestic prices and production costs, as well as the structural weaknesses in the management of public finances, the agricultural sector, and public enterprises.

3. To halt the deterioration of the domestic and external financial situation, in late 1987 the authorities adopted an adjustment program supported by the International Monetary Fund and by bilateral and multilateral creditors. Nevertheless, the program could not be fully executed, because, inter alia, the international economic environment continued to deteriorate. With the persistent slide in international cocoa prices, Côte d'Ivoire decided in 1988 to suspend temporarily its cocoa sales, which further contributed to the slowdown in economic activity. The disequilibria in public finances and the balance of payments worsened, leading to a significant increase in both domestic and external payments arrears, which severely disrupted economic activity, the functioning of the banking system, and external financial relations. Despite the efforts of the monetary authorities to contain domestic credit expansion, the existing negative foreign assets position deteriorated further. The banks, whose financial position was already

difficult, experienced a worsening of their cash position as a result of the drop in deposits, the accumulation of arrears by the public sector, and an increase in nonperforming loans. Finally, the country's outstanding external debt rose sharply; servicing that debt places a considerable burden on the economy, in particular as regards public finances.

4. Over recent months, the economic and financial crisis has deepened. Economic activity is expected to continue to decline in 1989, for the third consecutive year. In the absence of stabilization measures, the consolidated fiscal deficit (on a payment order basis) could reach more than 17 percent of GDP, because of the combined effect of a decline in tax receipts and larger net losses of the Agricultural Price Stabilization Fund (CSSPPA). The deficit of the stabilization operations of the CSSPPA alone could reach CFAF 188 billion, or 6.2 percent of GDP. The overall deficit of the balance of payments would worsen in tandem with the worsening of the public sector deficit. In the absence of a stabilization program supported by external resources, the bulk of the Government's deficit would be financed by the further accumulation of domestic and external arrears.

5. If the current economic crisis continues to follow the trends foreseen for the rest of the year, it would have an extremely adverse impact on the country's stability and economic growth. Faced with this prospect, the Government of Côte d'Ivoire has decided to take all the measures necessary to halt the deterioration of the financial situation and to restore conditions conducive to the simultaneous restoration of major financial equilibria and an economic growth rate consistent with the country's potential. In view of the particularly pressing short-term financial difficulties, the Government intends initially to concentrate on stabilizing the financial situation, while preparing and implementing the restructuring measures necessary to ensure the resumption of economic growth within the framework of medium-term equilibria in public finances and the balance of payments. In concert with its efforts to reduce the internal economic imbalances, the Government will, in close collaboration with its creditors, aim at reducing the burden of external debt service payments to a level that is compatible with its medium-term macroeconomic objectives. In conceiving this plan, the Government is aware that Côte d'Ivoire's membership in the West African Monetary Union (WAMU) and the French franc area requires strong management of its economic, budgetary, and financial policies in exchange for monetary stability and currency convertibility.

II. Medium-Term Economic Strategy and Objectives 1989-93

6. The overall stabilization and recovery plan prepared by the Government covers the four-year period beginning July 1, 1989, with an initial 18-month stage emphasizing financial stabilization. The medium-term plan objectives of restoring financial equilibrium and resuming economic growth will be achieved partly within the framework of rigorous

management of consumption, so as to increase domestic savings in the public and private sectors, and partly in the context of a set of policies and structural reforms designed to improve the efficiency of the Government's administrative machinery and the external competitiveness of the Ivoirien economy. The medium-term plan will aim particularly at reducing the Government's share in national expenditure, enhancing the role of the private sector in the resumption of growth, in line with the country's long-standing liberal policies, and accelerating the diversification of agricultural and industrial production, in order to reduce the country's vulnerability to fluctuations in international economic conditions.

7. The major thrust of the economic and structural policies included in the 1989-93 plan can be summarized as follows:

a. Re-establishment of a surplus in the CSSPPA's stabilization operations, through the reduction of producer prices, marketing costs, and export duties. These measures will be complemented by a reorganization of the marketing structures that will provide the necessary flexibility and efficiency in agricultural sector management and will ensure financial equilibrium for each commodity.

b. Restoration of a surplus in the consolidated financial operations of the Government, excluding interest on the external debt (primary balance), so as to achieve a surplus of at least 5 percent of GDP by 1993, which will make it possible to cover an increasing proportion of the servicing of interest on the external public debt. This objective will be pursued within the framework of a reform of the administration and of the tax system, a rationalization of budgetary management, and a restructuring of public expenditure, including a reduction of the wage bill as a proportion of total government expenditures and a reorientation of public investment.

c. Implementation during the 1990-93 period of a program to eliminate domestic payments arrears of the Central Government, including those of the CSSPPA, providing for the consolidation of certain arrears, the elimination of reciprocal claims between the Central Government, enterprises, and individuals, as well as for annual settlements included in the cash-flow plan. External arrears to nonbank creditors will be eliminated during the 1989-90 program, notably in the context of negotiations initiated with creditor countries, and discussions have been initiated toward a comprehensive restructuring of debt to commercial banks.

d. Continued restructuring of the public enterprise sector, by means of a pronounced reduction of the Central Government's equity holdings, in particular by sales to private partners, and the rehabilitation of the strategic public enterprises remaining in the public sector. To this end, the Government will reorganize the structures and instruments involved in managing the Government's portfolio in the various economic sectors.

e. Adaptation of monetary policy and bank supervision instruments, in agreement with the other member countries of the WAMU and its authorities, and overall strengthening of the financial structure of domestic banks and other financial institutions in the country.

f. Improvement of the structure of economic incentives by liberalization and enhancement of the flexibility of the regulatory and administrative framework applicable to the activity of enterprises, pricing policy, the labor market, financial markets, and foreign trade.

8. The implementation of these financial and structural reforms, as well as the anticipated increase in saving, should promote the resumption of economic growth and increase the surplus in the external balance of goods and nonfactor services. However, given the seriousness of the current financial crisis and the magnitude of the distortions in the economy, domestic production will decline further in 1989 and 1990. After this readjustment period, economic growth should gradually resume and accelerate beginning in 1992. The return to a satisfactory rate of growth will require not only the implementation of structural measures, but a sizable increase in investment as well. The overall ratio of fixed investment to GDP, which declined from an average of 18 percent in 1980-86 to about 7 percent in 1989, should gradually increase to 12 percent by 1993. The domestic inflation rate should continue to decline and should be lower than that of Côte d'Ivoire's major trading partners.

9. The Government believes that it will not be possible to achieve the plan's growth and financial rehabilitation objectives without significant external assistance and a substantial reduction in the debt service burden. On the basis of a modest improvement in the terms of trade starting in 1991, as well as a gradual expansion of exports and a relative stabilization of imports, a large increase is expected in the surplus of the balance of goods and nonfactor services. This surplus is expected to rise from an average of 2 percent of GDP in 1987-88 to more than 7 percent in 1993. The current account balance, excluding interest on the public debt, will shift from an average deficit of 3.2 percent of GDP in 1987-88 to a surplus of more than 3 percent in 1993. Despite this significant improvement equivalent to more than 6 percentage points of GDP, the decline in the current account deficit of the balance of payments during 1989-93 is expected to be modest because of the increase in the external public debt burden. The interest due on the public debt, on the basis of the terms of loan agreements now in force, is expected to increase substantially during 1989-93. As a proportion of GDP, interest charges will rise from 7.6 percent in 1988 to 12.0 percent in 1993, absorbing most of the projected improvement in the balance of goods and nonfactor services. This increase in the debt burden would stem not only from the growth in outstanding debt, but also from the nonconcessional terms of the old debt and the terms currently prevailing for new borrowing and for the rescheduling of bilateral and commercial bank debts.

10. On the basis of medium-term projections of the current account deficit, public debt amortization, and the reconstitution of official external assets, Côte d'Ivoire will continue to need exceptional financing over a long period. Under these circumstances, the Government of Côte d'Ivoire expects to benefit from more favorable debt relief terms than in the past in the context of the projected rescheduling of the debt service due to creditor countries and commercial banks. It also expects that the new exceptional assistance to be granted in support of the program will be on relatively favorable terms. The prospects for resumed economic growth and for balance of payments and public finance equilibria will depend crucially on the outcome of the foreign debt renegotiations that the Government has begun.

III. The 1989-90 Program

11. In the context of the medium-term objectives and policies described above, the Government has adopted a set of economic, financial, and structural measures for the period July 1, 1989-December 31, 1990 that take into account the major recent changes in the external environment. In view of the magnitude of the imbalances and the sharp contraction of liquidity resulting from the accumulation of domestic payments arrears, this 18-month program aims chiefly at stabilizing the financial situation and implementing structural reforms in key sectors as necessary for a more substantial recovery beginning in 1991. This program is in six parts.

1. Agricultural sector

12. The first objective of the program in this sector is to re-establish a surplus in the stabilization operations of the CSSPPA beginning in 1990 and to increase it in the subsequent years. Simultaneously with the implementation of the measures needed to achieve these objectives, the Government will speed up the review and preparation of structural adjustment measures to be introduced starting in October 1990 in the management of the various crops. In this context, an in-depth economic and financial audit of all the stages of the cocoa and coffee production process will be initiated before the end of 1989, in order to identify the measures that will make it possible to effect durable improvements in the productivity and competitiveness of those two sectors.

13. The restoration of the CSSPPA's financial surplus and the avoidance of any accumulation of new payments arrears will be accomplished by the lowering of producer prices, the maintenance of strict quality control of products, the reduction of the Stabilization Fund's marketing costs and operating expenses, and the suspension of export duties. To this end, the following decisions have been taken:

a. Producer prices have been adjusted as follows:

Cocoa beans:	from CFAF 400 per kg to CFAF 250 per kg, starting on July 4, 1989, and from CFAF 250 per kg to CFAF 200 per kg, starting on October 2, 1989.
Unprocessed coffee:	from CFAF 200 per kg to CFAF 100 per kg, or in terms of the equivalent for green coffee, from CFAF 405 per kg to CFAF 200 per kg, starting on October 2, 1989.

b. Scheduled marketing costs have been reduced by 9.4 percent for both cocoa and coffee, starting on July 4, 1989. For the 1989/90 season, these costs will be reduced further. The practical arrangements for these additional reductions will be determined before end-October 1989.

c. The CSSPPA's administrative costs have been reduced by 10 percent, starting early-July 1989.

d. Export duties (DUS) on cocoa and coffee will be suspended in 1989/90. They will be reintroduced gradually starting in 1990/91, depending on the improvement in the differential between domestic production costs and international prices.

e. The deficit in the cotton sector operations will be eliminated starting with the 1989/90 season, mainly through the introduction of a differential between the producer prices of the two major grades of cotton that is greater than the current one, as well as by a sharing of the costs of subsidizing selected inputs with farmers, and by a reduction of the costs of extension services. Structural measures, the introduction of which will be spread over a three- or four-year period, should make it possible to achieve substantial gains in productivity at all levels of extension activity, industrial production, and marketing.

14. On the basis of these measures and projections with regard to world market prices and exchange rates, 1/ the deficit of the CSSPPA's stabilization operations for 1989 as a whole is projected to be reduced to CFAF 133 billion, as against CFAF 188 billion without these measures. For 1990, the measures adopted should produce a surplus of CFAF 30 billion.

1/ The following assumptions (per kilogram) have been used: for cocoa--average c.i.f. price of CFAF 458 in 1989, CFAF 415 in 1990, and CFAF 425 in 1991; for coffee--average c.i.f. price of CFAF 558 in 1989, CFAF 430 in 1990, and CFAF 510 in 1991; for cotton--average c.i.f. price of CFAF 420 in 1989 and CFAF 500 in 1990 and 1991. An average exchange rate of CFAF 312 per U.S. dollar has been taken as reference exchange rate.

15. By end-1989, the authorities will prepare a program for settling the CSSPPA's arrears, estimated at CFAF 187 billion as of September 30, 1989, including the losses not yet realized with respect to unsold stocks.

16. By June 30, 1990 the Government will complete the preparation of a program of action for structural adjustments in managing the production and marketing of the major export products--cocoa, coffee, cotton, palm oil, and rubber. In particular, this program should identify practical ways to achieve greater efficiency and autonomy in the management of each crop and greater flexibility in setting producer prices and determining export duties.

2. Public finances

17. Structural improvement of public finances is the second essential element in the Government's strategy, as major progress in this area will contribute not only to the reduction of external imbalances, but also to the recovery of domestic production by increasing the resources available to productive sectors. To this end, the Government has set the target of containing at CFAF 375 billion (12.4 percent of GDP) in 1989 and at CFAF 214 billion (7.4 percent of GDP) in 1990 the Central Government's consolidated deficit, on a payment order basis, compared with an actual deficit of CFAF 412 billion (13.6 percent of GDP) in 1988. The programmed reduction of the deficit will be achieved through a combination of measures aimed at strengthening the Government's revenue and reducing its expenditure relative to GDP.

18. Despite a large number of legislative changes introduced in recent years, Côte d'Ivoire's tax system remains extremely dependent on trade taxes and is structurally weak as a result of the continued erosion of the tax base through exemptions and shortcomings in assessment, audit, and collection procedures. The Government has therefore included in a supplementary budget law for 1989 a series of measures to broaden the tax base and reduce the dispersion of rates. The measures adopted include notably: (i) a statistical tax of 2 percent and a special import duty of 10 percent as new taxes on all imports, subject to very few specific exceptions; (ii) a reduction of 10 percentage points in the fiscal import duty on imports already taxed at more than 10 percent so as not to increase the total tax burden; fiscal import duties of less than 10 percent have been eliminated for the same reasons; and (iii) elimination of exemptions for import duties and VAT, especially for goods under government contracts. At the same time, the Government has taken steps to strengthen the human and material resources of financial agencies in order to improve tax collection. These measures will be accompanied by a vigorous public education campaign to make taxpayers more aware of their tax obligations as citizens and to inform taxpayers of the stepping up of tax enforcement. The Government intends to undertake reforms of tax administration and the tax system along the lines of the recommendations made in recent years by Fund and World Bank technical assistance missions. The

ultimate objective of these reforms is to base taxation on domestic economic activity so as to decrease gradually the vulnerability of public finances to the fluctuations of external trade. A more detailed discussion of the future stages of the reforms will take place at the time of the first review of the program in collaboration with a Fund technical assistance mission.

19. On the basis of the measures adopted in August, the Central Government's total revenue for 1989 should reach CFAF 798 billion, compared with the forecast of CFAF 774 billion for the same year in the absence of the measures, and with actual receipts of CFAF 830 billion in 1988. The additional revenue expected in the second half of the year will come from import taxes (CFAF 9 billion), domestic taxes (CFAF 13 billion)--through improved administration and reduction of exemptions--and miscellaneous revenue (CFAF 19 billion); this increase will be partly offset by the suspension of export duties on cocoa and coffee (minus CFAF 17 billion). Steps have been taken to ensure the transfer from public enterprises of a total of at least CFAF 51 billion in service payments on guaranteed debt assumed by the Government and to increase by at least CFAF 2 billion each the contribution to the budget from the surplus of the Price Stabilization Fund for Staple Products (CGPPGC) and the funds received from profitable public enterprises.

20. On the expenditure side, the measures adopted by the Government will result in a reduction of CFAF 31 billion in operating expenses in the second half of the year, including CFAF 17 billion under the general budget and CFAF 14 billion under the annexed budgets and miscellaneous accounts of the Treasury. In view of the liquidity constraints prevailing this year, capital expenditure will not exceed CFAF 70 billion, of which half will be financed by domestic resources and the rest by project aid.

21. The 1990 budget law, which the Government has started preparing, will be set in line with the objectives adopted for the medium term. The envisaged reduction of the consolidated deficit from 12.4 percent of GDP in 1989 to 7.4 percent in 1990 will be achieved through an increase of revenue of 8.3 percent and through a reduction of expenditures of 8.2 percent. The increase in revenues will reflect mainly the full year impact of the fiscal measures adopted in August 1989. The reduction in expenditures will stem principally from the fiscal measures adopted in July and September 1989 to eliminate the losses of the CSSPPA. It will also reflect the reduction in recurrent expenditures of the central administration, notably the restrictions that will be implemented in relation to recruitment, wages, transfers, and nonbudgetary outlays. The wage bill, in particular, will be stabilized in nominal terms. These savings will be partly offset by a rise in investment expenditures, which were severely compressed in 1989, and by an increase in interest charges on domestic and external debt. The impact on the program of the 1990 budget law, which will be finalized in December, will be examined during the first review of the program.

22. To achieve the objective of further narrowing the Central Government's consolidated deficit in 1990 and in the medium term, the Government is now preparing fundamental measures that will make it possible to reduce the magnitude of its current expenditure and to eliminate nonessential expenditure. In this context, a major effort will be made to reduce the share of the wage bill in total public expenditures, inter alia, by the introduction of greater selectiveness in granting fringe benefits and by strict limitation of new hiring to areas where certain essential skills are required. At the same time, the Government will do everything possible to streamline civil service management and thereby improve the utilization of human resources in the administration. It will also take steps to ensure effective control of the size of the civil service and of wage payment procedures.

23. The Government is about to initiate an in-depth review of possible improvements in budget preparation and execution procedures, including a re-evaluation of the need to maintain earmarked extrabudgetary revenue. The ultimate objective is the adoption in 1991 of a unified budget that includes all central government revenue and expenditure. The Government will also pursue its effort to reorient capital expenditure. By end-1989, with World Bank assistance, it will complete a comprehensive review of the 1990-92 investment program with a view to selecting projects and better orienting them toward activities in support of economic diversification. In addition, it will endeavor to speed up the mobilization of external financing.

24. The accumulation of domestic payments arrears in recent years has severely hampered economic activity and the functioning of the banking system. Aware of this problem, the Government has appointed a working group to develop by end-1989 a program for the settlement of all reciprocal payments arrears between the Central Government, the public enterprises, the banks, and the private sector. The measures adopted to reduce the Central Government's consolidated deficit should make it possible to prevent any further increase in arrears starting in October and to schedule a reduction of CFAF 105 billion in 1990 and during each of the next two years. This reduction will constitute a performance criterion for the program. In reducing domestic arrears, the Government will give priority to arrangements that are likely to favor productive activity, notably the arrears related to export subsidies and the reimbursement of the value-added tax (VAT).

25. In view of the programmed reduction of domestic payments arrears, the Central Government's consolidated deficit on a cash basis has been estimated at CFAF 275 billion for the second half of the year and at CFAF 352 billion for 1990. After taking into account project financing and the scheduled amortization of the external debt, including arrears on principal, exceptional financing of CFAF 645 billion in 1989 and CFAF 614 billion in 1990 will be required. These requirements will be covered in part by new resources that Côte d'Ivoire expects to obtain from multilateral institutions and bilateral partners. Coverage of the residual financing gap will be sought through reschedulings and restruc-

turings of obligations vis-à-vis creditor countries, commercial banks, and other private creditors. Steps have already been taken with a view to obtaining the needed financing.

3. Public enterprises

26. Despite the efforts undertaken since the early 1980s to improve the performance of the public enterprise sector, the results so far have not been commensurate with the considerable resources and facilities that the Government has made available to this sector. Overall, public enterprises continue to represent a major burden on public finances in the form of tax arrears, subsidies to cover losses, contributions to financing their investment, and assumption by the Central Government of their domestic and external debt service obligations. To alleviate the pressure on the budget and to improve productivity, the Government has decided to design and implement a comprehensive program for restructuring the public enterprise sector, for which it expects to receive support from the World Bank and other creditors. This support will be part of the three sectoral adjustment loans (agriculture, energy, and water), recently negotiated with the World Bank, and could also be one aspect of a fourth structural adjustment loan envisaged for 1991. To expedite the formulation of an overall public enterprise policy, the Government will prepare an initial analysis and program of action by end-1989, in cooperation with a World Bank mission scheduled for November.

27. The plan of action envisaged by the Government will aim at reducing the Central Government's portfolio in the enterprises and ensuring the rehabilitation of strategic enterprises and public services. The Central Government's equity participation in enterprises not so categorized will gradually be sold off or the enterprises will be dissolved. Furthermore, the Government will review the institutional framework of its financial and administrative relations with public enterprises so as to achieve a better balance between administrative controls and the autonomy attendant on financial responsibility. Among the key issues to be examined as part of the first review of this program by end-March 1990 are the monitoring of the financial operations of the most important public enterprises, the reciprocal payments arrears between the Central Government and the enterprises, the share of investment financed by the enterprises themselves, and the wage bill.

4. Monetary and credit policy

28. Monetary and credit policy will be conducted with a view to ensuring close coordination with the objectives of the economic and budgetary policies described above. Thus, over the 18-month period through end-1990, the priority objectives of monetary policy will be the following: (i) improvement in the net foreign assets position of the monetary authorities; (ii) increased mobilization of domestic saving; and (iii) financial strengthening of the banks and other credit institutions. These objectives will be implemented within the framework of the

monetary policy instruments and of the intervention rules of the Central Bank, which were adopted by the Council of Ministers of the WAMU on August 1, 1989 and were implemented starting on October 1, 1989. These new rules will include, notably, the abandonment of the policy of sectoral credit allocation, a gradual reform of the money market, and the adoption of an active interest rate policy.

29. Given the magnitude of the Central Bank's external liabilities and the small proportion of money supply covered by foreign assets, an improvement in the net external position is a priority objective, and has accordingly been adopted as one of the benchmark indicators for the program. To this end, the Central Bank will take several steps to contain the growth of net domestic credit within the ceilings shown in the annexed Table 1. These ceilings were set on the assumption of a slow increase of ordinary credit throughout the period and the strict regulation of crop credit. This regulation will be based on the programming of the changes in stocks of export products to the greatest extent possible and on the flexible application of new credit in light of the forecasts for external prices and for the volume of marketable output. Steps have been taken to ensure that the financing of the 1989/90 crop year is covered and that credit associated with the marketing of agricultural products will be repaid on time. The banking system's net credit to the Central Government, which will also be subject to the ceilings shown in Table 1, will undergo little change over the program period in view of the limited margins available under the ceiling for statutory advances by the Central Bank and the low level of the Central Government's bank deposits.

30. Within the framework of the WAMU's common monetary policy, the monetary authorities will continue to pursue a flexible and realistic interest rate policy aimed at promoting the mobilization of financial savings and rationalizing the allocation of resources to the productive sectors. Thus, they raised the standard discount rate (TEN) from 8.5 percent to 9.5 percent in December 1988 and to 10 percent in March 1989, while reducing the differential between this rate and the preferential discount rate (TEP). On October 2, 1989, the TEP rate was eliminated and replaced by a single discount rate, set at 10.5 percent. Moreover, the structure of interest rates and of bank margins was considerably simplified and streamlined. Maintenance of competitive deposit rates, coupled with the diversification of savings instruments, should contribute to a strengthening of bank resources.

31. To allow the banking system to assume its financial intermediation role more efficiently, steps will be taken to strengthen bank management and financial structures. These steps will include measures to encourage increases in capital and reserves, promote the recovery of nonperforming loans, and enhance the effectiveness of bank supervision. At the same time, by end-1989 the authorities will complete the financial restructuring of the five former development banks and three financial institutions. The decisions taken include the following: (i) the liquidation of four banks (the Banque Nationale pour l'Epargne et le

Crédit (BNEC), the Banque Ivoirienne de Construction et de Travaux Publics (BICT), the Banque Ivoirienne de Développement Industriel (BIDI), and the Crédit de la Côte d'Ivoire (CCI)); and (ii) the reorganization of the Banque Nationale de Développement Agricole (BNDA), with external assistance. In the context of this restructuring, the Central Government will assume part of these banks' net liabilities, including their obligations to the Central Bank and to depositors. The recurrent financial charges assumed by the Government in 1990 (about CFAF 13 billion) will be included in the budget.

5. Other structural policies and reforms

32. The future growth of the Ivoirien economy will depend largely on its ability to produce a wider range of agricultural and industrial products at competitive prices both for the domestic market and for export. With this in mind, in February the Government appointed an Interministerial Commission to study the costs of factors of production, and a technical committee was set up to examine the economy's domestic and external competitiveness and the administrative and regulatory framework within which economic activity takes place. This study will devote special attention to foreign trade regulations and procedures, price controls, investment and export incentives, the functioning of the export premium, and the costs of labor and other major production factors, especially energy. The conclusions of the study are expected to be reviewed by the Interministerial Commission before the end of 1989 and will serve as the basis of a program of action that will be discussed with the staffs of the International Monetary Fund and the World Bank during the first review of the program. Along the same lines, the Government, in conjunction with the sectoral programs defined with the World Bank, will intensify the structural adaptations necessary in the agricultural, energy, water, and industrial sectors.

6. External debt policy

33. The high level of external public debt service and the financing gaps that are projected for the medium term constitute serious obstacles to the orderly implementation of the recovery plan. The implementation of domestic adjustment measures alone would impede the recovery of investment and of economic growth and would not be sufficient to eliminate these medium-term financing gaps. Accordingly, the Government is working toward a very significant improvement in the structure of its external debt. In the future, therefore, the Government intends to seek primarily medium- and long-term credits at exceptional terms in order to finance its investment and balance of payments needs and to minimize borrowing on commercial terms. It also intends, following the consideration of the request for the stand-by arrangement by the Fund, to ask the Paris Club member countries and other creditor countries for the rescheduling of arrears and of debt obligations falling due, including the rescheduling of already-rescheduled debt. The Government also hopes that in the medium term, Côte d'Ivoire will benefit from more favorable concessional rescheduling conditions than the ones that are currently applicable.

34. Taking into account the anticipated rescheduling of official debt and the mobilization of bilateral and multilateral external assistance, for the 1989-90 period, Côte d'Ivoire would still have obligations to commercial banks, amounting to about US$2.2 billion, or about 11 percent of GDP on an annual basis. Even under the assumption that all principal payments (including arrears) could be rescheduled, the remaining obligations would still represent US$1.0 billion, or nearly 5 percent of GDP on an annual basis. It appears difficult in the current circumstances to reduce the financing gap further through domestic measures or to mobilize additional external resources. The Government has therefore initiated discussions with creditor banks with a view to obtaining a comprehensive restructuring of its external debt. These discussions will focus, inter alia, on the various options that would be available for reducing commercial bank debt service to a manageable level in the medium term. In the meantime, and in light of the constraints on available resources, Côte d'Ivoire intends to make, or put in a special escrow account, partial payments of interest.

35. The Government will incur no new payments arrears during the program period, with the exception of a temporary increase in the arrears to commercial banks. Arrears other than to commercial banks will be eliminated over a period of six to eight months after approval of the stand-by arrangement, either as part of the envisaged rescheduling of official debts, or through payments in cash. The planned elimination of arrears will be re-examined during the first review of the program in the light of the financial arrangements concluded with different creditors.

IV. Program Monitoring Arrangements

36. The Government will monitor the execution of the program by reference to the performance criteria (Section A) and benchmark indicators (Section B) defined below. Purchases from the Fund under the stand-by arrangement will be contingent on observance of the performance criteria, while nonobservance of the benchmarks will be grounds for consultations with the Managing Director of the Fund to determine the causes and to define the corrective measures deemed necessary. For purposes of examining program implementation, provision is also made for two program reviews (Section C) during the period of the stand-by arrangement, the completion of which will be a condition for purchases after end-March 1990 and end-September 1990, respectively. The ceilings for December 1990 shown in the annexed Table 1 (Section A) are indicative targets; to the extent that they are not already set for end-March 1990, quarterly performance criteria for 1990 will be established at the time of the first program review, to be completed by end-March 1990. Quarterly benchmark indicators for 1990 (Section B) will also be defined at that time.

A. Performance criteria

37.1 The cumulative deficit of the Central Government's financial operations on a payment order basis, estimated at CFAF 241 billion for the first half of 1989, will not exceed CFAF 375 billion at end-December 1989. The indicative target set for end-March 1990 will be replaced by a performance criterion by the time of Executive Board consideration of the stand-by arrangement.

37.2 Outstanding domestic payments arrears, which amounted to CFAF 314 billion on December 31, 1988 and are estimated at CFAF 496 billion on September 30, 1989, will not exceed this level on December 31, 1989; by March 31, 1990, they will not exceed CFAF 470 billion. Possible consolidations into medium- and long-term debt would not be regarded as a form of elimination of arrears for purposes of this performance criterion. For purposes of this paragraph, domestic payments arrears are defined to include all the arrears recorded at the Directorate-General of the Treasury (including those of the national public agencies (EPN) and municipalities), arrears on the principal and interest payments due on the domestic debt guaranteed and managed by the Caisse Autonome d'Amortissement, and the CSSPPA's payments arrears.

37.3 Outstanding net credit to the Government, which amounted to CFAF 248 billion on June 30, 1989, will not exceed CFAF 268 billion on December 31, 1989 and CFAF 259 billion on March 31, 1990. For purposes of this paragraph, credit to the Government refers to the net position of the Government as defined by the Central Bank, plus the net position of the CSSPPA and that of the CGPPCC vis-à-vis the banking system.

37.4 Net domestic credit, which amounted to CFAF 1,411 billion on June 30, 1989, will not exceed CFAF 1,367 billion on December 31, 1989 and CFAF 1,405 billion on March 31, 1990. This ceiling includes net credit to the Government as defined in paragraph 37.3 and credit to the economy as defined by the Central Bank minus claims on the CSSPPA and the CGPPGC.

37.5 New external borrowing on nonconcessional terms contracted or guaranteed by the Government at maturities of 1 to 12 years will not exceed CFAF 10 billion during January 1-December 31, 1989, CFAF 10 billion during January 1-March 31, 1990, and CFAF 10 billion during January 1-December 31, 1990. The Government will not contract or guarantee new nonconcessional loans with maturities of less than five years during the period of the program. These ceilings shall not apply to loans contracted by multinational companies and guaranteed by the Government (notably by Air Afrique and ASECNA) or to loans contracted in the context of rescheduling, restructuring, or refinancing of the external public debt.

37.6 Through March 31, 1990, external arrears will be defined to exclude the nonpayment of debt obligations falling due, which will be regularized as part of the envisaged debt reschedulings and restructuring. More specifically, they exclude all pre-cutoff date debt service obligations to the Paris Club creditors, including payments arrears and previously rescheduled obligations; all medium- and long-term obligations to commercial banks other than those arising from World Bank cofinancing; and all obligations due with respect to suppliers' credits. Consequently, the performance criterion will apply to the debt obligations due to multilateral institutions, to the post-cutoff date debt service obligations due to Paris Club creditors, including late interest, moratorium interest, and the debt obligations due to other private creditors (excluding the obligations to commercial banks and suppliers mentioned above). Under this definition, total external arrears, which amounted to CFAF 30.0 billion on December 31, 1988 and which are estimated at CFAF 57.2 billion on September 30, 1989, will not exceed CFAF 57.2 billion on December 31, 1989 and March 31, 1990.

37.7 The observance of the limits on the maximum amount of domestic and external arrears is closely related to the effective mobilization of exceptional external resources planned in support of the program. The limits put on domestic and external arrears will therefore be adjusted upward (or downward) to cover two-thirds and one-third, respectively, of the possible shortfall (or excess) recorded in effective disbursements on external exceptional resources from multilateral institutions and friendly countries. These resources are estimated at CFAF 86 billion for the remainder of 1989 and CFAF 264 billion for 1990, of which CFAF 81 billion for the first quarter.

37.8 The Government will not, during the period of the arrangement, impose or intensify restrictions on the making of payments and transfers for current international transactions, introduce or modify multiple currency practices, conclude bilateral payments agreements inconsistent with Article VIII of the Fund's Articles of Agreement, or impose or intensify restrictions on imports for balance of payments reasons.

B. Benchmark indicators

38.1 Total cumulative central government revenue, which amounted to CFAF 393 billion for the first six months of 1989, is estimated at CFAF 798 billion for end-December 1989 and at CFAF 216 billion for the first quarter of 1990.

38.2 Total cumulative central government expenditure on a commitment basis, which amounted to CFAF 633 billion for the first six months of 1989, is estimated at CFAF 1,173 billion for end-December 1989 and at CFAF 270 billion for the first quarter of 1990.

38.3 The negative balance of the Central Bank's net foreign assets, which was CFAF 401 billion on December 31, 1988 and CFAF 416 billion on June 30, 1989, will not exceed CFAF 360 billion on December 31, 1989 and CFAF 344 billion on March 31, 1990.

C. Program reviews

39. The two reviews provided for during the period of the stand-by arrangement will be concluded with the International Monetary Fund by end-March 1990 and end-September 1990, respectively. The first review will be devoted in part to examining the progress achieved in mobilizing external resources, including progress on rescheduling and restructuring external debt service. During this review, program execution during the second half of 1989 will be analyzed and there will be an examination of the budget for 1990, the associated financial policies, and their financial impact on the program for 1990. This review will also assess the progress made in carrying out steps to strengthen the tax and customs administrations, as well as to implement programs of action to restructure the public enterprise sector and improve the competitiveness of the economy. Finally, the remaining quarterly performance criteria and benchmarks for 1990 will be defined. The second review will be devoted to program execution during the first half of 1990 and will also examine progress in the preparation and implementation of structural adjustment measures, with particular emphasis on the adaptation of the agricultural sector and the streamlining of budgetary procedures. Further, reviews regarding the financing of the program will be held on a quarterly basis pending an agreement with commercial banks.

Table 1. Côte d'Ivoire: Performance Criteria and Benchmark Indicators, 1989-90

(In billions of CFA francs)

	1989		1990	
	June Actual	Dec. Prog.	March Prog.	Dec. 1/ Prog.
A. Performance criteria				
Consolidated central government deficit (cumulative)	241	375	54 1/	214
Outstanding domestic payments arrears of public entities	431	496	470	391
Net credit to the Government	248	268	259	281
Net domestic credit	1,411	1,367	1,405	1,369
New nonconcessional external borrowing by Central Government				
1- to 12-years' maturity	3	10	10	10
Of which: 1-5 years	(...)	(--)	(--)	(--)
0-1 year	--	--	--	--
Outstanding external payments arrears 2/	37.5	57.2	57.2	--
B. Benchmark indicators				
Total central government revenue (cumulative)	393	798	216 1/	864
Total central government expenditure (cumulative)	633	1,173	270 1/	1,077
Net foreign assets of the BCEAO	-416	-360	-344	-346

1/ Indicative targets.
2/ Through March 31, 1990, external payments arrears will be defined to exclude the debt service due, which will be regularized within the framework of the reschedulings and restructurings that are being envisaged.

Table 2. Côte d'Ivoire: Central Government Financial Operations

(In billions of CFA francs; cumulative since the beginning of the year)

	1989		1990
	First half	Year	Year
Revenue	393	798	864
Tax revenue, excluding export duties on coffee/cocoa	290	586	606
Export duties on coffee/cocoa	15	18	--
Price Equalization Fund surplus (CGPPGC)	6	14	20
Price Stabilization Fund surplus (CSSPPA)	--	--	30
Transfers from public enterprises to CAA	18	51	66
Social security contributions	22	43	49
Other revenue	43	87	92
Expenditure	633	1,173	1,077
Personnel	153	304	304
Other current expenditure	197	364	323
Price Stabilization Fund deficit (CSSPPA)	84	133	--
Interest on public debt	159	302	350
Domestic debt	22	43	52
External debt	137	259	298
Investment expenditure	41	70	100
Balance (payment order basis)	-241	-375	-214
Change in arrears	135	-7	-139
Domestic (expenditures)	75	115	-105
External (interest)	60	-121	-34
Balance (cash basis)	-106	-381	-352
Financing	-6	-264	-262
External financing	14	-249	-241
Drawings	20	75	58
Amortization	-145	-302	-276
Change in external arrears (principal)	74	-108	-24
Rescheduling obtained	64	85	--
Domestic financing	-20	-15	-20
IMF counterparts	-26	-51	-36
Banking system	-7	21	6
Bank restructuring (principal)	--	--	-8
Nonbanking sector (and errors)	13	15	18
Exceptional financing	...	645	614
Memorandum items:			
Outstanding arrears (end of period)			
Domestic (narrow definition)	276	315	210
External	420	57	--