INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 85/169

10:00 a.m., November 25, 1985

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

Executive Directors	Alternate Executive Directors
	J. K. Orleans-Lindsay, Temporary
C. H. Dallara	M. K. Bush
	H. G. Schneider
	S. de Forges
M. Finaish	T. Alhaimus
	M. Sugita
G. Grosche	B. Goos
J. E. Ismael	
A. Kafka	H. A. Arias
	M. Foot
H. Lundstrom	
M. Massé	L. Leonard
	G. W. K. Pickering, Temporary
E. I. M. Mtei	A. Abdallah
	M. A. Weitz, Temporary
Y. A. Nimatallah	L. P. Ebrill, Temporary
P. Pérez	G. R. Castellanos, Temporary
J. J. Polak	J. de Beaufort Wijnholds
C. R. Rye	A. V. Romuáldez
G. Salehkhou	O. Kabbaj
A. K. Sengupta	A. S. Jayawardena
S. Zecchini	N. Coumbis
	Jiang H.

L. Van Houtven, Secretary
B. J. Owen, Assistant

Also Present

IBRD: G. Koenig, Latin America and the Caribbean Regional Office. African Department: A. D. Ouattara, Director; G. E. Gondwe, Deputy Director; R. J. Bhatia, Deputy Director; E. A. Calamitsis, A. I. Abdi, K. G. Dublin, C. Enweze, A. G. A. Faria, J. D. Simpson, K. Thugge. Central Banking Department: M. R. Vaez-Zadeh. Exchange and Trade Relations Department: W. A. Beveridge, Deputy Director; M. Guitían, Deputy Director; E. H. Brau. External Relations Department: H. O. Hartmann, H. P. Puentes. Fiscal Affairs Department: A. L. Antonaya, F. L. Corfmat, A. Tazi. Legal Department: J. G. Evans, Jr., Deputy General Counsel; P. R. Lachman, J. M. Ogoola, S. A. Silard. Middle Eastern Department: M. Zavadjil. Secretary's Department: A. P. Bhagwat. Treasurer's Department: W. O. Habermeier, Counsellor and Treasurer; T. Leddy, Deputy Treasurer; D. Berthet, J. E. Blalock, J. C. Corr, D. Gupta, M. F. Melhem, B. von Numers. Western Hemisphere Department: E. Wiesner, Director; S. T. Beza, Associate Director; P. Ewenczyk, E. O. Kumah, A. S. Linde, J. P. Pujol. Personal Assistant to the Managing Director: R. M. G. Brown. Advisors to Executive Directors: P. E. Archibong, M. B. Chatah, L. P. Ebrill, S. Ganjarerndee, J. Hospedales, G. Nguyen, P. Péterfalvy, A. Vasudevan. Assistants to Executive Directors: H. Alaoui-Abdallaoui, J. R. N. Almeida, A. Bertuch-Samuels, G. Ercel, R. Fox, V. Govindarajan, N. Haque, G. D. Hodgson, O. Isleifsson, A. R. Ismael, J. M. Jones, M. Lundsager, R. Msadek, J. A. K. Munthali, K. Murakami, W. Parmena, J. Reddy, J. E. Rodríguez, V. Rousset, C. A. Salinas, M. Sarenac, L. Tornetta, A. J. Tregilgas, H. van der Burg, E. L. Walker.

1. HAITI - 1985 ARTICLE IV CONSULTATION

The Executive Directors considered the staff report for the 1985 Article IV consultation with Haiti (SM/85/292, 11/4/85). They also had before them a report on recent economic developments in Haiti (SM/85/306, 11/13/85).

Mr. Kafka made the following statement:

My Haitian authorities are in broad agreement with the staff analysis and appraisal contained in the staff report, but they feel that the staff did not give enough emphasis to the substantial achievements obtained so far, particularly in the fiscal area and in monetary administration.

Tax rates were raised and new taxes were introduced in successive steps--in July 1984, in October 1984, and again in March 1985. The estimated Treasury revenue of G 1,120 million for FY 1984/85 was in fact almost 4 percent higher than initially projected and it increased by 1 percentage point of GDP in relation to the previous fiscal year. In addition, the finances of the public enterprises were strengthened; all state enterprises are now required to submit their budget to the National Assembly and new procedures were established to channel all transfers between enterprises and the Central Government through a central account which will permit better control over expenditures outside the treasury budget. It is true that compared with the initial estimates, expenditure escalated in 1984/85, but this was a consequence of the emergency need for stepping up certain outlays to prevent recurrence of the civil disturbances which were discussed in our last Article IV consultation. It should be emphasized, however, that in 1984/85, compared with the previouw fiscal year, total expenditures did not increase, and the overall public sector deficit decreased by 3 percentage points of GDP. There was, in fact, a very strong fiscal effort in the last fiscal year.

In monetary administration it should be emphasized that the separation of the operational accounts of the central bank from those of the National Credit Bank has been completed. This important administrative measure will strengthen the central bank's control over the operations of the publicly owned commercial bank and also over other financial institutions.

As a result of different assumptions--particularly in the trade accounts--new medium-term balance of payments projections by the staff show a smaller deficit in the current account and a smaller overall surplus than those projected last January. However, for the first time the staff identifies a financial gap over the medium term after the current fiscal year. The staff recognizes the high degree of uncertainty of the projections, but I think it is appropriate to reaffirm to the Board that my authorities are ready to make any further adjustments that might be necessary if attainment of a sustainable medium-term balance of payments should be threatened. I should mention that the last World Bank report on Haiti, June 10, 1985, forcast an improved medium-term balance of payment in the framework of the continuation of prudent financial policies that my authorities intend to pursue. The Bank, however, rightly cautions that neither improved fiscal performance nor export expansion will be sufficient to sustain Haiti's economic growth and that substantial inflows of concessional external finances will continue to be necessary because the scope for commercial borrowing will remain severely limited. My authorities cannot agree more.

My authorities agree with the staff that the increase in the calculated real effective exchange rate of the gourde grossly overstates the loss in competitiveness, if any, which may have occurred. They point out that the prudent minimum wage policy of the Government has endeavored to maintain the comparative advantage of the export industry and the level of employment.

I agree with the staff that fiscal improvement, while considerable, as mentioned, was not as substantial as had been deemed necessary. However, my authorities are fully resolved to bring the economy back on track within the shortest possible time. They believe that the implementation of the current budget will bring about the restraint in spending that had not been possible to achieve in the previous fiscal year, and it will imply, compared with 1984/85, a further decrease of 2 percentage points in the overall public sector deficit.

Mr. Weitz observed that the economic situation in Haiti was bleak. Per capita income was among the lowest in the world, the level of unemployment was extremely high, and difficult social problems affected the economy. Haiti had made good progress in 1982 and 1983 in reducing financial imbalances, but its external and internal accounts had suffered a deterioration in the past two years. Unfortunately, there had been departures from the targets and objectives of the program supported by the stand-by arrangement with the Fund, and it had not been possible to implement the interim program for 1984/85. However, as Mr. Kafka had mentioned in his opening statement, the overall public deficit had decreased by 3 percent of GDP in that fiscal year.

It was encouraging to note that the authorities were ready to implement a fiscal program that would greatly improve Haiti's economic prospects, Mr. Weitz continued. Considering that cutbacks in capital expenditures by public enterprises had helped to offset a rise in current expenditures during 1984/85, it would be advisable to concentrate future cuts on current expenditures if growth in the medium term were to be achieved. The introduction of a new budget calling for restraint in spending and a further decrease of 2 percentage points in the overall public sector deficit would represent a positive development in the stabilization of the economy.

It would be crucial for the authorities to tighten fiscal and monetary policies in order to strengthen the balance of payments and ease pressures on the exchange rate, Mr. Weitz stated. Without such action, Haiti's ability to maintain its long-standing policies of maintaining a fixed exchange rate relationship between the gourde and the dollar and of keeping the exchange and trade system free of restrictions might be impaired. If a real exchange rate that made allowance for Haiti's very cheap labor costs were calculated, it would be quite different from the rate shown in Chart 1 of SM/85/292.

Referring to the tax system, Mr. *Weitz noted with satisfaction that* tax rates had been raised and new taxes introduced in recent months. A large share of the tax burden was borne by indirect taxes, and more emphasis should be directed in the future toward improving tax administration and avoiding evasion rather than on increasing the tax rate on a small number of consumers.

As for wage policy, the staff suggestion that further reductions in the high government wage bill were necessary would be difficult for the Government to accept, given the very low level of real wages in Haiti and the difficult social situation, Mr. Weitz considered. It would be preferable to emphasize cutting other current expenditures and, in particular, to avoid tax evasion. He asked the staff whether an improvement in the fiscal situation would be feasible without a reduction in the wage bill.

The Fund should continue to provide technical assistance in improving the budget administration and facilitating better control over the expenditures of the Treasury, Mr. Weitz remarked. While the authorities would have to deal with the problem of extrabudgetary expenditures themselves, it was important for the Fund to advise them on an appropriate system of controls. New procedures had been established to channel all transfers between enterprises and the Central Government through a central account which would permit better control over expenditures outside the treasury budget. He urged the authorities to ensure that extrabudgetary expenditure was brought under control in order to ensure that real progress was achieved in the fiscal area.

On monetary policy, he had noted with satisfaction that the separation of the operational accounts of the central bank from those of the National Credit Bank had been completed, Mr. Weitz said. The high rate of credit expansion in Haiti had originated not only in the need to finance the public deficit but in the rapid increase in credit extended by the National Credit Bank. Therefore, firmer supervision of the operations of that Bank and a tighter application of the reserve requirement rules were necessary.

The World Bank was considering the possibility of extending a sectoral credit for agriculture in Haiti, Mr. Weitz commented. Such a loan would have a positive effect on the economy, especially as agriculture had been identified by the Bank as a specific area requiring additional resources. However, he had been concerned by the statement in the section of the staff report on relations with the World Bank group that "according to Bank staff this loan would be conditioned on the existence of appropriate macroeconomic policies within the context of a financial program supported by use of Fund resources." It was true that appropriate macroeconomic policies were needed to achieve a viable medium-term economic situation, but coordination between the Fund and the Bank should not lead to cross conditionality. Perhaps the staff representative from the World Bank could comment on that point.

The problem of poverty in Haiti should not be forgotten, Mr. Weitz concluded. The international community should make a cooperative effort to provide Haiti with the technical and administrative resources, as well as grants or long-term loans, to prevent a further deterioration of the economic situation. To that end, a combination of appropriate domestic policies and external help were essential. And great importance should be attached to a fair distribution of the adjustment burden to avoid further social problems.

Mr. Pickering observed that the current economic situation in Haiti was indeed extremely bleak. Haiti was the poorest country in the Western Hemisphere, with nominal incomes in 1985 that would be below those prevailing in 1980; a high level of unemployment, a high level of underemployment, and a poor medium-term outlook further compounded the problem. The employment situation was in fact the only point that would have merited more detailed consideration by the staff in its report. In general, he could support the staff analysis and recommendations.

There were some encouraging developments to be salvaged from the generally poor adjustment record of the past few years, as Mr. Kafka had noted, Mr. Pickering continued. For instance, the tax system had been improved, and an important structural change had occurred in respect of monetary policy through the separation of the central bank and National Credit Bank. In fact, the imbalances with which Haiti currently had to deal were at surprisingly low levels. For instance, the overall deficit of the Treasury had averaged only about 2 1/2 percent of GDP, and the current account deficit between 2 1/2 percent and 3 percent of GDP over the past two years. In addition, external debt financing in 1985 was about 12 percent of exports of goods and services. Those figures did not reflect the existence of significant imbalances. In addition, Haiti had undertaken quite harsh adjustment over the past year, and without the support of the Fund, which might, in fact, have mitigated the severity of that adjustment.

The staff report had accurately described the crisis of confidence that Haiti was facing, both internally and externally, Mr. Pickering said. That lack of confidence was reflected in the pressure in the black market on the U.S. dollar but, above all, by the sharp reduction over the past few years in many bilateral aid flows. Domestically, that lack of confidence was generated by the absence of control over Treasury spending. The central bank did not seem to apply firm financial control, and it was therefore important that strong policy action be undertaken to change the pattern of expenditures. Reference was made in the staff report to the introduction of a unified budget in 1985, and improved accounting for the servicing of debt had been mentioned in the staff report, but those measures had yet to be tested. If Haiti was to build on the success achieved in the past few years, it would need to reform its fiscal expenditure patterns with great resolution.

In conclusion, Mr. Pickering noted that the Fund would need to continue to support Haiti through the provision of technical assistance as required, in response to requests. Any future financial support from the Fund would necessarily have to be modest in the current circumstances. Given all the relevant considerations, Haiti required large financial flows on a concessional basis to support economic development.

Mr. de Forges recalled that the Executive Board had discussed the staff report for the 1984 Article IV consultation with Haiti (EBM/85/18, 2/8/85) at the beginning of February, and the remarks made by his chair and by others at that time on the necessity of restrictive policies in respect of public finances, credit, and wages were still valid. The staff had formulated sensible recommendations and had stressed that the exchange rate policy might not be sustainable in the medium term.

It was with great regret that he had noted the failure of relations between Haiti and the Fund to improve in the recent past, Mr. de Forges went on. The interim program considered by the Executive Board as a prerequisite for a return to the normal use of Fund resources had had to be abandoned, and with it, hopes of restoring a program supported by the Fund. Inevitably, access to other resources, especially to a sectoral loan from the World Bank, would no longer be facilitated. According to the staff report, the authorities were contemplating a change in direction, and they seemed determined to take courageous measures. As the staff had noted, those measures would have significant results and, above all, would help to rebuild a degree of confidence in the economy.

The restoration of confidence would help, in turn, to realize two major benefits, Mr. de Forges remarked. Domestically, it would permit the reconstitution of savings, which were at present too low to finance noninflationary growth. Externally, it would after a time create the conditions for the resumption of financial flows from abroad, including badly needed foreign investment. At the same time, a new program to be supported by the Fund could be drawn up, thereby automatically qualifying Haiti for use of Trust Fund resources. Those resources would permit the forecast balance of payments gap to be financed without too many difficulties.

He would be most interested to learn from the staff representative of the World Bank about current projects relating to the IDA lending program in Haiti, Mr. de Forges concluded. The country's extreme poverty and relatively high indebtedness made it not dissimilar to certain African countries where special efforts had been undertaken to promote and finance policy reforms. Moveover, bilateral aid flows to Haiti had been declining in the recent past, and he wondered whether any mechanism had been put in place to try to mobilize, in a coordinated way, a sufficient amount of concessional aid in future.

Mr. Castellanos noted that since the beginning of the decade, Haiti, like many other small countries, had been suffering from economic stagnation and financial imbalances, both in the public and external sectors. The fall in the prices of its principal agricultural exports as well as the disappointing performance of the world economy partly explained its present situation. It was also necessary to take into account the fact that the authorities had been forced to compensate for the decreasing trend of foreign income by expanding domestic financing and maintaining social spending in order to facilitate the peace keeping process in certain areas of the country.

The authorities had put into effect a set of adjustment measures, and as a result, the deficit of the public sector had been reduced from 10 percent of GDP to 6.5 percent of GDP; the balance of payments performance had improved; and, as pointed out by Mr. Kafka, the central bank had strengthened its control over the operations of the publicly owned commercial bank and over other financial institutions as well, Mr. Castellanos noted. Although those positive results had not been enough to meet the quantitative targets agreed on with the Fund, they showed the intention of the Haitian authorities to adjust their economy in spite of the unfavorable external environment and internal political crisis.

From a study of recent staff reports on most developing countries, a pattern of very similar financial imbalances was visible, Mr. Castellanos said. In general, the deficits of public and external sectors had increased, monetary policies had been more expansive, and countries' efforts at corrective action had been insufficient either to reach agreement with or to maintain adjustment programs with the Fund. Empirically, those findings were a matter of great concern because they suggested a process of causality that was exogenous to the economic management by the authorities of those countries. Consequently, the findings should be analyzed in the framework of the policies of industrial countries to permit an evaluation of the influence of those policies on the efforts of developing countries to adjust their economies. In addition, the fact that developing countries' adjustment efforts fell in many cases below the expectations of the Fund could imply that the timing of the adjustment required by the Fund was not the most appropriate one in the particular circumstances of those countries. That was why he suggested that future studies on the economic situation and the implementation of policies of developing countries should include a more accurate evaluation of their external environment as well as a more detailed explanation of delays or failures in completing programs and fulfilling agreements with the Fund. In that way, the Executive Board might have a more complete basis on which to evaluate a country's situation and to recommend appropriate policies.

With respect to fiscal policy, the measures adopted in 1984 and 1985 had improved public revenue, Mr. Castellanos noted. However, he was concerned that those measures were for the most part based on indirect taxes that obviously were worsening the country's income distribution problems. As the staff report indicated, the staff had given technical assistance in programing and putting those measures into effect; therefore, he would appreciate additional comment by the staff relating to the criteria used in drawing up the new tax package recommended to the authorities. The measures adopted in July 1984 involved a very large number of taxes, making control difficult, and they should be complemented by a more substantial tax reform that took account of the social situation. As a general principle, he agreed with the staff that public expenditure should be reduced without jeopardizing either the development effort or a more appropriate distribution of income.

He had some doubts about the staff's general observations relating to the exchange rate, Mr. Castellanos stated. If the staff was suggesting that the gourde should be devalued, he wished to point out that a change of the present fixed parity, although it might be helpful in reducing imports, would not encourage increased agricultural exports due to their inelasticity to changes in the exchange rate. In addition, he would recommend that the staff provide in future cases a quantitative estimate of the effects expected as a consequence of exchange rate measures, including possible effects on commercial relations between developing countries, especially in the case of countries that were members of regional economic arrangements. Quantification of the real effective exchange rate did not provide sufficient grounds for expecting an improvement in the performance of exports in response to a devaluation of the exchange rate. He looked forward to future studies of the causal relationship between real effective exchange rates and export performance in developing countries.

The assumptions made by the staff in preparing a medium-term scenario for Haiti were of some concern to him, Mr. Castellanos said. Those assumptions overestimated the future prices of Haiti's principal exports, and in addition they did not take into consideration the difficulties that Haiti as well as other developing countries were experiencing in maintaining a normal inflow of capital. He agreed with Mr. Kafka that it was important to be cautious in evaluating the medium-term prospects for developing countries because of the uncertainties surrounding such projections.

Mr. Goos remarked that the staff analysis revealed quite mixed, complex recent economic developments in Haiti. On the one hand, there had been an impressive reduction of the overall public sector deficit, which as he understood it had been identified in previous consultation discussions as the root cause for Haiti's economic problems in the recent past. On the other hand, the fiscal improvement had been accompanied by a rather modest reduction in the external current account deficit and, what was particularly worrisome, by a doubling of the overall balance of payments gap and the re-emergence of external arrears. While the lag in the response of the external accounts could be traced back partly to the rather pronounced decline in transfer payments from abroad, it seemed to reflect in the first instance a too expansionary stance of monetary policy, including heavy recourse to the central bank for financing the fiscal deficit.

With respect to the prospects for the current fiscal year, Mr. Goos continued, the authorities seemed to have drawn the right conclusions from the previous year's unsatisfactory experience by aiming at a substantial tightening of financial policies, including a further strengthening of fiscal performance. However, in the light of the recurrent large departures from previous policy targets, he shared the staff's concern about the authorities' ability to successfully realize their intentions. To be sure, they had already taken important steps in order to strengthen budgetary procedures and monetary management, for which they deserved to be commended. But the staff's advice to tighten fiscal and credit controls even further could hardly be overstressed in view of the potentially serious repercussions of renewed slippages--particularly with regard to inflation, wages, and international competitiveness--on investor confidence and prospective capital inflows, including development assistance, and concomitantly on the country's ability to meet its external payments obligations.

Given the renewed buildup of substantial external arrears in the past year, the worrying and frequent delays recently in meeting obligations to the Fund, the low external reserve position and the apparent difficulties in raising commercial bank credit, the staff advice to further streamline public expenditures appeared highly appropriate, even if it was only for precautionary reasons, Mr. Goos remarked. In that context, he had found Mr. Kafka's assurance that his authorities were ready to make any further adjustment that might become necessary quite encouraging.

In sum, Mr. Goos considered that Haiti was at present at a critical juncture at which it had to demonstrate unambiguously its commitment to adjustment and its ability to take the necessary steps. Such a demonstration should also be seen as a crucial prerequisite for the Fund to consider a possible request for further use of its resources. Unless Haiti's record of financial discipline was satisfactory, the Fund might merely risk creating another candidate for overdue obligations. However, he would expect that in the process of successfully implementing the policy intentions for the current fiscal year, Haiti's creditworthiness would improve so that the balance of payments gap for 1985, as well as for the years ahead, could be met at least partially by additional capital inflows from private and official sources. Thus, a possible new Fund-supported program should be restricted to relatively modest use of Fund resources.

Ms. Bush remarked that since the Executive Board had discussed the staff report for the 1984 Article IV consultation in February, the Haitian authorities had begun to make some progress in restoring a certain degree of fiscal responsibility and monetary restraint. Those developments indicated the growing commitment of the Haitian authorities to sustaining their adjustment efforts. Nonetheless, the external imbalances had in fact been widening in 1985, and while they were seemingly small when compared with the imbalances of other countries, they appeared larger than could be financed readily through concessional assistance. The authorities should therefore consider strengthening their adjustment efforts.

The measures to tighten the budget were perhaps the single most important recent development, Ms. Bush continued. The inclusion of extra-budgetary spending in the formal budget and the tightening of spending procedures should close the avenue through which budgetary excesses had occurred in the past. The overall level of spending was also falling. The low level of revenue in Haiti and the real need to provide the resources necessary to stimulate more domestic production made such restraint on government spending particularly welcome. In the past, the authorities had had serious difficulty in remaining within their spending ceilings, and she therefore urged them to make special efforts to do so in the current fiscal year. Any updated information on performance that the staff could provide would be of interest.

Revenue was being maintained even in the context of a reduced coffee export tax, Ms. Bush remarked with satisfaction. Further reductions in the tax were expected and the authorities should adhere to the timetable in that respect. She recalled that during the discussion of the staff report for the 1984 Article IV consultation, some concern had been voiced that the structure of the local coffee market might inhibit a full pass-through of the tax reductions to coffee farmers. If that was in fact the case, she would urge the authorities to consider modifications in the coffee sector that would ensure the pass-through. Farmers needed that type of incentive, especially those farming on the smallest scale, to earn the funds necessary to make improvements to sustain the productivity of their coffee acreage.

According to Table 2 of the staff report, the combined impact of revenue measures and cutbacks in current expenditures was projected to more than double the public sector savings rate in 1986 and halve the overall deficit, Ms. Bush remarked. Attainment of those targets should permit a slowing of monetary expansion and could enhance the possibility of reaching the balance of payments target for 1986. The projection of private capital flows and errors and omissions for 1986 indicated an improvement of $11 million, and she would be interested in learning from the staff whether that indicated a return of capital inflows or some other factors.

Unfortunately, even adjustment resulting in an overall payments surplus would not solve the problem of growing external arrears and the obligation to make repurchases from the Fund, Ms. Bush said. The projection of financing gaps for the remainder of the decade, even assuming adherence to prudent financial policies that resulted in payments surpluses and a buildup of reserves--prior to repurchases from the Fund--indicated the precarious financial situation of Haiti. Foreign exchange reserves were low, having fallen by about half since the end of 1984. If Haiti was to resume a normal financial relationship with its external creditors, it would need a larger reserve cushion. That in turn would call not only for strict adherence to the adjustment path established in the 1986 budget but strengthened efforts to improve further the fiscal situation.

The exchange rate appeared to be overvalued when measured against relative price changes in trading partner countries, Ms. Bush remarked, but it did not appear to have had an adverse impact on the production of tradeables. The growth in the light assembly sector was evidence of that. Haiti apparently had maintained its competitiveness by means of strict wage containment, for which the authorities should be commended. Nonetheless, she urged them to keep exchange rate policies under constant review with a view to maintaining domestic incentives. The continued existence of a parallel exchange market could reflect excess demand pressures spilling over into imports.

In conclusion, Ms. Bush stated that the budget presented by the authorities for 1986 called for real economic adjustment. Adherence to the fiscal and monetary program could lay the groundwork for the restoration of Haiti's external creditworthiness, thereby improving the prospects for increased capital inflows and expanded growth and employment.

The staff representative from the Western Hemisphere Department explained that the staff had recommended a slight reduction of the wage bill as a possible way of reducing spending because the public sector's wage bill accounted at present for almost 80 percent of the operational budget and for more than half of total current expenditures. Wage rates were low, even in the public sector, but the staff was more concerned about the level of public sector employment. The light assembly industry had absorbed quite a number of employees in recent years, and a shift of employment from the government sector to that buoyant industry would be welcome.

The tax base had been broadened considerably in the past three years by the introduction of a new general sales tax to replace a large number of specific taxes and other fees that had been levied both on imports and on domestically produced goods, the staff representative commented. In addition, some of the tax measures introduced in the past year and a half reflected the need to adjust the rates of a number of taxes that were still assessed on a specific basis to take account of the increase in prices.

The staff had not suggested that the gourde should be devalued, the staff representative mentioned. On the contrary, the discussions with the authorities had focused mainly on reducing the imbalances in the economy, especially in the public sector, in order to eliminate the larger discount on the gourde that had emerged in the past year or so. In 1982, when the discount on the gourde had widened to about 15-18 percent, the successful implementation of the adjustment program had reduced that discount to less than 5 percent. The staff and the authorities agreed that it was better to adjust the fiscal accounts to eliminate the distortion in the rate rather than to think in terms of changing the official rate. Moreover, the medium-term projections were conservative; they did not contemplate the resumption of capital inflows, although some of the financing gaps shown might well disappear if public finances and economic management in general were conducted prudently over the next few years.

Some information on fiscal and monetary developments for September and October had been received, the staff representative noted. So far, the budget appeared to have been implemented as agreed, although it would be necessary to wait somewhat longer to see whether that trend would continue. In the projection of the balance of payments for 1986, the assumption of private capital inflows of $5 million might well materialize in the form of a resumption of capital inflows through the commercial banks, which for the past few years had been increasing their net foreign reserve position. Such a development would represent a continuation of the trend seen in 1985 when commercial banks had expanded credit to the private sector at a faster rate than they had accumulated deposits. From 1980 to 1984 commercial banks had intermediated capital outflows amounting to almost $22 million; in 1985, they had brought in some $5 million, a development that might well be repeated in 1986 provided the fiscal adjustment took hold and confidence improved.

The Deputy Director of the Exchange and Trade Relations Department said that the staff was concerned about the fact that the adjustment efforts of developing countries were complicated by an unfavorable external environment. However, imbalances also tended to reflect indigenous factors; for instance, policies might not necessarily be optimal. Those were general considerations that would be discussed during the review of conditionality, where the staff would try to distinguish between the impact of domestic policies and of the external environment.

With respect to exchange rate policy in general, the Deputy Director noted that the staff's concern was that exchange rate policies should neither be used as nor become an escape valve for other incorrect domestic policies. Furthermore, it should be borne in mind that the impact of an exchange rate adjustment was not limited to exports; it could also be pointed out that if the argument for devaluation was based on elasticity, and in effect elasticity was low, the required exchange rate adjustment would be larger than if the elasticity was high. Also it needed to be noted that an overvalued exchange rate would lead to excessive imports, defeating the objective of mobilizing as well as retaining domestic savings.

The staff representative from the World Bank noted that during the meeting of the Caribbean Group that had taken place in June 1985, a subgroup meeting had been held on Haiti. Among other recommendations, the subgroup had said that Haiti should tackle not only short but also medium and long-term issues. In addition, IDA had been requested to take the lead in improving the coordination of external aid and possibly in mobilizing additional external assistance. The World Bank staff had already made a thorough economic review of Haiti, prepared a report on the agricultural sector, and reviewed public expenditures. The report should be available to international institutions and donor governments by midFebruary 1986.

Together with the Haitian authorities, the staff of the World Bank had identified in those various studies the necessary policy reforms in the agricultural sector, the staff representative said. Discussions were being launched with the Haitian authorities on how to implement those reforms and on what additional resources would be needed to bring about a more rapid rate of growth in the agricultural sector. The plan was to call for an ad hoc donors' meeting sometime between April and June in 1986 to review, together with the Haitian authorities, the type of policy reform that they were willing to undertake and--what was most important--to determine the kind of support that international institutions and donor governments were willing to provide. The reference in the staff report to the sectoral agricultural credit being conditioned on the existence of appropriate macroeconomic policies within the context of a Fund-supported financial program was in line with IDA's general approach that sector credits should be made in the context of appropriate overall macroeconomic policies. Those, in turn, could be expected to lead to a stand-by arrangement with the Fund and stimulate additional support from donors in general.

Mr. Kafka commented that the Haitian authorities believed that the way to restore order to the balance of payments, which was expected to be in surplus in 1986 for the first time in many years, was to follow a severe demand policy.

It was encouraging to learn from the staff representative from the World Bank that a full donors' meeting was to be called, Mr. Kafka remarked. Haiti's problem was of course essentially developmental and its solution would require a far-reaching effort. Obviously, the Fund was not a financier of development, but the degree of its financial assistance to Haiti, if an agreement could be negotiated, should be considered in the context of the wider aid effort that was being contemplated under the auspices of the World Bank.

The Chairman made the following summing up:

Executive Directors viewed the continued stagnation of the economy, the high rate of unemployment, and the weakness in the country's balance of payments with concern. Those problems were seen as stemming in part from severe financial imbalances in the public sector, particularly at the level of the Treasury. Directors recognized that substantial efforts were made in the past year to raise additional government revenue, and that those efforts had been instrumental in reducing the financial needs of the public sector by the equivalent of some 3 percent of GDP. They observed, however, that the adjustment fell short of what had been deemed necessary. In particular, the authorities apparently had not been able yet to deal effectively with the recurring problem of spending outside the budget, and Directors emphasized the urgency of an effective solution to this problem.

Directors drew attention to the heavy demands the public sector had been imposing on the resources of the banking system, and especially the burden that it was placing on the Central Bank. They welcomed the separation of the operational accounts of the Central Bank from those of the National Credit Bank which should help strengthen monetary control. They expressed concern about the further deterioration in the official international reserve position: the discount of the gourde in the parallel exchange market had become more pronounced and payments arrears had re-emerged.

Several Directors commented that domestic price increases seemed to have become a more serious problem, although they also noted the relatively modest rise in wages and the authorities' cautious policy in this area. The behavior of wages was viewed as the main reason for the continued good performance of the tradeables sector, including the light assembly sector, notwithstanding the effective appreciation of the gourde in recent years in terms of relative prices.

Directors welcomed the recent administrative steps that were taken to exert better control over expenditure through the adoption of a unified budget. Directors agreed that the budget plan for the current fiscal year, if implemented rigorously, would represent a significant step in the right direction and would imply a further significant reduction in the fiscal and external imbalances. It was clear that the country's growth prospects and the viability of the balance of payments would improve in a lasting way only if the fiscal policies pursued by the authorities succeeded in raising savings over the medium term.

Directors remarked that the restraint in spending called for in the budget was a necessary step to reduce pressures on bank credit and the balance of payments. But beyond that, a reorientation of public spending priorities toward more productive endeavors, along the lines recommended by the World Bank, would be required to ensure that Haiti's relatively scarce resources were allocated effectively. The role of the World Bank in stimulating production, particularly in agriculture, was emphasized. Attention was drawn however to the need to avoid cross conditionality. Directors also emphasized Haiti's dependence on substantial inflows of concessional external finance and direct investment, as well as the importance of drawing up government policies, particularly in the tax field, which would ensure a reasonable internal distribution of the adjustment burden.

Finally, it was stressed that the prospect for further use of Fund resources should hinge on the demonstration by the authorities of their commitment to implement the necessary policy adjustments.

It is recommended that the next Article IV consultation with Haiti be held on the standard 12-month cycle.

2. LIBERIA - OVERDUE FINANCIAL OBLIGATIONS - REVIEW OF DECISION ON COMPLAINTS UNDER RULE K-1 AND RULE S-1 AND NOTICE OF FAILURE TO SETTLE TRUST FUND OBLIGATIONS

The Executive Directors considered a staff paper on a further review of Executive Board Decision No. 7987-(85/80) G/S/TR on complaints under Rule K-1 and Rule S-1 with respect to Liberia's overdue obligations to the General Department and SDR Department and notice of failure to settle Trust Fund obligations (EBS/85/257, 11/19/85).

The Chairman asked Executive Directors to indicate which of the alternative versions of paragraph 4 of the proposed decision they could support. Under the first version, Liberia would be declared ineligible to use the Fund's resources with immediate effect; under the second version, the declaration of ineligibility would take effect on January 6, 1986, unless Liberia were current in its obligations to the Fund by that time.

The staff representative from the African Department said that it had been learned from the Fund's resident representative in Monrovia that on November 22, 1985 the Head of State of Liberia had announced in a nationwide broadcast a few measures designed to alleviate the country's very serious financial situation. Those measures included a 25 percent reduction in salaries of all civil servants earning more than $200 a month and cutbacks in employment; however, they did not apply to medical personnel or to most of the military and paramilitary forces. An upper limit of $1,000 had apparently been set on the export of bank notes. Although detailed information was not yet available to permit the staff to assess the impact of those measures, they seemed to fall substantially short of the required comprehensive adjustment program. In a cable received by the Fund on November 22, the Governor of the National Bank of Liberia had expressed the hope that it would be possible to schedule a meeting with the staff in the not too distant future and that the Fund would take into special consideration the crisis that Liberia was going through.

Mr. Abdallah recalled that three months previously his chair had pleaded with the Executive Board for understanding of the predicament of the Liberian authorities, who had been confronted at that time with a serious problem of arrears to the Fund as well as to other creditors. The basic problem remained a shortage of foreign exchange. Since the previous review at EBM/85/126 (8/26/85), the Liberian Government had made substantial repurchases totaling SDR 17.7 million. Unfortunately, owing to the maturity structure of its debt to the Fund, additional payments had become overdue. The reality of the problem was that Liberia had to run harder and faster simply to keep from falling behind.

Three points should be kept in mind in considering the alternative decisions provided by the staff, Mr. Abdallah continued. First of all, a major reason for moving more rapidly to take a decision expressing the Executive Board's intention to declare Liberia ineligible than in other similar cases had been the absence of any payment following the issuance of the complaint; therefore, the payment made by Liberia since the August decision could not but be construed as a mitigating factor, one demonstrating that the authorities were indeed concerned about the issue of overdue payments to the Fund. The payment of SDR 17.7 million was substantial, both in terms of the outstanding balance at the time and relative to the budget of the Liberian Government.

The second point to be borne in mind was the undertaking by the Government of Liberia to reduce the budget deficit by some 10 percentage points relative to GDP, Mr. Abdallah added. If it was achieved, that reduction would represent a significant adjustment. In fact, it was because of the Government's awareness of the need to restrain expenditure that the Head of State had announced an across-the-board reduction in the salaries of all employees of government ministries and agencies, excluding military and paramilitary personnel from the rank of captain and below as well as doctors and nurses. The reduction also applied to pensioners receiving more than $200 monthly. In addition, the Head of State had ordered the retrenchment of all unproductive employees, the retirement of those who had reached retirement age, and the cancellation of transportation allowances for teachers and nurses. Even if there were to be slippages, the recent action of the authorities represented a courageous step in the right direction.

The third element that the Executive Board might consider, Mr. Abdallah noted, was that the Liberian authorities had not closed the door to serious discussions with the Fund. They welcomed the pending visit of the staff and intended to keep in close contact with the Fund in the future. For those reasons, a declaration of ineligibility at the present time was not advisable.

Although the alternative decision took a more flexible position that would allow some six weeks for the Government of Liberia to clear its arrears to the Fund, he doubted whether anyone believed seriously that all arrears could be eliminated within that period, in the absence of a massive inflow of aid, Mr. Abdallah observed. The objective of flexibility was not merely to postpone the inevitable for six weeks; rather, the opportunity should be taken to send a signal to the authorities that the Fund wished to encourage them to adopt strong and comprehensive adjustment measures, which had already begun to be implemented. Another consideration in that respect was the fact that a new Administration was expected to take office on January 6, 1986, the day on which the declaration of ineligibility would take effect. It might be more prudent, if for no other reason than that of tactics, for the Board to give the new Administration a little time in which to come to grips with the problem. He had been prompted to stress that point because the record of the Liberian authorities under most of their stand-by arrangements since 1980 had been fairly good and should be taken as evidence of their ability to work constructively with the Fund. The staff visit scheduled for January 1986 could prove to be a milestone in restoring a meaningful relationship between the member and the Fund.

In concluding, Mr. Abdallah said that his Liberian authorities had asked him to assure the Executive Board that they remained deeply concerned about their overdue payments to the Fund and were doing what they could to clear them so as to restore their creditworthiness in the international community.

In response to a question by Mr. Nimatallah, Mr. Abdallah explained that the recent elections had finally been confirmed by the electoral commission and the President would be sworn in on January 6, 1986, when he would appoint his new administration.

Mr. Dallara said that the circumstances surrounding the Liberian situation were rather discouraging because the Fund had made extensive efforts to assist the authorities in formulating an adjustment program that would restore confidence in the economy, both on the part of Liberians and of external creditors and donors, thereby putting the member in a better position to become current in its financial obligations to the Fund. In earlier Board discussions, the Liberian authorities had indicated their intent to adopt such a program, as well as their plan to establish a special account into which they would place part of Liberia's foreign exchange earnings for the purpose of external debt servicing. To his knowledge, beyond a modest initial deposit, no funds had been placed in that account.

A case could be made for either of the two general courses of action put before the Board by the staff, Mr. Dallara continued--namely, an immediate declaration of ineligibility or a decision to take effect on a later date to declare Liberia ineligible to use the Fund's resources. There were several arguments in favor of the first course of action. Liberia had been in arrears for some months; it had benefited from a number of Fund missions since early 1985 that had attempted first to restore the program interrupted in late 1984 and subsequently to provide technical assistance in formulating a comprehensive program once the arrears problem had emerged. Three months previously, the Executive Board had expressed the expectation that it would declare Liberia ineligible to use Fund resources if it had not become current by November 25. The sentiment of many Directors had been that three months was ample, and the consequences of inaction during that period had been indicated clearly to Liberia. Some measures had been taken, including those mentioned at the beginning of the meeting as having been adopted recently, although there seemed to be no disagreement that they remained some distance from being a comprehensive economic program. He took little comfort from the statement by Mr. Abdallah that the Liberian authorities had not closed the door to discussions with the Fund, which had made clear on many occasions that it was keeping the door open; it was more a matter of Liberia not having been prepared to walk through it.

In considering the second course of action, the payment by Liberia of SDR 17.7 million could not be ignored, Mr. Dallara said. If it could be implemented, the budget adopted for the current fiscal year would lead to a significantly improved budgetary position. However, substantial doubts had been expressed at the time the budget was announced that it was comprehensive enough to be implemented successfully. He noted that additional cost saving measures had been taken recently but that they were not sufficient to address the gravity of the current financial situation. He could accept the second version of paragraph 4 if other Directors showed interest in taking into account the payment made, which had reduced for the time being Liberia's arrears to the Fund, and in recognizing that the measures recently adopted could be viewed as a step toward a comprehensive program. If January 6, 1986 was an inconvenient date for the Liberian authorities, a date in mid to late December--say, December 20--would in his view give the authorities adequate additional time to take the necessary actions to deal with their problems, if they so chose.

Mr. Nimatallah said that he too was disappointed that the Liberian authorities had not done more to prove their intention to settle their arrears or to adopt comprehensive policy measures to reduce their economic imbalances. However, the recent measures and partial payment offered a glimmer of hope that the authorities might attempt to take further steps. In light of what Mr. Abdallah had said, he would therefore be willing to accept Mr. Dallara's suggestion to give the Liberian authorities until around December 18-20 to settle their overdue obligations to the Fund.

Mr. Grosche said that he could accept the second version of paragraph 4 of the proposed decision, although somewhat reluctantly, for three reasons. First, Liberia had reduced somewhat the total of its overdue obligations to the Fund. Second, the country was faced with a difficult internal situation which might have impeded its ability to become current. Third, the information provided by the staff at the beginning of the meeting about the measures adopted recently was a sign that the authorities were finally taking steps in the right direction. He would have no difficulty in accepting the date of December 20, as proposed by Mr. Dallara.

Mr. Massé said that like others he was glad that Liberia had found it possible to make a net reduction in its overdue obligations to the Fund since the Executive Board had last considered the matter on August 26, 1985. But he also joined others in regretting that some SDR 34 million remained overdue with no sign of satisfactory settlement. As reported by the staff, Liberia had not adopted a comprehensive adjustment program, although some recent measures had been taken, and there was no clear indication of how the authorities proposed to live up to their stated commitments to make the necessary payments to the Fund.

On that basis, it would seem appropriate to decide at the present meeting that Liberia be declared ineligible to use the Fund's resources in accordance with the expectation expressed in the Executive Board's decision of August 26, Mr. Massé continued. He hesitated to support such an approach, however, first, because a new administration was being put in place, and second because it would seem to indicate rather more summary treatment of Liberia than of Guyana and Nicaragua, the two earlier cases discussed by the staff that seemed to offer precedents. Over 11 months had elapsed between the time Guyana had been found to have failed to meet its obligations and the actual declaration of ineligibility. For Nicaragua, the period would have been almost 11 months had the member not settled its obligations. By contrast, if the first version of paragraph 4 of the proposed decision were adopted, the period between the finding and declaration would be only six months for Liberia. For those reasons, and because Liberia had reduced its overdue obligations since August 26, he would prefer to allow the authorities some further time to make full settlement. The problem with Mr. Dallara's proposal for a period ending sometime in mid-December was that it would not permit the new Government sufficient time to put into place a comprehensive program of adjustment. The Board was likely to have no more than an indication at that time of the new Administration's views. Therefore, despite the fact that Janaury 6, 1986 was the date on which the President would name his new Administration, he would go along with a review of Decision No. 7987-(85/80) on January 6, 1986 in the hope that sufficient additional information would have become available to permit the Executive Board to make a positive judgment at that time.

The Chairman remarked that as he understood it, the second version of paragraph 4 of the proposed decision did not provide for a review but for an automatic declaration of ineligibility on January 6, 1986 unless Liberia were current in its financial obligations to the Fund.

The staff representative from the Legal Department confirmed that understanding.

Mr. Massé said that it was hard to believe that Liberia would be able to make full settlement of its arrears by that time. The best that could be hoped for was that the authorities would by then have given clear indications of their intentions to settle them quickly. The historical analogies that he had mentioned suggested that it had paid the Fund to give a member country more time to settle its obligations. Given the clarification of the purpose of the second version of paragraph 4, he found it even more difficult to reach a judgment. He was ready to go along with a declaration of ineligiblity at that time although it might not be the wisest decision, even from the Fund's point of view.

The staff representative from the Treasurer's Department, in response to a question by the Chairman, explained that when the cases of Guyana and Nicaragua had been brought to the attention of the Executive Board, the procedures had not been well defined. The periods between the various steps had since been shortened as the procedures had been firmed up. In proposing an alternative paragraph 4 in the draft decision on Liberia, the staff could not ignore the expectation expressed previously by the Executive Board, although it also felt that it was appropriate to give the Board another option in light of developments since the previous review.

The Chairman noted that the practical problem raised by Mr. Massé was that in the near future the Board might be confronted with a situation in which meaningful adjustment policies would have unfolded favorably for Liberia and in which the authorities would have made the maximum payments possible in the circumstances without necessarily making a total settlement. In that case, the member would still automatically become ineligible on January 6, 1986 under the alternative version of paragraph 4. The question was would such a decision bring a bridging arrangement or donor support any closer. Would the decision be detrimental or, neutral, to such developments?

The staff representative from the Legal Department noted that it would be up to the Executive Board to reach a judgment on how to facilitate an orderly resolution of the problems. However, it should be noted that if the Managing Director reached the conclusion that settlement of Liberia's overdue obligations was close at hand, the matter could be brought to the Executive Board with a proposal for an alternative course of action. Should such a conclusion be reached after the declaration of ineligibility, it would still be possible to submit a proposal to the Executive Board to bring that ineligibility to an end on the basis of arrangements which would result in making Liberia current in its financial obligations to the Fund. Ineligibility was not the end of the road, however important a milestone it might be.

Mr. Polak stated that in adopting the decision, it was necessary to be concerned about the Fund's credibility and the clarity of the messages it sent to countries. Three months previously, the Fund had expressed the expectation that it would declare Liberia ineligible on November 25 unless it had become current. Not to proceed to make that declaration would undermine to some extent the value of the statements made by the Fund in a number of other cases. Nevertheless, in spite of the fact that Liberia was by no means current with the Fund, to declare it ineligible would be the wrong decision, not only because of the recent substantial payment but more because of the communication that the staff had apparently sent to the authorities. As noted in EBS/85/257, Liberia had been urged to settle its arrears and had been requested, at a minimum, to make an expression of its intentions with respect to further payments to the Fund. That message seemed to him to suggest that ineligibility was not inevitable, even if no further payment was made. Therefore, although no reply had been received to the staff's communication--perhaps for the good reason that upheavals were taking place in the country--it would be improper to declare Liberia ineligible.

On the alternative proposal to employ the technique of stating that a declaration of ineligibility would be made as of a future date, Mr. Polak recalled that after its use in the case of Viet Nam, it had been decided that the expectation technique was better. Under the latter technique, the Fund made it clear that if a country made major efforts but fell short of becoming fully current, it would not be declared ineligible immediately. Although the effectiveness of the expectation technique had been reduced somewhat over time, it should be used in the Liberian case. The Executive Board should adopt a new decision indicating its expectation of declaring Liberia ineligible if, by the date set, it had not become current, keeping in mind that if a major adjustment effort were made or if developments seemed brighter, the declaration would not be made. The earliest date should be January 6, 1986 or, since a new Government was taking power on that date, one week later. He had every expectation that the country would be declared ineligible, whatever date was set, but as a general rule that final decision should be taken by the Executive Board and not by an alarm clock.

Mr. Nimatallah remarked that the various cases should be considered on their merits. According to his recollection, Guyana and Nicaragua had proposed a schedule of payments which the Executive Board had not accepted. If there was a possibility that the Liberian authorities might take some action, they should be given the benefit of the doubt. Therefore, he could go along with the expectation technique mentioned by Mr. Polak, even though he too believed that Liberia would be declared ineligible.

Mr. Rye said that he agreed with Mr. Polak that the Fund had to consider its own credibility. The terms of the August 1985 decision, which had been quite clear, had not been met, and failing any compelling reason to the contrary, the assumption must be that the Fund would do what it said it would do. He was not convinced that there was a major reason for the Fund to reconsider its previous decision: the efforts made by Liberia, while welcome, were by no means major; the change in administration to which Mr. Abdallah had drawn attention was not completely authentic; and he did not consider that the staff's telex to the authorities, to which Mr. Polak had referred, had been couched in terms requiring the Board to change its mind. Therefore, his own preference would be for declaring Liberia ineligible forthwith. However, if there was a consensus in favor of giving Liberia a further short period of time, he would go along reluctantly.

Mr. de Forges noted that the significant payments made by Liberia over the past two months and the statement by Mr. Abdallah on behalf of his authorities seemed to justify a further short delay. Moreover, a declaration of ineligibility should be made only if the member had been given formal notice that the only way in which it could be avoided was to make full settlement of its obligations to the Fund. The decision taken by the Executive Board on August 26 had left just enough room to justify adopting the second version of paragraph 4, which he supported.

If it were not to be declared ineligible to use the general resources of the Fund, the earliest date on which to require Liberia to be current in its financial obligations to the Fund should be January 6, 1986.

Mr. Zecchini said that he had taken note of the statements by the staff representative and Mr. Abdallah, and that he welcomed the new measures announced by the Government of Liberia. However, he still had doubts about the effectiveness of those measures in helping Liberia to become current with the Fund and would be interested in the staff's opinion in that respect. His own first reaction was to suggest that a strong program was needed without delay, in other words without waiting for the ceremonial installation of a new cabinet. It was not clear to him whether the urgent need for strong adjustment measures was clear to the Liberian authorities, who should be made acutely aware of it. The declaration of ineligibility to use the Fund's resources did not seem entirely warranted, even if it had been called for by the previous decision, because of the substantial payment made recently by Liberia that had reduced its overdue payments to the Fund and because of the new measures that had just been announced.

Therefore, neither of the two options for paragraph 4 of the proposed decision was fully satisfactory, Mr. Zecchini considered. While he could support the second option, he had in mind a third option that would maintain the expectation of a declaration of ineligiblity by the time of a further review on a date to be fixed. Depending on the outcome with respect to the settlement of obligations and the measures taken by the new Government, a decision with respect to the declaration of ineligibility would be made at that time.

Mr. Orleans-Lindsay observed that Liberia was clearly among those few countries in special, very difficult economic and financial circumstances. Mr. Abdallah's statement and the information provided by the staff representative about the measures the authorities had taken recently toward the formulation of a comprehensive adjustment program, together with the substantial partial payment made by them, led him to support the view expressed by Mr. Massé and Mr. Zecchini that a review was necessary and a date should be set for it. The authorities would then have a little more time, especially in view of the rapid changes in political administration that were taking place, to arrange to become current with the Fund. Therefore, he supported the second version of paragraph 4 of the proposed decision, under which another date for a review and for a declaration of ineligibility would be set.

Mr. Schneider said that he too was rather disturbed that Liberia had not yet adopted a strong and comprehensive adjustment program that would not only enable the Government to become current with the Fund but be beneficial to the country itself. Liberia had been able to reduce the total of its overdue obligations to the Fund. He took that as a sign of the serious intentions of the authorities to settle their overdue obligations in cooperation with the staff. Having listened carefully to the discussion so far, he would be ready to accept the second version of paragraph 4, as amended by Mr. Polak, whose approach seemed realistic, taking into account the current domestic political situation and the forthcoming formation of a new administration.

Mr. Abdallah said that the Minister of Finance had just conveyed a request by telephone for the matter of Liberia's overdue obligations to be placed on the agenda of the Executive Board on February 24, 1986. Meanwhile, the Liberian authorities would do their level best to resolve the problem.

Mr. Nimatallah said that weighing the constraint that frequent reviews imposed on the Board's time against the constraint imposed by its wish to give members the benefit of the doubt and an opportunity to make their best efforts to resolve their problems suggested that it might be advisable to maintain the expectation of a further review. However, the review would not take place if the Managing Director saw no necessity for it; the declaration of ineligibility would then become effective. In other words, the Managing Director would have to find that substantial developments had taken place which would justify a review.

Mr. Dallara observed that it was always difficult to achieve the right balance between taking into account the particular circumstances of an individual member and the overall credibility of Fund policies. He asked the staff whether earlier discussions in the Executive Board had set any useful precedents. Although Mr. Polak had recalled the reservations expressed in the Board about an automatic approach, he had not understood the Board to have excluded automaticity. There was a case for the Board to take its own decisions, but he did not consider that a decision to take effect at a later date meant that the Board was not taking action of its own; rather, the Board was moving the clock rather differently than if it decided to take a decision with immediate effect. He asked the staff whether he understood correctly that a decision could be taken at the present meeting that Liberia would be declared ineligible on whatever date might be deemed appropriate, and that in the interim, the Executive Board could discuss the matter again if the Managing Director considered that the circumstances warranted it.

The staff representative from the Legal Department confirmed that the Executive Board could return to the matter, if the Managing Director or any Executive Director considered that there was good reason to do so. The Executive Board would then take into account all the circumstances in determining an appropriate outcome. However, to provide for an expectation of a review that could become an automatic declaration of ineligibility, upon a finding by the Managing Director, would raise the difficulty that in effect the Executive Board would have to delegate authority to the Managing Director to declare a member ineligible, and he doubted the appropriateness of such an approach. As had already been noted, the staff had felt obliged to place alternative approaches before the Executive Board in the proposed decision, because it was the first time, to his knowledge, that, if the suggestions that had been made for a further review were accepted, the Executive Board would not be giving effect to an expectation that it had made previously.

Mr. Nimatallah remarked that it would seem more appropriate therefore to retain the second version of paragraph 4 as drafted. It was, after all, always possible for the Managing Director to bring a matter back to the Executive Board.

Mr. Foot noted that the August 26 decision of the Executive Board had reduced the room for maneuver although it had not removed it entirely. He would prefer not to declare any country ineligible on a lapse of time basis; such a decision was the responsibility of the Executive Board. As for leaving it to the Managing Director or to any Executive Director to initiate a further discussion in the Board, the Director who had in his constituency the country in question should raise the issue. Therefore, it would be better to provide for a review by the Executive Board on a certain date when the Managing Director would report on any progress that had been made. Neither the date of December 20 nor January 6 would be very helpful unless the intention was to look for major measures rather than for total clearance of arrears and a comprehensive program of adjustment. Of course, the later the date the more would be expected from the member; the earlier the date, the greater the uncertainty for the member. Finally, it should be borne in mind that declaring a member ineligible was a major step, one that might not be so easily reversed as the staff representative from the Legal Department had suggested.

The Secretary noted that one Executive Director had supported the first version of paragraph 4 under which Liberia would be declared ineligible forthwith. Two Directors could support the second version of paragraph 4, with a date by which Liberia should be current in its financial obligations to the Fund of December 20; two other Directors preferred a date of January 6, 1986 or somewhat later. Six Directors supported the second version of paragraph 4, as amended by Mr. Polak, to include provision for a further review by a given date.

Mr. Polak suggested, in response to a remark by the Chairman, that consideration be given to retaining the expectation clause included in the August 26 decision. The expectation technique would be devalued slightly, but perhaps for the last time. Any other modification of the wording would add to the loss of credibility of the expectation language.

Mr. Nimatallah said that in order to avoid unnecessary meetings of the Executive Board, it was essential to find language that would make the declaration of ineligibility automatic at a certain point, unless major developments intervened.

The Chairman commented that it would be difficult to avoid meetings if the Executive Director of the country in a difficult position exercised his right to bring the matter before the Executive Board.

Mr. Nimatallah explained that that was why he wished to urge the Executive Director most directly concerned to refrain from bringing the matter back to the Executive Board unless major developments had ensued.

Mr. Grosche reiterated that the Executive Board could decide that Liberia should be declared ineligible on a certain date--say, December 20, 1985--unless new developments were to justify placing the matter on the agenda of the Executive Board, at the request either of the Managing Director or an Executive Director. He saw no need to include wording in the decision to provide for such a meeting.

Mr. Dallara remarked that while he understood the concerns that had been expressed about the apparent inflexibility of taking a decision to become effective at a later date, any reformulation of an expectation would render meaningless the expectation technique, which had been developed to avoid taking such decisions in advance. It was extremely difficult to find wording that would combine the expectation technique and that of taking a decision to become effective at a later date without placing the Executive Board in the awkward situation of not having taken a decision, He was prepared to place confidence in the judgment of the Executive Director concerned not to bring the matter back to the Executive Board unless a strong case for reconsideration of the decision could be made.

The Chairman suggested that if it was decided to have an automatic cutoff point, it would seem necessary to state in his report to the authorities of the Executive Board's discussion that he would bring any major developments--in terms of payments, policy decisions, or discussions with the staff on a meaningful program--to the attention of the Executive Board before the cutoff date. It was important to explain to the authorities that it would be possible for them to take action, including less than full settlement of their overdue obligations, in order to avoid leaving them with the impression of inevitability with respect to ineligibility. It should be clear that a proposal by management to bring such a matter back to the Executive Board was different from a request by the Executive Director concerned for further reconsideration.

Mr. Rye said that he agreed with Mr. Dallara that a decision repeating the wording of the Executive Board's August 26 decision might well be taken as an indication of weakness. He believed that there was sufficient support for accepting the Chairman's cogent point that he should convey his views to the Liberian authorities on the basis of the discussion in the Executive Board without there being any need to incorporate those views in a decision, thereby weakening its effectiveness. Therefore, he supported the wording of the second version of paragraph 4 of the proposed decision.

Mr. Lundstrom considered that the decision to be adopted should be firmer than the one taken in August. The Executive Board would be able to revert to the matter if necessary. Therefore, he joined those Executive Directors who were in favor of retaining the second version of paragraph 4 as drafted, with a more appropriate date than January 6, 1986. It would be reasonable to give the authorities somewhat more time; the three months requested by the authorities would be too long but two months might strike a reasonable balance. The Managing Director would report on the discussion in the Executive Board, indicating clearly that it would be possible for the authorities to reverse the course of events that otherwise would take place automatically if repayments or other developments occurred that made it appropriate to reappraise the situation.

Mr. Massé noted that Mr. Lundstrom's proposal had the advantage of retaining a strong decision but leaving the door open until, say, January 20. The new Government would feel the pressure of the impending automatic declaration of ineligibility while at the same time the Managing Director or an Executive Director could reopen the issue if developments so warranted.

Mr. Foot observed that two months would meet his point that a fuller response on the part of the Liberian authorities would be facilitated by a longer time period.

Mr. Polak said that it would be unfortunate if the possibility of using the expectation technique were to be lost because of a decision not to extend the expectation in the August 26 decision on Liberia until, say, January 20, 1986. If as seemed likely Liberia were declared ineligible on that date, the expectation technique could be restored.

The Chairman remarked that the objective should be to ensure that the country took action to put its affairs in order and thereby avoid ineligibility. The inconvenience of restoring the expectation technique was that it tended to affect the credibility of the Fund. The alternative was to indicate a date on which the ineligibility would take effect if no major developments had taken place, thereby keeping the door open as he would indicate clearly to the Liberian authorities that it was up to them to take strong enough action for him to bring the matter back to the Executive Board.

Mr. Polak commented that unless the wording of the second version of paragraph 4 were amended to indicate that the door was, in fact, being kept open, there would be a contradiction between the decision requiring Liberia to be current by the stated date to avoid ineligibility and the message that was to be conveyed to the authorities based on the discussion in the Board.

Mr. Dallara said that Mr. Polak had pointed to a real problem, which was not necessarily any greater than the problems associated with other approaches that had been suggested. A carefully worded communication from the Managing Director to the authorities in conjunction with a clear decision by the Executive Board would accomplish the objective sought with a minimum of confusing signals. He remained uncomfortable about extending the date beyond January 6, although he was prepared to go along with the majority view. But he wished to point in that connection to the possible relationship between the approach being taken in the case of Liberia--and without minimizing the need to take into account the particular circumstances of Liberia--with the general policies and procedures for dealing with overdue obligations, which would be discussed later that day.

Mr. Nimatallah said that he could go along with an extension of the deadline to about January 20. However, he had grave doubts about the wisdom of introducing other requirements than the need to be fully current in the wording of paragraph 4 of the proposed decision.

Mr. Sengupta remarked that the logic of Mr. Polak's position was irrefutable, unless Liberia was likely to become fully current by the date specified in the decision.

Mr. Sugita expressed his support for a stronger decision than the one adopted on August 26, 1985--namely, one including the second version of paragraph 4. He could be flexible with respect to the date.

After a further brief discussion, the Executive Directors agreed to accept the proposal by the Managing Director to bring the matter back to the Executive Board before January 24, 1986, if Liberia were to make major payments to the Fund and to indicate in the clearest terms, including through the implementation of strong adjustment measures, that prompt and full settlement of the arrears was in clear prospect.

Mr. Abdallah said that the approach taken by the Executive Board should make it a little easier to convey to the Liberian authorities the need for cooperation with the Fund on strong adjustment measures.

The staff representative from the Treasurer's Department explained that there had been nothing in the communication to the Liberian authorities, to which reference had been made during the discussion, to suggest that anything less than full settlement of the overdue obligations had been expected subsequent to the adoption of the August 26 decision. The staff had simply sought to elicit as much information as possible about when and how payments might be made.

The Executive Board then took the following decision:

1. The Fund has reviewed further Decision No. 7987-(85/80) G/S/TR adopted May 24, 1985, regarding the nonobservance by Liberia of its financial obligations to the Fund, in light of recent developments, including recent contacts and communications between the Fund and Liberia, as set forth in EBS/85/257 (11/19/85).

2. The Fund welcomes the recent partial payments by Liberia. The Fund regrets, however, the continuing nonobservance by Liberia of its financial obligations to the Fund and continues to urge Liberia to settle promptly all overdue obligations to the Fund.

3. The Fund also regrets that Liberia has not yet adopted a strong and comprehensive program of adjustment and again urges that the authorities adopt such a program as a matter of urgency.

4. Unless by January 24, 1986 Liberia is current in its financial obligations to the Fund, with effect on that date Liberia will be ineligible to use the general resources of the Fund pursuant to Article XXVI, Section 2(a), and the right of Liberia to use SDRs it acquires after January 24, 1986 will be suspended pursuant to Article XXIII, Section 2(b).

Decision No. 8134-(85/169) G/S/TR, adopted November 25, 1985

3. TANZANIA - OVERDUE FINANCIAL OBLIGATIONS - REVIEW OF DECISION ON COMPLAINTS UNDER RULE K-1 AND RULE S-1 AND NOTICE OF FAILURE TO SETTLE TRUST FUND OBLIGATIONS

The Executive Directors considered a staff paper on the review of Decision No. 8056-(85/126) G/S/TR on complaints under Rule K-1 and Rule S-1 with respect to Tanzania's overdue obligations to the General Department and SDR Department and the notice of Tanzania's failure to settle Trust Fund obligations (EBS/85/256, 11/20/85; and Sup. 1, 11/22/85).

The Chairman noted that following the receipt of a payment of SDR 1.9 million, the staff had prepared a supplement to its paper, including a revised proposed decision providing for a further review not later than February 24, 1986.

Mr. Mtei remarked that it was hardly necessary for him to restate what he had said on the previous two occasions when the Executive Board had discussed Tanzania's overdue financial obligations about the great importance attached by the authorities to their relationship with the Fund. They were aware that settlement of their overdue obligations to creditors was essential to the restoration of their external creditworthiness and good reputation in the international community.

However, as the staff had pointed out in EBS/85/256, Tanzania's economic situation had continued to deteriorate in the first half of 1985 and the scarcity of foreign exchange had become more severe, Mr. Mtei went on. The collapse of the prices of Tanzania's major export commodities, coupled with delayed shipments, had aggravated the foreign exchange situation. More recently, the country had gone through an historic general election, leading to the formation of a new government early in November under a new president. In his first address to Parliament, the new leader had underlined, as his first priority, his determination to ensure economic recovery and growth. To that end, he had pledged that the Government would make a major effort to negotiate an adjustment program with the Fund coupled with a possible structural adjustment loan from the

World Bank. The Tanzanian authorities were aware that their overdue obligations to the Fund would have to be cleared before such negotiations could take place. In the meantime, they intended to hold comprehensive policy discussions with the mission expected to arrive in Dar es Salaam in the first week of December for the 1985 Article IV consultation. He felt certain that the authorities would be ready to examine any proposals the staff might make with respect to the elimination of their arrears.

Notwithstanding their difficult economic situation and the acute shortage of foreign exchange, and in order to underscore the priority they attached to their obligations to the Fund, his Tanzanian authorities had made a payment of SDR 1.9 million and submitted the proposals for further payments outlined in the supplement to the staff paper, Mr. Mtei stated. In a telegram to the Managing Director, the Minister of Finance and Planning had explained that the Government was doing its utmost to deal with its overdue obligations. In view of the payment that had just been made and the forthcoming consultation mission, it seemed only right and proper for him to urge the Board to show special understanding during its current review of Tanzania's case.

Mr. Nimatallah asked how long it would take the staff to prepare a brief report upon its return from the consultation discussions to be held in December. He recalled that a staff mission to Sudan had been able to make a clear appraisal of the situation in the country in a brief report to the Executive Board within three to four weeks. The Executive Board would benefit in making its own reviews from having an idea of the extent to which the staff was satisfied with the situation in a country or found that substantially more needed to be done.

The Chairman noted that Executive Directors could be notified in a more informal way of the first results of the staff mission.

Mr. Nimatallah observed that three important factors distinguished Tanzania's situation from that of other countries with overdue obligations to the Fund. First of all, there was a new Government, which seemed to have good intentions of resolving the country's problems; he hoped that those intentions would be translated into early action. Second, a payment had been made recently, together with the promise of further payments. Third, the staff had been invited to discuss various matters with the new authorities with a view to helping them carry out comprehensive adjustment policies.

Therefore, in order to enable the Board to review Tanzania's case on the basis of the brief report to be prepared by the staff on its return, Mr. Nimatallah considered that the date for the further review should fall somewhere between the date of January 6, which had been included in the draft decision before the issuance of the supplement to the staff paper, and February 24, the date proposed in the revised draft decision. He would like to know the intentions of the authorities well before that latter date.

Mr. Rye commented that he too had been heartened by recent developments in Tanzania, including the evident expressions of willingness to do whatever was possible to rectify the member's relationship with the Fund. He suggested that two months from the date of the current review might be an appropriate compromise between January 6 and February 24 for the date of the next review and also give the staff enough time to make the assessment requested by Mr. Nimatallah.

Reference had been made in the supplement to the staff paper to the authorities' hope of submitting a program "according to which periodic payments would be made so as to be current with the Fund within 18 months at a maximum," Mr. Rye observed. Such a program would seem to be an act of rescheduling by the Tanzanian authorities, who should not be left under any apprehension that that would be acceptable.

Mr. Foot said that his authorities regretted the continuing nonobservance by Tanzania of its financial obligations to the Fund. Full and prompt settlement of arrears to the Fund should be made, and a strong and comprehensive program should be adopted with urgency in order to bring about the necessary economic adjustments.

The two small rays of hope were, as the previous speakers had pointed out, the modest payment that had been made and which was a welcome sign of good intentions, and the prospect for a mission to discuss a country's problems with the new Government, Mr. Foot continued. In the circumstances, his authorities could support a decision to review Tanzania's position again at an appropriate point. He had less firm views about the date for the review than about the need to leave the Tanzanian Government in no doubt about the importance of putting the additional time they would have to good use. As he had mentioned during the discussion of the proposed decision on Liberia's overdue obligations, the longer the time period, the more should be expected from the member.

Finally, Mr. Foot remarked that the supplement to the staff paper had been circulated with very short notice to Executive Directors, thereby encouraging them to find grounds for repeatedly reviewing a decision. He hoped that staff papers on overdue obligations could be issued further in advance in future.

The Chairman responded that it was he who had asked for the supplement to the staff paper, in part because the Tanzanian authorities had made a payment, which should be a cause for optimism rather than for regret.

Mr. Grosche said that it was most disappointing to note that since the Executive Board had taken its first decision on Tanzania's overdue financial obligations, the economic situation had continued to deteriorate and no economic measures had been taken in connection with a new budget that could be considered to be at least a first step toward a comprehensive adjustment program. It was no wonder that the scarcity of foreign reserves had become more serious. Such inaction could not be accepted as an excuse for increasing arrears to the Fund. His initial harsh attitude had been softened by the information in the supplement to the staff paper and by an expectation that the forthcoming 1985 Article IV consultation discussions might result in a new policy stance once the transition of power subsequent to the recent elections had been completed.

He took it as a sign of good will that a small payment had been made and that Tanzania had indicated its intention to make further payments before the end of the year, Mr. Grosche concluded. Although the amount received was too small, he agreed with the staff proposal not to state in the decision that a declaration of ineligibility would become effective within six weeks, if full settlement was not made, but to give Tanzania a further period to find a solution. However, he expected that Tanzania would use the period to deal effectively with its serious economic problems, including its arrears to the Fund.

Mr. Massé remarked that it was disquieting that despite the recent payment of SDR 1.9 million, Tanzania's overdue obligations to the Fund had increased by one third since the Executive Board's decision of August 26. However, the payment did indicate movement, and there was cause of hope for further developments in the communications received from the Minister of Finance and the Governor of the Bank of Tanzania, even though the member's proposals for clearing its arrears might not be fully satisfactory to the Executive Board. In addition, elections had taken place in Tanzania since the Board's discussion in August, and a new Government had taken office. The 1985 Article IV consultation discussions would provide an opportunity to discuss with that Government not only the clearance of the overdue obligations but also the measures necessary to restore balance to the Tanzanian economy.

For those reasons, Mr. Masse considered, a period should be allowed to enable the authorities to act on the arrears. However, since the payments to the Fund had been relatively small and since fully satisfactory measures had not yet been announced, the three-month period proposed might be too long. He would go along with the suggestion by previous speakers that two months should be enough, namely, until January 24.

Ms. Bush joined other Directors in welcoming the recent positive signs including the payment of SDR 1.9 million and the authorities' willingness to make additional payments before the end of the year and to work with the Fund. However, like Mr. Rye, she was disturbed to learn that they had suggested an 18-month schedule of periodic payments. It was incumbent upon the Executive Board to make clear to the new Tanzanian Government that such a rescheduling was unacceptable for Fund members. As she understood it, the authorities were aware that arrears must be paid before a Fund-supported program could be negotiated, but had expressed their intention to work with the Fund and the World Bank. She hoped that that expression of intent would override their proposal for clearing the arrears. Fortunately, a staff mission was scheduled to leave for Tanzania before the end of the year.

In conclusion, Ms. Bush said that she could accept the revised draft decision in the supplement to the staff paper, but with a period of two months rather than three months, which would be too long.

Mr. Finaish said that he welcomed the recent payment made by Tanzania. Although it was only partial, it pointed to the authorities' intention to move toward the full normalization of financial relations with the Fund. Mr. Mtei's remarks had also made him more hopeful of further movement in the near future. In the circumstances, he supported the proposed decision, including the date of February 24; if the Board wished to shorten the three month period, the date of January 6 would probably be too soon.

Mr. Orleans-Lindsay observed that the continuing nonobservance by Tanzania of its financial obligations to the Fund was regrettable. It was also disappointing that the Tanzanian authorities had not felt the necessity to implement a comprehensive adjustment program aimed at halting the deterioration of the economy and the finances of the country. However, it was very reassuring to learn from Mr. Mtei that the new Government intended to make a major effort toward the formulation of an adjustment program in order to help restore Tanzania's normal financial relationship with the Fund. The relatively small partial payment of SDR 1.9 million was a welcome development. The Executive Board should continue to show flexibility and allow the Tanzanian authorities up to February 24, 1986 for a further review of the matter.

Mr. Lundstrom said that he too welcomed the encouraging signals given in the statement by Mr. Mtei. He wished the new administration well in the tremendous tasks ahead of it. Quite some time would obviously be needed before the economic policies pursued over several past years could be revised. Therefore, he would not be in favor of shortening the period suggested in the draft decision. He could go along with February 24, 1986 as the date for the review in the Executive Board.

Mr. Sengupta stated that he fully supported the revised draft decision. He heartily welcomed the intention of the Tanzanian Government to adopt the right kind of policies in order to resolve its situation. In that connection, he wished to reinforce the position taken by Mr. Lundstrom in favor of a longer period for the review by the Board. As he had mentioned in discussing the situation of Liberia, the Fund should make its intentions plain. If the objective was to give the new Tanzanian Government a chance to adopt appropriate policies, the time period should be one that would make such changes feasible. At the same time, the Board should not hesitate to take a firm decision. There was no point in setting a period that would come to an end early in January, with the possibility of yet another postponement. It had been agreed that the Managing Director should communicate directly with the Liberian authorities; he himself would have preferred to avoid any implication that the Fund would be willing to consider a change in a formal decision at a particular point of time, knowing full well what the outcome was likely to be. In Tanzania's case, the Board should make clear its belief that policy change was feasible and that it was willing to give the authorities the necessary time, which in the view of the staff was February 24, 1986. He agreed with that position.

Mr. Salehkhou said that like others he welcomed Tanzania's payments, which had been difficult for them to make, as Mr. Mtei had mentioned. The authorities' suggested outline of a time period within which they would clear their arrears showed that they were taking a serious and pragmatic approach which should not be reciprocated by statements to the effect that a member was attempting to reschedule. After all, the Fund had been asking other members with overdue obligations to come up with plans for clearing arrears, and Tanzania should be no exception. The three months allowed in the draft decision would be a reasonable period for the Tanzanians to take further action. He supported the date of February 24, as proposed by the staff.

Mr. Pérez said that he also supported the revised draft decision proposed by the staff in the supplement to its paper. Three months would be a more appropriate period to allow the new government to adopt adequate measures.

Mr. Polak remarked that he had found the original proposal by the staff to be too harsh, in light of the material presented in EBS/85/256. He had thus been rather surprised by the totally different draft decision in the supplement to that paper, given the small payment made. Therefore, he favored a further review by January 24 rather than February 24.

The Secretary said that 7 Directors could go along with a revised draft decision including the date of February 24; 5 Directors were more inclined to favor the date of January 24, but in terms of voting power, the sense of the meeting went in the direction of supporting January 24 rather than February 24.

The Executive Board then took the following decision:

1. The Fund has reviewed Decision No. 8056-(85/126) G/S/TR, adopted August 26, 1985, in light of the facts described in EBS/85/256 (11/20/85), and EBS/85/256, Supplement 1 (11/22/85) pertaining to Tanzania's overdue financial obligations to the Fund.

2. The Fund welcomes the payment made by Tanzania on November 21, 1985. However, the Fund regrets the continuing non-observance by Tanzania of its financial obligations to the Fund and notes that further substantial obligations will fall due in the near future. The Fund urges the Tanzanian authorities to make full and prompt settlement of the overdue financial obligations to the Fund.

3. The Fund calls on Tanzania to adopt urgently a strong and comprehensive program that would result in necessary economic adjustment.

4. The Fund shall again review Decision No. 8056-(85/126) G/S/TR not later than January 24, 1986, taking into account any further developments. Unless at the time of that review Tanzania is current in its financial obligations to the Fund, the Fund will consider the appropriateness of further steps, including the possibility of declaring Tanzania ineligible to use the general resources of the Fund pursuant to Article XXVI, Section 2(a), and of suspending the right of Tanzania to use SDRs it acquires after the date of the review pursuant to Article XXIII, Section 2(b).

Decision No. 8135-(85/169) G/S/TR, adopted
November 25, 1985

Mr. Salehkhou raised the procedural point of whether those Executive Directors who had not expressed a view were considered to have consented to the decision.

The Secretary explained that when country matters--for instance, Article IV consultations and the use of Fund resources--were on the agenda, the practice was to consider that those Directors who had not spoken associated themselves with the staff appraisal and the proposed decisions. When policy issues and related procedures were being discussed, only the views of those Directors who had spoken were taken into account in formulating the sense of the meeting; Directors who had not taken a formal position were understood not to have wished to have cast a vote but to abstain. The procedure had been clarified and confirmed when the Executive Board's work procedures had last been reviewed in 1979. The Board had not formally considered its work procedures since then.

DECISIONS TAKEN SINCE PREVIOUS BOARD MEETING

The following decisions were adopted by the Executive Board without meeting in the period between EBM/85/168 (11/20/85) and EBM/85/169 (11/25/85).

4. YUGOSLAVIA - STAND-BY ARRANGEMENT - REVIEW OF EXTERNAL FINANCING ARRANGEMENTS

The Fund has been informed that agreement in principle has been reached between Yugoslavia and its major commercial bank creditors on the refinancing of maturities falling due during the period from January 1, 1985 until December 31, 1988, which encompasses the period covered by the stand-by arrangement. In light of this information, the Fund determines that the requirement in paragraph 4.e of the stand-by arrangement is met. (EBS/85/255, 11/18/85)

Decision No. 8136-(85/169), adopted
November 21, 1985

5. GROUP OF TWENTY-FOUR - SPECIAL MEETINGS - PROVISION OF SECRETARIAT SERVICES

In response to a request from the Chairman of the Group of Twenty-Four for secretariat services at a special meeting of the Group to be held in Buenos Aires during the first week in March 1986, the Executive Board approves the proposal set forth in EBAP/85/278 (11/18/85).

Adopted November 21, 1985

6. APPROVAL OF MINUTES

The minutes of Executive Board Meetings 85/25 through 85/27 are approved. (EBD/85/291, 11/15/85)

Adopted November 21, 1985

7. EXECUTIVE BOARD TRAVEL

Travel by Executive Directors as set forth in EBAP/85/281 (11/19/85) and EBAP/85/282 (11/21/85), and by an Assistant to Executive Director as set forth in EBAP/85/280 (11/19/85) is approved.

APPROVED: July 10, 1986

LEO VAN HOUTVEN
Secretary