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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 85/94

10:00 a.m., June 12, 1985

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

Executive Directors	Alternate Executive Directors
A. Alfidja	
	M. K. Bush
	M. Lundsager, Temporary
	H. G. Schneider
	X. Blandin
	M. B. Chatah, Temporary
	M. Sugita
G. Grosche	
J. E. Ismael	
R. K. Joyce	
	J. Hospedales, Temporary
	A. K. Juusela, Temporary
E. I. M. Mtei	A. Abdallah
	B. Jensen
	E. M. Ainley, Temporary
	J. E. Rodríguez, Temporary
	J. de Beaufort Wijnholds
C. R. Rye	A. V. Romuáldez
	O. Kabbaj
	A. Vasudevan, Temporary
	T. A. Clark
	D. J. Robinson, Temporary
	L. Tornetta, Temporary
Zhang Z.	Wang E.

L. Van Houtven, Secretary
L. Collier, Assistant

Also Present

African Department: A. D. Ouattara, Director; R. J. Bhatia, Deputy Director; L. M. Goreux, Deputy Director; J. M. Jiménez. Asian Department: R. G. Di Calogero. Exchange and Trade Relations Department: E. H. Brau, S. Kanesa-Thasan. External Relations Department: A. F. Mohammed, Director; A. M. Abushadi, H. O. Hartmann. Legal Department: J. G. Evans, Jr., Deputy General Counsel; W. E. Holder, Ph. Lachman. Treasurer's Department: T. B. C. Leddy, Deputy Treasurer; D. Williams, Deputy Treasurer; K. Boese, W. L. Coats, Jr., J. A. Gons, D. Gupta, A. F. Moustapha. Western Hemisphere Department: S. T. Beza, Associate Director; P. B. Clark, C. V. A. Collyns, S. V. Dunaway, E. Hernández-Catá, L. R. Kenward. Bureau of Statistics: R. V. Kennedy. Personal Assistant to the Managing Director: S. P. Collins. Advisors to Executive Directors: A. A. Agah, S. M. Hassan, N. Toé. Assistants to Executive Directors: W.-R. Bengs, J. de la Herrán, A. K. Diaby, C. Flamant, G. D. Hodgson, H. Kobayashi, S. Kolb, R. Msadek, K. Murakami, A. A. Scholten, A. J. Tregilgas.

1. REPORT BY DEPUTY MANAGING DIRECTOR - SYMPOSIUM ON AFRICA AND THE IMF

The Deputy Managing Director reported that the symposium sponsored by the Association of African Central Banks and the IMF, held in Nairobi May 13-15, 1985, had provided an opportunity for bilateral meetings with the Minister of Finance, the Central Bank Governor, and the Head of State of Kenya. In addition, on May 12 he and other staff members had held informal discussions with both English-speaking and French-speaking central bank Governors.

Among the major issues that had arisen during the meetings was access to Fund resources, with concern being expressed about the decline in members' access in the face of serious external financing problems, the Deputy Managing Director continued. He had described the criteria that had been used for setting access limits, the context within which the Board discussions on access had taken place, and the importance that many Board members attached to the revolving character of Fund resources. In 1981-83, when African members had experienced a sharp decline in terms of trade and export markets because of the international recession, the Fund had been a major source of financing; resources amounting to, on a net basis, some SDR 4.5 billion, compared with SDR 3.5 billion from the World Bank, had been provided to the sub-Saharan African countries. As to prospects, while the Fund did not plan to cut off resources suddenly, the Board had emphasized the revolving character of Fund resources and the importance of members reducing, after a period of time, their liabilities to the Fund.

Concern had been expressed about the speed of adjustment called for by the Fund, the Deputy Managing Director recalled. Governors had pointed out that too rapid adjustment could not be implemented for economic as well as social and political reasons. He had emphasized that the pace of adjustment was related in part to the availability of external financing. He had also stated that the pace of adjustment would influence the response in economic growth: more rapid adjustment, particularly in the structural area, would likely lay the basis for increased growth. Adjustment however was often most difficult from a political perspective in those areas that were likely to have the most direct and favorable impact on growth: relative prices, exchange rates, interest rates, producer prices, and state enterprise performance. The staff had explained that the faster such adjustments were made, the more quickly producers would respond to higher incentives; the faster the performance of inefficient state enterprises was improved and their demands on Government reduced, the more quickly resources would be made available for more productive use. The discussion had indicated to Governors that the Fund was aware that too rapid adjustment could cause difficulties for governments.

On program negotiation and design, the Governors had said that they sensed great inflexibility on the part of the staff, the Deputy Managing Director reported. The view was expressed that a Fund mission visiting a country had little latitude to deviate from its briefing. The Fund staff had commented that more emphasis could be placed on making the authorities aware that the earlier fact-finding and Article IV missions were important in preparing a dialogue before actual negotiations on a particular set of understandings on economic policies were undertaken.

The question had also been raised as to whether the Fund staff could be helpful in communicating with higher-level political authorities, the Deputy Managing Director continued. Frequently technicians from the central bank or finance ministry would agree with the Fund's assessment of why certain adjustments were necessary, but they, in turn, would have difficulties in communicating that understanding to higher-level authorities. He had indicated that there were cases of country negotiations where the Government had invited the staff to meet heads of state. Officials were not precluded from asking Fund representatives to meet with higher-level political authorities, but that decision had to be made by the technical authorities who normally dealt with the Fund staff.

The Governors had also commented on the inflexibility of performance criteria, the Deputy Managing Director said. Without adequate contingency clauses, when a ceiling was exceeded, the member was no longer permitted to draw; secondary repercussions on financial flows ensued that could be detrimental to the adjustment process and cause more difficult circumstances for the member. The Governors had wondered whether it would not be possible to provide contingency clauses for the performance criteria to avoid an immediate and abrupt cutoff not only of Fund resources but of other linked resources. He had explained the process of waivers and modifications that came before the Board but had acknowledged the existence of a time-lag problem that affected other sources of financing when a break in the Fund program occurred.

Another issue raised by Governors was the importance of institution building, the Deputy Managing Director continued. They had asked whether the Fund could not provide more support, especially in the areas of technical assistance, for the design and development of economic decision-making institutions, in particular institutions that could make exchange and financial markets work better. Governors had called for a broader look at the technical assistance requirements of a country's institutions and a more narrow focus on the specific problems requiring technical assistance.

Participants in the discussion had also emphasized the importance of Bank-Fund collaboration in the country, with consistent advice and a timely response from both institutions, the Deputy Managing Director remarked. He had understood from the discussion that the Fund and the Bank, moving quickly and together, could be more helpful in certain circumstances. Of course, concern was expressed that improved Bank-Fund collaboration would not give rise to cross-conditionality, in the sense of a doubling or tripling of conditionality imposed as a result of collaboration.

Another area of importance mentioned by the Governors was the role of the Bank and the Fund in gap-financing exercises, the Deputy Managing Director noted. The Governors had encouraged the Fund to play a more active role on behalf of their countries in the context of special gap-filling exercises and donor meetings by helping to explain to donors the implications in terms of growth and adjustment if timely external financing were not forthcoming. The discussion also referred to the slower growth--and decline in some areas--of external assistance and resources, leading to the suggestion that the Fund should make special arrangements for Africa. There was great interest in the prospects both for the recycling of Trust Fund resources and the possibility of a special Fund facility for Africa. The Governors recalled that the Fund in the 1970s had been more innovative with respect to financing, notably through the oil facility, SDR allocations, the Trust Fund, and the expansion of access.

In the informal discussions and to a greater extent in the symposium discussions on certain Fund policies--particularly exchange rate or producer price policies--that were criticized by Governors, it had been difficult to address the criticisms without referring to specific country cases, the Deputy Managing Director observed. References to specific countries when dealing with general policy issues created potential problems. Even the Governors had been reluctant to cite individual cases to illustrate their point, and that difficulty had led to a lack of concreteness in dealing with the criticisms. For example, one official had written a paper criticizing the Fund's policy on exchange rates. It would have been easier to respond to that criticism if the staff could have cited the experience of that official's country where there was great resistance to using exchange rate policy yet adjustment was taking place through draconian fiscal measures and import restrictions. However, it was especially difficult in an open forum to cite individual country cases. Nevertheless, an advantage of both the informal sessions and the symposium was that individual Governors who had had positive experiences with exchange rate and price adjustments had been able to recount their experiences and thus provide some counterbalance in the discussion.

The Director of the External Relations Department commented that the symposium was unusual for his Department in that it had been organized specifically for officials and had been cosponsored by the Association of African Central Banks, with 29 Governors, or their immediate deputies, participating. The cosponsors had invited several academics or former officials to act as assessors and to intervene in the debate. The moderator was G. Helleiner, University of Toronto and Chairman of the Commonwealth Study Group on International Monetary Reform; John Loxley, University of Manitoba, authored one of the papers; and four panelists--C. Massad, M. Narasimham, J. Williamson, and R. Lawrence--helped the flow of discussion to proceed satisfactorily.

Several points were raised by the academics, the Director continued. First, in negotiating programs, Fund staff was insufficiently sensitive to the distributional consequences of some of the policy advice, and it should be far more willing to discuss those issues. Second, there was a standard prescription, and while effective when applied to one country the same prescription applied to a number of countries with similar commodity structures--for example, of their exports--might be counterproductive globally. Third, short-term stabilization worked contrary to the structural objectives of a program and was a fundamental flaw of program design that needed to be looked at carefully. Fourth, not enough attention was given to the difficulty of making market incentives work where the institutional infrastructure was deficient. Finally, the Fund should undertake and publish a great deal more research on the adequacy of stabilization policy in low-income countries.

The Director of the African Department remarked that a few Executive Directors--Mr. Alfidja, Mr. Mtei, and Mr. Salehkhou--had also been present. The Deputy Managing Director had taken the opportunity to meet with several Governors bilaterally; those discussions had been fruitful, and the participants had expressed their appreciation of management's presence at the symposium and the wish that the format could be repeated. Pointed criticism of some issues had been expressed by the participants, but the discussions had been productive and positive.

The staff representative from the Exchange and Trade Relations Department added that it had become clear that Governors were preoccupied by the major increase in debt servicing in prospect for the next two or three years in Africa. A greater share of the debt falling due would be owed to multilateral institutions and could therefore not be rescheduled. Participants had discussed how weaknesses in debt management and the resulting debt servicing difficulties could be dealt with. It had been generally acknowledged that weaknesses in countries' project selection needed to be addressed. Governor Nyirabu of Tanzania had pointed out the difficulty of dealing with large commercial payments arrears. Those arrears added materially and continuously to import costs, which could be reduced or eliminated only commensurately with arrears reduction. However, cash resources were insufficient, and the Governor had wondered whether more help could be obtained in that area.

The Executive Directors took note of the report by the Deputy Managing Director and staff.

2. DESIGNATION PLAN AND OPERATIONAL BUDGET FOR JUNE-AUGUST 1985

The Executive Directors considered the designation plan (EBS/85/138, 5/28/85; and Sup. 1, 5/31/85) and the operational budget (EBS/85/137, 5/24/85) for the quarterly period June-August 1985.

The staff representative from the Treasurer's Department informed Executive Directors that further transactions had taken place since the papers had been issued. There were changes, therefore, in the table on the execution of the designation plan and in the table on the use of currencies and SDRs in transfers and receipts under the operational budget; the tables would be reissued. 1/

Mr. Grosche said that he agreed with the proposed decisions.

The Executive Board then took the following decisions:

SDR Department - Designation Plan for June-August 1985

The Executive Board approves the designation plan for the quarterly period beginning June 12, 1985 as set out in EBS/85/138 (5/28/85).

Decision No. 8005-(85/94) S, adopted June 12, 1985

Operational Budget for June-August 1985

The Executive Board approves the list of members considered sufficiently strong as set out in EBS/85/137, page 3, footnote 1 and the operational budget for the quarterly period beginning June 12, 1985 as set out in EBS/85/137 (5/24/85).

Decision No. 8006-(85/94) adopted June 12, 1985

3. BAHAMAS - 1985 ARTICLE IV CONSULTATION

The Executive Directors considered the staff report for the 1985 Article IV consultation with the Bahamas (SM/85/126, 5/8/85). They also had before them a report on recent economic developments in the Bahamas (SM/85/143, 5/20/85).

Mr. Joyce remarked that the staff report was both succinct and accurate and that his authorities accepted the staff's analysis and conclusions.

Ms. Lundsager said that developments in the Bahamas during 1984 had been better than expected at the time of the previous Article IV consultation (EBM/84/79, 5/21/84). Unexpected short-term capital inflows had permitted an increase in official reserves, despite the deterioration in the long-term capital account. That improvement in the official reserves position should be taken as an opportunity to consolidate fiscal adjustment, permitting the strengthening of the foundation needed for growth and development.

1/ See EBS/85/138, Supplement 2, and EBS/85/137, Supplement 1, issued June 12, 1985.

The overall fiscal accounts had improved markedly in 1984, Ms. Lundsager observed, moving into a surplus as capital expenditures dropped off and public corporations improved their performance. The 1985 budget should further strengthen the fiscal position if all measures were fully implemented. In particular, government employment was programmed to remain constant in 1985, and public corporations were not slated to receive any loans or advances. She recommended that the latter policy be maintained in future years as well.

The plan to turn to foreign direct investment in the tourism sector was a welcome development, Ms. Lundsager remarked, especially as past investments of the Hotel Corporation had been financed by foreign borrowing of the Government. Those loans were coming due and the authorities were considering refinancing, which was in itself not cost free. It was worth noting that even with refinancing, the Hotel Corporation might not be able to reimburse the Government for the debt service cost. The implication was that additional adjustments in the fiscal sector might be required to meet the authorities' goals of maintaining external reserves, containing external debt, and continuing the restrictive monetary policy. She did not support the expected cut in the electricity tariff in 1985 despite the decline in operating costs, and instead urged that the operating surplus be used to service the external debt incurred to finance past capital improvements.

The high increases in wages that had occurred over the past few years had led to real wage increases that were probably in excess of productivity gains, Ms. Lundsager commented. The current lack of agreement between hotel operators and the unions gave cause for concern. It appeared that the high wage increases granted by the Government and the public corporations might make it difficult to hold the line in the hotel sector. It was extremely important for that sector to remain competitive, given that travel inflows covered the deficits on both trade and other services, leading to a current account that was close to balance. The Bahamas had maintained its share of Caribbean tourist trade despite the link of its currency to the U.S. dollar, as increases in tourist visits from the United States had more than offset decreases in arrivals from other countries. If wage increases eroded the competitiveness of the Bahamas, other islands were poised to expand their share of the tourist trade, and some of them had already introduced flexibility in their exchange rate regimes in an effort to increase competitiveness.

The debt profile and balance of payments position of the Bahamas were much better than those of most other developing economies, Ms. Lundsager observed; furthermore, a restrictive monetary policy had helped to maintain confidence in the currency and had protected international reserves. Nonetheless, seemingly minor changes in international conditions could lead to large changes in a small island economy. The recent improvements in the external position provided the authorities with a cushion to make the changes that would consolidate the gains recorded in 1984, and she urged them to take advantage of the situation.

Mr. Rye said that he agreed with the staff analysis and appraisal of Bahamian economic policies and prospects. There were areas of concern, including the large rise in amortization payments on the public debt, the risks posed by recent wage trends, and uncertainties concerning prospects for external demand principally related to the direction of the U.S. economy--notably the evident slackening in economic growth. The Bahamian authorities nevertheless deserved commendation for having turned the economy around from the difficulties of 1981-82. To maintain that direction, the authorities must continue a monetary policy of restraint; implement a more vigorous fiscal policy of revenue enhancement and, more important, of current expenditure reduction; and intensify efforts to attract long-term foreign private investment.

Most important, the authorities must moderate the rate of increase in labor costs, Mr. Rye continued. Failure in that area would negate the fiscal gains already realized and threaten Bahamian competitiveness, as well as undermine what could already be an unsustainable exchange rate system, except for its buttressing with capital controls. It was notable that the public sector had been leading the way in wage rises; in a sense, that should make the solution to the problem less difficult since, potentially at least, the Government could exercise direct control over public wages. He would welcome staff comment on that question.

Public corporations warranted close monitoring because of their significant impact on the financing requirements of the Government, Mr. Rye noted. He welcomed the efforts being made to ensure that activities of the public corporations remained consistent with national priorities.

According to Appendix III of the staff report, there were a number of outstanding statistical issues, Mr. Rye observed. He urged the authorities to give higher priority to tackling the more significant issues--particularly the lack of adequate national accounts data and of up-to-date labor force statistics.

He had been somewhat intrigued by footnote 2 on page 7 of the staff report relating to a staff mission to the Bahamas by the World Bank, Mr. Rye said. Although the Bahamas had been graduated from Bank lending, the mission was to prepare "a report on current economic developments and prospects." He invited the staff to give any further information on that matter.

The report had noted the expressed wish of the Bahamian officials to continue Fund consultations on a 12-month cycle, Mr. Rye remarked. Earlier in 1985 the Board had expressed the view that an 18-month cycle would be appropriate for the smaller economies. It was not evident that, from the point of view of the Fund, the Bahamas was an appropriate exception, although of course the country's own views should be taken into account. However, he remained concerned that if the Fund were to rely on the express desires of officials, there would be few if any countries willing to go on the extended consultation cycle and the objective of redeploying resources would not be achieved. He had no real solution to offer, but wondered whether a more formal request--perhaps from the Governor of the country concerned--should be sought.

Mr. Hospedales stated that the staff report had rightly highlighted the significant progress achieved by the Bahamian economy over the past two years and the efforts of the authorities to consolidate and extend that progress. Accordingly, the Bahamian authorities were to be commended for the adoption and implementation of a wide range of demand and structural policies aimed at overcoming the problems of development that were unique to their situation. The cumulative effect of those policies had been reflected in heightened economic activity accompanied by a deceleration in the rate of inflation; continued improvement in the fiscal position; and strengthening of the balance of payments with net international reserves covering at present approximately three months of imports.

Bahamian monetary and exchange rate policies had concentrated on creating an appropriate environment for long-term capital flows, Mr. Hospedales commented. The stability of the currency in terms of the U.S. dollar was important both for the increased private foreign investment on which the Bahamas had had to depend for external financial assistance and for its tourist traffic. The present private sector arrangements for additional hotel construction were thus welcome, but substantial additional foreign inflows were needed in light of the increased amortization payments associated with the Hotel Corporation's borrowing. Creditors should therefore give due consideration to the authorities' request for debt rescheduling as present debt ratios were comfortable. The provision of additional foreign resources through debt restructuring would continue to ensure the longer-term structural adjustment of the Bahamian economy.

While the overall fiscal position had improved, given the recent trends in revenue and expenditure, the authorities should continue to follow a course of revenue strengthening and public expenditure control, Mr. Hospedales said. In that regard, the introduction of more effective revenue measures that were expected to increase total revenues by approximately 6 percent in 1985 was welcome. Nevertheless, an improvement in the tax collection process was critical, especially in view of the shortcomings in overall data collection. He welcomed the restraint in expenditure and the cautious approach to wage adjustments. However, the institutional constraints with regard to wage settlements limited the authorities' room for maneuver as wage increases might be determined in a legal forum where noneconomic criteria could be the main consideration. The authorities' continued efforts at wage restraint would reduce expenditure, maintain the country's international competitiveness, and ensure a fair distribution of income. Overall, a strong fiscal effort would generate the internal savings necessary to exploit production opportunities as the economy became increasingly diversified.

The general improvement in the current balances of the state enterprises was welcome, Mr. Hospedales commented. However, to preserve that position the investment programs of those enterprises should be closely monitored with respect to their economic feasibility and resource requirements, both domestic and foreign.

The inadequacy of the data collection process warranted the strengthening of Fund technical assistance in light of the importance of the economic data for analysis and policy formulation, Mr. Hospedales concluded.

Mr. Robinson stated that he was encouraged to see that the recovery in the Bahamas had continued in 1984 while inflation had remained low, the public sector had moved into surplus, and international reserves had improved substantially. While reflecting, in part, what might be temporary factors--such as the marked increase in short-term capital inflows and the reduction in government capital expenditures--the recovery was also due to tighter financial policies. He agreed with the staff on both the nature of the challenges facing the Bahamian authorities and the policies needed to meet those challenges.

The high level of wage increases in the public sector, which had been consistently higher than the rate of inflation, gave cause for concern, Mr. Robinson remarked. While inflation at the end of 1984 had stood at about 4 percent, both the Water and Sewerage Corporation and the Bahamas Electricity Corporation had agreed to three-year wage awards averaging about 10 percent a year. Bahamasair had awarded increases during 1984-85 to its ground staff of between 8.5 percent and 11.5 percent. That development was worrying because of the possible spillover into the private sector, where increases appeared to have been more moderate. If that problem were not addressed, there was a danger that the progress in improving the public sector's financial position achieved by the authorities could be eroded.

The deterioration in the long-term capital account, given the amortization payments on loans to the Hotel Corporation, was likely to continue for a number of years, Mr. Robinson noted. Against that background, he strongly endorsed the staff's emphasis on increasing foreign direct investment, and he welcomed the authorities' decision to change the financial role of the Hotel Corporation, from direct financing to identifying suitable projects and seeking new investors.

The staff representative from the Western Hemisphere Department recalled that several speakers had commented on the large wage settlements in several important public corporations during 1984 and the possible spillover effects on the private sector, in particular, the prospects for a reasonable settlement in the wage negotiations in the key hotel sector. The staff had emphasized that point to the Bahamian authorities, who had indicated that, in recognition of the seriousness of the situation, they would immediately launch a major effort, in general, to improve the coordination of policy with the public corporations and, in particular, to urge the public corporations to exercise a greater degree of restraint on wage increases. Those efforts seemed already to have achieved some success. In early 1985 the Bahamas Telecommunications Corporation--one of the largest employers among the public corporations--had negotiated a settlement calling for an increase in total compensation, including fringe benefits, of 5 3/4 percent a year on average over the next three years. That settlement indicated considerable progress since the 10 percent wage settlement registered in 1984 for the Bahamas Electricity Corporation and the Water and Sewerage Corporation.

During the past few weeks, the Industrial Relations Board had been reviewing the evidence of both parties to the wage dispute in the hotel industry, the staff representative continued. Closing arguments were scheduled for completion that day, with a decision expected from the Board probably in early July. The negotiating positions of the parties were still far apart: the employers were offering increases over the next three years averaging 5.5 percent to 6 percent a year; the Hotel Workers Union was asking for increases of a little less than 15 percent. Nevertheless, the positions were considerably closer than they had been when negotiations had started. The decision of the Industrial Relations Board, which was likely to be closer to the employers' original position, would reflect both the preoccupation of the Government with that key sector and the unpopularity of the Hotel Workers Union's position even among other union leaders in the Bahamas who were aware of the fundamental importance of maintaining competitiveness in the hotel sector.

It was normal practice for the World Bank to send a final mission to a country that had been graduated from Bank lending and to extend a number of loans during the phaseout period, the staff representative from the Western Hemisphere Department explained. The World Bank would finance a water supply and sewerage project and a port expansion and would provide considerable technical assistance in the next several years, notably to the Statistics Agency of the Bahamian Government in respect of national accounts. The World Bank staff had made some progress already in the statistical field, and it would continue to cooperate with the Bahamian authorities in the future.

The staff representative from the Exchange and Trade Relations Department noted that there were sufficient grounds for an annual consultation cycle because the member met the criterion of encountering balance of payments problems. Although the Bahamian balance of payments situation was not serious at present, there had been a weakening of the position and amortization payments were scheduled to rise substantially in 1985 and 1986; over the medium term there could be additional deterioration. The authorities, as stated in the staff report, found the annual consultation process beneficial. In a previous case of a member not having met the criteria for an annual cycle as outlined by the Board, the authorities had been anxious to have an annual consultation, and the Board had welcomed and agreed to the annual cycle.

Mr. Joyce noted that while speakers had expressed considerable support for what the Bahamian authorities had accomplished and what they were trying to do, they shared the view of the authorities that careful policies were still required. Although the immediate future was promising, medium-term prospects warranted the adoption of a steady or improved policy course. Directors had emphasized the need to strengthen further the fiscal position, although some improvement had been noted in the November budget. The authorities should also be cautious in lowering electricity tariffs, despite improvements in productivity and profitability, and the public corporations should be encouraged to put some funds aside for the future.

The authorities were concerned about wage developments, Mr. Joyce stated. In the past few months, there had been a major change in the Government's outlook; for example, in the vital and sensitive area of air traffic controllers, the Government had indicated earlier that it was committed to a prompt settlement but had decided that the wage demands should not be granted at present.

The Bahamian authorities would consider what steps they should take to seek refinancing following the first payment due in July on one part of its borrowing, Mr. Joyce remarked; a first payment was due in December on the other part of the borrowing.

The lack of statistical data had been a source of frustration to Fund missions for some time, Mr. Joyce continued. It was also a matter of concern for the authorities, especially with regard to balance of payments statistics, and they would attempt to rectify the problem.

The issue of the consultation cycle went beyond the present case, Mr. Joyce said. It was clear that consideration of the work load not only for the Board but for the staff argued for a lengthening of the cycle for some countries. It was also true that the authorities of any country would opt for annual consultations, as was the case in the Bahamas. But the judgment must be made in the Fund, and he welcomed the staff's position that at present it was advisable to maintain the annual consultation cycle for the Bahamas because of the potential difficulties in the balance of payments, where swings could occur quickly.

The Chairman made the following summing up:

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

Directors noted that during the past two years the Bahamian economy had recovered vigorously from the difficult situation it faced in 1981-82. The improvement in the economic situation, and particularly the strong performance of the tourism sector, had reflected in part the expansion of demand in the United States, but economic policies in the Bahamas had also played a role by helping to maintain a climate of stability and confidence. In particular, the pursuit of a restrained monetary policy had ensured a reduction of domestic inflation, in line with developments in the United States, and had contributed to a substantial rise in official international reserves. In addition, Directors welcomed the improvement in the fiscal position of the overall public sector in 1984.

Judging from the performance of tourism and exports, the competitive position of the Bahamas appeared broadly satisfactory at present, even though the effective exchange value of the Bahamian dollar had increased substantially, along with the U.S. dollar, in recent years. However, Directors observed that wage increases granted to the employees of the public corporations in 1984 were well above the rate of inflation, and they expressed concern that a continuation of such trends could threaten the competitive position of the Bahamas. In this context, Directors stressed the crucial importance of restraining wage increases in the public sector; this would have favorable effects on private sector wage settlements and would help to improve the public finances and enhance domestic savings.

Directors observed that in the next several years the gross financing requirement of the Government will be boosted by the large increases in scheduled amortization payments on foreign currency loans contracted by the Government on behalf of the Hotel Corporation. In these circumstances, Directors recommended that the Government should seek an orderly reimbursement of the obligations of the Hotel Corporation in order to keep the financing requirements of the Government within manageable proportions. More generally, Directors stressed that the Government should make every effort to hold down the level of its financial assistance to public corporations by encouraging steps to enhance the quality of the corporations' investment programs and to hold down increases in their costs. In this respect, the appropriateness of reducing electricity tariffs was questioned. Directors added that improvements in the collection of taxes and better expenditure control, including cautious government employment practices, could make an important contribution to strengthening the fiscal situation in the years ahead.

Directors encouraged the Bahamian authorities to foster the conditions for greater inflows of foreign direct investment as a means of enhancing the growth prospects of the Bahamas while strengthening the balance of payments.

The Bahamian authorities were also encouraged to give greater priority to improving economic statistics in order to aid policy formulation.

In view of the outlook for the long-term capital account and the uncertainties concerning the prospects for external demand, developments in the Bahamian balance of payments will need to be closely monitored. For these reasons, it is expected that the next Article IV consultation with the Bahamas will be held on the standard 12-month cycle.

DECISIONS TAKEN SINCE PREVIOUS BOARD MEETING

The following decisions were adopted by the Executive Board without meeting in the period between EBM/85/93 (6/10/85) and EBM/85/94 (6/12/85).

4. GUYANA - TECHNICAL ASSISTANCE

In response to a request by the Guyanese authorities for technical assistance in the fiscal field, the Executive Board approves the proposal set forth in EBD/85/141 (6/6/85).

Adopted June 10, 1985

5. EXECUTIVE BOARD TRAVEL

Travel by Executive Directors as set forth in EBAP/85/148 (6/7/85) and EBAP/85/150 (6/10/85) and by an Advisor to Executive Director as set forth in EBAP/85/148 (6/7/85) is approved.

APPROVED: March 28, 1986

LEO VAN HOUTVEN
Secretary