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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 85/117

10:00 a.m., July 31, 1985

J. de Larosière, Chairman

Executive Directors

Alternate Executive Directors

A. K. Diaby, Temporary
E. L. Walker, Temporary
H. G. Schneider
C. Flamant, Temporary
A. Mustafa, Temporary
K. Murakami, Temporary
D. Hammann, Temporary
M. Rasyid, Temporary
G. D. Hodgson, Temporary
J. Hospedales, Temporary
H. Fugmann
A. Abdallah
C. A. Salinas, Temporary
S. Geadah, Temporary
J. E. Rodríguez, Temporary
A. Steinberg, Temporary
A. V. Romuáldez
A. A. Agah, Temporary
A. S. Jayawardena
T. A. Clark
N. Coumbis
Bo T., Temporary

L. Van Houtven, Secretary
L. Collier, Assistant

Also Present

IBRD: H. Messenger, Eastern and Southern Africa Regional Office. Administration Department: G. F. Rea, Director; D. S. Cutler. African Department: A. D. Ouattara, Director; U. R. Gunjal, J. Kinyua, S. Otoo, R. T. Stillson. Exchange and Trade Relations Department: S. Kanesa-Thasan. Fiscal Affairs Department: G. M. Bartoli. Legal Department: R. C. Effros, J. M. Ogoola. Personal Assistant to the Managing Director: S. P. Collins. Advisor to Executive Director: P. E. Archibong. Assistants to Executive Directors: R. Fox, A. R. Ismael, Z. b. Ismail, J. M. Jones, A. A. Scholten.

1. SWAZILAND - 1985 ARTICLE IV CONSULTATION

The Executive Directors considered the staff report for the 1985 Article IV consultation with Swaziland, together with a proposed decision concluding the 1985 Article XIV consultation (SM/85/186, 6/27/85; and Cor. 1, 7/25/85). They also had before them a report on recent economic developments in Swaziland (SM/85/206, 7/17/85).

Mr. Abdallah made the following statement:

The broad conclusion from the staff report is that Swaziland has coped fairly well with the problems caused by the cyclone that struck early in the year. The authorities responded promptly with emergency repairs, particularly on the rail line that is the main conduit for Swaziland's external trade.

The outturn for the economy has been better than expected. After two years of decline in economic activity, preliminary assessments indicate a modest increase in real output in 1984. A major factor contributing to growth was the overall increase in agricultural production. Improved weather conditions contributed to bumper maize and pineapple crops and the doubling of cotton output. The recovery in the tourist industry was also a factor, offsetting somewhat the decline in manufacturing output. Meanwhile, there was a sharp drop in the Government's budget deficit, and the balance of payments registered a surplus, as in the previous year. However, unemployment remains a serious problem, reflecting not only the slowdown in economic growth in recent years but also the rapid increase in the size of the labor force.

The five-year plan covering 1983/84-1987/88 recognizes the need for sustained economic growth, placing emphasis on the creation of jobs, increased productivity in the agricultural sector, and greater efficiency in the use of national resources. The plan also attempts to attract local and foreign private investment into existing and new lines of activity. The authorities are aware of the need to expand exports in order to lessen the balance of payments constraint in the future. The plan is being implemented through the annual budget, leaving room for flexibility to respond to changing circumstances.

In the context of the medium-term growth strategy, particular note should be taken of the efforts being made to improve farming techniques in the traditional agricultural sector through the Rural Development Areas Program, which covers about 51 percent of the Swazi Nation Land. Under the first two phases of the program, significant progress was made in building basic infrastructural facilities and providing social services to the rural population. The latter is in keeping with the Government's intention of bridging the gap in the standard of living between rural and urban dwellers. The third phase of the program is aimed at increasing production and improving marketing arrangements. The goal is to expand coverage to 100 percent of the Swazi Nation Land.

The manufacturing sector will also continue to receive priority attention. Between 1980 and 1983, this sector grew twice as fast as the average growth rate of real GDP, increasing its contribution from 20 percent of GDP to 23 percent. Policy is now focused on developing and maintaining a diversified industrial base supported by domestic raw materials and manpower. Both the National Industrial Development Corporation of Swaziland (NIDCS) and the Tibiyo Fund are actively involved in financing various projects by providing loans and participating in joint ventures. The NIDCS also provides technical assistance to investors by undertaking feasibility studies.

In 1984/85, the Government introduced a sales tax and strengthened expenditure control procedures, policies that directly improved the financial position of the public sector. The budget deficit is estimated at the equivalent of less than 1 percent of GDP compared with an earlier projection of almost 6 percent, even with the settlement of E 13.7 million of domestic arrears. The deficit was financed entirely from the domestic banking system; though the amount was substantially lower than expected due to the improved performance. For 1985/86, the authorities intend to maintain fiscal policy on a prudent course, with increased efforts aimed at strengthening expenditure control. They also plan a rationalization of the tax code in order to improve collection and attract new investment. The budget deficit is expected to rise to 2 percent of GDP, due mainly to the increase in capital expenditure that the authorities considered necessary to compensate for the decline experienced in the previous year. The capital budget is also being influenced by the reconstruction of several large railway bridges and the repair of secondary roads damaged by the cyclone. The budget deficit is expected to be financed entirely from foreign sources.

Developments in the monetary sector in 1984 were dominated by the large increase in net foreign assets, the drawdown of the Government's net deposit balances with the banking system, and a moderate increase in credit to the private sector. Broad money grew by 20 percent compared with an increase of 23 percent the year before. The Government's net deposits with the banking system declined by only 15 percent, compared with a drawdown of 47 percent in 1983. The continued recession dampened the demand for credit in the private sector, net credit expansion having been only 6 percent. Consequently, the increase in total domestic credit was limited to 9 percent, considerably below the rate of inflation. Interest rates were increased substantially in

1984 by 5-7 percentage points, although the rate differentials widened between Swaziland and South Africa owing to larger rate increases in the latter. During this period, interest rates in Swaziland were significantly above international interest rates as represented by LIBOR. The banking system has remained highly liquid, an issue claiming the attention of the authorities. The banks are being encouraged to arrange more of their short-term financing of trade, agriculture, and industry in the form of paper that can be discounted by the Central Bank of Swaziland.

The balance of payments in recent years has recorded overall surpluses or small deficits that could be financed by a drawdown of reserves, which have remained at a comfortable level. The surplus in 1984 resulted in a buildup in reserves to the equivalent of more than three months' imports. The balance of payments outcome has been influenced mainly by fluctuations in the earnings from sugar, Swaziland's major export commodity, and by the amount of financing available for investment and short-term capital movements. The projections for the medium term indicate that the balance of payments is likely to come under increasing pressure, especially beyond 1986. The authorities are watching the situation closely, given the vulnerability of the economy to poor weather conditions and changes in import and export prices, and intend to continue, as suggested earlier, to pursue policies that will attract foreign private investment, expand agricultural production, and direct resources into export-oriented activities.

The authorities' cautious approach to contracting external debt has led to a low debt profile. The debt service ratio rose from 3 percent to 4.6 percent over the period 1980-84. At the end of 1984, more than half of Swaziland's government and government-guaranteed debt was owed to regional and international institutions, and 32 percent to the Government.

During the 12-month period ended March 1985, the effective exchange rate for the lilangeni based on trade weights depreciated by 9 percent in real terms. In terms of export weights alone, the depreciation was 23 percent in real terms. It is worth noting that Swaziland does not impose exchange control on payments and transfers for current international transactions.

Mrs. Diaby remarked that Swaziland was gradually recovering from the severe effects of the recent drought, as well as the cyclone of January 1984, which had devastated important sectors of the economy, notably the transportation system. Although economic activity had slowed down, mainly because of those factors, it had apparently revived in 1984. Favorable weather conditions had contributed to a significant improvement in agricultural output, particularly of maize, pineapples, and cotton. The fiscal deficit had declined in 1984/85, as in the previous year, reflecting increases in domestic revenue and grants resulting partly from the introduction of a sales tax and from the authorities' determined efforts to improve expenditure controls. In the external sector, the current account had shifted from deficit into surplus, reflecting an improved trade balance, and the overall balance of payments position was also positive.

The staff analysis showed clearly that the turnaround in Swaziland's economic situation in 1984 had been due to special factors that were not likely to be repeated in 1985 and beyond, especially the large drop in imports owing to the low level of capital expenditures, Mrs. Diaby continued. Nevertheless, the authorities should be commended for quickly rehabilitating the transportation system to assist in the resumption of external trade. The most notable achievement in 1984 had occurred in the fiscal sector, where steps had been taken to minimize the buildup of arrears that had constituted a serious problem of fiscal discipline. The procedures introduced were welcome, especially the emphasis placed on a better monitoring of treasury payments and quarterly releases of funds to spending ministries. It was encouraging that the authorities intended to maintain their fiscal policy for 1985/86 on a prudent course, with increased efforts to reinforce expenditure controls. The authorities should monitor closely outlays on wages and salaries and general administration, which appeared to be assuming an increasing share in total expenditures.

Given the need to complete the rehabilitation of damaged infrastructure and to resume other capital projects postponed because of the cyclone emergency, the proposed increase in capital expenditures for 1985/86 was acceptable, Mrs. Diaby said, and was not considered excessive by the staff in the light of historical trends. The measures to increase revenues by 6 percent in 1985/86 were encouraging. The authorities had recognized the need to attract new private investment to promote manufacturing exports and agricultural output for the support of favorable developments in the external sector. Their focus on new investment incentives and changes in corporate taxes was a step in the right direction; those incentives should help to attract and maintain foreign direct investment.

The staff's medium-term projections showed that the balance of payments would continue to be under pressure, largely because of factors beyond the control of the authorities, Mrs. Diaby noted. She therefore supported the staff's recommendation that the authorities should implement policies that would promote the development of new export industries. The World Bank's role of coordinating efforts to expand donors' lending programs was welcome. Finally, she supported the proposed decision.

Mr. Hodgson noted that Swaziland's economic performance in 1984 had been largely shaped by events beyond its control, specifically the cyclone that had struck the country in January 1984. That cyclone's impact upon the Swazi economy had been contradictory: on the one hand, it had caused significant damage to the transportation and irrigation systems; on the other hand, the increased rainfall appeared to have increased agricultural yields significantly and led to an improvement in both the fiscal and current account balances, with the current account having actually moved into surplus.

The staff had not provided a final growth figure for 1984, Mr. Hodgson remarked. In fact, Appendix III of the staff report gave no information on GDP, capital formation, or the GDP deflator for 1984, although the staff and Mr. Abdallah implied that real output had increased in 1984. He asked the staff when those missing data might become available, and suggested that it might be more fruitful to hold future Article IV consultations with Swaziland later in the calendar year in order to have a more complete picture of economic developments.

The improved fiscal and current account positions in 1984 seemed to have been due to temporary factors, Mr. Hodgson commented. Much of the improvement in the fiscal position had been related to delays, caused by the cyclone, in implementing capital projects. The sales tax introduced in September 1984 had also had some positive impact on revenues. The overall balance of payments surplus in 1984 had primarily been the result of special factors--a drop in imports because of lower capital expenditure by the Government, increased workers' remittances, reinsurance claims, and special sugar contracts. Those factors were unlikely to recur in 1985.

Because Swaziland was a small and open economy, the staff appraisal of the medium-term prospects was particularly valuable, Mr. Hodgson said. The base scenario suggested that there would be steady deterioration in the overall balance of payments position over the remainder of the decade, with reserves dwindling almost to zero by 1988. Such a result was clearly unacceptable, and he agreed with the staff and the Swazi authorities that steps must be taken to reduce the rate of absorption of imports, to develop new export industries, and to increase maize production.

The authorities should concentrate on four policy actions, Mr. Hodgson suggested. First, they should give priority to more effective control of government expenditures and careful monitoring of the fiscal situation. The achievement of the fiscal goals for 1985/86 would be an important step in that direction. Second, the authorities should attract more foreign direct investment aimed toward export promotion. He welcomed the active policy to promote foreign investment in Swaziland; the foreign investment tax proposals were reasonable as they did not entail any loss of revenue and could well lead to an increase in investment. Third, to attract a wider range of external financing, both commercial and concessional, the Swazi authorities should improve project planning and coordination within their overall economic plan. The World Bank had an important role to play in that area. Fourth, the authorities should take steps to broaden the financial instruments that were available to the Central Bank over the medium term. In the short term, a reversal of the interest differential with South Africa would prevent sizable capital outflows over the coming years.

Swaziland was a member of the Rand Monetary Area, and its currency was therefore pegged at par to the South African rand, Mr. Hodgson noted. Nevertheless, in the staff's medium-term balance of payments simulations, the most significant positive impact on the overall balance of payments position was achieved through a depreciation of the exchange rate against the U.S. dollar. He asked the staff what room for flexibility existed within Swaziland's current monetary arrangement, and more specifically, whether the Swazi authorities were able to realign their currency against the rand, after consultation with other members of the Monetary Area, to allow for a more rapid devaluation.

Mrs. Walker commented that the cyclone that had struck Swaziland in 1984 had adversely affected Swaziland's economic prospects for 1985. Fortunately, the authorities had acted swiftly to respond to the situation. Particularly noteworthy were the substantial reduction in the government budget deficit through improvements in expenditure control and the elimination of domestic arrears. Special factors--such as good weather, an import reduction, increased sugar export receipts despite declining world sugar prices, and substantial increases in grants--had also contributed to the better than expected outcome for the economy.

The fact that special temporary factors appeared to have played such a significant role in the overall improvement in the economy during 1984 signaled concern for balance of payments prospects in the medium term, Mrs. Walker continued. The staff's analysis of the contribution of those special factors to the improvement of the balance of payments during 1984 was extremely helpful. Furthermore, the quantitative balance of payments projections and sensitivity analysis supplied by the staff, including a detailed account of the underlying assumptions, had facilitated a clearer examination of economic prospects for Swaziland in the medium term.

In light of the potentially unfavorable medium-term economic prospects, the authorities were urged to continue following prudent fiscal policies with the aim of curbing excessive growth in current expenditures, particularly in wages, and prohibiting any buildup of domestic arrears while allowing for a modest increase in capital expenditures, Mrs. Walker said. It was encouraging that the authorities planned to exercise fiscal restraint in the coming year.

The recently implemented tax measures to attract investment in new industries were welcome, Mrs. Walker stated. She supported the authorities' major objectives in the manufacturing sector, particularly the emphasis on promoting greater private investment. The efforts to expand that sector could also help the difficult unemployment situation. However, a strengthening of the management and financial skills of the National Industrial and Development Corporation to help improve the planning and implementation of the Government's overall investment policy was called for, particularly given the attractive incentives currently being offered by South Africa to attract new investment in the "homelands." She would appreciate further elaboration on the authorities' plan to rationalize the tax code in order to improve collection and attract new investment.

Developments in the monetary sector during 1984, particularly the increase in liquidity of the banking system, had been noted by the authorities, Mrs. Walker commented. The Government should develop medium-term financial instruments to channel the banking system's present excess liquidity into productive projects.

Given the difficult balance of payments situation possibly facing Swaziland and the external vulnerabilities of the economy, an expansion of exports and an increase in agricultural production were essential, Mrs. Walker remarked. She welcomed the World Bank's role in those areas, and she encouraged the authorities to work on more effective planning and execution of their investment projects. Additional efforts would have to be made to determine Swaziland's areas of comparative advantage and to build upon them.

Although exchange rate policy could play only a limited role in Swaziland's situation, the substantial real depreciation over the 12-month period ended March 1985 had had positive effects on developments in the export industry, Mrs. Walker concluded. She commended the authorities for maintaining exchange, trade, and price systems that were relatively free of restrictions.

Mr. Clark noted that in terms of many of the standard indicators, Swaziland had fared much better in 1984 than expected at the time of the previous Article IV consultation (EBM/84/77, 5/14/84). There had been significant reductions in both internal and external imbalances, and while both had been substantially influenced by factors that would not be repeated, there seemed also to have been some underlying improvement. Thus, even excluding special factors, the current account deficit in 1984 had been below its average for the previous four years, and there had been advances in the fiscal area--notably improvements in expenditure control and the introduction of a sales tax--that would help, although in a limited way, to reduce the dependence on customs duties. He commended the authorities for having cleared outstanding domestic arrears.

Nevertheless, the staff's medium-term projections revealed a deteriorating trend, Mr. Clark continued. Those projections, although tentative, were helpful in illustrating the problems that the authorities would have to face in time for them to plan and take corrective action. They indicated the extent to which Swaziland's economy was linked to developments in South Africa. The discussion of such regional links was a key element in the surveillance process, and he suggested that the staff could have provided further analysis of that question.

Substantial new private investment would be required to boost manufacturing exports and agricultural output, Mr. Clark commented. The recent further decline in the price of sugar was a timely reminder of the urgency of encouraging nontraditional exports. The staff appraisal left unanswered two questions, although they fell more within the responsibilities of the World Bank. First, Swaziland had been making efforts to attract foreign direct investment for some time with only limited success.

The authorities intended to intensify those efforts, but the staff seemed to have doubts about their effectiveness. Could the staff provide more information about Swaziland's difficulties in that area; for example, did the problem lie in the context of investment generally or in the mechanisms for planning? Perhaps more important, did the staff have any specific suggestions for improving the situation?

Second, there seemed to be problems in increasing agricultural production through the Rural Development Area Program (RDAP), Mr. Clark observed. While maize yields had risen, acreage had declined as labor had continued to drift to the modern sector. More information in the staff report would have been helpful, in particular, on how the increase in production planned under the third phase of the RDAP was to be achieved. The staff suggested that success in that area justified the assumption of a lower import elasticity in its projection than in the authorities' medium-term plan; the difference was significant at the equivalent of about 4 percent of GDP each year on average over the period 1985-89.

With regard to monetary policy, the staff had made the suggestion, which was perhaps warranted, that the interest differential between Swaziland and South Africa might be reduced in order to strengthen the capital account, Mr. Clark noted. He wondered what the interest differential was currently, following the fall in South African interest rates from their peak in early May. He agreed with the staff, however, that broadening the range of domestic financial instruments might be helpful in maintaining financial balances within the country.

The Swazi authorities had adopted a prudent approach in the face of substantial short-term difficulties, Mr. Clark concluded, but medium-term prospects gave cause for concern. He invited the staff to comment on the adequacy of the policies proposed and on any additional measures that might be necessary.

The staff representative from the African Department replied that national accounts data in Swaziland were at a rather primitive stage of development, and the figures in the staff report were the latest available at the time of its issuance. An official 1985 GDP table would probably not be available until late 1985, but the staff had tried to indicate in the report what the likely growth rate would be according to sectoral information. The staff was attempting to maintain a 12-month consultation cycle, although the present consultation followed the previous discussion by close to 15 months; the date had been determined after taking into consideration both the authorities' schedules and the staff's need to have enough information to provide complete tables in the report.

Under the current arrangements of the Rand Monetary Area, there was no flexibility with respect to the exchange rate for the lilangeni vis-à-vis the South African rand, and no change was expected in those arrangements, the staff representative said. In the sensitivity analysis, the exchange rate variable was presented as a factor beyond the authorities' control, and the analysis, in fact, referred to a depreciation of the rand.

The authorities were concerned about the buoyancy of their domestic tax system, the staff representative remarked. Over the past five years, there had been a decrease in tax revenue, except for discretionary changes, even though nominal income had increased. For that reason, the authorities were preparing to review the sales tax, in terms of coverage, exemptions, and rate during the first few years of its operation. The authorities were urged to monitor closely the other tax measures that were being initiated in 1985, particularly the investment incentives. Although the authorities considered that those measures would not substantially affect revenue, there remained some uncertainty on that point. If the authorities believed that the new measures, particularly those to attract foreign investment, would substantially affect expenditure, they should be reviewed also.

There had been many difficulties in attracting foreign investment, the staff representative noted. However, Swaziland had advantages that the authorities were trying to exploit without ruining the fiscal base; one was that Swaziland had relatively good relations with the Republic of South Africa, the European Communities, the United States, and the preferential trade area in Africa. Therefore, companies wishing to do business in those areas might find Swaziland a convenient base. Another advantage was that labor was relatively abundant in Swaziland and wage rates low compared with South Africa. In addition, the ability to adopt relatively sophisticated technology seemed somewhat greater than in some of the neighboring countries. A promising new program of investment promotion, with the assistance of the World Bank and other international agencies, had been implemented primarily through the National Industrial Development Corporation of Swaziland.

The first few stages of the Rural Development Area Program had been disappointing, particularly to the World Bank, the staff representative commented. Although measures under the program had been implemented--the provision of extension services, the introduction of hybrid seeds, and the improvement of secondary roads--there had been essentially no increase in production. The authorities hoped that the third phase of the program would be more successful as a result of both the implementation of those measures and the declining differential between real wages in the cities and those in rural areas; during the first two phases of the development program, real wages in the cities had increased substantially. Producer prices, which were not fixed in Swaziland but were the market prices in South Africa, were decreasing in real terms. The authorities considered that the wage differential would stop increasing and perhaps start decreasing as the recession deepened in the cities. That development would make the growing and marketing of maize more attractive. The future for cotton, a market crop produced in Swaziland, seemed bright; a new spinning mill would be started up with foreign investment, and it should increase the demand for cotton within Swaziland.

As to the interest rate differential between Swaziland and South Africa, the staff representative reported that the prime rate in South Africa had gone down only slightly. The present interest rate differential was about 2-3 percent; in May, the interest rate had fallen in South Africa but not in Swaziland, so that the differential had narrowed.

Based on its projections, analysis, and discussions with the Swazi authorities, the staff considered that present policies were inadequate for the current situation, which was however a fluid one, the staff representative from the African Department stated. The problem was not an immediate one: Swaziland had large reserves, a balance of payments surplus for 1984, and low debt; even the deficits projected over the next two or three years could be financed without excessive borrowing. Swaziland's medium-term prospects gave cause for concern, but the authorities were cognizant of the problems that could arise, and the staff believed that they would implement the policies necessary to avert a crisis.

Mr. Abdallah noted that the staff's simulations had greatly assisted the Swazi authorities in focusing attention on the critical issues that had to be tackled in order to improve their balance of payments prospects.

The authorities did not intend to introduce new taxes in addition to those mentioned by the staff; rather, they were determined to implement with greater vigor the various tax measures that had already been specified, Mr. Abdallah remarked. Stronger enforcement of existing taxation would definitely yield higher revenue.

The differentials in interest rates paid on savings deposits between Swaziland and South Africa were in one sense a reflection of the continuing problem that confronted the Swazi authorities, arising directly from membership in the Rand Monetary Area, Mr. Abdallah stated. As funds were freely transferable within the Area, Swaziland had maintained lending rates at the same level as those in South Africa; the differential existed only in savings deposit rates, which were lower in Swaziland. To the extent that the public kept funds in savings accounts, those accounts provided a source of cheap deposits within the country that should have induced commercial banks to extend loans to Swazi borrowers at lower cost than elsewhere within the Monetary Area. Inflation in South Africa was about 17 percent; it was much lower in Swaziland, yet lending rates--ranging from 22 percent to 25 percent--were prohibitive. The differential was therefore a signal to the Swazi banking system, which was highly liquid but where effective demand for credit by the private sector remained sluggish.

Swaziland had abundant productive land, and its people were hard working, Mr. Abdallah commented. There was therefore considerable scope for increasing agricultural output and raising productivity, both by extending the area under cultivation and by improving techniques. The authorities proposed to accomplish those measures under the Fourth National Development Plan, which sought to make Swaziland self-sufficient in food production and to produce additional commodities for export.

The Chairman made the following summing up:

Executive Directors were in broad agreement with the thrust of the staff appraisal for the 1985 Article IV consultation with Swaziland. They commended the authorities for the various measures implemented promptly in 1984/85 to improve economic conditions in Swaziland. These included the repairs made to the cyclone-damaged railroad system, which allowed the transportation of the sugar crop and other exports; the introduction of a sales tax; and improved procedures for expenditure control to avoid further domestic arrears. The achievement of a balance of payments surplus in 1984 and a fiscal deficit of less than 1 percent of GDP in 1984/85 were notable successes in light of the difficulties facing the authorities at the beginning of that fiscal year.

Despite the favorable outturn in 1984/85, Directors were concerned that increasing difficulties appeared likely in both the short and medium term. They noted that the balance of payments surplus of 1984 was due in part to special factors that would not be sustained in 1985 and subsequent years. To avoid the deficits in the balance of payments of the size indicated by staff projections, Directors emphasized the need to attract further investment leading to increased exports and agricultural production. In this context, they commended the authorities for having taken measures to make foreign investment in Swaziland more attractive but urged them to use planning processes more effectively in areas of comparative advantage. The World Bank could play an important role in this area, Directors said. The authorities were also encouraged to keep interest rate policy under review, taking into account both the rate of domestic price inflation and the need to avoid capital outflows to South Africa. To that effect, a broadening of money market instruments would also be useful.

While the projected increase in capital expenditure in the 1985/86 budget was regarded as broadly appropriate, Directors encouraged the authorities to strengthen further public expenditure control, to restrain current outlays in such areas as wage payments, and to pursue their efforts to widen the tax base in order to keep the overall deficit within the magnitude projected in the 1985/86 budget.

Directors welcomed the maintenance by Swaziland of an open and free exchange and trade system.

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

The Executive Board then took the following decision:

1. The Fund takes this decision in concluding the 1985 Article XIV consultation with Swaziland, in the light of the 1985 Article IV consultation with Swaziland conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

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

Decision No. 8041-(85/117), adopted July 31, 1985

2. UGANDA - REPORT BY STAFF

The Director of the Administration Department reported that, in light of security problems in Uganda, Fund personnel had been evacuated safely to Kenya.

DECISIONS TAKEN SINCE PREVIOUS BOARD MEETING

The following decisions were adopted by the Executive Board without meeting in the period between EBM/85/116 (7/29/85) and EBM/85/117 (7/31/85).

3. EXECUTIVE BOARD TRAVEL

Travel by an Executive Director as set forth in EBAP/85/194 (7/29/85), by Advisors to Executive Directors as set forth in EBAP/85/194 (7/29/85), EBAP/85/169, Supplement 1 (7/26/85), EBAP/85/184, Supplement 1 (7/26/85), and EBAP/85/193 (7/26/85), and by an Assistant to Executive Director as set forth in EBAP/85/195 (7/29/85) is approved.

4. STAFF TRAVEL

Travel by the Managing Director as set forth in EBAP/85/197 (7/30/85) is approved.

APPROVED: May 2, 1986

LEO VAN HOUTVEN
Secretary