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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 85/153

2:30 p.m., October 10, 1985

J. de Larosière, Chairman

Executive Directors	Alternate Executive Directors
	L. K. Doe, Temporary
	Mawakani Samba
	D. C. Templeman, Temporary
J. de Groote	
	C. Flamant, Temporary
	M. Z. M. Qureshi, Temporary
H. Fujino	M. Sugita
G. Grosche	
	M. Rasyid, Temporary
	L. Leonard
A. Kafka	
	T. A. Clark
	H. Fugmann
E. I. M. Mtei	A. Abdallah
F. L. Nebbia	B. Jensen
	J. E. Suraisry
P. Pérez	G. Ortiz
	J. de Beaufort Wijnholds
C. R. Rye	
	O. Kabbaj
A. K. Sengupta	
S. Zecchini	
Zhang Z.	Jiang H.

L. Van Houtven, Secretary
R. S. Franklin, Assistant

Also Present

L. J. Mwananshiku, Minister of Finance and Technical Cooperation, Zambia; Members of Zambian Delegation: C. L. M. Chirwa, L. Nkhata, D. A. R. Phiri, M. G. Sakala. S. S. Sisay, Minister of Finance and Trade, The Gambia; Members of the Gambian Delegation: A. A. B. Njie, M. G. Bala-Gaye, T. G. G. Senghore, M. C. Bajo. African Department: A. D. Ouattara, Director; G. E. Gondwe, Deputy Director; R. J. Bhatia, Deputy Director; L. M. Goreux, Deputy Director; P. A. Aquah, J. Artus, E. L. Bornemann, E. A. Calimitsis, J. W. Kratz, G. B. Taplin. Exchange and Trade Relations Department: C. D. Finch, Counsellor and Director; E. H. Brau, S. Kanesa-Thasan. External Relations Department: A. F. Mohammed, Director; H. O. Hartmann. Legal Department: J. G. Evans, Jr., Deputy General Counsel; S. A. Silard. Research Department: N. M. Kaibni. Secretary's Department: J. W. Lang, Jr., Deputy Secretary; A. P. Bhagwat. Treasurer's Department: D. Williams, Deputy Treasurer; T. Leddy, Deputy Treasurer; G. Wittich. Personal Assistants to the Managing Director: R. M. G. Brown, S. P. Collins. Advisors to Executive Directors: E. M. Ainley, P. E. Archibong, S. M. Hassan, J. Hospedales, P. Péterfalvy, I. Puro, N. Toé, E. M. Taha, A. Vasudevan, M. A. Weitz. Assistants to Executive Directors: G. Ercel, V. Govindarajan, H. Kobayashi, K. Murakami, V. Rousset.

1. ZAMBIA - OVERDUE FINANCIAL OBLIGATIONS - REPORT AND COMPLAINT UNDER RULE K-1 AND NOTICE OF FAILURE TO SETTLE TRUST FUND OBLIGATIONS

The Executive Directors considered a staff paper (EBS/85/238, 9/30/85) containing a proposed decision regarding the Managing Director's complaint dated July 31, 1985 (amended September 4, 1985) under Rule K-1 with respect to Zambia's overdue financial obligations to the General Department and the notice dated July 31, 1985 (amended September 4, 1985) with respect to Zambia's overdue financial obligations to the Trust Fund, both of which had been attached to an earlier document (EBS/85/180, Sup. 1, 9/6/85).

The Chairman observed that his complaints had originally covered overdue obligations to both the General Department and the Special Drawing Rights Department. However, based on the payments made by Zambia on September 12, 1985, his complaint under Rule S-1 with respect to Zambia's overdue financial obligations to the SDR Department had been withdrawn (EBS/85/180, Sup. 3, 9/23/85).

Mr. L. J. Mwananshiku, Minister of Finance and Technical Cooperation, was present for the discussion as the representative for Zambia.

The staff representative from the African Department made the following statement:

> I have the following information to bring to the attention of Executive Director: The Bank of Zambia has officially notified the Fund that effective October 4, 1985, the exchange rate of the Zambian currency, the kwacha, is being determined by a weekly foreign exchange auction system. Consequently, the system of determining the kwacha rate on the basis of a basket of currencies has been discontinued. The first rate under the new exchange rate system will be announced tomorrow, October 11, 1985. Until then, the authorities have suspended dealings in foreign exchange between the Bank of Zambia and Zambian-based authorized dealers.
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> However, transactions concluded up to October 3, 1985 will be executed in the usual manner. The authorities' intention to undertake this reform in their exchange rate policy, together with significant liberalization of the trade and payment system, was referred to in page 2 of the report now before the Executive Board.

Mr. Mwananshiku observed that Zambia's excellent relationship with the Fund throughout its 20-year membership in that institution had made it possible for Zambia to use Fund resources, especially in the years after 1975, and to meet all its obligations to the Fund. It was thus a matter of considerable regret that in recent months Zambia had been unable to honor its obligations to the Fund, despite the Government's continued commitment to do so.

As of the date of the Managing Director's report and complaints under Rules K-1 and S-1 and the notice of failure to settle Trust Fund obligations, Zambia's total overdue obligations to the Fund had amounted to SDR 78,066,221, Mr. Mwananshiku continued. Thus far, Zambia had been able to repay only a nominal portion of that total, and the overdue obligations remained virtually unchanged. He was certain that the Executive Board had, from recent staff reports on Zambia, gained an understanding of the circumstances that had made it impossible for his country to honor its obligations to the Fund in recent months. However, it might help if certain points were highlighted. At present, Zambia was facing the most critical shortage of foreign exchange experienced in its 21 years of independence. Zambia derived her foreign exchange almost exclusively from the export of minerals, principally copper. In the past ten years, receipts of foreign exchange had been declining steadily, owing to the fall in both the prices of principal export commodities and the volume of production. The reasons for the decline in prices of mineral exports were well known to members of the Executive Board. The price of copper, in particular, had not recovered from the recession of 1975 except for a brief period in 1979/80 when the price had been more representative of the situation prevailing in 1974 and earlier. A point which bore mentioning in that context was the uncertainty surrounding the evolution of copper prices, which made the task of economic management extremely difficult in Zambia. In designing adjustment programs for the economy in recent years, the authorities and the Fund staff had judged that a recovery in copper prices would occur that would assist in Zambia's balance of payments adjustment. Those expectations had unfortunately not been realized and, in real terms, the price of copper was currently at a record low level.

Despite substantial efforts on the domestic front, including the lowering of the budget deficit in relation to GNP from 18.9 percent in 1982 to 7.3 percent in 1984, the balance of payments situation had continued to deteriorate, Mr. Mwananshiku remarked. In addition to the fall in copper prices, difficulties had been experienced in copper production. The mining industry in Zambia had been in existence for more than 50 years and was nearing the end of its economic operation as most of the better ores had been depleted. The shortage of foreign exchange had compounded the problem of production by making it difficult for the mining industry to obtain some basic inputs; consequently, production levels had been falling. In 1984, for example, copper production had totaled only 525,000 tons, down from 584,000 tons in 1982, 612,000 tons in 1980, and 712,000 tons in 1976. Between January and August 1985, copper production had totaled only 331,000 tons, and it was currently estimated that production for the year as a whole would not exceed 500,000 tons.

The combination of low copper prices and low volumes of production were certainly at the root of the economic and financial crisis currently facing Zambia, Mr. Mwananshiku considered. However, the decline in external aid disbursements had contributed to the balance of payments crisis. Disbursements of aid had amounted to more than $400 million in 1981 but had fallen to only $150 million in 1984, with no improvements in sight for the current year. Furthermore, over the past three years, Zambia had, like other countries in the region, experienced drought conditions, which had necessitated the import of essential food items, an additional cost burden. In 1985, for example, Zambia had spent no less than $30 million on imports of essential food items.

Overall, the balance of payments situation was expected to deteriorate by about 20 percent from the previous year, Mr. Mwananshiku noted. Even more alarming, however, was the problem of debt, which in 1985 alone amounted to nearly 80 percent of estimated export earnings. Those figures should clarify why Zambia was unable to meet its obligations to the Fund and other creditors and should help to explain the lack of satisfactory performance in virtually all sectors of the economy. In that regard, by stressing the problems of the mining industry and their impact on Zambia's balance of payments, he had not intended to suggest that Zambia's current problems had been brought about entirely by weaknesses in the copper industry. In the period up to 1984, when copper markets had been booming, a number of inappropriate policies had been adopted, which had brought about wage and price rigidities and had created an environment that had not been conducive to investment. However, those matters were being addressed, partly in the context of Fund/Bank-supported adjustment programs, and the Government was committed to making further policy reforms.

Owing to the critical shortage of foreign exchange in Zambia, the level of imports had fallen to a ten-year low, Mr. Mwananshiku observed. Most industries were currently operating at well below 30 percent of capacity; some had even closed for lack of imported inputs. Even the supply of oil had been erratic, which had contributed further to the production problems of the mining industry and had jeopardized the marketing of crops. Moreover, the repair and maintenance of directly productive and infrastructural assets was being deferred indefinitely for lack of imported inputs.

He recognized that Zambia's economic crisis could be resolved only over a period of time and on the basis of sustained implementation of adjustment programs, Mr. Mwananshiku said. To address some of the pressing immediate and longer-term problems of the mining, agricultural, and industrial sectors, Zambia had been working closely with the Fund and the World Bank to shape the policy adjustments that needed to be implemented immediately and over the medium term. Those policies would cover measures aimed at reducing domestic demand and effecting structural changes in the economy that would facilitate diversification and enhance supply. The discussions had been thorough and productive, and broad agreement had been reached with the staff on the essential elements of a package of measures, some of which had already been implemented. It was expected that those actions would encourage the World Bank to take action shortly on the industrial rehabilitation loan under consideration, and he hoped that it would be possible for donors and creditors to commit new resources in support of the comprehensive adjustment efforts being undertaken in Zambia and that the Fund would approve a stand-by arrangement for Zambia as soon as the arrears to the Fund had been eliminated. It should perhaps be mentioned that a relatively short time frame had been established for implementing several additional measures to further streamline fiscal and monetary policy and to realign the domestic price structure with the exchange rate, which would henceforth be determined through an auction market.

The main objectives of the economic adjustment program were to relieve the critical shortage of foreign exchange and promote a viable balance of payments position over the medium term, reduce domestic financial imbalances, restructure economic incentives, promote the efficient mobilization and allocation of domestic savings and external assistance, and create conditions for the resumption of growth, Mr. Mwananshiku noted. With those objectives in mind, his Government had already implemented a number of measures designed to address the economic problems facing the economy. By far the most fundamental change in economic management was the introduction of an auction system for the determination of the exchange rate of the kwacha. The system had been announced only one week previously, and the first auction was scheduled for October 11, 1985.

The viability of the auction system depended critically upon the amount of foreign exchange made available for auction at regular intervals, Mr. Mwananshiku remarked. For that reason, priority was being given to allocating a weekly minimum of Zambia's own export earnings to the auction until new Fund support became available. That amount would have to be supplemented by proceeds from quick-disbursing loans and grants provided by the World Bank and other donors. He did not need to emphasize the risk involved in launching an auction system without a reasonable cushion of foreign exchange, since the success of the exchange reform was critical to the entire adjustment program. It was imperative for the international community to recognize that time was of the essence in the flow of additional liquid resources to Zambia. In that regard, he hoped Executive Directors would use their influence to persuade their countries to grant Zambia increased financial support on an urgent basis. Those who had already responded favorably to the call for such assistance should be commended, and he hoped that other donors would follow their example.

The new market-oriented foreign exchange arrangements could not operate successfully in the context of the existing highly controlled trade and payments system, Mr. Mwananshiku observed. Hence, a number of supporting measures had been introduced dealing mainly with the relaxation of import licensing and exchange controls. For example, a new import license applicable to all categories of imports had been introduced and would be issued without restriction. The license itself would not be used for the purpose of controlling the allocation of foreign exchange. Also, import prohibitions for protective purposes had been abolished. Exchange controls had been liberalized as follows: profits and dividends declared after October 31, 1985 would be remitted abroad through bidding at the auction, subject to the existing rules applicable to dividends and profits; payments for airline tickets in respect of routes directly served by airlines operating to and from Zambia could be made in kwacha without prior exchange control; the inducement allowance for expatriate contract employees that could be denominated in foreign exchange would be remittable on a current basis; and, the holiday travel allowance, banned for some time, would be reinstated.

The problem of commercial payments arrears, which constituted a serious blockage in the trade and payments system, was also receiving attention, Mr. Mwananshiku said. The consultants appointed by the Bank of Zambia to prepare a mutually acceptable scheme for eliminating the arrears had submitted their first progress report, and initial contacts between the consultants and some of the major claimholders had been encouraging. The consultants were expected to submit their recommendations to the Bank of Zambia by the end of 1985.

The authorities were fully aware of the need to support exchange reform measures through timely fiscal and credit measures and to allow the rate changes to permeate throughout the entire domestic price structure, Mr. Mwananshiku commented. The introduction of the foreign exchange auction had been proceded by the abolition of interest rate controls on September 2, 1985, an action that enabled each bank to set its own lending and deposit rates in accordance with prevailing money and credit market conditions. With the freeing of interest rates, central bank control of the money supply was being maintained through open market operations and in government treasury bills. The basic objective was to bring about desired changes in the monetary base through central bank sales of treasury bills at market-clearing rates of interest.

In recognition of the importance of fiscal discipline in the management of the economy, especially under the new foreign exchange and interest rate arrangements, the Government had begun to introduce measures aimed at curbing government expenditure and increasing revenue, Mr. Mwananshiku observed. With effect from September 13, 1985, for example, the price of mealie meal to consumers had been increased by about 40 percent in order to cover the full marketing costs incurred after that date. Through the Government's bold action, the maize marketing subsidy had been eliminated in one stroke. However, with the introduction of the exchange auction, it would be necessary to revise the network of producer and consumer prices of maize in order to limit the budget deficits to levels consistent with the balance of payments target. In the context of the 1986 budget discussion, the Government would be discussing that matter with the staff mission due to visit Zambia in November.

On the revenue side, Mr. Mwananshiku noted that the legislative authority to raise the mineral export tax from 10 percent to 20 percent had been obtained, with effect from August 22, 1985. The intention was to use the authority flexibly in order to balance the needs of the Government against the financial requirements of the mining industry. Also, certain other changes in the tax structure were planned for January 1986 aimed at generating more revenue; in particular, the tax on petroleum products would be changed from a specific tax to an ad valorem tax.

In the area of pricing, Mr. Mwananshiku remarked that the only commodities still subject to statutory price controls were maize and fertilizer. The related issue of administrative interventions in pricing decisions, especially those affecting certain basic commodities produced by the parastatals, had been dealt with. Indeed, outside interventions in pricing decisions in the parastatal sector had completely ceased, which meant that there would be a prompt and full-pass through of the effects of the exchange rate changes to the domestic prices of all commodities, with the exception of maize and fertilizer. It was the intention of the Government, moreover, to allow the domestic prices of petroleum products to reflect the exchange rate change. As for the price of fertilizer and the producer price of maize, upward adjustments would be made to take account of the new exchange rate and cost developments by the end of October, which would begin a new crop year. On the expenditure side, wage increases would be limited to percentages well below the percentage of the depreciation of the kwacha. In addition, the intention was gradually to reduce the work force in the public sector beginning in 1986.

Changes would also take place under the heading of tariff reform, which in the short term would involve the implementation of two main measures, Mr. Mwananshiku said. First, the maximum tariff would be reduced from 150 percent to 100 percent by mid-November. Second, the minimum 10 percent customs duty would be applied to all but a few commodities classified as essential for the agricultural sector, scientific research, education, and health. That measure, too, would become effective in mid-November. In sum, the policy measures recently adopted, together with those that would be implemented over the next few weeks, represented a sincere, genuine, and comprehensive adjustment effort by the Zambian Government.

Taking all the measures together, and subject to Zambia's being able to fully meet its outstanding obligations to the Fund, it appeared that there was sufficient foundation for allowing the next mission to Zambia to agree on a comprehensive adjustment program that would merit Fund support in the form of a stand-by arrangement, Mr. Mwananshiku stated. As he had noted earlier, his Government was anxious to eliminate its arrears to the Fund and to remain current with the institution thereafter. As he saw it, there was a clear link between the Fund's endorsement of an adjustment program and the settling of Zambia's obligations to the Fund; hence, he appealed to Executive Directors to endorse the reform program so as to make it possible for the Government to begin the task of mobilizing bridging finance as quickly as possible. A number of commercial banks had already been contacted in that regard, and they were awaiting a signal from the Fund. The Board's endorsement of the reform program would also unlock needed resources from the World Bank and other donors to help finance the reform program and, in particular, to institute the auction system, which could work effectively only if more resources were mobilized. Zambia was facing unique and serious problems that the Government was attempting to tackle. It was to be hoped that the Executive Board would recognize the uniqueness of those problems and take account of the efforts being made by the Government and people of Zambia to deal with them. What was needed was sympathy and understanding rather than punishment. The Zambian Government was ready and willing to cooperate fully with the Fund to find a satisfactory solution to the problems and to reach an understanding on a new stand-by arrangement.

Mr. Kafka stated that established procedures made it difficult for him to object to the proposed decision to limit the use by Zambia of the general resources of the Fund. However, he was encouraged by the measures adopted in Zambia to improve the economic adjustment process, and he hoped that donor countries would be prompted by those measures to provide the help being sought in timely fashion.

The accumulation of overdue financial obligations to the Fund generally was a problem preoccupying Directors not only in their roles as officers of the institution but also as representatives of the wider international financial community, Mr. Kafka continued. The general and specific causes of the accumulation of overdue obligations were well known and did not bear repeating; more important was that the Executive Board had a duty to itself and to the international financial community to come to grips with the problem by determining the conditions under which Article V, Section 7(g), dealing with the power to postpone repurchases, and Article V, Section 8(e), dealing with the power to accept the payment of charges in local currency, could be applied to the problem of overdue obligations.

Mr. Rye remarked that it was gratifying that through recent payments Zambia had been able to prevent its arrears to the Fund from increasing; that it had been able to settle its overdue obligations to the SDR Department; that the authorities were aware of the severe domestic and external problems facing the economy and were prepared to adopt an adjustment program with a number of welcome features; and, more generally, that the authorities were evidently prepared to work closely with the Fund and the World Bank to sort out their difficulties. While the factors he had mentioned called for Directors to respond sympathetically to Zambia's difficulties, the fact remained that Zambia was in arrears and that its situation must be viewed against the situation of many other countries with similarly difficult problems that had nonetheless been able to remain current in their obligations to the Fund.

The Zambian case presented Directors with something of a dilemma, Mr. Rye considered. He had no desire to make life difficult for a country that was evidently prepared to cooperate with the institution in meeting its obligations; on the other hand, he was concerned that the three-month review period was becoming increasingly automatic, regardless of the particular circumstances of the country concerned. He noted that a Fund mission was scheduled to visit Zambia in late October, and he wondered whether the proposed decision to limit Zambia's use of the general resources of the Fund, if adopted, could not be reviewed in, say, two months rather than three. It would certainly be clear by mid-December whether Zambia had made any progress toward eliminating its arrears; and if his colleagues were prepared to support him, he could go along with a shorter review period than had been suggested in EBS/85/238.

Mr. Grosche observed that his authorities were well aware of Zambia's difficult situation, which was largely the result of developments in the copper market but also reflected delays in implementing necessary policy reforms. He was thus pleased that the Zambian Government recognized the necessity of comprehensive policy reforms, had indeed adopted some measures, and was prepared shortly to introduce a foreign exchange auction system. Another positive sign was that Zambia had become current in its obligations to the SDR Department. Still, the remaining overdue obligations to the Fund and the projections for the overall financing gap in 1985/86 and beyond demanded that the authorities continue to fully implement policy reforms. He had been encouraged by the statement of Mr. Mwananshiku and presumed that, with the appropriate policies in place, donor countries would do their best to assist Zambia in its very difficult situation. In conclusion, he could support the proposed decision.

Mr. Templeman said that he regretted that it had again become necessary for the Board to meet on the subject of Zambia's arrears to the Fund. Accumulation of overdue obligations to the institution damaged both the country's creditworthiness and the Fund's own credibility. He welcomed the payment made by Zambia in September to eliminate Zambia's arrears in the SDR Department and understood that a further payment had only recently been made and would shortly be received by the Fund. Unfortunately, current arrears to the Fund still exceeded SDR 74 million, and repurchases of substantial sums would fall due in the remainder of 1985. Moreover, further repurchase obligations would amount to more than SDR 200 million in 1986. At the same time, the overall balance of payments forecast for 1985 and 1986 revealed substantial financing gaps, even on the assumption of exceptional debt rescheduling and the maintenance of current levels of aid. As export prospects did not appear favorable, it was crucial for the Zambian authorities to work closely with the Fund staff at the technical level to develop strong adjustment policies as the basis for economic recovery. In that regard, good progress seemed to be under way toward the establishment of an auction market for foreign exchange and in the implementation of some supporting measures such as the reduction of subsidies, the establishment of more realistic producer prices, customs tariff reforms, and the freeing of interest rates. In welcoming the follow-up mission scheduled to travel to Zambia over the next few weeks, he hoped that further progress could be made at that time toward the formulation and implementation of a comprehensive adjustment program. Finally, he welcomed the assurances that the Zambian authorities were firmly committed to meeting their international obligations and hoped that the authorities would be able in the coming weeks to eliminate their arrears to the Fund and work out an appropriate adjustment program.

Mr. Wijnholds considered the policy intentions of the Zambian authorities outlined by Mr. Mwananshiku to be encouraging. He hoped the authorities would remain firm in their intentions. At SDR 74 million, the amount of overdue obligations to the Fund was considerable, and it was crucial that the problems that had led to those arrears should be tackled before the amounts became unmanageable. In supporting the proposed decision, he was interested in Mr. Rye's suggestion to shorten the period until the decision was reviewed.

Mr. Doe agreed that Zambia must implement a comprehensive and coherent adjustment program which took account of the generally unfavorable trend of developments in the copper sector. The policy measures mentioned by Mr. Mwananshiku constituted a step in the right direction; and a firm commitment by the Government to proceed in that direction was a prerequisite for economic progress. On the basis of the staff's indication that Zambia had made an effort to settle its obligations in the SDR Department and given that a further payment was expected shortly, his chair suggested that the Fund show somewhat more flexibility in dealing with Zambia's overdue obligations than was outlined in the proposed decision.

Mr. Leonard stated that, like others, he had been encouraged by Mr. Mwananshiku's account of developments taking place in Zambia. The payments made by Zambia in recent weeks to reduce its obligations to the Fund and the active consultation between the Zambian authorities and the Fund staff on how to resolve the imbalances in the economy and eliminate the obligations to the Fund and other creditors were positive factors. Still, the arrears existed, and the Fund's procedures for dealing with them must be followed. In that connection, the three-month period recommended before the review of the proposed decision was useful in that it provided the authorities some breathing room and gave them an opportunity to take the action necessary to eliminate the arrears. While he could go along with the proposed decision as it stood, he could also accept the suggestion of Mr. Rye for a shorter period if there were to be strong support for that suggestion.

Mr. Clark remarked that while the Minister's opening statement had given him a better understanding of the difficulties faced by Zambia, he could not help but be concerned that Zambia's arrears to the Fund had grown to the equivalent of 25 percent of Zambia's quota. Moreover, he was disappointed that action had not been taken sooner to deal with the situation or to prevent the arrears from arising in the first place. While welcoming the recent payments from Zambia to the Fund and the introduction of a number of policy measures aimed at resolving the economy's problems, he was prepared to support the proposed decision as it stood. As to the timing of the review, it would interesting to hear Mr. Mwananshiku's reaction to the notion of a review in two months rather than three. Whatever period was agreed, however, he hoped to have an indication at the time of the next review that the authorities had translated the measures already adopted into a comprehensive adjustment program that might provide the basis for further donor support.

Mr. Suraisry welcomed the payments made by Zambia since September to reduce its arrears to the Fund. However, the remaining overdue obligations were substantial, and it was in the country's interest to make full settlement of them. The staff had made it clear that Zambia needed to embark on a comprehensive adjustment program to adjust the fundamental weaknesses in the economy, and he was pleased that the authorities recognized the need and had taken steps to implement some of the adjustment policies recommended by the Fund and World Bank staffs. A strong program was essential if needed external resources were to be mobilized. It was not in Zambia's interest to delay implementing a strong adjustment program, and the authorities should act before arrears accumulated to the extent that it was nearly impossible to discharge them.

He could support the draft decision allowing a three-month review period, Mr. Suraisry continued, in part because the Zambian authorities were making a strong effort to tackle their economic and financial imbalances. He could also endorse the staff's recommendation that the period before the review should be used constructively for the settlement of Zambia's overdue obligations. The statement from Mr. Mwananshiku had been reassuring in that regard. The position he had taken was based not only on the genuine belief of his authorities that a strong and credible Fund could serve its members better but also on their desire to strengthen the economic and financial conditions of Zambia.

Mr. Kabbaj observed that it was apparently agreed that Zambia had suffered special hardships, owing in large part to the depressed copper market but also to some management problems in the economy. Like previous speakers, he was encouraged by the statement of Mr. Mwananshiku, who had strongly affirmed Zambia's willingness to implement a strong adjustment program supported by Fund resources. Given the Fund's rules and the precedents of other cases, he could go along with the proposed decision in EBS/85/238, noting that the three-month period before the decision was reviewed seemed to give the authorities a reasonable time to implement the recommended adjustment measures and encourage some further financing by donors.

On a related matter, Mr. Kabbaj recalled that nearly all speakers in the plenary sessions of the 1985 Annual Meetings had touched upon the plight of sub-Saharan Africa and had taken note of the various schemes--including the Special Facility in the World Bank and the use of reflows from the Trust Fund--to alleviate the problems of the region. Given that African countries' arrears resulted from a deteriorating economic and financial situation in Africa, the question arose of whether the problem of those arrears should not be dealt with somewhat differently, taking into account the efforts being made in many quarters to assist the sub-Saharan African countries. The Fund could make a contribution to that effort, perhaps by taking the approach recommended by Mr. Kafka and assessing the extent to which certain of the Fund's Articles of Agreement could be applied to alleviate the arrears problem.

Mr. Flamant stated that his chair could support the proposed decision as it stood.

Mr. Nebbia remarked that while it was regrettable that Zambia had fallen in arrears to the Fund, it was encouraging to note that in spite of the difficult problems facing the economy, the authorities were implementing a number of measures to cope with them and were seeking the assistance of the Fund and the World Bank in that endeavor. The three-month period before the review of the decision proposed for adoption at the current meeting did not, in his view, give the authorities enough time to resolve Zambia's economic problems, although it might be long enough to enable them to mobilize resources from donor countries to help pay off the arrears to the Fund. For the longer term, he was inclined to support Mr. Kafka's proposed institutional solution to the problem of arrears to the Fund, taking into account the provisions embodied in the Articles of Agreement.

Mr. Zecchini asked whether in the view of the staff, the policy measures described by the Zambian authorities were appropriate and sufficient to resolve the problem of arrears in a relatively short time. If not, he wondered about the extent to which the solution to the problem depended on further concessional aid by donor countries. Both those questions were relevant to any decision about whether to shorten the period for review referred to in the proposed decision. In any event, if the solution to Zambia's problems depended to a significant extent on further concessional aid, it would be important to establish a firm link between such financial support and the implementation of appropriate domestic policies aimed at strengthening the balance of payments position of Zambia.

Mr. Fugmann agreed with Mr. Wijnholds and others that despite the difficulties facing the Zambian economy, it was important for the authorities quickly to implement the recommended policy actions and to eliminate arrears, because the situation would only deteriorate in the absence of such action. He supported the proposed decision, although, like Mr. Clark, he would be interested in Mr. Mwananshiku's reaction to a review period of two months rather than three.

Mr. Pérez welcomed the payments made by Zambia to reduce its arrears to the Fund and was happy to note that Zambia was current in its obligations to the SDR Department. Given the severity of the economic situation facing Zambia--due in large part to circumstances beyond the authorities' control--the payments made and the implementation of a number of adjustment measures represented a serious effort by Zambia to deal with the arrears problem. Unfortunately, despite that effort, the arrears outstanding remained large and were growing. Like others, therefore, he encouraged the authorities to make every effort to meet their financial obligations to the Fund. Given the circumstances surrounding the Zambian case, his chair could support the proposed decision as it stood. Finally, he supported Mr. Kafka's suggestion to begin exploring the extent to which certain provisions of Article V of the Articles of Agreement might be applied in some cases to deal with the arrears problem.

Mr. de Groote joined others who had asked for further information from the staff on how certain other countries in the same region, and similarly dependent on copper exports, had succeeded in dealing with their difficulties.

In analyzing the situation in Zambia, Mr. Mwananshiku had raised a question about how to deal with the arrears problem in a situation in which commercial bankers were unlikely to provide new financing or to reschedule existing debt in the absence of a commitment by the Executive Board to the financing of an adjustment program, a commitment that the Board could not make so long as Zambia was in arrears to the institution, Mr. de Groote continued. Although the measures adopted or intended by the authorities represented a step in the right direction, they did not in his view comprise a comprehensive program of adjustment, which must include more durable elements to correct the balance of payments situation, such as measures relating to the reallocation of resources and the price system. It was to be hoped that the authorities and the staff would be able to work out the details of such a program in the coming months. Finally, he could support the proposed decision as it stood.

Mr. Templeman, recalling comments by Mr. Kafka, Mr. Pérez, Mr. Nebbia, and Mr. Kabbaj regarding an institutional approach to the debt and other financial problems of low-income countries, noted that the United States had put forward a number of specific proposals during the Annual Meetings concerning the use of Trust Fund reflows. The solution to the arrears problem was a good economic program that must embody both macroeconomic policies and structural change. Through close coordination on financing and policy advice by the Fund and the World Bank, a country such as Zambia facing difficult structural adjustment problems might be helped if it could receive, over a longer period of time, larger sums of money on better terms in return for appropriate macroeconomic policies and structural changes. He hoped that possibility would be kept in mind by Directors when the Executive Board considered specific Trust Fund proposals at a later date.

Mr. Mwananshiku observed that the Zambian Government was at present implementing policies that were not popular and in some cases not even well understood by some members of the Government. It was thus encouraging that Executive Directors were sensitive to the problem. At present, Zambia depended for more than 90 percent of its export earnings from the mining industry, which unfortunately was in a state of decline. Under the auspices of a rehabilitation program with the World Bank, the situation in the mining industry was being studied, and preliminary indications were that production was likely to fall further. The hope was that production could be held at the level of 450,000 tons, which represented a decrease of 150,000 tons from the present level. Whether that target could be met was questionable. More important was the uncertainty of prices, an uncertainty that had made the situation in Zambia particularly difficult and had led the Government to work in collaboration with the Fund and the World Bank on diversifying the economy as quickly as possible and to eliminate those bottlenecks that had impeded the efficient functioning of the economy in the past. Some of those bottlenecks were related to the trade and exchange system that had in the past operated under considerable controls. A number of liberalizing measures had already been taken; more remained to be done. It was his hope that he could persuade his colleagues in the Zambian Government to take the remaining measures by the middle of November so that when the Fund mission visited Zambia, it would find that most matters had been attended to.

It was questionable whether Zambia would be able to meet all its obligations to the Fund in the three-month period before the next Board meeting on Zambia, Mr. Mwananshiku continued. As he had mentioned earlier, copper production was down from the 1984 level; and, in order to maintain the mining industry, 35 percent of all earnings was put back into the industry. Of the remaining 65 percent, more than half had to be used for the purchase of oil, much of which was consumed by the mining industry. Some attempt had been made to switch to electricity and coal, but the nature of mining operations in Zambia was such that oil must continue to be used. The result was that there was no foreign exchange with which to eliminate arrears to the Fund, and bridging finance from the commercial banks had been sought. However, to meet Zambia's needs, the banks wanted some indication from the Fund that the Government was on course with its adjustment program. It was for that reason that he had suggested that the Fund could assist Zambia by giving a specific indication to the commercial banks that Zambia was moving in the right direction. With that support it might be possible to raise sufficient bridge financing in the next three months to pay back the Fund. But, as he saw it, the key was in the hands of the Fund.

Zambia had in his view worked hard to implement the necessary adjustment measures, Mr. Mwananshiku remarked. However, the effort to impose difficult measures on the population at a time when their incomes had been considerably reduced demanded that some way be found to consult with the people, and it was that consultative process that had taken some time. Nonetheless, the Executive Board could be assured that the Government of Zambia was determined to make the recommended adjustments. In order to ensure that the Fund was kept fully informed of Zambia's progress, the Fund's resident representative in Zambia had been invited to attend meetings in the Bank of Zambia, the Ministry of Finance, and occasionally the State House.

The Chairman observed that the authorities in Zambia had taken an important decision in adopting a policy of auction on the exchange market, a decision that should make it easier for the Fund to begin working with the authorities on a possible program. A Fund mission would be visiting Zambia in the first week of November, and an effort would be made to put together the elements of a program that could be supported by Fund assistance once the arrears had been cleared. The financial gap was a wide one and could be narrowed only through a combination of measures and assistance from donors. Once the appropriate measures had been defined, the Fund could consult with the World Bank and with the major donors and friends of Zambia to see how the financing gap could be closed.

It was important to leave the options open, the Chairman considered. Bridging finance might be found; the donors might meet Zambia's financial requirements before the Fund approached them; the Fund might establish an accompanying shadow program if the necessary financial support could not be mustered. In any event, it was important to establish and firmly implement the necessary adjustment measures so that donor countries and others could be certain that Zambia was moving in the proper direction.

The Deputy Managing Director then assumed the chair.

The staff representative from the African Department, responding to Mr. Zecchini's question on the adequacy of the measures adopted by the authorities, noted that Mr. Mwananshiku's outline of the policy measures intended in Zambia was a faithful reflection of the substance of discussions between the authorities and the Fund staff. It was questionable whether the measures would be sufficient by themselves to eliminate the financing gaps. All the medium-term scenarios produced by the staff suggested that even with very strong adjustment measures, Zambia would be faced with considerable financing gaps that would require substantial financial assistance on concessional terms. The hope was that the measures already adopted or intended would establish a sound macroeconomic framework within which appropriate fiscal and monetary targets could be established. In determining the fiscal framework, there would be needed further definition of the relationship between producer and consumer prices, particularly for maize, as that would have implications for budget subsidies. Appropriate pricing policies were needed in order to avoid excessive inflation of the budgetary subsidies and to contain the fiscal deficit. The staff believed that the freeing of the interest rate system and the introduction of auction markets would provide leverage for controlling money growth in the economy, provided the auction market was allowed to work as freely as intended.

Much remained to be done to establish firm macroeconomic targets in the areas of the budget and monetary policy and relating those targets to the balance of payments, the staff representative from the African Department said. Under present circumstances, the staff saw potential for growth in nonmineral exports but was unable to build into the projections at the present stage the sort of large responses that would enable the resource gaps to be closed without substantial concessional aid. In sum, the measures being taken and the context in which they were being implemented gave the staff sufficient encouragement to work into the system sound fiscal and monetary policies. It was to be hoped that the staff and the authorities would be able to reach agreement on the measures and targets that would engender Fund support.

The Deputy Treasurer confirmed Mr. Templeman's understanding that the Zambian authorities had indeed only recently made an additional payment of SDR 840,367 in partial payment of outstanding Trust Fund obligations. With that payment, the total payments that had been made since the previous Board meeting on Zambia's overdue obligations (September 4, 1985) totaled nearly SDR 4.6 million. If the Executive Board were to adopt the decision proposed in EBS/85/238, the text would be amended to reflect the latest payment.

Mr. Mtei noted that the formidable circumstances that had impaired Zambia's ability to meet its financial obligations to the Fund were largely exogenous and beyond the control of the authorities. The Government was nonetheless making a strenuous and determined effort to create a positive economic environment through major policy initiatives aimed at resolving the difficult external payments problem, including the overdue obligations to the Fund. Central to Zambia's deteriorating economic and financial situation were the continued unfavorable developments in the copper market. As a result of those developments, Zambia's overall balance of payments position was expected to remain under pressure in 1985, with the current account deficit growing to SDR 287 million, or 16 percent larger than that registered in 1984. Moreover, the tight and deteriorating foreign exchange situation had led to severe shortages of spare parts and raw materials and, hence, to a continued drop in real output. That precarious external liquidity situation explained Zambia's inability to meet its financial obligations to the Fund.

After consultation with the Fund staff and management, the Zambian authorities had taken firm policy action to halt or reverse the deteriorating situation, Mr. Mtei continued. A follow-up mission would be visiting Zambia in November to advise the authorities on a comprehensive program and supporting policies, and the authorities were prepared to cooperate with the Fund toward the establishment of such a program. It was to be hoped that the policy adjustments and other measures being contemplated would address the fundamental weaknesses in the Zambian economy and would provide an economic environment that would enable Zambia to become current in its obligations to the Fund.

Given the difficulty of the economic situation at present, the authorities' adjustment efforts would need to be supported by a continuous flow of external resources, Mr. Mtei remarked. Thus far, efforts to mobilize such resources to meet balance of payments needs and permit the settlement of overdue obligations to the Fund had not been successful. Pledges by donors to maintain or increase financial assistance to Zambia had not materialized, and the authorities had experienced persistent difficulties in concluding debt rescheduling agreements. He hoped that his colleagues on the Board would stress to their respective authorities the need for timely response to the assistance Zambia was seeking in order to avert further deterioration.

As noted by Mr. Mwananshiku, the Zambian authorities attached great importance to honoring their financial obligations to the Fund, Mr. Mtei said. The precarious external liquidity situation that had resulted in a rapid accumulation of overdue obligations stemmed not from negligence or deliberate action on the part of the authorities but rather from fundamental economic problems aggravated by deteriorating terms of trade. It was in that context that the Zambian authorities expected the Executive Board to adopt a flexible approach to their problem. One way for the Board to demonstrate its flexibility would be to adopt Mr. Kafka's suggestion and to consider the extent to which certain provisions in Article V of the Articles of Agreement could be applied to the hardships Zambia was experiencing. When Zambia's case was again scheduled for Board discussion in three months, he hoped that the staff paper would examine the relevance of those provisions for Zambia's arrears problem. In that connection, he did not think that it would serve any purpose to reduce the interval before the next discussion of Zambia's case. The comprehensive measures required in Zambia would take time to implement, and the Board should not rush either the staff or the authorities in their effort to develop appropriate policies.

The Executive Board then took the following decision: 1/

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 Zambia was not fulfilling its obligations under the Articles of Agreement and submitted complaints and a notice on July 31, 1985 (EBS/85/180) in accordance with those Rules. The complaint under Rule K-1, as amended on September 4, 1985, was that as of September 4, 1985 Zambia was not fulfilling its obligations relating to repurchases and the payment of charges in the General Department in the total amount of SDR 73,444,451. The complaint under Rule S-1 was that as of July 31, 1985 Zambia was not fulfilling its obligations to pay charges in the SDR Department in the total amount of SDR 1,672,970. 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 September 4, 1985 Zambia 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 2,948,800. These facts, and the complaints and notice of the Managing Director, were communicated to the authorities of Zambia on September 5, 1985.

1/ On October 10, 1985, Zambia settled the remaining outstanding balance with regard to the Trust Fund repayment due July 30, 1985. As a result, the Managing Director's notice of failure to settle Trust Fund obligations was withdrawn (EBS/85/238, Supplement 1, 10/21/85).

2. Taking into account that no new obligation of Zambia has become overdue, and that Zambia has made payments totaling SDR 4,582,345 since September 4, 1985, Zambia's overdue obligations amount to SDR 73,444,451 in the General Department and to SDR 39,425 under the Trust Fund. As a result of payments received since September 4, 1985, Zambia is now current in its obligations in the SDR Department, and the complaint under Rule S-1 has therefore been withdrawn.

3. Having considered the reports of the Managing Director, the complaint under Rule K-1 and the notice, and the views of Zambia, the Fund finds that Zambia 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 Zambia of its obligations and urges Zambia to resume their observance forthwith. The Fund decides

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

(b) if Zambia 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 Zambia 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. 8101-(85/153) G/TR, adopted
October 10, 1985

2. THE GAMBIA - OVERDUE FINANCIAL OBLIGATIONS - REPORT AND COMPLAINTS UNDER RULE K-1 AND RULE S-1, AND NOTICE OF FAILURE TO SETTLE TRUST FUND OBLIGATIONS

The Executive Directors considered a proposed decision to place on the agenda of the Executive Board complaints of the Managing Director under Rules K-1 and S-1 with respect to The Gambia's overdue obligations to the General Department and the SDR Department together with the notice of The Gambia's failure to settle its Trust Fund obligations (EBS/85/221, 9/19/85).

Mr. S. S. Sisay, Minister of Finance and Trade, was present for the discussion as the representative of The Gambia.

The Deputy Director of the African Department observed that it was clear from a recent donors' conference on The Gambia that pledges would fall short of what was needed to close the external financing gap projected for the period ending December 1986. In recent days, the staff had met with a delegation from The Gambia with a view to ensuring the maintenance of the momentum that had already resulted from the adjustment measures adopted or announced recently by the authorities. The staff had stressed that it was urgent for the authorities promptly to eliminate the arrears to the Fund, which amounted to about 25 percent of The Gambia's quota. Receipts from tourism and export earnings from groundnuts would be flowing into The Gambia over the next few months, and the authorities had indicated that they would make every effort to become current with the Fund as soon as possible; thus far, however, they had not made firm commitments regarding the date or amount of future payments.

Mr. Sisay said that he regretted that The Gambia's recent difficulties in discharging its repurchase and other obligations to the Fund had led to the complaints and notice by the Managing Director. The Gambia's difficulties stemmed largely from a deterioration in the country's economy over a prolonged period rather than from any unwillingness on the part of the Government to meet its obligations. The Gambia had experienced a sharp decline in export performance compounded by a failure of domestic food production, which had necessitated higher imports of food grains. The result was that export earnings for the year had been insufficient to meet needed imports at a time when The Gambia's access to external credit had been hampered by the termination of a stand-by program with the Fund and the forfeiture of SDR 10.2 million of the original entitlement of SDR 12.83 million under the stand-by arrangement.

The difficulties he had mentioned notwithstanding, the Government recognized its responsibilities with respect to its maturing obligations to the Fund and, as part of the effort to meet its commitments, the Government had diverted 50 percent of export earnings originally earmarked for importation of rice toward settlement of the obligations that had become overdue in early May 1985, Mr. Sisay continued. The Government had taken that bold step in full awareness of its social and political implications. Unfortunately, the Fund had been unable to arrange for a special stand-by program in the month of May that might have opened a way for new sources of financing. Under those circumstances, and in view of the seasonal pattern of The Gambia's exports, the country had entered its seasonally leanest period for income flows in June 1985, when further repurchase obligations to the Fund had begun to mature and accumulate.

With the support of the Fund, the World Bank, and the U.K. Government, a donors' conference had been convened in London some two weeks previously with the objective of exploring the possibility of bridge financing to enable The Gambia to discharge its obligations to the Fund, Mr. Sisay commented. The responses of the donors had been encouraging, although the donors had indicated that before fulfilling their pledges they would await evidence of the Fund's willingness to negotiate and put in place a stand-by arrangement. It was to be hoped that the Fund would show its willingness to go forward with a stand-by arrangement so that the problem of arrears could be dealt with expeditiously.

Mr. Clark stated that he could support the decision to place the complaints and notice of the Managing Director on the agenda of the Executive Board for consideration in one month. As the staff had explained, the extent of donor support was still being tested, although the situation should be clarified by the time of the next meeting.

Mr. Templeman expressed regret that The Gambia had become overdue in its financial obligations to the Fund, a situation that was damaging to the country concerned as well as to the institution. Beyond the current level of overdue payments, it was apparent that substantial Fund repurchases would be coming due over the next two years when the ratios of the country's debt to GDP and of arrears to exports were expected to be quite high. He was happy to note that the authorities were cognizant of the urgent need to eliminate the arrears and promptly to implement a comprehensive adjustment program of the sort outlined on page 5 of EBS/85/221. Such a program should serve to point the economy in the right direction so that prospects for eliminating arrears to the Fund could be improved.

Mr. Suraisry, noting that The Gambia had persistently been in arrears to the Fund for nearly a year, said that it was worrying that the economy was deteriorating and that the short-term outlook was not favorable. It was thus essential that the authorities urgently implement a comprehensive adjustment program to improve the balance of payments and become current with the Fund. Some measures had recently been adopted with the help of Fund advice; but more decisive action was called for if The Gambia was to put its economy back on track, settle its obligations to the Fund, and remain current in future. In the circumstances, he could support a decision to consider the Gambian case in one month. It was important that the authorities use that period constructively and introduce the policy adjustments required to become current with the Fund, an outcome that was in the interest of the institution as well as of The Gambia itself.

Mr. Leonard welcomed the indication that the authorities in The Gambia fully accepted that their financial obligations to the Fund must be met, that they were making an effort to rectify the adverse trends in the economy, and that they were attempting to mobilize exceptional financial assistance toward those ends. Their record in mobilizing such financing thus far was somewhat disappointing, but he hoped that a more positive report could be made when the Board next considered The Gambia's case. Given the existence of The Gambia's arrears to the Fund, in fairness to other members who had in the past found themselves in a similar situation, and to safeguard the position of the Fund membership generally, the Executive Board had no option but to adopt the decision proposed in EBS/85/221.

Mr. Wijnholds stated that he too could support the proposed decision. As he saw it, the key to solving the problem of arrears to the Fund in the case under discussion was for The Gambia to devise and implement a strong adjustment program that would merit support by the Fund's Executive Board and would, at the same time, unlock donor resources.

Mr. Sisay said that he was pleased at the assessment of a number of Directors that the reform measures already implemented could have a positive effect. The measures had been formulated in consultation with the Fund, and the Government was determined to implement those and other measures considered necessary to correct the current arrears situation. Of course, the measures themselves would have only a limited effect, and they must unlock resources in order to bring about the desired improvement in the situation. As mentioned at the beginning of the discussion, it was important to maintain the momentum of adjustment in The Gambia, and a Fund program was crucial in that regard. Nearly all the pledges made at the recent donors' conference in London had indeed been made dependent on the existence of a Fund program. The donors had already been told that the pledges thus far, if effected, would still leave a financing gap; and follow-up actions were expected. What would emerge from those actions was unclear at present, as was the question of whether the Fund would be willing to negotiate and put in place a program before pledges had been received to fill the entire financing gap. In his view, the key was to prevent further deterioration of the situation, and he hoped the Fund would bear that objective in mind and act as expeditiously as possible.

The Deputy Director of the African Department noted that the staff had been discussing with the authorities in The Gambia a strong adjustment program comprised of measures that should in any event be adopted. The donors in London had been favorably impressed by the measures already taken or planned by the authorities. In that context, the staff and the authorities of The Gambia had made projections for the financing gap for the period ending December 1986. A gap of approximately SDR 50 million had been projected, of which part could be met by resources from international agencies, including the Fund. Another part of the gap could be filled by resources from donor countries, and still another portion could perhaps be met by the contracting of short-term debt. The objective of the staff had been, first, to work out a program that could be financed up to end-1986, given the knowledge that most of the pledges made at the donors' conference had been subject to the existence of a program with the Fund. Once a program could be established that would be fully financed, including financing from the Fund, the next step would be to obtain bridge financing to clear the country's arrears with the Fund and thus begin the program. At present, it was still unclear whether full financing of the program could be obtained; hence, no effort had yet been made to move on to the next step of clearing The Gambia's arrears to the Fund through bridge financing.

The Acting Chairman agreed that the issue at the moment was whether donor pledges would be sufficient to close the remaining financing gap and whether, if those pledges could be obtained, there would then be a basis for securing bridge financing to eliminate the arrears to the Fund so that a program could be presented to the Executive Board. It was the view of the staff and management that The Gambia would be pursuing policies during the course of 1986 that could serve as the basis for a Fund program in the absence of arrears.

Mr. Mtei noted that the arrears to the Fund had arisen as a result of an extremely difficult economic and financial situation in The Gambia, which had been aggravated by the crop failure of 1984/85. As noted in the staff report, groundnut production had fallen by 50 percent due to unfavorable weather conditions and insect infestation, causing a more than 10 percent drop in GNP. Further complications had arisen as the export shortfall had adversely affected the country's external position. Recognizing the gravity of the situation, the authorities had been working with the Fund staff to implement an adjustment program designed to tackle the prevailing economic and financial imbalances and to enable The Gambia to clear its arrears with the Fund. In the context of that comprehensive program, a flexible exchange rate system was to be implemented, important price measures had been introduced recently, large expenditure cuts had been effected, and monetary policies had been tightened to reduce the budget deficit by more than 50 percent during the current fiscal year. Moreover, the authorities were in the process of increasing interest rates for deposits to enhance domestic savings and rationalize bank credit.

The strong measures implemented or intended would have only a minimal impact in resolving The Gambia's problems and would, in fact, result in mounting social and political pressures if they were not supported by a substantial inflow of external resources, Mr. Mtei continued. It was to be hoped, in the circumstances, that the donors would respond positively to Minister Sisay's plea for additional pledges. He urged The Gambia's creditors and others to provide financial assistance in support of the authorities' domestic policies so that The Gambia could overcome the exceptional difficulties facing the economy.

The Executive Board then took the following decision:

1. The complaints of the Managing Director dated September 19, 1985 on The Gambia, in EBS/85/221 (9/19/85) are noted. They shall be placed on the agenda of the Executive Board for November 8, 1985.

2. The notice of the Managing Director in EBS/85/221 (9/19/85) on the failure by The Gambia to fulfill obligations under Decision No. 5069-(76/72) on the Trust Fund is noted. The notice shall be placed on the agenda of the Executive Board for November 8, 1985.

3. Consideration of the complaints in accordance with Rules K-1 and S-1 and of the notice particularly affects The Gambia. The member shall be informed by rapid means of communication of this matter and of its right to present its views through an appropriately authorized representative.

Decision No. 8102-(85/153) G/S/TR, adopted
October 10, 1985

DECISIONS TAKEN SINCE PREVIOUS BOARD MEETING

The following decisions were adopted by the Executive Board without meeting in the period between EBM/85/152 (9/27/85) and EBM/85/153 (10/10/85).

3. SENEGAL - STAND-BY ARRANGEMENT - TECHNICAL MODIFICATION

1. Senegal has consulted with the Fund in accordance with paragraph 12 of the stand-by arrangement for Senegal (Attachment to EBS/85/45, 3/1/85) in order to propose a modification in the provision relating to the application of the ceilings for total domestic credit specified in footnote 3 of the table annexed to the letter of July 29, 1985 from the Minister of Economy and Finance.

2. The communication of September 23, 1985 from the Senegalese authorities shall be attached to the stand-by arrangement for Senegal and the letters dated December 3, 1984 and July 29, 1985 shall be read as modified by the communication of September 23, 1985.

3. Accordingly, the amounts of outstanding crop credit at end-September 1985 and end-December 1985 specified in footnote 3 of Table 9 in EBS/85/185 shall be modified to read "CFAF 10.0 billion" and "CFAF 28.9 billion," respectively. (EBS/85/226, 9/27/85; and Cor. 1, 9/30/85)

Decision No. 8103-(85/153), adopted
October 7, 1985

4. TOGO - STAND-BY ARRANGEMENT - WAIVER OF PERFORMANCE CRITERION

1. Togo has consulted with the Fund pursuant to paragraph 33 of the letter dated February 26, 1985 attached to the stand-by arrangement for Togo (EBS/85/94, Sup. 2) concerning the observance of the performance criterion on accumulation of payments arrears referred to in paragraph 4(b) of the stand-by arrangement.

2. The Fund finds that, notwithstanding that the performance criterion on payments arrears referred to in paragraph 1 above was not met for a period of about two months, no further understandings are necessary, and Togo may proceed to make purchases under the stand-by arrangement. (EBS/85/224, 9/26/85)

Decision No. 8104-(85/153), adopted
October 7, 1985

5. BENIN - TECHNICAL ASSISTANCE

In response to a request from the Beninese authorities for technical assistance in the customs and tax fields, the Executive Board approves the proposal set forth in EBD/85/250 (9/23/85).

Adopted September 27, 1985

6. DOMINICAN REPUBLIC - TECHNICAL ASSISTANCE

In response to a request from the authorities of the Dominican Republic for technical assistance to review developments in the nonbank financial sector, with a view to enhancing the efficiency of the financial system, the Executive Board approves the proposal set forth in EBD/85/254 (9/27/85).

Adopted October 7, 1985

7. MAURITANIA - TECHNICAL ASSISTANCE

In response to a request from the Mauritanian authorities for technical assistance in the fiscal field, the Executive Board approves the proposal set forth in EBD/85/251 (9/23/85).

Adopted September 27, 1985

8. MAURITANIA - TECHNICAL ASSISTANCE

The Executive Board approves the proposal set forth in EBD/85/251, Supplement 1 (9/30/85) for an additional staff member to participate in the technical assistance mission described in EBD/85/251 (9/23/85) and approved September 27, 1985.

Adopted October 8, 1985

9. ASSISTANT TO EXECUTIVE DIRECTOR

The Executive Board approves the appointment of an Assistant to Executive Director as set forth in EBAP/85/259 (9/30/85).

Adopted October 8, 1985

10. APPROVAL OF MINUTES

a. The minutes of Executive Board Meetings 84/183 and 84/184 are approved. (EBD/85/248, 9/24/85)

Adopted September 30, 1985

b. The minutes of Executive Board Meetings 84/185 and 84/186 are approved. (EBD/85/253, 9/25/85)

Adopted September 30, 1985

11. EXECUTIVE BOARD TRAVEL

Travel by Executive Directors as set forth in EBAP/85/247 (9/27/85), EBAP/85/260 (9/30/85), EBAP/85/262 (10/7/85) and by an Advisor to Executive Director as set forth in EBAP/85/262 (10/7/85) is approved.

APPROVED: June 5, 1986

JOSEPH W. LANG, JR.
Acting Secretary