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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 86/60

3:00 p.m., April 4, 1986

J. de Larosière, Chairman

Executive Directors	Alternate Executive Directors
	L. K. Doe, Temporary
C. H. Dallara	M. Lundsager, Temporary
	G. Ercel, Temporary
	M. Arif, Temporary
H. Fujino	
G. Grosche	W.-R. Bengs, Temporary
	Jiang H.
	S. Ganjarerndee, Temporary
A. Kafka	H. A. Arias
	M. Foot
	I. Puro, Temporary
M. Massé	
E. I. M. Mtei	A. Abdallah
	C. A. Salinas, Temporary
	A. Ouanes, Temporary
	S. Geadah, Temporary
P. Pérez	
H. Ploix	
	A. Steinberg, Temporary
	A. V. Romuáldez
	B. Tamami, Temporary
	A. Vasudevan, Temporary
	F. Di Mauro, Temporary

L. Van Houtven, Secretary
J. K. Bungay, Assistant

Also Present

IBRD: G. Koenig, Latin America and the Caribbean Regional Office; C. J. Poortman, Western Africa Regional Office. African Department: A. D. Ouattara, Director; J. A. Clement, K. Enders, M. G. Fiator, T. P. McLoughlin, S. M. Nsouli, L. Schmitz. Exchange and Trade Relations Department: M. Guitián, Deputy Director; S. J. Anjaria, E. H. Brau, N. E. Weerasinghe. Fiscal Affairs Department: P. Alonso-Gamo. IMF Institute: O. B. Makalou; S. Traore, Participant. Legal Department: H. Elizalde, J. V. Surr. Western Hemisphere Department: E. Wiesner, Director; S. T. Beza, Associate Director; J. O. Bonvicini, J. Ferrán, J. E. González, R. Incer, J. P. Pujol, F. van Beek, E. S. Williams. Personal Assistant to the Managing Director: R. M. G. Brown. Advisors to Executive Directors: J. Hospedales, G. Nguyen. Assistants to Executive Directors: J. R. N. Almeida, B. Bogdanovic, J. de la Herrán, G. D. Hodgson, A. R. Ismael, K. Murakami, J. E. Rodríguez, V. Rousset, E. L. Walker.

1. DOMINICAN REPUBLIC - REVIEW UNDER STAND-BY ARRANGEMENT

The Executive Directors considered the staff report for the second review under the 12-month stand-by arrangement with the Dominican Republic, approved on April 15, 1985 (EBS/86/65, 3/18/86; and Cor. 1, 3/26/86).

Mr. Kafka made the following statement:

My Dominican authorities are in broad agreement with the staff report. They feel, however, that the staff might have shown a somewhat more positive attitude toward the progress they have made in 1985.

Their progress has indeed been remarkable, and merits all the more emphasis as it has taken place in the context of a continued, serious, and deteriorating sugar situation; the Dominican economy's dependence on sugar needs no elaboration. To save time, let me highlight just two points on the achievements of 1985. First, all the quantitative performance criteria of the program have been observed and, in many cases, the Dominican Republic has overperformed, some times by substantial margins. Moreover, the export surcharge was punctually reduced, in fact slightly more than had been agreed with the Fund. More important than the observance of the performance criteria is the very real progress that has been made in the Dominican economy during 1985. After a monthly rate of increase of 3 percent in the first half of the year, reflecting a number of corrective price adjustments, the rate of inflation declined to 1 percent a month in the second half. A similar rate of inflation continued to prevail in early 1986. The public sector deficit also declined, due both to higher revenues and lower expenditures; the expenditure figures comprise the deficit of the state enterprises. The reduction of the deficit and the fact that it was more than fully financed by foreign loans enabled the Government to reduce its debt both to the Central Bank and to the state-owned Reserve Bank. Public sector enterprises still showed deficits but these are less critical if considered against their background: the sugar crisis, which in the Dominican Republic was reflected both in a decline in export prices and in a reduction of the U.S. sugar quota; the need to increase producer prices; and the reduction of arrears by public sector enterprises to their suppliers. The improvement in the current account of the balance of payments was less than had been expected but this has, again, to be laid at the door of the sugar crisis, which played havoc with exports. The increase in imports was financed by private capital inflows; possibly, however, these may have reflected an underestimation of various kinds of invisible current transactions. There was, as already mentioned, a decline in credit to the public sectors, and the expansion of credit to the private sector by the banking system was negative in real terms. However, there was a large expansion of credit by the nonbank financial system. Growth may have been negative; but the figures are now being re-examined, as they seem incompatible with other data.

The outlook for 1986 is for a positive growth rate of about 2 percent, which of course is very little for a country where population is growing at the rate of 2.5 percent. The year-over-year rate of inflation is expected to be more than halved to 15 percent. The fiscal outlook is for a very slight increase in the deficit but that deficit will be almost fully financed by external credits. Perhaps more important, it corresponds to expenditure increases attributable to a resumption of investment and interest rate payments. It is noteworthy that wage adjustments in the public sector will be clearly below the rate of inflation foreseen for 1986. The problem of state enterprises, or rather their deficit, still presents difficulties. However, it should be considered that it is largely the sugar crisis that will cause state enterprise deficits to rise slightly rather than fall in 1986. The State Sugar Council will register operating losses, compared with an operating surplus in 1985, because of the continued weakness in sugar prices and because of the further shrinkage of the U.S. quota. The fight against inflation will continue with monetary policy denying the public sector any increase in its indebtedness, while the private sector will be able to obtain a real increase in credit larger than in 1985. The resources for that purpose will come both from reduced reserve requirements and from greater acquisitions of the financial sector's liabilities by the public as a result of positive interest rates on debt instruments.

In the external area, the exchange system will continue to be run on the present basis, i.e., floating without official interference. The development of the exchange rate is likely to lead in the direction of some devaluation as a result of the end of the tourist season and because of the need for certain government payments to be made in 1986, postponed from 1985. the reduction in the export surcharge on traditional exports and the elimination of the surcharge on nontraditional exports will also constitute additional export stimuli (and it is the firm intention of the Government to remove these surcharges before the end of the year). The payments outlook is expected to be considerably better, with a fall in the current account deficit to 2 percent of GDP, compared with 4.7 percent in 1985. Considerable progress has also been made in rescheduling debt payments so that they are now at a uniform annual relationship of about one third of export receipts, which is tolerable. There is no question that the medium-term outlook now seems entirely viable. While the private banks have agreed to a multiyear rescheduling arrangement (MYRA) with the Dominican Republic, which, incidentally, is much more favorable than mentioned in the Fund's paper, it is regrettable that no similar MYRA has been concluded with the Paris Club. One may hope that given the precedent set by Ecuador, a MYRA can also be negotiated with the Paris Club.

The Dominican authorities look foward to discussing with the Bank very shortly the Bank's economic report, which has recently been completed and sent to the Dominican authorities.

Mr. Pérez recalled that, during the previous discussion of the Dominican Republic (EBM/85/172, 11/27/85), he had commended the authorities for having unified the exchange rate before the approval of the stand-by arrangement, which had illustrated their commitment to redress the deteriorating economic situation in the country. Since then, they had continued to demonstrate their firm intention to put the economy back on track by taking numerous measures and by meeting the targets of the program with ample margins. Noteworthy among the authorities' achievements were the lowering of the rate of inflation and the reduction of the fiscal deficit to 2.3 percent of GDP, compared with a programmed target of 4.9 percent. Those improvements were largely attributable to the authorities' package of measures affecting subsidies, the pricing system, and taxes, along with the decline in credit to the public sector.

The fiscal sector had performed remarkably well over the past year, Mr. Pérez continued. The authorities' continued efforts on the revenue side, including higher taxes, and lower than envisaged expenditures had brought about a fiscal deficit significantly lower than had been projected at the time the program was designed. The deficit had been fully financed by external credits, thus allowing the public sector to reduce its debt to the Central Bank and the Reserve Bank. However, the authorities needed to continue their reforms of the public enterprises. While further reforms of the pricing and subsidy system would be most welcome, the necessary measures could entail social unrest. Moreover, only modest gains could be attained, given that such enterprises were operating in sectors heavily dependent on the behavior of international markets for primary products, in which sugar prices had dropped dramatically.

The Central Government had increased wages by 30 percent more than expected, and a further increase of 10 percent was projected in 1986, Mr. Pérez added. Although those increases might appear excessive, it should be remembered that current real wages were 50 percent of their 1979 level. Given the recent improvement in the fiscal deficit, and the decrease in the purchasing power of civil servants, there was an understandable trend to increase nominal wages.

The exchange rate performance of the Dominican Republic had been satisfactory and, as agreed, free of any official interference, Mr. Pérez observed. It was likely that the Dominican balance of payments would be favorably affected by the recent sharp drop in oil prices. However, prices for primary products on external markets had had a devastating effect on the Dominican external balance and the U.S. sugar quota had been a significant problem. Agricultural exports accounted for about 70 percent of total exports in 1985; sugar exports--valued at $220.5 million--accounted for about 28 percent of total exports. The U.S. market absorbed 41 percent of Dominican sugar exports. The quota had been reduced from 468,700 tons in 1984 to 283,000 tons in 1985, and a further decrease to 247,300 tons had been imposed in 1986. The medium-term balance of payments scenario illustrated the bleak panorama for the Dominican trade balance in the years ahead. He hoped that prompt relief from the U.S. quota restrictions would be possible, so that the Dominican Republic's sugar exports, which were substantially dependent on the U.S. market, would fare better.

The Dominican external sector remained too concentrated on basic tradable goods, with the instability that that entailed, Mr. Pérez remarked. A rapid diversification of exports was needed, even with existing rigidities and the difficulty of shifting resources to other areas. In that regard, the tourist sector might offer a suitable incentive to attract domestic and foreign investors to create the necessary infrastructure for exploiting the exceptional natural resources with which the country was endowed. In conclusion, he supported the proposed decision.

Mr. Ouanes observed that the Dominican authorities, supported by a one-year stand-by arrangement, had embarked on a path of adjustment that had been successful as measured by the performance criteria. Notable achievements included the adoption of more realistic pricing policies and the unification of the exchange rate system. Further, despite the large number of discrete price increases, the authorities had reduced inflationary pressures and had made substantial progress in discharging arrears. However, while much had been achieved, much remained to be done, particularly since as recent growth had been sluggish.

While the fiscal outturn seemed satisfactory, it concealed a disappointing trend in the structure of total expenditures, Mr. Ouanes commented. Current expenditures, particularly those for wages and salaries, had exceeded the original program levels, and capital expenditures had been significantly lower than programmed. Those trends should not continue, or future growth prospects would be compromised. In that context, he welcomed the projected increase in capital expenditures in 1986. Similarly, it was expected that the 1986 increase in central government wages and salaries would be only about 10 percent, which would probably be less than the rate of inflation.

However, since total expenditures were expected to increase by about 17 percent, or about 2 percent in real terms, it was important to place the tax system on a firm footing, Mr. Ouanes continued. Although tax revenue had been buoyant in 1985, some of that revenue was attributable to the temporary export surcharge. Such a tax was not helpful to exports, and the authorities had implemented commendable reductions in the surcharge. Further reductions, with a view to phasing out the surcharge, would be appropriate. Alternative revenue measures would clearly have to be found, particularly since revenues from the windfall profits tax associated with the recent increase in coffee prices were not permanent. Further, the expected liquidation of the bond holdings of the Rosario Mining Company, aimed at compensating for the increase in central government wages and salaries, had not occurred. He hoped, therefore, that it would prove possible to adopt the compensatory fiscal measures under consideration.

Fiscal improvement continued to be necessary in the area of the finances of the parastatal sector, Mr. Ouanes indicated. The parastatal sector had incurred significant losses in 1985, in contrast to the break-even position envisaged in the program. Further measures were clearly necessary, in particular, structural reforms aimed at rationalizing the state enterprises.

Despite the reduction in the fiscal deficit, the balance of payments current account position remained virtually unchanged, Mr. Ouanes stated. If possible, the staff should comment on the extent to which the recent appreciation in real effective terms of the peso had contributed to the lack of improvement in the external account.

Considerable progress had been made in rescheduling debt payments, Mr. Ouanes noted. However, given that those payments were expected to absorb about one third of export receipts, it was important to strengthen and broaden the export base.

He was encouraged by the authorities' achievements and he urged them to maintain the momentum of adjustment beyond the program period, Mr. Ouanes said. In particular, they should continue to adopt supply-side policies that would alleviate structural weaknesses and encourage growth. They also needed to adhere to a tight demand management policy, supported by a flexible exchange rate policy. Finally, he supported the proposed decision.

Mr. Grosche indicated that the Dominican performance under the stand-by arrangement had been rather mixed. Economic activity had been much weaker, and the external current account deficit had been substantially higher than projected. The public enterprises had continued to incur considerable operating losses, despite some corrective measures. Interest rates for deposits in the formal financial market had been negative in real terms for much of the year, and a substantial appreciation of the real effective exchange rate had occurred. Some apparent weaknesses in relation to program targets could be explained partly by exogenous factors--for example, the sugar export shortfalls that had followed the reduction of the quota for the Dominican Republic's exports of sugar to the United States--but a number of those weaknesses had also been caused by inappropriate policies, particularly in the areas of public enterprises, monetary developments, and exchange rates.

Despite the corrective measures that had been taken during the past year, the public enterprises continued to register substantial and mounting operating losses, Mr. Grosche remarked. While prices for a number of items had been adjusted, others remained subsidized, implying a heavy burden on the budget. The authorities should take action with a view to improving the financial situation of the state enterprises.

He shared the staff's concern about the overregulation of the banking system, and especially the system of interest rate ceilings, Mr. Grosche commented. Those ceilings had actually prevented the commercial banks from setting interest rates at positive levels in real terms for much of the year, thus undermining the efforts to mobilize savings. In fact, gross national savings, estimated at 13.1 percent of GDP, lagged substantially behind the program target of 21.1 percent. The rates paid on certificates of deposit by commercial banks were currently positive in real terms, given the recent reduction in the rate of inflation, but it was still doubtful whether time deposits were yielding positive real returns. An early removal of the interest rate ceilings was warranted.

He was concerned about the marked appreciation of the real exchange rate in 1985, Mr. Grosche stated. While it was true that the real effective rate remained below the level in the period 1980-82, the trend was worrying. As the staff had pointed out in the medium-term balance of payments projections, the outlook for a containment of the current account deficit critically depended on a strong performance of nontraditional exports and tourism. However, that required a shift of resources to those sectors, and, in particular, an adequate exchange rate policy.

The staff had assumed that the financing gaps for both 1986 and 1987 would be closed by additional debt relief, Mr. Grosche noted. The commercial banks had concluded a welcome multiyear rescheduling arrangement with the Dominican Republic, but it would become effective only if the Government had a financial arrangement with a multilateral institution. He wondered whether the staff could provide further clarification on that point.

While the authorities had made some progress, they still needed to strengthen the adjustment effort in a number of key areas, Mr. Grosche suggested. In addition, uncertainties appeared to exist about the draft budget for 1986. An increase in the overall public sector deficit was expected for the current year. Efforts were clearly needed to provide a more lasting basis for fiscal revenues, particularly because export surcharges were expected to be phased out. An indication from the staff as to how that might be achieved would be helpful.

A few words were in order about the presentation of the Dominican performance under the program in terms of the observance of ceilings and targets, Mr. Grosche mentioned. Table 3 of EBS/86/65 showed that all the performance criteria had been met as of the end of 1985. However, it seemed that a number of adjustments had been made to those ceilings, making it difficult to arrive at a clear-cut judgment about actual performance. For example, the year-end target for the net foreign assets of the Central Bank had apparently been met only after substantial revisions had been made to the target. Staff comments on that matter would be useful. Finally, he supported the proposed decision.

Mr. Dallara remarked that the availability of preliminary indications of economic performance in 1985 provided the opportunity to evaluate not just the broad outlines of progress in the Dominican Republic but also the details of adjustment in various economic sectors. Notably, performance criteria were being met with margins, the rate of inflation had dropped significantly, and fiscal and monetary policies had been appropriately restrained in the light of resource limitations. Despite that performance, other developments had been disappointing, especially the negative growth rate, the lower than targeted national savings rate, and the larger than expected current account deficit, attributable in part to the decrease in the U.S. sugar quota and higher imports.

Tables 4 and 5 of EBS/86/65, giving details on the composition of revenues and expenditures, showed that spending on wages and salaries had been higher than originally planned, Mr. Dallara observed. The Executive Board had been informed of those increases at EBM/85/172 (11/27/85), but at that time revenues to cover the cost were to be secured from the liquidation of mortgage bonds held by the mining company. Apparently the cutback in capital spending had obviated the need for such sales. Nonetheless, at the Board's meeting in November, it had been indicated that if the legislature did not pass some revenue measures, the pay increases would be rescinded. While it was admittedly difficult to take such drastic action, the authorities' failure to do so was a matter of concern, as was their failure to begin paying interest on bonded debt held by the Central Bank. Furthermore, capital spending had been reduced to stay within overall budgetary capital ceilings, but it was the lack of local counterpart funds that was slowing, in part, the pace of implementation of development projects. That situation clearly had implications for current expenditures. The World Bank had been unable to begin disbursing two loans because the Dominican legislature had not approved them. An update of legislative developments would be useful.

The public enterprises had operated at a sizable loss in 1985, Mr. Dallara mentioned. While exogenous factors could partially account for those losses, it was not clear that adequate steps were being taken to reduce and eliminate them, especially in the light of the projected increased loss for 1986. It was disturbing to learn that overdue payments to farmers had been accumulating for some time, a practice that had obvious adverse implications for producer incentives. He wondered whether the authorities, assisted by the Fund and the Bank, should not be putting more emphasis on reform of the public enterprise sector. The losses of that sector could perhaps be reduced by targeting subsidies, or an alternative form of support, to the lower-income segments of the population, since it appeared that a significant portion of the losses--explicit or implicit--was accounted for by the food distribution agencies. That intermediation service could readily be provided by the private sector, and he urged the authorities to consider divestment and privatization as a viable option to reduce the economic drain of the public enterprises. In the absence of such action, other fundamental measures would need to be taken.

Although the 1986 budget had not yet been passed by the legislature, the authorities were adhering to its provisions, Mr. Dallara noted. While a programmed deficit equal to 3 percent of GDP might not lead to financing difficulties if external resources materialized as envisaged, the authorities should take care to restrain current expenditures. In that regard, he welcomed the monthly expenditure ceilings that were being established to limit increases in spending on goods and services.

In general, monetary policy had been restrained, partly because of the Government's reduction in its outstanding debt, Mr. Dallara commented. Although the private sector had limited access to commercial bank credit, it appeared that, through the nonbank financial intermediaries, the private sector had perhaps been able to secure adequate financing. In fact, that financing might have provided the liquidity that had enabled higher than expected import growth. Therefore, he supported the authorities' efforts to begin incorporating those intermediaries into the formal financial sector, and urged them to move promptly to relax interest rate ceilings on deposits at commercial banks in order to facilitate the integration.

The strong performance of private remittances, tourist receipts, and private capital inflows ought to be gratifying to the authorities, since it suggested a broadly based return of confidence in the Dominican economy's performance and prospects, Mr. Dallara indicated. One recent development in the external sector that he particularly welcomed was the substantial reduction of the export tax on traditional exports, and the elimination of the export tax on nontraditional exports, as well as the commitment made to eliminate the export tax completely by the end of the year. Those important steps would help to strengthen the medium- and long-term prospects for export growth and diversification.

Exchange rate developments during the year had reflected market developments, and the authorities could take credit for having restored a stable financial environment that had strengthened the Dominican peso, Mr. Dallara added. The Dominican economy would need to maintain competitiveness in the long run, and the authorities should monitor developments closely.

The authorities had made significant progress, although it was clear that a strong effort would be required over the next few years to attain a sustainable payments position, Mr. Dallara stated. Thus, priority should be given to structural adjustment, in the context of continued financial stability, during the period ahead.

The Dominican Republic had expressed some concern about its apparent exclusion from the Baker initiative, Mr. Dallara recalled. However, the authorities had been following policies broadly reflective of those encouraged in the Baker initiative, and with further efforts in the structural area to complement the continued financial stability, the Dominican Republic should be able to take advantage of the opportunities inherent in that approach. As the Dominican Republic was a country slated for enhanced Fund-Bank collaboration, he hoped to see rapid progress by the authorities in that context in the near future. He also hoped that, with the continued support of the international community and a strengthening of the authorities' structural reform efforts, the Dominican Republic could establish a basis for achieving stronger, sustainable growth over the medium term. Finally, he supported the proposed decision.

Mr. Massé indicated that the Dominican Republic's performance in 1985 under its stand-by arrangement with the Fund had been broadly acceptable, but had fallen short of expectations in some areas. On the positive side of the ledger, the dramatic slowing in the rate of inflation, the sizable reduction in the overall deficit of the public sector, and the authorities' ability to introduce substantial price adjustments in the public sector were all welcome. At the same time, however, a number of difficulties remained to be resolved. The adjustment in the external current account deficit had not been as large as expected in 1985, largely because of events beyond the control of the authorities. Problems continued to exist as well in the management of the parastatals, and in the nature of fiscal adjustment. Finally, economic growth remained weak, although the precise outcome in 1985 was still uncertain.

While the reduction in the overall fiscal deficit in 1985 had indeed been important, he was concerned about some of the measures taken to achieve that reduction, Mr. Massé remarked. For example, there seemed to be an inconsistency between reduced capital spending in 1985, while at the same time a 30 percent increase in the Central Government's wage bill had been allowed. Increased revenues in 1986 were to come in large part from a windfall profits tax on coffee exports and from higher petroleum taxes, as the authorities took advantage of favorable movements in the international prices for both coffee and petroleum. However, those price movements might be only temporary, and the authorities should be considering more permanent and stable measures. In addition, more aggressive policies might be needed to deal with the losses of the parastatals. The operating deficit of the public enterprises was expected to increase in 1986, and thus further price increases for public goods would probably be necessary, as would structural reform of the public sector. The World Bank seemed well placed to provide assistance in that area.

The external position of the Dominican Republic had been adversely affected in 1985 by conditions on the international sugar market in terms of price and market access, Mr. Massé observed. In the recent multilateral surveillance exercise, all members of the Executive Board had raised concerns about protectionism in both industrial and developing markets.

For the Dominican Republic, as well as for other sugar producers in the Caribbean, it was important for the large industrial countries to realize the impact of their trade policy on their smaller trading partners, and to take the concerns of the smaller countries into account as they developed their trade policies. Without access to markets for their exports, both traditional and nontraditional, it would become impossible for countries such as the Dominican Republic to earn the foreign exchange needed to repay their external debt.

For the medium term, the projected strengthening in the current account balance assumed a strong performance of nontraditional exports and tourism, Mr. Massé commented. To a great extent, a shift in resources to those sectors would depend on a competitive exchange rate to maintain adequate incentives. However, EBS/86/65 contained relatively little information on the performance of nontraditional exports in 1985, and he wondered whether the staff could cite some evidence that a shift in resources toward nontraditional areas had begun.

Finally, the evolution of the situation in the Dominican Republic suggested a continuing role for the Fund there, although no mention had been made of a follow-on program, Mr. Massé said. He wondered whether the staff or Mr. Kafka had any information on how the Dominican authorities envisioned their future relations with the Fund. In conclusion, he supported the proposed decision.

Mr. Salinas observed that the performance of the Dominican Republic under the economic and financial program for 1985 had clearly been more than satisfactory, particularly in terms of the progress achieved in redressing the mounting external and internal imbalances of the early 1980s. At the end of December 1985, all performance criteria had been observed, in some cases with substantial margins. Those accomplishments were the result primarily of the authorities' tight stance on monetary and fiscal policies, and were also attributable to the realistic exchange rate and pricing policies adopted early in 1985. The unification of the exchange market and the adjustment of many basic commodity prices had been central to the achievement of the program's objectives; those actions had the additional merit of having had little impact on other prices in the economy and thus had not endangered the pursued reduction in the rate of inflation.

In a broad sense, the final outcome for most variables had been highly positive, Mr. Salinas added. The monthly rate of inflation had declined from about 3 percent in the first half of 1985 to 1 percent in the second half, leading to an annual rate close to 28 percent at the end of the year, which was well below the levels observed in the previous year. Moreover, the overall deficit of the public sector--including the Central Bank--had been reduced to the equivalent of 2.3 percent of GDP, compared with the programmed target of 4.9 percent and the 1984 deficit of 5.2 percent.

Although the authorities had not achieved further progress in reducing the current account deficit, the medium-term overall balance of payments outlook was more optimistic, with a considerable improvement envisaged for the current account over the next three years, Mr. Salinas noted. In addition, debt rescheduling had resulted in rather stable medium-term prospects for the debt service ratio and the ratio of outstanding debt to GDP. Despite those results, however, the consolidation of the gains already achieved required the continued effort of the authorities to further strengthen their external position by means of increased competitiveness, coupled with the continuation of prudent demand management.

In addition, notwithstanding a public sector performance stronger than had been programmed, the authorities needed to focus particular attention on the persistent weakness affecting a number of state enterprises, since many of them continued to require large transfers from the Central Government, Mr. Salinas remarked. In that regard, the need for increasing the remaining subsidized prices merited emphasis, as did the advisability of pursuing a cautious wage and salary policy in the period ahead. The appropriate blend of pricing and wage and salary policies should in turn contribute to the strengthening of the finances of some major public enterprises, thereby reducing their reliance on government transfers. The steps already taken on price policies, cutbacks of some investment programs, and avoidance of further transfers to public entities were indicative of the authorities' stance and will. Finally, he supported the proposed decision.

Mr. Romuâldez commended the Dominican authorities for their achievements under the program and for their firm adherence to adjustment. However, although prospects had improved for the medium term, much remained to be accomplished.

The authorities' achievements under the program had been well documented by the staff and Mr. Kafka, Mr. Romuâldez observed. Meriting particular attention was the high degree of success with which the authorities had unified the exchange markets. Given the history of the exchange system in the Dominican Republic, that was no mean achievement. He expected, and would encourage, the authorities to manage the exchange rate flexibly, according to market signals. However, among the remaining areas of weakness in the Dominican economy, the public enterprise sector needed special strengthening if a sustainable growth momentum was to be realized.

Notwithstanding price adjustments in 1985, the public enterprises remained a major drain on public sector finances, Mr. Romuâldez continued. In 1985, the parastatals had suffered operating losses equivalent to 8 percent of total public sector expenditures, and it did not seem likely that improvement would occur in 1986. In addition to the drain on public sector finances, the arrears that the parastatals had incurred with the Reserve Bank and domestic suppliers had resulted in the weakening of the financial position of the state-owned commercial bank and of the agricultural sector performance, most of the domestic suppliers being rice and sugar farmers. Thus, he wondered whether the major adjustment effort that was clearly required was being contemplated in terms of a comprehensive sector reform program, and with what measure of urgency. He also asked whether World Bank involvement was envisaged. The staff had recommended actions to the authorities toward improving the performance of the public enterprises, but no indication of the authorities' reaction had been given, and additional staff comment would be helpful.

To conclude, Mr. Romuáldez cautioned the authorities against complacency, since he was confident of their commitment to adjustment, but rather against any relaxation in areas of relative success, as in the fiscal area, because the economy remained sensitive and vulnerable, especially in such an uncertain environment. He supported the proposed decision.

The staff representative from the Western Hemisphere Department said that while the Dominican Republic's economy had not grown during 1985, it was important to recall that the terms of trade in 1985 had probably been the worst in its history. Given the substantial reduction in exports that had taken place, the lack of growth should not be surprising. There was very little that the Government could have done to offset such a deep reduction in foreign income or to improve the economy. In fact, it was surprising that, despite such unfavorable external circumstances, the Government had carried out a courageous adjustment effort that had put the economy in a much better position than that of previous years.

Similarly, it was a matter of concern that the Dominican Republic still had an external current account deficit of about the same magnitude as that of 1984, the staff representative continued. Given the Government's current monetary and fiscal policies, the relatively large current account deficit in 1985 had been somewhat surprising. However, the table on the summary balance of payments for the Dominican Republic included a large errors and omissions figure that the staff ascribed to possible underestimation of receipts of the tourist sector and from remittances from abroad by Dominican nationals. It was possible that when the final figures became available, the current account deficit would be about 2 percent of GDP instead of 4.7 percent of GDP.

The rate of inflation had gone up because of inflationary pressures that had arisen at the time of the unification of the exchange rate, the staff representative explained. The staff had expected those corrective price increases to occur at the beginning of the program, but was gratified that the rate of inflation had come down substantially during the course of the year. Since June 1985--in other words, in the past eight months--the Dominican Republic had had a rate of inflation of about 7 percent a year. The January and February 1986 data indicated that the inflationary pressures were continuing to diminish, so that the estimate of 15 percent for all 1986 might be high--the rate might in fact drop to 10 or 11 percent.

In the program, an exchange rate of about RD$2.80 to the U.S. dollar had been estimated to be competitive for the Dominican Republic, the staff representative from the Western Hemisphere Department commented. After the unification of the rates, the new rate had depreciated initially to RD$3.30, but it had returned to approximately RD$2.80. The staff had watched carefully for any intervention by the authorities in the market, but had seen none. It seemed therefore that RD$2.80 was the exchange rate called for in the market and the staff had been hesitant to advise the authorities to intervene in either direction. There seemed to have been a substantial inflow of private capital, probably because of the large number of tourists going to the Dominican Republic. The exchange rate reflected the high level of tourist activity, which was not necessarily permanent, and it could therefore depreciate again after the peak of the tourist season.

Another staff representative from the Western Hemisphere Department, recalling Mr. Grosche's remark about the adjustments in the performance criteria, said that the original program had established performance criteria for March and June 1985, and indicative performance criteria for the rest of the year. In the context of the first review, revisions had been made to the indicative performance criteria for December 1985. The December target for net foreign assets of the Central Bank had been reduced because the authorities had paid off arrears during the year that had been included in the Central Bank's liabilities. Other adjustments had been made to the performance criteria on the increase in net domestic assets and bank credit to the public sector. The original program had specified that those ceilings had to be adjusted for debt relief, which had been larger than originally programmed. Thus, those adjustments had had the effect of tightening rather than easing the performance criteria.

The reduction in the export surcharge was expected to be counterbalanced in 1986 by higher prices for coffee and the attendant windfall profits tax, and the reduction in the petroleum import prices, which allowed for higher petroleum taxes, the staff representative explained. As for the revenue measures envisaged to take the place of the export surcharge, the authorities had introduced a tax package of RD$150 million in the budget that had not been passed by the legislature. That tax package had included a real estate tax, an extension of the scope of the sales tax, and a reduction in exemptions in income taxes. Some of those same measures might be introduced, in the context of a new budget, to replace the export surcharge. Moreover, the authorities intended to examine expenditures for possible reductions to offset the revenue lost from the elimination of the export surcharge. The legislature had not yet approved the two World Bank loans for disbursement.

Nontraditional exports had increased by 14 percent in 1984 and by 11 percent in 1985, the staff representative noted. For the most part, the nontraditional exports comprised exports of the export-processing zone. Resources were being shifted to that area by means of concessionary loans from development institutions that were financed by multilateral institutions, mainly the Inter-American Development Bank. Strictly speaking, the tourist sector could not be included among nontraditional exports, although it had been compensating for the shortfall in traditional exports, and had become an even larger export earner than the sugar sector.

The authorities had agreed generally with the staff's assessment of the measures required to improve the performance of the parastatals, the staff representative from the Western Hemisphere Department indicated. However, because of the elections scheduled for May 1986, they had not been in a position to make specific commitments on the pace at which those measures could be introduced.

The Deputy Director of the Exchange and Trade Relations Department said that it had been difficult to assess the exchange rate trends in the Dominican Republic. The program was on track, and the balance of payments test, which was directly related to exchange rate management, was being met; but the current account deficit was increasing, financed by a capital inflow of an as yet undetermined nature. The trend of the exchange rate did not seem appropriate from a medium-term perspective, and thus the staff had expressed concern that the exchange rate policy should be watched carefully. At present, however, it had not been possible to make a definite assessment as to whether the exchange rate was becoming unrealistic. In a sense, the staff had been following the line of reasoning that Mr. Kafka had alluded to in his statement, and had been trying to interpret the data to ascertain to what extent the current account data accurately represented the size of current transactions, and to what extent some of the capital inflows represented, in effect, current account transactions.

The Dominican Republic had signed a multiyear rescheduling arrangement with the commercial banks, in which a general reference had been made to an economic program with a multilateral financial organization rather than with a particular international institution, the Deputy Director mentioned. Nevertheless, the document signed between the commercial banks and the authorities also included references to a Fund program and to the possibility of enhanced surveillance. He had been struck by Mr. Kafka's remark that the terms of the multiyear rescheduling arrangement were more favorable than the staff had thought. The different interpretation stemmed from the date chosen for measuring the maturity and grace periods of the restructuring agreement. In the Dominican Republic, the agreement included payments that had fallen due in 1984 and 1985, and the first payment under the restructuring arrangement was due in 1988. If the date of 1984--when the Dominican Republic ceased to make payments--was used as the basis for the measurement of period terms, that would give 4 years of grace and would also provide a maturity period of 14 years for the arrangement. If the basis of measurement was taken from the date of signature of the agreement--February 1986--there would be instead 2 years of grace and the maturity of the arrangement would be 2 years shorter. A third possibility would be to measure those maturity and grace periods from the date on which agreement had been reached in principle. From an economic viewpoint, he agreed with Mr. Kafka that what mattered for the measurement of a grace period was the existence of actual payments; from that perspective, as no payments were to be made between 1984 and 1988, the actual grace period was 4 years. However, there might be some formal issue in treating the incurrence of arrears exactly as one treated the extension of a grace period, which was granted after the signature of an arrangement; that formal aspect had been behind the staff's measurement of the grace and maturity terms of the arrangement from the date of signature.

Mr. Kafka remarked that he had been glad to hear Mr. Dallara's comments about the Dominican Republic within the context of the Baker initiative. The authorities had accomplished a great deal already and, if necessary, would do more to qualify for any additional lending that might become available.

He also agreed with Mr. Dallara's characterization of the exchange rate situation in the Dominican Republic, Mr. Kafka continued. The recent rise in the Dominican peso had not been an appreciation, but rather the correction of an overshooting. The exchange rate had initially depreciated rapidly to about RD$3.33 to the U.S. dollar, but had risen again to approximately RD$2.80, which the staff had estimated as the correct level for promoting exports. If the problems of the sugar market had not occurred, the RD$2.80 level would probably have promoted more exports. There was good reason to expect that, at the end of the tourist season, an adequate movement of the exchange rate would take place and competitiveness would be preserved.

The Executive Board then took the following decision:

1. The Dominican Republic has consulted with the Fund in accordance with paragraph 4(c) of the stand-by arrangement for the Dominican Republic (EBS/85/75, Sup. 1, 4/17/85) and paragraph 30 of the letter of February 28, 1985 attached to the stand-by arrangement, supplemented and modified by the letter of October 28, 1985 with annexed technical memorandum, in order to review progress made in implementation of the program and to reach understandings for the remaining period of the arrangement on exchange rate policy, interest rate policy, the reduction in external payments arrears, and on external financing policies.

2. The Fund finds that no additional understandings are necessary on exchange rate policy, interest rate policy, the reduction in external payments arrears, and on external financing and decides that the review under paragraph 4(c) of the stand-by arrangement is completed.

Decision No. 8245-(86/60), adopted
April 4, 1986

2. MALI - 1986 ARTICLE IV CONSULTATION AND REVIEW UNDER STAND-BY ARRANGEMENT

The Executive Directors considered the staff report for the 1986 Article IV consultation with Mali and the first review under the 17-month stand-by arrangement with Mali, approved on November 8, 1985 (EBS/86/56, 3/5/86; and Cor. 1, 4/3/86). They also had before them a report on recent economic developments in Mali (SM/86/64, 3/20/86).

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

> The Malian authorities have confirmed that the measures envisaged under the economic and financial program for 1986, as described in EBS/86/56, have been taken. The Government has raised the administrative values on which import duties are levied by 10 percent. The system for monitoring government arrears has been set up. The new pricing system has been implemented. For the cotton sector, the Government has adopted a set of measures designed to reduce the potential losses of the semipublic cotton enterprise (CMDT), including an average reduction in input subsidies of 21.5 percent and an increase in the sales price of cottonseed of 54.6 percent. A government commission has been charged with the responsibility for the liquidation of Air Mali. All flight operations have been discontinued, and on February 28, 1986 Air Mali's personnel were given a one-month notice of termination of employment. The monopoly of SOMIEX for edible oil, flour, and soap--and as its monopsony and purchase obligations vis-à-vis domestic producers--were abolished. In addition, its selling prices for a number of goods were raised on average by about 10 percent. Furthermore, passenger tariffs of the national railway company (RCFM) were increased on average by about 25 percent; average cargo tariffs were also raised by about 18 percent. With regard to the state-owned aircraft, an agreement was reached on February 28, 1986 by the concerned parties in the United Kingdom and the Malian Government on the procedures for the sale of the aircraft.
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> Recent developments indicate that the average export price for cotton may turn out to be higher than originally estimated. Sales by the CMDT have so far been effected at an average price of CFAF 414 per kg, compared with an assumed average price of CFAF 381 per kg for 1986. In the event that prices remain firm, the losses of CMDT would be lower and require less external financing than initially projected. At present, the financing obtained, including that from Mali's Cotton Guarantee Fund, amounts to CFAF 6.4 billion, against CFAF 8.7 billion in the program. In view of the recent price developments, the current financing package appears adequate. If the evolution of prices were to be less favorable, the World Bank staff has indicated that the Bank would accelerate its disbursements under the Mali Sud II project.

Preliminary monetary data received for end-December 1985 indicate that the decline in net foreign assets of the banking system, from minus CFAF 27.5 billion at end-1984 to minus CFAF 45.5 billion at end-1985, was substantially more pronounced than estimated. Although up-to-date balance of payments data to explain this movement are not yet available, the larger drop in net foreign assets appears to have been due to delays in receipts of export proceeds, additional imports resulting from a higher level of credit, and some private capital outflows. The expansion in ordinary credit to the private sector in 1985 was higher than estimated, amounting to 9.3 percent of the money stock at the beginning of the year compared with an estimate of 7.4 percent. Ordinary credit exceeded the program estimates largely because of the financing needs of the state-trading company, SOMIEX, which did not succeed in reducing its sugar stocks by the end of December to the extent envisaged. As a result of the higher level of ordinary credit at the end of 1985, the preliminary data indicate that the performance criterion for total domestic bank credit was exceeded by CFAF 2.1 billion, implying an expansion of 13.2 percent, relative to beginning money stock, instead of 11.4 percent. The preliminary data for net bank credit to the Government, at CFAF 40.3 billion, was in line with the estimates in EBS/86/56, and was below the respective ceiling of CFAF 41.7 billion; crop credit, at CFAF 7.0 billion, was also lower than the program projection. Reflecting these factors, domestic liquidity grew by 9.3 percent, compared with a program target of 11.3 percent.

Mr. Doe made the following statement:

The economic performance of Mali improved in 1985 despite a sharp drop in the world market price of cotton, Mali's largest source of foreign exchange. Progress was also achieved in other sectors of the economy due partly to the strengthening of the adjustment efforts in the context of a new Fund-supported program. As reported by the staff in its latest statement, the economic and financial measures that were programmed for 1986 have been taken.

In the real sector, pricing and marketing incentives were enhanced in 1985 with a view to increasing production and income in rural areas. However, the favorable effects of this policy were hampered by the persistence of drought conditions in various parts of the country. One exception--cotton production--was not affected by the vagaries of the weather and registered significant gains. The increase in livestock production in 1985 was due to higher export prices, the volume having fallen substantially owing to the increasing scarcity of suitable pasture. In the secondary sector, construction and public works recovered from the depressed level of activity recorded in 1984. Altogether, these factors contributed to the small rise in real GDP of about 1 percent in

1985. For 1986, on the assumption that normal weather conditions prevail and supply-oriented measures continue to be implemented, agricultural output could increase significantly. Other activities are also expected to benefit from the spillover of the economic expansion in the primary sector. As a result, real GDP is forecast to grow quite sharply. The improved supply of food and the effects of the continuing austerity policies, are expected to reduce inflationary pressures. Thus, the GDP deflator is projected to increase by 6 percent in 1986, compared with 8.3 percent in 1985.

The Government's financial position continued to improve in 1985 as the deficit on consolidated operations, on a cash basis, is estimated to have declined sharply from just under CFAF 9 billion in 1984 to less than CFAF 2 billion. This outcome also constitutes a better performance relative to the program objective. Revenue expansion was responsible for the aforementioned improvement in the overall outturn of government operations. Noteworthy was the rise in revenue stemming from the sharp increase in cotton export earnings (40 percent) recorded in 1984. No less important was the favorable revenue impact of the strong tax measures enacted in August 1985. These included the reintroduction of both import duties and sales taxes on imported cereals and a change in the tax base of several imported commodities from the administratively determined valeurs mercuriales to their c.i.f. value. Largely thanks to these import-related taxes, taxes on international trade, which constitute by far the largest source of government revenue (40 percent in 1985), rose by nearly 23 percent. For 1986, the overall fiscal deficit, on a cash basis, is forecast to rise slightly in absolute terms, while as a ratio to GDP it is projected to decrease. One of the most unfavorable factors contributing to this outcome is the expected large decline in revenue resulting from the fall in cotton export prices. In response to this adverse exogenous development, the Malian authorities had to take additional revenue measures and tighten spending further. Concerning receipts, the base of customs duties, already high, had to be raised further and increased transfers from the mining and oil sectors had to be called upon. On the expenditure side, the projection is for outlays to be kept about the same as in 1985. To this end, steps are being taken to restrain government spending. In particular, as indicated by the staff, spending units had been instructed to adhere strictly to the regulation forbidding the initiation of expenditure in the absence of budgetary appropriations to that effect. Budgeted commitments will be cleared by the Treasury only after the requisite administrative authorizations are obtained. In the same vein of controlling expenditure growth, a new budgetary nomenclature is being introduced. The experience gained therefrom may serve as a guide for the preparation of future government budgets. In sum, despite the financial difficulties arising from the sharp and rapid decrease in export prices of cotton, the Malian authorities are committed to improving the overall outturn of government finances.

Given the importance of public enterprises in the economy of Mali, their rehabilitation continues to retain a great deal of the authorities' attention. Measures already introduced in 1985, which are detailed in the staff report, comprised major increases in the price of goods and services provided by many of those enterprises, improvement in billing procedures, reduction of personnel, and managerial and technical reforms. These and past measures are yielding positive results. The Malian authorities remain determined to further their efforts geared toward the economic and financial position of these enterprises. In that context, pending completion of negotiations with the World Bank on a comprehensive program of reform of public enterprises, actions had been taken with respect to some enterprises that are not viable. Noteworthy is the termination of the monopoly and monopsony positions of SOMIEX in the marketing of several commodities. Progress is also being made toward the rehabilitation of the postal and telecommunication agency.

In the monetary sector, the reduced recourse to bank credit by the Government in 1985, as revenue flows into the Treasury improved, exerted a restraining effect on the growth of the total domestic credit. In the current year 1986, the Malian authorities intend to continue to implement a cautious monetary policy, while ensuring that sufficient crop credit is provided to users.

The economic policies followed by the Malian authorities were also designed to strengthen the balance of payments position over the medium term. However, their endeavors are being hampered by the effects arising from the large drop in the export price of cotton in 1985. Indeed, while the volume of cotton fiber exported rose--though moderately in 1985--the unit export price of this commodity fell by nearly 20 percent. As a result, foreign exchange earnings from cotton exports, which had amounted to nearly CFAF 40 billion in 1984, decreased by 17 percent in 1985 (12 percent relative to the original forecast in the program). The high level of imports recorded in 1985 reflects the substantial inflow of cereals on account of food aid. These developments exerted strong pressures on the external sector position in 1985. In effect, only a marginal improvement in the ratio of the current account deficit excluding grants) to GDP was registered in 1985. For 1986, food production, especially cereals, is expected to benefit from better climatic conditions and price incentive measures already in place. This will contribute significantly to the decline in imports. Exports will continue to be adversely affected by developments in the cotton market, where prices are expected to remain weak in 1986. While measures implemented over the past few years are expected to boost cotton output by some 26 percent in 1985/86, earnings from cotton exports in 1986 are now projected to fall by over 30 percent to a level lower than in 1983, thus sharply reducing the debt servicing capacity of the country, among others things. Nevertheless, the current account deficit (excluding grants) is forecast to decrease in 1986 on account of significantly lower imports and outflows for the payment of services. On the assumption that the anticipated capital inflows materialize, the overall balance of payments could register a surplus in 1986. The Malian authorities are aware of the high level of the debt service ratio of their country. As mentioned above, their efforts to meet their obligations are being seriously frustrated by the steep decline in the export price of their main source of foreign exchange. It is hoped that their foreign aid donors and creditors will take this development into serious consideration in determining the nature and amount of financial relief to be given to the country.

In any event, in spite of this very unfavorable evolution of cotton export prices, the Malian authorities intend to pursue in a resolute manner the policies aimed at gradually correcting the serious economic and financial imbalances confronting their country.

Mr. Mtei considered that the implementation of the stand-by arrangement with Mali had been broadly satisfactory to date. All the measures agreed upon had been implemented, and he was encouraged to note that, since the return of the staff mission from Mali, the authorities had undertaken additional measures to strengthen the adjustment effort and to adapt the program further in response to adverse developments in the terms of trade. Those measures notwithstanding, the authorities had encountered difficulties in meeting some of the performance criteria. Because of technical delays, the ceiling on external payments arrears had been missed by two weeks, a minor departure for which a waiver would have been justified. The CFAF 2.1 billion excess on domestic credit had been incurred mainly to finance the requirements of the State Trading Corporation, (SOMIEX). That excess was only about 0.4 percent of GDP, and, given the efforts of the authorities to reverse the situation by the end of March 1986, a waiver or modification would also have been appropriate. In view of the deteriorating terms of trade, the authorities should have been allowed to make the purchase after the completion of the first review, as originally intended under the program, to help ease the cost and strain of the strengthened adjustment effort.

The authorities had taken commendably strong, prompt action in the face of an estimated 22 percent deterioration in the terms of trade that had resulted principally from the decline in the cotton export price, Mr. Mtei continued. As cotton was the single major export crop, the decline in the export price had had pervasive effects on the economy, and had necessitated the implementation of a wide range of measures to ensure the attainment of the program objectives. He was pleased to learn from the staff that the deterioration in the terms of trade would probably not be as precipitous as originally estimated. Thus, the measures already in place had greatly enhanced the prospects for further reductions in imbalances in Mali, and the financial assistance that had been extended by foreign donors would be adequate to mitigate the deterioration in the terms of trade.

What was significant about the adjustment measures taken in the context of the previous and present programs was that the economy was currently in a position to enable productive agents to respond favorably to the return of good weather conditions, Mr. Mtei commented. Those measures had included price and marketing liberalization, particularly the substantial producer price adjustments. As a consequence, the upsurge in economic activity in 1986 was expected to be spurred by increased agricultural production, especially for cotton and livestock. Real GDP was expected to rise by as much as 9 percent in 1986, compared with the program estimate of 3.5 percent. With the improved supply situation, the rate of inflation was expected to subside to about 6 percent, compared with 8.3 percent in 1985.

Notwithstanding the authorities' significant progress in stimulating economic activity, the economy of Mali continued to face problems, Mr. Mtei observed. The medium-term scenario, highly sensitive to exogenous factors, underscored the need for perseverance in the adjustment effort. He shared the staff's concern about the current and projected levels of external debt, and urged the authorities to adopt a more pragmatic borrowing policy, as well as a more careful selection of development projects. In that connection, he welcomed the World Bank's involvement in the design of future investment strategy, and in the establishment of a capital budget, which ought to provide an appropriate framework for implementing the country's investment program.

To ensure the success of the adjustment program, the staff had urged the donor community to continue providing financial support, including further debt relief to cover projected financing gaps, Mr. Mtei noted. Such financial assistance should be on highly concessional terms, to avoid aggravating Mali's debt situation. Finally, he supported the proposed decisions.

Mrs. Ploix said that the overall improvement of the Malian economy in 1985 clearly demonstrated that the policy measures adopted and implemented by the authorities in 1984 and 1985 had begun to pay off. A number of figures could be cited to support that observation: GDP was estimated to have grown by 1.1 percent in 1985, the rate of inflation had been reduced from 11.6 percent in 1984 to 8.3 percent in 1985, and the current account deficit, the overall fiscal deficit, and growth in total domestic credit had been reduced in 1985. The favorable weather conditions prevailing in 1985 had been partly responsible for that progress, but the supply-oriented measures, the reduction of price distortions, and the policies of financial restraint implemented by the Malian authorities had played a key role in the recovery. Because the authorities had promptly implemented additional measures as necessary, the improvements had taken place in spite of adverse external factors such as the shortfall in external flows.

However, slippages had occurred, Mrs. Ploix noted. The performance criteria related to the reduction of external arrears and to the containment of domestic credit had not been met by the end of 1985, but it seemed that the overshooting of projected levels could be attributed mainly to the continuing lack of coordination and monitoring of budgetary and monetary regulations. That issue should therefore be addressed in 1986.

The progress achieved in 1985 notwithstanding, the sharp decline in cotton export prices had changed the outlook for 1986 and had necessitated an adaptation of the adjustment program, Mrs. Ploix remarked. The authorities had adopted a comprehensive and far-reaching package of measures to tackle the new difficulties, and the additional policy measures agreed upon in January 1986 indicated to her that Mali had indeed embarked on a medium-term adjustment program aimed at sustained economic growth.

She welcomed the presentation of several alternative medium-term scenarios in the staff report (EBS/86/56, 3/5/86), Mrs. Ploix said. The medium-term outlook showed that Mali could achieve an annual real average rate of economic growth of 3.8 percent and could attain balance of payments viability by 1990. To reach that goal, however, vigorous efforts still had to be undertaken to overcome the inherited weaknesses and adverse factors facing Mali, notably the heavy debt burden and the poor prospects for cotton prices. During the medium term, the strong support of the donor communities would remain necessary. Finally, she supported the proposed decisions.

Mr. Bengs commended the authorities for the wide-ranging and strong adjustment measures taken in 1985, and noted that further progress had been made in a number of key areas, notably in structural improvements. Economic distortions had apparently been reduced, and progress had also been made in strengthening the financial position of a number of key public enterprises. He welcomed the return to real economic growth, as well as the better price performance and the slight improvement of the underlying external sector position. In fact, Mali's economy appeared to be in a much better position to make further strides in tackling the remaining numerous problems and challenges. It was clear, however, that Mali still had a long way to go before it could achieve a more viable economic position. Further progress would depend critically on the consequent continuation of the adjustment efforts over many years, supported by adequate external assistance. Despite the progress achieved thus far, Mali's economy continued to have serious structural weaknesses and was highly vulnerable to adverse external developments, as evidenced by the sharp drop in the price of its main export commodity, which in turn had considerably altered Mali's economic prospects for the medium term.

It was very encouraging that the authorities were fully aware of the need to counteract the impact of those adverse exogenous factors, and had quickly redesigned and strengthened their economic and financial policies for 1986, Mr. Bengs said. The authorities had already taken the measures called for under the program, and had expressed a welcome readiness to take any further measures that might become necessary to achieve the objectives for 1986.

The program for 1986 constituted a further important step forward, Mr. Bengs considered. Nevertheless, several areas required additional, stronger adjustment efforts. Further steps to liberalize pricing and marketing policies, as well as the ongoing reform efforts in the public enterprise sector, would be critical to achieve a lasting improvement in economic conditions. The continued close involvement of the World Bank should be beneficial to the authorities in the formulation and implementation of an appropriate investment program. The authorities' efforts to rehabilitate the public enterprises included the welcome decision to liquidate Air Mali, as well as to abolish the monopoly of SOMIEX for a number of goods, but much more needed to be done, in particular to restructure the operations of SOMIEX.

While the measures taken to date should improve the financial position of SOMIEX, several problems persisted, Mr. Bengs continued. SOMIEX had not succeeded in reducing its sugar stocks to the extent envisaged by end-December 1985. However, those stocks were the main reason for the substantial losses incurred and largely explained why the performance criterion for total domestic bank credit had not been met. He wondered whether the staff had any proposals to deal with the problem in a more efficient, timely way. An examination of the financial position of SOMIEX during the second review of the program was of critical importance.

While he also welcomed the further progress of the authorities to liberalize pricing and marketing policies, Mr. Bengs added, he had the impression that even more could be done. Under the new price system, a number of items would continue to be subject to price regulations, thereby impeding an efficient allocation of resources. The second review under the stand-by arrangement should, therefore, examine carefully the experience with the new price system and aim at reducing still further the scope of price controls.

Finally, the continuing heavy dependence of Mali's exports, mainly on two products, as well as the high share of cereal imports in total imports, created a considerable element of instability and vulnerability for its external position, Mr. Bengs indicated. Efforts to diversify the export base should thus be intensified and cereal imports should be substituted by domestic products. A stronger promotion of foreign investment could be very supportive, and, at the same time, would help to develop Mali's economy without further increasing its already very heavy debt service burden. In conclusion, he supported the proposed decisions.

Mr. Geadah said that the adjustment strategy of Mali rightly combined supply-side structural measures--emphasizing the development of the private sector--with firm demand management policies. In the context of that strategy, Mali had taken significant steps to redress its financial and economic imbalances. Those efforts, together with a return to more normal weather conditions, had already yielded positive results. In 1985, the fiscal and external deficits had declined, the rate of inflation had fallen, and the growth in GDP had resumed. Projections for 1986 pointed to further progress. In particular, he was encouraged by the projected sharp increase in gross domestic savings as a proportion of GDP. Those achievements were largely the result of the authorities' adherence to the adjustment process.

Despite that progress, Mali's economic difficulties were still serious, Mr. Geadah observed. Structural problems continued to constrain economic activity, and the fiscal and external positions remained unsustainable. Therefore, cautious demand management policies and further structural measures were still needed, as was demonstrated by the staff's medium-term projections. Even with the timely application of appropriate adjustment policies, a viable external position would not be attainable before 1990. Further, the present program appeared to be slightly off track. The program's targets for the fiscal deficit and external debt had been exceeded for 1985, and the end-December performance criteria for external arrears and domestic credit had not been met.

Although the external arrears had been eliminated in January 1986, it was not clear whether the end-March credit ceiling would be met, Mr. Geadah added. In that context, the regrettable excessive growth in domestic credit might prevent Mali from concluding its purchases as scheduled.

Other monetary developments, however, were encouraging, Mr. Geadah remarked. In particular, there had been a sharp reduction in the growth of credit to the Government, which reflected an improvement in the public finances. The authorities had implemented a number of commendable measures in 1985. On the revenue side, the tax administration had been strengthened and prices had been adjusted upward. Equally important, preparations were under way for a tax reform package designed to stimulate private sector activity. Together with the new commercial code and the recent changes in the price system, those measures should significantly encourage private sector activity. Despite the increase in current expenditures that had caused the fiscal deficit to exceed its target, recently introduced measures to control expenditures should greatly facilitate efforts to restrain government spending. The establishment of an investment budget was also an important step in economic and financial management.

The authorities had taken commendable steps to reform the public enterprises, notably the recent increase in prices and tariffs, the abolition of some of the monopoly positions of the sector, and the decision to liquidate nonviable enterprises, Mr. Geadah considered. He welcomed in particular the World Bank's involvement in the rehabilitation of the sector. Given the extensive role of public enterprises in the economy, their rehabilitation should boost Mali's growth prospects and further strengthen public finances.

He was pleased to note that the trade deficit was projected to narrow in 1986, despite the deterioration in Mali's terms of trade, Mr. Geadah mentioned. However, Mali's external debt position remained a cause for concern. The debt service ratio--before rescheduling--was estimated at 41 percent for 1986. That obviously necessitated continued debt relief, which further emphasized the need for Mali to adhere strictly to its current adjustment program. Finally, he supported the proposed decisions.

Mr. Arif noted that the Malian authorities had continued to manage the country's economy soundly, including the successful completion of two stand-by arrangements with the Fund during 1982-84 and bold policy actions on a wide front in 1985--in the context of the third stand-by arrangement--to contain the consequences of the severe drought and sharp decline in cotton prices. All the performance criteria for end-December 1985 had been met, except for a two-week delay in clearing external arrears, which was of minor significance. Thus, like Mr. Mtei, he asked the staff why, in January 1986, the advisability of a waiver had not been explored. The authorities were committed to continue pursuing the objectives of the current stand-by arrangement during 1986, and had already initiated further reforms in the areas of import duties, monitoring government arrears, and streamlining the pricing and tariff system and public enterprises.

Noteworthy among the basic reforms being undertaken were the liberalization of the price and tariff system, and the strengthening of institutional structures and procedures in various segments of the economy, Mr. Arif considered. In 1985, the retail prices of many basic consumer goods had been raised, the increases ranging from 3 percent on soap to 52 percent on coarse cereals. Prices of petroleum products had been raised by 46 percent, while tariffs and charges for public goods and services had been increased from 10 percent to 200 percent. Those substantial increases had been followed in 1986 by raises in the prices of and charges for other consumer items and public services, respectively. That was indeed an impressive record for any administration, but the uncritical and wholesale passing on of such large increases in the operational costs of the public enterprises to the users of their products once again underlined the need to go beyond mechanical prescriptions of such price and tariff increases to look deeper into the issue of the efficiency and cost effectiveness of those organizations.

The institution-building and procedure-streamlining program undertaken by the authorities was multifaceted, Mr. Arif stated. Its main component related to investment budgeting that would involve arrangements for comprehensive project analysis, including the determination of sectoral priorities, and the implications of development programs for the nondevelopment budget. The introduction of new and more detailed budgetary classification and coverage to enhance expenditure control, the machinery for improved monitoring of external debt and government arrears, and the new commercial code to facilitate the establishment of private business should strengthen the foundation of a smooth, sustained growth process. The implementation of the project under negotiation with the World Bank to rehabilitate and reform public enterprises should also further strengthen the process.

Despite its creditable performance, Mali had had to tighten its adjustment program further for 1986 in order to cope with the continuing adverse impact of exogenous developments, Mr. Arif pointed out. The further decline in the price of Mali's main export, cotton--initially estimated at 40 percent for 1986--was expected to result in a considerable loss for the cotton sector and government revenues, a 22 percent deterioration in the terms of trade, a fall of 13 percent in overall export receipts, and a rise in the debt service ratio. Those developments highlighted the inability of small, open economies to insulate themselves, despite their best efforts, from the adverse effects of developments beyond their control. At the same time, they underlined the need for concerted and coordinated policy action on the part of the international community to maintain a global economic climate that did not frustrate the determined, purposeful efforts of countries such as Mali. Finally, he supported the proposed decisions.

Ms. Lundsager noted that the staff report (EBS/86/56, 3/5/86) and the staff representative's statement had provided ample evidence that the Malian authorities were moving forward on a number of policy adjustments aimed at strengthening the growth potential of the economy and restoring a viable payments position in the medium term. If the recently introduced measures succeeded in attaining the end-March 1986 performance criteria, then the current stand-by arrangement would remain on track.

When the current program had been approved, her authorities had expressed some reservations about the pace of price decontrol, Ms. Lundsager recalled. Some of those reservations had been alleviated by the report that the new pricing system had been introduced. However, prices of a number of basic commodities remained under control, and she hoped that, with the abolition of the monopoly of SOMIEX, there would be some potential for private enterprises to function in a more competitive environment that could obviate the need for price controls.

She was reassured to learn that the performance of a number of public enterprises had improved during the past year, and that the World Bank project--with plans to limit the role of public enterprises to strategically important industries--was going forward, Ms. Lundsager indicated. She welcomed in particular the privatization of a number of the public enterprises. Perhaps the general liberalization would improve the prospects for foreign investment. The authorities had a more realistic policy in respect of the national airline, and tariff increases for a number of utilities were improving the financial position of other enterprises--both welcome developments.

The overall fiscal position would be difficult in 1986, with revenues from the cotton sector expected to be lower, given the decline in the world cotton price, Ms. Lundsager mentioned. The authorities had made appropriate adjustments to revenues, and stronger efforts were being made to control expenditures to avoid the problems that had occurred in

1985. The overall cash position of the Government was projected to be in deficit in 1986, instead of the slight surplus originally projected, but with somewhat higher foreign financing--both loans and grants--which should not however create a problem. She welcomed the authorities' commitment to move forward on tax reform. Also welcome was the new commercial code that had reduced the regulation of the private sector and should enhance prospects for stronger economic performance over the medium term.

It would be most discouraging if the decline in net foreign assets of the banking system, which had been so much greater than expected by end-December 1985, turned out to reflect capital outflows just when the authorities had demonstrated their commitment to the adjustment effort, Ms. Lundsager commented. Interest rates appeared adequate, since the rate of inflation was fairly low, and further comment by the staff on the causes of private capital outflows would be helpful. Moreover, the restraints on the Government's credit demands made it possible to increase credit to the private sector, complementing other policy adjustments aimed at promoting expansion of the private sector.

The medium-term scenarios prepared by the staff should provide a useful tool for medium-term planning, Ms. Lundsager considered. With knowledge of how alternative exogenous factors might affect growth and the current account, the authorities could better plan how to adjust their domestic policies accordingly.

In sum, the current account position, while much improved, remained weak, and the level and burden of external debt remained high, Ms. Lundsager concluded. The authorities were making considerable efforts to strengthen their economy and, while improvements would take time, results were beginning to emerge. In conclusion, she supported the proposed decisions.

Mr. Steinberg noted that, despite the authorities' efforts to implement the adjustment program, noncompliance with two performance criteria in December 1985--particularly the domestic bank credit criterion--had delayed the third purchase, which had thus become dependent on compliance with the March 1986 ceilings. However, the wide-ranging measures taken by the authorities suggested that those targets might be achieved. The Government's commitment to the program merited commendation in view of the drop in the price of cotton.

The current account deficit, albeit on the decline in the past several years, was still projected at 4 percent of GDP in 1986, and Mali's external debt continued to increase, Mr. Steinberg remarked. At $1.2 billion, external debt was slightly above the country's GDP, and it would impose a heavy debt service burden, 26 percent in 1986, on an already fragile economy. If the authorities could narrow the resource gap, not necessarily by reducing investment but by increasing domestic savings, the balance of payments pressure could be alleviated, as the various medium-term scenarios indicated.

Efforts to improve the public sector imbalance were already showing some positive results, with an expected shift from a deficit to a surplus in the consolidated government operations in 1986, Mr. Steinberg observed. The exclusion of grants from those figures--as was done in many other countries--showed a narrowing of the deficit from 2.8 percent of GDP in 1982 to 0.3 percent of GDP in 1985, and a shift to a projected surplus of 0.2 percent of GDP in 1986. Indeed, when foreign-financed investment expenditure was added, Mali would still have a deficit of 1.5 percent of GDP in 1986. Data on foreign-financed investment expenditure were apparently incomplete and fluctuated considerably, and he wondered why they were so difficult to obtain. The staff attached considerable importance to the follow-up of the agreement between the authorities and the World Bank on a detailed investment program for 1986. Any additional information that the representative from the World Bank could provide would be helpful. Finally, he supported the proposed decisions.

The staff representative from the African Department, recalling that the record of Mali had been a strong one, said that end-December 1985 was the first time that the authorities had not observed certain performance criteria. In their letter to the Managing Director, the authorities had said that the Government of Mali would resume purchases from the Fund only when the end-March 1986 performance criteria had been observed, as an indication of its commitment to the adjustment effort. Thus, the authorities had not requested a waiver on the nonobservance of the end-December performance criteria.

The authorities had introduced a new pricing and marketing system that constituted a break with the past, the staff representative commented. Under the previous system, virtually all prices had been determined by regulation, but under the new system they were to be determined freely by market forces; certain strategic or essential goods or services would be subject to two forms of price regulation. Some goods would be subject to a system of preset profit margins, whereby the producers of goods or the providers of services could essentially set their prices without prior approval, observing certain profit margins indicated by the Government. The few remaining items would be subject to price determination based on costs. The authorities had emphasized their intention of applying the new system with flexibility, and its functioning would be examined during the second review of the program.

The World Bank was still negotiating a comprehensive reform project for the public enterprise sector, the staff representative reported. The negotiations had been delayed in part because of a widening in the scope of the project, which was supposed to include measures to improve the economic, financial, and institutional framework, and to reduce the scope of the public enterprise sector. The authorities planned to maintain in the public domain only those enterprises of strategic importance providing public services that would not normally be provided by the private sector. The program was also envisaged to include individual rehabilitation programs for several enterprises; the rest would be privatized or liquidated. Considerable attention would be paid to improving the efficiency of the operations of all the public enterprises. A study of cross arrears was being undertaken in the context of the public enterprise project.

Two major public enterprises had already been reformed, the staff representative continued. Air Mali had discontinued all flights, and the personnel had been given one-month's notice of termination of employment. An official liquidation commission had been charged, on January 8, 1986, with the sale of all the assets and the settlement of the liabilities of Air Mali. The reforms of SOMIEX had been aimed essentially at strengthening its financial position and reducing its role in the marketing process. All its purchase obligations had been abolished; its monopoly of certain products had been abolished; and some of its selling prices had been adjusted upward, with further changes expected within the next few weeks. An additional 300 people would be removed from the personnel roster, bringing the total number of employees from about 2,400 in 1983 to about 600 by end-June 1986. SOMIEX would not make any further purchases of sugar during the period of the program, and it was the staff's understanding that a substantial amount of its sugar stock had been sold in the first few months of 1986.

The budget deficit on a commitment basis, excluding grants, had been expected to be in virtual balance in 1985, the staff representative explained. The outcome had been a deficit that amounted to about 0.8 percent of GDP. The 1986 projection was for a budget surplus on a commitment basis of over 1 percent of GDP.

Responding to the question of why the deficit on a cash basis in the 1986 program was projected to be higher than had been originally envisaged, the staff representative said that a reduction of about CFAF 9.3 billion in arrears had been programmed in 1986, compared with an original projection of a reduction of only CFAF 3 billion. While there was an improvement in the budget deficit on a commitment basis beyond that originally programmed, the authorities' decision to reduce the identified government arrears by about three times as much as originally planned had led to a higher deficit on a cash basis than had been foreseen.

The authorities had made a significant effort in the past two years to initiate an improvement in investment programming, the staff representative noted. They had prepared, with technical assistance from the United Nations Development Program, a complete inventory of all ongoing projects. Based on that inventory and with technical assistance from the Fund, they had compiled a preliminary investment budget for 1986. However, it was the staff's opinion that further work was needed on the budget before it could be formally incorporated in the normal budgeting process. The authorities were continuing that work, with technical assistance from the Fund, with the aim of introducing the investment budget into the regular budgeting and expenditure control process in 1987.

As one Director had indicated, it had been difficult to obtain data on foreign-financed investment and to form an idea of the scope of investment projects in Mali until the recent completion of the United Nations Development Program inventory of ongoing projects, the staff representative acknowledged. He hoped that, with the introduction of an investment budget in 1987, it would be possible to collect the necessary information to follow more closely the amounts of investment undertaken by the Government. Moreover, the authorities had been discussing with World Bank staff ways and means of improving investment programming, and were introducing a rolling investment program that would start with fiscal year 1987.

On March 24, 1986, the Central Bank for the West African Monetary Union had decided to reduce interest rates across the board by 1 percentage point, reflecting the fall in international interest rates, the staff representative said. Nonetheless, even with that reduction, interest rates in Mali remained positive in real terms.

The authorities had taken several steps to reinforce credit control in 1986, the staff representative indicated. They had tightened the controls over the commercial banks, had sometimes imposed sanctions, and had held more frequent meetings with the commercial banks to ensure that the evolution of credit was in line with the Government's objectives.

As a number of Directors had indicated, the external debt position of Mali remained difficult; indeed, the scheduled debt service ratio for 1986 was estimated to reach 41 percent, the staff representative stated. The authorities were continuing bilateral negotiations with a number of creditors in an attempt to secure debt relief. They had pursued a fairly prudent debt management policy during 1985, and intended to continue doing so. To improve their external debt management, the authorities had centralized external debt and had computerized information on that debt.

Since the preparation of the staff's medium-term projections, two developments had made the outlook seem more promising, the staff representative from the African Department pointed out. The prices for cotton exports had been better than originally estimated by the staff, and the fall in the price of oil had been more precipitous than estimated.

The staff representative from the World Bank remarked that assistance to the Government in setting up a three-year rolling public investment program had been under way since December 1985. The Bank staff expected that the three-year rolling public investment program would be ready by the end of 1986 for incorporation in the 1987 budget. As a first step, Bank staff had been active in sectoral working groups in order to establish priorities and strategies for sectoral development. The first Bank mission was currently in the field, and at least two more missions were envisaged within the next six months. In addition, a technical assistance project had been supporting the investment efforts of the Malian Government for over two years.

The Chairman made the following summing up:

Executive Directors concurred with the trust of the views in the staff appraisal in the report for the 1986 Article IV consultation. Directors noted that during 1985 the Malian authorities had implemented wide-ranging adjustment measures aimed at tackling the structural and financial imbalances facing the Malian economy. Those measures, coupled with improved weather conditions, had been instrumental in stimulating economic activity, reducing the rate of inflation, and strengthening the underlying external sector position.

The price measures taken in the context of the program and the specific corrective actions relating to key public enterprises had contributed to a reduction in distortions. Directors noted that the deficit on consolidated government operations had been narrowed, even though the target for the budgetary deficit had been exceeded and domestic extrabudgetary arrears had been incurred. All performance criteria through end-September 1985 had been met; unfortunately, the performance criteria for end-December 1985 for external payments arrears and, on the basis of preliminary data, for domestic bank credit had not been observed.

While commending the Malian authorities for the measures implemented in 1985, Directors stated that further adjustment measures would be required in 1986 and beyond, especially in view of the sharp downturn in the world price for Mali's principal export commodity--cotton. In that connection, Directors welcomed the decision of the authorities to readapt and strengthen their adjustment policies for 1986 in order to mitigate the adverse impact on the economy of the deterioration in the terms of trade and to lay the foundation for sustainable economic growth under conditions of domestic and external financial stability over the medium term. The prospective sharp rise in economic activity in 1986, led by rapidly expanding agricultural output, was welcomed by Directors. The economic and financial program for the cotton sector, elaborated with the World Bank to contain and cover the sector's estimated losses, was viewed by Directors as a critical element in the adjustment effort.

Directors welcomed the steps taken to liberalize pricing and marketing policies and emphasized that the process needed to be continued to reduce distortions and foster private sector activity. They commended the authorities for the emphasis they were placing on the reform of public enterprises, and attached importance to the launching of the comprehensive reform program being discussed with the World Bank. The steps taken to liquidate Air Mali and to abolish the monopoly position of SOMIEX would contribute to strengthening the financial position of the public enterprise sector.

Directors stated that it would be essential that investment policy be elaborated in the context of an appropriate medium-term investment program. Accordingly, they welcome the agreement between the authorities and the World Bank to formulate a detailed plan of action. Furthermore, they regarded the establishment of a public investment budget, integrated into the regular budgeting and expenditure control processes, as a key element in strengthening overall economic and financial management.

In commenting on financial policies for 1986, Directors indicated that they attached considerable importance to the achievement of the targeted improvement in the budgetary position. While the revenue measures already enacted would certainly be helpful, restraint in expenditure would be critical. The authorities were encouraged to move forward with tax reform. To complement the restrained fiscal policy, Directors indicated that the authorities' emphasis on a restrictive credit policy was essential to ensure that the growth of domestic liquidity remained compatible with the program's inflation and balance of payments objectives. In that connection, they underlined the importance of strict and effective credit management to ensure the observance of the credit targets. In view of the difficult external sector position and the high level of external indebtedness of the country, Directors urged the Malian authorities to persevere over the medium term with the adjustment efforts and to continue to pursue a prudent external debt management policy. They pointed out that the emphasis of the current program on promoting economic activity and reducing economic distortions and financial imbalances, together with continued generous donor support, would be critical to the achievement of a viable balance of payments position over the medium term. Directors welcomed the analysis of the medium-term growth and balance of payments prospects that had been elaborated in close consultation with the World Bank staff. Continued collaboration between the World Bank and the Fund would be instrumental in assisting Mali in its adjustment efforts.

It is expected that the next Article IV consultation with Mali 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 in concluding the 1986 Article XIV consultation with Mali, in the light of the 1986 Article IV consultation with Mali conducted under Decicion No. 5392-(77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

2. The Fund notes with satisfaction that Mali continues to maintain an exchange system which is free of restrictions on payments and transfers for current international transactions.

Decision No. 8246-(86/60), adopted
April 4, 1986

Review Under Stand-By Arrangement

1. Mali has consulted with the Fund in accordance with paragraph 4 of the stand-by arrangement for Mali (EBS/85/241, Sup. 1, 11/14/85) and paragraph 4 of the letter dated August 21, 1985 from the Minister of Finance and Commerce of Mali, in order to review progress made by Mali in implementing its program and to reach understandings with the Fund regarding policies and measures that the authorities intend to pursue for 1986, and to establish performance clauses for the first half of 1986.

2. The letter, with annexed memorandum, dated January 24, 1986 from the Minister of Finance and Commerce shall be attached to the stand-by arrangement for Mali and the letter dated August 21, 1985, together with the annexed memorandum, shall be read as modified and supplemented by the letter of January 24, 1986 with the annexed memorandum.

3. Mali will not make purchases under the stand-by arrangement for Mali that would increase the Fund's holdings of Mali's currency in the credit tranches beyond 25 percent of quota or increase the Fund's holdings of that currency resulting from purchases of borrowed resources beyond 12.5 percent of quota:

(a) during any period in which the data at the end of the preceding period indicate that:

(i) the limit on total domestic bank credit as specified in paragraph 21 of the memorandum annexed to the letter dated January 24, 1986; or

(ii) the limit on net bank credit to the Government as specified in paragraph 21 of the memorandum annexed to the letter dated January 24, 1986; or

(iii) the target for the elimination of external payments arrears as specified in paragraph 19 of the memorandum annexed to the letter dated January 24, 1986; or

(iv) the target for the reduction of payments arrears of the Government as specified in paragraph 19 of the memorandum annexed to the letter dated January 24, 1986; or

(v) the limits on contracting or guaranteeing of nonconcessional external loans as specified in paragraph 33 of the memorandum annexed to the letter dated January 24, 1986

have not been observed; or

(b) during any period after July 1, 1986, if the review contemplated in paragraph 6 of the attached letter dated January 24, 1986 has not been completed and suitable performance criteria have not been established as contemplated in that provision, or, after such criteria having been established, while they are not being observed.

4. The Fund decides, pursuant to paragraph 4 of the stand-by arrangement, that the first review provided for in paragraph 4 of the letter from the Minister of Finance and Commerce, dated August 21, 1985, is completed and that Mali may proceed to request purchases under the stand-by arrangement after May 1, 1986.

Decision No. 8247-(86/60), adopted
April 4, 1986

DECISIONS TAKEN SINCE PREVIOUS BOARD MEETING

The following decisions were adopted by the Executive Board without meeting in the period between EBM/86/59 (3/31/86) and EBM/86/60 (4/4/86).

3. SURVEILLANCE OVER EXCHANGE RATE POLICIES - REVIEW

The Executive Board has reviewed (EBM/86/29 and EBM/86/30, 2/19/86) the document entitled "Surveillance over Exchange Rate Policies" attached to Decision No. 5392-(77/63), adopted April 29, 1977, as required by paragraph 2 of that decision. The next review of the document shall be conducted not later than April 1, 1988. (SM/86/3, Sup. 1, 3/28/86)

Decision No. 8248-(86/60), adopted
April 1, 1986

4. SURVEILLANCE - IMPLEMENTATION OF PROCEDURES - REVIEW

The Executive Board has reviewed (EBM/86/29 and EBM/86/30, 2/19/86) the general implementation of the Fund's surveillance over members' exchange rate policies, as required by Paragraph VI of Procedures for Surveillance contained in the document entitled "Surveillance over Exchange Rate Policies" attached to Decision No. 5392-(77/63), adopted April 29, 1977, including the procedures for the conduct of consultations under Article IV, which consultations shall comprehend the consultations under Article VIII and Article XIV, and approves the continuation of the procedures as described in SM/86/4, in the light of the Managing Director's summing up, until the next review, which shall be conducted not later than April 1, 1987. (SM/86/4, Sup. 2, 3/28/86)

Decision No. 8249-(86/60), adopted
April 1, 1986

5. MAURITANIA - STAND-BY ARRANGEMENT - EXTENSION

1. The Government of Mauritania has requested that the period of the current stand-by arrangement (EBS/85/41, Sup. 2, 4/15/85), scheduled to expire on April 11, 1986, be extended. The Fund grants approval of this extension through April 25, 1986.

2. Paragraph 1 of the stand-by arrangement for Mauritania is amended by replacing the words "a period of twelve months from the effective date of this arrangement" with the words "the period from April 12, 1985 to April 25, 1986." (EBS/86/73, 3/28/86)

Decision No. 8250-(86/60), adopted
April 4, 1986

6. BENIN - 1985 ARTICLE IV CONSULTATION - POSTPONEMENT

Notwithstanding the period of three months specified in Procedure II of the document entitled "Surveillance over Exchange Rate Policies" attached to Decision No. 5392-(77/63), adopted April 29, 1977, the Executive Board agrees to extend the period for completing the 1985 Article IV consultation with Benin to not later than April 23, 1986. (EBD/86/92, 4/2/86)

Decision No. 8251-(86/60), adopted
April 4, 1986

7. EXECUTIVE BOARD - REPRESENTATION EXPENSES

The Executive Board approves the recommendation concerning representation expenses incurred at the time of Interim and Development Committee meetings in Washington not held in conjunction with the Annual Meetings, as set forth in EBAP/86/74 (3/28/86).

Adopted April 2, 1986

8. APPROVAL OF MINUTES

a. The minutes of Executive Board Meetings 85/95 and 85/96 are approved. (EBD/86/84, 3/26/86)

Adopted April 1, 1986

b. The minutes of Executive Board Meetings 85/97 through 85/100 are approved. (EBD/86/86, 3/27/86)

Adopted April 2, 1986

9. EXECUTIVE BOARD TRAVEL

Travel by Executive Directors as set forth in EBAP/86/73 (3/28/86) and EBAP/86/76 (4/1/86) is approved.

APPROVED: December 24, 1986

LEO VAN HOUTVEN
Secretary