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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 86/178

10:00 a.m., November 10, 1986

J. de Larosière, Chairman

Executive Directors	Alternate Executive Directors
	E. T. El Kogali
	P. E. Archibong, Temporary
Dai Q.	
C. H. Dallara	M. K. Bush
	L. Hubloue, Temporary
A. Donoso	
	T. Alhaimus
	M. Sugita
	B. Goos
J. E. Ismael	J. Reddy
A. Kafka	H. A. Arias
T. P. Lankester	
	I. Puro, Temporary
	D. McCormack
Mawakani Samba	
Y. A. Nimatallah	I. Al-Assaf
G. Ortiz	
H. Ploix	S. de Forges
G. A. Posthumus	
C. R. Rye	C.-Y. Lim
	O. Kabbaj
	A. S. Jayawardena
	N. Kyriazidis

L. Van Houtven, Secretary
K. S. Friedman, Assistant

Also Present

IBRD: R. M. Westebbe, Western Africa Regional Office. Administration Department: H. J. O. Struckmeyer, Deputy Director; N. S. Jackson. African Department: A. D. Ouattara, Director; J.-C. K. Brou, E. A. Calamitsis, R. O. Carstens, H. A. Clement, J. Hicklin, P. C. Ugolini. Asian Department: W. G. L. Evers. European Department: P. B. de Fontenay, Deputy Director. Exchange and Trade Relations Department: C. D. Finch, Counsellor and Director; M. Guitián, Deputy Director; S. J. Anjaria, G. Bélanger, J. T. Boorman, K. B. Dillon, R. P. Kronenberg. External Relations Department: C. S. Gardner, Deputy Director; M. Goldstein. Legal Department: F. P. Gianviti, Director; H. Elizalde, W. E. Holder, R. H. Munzberg. Research Department: R. R. Rhomberg, Deputy Director; W. M. Corden, N. M. Kaibni. Secretary's Department: A. P. Bhagwat, G. Djeddaoui. Treasurer's Department: W. O. Habermeier, Counsellor and Treasurer; T. Leddy, Deputy Treasurer; D. Williams, Deputy Treasurer; W. L. Coats, Jr., D. V. Pritchett. Western Hemisphere Department: E. Wiesner, Director; S. T. Beza, Associate Director. Bureau of Language Services: J. E. Merry. Bureau of Statistics: J. B. McLenaghan, Deputy Director. Personal Assistant to the Managing Director: R. M. G. Brown. Advisors to Executive Directors: A. A. Agah, P. E. Archibong, E. Ayales, M. B. Chatah, L. P. Ebrill, G. D. Hodgson, J. Hospedales, K. Murakami, A. Ouanes, P. Péterfalvy, G. Pineau, I. Sliper, Song G., D. C. Templeman, A. Vasudevan, K. Yao. Assistants to Executive Directors: O. S.-M. Bethel, J. de la Herrán, F. Di Mauro, W. N. Engert, G. Ercel, R. Fox, G. K. Hodges, O. Isleifsson, A. R. Ismael, S. King, K.-H. Kleine, M. Lundsager, T. Morita, R. Msadek, C. Noriega, J. K. Orleans-Lindsay, S. Rebecchini, V. Rousset, C. A. Salinas, G. Schurr, S. Simonsen, H. van der Burg, E. L. Walker, D. A. Woodward.

1. EXECUTIVE DIRECTOR

The Chairman welcomed Mr. Dai as Executive Director for China.

2. SENEGAL - STAND-BY ARRANGEMENT AND STRUCTURAL ADJUSTMENT ARRANGEMENT

The Executive Directors considered Senegal's requests for a 12-month stand-by arrangement in an amount equivalent to SDR 34 million and for a three-year structural adjustment arrangement in an amount equivalent to approximately SDR 40 million (EBS/86/227, 10/7/86).

The Chairman made the following statement:

> There follows for the information of Executive Directors the text of a memorandum that I have received from the President of the World Bank to serve as the basis for my statement on the matter to the Board. This text summarizes the main points covered by the Executive Directors of the Bank and IDA in their October 30, 1986 discussion in Committee of the Whole of a paper entitled "Senegal - Policy Framework Paper, FY 1987-89."
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> 1. The Executive Directors of the Bank and IDA discussed, in a Committee of the Whole, the paper entitled "Senegal - Policy Framework Paper, FY 1987-89."
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> 2. There was general support for the basic thrust of Senegal's adjustment program. It was recognized that Senegal started from a very difficult position, and that the current program was ambitious and was being effectively implemented. At the same time it was noted that much remained to be done in the subsequent phases of adjustment.
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> 3. Particular attention was drawn to a number of issues which would require the Senegal Government's further attention as the program evolved. This included additional steps to liberalize trade and decontrol prices. The need to maintain fiscal discipline and to continue efforts to improve the efficiency of public investment was also stressed.
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> 4. Concern was expressed that there remained important anomalies in the structure of agricultural prices, particularly for rice and groundnuts. At the same time, it was recognized that there was a need to maintain price incentives for the farmers based on longer-term trends in international prices and to avoid sharp short-term fluctuations in producer prices. In this area, as in the case of petroleum prices, it was noted that excessive weight should not be given to budgetary considerations in setting prices.

5. While applauding the increased role being given to the private sector, it was noted that the divestiture of state-owned enterprises would not by itself necessarily lead to improvements in efficiency. Such efforts, to be successful, have to be supported by adequate credit for private investors.

6. There was wide interest in the role of the exchange rate as a management tool in the context of the West African Monetary Union. On this matter, which concerns a number of countries, Executive Directors would be provided with further information which would take account of the regional aspects.

Mr. Mawakani made the following statement:

As indicated by the staff, since 1983 the Senegalese authorities have made considerable progress in their efforts, to restore viability in their economy. These efforts, which were organized within the framework of economic and financial programs supported by multilateral institutions, foreign creditors and donors, have yielded significant results. In the real sector, economic growth resumed in 1985/86 following two years of recession, and price increases have moderated. Economic policies are being revamped with a view to providing greater incentives to the private sector, in particular farmers and traders of agricultural products. In the government sector, the overall fiscal deficit, expressed as a ratio to GDP, has been reduced considerably owing to the continued implementation of policies of restrained spending and enhanced revenue. With respect to external developments, despite the considerable shortfall in the output of marketed groundnuts registered during the past two fiscal years, the external current account deficit narrowed significantly, as imports were reduced and grants inflows were substantial. Furthermore, all the performance criteria for 1985/86 were observed.

The Senegalese authorities are determined to build on this progress. To this end, they have adopted and are implementing in a medium-term framework an economic and financial program in support of which they are seeking financial assistance particularly from the Fund in the form of a new stand-by arrangement and arrangements under the structural adjustment facility.

Over the three-year period ending in June 1989, the Senegalese authorities are aiming at achieving real growth in their economy at a rate sufficient to ensure a rise in per capita income, a further reduction in inflation and a near halving of the external current account deficit. Policy orientations that will guide the specific actions to be taken toward reaching these goals are detailed in the staff report and call for no further elaboration.

However, I would only like to stress the commitment of the Senegalese authorities to pursuing their reform program. In particular, production and trade incentives will continue to be enhanced, and efforts to rehabilitate public enterprises will be strengthened so as to reinforce the productive base of the country. Fiscal policy will continue to be implemented with a view to improving public sector savings in particular.

As Executive Directors will have noticed, the specific measures to be taken during the first year of the program are described in the letter of intent and in the policy framework paper. Among the main aspects of these policy measures, one might mention that despite the sharp fall in groundnut prices, the high producer prices paid in 1985 have been maintained so as to continue to provide incentives to growers. The liberalization of the marketing and distribution of agricultural inputs is also being furthered. Similarly, despite the substantial decrease in international oil prices, the local prices of petroleum products, except diesel, have not been reduced. As a result, the purchasing power of users of these products has been eroded by as much. The degree of unpopularity of this decision can hardly be overstated. In addition, measures being taken to improve the revenue outturn over time include a streamlining of several tax regulations, a redeployment of tax personnel, and the introduction of a new tariff structure.

To conclude, Senegal has achieved a significant economic and financial adjustment during the past three years. However, as stated by the staff on page 4 of EBS/86/227, "the country is highly vulnerable to adverse weather conditions and movements in the international terms of trade." As I mentioned above, the Senegalese authorities are committed to pursuing their efforts to lessen this vulnerability of their economy, and it is their hope that the international financial community as well as bilateral creditors and donors will continue to support these efforts commensurately.

Mrs. Ploix made the following statement:

Over the previous three years, the authorities have undertaken a remarkable adjustment of their economy that deserves our commendation. The efforts that are being made to reduce the economy's vulnerability to adverse external and climatic developments are already substantial and merit both praise by and support from the international community. Indeed, it is clear from the staff paper that an in-depth overall structural reform is under way. The coordinated recommendations by the Fund and the World Bank, along with adequate financing, have mitigated the inevitable hardships involved in a task of such a magnitude.

I will make comments on three areas, namely, the importance of structural reform, the need to pursue demand management policies, and the relations between the Fund and Senegal. In the area of structural measures, I would like to make special mention of the agricultural sector, the public enterprise rehabilitation scheme, and the introduction of more flexibility into the economy.

As to the agricultural sector, I fully support the new policy that was initiated in 1984 and I welcome the considerable progress that has been made in strengthening production and marketing incentives. In this respect, I welcome the authorities' intention to maintain producer prices at a level that provides adequate incentives to farmers. I am also pleased to note the authorities' determination to provide protection of about 25 percent to the production of domestic cereals. This procedure is essential to fostering local production and to inducing a shift in demand in favor of domestic cereals.

I welcome the authorities' commitment to intensifing their efforts to liquidate, privatize, or rehabilitate a number of the public sector enterprises. This step is essential both to reduce the weight of budgetary subsidies to the parapublic sector and to create a more favorable climate for private sector activity.

The introduction of more flexibility into the economy will come mainly from the measures that are contemplated to improve competitiveness in the industrial sector and from the privatization of the rice trade. I am also pleased to note that the banking system is being restructured, and I am particularly pleased to mention the availability of French technical assistance. All these efforts will increase the economy's ability to react smoothly to external shocks.

Given the fragility of the balance of payments and the heavy foreign debt, I fully share the staff's view that, in addition to the implementation of structural measures, Senegal will have to implement demand management policies. However, in my view it is important that demand management adjustment should be devised and carried out within a growth perspective, albeit a moderate one. This is clearly a case in which the close coordination between the Fund and the World Bank allows the striking of an adequate balance between the objectives of adjustment and growth.

The relations between Senegal and the Fund appear to be exemplary. The medium-term prospects are well defined by the medium-term policy framework that is established under the structural facility in coordination with the World Bank, while the short-term objectives are taken into account in the stand-by arrangement.

Given the continued fragile situation of Senegal and the need for exceptional efforts by its creditors, it is important for the stand-by arrangement to strengthen the monitoring of these policies. For all these reasons, I greatly welcome the simultaneity of these arrangements, which adequately complement one another.

The success of this strategy clearly requires that the whole financial community maintain its financial support. At a time when creditors are considering another rescheduling of Senegal's debt, it is appropriate that this effort should be accompanied by an equal effort on the part of multilateral institutions. I regret the reduction of the Fund's commitments to Senegal over the course of this program. I hope that that will be corrected in the future. I would like to take this opportunity to recall that the structural adjustment facility's resources should in no way be seen as a substitute for the Fund's resources.

I support the proposed decisions.

Mr. Alhaimus made the following statement:

After several years of drought and insufficient economic policies, the Senegalese economy seems to have performed well in the recent past as a result not only of the better weather conditions that have prevailed lately, but also of the policy efforts and the readiness of the authorities to respond to changing circumstances. This has been manifested in the performance of the country under the Fund's programs since 1983, when the authorities did not hesitate to take further measures to keep their program on track and even to start implementing the present program under consideration as of last July in order to keep the momentum of adjustment.

Nevertheless, there were serious difficulties in implementing the previous program, and the economy basically remains highly vulnerable. The main problems facing the economy in 1985/86 are the disappointing fiscal revenue performance and the shortfall in exports. The fiscal deficit was ameliorated by a reduction in expenditure and, on the revenue side, by the surpluses of the oil refinery. In this connection, one might find no other suitable alternative to compensating for the revenue shortfall, but it is also relevant to ask, as indeed it was asked during the World Bank Executive Board's discussion of Senegal, whether excessive weight should not be given to budgetary considerations in setting oil and agricultural prices.

In the external sector, performance could have been satisfactory but for the large shortfall in export proceeds stemming from lower export prices and a poor harvest of groundnuts, which reduced earnings from this main export product to less than one third of the level projected under the program. The impact of this shortfall, which remains a major hazard to Senegal's program, has been somewhat softened by improvements in other items of the external current account; nevertheless, it remains a serious source of uncertainty with respect to the performance of further programs, including the one under discussion.

In considering the prospects for performance of the economy in the coming period, one would therefore be inclined to endorse the careful way in which the policy framework formulates the expectations for the next three years by indicating that, barring unforeseen adverse developments in the coming three years--an important caveat--Senegal would be close to realizing an overall position and a structure of the balance of payments consistent with orderly relations with creditors, assuming of course that the SDR 950 million financing requirement for current transactions will be met.

The objectives of the 1986/87 program seem to be reasonable, including a 4 percent real rate of economic growth, and further reductions in the inflation rate and in the current account deficit. The major aspects of policies seem to be consistent with these objectives; particularly noteworthy is the priority that is to be given to agricultural policy reform, the initiation of comprehensive industrial policy reform, the efforts to develop domestic and regional energy resources, the restraint of aggregate demand through further large cuts in the fiscal deficit, and the maintenance of a tight credit policy. Of course, one should also bear in mind that a basic assumption of the program, as stated by the staff, is that "weather conditions in 1986/87 will be normal and that a better groundnut crop will be marketed." If different circumstances prevail next year, the authorities should then once again be prepared to take further measures.

Mr. Kabbaj made the following statement:

Upon the completion of the 18-month stand-by arrangement in July 1986, Senegal formulated a 12-month program in order to follow through with its adjustment process, help to re-establish financial viability, and give the economy room for growth. The new stand-by arrangement, together with the arrangements under the structural adjustment facility, should come in time to boost Senegal's external possibilities and to pave the way for greater achievements in terms of growth and employment.

Indicative of the authorities' sense of following up on their adjustment efforts was their immediate implementation of the measures under the new program even before the program was presented to the Fund or any drawing under it has been made. In so doing, they have committed themselves to the performance criteria outlined in the program. This should also weigh in Senegal's favor in the forthcoming Paris Club meeting on the rescheduling of Senegal's debt falling due in the course of the program period.

Senegal's economic difficulties stem from a combination of a weak resource base, unfavorable exogenous factors--such as the recurrent drought and the deteriorating terms of trade--and the accommodating fiscal and credit policies. The overextension of the public sector in the 1970s led to the absorption of sizable capital that limited the production possibilities for agriculture and the private industrial sector.

The progress achieved since 1983 in demand management and supply-side policies helped to pave the way for a more pragmatic approach to liberalization, and the agricultural sector in particular benefited, although without lasting effect, due to the impact of the drought.

A new attempt was made in 1985/86 on a more vigorous approach to management, and the conditions under the 18-month stand-by arrangement were met. The return of good weather conditions made the largest contribution to the improvement in the economy, as record crops of millet and sorghum were recorded, and groundnut exports increased substantially. As a consequence, real GDP rose by more than 4 percent, compared with a decline of 1 percent in 1984/85.

On the fiscal front, however, the Government's expectation of higher revenue was thwarted by lower receipts from customs duties owing to lower imports and a general lag in business activity following two years of economic stagnation. Adjustment had to be made in current and capital expenditures, and the overall fiscal deficit, including grants, amounted to 2.3 percent of GDP, or 1 percent lower than in the previous year.

The authorities' effort to reduce the budget deficit has been supported by an appropriate monetary and credit policy; credit to the private sector and net bank credit to the Government were below target. Owing to external developments, the growth of the money supply was below the programmed level.

The effects of tight fiscal and monetary policies proved beneficial to the external position, despite the poor previous harvest and the deterioration in the terms of trade. While the export shortfall was greatly offset by a lower oil bill, favorable developments in net service payments and unrequited transfers helped to reduce the current account deficit in relation to the previous year even though it fell short of the target specified in the program. After debt relief, the debt service amounted to 19 percent of current receipts.

Despite the progress that has been made, the medium-term outlook is contingent upon the reduction of major structural and financial imbalances. In the light of those implications, the authorities have maintained their adjustment efforts in the framework of a three-year program in collaboration with the Fund and the World Bank.

The program spells out the achievement of a reasonable rate of growth at a lower rate of inflation and with a sustainable external current account deficit. To achieve these results, the authorities plan to encourage private initiative and to reduce state participation in the production process. The reform of the public enterprise system along with the strengthening of revenue measures represent a major task for the coming year. In so doing, the authorities continue to demonstrate their determination to remove all impediments to economic growth and to improve the supply side of the economy.

Under the proposed stand-by arrangement, the authorities must fulfill a number of performance criteria covering credit, claims on the Government, payments arrears, and external debt commitments. These criteria also serve as benchmarks for the first annual arrangement under the structural adjustment facility, which also has its own guidelines and targets for producer prices of cereals, the abolition of the monopoly on rice, import liberalization, and the adoption of a three-year "rolling" public investment program. The outcome does not depend on the authorities' determination alone, as the economy is largely dependent on weather conditions and on donors' support. I commend the authorities for their efforts, and I support the proposed decisions.

Mr. Nimatallah made the following statement:

In the late 1970s and early 1980s, Senegal experienced severe economic difficulties, some owing to unfavorable, exogenous factors beyond the control of the authorities, but others owing to inappropriate domestic policies. Since 1983, however, the authorities have adopted a series of comprehensive demand management and structural adjustment measures to restore balance to the economy. Furthermore, they have stood ready to reinforce their adjustment efforts whenever adverse unforeseen developments took place. I commend the authorities on their determination and on their achievements.

Like the World Bank's Committee of the Whole, I endorse the basic thrust of Senegal's adjustment program. Although much remains to be done, I am confident that the authorities will remain on the right track to restore balance to the economy and to put it on a sustainable growth path. Their persistence in pursuing those efforts will enhance the probability of their success as it will convince the private sector to participate more effectively in the expansion of the economy. An especially important area where the authorities should sustain their efforts is the further strengthening of public sector finances. The medium-term framework paper indicates that restoring fiscal and external balance will enable Senegal to address its underlying structural problems more effectively. That is why I am convinced that the two objectives of adjustment and growth are attainable.

I have only two brief general comments to make. One is that Senegal is interrelated with its neighboring countries, either through open borders or a monetary union, or both. That makes it important for the authorities to keep inflation and relative prices in line with those of its neighbors, particularly for major export items like groundnuts. Moreover, since Senegal is committed to maintaining a fixed exchange rate within the CFAF monetary union, enhancing the competitiveness of the external sector can be better achieved by maintaining comparatively appropriate production costs and prices vis-à-vis the prevailing exchange rate.

My other general comment is on growth. It is unfortunate that the fast growth rate of the Senegalese population is almost the same as the expected economic growth rate of about 3 percent. Of course, this is not a problem that faces Senegal alone, but also many African countries, according to the World Bank's Annual Report. This will complicate achievement of the ultimate objective of raising per capita income and the standard of living of the Senegalese people while maintaining sustained growth. Therefore, Senegal faces the task of aiming for faster economic growth in the medium term in order to outstrip the population growth. The difficult question, of course, is how to do so. According to the program, Senegal has to maintain a relatively modest investment ratio of 14 percent, at least during the program period, in order to attain fiscal balance. But this ratio will have to be increased over time, which means more financing will be needed, and there are constraints on increasing borrowed resources. It would be desirable if Senegal could aim gradually at enhancing its savings in increasing proportions while encouraging further nondebt-creating flows into the country. A key policy tool for realizing both gradually higher ratios of savings and attracting more foreign investment is tax policy. I think that the authorities have already started improving the taxation structure in that direction.

I am pleased that the structural arrangement envisages reforms in many directions that can support reforms in the tax system. Of particular importance are industrial policy and public enterprise reforms. The authorities are aware of the interrelationships among all these reforms for realizing the dual purposes of adjustment and growth.

All I would add is to encourage them to use, in addition to other incentives, the tax system for enhancing saving and investment to achieve the ultimate objective of eventually lifting the economy to a higher plateau with sustained growth that would outstrip population growth.

I am convinced that the authorities will pursue their reform efforts with persistence, and that the program, although difficult, is viable and can be implemented. I therefore support the proposed decisions.

Mr. Archibong made the following statement:

I share the staff's view that the authorities have demonstrated satisfactory commitment to the adjustment process. Evidence of this can be drawn from the staff report. I observe that in order to keep their program on track the authorities have been prompt in taking additional measures, in the context of their annual budget, to deal with unforeseen circumstances, such as the shortfall in government revenue resulting from exogenous factors. Since 1983 they have embarked upon a positive turnaround in the pattern of economic management in favor of strong and appropriate supply-side and demand management policies.

That the adjustment effort so far has produced some beneficial results is perhaps not in doubt, as is indicated by the fact that the economy recorded a substantial revival in 1985/86 with an estimated real GDP growth rate of 4 percent compared with a decline of 1 percent in the preceding fiscal year. In addition, I noted that the economy has been progressively liberalized, and that with the strengthening of agricultural production incentives output growth in agriculture has been stimulated, given the favorable weather conditions. The reforms of the public enterprises that the authorities have undertaken could have a positive impact on public sector performance by promoting efficiency and reducing the growth of public expenditure, developments which, in combination with other measures, could lead to fiscal equilibrium.

In welcoming the achievement of the authorities' adjustment efforts, I must note that there are still areas of serious concern. Structural and financial problems prevail in the economy, reflecting the economy's fundamental weakness and vulnerability. The internal and external imbalances remain unsustainably large, and the debt burden is growing. It is in the context of the existing economic problems and against the background of the authorities' adjustment track record that the Executive Board should consider the case of Senegal.

On the request for a stand-by arrangement, it is useful to note that the authorities began the implementation of their program on July 1, 1986. In addition, they have committed themselves to meeting the performance criteria and, accordingly, they anticipate some relief from the expected debt rescheduling with the Paris Club. In view of the high level of commitment by the authorities and because of the expected acceleration of the process of economic restructuring and growth as well as the trend toward obtaining balance of payments viability, I can go along with the staff view that "outright approval of the requested arrangement is appropriate." As to the request for a structural arrangement, it seems to me that Senegal has met all the conditions for access to the structural adjustment facility. I am satisfied with the staff conclusion that if adjustment policies under the structural adjustment arrangement are effectively implemented, Senegal's economy could, among other things, swing into a substantial balance of payments surplus and achieve a viable external payments position by the end of the program, in 1989.

The proposed decisions are acceptable.

Mr. Goos made the following statement:

I share the positive assessment that has been made by previous speakers. But in approaching Senegal's request one can hardly ignore the fact that the country is a prolonged user of the Fund's resources. In fact, the proposed stand-by arrangement is the seventh more or less consecutive arrangement with the Fund since early 1979. This fact is difficult to reconcile with the fundamental principle of maintaining the revolving use of the Fund's resources for the financing of short- and medium-term balance of payments problems.

At the same time, however, one has to recognize that at least since 1983 the Fund's resources have been employed in Senegal in a most beneficial manner, as evidenced by the continued progress in internal and external adjustment. I am particularly pleased to note that this progress has been maintained in the course of the successful implementation of the most recent stand-by arrangement, despite the shortfalls in export earnings and fiscal revenue.

It is against the background of this remarkable performance and the authorities' continued commitment to adjustment that I welcome the further requests for Fund financing and that I can accept the proposed decisions. While the reduction of the Fund's financial exposure in Senegal under the proposed stand-by arrangement is certainly a step in the right direction, a larger reduction could have been justified for the reasons that I have just mentioned. In any event, barring unexpected adverse events, the time has come for substantial net repayments to the Fund after the completion of the new stand-by arrangement.

As to the adjustment policies agreed under the stand-by arrangement and in the three-year policy framework, I agree that these policies constitute further substantial efforts toward solving Senegal's continued serious financial problems. The program in support of the stand-by arrangement represents an exemplary application of demand and structural policy reforms--a mix that is clearly ambitious, as the World Bank Executive Board has noted, and the successful implementation of which will require a continued strong commitment to adjustment. However, the envisaged policy stance appears to be commensurate with the remaining adjustment that is needed to eliminate Senegal's dependence on debt relief and exceptional financing.

I have little to add to the staff's analysis and recommendations. I agree with the staff that fiscal adjustment requires particular emphasis, given the circumstances of Senegal, and especially in the light of the existing exchange rate arrangement. While I welcome the planned further reduction of the fiscal deficit, I am somewhat concerned about the decline in the revenue ratio that is expected after 1986/87, despite the substantial windfall gains from the oil surplus. Therefore, in addition to the welcome efforts to contain public expenditures, the planned reform measures in the area of taxation, tax administration, and tax collection require particular attention. A stronger revenue performance could also help to accelerate the rather moderate pace envisaged for the elimination of domestic fiscal arrears. This in turn would likely improve not only growth performance but also overall payment by taxpayers, thereby strengthening the fiscal position.

Inflation also deserves particular attention, given the existing exchange rate arrangements. In fact, the critical importance of price performance for the country's international competitiveness cannot be overemphasized, and it certainly has an important bearing on the fiscal position, as the actual inflation rate affects fiscal outlays for export subsidies. Therefore, I would encourage the authorities to perform better than the inflation targets under the adjustment program; those targets--7 percent for 1986/87 and 5 percent for 1988/89--appear to be rather unambitious.

In the area of structural reform and liberalization, the measures contemplated under the program are most impressive--not only the sheer number of those measures, but also the fact that they are geared to areas of adjustment that are critical to achieving sustainable growth. I particularly welcome the fact that most of the measures are already in place or are in the process of being implemented. Nevertheless, I would like to associate myself with the finding of the World Bank's Executive Board that in this area much remains to be done in the subsequent phases of adjustment. I am not certain whether this applies to trade liberalization, given the abolition of quantitative import restrictions that has already been agreed under the program. But there seems to be significant scope for further liberalizing prices, strengthening the financial system, and rationalizing the public and parapublic sector. I am confident that these and other areas of structural reform will be successfully addressed in the framework of the commendable close collaboration between Senegal, the Fund, and the World Bank.

Mr. Lankester made the following statement:

Significant progress has been made since 1983 in dealing with the imbalances in the economy. This has been achieved through a judicious combination of demand restraint and structural reform. But it is clear that much still needs to be done. I welcome the authorities' determination to make progress, as is reflected in the policy framework paper. I am pleased to support the proposed stand-by and structural adjustment arrangements, but I do have several comments to make.

Considerable additional effort is needed on the revenue front. The public sector deficit has been substantially reduced over the previous few years. This highly commendable achievement has been due to public expenditure restraint, which is welcome. Furthermore, the restraint has been achieved on the current side, something that also is commendable. But I wonder how much longer the authorities can depend upon cutting public spending. Inasmuch, I have noted that tax revenue is declining, which is worrying. The reasons for the poor revenue performance appear to be a combination of factors. The tax base has declined, but poor revenue administration and the high level of tax exemptions have clearly played a role. I welcome the proposed tightening in those areas, and it is clearly important to ensure that the intended measures will be implemented.

I agree with Mrs. Ploix's comments underscoring the need for parastatal reform and the importance of such reform for the economy. There seems to have been significant overshooting in lending by the Government to the parastatals in 1985/86, and such lending is expected to continue at a high level over the coming year. Sixty-two enterprises have been selected for divestiture, but only three are to be offered for sale in the current fiscal year. I wonder whether this divestiture program could not be accelerated.

I understand why the authorities have maintained groundnut prices above world market prices. But this has caused problems for The Gambia, a neighboring country, which has been forced to match Senegal's prices. The price increases in The Gambia have had substantial budgetary consequences in that country; the consequences have been more serious for The Gambia than for Senegal, because the groundnut sector is a larger proportion of the economy in The Gambia. I wonder whether the staff has any information on the authorities' plans for groundnut prices in the coming year, when the world market price is expected to be lower than it is this year. In any event, I hope that the authorities will take into account the implications of any pricing decisions that they make for neighboring countries.

Senegal maintains a 25 percent tariff on imported cereals. This perhaps is needed to promote food security in Senegal, but I wonder whether this tariff together with the export subsidies and some other tariffs do not suggest that the exchange rate is overvalued. I recognize the constraints owing to Senegal's participation in the West African Monetary Union, but a further comment on this point would be helpful. If exchange rate depreciation has to be ruled out, which appears to be the case, there is a greater need for the authorities to contain inflation in Senegal. I agree with Mr. Goos that the authorities should try to better the inflation targets.

The authorities' general approach to the problems facing Senegal's economy is commendable, and I support the proposed decisions.

Mr. Kyriazidis made the following statement:

I welcome the adoption by the authorities in recent years of appropriate policy measures that have succeeded in reducing the imbalances in the economy and in establishing favorable conditions for growth in Senegal. The economy remains very sensitive to external developments, and its external structure appears to be very fragile; indeed, Senegal remains strongly dependent on a very limited number of primary products. The program that is under discussion today tries to address the structural weaknesses of the economy and appears to constitute an appropriate framework together with the proposed short-term adjustment measures. Therefore, the program deserves the Fund's full support, and I accept the proposed decisions.

The recent policy of increasing incentives to agricultural production through a system of price supports has been welcomed by the staff. I welcome it, too, with some reservations. The price supports shelter some producers from the volatility of world market prices of primary commodities. However, the price supports shift the burden of the effects of this volatility to the budget. Thus far, the policy seems to have worked well, since as Table 4 shows the stabilization fund was making profits from rice trading that were sufficient to compensate for the crop credit. There is some doubt however about the wisdom of a policy of offsetting subsidies to one product with taxes on another product. This introduces an element of distortion that could be unhealthy in the long run. Furthermore, the policy of support for groundnut prices can be sustainable in the long run only if these prices are maintained at or around some long-term equilibrium price in the international market. This fact, given the inability of Senegal to apply an appropriate, or flexible, exchange rate policy, constitutes a serious constraint and underscores the significant instability that might result if there is a persistent deficit in the groundnut accounts. This problem is of course in addition to the effects that Mr. Lankester mentioned on The Gambia. Some other subsidies, like the one for sugar production, are particularly cumbersome. I was not able to establish the amount of the subsidies, because the relevant figures are blurred into the parastatal accounts, and further information on this area would be helpful.

The economy is of course very vulnerable to external developments, as is clearly shown by the alternative balance of payments scenarios in Appendix V. The strong dependence on external financing, especially concessional financing, should alert the authorities to the need to monitor more closely the measures under the program. Senegal's record is a good one, and the elimination of the arrears is a sign of the authorities' willingness to persevere in their adjustment efforts. There is, however, a question mark regarding medium-term balance of payments developments. Substantial financing gaps are forecast for the coming several years, which will parallel a reduction in the Fund's exposure. The gaps are projected to be abruptly reversed by 1990 as a result of a steep increase in net borrowing by the public sector. A further comment on the forecast would be useful.

Mr. McCormack made the following statement:

Despite the substantial progress that has been made over the previous three years, Senegal still faces major structural and financial problems. These problems have prompted the present tripartite effort in which the authorities, working in close collaboration with the staffs of the Fund and the World Bank, have developed an overall policy framework for the coming three years.

I endorse the broad lines of the proposed policy framework. Its objectives seem realistic. The concrete adjustment measures that are being adopted are broad based, encompassing agricultural reform, industrial policy, reform of public sector resource management, a strengthening of government finances, and prudent credit policies. Moreover, the policies could be described as being "time coherent": the policy measures that have already been adopted or that are proposed for this year make sense within the three-year horizon of the structural adjustment arrangement. In addition, I am reassured by the fact that the structural adjustment arrangement is itself conceived of as being an integral part of the medium- and long-term program of economic and financial adjustment that has been endorsed by the Consultative Group for Senegal. The use of this long and coherent time frame is essential because it is clear that Senegal, even on the successful completion of the proposed program under discussion, will still have a very vulnerable economy and will continue to face serious economic difficulties into the 1990s. The authorities have exhibited a high degree of commitment to appropriate adjustment policies. They have also shown a willingness to adapt and to intensify these policies in the light of unfavorable developments, notably shortfalls in export and government receipts.

In an economy like Senegal's, it is clear that agricultural policy has to be at the center of the supply side of any realistic medium-term adjustment program. Revitalization of the agricultural sector is crucial. In this perspective, I commend the plans to promote increased cereal production in order to reduce dependence on rice imports. In this connection, I am certain that the model that is being developed with the World Bank's assistance will have regard for the relatively high rates of inflation in recent years. Whatever pricing model or mechanism is devised should try to ensure against any tendency for the real value of producer prices to be eroded over time.

There appears to be tension between the desire to provide adequate and relatively stable incentives to groundnut producers and the financial implications of such a policy when prices are falling in world markets. I noted the rather terse statement that the authorities are "keeping the situation under review." I wonder, however, whether, even given Senegal's limited natural resource base, there might not be scope for a somewhat more diversified adjustment effort in the agricultural sphere. I recognize, of course, that the time horizon for such a diversification would have to be a good deal longer than that of the present program.

The point that I wish to make with respect to fiscal policy has been made by Mr. Goos and Mr. Lankester. A large number of positive measures are being taken in the area of tax administration. However, the fiscal projections suggest that tax revenue as a percentage of GDP will fall from 17.6 percent in 1986/87 to 16.7 percent in 1989/90. In part, this is probably a reflection of the fact that imports, an important component of the tax base, are scheduled to decline relative to GDP over the program period. The reform of the tariff structure cannot help to explain the decline, since these reforms are described in the staff paper as being revenue neutral in 1986/87, and it is stated that they will "contribute to a significant improvement of revenue performance in the medium term." One reason for concern is that so many of the improvements in tax administration--for example, collecting overdue taxes--are inherently one-time-only measures in nature. Perhaps the staff could tell me if I am missing something here. Could the staff assure me that the declining ratio of tax revenue to GDP is not a cause for concern?

With respect to the proposed reform of the parapublic sector, I merely wish to note that this is, notoriously, an area of possible slippage. I would welcome assurance from either the staff or Mr. Mawakani that the proposed liquidation of 3 enterprises and the offering for sale of 3 others to the private sector out of a total of 62 enterprises identified for divestiture represents the fastest practical rate of divestiture. Similarly, the rehabilitation of enterprises remaining in the public sector is likely to be fraught with difficulty. It appears to involve the negotiation of a formal agreement between the Government and the enterprises concerned as embodied in the so-called contrats-plans or lettres de mission. This is another area where implementation should be accelerated if at all possible.

The authorities have correctly given priority to the prompt and orderly discharge of Senegal's external debt obligations. However, the implementation of this policy was at the expense of the authorities' ability to clear domestic arrears as quickly as had originally been planned. The staff paper clearly illustrates the impact that these arrears have on the private sector and commercial bank liquidity and the implications of the impact for the maintenance of an appropriately cautious credit policy. The inclusion, as performance criteria in the proposed stand-by arrangement, of government commitments relating to the repayment of 1984/85 crop credits and repayment of ONCAD debt is therefore entirely appropriate. Persistent domestic public sector arrears can have serious adverse effects on the ability of the banking system to function on an efficient and stable basis. As to the rehabilitation program for the two commercial banks in difficulties, I would be interested in hearing something more about the economic rationale for the proposed foreign loan that is designed to reduce the liabilities to the BCEAO of one of the banks concerned, the USBCI.

The tight credit policy that is reflected in the proposed program seems appropriate--indeed, unavoidable--in the current circumstances. In the proposed Economic Policy Framework, it is noted that interest rate policy adjustments will be made when needed to take account of developments in foreign financial markets as well as to foster financial savings and an efficient allocation of resources. I agree with this approach. But interest rate policy is not within the exclusive domain of Senegal's policymakers; rather, it is the common policy of all the members of the West African Monetary Union.

My final point concerns the exchange rate implications of Senegal's participation in the West African Monetary Union. I note from the Chairman's opening statement that there was widespread interest in this issue shown by the Executive Directors of the World Bank and IDA in their deliberations on Senegal. On page 15 of the staff paper it is stated that in the fiscal year ended June 1986 Senegal's currency appreciated by over 6 percent in nominal effective terms. In real effective terms, the appreciation was even more pronounced--over 10 percent. This poses an obvious dilemma for Senegal, as the real appreciation of the currency runs counter to the broad thrust of the adjustment policies; at the same time, the West African Monetary Union offers a means of achieving relative monetary discipline. Is there some way in which to alleviate the pressures resulting from an exogenously determined real appreciation of a country's currency without sacrificing the very real--and very fragile--monetary discipline that participation in the monetary union provides?

I support the proposed decisions.

Mr. Posthumus made the following statement:

The authorities are to be commended for their continued adherence to the adjustment program since mid-1983. They should have the Fund's support and encouragement for the adjustment policies that are planned for the coming three years, and I therefore support the proposed decisions. I need not make a long statement on Senegal's financial and economic policies, because I support them.

The staff paper mentions briefly that Senegal's currency appreciated in real effective terms by 10 percent in 1985/86--a substantial increase. This underscores the urgent need to contain inflation in order to defend the competitive position of exports. Given Senegal's membership in the West African Monetary Union, which involves a pegging of Senegal's currency, I wonder in what circumstances there might be an exchange rate adjustment in response to the relatively high rate of inflation in recent years.

It is clear that the growing and processing of groundnuts make an important contribution to Senegal's national income and that price incentives for farmers are necessary. However, subsidies to maintain price incentives for groundnut production are a burden on the economy, and financing the subsidies can easily feed inflation. I understand that such subsidies are estimated at about CFAF 11 billion in 1986/87, about the same amount as the fiscal deficit targeted for that year. The program provides that remunerative producer prices will be maintained, and the Executive Directors of the World Bank and IDA have concluded that excessive weight should not be given to budgetary considerations in setting prices. I wonder whether too little weight is being given to budgetary considerations and perhaps to the unsustainability of production prices that are excessively high for competitive exports. I recognize that the problems here are immense, considering the large share of groundnut production in GDP. However, given the structural adjustment required, more attention should perhaps be paid to this issue.

Mr. Romuáldez made the following statement:

The authorities certainly deserve to be commended for having made substantial progress since mid-1983 in their adjustment efforts. Particularly noteworthy is the relative success of performance under the 1985/86 program. Following shortfalls in export earnings and government revenue, the authorities quickly implemented additional measures that contributed to offsetting--albeit not fully--the impact of these developments, and the momentum of adjustment was maintained. I urge the authorities to persevere in their adjustment efforts, as much remains to be done. The economy continues to be vulnerable to drought and to the external economic environment, and further strengthening can only be achieved through additional structural/sectoral reforms. The stand-by arrangement is appropriately designed within the medium-term framework required by the structural adjustment facility. Demand management centers on fiscal adjustment through improved tax administration and collection, increased savings in the oil sector, and continued rigorous control over current and capital expenditures. At the same time, the supply-side efforts address the need for further reforms in industrial and agricultural policy. The World Bank's assistance and advice in these efforts is reassuring.

The structural measures under the headings of agricultural, industry, and energy policies, the public investment program, and the acceleration of parapublic sector reform are well designed. However, I am not particularly reassured by the statement on page 31 that concludes, with what appears to be the minimum of elaboration, that certain rigidities pertaining to government controls and administrative constraints burdening enterprises as well as wage policy will be examined. The sentence in question seems at first glance to say a great deal, but, for lack of details, closer scrutiny reveals that it actually says very little. What kind of rigidities are involved and by whom will they be examined? Is World Bank assistance involved? What is the time frame for examining the rigidities?

The emphasis on donor coordination is well placed. I am especially pleased to learn of the "sector meetings" organized with the World Bank's assistance. How successful have these been in ensuring effective aid coordination? Are these sector meetings undertaken within the framework of the Consultative Group? Sector meetings strike me as a new development that seems very promising.

The staff has done well to emphasize Senegal's need for the support of the international community through the multilateral financial institutions and through aid mechanisms--including concessional assistance--and debt relief. Stress has also been correctly placed on the importance of the timeliness of all assistance.

Senegal deserves the Fund's full support. I accept the proposed decisions and I encourage the authorities to persevere in their adjustment efforts. Implementation of adjustment and reform measures must remain unrelenting and rigorous. There is much to be gained. Nothing should be lost through complacency that successes to date might encourage. I am pleased to note from Mr. Mawakani's opening statement that the authorities are alert to this danger and are determined to build on the progress that has been achieved thus far. I fully agree with the staff's appraisal.

Ms. Bush made the following statement:

Over the past three years, Senegal has made impressive progress in restoring financial stability. In addition, some of the fundamental structural problems facing the economy have been addressed, and there are signs of improvement. The rather wide scope of the structural reforms included in the stand-by and structural adjustment arrangements should further improve economic efficiency in a number of areas. I particularly welcome the emphasis on expanding the role of the private sector, including through the divestment of some public enterprises as well as through a rationalization of import tariffs and taxes together with the abolition of the import monopoly on rice. In addition, the budget deficit will be limited in order to provide sufficient credit to the private sector, which is crucial if adequate working capital is to be available.

While I welcome the broad thrust of the adjustment program, I have some questions about the full integration of all the aspects of the proposed program. It appears that a number of crucial prices in Senegal continue to be controlled, including the exchange rate--as Senegal is a member of the West African Monetary Union--groundnut and rice prices, and petroleum prices. The reasons for these practices are clearly described in the staff paper, and I have noted the extensive benefits that accrue to countries that are members of the two African monetary unions. Nevertheless, I wonder whether the combined influence of these pricing practices will permit the economy to be diversified and to grow at an adequate pace. For example, it appears that the costs of producing rice in Senegal are extremely high; given the abundant world supply of rice, I wonder whether it would not be more effective to concentrate efforts on those products in which Senegal is competitive. In that connection, it appears that the cereals pricing practices are aimed at stimulating more domestic production of other cereals, not just rice, and it would be useful to have the staff comment on the prospects for those other food products. Groundnut producers are paid a higher price than that which can be secured on export markets owing to a drop in world prices over the previous several years. As there has been a substantial increase in the world supply capacity in vegetable oils, I am not certain that groundnut prices are going to rebound significantly, and I therefore wonder how long domestic subsidization will have to be maintained.

The unchanged exchange rate might be discouraging export diversification. In addition, it appears that the export subsidy arrangements in the manufacturing sector are aimed at offsetting the effects of the real effective appreciation of the exchange rate. These practices appear to be inefficient, since subsidies add to the budgetary burden.

The recent decline in world oil market prices is benefiting the budget, since there is only a limited passthrough to users. The reasons for the authorities' decision are related to the chronically weak revenue performance, but it appears that the competitiveness of several Senegalese industries--including phosphates and chemicals--is being eroded partly because of the oil pricing practices, and that additional transfers from the budget are therefore necessary. I understand that these issues are difficult, and that there are no easy answers to them. I wish to encourage a more rapidly growing economy that will generate increases in per capita income.

The range of issues that I have mentioned clearly shows that promoting competitiveness in Senegal under this mix of pricing practices will be very difficult. I am concerned that the medium-term prospects, including growth in domestic capacity for both local consumption and export, might not be particularly favorable.

I recognize that a number of structural reforms are being undertaken in the rural development agencies and processing plants that should increase efficiency and reduce costs, thereby increasing competitiveness. I am particularly interested in the tariff reforms that are aimed at reducing and making more uniform the effective protection, which should result in a more competitive traded goods sector. I also noted that the export subsidy scheme will be phased down over the course of the program, thereby responding to some of the concerns that I have mentioned. I am pleased to see the emphasis that is being placed on rehabilitating a number of enterprises and I support the aim of eliminating the subsidy to the sugar company.

A number of appropriate budgetary changes are being made. I particularly welcome the goal of continuing the downward trend in the ratio of expenditure to GDP. Growth in expenditure on wages and salaries is being contained, and plans are being made to reduce the size of the civil service by 1 percent in the present fiscal year. Subsidies and transfers still consume a large proportion of the budget, although the authorities' commitment to reduce transfers to the parapublic sector this year is welcome. Furthermore, the investment budget is undergoing a close scrutiny, and the authorities are continuing to reduce domestic arrears in an effort to restore normalized business operations in Senegal. Revenue shortfalls have been a problem in the past, and I strongly urge the authorities to take into account the incentive effects of taxation in their tax reform effort. Of course, as previous speakers have mentioned, reductions in the scope of the exemptions is important, and that effort should be supported by reduced tax rates, which could help to improve the revenue performance.

My authorities have supported Senegal's adjustment efforts for a number of years, and as the tables in the staff paper indicate, great strides have been made in containing the financial imbalances. Nevertheless, progress in establishing the foundation for a growing and diversified economy has been less obvious, and I am concerned that the various pricing practices are leading to production patterns that might not ultimately be in Senegal's best interest. Therefore, I hope that the authorities will consider how best to address pricing inconsistencies that are likely to build certain other problems into the economy that would of course be more difficult to deal with if they are allowed to persist.

I support the proposed decisions. In addition, I encourage the authorities to restimulate their efforts to address the financial imbalances and structural problems. This is particularly important because Senegal has an opportunity to build on the momentum that exists owing to past practices, and it is important that time should not be lost in further correcting the financial imbalances and structural problems in view of the fairly substantial current use of Fund credit; as Mr. Goos noted, the use of Fund resources by Senegal is not projected to decline much over the program period. I am confident that the authorities will persevere in their efforts and take full advantage of the cooperative efforts that are being made by the World Bank, the Fund, and Senegal's major donors.

The staff representative from the African Department remarked that Senegal had made significant progress since mid-1983. However, the country still faced major structural and financial problems; the economy remained fundamentally weak and vulnerable, the rate of inflation was relatively high, and the internal and external financial imbalances were still unsustainably large. For those reasons, the staff believed that the adjustment efforts that had been successfully undertaken in recent years should be intensified in the coming period. It would be particularly important for the authorities to continue to implement their new agricultural policy with determination, abolish the state monopoly on rice imports, pursue the industrial policy reform--including the progressive rationalization of the system of effective protection and the reduction of quantitative restrictions on imports--maintain an appropriate energy policy, carry out the public investment program agreed with the World Bank, accelerate parapublic sector reform, and apply prudent fiscal, credit, and external debt management policies. That agenda of continued action by the authorities was obviously long, and for that reason the agenda could not be fully specified in all areas. However, the staff believed that the present degree of specification was already considerable; as Executive Directors had noted, a number of the actions envisaged under the current program had already been implemented in July-September 1986.

Some of those actions had been recommended under the World Bank's structural adjustment credit, but additional measures clearly needed to be specified, the staff representative continued. Mr. Romuáldez had mentioned that the steps to reduce the rigidities in wage and labor legislation had not been clearly described. Some of the areas that had not yet been specified were being dealt with by the World Bank, and it was the staff's understanding that additional specificity in those particular areas--for example, hiring and firing procedures in the public and private sectors--would be addressed in the context of the continuing policy dialogue with the authorities.

It was the staff's understanding that the Executive Board concurred with the basic thrust and objectives of the program, the staff representative said. The staff felt that the authorities might well be able to reduce inflation even more than programmed, and the staff had noted the Executive Directors' interest in bettering the target with a view to strengthening the competitiveness of the economy. He fully agreed with the views of Mr. Nimatallah, in particular with the need for flexibility in production costs and prices, in view of the existing institutional arrangements.

There was clearly need for further work in the area of trade and price liberalization, and it would be helpful to accelerate the reform of the parapublic sector, the staff representative remarked. Some Executive Directors had commented on the apparent slowness of the Government's divestiture efforts. The research and other work that was required for the implementation of the divestiture program had been only recently completed; therefore, the degree of privatization might well appear to be modest in the short run. It was also important to note that the pace of divestiture was intended to be as realistic as possible in the circumstances of Senegal.

Senegal did not have an independent exchange rate policy, the staff representative noted. As a member of the West African Monetary Union (WAMU), Senegal shared a common currency, the CFA franc, issued by a common central bank, the BCEAO, with six other members of the WAMU; the CFA franc was pegged to the French franc at the rate of CFAF 50 = F 1. Thus, Senegal's exchange rate policy should be seen in the context of the WAMU as a whole. In recent years the staff had continued to review the exchange rate situation; two studies had been prepared, one of which had been discussed by the Executive Board. Within a given monetary union, the common exchange rate might not be entirely appropriate for each and every member of the union. However, in discussions with members of the

WAMU, as well as with those of the Central African Monetary Area, the various authorities had maintained that the existing arrangements had served their countries well, and that the advantages of what they called the solidarity of membership outweighed the disadvantages of the inflexibility in exchange rate policy. The authorities had often added that, despite that inflexibility, the overall economic performance of their countries had been as good as, if not better than, the performance of other African countries that had independent exchange rate policies.

The major factor behind the external imbalances in the member countries of the two monetary unions in Africa was the large public sector deficits, the staff representative explained. Accordingly, Fund-supported programs in those countries had placed considerable emphasis on fiscal adjustment, and Senegal was a good example of that approach. The existing monetary arrangements had not overly restricted the choice of appropriate adjustment policies, particularly when the French franc was depreciating. Moreover, in certain cases, including that of Senegal, fiscal proxies for exchange rate action had been used to promote adjustment with growth in selected areas.

The appropriateness of Senegal's present producer price of groundnuts had been questioned by some Executive Directors, especially in light of the recent decline in the world market price of groundnut oil, the staff representative recalled. It had also been suggested that the Senegalese authorities should pay attention to the impact of their pricing policy on The Gambia's groundnut sector. In that regard, it was useful to bear in mind that on a number of occasions in recent years the Senegalese authorities had been urged to increase the price and other incentives in the groundnut sector, where production and exports had been declining. Particularly in view of the trading surpluses that had prevailed at the time, it had been felt important to raise the producer price substantially. During some discussions in the Executive Board, Directors had expressed concern about the decline in the producer price of groundnuts in real terms in Senegal. It was against that background, and in the context of the new agricultural policy that had been endorsed at the first meeting of the Consultative Group for Senegal in December 1984, that the authorities had raised the producer price on two occasions to the present level of CFAF 90 per kilo, which was considered a remunerative level that was consistent with medium-term growth. At the same time, it was important to note that the Senegalese Government had announced that it would no longer be responsible for any losses or gains stemming from the groundnut sector; that responsibility had been passed on to the two oil milling companies operating in Senegal, the operations of which were being rationalized.

In considering the appropriateness of a given price, it was important to bear in mind not only the amount that was paid to the farmers but also the costs of the entire production process, the staff representative went on. Efforts to reduce fiscal deficits often stressed cuts in prices paid to farmers, but it was essential to examine also whether the processing and marketing arrangements were efficient. Although world market prices had fallen appreciably in early 1986, the Senegalese authorities had felt that it would not be appropriate to reverse quickly their present policy course for two reasons. First, as was indicated in the staff paper, the authorities believed that a sudden shift in producer pricing policy would send conflicting signals to a large segment of the farming community that might not be compatible with medium-term growth. Second, the authorities considered that the resulting losses were manageable--they were equivalent to about 1 percent of GDP, compared with almost 9 percent of GDP in The Gambia. However, the Senegalese authorities were keeping the situation under review, taking into account not only the requirements of their medium-term growth strategy but also the profit and loss situation of a broad range of commodities whose prices were highly volatile. As the authorities had indicated in their policy framework paper, they intended to keep the groundnut producer price at a level that would provide an adequate incentive to farmers; at the same time, they would be mindful of world market trends and financial constraints. The Fund and the World Bank staffs would also keep the matter under review and would assist the authorities in their effort to maintain an appropriate policy stance.

To the extent possible, the staff had been providing Senegal and The Gambia with advice that was consistent with their particular institutional and other arrangements, the staff representative continued. Clearly, solutions could not always be uniformly applied in those countries, as their situations differed and sometimes their attitudes toward dealing with certain issues also varied. For example, Senegal's oil milling companies were in a position to cover about half of the 1985/86 losses on groundnuts from the profits on sales of imported vegetable oils, whose prices had fallen, an option that was not available to The Gambia. Moreover, available estimates suggested that, even if Senegal were to reduce its groundnut producer price to a break-even level, that level might still leave The Gambia with a deficit on its groundnut operations.

It had been suggested that, given the decline in the world market price for rice, the retail price in Senegal should perhaps be decontrolled and reduced, the staff representative observed. In view of the surpluses that were being generated by the rice sector, there could be some merit in passing on some of the gains to consumers. However, it needed to be recalled that, in the context of a number of programs supported by the Fund and the World Bank in recent years, changes in the retail price of rice had been used not only as an instrument of financial equilibrium but also as an instrument of structural adjustment in the economy, given the existing monetary arrangements. In view of those arrangements--notably the absence of an independent exchange rate policy--it was considered important to keep the retail price of rice sufficiently high not only to restrain the consumption of imports but also to foster the production and use of domestic cereals. Accordingly, the increase in the retail price of rice in Senegal in January 1985 was a key element of the latest Fund-supported program. Similarly, the emphasis by the World Bank staff on the need to provide a minimum nominal protection of 25 percent to producers of domestic course grains was a central feature of the structural adjustment credit that was approved by the World Bank in February 1986.

The World Bank was looking at the whole issue of producing pricing, especially pricing of cereals, the staff representative went on. A structural benchmark under the program was a study which was to be completed, with World Bank assistance, by March 1987 and would provide guidance to the authorities in the determination of cereal producer prices.

Executive Directors in the Fund and the World Bank had commented on energy pricing and had suggested in particular that excessive weight should not be given to budgetary considerations in setting energy prices, the staff representative commented. At the same time, the weakness of Senegal's revenue performance in recent years, especially in 1985/86, had been noted. The authorities were committed to implementing an ambitious program of fiscal reform that entailed some risk of revenue loss in the short run. Under the industrial policy reform package, agreed with the World Bank, substantial cuts in tariffs were to be made, together with reductions in quantitative restrictions on imports. Although the overall package was considered to be revenue neutral, some short-run losses in revenue could not be excluded. In the circumstances, it was difficult for the authorities to forgo most of the gains from the oil sector. Some of the gains were passed on to the electricity company, which, in turn, had lowered electricity tariffs for consumers and industrial enterprises by 5-20 percent. In addition, under the program, the Government was to provide substantial special assistance to the chemical company and the phosphate mining companies. Apparently, however, these companies now had additional needs, and these were to be the subject of a special meeting that was to be held in Dakar in the near future. The World Bank staff felt that a sufficiently high price of oil was essential both to increase efficiency and to promote energy conservation in Senegal. That approach was equally valid in other countries, and many countries had maintained a policy of keeping energy prices unchanged. It was important to note that, while energy prices were easy to reduce, it was politically difficult to raise them.

The staff had been cautious in projecting disbursements of official capital under the program, the staff representative explained. As indicated in Table 6 of the staff report, disbursements in respect of official medium- and long-term loans in 1986/87-1988/89 were projected to be only fractionally higher than the actuals of the previous three years. The authorities hoped that aid coordination would be greatly assisted by the Consultative Group for Senegal, whose next meeting was tentatively scheduled to be held in March 1987. The process of coordination was expected to contribute to a substantial increase of aid disbursements after the program period. That expectation accounted for the significant increase in projected capital inflows in 1989/90.

The projected financing gaps were significantly lower than the gaps in recent years, the staff representative noted. The gap in 1986/87 was SDR 67 million, compared with SDR 70-80 million in the last three years. The 1986/87 gap was expected to be covered by debt rescheduling from the Paris Club and other official creditors on terms that were similar to those that had been obtained in recent years. Senegal's requirements did not include rescheduling of already rescheduled debt, a key difference relative to the situation of some other countries. Accordingly, the staff felt that it was reasonable to expect that the necessary debt relief would be forthcoming. Assuming that the adjustment program would continue to be implemented with determination and would be adjusted to changing circumstances as necessary, there should be no need for exceptional balance of payments financing, especially further debt rescheduling, in 1989/90 and beyond. There were of course uncertainties, and it was for that reason that the staff had included the sensitivity analysis in its paper.

The subsidy for the sugar industry was a delicate matter, but it had not been neglected in the program, the staff representative said. The planned renegotiations of the agreements with the sugar and other companies that had special privileges were to be advanced. However, the negotiations with the sugar company were likely to be particularly difficult.

The share of revenue in GDP was expected to decline slightly with the decline of the share of imports in GDP, the staff representative commented. The oil surplus that was accruing to the budget was also expected to decline. In addition, the revenue estimates were on the conservative side, and the staff hoped that the revenue performance would turn out to be better than the estimates indicated.

Reference had been made to the difficult choice for the authorities between the liquidation of domestic arrears and the elimination of external arrears, the staff representative recalled. In their discussions with the staff, the authorities had indicated that the staff tended to favor the liquidation of external arrears over domestic arrears, and that in their view the liquidation of domestic arrears was equally important. However, for a number of reasons, notably the importance for Senegal of maintaining an adequate inflow of capital, the authorities had decided to give priority to the liquidation of external arrears in 1985/86. With the elimination of external arrears, the emphasis in 1986/87 would be on reducing domestic arrears.

The authorities had established a rehabilitation program for a commercial bank that had been facing substantial problems, the staff representative from the African Department said. The staff had concluded that the external borrowing that had been approved after an exchange of views between the staff and the authorities would help that particular bank to reduce its financial charges and to accelerate its rehabilitation program. The bank had decided on its own to reduce its staff and other operating outlays. A development bank in Senegal was facing serious problems which the authorities planned to tackle in the coming years. In its continuing dialogue with the authorities, the World Bank also planned to address those issues.

Mr. Mawakani commented that substantial progress had been made in adjusting Senegal's economy with the financial assistance of the Fund and the World Bank, among others. However, structural and financial problems persisted, and the economy remained vulnerable to external factors. The authorities were fully aware of those problems and they felt that the structural adjustment of the economy must be continued. It was in that context that they were requesting the Fund's further assistance. They hoped that the measures that were described in the economic policy framework paper would help them not only to achieve external balance in the medium term but also to restore economic growth.

However, the authorities' main concern was unfavorable weather conditions and the declining world prices for Senegal's exports, Mr. Mawakani said. Those factors could make it harder for the authorities to attain their economic objectives and could increase the hardship that was felt by the Senegalese people. Nevertheless, the Senegalese authorities were seriously committed to the adjustment program and intended to do everything possible to ensure its success. As an indication of that determination they had already begun to implement some of the measures in the proposed program. They greatly appreciated the financial assistance that had been provided, some of it on concessional terms. Given the additional efforts that they were making to solve the problems facing the economy, they hoped that foreign donors would continue to provide Senegal with much-needed assistance. The assistance would help the authorities to reach their economic goals.

The Executive Board then took the following decisions:

Stand-By Arrangement

1. The Government of Senegal has requested a stand-by arrangement in an amount equivalent to SDR 34.0 million for a period of 12 months from November 10, 1986 through November 9, 1987.

2. The Fund approves the stand-by arrangement set forth in EBS/86/227, Supplement 1.

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

Decision No. 8440-(86/178), adopted
November 10, 1986

Structural Adjustment Arrangement

1. The Government of Senegal has requested a three-year structural adjustment arrangement, and the first annual arrangement thereunder, under the structural adjustment facility.

2. The Fund approves the arrangements set forth in EBS/86/227, Supplement 2.

Decision No. 8441-(86/178), adopted
November 10, 1986

3. IBRD - RELEASE OF INFORMATION

The Chairman noted that there was widespread interest among the World Bank's Executive Directors in the role of the exchange rate as a management tool in the context of the West African Monetary Union. The Fund had received a request for a staff memorandum entitled "Currency Unions" (SM/82/183, 8/31/82) to be made available to the World Bank Executive Directors for their additional information. The staff memorandum provided a description of the institutional arrangements and the conduct of economic and financial policies in the West African Monetary Union, the Central African Monetary Area, and the East Caribbean Currency Authority.

Mrs. Ploix commented that the World Bank had produced an interesting paper on the French franc zone that could usefully be circulated to the Fund's Executive Board.

The Chairman remarked that Mrs. Ploix's proposal was helpful. A Fund staff study entitled "The West African Monetary Union, an Analytical Review," published in May 1985 in the Occasional Papers series, updated some of the analysis in SM/82/183 and also could usefully be supplied to the World Bank's Executive Board.

The Executive Board then took the following decision:

The Executive Board approved the release to the Executive Directors of the World Bank of a Fund document entitled "Currency Unions" (SM/82/183, 8/31/82).

Adopted November 10, 1986

4. MEXICO - REPORT BY STAFF

The Associate Director of the Western Hemisphere Department said that the latest information available to the staff showed that $5 1/2 billion of the total commercial bank financing package for Mexico of $7.7 billion had been committed by commercial banks. The amount committed was equivalent to 72 percent of the total amount that was being sought. All of the 13 banks in the Advisory Committee had responded positively, and 43 of the 54 banks participating in the bridging financing had also responded positively. In all, 132 banks had responded positively. The 11 banks participating in the bridging financing that had not yet responded positively accounted for about 12 percent of the total financing package. The critical mass of the financing package would require the commitment of some 200 banks. If the Advisory Committee proceeded in the present case as it had in previous cases, it would not wish to close the package until roughly all the banks had responded. The total number of banks involved was somewhat unclear, as there had been a number of mergers and some portfolios had been sold, but it was probably in the neighborhood of 500 banks.

The Chairman commented that he would continue to follow closely developments with respect to Mexico's financing package in the coming days. He would ask Executive Directors from the relevant regions to help to encourage banks to participate in the package.

Mr. Sugita stated that it was unfortunate that the critical mass had not yet been reached. Most of the Japanese banks concerned had already committed themselves to the financing effort, and he was worried about the effect of the delay in completing the present package on the participation of Japanese banks in future packages. Management and staff, working with the relevant Executive Directors, should make every effort to gain the remaining commitments as soon as possible.

Mr. Ortiz remarked that the definition of the critical mass should perhaps take into account the estimated savings on interest payments under the financing package. He shared Mr. Sugita's concern. The Mexican authorities greatly appreciated the lead that the Japanese authorities and Japanese banks had taken in the financing arrangement for Mexico. The package was crucial for the continuation of the current debt strategy.

The Executive Directors concluded their discussion on Mexico.

5. WORK PROGRAM

The Managing Director made the following statement on the work program for the period up to the April 1987 meetings of the Interim and Development Committees:

> It is customary for us to have an exchange of views at this time on the Executive Board's work program for the coming months in light of deliberations during the Annual Meeting of the Board

of Governors and during the Interim Committee and Development Committee meetings. As usual, in this statement I shall cover the main elements of the work program for the period up to the first half of April 1987 when, as you know, the Interim Committee and the Development Committee are scheduled to have their next meetings.

At the outset, let me recall that in its communiqué, the Interim Committee has urged the Executive Board "to examine expeditiously the role of the Fund as referred to in the reports of the Group of Ten and the Group of Twenty-Four." The work program described below deals with a number of topics that are included in the G-10 and G-24 reports under the rubric of "The Role of the Fund," including access limits, conditionality for the use of Fund resources, design of Fund programs, review of quotas, etc. The purpose of the work program and its discussion by the Board is primarily the setting of priorities and, with that in mind, any guidance that the Board may wish to provide concerning issues relating to the role of the Fund would be most helpful. In that connection, if the Board so desires, the staff could prepare a paper surveying the pertinent issues raised in the two reports and indicating the extent to which they have so far been covered in our work programs.

1. Access, program design, and use of Fund resources

At its September 1986 meeting, the Interim Committee noted that, in view of the uncertainties that continued to surround the world economy and the worsening payments difficulties of a number of member countries, there was a need to continue the enlarged access policy and it concluded that the present access limits, both under the enlarged access policy and under the special facilities, should be retained in 1987. In order to implement these understandings, the staff will prepare a short paper incorporating a proposed decision on enlarged access policy and access limits for 1987 which could be brought to the Board's agenda on December 1, 1986.

Executive Directors have had for some time before them staff papers on "Program Design and Performance Criteria" (EBS/86/211 and Sup. 1). Another supplementary paper is under preparation that will examine in a broader context the two special mechanisms in the stand-by arrangement with Mexico relating to possible variation in the price of oil and in the rate of economic recovery. The above papers are proposed to be placed on the agenda for November 26, 1986.

The guidelines on conditionality call on the staff to prepare from time to time, for review by the Executive Board, studies of programs supported by stand-by arrangements in order to evaluate their appropriateness, effectiveness, and the results achieved. Staff papers for the next such review will also attempt to provide preliminary responses on some of the issues raised by Executive Directors in their discussion on October 20 of "Theoretical Aspects of the Design of Fund-Supported Adjustment Programs" and in the November 26 Board discussion on "Program Design and Performance Criteria" mentioned above. The review of conditionality has been tentatively scheduled for the Executive Board agenda for March 6, 1987. In the general area of program design, the staff is preparing an empirical examination of adjustment in high-inflation countries which has also been tentatively scheduled for discussion on March 6, 1987.

In the wide-ranging seminar on October 20 on the theoretical aspects of the design of Fund-supported adjustment programs, further analytical and empirical work has been requested from the staff in several areas, including particularly the effectiveness of Fund-supported adjustment programs in a recent historical period and problems relating to the design of policy programs in the face of uncertainty and lags in responsiveness characterizing the underlying economic relationships. Work on these and related topics is expected to come on stream in the work program for the period preceding the Annual Meetings.

In light of guidance from the Executive Board at its meeting on August 6, 1986 and in cooperation with the World Bank, the staff is preparing a revised proposal for a Fund-Bank Symposium on Growth-Oriented Adjustment Programs. The tentative proposed timing for the Symposium is Wednesday, February 25 through Friday, February 27 and a short note describing the proposal will be circulated to Executive Directors shortly.

In light of guidance provided by the Interim Committee, the staff will prepare a paper examining issues that have arisen in the implementation of the SAF, including the conditionality associated with the use of SAF resources. The paper will also report on the experience with collaboration with the World Bank in developing SAF policy framework papers (PFPs). Finally, the staff paper will examine questions related to the role of the SAF in promoting additional flows of resources to recipient countries from multilateral and bilateral donors and creditors. The review of the SAF could be taken up on March 18.

As agreed, the Board will undertake a comprehensive review of the compensatory financing facility (CFF) and for that purpose, the staff plans to prepare, as a first step, a broad Issues Paper on experience with the CFF in recent years, including aspects such as the timing and amounts of CFF purchases in comparison with those under the credit tranches. That paper is planned for Board discussion in March. The Board decision on compensatory financing of fluctuations in the cost of cereal imports needs to be reviewed not later than May 13, 1987 and accordingly, the staff will circulate a paper for consideration in the Executive Board soon after the next meetings of the Interim and Development Committees.

It is possible that the Fund may be requested to consider the suitability of a new cocoa agreement for support under the buffer stock financing facility. Depending on the timing of the request, the staff analysis to assist in the Executive Board consideration of such a request may be made available to Directors in time for a Board discussion before the end of the present work program.

2. Indicators and Fund surveillance

In recent months a consensus has gradually emerged concerning the use of indicators as part of efforts to strengthen international economic cooperation. Further progress on this path was made at the Interim Committee meeting, where it was generally agreed that a better use of indicators would be a helpful tool in strengthening the Fund's surveillance activities. The Committee has asked the Executive Board to develop further the application of indicators in the context both of the periodic consultations with individual member countries and of the world economic outlook, so as to facilitate the multilateral appraisal and coordination of economic policies. In light of the above mandate and following up on the very constructive Executive Board discussion on indicators last July, the staff proposes to prepare a further paper on the use of indicators in multilateral surveillance. This paper would take stock of the suggestions that have been made for extending the analysis employed in the last World Economic Outlook, and will examine how some of these suggestions could be incorporated in the staff's further work. I suggest that the staff paper on these issues be circulated in mid-December and considered in the Executive Board on January 14, 1987, so that the guidance from the Board could be incorporated in the next world economic outlook report, which will have to be circulated to the Board by end-February. In the new paper on indicators, the staff intends also to outline some of the work it proposes to undertake on the application of indicators in the design of economic policy. It is expected that the results from some of this research will begin to become available from mid-1987 onward.

The annual review by the Executive Board of the implementation of surveillance by the Fund should be completed not later than April 1, 1987. The staff paper for that purpose will concentrate on specific aspects of the implementation of surveillance, including the conduct of Article IV consultations and the monitoring of effective exchange rate developments. The report will also discuss the application of indicators to facilitate the multilateral appraisal and coordination of economic policies, in the context of the periodic consultation discussions with individual member countries. As agreed during the recent Board discussion on international capital markets, the staff paper will also provide an opportunity for a review of the experience with enhanced surveillance procedures. Executive Board discussion has been tentatively scheduled for March 2, 1987.

3. World economic outlook and issues

The main paper for the next world economic outlook will review short- and medium-term prospects in the world economy, including growth, price stability, and balance of payments sustainability in industrial countries, and the interrelationship between debt and growth in developing countries. The staff will also develop further the use of indicators, and assess the scope for increased efforts at economic coordination. In considering the direction that this work should take, it may be recalled that the recent communiqué of the Interim Committee suggested that the staff's analysis should continue to focus attention on potential incompatibilities in national economic policies and projections, particularly among the larger countries whose policies have substantial international impact and that a key focus of indicators should be "on points of interaction among national economies...." The main world economic outlook paper has been placed on the Board's agenda for March 20, 1987. As in the past, it will be accompanied by background papers on major recent developments that are of interest in appraising economic trends. In addition, several staff studies are planned, to be circulated well in advance of the main paper, dealing with issues such as capital flight, the rate of growth of productive potential, and issues related to policy coordination.

A staff paper reviewing the status and outstanding issues of the debt strategy will be prepared. The paper will review, in particular, the role of the Fund in this strategy and its relations with key creditor groups. This subject will be brought to the Board's agenda during the second half of March 1987.

In its recent communiqué, the Development Committee noted that, in response to its request at the April 1986 meeting, the Bank and Fund are preparing a report on market prospects for raw materials for discussion at the April 1987 meeting; the Committee has asked that this report also include analysis of the impact of industrial countries' agricultural policies on developing countries' economic prospects. For this purpose, the staffs of the two institutions are collaborating closely in the analysis of main factors responsible for the weakness of primary commodity prices and in an assessment of the market outlook. The Fund staff will also collaborate with the IBRD staff in connnection with the analysis of agricultural policies of the industrial countries. It is intended to circulate the above papers in the first half of February. Subject to coordination with the World Bank, it is hoped to bring the above paper to the agenda shortly prior to the discussion of the world economic outlook, possibly on March 11, 1987.

4. SDR matters

The Interim Committee has "requested the Executive Board to continue its discussions of proposals to enhance the contribution of the SDR to the creation and allocation of international liquidity." In that connection and in the light of Board discussions last summer on postallocation adjustment in the distribution of SDRs and on approaches to influencing the share of SDRs in members' reserve holdings, follow-up papers will be prepared in the present work program on the topics of (i) possible improvements in the pattern of holdings and use of SDRs, and (ii) further ideas advanced in the Board on the postallocation redistribution of SDRs, for issuance in the first part of 1987.

Two other papers which have been carried over from the previous work program, namely, "Issues Arising from Exchange Market Intervention in SDRs and the Establishment of a Clearing Facility for SDR-Denominated Instruments" and "SDR-Denominated Assets and Liabilities and the Reserve Management Practices of Monetary Authorities" are now expected to be issued before the end of the year.

In its recent communiqué, the Interim Committee has "welcomed the intention of the Executive Board to study further the long-term global need for reserve supplementation in the context of the conditions under which the international monetary and exchange systems are now operating." A staff study for that purpose will be undertaken and could be brought to the agenda in the first quarter of 1987. The Executive Board has also been invited to report to the Interim Committee at its next meeting on the results of the above-mentioned examination of the concept of "long-term global need" and on the progress made about an allocation. Accordingly, the staff will need to prepare, as in the past, a paper on the question of further allocations of SDRs, and it is tentatively proposed for the Board's agenda for March 27, 1987.

5. Ninth General Review of Quotas

Executive Directors will recall that under the Fund's procedures for general reviews of quotas the Board must appoint by end-March 1987 a Committee of the Whole to prepare a report for the Ninth General Review. In that connection and as on earlier occasions, the preparatory staff work on such topics as quota calculations, issues relating to the ninth general review, and size of the Fund will be initiated shortly. However, I believe that the content of these papers should have the input of my successor and that the timing of Board consideration should be decided accordingly.

6. Operational matters

As regards the Fund's income, charges and remuneration, Board discussion of a paper on the "Midyear Review of the Fund's Income Position" has been tentatively scheduled for December 12, 1986, when the midyear budgetary review will also be on the agenda. A staff paper providing an annual review of the Fund's financial position will be issued in early April 1987 in order to be available at the time of the Board's discussion in mid-April 1987 of the Administrative Budget for FY 1988. The annual review of the Fund's financial position will in turn be brought to the agenda in May 1987, shortly after the end of the financial year.

Directors have already received the paper "Accounting for Charges by Members with Overdue Obligations" which is now scheduled to be discussed on October 31. In connection with the Board's decision on burden sharing, a paper will be issued toward the end of October concerning the adjustment to the rate of charge on the use of ordinary resources and to the amount of remuneration for the first adjustment period. The paper on "Provisioning in the Context of the Fund - Further Considerations" will be issued, if possible, before the end of the year.

The next "Six-Monthly Report on Overdue Financial Obligations to the Fund" will be issued in early November, to be supplemented in early February 1987 by a quarterly statistical update for the information of Executive Directors. As agreed, the staff expects to issue by mid-November a paper on "Use of Currencies of Members in Arrears to the Fund." The above two reports together with a paper on "Review of Special Charges" could be taken up in the Board on December 8.

In the context of overdue financial obligations to the Fund, the staff has under preparation technical papers on "Postponement of Repurchase Obligations and Payment of Charges in Domestic Currency" and "Suspension of Fund Membership - Further Considerations" and it is expected that they would be available to Executive Directors by the end of the year.

A paper dealing with the extension of the commitment periods of the enlarged access loan agreements with SAMA is planned to be issued in the near future. As regards the loan amounting to SDR 3 billion that has been offered by Japan to the Fund, a paper dealing with the use to be made by the Fund of these resources and with the applicable terms and conditions will be brought to the Board's agenda following further discussions with the Japanese authorities. Other papers may be necessary in the light of guidance received from the Executive Board on the use of these borrowing arrangements.

A staff paper for the next semiannual review of the Fund's liquidity position and financing needs has been tentatively scheduled for Board discussion on March 30, 1987 preparatory to the meeting of the Interim Committee. A paper reviewing the level of the Fund's SDR holdings is planned to be brought to the Board's agenda in the second part of April.

The quarterly Operational Budgets and Designation Plans for the December-February and March-May quarters will as usual be issued toward the end of the month preceding the start of each of these quarters. As agreed during the discussion on burden sharing, the staff also expects to issue in November a paper dealing with the possible adjustment of the position of the United States in the Fund through the operational budget.

A paper on "Disbursement of Supplementary Financing Facility Subsidies," included in the previous work program, will be issued in November, probably for lapse of time decision.

7. Area departments' work program

Area departments' projections indicate that in the period up to end-May 1987, nearly 80 Article IV consultation reports and about 25-30 reviews under upper credit tranche arrangements could be brought to the Board's agenda. It is anticipated that staff discussions will be held with 15-20 members concerning requests for stand-by or extended arrangements and with over 20 members concerning requests under the structural adjustment facility. The number of such requests to be placed on the Board's agenda would, however, be smaller. A number of requests for use of Fund resources under the compensatory financing facility can also be expected.

8. Administrative and related matters

As Directors are aware, the Chairman of the Joint Bank/Fund Committee of Executive Directors on Staff Compensation has indicated that the Committee's report is now expected to be delayed until about the fall of 1987. Under the circumstances and in the light of our earlier understandings, I will request the Executive Board to take up again the matter of "Staff Compensation Adjustment - 1986" in the coming weeks.

The staff paper for the annual midyear budgetary review by the Executive Board will focus on the likely outturn for administrative expenditures in FY 1987 and has been tentatively scheduled for discussion on December 12. The Administrative Budget for FY 1988 can be expected to be circulated by the end of March 1987 for consideration by the Executive Board on April 15, in the week following the Interim Committee and Development Committee meetings.

Sometime before the submission of the FY 1988 Administrative Budget, it is intended that the Board consider adopting a new funding method for the Staff Retirement Plan (SRP). It is also possible that the review of the SRP currently being conducted with the World Bank may be concluded and proposals submitted to the Board by mid-April 1987.

Directors have had before them for some time the staff papers on accounting and budgeting for capital assets. They have now been placed on the Board's agenda for November 21, 1986.

As agreed, the survey of administrative tribunals established by other institutions is under preparation and is expected to be issued in December 1986.

9. Other staff studies and other matters

A staff study concerning the interrelationship between protectionism, balance of payments adjustment, and economic growth, as well as the role of antiprotectionist efforts in the international coordination of economic policies is expected to be circulated to the Board by mid-February.

A short paper presenting an outline of the 1987 Annual Report will be brought to the agenda in the second part of March 1987. Around that time, consideration will also have to be given to the draft provisional agendas for the Interim Committee and Development Committee meetings.

I suggest that we exchange views on this work program during the Board meeting on Wednesday, November 5, 1986.

The Secretary said that some Executive Directors had mentioned on an informal basis that they were concerned about the prospective load of country items on the tentative agenda; the country item work load seemed heavy both in itself and in relation to the schedule of policy items, which also was likely to be heavy. In his opening statement the Chairman had mentioned that 80 Article IV consultations might need to be brought to the agenda in the period under consideration, and that in the same period there might well be 31 country items involving reviews under stand-by and other arrangements. As it stood, the tentative schedule for March was particularly heavy.

It was useful to see the country item work load in perspective, the Secretary continued. In November 1983-March 1984 the Executive Board had considered 96 country items, including consultations and operational country items, compared with 81 items in November 1984-March 1985, 76 items in November 1985-March 1986, and the likely 86 items in November 1986 - March 1987.

It had been noted that in recent years the Executive Board had sharply increased the time that it had spent discussing country items both in absolute terms and as a percentage of the total discussion time in the Executive Board, the Secretary remarked. In fact, the number of hours spent on country items had doubled from 160 hours in 1980 to about 320 hours in 1985. In the same period, the share of total Executive Board time spent on country items had doubled from one third to two thirds. However, most of that increase had taken place between 1980 and 1983, a period during which the debt crisis had emerged, the financing role of the Fund had increased sharply, and the Fund had made continuing efforts to tighten and improve its surveillance. The time spent on country items had further increased in 1983-86, but not as sharply as in the earlier period. Still, it was clear that the burden of country items had been and promised to remain very heavy. The subject of the handling of country items in the Executive Board was likely to be further discussed during the next annual review of surveillance procedures.

Mr. Kafka said that the data provided by the Secretary did not fully eliminate his concerns about the amount of time that was likely to be spent in the coming period discussing country and other items in the Executive Board. The concentration of items in March 1987 was particularly worrying, because some of the policy items were complex and would require considerable examination; in addition, they involved a heavier burden on the senior person in an Executive Director's office than did country items. The staff should consider whether some of the country items that need not be discussed before the April 1987 Interim Committee meeting could be left until soon after that meeting or could be advanced, so that the burden of country item discussions over the coming period could be distributed more evenly. Finally, he planned to ask Executive Directors to meet in an informal session to consider how they could reduce the time spent in the Executive Board discussing country items.

Mr. Goos stated that he agreed with Mr. Kafka that the agenda for March 1987 seemed to be particularly heavy. He doubted whether the Executive Board would be able to handle such a heavy work load efficiently and thoroughly. While it might be difficult to change the scheduled dates for discussions on reviews under arrangements, the dates for some of the scheduled Article IV consultations could perhaps be adjusted.

Mrs. Ploix said that it would be useful to consider extending the consultation cycle for some countries. A kind of interim report could be prepared for those countries, instead of the standard staff report that was written every 12 months. The countries involved could be those that had good records with respect to the implementation of economic policies and cooperation with the Fund. Moreover, there could be additional flexibility in the provision for a maximum three months between the return of a staff mission to headquarters and the Executive Board's discussion of the staff report for that consultation. That approach would enable the Executive Board to hold a larger number of discussions on staff reports for consultations during the present time of year. Finally, the discussions on the large industrial countries could be held closer together than hitherto; the introduction of objective indicators to strengthen surveillance could lead to the better coordination of the Article IV consultations for those countries in order to assess the interactions of their policies.

The Chairman commented that the various suggestions that Mrs. Ploix had made could usefully be considered during the next annual review of surveillance procedures.

Mr. Kafka made the following statement:

I strongly support the idea that we should take an early look at the periodicity of Article IV consultation discussions. There are a number of consultation periods that have to be observed. I particularly look forward to reconsidering the three-month period between the return of a mission to headquarters and the discussion of the mission's report in the Executive Board.

I am in general agreement with the work program. Before entering into the substance, I would like to make a few remarks about the timetable. The number of country papers--consultation and review papers--that is expected to be discussed each month to end-May 1987 averages 17, but there is a heavy concentration--26 papers--in March. In that same month, there is also a heavy concentration of discussions of general policy papers--9 such papers compared with the monthly average of four papers. Other country and policy papers will certainly be submitted--and others will be withdrawn--but this is unlikely to affect the very high variance. Therefore, I hope that there can be some changes in the spacing of papers to relieve the apparent concentration in March, including, in particular, the concentration of policy papers. Some of those papers cannot easily be discussed at other times, but some of them can. In addition to reviewing the timing of papers, it would be helpful to have management suitably advance the date of the distribution of some policy papers to allow more time for their examination. More generally, I would encourage everyone--management, staff, and the Executive Directors--to take a hard look at the periodicity of discussions, at the need for and urgency of papers requested by Executive Directors or proposed by the staff, and the wider use of information papers as distinct from papers for discussion by the Executive Board.

I welcome the proposed paper on the coverage of the topics in the G-10 and G-24 reports that have been included in the Executive Board's work program. One basic subject of these reports that has not yet been covered is the rapid evolution of the world's exchange rate system in the direction of something new--a joint U.S.-Japanese float against the deutsche mark and the rest of the European Monetary System. The Fund should be in the forefront of the institutions that write about this apparent evolution of the international financial system.

I still have doubts about the usefulness of the proposed Fund/Bank symposium on growth-oriented adjustment programs. The main reason is that papers of substance are unlikely to be available because of the lack of time and nominal remuneration. The inclusion of additional authors and discussants is certainly welcome. Whether the roster of outside participants now comprises a sufficient variety of opinions that are appropriately weighted might of course be questioned by some. Great care should be taken so that all Executive Directors of both the Fund and the World Bank who wish to do so will have an adequate opportunity to participate in the discussions. I am not sure how that is to be achieved. No paper should be considered that has not been distributed to Executive Directors and other participants at least three weeks before the symposium discussion.

I particularly welcome the paper dealing with the impact of industrial countries' agricultural policies on developing countries' economic prospects. I also welcome the initiation of preparatory work on quota calculations as well as the technical papers on postponement of repurchase obligations and payment of charges in domestic currency.

As to administrative matters, the time has come for the Fund to take a new look at its recruitment system. This system is characterized by almost exclusive hiring of permanent staff through the Economists' Program, thereby ensuring that before they reach senior rank the staff members involved have been protected against new ideas that they might have learned in the outside world if they had remained there longer.

Mr. Dallara made the following statement:

I broadly support the content and priorities of the proposed work program. The Executive Board's schedule for March 1987 might well be somewhat overloaded, and I hope that some of the policy issues that are scheduled for that month could be advanced to late January or February, if that is feasible.

In the area of access, program design, and the use of Fund resources, I would comment first on the question of the follow-up to the recent seminar on the theoretical aspects of the design of Fund-supported programs. Further work on problems related to uncertainties and lags could be useful, but I was somewhat surprised that this area was highlighted for follow-up work. One of the key issues that the Chairman stressed in his concluding remarks on October 20, 1986 was whether "we are open enough to supply-side, growth-oriented measures set in a medium-term framework." The Chairman noted that this was the thread linking all interventions made that day. Accordingly, I hope that further work would give high priority to these issues, and not only in the context of the coming Fund/Bank symposium, but also more generally in the followup work. Theoretical work should be combined with empirical studies, the results or directions of which could be factored into the staff paper for the March 1987 review of the implementation of conditionality and of experience with adjustment programs.

I hope that the review of the structural adjustment facility will center on the policy framework papers that provide the framework for both Fund and World Bank support for low-income countries with protracted payments problems. I look forward to a frank assessment of the progress and problems to date that will cover the quality of the cooperation between the Fund and the World Bank--including policy and procedural problems that have arisen--the extent to which World Bank lending accompanies and supports structural adjustment financing, and more generally the ability of the structural adjustment facility to catalyze bilateral aid flows and perhaps debt rescheduling.

The review of the compensatory financing facility is most welcome. My authorities feel strongly that this review is a matter of high priority. In order that the review should begin as soon as possible, we would suggest that, as a first step, the Executive Board should hold an initial discussion by late January or early February 1987. This discussion could be based on a paper that would provide a brief history of the facility, including a description of the world economic environment at the time of the facility's creation, the amendments that have been made, data on the use of the facility, and an examination of how the environment under which the facility now operates differs from that of the 1960s--including an assessment of how payments problems are increasingly viewed in a structural context. Such a paper should also outline key issues regarding the facility that have been raised by the Executive Board over the previous several years, including both policy and technical areas, that could be the focus of subsequent staff analysis and Executive Board discussion. With this first discussion, the Executive Board could then begin an in-depth consideration of some of the issues concerned before the spring 1987 meetings.

Significant progress has been made in the area of indicators and surveillance during 1986, and the Fund has played an important role in facilitating that progress. We should build on the momentum that has been achieved by working toward further progress in developing the use of indicators and through that in strengthening Fund surveillance and the mechanisms for cooperation and coordination of international economic policies and performance. The Fund should continue to play an important role in that process, and I therefore look forward to another paper on this subject. I hope that it could give further consideration to the question of how countries can establish mutually compatible medium-term objectives with respect to certain indicators, such as current account positions. If such mutually compatible objectives can even be broadly agreed, this could help create a framework and a background for more effective collaboration on policies and performance in the near term.

In that connection, the analysis and the process of charting, in a multilateral framework, short- and medium-term objectives vis-à-vis key indicators and of monitoring process down a charted path merit further attention. For example, how can countries develop monitoring ranges for key indicators that are both internally consistent and externally compatible with those of other countries, keeping in mind medium-term goals and objectives that must be behind these objectives? Monitoring ranges could provide some measure against which to evaluate current performance. Another question is how one judges significant "deviations" from an extended course--deviations that could lead to consultations so that remedial actions could be considered as appropriate. These are among the questions on which I believe that further work could be useful. I look forward also to the Executive Board's review of experience to date with enhanced surveillance.

I look forward to the further development of the use of indicators in the world economic outlook exercise. While a start has been made in analyzing the impact of policies and performance of some of the largest developing countries on the world economy, there is additional scope for analysis in this area. I hope that this scope will be increasingly utilized in the context of the world economic outlook exercise, including a more comprehensive, country-specific and quantified treatment of trade policy developments.

As to the review of the debt strategy, I welcome the proposed coverage of the Fund's relations with key creditors. This is an appropriate time to consider the role of the Fund as a catalyst, including the qualities that permit the Fund to play this role, the ability of the Fund to catalyze financing where countries might no longer need formal Fund-supported programs, and the relative responsibilities of the Fund and the World Bank in catalyzing official assistance.

As to the joint paper that is to be prepared on the market prospects for raw materials and on the impact of industrial countries' agricultural policies on developing countries, I welcome this effort and I hope that it will cover the impact of the agricultural policies of developing countries on the world economy.

The proposed work program on SDR matters is broadly consistent with the guidance that was given by the Interim Committee as well as with earlier agreements that have been reached. Nevertheless, this work program is once again somewhat daunting. In the circumstances, I hope that the Executive Board could moderate somewhat the scope of its work in this area, combine some of the issues, or stretch out its consideration of some of them.

I endorse the suggested approach for dealing with the Ninth General Review of Quotas in the period immediately ahead. Secretary Baker explained our views on this matter clearly at the Interim Committee meeting, and I need not repeat them today. I am willing to support the formation of a Committee of the Whole in March 1987, but I see no need for a Committee or for any Executive Board meeting on this subject prior to that time.

While I recognize the complexities of the subject of provisioning, I am quite disappointed that the provisioning paper, which the Executive Board requested last May, has been postponed again. I urge the staff to complete it as soon as possible, as I believe that it is a subject of increasingly urgent importance.

I welcome the loan that has been offered by Japan to the Fund, and I look forward to seeing the details of the loan when practicable. I hope that it can be structured so as to help to meet the needs of the Fund and its members, including low-income countries with protracted payments problems.

Mr. Nimatallah said that he was worried that two discussions of the compensatory financing facility in early 1987 might well add to what was already a heavy agenda.

Mr. Dallara commented that he hoped that an early discussion on the facility on the basis of a brief paper might facilitate the Executive Board's scheduling. The first discussion could perhaps take place in late January or early February. In any event, the review of the facility presumably would require more than one discussion in the Executive Board.

Mr. Ismael made the following statement:

I support the work program that the Chairman has proposed. The program adequately incorporates all the work requested by the Interim and Development Committees. In addition, it adequately covers all the operational and administrative matters that are essential to the proper discharge of the Fund's obligations.

I welcome the inclusion in the work program of a number of topics that have been dealt with in the G-10 and G-24 reports. It would indeed be helpful to the Executive Board in setting priorities to have the staff prepare a paper surveying the issues raised in the two reports and indicating the extent to which they have been covered. I would also welcome a further paper on the use of indicators in multilateral surveillance and an Executive Board discussion on the subject early in 1987. I hope that we can make enough progress to allow the staff to use these indicators in the next world economic outlook exercise.

One of the proposed studies is for a review by the Executive Board of programs supported by stand-by arrangements in order to evaluate their "appropriateness, effectiveness, and the results achieved." While I support such a study, I would prefer to have the proposed evaluations of stand-by arrangements be conducted by outside consultants rather than by the Fund staff. Such evaluations should not only incorporate balance of payments objectives but should also encompass a broader range of objectives, including growth, employment, and price stability. I believe that such an approach would place the Fund in a better position to assess its programs in an objective way and to make necessary policy and operational changes.

The countries in my constituency have been adversely affected by several exogenous developments about which they are deeply concerned. They would like to see strong but stable growth in industrial countries, more stable exchange rates, and trade barriers rolled back. They are concerned about the prolonged low commodity prices. Some of these countries would like to understand this phenomenon better in order to plan for any structural changes in their economies that might be necessary. They are also concerned about the instability in capital flows and the debt service problems. I am pleased that all these problems will be examined in one way or another in the proposed work program.

When the structural adjustment facility was first approved, many Executive Directors emphasized the quick disbursing nature of the facility. I am somewhat concerned about the delays in the approval and disbursement process and about the fact that relatively few eligible countries have sought assistance under the facility, presumably because of the very stringent conditionality. I therefore welcome the proposed review of the facility on March 18, 1987. On that occasion, I hope that we will have an opportunity to examine how the facility could be extended to a greater number of countries and how approvals and disbursements could be expedited.

The Executive Board has spent considerable time on overdue obligations over the previous several years, and it has gone as far as it practically could in dealing with the problem. While I have no objection to the number of papers on overdue obligations that are to be brought before the Executive Board, I doubt whether anything could be achieved in the discussions of these papers. For example, a paper on provisioning is proposed even though the majority of Executive Directors rejected the idea when we decided to place overdue repurchases outstanding for six months or more on a nonaccrual basis. I am not sure what can be gained from this discussion on provisioning. Similarly, the staff and the Executive

Board will be spending too much time on SDR issues, since the proposed studies on these issues will not convince those who are unwilling to be convinced about the need for an allocation of SDRs.

Mr. Kyriazidis made the following statement:

I basically agree with the proposed work program, which covers the requests and priorities put forward by the Interim Committee at its latest meeting.

The proposed program fully covers all the major topics concerning the role of the Fund. The examination of single issues should be integrated into a global discussion of the Fund's role that should be undertaken to evaluate the role of the institution in a broader perspective.

I welcome the comprehensive review of the compensatory financing facility. However, I suggest that it should also be placed in a broader perspective by linking it with a discussion of the overall credit policy of the Fund, its intervention programs, and the development of its general resources. Moreover, given the importance of and complexities of the issues involved, it might be better to postpone the discussion on the compensatory financing facility until after the April 1987 meeting of the Interim Committee in order not to pre-empt the debate in the Interim Committee.

I attach great importance to developing the use of indicators in strengthening international cooperation, and I support the application of indicators in the context of the periodic consultations of individual members and of the world economic outlook. Therefore, I welcome the proposed further paper on the use of indicators in multilateral surveillance. But it would also be very useful to have a paper that specifically addresses the use of indicators within the province of consultations in order to enhance the usefulness and constructiveness of discussions in the Executive Board.

The relevant SDR issues have been discussed at great length, and all members have clear and definite positions. However, in order to keep open the dialogue on this fundamental topic, I look forward to discussing the follow-up paper on possible improvements in the pattern of holdings and use of SDRs and on further ideas that Executive Directors might have on the postallocation redistribution of SDRs. Therefore, the distribution of the relevant papers--which was originally planned for the "first part" of 1987--might usefully be advanced, if possible, to early 1987.

It is not clear whether the study on the long-term global need for reserve supplementation will be available in the first quarter of 1987. The discussion on that matter should be scheduled in time for the outcome to be reported at the next Interim Committee meeting. Moreover, the examination of such a paper should be undertaken in conjunction with the interrelated question of a further allocation of SDRs, which is tentatively proposed for discussion on March 2, 1987.

Mr. Mawakani made the following statement:

I support the general thrust of the proposed work program. I agree that the Executive Board should give priority to the examination of the topics that are to be covered during the next meetings of the Interim and Development Committees.

I am pleased that further consideration is to be given to those topics in the G-24 and G-10 reports under the category of the role of the Fund that have not yet been fully discussed. I therefore endorse the suggestion that the staff should prepare a paper providing an overview of the relevant issues in the two reports indicating the extent to which they have been covered under our previous work programs. In preparing the paper the staff might adopt the same approach that it used for the previous global paper. The staff should highlight the main measures and indicate the similarities and differences of views in order to facilitate the Executive Board's discussion of the various issues. The staff could usefully indicate when the proposed paper might be available.

The subject of the compensatory financing facility is important, and I look forward to the comprehensive review that has been planned for March 1987, which is likely to be a particularly busy month. However, to enable Executive Directors to pay adequate attention to this item, I would prefer to have the discussion on the compensatory financing facility be separate from the discussion on market prospects for raw materials, which is scheduled for March 11, 1987. The discussion on the compensatory financing facility could take place on March 16, and it could be extended if necessary to March 17 or March 18, before the discussion on the world economic outlook.

I welcome the planned discussion of the Fund/Bank paper on market prospects for raw materials, which is to contain an analysis of the impact of the agricultural policies of industrial countries on the economic prospects of developing countries. I am pleased by the attention that is being given to the concerns that have been expressed about problems of world trade in general and about the large export shortfall of many developing countries in particular, owing to the decline in commodity prices.

Although it might appear to be too early to review the structural adjustment facility, I think that the concerns that have been expressed about the implementation of the facility should be addressed quickly. I hope that this review will lead to an increase in the effectiveness of the facility in assisting low-income countries to achieve their growth-oriented objectives.

Commenting on requests for structural adjustment arrangements in the period up to May 1987 the Chairman noted in his opening statement that "staff discussions will be held with over 20 members (while) the number of such requests to be placed on the Board's agenda will be smaller." The staff could usefully elaborate on the reason for this difference.

Mr. Ortiz made the following statement:

I welcome the comprehensive statement on the work program for the coming months. There are two broad areas covered in the Chairman's statement, namely, the role of the Fund, and operational and administrative matters. On the latter, I wish to say only that I fully support the early consideration of the paper on staff compensation.

On the general question on the role of the Fund, I think that the preparation of a survey paper discussing the coverage of the main issues in the G-10 and G-24 reports is indeed a very useful starting point and should serve both to help us set our priorities and organize our work. I suggest that this paper should be issued as soon as possible, so that it can serve as a guide for the preparation of a more substantive paper that could encompass in an integrated framework the main issues on the role of the Fund, which is of course the subject of our continuous discussion.

The planned paper on access limits might not be the most appropriate place to do so, but the question of how access policy should be designed in the context of growth-oriented adjustment programs should be addressed at some point.

I greatly appreciate the inclusion in the work program of studies and attempts to look into some of the questions raised in the seminar on theoretical aspects of Fund-supported adjustment programs, particularly the question whether the application of traditional programs to countries experiencing large disequilibria might have substantially different effects than the application of the same programs to countries with moderately sized disequilibria. I wonder whether these issues are to be considered separately or as a part of the discussion in early March on issues in the implementation of conditionality and experience with adjustment programs. I raise this question because the Chairman mentioned that the paper dealing with the review of conditionality will try to tackle some of the issues that were raised in the discussion on the theoretical aspects of Fund-supported adjustment programs.

I am pleased that a paper on the experience with adjustment in high-inflation countries is on the agenda. However, I am concerned that that paper is scheduled for discussion on the same day as the discussion on the issues concerning conditionality and experience with adjustment programs. It might not be easy to tackle all those major papers simultaneously, especially as the work program for March already seems to be very heavy.

I listened with interest to Mr. Ismael's suggestion to have an outside, independent evaluation of the results of Fund-supported programs. I would be interested in additional comments by other Executive Directors and the staff on whether this idea seems to be reasonable and feasible.

Given the proposed distribution of the work load, I fully share the concerns that were expressed by Mr. Kafka. I wonder whether the review of the structural adjustment facility, which is certainly an important matter, could be either advanced to February or postponed until after the April meetings in order to help to reduce the work load in March.

I agree with the proposals on indicators, surveillance, and SDR matters. I welcome the emphasis on the world economic outlook exercise and the relationship between debt and growth in developing countries as well as on the issues raised by the interactions among industrial economies. The discussion on access limits will be particularly significant. Strengthening the use of indicators will help to determine possible avenues for policy coordination among industrial countries. I have indicated that in the absence of this coordination we should not aim at lower interest rates. The economic performance of major industrial countries could jeopardize the overall debt strategy. The paper on the debt situation should include a close examination of the role of the Fund, including its catalytic role and relations with key creditors. In addition, the role of advisory committees and the relationship between these committees and the banks and their constituencies as well as the willingness of commercial banks to continue participating in concerted lending packages should be reviewed.

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

DECISIONS TAKEN SINCE PREVIOUS BOARD MEETING

The following decisions were adopted by the Executive Board without meeting in the period between EBM/86/177 (11/4/86) and EBM/86/178 (11/10/86).

6. SPECIAL CHARGES ON OVERDUE REPURCHASES - SETOFF

The amount to be repaid by the Fund to a member with respect to special charges on overdue obligations in the General Resources Account under Decision No. 8165-(85/189) G/TR paid by the member for the first quarter of financial year 1987 shall be set off pro tanto against charges due for the second quarter of financial year 1987. (EBS/86/242, 11/3/86; and Cor. 1, 11/4/86)

Decision No. 8442-(86/178), adopted
November 6, 1986

7. JAMAICA - 1986 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 1986 Article IV consultation with Jamaica to not later than December 22, 1986. (EBD/86/292, 11/4/86)

Decision No. 8443-(86/178), adopted
November 5, 1986

8. MALAWI - 1986 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 1986 Article IV consultation with Malawi to not later than December 31, 1986. (EBD/86/294, 11/4/86)

Decision No. 8444-(86/178), adopted
November 6, 1986

9. MOROCCO - REQUEST FOR TECHNICAL ASSISTANCE

In response to a request from the Moroccan authorities for technical assistance in the tax policy and administration fields, the Executive Board approves the proposal set forth in EBD/86/291 (11/4/86).

Adopted November 7, 1986

10. SYMPOSIUM ON GROWTH-ORIENTED ADJUSTMENT PROGRAMS

The Executive Board approves the proposal contained in EBAP/86/187, Revision 1 (11/5/86).

Adopted November 7, 1986

11. EDUCATION ALLOWANCE - EXTENSION OF ADJUSTMENTS TO EXECUTIVE DIRECTORS AND ALTERNATES

1. The maximum allowance for tuition in the duty station country shall be increased to $4,650 from $4,300 per annum.

2. The "base" maximum allowance for tuition and boarding for children studying outside the duty station country shall be increased to $6,550 from $6,150 per annum.

3. When children are studying outside the duty station country, the "base" subsistence grants at primary and secondary school levels shall be raised to $1,575 from $1,475 per annum and at post-secondary level to $3,150 from $2,950 per annum. (EBAP/86/265, 11/3/86)

Adopted November 5, 1986

12. ADVISOR TO EXECUTIVE DIRECTOR - WAIVER OF ACCELERATED REPAYMENT OF SALARY ADVANCE

The Executive Board approves the proposal to waive the accelerated repayment of a salary advance to purchase a home as set forth in EBAP/86/264 (11/3/86).

Adopted November 5, 1986

13. ASSISTANT TO EXECUTIVE DIRECTOR

The Executive Board approves the appointment of an Assistant to Executive Director as set forth in EBAP/86/260 (11/3/86).

Adopted November 5, 1986

14. EXECUTIVE BOARD TRAVEL

Travel by Executive Directors as set forth in EBAP/86/267 (11/3/86), EBAP/86/270 (11/4/86), and EBAP/86/274 (11/5/86) and by Advisors to Executive Directors as set forth in EBAP/86/274 (11/5/86) is approved.

APPROVED: June 29, 1987

JOSEPH W. LANG, JR.
Acting Secretary