

INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 85/101

10:00 a.m., June 28, 1985

J. de Larosière, Chairman

Executive DirectorsC. H. Dallara
J. de Groote

M. Finaish

G. Grosche
J. E. Ismael

A. Kafka

H. Lundstrom
E. I. M. MteiY. A. Nimatallah
P. Pérez

C. R. Rye

N. Wicks

Zhang Z.

Alternate Executive DirectorsL. K. Doe
M. K. BushX. Blandin
C. Flamant, TemporaryM. Sugita
B. GoosL. Leonard
H. A. Arias
J. Hospedales, Temporary
H. FugmannM. A. Weitz, Temporary
J. E. Suraisry
J. de la Herrán, Temporary
J. de Beaufort Wijnholds
A. V. Romuáldez
O. Kabbaj
R. Msadek, Temporary
A. S. Jayawardena
T. A. Clark
N. CoumbisL. Van Houtven, Secretary
J. M. Oppenheim, Assistant

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Also Present

IBRD: S. Voyadzis, Latin America and the Caribbean Regional Office, M. Palein, Western Africa Regional Office. African Department: R. J. Bhatia, Deputy Director; G. E. Gondwe, Deputy Director; P. A. Acquah, C. Enweze, J. Harnack, G. Kalinga, E. K. Martey, E. Sacerdoti, R. Valdivieso. European Department: B. E. Rose, Deputy Director. Exchange and Trade Relations Department: W. A. Beveridge, Deputy Director; M. Allen, E. H. Brau. Legal Department: J. M. Ogoola, J. K. Oh, S. M. Silard. Research Department: R. D. Haas. Treasurer's Department: T. Leddy, Deputy Treasurer; J. E. Blalock, J. C. Corr, M. F. Melhem. Western Hemisphere Department: E. Wiesner, Director; S. T. Beza, Associate Director; L. L. Pérez, E. C. Suss. Bureau of Statistics: R. K. Basanti. Personal Assistant to the Managing Director: S. P. Collins. Advisors to Executive Directors: E. M. Ainley, G. Nguyen, M. Z. M. Qureshi, A. Vasudevan. Assistants to Executive Directors: I. Angeloni, W.-R. Bengs, A. K. Diaby, G. Ercel, R. Fox, S. Geadah, N. Haque, G. D. Hodgson, A. R. Ismael, J. M. Jones, H. Kobayashi, M. Lundsager, R. Msadek, E. Olsen, D. J. Robinson, J. E. Rodríguez, C. A. Salinas, M. Sarenac, A. A. Scholten, A. J. Tregilgas, E. L. Walker.

1. BELIZE - 1985 ARTICLE IV CONSULTATION AND REVIEW UNDER
STAND-BY ARRANGEMENT

The Executive Directors considered the staff report for the 1985 Article IV consultation with Belize and the review under the stand-by arrangement (EBS/85/135, 5/24/85; and Cor. 1, 6/14/85). They also had before them a report on recent economic developments in Belize (SM/85/164, 6/12/85).

The staff representative from the Western Hemisphere Department said that Belize and Mexico had reached an agreement to reschedule US\$1.9 million of Belize's external payments arrears to Petróleos Mexicanos (PEMEX). Belize would have to repay the rescheduled amount in equal semiannual installments over five years, beginning in December 1985. The rescheduling would permit Belize to comply with the ceiling on the external payments arrears, which amounted to US\$2.4 million as of June 30, 1985.

Mr. Leonard made the following statement:

Last year, the Government of Belize entered into an ambitious program of adjustment, which was supported by a stand-by arrangement approved by the Board in December 1984. The program aimed at limiting the loss in net international reserves of the Central Bank to US\$6.5 million in 1984 and increasing net international reserves by US\$5 million by 1985. Further important features of the program were: eliminating of external payments arrears by September 1985 and consequently strengthening Belize's external creditworthiness; increasing public sector savings and reducing the overall deficit of the nonfinancial public sector; and full financing of the public sector deficit through external development assistance. The expected level of external development assistance and the reduction in the fiscal deficit were intended to allow a reduction in the public sector's net indebtedness to the domestic banking system.

The implementation of the 1984/85 program has been broadly in line with its targets. The fiscal deficit targets have been surpassed, and lower imports associated with delays in net external financing resulted in a significant improvement in the current account. However, monetary developments and the shortfall in expected external financing resulted in failure to meet some performance criteria at the end of 1984 and at the end of March 1985.

A new Government came to power last December. Shortly after taking office, it reaffirmed its commitment to the program's objectives and targets. For 1985/86, the Government will continue to improve the external balance and to establish conditions for sustainable economic growth and price stability. The Government has set as a target a budget deficit for the nonfinancial public sector equivalent to about 5 percent of GDP, the level that can

be financed entirely with external development credits. The fiscal target implies a slight increase on the 1984/85 outturn, but it has to be remembered that the level of external financing obtained last year was lower than programmed and resulted in an unexpected fall in expenditures.

To ensure the achievement of this year's targets and bring the program back on track, the Government has recently introduced measures to strengthen the fiscal position. They include an increase in the stamp tax from 8 percent to 10 percent, an increase in the administration charges on in-transit goods from 2 percent to 3 percent and a doubling of the travel tax. The Government will also strengthen tax collection procedures in order to raise tax receipts. For the fourth year in a row, the Central Government will not grant a general salary increase. An important new understanding has been reached between the Central Government and the Statutory Boards that will ease the financial position of the Central Government and reduce the losses incurred by the Boards. The operations of these Statutory Boards are also being reviewed with a view to further streamlining their operations and, in some cases, to possible privatization.

The public investment program will focus primarily on infrastructural projects, particularly on roads, water and sewage, and power distribution. The Government hopes to expedite the implementation of investment projects so as to be able to maintain an investment effort equivalent to 12 percent of GDP, a ratio consistent with a return to economic growth rates experienced in the 1970s. A foreign owner of two sugar mills is negotiating with the Government about the transfers of ownership of the mills to Belizean interests. The policy of the Government is to avoid any action that might have budgetary implications arising from this transfer of ownership. The Government also intends not to guarantee any outstanding or future debts of firms in this sector.

Last January, the Central Bank took a number of measures aimed at tightening monetary policy. The authorities intend to continue to manage interest rates flexibly in order to provide incentives for savings and to achieve the balance of payments targets. Realization of the budget deficit target for the non-financial public sector will permit the financing of the government deficit from external sources without recourse to domestic banking credit.

Despite a number of difficulties related to delays in external concessionary assistance and the fact that the envisaged external financing for this year is now expected to be lower than when the program targets were agreed upon last summer, the Government will eliminate all external arrears by September 1985, as originally intended. As part of this strategy, the Government

is rescheduling its external payments arrears to PEMEX, the state petroleum company of Mexico. Agreement on rescheduling terms was reached between the Government and PEMEX on June 14.

In the external area, the Government intends to reduce outstanding external debt to commercial creditors and to rely solely on long-term development credits for financing the public sector. The implementation of this policy will be assisted by the reactivation of a Cabinet Commission that will review and approve all new external credits to be contracted or guaranteed. My authorities continue to attach importance to Belize's international competitiveness. In this respect, they will keep exchange rate policy under review. This issue was carefully examined by both my authorities and the Fund mission during the most recent review mission, and, as a result of these discussions, the Government continues to believe that the exchange rate is appropriate.

An important purpose of today's Board discussion is to establish performance criteria for the remainder of the program under the stand-by arrangement. I hope that Directors will support the proposed decision so that the Fund can continue to assist Belizean adjustment efforts.

Mr. Hospedales said that he supported the proposed decision, which would restore financing of the Belizean adjustment program. He was also in general agreement with the thrust of the staff appraisal. Like other small, open economies, Belize was extremely vulnerable to swings in international trade and capital flows, and the secular decline in the international terms of trade had been the major source of Belize's economic and financial difficulties. Severe imbalances had emerged in the internal and external accounts, with an associated accumulation of external payments arrears. In mid-1984, however, the authorities had introduced a self-imposed adjustment program, and, even before the introduction of a Fund-supported program at the end of the year, some benefits had already emerged. The performance of the economy in 1984 had provided ample evidence of the authorities' determination to pursue the policies needed to attain their economic objectives.

Prudent and effective management of public finances had been the centerpiece of the program and the key to the achievement of a viable balance of payments position and elimination of external arrears, Mr. Hospedales continued. The halving of the overall fiscal deficit in relation to GDP in 1984 had been commendable. The authorities should continue their efforts in that area, in particular by strengthening tax collection procedures and by streamlining the operation of state enterprises with a view to improving their operational efficiency. Financing of the overall fiscal deficit in 1985 had been available from both bilateral and multilateral sources, and he hoped that those flows would continue to permit Belize to improve its debt structure and overcome the

foreign exchange constraints on development. The increased availability of resources, both internal and external, would permit a recovery in public expenditure, particularly on capital items. The fiscal adjustment was being supported by an appropriately restrictive monetary policy. In that respect, it would be helpful to know the rationale for interrupting the financing of the program; supposedly, it had been in response to minor slippages that had occurred, despite appropriate corrective actions by the authorities, when certain assured capital flows had failed to materialize.

The marked improvement in the external current account reflected the consistency of policy measures that had laid the basis for additions to reserves and a reduction in external obligations and arrears, Mr. Hospedales noted. An enhancement of creditworthiness could be assured only through the restoration of normal relations with creditors and suppliers and was a precondition for the capital inflows on which Belize depended. Accordingly, the rescheduling package with PEMEX was reassuring.

The restrained policy environment, particularly the demand management measures, had proved effective in achieving balance of payments objectives, Mr. Hospedales concluded. Given the stability that derived from the long-established fixed exchange rate of the Belize dollar with the U.S. dollar--a main factor influencing capital inflows--and the well-known difficulty in determining an appropriate exchange rate for a small country like Belize, the authorities correctly believed that there was no need for exchange action at present, particularly in light of the 12 percent growth in nonsugar exports. Provided that a cautious wage policy was followed, the economy ought to remain cost competitive.

Mr. Wicks said that he could endorse the staff appraisal and proposed decision. The improvements in public sector savings and the trade balance, and the maintenance of a relatively low rate of inflation, together with the agreement on policies and performance criteria for the remainder of the program, were encouraging. A number of performance criteria, however, had been missed at end-December 1984 and end-March 1985, though the slippages had been extremely small. The proximate causes had been the excessively relaxed monetary stance at the end of 1984--which had been corrected--and shortfalls in external financing resulting from delays in project implementation. It would be helpful to know whether such absorption difficulties would persist and whether technical assistance, perhaps from the World Bank, would be helpful.

Belize would be dependent upon capital flows for some time, and although the debt/GDP ratio would increase, the concessional nature of much of that debt implied that debt service would remain manageable, Mr. Wicks commented. That underscored the importance of maintaining the confidence of foreign investors, aid donors, and multilateral institutions, in the short term by the prompt elimination of arrears, and in the longer term by further efforts to improve public savings and increase export diversification. In that regard, the arrangement with PEMEX was a helpful sign.

Despite the considerable improvement in public savings in 1984 and the continuing improvement projected for 1985, Mr. Wicks noted, the overall public sector deficit projected for 1985 was 5 percent of GDP, and further improvements in public savings would be necessary if capital expenditure were to be increased without recourse to other than long-term concessional finance. Such an outcome would prove more difficult to achieve if an increase in civil service wages--which by the end of 1985-86 would have been frozen for four years--turned out to be necessary. The authorities ought to continue with the plan to trim the size of the civil service and to raise the operating surpluses of the public enterprises. It was still, however, an open question whether the squeeze on civil service wages was warranted, in relation to the general level of wages, or whether it would have a considerably adverse effect on the morale and efficiency of the civil service.

He agreed with the staff that the fixed exchange rate system--which had been associated with the substantial real appreciation of the Belize dollar over the past few years--was a dangerous strategy, hampering the prospects both for diversification and the sugar industry itself, which was recording large losses, Mr. Wicks said. The risk would be exacerbated if wage moderation in the private sector could not be maintained or if there were a significant economic slowdown in the United States--which had accounted for nearly 60 percent of Belize's exports in 1984--without an accompanying fall in the U.S. dollar. Prospects in future years would be very dependent on sugar prices and sugar exports. Prices at present were at an all-time low and were unlikely to recover in the short to medium term, given the existence of large surplus stocks. The Belizean economy was still essentially dominated by sugar, which accounted for 40 percent of domestic exports. That dominance was a clear source of instability in view of the volatility of sugar prices. A less buoyant increase in sugar prices would considerably widen the current account deficit. Accordingly, there seemed to be a case for a more flexible exchange rate policy in order to strengthen the balance of payments in the medium term.

Mr. Rye stated that he was in full agreement with the staff appraisal. The public finances had been improved, the overall public sector deficit having been reduced in 1984 to a point below program targets, and the external current account deficit had been halved to about 3.5 percent of GDP. The program seemed essentially on track, notwithstanding noncompliance with two performance criteria at the end of December 1984 and March 1985. The authorities were determined to take the necessary measures to keep the program going and had established appropriate policies for 1985-86.

The staff had stated that the second purchase under the stand-by arrangement had been made in February 1985, even though the authorities had failed to observe two of the end-December 1984 performance criteria, and that the purchase had been reduced by SDR 10,000 because of the noncompliance, Mr. Rye observed. He wondered whether there was a new procedure allowing a member to make a reduced purchase in spite of its

noncompliance with performance criteria. If so, the particular circumstances should be explained so that Executive Directors could determine whether the procedure could be reconciled with the principles previously laid down by the Board. In any event, the third scheduled purchase--in April 1985--had been disallowed because of noncompliance with two performance criteria at end-March 1985. The different treatment of the two cases of noncompliance seemed odd. While it was correct to adopt a case-by-case approach to marginal breaches of performance criteria, it was important that any difference in approach should be consistent with the vital principle of equal treatment of members. There might be some value in conducting a comparative case study of the subject.

Mr. Goos recalled that when the stand-by arrangement had been approved (EBM/84/172, 12/3/84), he had expressed concern in view of the general uncertainty affecting capital flows, which at the time had been seen as a key to improving the external position, and had said that there ought to be a strengthening of the adjustment effort. He was therefore pleased to note that the revised program targets for 1985 and the revised medium-term projections envisaged much lower current account deficits than the previous projections. Those revisions had apparently been prompted by the sizable shortfall in capital inflows in 1984--the root cause of the slippages in the program targets. While those slippages, in particular the ones related to external arrears, were a matter for concern, it was heartening to note that the authorities had responded to the shortfall by drastically reducing the overall fiscal deficit, while at the same time increasing public sector savings by more than BZ\$20 million.

The authorities intended to maintain their prudent fiscal policy, Mr. Goos said, but he wondered whether a tightening of that policy would not be even more appropriate. The figures presented for 1985/86 appeared to indicate a relaxation in the restrictiveness of fiscal policy compared with 1984/85. It was true that public sector savings were expected to show another strong increase and that the improving performance of the public enterprise sector was impressive. However, a comparison of the original program targets for 1985/86 with the revised figures showed that, despite distinctly less favorable prospects for capital inflows, the authorities' aim was to leave the overall fiscal deficit virtually unchanged. Accordingly, compared with the original estimates, the structure of the deficit financing was projected to worsen, with only a limited decrease in outstanding domestic financing and no change in central bank credit to the public sector. Already in 1984 there had been such a worsening of the financing structure that an unexpectedly strong increase in central bank financing of the budget deficit, in particular, had resulted. The authorities' policy of restricting the public sector deficit to what could be financed by long-term credit from bilateral and multilateral sources on concessional terms had many advantages. Nevertheless, the great uncertainty of capital inflows suggested that the policy needed to be complemented by flexible budgetary procedures, preferably in the form of contingency planning, in order to avoid the emergence of financing gaps in the event of unforeseen shortfalls in capital inflows.

The combination of an increase in the overall public sector deficit and a further reduction in the current account deficit programmed for 1985-86 presupposed a considerable increase in private financial savings, Mr. Goos continued. The measures taken by the monetary authorities to limit the expansion of credit to the private sector should facilitate the achievement of that objective. Appropriate interest rates would be of critical importance, as shown by the experience in 1984, when the Government had failed to raise interest rates on treasury bills. An appropriate relationship between domestic and international interest rates should be maintained in order to attract private foreign capital. It was not clear to him whether the recent increase in deposit and lending rates had established a sufficient margin in favor of domestic capital markets. In any event, it was probably no coincidence that the rather large private capital inflows in 1982 had occurred following a strong increase in the interest rate differential in favor of Belize; those flows had turned negative in 1983 and 1984 when the rate differential had become negative. As a minimum, the authorities should follow the staff recommendation and adjust domestic rates further when and if necessary. It would be interesting to know whether the possibility of liberalizing domestic interest rates had been considered.

He supported the staff appraisal and proposed decision, but, like Mr. Wicks, he had certain doubts about the appropriateness of Belize's exchange rate policy, Mr. Goos concluded. While there seemed to be no immediate need for changing that policy, maintenance of the country's competitive position exclusively through demand management policies probably entailed higher costs in terms of forgone economic growth than a more comprehensive adjustment approach including exchange rate action. Moreover, such action would greatly facilitate export diversification, which remained an urgent task given the continued high dependence of exports on sugar and the concomitant sluggishness of overall exports.

Mr. Dallara remarked that the economic performance of Belize since the approval of the stand-by arrangement had been mixed. The clearest indication of adverse developments had been the noncompliance with the end-December 1984 and end-March 1985 performance criteria. Although the failure to comply with end-March ceilings on external arrears and net domestic assets appeared to have been the result largely of delayed disbursements of foreign grants, the end-December ceilings had been missed because of a failure to raise interest rates on treasury bills. That departure from the program, within one month of the Board's approval of the stand-by arrangement, was a cause for some concern about the extent of the authorities' commitment to the adjustment effort. However, despite those deviations from the program, other policy areas did indicate that substantial adjustment was taking place. In particular, fiscal adjustment in 1984/85 had exceeded expectations, the deficit having fallen below the program target. Public enterprises were in surplus after improving their operating efficiency and increasing electricity and water rates. Furthermore, civil service wages had been held constant for the third consecutive year.

The 1985/86 program appeared to maintain the thrust of fiscal adjustment, Mr. Dallara noted. Public sector savings were expected to increase to 4.7 percent of GDP, and there would be no public sector wage increase; indeed, unnecessary public employment would be reduced. Moreover, external arrears would be completely eliminated by September 1985, as originally planned. Although the continued improvement in the performance of the public enterprises--especially the reductions in the Marketing Board's commodity programs--was welcome, the authorities should have adopted an even tighter fiscal stance in 1985/86 in order to accelerate the adjustment process. While the medium-term outlook had improved since the end of 1984, estimates for 1987 and beyond were heavily based on the assumption that sustained official transfers would more than offset increased trade deficits. Since those transfers could not be predicted with great confidence, a more rapid fiscal adjustment--to reduce reliance on those inflows and produce greater certainty regarding the medium-term prospects--seemed advisable.

Monetary policy, including increases in interest rates, supported the overall adjustment effort, Mr. Dallara continued. However, net amortization payments on domestic debt would be lower than previously envisaged. It was regrettable that interest rate changes had been implemented one month later than planned, preventing the attainment of the December 1984 program target. Nevertheless, once in place, those changes had led to a strengthening of the net international reserve position of the Central Bank.

In view of the sluggish growth in traditional exports, the current account deficit could be expected to widen again during 1985, Mr. Dallara commented. The authorities nevertheless considered an exchange rate adjustment unnecessary. However, even bearing in mind the low wage rate in Belize, it was questionable whether the exchange rate was fully appropriate and whether some adjustment might not help to improve profitability and increase Belize's sugar exports, for instance, to the United Kingdom. An exchange rate change might enhance export diversification over the medium term, thereby further strengthening the economy.

In light of the fairly extended period--six months--during which Belize had not been in compliance with the program, he doubted whether the full amount of the stand-by arrangement should be made available to Belize, Mr. Dallara said. It would be helpful to know whether the staff assumed that SDR 2.38 million would be available in July 1985, upon completion of the midterm review, or at a later time.

In February 1985, although it had not been in full compliance at that time with the stand-by arrangement, Belize had made a drawing of SDR 1.175 million in the first credit tranche, presumably because first credit tranche drawings were not normally subject to phasing, Mr. Dallara remarked. Paragraph 2(a) of the stand-by arrangement suggested that all the purchases were subject to phasing, although paragraph 2(b) seemed to exclude first credit tranche drawings. While first credit tranche drawings might not be subject to the fulfillment of performance criteria and could

be made based upon a judgment by the Fund that the member country was making a reasonable effort to solve its balance of payments problems, it was somewhat disturbing that such a judgment had been reached despite Belize's clear noncompliance with conditions normally attached to drawings in the upper credit tranches. However, he could support the proposed decision.

Mr. Suraisry said that he was in general agreement with the staff analysis and supported the proposed decision. The number of commendable measures taken had not been sufficient to enable Belize to meet its program targets, but considerable progress had been made in rectifying the underlying imbalances of the economy. For instance, the Government's policies had led to a sharp reduction in the fiscal deficit for 1984/85, as the revenue base had been broadened and expenditures reduced. No general salary increases had been granted, and, in contrast with many countries, an operating surplus in the public enterprises had been recorded. Nevertheless, the fiscal deficit was still large as a consequence of declining inflows of official foreign capital. Additional measures therefore were needed to reduce the deficit further. The authorities' intention to keep the fiscal deficit at a level that could be financed by long-term external inflows deserved support.

The increase in reserve ratios should help to restrict credit expansion, Mr. Suraisry continued. The authorities should, however, keep monetary policy under review in order to maintain incentives for private savings.

The recent increase in nonsugar exports suggested that the exchange rate was competitive, despite its appreciation in real terms, Mr. Suraisry added. Belize's firm wage policy had helped to keep its tradable goods sector competitive, but it was important to retain the option of using the exchange rate as a policy tool.

Paragraph 19 of the letter of intent stated that Belize was to notify the Fund by May 10, 1985 whether the fiscal measures prescribed in the aid agreement with the United States had been implemented, Mr. Suraisry noted. The staff should comment on the status of those steps and their likely effect on the fiscal and balance of payments projections. In particular, it would be helpful to have updated projections for the capital account in the light of the delays in external assistance. Overall, the measures taken by Belize went in the right direction; if pursued with determination, they could put the economy on the path of sustained growth. The elimination of arrears was particularly important; it would improve Belize's creditworthiness and help to attract the capital needed for development.

Mr. de la Herrán said that he was in broad agreement with the staff appraisal and supported the proposed decision. Belize's small, relatively open economy was heavily dependent on sugar, and the authorities would have to diversify the economy in order to adapt it to the new international environment, bearing in mind the unfavorable medium-term prospects for

sugar exports. They had made progress under the Fund-supported program: the large public sector deficit had been reduced from 8 percent of GDP in 1983-84 to approximately 3.7 percent of GDP at the end of 1984-85; and the current account deficit of the balance of payments had declined from 7.2 percent of GDP in 1983 to 3.5 percent in 1984 as a result of tighter monetary and fiscal policies. Both improvements had been greater than projected under the program. However, the larger than expected drop in external financing had led to significant reserve losses and had made it difficult for the authorities to meet program ceilings for external arrears and banking system credit to the nonfinancial public sector.

The elimination of external payments arrears by September 1985 was of paramount importance to restore Belize's external creditworthiness, Mr. de la Herrán said. The agreement reached with Mexico on arrears to PEMEX was a positive sign.

The Government's fiscal targets and measures were appropriate in view of the expected increase in external financing during the current fiscal year, Mr. de la Herrán stated. In that regard, the strengthening of revenue measures and the intended improvements in the administration of tax collection were welcome. In monetary policy, a more flexible interest rate policy would stimulate savings and increase the efficiency of resource allocation. The monetary and fiscal mix had tended to result in an appreciation of the Belize dollar against the currencies of the country's major trading partners. To avoid any misalignment, the exchange rate should be closely monitored in the future. The adoption of an appropriate exchange rate policy would stimulate nontraditional exports, thereby offsetting the decline in sugar exports.

The staff representative from the Western Hemisphere Department said that a number of development projects--especially one involving highway construction--had been delayed in 1984. The delay had been caused partly by the elections in the fourth quarter of the year. The authorities were making special efforts to ensure that there was no further interruption in projects under way.

The authorities were conscious of the potential impact on the budget of a general increase in public sector wages, the staff representative continued. For that reason, and because of their concern about the possible demonstration effect on the private sector, they had frozen public sector wages. In 1981, a large public sector wage increase, which had been duplicated in many other parts of the economy, had been one of the main factors responsible for inflation during that year. However, the concern that Directors had expressed about the impact of a wage freeze on the quality of public sector work was valid. The public sector's problem in recruiting high-quality personnel would have to be addressed in the near future. To that end, the Government had explored a number of ways of streamlining the labor force, which might allow some room for maneuver in setting public sector wages.

The staff had been concerned about the delays in increasing interest rates, the staff representative said. The adjustment was to have occurred in late 1984, but it was always difficult to implement decisions during an election period. However, the new Government, which had taken office in January 1985, had moved swiftly to increase interest rates. Since then, the authorities had wanted to move cautiously in liberalizing interest rates because the domestic financial market was small: there were only four commercial banks in Belize, and the authorities were somewhat concerned about their lack of experience in the market. They were, however, committed to adjusting interest rates if necessary to protect the balance of payments and promote financial savings. In fact, recent developments had increased the interest rate differential in favor of Belize.

The real appreciation of the Belize dollar was a cause for concern, the staff representative continued. It had adversely affected the profitability of the industrial sector. However, there were a variety of reasons why it might not be appropriate to try to adjust the rate at present: there had been a considerable volume of new investment in the citrus industry, including a major investment by the Coca-Cola Company; shrimp production was coming on stream; and the government sector seemed to be doing quite well. Provided that the authorities were willing to continue with cautious wage policies, Belize could maintain its present exchange rate policy. The authorities were well aware of the risks involved and would monitor balance of payments developments closely.

The authorities had complied with the requirements of paragraph 19 of the letter of intent, the staff representative reported. The staff had been informed of the fiscal measures taken and of the authorities' courageous decision not to prop up an ailing sugar mill. The other prior action required by paragraph 19 was an agreement between the Belizean authorities and U.S. Agency for International Development (AID) on financial support. The agreement had been reached on time and the first disbursement made in April 1985. A second disbursement could be expected in July 1985. There was full agreement between the Government of Belize and the U.S. authorities on the conditions for the assistance.

The World Bank had been discussing with the authorities the possibility of a public sector management project under which the Bank could provide technical assistance not only in connection with the implementation of new development projects but also in the whole management of the public sector, the staff representative concluded. The Agency for International Development would also be providing technical assistance to the Belizean Electricity Board. At a recent Caribbean group meeting, a number of donors had expressed willingness to consider providing technical assistance. The Fund itself was already providing considerable technical assistance to Belize: an expert was helping the Central Bank's Reserve Department to set up an external debt management system in Belize; another expert was working on bank supervision; a third expert would be working with the Minister of Finance to monitor the operations of public sector enterprises.

The Deputy Director of the Exchange and Trade Relations Department stated that the original program had contained a provision permitting the second purchase by the authorities to go slightly beyond the first credit tranche to 126 percent of quota (excluding special facilities). That provision in itself had been unusual because it was normal for the entire amount of the first credit tranche--125 percent of quota--to be drawn upon the approval of an arrangement by the Executive Board. When it had become apparent that the performance criteria related to Belize's second purchase had not been observed, it had not been possible under the guidelines to withhold purchase of the first credit tranche--up to 125 percent of quota. The guidelines on conditionality stated clearly that phasing should be omitted in stand-by arrangements that did not go beyond the first credit tranche; phasing was applicable to purchases beyond the first credit tranche. The different treatment of Belize's second and third purchases simply reflected the particular treatment of the first credit tranche under the guidelines.

In the recent past, there had been relatively few programs involving only the first credit tranche, the Deputy Director continued. Indeed, there had been no such programs since 1982. It was clear from the guidelines on conditionality that, for programs in the first credit tranche, there were two important considerations to bear in mind. First, the authorities must formulate a program that indicated their commitment to adjusting and to using Fund resources only on a temporary basis. Second, once the Executive Board had approved a first credit tranche program, the guidelines did not allow for the application of phasing on performance tests. The first credit tranche was not unconditional; in the past two or three years, there had been instances of proposed programs that had been judged not to meet the standard of the first credit tranche.

Slippages in meeting performance criteria had posed the question whether a waiver would be justified, the Deputy Director concluded. The end-December 1984 slippage with respect to arrears had been due to temporary shortfalls in the receipt of foreign aid, and it would have been possible to ask the Board for a waiver within the existing guidelines. Other slippages had resulted from certain policy shortcomings, which had been corrected. The latter slippages had been small but perhaps not so small as to fit unambiguously the requirements for a waiver under the guidelines. In early March 1985, the staff had discussed the matter with the authorities, who had preferred to delay the resumption of purchases until the Article IV consultation and the review under the stand-by arrangement were completed and until the program was brought back on course. At present, the program was back on track, in terms of the original objectives, and there was no need to cut back on Belize's access to Fund resources under the stand-by arrangement. The normal Fund practice was that a member was entitled to make a purchase after performance criteria that had initially been missed were subsequently met.

Mr. Dallara said that he understood why a request for a waiver had not been made to the Board in March 1985 and why the entire amount of the stand-by arrangement ought to be made available. But he still felt

somewhat uncomfortable that the authorities apparently had agreed initially to phasing by not drawing the full amount of the first credit tranche immediately after the stand-by arrangement had been approved. The Fund had had to reach a judgment--whether or not there was phasing within the first credit tranche--that the member was making a reasonable effort to solve its problems before any drawing was made in the first credit tranche. At the same time, it was difficult to understand how a country could make a drawing after its adjustment program had gone off track. He was not certain whether the staff had made a specific judgment that Belize was making a reasonable effort to solve its adjustment problems or whether the staff had assumed that the guidelines on conditionality did not give the Fund the right to phase drawings in the first credit tranche.

The Deputy Director of the Exchange and Trade Relations Department confirmed that the staff had made a judgment that the authorities were taking steps to resolve the problems and that the program would, within a relatively short time, be brought back on track.

In response to a question by the Chairman, the Deputy Director stated that if the authorities had taken actions inconsistent with the program, the member's right to draw would have had to be considered in an entirely different light. Although members had the right to purchase the entire first credit tranche in a single drawing, the staff always stressed that the exercise of that right when a member's policies were inadequate would be unhelpful in the rest of the program period and in any future program. The establishment of appropriate policies was almost always a collaborative effort.

Mr. Leonard said that he had noted the concern of Directors about exchange rate and interest rate policies and the need for more savings. The interest rate issue was perhaps the most important one. He would convey the views of the Board on those matters to the authorities of Belize, who would receive them with an open mind.

The Chairman made the following summing up:

Executive Directors were in broad agreement with the views expressed in the staff appraisal contained in the report for the 1985 Article IV consultation with Belize.

Directors observed that the economy had achieved positive growth rates in 1983 and 1984 and that the inflation rate had been in line with that of Belize's major trading partners. Directors commended the authorities for their efforts in the fiscal area, which had resulted in a smaller public sector deficit in 1984/85 than targeted in the program supported by the stand-by arrangement. Directors also noted that a significant adjustment had been achieved in the external current account but observed with concern that the program target for a reduction in external payments arrears had not been achieved, partly as a result of a shortfall in net external financing.

Directors welcomed the authorities' intention to continue to implement a prudent fiscal policy during the remaining period of the stand-by arrangement, and noted that additional measures had been adopted, including improvements in tax collection procedures, in order to keep the public sector deficit in fiscal 1985/86 in line with the original objective of the program. Directors also observed that public savings were expected to improve further in fiscal year 1985/86 as a result both of containing current expenditures and of further strengthening the finances of the public enterprises. Nevertheless, the authorities were strongly encouraged to develop contingency fiscal measures, for prompt implementation, in case there was a recurrence of shortfalls in receipts from domestic or foreign sources. Moreover, concern was expressed that the overall public sector deficit, equivalent to 5 percent of GDP in 1985/86, was still rather large and that a further reduction would be desirable in order to ensure that public investment expenditure could be financed in an appropriate manner in the medium term. In that connection, Directors urged the authorities to continue to adhere to their policy of wage restraint while having due regard to public sector staff morale and to improve their monitoring of operations in the public enterprises.

Directors welcomed the recent increase in interest rates and encouraged the authorities to continue to implement a flexible interest rate policy. Such an approach would help promote private financial savings and would reduce pressure on the balance of payments.

Directors expressed concern about developments in Belize's sugar sector and encouraged the authorities to promote nonsugar exports to enhance the balance of payments outlook over the medium term.

Directors observed that the exchange rate system of Belize had remained free of restrictions. They welcomed the rescheduling agreement of Belize's external payments arrears with PEMEX, which would facilitate the elimination of external arrears, as had been programmed in the stand-by arrangement. Noting with concern the significant real effective appreciation of the Belize dollar in recent years, several Directors expressed doubts regarding the appropriateness of the present exchange rate regime and urged the authorities to keep its viability under close review, taking into account developments in Belize's external competitiveness and in the balance of payments. In that context, the importance of continuing to pursue cautious demand management and wage policies was emphasized.

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

The Executive Board then took the following decision:

Review under Stand-By Arrangement

1. Belize has consulted with the Fund in accordance with paragraph 4(c) of the stand-by arrangement for Belize (EBS/84/225, Sup. 1) and paragraph 15 of the letter dated October 26, 1984 from the Prime Minister and Minister of Finance, the Governor of the Central Bank, and the Minister of Economic Development, in order to review the implementation of the measures described in that letter, to reach understandings regarding policies and measures that Belize will pursue over the fiscal year 1985/86, and to establish the performance criteria for the remaining period of the stand-by arrangement.

2. The letter dated May 9, 1985 from the Prime Minister and Minister of Finance, the Governor of the Central Bank, and the Financial Secretary of the Ministry of Finance shall be annexed to the stand-by arrangement for Belize, and the letter dated October 26, 1984 shall be read as modified and supplemented by the letter dated May 9, 1985, and the tables appended thereto.

3. Accordingly, Belize will not make purchases under the stand-by arrangement that would increase the Fund's holdings of Belize dollars in the credit tranches beyond 25 percent of quota during any period after June 30, 1985, in which the data at the end of the preceding period indicate that:

- (i) the limits on net domestic assets of the Central Bank of Belize referred to in paragraph 14 of the attached letter of May 9, 1985 and set forth in Table 1 thereof; or
- (ii) the limits on net credit from the domestic banking system to the nonfinancial public sector referred to in paragraph 14 of the attached letter of May 9, 1985 and set forth in Table 2 thereof; or
- (iii) the limits on external payments arrears referred to in paragraph 15 of the attached letter of May 9, 1985 and set forth in Table 3 thereof; or
- (iv) the limits on the outstanding external debt of the public sector referred to in paragraph 16 of the attached letter of May 9, 1985 and set forth in Table 4 thereof

are not observed.

4. The Fund finds that no additional understandings are necessary in the light of the letter of May 9, 1985, and that Belize may proceed to make purchases under the stand-by arrangement.

5. In accordance with Executive Board Decision No. 7908-(85/26) of February 20, 1985 on overdue payments to the Fund, the stand-by arrangement for Belize is amended to read as set forth in Attachment I to EBS/85/135.

Decision No. 8013-(85/101), adopted
June 28, 1985

2. SIERRA LEONE - OVERDUE FINANCIAL OBLIGATIONS - REPORT AND COMPLAINT UNDER RULE K-1, AND NOTICE OF FAILURE TO SETTLE TRUST FUND OBLIGATIONS

The Executive Directors considered the amended report and complaint under Rule K-1, and notice of failure by Sierra Leone to settle Trust Fund obligations (EBS/85/106, 4/30/85; Sup. 1, 5/30/85; and Sup. 2, 6/26 85).

The staff representative from the African Department reported that a staff mission had visited Sierra Leone between June 17 and June 25, 1985 to review recent economic and financial developments, including the impact of a number of policy measures implemented by the authorities earlier in 1985. The mission had pressed the authorities to discharge their overdue obligations to the Fund and to remain current with the Fund. Despite the recent measures implemented by the Government, it was clear that the economic and financial situation had deteriorated further. The authorities, while concurring with the staff's recommendations for a major reform in the exchange system and complementary fiscal, monetary, and pricing policies, had failed to make any firm commitment.

The budget for 1985/86, to be presented to the Parliament on June 28, 1985, was along the lines of the budgetary profile discussed during the previous staff mission, the staff representative continued. However, due in part to a recent political development, the key measures underpinning that budget proposal had not yet been announced. The authorities had stated that they would make every effort to clear Sierra Leone's overdue obligations to the Fund. Some payments were being made through a bank in New York; it had not been possible to confirm the Fund's receipt of those payments.

Mr. Mtei stated that the authorities attached great importance to settling their overdue financial obligations with the Fund. The Minister of Finance had wished to attend the present Board meeting but had had to remain in Sierra Leone to present the 1985 budget to Parliament. In recent days, the authorities had been attempting to make the necessary

arrangements to settle partially or fully their obligations to the Fund. Those arrangements included the negotiation of a bridging loan, which might be concluded in the near future.

Since May 29, when the Managing Director had registered a complaint under Rules K-1 and S-1, the authorities of Sierra Leone had demonstrated their determination to deal with what appeared to be an intractable problem despite their critical foreign exchange position, Mr. Mtei added. On June 17, 1985 they had remitted an amount equivalent to SDR 905,534, which had led to the withdrawal of the complaint under Rule S-1, Sierra Leone having become current in its obligations in the SDR Department. That partial settlement had been the result of the authorities' efforts to strengthen adjustment measures, including the tightening of the system of surrender by exporters of foreign exchange earnings. Furthermore, the exchange rate for the leone had been devalued by 58.3 percent on February 21, 1985--a move that had been somewhat helpful in encouraging the flow of foreign exchange through official channels. At the invitation of the authorities, a staff mission had just completed discussions in Freetown on recent economic developments as well as on measures that would be necessary to strengthen Sierra Leone's ability to discharge its obligations on time. It was to be hoped that the authorities' commitment to making changes in their economic and financial policies would allow Sierra Leone to become current in its obligations to the Fund.

Mr. Suraisry said that although Sierra Leone had discharged its overdue obligations in the SDR Department, its overdue obligations in the General Department and to the Trust Fund had reached more than SDR 6.5 million. Those overdue obligations were harmful not only to the Fund but also to Sierra Leone itself. In order to tackle its economic and financial problems in a meaningful way, Sierra Leone needed to resume normal relations with the Fund, and it could do so only by discharging its overdue obligations promptly. Delay in settling arrears would only worsen the country's economic prospects and lead to a further accumulation of overdue obligations. Strong, comprehensive, and sustained adjustment measures were necessary to correct the large economic imbalances. A stop-and-go strategy had little chance of success. It was thus regrettable that the authorities had been able to make only two purchases under the stand-by arrangement approved in February 1984 and that they had made no firm commitment to implementing comprehensive adjustment policies.

Mr. Grosche said that overdue financial obligations to the Fund were a cause for serious concern. Sierra Leone should make larger adjustment efforts in order to meet its obligations, for its own sake, and not only for the Fund's. A sustained adjustment effort would be needed to solve the country's economic and financial problems, and it was unfortunate that the authorities did not seem to be committed to such an effort.

Mr. Rye said that he welcomed Sierra Leone's efforts to meet all its obligations in the SDR Department. That the authorities had not yet made a sufficient commitment to undertaking reforms that would enable

them to overcome the deep-seated problems facing the economy was disappointing. On grounds of uniformity of treatment and because the circumstances confronting Sierra Leone did not appear sufficiently different to justify a departure from established procedures, the proposed decision should be adopted.

Mr. Leonard expressed his support for the decision.

Ms. Bush said that she accepted the proposed decision. The authorities needed to settle their overdue obligations to the Fund promptly.

Mr. Wicks, Mr. Wijnholds, and Mr. Coumbis stated that the draft decision should be approved.

Mr. Flamant considered that further efforts to redirect exports--particularly mineral exports--through official channels would greatly help Sierra Leone to discharge its overdue obligations. The proposed decision was acceptable.

The Chairman said that with an appropriate set of exchange rate reforms, Sierra Leone had considerable potential for channeling export receipts through the official sector. It would be most unfortunate if the country were not to resolve the problem of its overdue obligations at the present time, when it did not appear insurmountable. The staff had had a fruitful exchange of views with the authorities, and a quick settlement of Sierra Leone's overdue obligations was essential.

The Executive Board then adopted the following decision:

1. The Managing Director has reported under Rule K-1 and Rule S-1 of the Fund's Rules and Regulations to the Executive Board the facts on the basis of which it appeared to him at the dates of these reports that Sierra Leone was not fulfilling its obligations under the Articles of Agreement and submitted a complaint under Rule K-1 and notice on April 29, 1985 (EBS/85/106) and a complaint under Rule S-1 on June 4, 1985 (EBS/85/142) in accordance with those Rules. The complaint under Rule K-1, as amended on May 30, 1985, was that as of May 29, 1985 Sierra Leone was not fulfilling its obligations relating to repurchases and the payment of charges in the General Department in the total amount of SDR 5,087,874. The complaint under Rule S-1 was that as of June 4, 1985, Sierra Leone was not fulfilling its obligations to pay assessment and charges in the SDR Department in the total amount of SDR 368,389. Furthermore, the Managing Director added to his complaints a notice of the facts on the basis of which it appeared to him that as of May 29, 1985 Sierra Leone was not fulfilling its obligations under Decision No. 5069-(76/72) with regard to the Trust Fund to repay disbursements in the total amount of SDR 1,625,617. These facts, and the complaints and notice of the Managing Director were communicated to the authorities of Sierra Leone on May 30, 1985 and June 4, 1985.

2. Taking into account that a further obligation of Sierra Leone has become overdue, and that Sierra Leone made payments totaling SDR 905,534 since May 29, 1985, Sierra Leone's overdue obligations amount to SDR 4,925,729 in the General Department and to SDR 1,625,617 to the Trust Fund. As a result of payments received since May 29, 1985, Sierra Leone is now current in its obligations in the SDR Department, and the complaint under Rule S-1 is therefore withdrawn.

3. Having considered the reports of the Managing Director, the complaint under Rule K-1 and the notice, and the views of Sierra Leone, the Fund finds that Sierra Leone has failed to fulfill its obligations under the Articles of Agreement and the Trust Fund as stated in 2 above.

4. The Fund regrets the nonobservance by Sierra Leone of its obligations and urges Sierra Leone to resume their observance forthwith. The Fund decides

(a) pursuant to Rule K-2 of the Fund's Rules and Regulations that Sierra Leone shall not make use of the general resources of the Fund until such time as Sierra Leone has become current on its obligations under the Articles of Agreement relating to repurchases and the payment of charges in the General Department,

(b) if Sierra Leone were otherwise eligible to make use of the general resources of the Fund, to take into account the existence of any overdue obligation to the Trust Fund in considering any request by Sierra Leone for the use of the general resources.

5. The Fund shall review this decision within a period of three months from the date of the decision.

Decision No. 8014-(85/101) G/TR, adopted
June 28, 1985

3. EQUATORIAL GUINEA - STAND-BY ARRANGEMENT

The Executive Directors considered a staff paper on a request from Equatorial Guinea for a one-year stand-by arrangement in an amount equivalent to SDR 9.2 million (EBS/85/150, 6/14/85).

The staff representative from the African Department stated that all the required prior actions had been taken: the budget had been put in place, there had been an increase in petroleum prices and electricity rates, a new interest rate structure had been adopted, and a census of public sector employees had been completed at the end of May, 1985. The Paris Club was to consider Equatorial Guinea's request for a debt rescheduling on July 22, 1985.

Mr. Doe made the following statement:

The economic and financial difficulties experienced by Equatorial Guinea during the past few years remained serious in 1984 despite ongoing efforts to lay the basis for a sustained economic growth and improved finances. On the basis of provisional estimates, the output of cocoa (the main export) decreased by nearly 32 percent in 1984, reflecting in part inadequate production incentives and institutional rigidities. The adverse impact of this unsatisfactory evolution of the cocoa sector on the overall economic activity was, however, partially cushioned by a moderate increase in timber output. In the fiscal area, weaknesses in tax administration and expenditure control together with a lack of buoyancy in economic activity resulted in a deficit (on a commitment basis) estimated at the equivalent of 24 percent of total expenditure, inclusive of interest payment obligations and extrabudgetary outlays. On the external front, in spite of a considerable improvement in the terms of trade in 1984, the current account deficit is estimated to have widened. Gross official reserves fell substantially, and external payment arrears amounted to \$43 million at end-December 1984. External debt service obligations also rose significantly. In order to arrest the deterioration of the economic and financial situation, the Government launched in January 1985 a strong adjustment program in support of which it is requesting a one-year stand-by arrangement.

As indicated in the letter of intent, one of the more immediate objectives of the program is to improve fiscal discipline. More generally, the program is aimed at creating propitious conditions for reinforcing confidence in the economy and for efficiently exploiting the country's considerable economic potential. Emphasis is being placed not only on achieving concrete results in the short run in the form of a budgetary surplus and a lower external current account deficit, but also on laying the foundation for a sustained improvement, especially in the external, fiscal, and real sectors.

In the real sector, the Government initiated steps that in time should lead to a significant improvement in agricultural output. In particular, the authorities undertook a program aimed at expanding cocoa production in the context of a line of credit of about \$16 million cofinanced by the World Bank, other multilateral institutions, and the Government of Equatorial Guinea. Under this program: (1) resources will be provided to finance the importation of inputs, fertilizers, pesticides, and spare parts needed for cocoa farming as well as the restoration of storage facilities; (2) assistance will be given to ameliorate cultivation and drying techniques as well as the grading of cocoa; (3) procedures for supplying credit to growers will be

enhanced, and resources of the Credit and Development Bank (in charge of extending loans to farmers) will be increased; (4) the inspection of farming communities to ensure the appropriate use of the loans will be strengthened; and (5) assistance will be provided to formulate an overall agricultural development strategy. Foreign experts will advise in the implementation of these tasks. Furthermore, the effective role of institutions such as CAMARA (Chamber of Commerce) which fell in desuetude, will be reactivated. It is expected that the effect of these multifaceted actions, together with the impact of the rising producer prices and the introduction of the new currency, will help to spur cocoa output.

In the government sector, the overall balance of public finances is projected to improve considerably, shifting from a deficit exceeding CFAF 900 million in 1984 to a surplus of over CFAF 1.2 billion owing to an expected large increase in revenue, chiefly from taxes on cocoa and timber exports and petroleum products. The projected revenue expansion reflects not only the effect of an expected significant rise in the volume of cocoa and timber exports and the impact of the devaluation in the context of the currency switch, but also the effect of major fiscal changes. Particularly important in the latter respect is the requirement that cocoa and coffee exports, for tax purposes, be valued on the basis of official reference prices. Simultaneously, the tax rates on these products and on refined petroleum products have been increased. On the whole, it is expected that the combination of the favorable impact arising from the currency switch and the improved confidence in the economy as well as the effects of the modification of the tax base and rates introduced in January 1985, together with the stricter enforcement of tax laws, will help to boost revenue collection. On the expenditure side, the projected increase in government outlays should not be viewed as a sign of fiscal laxity. On the contrary, the authorities of Equatorial Guinea regard the containment of expenditure as a key element in the process of restoration of fiscal discipline. To this end, institutional changes as well as measures of a more immediate financial consequence have been taken. First, as reported by the staff, the authorities have created a unit in the Treasury to control expenditure developments. In particular, this unit will follow closely the evolution of actual expenditure and commitments. The decision to set quarterly ceilings and to make the release of resources to finance expenditure totaling more than 80 percent of these ceilings subject to prior authorization is a clear indication of the authorities' resolve to strengthen the expenditure-restraining process. Likewise, the integration of expenditure on petroleum products and debt service obligations in the budget will reinforce the transparency of government operations and facilitate their monitoring. Besides these institutional measures, the Government has moved to rein

in the growth of current outlays, notably by abolishing some bonus payments. More generally, the financial operations of public enterprises will be closely monitored, and, in some instances, the prices of their products or services will be reviewed periodically with a view to reducing their reliance on government resources.

On the external front, the current account deficit is forecast to narrow from about \$12 million in 1984 to just over \$10 million in 1985 thanks to better export performance. The 31 percent growth in exports is to originate essentially from the agricultural sector, where output of cocoa, coffee, and timber is projected to rise significantly. The overall balance of operations in the external sector is forecast to strengthen in 1985. The general expectation of an improvement in the external sector rests on the effects projected from the implementation of some major decisions by the Government, the most important of which is the replacement of the national currency, the ekwele, by the more widely used CFA franc and the accompanying devaluation in excess of 80 percent. These actions, together with the policy changes stressing increased fiscal responsibility and fewer trade restrictions, are reflective of the Government's determination to move decisively to reinforce confidence in the economy. During the 1984 Article IV consultation discussions on Equatorial Guinea, Executive Directors observed that on balance the country was endowed with an important combination of economic resources. My authorities are hopeful that the implementation of the aforementioned measures will encourage friendly countries and multilateral institutions to provide the requisite technical and financial assistance to develop these resources.

To summarize, in the light of the existing large financial imbalances in the economy, the Government of Equatorial Guinea has revamped policies in several areas. The centerpiece of this effort was the change to the CFA franc accompanied by an exchange rate adjustment. This action, buttressed by the measures to raise revenue and limit expenditure growth, constitutes a major step toward a gradual but certain restoration of basic equilibria in the economy. Initiatives have also been undertaken to create conditions for increased agricultural output, principally of cocoa. My authorities are hopeful that the support of bilateral creditors and aid donors as well as multilateral institutions will be commensurate with the need and considerable efforts under way to achieve substantial economic growth and an improved fiscal and external sector position. In the short run, they are seeking the support of creditors, especially members of the Paris Club in the form of debt relief.

In conclusion, I would like to express my gratitude to the Fund management and staff for the cooperation and assistance provided not only in connection with the discussions and negotiations

leading to the present request for a stand-by arrangement but also during the preparatory work that resulted in the integration of Equatorial Guinea into the Bank of Central African States (BEAC) monetary area. Bearing in mind the competing and compelling claims on the time of the management and staff, their efforts, culminating in the circulation of the report on the negotiations with Equatorial Guinea, are noteworthy and appreciated.

Mr. Pérez said that he supported the proposed decision. It had been clear from the 1984 Article IV consultation with Equatorial Guinea that the country's economic situation was difficult, despite the international financial support that it was receiving. The country's per capita debt was one of the highest of any Fund member's and had been built up over a very short period, an indication that a lack of external financial resources had not been the main cause of the current external disequilibrium. Greater financial discipline was needed; the monitoring system under the new program, to include quarterly reviews of expenditure and justification of any excess spending over quarterly ceilings, would help to ensure that the monetary targets could be met. Similarly, the recent entry of Equatorial Guinea into the Bank of Central African States (BEAC) was welcome, as it would help to introduce certain basic changes in the country's economic policy stance, mainly through the implementation of tighter controls on the main economic variables and the liberalization of trade and financial transactions.

The authorities recognized that inadequate fiscal discipline and weak financial management had been the main source of the imbalances that had occurred during the past four years, Mr. Pérez continued. They were trying to correct the financial imbalances through tight fiscal and monetary policies, and the overall fiscal surplus of CFAF 1.2 million expected in 1985 was an indication of their efforts. The elimination in 1984 of certain budgetary practices--for example, excluding from the expenditure side of the budget such items as the Government's consumption of oil products and foreign debt service payments--had clearly been a step in the right direction.

It was difficult to understand the rationale for the proposed increase in the wage earnings of civil servants from CFAF 1,835 to CFAF 4,000 per month, Mr. Pérez stated, especially as the budgetary deficit was probably the main imbalance in the economy. The official justification was that the increase was needed to compensate for the erosion of real income caused by inflation. However, there were no data on the rate of inflation. In any event, given the extremely difficult economic situation in the country, the increase appeared excessive. There was also a danger that it might be transmitted to other sectors of the economy.

Other measures contemplated in the program related to the supply side, Mr. Pérez remarked, and more specifically to increasing the production of the three traditional export products--cocoa, timber, and coffee. As a

consequence, the output projections were more in line with total production capacity than they had been in the past four years. The alignment of those products' prices with those prevailing in neighboring countries would contribute to the attainment of production and export targets.

One of the proposed performance criteria was that no further external arrears should be accumulated, Mr. Pérez observed. It was not clear, however, when the total elimination of existing arrears not subject to rescheduling would take place. There was also a problem with the statistical infrastructure: the data base was insufficient to provide information on the rate of inflation, the level of employment, growth, and the balance of payments. It would therefore be difficult to monitor the program comprehensively. Improving the statistical base should be given the highest priority; Fund technical assistance could be vital.

There was a risk that Equatorial Guinea might become a prolonged user of Fund resources, Mr. Pérez concluded, which might not be inappropriate if the measures announced in the letter of intent were implemented. The authorities should use the financial support of the Fund in the most efficient manner possible.

Mr. Flamant commented that the authorities had taken important steps to improve economic performance since the 1984 Article IV consultation, when the country had been in the midst of an economic and financial crisis. On January 1, 1985, Equatorial Guinea had joined the BEAC. The conversion from the ekwele to the CFA franc--a precondition for the removal of price distortions--had resulted in an 82 percent devaluation of the currency, which was freely convertible and backed by BEAC's large foreign exchange reserves. The exchange system was virtually free of trade and exchange restrictions, thereby restoring confidence in a way that would help develop the country's full potential. But the monetary reform would not yield lasting improvements in the absence of the fiscal and monetary policies recommended by the Fund.

The new program gave clear evidence that appropriate fiscal and monetary policies were being implemented, Mr. Flamant continued. It would have been preferable to synchronize the monetary reform and the approval of the stand-by arrangement, thereby avoiding delays in the implementation of the program. The severity of the program was most obvious in demand restraint: revenues were supposed to increase by 62 percent in 1985, partly through an almost fivefold rise in cocoa export duties from the equivalent of CFAF 531 million in 1984 to CFAF 2.4 billion in 1985. He wondered whether the conditionality imposed by the World Bank was consistent with that imposed by the Fund. On February 19, 1985, the World Bank had approved a cocoa rehabilitation project on the basis of a formula including a farmgate price for cocoa of CFAF 900 per kilo and an export tax of 8 percent of the f.o.b. price. It was surprising, therefore, to note from the staff paper that the tax would be raised from 8 percent to 35 percent. Similarly, the producer price of CFAF 332-400 per kilo

indicated on page 29 of EBS/85/150 did not correspond either to the price derived from the World Bank report or to the price of CFAF 570 per kilo approved by the Ministry of Agriculture on February 9, 1985.

Most of the measures already implemented to monitor expenditure commitments as well as actual outlays were appropriate, Mr. Flamant stated. Nevertheless, the civil service was somewhat overstaffed, and some retrenchment would have to be carried out. The authorities should not underestimate the difficulties in implementing the appropriate measures as quickly as was indicated in the program. The limit of CFAF 1,000 million for the public sector wage bill might not be easy to maintain, especially since that ceiling would imply a level of minimum wages, equivalent to \$8 per month, that was lower than in other BEAC countries. Strong adjustment policies were the only way for Equatorial Guinea to take full advantage of its membership in the CFA franc zone and to improve the medium-term prospects for balanced growth. However, the phasing of the adjustment effort had to be tailored to the characteristics of the country; in view of the deep-rooted structural weaknesses in Equatorial Guinea, the appropriateness of the timing of policy reforms remained debatable. It would have been better if an element of flexibility had been built into what was, on the whole, a good program. The two reviews under the stand-by arrangement would provide the staff with the opportunity to suggest whatever adjustments appeared justified.

The medium-term outlook was a source of greater comfort than the staff had suggested, Mr. Flamant considered. If the present liberal policies were continued, the switch into a convertible currency with unquestionable purchasing power should be a great incentive for the development of production. In turn, higher production should generate the resources needed to alleviate the burden of external debt, which still weighed heavily on public finances. The World Bank would continue to play an important role in supporting structural reform and supply-oriented policies, and close cooperation with the Fund was indispensable. He supported the proposed decision.

Mr. Goos said that he welcomed the fact that the authorities had embarked on an adjustment program, which represented a dramatic reversal in the country's history of inappropriate economic management. In considering whether the program merited the Fund's support, Directors could not ignore the disappointing experience since the expiration of the previous stand-by arrangement. That experience raised the question whether the Fund's resources had been put to good use. However, in view of the recent changes in the institutional setting, resulting from the entry of the country into the BEAC and the creation of a Treasury Department, it was reasonable to assume that the new program would mark the beginning of a longer-lasting adjustment effort.

The number of prior actions already implemented by the authorities appeared to attest to their commitment to adjustment, Mr. Goos noted. They would have to maintain their adjustment effort for some years to

come in order to address deeply entrenched economic and financial problems and to restore the country's credibility with external creditors. More pronounced progress in the external accounts than envisaged under the program would have been preferable, especially in the overall balance of payments position. In that context, the balance of payments projections were critically dependent on exports, which, in volume terms, were supposed to grow at the extraordinary pace of not less than 27 percent annually in coming years. That was a heroic assumption which ought to be seen against the current background of an extremely weak external position, marked by virtually exhausted foreign exchange reserves, by an external debt service ratio of 100 percent, by substantial external arrears, including temporary arrears to the Fund, and last but not least by considerable uncertainty about the closing of the external financing gaps expected in the coming years. Less optimistic projections might provide a better base for policy action consistent with the serious economic problems and the legitimate expectation of the country's creditors of an early settlement of financial arrears. Despite those doubts and reservations, he was satisfied with the general thrust of the program.

The adjustment program was an important first step toward the resumption of sustained economic growth, Mr. Goos stated. The emphasis on fiscal adjustment, including the rehabilitation of the public enterprise sector, was commendable. It was, however, paradoxical that the fiscal revenue measures were largely concentrated upon strong increases in taxes on coffee and cocoa exports when stimulation of the production of both those crops was clearly required. It was difficult to imagine that tax rates of up to 35 percent in the case of cocoa would have no impact on producer incentives, particularly once the inflationary impact of the devaluation had worked through the economy. Such high taxation of exports could act as an additional stimulus to smuggling, thereby frustrating the objective of redirecting marketed production through official channels. Prices should be kept under close review to encourage attractive profit margins for both producers and exporters. That task would be facilitated by a broadening of the tax base, and the forthcoming review of the tax system would therefore be helpful.

The efforts to reform the civil service with a view to containing the public sector wage bill and to improving efficiency were welcome, Mr. Goos continued. However, like Mr. Pérez, he felt that the high wage increases in 1985 contrasted sharply with the authorities' endeavor to reduce the fiscal deficit and were accordingly a matter for concern.

The authorities apparently were aiming at maintaining an appropriate spread between lending and deposit rates in both nominal and real terms, Mr. Goos concluded. It was true that that policy would make an important contribution to the efficient mobilization and allocation of resources. However, the maintenance of real interest rates at sufficiently high positive levels would be at least as important in that respect. Unfortunately, in the absence of any information on price performance, it was impossible to ascertain the extent to which interest rates were positive in real terms.

Mr. Wicks said that the proposed program and the substantial prior actions would help to provide a secure basis for what was bound to be a lengthy process of adjustment. The staff had appropriately waited until the statistical basis had been sufficiently strengthened before negotiating a program.

However, a fuller discussion of the arrangements for closing the financing gap would have been helpful, Mr. Wicks continued. A substantial part of Equatorial Guinea's debt was short term and nonreschedulable. On previous occasions, members with currency arrangements similar to those of the BEAC had had problems in acquiring access to the monetary union's central reserves, and it would be important to know whether Equatorial Guinea might face a similar obstacle. A short table showing the main components of the proposed financing, its terms, and the state of the negotiations on each item would be helpful in future similar cases.

The new stand-by arrangement, and indeed the medium-term projections, incorporated substantial increases in export revenues, Mr. Wicks noted. It was an open question whether the overall increase of 150 percent in export revenue over the next four years and the compounded average of 25 percent each year were realistic. On the demand side, although Equatorial Guinea did not have a large share of the cocoa and coffee markets, it might prove difficult to increase exports as much as projected, since Ivory Coast and Ghana, the other main exporters of cocoa and coffee, also intended to increase their production substantially. On the supply side, there were practical difficulties in expanding total production after the long period of stagnation. For instance, there could be a lag of up to seven years before new cocoa trees became productive. Furthermore, timber volume was projected to increase from 106,000 cubic meters in 1984 to 145,000 in 1985 and 195,000 in 1986. In Ghana, which a number of years ago had undertaken a substantial devaluation, an extremely large increase in timber and other exports had been predicted. Those timber exports had not come through as fast as expected because of practical difficulties on the supply side. In Ghana, the railway had not been working well because termites had damaged railway sleepers. There had also been a shortage of diesel fuel, preventing the use of road transport. When the timber had eventually reached the docks, the forklift trucks had needed renovation before they could actually move the timber. It would be helpful to know more about Equatorial Guinea's infrastructure. Would it allow for the rapid supply response assumed in the projections? It would also be useful to know whether the supply response had been discussed with the World Bank.

Mr. Suraisry said that he was in general agreement with the staff's analysis and conclusions. The authorities had been willing to take strong and comprehensive measures to correct the large imbalances in their economy. It would be important to implement them fully and to sustain them long after the expiration of the stand-by arrangement. The 1985/86 program rightly emphasized fiscal adjustment. As a result of strong measures to increase domestic revenue, the budgetary position was expected to move from an overall deficit of 13 percent of expenditure in

1984 to an overall surplus of 14 percent in 1985. However, wages and salaries were projected to increase from CFAF 628 million in 1984 to CFAF 1,000 million in 1985. If the 1985 budget outcome were to fall short of the target, the authorities should consider reviewing the wage adjustment. The steps that the authorities were taking to restructure public enterprises were important in the overall context of public finances. Technical assistance from the World Bank might help to support ongoing technical assistance from other agencies.

The cautious stance of monetary and credit policies was necessary, Mr. Suraisry commented, if adjustment on the fiscal side were to be successful. Owing to the uncertain effects of recent institutional changes, the monetary and credit targets for the second half of 1985 should be reviewed.

The authorities' efforts to stimulate domestic production by freeing producer prices, liberalizing trade policies, and making the exchange rate more flexible were welcome, Mr. Suraisry said. The authorities had taken appropriate steps to correct the distortions in cost-price relations and create an environment conducive to sustainable economic growth. However, CFAF 600 million had been allocated for capital expenditures in the 1985 budget, compared with over CFAF 8,000 million in current expenditure. The small amount allocated to capital expenditure seemed inconsistent with the necessary efforts on the supply side; foreign grants for capital expenditure could help to improve that situation. There also seemed to be some inconsistency between the sharp increase in the tax rate on cocoa and the production goals for that sector.

A table along the lines of Table 4, summarizing the financial program, should be included in all future staff papers on Fund-supported programs, Mr. Suraisry considered.

The external payments imbalance was substantial, and the debt service ratio was high by any standard, Mr. Suraisry concluded. The authorities ought to continue implementing far-reaching measures to strengthen the external position, since their room for maneuver was extremely limited.

Ms. Bush said that she supported the proposed stand-by arrangement. Many of the various supply-side measures should be effective, but she doubted whether the increase in export taxes on cocoa and coffee and the other "selective increases in taxes" noted in Table 4 would have a positive effect on economic growth. Revenue performance had suffered from weak tax administration and collection. The needed fiscal corrections could be made more efficiently through improved expenditure control and tax administration rather than through selective increases in taxes. The authorities ought to reconsider the effectiveness of the increase in coffee and cocoa export taxes, given the inconsistency of that measure and the need to increase exports and foreign exchange.

In the past, Equatorial Guinea had relied to a large extent on foreign labor, and it was uncertain whether the labor situation would permit the fast growth in exports projected for the medium term, Ms. Bush commented. If exports fell short of the projection, additional adjustment, rather than additional external assistance, would be required. The increase in producer prices was an important supply-side measure. However, if it were to contribute to economic growth, the prices should reflect market forces in order to have a continued positive supply effect.

The partial privatization of public sector entities was welcome, and the authorities should move forward quickly in that area, Ms. Bush said. More efficient operation of public enterprises was required, especially in view of the financial burden that those enterprises had placed on the Central Government and the former central bank.

Private sector credit had fallen in 1984 but was projected to pick up again in 1985, Ms. Bush noted. Less use of credit by public sector entities should release more credit for the private sector--an important factor in attaining the supply-side objectives. It was to be hoped that in the future the authorities would find credit restraint to the private sector less necessary than in 1985, when expansion was to be limited to 12 percent.

The external resource gap projected for 1985 was to be financed through debt rescheduling, other external assistance, and drawings on the common pool of BEAC reserves, Ms. Bush continued. Some further information on other external assistance and on the conditions of drawing from BEAC reserves would be useful.

The measures being implemented by the authorities were certainly aimed at reversing the effects of previously introverted policies, Ms. Bush concluded. If the authorities persevered in that direction and the practical infrastructural constraints on supply-side growth were overcome, an improvement in the economic performance of the country was likely.

Mr. Msadek said that the authorities should look forward to improved prospects for economic growth and internal and external balance as a consequence of the new adjustment program, given the economy's considerable potential. If the terms of trade were favorable and more concessional treatment of its external debt was agreed, Equatorial Guinea could make good use of the Fund's assistance.

Mr. Zhang stated that he supported Equatorial Guinea's request for a stand-by arrangement.

The staff representative from the African Department stated that the producer prices had been determined in conjunction with the World Bank. The staff and the authorities had in mind a number of objectives, including short-term stabilization, long-term growth, and harmonization of producer price structures within the region. The World Bank staff had initially

supported significantly higher increases in producer prices than had been advocated by the Fund staff. The World Bank staff had noted that the conversion from the ekwele to the CFA franc had resulted in a significant increase in producer prices and had concluded that, given the fragility of the fiscal position and the liquidity needs of the Treasury, some of the gain from the price increases should be taxed by the Government. It had finally been agreed that, at least for 1985, producer prices should not differ markedly from those prevailing in neighboring countries and that the gains from the margin between the producer price and the export price should be shared by exporters and the authorities. Bearing that in mind, it appeared that the tax rate that had been established for 1985 was acceptable, provided that it was subject to review. The World Bank had established its price structure recommendations in the context of a project that would take some time to put in place. There would be a period of delay before inputs could be provided to participating farmers. It therefore appeared appropriate to establish a price structure that reflected the need to raise government revenues as well as provide adequate incentives for cocoa production.

The projections for export volume were reasonable given the limited information available, the staff representative continued. The authorities had previously regulated the forestry industry, which, although not subject to taxes, had been prohibited from using public roads. Under an agreement signed between the forestry sector and the Government, 190,000 tons of wood products were to be produced in 1985 alone, but in view of the lag between the signing of the agreement and the implementation of the industry's investment program, the staff felt that actual tonnage would be less; the staff's export volume projections were therefore based on an export target that had been cut by one third. The forestry sector also had made plans to maintain equipment. The managers of the sector believed that, given the free trade and exchange system, they would have access to spare parts, the lack of which had previously constituted one of the major bottlenecks in the timber industry. Investors had contacted the authorities about the possibility of entering into the timber industry. It was of course possible that the supply response might be smaller than had been estimated. Moreover, the staff had taken the position, with regard to the agricultural sector, that the output target of 12,000 tons was too optimistic. Having examined certain pilot studies of cocoa and coffee production estimates, the staff had scaled down the authorities' estimates of agricultural production. However, if all went as planned, a maximum of 14,000 tons of production could be expected at the end of the program period.

The plan for financing the external gap was based on the assumption that Equatorial Guinea could arrange debt rescheduling on terms similar to those accorded to countries in a position like Equatorial Guinea's, the staff representative explained. There were indications that the French authorities were prepared to make available up to \$1 million to help fill any projected financing gaps. It had also been assumed that arrears, currently equivalent to SDR 1 million, would be paid by the end of 1985.

BEAC members enjoyed access to the central bank's reserves, the staff representative continued. The BEAC was responsible for monitoring the impact of import and export transactions on reserve levels. A financing gap would be equivalent to a balance of payments deficit and would be reflected automatically in Equatorial Guinea's position in the BEAC's operations account. There was a mechanism for avoiding excessive use of the automatic overdraft available in the operations account. Should the BEAC authorities find it necessary to do so, they could bring pressure on Equatorial Guinea to tighten its financial policies. Rediscount ceilings were set by the BEAC on government and private sector credit.

Interest rates in Equatorial Guinea could not depart significantly from those prevailing in the BEAC area, the staff representative pointed out. The BEAC followed a relatively cheap money policy that was reflected in low interest rates. The interest rate structure that had been established in Equatorial Guinea was generally higher than that in most neighboring countries, because it had been felt that such an upward adjustment would set the pace for needed increases in interest rates throughout the BEAC region. It was difficult to know whether the rates in Equatorial Guinea were positive in real terms. The inflation rate was probably very high; prior to the conversion from the ekwele to the CFA franc, parallel exchange market rates had been lower than the official rate, and monetary expansion had recently been rapid. After the conversion to the CFA franc, there had been an initial jump in the consumer price index. However, after the first quarter of 1985, it appeared that suppliers had started to revise their quotations downward; some prices had declined in April 1985. The inflation rate in Equatorial Guinea could safely be expected to move closely in line with the rate in Cameroon. It was reasonable to assume that if the inflation rate fell by 10 or 15 percentage points, prevailing interest rates would become very positive in real terms.

An increase in the wage bill was almost inevitable, the staff representative commented, given the high inflation rate, the absence of any wage adjustment for a considerable period, and the devaluation accompanying the conversion to the CFA franc. The absolute level of wages was extremely low, and the de facto integration of Equatorial Guinea's markets into those of neighboring countries had raised public awareness of that fact. As long as wages had been denominated in birkwele, a certain degree of money illusion had limited wage demands. That illusion would disappear as markets throughout the region became more closely integrated. On balance, therefore, a judgment had been made that the budget could be somewhat more flexible in allowing for some wage compensation in 1985. Provided that the authorities implemented a program of civil service reform, thereby streamlining the public sector, it ought to be possible to restrain the growth in the public sector wage bill while raising the wage rate of civil servants.

Should export targets prove too optimistic, the authorities would need to institute a program of even more severe adjustment, the staff representative concluded. The fiscal stance should be tightened and should not be relaxed by excessive wage adjustments. A reduction in the size of the civil service should release labor for the private sector, thereby helping to solve the manpower problem in cocoa production. Given present producer prices and the convertibility of the currency, recruitment of manpower for cocoa farms should be easier. The incentives for the export sector might encourage civil servants to seek employment in the cocoa industry and other parts of the private sector.

The staff representative from the World Bank said that in considering the appropriate cocoa price structure, the Bank had been fully aware of the tradeoff between incentives and fiscal revenues and had been concerned about the relative price of, for example, coffee. One of the requirements of the cocoa rehabilitation project was a review each year of the arrangements for setting producer prices in advance of each crop season. Those arrangements would be discussed with the Government, and the Fund would be closely consulted.

It was difficult to predict developments in the export sector, the staff representative continued. The World Bank was examining further incentives and was helping with projects that might facilitate and improve the supply-side response in the export sector. The problem in the cocoa industry was not one of replanting cocoa trees. Rather, there was a clear need to rehabilitate existing plantations, which had the capacity to produce immediately, provided that inputs and credit were available. Moreover, the prospects were favorable for acquiring access to an adequate seasonal labor supply: the Government was facilitating such access, and arrangements had been made for welcoming immigrant labor into the country. Much of the equipment in the country was in a state of disrepair, but, provided that foreign currency was available to procure spare parts, it would not be difficult to restore that equipment to working condition. The authorities needed a mechanism for channeling foreign exchange to priority sectors. Foreign exchange should be used to finance production inputs and emergency repairs in such sectors as water supply, power, and possibly telecommunications--essential ingredients to restore a minimum productive capacity.

Mr. Zhang asked whether there had not been an overemphasis on the supply side. The export projections appeared to be based on the assumption that Equatorial Guinea could increase its share of export markets.

The staff representative from the African Department pointed out that the current share of Equatorial Guinea in the cocoa and coffee markets was extremely small; its cocoa production was only one tenth of Ghana's, and any increase in exports would be absorbable within the major U.S. and European markets. The same was true for any increase in timber exports.

Mr. Doe suggested that the balance of payments deficit was due partly to an increase in imports of spare parts to rehabilitate certain sectors of the economy. The deficit also reflected a large increase in interest payments, which were equivalent to 70 percent of the current account deficit in 1985--up from less than 50 percent in 1984. However, there had also been a significant reduction in payments arrears: in 1984, those arrears had increased by close to \$15 million; in 1985, on the other hand, they were to be reduced by \$1 million. Moreover, there was to be no accumulation of arrears during the program period. Therefore, it was clear that adjustment had taken place in the external sector.

The authorities had taken strong measures in all the principal sectors of economic and financial activity, in order to reduce gradually the serious imbalances, Mr. Doe concluded. The success of those measures depended not only on the authorities' commitment to implementing the program but also on the size and timeliness of the assistance from bilateral and multilateral sources. The coming meeting of the Paris Club should give due recognition to the authorities' efforts to improve the performance of their economy by granting debt relief commensurate with the fiscal and balance of payments needs of the country and on generous terms. Equatorial Guinea needed also fresh concessional funds to develop its important resource base.

The Executive Board then took the following decision:

1. The Government of Equatorial Guinea has requested a stand-by arrangement for a period of one year from June 28, 1985 in an amount equivalent to SDR 9.2 million.

2. The Fund approves the stand-by arrangement set forth in EBS/85/150, Supplement 1.

Decision No. 8015-(85/101), adopted
June 28, 1985

4. EXECUTIVE DIRECTOR

The Chairman bade farewell to Mr. Wicks on the completion of his service as an Executive Director.

DECISIONS TAKEN SINCE PREVIOUS BOARD MEETING

The following decisions were adopted by the Executive Board without meeting in the period between EBM/85/100 (6/26/85) and EBM/85/101 (6/28/85).

5. COLOMBIA - 1985 ARTICLE IV CONSULTATION - POSTPONEMENT

Notwithstanding the period of three months specified in Procedure II of the document entitled "Surveillance over Exchange Rate Policies" attached to Decision No. 5392-(77/63), adopted April 29, 1977, the Executive Board agrees to extend the period for completing the 1985 Article IV consultation with Colombia to not later than July 26, 1985 (EBD/85/158, 6/24/85).

Decision No. 8016-(85/101), adopted
June 27, 1985

6. APPROVAL OF MINUTES

The minutes of Executive Board Meeting 84/140 are approved.
(EBD/85/153, 6/20/85)

Adopted June 27, 1985

7. EXECUTIVE BOARD TRAVEL

Travel by Executive Directors as set forth in EBAP/85/115, Supplement 2 (6/26/85) and by Executive Directors and Advisors to Executive Directors as set forth in EBAP/85/166 (6/26/85) is approved.

APPROVED: April 7, 1986

LEO VAN HOUTVEN
Secretary