

INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 88/167

11:00 a.m., November 14, 1988

M. Camdessus, Chairman

Executive Directors

J. de Groote  
E. T. El Kogali

M. Finaish  
M. R. Ghasimi

J. E. Ismael  
B. Jalan

M. Massé

H. Ploix

S. Zecchini

Alternate Executive Directors

C. Enoch  
Zhang Z.  
Yang J., Temporary  
C. S. Warner

R. J. Lombardo  
R. Marino, Temporary

O. Kabbaj  
B. Goos

L. E. N. Fernando  
J. E. Zeas, Temporary

K. Kpetigo, Temporary  
I. A. Al-Assaf  
M. Fogelholm

G. P. J. Hogeweg  
F. E. R. Alfiler, Temporary  
S. Yoshikuni

L. Van Houtven, Secretary and Counsellor  
C. E. Wahlstrom, Assistant

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Also Present

IBRD: P. Suriyaarachchi. Asian Department: P. R. Narvekar, Director; K. A. Al-Eyd, C. M. Browne, H. Ghesquiere, E. A. Milne. Exchange and Trade Relations Department: J. T. Boorman, Deputy Director. Fiscal Affairs Department: W. Huyser. Legal Department: P. L. Francotte. Research Department: L. Alexander. Personal Assistant to the Managing Director: H. G. O. Simpson. Advisors to Executive Directors: M. Al-Jasser, M. B. Chatah, A. G. A. Faria, P. D. Pérez, S. P. Shrestha, M. A. Tareen, A. Vasudevan, J. E. Zeas. Assistants to Executive Directors: S. K. Fayyad, A. Hashim, C. L. Haynes, M. Hepp, K.-H. Kleine, M. A. Kyhlberg, V. K. Malhotra, T. Morita, S. Rouai, J.-P. Schoder.

1. BANGLADESH - PURCHASE TRANSACTION - EMERGENCY ASSISTANCE

The Executive Directors considered a request by Bangladesh for emergency assistance in an amount equivalent to SDR 71.875 million (EBS/88/226, 10/31/88; and Sup. 1, 11/10/88). They also had before them an economic policy framework paper for Bangladesh for 1988/89-1990/91 (EBD/88/324, 11/11/88).

The staff representative from the Asian Department noted that the spread between the official exchange rate and the secondary market rate was narrowed to 2 percent, with effect from November 12, 1988, thereby eliminating the multiple currency practice.

Mr. Jalan stated that his Bangladesh authorities regarded the staff report as a correct and fair presentation of the situation in Bangladesh.

Mr. Finaish made the following statement:

I have followed with great concern the reports on the devastating floods that struck Bangladesh in early September of this year, causing a substantial loss of life, extensive damage to agricultural crops, and severe destruction of physical infrastructure. The staff analysis of the effects and implications of the floods, and the Managing Director's almost graphic report on the situation upon returning from his recent travel, amply underscore the enormity of the setback dealt to Bangladesh, its people, and its economic prospects by the floods. Given these circumstances, it is perfectly understandable that the macro-economic objectives for the third annual structural adjustment arrangement have had to be scaled down. Nevertheless, the Bangladesh authorities' record of adjustment provides every assurance that they will continue to do what they can to restore financial stability and implement the envisaged reforms.

The authorities are to be highly commended for moving with great determination and courage to meet, with the support of the international community, the substantial immediate relief needs in the wake of the devastating floods. Equally commendable is the attention that the authorities are currently giving to the longer-term actions outlined in the letter from the Minister of Finance. These actions are intended to cope with the recurrence of floods in the coming years, which, as noted by the staff, must realistically be anticipated. There are, doubtlessly, important regional dimensions to the problem of recurrence of floods, and we therefore welcome the authorities' initiative to seek an urgent examination of all aspects related to it--including the need for a concerted cooperative effort at the regional level.

We are completely satisfied that the request for Fund support under consideration is in full conformity with the Fund's practices regarding the provision of emergency assistance to members afflicted by natural disasters, and we therefore endorse the proposed decision. This quick-disbursing assistance will not only help Bangladesh to meet its immediate financing needs, without seriously depleting its foreign reserves, and sustain confidence, but it should also, as importantly, encourage financing from other sources. In the case of Bangladesh, it is essential that this financing be in the form of grants and concessional loans. In that regard, we welcome the UN-sponsored meeting on assistance to Bangladesh, which is scheduled to be held on November 16 in New York. I hope that continued Fund support of Bangladesh will encourage other participants at that meeting to provide adequate and timely support in order to help the country to overcome the devastation of the floods and maintain its adjustment and reform efforts. As noted by the staff, the recent disaster underscores the need to maintain adequate reserves and highlights the importance of sustained donor support.

Let me close by commending the authorities for their continued collaboration with the Fund in finding appropriate solutions to Bangladesh's balance of payments difficulties. We look forward to the discussion in December on Bangladesh's policy framework paper and its request for a third annual structural adjustment arrangement. At the same time, we hope and expect that consideration will soon be given to providing Fund support for Bangladesh's adjustment and reform efforts in the coming years under the enhanced structural adjustment facility, which clearly constitutes the most suitable mode of Fund financial support for Bangladesh.

Mr. Yoshikuni said that he wished to convey his deepest sympathy to the people of Bangladesh, who had suffered personal losses and physical hardships owing to the recent severe floods. The proposed emergency assistance for an amount equivalent to SDR 71.875 million was no doubt an appropriate and timely response. Since all the requirements for emergency assistance seemed to be fulfilled, he strongly supported the proposed decision. He hoped that the assistance would contribute to meeting the need for immediate reconstruction and rehabilitation of the damages, as well as encourage additional assistance from other sources.

The severe damage caused by the floods had changed the macroeconomic picture of the Bangladesh economy in the near term, Mr. Yoshikuni noted. A Board discussion on the third annual structural adjustment arrangement was to take place in a few months; until then, further studies and a comprehensive reassessment of economic conditions--including the external financial support from other sources--should be made by the staff.

Bangladesh had a long and good record of cooperation with the Fund, Mr. Yoshikuni observed. Particularly noteworthy was the fact that, despite the serious damage caused by the floods, the authorities intended to implement the structural reforms as scheduled prior to the natural disaster. After last year's severe flood damage, the authorities had addressed their intention to continue their medium-term adjustment program as envisaged in the original policy framework paper. The performance under the first two annual structural adjustment arrangements had been broadly satisfactory, and some indicators showed better than expected developments in 1987. One could assume that the authorities' intention to put the program back on its original adjustment path would have been achieved, if the severe floods had not occurred. The costs of rehabilitation and reconstruction would require further mobilization of both domestic and external resources. In that connection, he hoped that the authorities would further strengthen their revenue-raising efforts. A tight monetary policy was also important to protect the balance of payments position and to contain the inflationary pressure caused by the flood damages.

Mr. Ismael extended his deepest sympathy to the Bangladesh authorities for the enormous damage the recent floods had inflicted on the people and the country. At the same time, he was encouraged to note that, in addition to providing immediate relief with assistance from foreign governments and multilateral organizations, the authorities had outlined measures to deal more effectively with floods in future years.

It was regrettable that the adverse effects of the floods were a major setback to the country's economic prospects, especially in light of Bangladesh's commendable success in its structural adjustment efforts in recent years, Mr. Ismael remarked. Real GDP growth would unavoidably be low, while inflation was likely to rise sharply due to supply shortages. The budgetary cost of repairs and rehabilitation would be substantial, and losses in export earnings would result in a larger current account deficit. He was concerned that in the absence of foreign assistance, the deficit would result in foreign exchange reserves declining to only two months of imports.

He commended the authorities' determination to persevere with the structural reforms and reductions in structural imbalances, as intended prior to the floods, Mr. Ismael said. He welcomed the recently prepared policy framework paper in light of the forthcoming third annual structural adjustment arrangement. However, in the meantime, Fund assistance would certainly help the country meet its immediate foreign exchange needs and relieve the pressure on its international reserves. Given Bangladesh's favorable track record, he did not doubt that the assistance would facilitate the successful implementation of the ongoing structural adjustment program. He supported the proposed decision.

Mr. Lombardo expressed his admiration for the impressive way in which the Bangladesh authorities were dealing with the devastating effects of the recent floods. It was remarkable that, despite the extensive damage

caused by the floods, the authorities had been able, in a short period, to adopt the immediate actions required to bring relief to the affected population and repair the damage. In addition, they had managed to adopt longer-term actions to mitigate the effects of future floods. Furthermore, despite the severe setback in the country's economic prospects, the authorities had expressed their determination to maintain cautious macro-economic management and to continue the envisaged structural reforms. That determination was a clear reflection of Bangladesh's commitment to adopt the needed actions and to address their economic problems in a realistic, long-term perspective. In that regard, he welcomed the policy framework paper for the third annual structural adjustment arrangement.

Bangladesh's efforts to face the recent disaster and solve its economic problems merited the strong support of the international community, Mr. Lombardo commented. He supported the request for emergency assistance and approved the proposed decision. Moreover, he hoped that the UN-sponsored meeting on assistance to Bangladesh on November 16 would yield the important amounts of bilateral and multilateral assistance from creditors and donors, which the efforts and attitudes of Bangladesh called for.

Mr. de Groote said that given Bangladesh's medium-term commitment to Fund-supported adjustment, the assistance to be given to the country in order to alleviate the damage caused by the recent floods could be discussed in a particularly constructive spirit. Bangladesh's efforts to achieve internal and external adjustment over the past two years, in the framework of its Fund-supported structural adjustment programs, had been quite broad in scope. The efforts had included revitalization of both the agricultural and industrial sectors, mobilization of public sector resources, reform of the financial sector, and liberalization of the trade and exchange rate systems. Despite minor slippages in implementation, the Bangladesh economy had performed successfully. The natural environment had not been particularly supportive of the implementation of adjustment policies even before the recent floods. Nevertheless, the economic recovery had almost been completed when a natural disaster again had destroyed Bangladesh's hopes of a better future.

The courage and determination of the Bangladeshi people and authorities, in the face of the calamities, had been shown by the rapidity with which they had responded with remedial measures, Mr. de Groote noted. Their courage and strong unflagging commitment to the medium-term adjustment strategy were highly commendable. The policy framework paper for the third annual structural adjustment arrangement amply corroborated that view.

It would be most appropriate to endorse the proposed decision, as that would give a correct signal to the participants in the special meeting on assistance to Bangladesh on November 16 in New York, Mr. de Groote remarked. He was convinced that assistance from the international financial community would come faster if the donors could be sure that the effects of their grants would be magnified by an economic policy orientation sanctioned and supported by the Fund.

Mr. Goos expressed his deep sympathy to Bangladesh for the widespread suffering and damage inflicted on the country by the recent floods. The consequences of the disaster constituted a serious setback to the authorities' commendable efforts to improve economic conditions and raise the population's living standard. The current situation was all the more regrettable, given the authorities' great commitment and determination during the past two years to achieve the objectives of the policy framework paper.

In light of that background, he had no difficulty in supporting the request for emergency assistance, Mr. Goos remarked. However, he was somewhat concerned that the terms of the Fund's regular resources that were to be made available were not particularly suited to the existing circumstances of the country. But he did recognize that it could help to sustain confidence and catalyze additional assistance, if the emergency drawing were held in the country's international reserves. Nonetheless, the authorities should perhaps try replacing the Fund's emergency assistance with incoming concessional flows, thereby alleviating the bunching of repurchase obligations to the Fund expected in 1991/92.

He commended the authorities for having resumed already, and, indeed, completed their negotiations on a third annual structural adjustment arrangement, despite the immediate need for reconstruction and relief, Mr. Goos said. That also reflected the correct assessment that maintenance of an appropriate macroeconomic framework and continued structural reform efforts had become even more critical after the floodings, in order to meet the authorities' objectives of stability and growth. He looked forward to the coming discussion on Bangladesh's request for a third annual structural adjustment arrangement.

Mrs. Ploix expressed her deep sympathy for the people of Bangladesh. She congratulated management and the staff on their prompt response to the recent catastrophic floods in Bangladesh. The emergency facility had proved once again to be helpful in providing the Fund with the flexibility it needed to assist member countries in particularly difficult situations.

The cost estimates provided in the staff paper left no doubts about the magnitude of the damage to the economy, Mrs. Ploix remarked. It was comforting that the international community had been able to react rapidly in order to mobilize additional assistance for Bangladesh. The World Bank's response to the flooding in Bangladesh had not been dealt with in the staff report. Given the extensive destruction of infrastructure, public equipment, and industrial capital stock, she would appreciate some comments on the assistance that the World Bank could provide.

The Fund's emergency loan, equivalent to 25 percent of quota, would adequately supplement the 13.5 percent access that should be granted before the end of 1988 under the third annual structural adjustment arrangement, Mrs. Ploix said. That additional financing was fully warranted, given that the significant external shock that Bangladesh had just undergone might otherwise jeopardize the structural reforms that the

authorities intended to implement. The forthcoming discussion on the third annual structural adjustment arrangement would provide an opportunity to review the situation more thoroughly. However, the commitment already given in the authorities' letter of intent was reassuring. Beyond the full completion of the structural adjustment arrangement, it would be interesting to have some preliminary indications about the prospects of an enhanced structural adjustment arrangement.

In view of the unavoidable recurrence of natural disasters, it seemed reasonable to examine the feasibility, within a regional context, of a comprehensive program of water regulation in Bangladesh, Mrs. Ploix noted. The international community should stand ready to join forces behind that project, once its feasibility was acknowledged by all the parties concerned.

Mr. Warner made the following statement:

We would like to extend our sympathy to the people of Bangladesh, who have been devastated by the severe flooding that occurred in early September. Given the fundamental economic burdens borne before the flooding, it is tragic to see Bangladesh suffer from such a disaster. It is appropriate for the Fund to join with other multilateral and bilateral institutions in offering immediate assistance to the country. Accordingly, we fully support the proposed decision.

However, we must be realistic and recognize that the assistance provided by the Fund is qualitatively different from most of the assistance being provided by others. For good reasons, the Fund is not in a position to provide assistance on a grant basis. Consequently, the financial terms of the credit we are offering today are considerably harder than the terms normally attached to aid provided by others. In fact, it is much more expensive than the credit the Fund itself has been providing most recently to Bangladesh under the structural adjustment arrangement. Therefore, the authorities of Bangladesh must be judicious in their use of this credit.

The information in the staff report indicates that Bangladesh has an adequate level of foreign exchange reserves, and that it may not suffer a loss of reserves as a result of the flooding. Indeed, if donors respond generously to the program of emergency assistance that will be discussed at a UN-sponsored meeting in New York on November 16, and if the additional assistance committed at that time is disbursed without delay, then there seems to be a distinct possibility that Bangladesh will find its reserve position strengthening significantly. In this event, it might be appropriate for the authorities to consider making early repurchases of the emergency drawing.



Alternatively, they may wish to take advantage of the situation to accelerate the program of import liberalization that has been supported by the structural adjustment arrangement.

We are very pleased that the authorities have reached agreement with the staff on their third annual structural adjustment arrangement. We have not yet had the opportunity to study thoroughly the policy framework paper that has been distributed, but we are encouraged by the information on the 1988/89 program contained in the staff paper for today's meeting. The fact that the authorities have reaffirmed their commitment to the program in spite of the flooding certainly makes us feel more comfortable about their request for emergency assistance.

We understand that the authorities are interested in negotiating an enhanced structural adjustment arrangement to follow the structural adjustment arrangement. We have a positive attitude toward this possibility, but would like to stress the importance of strengthening the policy foundations for an enhanced structural adjustment arrangement during the course of the current program year. In addition, we would like to recall the points that we made during the 1988 Article IV consultation with Bangladesh last May, concerning the objectives of an enhanced structural adjustment arrangement.

Finally, I must re-emphasize the importance my authorities place on including a thorough assessment of a member's capacity to repay Fund credit in all staff papers supporting the use of Fund credit. The last paragraph on page 13 of the staff paper contains some information bearing on this subject, but a more thorough job needs to be done in order to fulfill the commitment made by the Board to the Interim Committee regarding preventive action under the Board's arrears strategy.

The Chairman agreed that Bangladesh would have to be careful in its use of Fund's emergency assistance, which was an expensive form of credit. He assured Directors that the authorities were extremely conscious of that need, and he was therefore convinced that they would be rational in using the additional exchange reserves.

Mr. Massé expressed his sympathy to the people of Bangladesh at the catastrophe that had added further to their existing burdens. He also joined other Directors in supporting Bangladesh's request for emergency assistance. During the Board's discussion of the 1988 Article IV consultation in May (EBM/88/74, 5/11/88), he had commended the authorities on their remarkable efforts and progress in pursuing a broad-based structural adjustment program that had offered scope for a gradual strengthening of their fragile economy. He was concerned that the floods might retard and even undermine the best efforts of the authorities, and he therefore

welcomed their expressed commitment to maintain the thrust of the adjustment program in quest of their goal of economic viability. He also noted the authorities' decision to narrow further the differential between official and secondary market rates as evidence of that ongoing commitment.

The authorities would have to depend for some time on the support of the international community in the form of grants and concessional aid flows, in order to maintain their adjustment efforts, Mr. Massé remarked. Bangladesh's efforts deserved such support, and he hoped that the UN-sponsored meeting in New York on November 16 would go a long way in that direction.

Mr. Ghasimi conveyed to the authorities and people of Bangladesh his constituency's sincere condolences and profound sympathy for the large loss of life and the severe damage experienced during the recent devastating floods. He hoped that the emergency assistance from the Fund, together with other concessional external aid, would help the authorities in alleviating the immediate effects of the disaster.

The magnitude of the disaster, which highlighted the country's great vulnerability to natural calamities, might jeopardize the prospects for economic recovery and financial adjustment initiated in the context of the current structural adjustment arrangement, Mr. Ghasimi noted. In addition to the severe strains on the budget and the balance of payments resulting from the immediate efforts to alleviate those difficulties, the authorities were being forced to postpone many important projects, which would certainly affect the country's productive base. Beyond the initiation of short-term programs of repairs and rehabilitation, more decisive actions would need to be carried out to prepare the country for future floods. In that regard, he shared the authorities' view that such actions should be supported by a more concerted cooperative approach by regional governments.

He welcomed the progress that had been achieved before the recent floods in further reducing the current account deficit and in sustaining appropriate monetary and fiscal policies, Mr. Ghasimi said. In addition, he was heartened by the authorities' firm intention to proceed with the structural adjustment program, as envisaged under the structural adjustment arrangement, despite the enormous difficulties facing the country.

The rehabilitation and reconstruction programs would require substantial aid flows and external assistance on highly concessional terms, Mr. Ghasimi continued. In that respect, he hoped that the international community would contribute generously in helping the country to alleviate pervasive adverse effects of the floods, and to pursue an orderly adjustment process. Finally, he supported the proposed decision.

Ms. Yang expressed her sympathy to the Bangladesh authorities for the loss of life and physical infrastructure during the recent floods. The

damage to the Bangladesh economy had been disastrous, and, in that connection, she was greatly impressed by the authorities' determination to combat the floods while continuing to pursue the structural adjustment program. A wide range of policy measures would continue to be taken to contain inflation and protect the balance of payments position. The economic performance prior to the floods, which had been remarkable, could provide a possible solid foundation for economic reconstruction and continued adjustment in the future. She was in general agreement with the staff appraisal.

Since the actual economic performance by the end of June 1988 had been below the benchmarks under the Fund-supported program--even though there was still some room in which to pursue the set targets--it would be reasonable to scale down the 1988/89 macroeconomic targets in light of the severe adverse implications of the floods, Ms. Yang noted. In that context, the estimates and projections shown in Table 3 of the staff paper seemed to be on the optimistic side, especially the fiscal and monetary figures. Any assessment of the benchmarks for the structural adjustment arrangement should be cautious and realistic.

While she agreed with the authorities' policy of strictly limiting external commercial borrowing, sufficient resource inflows would be crucial to the postflood economic reconstruction needs, Ms. Yang remarked. She hoped that timely Fund support would contribute to the mobilization of concessional financing from other multilateral and bilateral institutions.

The Managing Director had visited Bangladesh right after the Annual Meetings in Berlin, and had experienced firsthand the disaster brought about by the floods, Ms. Yang noted. She was therefore convinced that management had made the correct assessment of the situation, and that the proposed provision of emergency assistance to Bangladesh should be fully supported.

Mr. El Kogali expressed his strong support for the provision of emergency assistance to Bangladesh. He commended the staff and management on the speed with which the staff paper had been brought to the Board. He distinctly recalled the graphic manner in which the Managing Director had reported on the extent of the devastation in Bangladesh after his recent visit. That report was now supported by Section III of the staff paper, which clearly set out some preliminary indications of the dimensions of the problem and its likely economic implications.

However, he wondered whether the assistance to Bangladesh could not have been larger, Mr. El Kogali said. He recognized that in the last four cases of Fund emergency assistance, which had occurred between 1985 and 1987, a cut-off limit of 25 percent of quota had been used, but that level bore no systematic relationship to the estimated total impact of the natural disaster on the balance of payments. It was clear that the general guidelines approved by the Board for emergency assistance related to natural disasters (SM/82/7, 1/8/82) did not preclude the provision of

larger amounts on an exceptional basis; a disbursement equivalent to 50 percent of quota had been made to the Arab Republic of Yemen in 1983. In the case of Bangladesh, it might have been appropriate to consider a drawing of at least SDR 95 million so as to enable the original gross reserve target of \$902 million, in addition to other related program targets for 1988/89, to be sustained. Although the emergency assistance was very expensive, he did not doubt that there was an immediate need for it, and that the additional prospective debt service would be manageable.

An important point was that, as noted in the staff appraisal, although Bangladesh had pursued broadly successful adjustment policies under the two successive structural adjustment arrangements, leading to a strengthening of its external position, real output growth had not matched expectations--particularly in the context of the high population growth rate, Mr. El Kogali noted. That was mainly due to weaker than expected private sector and project-related import levels, and it was likely that that discrepancy would widen further when the efforts of the floodings became fully absorbed by the economy. The authorities had commendably expressed their firm intentions to stay the course with their adjustment policies. Therefore, he wondered why the staff thought that it would be appropriate to proceed with a third annual structural adjustment arrangement six months after the start of the fiscal year, instead of going directly to an enhanced structural adjustment arrangement. He hoped that, under both the third annual structural adjustment arrangement and the prospective enhanced structural adjustment arrangement, management and staff would take due account of the pervasive and enduring adverse consequences of the flooding.

Mr. Al-Assaf expressed his sympathy to the people of Bangladesh. It was regrettable that Bangladesh's excellent track record of economic adjustment was endangered by the recent floods. The authorities faced a task of monumental proportions. In that respect, the staff paper was very useful in estimating the losses caused by the disaster. He had been heartened by the authorities' resolve in addressing their present difficulties, and it was encouraging that they were determined to continue implementing the structural aspects of the adjustment program. However, the chances of maintaining the momentum of adjustment would also depend on prompt and adequate external financing. He was glad that Fund support was being provided in a timely fashion, through its emergency assistance procedures. However, it was obvious that concessional assistance was the most needed form of assistance in the case of Bangladesh. The authorities' efforts to obtain that type of financing had been commendable and had resulted in a low debt-servicing cost. He was confident that they would continue in the same way.

As to economic policies for the near future, he preferred to wait to comment on them until the discussion of the final year of the structural adjustment arrangement, Mr. Al-Assaf commented. He approved the request for emergency assistance, as it was in full accordance with established practice.

Mr. Enoch made the following statement:

I join other speakers in expressing my deep sympathy to the people of Bangladesh for the tragedy of the recent floods. I would also like to commend the staff on the speed with which it responded to this tragedy. In situations like these, the ability to respond quickly is of paramount importance. Estimates of the full scale of the devastation caused by the September floods are at this stage of course rather tentative, but the staff paper gives a useful preliminary indication of the effects of this major natural disaster on the Bangladesh economy.

As required under the Fund's policy guidelines on emergency assistance, the authorities have described the general corrective policies they intend to follow. Although a detailed assessment of their proposed policy response must await our forthcoming discussion on the third annual structural adjustment arrangement, the staff paper shows that the authorities have--despite the floods--commendably restated their commitment to macroeconomic prudence and structural adjustment. Their courageous response to the present situation is highly impressive. The authorities' determination to press ahead with their previously planned financial reforms and further exchange rate adjustment is encouraging and should significantly aid the country's economic recovery. Given the devastating effect the floods have had upon agriculture, the fact that real output growth in the economy is still expected to be at least slightly positive in 1988 is perhaps an indication of the benefits of the adjustment policies that have been pursued in recent years.

Bangladesh already benefits from substantial concessional assistance from the international community--the structural adjustment facility with the Fund is one example--which gives rise to the question whether or not the country would really benefit from a nonconcessional facility, such as the Fund's emergency assistance. The answer is clearly affirmative. The Fund's emergency lending should be additional to the concessional facilities available. Early disbursement of the Fund's emergency facility should enable the country to make less use of commercial borrowing that would otherwise have been necessary. It is reassuring to read in the staff paper that, even with use of the Fund's emergency assistance, Bangladesh's debt service burden remains fairly manageable, rising only slightly in 1988 compared with the level in 1987, before resuming its downward trend. Finally, this assistance could have a significant role in enhancing confidence, both through the signal the Fund sends in approving the loan, and in the higher level of reserves Bangladesh might be able to hold as a result. Given the special importance of private transfers and official donor support at

this very difficult time for Bangladesh, the safeguarding of confidence in the sound management of the economy is particularly important.

The period for repurchases specified under this facility is consistent with that in other recent emergency loans, and seems appropriate in view of Bangladesh's forthcoming schedule of repurchases from the Fund. Nevertheless, in earlier periods, emergency assistance was sometimes provided for a shorter period--the emergency assistance for India in 1966 was for 21 months--and the Bangladesh authorities may well feel at some stage that the early refinancing or repayment of this relatively expensive facility might be helpful.

The case of Bangladesh clearly satisfies the conditions for emergency Fund assistance. I strongly support the proposed decision and look forward to further assistance being provided by the international community, particularly at the UN-sponsored meeting on Bangladesh on November 16, 1988.

Mr. Fogelholm expressed his sympathy to the people of Bangladesh. The authorities' decisiveness in continuing the adjustment course, despite recent tragic events, was commendable and reassuring. He supported the proposed decision.

Mr. Kpetigo expressed his sympathy to the Bangladesh authorities and commended them for the successful implementation of their programs. The extensive destruction caused by the recent floods had necessitated prompt and appropriate help from the international community, particularly the Fund. Bangladesh had made progress in strengthening its external position under the structural adjustment programs in 1986/87 and 1987/88; nontraditional exports had grown rapidly, stimulated by the flexible exchange rate management. In addition, external debt service had been reduced significantly, and Bangladesh had always discharged its financial obligations to the Fund on schedule. Given that the Fund's emergency assistance would reduce the need for commercial borrowing and alleviate the immediate foreign exchange effects of the disaster, he supported the proposed decision.

Mr. Hogeweg expressed his sympathy to the people of Bangladesh in light of the recent floods, and commended the authorities on their intentions to nevertheless continue their adjustment program. However, a detailed discussion on those efforts would have to await the forthcoming discussion on the third annual structural adjustment arrangement. He agreed with previous speakers that the proposed purchase was consistent with the guidelines for emergency assistance, discussed by the Board in 1982. In the event of an emergency, all funds were undoubtedly welcome, but, as had been noted by other speakers, the Fund's emergency assistance was relatively expensive and should be used prudently.

The staff paper noted the Fund's decision on assisting members in the event of natural disasters, but there was no such decision in the 13th Issue of Selected Decisions, Mr. Hogeweg observed. The guidelines on emergency assistance had been discussed in 1982, and he wondered what status they had, and what difference it would have made if there had been a decision on such assistance.

Mr. Zecchini expressed his deep sympathy to the people of Bangladesh in light of the recent floods. He noted that two aspects in particular had received attention during the discussion of the request for emergency assistance. As to the first aspect, the cost of using the emergency assistance, the Fund should consider the advisability of either maintaining the existing procedure or possibly find alternative conditions to attach to the Fund's emergency assistance. An opportunity would perhaps be found to review the experience with the emergency assistance facility, and, at that time, reconsider its cost.

As to the second aspect, a country's ability to repay the Fund, it was quite obvious that a country that had experienced extensive damage was not in a position to draw a substantial amount of resources from the emergency facility if the Fund were to apply the standard rules for evaluating the creditworthiness of a country, Mr. Zecchini remarked. Under those conditions, the assessment of the creditworthiness of a country would make the granting of emergency assistance very difficult, if not impossible in some cases, and a rephrasing of those conditions was therefore necessary, in particular, for the amount that could be drawn. Strict standards for creditworthiness could otherwise result in emergency assistance not being granted to a country like Bangladesh. Accordingly, further discussions of that aspect would also be appropriate in the context of a review of emergency assistance. He supported the proposed decision.

Mr. Marino expressed his sympathy to the people of Bangladesh. He deeply regretted the large loss of life and destruction of homes and infrastructure caused by the recent floods. Under any circumstance, a natural disaster was highly destructive to economic activity, but it had particularly adverse effects when it occurred in the midst of an adjustment program, because it exerted direct pressure on an already tight budget, as well as on the foreign exchange market. Under those conditions, Fund assistance, in an effective and timely fashion, was highly productive and could contribute to fortifying the international reserves of the central bank of Bangladesh, as well as sustain confidence and alleviate the immediate foreign exchange requirements arising from the disaster.

The authorities' intention to accommodate the rehabilitation costs within the existing budget--even though the macroeconomic objectives would have to be scaled down substantially--was highly commendable and deserved the full support of the international financial community, Mr. Marino remarked. It was noteworthy that, while the budgetary costs of the

repairs were estimated to be 1.8 percent of GDP, the projected deterioration in the Government's 1988/89 overall budget balance would only be 0.5 percent of GDP. He endorsed the proposed decision, and hoped that the Fund's financial support would prove to be appropriate in dealing with the emergency, and that it would promote a prompt return to conditions that supported sustained economic growth.

The staff representative from the Asian Department said that the possible rapid rundown of reserves and the attendant danger of loss of confidence in the aftermath of the floods had led the authorities to request emergency assistance from the Fund. While they had been confident that the international financial community would assist them in their efforts to alleviate the immediate effects of the disaster, concessional aid usually took time to be received. The immediate foreign exchange needs within a period of three to six months after the floods had been estimated at about \$350-400 million, and the authorities had considered it appropriate to ask the Fund to provide 25 percent of that amount; it had been explicitly stated that that would help to speed the relief process and enable them to proceed with the structural adjustment program.

The staff had had considerable discussions with the authorities on their needs in terms of Fund assistance, the staff representative said. The authorities had decided not to request a larger amount of financing under the emergency facility or compensatory financing, to which they were probably entitled, because they recognized that those funds were expensive and had a relatively short repayment period. A drawing of 25 percent of quota was considered to be consistent with a gradual decline of the debt service to about 20 percent in the mid-1990s. In addition, it would help them to avoid incurring expensive credit with a very short repayment period in order to finance imports of food and other relief goods. The assistance from the Fund had been designed explicitly to ensure that a shortage of foreign exchange would not be a constraint on rehabilitation. However, as noted by several speakers, the damage estimates remained extremely tentative and needed to be kept under close scrutiny for some time.

The balance of payments figures in the staff paper did assume that additional concessional assistance would be forthcoming, particularly as a result of the UN-sponsored meeting in New York on assistance to Bangladesh on November 16, the staff representative explained. In that regard, the staff had received indications from donors that Bangladesh's good standing with the Fund would help them to provide additional amounts of concessional assistance. The reassurance that economic policies were on track was, in that connection, very important to donors.

As to the impact of the floods on the medium-term growth objective, the projections in the policy framework paper assumed no further disasters, in accordance with traditional practice, the staff representative noted. However, it was realistic to expect a recurrence of floods in the future, and the authorities had therefore started to take both short-term and medium-term measures to help to solve that problem. It was difficult



to quantify the impact of the floods on the medium-term growth objective, but the World Bank would provide some tentative assessment of the flood control programs in the context of their review of public expenditure for the next Aid Group meeting in Paris, in April 1989. While the medium-term growth objective of 5 percent was still realistic, it was not feasible to recover the ground that had been lost in both 1987 and 1988 owing to the floods, or to expect a higher growth rate. In any event, substantial policy action would be required over the medium term.

There seemed to be good prospects for an enhanced structural adjustment arrangement in mid-1989, in connection with an economic program for the next fiscal year, the staff representative from the Asian Department noted. The staff and the authorities had discussed the possibility of implementing such an arrangement before then, but key reforms in the areas of import liberalization, taxation, and the financial system had not yet been finalized. The authorities expected to be able to finalize those reforms by mid-1989, in connection with an enhanced structural adjustment arrangement.

The Deputy Director of the Exchange and Trade Relations Department said that there had been no formal decision establishing an emergency assistance facility similar to the decisions on other facilities. The emergency assistance policy was carried out under the credit tranche policies. The guidelines on the Fund's emergency assistance were referred to in a summing up of a Board discussion in 1982, but there was no requirement for a formal periodic review of emergency assistance under that access policy. However, such a review could be undertaken if the Board so requested.

The Chairman remarked that it would be appropriate to review the utilization of the Fund's emergency assistance. The staff could prepare a paper, for circulation in early 1989, reviewing the general guidelines of emergency assistance.

The staff representative from the World Bank explained that all World Bank assistance to Bangladesh was provided on extremely concessional terms through the International Development Association (IDA). IDA was willing to provide short-term medical assistance to Bangladesh, under the ongoing family planning projects, in an amount of about \$3-5 million.

As Chairman of the Bangladesh Aid Group, the World Bank had also indicated IDA's willingness to issue an appeal on behalf of the Government for additional food aid, the staff representative said. Moreover, IDA was prepared to make funds available to meet rehabilitation needs; during the previous fiscal year IDA had provided \$90 million, mainly through a free-standing flood rehabilitation credit and flood rehabilitation components of new projects, in order to help the Government deal with the 1987 flood damage. Steps were being taken to amend credit documents, in order to ensure that funds were made available for rehabilitation projects needed in connection with the 1988 floods. Over the medium term--in addition to providing experts to help in the assessment of the damage--the primary

focus of IDA assistance would be to rehabilitate the economic and social infrastructure and would likely include reallocation of funds--estimated at about \$100-125 million--for ongoing projects.

IDA was also considering additional flood rehabilitation components for new operations, and, if necessary, a supplemental credit to the second flood rehabilitation project or, possibly, a third new flood rehabilitation project, the staff representative stated. However, the amount of additional aid needed for rehabilitation could only be determined once the damage assessment had been completed. One had to be careful in determining the extent and character of possible assistance, and, if necessary, use the mechanism of the Bangladesh Aid Group at the local level or at the regular Aid Group meeting in Paris, in order to assist the Government in mobilizing needed resources.

Under its regular assistance program, the World Bank was planning assistance for traditional investment projects, such as investments in flood control and irrigation, agriculture, road construction, education, and health, the staff representative commented. Furthermore, an energy sector credit for 1988, and a financial sector credit for the following year, were under consideration, as well as a structural adjustment credit for 1990, which would support the Fund's initiatives in the areas of tax reform and public expenditure. Those adjustment credits would broadly support the third annual structural adjustment arrangement, as well as a possible extended arrangement in 1989. In addition, the adjustment credits might also help to provide the much-needed local currency counterpart funds to finance the development program, and components for rehabilitation and reconstruction.

In conclusion, the amount of credit could not be determined at the present stage, but the World Bank was working in close collaboration with the authorities to estimate the needs for the next two to three years, the staff representative from the World Bank said. The Bank expected a sizable increase in 1989 in its lending to Bangladesh.

The Chairman commented that he greatly appreciated the World Bank's prospective loans, as a follow-up to the policy framework paper.

Mr. Jalan remarked that he had no doubt that the Bangladesh authorities would be very careful in their use of the Fund's emergency assistance. It was extremely important to them to receive that assistance immediately, in order to reassure the international financial community that the authorities were determined to stay the course and to keep as close as possible to the policy framework paper. He hoped that the international community, through the UN-sponsored meeting in New York, would come forward with additional assistance. He would convey to his authorities Directors' emphasis on the need to accelerate the program on which they had embarked, as well as the need to increase efficiency in use of resources.

The Executive Board then took the following decision:

1. The Government of Bangladesh has requested a purchase equivalent to SDR 71.875 million.
2. The Fund notes the intentions of the Government of Bangladesh as stated in the letter of the Minister of Finance of Bangladesh dated October 22, 1988, and approves the purchase in accordance with the request.
3. The Fund waives the limitation in Article V, Section 3(b)(iii).

Decision No. 9019-(88/167), adopted  
November 14, 1988

DECISIONS TAKEN SINCE PREVIOUS BOARD MEETING

The following decisions were adopted by the Executive Board without meeting in the period between EBM/88/166 (11/9/88) and EBM/88/167 (11/14/88).

2. USE OF FUND ARCHIVES - BANK FOR INTERNATIONAL SETTLEMENTS - PUBLICATION

In accordance with the arrangements for clearance of the study requested by the Bank for International Settlements on the history of the European Monetary Union, by Dr. J. J. Kaplan and Dr. G. Schleiminger, the Executive Board approves the publication of the history by the Bank for International Settlements as set forth in EBD/88/317 (11/8/88).

Adopted November 11, 1988

3. INDONESIA - TECHNICAL ASSISTANCE

In response to a request from the Indonesian authorities for technical assistance in the fiscal field, the Executive Board approves the proposal set forth in EBD/88/313 (11/4/88).

Adopted November 9, 1988

4. EXECUTIVE BOARD COMMITTEES

The Executive Board approves the reconstitution of the membership of the Executive Board standing committees, with the exclusion of the Pension Committee, as proposed by the Managing Director in EBD/88/319 (11/8/88).

Adopted November 11, 1988

5. PENSION COMMITTEE - NOMINATIONS

The Executive Board approves the election of the four Executive Directors nominated to serve as members of the Pension Committee for the term ending October 31, 1990, as set forth in EBAP/88/266, Supplement 1 (11/8/88).

Adopted November 11, 1988

6. ASSISTANT TO EXECUTIVE DIRECTOR

The Executive Board approves the appointment of an Assistant to Executive Director as set forth in EBAP/88/273 (11/9/88).

Adopted November 11, 1988

7. ASSISTANT TO EXECUTIVE DIRECTOR

The Executive Board approves the appointment of an Assistant to Executive Director as set forth in EBAP/88/274 (11/9/88).

Adopted November 11, 1988

8. APPROVAL OF MINUTES

a. The minutes of Executive Board Meetings 88/33 through 88/36 are approved. (EBD/88/310, 11/3/88)

Adopted November 9, 1988

b. The minutes of Executive Board Meetings 88/37 through 88/39 are approved. (EBD/88/311, 11/4/88)

Adopted November 10, 1988

9. EXECUTIVE BOARD TRAVEL

Travel by Executive Directors as set forth in EBAP/88/272, Supplement 1 (11/9/88) and EBAP/88/275 (11/9/88) is approved.

APPROVED: May 17, 1989

LEO VAN HOUTVEN  
Secretary

