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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 85/172

3:00 p.m., November 27, 1985

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

Executive Directors	Alternate Executive Directors
	Mawakani Samba
C. H. Dallara	M. K. Bush
J. de Groote	H. G. Schneider
B. de Maulde	
M. Finaish	T. Alhaimus
	M. Sugita
G. Grosche	B. Goos
J. E. Ismael	
A. Kafka	
T. P. Lankester	M. Foot
H. Lundstrom	H. Fugmann
M. Massé	L. Leonard
E. I. M. Mtei	A. Abdallah
	B. Jensen
	J. E. Suraisry
	L. P. Ebrill, Temporary
	G. Ortiz
J. J. Polak	J. de Beaufort Wijnholds
	A. V. Romuáldez
	O. Kabbaj
A. K. Sengupta	
S. Zecchini	N. Coumbis
Zhang Z.	Jiang H.

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

Also Present

IBRD: M. Farsad, Europe, Middle East and North Africa Regional Office; G. Koenig, Latin America and the Caribbean Regional Office. Central Banking Department: S. P. Leite. European Department: L. Whittome, Economic Counsellor and Director; N. L. Happe, H. B. Junz, W. E. Lewis, T. H. Mayer, G. Szapary. Exchange and Trade Relations Department: W. A. Beveridge, Deputy Director; M. Guitián, Deputy Director; J. Berengaut, J. T. Boorman, L. Hansen. External Relations Department: H. P. Puentes. Legal Department: G. P. Nicoletopoulos, Director; W. E. Holder, A. O. Liuksila, J. M. Ogoola. Middle Eastern Department: M. Zavadjil. Research Department: W. C. Hood, Economic Counsellor and Director; M. A. Wattleworth, N. M. Kaibni, P. R. Menon, A. Muttardy, L. A. Wolfe. Secretary's Department: A. P. Bhagwat. Treasurer's Department: W. O. Habermeier, Counsellor and Treasurer. Western Hemisphere Department: E. Wiesner, Director; S. T. Beza, Associate Director; J. E. González, R. Incer, A. Linde, T. P. McLoughlin, J. P. Pujol, F. van Beek, E. Williams. Personal Assistant to the Managing Director: R. M. G. Brown. Advisors to Executive Directors: S. M. Hassan, J. Hospedales, G. Nguyen, P. Péterfalvy, G. W. K. Pickering, M. Z. M. Qureshi, A. Steinberg, D. C. Templeman, A. Vasudevan, K. Yao. Assistants to Executive Directors: H. Alaoui-Abdallaoui, A. Bertuch-Samuels, J. de la Herrán, J. J. Dreizzen, V. Govindarajan, G. D. Hodgson, L. Hubloue, A. R. Ismael, S. King, M. Lundsager, K. Murakami, M. Rasyid, J. Reddy, M. Sarenac, S. Simonsen, B. Tamami, H. van der Burg, E. L. Walker.

1. DEBT STRATEGY - STATEMENT BY MANAGING DIRECTOR AND PRESIDENT OF WORLD BANK

The Chairman noted that both he and the President of the World Bank had recently come to the conclusion that the different interested parties having worked for some time on the debt strategy, the time had come to make a public statement in order to encourage the full acceptance of the strategy by the international banking community. The banks had made considerable progress among themselves toward accepting their vitally important role, but both he and the President of the World Bank felt that greater progress might be forthcoming if a joint public statement was made, affirming the support of the Executive Boards of the two institutions for the broad thrust of the debt initiative, which was geared to resolving urgent problems. The statement would draw attention not only to strong support of the Managing Director of the Fund and the President of the World Bank for the strategy but their view that because it was geared to resolving urgent problems, it was time to translate the ideas underlying it into positive, early action. The two institutions stood willing to play their own parts in the implementation of the debt initiative, and both would cooperate constructively and fully with their members, with other sources of finance, and with the banks to deal with those problems and to work toward more sustained economic growth.

The reactions of the banks so far indicated that they were expecting a manifestation of support from the Fund and the World Bank, the Chairman noted. Discussions among the banks were continuing, and they would be assisted in formulating their agreements by a joint statement of the sort that he was proposing should be issued within the next few days. Such a statement would be in line with the discussions that had taken place in the Executive Board and would be in keeping with the interests of the membership. It would also confirm the strength of the cooperation between the Bretton Woods institutions and not only their strong support for the strategy (see Press Release No. 85/37, 12/2/85, and Press Release No. 85/41, 12/15/85).

2. YUGOSLAVIA - REVIEW UNDER STAND-BY ARRANGEMENT

The Executive Directors resumed from the previous meeting their consideration of a staff paper on the review under the stand-by arrangement for Yugoslavia, together with a proposed decision (EBS/85/243, 10/31/85, and Cor. 1, 11/7/85).

The staff representative from the European Department said that the external adjustment achieved and the performance of the external sector in general, particularly in 1985, was less fragile than had been indicated during the discussion. From the time when the adjustment period had begun, and when the balance of payments deficit had been at its peak, there had been a swing of 7 percentage points of gross social product (GSP) from a deficit in convertible currencies on the current external account of 5 1/2 percent of GSP to a surplus of 2 percent. Even more remarkable, the improvement had been steady and sustained; moreover, in a difficult world trade environment, Yugoslavia had managed to replace 7 percent of its exports which had been lost, with the shrinkage of demand in some of its major markets in the Middle East, with exports to industrial countries. The use of the exchange rate instrument should be viewed in the context of that sustainable external performance. Certainly, as had been pointed out during the discussion, the exchange rate had to be viewed in the context of all the other policy instruments and circumstances in which it was being used.

The formula for adjusting the exchange rate did not create inflation, as Mr. Zecchini had suggested, but rather put a floor under inflation, the staff representative added. The producer price index used was largely a tradable goods index; but as monetary policy was not as effective as it might be, the formula led to a greater pass-through of the effect of exchange rate adjustments into the domestic price environment than might otherwise take place. Although there were considerable risks in trying to change such a formula, consideration should be given to making it work better. In the early 1980s, the exchange rate clearly had been wrong. It was hard to say what the right exchange rate was, especially at the present time, because the effects of the changes in the foreign exchange allocation system were not known. Therefore, it was not clear whether the structure of incentives, particularly through the price mechanism, was adequate. Certainly, exporters should not have the option of being able to freeze their production structure as a result of continuous price adjustment through the exchange rate; that would lead to a loss of dynamism on the export side. Those fundamental questions would need to be explored thoroughly in the upcoming discussions with the Yugoslav authorities.

In order to have a full understanding of Yugoslavia's external debt burden, the staff representative continued, it was necessary to recognize that the percentage increases appeared to be extremely large because the debt was denominated in dollars; therefore, measurement in terms of GSP, following the very large exchange rate adjustments that had been made, inevitably would lead to large increases in the ratio. In fact, Yugoslavia was among the very few countries that had actually repaid debt. In 1983, the debt in convertible currencies, as reported to the staff, had reached a peak of $19 billion; since then, about $0.5 billion had been repaid, and repayment was expected to continue throughout the next several years. It was in that connection that the staff had tried to facilitate the ability of the Yugoslav authorities to make drawings on schedule under the stand-by arrangement, even when the indulgence of the Executive Board had had to be sought in respect of approval of decisions like the one which had recently been adopted on a lapse-of-time basis. The authorities were greatly concerned to protect their standing in international financial markets by drawing on schedule, thereby confirming that there had been no question of a substantive failure on their part to meet the performance criteria under the stand-by arrangement. From the information made available to the staff by both the authorities and the banks, who now were circulating the documents on the multiyear rescheduling arrangement for final comment, nothing should stand in the way of the signing of the agreement in the week of December 16. Similarly, it had seemed to the staff that it would be essential, if Yugoslavia was to preserve its access to the international credit market, for the authorities to provide adequate and forward-looking information as part of the enhanced monitoring related to the multiyear rescheduling arrangement with the commercial banks. The banks themselves had not required a change in the monitoring procedure.

On the question whether recent changes in price policy indicated a return to administrative controls, the staff representative explained that the information on price changes that the authorities had decided to seek recently was not intended to be used for purposes of interfering with price formation. In fact, the authorities had indicated to the staff that the Annual Resolution that would set out pricing policies for 1986 was expected to call for the dismantling of administered prices in areas that in most countries were not freely determined--for instance, energy, telephone and telegraph, and transportation. However, it was unfortunate that the announcement by the Government requesting prior notification to the Federal Bureau of Prices had apparently raised fears of a return to price control, both on the part of internal and external observers. Therefore, part of the surge in prices in October could be accounted for by precautionary price increases by enterprises that were trying to establish as high a price base as possible.

Workers in enterprises, who were of course also the stockholders, received about 66 percent of enterprise income, the staff representative stated. On average, about 22 percent of enterprise income was retained in the enterprises; those making good profits probably had a much higher retention rate.

Uniform application of monetary credit ceiling and reserve requirements across the banking system would not help to smooth out regional differences, the staff representative noted. Rather, it would exacerbate them because the differences in the economy were regionally based. Thus, in those parts of the country not producing for export, savings rates were relatively low and producers had less access to liquidity than in the export-oriented areas that generated more liquidity and had more access to preferential credits. Basic changes in the way in which credit was allocated would therefore be helpful.

The simultaneous rise in nominal GSP with what were purportedly tighter monetary policies was related to the structural factors underlying inflation to which she had referred, the staff representative noted. However, inflation had been brought down from an annual rate of 83 percent in the first five months of 1985 to 65 percent in the five months ending October 1985. Although a better performance would have been desirable, even that winding down of inflation would not have been possible in the absence of the monetary policy that had been followed. Whether monetary policy could be changed, and in what way, to achieve a more desirable distribution of output and to avoid excessive stockpiling would depend largely on a further unwinding of inflation expectations in the context of some of the structural measures that had been mentioned--for instance, those relating to financial discipline of enterprises, the ability of enterprises to invest liquid funds in the banking sector, and the willingness of the authorities to follow through with the implementation of improved accounting procedures so that enterprises suffered the consequences of their management errors. The outcome would thus depend on the authorities' staying their policy course and implementing those specific measures effectively. An increase in government investment would not be very helpful--depending again on its quality--to some extent because resources might simply be shifted from stockbuilding into other equally uneconomic projects.

The staff was as concerned about unemployment and the rise in unemployment, particularly among the young, in Yugoslavia as elsewhere, the staff representative noted. If there had been less focus on the unemployment problem in the Yugoslav system, it was because employment was increased at least by the rate of influx into the labor force so that falls in demand showed up in a loss of productivity rather than in an additional increase in unemployment. For that reason also, the final results of measures to bring about a better inflation performance would not be fully visible until economic growth resumed.

As the staff had argued all along, there might be some room to cut enterprise taxes, especially as it was the profitable ones that paid the taxes, the staff representative added. That was why the staff continued to include understandings in the program regarding fiscal policy under which increases in revenue, particularly if they accrued to public entities as a result of inflation, would be given back to the economy at large. Thus, in early 1986, significant reductions in tax rates were expected; the understandings would not be considered as having been observed if those cuts were not implemented.

Referring to the waiver granted by the Executive Board in April 1985 with respect to the application of the interest rate formula, the staff representative recalled that the authorities would have had great political difficulty in raising the rates to the extent required on April 1. The waiver had covered a very short period, and because in the end proved that the authorities' hopes of much lower inflation rates had proven to be misplaced, interest rates had been raised in the second half of May to 67 percent and, subsequently, to 70 percent. The period covered by the waiver had therefore been about 45 days.

World Bank staff was on the way back from a mission to Belgrade to discuss the possibilities for a second structural adjustment loan, the staff representative from the European Department stated. The new foreign exchange allocation system would be a crucial element in the World Bank's decision on moving ahead with such a loan. The staff of the Fund and the World Bank had been working closely together and had participated in each other's missions. Although the final shape of the foreign exchange allocation system was not yet known, some of the problems associated with it were unlikely to be resolved. The reason why it would tend to freeze production structures was that allocations of foreign exchange would be based on past import needs and past export performance. Thus, possibly wasteful use of imports would be rewarded.

The staff representative from the Exchange and Trade Relations Department explained that the schedule for the review had been determined for reasons similar to those underlying the request for Executive Board approval of the arrangement with the banks on a lapse-of-time basis. Upon the return of the mission, when it became clear that performance criteria could not be set, the staff was faced with the option of the procedure suggested in the draft decision in EBS/85/243 or of delaying the conclusion of the review. The latter option was judged not to be the best way to proceed because it would have denied the Executive Board the early opportunity that it had expected to review the economic situation in the country and indeed to put forward its ideas on the type of policies to be reflected in those new criteria. In addition, to leave the review incomplete, particularly at a sensitive point in the authorities' discussions with the banks, could have created some uncertainty in the markets. Therefore, notwithstanding the importance of establishing the performance criteria, it had been considered preferable to complete the review in the meantime, especially since drawings under the arrangement would not be affected.

A diversity of views had been expressed on the design of programs in planned economies, the staff representative noted. Mr. Zhang had suggested that it might be time for the Fund to defer to the policy preferences of the authorities. Mr. Goos, however, had indicated that the staff had proposed a program that was perhaps not sufficiently comprehensive. Mr. Zecchini had made an appeal to the staff to look more deeply into the microeconomic variables affecting the Yugoslav economy. The Executive Board would have an opportunity early in 1986 to hold a general discussion on the design of programs and policies in planned economies. However, it was worth noting in the Yugoslav context that planned economies covered a spectrum along which the Yugoslav economy was probably moving more rapidly than were most other planned economies. It was difficult to predict how effective the measures of liberalization that the Yugoslav authorities were taking in an attempt to introduce a greater number of market incentives into the economy would be in particular sectors of the economy. The staff and the authorities had been learning, as time went by, where those innovations were not yet working. Sometimes the staff had been able to latch onto the authorities' own plans to establish mechanisms for overcoming some of the deficiencies resulting from the absence of market forces. For instance, the limitations on income payments by loss-making enterprises and on transfers from reserve funds had been put in place to try to ensure that the revenue effects of exchange rate and price changes were allowed to affect enterprise income and lead to the desired shift in resources. Yet some criticism had been expressed in the Executive Board of the number of performance criteria and their rather more microeconomic nature than usual. The staff had tried to find an appropriate balance in the design elements of the Yugoslav program. It was important to bear in mind that as the environment changed in a country like Yugoslavia, the need to affect particular sectors of the economy with performance criteria was inevitably a somewhat experimental process because of the inability to make broad assumptions about the efficacy of market signals and pressures within the economy.

Mr. Lankester remarked that he had not been entirely satisfied by what the staff had had to say about stock building. As an indication of the extent of the problem, he had noted that the estimate of stock building in the staff paper on the request for the stand-by arrangement had been half the estimate in the staff paper under discussion--10 percent of GSP, as opposed to 20 percent of GSP in 1985. He trusted that the staff would take up the questions he had raised with the authorities during the course of the Article IV consultation discussions. There was, first, the statistical issue and, second, the question of what policies the authorities should adopt to reduce the amount of stock building without adversely affecting the growth of the economy.

Finally, Mr. Lankester recalled that he had raised certain questions relating to the future role of the Fund in Yugoslavia.

The Chairman recalled that the Executive Board had taken a positive attitude in principle on enhanced surveillance for Yugoslavia at its informal discussion on July 22, 1985 (EBS/85/171, 7/19/85). As he understood it, the official request would be received early in 1986. The commercial banks, in agreeing on a multiyear rescheduling arrangement with Yugoslavia, had taken stock of the Executive Board's agreement in principle to enhanced surveillance. The position to be taken by the Paris Club had not yet been shaped up; it would not necessarily take the same form. His personal view, which he had expressed to the Paris Club Secretariat, was that in the Fund's judgment it would be helpful if official creditors were to consider the possibility of a multiyear rescheduling arrangement.

In responding to Mr. Lankester's questions in that connection, the Chairman recalled that the Executive Board had agreed in principle on a number of broad principles and guidelines relating to enhanced surveillance when it had discussed the role of the Fund in assisting members with commercial banks and official creditors (EBM/85/132, 9/4/85). The three main criteria for the adoption of enhanced surveillance were first, that the member country should be interested in the procedure and formally request the Fund to activate it; and second, the Executive Board must have reached the judgment that the member had a good adjustment record. The staff and management considered that Yugoslavia's record had been reasonably good, after five or six years of Fund-supported programs that had led to a substantial improvement in the balance of payments and to more than a start on structural reform. The third criterion was that a multiyear rescheduling arrangement would be needed to normalize the country's relations with the market and facilitate its return to voluntary and spontaneous financing. Clearly, the banks had considered in their discussions with the Yugoslav authorities that the multiyear rescheduling arrangement was a means to move toward a more normal relationship.

The fourth criterion, which was most particularly relevant to Mr. Lankester's question, was that the member should be "...in a position to present an adequate quantified policy program in the framework of consultations with the Fund staff, which are part of the procedure of enhanced surveillance." The Fund would thus continue to make a twice-yearly assessment of the Yugoslav objectives in the framework of an adequately quantified policy program. It would be going too far to expect the Fund to set those policy targets, as Mr. Lankester had suggested might be done. The authorities would in the event determine their own targets; the essence of the Fund's relationship with them would be to discuss the policy program in the framework of the consultations between the staff and the authorities. The Fund's views would be made clear in the reports submitted by the staff to the Executive Board. Those reports would be invaluable to the Paris Club governments who would be assessing their own involvement in a multiyear rescheduling arrangement.

For the reasons he had indicated, the Chairman continued, he would have thought that there was more of a case for moving to enhanced surveillance than for entering into another stand-by arrangement, with or without actual use of Fund resources, with one qualification. He, too, had had some difficulty with the last paragraph of Mr. Polak's statement. As many Directors had said, the Fund would have to look in its consultations not only at Yugoslavia's macroeconomic demand management policies but also at the structural elements of the program as it unfolded over the years. The discussion had revealed clearly that more, not less, statistical information would be needed to permit the Fund to make those assessments. The staff would be making less frequent visits to Belgrade than it had done during its quasi-permanent relationship with the Yugoslav authorities, and it would have to place greater reliance on official statistics. For instance, the puzzling figures on stockpiling illustrated the need for a better statistical apparatus. Certainly, after six years of Fund financial support and close relationship with the Yugoslav authorities, the member should be able to develop its own policies, but the Fund should remain in a position to give its advice and to be able to assess and monitor those policies in the framework of enhanced surveillance in a meaningful way. If anything, greater demands would to be made in terms of the quality of the statistics and possibly the coverage of the staff reports.

Mr. Polak remarked that he should have begun his opening statement by thanking the Executive Board for having concurred in the decision submitted to it for approval by lapse of time a few days previously to the effect that satisfactory arrangements had been made for refinancing commercial bank debt. The problem was a difficult, technical one; commercial banks sometimes delayed reaching a formal conclusion even after a debtor country had agreed with all the essential requirements of the banks. For that reason, the staff had drafted the decisions in such a way as to enable it to look at the substance of what was achieved in terms of satisfactory arrangements with the banks and not at the formal agreements themselves. He believed that there could be no doubt that the proposals made by the staff in respect of the issue of substance, both in August and again in November, had been entirely appropriate in light of the Executive Board's April decision.

He had been pleased to note that a number of Executive Directors had gone deeply into the fundamental problems of Yugoslavia, and even into the philosophical aspects of the Fund's relations with the member, Mr. Polak observed. That analysis was welcome, whether it led to criticism or praise of Yugoslav performance. Yugoslavia had, in fact, dealt with a number of its fundamental problems. The fiscal position was much less a matter for discussion in Yugoslavia than in many other countries because it was in much better shape. The public sector as a whole remained in surplus, to an extent that would more than compensate for the central government deficit that might possibly emerge but that would be at most 0.6 percent of GSP.

The exchange rate seemed to be at the right level and had been kept there throughout all the difficulties Yugoslavia had encountered, Mr. Polak remarked. As for prices, there were of course limits to price liberalization in a socialist country, or even in most of the semi-socialist countries of Western Europe. It was inevitable that a number of prices would be set by the Government in a country like Yugoslavia; the point was that those prices should be set at the right economic level, and they had been. Although he had mentioned in his opening statement that the authorities must have been under considerable pressure as a result of the price increases that had occurred during 1985, he had also mentioned--and the staff had confirmed--that they had resisted that pressure and had not reimposed price control.

Interest rates had been made approximately positive, Mr. Polak added. Monetary policy in general was one of the fundamentals where the performance had been less than satisfactory. The authorities seemed never to have known how much excess liquidity there was in the economy and however hard they had tried to eliminate it, they had never quite succeeded. The problem with interest rates was not only that some rates charged to borrowers were not fully positive; rather, real interest rates that were barely positive were bound to be inadequate in an economy experiencing rates of inflation in the double-digit to triple-digit range. To the extent that stock building was actually taking place and did not reflect statistical misreporting, it must be related to the high inflation.

The result of the way in which those fundamentals had been tackled had been a substantial correction on the external side, both on current and capital account as well as in the build-up of reserves, Mr. Polak continued. The external position could not be called "fragile"; the slight setback recorded in the first half of 1985 was not surprising, considering the external circumstances. The banks had fully recognized the improvement in the external position by their willingness to enter into a multiyear rescheduling arrangement based on enhanced surveillance. He hoped that when the official creditors assessed the situation, they would take an equally positive position; a multiyear rescheduling arrangement with creditor governments should also be based on enhanced surveillance, he considered. After six years of stand-by arrangements, Yugoslavia was not about to enter into another, whether it be an ordinary or a classical type of stand-by arrangement. Similarly, it would surely be inadvisable for the Fund to attempt to move into yet another stand-by arrangement after the major effort of the past six years.

With progress having been made on most of the main fundamentals in the economy, Mr. Polak added, the staff seemed to have paid even greater attention than usual to microeconomic issues. Perhaps that was why Mr. Zhang had found it difficult to have an overall picture of the economy, its problems, and policy priorities. Microeconomic problems were highly country specific. In no other country than Yugoslavia would the Fund worry about wage increases in loss-making or illiquid enterprises, inter-enterprise credit, or the control of excessive inventories. In looking at those problems, the Fund and the authorities together had tended to look for suitable microsolutions to problems which had proved intractable so far. It was not necessarily a matter of attempting to go even more deeply into those microeconomic problems, as Mr. Zecchini had suggested; the staff, the Yugoslav authorities, and even the Executive Board had become well aware of their causes. The authorities had been willing to make undertakings of a detailed nature, supported in the form of performance criteria and the caring commitment of the staff to which Mr. Schneider had referred. But as Mr. Zhang had observed, however cooperative the Yugoslav authorities might be and however much structural problems might be judged as hampering the Yugoslav economy, the Fund had to make up its mind about how far it was willing to go in attempting to resolve them. The Fund's success in that area had been limited so far, and not by accident. Vested interests rarely yielded to economic reason. In the decentralized setting of the Yugoslav economy, vested interests tended to delay the adoption of corrective measures or to prevent their application, and, finally, to find ways to evade them. There could be no doubt that such arrangements were economically indefensible and harmful to the growth and welfare of the Yugoslav economy. Overall demand policy had had to be much more restrictive than would otherwise have been necessary, and the Yugoslav people had suffered in terms of lower consumption, investment, and higher unemployment. Rigidities in other European countries had had similar effects on economic growth; although in quantitative terms, the effects had been greater in Yugoslavia, which would have to find a way to improve the situation. To the extent that a country had great difficulties in dealing with those rigidities and was suffering as a consequence, the fundamental issue was whether it was up to the Fund to become deeply involved with such microdistortions, as Mr. Zhang had said.

The issue had a bearing on the question of monitoring in connection with enhanced surveillance, Mr. Polak considered. The banks had made clear--and presumably so would official creditors--their great interest in the efficient monitoring of the external performance of the economy, which was most relevant to the fulfillment of external obligations by the country. The monitoring of developments in respect of reserves, import and export performance, and the exchange rate and interest rate instruments had been quite good. If the projections had not always been fully realized, as in the first half of 1985, it had usually been for good reasons. Needless to say, it would be desirable to improve the projections; one relatively minor, but nevertheless not unimportant, improvement that was being made concerned the way in which foreign exchange rates were being applied to the measurement of international trade.

He would expect that the objectives that a country subject to enhanced surveillance would set out at the beginning of each year, for monitoring at the middle and end of the year, would also cover such elements as growth and the rate of inflation, Mr. Polak said. Projections of developments in those areas typically had not been good, and their monitoring might not be easy. It might also not be easy to obtain improvement in those variables, although he would certainly encourage any effort to do so; for instance, he, too, like Mr. Lankester had asked the staff whether it could straighten out the problem of statistics on the accumulation of inventories. But if the country did not perform as expected in terms of inflation, growth, or unemployment, it did not follow that the authorities should make an instant adjustment. Therefore, any imperfections in monitoring in those areas, unfortunate as they might be, were of a lesser order of importance than imperfections in the monitoring of variables that were immediately related to the ability of the country to service its external obligations.

The Executive Board then took the following decision:

1. Yugoslavia has consulted with the Fund in accordance with paragraph 4(f) of the stand-by arrangement for Yugoslavia (EBS/85/85, Sup. 3, 5/1/85) and second paragraph of the letter dated March 15, 1985, and attached to the stand-by arrangement, in order to review progress made in realizing the objectives of the program and to reach understandings with the Fund regarding a further review that will be made of policies and measures that the authorities of Yugoslavia will pursue for the remaining period of the stand-by arrangement.

2. The letter with annexed memorandum from the Governor of the National Bank of Yugoslavia and the Federal Secretary for Finance of Yugoslavia dated September 30, 1985 shall be attached to the stand-by arrangement for Yugoslavia and the letter with annexed memorandum of March 15, 1985 shall be read as supplemented and modified by the letter with annexed memorandum of September 30, 1985.

3. Yugoslavia will not make purchases under the stand-by arrangement that would increase the Fund's holdings of Yugoslavia's currency in the credit tranches beyond 25 percent of quota or increase the Fund's holdings of that currency resulting from purchases of borrowed resources beyond 12.5 percent of quota:

(a) During any period in which data at the end of the preceding period indicate that the limits on net domestic assets of the banking system referred to in paragraph 13 of the memorandum annexed to the letter dated September 30, 1985 have not been observed; or

(b) During the period after January 1, 1986 until suitable performance criteria have been established in consultation with the Fund as contemplated in second paragraph of the letter of September 30, 1985, or, after such performance criteria have been established, while they are not being observed.

4. The Fund decides, pursuant to paragraph 4(f) of the stand-by arrangement for Yugoslavia, that the review provided for in that paragraph, including the specification of a further review and the establishment of other performance clauses for 1985, is completed.

Decision No. 8138-(85/172), adopted
November 27, 1985

The Chairman remarked that the structure of the Yugoslav economy and the decision-making process in the country were dimensions of Yugoslavia's particular situation that must be kept in mind. He had met the Prime Minister on a number of occasions, and, like Mr. Polak, he understood that it would be preferable on a more general plane for Yugoslavia to move away from the stand-by arrangement relationship with the Fund. The less close relationship entailed in enhanced surveillance would be more suitable in Yugoslavia's current circumstances. Such an approach would also be consistent with the Fund's policies on the prolonged use of its resources. The Fund did not necessarily want to maintain a stand-by arrangement relationship with a member for more than six years, especially given the requirement of balance of payments need; Yugoslavia, after all, not only had a surplus on current account but on capital account and was rebuilding reserves and repaying debt. For all those reasons, it would be most helpful if Executive Directors whose authorities were involved with the Paris Club would report to them on the situation, thereby facilitating the future discussions to take place between Yugoslavia and its official creditors.

3. DOMINICAN REPUBLIC - 1985 ARTICLE IV CONSULTATION; STAND-BY ARRANGEMENT - REVIEW, MODIFICATION, AND WAIVER OF PERFORMANCE CRITERIA; AND PURCHASE TRANSACTION - COMPENSATORY FINANCING FACILITY

The Executive Directors considered the staff report for the 1985 Article IV consultation with the Dominican Republic and review, technical modification, and waiver under the stand-by arrangement (EBS/85/237, 10/30/85; Cor. 1, 11/22/85; and EBS/85/260, 11/25/85), together with a request for a purchase equivalent to SDR 15.5 million under the compensatory financing decision (EBS/85/248, 11/7/85; and Sup. 1, 11/26/85). They also had before them a report on recent economic developments in the Dominican Republic (SM/85/291, 11/5/85).

The staff representative from the Research Department noted that the request for a purchase under the compensatory financing decision was being made under the early drawing procedure, which involved the use of partly estimated export data for the shortfall year. Data for the past five months of the current shortfall year--namely, August through December 1985--had been estimated. Because the shortfall had been calculated by the use of partly estimated data and because the proposed purchase was equal to the calculated shortfall, the Dominican Republic would fall under a prompt repurchase expectation in the event that over compensation was established when actual data for the entire shortfall year became available in 1986. Since the circulation of EBS/85/248, the staff had received preliminary actual data for two additional months, August and September 1985. Those data showed that exports had been slightly below the estimates in the staff paper, implying that the shortfall might have been underestimated rather than overestimated. When the final actual data for the estimated months became available, the outcome of the calculations would be reported to the Board in accordance with the procedures governing the use of the early drawing procedure.

Mr. Kafka made the following statement:

At the outset, let me state that my authorities are in broad agreement with the analysis presented by the staff papers for the Article IV consultation and review, technical modification, waiver under the stand-by arrangement and request for a purchase under the compensatory financing facility.

The economic performance of the Dominican Republic during 1984 was discussed at length by this Board on April 15, 1985 when the current one year stand-by arrangement was approved. Therefore, I will not dwell on that. Moreover, on that date Mr. Arias presented in his buff statement the objectives of the economic program for 1985, including the various adjustment measures which were going to make possible the achievement of the goals of the economic program.

As of June 30, 1985, all performance criteria had been met with large margins. Moreover, recent data indicate that the quantitative performance criteria for September 30, 1985 have also been met. The Dominican authorities have followed tight monetary and fiscal policies which were responsible to a large extent for the progress achieved in meeting many of the objectives of the program.

As the Board will recall, the main objectives for the 1985 financial program were to strengthen the external position and contain the rate of inflation, to reduce substantially the deficit of the nonfinancial public sector in 1985 and to strengthen the financial position of the Central Bank.

My authorities feel satisfied with the successful results of the financial program attained so far during 1985. The overall deficit of the nonfinancial public sector is now projected to be 1.9 percent of GDP in 1985 compared with the initial projections of 4.9 percent of GDP. In this context, I must say that my authorities do not feel comfortable with this outcome, which has been caused by less availability of foreign financing than programmed which has hindered the implementation of public investment projects. The rate of inflation has been contained, external payments arrears have been reduced by more than programmed under the program, and the net international reserves of the Central Bank have increased substantially. In spite of these favorable results, there have been adverse developments, such as the drought suffered for the first 7 months of this year, which have impeded the financial improvement of the country's electricity company. Another factor which has negatively affected the public finances has been the fall in world sugar prices as well as the reduction of the import quota in the preferential U.S. market.

The Dominican authorities are aware that although the targets have so far been met, the degree of adjustment planned in some cases has not been made, as explained in the staff report. However, in face of the adverse world economic conditions and circumstances they feel that substantial efforts and progress have been made in a short period of time. The Dominican authorities are determined to continue implementing tight fiscal and monetary policies aimed at reducing the external and internal imbalances, but at the same time revitalizing the economy.

As for the remainder of the program, central government operations will be monitored closely so as to reduce transfers to the rest of the public sector and further to improve expenditure control procedures. Primary attention will be given to strengthening the financial position of major public enterprises through better financial management. To this end, electricity rates will continue to be raised on a monthly basis as initially programmed; the authorities are determined to strengthen the financial profile of the government-owned sugar company by taking the necessary measures and making it operationally more efficient, mainly by cutting expenditures. As for the other major enterprises, the Dominican authorities intend to make every effort to eliminate subsidies as much as possible in the short run.

Monetary policy will continue to complement the adjustment efforts in the public finances. Credit allocations have been contained, and interest rate policy has been well managed fostering domestic savings and discouraging capital outflows. The authorites are determined to find a lasting solution to the serious problem of the operating losses of the Central Bank. In large part these losses arise from costs which the Central Bank incurs in servicing the external debt obligations it assumed in 1983. As these payments will continue for a number of years it is very important that the Central Bank be endowed with sufficient resources to meet these obligations. In the short-run the authorities intend to use part of the proceeds from the temporary export surcharges to cover these costs. I would like to remind Executive Directors that the Dominican authorities are committed to a very substantial reduction in the temporary export surcharges in the first quarter of 1986.

In the external area, negotiations with the Paris Club and with the commercial banks have been completed with the terms consistent with those assumed during the formulation of the current financial program. Thus, the financial gap of US$336 million which existed before debt relief is fully covered.

The Dominican authorities have made a request for a purchase of SDR 15.5 million under the compensatory financing facility. The case is straightforward and I have nothing to add to the staff paper. I would ask Executive Directors to give it their support.

The adjustment program initiated by thge Dominican authorities in 1985 represents a determined effort significantly to reduce the external and internal imbalances in the economy. They feel that with the support of the Fund, together with an adequate level of other sources of external financing, major improvements will be brought about in the Government's finances, in the balance of payments, and in the general level of economic activity.

Mr. Jensen stated his support for the proposed decisions regarding the review, the technical modification, and the waiver under the stand-by arrangement, and the purchase transaction under the compensatory financing facility, regardless of the final outcome in the calculations. The Dominican Republic's performance under the economic and financial program for 1985 had been more than satisfactory, particularly in terms of the progress already achieved in redressing the mounting external and internal imbalances of the early 1980s. That success had resulted primarily from the authorities' tight stance of monetary and fiscal policy, as well as the realistic exchange rate and pricing policies that they had adopted earlier in the year. To consolidate the gains already achieved, the authorities needed to strengthen their external position further by improving competitiveness and continuing their prudent demand-management policies. The authorities should place particular emphasis on the public sector performance, even though it had been stronger than programmed, because some worrying developments had arisen. In particular, the wages and salaries policies that had been followed in 1985 and the deterioration in the finances of some of the major public enterprises had been leading to central government transfers in excess of the program targets.

The recent measures adopted by the authorities to ensure the achievement of the fiscal objectives of the program--for example, the cutting back of some investment programs, the increase in sugar prices, and the decision to avoid further transfers to certain public entities--were indicative of the authorities' resolve, Mr. Jensen commented.

A disturbing trend that had emerged in the Dominican Republic's balance of payments concerned medium- and long-term official capital flows, Mr. Jensen observed. In the early 1980s, net public sector foreign financing in the Dominican Republic had averaged in excess of about US$250 million a year, and gross disbursements of official and multilateral loans had amounted to more than US$400 million a year. Thus, he was disappointed to read that net flows for 1985--and, it was estimated, for 1986 as well--were expected to be negative by nearly US$300 million. During the Board's discussion of the Dominican Republic's request for a stand-by arrangement (EBM/85/59, 4/15/85), Executive Directors had concluded that prospects for the medium term would be influenced by two major elements: the degree of commitment to the adjustment process and the level of financial and technical assistance from bilateral and multilateral sources. Specifically, it had been hoped that the World Bank would be prepared to accelerate existing loans and to initiate a sector loan to assist the economy in 1985/86. Official capital flows thus far had been modest, and of that modest amount, more than two thirds had been related to U.S. official food programs and inflows from Mexico and Venezuela under the San José Agreement. He would appreciate further comments on those developments and prospects, from the staff, Mr. Kafka, or the staff representative from the World Bank.

He stressed that point because in the recent Executive Board discussions of international capital markets and prospects (EBM/85/165 and EBM/85/166, 11/13/85), Directors had expressed disappointment at the slowing down in commercial bank lending to the developing countries and had pointed to the need for a multilateral development and financial institutions to play a larger part, Mr. Jensen added. In the Dominican Republic, it seemed especially crucial for the multilateral institutions to become more active in providing the necessary financing to increase investment and therefore reduce the level of unemployment or, as Mr. Kafka had said, make available the programmed foreign financing component of the public sector investment projects. The adjustment process had been especially painful for the population in the lowest income brackets, and without such financing, it would be difficult or unrealistic, if not impossible, to expect the continuation of the stabilization program to which the country had committed itself.

Mr. Ortiz expressed his support for the proposed decisions. Since the previous review of the Dominican Republic's economy, several policy measures had been taken to strengthen the overall economic situation, with perhaps the most relevant achievement having been the unification of the exchange rate. The performance criteria had been observed with wide margins and several other positive results had been attained, such as the significant decrease of the rate of inflation, the improvement in the balance of payments situation, and some improvements in the public sector.

The correction of the external sector imbalance remained the greatest challenge for the Dominican authorities, who had already made some progress in meeting it, Mr. Ortiz added. For example, the current account balance had improved substantially, despite the difficult situation created by the 7 percent decrease in exports, caused primarily by the drastic drop in the order of 20 percent of agricultural exports, which accounted for nearly half the total volume of exports. The decline in the price of sugar and the reduction of the U.S. preferential quota largely explained the unfavorable export outcome. Imports, which had continued their downward trend, recording a 24 percent overall decrease over the past five years, had prevented the trade balance from worsening. Although capital inflows had not helped much, having remained at a low level, the services account had made a substantial contribution underpinning the external position. The promising results in the tourist sector were the key element of that success; tourism receipts, amounting to nearly 75 percent of total services, clearly signaled stronger possibilities in that sector in the years ahead. The tourist industry should continue to provide attractive investment opportunities for domestic and foreign capital and would contribute significantly to strengthen employment generation and overall demand.

Apart from the potential of tourism, the achievement of a sustainable external position would have to be attained mainly through export diversification and cautious management of the exchange rate, Mr. Ortiz continued. In view of recent developments in the international markets for primary products, the authorities should shift resources toward other types of export activity. He wondered to what extent that would be feasible in the short run. Estimates of the magnitude of some of the supply elasticities would be needed to make a judgment.

An appropriate exchange rate was essential, Mr. Ortiz stated. He commended the authorities for their decision to unify the exchange rate, eliminating some of the previous distortions in the markets, and encouraged them to maintain an appropriate exchange rate policy. In relation to the external debt situation, he was glad to learn that the Paris Club had reached a final agreement and that a multiyear rescheduling arrangement was likely to be agreed. As Mr. Kafka had pointed out, that meant that the financial gap was fully covered. Nonetheless, he shared Mr. Jensen's concerns about multilateral capital flows.

A fiscal deficit of 1.9 percent of GDP was a particularly positive result, especially in comparison with the target ceiling of 4.9 percent, Mr. Ortiz noted with satisfaction. Nevertheless, the increases in public wages and the deterioration of the public enterprises would pose some threat to the fiscal accounts in the future. Important social and political considerations had been behind the 30 percent increase in the Government's wage bill, but given the expectations about revenues and expenditures, the authorities should weigh such measures carefully. Moreover, the flow of transfers to public enterprises had added to the concern about the possibility of cutting expenditures by the needed amount. Thus far, expenditures had grown modestly due to a low public investment rate due to a shortfall in foreign financing. However, the Government's welcome intention to dismantle the export surcharge system would entail a sharp decrease in public revenues, which the authorities could only offset by strict monitoring on the expenditure side.

Mr. Leonard said that he supported the proposed decisions on the 1985 consultation and on the review, technical modification, and waiver under the stand-by arrangement. In supporting the proposed decisions, he was glad to acknowledge the considerable progress that had already been made under the program. In the fiscal area, the revenue measures taken had had an even stronger impact than expected and had contributed to an overall surplus in the nonfinancial public sector in the first half of 1985. Inflation had moderated significantly, and the exchange rate had shown signs of strength, primarily because of the tight monetary and fiscal policies that the authorities had pursued. The current external account had also moved into near balance. While recognizing the efficacy of the program, however, he thought it was well to remember the remedial action initiated by the staff in 1984 when the Fund and the Dominican Republic had not been able to agree on a financial program. The measures taken then had testified to the authorities' commitment to correct the imbalances in the economy and had no doubt made a contribution to the progress subsequently achieved.

It was regrettable that in the course of the return to economic balance, growth had faltered, Mr. Leonard continued. Balance was not especially desirable for its own sake but rather as a foundation for sustainable growth. He noted that a World Bank mission had already gone to the Dominican Republic to analyze the long-term obstacles to growth and hoped that the result would assist the authorities to put policies in place--alongside policies of sound demand management--to help to improve the country's somewhat uncertain medium-term economic prospects.

For the more immediate future, in three policy areas that gave rise to some concern, he supported the corrective measures recommended by the staff, Mr. Leonard stated. Although the nonfinancial public sector as a whole had been in overall surplus in the first half of 1985, the situation had deteriorated in the second half of the year. The 30 percent increase in the wage bill, which had not been matched by offsetting revenue measures, was one major cause of the deterioration. In that connection, the use of resources from the Rosario Gold Mining Company to help meet the pay bill could only be seen as a one-time expedient. Increased remuneration represented a continuing burden as undoubtedly the authorities fully recognized, and he hoped that they would respond to the need to find a continuing way to meet the burden of wages and other increases in expenditures. The other major source of weakness was the losses incurred by public enterprises; in order to reduce and eliminate them, the authorities would need to make timely price adjustments and bring the operations of the enterprises under better and more comprehensive control.

The central bank losses, Mr. Leonard went on, had arisen because of questionable banking practices in the past, exchange losses arising out of the multiple exchange rate system, and the Central Bank's assumption of substantial external debt obligations. To overcome the problem, the Central Bank should receive actual payments of interest on government debt held by the Bank. The accounts would be clearer and would show where to place responsibility for the expenditures underlying the debt. In addition, specific government appropriations were needed to cover losses, and preferential treatment for the Government and public sector agencies should cease. He was glad that some action in the direction of such reforms was under way, and he looked forward to seeing it continued and strengthened.

The Dominican authorities seemed to have a long-standing proclivity to price fixing and consumer subsidies as a tool of economic management, Mr. Leonard observed; for example, the authorities had failed to increase flour and rice prices when the need had arisen and had called subsequently for compensation to the flour mills and higher subventions to rice consumers. Such actions were a prescription for resource misallocation and fiscal deficits. Finally, his chair had noted the request from the Dominican Republic for a purchase under the compensatory financing facility and did not object to the proposed decision.

Ms. Bush indicated that the Dominican Republic was apparently proceeding on track, under its stand-by arrangement, as demonstrated by its compliance with revised performance criteria through end-September 1985. Moreover, the overall public sector deficit was projected to be under 2 percent of GDP in 1985, substantially below the targeted 4.9 percent of GDP. Credit expansion had been slowed, and the current account deficit, while exceeding the programmed target, had dropped significantly to about 1 percent of GDP. External arrears were being decreased by greater amounts than programmed. Furthermore, it appeared that monthly inflation had been dropping noticeably.

While welcoming the progress made to date, Ms. Bush said that it was unfortunate that the review had taken so long to complete. The delay gave rise to some concern about future prospects in the Dominican Republic, particularly those relating to budgetary performance. Good revenue performance and a cutback in capital expenditures had permitted a 14 percent increase over programmed levels in current spending, notably wages and salaries and transfers, as shown in Table 4 of the staff report. While the rise in current expenditures had been made possible by the positive developments on the revenue side, it might have been better if funds had been set aside or held in reserve for later capital investments when adequate foreign financing resumed.

Furthermore, spending on transfers had been even higher than expected for 1985, accounting for about 42 percent of current expenditures, compared with only 22 percent in 1981, Ms. Bush added. The increase in transfers to the public enterprises was related to the earlier exchange rate changes, including their impact on the investment program of the Dominican Electricity Corporation. But the point of exchange rate flexibility was to convey appropriate pricing signals to the domestic market, with the expectation that producers and consumers would then make more rational decisions. She recalled the difficulties that the Dominican authorities had faced in the past in implementing price changes. The process of price liberalization should extend beyond the exchange system to the domestic market. The Dominican authorities had made progress in deregulation, and she strongly urged them to extend that process to the broadest category of products, permitting domestic prices to be set by market forces. The authorities should be commended for maintaining their floating exchange rate system without intervention. The benefits to exporters had been seen clearly in the strong growth of nontraditional exports and tourism.

A large wage increase had been granted without the implementation of compensating revenue measures, Ms. Bush noted. While a problem might not emerge in the current year, she was nonetheless concerned because the current overall growth in revenue might not continue in the longer term, being due in large part to "nonrecurring factors," such as the imposition of the temporary export tax and the sale of assets by the gold mining company. The cost of the wage increase was expected to be covered by the asset sale, a solution that could surely not be counted on to cover future increases in wage costs. She was relieved to know of the authorities' commitment to reducing the export tax early in the coming year in light of her view that export taxes were detrimental to export growth. The 1986 budget was already under consideration, and the authorities had begun to issue instructions for severe cuts in nonwage expenditures in 1986. While welcoming expenditure restraint, she was concerned that the high wage settlement in 1985 would result in cuts in goods and services spending that could have an adverse impact on the maintenance of existing capital stock in the Dominican Republic. The expected cut in transfers in 1986 was, however, welcome and should create the incentive to achieve improved efficiencies in the public enterprises. She also welcomed the recent increase in the retail price of sugar and the authorities' efforts to improve efficiency in that sector. She would appreciate staff comment on the reason for the shortfall in capital budget financing.

With regard to monetary developments, she had no problems with the proposed modifications in the performance criteria, Ms. Bush continued. However, it appeared odd to set September performance criteria in November, although indicative ceilings had been set at the time of program approval. She asked the staff to comment on that procedure.

She expected that the shortfall in sugar and gold exports would unfortunately not be a temporary phenomenon, Ms. Bush stated. Nonetheless, she was willing to go along with the compensatory financing facility request on the grounds that the authorities were cooperating with the Fund; the calculated shortfall had resulted from what appeared to be realistic assumptions about the postshortfall period; there was a balance of payments need; and the sugar shortfall had clearly resulted from exogenous factors. The Dominican Republic was building up its use of Fund credit rapidly and thus would face the inevitability of substantial repayments to the Fund within a few years. A continuing firm implementation of the adjustment effort would prepare the Dominican Republic to meet that obligation, but the authorities should be cognizant of such costs in mapping their medium-term debt strategy.

She would appreciate any updated information regarding the role of the World Bank in the Dominican Republic. She would also be interested in knowing more about the World Bank loans to the electricity and export sectors and in learning whether the World Bank was considering a structural adjustment loan, which could be helpful in 1986 both to continue support for the adjustment effort and to help fill the projected financing gap.

The Dominican authorities had made considerable progress thus far, Ms. Bush concluded. Although she had some concerns about the fiscal prospects for 1986 and beyond, she hoped that the authorities would continue to implement the program successfully in the coming year, providing assurance of their commitment to the adjustment effort. Finally, she supported the proposed decisions.

Mr. Ebrill remarked that the Dominican Republic was currently in a period of transition. With the negotiation of a new one-year stand-by arrangement, the authorities of the Dominican Republic had embarked on a path of adjustment which had been successful thus far, as measured by the performance criteria. Notable among the adjustment measures had been the unification of the exchange system and the drive to realign domestic prices more closely with economic costs. In addition, the external debt, including arrears, was being restructured with foreign commercial bank and official creditor support.

He commended the authorities for the policy measures that they had initiated, Mr. Ebrill added. He was particularly gratified to see that as the result of the progress they had already attained, the authorities were on the road to discharging arrears. However, while much had been achieved, much also remained to be done, and it was essential that the momentum of adjustment be maintained.

His comments would focus on the fiscal aspect of demand-management policies because of its crucial importance, Mr. Ebrill said. At one level, the fiscal outturn for 1985 seemed most satisfactory. Indeed, the overall deficit of the nonfinancial public sector was expected to decline to 1.9 percent of GDP, at face value, which was substantially better than the programmed objective of 4.9 percent of GDP. However, that result, the product of both greater than expected tax revenues and smaller than expected expenditures, concealed a disappointing trend in the structure of total expenditures. Capital expenditures had been substantially less than the program values due to a decline in the availability of foreign financing. Central government current expenditures, on the other hand, which had been expected to increase by 62 percent under the program, were being projected to increase by 79 percent. As had already been mentioned by others, the surge in current expenditures was due largely to increases in wages and salaries and transfers.

If maintained, the sharp increase in current expenditures would add to future fiscal pressures, Mr. Ebrill continued. Thus, a significant portion of the large increase in tax revenue was transitory, because it was the result of the introduction of an export surcharge in conjunction with the exchange unification. The export surcharge was scheduled to be reduced substantially, and the Dominican Republic faced an incipient decline in revenue within the next few years. While some of the decline would be offset by increases in electricity tariff rates, a gap might occur. A related fact was that the Dominican authorities had met some of their fiscal financing needs by liquidating some bond holdings of the Rosario Gold Mining Company, which was a one-time event. In view of all those considerations, the authorities should renew their determination to limit current expenditures and keep monetary policy tight; he was reassured to learn from Mr. Kafka that the authorities were determined to maintain a cautious fiscal stance.

His remarks on the fiscal situation should be tempered in one respect, Mr. Ebrill stated. The authorities of the Dominican republic were to be commended for the range of tax measures that they had adopted over the past few years, with a view to broadening the tax base and enhancing the underlying elasticity of the tax system. Moreover, the share of tax revenues to GDP did not often increase by 50 percent in one year as was expected to be the case in 1985 in the Dominican Republic.

The potential fiscal pressures should also be alleviated by policies aimed at further enhancing the flexibility of the price system, Mr. Ebrill remarked. However, a serious supply-side problem faced the economy of the Dominican Republic, for which the authorities were not entirely to blame and which had to do with the structure of exports. The authorities' current heavy reliance on a few commodities with poor export prospects seemed certain to constrain the flow of foreign exchange, and they should make a major effort to diversify the export base immediately in order to avoid more serious problems at a later stage. Clearly the World Bank was best suited to play an important role in that endeavor. The Dominican Republic had been successful in rescheduling its debt, but an expansion in the export base would help it to meet its future debt service obligations. While he understood and accepted the rationale for the abolition of the export surcharge on traditional exports, he wondered whether, given the need to create incentives for the growth of new industries, some substitute should not be sought; he would welcome staff comments on that point.

The request for a compensatory financing drawing met all the criteria set forth in the decision, Mr. Ebrill concluded. In the light of his earlier comments, he felt that even though the compensatory financing facility only referred to the immediate future, the estimates presented for exports in the post-shortfall years, particularly those for sugar, served to emphasize that the Dominican Republic could not expect large export revenue increases in its traditional export markets. Finally, he supported the proposed decisions.

Mr. Grosche said that he agreed with the staff and Mr. Kafka that the authorities' cautious stance of monetary and fiscal policies deserved the credit for the progress that had been achieved. However, as Mr. Kafka had also pointed out, the degree of adjustment planned in several areas had not yet been made. The authorities still had to face the more difficult part of their adjustment effort, in particular the need to bring under firm control the fiscal expansion that had occurred in the second half of 1985. The increase of public sector wages by almost one third and the higher transfer payments to make up for higher deficits in the major public sector enterprises were worrying. The increase in current expenditure needed to be curtailed promptly, especially since higher expenditures had not yet been matched by compensating revenue measures. The revenue gap might become even wider because the surcharge on proceeds from traditional exports would be reduced in early 1986 and would eventually be eliminated altogether.

Therefore, the authorities would be well advised not only to meet the short-term performance criteria but to look ahead and undertake the necessary structural measures to keep the fiscal performance on track in the medium term, Mr. Grosche stated. The essential measures included an improvement of the expenditure controls in public enterprises as well as the elimination of subsidies, particularly those in support of unrealistic food prices. The operational losses of the Central Bank had to be dealt with more forcefully. Moreover, the Administration should make every effort to convince the Congress that compensatory revenue measures were indispensable if current expenditures could not be contained at appropriate levels.

The current account had improved substantially in 1984 and 1985 mainly because of steeply rising tourist receipts, Mr. Grosche continued. Since the improvement had been possible without a substantial reduction in imports, it should be sustainable, provided that the authorities maintained a flexible exchange rate policy and continued the effort to restructure the economy away from primary products. The room for maneuver was small, however; Table 8 of the staff report showed only minor improvements in exports until 1990. He asked the staff whether the appreciation of the exchange rate by more than 10 percent in real terms--as positive as it might have been in keeping inflation under control--would not have a dampening effect on future export performance and wondered what could and should be done about it.

He was glad to note that the World Bank had accelerated the processing of new loans and had begun developing a future lending program in the Dominican Republic, Mr. Grosche mentioned. He took it as a sign of a good and fruitful Bank-Fund cooperation that staff members of each institution had participated in missions of the other. In conclusion, he joined previous speakers in supporting the proposed decisions, including the proposed use of Fund resources under the compensatory financing facility.

Mr. Wijnholds indicated that the performance of the Dominican Republic under the stand-by arrangement had been satisfactory thus far and that he supported the proposed decisions, including that on the request for a drawing under the compensatory financing facility, the export shortfall being clearly beyond the control of the authorities. Although all performance criteria had been met under the stand-by arrangement, that did not necessarily mean that all was well in the economic and financial sphere in the Dominican Republic. It was therefore useful to examine to what extent the goals of the economic and financial program for 1985--the strengthening of the external position, the containment of inflation, and the creation of conditions for renewed economic growth--were being achieved.

The authorities had made considerable progress in strengthening the external position, Mr. Wijnholds observed. Despite the sizable fall in exports, for which compensatory financing was being sought, a marked improvement in the current account was projected for 1985, owing in part to a healthy increase in tourism receipts, which could probably be attributed to the exchange depreciation that had taken place in 1983 and 1984. The recent appreciation of the peso in real effective terms was probably not a cause for concern, given the larger depreciation than envisaged under the preceding program; in fact, in September the real effective rate had still been 22 percent below the average rate in the years 1980-82. However, the authorities should remain sensitive to the need for maintaining sufficient competitiveness and should view the exchange rate as a purely economic matter. That could also be important in avoiding undesirable outflows of capital. He welcomed the authorities' decision to lower export surcharges and endorsed the staff's call for a complete elimination of those surcharges as soon as possible. He was concerned about the effect of wages on competitiveness, because if the recent large wage increase accorded in the public sector were to be followed elsewhere in the economy, it would not bode well for tourism and other labor-intensive activities. Perhaps the staff could comment on that.

He welcomed the considerable reduction of external arrears in 1985 and the prospect of their elimination in 1986, as well as the increase in net international reserves, Mr. Wijnholds remarked. The debt relief accorded to the Dominican Republic was a crucial element in easing the difficult external financing position. The authorities had negotiated a multiyear rescheduling agreement, on favorable terms, with the commercial banks. The Dominican Republic had not been included on the list of 15 countries mentioned in the Baker Plan, and he wondered whether Mr. Kafka or the staff had any comments on that matter.

The high rate of price increase experienced in 1984 and the early months of 1985 had subsided, as the effects of the devaluation and adjustments in controlled prices wore off, Mr. Wijnholds observed. That encouraging development appeared to owe much to the tight fiscal and monetary policies that the authorities had pursued. The authorities should make sure that inflation was not rekindled, which might not be easy, given the wage increases that had been granted recently in the public sector. He was disturbed that the Government's wage bill for the current year was expected to exceed the programmed level by more than 30 percent. Nonetheless, the overall deficit of the nonfinancial public sector had been reduced to less than 2 percent of GDP, considerably lower than the program objective. As Mr. Kafka had mentioned, the authorities were not comfortable with that outcome since it had occurred at the expense of public investment projects, and had been caused by lower than hoped for foreign financing. That was indeed a worrisome development, but also appeared to indicate a less than satisfactory shift between public expenditure categories.

It was difficult to reach any firm conclusion about the creation of conditions for renewed economic growth; although growth would be negative in 1985, it was too early to consider that as proof of failure, Mr. Wijnholds stated. Continuation of prudent fiscal and monetary policies and a flexible and realistic exchange rate were important conditions for creating a favorable climate for growth, but more was needed if the Dominican economy was to embark on a path of sustainable growth in the coming years. The staff had pointed to the need for major structural change in the economy, particularly with a view to broadening the country's narrow export base, and the World Bank clearly had an important role to fulfill in that process. The Dominican Republic was one of the countries in which the World Bank and the Fund were engaged in so-called enhanced collaboration; in that light, the section in the staff report on relations with the World Bank was rather meager. Perhaps there was not much to report yet on recent World Bank activities in the Dominican Republic, but he would appreciate having more information about the Bank's lending program, particularly on the loan aimed at promoting nontraditional exports that was under consideration.

External financing did not appear to pose serious problems for the time being, owing in large part to the considerable debt relief that had been obtained, Mr. Wijnholds concluded. The authorities should use the easing of the external constraint constructively to improve the structure of the Dominican economy and not postpone difficult decisions, such as the complete elimination of export surcharges, because there was no immediate pressure on the financing side.

Mr. Coumbis remarked that the first review of the 1985 program indicated that the results of the adjustment process had been satisfactory thus far; Table 7 of the staff report showed that all performance criteria had been observed at end-June 1985 with comfortable margins. The overall budget deficit, including the fiscal deficit of the Central Bank, had been reduced substantially, to about 1.9 percent of GDP--much less than the expected 4.9 percent. The rate of inflation since July 1985 had moderated significantly and for the year 1985, the consumer price index was expected to increase by less than 35 percent, compared with 38 percent in 1984. The reduction of external arrears would be larger than programmed by US$30 million. Finally, the negotiations for debt relief with official creditors and commercial banks had progressed satisfactorily.

However, some areas of concern remained, Mr. Coumbis continued. Minimum wages had been raised by about 43 percent, and public sector wages had been adjusted accordingly, thereby increasing the wage bill of the budget by about 30 percent on a yearly basis over the programmed level. Moreover, the substantial deterioration of the financial situation of the public enterprises and entities, and especially of the electricity corporation, the state sugar company, and the Institute of Price Stabilization, had resulted in transfers of resources from the Central Government that had exceeded the original forecast by a wide margin. The most important causes of the deterioration of the public enterprise finances included the higher operating costs incurred by the electricity corporation because a drought had reduced hydroelectric generating capacity, an unforeseen large increase in the domestic subsidy on rice, and the fall in world sugar prices. Inasmuch as some of the causes were probably not temporary, more systemic efforts would be needed to restore the finances of those enterprises.

Still another concern had arisen because a reduction of the export surcharge on nontraditional exports from 36 percent to 20 percent in early 1986 would entail a loss of RD$325 million in government revenue, Mr. Coumbis added. According to the staff, a little more than half of the loss would be absorbed by the electricity corporation and the remainder by the Central Government. Given the difficulties that the Administration had had in the past in securing legislation for tax increases, as well as the coming elections, the authorities would have to cut expenditures drastically to compensate for the revenue shortfall. He asked the staff how the electricity corporation would be able to absorb a reduction in revenue of RD$150-170 million and whether there was a timetable for the complete elimination of the import surcharge.

He was also concerned about other pressures on the budget, Mr. Coumbis stated. The Central Bank had been incurring operational losses and although some of them had been financed from the proceeds of the export surcharge, it would be necessary to provide specific appropriations in the budget to cover the remainder. Moreover, the nonperforming assets of the Reserve Bank had been increasing. In the 1985 budget, capital expenditures had been reduced by about one third owing to reduced availability of foreign financing. It seemed that the reduction in capital expenditure and the increase in current receipts from the export surcharge, which were both of a nonrecurring nature, had been the main factors contributing to the substantial reduction of the overall budget deficit in 1985. Mindful of all those factors, he thought that there was no longer any room for maneuver in the implementation of the 1985 budget, and for 1986, an election year, it would be extremely difficult to design and implement a budget consistent with the required adjustment effort.

The medium-term outlook of the balance of payments appeared manageable because the multiyear rescheduling arrangement that had been negotiated recently with the banks provided for 100 percent rescheduling to 1988-97 of principal payments for 1985-89 and end-1984 arrears, Mr. Coumbis concluded. After 1991, however, it was expected that the current account would have improved sufficiently to allow for the servicing of the amortized debt. Given the poor prospects for traditional exports, especially sugar, the authorities should act quickly to develop nontraditional exports and tourism. They should use the breathing space provided by the rescheduling, until 1990, to diversify their economy and their exports and, at the same time, to continue rigorous implementation of the adjustment policies initiated in 1985. That difficult task could be successfully achieved only with the help of the World Bank, the flexible policies of the Fund and commercial banks, and in particular the financial assistance of donors. He urged greater involvement of the World Bank, especially in the areas of public enterprises and public investment programs and asked for information about the current status of the request of the authorities for a loan from the World Bank to promote nontraditional exports. Finally, he supported all of the proposed decisions.

The staff representative from the Western Hemisphere Department said that the staff was also worried about the fiscal prospects for 1986, particularly because of the presidential elections, scheduled for May 1986, and the difficult situation in Congress, which were making it almost impossible for the Government to obtain approval for any revenue measures. However, the fiscal situation for 1985 was under control because during the first half of the year, the Government had built up a considerable surplus in order to meet certain additional expenditures in the second half of the year. Admittedly, the increases in wages that had taken place in the latter part of the year had added further to those expenditures. The wage increases had been discussed in the midterm review, which was probably one reason why the completion of the review had taken so long. Recently, however, the President had publicly announced that the wage increases would be rescinded in December 1985 if Congress did not pass the revenue measures that the Government had requested. The latest information available to the staff indicated that the problem was under control, and the staff hoped that with continued tight fiscal policies, the Government would be able to solve the dilemma by the end of December 1985. There had been a substantial reduction in investment expenditures owing to the shortfall in foreign financing of different investment programs, which, in turn, had occurred because Congress had not approved even the most concessionary loans from abroad.

Despite the recent debt rescheduling, the Dominican Republic's amortization payments on the capital account of the balance of payments would continue to increase in the years ahead, the staff representative added. Unquestionably, there had been some delay in the implementation of the investment program as a result of the stabilization policies that had been designed in 1983, 1984, and 1985. The staff had been cognizant of the problems associated with the reduced investment expenditures but had had to assign higher priority to the fastest possible achievement of financial stability in the Dominican Republic. In the short run, at least, it had been essential to reduce some of the investment expenditures of the Government to restore fiscal balance. The results to date indicated that the program was paying off, especially with respect to inflation and the exchange rate.

It had also been important for the authorities to try to mitigate the social unrest in the country as much as possible, the staff representative continued, especially as unemployment had been increasing. A certain stability in the exchange rate had been essential to keep inflationary pressures under control, and it had been maintained without central bank intervention, as the result of market forces.

The Dominican Republic had met all the ceilings for September 1985, the staff representative from the Western Hemisphere Department concluded.

The Deputy Director of the Exchange and Trade Relations Department observed that the staff had been concerned about the delays in the completion of the review and the consequent need to come to the Board with a paper setting September 1985 performance criteria only, in November 1985. From a substantive viewpoint, the staff had thought that those performance criteria, which had been discussed with the authorities in July and August 1985, provided an informal basis to monitor whether the policies were on track, and since the review could not be brought to the Board on schedule, the September 1985 ceilings indeed had served that purpose. During its discussions with the authorities, the staff had also been concerned about emerging fiscal trends, both in respect of wage payments and transfers and subsidies to the public enterprises, and thus had wanted the authorities to give firm assurances that the performance criteria that were being discussed would be observed. Delays had occurred in the process, and because the date for which the ceilings had been formulated had passed, extension of a waiver was needed. The date set for a review was used typically to determine the purchases that were subject thereafter to the completion of the review, but there was no need for a waiver if the review itself had not been completed on schedule. In the case of the Dominican Republic, however, not only had the review not been completed in time, but it had been delayed even beyond the date of the first set of ceilings that were to be discussed and agreed upon and recommended during that review for approval by the Board upon its completion. Thus, it had become necessary to request a waiver from the Board.

The outlook for medium- and long-term capital flows was not favorable, the Deputy Director continued. However, the situation had not deteriorated since March 1985, when the stand-by arrangement had been approved, and the medium-term prospects had become more favorable in that some improvement was expected beyond 1987.

The authorities were following a flexible exchange rate policy, the Deputy Director of the Exchange and Trade Relations Department stated, and they were not intervening to support the rate. There had been such a large depreciation previously that no basis existed for concern about the real appreciation that had taken place so far; however, it was important to note that if such a trend continued, the structure of the balance of payments of the Dominican Republic would not improve in the medium term.

The staff representative from the World Bank said that the Bank had been modifying almost all its ongoing loan and financing projects in the Dominican Republic to allow faster disbursements and a greater share of financing. Unfortunately, the results had been disappointing owing to cuts in investment expenditure in the Dominican budget, and disbursements had fallen during the past fiscal year to very low levels. The World Bank had approved two loans in 1985: one for vocational education and one for transportation. As soon as the transportation project received approval from the Dominican Congress and became active, the World Bank would be able to disburse a substantial amount of the transportation loan because it was front-loaded and because it also included a certain amount for expenditures that had already been incurred in pesos by the Dominican Republic in implementing the project.

Further, the World Bank had approved a five-year lending program, which included loans to the agricultural and industrial sectors and loans to develop infrastructure in the energy sector, the staff representative continued. It also included a possible loan to assist the Dominican Republic in promoting exports of nontraditional items, which had been requested by the Dominican authorities in July 1985. Word Bank missions had been to the Dominican Republic in August, September, and October to assist the authorities in preparing the necessary policy statement, which the staff was waiting for so that it could move ahead with that loan. The Bank stood ready to consider a structural adjustment loan should the Dominican authorities decide to undertake structural reforms and request the Bank's assistance. The World Bank staff had had an economic memorandum under preparation since its economic mission in April 1985 and expected that the memorandum would be ready for discussions with the Dominican authorities in January 1986.

Mr. Kafka remarked that the Dominican Republic had taken its most difficult decision during the past year, when it had broken the traditional one-for-one parity of the Dominican peso and the U.S. dollar. The difficulties that remained were not of the same order, but the Dominican authorities could not relax their efforts and in fact had no intention of doing so. The authorities had inherited a disastrous economic and financial situation, which they had corrected; they had no desire to throw away their achievements.

He agreed with Mr. Ortiz and Mr. Jensen that it was regrettable that the Dominican Republic was likely to continue to experience negative official capital flows, Mr. Kafka stressed. It was all very well to be elated about debt relief, but it was deeply disturbing that when the Dominican Republic was in need of investment to restructure its economy, it should not be able to count on receiving the positive capital inflows that it needed so badly, particularly from the multilateral agencies.

Owing to the major dependence of the Dominican Republic on exports denominated in dollars, the change in the value of the U.S. dollar in in terms of the SDR might have an unexpected and unintended effect on whatever international reserve target was set for the end of 1985 or 1986, Mr. Kafka pointed out. Whether that was so would be known by the time of the next review.

The Chairman made the following summing up:

Executive Directors expressed broad agreement with the thrust of the staff appraisal in the report for the 1985 Article IV consultation with the Dominican Republic.

Directors commended the authorities on the significant progress achieved in redressing the major internal and external disequilibria of the early 1980s. The financial program for 1985 had addressed the country's difficult economic and financial situation, and its implementation would help create conditions for a resumption of sustainable economic growth within a framework of financial stability. The recent reduction in inflationary pressures was welcomed, and Directors noted with satisfaction that through end-September 1985 all performance criteria of the stand-by arrangement had been met.

Among the measures taken in the context of the 1985 program, Directors stressed that the adoption of a flexible exchange rate policy had been particularly significant and had paved the way for the removal of serious cost/price distortions in the economy. Directors emphasized the importance of preserving the economy's competitiveness and in that context they endorsed the authorities' commitment to a flexible exchange rate system, which they regarded as essential.

Regarding price and tariff policies, Directors expressed the view that considerable progress had been made in eliminating distortions but they added that further action would be required since prices of a number of products still involved sizable subsidies. Timely adjustments in controlled prices would be imperative if the key public enterprises were to improve their financial position.

Directors welcomed the improvement forecast in the fiscal situation relative to the initial program projections, but they also noted that a marked fiscal expansion appeared to be taking place in the second half of 1985 relative to the first. In particular, Directors expressed concern about the rapid rise in wage outlays in the public sector without the provision of corresponding and lasting sources of revenue, and about the continued weak financial position of the main public sector enterprises. They urged the authorities to improve expenditure controls and to be prepared to take additional action--especially in such areas as current transfer payments, which had risen to about 35 percent of total central government outlays--to help assure the achievement of the program's fiscal objectives. In that context, it was noted that in 1986 additional measures were likely to be required on the revenue front, in view of the sizable reduction in the temporary export surcharge planned for early next year.

Directors noted that investment outlays had been scaled back very considerably and cautioned that that might impair future growth prospects. Particular concern was expressed regarding the large negative flows of medium- and long-term loans in the balance of payments, which were forecast to lead to a significant capital outflow on that account in 1985/86. Directors emphasized that adequate external assistance, including an appropriate flow of resources from international institutions, would be essential to support the Dominican Republic's adjustment efforts in a difficult social and economic context. While welcoming the increase in World Bank loan commitments to the Dominican Republic in 1985, Directors urged the Bank to increase its involvement in that country given the structural challenges facing the Dominican economy, particularly with respect to the diversification of the export and productive structure of the economy.

Directors remarked that monetary and credit policies had been appropriately restrained, and they noted that the freezing of credit to the nonfinancial public sector had been most prudent. Directors welcomed the more flexible interest rate policy that had been introduced in 1985 but added that further action might be necessary in order to ensure positive real yields on financial assets. They recommended that the large operating losses of the Central Bank should be eliminated as soon as possible; in the meantime, those losses would need to be covered with other fiscal resources after the elimination of the export surcharge.

Directors agreed that the external position of the Dominican Republic, while still weak, had strengthened in recent years. Directors welcomed the major reduction in the current account deficit in 1984/85; they noted the substantial reduction in external arrears in 1985 and the improvement in the net foreign asset position of the Central Bank. Nonetheless, policies should continue to be directed to the task of achieving a viable external position in the medium term.

Directors observed that the debt relief provided by the official creditors of the Paris Club and the multi-year rescheduling agreement with the commercial banks would clearly assist the Dominican Republic in restoring a viable external payments position. Given the high level of external debt and the related debt service burden, prudence in debt management would be essential in the period ahead.

Directors welcomed the authorities' intention to eliminate the temporary export surcharge.

It was agreed that the next Article IV consultation with the Dominican Republic will be held on the standard 12-month cycle.

The Executive Board then took the following decisions:

Exchange Measures Subject to Article VIII

1. The Fund takes this decision relating to the Dominican Republic's exchange measures subject to Article VIII, Sections 2(a) and 3, in the light of the 1985 Article IV consultation with the Dominican Republic conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

2. The restrictions on the making of payments and transfers for current international transactions, including those evidenced by external payments arrears, and the multiple currency practices maintained by the Dominican Republic are described in EBS/85/237. The Fund notes the intentions of the authorities concerning the withdrawal of these exchange restrictions and multiple currency practices and, in the circumstances of the Dominican Republic, grants approval for the retention of these restrictions and practices until April 14, 1986. The Fund will review these exchange measures on the occasion of the next review under the stand-by arrangement for the Dominican Republic (EBS/85/75, Sup. 1, 4/17/85) to take place before February 28, 1986.

Decision No. 8139-(85/172), adopted
November 27, 1985

Stand-By Arrangement - Review, Modification, and Waiver of Performance Criteria

1. The Dominican Republic has consulted with the Fund in accordance with paragraph 4(b) of the stand-by arrangement for the Dominican Republic (EBS/85/75, Sup. 1, 4/17/85) and paragraph 30 of the letter of February 28, 1985 attached to the stand-by arrangement, in order to review progress made in implementation of the program, to reach understandings on policies and quantitative performance criteria for the remaining period of the arrangement, and on circumstances in which purchases by the Dominican Republic can be resumed under the arrangement.

2. The letter of October 28, 1985 with an annexed technical memorandum from the authorities of the Dominican Republic shall be attached to the stand-by arrangement, and the letter of February 28, 1985 and annexed technical memorandum attached to the stand-by arrangement, shall be read as supplemented and modified by the letter of October 28, 1985 with annexed technical memorandum.

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

(i) the limit on the combined central bank and reserve bank net credit to the public sector set forth in paragraph 3 of, and in Table 1 of the memorandum annexed to, the attached letter dated October 28, 1985 is not observed;

(ii) the cumulative reduction of the net domestic assets of the Central Bank of the Dominican Republic set forth in paragraph 4 of, and in Table 2 of the memorandum annexed to, the attached letter dated October 28, 1985 is not observed;

(iii) the target for the net foreign assets of the Central Bank set forth in paragraph 5 of, and in Table 3 of the memorandum annexed to, the attached letter dated October 28, 1985 is not observed;

(iv) the cumulative reduction through cash payments in external arrears set forth in paragraph 6 of, and in Table 4 of the memorandum annexed to, the attached letter dated October 28, 1985 is not observed;

(v) the ceilings on disbursements under nonconcessional external public and publicly guaranteed debt, set forth in paragraph 7 of, and in Table 5 of the memorandum annexed to, the attached letter dated October 28, 1985 are not observed.

4. The Fund finds that no other understandings are necessary regarding the circumstances in which the Dominican Republic can resume purchases under the stand-by arrangement and decides, pursuant to paragraph 4(b) of the stand-by arrangement, that the review provided for in that paragraph is completed.

Decision No. 8140-(85/172), adopted
November 27, 1985

Purchase Transaction - Compensatory Financing Facility

1. The Fund has received a request from the Government of the Dominican Republic for a purchase of SDR 15.5 million under the Decision on Compensatory Financing of Export Fluctuations (Executive Board Decision No. 6224-(79/135) adopted August 2, 1979, as amended).

2. The Fund notes the representations of the Dominican Republic and approves the purchase in accordance with the request.

3. The Fund waives the limitation in Article V, Section 3(b)(iii).

Decision No. 8141-(85/172), adopted
November 27, 1985

DECISION TAKEN SINCE PREVIOUS BOARD MEETING

The following decision was adopted by the Executive Board without meeting in the period between EBM/85/171 (11/27/85) and EBM/85/172 (11/27/85).

4. HUNGARY - TECHNICAL ASSISTANCE

In response to a request from the Hungarian authorities for technical assistance relating to a study of sales tax reform, the Executive Board approves the proposal set forth in EBD/85/297 (11/21/85).

Adopted November 27, 1985

APPROVED: July 11, 1986

LEO VAN HOUTVEN
Secretary