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Minutes of Executive Board Meeting 89/134

3:00 p.m., October 11, 1989

R. D. Erb, Acting Chairman

Executive Directors	Alternate Executive Directors
	C. Enoch
	J.-L. Menda, Temporary
	D. McCormack
Dai Q.	
T. C. Dawson	B. S. Newman, Temporary
	L. Hubloue, Temporary
	J. O. Aderibigbe, Temporary
E. A. Evans	
	P. O. Montórfano, Temporary
	G. Montiel, Temporary
	J. Basiuk, Temporary
	N. Morshed, Temporary
M. Fogelholm	M. Pétursson
	P. Gorjestani, Temporary
	B. Goos
J. E. Ismael	
B. Jalan	L. E. N. Fernando
	F. A. Quirós, Temporary
	B. A. Sarr, Temporary
	M. Al-Jasser, Temporary
	P. Kapetanovic, Temporary
K. Yamazaki	S. Yoshikuni

J. W. Lang, Jr., Acting Secretary
B. J. Owen, Assistant

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Also Present

IBRD: R. Zagha, Asia Regional Office. Asian Department: H. Neiss, Deputy Director; D. J. Goldsbrough, T. R. Rumbaugh, K. Saito, R. S. Teja, W. M. Tilakaratna, W. S. Tseng, H. Vittas, C.-H. Wong. Exchange and Trade Relations Department: T. Leddy, Deputy Director; S. Kanesa-Thasan, K. M. Meesook. Fiscal Affairs Department: J. Diamond. IMF Institute: R. Jayatissi, Participant. Legal Department: P. L. Francotte. Secretary's Department: C. Brachet, Deputy Secretary; R. S. Franklin. Treasurer's Department: D. Williams, Deputy Treasurer; W. L. Coats, Jr. Advisors to Executive Directors: N. Adachi, M. B. Chatah, Z. Iqbal, D. Powell, S. P. Shrestha, R. Wenzel. Assistants to Executive Directors: C. Björklund, S. K. Fayyad, S. Gurumurthi, A. Hashim, J. Heywood, C. Schioppa, M. J. Shaffrey, Yang J.

1. SRI LANKA - 1989 ARTICLE IV CONSULTATION; AND STRUCTURAL ADJUSTMENT FACILITY - SECOND ANNUAL ARRANGEMENT

The Executive Directors resumed from the previous meeting (EBM/89/133, 10/11/89) their consideration of the staff report for the 1989 Article IV consultation with Sri Lanka and the request of Sri Lanka for the second annual arrangement under the structural adjustment arrangement approved on March 9, 1988 (EBS/89/186, 9/20/89; and Sup. 1, 10/10/89), together with a policy framework paper for the period 1989-92 (EBD/89/285, 9/15/89). They also had before them a report on recent economic developments in Sri Lanka (SM/89/200, 9/29/89).

Mr. Dai made the following statement:

First of all, I fully support the request by the Sri Lanka authorities for a second annual arrangement. The staff has provided a clear and pragmatic analysis of recent economic developments in Sri Lanka. The economy has suffered serious setbacks in recent years under a very difficult political situation. Economic growth has declined substantially. Inflation has been high. The balance of payments position continued to deteriorate under worsened terms of trade while the debt service ratio continued to rise. Even though the authorities were faced with conditions that constrained economic adjustment, they showed great determination in trying to stabilize the economy.

Recent efforts by the authorities relating to the exchange rate, price adjustments, the budgetary deficit, and credit restraint bear witness to their determination. According to the staff, the exchange rate has been depreciated with the expectation of strengthening export performance and reducing demand for imports. Prices of several basic items have been adjusted upward with a view to reducing budgetary outlays on subsidies. Monetary and credit policies remain tight. Several public enterprises are being transformed in order to improve efficiency in resource utilization.

According to Mr. Fernando's informative statement, these adjustment measures have already yielded some positive results. In particular, the Central Bank's net international reserve position has increased. While giving my full support to the economic adjustment program outlined by the staff, I would like to make three general remarks.

First, regarding the program, I would like to emphasize that the dilemma faced by the authorities in restoring economic growth and employment, while stabilizing the economy by reducing the budget deficit and maintaining tight money and credit policies, should not be underestimated. Given the extremely difficult internal and external environment in which the adjustment has to be undertaken, overambitious targets can only increase the political and social risks, and eventually endanger the full implementation of the program. In this context, the program outlined in the second-year policy framework paper seems to me to be realistic and appropriate.

Second, regarding fiscal adjustment, I agree with the staff that large budgetary deficits have been the main source of domestic imbalance; fiscal adjustment is, therefore, the key to the success of the economic adjustment program. I note that several elements embodied in the fiscal adjustment--reduction of subsidies, retrenchment of employment in government institutions, and privatization--are either politically sensitive, or can be carried out only in a long and slow process in present circumstances.

The reduction of subsidies is a necessary step toward cutting current expenditures and releasing resources for capital investment. However, as subsidies sometimes provide a cushion to the population to alleviate the increase in the cost of living as a result of upward adjustments in the prices of basic goods, the process of reducing subsidies might have to be gradual in certain circumstances--particularly given the reality of present political unrest.

Privatization can be a slow process when an economy has been hard hit by serious political and economic problems, as private businesses are usually reluctant to take over publicly owned businesses because of lack of confidence in the uncertain political and economic prospects of the country. Therefore, Sri Lanka, while pushing forward with enterprise reform, should place greater emphasis at the moment on improving the financial operations and efficiency of existing public enterprises.

Third, as mentioned by Mr. Fernando, the financial constraints faced by the economy have limited the degree of adjustment which the authorities can afford. International reserves have fallen to a critically low level. At the same time, owing to a slowdown in official aid, borrowing from commercial banks has grown, which is not desirable considering the already increased debt service burden of Sri Lanka. In this connection, concessional aid from the international community is crucial for successful economic adjustment and for the revitalization of growth and employment in the economy.

I have also noted that the Government has taken a bold political decision to delay the start of its new poverty alleviation scheme (JSP) in view of the financing need of the program and the consequent adverse effects on inflation and balance of payments performances. This is a great sacrifice that is being made by the authorities for the sake of economic adjustment and stabilization. It is hoped that the World Bank would step up its plan to collaborate with the authorities in attacking poverty and providing the necessary timely assistance.

Compared with the political and social costs the authorities will bear in making adjustment efforts to stabilize the economy, their commitment to adjustment by undertaking a number of politically courageous measures is strong. As a matter of course, without political and social stability, it could be difficult for the authorities to translate their commitment into reality. It is therefore our hope that the restoration of normalcy will be reinforced so that the full implementation of the program can be ensured. Also, given the magnitude of the economic and financial difficulties in Sri Lanka, an enhanced structural adjustment arrangement should be considered at an early date and as soon as performance under the program is on track. This will allow the authorities to take greater adjustment strides to stabilize the economy while restoring growth and alleviating poverty. I support the proposed decision.

Mr. Goos said that he could support Sri Lanka's request for the second annual arrangement under the structural adjustment facility. He was also in broad agreement with the staff appraisal. It seemed fair to say that in strict economic terms, a more ambitious effort of adjustment for the year ahead than was envisaged under the program would have been appropriate. Given the precarious external situation, bordering on balance of payments crisis, the expected improvement in the external current account appeared quite modest. In that context, he shared Mr. Enoch's concern that the program allowed a further substantial increase in nonconcessional borrowing. But he agreed that a compromise had had to be struck between economic and political requirements, having in mind in particular Mr. Fernando's observation that increasing unemployment had strongly contributed to the escalation of civil unrest. Unemployment, notably among the young generation and in the wake of weaknesses in education, planning, and investment policies, were even identified as the root cause of the political disturbances in an interesting article in the Washington Post on October 10, 1989.

Thus, while he had much understanding of the approach chosen under the program, Mr. Goos continued, no illusions could be harbored about the substantial risk of the arrangement becoming obsolete. That risk existed in both a negative and positive sense or direction. In a negative sense, inasmuch as it could probably not be excluded that the program assumptions might again be overshadowed by adverse political events, and in a positive sense, because if the political horizon cleared up, the program would probably turn out to be too weak and too expansionary. Therefore, it seemed advisable, as stressed also by previous speakers, for the authorities to seize every opportunity to accelerate the pace of adjustment. One such opportunity, was, he believed, currently being offered in the form of the unexpected improvement in export earnings, which should be sterilized to the largest extent possible so as to strengthen the budget beyond the program target.

As for the downside risk, like others, he considered it of paramount importance that the authorities adhere strictly to their policy commitments and avoid a recurrence of the worrisome slippages under the first annual arrangement, Mr. Goos stated. In that regard, he found it particularly regrettable that the pre-election decisions of 1988 had implied substantial setbacks in exactly those policy areas--namely, public enterprise reform and public sector employment--that were identified in the policy framework paper as the most pressing problems of structural reform. The establishment of a satisfactory track record could be expected to go a long way toward restoring confidence in Sri Lanka's economic future, and thereby would help mobilize the necessary substantial support of the international financial community. And it certainly would be a crucial prerequisite for the provision of resources under the enhanced structural adjustment facility.

To conclude, Mr. Goos commended the authorities for the recent adjustment measures taken, in particular the unpopular cuts in subsidies and increases in interest rates and prices. He hoped that the impressive reversal of speculative capital flows in response to the recent measures would serve as an encouragement to the authorities to follow through. He wished them early and lasting success in their endeavors to stabilize the political situation of the country.

Mr. Ismael made the following statement:

> It is regrettable, indeed, that the civil unrest in Sri Lanka has disrupted the implementation during 1988 of the adjustment program under the first annual arrangement of the structural adjustment facility. The intensification of the unrest resulted in the Government incurring higher expenditures on defense and in a reduction in revenue collection. At the same time, real GDP growth was only half of the program target while the rate of inflation doubled and the balance of payments continued to be under strain. It is, therefore, encouraging to note that in such a difficult political environment, the authorities have reaffirmed their commitment to implement the structural reforms envisaged in the policy framework paper. I do agree that the macroeconomic environment must be markedly improved so that further structural reforms can have their desired impact. I am pleased to note that several measures have already been taken in this direction.
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> The fiscal performance in 1988 was a major problem area, as reflected in the fact that the overall budget deficit exceeded the program target by 6 percent of GDP. Although the civil conflict played a large role in the fiscal deterioration, increases in wages, and new employment in the civil service, as

well as increased subsidies, also contributed to the slippage in fiscal expenditures. I note that in the first half of 1989, wage and salary increases and increased subsidies continued to put pressure on the Government finances. The authorities rightly decided at midyear to address this problem through several corrective actions. In particular, I welcome the reintroduction of a freeze on central government hiring, which is in line with the administrative reform of the public sector as envisaged in the adjustment program. As I suggested during the Board's discussion of the staff report for the 1988 Article IV consultation, the authorities should not pursue an accommodating stance in expanding the civil service simply because of the lack of employment opportunities in the private sector.

As for the Government's wage policy, I concur with the authorities' stance that a temporary poverty alleviation program should not be used by employees to justify a demand for wage increases. As the wage increases granted in 1988 were adequate, and further increases would have severe repercussions on the economy, I would urge the authorities to take a firm stand and not give in to further wage demands.

With the continuing large fiscal deficit, the task of monetary control will indeed not be easy. I support the authorities' intention to maintain tight money and credit policies. The monetary measures taken in May this year are, therefore, most welcome. I am encouraged to note from the supplement to the staff report that the latest preliminary data showed that monetary and credit developments are broadly in line with those estimated in the program. Nevertheless, as reserve money growth in September was higher than expected, I agree with the staff that the authorities should continue their recent efforts to contain liquidity growth.

Tight fiscal and monetary policies are also important to improve the external position. In the light of the sharp deterioration in the balance of payments during the first half of this year, and especially the very low level of official reserves, I believe that these policies need to be complemented by an appropriate exchange rate policy. In this regard, I welcome the recent depreciation of the rupee, and while I share the authorities' concern about the impact of a devaluation on the inflation rate, I would urge the authorities to closely monitor developments in this area and stand ready to make the necessary adjustments.

During the past several months, the authorities have demonstrated their commitment to adjustment by implementing various measures, which were politically difficult. The international financial community, on its part, can show its support by making available sufficient funds to fill the external financing gaps. As stressed by Mr. Fernando in his statement, the availability of finance from multilateral institutions and concessional donor support is crucial to implement the adjustment policies on a sustained basis. It should be assuring to creditors that the Sri Lanka authorities have a good track record of meeting fully and in a timely manner all their international financial obligations.

Reference has also been made by Mr. Fernando to his authorities' intention in respect of a request to use the resources of the enhanced structural adjustment facility. I would encourage the authorities to maintain their adjustment efforts as the best basis on which to make such a request.

In concluding, despite the continued difficult political outlook, I can support the proposed decisions.

Mr. Al-Jasser made the following statement:

Sri Lanka's economic situation remains very difficult. It is unfortunate that the persistence of security problems, the attendant high human and financial costs, and uncertainty have inhibited the implementation of planned structural measures. Moreover, expansionary demand policies have exacerbated the situation by accelerating inflationary pressures and worsening the balance of payments. Despite some recent improvements, official foreign reserves remain critically low and commercial borrowing abroad appears to have been pushed to prudential limits. The medium-term outlook, even under somewhat optimistic assumptions, is for a weak balance of payments and only sluggish growth with limited alleviation of unemployment and poverty.

The authorities' task of restoring the momentum of structural reform will, among other factors, require the effective implementation of a politically sensitive stabilization program. In doing so, the authorities will have to contend with a security situation which is uncertain. Moreover, the poverty alleviation program may have to be deferred again. Hence, the political and social risks of pursuing a strengthened adjustment program remain high but nonetheless worth taking.

Notwithstanding the risks, the authorities must redouble their efforts to sharply reduce domestic demand imbalances through a faster pace of fiscal adjustment. It is essential that the target of reducing the budget deficit in 1990 to about 10 percent of GDP be met or, preferably, exceeded. Monetary policy should continue to be tight so as to contain liquidity growth and to ensure more realistic interest rate levels and structure. In this context, I note with satisfaction the recent upward adjustment in domestic petroleum product prices. However, much remains to be done in further reducing subsidies and adjusting administered prices. Given the poverty implications of a drastic cut in current expenditures, the authorities should accord greater consideration to speeding up tax reforms which would, in addition to providing investment incentives, ensure greater equity.

A speedy implementation of structural measures aimed at reducing the size of the public sector and eliminating overstaffing in the civil service is also essential. In this context, I would appreciate learning about specific actions taken in the context of the new benchmarks to reduce central government expenditures in 1989. What specific steps have been selected to effect the reported reduction in expenditures for 1990? I would also like to know the extent to which the conversion of public companies and the privatization of public enterprises, planned for the current month, has been implemented. Does the 1990 budget contain the promised further revenue measures as identified in paragraph 11 of the Memorandum on Economic and Financial Policies for 1989-90?

I recognize that the successful implementation of these policies will depend crucially on an early restoration of peace and an uninterrupted provision of concessional assistance to fill the resource gap over the medium term. It is essential that Sri Lanka minimize the use of foreign borrowing on commercial terms. The authorities should also continue to open up their economy through a rationalization of effective protection and continuation of the desired exchange rate adjustments. At the same time, Sri Lanka's trading partners must facilitate this process by, at a minimum, avoiding the imposition of new trade restrictions.

Finally, I support the proposed decision and wish the authorities all the best in their difficult but essential task.

Mr. Menda made the following statement:

Sri Lanka's economic situation is worrisome and this meeting gives me the occasion to express my authorities' concerns. In spite of some structural measures taken this year, the overall economy deteriorated in 1988 and seems to have continued to deteriorate in 1989. Unfortunately, performance under the first annual arrangement under the structural adjustment facility fell considerably short of expectations. In 1988, inflation accelerated, the overall balance of payments recorded a large deficit, the Government's budget deficit rose to close to 16 percent of GDP, and external debt continued to grow, and is expected to increase further in 1989 and the following year. One cannot ignore the heavy weight of the exceptional political events on these poor results. Indeed, we agree that the civil conflict could explain the delays in implementing last year's program, and we would like Mr. Fernando to convey our support to the authorities in their efforts as they seek to implement the program.

Against the background of these issues, I can only stress the need for the authorities to implement a strong program aimed at halting the deterioration, stabilizing the economy, and finding the path to sustainable growth. As I fully endorse the staff analysis, I will be brief.

As for fiscal policy, there is no substitute for strong action aimed at reducing the substantial government deficit, which is clearly unsustainable. We deeply regret the large slippages which occurred last year in this area and we agree with the staff that substantial improvements are needed on the expenditure side, in particular in reducing both overstaffing in the civil service and budgetary transfers to the public enterprise sector. Furthermore, the authorities should be cautious in implementing the Jana Saviya Program. Indeed, even though its goals are fully warranted, it could have adverse effects on the labor market by discouraging employment. The implementation of the JSP should not result in increasing the budget deficit. However, as mentioned in the policy framework paper, in the very short run, increases in revenues will have a major role in reducing the public sector deficit. I would appreciate comments from the staff on the feasibility of reaching the targets of 21 percent of GDP for revenue for 1989, given the latest events.

As far as monetary policy is concerned, I can only stress the need for its tightening, given the large demand imbalance and the necessity to fight inflation. The deterioration of the balance of payments is a source of concern and has led the authorities to pursue an active exchange rate policy. The staff has rightly pointed out the inflationary effects of the devaluation of the rupee but in this situation the devaluation seems necessary. In addition, the deterioration in the balance of payments has led to a short-term borrowing obligation which is a cause of concern as it decreases the capacity of Sri Lanka to reimburse its creditors in the near future. We hope that Sri Lanka will be able to reduce its nonconcessional loans. Moreover, we encourage the authorities in their objective of preserving and improving the liberalization of trade in order to strengthen the export sector and promote industrial development and foreign investment.

Turning briefly to structural policy, I fully agree with the emphasis placed on the importance of a rapid and large reform of the public sector, given its dominant role in the economy. We commend the authorities for reducing the scope of the Government and for implementing a policy aimed at rationalizing the public enterprise sector. In this regard, the information in the policy framework paper and the background paper on recent economic developments is fully comprehensive, and we urge the authorities to pursue the improvement of this sector.

Before closing, as is well said in the background paper, Sri Lanka is a low-income country well known for providing its population with living standards far superior to those found in countries at comparative levels of development. We commend the authorities for these results, but to protect them, despite an exceptional situation marked by civil conflict, the authorities should avoid the slippages which occurred last year in the implementation of the structural adjustment program.

Many risks surround the program, but despite the concerns I have just expressed, we endorse the proposed decision.

Mr. Fogelholm made the following statement:

Both the staff report and Mr. Fernando's informative statement clearly describe the dichotomy which the authorities face. On the one hand, prolonged internal political and social unrest makes the pursuit of sound economic policies extremely difficult, and on the other hand, it would seem that a restoration of economic activity and some minimum growth in consumption is required for the resolution of the civil conflict. The authorities are walking a tightrope but have, in effect, no choice but to give the highest priority to restoring the health of the economy.

The fiscal situation deteriorated substantially last year, and the present budget deficit is clearly unsustainable. Expeditious measures on both the expenditure and the revenue sides are needed to improve the situation. Thus, I welcome the recent cuts in expenditures, and encourage the authorities to continue eliminating subsidies, although admittedly the task is not an easy one in the prevailing circumstances. I also subscribe to the planned measures to broaden the coverage of the income tax. However, I agree with other Directors that the authorities should make every effort to tighten fiscal policies even more than envisaged.

There is not much that can be added as regards the monetary policy stance. I agree with the staff that tight monetary policies must be pursued through the remainder of 1989 and in 1990.

I turn now to structural policies. The authorities implemented a number of structural measures under the first annual structural adjustment arrangement in 1988. Unfortunately, they were not in a position to undertake the projected public enterprise reform and scaling down of the government bureaucracy, both of which are now on the agenda. And it is indeed most important that these reforms be carried out, as it would seem that, in particular, invigoration of the enterprise sector is at the heart of economic progress in Sri Lanka. The Government intends to improve the efficiency of public enterprises through a combination of privatization, management reform, and closure of loss-making enterprises. This should very much be encouraged.

This chair does not usually promote privatization as a goal in itself as we believe that public enterprises can be as efficient and as well managed as private ones. In the case of Sri Lanka, however, it would appear from the staff report that the mismanagement of the major public companies is of a magnitude which cannot easily be rectified without drastic measures. Consequently, privatization of the plantations and some other public enterprises would seem to be appropriate. An increase in the private sector of the economy could also inject some much needed dynamism into the economy. This is most important in light of the unemployment situation, which is only going to worsen--at least in the short run--as the Government continues the necessary rationalization of the public administration in connection with the 1990 budget.

I welcome the recent action on the part of the authorities to simplify and streamline administrative approval procedures for foreign direct investments. Although it is clear that the security situation is the single most important factor preventing growth of foreign investment at this juncture, it is imperative that there be no major legal or administrative obstacles to foreign direct investment when the political conflict is resolved and the country has returned to normalcy.

I am pleased to note the World Bank's involvement in a number of projects supporting structural reforms in Sri Lanka. The poverty alleviation program under preparation looks particularly appropriate, although I am not sure about its relationship to the Government's own Jana Saviya Program, which also contains some novel features. The JSP, however useful and effective it might be, seems quite costly, perhaps too costly in the present fiscal situation. It would appear that the envisaged benefits are excessive as the monthly transfers almost equal the median family income. Perhaps the World Bank program will trim the JSP to more reasonable proportions.

Foreign financing on concessional terms will be needed throughout the program period. In addition to already pledged official transfers, some extraordinary financing is necessary to cover the financing gaps during the first program years. It appears that such financing will be available from international financial institutions and donors, at least for 1990. The best way for the authorities to maintain the confidence of creditors and donors and thus ensure a continuous financial resource flow would be to implement strictly the present program.

With these comments, and duly acknowledging the Sri Lanka authorities' prudent debt management record and performance in meeting their obligations, I would like to support the proposed decision.

Mr. McCormack made the following statement:

Like other Executive Directors, we are disappointed by the substantial slippages in the first year of the structural adjustment program. Undoubtedly, the continued civil strife greatly complicated the task of the authorities and probably meant that slippages in meeting the quantitative benchmarks, which were based on a gradual return to normality, were inevitable. However, it is clear that policy decisions ahead of the December election were also an important contributing factor.

We are encouraged by the recent measures taken by the authorities, particularly the upward adjustments in prices of certain basic items in order to reduce subsidies, depreciation of the exchange rate, and tightening of monetary policy--although I share Mr. Enoch's reservations about the selective credit freeze. The statement by Mr. Fernando is also encouraging, indicating some positive response to these measures. However, it is clear that more needs to be done, both in strengthening macropolicies, particularly on the fiscal side, and in moving ahead with structural measures.

Many of the reform measures are essential to an improved fiscal position. The authorities need to move ahead with tax reform, with cutting back subsidies, as well as with reducing overstaffing in the civil service. We would encourage them to move ahead with plans for the restructuring of public enterprises and privatization. One-time revenue measures, such as adopted this past year, can only temporarily alleviate the fiscal situation, while cutbacks in capital outlays put at risk long-term growth potential.

We are very sympathetic to the difficulties faced by the authorities in attempting to implement major structural reforms at a time of uncertain political stability. However, we fully agree with the staff that economic stabilization is an essential requirement for lasting political stability. There is a risk that concern over the political impact of needed measures or, unfortunately, renewed civil strife, could force the authorities to modify their adjustment effort. While this might seem a necessary expedient, in the end, it is only likely to increase the difficulties facing Sri Lanka. We urge the authorities to move ahead with structural measures as rapidly as possible and to consider what contingency measures could be taken if developments, internally or externally, are less favorable than expected.

We also sympathize with the aims of the Government's program of poverty alleviation. However, it is essential that it be carefully targeted to those most in need. We agree with the staff that the generous benefits need to be modified. It could be that there are other, more effective ways of helping the poorest segments of the population. As currently proposed, there would seem to be a high risk that the program could have adverse effects on Sri Lanka's adjustment effort, both through its direct budgetary impact and the wage pressures which it may stimulate. We note that the authorities consider such claims to be unjustified and urge them to maintain their firm opposition. The danger is that these adverse consequences could, over the medium term, more than offset any temporary benefits for the poorest.

Finally, we would emphasize that last year's slippages mean that time is not on Sri Lanka's side. The external reserve position is precarious and recourse to commercial borrowing is not desirable or sustainable. We note that Sri Lanka has a good record of meeting its debt service commitments but, in the face of the downside risks, the authorities must avoid any further slippages or delays in order to strengthen the external position. This will be necessary also to lay a realistic basis for a possible later request to use the resources of the enhanced structural adjustment facility.

Mr. Gorjestani made the following statement:

At the outset, we would like to support the staff's proposed decisions concerning Sri Lanka's exchange measures and arrangement under the structural adjustment facility. As explained thoroughly in Mr. Fernando's informative statement, despite the continued civil strife, which has put a great deal of political pressure on the country and thus has hampered the performance of the economy, the authorities have courageously undertaken the envisaged structural adjustment measures, in particular to overcome the country's financial difficulties.

However, given the further worsening of the political situation, worsened further as a result of natural calamities--drought in the north and floods in the south--it is no surprise that the rate of economic growth has deteriorated and the fiscal deficit has increased. Under these circumstances, the expansion of money and credit has further fueled the prevailing high inflationary pressures, and the external current account has deteriorated. This situation is reflected in the country's low foreign reserve position, at less than one month's import requirements.

Nevertheless, it is encouraging to note that despite all these unfavorable events the authorities have pursued their firm commitment to adjustment efforts as set out in the policy framework paper, and have collaborated with the Fund and the World Bank.

As pointed out by the staff, it is of paramount importance that the newly formulated fiscal measures be implemented vigorously. The authorities have rightly recognized that fiscal adjustment remains the key to the success of the program. Indeed, restraining current expenditures, streamlining capital expenditures, promoting an effective tax reform in the medium term as well as limiting the Government's recourse to the banking system would be crucial steps in coping with structural weaknesses.

The deceleration of the growth of the money supply and the rationalization of credit expansion are formidable tasks facing the authorities. Mopping up excess liquidity through market operations in treasury bills and raising interest rates have been the correct policy measures for reducing inflationary pressure.

Given the already free and open trading system in Sri Lanka, the external sector of the country could be improved by implementing the measures set out in the policy framework paper. The appropriate exchange rate policy which Sri Lanka has already been pursuing, coupled with these measures, could enhance the external competitiveness of the economy and reduce the growth of demand for imports.

We share the staff's view that the exchange rate adjustment is indeed a complementary step to fiscal and monetary restraint and not a "viable substitute" for these policy measures.

As regards the public sector reforms, the authorities' commitment to pursue the civil service reform with the aim of restructuring and streamlining central and local governments' financial and administrative systems is encouraging. We welcome the decentralization process as well as the restructuring of public enterprises with the aim of privatizing state plantations and certain other enterprises such as the transportation network.

Given the welfare system which has been in place for a relatively long period in Sri Lanka, and taking into account the prevailing political and economic situation, we share the staff's concern about further delay in implementation of the Jana Saviya Program, which is aimed at improving the living conditions of the poorest segment of the society.

It would be advisable for the authorities to revitalize this program expeditiously in order to assist those suffering from the impact of adjustment measures. In this respect, we particularly commend the staff for its attention to the poverty issues. It is crucial that the next staff reports further analyze the social cost of adjustment programs on poor segments of the population.

Finally, the success of the adjustment program depends to a large extent on the full support of the international community as well as on the restoration of security to the country.

Mr. Evans said that he had noted, and generally agreed with, the comments of previous speakers critical of Sri Lanka's policy performance over the past year. That said, the Sri Lanka authorities were clearly facing very difficult times and were to be commended for their efforts to sustain an adjustment program in such circumstances.

In his helpful opening statement, Mr. Fernando had recognized the interdependence of economic progress and a restoration of political stability within the country, Mr. Evans observed. The two would inevitably go hand in hand, and recognizing that should strengthen the authorities' determination to right the economic situation as speedily as possible. Doing so would require concentration, in particular, on fiscal restraint and an acceleration of privatization and reform of the remaining public institutions. On both issues, and with the stakes so high, the authorities would be well advised to push ahead of the targets set by the program criteria.

In that regard, his chair believed that the poverty alleviation program, the JSP, was unworkable as originally formulated, and that it must be much more carefully targeted before implementation, as the staff had noted, Mr. Evans continued. By the same token, he would point to the experience of some other countries in the region which had demonstrated that poverty alleviation was most readily pursued through sound macroeconomic policies which restrain the growth of incomes and costs and hence promote employment. The pursuit of such policies could place Sri Lanka in a stronger position in pursuing its intention to seek an arrangement under the enhanced structural adjustment facility.

He supported the proposed decisions.

Mr. Morshed made the following statement:

Like other speakers, I feel that the overall performance of the Sri Lanka economy must be judged against the very difficult political and social environment facing the country. Civil disturbances that have severely disrupted economic decision making in recent times continue to act as a significant deterrent to the implementation of policies that are necessary to prevent a further deterioration in the fiscal and external account positions. Indeed, the two deficits together pose a major threat to the country's future growth prospects. The actions that have been taken by the authorities so far, particularly on exchange rate and price adjustments, are welcome. However, formidable problems still remain and, as the authorities themselves recognize, it is necessary to focus urgently on a set of improved macroeconomic stabilization measures. I share the broad thrust of the staff appraisal and can endorse the second annual arrangement under the structural adjustment facility.

It must be recognized that private sector business confidence is likely to have been adversely affected by the prevailing political climate, and it is in this context that privatization and other private sector oriented policies must be evaluated. Public sector investment is likely to continue to be necessary in order to rebuild infrastructure. While taking into account the overall budgetary constraint, the quantum of such investment needs to be monitored carefully in order to ensure that, in the absence of a sufficiently strong private sector response, an adequate growth momentum is achieved. I wonder whether the staff can confirm that the difference in the gross public investment to GDP ratio between Tables 1 and 3 of the background paper is largely accounted for by a differing treatment of autonomous public corporations in the compilation of the two tables. Table 3 shows that despite the fall in public investment since 1984, there has been no corresponding increase in private sector investment.

It is indeed commendable that Sri Lanka continues to maintain an open and relatively free trading system, despite its many problems. Such a policy is appropriate, particularly in view of the size and structure of its economy. While the rise in gross official reserves in September is encouraging, the precarious external reserve position has been highlighted in both the staff report and Mr. Fernando's informative statement. Sri Lanka's open trading system could be put at risk if insufficient external resources were forthcoming and/or if there were adverse speculative capital flows. This is particularly so because a further substantial exchange rate devaluation in the event of a significant financing gap would serve to complicate economic management and may prove to be a difficult option to pursue.

Turning to structural reforms, over the medium term, extensive tax reform and civil service reform will be required to contain the fiscal deficit within manageable limits. The formation of a Tax Commission in mid-1989 is a particularly welcome development, as is the intention to incorporate some preliminary recommendations of the Commission as part of the next budget. The discretionary measures announced in March, while welcome, are one time in nature and do not address the fundamental nature of the problem at hand.

The concern of the Sri Lanka Government with regard to the development of human resources and the promotion of balanced growth is noteworthy, especially as the proportion of people living in poverty has remained virtually unchanged since 1973. Nevertheless, it appears that the Jana Saviya Program, which reflects the priority given by the Sri Lanka authorities to poverty alleviation, needs to be adapted to make it more sustainable and less of a disincentive to poorly paid workers. The number of families targeted under the program should be limited, as any attempt at a wide definition would have adverse budgetary consequences and may indeed put the viability of the entire program at risk.

I note Sri Lanka's intention to seek an enhanced structural adjustment arrangement. This chair would be favorably disposed to future Board consideration of such a request.

To end, I would like to emphasize that a meaningful and lasting settlement to the internal conflict is a prerequisite for the harnessing of Sri Lanka's economic potential.

Mr. Newman said that the Government of Sri Lanka was to be commended for its renewed commitment to adjustment and reform in the face of severe internal difficulties. The policy framework paper for the second year outlined a series of measures that would help to put the economy back on the track established in the initial program. While he recognized the difficult constraints facing the authorities, the concerted implementation of the current program was the minimum necessary to provide the basis for the increase in productive employment required to meet the rising expectations that underlay current political problems.

A central element of the program was a vigorous effort to reduce a budget deficit that had fueled excessive domestic demand and forced the inflationary financing of the Government's borrowing requirement, Mr. Newman continued. He understood the Government's concern to maintain employment and income at a time of civil strife. However, procrastination and half-measures would only exacerbate current problems and postpone unavoidable reforms. His chair therefore welcomed the Government's intention to curb public expenditures and applauded the political courage demonstrated by the decision to reduce subsidies and defer implementation of a poverty alleviation program which the country could not afford.

A sustained reduction in the budget deficit would require meaningful action to curb the public sector wage bill, Mr. Newman commended. The recent sharp increases in public sector wages and employment levels had ratcheted up current government expenditures and enhanced the need for more fundamental progress in reducing overstaffing in the civil service. A program to reduce public sector employment would need to be combined with measures to expand the private sector in order to minimize unemployment. More vigorous implementation of the privatization program and measures to expand the manufacturing sector could make an important contribution in that respect. In that context, it would be interesting to know what measures were contemplated for dealing with the 80,000-90,000 positions that were expected to be identified as redundant. In particular, how would 10,000-15,000 redundant positions identified for the purpose of the 1990 budget be handled?

The recent tightening of monetary policy was an essential complement to efforts to reduce the budget deficit, Mr. Newman went on. The steps to curb bank financing of the budget deficit and to reduce the growth of domestic credit were welcome. Based on the staff's latest data, those measures appeared to be having the desired impact but needed to be sustained.

The ability of Sri Lanka to halt the deterioration in its balance of payments and rebuild depleted reserves depended ultimately on effective implementation of the domestic adjustment program, especially the correction of the fiscal situation, Mr. Newman observed. The accelerated depreciation of the currency was a necessary step to improve Sri Lanka's competitive position and was apparently facilitating capital reflows. As his authorities recognized, Sri Lanka faced difficult external financial constraints and support by official creditors would be essential to the success of the adjustment effort. His authorities would be as helpful as possible at next week's Consultative Group meeting although the amount they could provide was constrained.

In conclusion, the program under the second year of the structural adjustment arrangement provided an opportunity to regain some of the momentum lost during the past year and to set the stage for renewed growth and prosperity, Mr. Newman said. The task would not be easy, given the difficult political environment. However, economic and political reforms must go hand in hand for either to succeed. His authorities urged Sri Lanka to move ahead with the new program, which provided a realistic basis for resuming the progress and promise of earlier years.

Mr. Montórfano observed that the budgetary deficit of Sri Lanka, which had been the main source of growing domestic demand imbalances and fiscal adjustment, was a key element of the economic program for 1989-90. The most important elements of the program were a reduction in overstaffing in the civil service and public enterprise reform, with some government departments being closed and with the elimination of positions whose original functions had, over the years, become redundant.

The authorities had moved to cut current and capital expenditures, demonstrating willingness to make politically difficult decisions, Mr. Montórfano noted. If the reduction in the fiscal deficit continued over the medium term, it was to be supplemented with a tax reform. The Government intended to improve the efficiency of public enterprises through a combination of privatization, management reform, and closure of loss-making enterprises.

The Government had reaffirmed its commitment to the broad agenda envisaged under the original program, Mr. Montórfano observed. A number of important trade liberalization and industrial measures had been implemented at the start of the first year of the program but further progress had been slow. The authorities had also implemented a number of other structural measures aimed at strengthening the export sector and promoting industrial development.

The adjustment program had been designed to stabilize the macroeconomic environment and to restore the prospects for growth and employment, Mr. Montórfano concluded. He supported the proposed decisions.

The staff representative from the Asian Department said that he believed that the target of a ratio of revenue to GNP of 21 percent by 1991 was feasible, provided that a number of tax measures were implemented. Those measures included a broadening of the income tax by eliminating exemptions as well as some of the tax holidays granted to certain types of investor; the broadening of the domestic excise tax would also add a substantial amount to revenue. In addition, some improvement in tax collections could be expected, depending on the security situation. The effect of the various measures should materialize in 1991.

Expenditure was expected to decline from 34 percent of GNP in 1988 to 31 percent in 1990, the staff representative commented. A number of specific measures were being contemplated to achieve that reduction. As in 1989, the Government would continue to follow restraint in its wage and employment policies, and would also restrain capital expenditure. In addition, subsidies and transfers to enterprises could be cut. The impact of the recent price adjustments for fertilizer would be felt in 1991; the staff understood that price adjustments would continue into the early part of 1990. Also, the Jana Saviya poverty alleviation program needed to be improved in order to achieve better targeting and a smaller net budgetary burden. All those factors combined should lower expenditure in relation to GDP. In that connection, he could confirm Mr. Morshed's understanding of the reason for the discrepancy between Table 1 and Table 3 of the background paper.

As for the civil service reform, the staff representative noted that the Government expected that a large number of civil servants--10,000-15,000--would be identified as redundant by the time the 1990 budget was finalized. Some of them would be relocated to other departments including local councils that were being established under the policy of devolution, but a large number would have to leave the civil service. The issue was a twofold one of compensation policy and of whether the private sector could absorb those people found to be redundant in the government sector. Unfortunately, the situation in the private sector was not favorable at the moment but it should improve over time. As for compensation policy, the staff's understanding was that no decisions had yet been taken but the Government was currently working on the matter and would continue to do so with the assistance of the World Bank staff.

Considerable progress had been made over the past few years with the reform of the financial sector, the staff representative stated. A Treasury auction system had been established and had been improved. A system had been firmly established whereby interest rates were basically determined by banks, although the Central Bank could influence interest rates in the market. Current efforts were focused on the improvement of the efficiency of the financial system, in particular by lowering costs of intermediation and improving the credit system as well as by exploring the feasibility of privatizing at least one of the two state banks. Toward that end, a working group had been established recently, which would submit its recommendations during the course of 1990, in the expectation that those recommendations would be implemented in 1991 and 1992.

As for the privatization of public enterprises, the Government was following two sets of policies, the staff representative explained. The first, called commercialization, consisted of maintaining public ownership but with greater autonomy given to the enterprises, both in terms of financial and operational policies. The Government had identified more than 12 units for commercialization, and the staff's understanding was that the authorities would proceed as quickly as possible in that respect. The other policy was that of privatization, namely, of selling the shares or the ownership of an enterprise to the private sector, either to a large group of private individuals or to one or two private sector entities. On the side of the Government, the preparations for privatization were well under way. A number of enterprises that could be privatized had been identified. In fact, one enterprise had been sold and the authorities were in the process of selling two additional enterprises. However, the problem was the general investment climate. The private sector had not been responding to the Government's offers as quickly as had been expected. For instance, in June, the Government had offered one enterprise for sale, in the expectation that 25 percent of the shares would be taken up by foreigners, who in the event had so far taken up only 5 percent. Despite those difficulties, the Government would continue its effort to privatize and in the meantime improve its methods of offering enterprises to the private sector, in the hope of speeding up the process.

Finally, the staff representative from the Asian Department explained that the benchmarks in the table attached to the Memorandum on Economic and Financial Policies accommodated two types of possible borrowing. One was to finance imports of wheat, which had been financed previously either through short-term trade credit or cash; because of the decline in reserves, the authorities had recently negotiated an arrangement with a commercial bank that would provide medium-term financing for wheat imports. The second type of possible credit was for projects that were financed by a mix of concessional and commercial credit. The staff considered that the amount shown in the table of SDR 135 million was appropriate to accommodate those potential needs if the reserve position weakened.

Mr. Enoch noted that the increase in nonconcessional borrowing was large--double the size of the second annual arrangement under the structural adjustment facility. He asked whether alternative sources could not have been found, for instance, through the aid donors' meeting, in order to avoid imposing a further debt burden on Sri Lanka. Table 9 of the staff report indicated that the ratio of Sri Lanka's external debt to GDP was projected to rise from 76 percent in 1989 to 86 percent in 1990. The staff also considered that Sri Lanka's concessional borrowing was high and should be reduced if possible. The point made by the staff that the commercial bank credit line would be used if reserves were weak seemed to suggest a need for more adjustment rather than for the use of nonconcessional credit.

The staff representative from the Asian Department said that in principle the staff agreed with Mr. Enoch's argument. To some extent, the nonconcessional borrowing provided was a safety arrangement, and if at all possible, the authorities would prefer not to activate it. Also, if an offer was made at the forthcoming aid group meeting to provide concessional resources to finance the type of imports concerned, he was sure that the authorities would be glad to change the type of borrowing that was currently envisaged.

Mr. Fernando noted that among recent developments in the regulatory environment, the Central Bank had continued to strengthen its supervision over banks and nonbank financial institutions, in line with the objective of developing the financial sector. Also, in response to the falling into serious financial difficulties of several nonbank financial institutions, a new act and regulations had come into force in December 1988, which had had the effect of increasing the supervision of the Central Bank over the registered financial companies. At the same time, the act gave the Central Bank the authority to restructure companies that were insolvent or that were being improperly managed as well as to prescribe, among other requirements, capital asset ratios. The matter of the law relating to the recovery of debt, cited by many financial institutions as being an impediment to financial intermediation, was under scrutiny by officials whose conclusions and report were expected shortly.

Another area of investigation concerned the intermediation costs of the two state banks which dominated the banking sector, Mr. Fernando remarked. Those costs currently exceeded 5 percentage points and were reflected in very high lending rates. The reasons were manifold but two were worth mentioning: the extent of nonperforming loans, and the high security costs involved in the maintenance of a large banking network. The policy framework paper indicated that those aspects would be the subject of a report by the Central Bank, to be ready in June. That report would also examine the feasibility of privatizing of at least one state bank.

Other factors with a bearing on the financial market were the deregulation of interest rates as well as the emphasis placed by the Central Bank recently on using treasury bills as a monetary lever, Mr. Fernando observed. Statistics had been provided by the staff on the increasing importance of nonbank sources in the holding of treasury bills. As noted in the background paper on recent economic developments, between end-1988 and June-1989, nonbank sources had increased their share of treasury bill holdings from 16 percent to 23 percent. Alongside privatization, the Government had attempted to induce the financial sector to set up unit trusts. Much preparatory work had been done as well to improve the general aspects of company law, but the unsettled situation in the country had acted as a brake on further developments in that area.

On monetary policy, several Directors had referred to the need for strong monetary control, in particular, for watchfulness in respect of the impact of reserve growth in monetary aggregates, Mr. Fernando recalled. The comment had been made that tightening monetary policy in order to attack inflation would involve high interest rates, which should be tolerated. He would convey those views to his authorities, who shared the concern over inflation; their actions in selling treasury bills in the secondary market in the past few weeks was noteworthy in that connection.

The direct control of credit by the Central Bank was indeed a departure from previously practiced policy, Mr. Fernando said. Directors might recall that the Central Bank, in the mid-1980s, had been weaning monetary policy away from direct credit control. The Central Bank's current action could be explained in the context of the excess liquidity position as well as by the need for a sharp and quick adjustment in the face of both inflationary and speculative concerns, since such control had a direct impact on the private sector. The policy direction was to some extent facilitated by the idea that it would not be damaging in current business conditions.

The idea of stabilizing the gains from an upswing in tea prices had occurred to him also, Mr. Fernando remarked, and he would convey the suggestion of Mr. Goos to his authorities.

On the environment for direct foreign investment, as clearly stated in the staff report, the Government was acutely aware of the contribution that private investment could play in Sri Lanka's development strategy, Mr. Fernando said. Several of the recent initiatives in that respect had already been cited in the staff report. He wished only to add that Sri Lanka had fulfilled all requirements for accession to the World Bank's Multilateral Investment Guarantee Agency. The required legislation had been passed by Parliament and instruments of participation had been lodged with the World Bank.

After keeping the Business Acquisition Act on the statute book for 17 years, the Government had repealed it, Mr. Fernando observed. Directors might recall that the Government had had derived powers to expropriate business undertakings. It was, of course, understood that although the repeal of that Act could contribute to improving the investment climate, it was the solution of political and social problems that would have the greatest impact and provide the key to a boost in direct foreign investment.

To conclude, Mr. Fernando noted that directors had considered Sri Lanka's economic policies and performance in the past two years or so with understanding, despite the painstaking effort that was required to make a judgment in such a complex social, political, and economic situation. Without exception, Directors had given Sri Lanka the benefit of the doubt. To the best of his ability, he would convey all the comments and views that had been expressed to his authorities.

The Acting Chairman made the following summing up:

> Directors noted that the burdens imposed by the civil conflict had contributed to the disappointing economic and policy performance during the first annual arrangement under the structural adjustment facility.
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> Directors therefore welcomed the resumption of economic and structural adjustment under the second-year program under the structural adjustment arrangement, and they commended the authorities for the courageous measures that had already been taken. Directors were well aware of the difficult environment confronting the authorities and stressed the need to maintain the commitment to adjustment that had been demonstrated in the past and in recent months. While recognizing the risks posed by current circumstances, Directors considered that determined implementation of economic policies under the second-year program would help reverse the deteriorating balance of payments situation and lay the basis for sustainable recovery.
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> Directors emphasized the critical importance of fiscal policy for the success of the authorities' program. They stressed in particular the need to reduce current expenditures, including the wage bill, and transfers to households and public enterprises, particularly in the context of the 1990 budget. The importance of restraining wage increases in the public sector was also highlighted in view of the potential spillover

effects to other sectors of the economy at the current juncture. Over the medium term, a sustained reduction in the fiscal deficit would require elimination of overstaffing in the civil service, restructuring of public enterprises, and also a broadening of the tax base.

Directors appreciated the authorities' continuing efforts to alleviate poverty. Noting the Jana Saviya program launched earlier in the year, they stressed the importance of managing that program within the constraints of the much needed reduction in the fiscal deficit and urged the authorities to continue with their efforts to target the benefits more directly to the truly indigent.

In view of the pressures arising from the fiscal deficits, Directors encouraged the authorities to continue with their efforts to restrain the growth of domestic credit and total liquidity. In that context, Directors noted the restraint imposed on bank credit to public enterprises and also to the private sector, as well as the increased sales and higher interest rates at recent treasury bill auctions. Concern was expressed about the potential distortions in credit allocation arising from credit controls, and Directors urged the authorities to continue with their efforts to implement monetary policy through the use of more market-based instruments, including open market operations.

Directors noted the deterioration in the external sector, including the decline in official reserves, which underscored the need for an early and substantial strengthening of the balance of payments and reserve position. They observed that the recent devaluation of the rupee had already had positive effects on changing expectations and encouraging net inflows of foreign exchange. Maintenance of an appropriate exchange rate as a complement to fiscal and monetary policies would also make a substantial contribution toward reducing demand for imports and strengthening export performance. They stressed the need to monitor exchange rate movements carefully in the period ahead, taking into account developments in the balance of payments and the competitiveness of the traded goods sector. Directors praised Sri Lanka for having maintained an open trading system.

Directors commended the authorities for their sound record in meeting financial obligations to external creditors under difficult circumstances. In view of Sri Lanka's limited capacity to service additional borrowing on nonconcessional terms, concern was expressed about the possible large magnitude of nonconcessional borrowing.

Directors urged a cautious use of such borrowing. It was essential that adequate external financing be made available on highly concessional terms, including in the context of the forthcoming Aid Group meeting. A number of Directors stressed that full implementation of the proposed economic policies would be necessary to begin to restore the full confidence and support of donors.

Directors reiterated the importance of the continued implementation of structural reforms and expressed regret that structural reforms targeted for the first-year program under the structural adjustment facility had not been fully implemented. While Directors welcomed the progress that had been made during that year's program in reducing tariffs, eliminating some quantitative restrictions on imports, and liberalizing trade and foreign investment, as well as the more recent decisions to restructure some public enterprises and retrench public sector employment, they urged the authorities to persevere in their efforts in these and other structural areas, and in so doing to continue to seek the assistance from the World Bank where appropriate. Particular reference was made to the administrative reforms in the civil service, restructuring of public enterprises and state plantations--to include privatization, tax reform, and financial sector reform, including increased competition in the banking sector.

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

The Executive Board then took the following decisions:

Decision Concluding Article XIV Consultation

1. The Fund takes this decision relating to Sri Lanka's exchange measures subject to Article VIII, Sections 2(a) and 3, and in concluding the 1989 Article XIV consultation with Sri Lanka, in the light of the 1989 Article IV consultation with Sri Lanka conducted under Decision No. 5392-(77/63), adopted April 29, 1977, as amended (Surveillance over Exchange Rate Policies).

2. Sri Lanka's exchange rate system is free of restrictions on payments and transfers for current international transactions, except the restriction arising from the limitations on the availability of foreign exchange for personal travel abroad, which is maintained in accordance with Article XIV, Section 2, and the multiple currency practice arising from a stamp duty of 3 percent on letters of credit for imports, which is subject to approval under Article VIII, Sections 2(a) and 3. The Fund encourages Sri Lanka to eliminate

the restriction on travel allowances as soon as circumstances permit and urges the early removal of the multiple currency practice arising from the stamp duty.

Decision No. 9269-(89/134), adopted
October 11, 1989

Structural Adjustment Facility - Second Annual Arrangement

1. The Government of Sri Lanka has requested the second annual arrangement under the structural adjustment facility.

2. The Fund has appraised the progress of Sri Lanka in implementing the policies and reaching the objectives of the program supported by the first annual arrangement, and notes the updated policy framework paper contained in EBD/89/285.

3. The Fund approves the arrangement set forth in EBS/89/186, Supplement 3.

Decision No. 9270-(89/134), adopted
October 11, 1989

APPROVED: June 14, 1990

JOSEPH W. LANG, JR.
Acting Secretary