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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 86/192

10:00 a.m., December 5, 1986

J. de Larosière, Chairman
R. D. Erb, Deputy Managing Director

Executive Directors	Alternate Executive Directors
	E. T. El Kogali
	Yang W., Temporary
	M. K. Bush
	E. L. Walker, Temporary
	G. Seyler, Temporary
A. Donoso	C. A. Salinas, Temporary
	T. Alhaimus
	M. Arif, Temporary
	M. Sugita
	K. Murakami, Temporary
	B. Goos
	Khong K. N., Temporary
A. Kafka	H. A. Arias
T. P. Lankester	M. Foot
H. Lundstrom	
	W. N. Engert, Temporary
Mawakani Samba	C. V. Santos
Y. A. Nimatallah	
G. Ortiz	L. Filardo
H. Ploix	S. de Forges
G. A. Posthumus	
	I. Sliper, Temporary
	A. A. Agah, Temporary
A. K. Sengupta	
	S. Rebecchini, Temporary

L. Van Houtven, Secretary
L. Collier, Assistant

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Also Present

IBRD: J. Datta Mitra, Latin America and the Caribbean Regional Office; R. Bonnel, East Asia and Pacific Regional Office. Asian Department: L. De Wulf, W. G. L. Evers, F. Le Gall. European Department: L. A. Whittome, Counsellor and Director; N. Floros. Exchange and Trade Relations Department: C. D. Finch, Counsellor and Director; M. Guitián, Deputy Director; E. Brau, G. G. Johnson. External Relations Department: H. P. Puentes. Legal Department: P. L. Francotte, J. V. Surr. Secretary's Department: K. S. Friedman. Western Hemisphere Department: E. Wiesner, Director; S. T. Beza, Associate Director; M. E. Bonangelino, J. Ferrán, L. L. Pérez. Personal Assistant to the Managing Director: R. M. G. Brown. Advisors to Executive Directors: L. P. Ebrill, J. Hospedales, G. Pineau, I. Puro, D. C. Templeman, A. Vasudevan. Assistants to Executive Directors: J. R. N. Almeida, J. de la Herrán, F. Di Mauro, S. King, K.-H. Kleine, M. Lundsager, T. Morita, R. Msadek, C. Noriega, W. K. Parmena, A. V. Romuáldez, D. Saha, G. Schurr, S. Simonsen.

1. PROGRAM DESIGN AND PERFORMANCE CRITERIA

The Chairman said that he had found Executive Directors' remarks at EBM/86/191 (12/3/86) on program design and performance criteria--most notably on the contingency mechanisms included in the Mexican program--somewhat puzzling. Directors had commented that growth contingencies should not aim at fine-tuning or targeting growth rates. He, of course, agreed, but he wished to stress that there was no fine-tuning or targeting associated with the Mexican growth contingency, which had been made an integral part of the program because the authorities feared that the stringency of fiscal policy under the program could contribute to a recession. In retrospect, an alternative method of reaching agreement on a program would have been to loosen fiscal policy and avoid a growth contingency, although negotiations would have included an implicit growth element. That course would have called for some additional front-loading of financing.

A better course was the one that he had proposed, which included the fiscal program eventually agreed by the staff and the authorities, but with the proviso that if growth was less satisfactory than envisaged by the authorities, a limited boost would be provided by public investment, the Chairman continued. For example, bottlenecks in the transportation sector were suppressing the productive potential of the country. An appropriate flow of external financing to those sectors where investment had been compressed would not result in an undifferentiated public economic stimulus.

As to an alternative to the oil contingency mechanism, the Mexican authorities could have requested a drawing under the compensatory financing facility and thereby received a large amount of initial financing, the Chairman remarked. But that course would have led to a smaller contribution by the commercial banks as a result of the Fund's larger input in the financing package.

The Deputy Managing Director recalled that the initial reaction of the commercial banks to the contingency mechanisms had been negative. However, although they would have preferred the basic package without the contingencies, the banks had realized that a different design would have called for them to commit larger amounts of resources initially. For that reason, the contingency mechanisms had gained acceptance by the bankers.

The growth contingency was relatively limited from a bank-financing point of view, and pertained essentially to the first quarter of 1987, the Deputy Managing Director explained. After that period, the contingency would not be triggered, and the banks would not be called upon for additional financing under that contingency.

By introducing the oil contingency mechanism, which encompassed financing consequences for different outcomes in the export price of oil, and the commercial banks' Contingent Investment Support Facility, a basic package could be set up around the financial flows that were necessary to launch the program, the Deputy Managing Director continued. The scope of the oil contingency was limited to protecting the program in the early phases; for example, in the first quarter of 1987, a shortfall in revenue resulting from a decline in the price of oil below US$9 a barrel would be fully covered. But if the oil contingency was not triggered, that part of the financing package would not be called from the commercial banks. If the price of oil fell below US$9 in later quarters, the design of the contingency entailed a decline in the percentage of the shortfall that would be covered during that period. Without the oil contingency, a larger reserve target would have been included in the program, thereby increasing the basic financing package. The short-term nature of the contingencies led the bankers in many cases to consider them a better, less controversial alternative than contributing to a larger amount of reserves.

At the November 20-21 meeting of the Committee on Financial Markets of the OECD, the Deputy Managing Director concluded, bank representatives from all the major financial centers had agreed that the contingency mechanisms were a realistic approach in view of the uncertainties surrounding the Mexican economy. Participants in the meeting had also indicated that the contingency mechanism practice should not be generalized but could be applied to other packages in a selective manner. Their views seemed consistent with those expressed by Executive Directors.

Mr. Nimatallah recalled that his chair had fully supported the Mexican package. However, he did not consider that the contingency mechanisms should be used as a monitoring tool; in particular, he had doubts about their precision as a monitoring technique.

In Saudi Arabia, the decline in oil revenue was structural and had reduced real incomes to the extent that it became very difficult to move the economy back onto a growth path, Mr. Nimatallah said. A certain amount of time was required to regain a manageable level of growth. If a contingency mechanism was triggered too early, the economy would be stimulated too soon and would reach an unsustainable position. Although the mechanism could work well in certain cases, he remained unclear about the timing and precision of the calculations that triggered its use.

Mr. Ortiz commented that his authorities had considered the oil contingency important because, unless there was a reasonable assurance that a program for Mexico could be protected, at least in the initial stages, from further external shocks, the program could not have been put together. The contingency mechanism offered reassurance to the authorities that if the price of oil should fall further, no additional adjustment measures, other than those contemplated initially, would have to be implemented.

With regard to the growth contingency, his authorities regarded the fiscal adjustment contemplated by the Fund as stringent, especially as the economy had been adjusting for several years, Mr. Ortiz remarked. The program was not being launched in the initial stages of an adjustment effort. Indeed, adjustment had been taking place since 1982; public expenditures as a percentage of GDP had fallen by 10 points, and public investment as a percentage of GDP had fallen to half the level in 1985. For those reasons, the authorities considered that the additional fiscal measures included in the program would have an excessively negative impact on an economy that was already in recession.

At the previous meeting some Directors had observed that additional public investment by highly indebted countries could serve no useful purpose, Mr. Ortiz continued. That statement would have to be qualified, especially in the light of the behavior of public expenditures in the past few years.

It was impossible at the present stage to set a precise formula that would clarify the triggering of the mechanism, Mr. Ortiz said. Both the Fund and the Mexican authorities considered that the trigger would have to be defined in the context of a review of not only the behavior of production but also developments under the overall program.

Mr. Nimatallah said that he had no problems with the commodity contingency because of its symmetry and the ease with which the timing and calculations could be determined. It could usefully be applied in other cases. His concerns pertained to the growth contingency.

The Deputy Managing Director remarked that during the discussions, the bank representatives had expressed concern the automaticity of the growth contingency because they were unsure about how it would be triggered. He had explained that the Fund was concerned that it not be triggered if underlying growth was taking place. When the program had been formulated in mid-summer 1986, it had been difficult to define an automatic mechanism that would come into play in early 1987, given the uncertainty about the path of the economy in the interval. In developing the mechanism, the authorities and the staff had kept in mind the need to avoid a formula that would trigger the contingency during a period of recovery in growth.

Another perhaps misleading aspect of the growth contingency was its title, which suggested that it alone pertained to growth when in fact all the basic elements of the program were geared toward establishing the basis for growth, the Deputy Managing Director commented. That contingency had been suggested in response to the authorities' concern over the impact of the reduction in the overall fiscal deficit, that was included in the program on growth in the short run. They had considered that if growth did not begin to take off in early 1987, they would wish to use the contingency to inject some stimulus in the economy through investment expenditure. Nevertheless, it remained to be seen whether that investment expenditure per se would inject much stimulus, as it was a relatively small contingency. A more accurate title for the mechanism would have been a government-investment contingency rather than the growth contingency.

Mr. Nimatallah said that his comments had been aimed at the concepts behind the innovative mechanisms. Their usefulness in practice could be judged only in the light of experience. He agreed that investment spending could perhaps prove to be conducive to growth.

The Chairman noted that some aspects of Directors' criticisms of the so-called growth contingency of the Mexican package had perhaps been directed to other features of the package. He assured Directors that fine-tuning to ensure a certain rate of growth would not be part of the mechanism.

The Executive Directors concluded their discussion.

2. COLOMBIA - 1986 ARTICLE IV CONSULTATION AND REVIEW OF ECONOMIC PERFORMANCE UNDER MONITORING ARRANGEMENT

The Executive Directors considered the restricted staff report for the 1986 Article IV consultation with Colombia and a review of performance under the 1986 economic program (EBS/86/245, 11/4/86; and Cor. 1, 12/2/86). They also had before them a background paper on recent economic developments in Colombia (SM/86/279, 11/17/86).

The Executive Board then took the following decision:

1986 Consultation

Decision Concluding 1986 Article XIV Consultation and Review of Economic Performance Under Monitoring Arrangement

1. The Fund takes this decision relating to Colombia's exchange measures subject to Article VIII, Sections 2 and 3, and in concluding the 1986 Article XIV consultation with Colombia, in the light of the 1986 Article IV consultation with Colombia conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

2. Colombia continues to maintain a complex system of restrictions on payments and transfers for current international transactions and multiple currency practices as described in SM/86/279. The Fund welcomes the process of simplification of the exchange system initiated recently and urges the authorities of Colombia to continue this process. The Fund notes that Colombia maintains bilateral payments agreements with two Fund members and encourages Colombia to eliminate them as soon as possible.

Review of Economic Performance Under Monitoring Arrangement

The Fund finds that the review of economic performance under paragraph 3(d) of Decision No. 8288-(86/89), adopted May 23, 1986, has been completed.

Decision No. 8462-(86/192), adopted
December 5, 1986

3. LAO PEOPLE'S DEMOCRATIC REPUBLIC - 1986 ARTICLE IV CONSULTATION

The Executive Directors considered the staff report for the 1986 Article IV consultation with the Lao People's Democratic Republic (SM/86/280, 11/14/86). They also had before them a background paper on recent economic developments in the Lao People's Democratic Republic (SM/86/282, 11/21/86), as well as an information notice on the real effective exchange rate of the Lao kip (EBS/86/272, 12/2/86).

Mr. Khong made the following statement:

A number of indicators suggest that the economic performance of the Lao People's Democratic Republic in the last few years has been impressive. Real GDP growth between 1983 and 1986 averaged 7.6 percent a year, with paddy production increasing by 12 percent a year, and gross industrial production rising by 9.5 percent a year. This remarkable performance has led to the elimination of food shortages, a marked increase in per capita consumption, and a significant increase in per capita incomes. Inflation remains high, although the high rate in 1985 was primarily due to the large adjustment in official prices which had become out of line with market prices. The balance of payments also improved markedly in 1985 and 1986, with the overall balance showing a surplus in both years. Gross reserves now amount to approximately 6 weeks of imports, compared with only 3.3 weeks in 1982.

In spite of the relatively good economic performance in the last few years, the Lao People's Democratic Republic remains one of the poorest countries in the world, with economic activity carried out mainly in the subsistence sector of the economy. The mountainous terrain and the landlocked position of the country have created transportation difficulties of a magnitude present only in few countries. The development of domestic and international trade has thus been impeded by the absence of an efficient transportation network. The authorities have already invested heavily to improve the transport infrastructure, which continues to be emphasized in the Second Five-Year Plan. The second major impediment to economic development has been a shortage of skilled and professional manpower, which made productivity growth and a transfer of technology difficult. Hence, the authorities are giving greater attention to the vocational training of young students and an extension of training to technical and enterprise managers under the Second Five-Year Plan. Apart from infrastructure development and manpower training, the authorities intend to develop further the industrial sector through construction of new hydroelectric stations, projects to process domestic raw materials--wood, cotton, and construction materials--and investment in import-substitution industries. Of significance, Directors will be pleased to note that, following the advice of the Board last year, the authorities have changed the investment strategy to maintain self-sufficiency in food production at a saving of $56 million, as well as managed the exchange rate more actively.

As in many other socialist countries, reform in the system of economic management has been very much in the forefront of the thinking of policymakers. Decentralization of decision making and greater autonomy to state enterprises are key elements in the reform process. The authorities have already undertaken a number of measures to reform the management of public enterprises. In particular, the authorities intend to introduce a New System of Economic Management (NSEM) to provide more autonomy to all 295 public enterprises on matters related to production, distribution, pricing, investment, and employment. The enterprises will, however, continue to be required to meet the targets for output and for the transfer of their net surpluses to the state budget. These reforms are far reaching and can be expected to bring about considerable improvement over time in the performance of state enterprises.

The fiscal performance in 1985 was not as good as anticipated. The fiscal deficit declined from 21 percent of GDP in 1982 to 12 percent in 1984, before rising to 16 percent of GDP in 1985. The fiscal situation is not as serious as the figures might suggest. In a socialist economy, the following factors should be taken into account in an assessment of the fiscal situation:

(a) The Lao People's Democratic Republic is a socialist economy, with a significant share of the production and distribution activities controlled by the state. Many of these activities in other countries would be undertaken by the private sector.

(b) The budget deficit in 1985 was fully financed by foreign loans and grants. The concept of the budget deficit used in the staff report is different from the one normally used by the Fund for other countries in one important aspect--namely, foreign grants and loans form part of the financing item. It could be argued that a budget deficit of the magnitude experienced in 1985 might have been required to absorb the foreign grants and loans.

(c) The budget deficit figures refer to the aggregated budgetary deficits of the central and provincial governments.

(d) The budget outturn in 1985 was greatly influenced by the price and wage reforms, which are not expected to recur in 1986.

The fiscal position is expected to improve in 1986, with the fiscal deficit forecast at 13 percent of GDP. Profit transfers are expected to increase by about 50 percent, while revenues from taxes on trade and agricultural production would also rise significantly. Expenditure is being contained, with the rise in current expenditure limited to 10 percent and with no salary increase in 1986.

Monetary growth has been influenced largely by the liquidity requirements of public enterprises. Monetary expansion has been rather high, but the authorities have taken measures to control the inflationary consequences of growth in liquidity. For example, there are controls on the conversion of the deposits of public enterprises into currency to be used for commercial transactions. The role of interest rates in resource mobilization and credit allocation remains limited.

The external sector has shown remarkable improvement. Exports rose by 11 percent in 1984 and 22 percent in 1985. Imports also increased sharply, with approximately one half of imports coming from aid programs. Increased aid disbursement from the convertible area resulted in an overall balance of payments surplus of $20 million in 1985. The surplus in 1986 is expected to be somewhat lower at about $7 million. Despite the reserves buildup in recent years, the underlying balance of payments remains fragile. Numerous physical and organizational difficulties hamper the growth and diversification of exports, and the resolution of many of these structural problems will take time. There is a strong emphasis in the staff report on an exchange rate adjustment, and this may be justified by the need to narrow or eliminate the wide gap between the official and the market exchange rates. However, the scope for the exchange rate policy in bringing about a balance of payments improvement is somewhat limited by other impediments, such as a lack of managerial and technical know-how and difficulties in transportation.

In conclusion, I would like to thank the staff for their efforts in putting together an excellent report on an economy which is complex and on which little information is readily available. The staff's comments on the quality and coverage of statistics are valid, and my authorities intend to redress some of these shortcomings in the coming year. To this end, they have asked the IMF Institute to hold a regional seminar on statistical compilation in the Lao People's Democratic Republic in the second quarter of 1987.

Mr. Sugita said that he was in broad agreement with the thrust of the staff appraisal. Further consolidation of self-sufficiency in food and continued buoyancy in industrial and mining production had occurred in 1985 and 1986, aided in part by remunerative procurement prices and improvements in management. However, inflationary pressures had been high, balance of payments prospects had remained weak, and the fiscal situation had deteriorated, all pointing to the need for adjustment and improvement in economic management.

A new Five-Year Plan included a number of economic reorientation measures, among which the abandonment of costly irrigation projects, the emphasis on crop diversification, and more flexible pricing policies were particularly welcome. Also noteworthy was the introduction of the new system of economic management, which would allow decentralized decision making by public enterprises with respect to production, investment, employment, and payment of performance bonuses to employees. To be successful, however, strong emphasis would need to be placed on the role of relative prices and on the financial discipline of enterprises; otherwise, the new system could easily slip into a system of economic inefficiency that would merely emphasize increased physical output. The banking sector would have to play a more active role in allocating resources; in that connection, interest rates should be raised to more realistic levels to send a proper signal to enterprises on the scarcity of resources. Stronger restraint in credit extension to public sectors was also essential to bring down the rate of inflation. The recent increase in barter arrangements and vouchers was puzzling as it seemed to run counter to the emphasis on proper pricing policies under the New System of Economic Management.

With respect to fiscal policy, Mr. Sugita continued, there was a clear need for mobilizing domestic resources in the form of additional taxes, and he could endorse the staff's suggestions in that regard. However, a commodity tax scheme that set different rates not only by product but also by enterprise appeared too cumbersome.

Bold steps seemed to be called for to reverse the worsening balance of payments prospects arising from an anticipated fall in the price of electricity exports and from debt accumulations, Mr. Sugita noted. A substantial devaluation accompanied by more remunerative procurement prices were essential to restore the competitiveness of the export sector.

Finally, maintenance of an unrealistic representative exchange rate with the Fund was a matter of serious concern, Mr. Sugita remarked. As all transactions, including the quota subscription, were based on such a rate, a member was under the obligation to cooperate with the Fund in setting a realistic rate. Otherwise--and particularly if a member drew another member's currencies or SDRs in exchange for its own currency on the basis of an unrealistically overvalued representative rate--the financial position of the Fund would be seriously eroded. He therefore urged the authorities to address that matter promptly.

Mrs. Walker made the following statement:

Several positive developments in the economy of the Lao People's Democratic Republic took place during the past few years. However, it is clear that the underlying balance of payments situation is extremely weak and that there are infrastructural weaknesses that must be addressed in order to improve the balance of payments outlook in the medium term. We agree with the staff recommendation that a consistent set of policy objectives--including fiscal, monetary, and balance of payments--coupled with appropriate pricing policies are needed to improve the medium-term balance of payments outlook and meet the goals of the Second Five-Year Plan.

According to the staff report, the Second Five-Year Plan had not been adopted at the time of the discussions owing to concern over the availability of adequate resources to cover domestically financed projects. I would be interested in knowing whether the financing has been found and if this Plan has been adopted yet. I found it interesting that the World Bank agreed with the broad outline of the Second Five-Year Plan but not necessarily with its quantitative targets and wonder whether this implies disagreement with the growth targets or the proposed outlays and whether the authorities have taken this into account.

Several elements of the Second Five-Year Plan are welcome, most notably the reappraisal of the Plan to extend irrigable land, at a savings of $56 million; the greater emphasis being placed on promoting crop diversification through remunerative pricing policies; and the introduction of the New System of Economic Management (NSEM). The NSEM clearly is a step in the right direction, allowing more autonomy for public enterprises to determine their production policies. We welcome the new system of accounting to be introduced and the fact that prices are to be set on the basis of cost. Incentive bonuses for workers and managers should also boost productivity. A tighter credit policy for public sector enterprises, emphasizing efficiency criteria and limiting budgetary funds to finance investments, should also be helpful.

Several aspects of the NSEM, however, are worrisome. A more efficient allocation of foreign exchange might result if public enterprises were allowed to retain less than 100 percent of their export earnings. Furthermore, I note the potential adverse impact on revenue of changes in the financial relations between the Government and public enterprises. I urge the authorities to review these factors carefully in light of their revenue impact on an already difficult budgetary situation.

In addition, current plans for the Second Five-Year Plan argue for additional revenue and expenditure measures, particularly if the important goals of the Plan are to be achieved. The staff makes several suggestions for raising revenues that could be useful; one that seems quite rational is the determination of official prices on the basis of supply in the market place. Moreover, expenditure reductions will have to be stepped up, and I would be interested in the staff's comments on the scope for savings.

I welcome the authorities' potential plans to establish ceilings on the amount of credit granted by bank branches. A more restrictive credit policy, along with pricing policies based more on cost, would also be helped by a more active interest rate policy.

While the exchange rate for the kip has been devalued in the past year, it is clear from the information notice that in real terms the kip has appreciated by 15 percent from January to September 1986. While exports have grown recently, they remain below potential, and losses on exports have increased markedly. Despite the nominal devaluation of the kip, maintenance of low procurement prices for export products appears to be a contributing factor to low export performance. I note that Mr. Khong states that the "strong emphasis in the staff report on an exchange rate adjustment...may be justified by the need to narrow or eliminate the wide gap between the official and the market exchange rates." We believe that a further devaluation of the kip and more remunerative procurement prices are essential ingredients to improving the balance of payments. Further, I urge the authorities to remove the existing multiple currency practices.

Finally, we support the proposed decision and urge the authorities to adopt a more realistic representative exchange rate.

The staff representative from the Asian Department reported that recent information indicated that the Second Five-Year Plan had been approved. However, the staff had not been informed whether investment expenditures had been cut or whether new revenue measures had been indicated. While the quantitative targets under the Plan were not firmly adhered to and were published mainly for political reasons, the staff had found it useful to alert the authorities to the fact that some of those targets were unrealistic and that pursuit of such targets could result in an imbalanced economy. The World Bank staff had taken the same view; it was aware that the targets did not play as great a role as in other countries and it could therefore agree with the basic orientation of the Plan, which emphasized the diversification of agriculture and consolidation of food self-sufficiency.

The authorities had made some progress in 1986 in expenditure reduction, the staff representative continued. They had severely cut some important items in the current budget, but whether they would be able to continue that trend in 1987 was difficult to forecast. On balance, the Fund staff believed that there was scope for further reduction and had recommended that action in its report.

Mr. Khong remarked that the authorities would find Directors' comments useful in forming future policies. The authorities had recognized the need for reform and had started to act in several areas, but obviously a fairly fundamental reform would take time. The authorities would have to make progress cautiously and slowly. One setback had been the lack of statistical information and technical assistance from the Fund in compiling the statistics required to measure the efficiency and performance of policy measures would ultimately make a large contribution to the reform exercise.

The Chairman made the following summing up:

> Executive Directors generally concurred with the views expressed in the staff report for the 1986 Article IV consultation with the Lao People's Democratic Republic. They noted that, as a result of improvements in management and an easing of supply constraints, the economy had continued to grow rapidly; that self-sufficiency in food had been consolidated; and that a rise in merchandise exports had contributed to an improvement in the balance of payments. However, the budgetary position had deteriorated, inflationary pressures remain high, and the underlying balance of payments position continues to be weak.
>
> Directors commended the authorities for a number of new measures that are slated for introduction under the New System of Economic Management, including the determination of prices on the basis of cost and the extension of greater economic and financial autonomy to all public enterprises. These measures would need to be accompanied, among others, by increased financial discipline on the part of enterprises, it was observed. The intention of the authorities to abandon plans for the extension of irrigable land at relatively high cost in favor of the wider application of other yield-increasing techniques was welcomed.
>
> With regard to the budget, Directors expressed concern over the medium-term outlook, particularly in view of the planned large increase in domestic investment under the Second Five-Year Plan and the revenue implications of a possible fall in the price of electricity exports. Noting that tax receipts had declined in real terms, Directors stressed that there was ample scope for reducing tax exemptions and for improving tax collection, and they thought that the commodity tax scheme would be administratively too cumbersome. They welcomed the intention of the authorities to limit the growth of credit to public enterprises and observed that higher interest rates would facilitate the conduct of monetary policy and the allocation of scarce capital resources.

Directors were of the view that, despite the acceleration of exports in recent years, the underlying balance of payments position remained weak. With the recent losses in exports at a time when exports are below potential, Directors stressed that a further devaluation was essential for achieving a viable balance of payments. The devaluation would have to be accompanied by more remunerative prices in the export sector and followed by a policy whereby the exchange rate would be determined according to relative price movements and market forces. Directors were also of the view that a reduction in the percentage of export earnings that public enterprises are permitted to retain for their own use would contribute to a more rational and efficient distribution of foreign exchange.

Directors urged the authorities to eliminate the existing multiple currency practices and to cooperate with the Fund in establishing a more realistic representative exchange rate with the Fund.

It is expected that the next Article IV consultation with the Lao People's Democratic Republic will be held on the standard 12-month cycle.

The Executive Board then took the following decision:

1. The Fund takes this decision relating to exchange measures of the Lao People's Democratic Republic subject to Article VIII, Sections 2 and 3, and in concluding the 1986 Article XIV consultation with the Lao People's Democratic Republic in the light of the 1986 Article IV consultation with the Lao People's Democratic Republic conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

2. The Fund notes that the Lao exchange system remains restrictive and involves multiple currency practices described in SM/86/280 and SM/86/282. The Fund encourages the authorities of the Lao People's Democratic Republic to simplify the exchange system, and in particular to terminate the multiple currency practices as well as the bilateral payments arrangements with Fund members.

Decision No. 8463-(86/192), adopted
December 5, 1986

DECISION TAKEN SINCE PREVIOUS BOARD MEETING

The following decision was adopted by the Executive Board without meeting in the period between EBM/86/191 (12/3/86) and EBM/86/192 (12/5/86).

4. EXECUTIVE BOARD TRAVEL

Travel by an Executive Director as set forth in EBAP/86/299 (12/2/86) and by Advisors to Executive Directors as set forth in EBAP/86/299 (12/2/86) and EBAP/86/301 (12/3/86) is approved.

APPROVED: July 29, 1987

LEO VAN HOUTVEN
Secretary