FUND SUPPORT OF MEMBER COUNTRIES

During 1995/96 the Fund approved commitments under new stand-by arrangements for 19 countries (along with augmentation of access under existing arrangements for 2 other countries), extended arrangements for 4 countries, new ESAF arrangements for 8 countries (with access under ESAF arrangements being increased for 3 other countries), one new SAF arrangement, as well as one drawing under the compensatory and contingency financing facility (CCFF). Further information on member countries' use of Fund facilities is provided below. Fund facilities and policies are described briefly in Box 6.

Member Countries' Use of Fund Facilities

Algeria

Financial Support

An extended Fund facility (EFF) arrangement for SDR 1,169.28 million over three years was approved on May 22, 1995.

Program Objectives

Support the attainment of high and sustained levels of economic growth to reduce unemployment. Reduce inflation rapidly and restore balance of payments viability by 1998 while maintaining adequate levels of external reserves.

Policies

Fiscal policy was designed to eliminate the budget deficit quickly and generate budgetary surpluses starting in 1996/97 through broadening the tax base. Budgetary expenditures would be restructured for improved efficiency. The inflation objective would be achieved through rigorous management of domestic liquidity. Auctioning of central bank refinancing and treasury bonds and elimination of restrictions on interest rate spreads would increase the role of the market in determining interest rates.

Structural policies included further liberalizing the trade and payments system, gradually liberalizing trade for invisibles so as to establish current account convertibility of the dinar, and eliminating remaining price restrictions and phasing out subsidies by end-1996. Other measures entailed privatization of public enterprises, recapitalization of commercial banks, and removal of structural rigidities in the housing sector and its financing. Social efforts involved strengthening the social safety net, reviewing the public works program regularly, conducting a survey to gain insight into the extent of poverty, and alleviating the severe housing shortage.

Argentina

Financial Support

A 21-month stand-by arrangement for SDR 720 million was approved on April 12, 1996.

Program Objectives

Restore economic growth with low inflation and external viability, increase saving and investment, deepen the process of structural reform, and improve efficiency in the economy. In 1996, economic activity was expected to recover rapidly, with inflation remaining below 2 percent and the external current account deficit remaining at about the same level relative to GDP as in 1995.

Policies

Strategy would continue to involve maintaining fiscal and monetary discipline in the context of the Convertibility Law, with the objective of reducing the federal government deficit to 0.8 percent of GDP in 1996. To accelerate the reform process, additional, temporary measures would be implemented in the tax area, and administrative reforms would be carried out in national administration. Structural reforms would center on restructuring federal and provincial

Box 6

FUND FACILITIES AND POLICIES

The Fund provides financial assistance to its members through several facilities and policies tailored to members' needs. The size of the Fund's financial support and the conditionality attached to it vary according to the nature of the macroeconomic and structural problems that the member seeks to address and the Fund facility or policy designed to meet this need. Access to Fund resources is determined in relation to a member's quota. In October 1994—in order to give confidence to members that the Fund would be able to respond quickly and on an appropriate scale in support of strong programs of economic adjustment—the Board increased for three years the annual access limit in the General Resources Account (GRA) from 68 percent to 100 percent of quota, while keeping the cumulative access limit unchanged at 300 percent of quota.

Regular Facilities

Credit tranche policies. The Fund's credit under its regular facilities is made available to members in four tranches or segments of 25 percent of quota each. For first credit tranche purchases, members are required to demonstrate reasonable efforts to overcome their balance of payments difficulties. Upper credit tranche purchases are normally associated with stand-by arrangements. These typically cover periods of one to two years and focus on macroeconomic policies—such as fiscal, monetary, and exchange rate policies—aimed at overcoming balance of payments difficulties. Performance criteria to assess policy implementation—such as budgetary, credit, and external debt ceilings and targets for reserves—are applied during the period of the arrangement, and purchases are made in quarterly installments. Repurchases are made in 3¼ to 5 years.

Extended Fund facility (EFF). In addition to stand-by arrangements, the Fund makes credit available for longer periods under extended Fund facility arrangements. Under the EFF, the Fund supports medium-term programs that generally run for three years (up to four years in exceptional circumstances) and are aimed at overcoming balance of payments difficulties stemming from macroeconomic and structural problems. Typically, a program states the general objectives for the three-year period and the specific policies for the first year; policies for subsequent years are spelled out in program reviews. Performance criteria are applied, and repurchases are made in 4½ to 10 years.

Special Facilities

Compensatory and contingency financing facility (CCFF). The purpose of this facility is twofold. The compensatory element provides resources to members to cover shortfalls in export earnings and services receipts and excesses in cereal import costs that are temporary and arise from events beyond their control. The contingency element helps members with Fund arrangements to maintain the momentum of reforms when faced with a broad range of unforeseen adverse external shocks, such as declines in export prices, increases in import prices, and fluctuations in interest rates. Repurchases are made in 3¼ to 5 years.

Buffer stock financing facility. Under this facility the Fund provides resources to help finance members' contributions to approved buffer stocks. Repurchases are made in 3¼ to 5 years.

Emergency Assistance

In addition to balance of payments support under its regular and special facilities, the Fund provides emergency assistance in the form of purchases to help members overcome balance of payments problems arising from sudden and unforeseeable natural disasters or in post-conflict situations. Such purchases involve neither performance criteria nor, normally, the phasing of disbursements. Repurchases must be made in 3¼ to 5 years.

Facilities for Low-Income Countries

Structural adjustment facility (SAF) and enhanced structural adjustment facility (ESAF) arrangements. Under these facilities the Fund provides resources on concessional terms to support medium-term macroeconomic adjustment and structural reforms in low-income countries facing protracted balance of payments problems. The member develops and updates, with the help of the Fund and the World Bank, a medium-term policy framework for a three-year period, which is set out in a policy framework paper. Within this framework, detailed yearly policy programs are formulated and are supported by SAF or ESAF arrangements. ESAF arrangements differ from SAF arrangements in the scope and strength of structural policies, and in terms of access levels, monitoring procedures, and sources of funding. All available resources under the SAF were fully utilized as of December 1995, and no further SAF commitments are expected. There was broad consensus in the Board at an April 1995 meeting that an ESAF-type facility should continue to be available, provided that the revolving nature of the Fund's resources and the monetary character of the Fund were respected. Directors also agreed that the basic modalities of the existing ESAF had worked well and should be retained. SAF and ESAF programs include quarterly benchmarks to assess performance. The rate of interest on SAF and ESAF loans is 0.5 percent, and repayments are made in 5½ to 10 years.

governments, including merging or eliminating a number of public institutions. Provincial government reforms would include strengthening tax administration, privatizing enterprises and banks, and a gradual transfer of pension systems to the federal Government. Employment would be fostered through the last stage of a 30 percent reduction in employer social security contributions, a law on work-related accidents, and further reform of collective wage bargaining arrangements. The health care sector would be reformed to promote competition and efficiency.

Armenia

Financial Support

A 12-month stand-by arrangement for SDR 43.875 million and a second purchase of SDR 16.875 million under the systemic transformation facility (STF) were approved on June 28, 1995. The stand-by arrangement was canceled and replaced by an ESAF arrangement in February 1996 (see below).

Program Objectives

Establish the conditions necessary for sustainable economic growth and a recovery in the standard of living. Reduce monthly inflation to 1 percent by end-1995 and to an average of less than 1 percent in 1996. Attain real GDP growth of 5 percent in 1995 and 8 percent in 1996. Raise the Central Bank's gross external reserves to the equivalent of 2.4 months of imports by end-1996.

Policies

The focus of fiscal policy was to reduce the state government accrual deficit from 16.1 percent of GDP in 1994 to 8.6 percent. Tight monetary policy would reduce inflation by strictly limiting central bank credit and ensuring that interest rates remained positive in real terms.

Structural reforms emphasized liberalizing prices fully, strengthening the Government's administrative capacity, and continuing to privatize large enterprises. Adoption of bankruptcy and collateral laws would help to improve the legal framework. To address social concerns, the Government would identify the most vulnerable segments of the population, provide a short-term social safety net, and implement medium-term measures to improve the efficacy of the social assistance program.

Financial Support

A three-year arrangement under the ESAF for SDR 101.25 million and the first annual arrangement thereunder, for SDR 33.8 million, were approved on February 14, 1996.

Program Objectives

Maintain macroeconomic stability and nurture growth by building an environment conducive to private sector development while correcting structural distortions to improve the supply response of the economy. Raise economic growth to 7 percent in 1998, reduce inflation to 8 percent by end-1998, and narrow the current account deficit to 12.5 percent of GDP while bolstering gross international reserves.

Policies

Fiscal policy aimed to restructure the budget while reducing the budget deficit. Monetary policy would be consistent with the envisaged reduction of inflation. Structural reforms, designed to encourage state enterprises to produce goods based on commercial principles, entailed fundamental reform of the energy sector and restructuring of several enterprises. Through decentralization, privatization, and implementation of bankruptcy and collateral laws, enterprises would be subjected to hard budget constraints. Other measures included a law on bank insolvency, pursuit of privatization, and progress toward establishing an electronic payments system and a debt-management unit to monitor the contracting and guaranteeing of external debt obligations by the Government, the Central Bank, and state enterprises. To address social problems, the Government would reorient social expenditures toward the most vulnerable segments of the population, improve coverage of the social safety net, and reform education and health care.

Azerbaijan

Financial Support

A one-year stand-by arrangement for SDR 58.5 million and a second STF purchase of SDR 29.3 million were approved on November 17, 1995.

Program Objectives

Reduce monthly inflation to 1 percent and achieve positive economic growth toward end-1996. Reduce the overall budget deficit to 3 percent in 1996 and raise the level of international reserves.

Policies

Monetary policy would be tightened to contain inflationary expectations and would aim, in 1996, to achieve the desired decline in inflation and maintain a higher level of international reserves.

The emphasis of structural reforms was on restructuring the financial sector, rationalizing the price structure, rapidly privatizing public enterprises, and initiating enterprise restructuring. To address social concerns, the Government has begun a reform of the benefits system, under which the safety net would be made more efficient while social expenditures would be preserved at 7–8 percent of GDP.

Belarus

Financial Support

A 12-month stand-by arrangement for SDR 196.3 million was approved on September 12, 1995.

Program Objectives

Work toward price stability and a sustainable balance of payments position. Establish a market economy to lay the foundation for sustainable growth. Specifically, limit the decline of GDP to 13.8 percent in 1995 and to 3.0 percent in 1996, contain monthly inflation to 1 percent by end-1995 and to 0.5 percent by end-1996, and increase gross international reserves to the equivalent of 1.7 months of imports by end of the program period.

Policies

Fiscal policy focused on reducing the general government cash deficit by, on the revenue side, increasing excises, limiting tax exemptions, and strengthening tax collection and social security contributions. On the expenditure side, measures would contain subsidies and net lending as well as the wage bill and other discretionary outlays. Monetary policy focused on maintaining positive real interest rates and limiting expansion of base money.

Structural reform policies were designed to liberalize prices, deepen reforms of the foreign exchange market, and further liberalize foreign exchange and external trade transactions. Measures included reducing barriers to private sector development, stimulating corporatization and privatization, encouraging enterprises to restructure and become financially more responsible, and legalizing private landownership. The social reform plan entailed financing a social safety net to partially compensate the most vulnerable population groups for the impact of increases in tariffs on household services and utilities.

Benin

Financial Support

A third annual ESAF arrangement for SDR 18.12 million was approved on May 22, 1995.

Program Objectives

Consolidate gains in competitiveness and strengthen macroeconomic adjustment to attain financial viability and sustainable growth. Over the medium term, raise economic growth to 5–6 percent, lower inflation rapidly, attain sustainable budgetary and balance of payments positions to reduce dependence on foreign aid, alleviate poverty and better protect vulnerable groups, and strengthen social and physical infrastructure and promote human resource development.

Policies

To achieve a primary budget surplus, the Government revised the taxation of wages and salaries, restored the value-added tax on sugar, further tightened tax and customs exemptions, and increased the efficiency of customs administration. It restructured expenditure toward investment, education, and health; emphasized a restrained wage policy; and raised the budgetary contribution to investment. Monetary and credit policy would emphasize a prudent stance and keep interest rates competitive with levels prevailing abroad.

Structural policies would promote private sector expansion by improving resource allocation and generating savings for investment. Progress has been made in opening up the agricultural processing center; liberalizing distribution, storage, and transportation of petroleum products; modernizing the judicial system; and revising the labor code. Privatization of public enterprises and management reforms would be accelerated. Social and environmental strategies entailed reducing poverty and improving urban conditions and the management of natural resources. Poverty alleviation focused on creating employment, especially in rural areas, and ensuring greater access to credit by promoting local savings and loan cooperatives.

Bolivia

Financial Support

A second annual ESAF arrangement for SDR 33.66 million was approved on March 25, 1996.

Program Objectives

For 1996, reach growth of 5 percent and limit annual inflation to 8 percent. Limit current account deficit to less than 6 percent of GDP—excluding imports related to the program for capitalization of major public enterprises—while maintaining international gross reserves at the equivalent of about six months of imports.

Policies

Tight fiscal policy would be maintained, and monetary and credit policy would be designed to achieve inflation and balance of payments objectives. Structural reforms focused on promoting development of the hydrocarbon sector and expanding natural gas exports. The monopoly position of the national oil company would be eliminated. To alleviate poverty, the Government would focus on expanding the coverage and quality of basic education and health. A minimum pension would be established for all Bolivians based on shares of capitalized public enterprises.

Bosnia and Herzegovina

Financial Support

A drawing equivalent to SDR 30.3 million under the Fund's policy on emergency assistance to post-conflict countries, endorsed by the Interim Committee at its October 8, 1995 meeting, was approved on December 20, 1995.

Program Objectives

Rebuild the country after the devastation of war without losing control over financial policies. To receive foreign assistance, normalize relations as quickly as possible with external creditors, starting with the problem of arrears to multilateral institutions other than the Fund.

Policies

Although it is premature to develop a quantified framework for macroeconomic policies, the authorities have made two key decisions that will strengthen their prospects for maintaining control over financial policies. First, a new central bank would operate for at least six years as a de facto currency board, issuing currency only when there is full foreign exchange backing. Second, the Central Government and public sector entities will refrain from domestic bank financing of fiscal expenditures.

Burkina Faso

Financial Support

A third annual ESAF arrangement for SDR 17.7 million was approved on May 31, 1995.

Program Objectives

Consolidate gains in competitiveness and achieve high, sustainable growth. Over the medium term, raise average real GDP growth to 5 percent a year (implying average per capita growth of about 2 percent); lower inflation to 3 percent by 1997; and reduce the external current account deficit, excluding official transfers, to less than 12 percent by 1997.

Policies

The Government undertook to strengthen public finances and accelerate structural reforms. Fiscal policy was designed to broaden the tax base, improve medium-term tax and customs administration, and make fiscal management more rigorous and transparent. A prudent monetary policy stance would ensure consistency between domestic demand growth and balance of payments objectives.

Structural reform policies were designed to enhance the role of the private sector in economic activity. Monopolies on rice and sugar imports would be eliminated, and privatization pursued. Restructuring of the banking system would be accelerated, and pricing policies would provide incentives to producers and cover utility company costs. In the social sphere, the Government would alleviate poverty through faster growth in per capita income and improved access to basic social services. The poorest would be protected through activities to generate income, distributions of food aid, wider availability of generic medicines, and schemes for lending schoolbooks.

Cambodia

Financial Support

A second annual ESAF arrangement for SDR 28.0 million was approved on September 15, 1995.

Program Objectives

Consolidate recent macroeconomic gains and raise output growth to about 7 percent a year during 1995–97. Reduce inflation to less than 8 percent by mid-1996 and to 5 percent by 1997, and increase official reserves to the equivalent of 2¼ months of imports by mid-1996.

Policies

Fiscal policy emphasized broadening the tax base to effect a durable increase in the revenue-to-GDP ratio and a wide range of measures to strengthen budgetary control procedures. Military spending would be contained to less than 6 percent of GDP in 1995 and would be reduced in 1996 in the context of military reform. Monetary policy emphasized strict control over bank financing of the budget deficit and preparation for the issuance of treasury bills to help establish a market-determined interest rate for the riel.

Structural reforms centered on improving regulation and supervision of commercial banks, downsizing the civil service, reforming the military, privatizing public enterprises, and reforming the legal system. The Government initiated a poverty assessment program based on a recently completed socioeconomic survey. To address environmental concerns, the Government would control logging and begin work on a forest management code designed to achieve sustainable exploitation of forestry resources.

Cameroon

Financial Support

A 12-month stand-by arrangement for SDR 67.6 million was approved on September 27, 1995.

Program Objectives

For 1995/96, achieve real GDP growth of 5 percent, up from 3 percent in 1994/95. Lower inflation to about 8 percent from 13 percent, and reduce the external current account deficit, including official grants, to about 1 percent of GDP.

Policies

The Government has begun strengthening the fiscal position and implemented a tight monetary policy. The goal of structural reforms was to reduce the weight of the public sector and improve resource allocation by downsizing the civil service, strengthening public sector management, divesting public enterprises, restructuring the financial sector, and liberalizing the economy through an improved institutional, legal, and regulatory framework. In the social area, the 1995/96 budget, a key program element, emphasized resource transfers to the poorest segments of the population for employment counseling, vocational training, support of small enterprises, an emergency civil works program, and health services in rural areas.

Chad

Financial Support

A three-year ESAF arrangement for SDR 49.6 million and the first annual arrangement thereunder, for SDR 16.5 million, were approved on September 1, 1995.

Program Objectives

Over 1995–98, achieve annual real GDP growth of about 5 percent to permit recovery in per capita income and reduce poverty. Bring inflation down significantly to levels prevailing in key partner countries by the end of the program period. Reduce fiscal and external current account deficits to more sustainable levels.

Policies

The Government undertook fiscal consolidation through broadening the tax base and strengthening revenue collection in the context of regional tax and customs reforms. Use of indirect instruments of monetary control would be broadened so as to strengthen market mechanisms. Prudent monetary management was emphasized.

Structural reform focused on accelerating privatization and fortifying public enterprises' operations and market orientation. Other measures aimed to increase labor market flexibility; abolish import and export licenses to stimulate trade and commerce; clarify exchange regulations; simplify and harmonize business laws and regulations; and strengthen the budget process. The Government began to reform the civil service and to improve the flow and transparency of information on economic developments. Social policies emphasized poverty reduction and raised budget allocations for basic health services and primary education. In the environmental sphere, the Government revised mining regulations to protect local water supplies.

Costa Rica

Financial Support

A 15-month stand-by arrangement for SDR 52 million was approved on November 29, 1995.

Program Objectives

Establish basis for sustained economic growth by increasing domestic saving; improving public sector efficiency; increasing role of private sector; and enhancing competition, efficiency, and soundness in the financial system. Achieve real GDP growth of 2.5 percent in 1995 and 3 percent in 1996; lower inflation to about 18 percent in 1995 and to less than 10 percent in 1996; reduce the external current account deficit to 3.4 percent in 1996; and increase net international reserves to the equivalent of 2.9 months of imports of goods and services by end-1996.

Policies

Monetary policy was designed to reduce the Central Bank's net domestic assets by 25 percent in 1995 and by a further 50 percent in 1996. The public sector deficit was projected to decline to 3.5 percent of GDP in 1995 and to 0.5 percent in 1996. This would reduce domestic borrowing requirements from 5.1 percent of GDP in 1995 to 1.3 percent in 1996, thereby easing pressures on interest rates and international reserves. Structural policies in the public sector included reform of the tax code and changes in the wage policy to delink adjustments from past inflation; in the financial sector, reforms included strengthening supervision and enhancing competition. Other measures reduced the scope of the public sector while improving its efficiency through scaling-down operations, mergers, and transfers of functions. Private sector participation in areas previously reserved for the public sector would be increased, as would the role of foreign investors in electricity generation, insurance, and banking.

The Government took steps to improve the efficiency of social expenditures and strengthen the social safety net. To protect the environment, the Government has initiated energy-saving projects, rehabilitated forests, increased the use of unleaded gasoline, and involved the private sector in reducing the pollution of rivers.

Côte d'Ivoire

Financial Support

A second annual ESAF arrangement for SDR 119.1 million was approved on May 19, 1995.

Program Objectives

Consolidate gains in competitiveness and achieve high, sustainable growth of 6.4 percent. Lower inflation to about 5 percent; reduce the external current account deficit, including official transfers, to 2.2 percent of GDP; and reduce the overall fiscal deficit by more than 2 percentage points to 5.5 percent of GDP.

Policies

Fiscal policy was designed to strengthen public finances by, on the revenue side, rationalizing the tax system, broadening the tax base, and enhancing yield from existing taxes. On the expenditure side, current noninterest expenditure would decline through limiting the increase in the wage bill and downsizing the civil service. Monetary policy, in line with the prudent stance followed in 1994, would limit domestic demand growth to a rate consistent with the currency peg. Contributions to the net foreign assets of the West African Economic and Monetary Union would be increased.

Structural reforms would be strengthened and accelerated in 1995 to develop the private sector. The privatization program and restructuring of the parapublic sector would be accelerated, price controls reduced, and far-reaching reforms implemented in the agricultural sector. Government intervention in the cocoa and coffee sectors would be scaled down. Social reforms would accelerate growth in per capita income; improve access to, and quality of, basic social services; and assist the poorest segments of the population. With increased budget appropriations, municipalities would launch public utility works and labor-intensive rehabilitation programs.

Djibouti

Financial Support

A 14-month stand-by arrangement for SDR 4.6 million was approved on April 15, 1996. It represents Djibouti's first use of Fund resources.

Program Objectives

Stabilize real GDP and reduce the current account deficit. Increase the level of international reserves to the equivalent of 5.2 months of imports.

Policies

Fiscal policy would rely on front-loaded, sustained reduction and restructuring of budgetary expenditures. Measures entailed reducing the wage bill permanently through cutbacks in the nominal wage bill, demobilization of defense and security personnel, and reform of the civil service over the medium term. Revenues would be increased through tax-related measures. Structural reforms centered on making public enterprises more efficient, restoring their capacity for self-financing, and allowing private sector participation in their capital. The labor code would be revised and a private sector development plan formulated.

Social policies emphasized mitigating the impact of adjustment on the most vulnerable segments of the population: budget allocations for health and education were protected, and a poverty survey would be conducted to improve the targeting of humanitarian aid.

El Salvador

Financial Support

A 14-month stand-by arrangement for SDR 37.7 million was approved on July 21, 1995.

Program Objectives

Conduct reconstruction efforts within a framework of macroeconomic stability. Reinforce the adjustment strategy in effect since 1989. For 1995, reduce inflation to 6–8 percent, achieve real GDP growth of 6–7 percent, and maintain a strong balance of payments.

Policies

Fiscal policy centered on raising tax revenue through improved tax administration and tax increases. Monetary policy would be consistent with macroeconomic objectives. Structural reforms, including rehabilitating infrastructure and bringing large segments of the population into the economic mainstream, would be broadened to facilitate sustained economic growth and would provide incentives for increased public saving in the medium term. The Government took steps to modernize the public sector and open up the financial system through completion of privatization and a new banking law.

To address social concerns, the Government expanded the social safety net, giving priority to the neediest sectors by developing human capital, supporting families and other vulnerable groups, and increasing access to housing, credit, and land.

Gabon

Financial Support

An EFF arrangement for SDR 110.3 million over three years was approved on November 8, 1995.

Program Objectives

Accelerate output and employment growth by diversifying the economy and establishing a more liberal regulatory framework to stimulate development of the non-oil private sector. Over 1995–98, achieve average real GDP growth of about 3 percent a year, lower inflation to 2 percent by 1998, and maintain current account surpluses of 3–4 percent of GDP.

Policies

Fiscal policy entailed increasing oil and non-oil revenue and reducing current expenditure. Monetary policy envisaged controlling domestic credit expansion. Structural reforms emphasized unlocking growth potential in the non-oil sector by improving the efficiency and financial performance of public enterprises; reforming the civil service; and liberalizing the legal and institutional framework through revising the labor code, enacting a competition law, updating business legislation, and adopting a new investment code. Other measures included privatizing and restructuring key public utilities, finalizing privatization plans for agricultural and commercial public enterprises, and containing or reducing the size of the civil service.

Social reforms emphasized provision of employment counseling, training, and support services for job seekers. To alleviate the impact of the value-added tax on the most vulnerable segments of the population, some essential consumer goods were exempted from the tax, and retail prices of medicines were lowered through tax adjustments.

Georgia

Financial Support

A 12-month stand-by arrangement for SDR 72.15 million and a second STF purchase of SDR 27.75 million were approved on June 28, 1995. The stand-by arrangement was canceled and replaced by an ESAF arrangement in February 1996 (see below).

Program Objectives

Consolidate recent stabilization gains and reduce inflation to less than 1 percent a month by end-1995. Hold inflation to 12–15 percent in 1996; contain the drop in output to 5 percent in 1995 and allow for 10 percent growth in 1996. Raise international reserves to the equivalent of two months of imports by mid-1996.

Policies

Fiscal policy was designed to reduce the fiscal deficit to 6 percent of GDP in 1995 and 5.6 percent in 1996. Revenue performance would be improved through strong tax administration and tax policy measures, and expenditures would be curbed. The goals of monetary policy were to maintain price stability and safeguard the value of the national currency in preparation for introducing a new currency.

Structural reforms emphasized privatization and establishment of a legal structure to support the transition to a market-based economy. State institutions would be downsized, energy prices would be determined by market forces, and government intervention in the energy sector would be halted. A social safety net would provide cash benefits to the neediest segments of the population.

Financial Support

A three-year ESAF arrangement for SDR 166.5 million was approved on February 28, 1996.

Program Objectives

For 1996–98, attain average annual growth of 8–10 percent. Reduce inflation to less than 10 percent by end-1998; reduce the external current account deficit to 4.2 percent of GDP in 1995; and strengthen the international reserve position.

Policies

Fiscal policy consisted in raising tax revenues to finance essential current government expenditures while relying mainly on external resources to finance capital investment. To improve revenue performance, the Government would limit tax exemptions, expand the tax base, and strengthen tax and customs administration. A tight monetary policy would be implemented.

To further the transition to a market economy, structural reforms emphasized establishing an adequate legal framework; reforming commercial banks; accelerating privatization; fully liberalizing prices and the exchange system; restructuring and downsizing the Government; and implementing sectoral policies, for example, in agriculture, banking, and energy. To meet social needs, the Government focused on the most vulnerable households and plans to conduct a detailed poverty assessment study.

Ghana

Financial Support

A three-year ESAF arrangement for SDR 164.4 million was approved on June 30, 1995.

Program Objectives

Improve the environment for private saving and investment and generate additional domestic saving to help meet investment and external current account objectives. For 1995–97, accelerate real GDP growth to 5.5 percent while reducing inflation to 5 percent and the external current account deficit to 2.7 percent of GDP by 1997.

Policies

Fiscal policy entailed decreasing current expenditures and shifting the tax burden toward expenditure-based sources of revenue—the overall budget balance was projected to move to a surplus of 1.3 percent by 1997. Budgetary outlays would be restructured to finance improvements in the economic infrastructure. To protect external competitiveness and the foreign reserve position, monetary restraint—involving reducing growth of broad money supply—would be accompanied by a flexible exchange and interest rate policy. The money supply would continue to be controlled through open market operations.

Structural reforms focused on deregulating the cocoa and petroleum sectors and on expanding privatization to banks and public utilities. The civil service would be restructured and downsized. To address social needs, spending for health and education was increased, and some items were exempted from the sales tax. A forest and wildlife management policy and revised mining regulations were approved.

Guinea

Financial Support

A third annual ESAF arrangement for SDR 23.2 million was approved on December 20, 1995.

Program Objectives

Raise real GDP growth to 4.6 percent in 1995 and to 4.7 percent in 1996. Stabilize annual inflation rate at 4 percent; reduce external current account deficit, excluding official transfers, to 8.6 percent of GDP in 1995 and to 7.6 percent in 1996; and raise official reserves to the equivalent of 3.6 months of imports by 1996. Program implementation would also lead to a normalization of relations with creditors.

Policies

Fiscal policy was designed to lower the overall deficit to 6 percent in 1995 and to 5.5 percent in 1996 by increasing government revenue in activities other than mining, strengthening tax administration, and broadening the tax base. Government expenditure, which would increase by 1 percent of GDP in 1996, would be directed more toward the social sectors and investments in infrastructure. A tight monetary policy would keep inflation low.

Structural reforms, designed to enhance private sector growth, emphasized privatizing and reforming the parastatals, strengthening the judiciary, revising the development strategy for the mining sector, and reforming the civil service. Social reforms centered on raising expenditures for primary education and preventive health and sanitation and on earmarking funds for poverty alleviation.

Guyana

Financial Support

A second annual ESAF arrangement for SDR 17.9 million was approved on April 15, 1996.

Program Objectives

Over the medium term, achieve real GDP growth of about 5½ percent a year. Reduce inflation to about 4 percent by end-1998, and strengthen the balance of payments to allow official reserve coverage of imports to be maintained at current levels.

Policies

Fiscal policy would be supported by monetary and structural reforms, with the goals of reducing the overall deficit of the nonfinancial public sector to 5.6 percent, doubling public sector saving to 10 percent of GDP, and raising investment outlays to 18 percent of GDP through reorientation and containment of current outlays, strengthening of tax administration, and improving the performance of public enterprises. Monetary policy centered on decelerating inflation and safeguarding the international reserve position while supporting private sector activity. As part of its debt-management policy, the Government sought debt reduction from Paris Club and other bilateral creditors as well as an increase in concessionality. Structural reforms emphasized privatization, improving utility services, implementing sectoral programs and protecting the environment, and strengthening the statistical base.

Social reform entailed a two-pronged strategy to reduce poverty through fostering the creation of employment opportunities and directing social services to the neediest.

Hungary

Financial Support

A 23-month stand-by arrangement for SDR 264.18 million was approved on March 15, 1996. The authorities intend to treat the arrangement as precautionary.

Program Objectives

Reinforce reforms begun in 1995 to improve the balance of payments position and stabilize the economy to lay the foundation for strong and sustainable growth. Strengthen output growth to 2 percent in 1996 and to 3.2 percent in 1997; slow inflation to 16.6 percent in 1996 and to 12.7 percent in 1997; further consolidate the external current account deficit to 4 percent of GDP in 1996 and to 3 percent in 1997.

Policies

The fiscal deficit would be lowered in line with current account and inflation goals, and expenditures and revenue would be reduced. Monetary and exchange rate policies would be guided by the preannounced nominal rate of depreciation of the forint. Wage policy—critical to the success of fiscal adjustment, preservation of competitiveness, and realization of the inflation goal—would be restrained.

Structural reforms would focus on improving budget planning, monitoring, and execution and on improving the financial position of different levels of government; strengthening the social security system; restructuring and privatizing state-owned enterprises; and liberalizing international transactions. To address social concerns, reform of the social security system would emphasize improved targeting of benefits to the neediest segments of the population.

Jordan

Financial Support

A request by the authorities to replace Jordan's existing extended arrangement with a new arrangement for SDR 200.8 million was approved on February 9, 1996.

Program Objectives

Over the medium term, achieve average annual real GDP growth of at least 6 percent to sustain improved living standards and expand employment opportunities. Maintain low inflation rates in line with those of industrial countries. Narrow the external current account deficit to less than 3 percent of GDP on average so as to lower the debt and debt-service burden. Build up gross official reserves to the equivalent of about three months of imports.

Policies

The goal of fiscal policy was to reduce the budget deficit, excluding foreign grants and receipts from sales of assets, to 2.5 percent of GDP in 1998 by reducing current outlays and increasing revenues from domestic taxation. Maintain the relative attractiveness of dinar-denominated assets through tight monetary policy and flexible interest rates. Structural reforms would be accelerated, including in the areas of taxes, budgetary expenditures, the regulatory framework, the financial system, and the trade system. These measures were intended to promote the role of the private sector in the economy by overhauling the regulatory framework, comprehensively reforming public sector enterprises, intensifying privatization, and divesting government holdings in the productive sectors.

The Government would strengthen the social safety net. Food subsidies were partially replaced by a rationing system and direct income support for extremely poor families. Coverage of benefits of the National Aid Fund would be extended to all poor families.

Kazakstan

Financial Support

A 12-month stand-by arrangement for SDR 185.6 million was approved on June 5, 1995.

Program Objectives

For 1995, reduce annual inflation to 40 percent and restrain the decline in output to about 11 percent while promoting export growth. Limit the external current account deficit to about 7 percent of GDP. Achieve a breakthough in structural reforms, specifically in imposing financial discipline on enterprises.

Policies

Fiscal policy was directed toward an overall budget deficit of 3.5 percent of GDP, and monetary and credit policies toward growth rates of base money and broad money of no more than 37 percent and 40 percent, respectively. Structural reforms centered on enterprise restructuring and privatization and on establishing a regulatory environment conducive to restructuring. The Government undertook to address social costs by increasing budgetary allocations for the social safety net.

Kenya

Financial Support

A three-year ESAF arrangement for SDR 149.55 million was approved on April 26, 1996.

Program Objectives

Consolidate fiscal adjustment, privatize and restructure the parastatal sector, avoid recurrence of misuse of public funds, and further develop outward-looking competitive markets. Basic macroeconomic objectives for 1996–98 are to raise economic growth to about 6 percent, maintain inflation at 5 percent, and lower the external current account deficit, excluding official transfers, to about 0.8 percent of GDP.

Policies

To achieve its objectives, the Government undertook to reduce the overall fiscal deficit from 2.5 percent of GDP in 1994/95 to 1.6 percent in 1996/97. Fiscal policy was designed to reduce revenue in relation to GDP while broadening the tax base. Allocations for operations and maintenance would be raised to improve delivery of essential services, and outlays for capital expenditures would be increased. Expenditure control and monetary management would be strengthened and tax administration improved. Monetary policy would focus on price stability.

Structural policies emphasized further progress in privatizing and restructuring enterprises, restructuring the civil service, further strengthening the financial system, and establishing transparency and accountability in public finances. On the social front, the Government planned to better direct poverty measures and to make social services more available to the poor. Through budgetary reallocation, health services would be improved and primary and secondary education would be emphasized.

Kyrgyz Republic

Financial Support

An augmented second annual ESAF arrangement for SDR 32.25 million was approved on December 11,

1995. Also, the total three-year ESAF arrangement was increased to SDR 88.15 million from the original amount (SDR 70.95 million) approved on July 20, 1994.

Program Objectives

Achieve real GDP growth of 2.5 percent in 1996. Halve the rate of annual inflation to 15 percent by the end of 1996, and further strengthen international reserves.

Policies

Fiscal policy was designed to reduce the budget deficit to 5.5 percent of GDP in 1996 from 11.3 percent in 1995 through revenue measures—improving tax collection and administration—and expenditure measures—rationalizing outlays to reduce government expenditure relative to GDP without impairing the social safety net. The authorities would maintain a tight monetary and credit stance and a fully liberalized exchange and trade system.

Structural policies emphasized privatization and state enterprise restructuring; financial sector reform; and legal, regulatory, and institutional reforms. Social reforms focused on directing social assistance more effectively to its intended recipients and ensuring provision of basic services. Priorities included strengthening the financial position of the Social Fund and rationalizing social expenditures.

Lesotho

Financial Support

A 12-month stand-by arrangement for SDR 7.17 million was approved on July 31, 1995.

Program Objectives

Achieve a growth rate of 7.4 percent. Reduce the rate of inflation to 7.8 percent, and further reduce the external current account deficit to 1.6 percent of GNP.

Policies

The goal of fiscal policy was to achieve an overall budget surplus of 2 percent of GNP in 1995/96 by broadening the tax base and completing reform of sales taxes. Monetary policy would encourage use of central bank securities and provide credit to the private sector to help build up the Government's net creditor position with the banking system. External policies were designed to increase, partly through export growth, net official foreign exchange reserves.

Structural measures focused on accelerating privatization and parastatal reform, reforming the civil service, diversifying agricultural output toward high-value export crops, liberalizing marketing, and encouraging environmentally sustainable land practices. The Government increased budgetary allocations for social services, including vocational and job training and the social safety net. With the support of nongovernmental organizations, it would continue to fund small projects.

Former Yugoslav Republic of Macedonia

Financial Support

A 13-month stand-by arrangement for SDR 22.3 million and a second STF purchase of SDR 12.4 million were approved on May 5, 1995.

Program Objectives

Further reduce inflation, which was expected to fall to 1 percent a month, or 18 percent a year, by end-1995. Increase foreign reserves to the equivalent of ten weeks of imports and normalize relations with official bilateral and multilateral creditors.

Policies

Monetary, fiscal, and incomes policies would be restrained. The authorities would increase central government revenues by broadening the tax base and would lower expenditures by reducing wages, subsidies, and nonspecific social transfers. On the structural front, the authorities sought to accelerate privatization, restructure large enterprises, and recapitalize troubled banks. Social policies emphasized helping job seekers and reforming and expanding the social assistance program.

Malawi

Financial Support

A new three-year ESAF arrangement for SDR 45.8 million and the first annual arrangement thereunder, for SDR 15.3 million, were approved on October 18, 1995.

Program Objectives

With an emphasis on economic stabilization and restoration of fiscal discipline, achieve real economic growth of 9.9 percent in 1995 and 5.4 percent in 1996. Limit inflation to 35.8 percent in 1995 and to 6.2 percent in 1996. Reduce the external current account deficit, excluding official transfers, to 14.3 percent of GDP in 1995 and to 16.7 percent in 1996.

Policies

Fiscal measures, designed to reduce the overall central government deficit to about 4 percent in 1995/96, would, on the revenue side, improve efficiency of the tax system and reform customs, surtax, and excise taxes. On the expenditure side, a cash budget and an expenditure-monitoring system would be implemented. Monetary policy centered on lowering inflation by reducing the liquidity overhang. Structural reforms focused on reforming the civil service, accelerating privatization through establishing the legal and institutional framework, and revitalizing agriculture.

Poverty alleviation measures included liberalizing agricultural marketing and production arrangements, providing free primary education, and increasing budgetary outlays for other social services, including providing health services and water to underserved areas.

Mali

Financial Support

A three-year ESAF arrangement for SDR 62.01 million was approved on April 10, 1996.

Program Objectives

Focus on preserving gains in competitiveness, improving resource allocation and the environment for private sector activity to ensure sound basis for sustained economic growth, and taking steps to reduce poverty. Specifically, achieve annual economic growth of 4–5 percent over 1996–98, reduce inflation to 2–3 percent in 1997, and lower the external current account deficit, excluding official transfers, to about 10.5 percent of GDP by 1998.

Policies

Fiscal policy aimed to increase government revenue and cut the ratio of total expenditure to GDP, by, on the revenue side, creating a taxpayer unit to improve tax collection from the largest enterprises, improving fiscal identification, increasing tax audits, and computerizing tax administration. On the expenditure side, nonpriority spending would be contained. Monetary and credit policy would be consistent with the regional balance of payments objective. The authorities would work toward establishing open market monetary policy and ensuring market determination of interest rates.

Structural reforms centered on promoting private sector activities and on reform of the public enterprise and agricultural sectors. Measures included establishing an appropriate legal framework, enhancing the competitiveness of the cotton and rice sectors, and improving monitoring of public investment projects. Social and environmental policies focused on raising living standards, reducing poverty, and improving the management of natural resources and the urban environment.

Mauritania

Financial Support

A second annual ESAF arrangement for SDR 14.25 million was approved on April 17, 1996.

Program Objectives

Objectives are consistent with the medium-term strategy of further reducing the external current account deficit while creating an environment supportive of private investment as a basis for accelerated economic growth and low inflation: maintain average annual economic growth at 4.7 percent; stabilize inflation at about 3.5 percent; reduce the external current account deficit, excluding official transfers, to 6.4 percent of GDP; and increase official exchange reserves to the equivalent of 3.1 months of imports.

Policies

Tight fiscal and monetary policies were emphasized, along with the creation of a transparent and market-based exchange regime. Structural reforms centered on private sector development, including revision of the commercial code, of arbitration and bankruptcy laws, and of civil and commercial judicial procedures. The investment code would be rationalized and procedures for establishing new enterprises simplified. Tax administration—of the value-added tax in particular—and public expenditure control would be strengthened. Import tariff reform would seek to lower protection and broaden the tax base.

Social priorities included increasing literacy and school enrollment rates, improving primary health care services, and strengthening the participation of women in development. Other measures focused on grassroots development, poverty alleviation, and employment generation.

Pakistan

Financial Support

A 15-month stand-by arrangement for SDR 401.85 million was approved on December 13, 1995, after cancellation of the existing ESAF and extended arrangements.

Program Objectives

Address adverse developments through broad economic reform. Restore international reserves to the equivalent of 9.4 weeks of imports. Reduce inflation to 9 percent, and accelerate real GDP growth to 5.5 percent.

Policies

Fiscal policy was designed to cut the budget deficit in relation to GDP through revenue and expenditure measures. The goal of monetary policy was to slow the growth of domestic liquidity by tightening credit policy and interest rate measures. The exchange rate would be managed flexibly to achieve balance between preserving competitiveness and containing inflationary expectations.

Structural reform centered on budget reform, trade liberalization, and privatization. The Government would raise outlays under the Social Action Program and protect a core set of investment expenditures.

Panama

Financial Support

A 16-month stand-by arrangement for SDR 69.8 million was approved on November 29, 1995. On March 20, 1996, the Fund approved an augmentation of SDR 14.5 million of access under the arrangement in support of a debt- and debt-service-reduction operation between Panama and its commercial bank creditors.

Program Objectives

Achieve, in the context of medium-term viability, recovery in the rate of real GDP growth to 4 percent in 1996 and higher rates thereafter while maintaining inflation below 2 percent.

Policies

Fiscal policy was designed to restructure and contain overall expenditure and improve revenue collection so as to accommodate rising investment. Public sector operations were targeted not to exceed a deficit of 0.6 percent of GDP in 1995 and to achieve a surplus of 0.4 percent in 1996. Other measures included the phasing out of subsidies and tax breaks so as to improve resource allocation and broaden the tax base and the formulation of a new public wage and employment policy.

The structural reform strategy entailed privatizing enterprises or contracting out services to the private sector, reducing labor market rigidities, and eliminating price controls. In the context of joining the World Trade Organization (WTO), Panama would reduce import tariffs and introduce antidumping clauses. The social strategy entailed improving the efficiency and equity of social spending on education and health, directing subsidies to the most vulnerable groups, and increasing community-generated projects.

Papua New Guinea

Financial Support

An 18-month stand-by arrangement for SDR 71.48 million was approved on July 14, 1995.

Program Objectives

Restore economic and financial stability and encourage strong, broadly based, and sustainable growth. GDP growth, excluding minerals, was expected to decline to 1 percent in 1995 and then to rebound to 4½ percent in 1996. Contain inflation to 14 percent in 1995 and reduce it to 5 percent in 1996. Build up international reserves to the equivalent of 3.3 months of imports by end-1996.

Policies

Fiscal policy emphasized increasing revenue and restraining current expenditures, including controlling public sector wages and downsizing the civil service. Tight monetary and wage policies were designed to contain inflation and to help restore exchange market stability. Structural reforms would include eliminating most import bans and quotas, reforming tariffs and introducing a national sales tax, phasing out reserved activities, and removing price controls. Privatization would be accelerated.

To address social concerns, more basic services would be provided—primary and secondary education, primary health and hospital services, and agricultural support services.

Romania

Financial Support

On December 21, 1995, Romania's current stand-by arrangement was extended through April 1997, and the amount available under it was increased by SDR 188.525 million.

Program Objectives

Reduce consumer price inflation to less than 20 percent. Narrow the current account deficit to 3.4 percent of GDP, and increase the foreign exchange reserves of the National Bank of Romania significantly by year-end.

Russia

Financial Support

An EFF arrangement for SDR 6,901.0 million was approved on March 26, 1996, immediately following a stand-by arrangement that was fully drawn.

Program Objectives

Accelerate the transformation toward a fully functioning market-based system while consolidating macroeconomic stabilization. Lay the foundation for sustained growth by lowering inflation to a single-digit annual rate and achieving medium-term viability of the balance of payments. Real GDP growth was projected to accelerate to 2.3 percent in 1996 and 5 percent in 1998, while the period average increase in consumer prices was expected to decline to 51.2 percent in 1996 and to 6.9 percent in 1998. After registering a surplus of 1.2 percent of GDP in 1995, the external current account was expected to swing into modest deficits of 0.4 percent of GDP in 1996 and 1.7 percent in 1998, as investment recovered and measured private saving declined.

Policies

The critical element of the medium-term strategy was a further reduction in the overall fiscal deficit of the enlarged Government from about 5 percent of GDP in 1995 to 4 percent in 1996 and 2 percent in 1998. Deficits of the magnitude projected could be financed without recourse to direct credit from the Central Bank of Russia and without undue pressure on interest rates or crowding out of the private sector. Fiscal adjustment would be based on improved revenue performance. Measures entailed increasing tax rates, primarily in the energy sector; broadening the tax base—through eliminating exemptions with respect to the value-added tax, profit tax, excises, and import duties; and improving tax administration. Credit policy would be restrained, and the pace of credit expansion would decelerate.

Structural reforms sought to ensure that goods and factor markets operated efficiently, to complete the establishment of institutional and legal frameworks required by a market economy, and to make accession to the WTO a priority. Significant structural changes were envisaged in trade liberalization, reform of natural monopolies, strengthening of the banking system, steps to accelerate privatization, agricultural reform, initiatives in the areas of urban land and real estate, and the development of an organized securities market. Social policies centered on protecting vulnerable groups during the transition and on ensuring that the benefits of growth contributed to reducing poverty.

Rwanda

Financial Support

A drawing of SDR 8.9 million was approved on October 27, 1995 under the CCFF to compensate Rwanda for a shortfall in merchandise export earnings resulting from the civil war. The Fund agreed to establish an account for the administration of grants (totaling approximately SDR 1.5 million) contributed by the Netherlands, Sweden, and the United States to reimburse the service charge and reduce to 0.5 percent a year the rate of quarterly charges payable on the outstanding balance of Rwanda's CCFF drawing (see Appendix X).

Program Objectives

Restore financial stability and revive economic activity. With technical assistance coordinated by the Fund, restore Rwanda's capacity in macroeconomic management.

Senegal

Financial Support

A second annual ESAF arrangement for SDR 47.6 million was approved on December 11, 1995.

Program Objectives

Achieve economic growth and financial viability over the medium term. Achieve annual increase in real GDP of 4½ percent; limit inflation to about 8 percent in 1995 and to less than 3 percent in 1996; and contain the external current account deficit, excluding official transfers, to 8 percent of GDP in 1995 and to 7⅓ percent in 1996.

Policies

Fiscal policy focused on reducing the overall fiscal deficit, excluding grants, to 2 percent of GDP in 1996 through measures increasing government revenue and cutting total expenditures. Monetary policy was based on the use of indirect instruments, consisting of a flexible interest rate policy, reliance on reserve requirement rations, and a strengthened role for the money and interbank markets.

Structural measures focused on further liberalizing prices and trade, modernizing the regulatory framework, strengthening agricultural reforms, and accelerating public enterprise reform. In the social and environmental areas, emphasis was on increasing the standard of living, reducing poverty, and improving urban conditions and the management of natural resources. Education and health services would be improved.

Sierra Leone

Financial Support

A second annual ESAF arrangement for SDR 23.2 million was approved on December 18, 1995. Access under the second annual and three-year arrangements was increased by SDR 13.1 million.

Program Objectives

The strategy incorporates stabilization policies designed to establish a low-inflation environment so as to set the stage for a recovery in private sector activity and contribute to a more viable external position. The key objectives are to raise real GDP growth to 7 percent in 1997 and to stabilize growth at 5 percent thereafter; lower inflation to 5 percent by 1998; and reduce the external current account deficit, excluding official transfers, to about 15 percent of GDP by 1998.

Policies

The authorities would reduce the overall fiscal deficit (excluding election expenses) to 5.9 percent of GDP in 1996 from 7.1 percent in 1995 largely through expenditure cuts, particularly in the defense area. Other fiscal measures include an increase in the rate of duty on petroleum products and continuation of the implementation of a civil service retrenchment program. Monetary policy would be geared toward achieving the inflation objectives, and open market operations would continue to serve as the primary instrument of monetary control.

Structural reforms center on improving the implementation capacity of the civil service; divestiture of public enterprises whose functions could be managed more efficiently by the private sector; and improving the judicial system. The focus of social reforms would be poverty alleviation. The strategy emphasizes better provision of social services—particularly primary health care and education—and more programs to protect the most vulnerable groups.

Togo

Financial Support

A second annual ESAF arrangement for SDR 21.7 million was approved on December 20, 1995.

Program Objectives

For 1995–96, achieve annual real GDP growth of 6.5 percent while reducing inflation and further strengthening public finances and the balance of payments.

Policies

Fiscal policy aimed to raise government revenue while restraining and improving the structure of expenditure so as to reduce external and domestic arrears. A cautious credit stance and flexible interest rate policy at the regional level would contain inflation and maintain adequate external reserves to ensure the stability of the CFA franc.

Structural reforms emphasized restructuring public enterprises and furthering private sector involvement. A number of price controls would be removed. Social and environmental strategies centered on reducing poverty and improving urban environment and natural resource management. The most vulnerable population groups would be protected through measures to create jobs and strengthen health and education services.

Uganda

Financial Support

A second annual ESAF arrangement for SDR 40.17 million was approved on November 29, 1995. The Board completed the midterm review under that arrangement on May 1, 1996.

Program Objectives

Achieve high and sustained economic growth (6.5 percent of GDP) and poverty reduction within a sound macroeconomic environment. Lower inflation to about 5 percent by year's end and increase gross reserves. The external current account deficit, excluding grants, was projected to decline as the coffee boom subsided. The overall balance of payments was projected to remain in surplus, with gross reserves rising to 4.3 months of imports in 1995/96.

Policies

Tight financial policies, with room for private sector investment activity, would be implemented. The fiscal deficit would be reduced through revenue-enhancing measures and expenditure restraint. Monetary policy, after allowing for increased monetization of the economy, was designed to allow broad money to grow only slightly above nominal GDP growth and provided a contingency mechanism to sterilize additional inflows.

Structural reforms included steps to deal with a weak banking system, development of a secondary market in treasury bills, and establishment of a stock exchange. Other measures focused on the tax system, public expenditure management, the civil service, and public enterprises. The Government has taken steps to improve the well-being of the least well-off segments of the population through increased budgetary allocations for primary health care, education, and the water supply.

Uruguay

Financial Support

A 13-month stand-by arrangement for SDR 100 million was approved on March 1, 1996. The authorities intend to treat the arrangement as precautionary.

Program Objectives

Consolidate recent progress in macroeconomic stabilization, increase the economy's resilience to external shocks, and promote sustainable economic growth. Achieve real GDP growth of 1 percent; reduce the external current account balance; lower annual rate of inflation to 20 percent by end-1996; and maintain international reserves at 5½ months of imports while lengthening the average maturity of public debt.

Policies

Fiscal policy envisaged lowering the public sector deficit to 0.5 percent of GDP in 1996 from 1.7 percent in 1995. The incomes policy would support fiscal and inflation objectives, while credit policy was designed to help achieve inflation and balance of payments goals. Structural measures focused on reforming the social security system so as to modernize and decentralize its operations. Pension plans of the military, the police, and remaining private sector plans would be reformed. Central administration would be reformed to reduce current government expenditure in the medium term while increasing public sector efficiency in delivering essential services. Private sector participation was envisaged in a number of areas.

Social needs would be addressed through reforms of the education system, including improved teacher training, restructuring of teachers' salaries, curriculum changes, supplying of teacher materials, and construction of schools and other infrastructure.

Uzbekistan

Financial Support

A 15-month stand-by arrangement for SDR 124.7 million and a second STF purchase for SDR 49.9 million were approved on December 18, 1995.

Program Objectives

Consolidate gains made to date in macroeconomic stabilization. Lay the foundation for economic recovery and improved living standards. Specifically, reduce the decline in real economic activity to 1½ percent in 1996 from about 2 percent in 1995 and cut inflation to 21–25 percent in 1996 from more than 100 percent in 1995. Gross official reserves were expected to remain at the relatively high level of 5½ months of imports over the year.

Policies

Maintain tight monetary and credit policies to reduce inflation and ensure a strong currency, and continue restrained fiscal policy. To reduce the Government's role in the economy, revenues and expenditures were expected to decline in relation to GDP by 4½ percent in 1996 compared with 1995, with the overall deficit remaining at about 4 percent of GDP. These financial polices would be supported by a tax-based incomes policy.

Structural reform efforts emphasized privatizing medium- and large-scale enterprises, further liberalizing foreign trade, and disengaging the Government from economic activity. Measures included introducing central bank and commercial bank laws, improving bank supervision and dealing with banks' nonperforming assets, and improving functioning of the payments system. Other measures included eliminating the foreign exchange budget, reducing state orders and increasing procurement prices for cotton and grain, and establishing a treasury. On the social front, the most vulnerable segments of the population would be protected, and pension system reforms would continue.

Vietnam

Financial Support

A second annual ESAF arrangement for SDR 120.8 million was approved on March 1, 1996.

Program Objectives

Achieve annual GDP growth of 9.5 percent and lower inflation from 13 percent a year in 1995 to 9 percent by end-1996. The external current account deficit was expected to widen to 8.9 percent of GDP from 8 percent, largely reflecting increased foreign aid disbursements and foreign direct investment.

Policies

Financial policies would remain tight. Under fiscal policy, a restrictive government budget would reduce the overall deficit to 1.5 percent of GDP in 1996 from 1.7 percent in 1995. Current outlays and nonproductive expenditures would be reduced, but spending on education and basic health care would be protected. Monetary and credit policies would also remain restrained in line with inflation and growth objectives.

Structural reforms emphasized exchange and trade liberalization, state enterprise and legal reforms, and financial sector reform. Other measures focused on tax reform—including preparation for the introduction of a value-added tax, and improvements in the budget process and expenditure targeting. Social reforms focused on poverty alleviation in rural areas, stressing improved provision of infrastructure, social services, and access to credit in these areas.

Yemen

Financial Support

A 15-month stand-by arrangement totaling SDR 132.4 million was approved on March 20, 1996.

Program Objectives

Achieve real GDP growth of 2.5 percent in 1996 and 5 percent in 1997. Reduce core inflation rate to about 20 percent in 1996 and to 10 percent in 1997 from 55 percent in 1995, and eliminate external debt-service arrears by end-June 1996.

Policies

Fiscal policy aimed to strengthen the fiscal position by more than 5 percent in 1997. The central government deficit would be financed from external sources rather than through domestic bank borrowing. Other measures centered on achieving positive real interest rates, exchange system unification, and adoption of a floating exchange rate regime.

Structural policies focused on improving the tax system; reforming civil service, customs administration, and public enterprises; legal reforms to enhance banking system intermediation; one-step trade liberalization, tariff reform, and harmonization of excise taxes; multisector privatization; and liberalizing investment and the regulatory framework. Social priorities included a social safety net program to generate employment for unskilled labor while upgrading infrastructure and social service facilities, and concessional pricing for electricity and water. Expenditures for health and education would be maintained.

Zambia

Financial Support

On December 6, 1995, the Fund lifted Zambia's ineligibility to use the Fund's financial resources and approved a three-year ESAF arrangement for SDR 701.7 million and a one-year SAF arrangement for SDR 181.7 million, for a total amount of SDR 883.4 million.

Program Objectives

Strengthen the macroeconomic stabilization effort while advancing structural reforms. Achieve real economic growth of 6 percent in 1996–98. Reduce inflation to single digits, raise the level of foreign exchange reserves, and extend the liberalization of the economy.

Policies

The objective of fiscal policy was to achieve a domestic budget surplus of 1 percent of GDP through strict control of expenditures, including the civil service wage bill. The objective of monetary policy was to reduce broad money growth to about 13 percent a year in the first half of 1996 from 40 percent in 1995 and to keep inflation on a downward path.

Structural reforms focused on strengthening the banking system, furthering the privatization of parastatals, strengthening the agricultural and mining sectors, and restructuring the civil service. Social reform emphasized poverty alleviation through a reorientation of public expenditure toward the social sectors and providing training and limited financial support to workers laid off as a result of privatization.

Box 7

GUIDELINES ON PERFORMANCE CRITERIA WITH RESPECT TO FOREIGN BORROWING

The Executive Board adopted a decision in October 1995 to modify a 1979 decision establishing guidelines on performance criteria with respect to foreign borrowing. The main rationales for such performance criteria are to ensure the overall consistency of the monetary and financial program so that restraint of domestic demand is not threatened by unforeseen foreign borrowing, and to prevent an undue buildup of external debt during the medium term.

The guidelines on the performance criteria with respect to foreign borrowing provide that when the size and the rate of growth of external indebtedness is a relevant factor in the design of an adjustment program, a performance criterion relating to official and officially guaranteed foreign borrowing will be included in arrangements subject to upper credit tranche conditionality. The criterion will include foreign loans with maturities of over one year and, in appropriate cases, other financial instruments that have the potential to create substantial external liabilities for governments.

Flexibility will be exercised to ensure that the use of the performance criterion will not discourage capital flows of a concessional nature by excluding concessional loans from the coverage of performance criteria. Under the new guidelines, loans will be treated as concessional if they have a grant element of at least 35 percent, calculated on the basis of currency-specific discount rates based on the OECD Commercial Interest Reference Rates (CIRRs). A higher grant element may be required in exceptional cases. Normally, the performance criterion will include a subceiling on foreign debt with maturities of over one year and up to five years. Additional subceilings may also be included on debt with specified maturities beyond five years or with a specified grant element lower than 35 percent (see Appendix V).

The Board further decided in April 1996 that, to avoid frequent changes in the assessment of concessionality, six-month average CIRRs will be used to calculate the concessionality of loans, and 10-year average CIRRs to calculate the concessionality of loans with a repayment period of 15 years or more.

Analytical Issues in Fund Support

During the year, the Board considered a number of important analytical issues related to the Fund's activities in support of its member countries. These included a study of the medium-term response of growth and investment to adjustment policies, based on a study of eight countries, and a discussion of the implications for Fund policies of trends in concessional aid flows, with particular emphasis on balance of payments support. In addition, the Board modified an earlier decision establishing guidelines on performance criteria with respect to foreign borrowing (see Box 7).

Response of Investment and Growth to Adjustment Policies and Composition of Fiscal Adjustment and Growth

In November 1995, Directors considered the medium-term response of growth and investment to adjustment policies and the relationship between the composition of fiscal adjustment and growth, drawing lessons from the experience of eight countries (Bangladesh, Chile, Ghana, India, Mexico, Morocco, Senegal, and Thailand).[9]

Directors observed that the case studies reinforced the view that delays in adjustment were costly, exacerbating the severity of the initial decline in investment and output growth as well as slowing the pace of recovery. Allowing financial imbalances to reach critical

[9]The staff background papers will be published in the Fund's Occasional Paper series.

proportions almost inevitably necessitated subsequent crisis management, entailing an abrupt contraction in domestic absorption. Therefore, Directors noted, the adjustment policies most conducive to growth and the restoration of private sector confidence were those that addressed imbalances at an early stage.

Directors agreed that the Fund's primary concern with short-term stabilization need not conflict with the strengthening of longer-term growth prospects. With an early and well-coordinated collaborative effort among the member country, the Fund, and the World Bank, a coherent and internally consistent program that facilitated the attainment of both objectives could be designed. A number of Directors also stressed the need to take careful account of the sociopolitical sustainability of the overall strategy in order to avoid a stop-go process of adjustment. In this regard, many speakers reiterated the importance of "ownership" of adjustment programs by member countries. Some Directors suggested that the Fund staff could help build ownership by communicating with wider groups that have influence on economic policymaking.

Many Directors noted the evidence that an "investment pause" in many countries undergoing adjustment was primarily the result of uncertainty created by an unstable macroeconomic environment. This underscored the importance of establishing and sustaining a good policy track record, which inevitably took time.

Directors observed that evidence from the country studies reaffirmed that the most effective measure to raise an economy's overall saving rate in the short term was to increase public saving. However, several speakers thought that there was a need for a more proactive approach to encourage private saving.

Speakers highlighted several aspects of macroeconomic adjustment policies that were important to growth. Fiscal adjustment that was judged to be of high quality and sustainable—in terms of the nature of the underlying measures as well as the magnitude of deficit reduction—was most likely to enhance growth. Moreover, fiscal, exchange rate, and wage policies needed to be well coordinated. Particular care should be taken that exchange rate misalignment did not become an obstacle to the resumption of growth. Directors also stressed that macroeconomic policies needed to be set in a clear medium-term framework.

With regard to the composition of fiscal adjustment and its effects on growth, Directors agreed that stabilization could and should be compatible with a growth-oriented fiscal policy. They observed that the state had an important role to play in setting up an appropriate legal and institutional framework, and that public sector activities should be complementary to, and not competitive with, the private sector. They emphasized the importance of the composition and quality of public investment and agreed that in many countries a reorientation of social spending toward primary education and basic health would be good for both long-term growth and helping the poor.

Directors also observed that the advantages of careful technical preparation were especially evident in the case of fiscal restructuring. The effectiveness of tax administration and public expenditure management was critical to a growth-oriented composition of fiscal adjustment.

Although the links between external financing and growth are complex, Directors noted the role that timely availability of financing could play in supporting strong adjustment policies.

While recognizing the difficulties of quantifying the impact of structural measures on growth, Directors noted that the case studies generally reaffirmed the positive association between structural reform and improved productivity. The studies suggested that there can be a high degree of complementarity among key reforms, so that a coordinated critical mass of reforms could improve the efficiency of macroeconomic policies, strengthen the supply response, and reduce the risk of policy reversals. Key complementarities are country specific, and therefore identifying a core set of reforms in program design needs to be based on careful analysis of each country case. Many Directors noted that, although labor market rigidities were among the most intractable structural impediments, reforms offered considerable potential to improve the response to adjustment of both output and formal sector employment. Programs would benefit from a greater integration of such issues into the overall framework.

Directors drew several conclusions that bore directly on the work of the Fund. First, they stressed the crucial contribution that effective surveillance, and in particular Article IV consultations, can make to enhancing growth prospects through early detection and diagnosis of emerging signs of macroeconomic instability. Second, Directors agreed that Fund-supported programs should be presented in a medium-term framework, which should include a discussion of the proposed medium-term orientation of policies and an analysis of its consistency, sustainability, and compatibility with growth potential. Third, many Directors considered that, periodically, Article IV consultations or program reviews should be the occasion for comprehensive re-evaluations of the overall medium-term framework underlying programs. Finally, Directors underscored the importance of ongoing efforts to integrate more closely the work of the Fund and the World Bank staff on public expenditure reviews and the design of macroeconomic and sectoral-level structural reforms.

Bilateral and Multilateral Aid Flows and Fund-Supported Programs

In May 1995, the Board discussed the implications for Fund-supported programs of trends in and policies regarding concessional flows from bilateral creditors and multilateral agencies, with particular emphasis on balance of payments support.

Noting that pressure on aid budgets was likely to continue, Directors expressed concern about the implications for balance of payments support for the poorest countries, and also for the poorer among the countries in transition. In view of the importance of adequate balance of payments support for the successful implementation of adjustment programs, Directors urged creditors and donors to concentrate scarce aid resources on the poorer countries pursuing strong adjustment programs, including those that were ESAF supported. Concern was also expressed that sufficient balance of payments support should remain available through the concessional windows of development banks.

With uncertain prospects for balance of payments support and large shortfalls in external financing in some Fund-supported programs in recent years, Directors saw a need for a more cautious and transparent approach to medium-term projections for such assistance. Also, Directors urged continued use of contingency mechanisms in the event that external financing fell short of expectations. Directors supported the role being played by policy framework papers in mobilizing external assistance and ensuring a consistent policy framework in low-income countries. Directors observed that increasing earmarking by many donors of budgetary support for specific social programs could reduce the flexibility of budget management. Concern was also voiced about complex sectoral conditionality in the context of recipients' limited administrative capacity. Directors stressed that the Fund should assist in efforts to coordinate donor assistance, and they welcomed the enhanced collaboration between the World Bank and the Fund on public expenditure issues.

Directors noted that donor concerns regarding good governance and respect for human rights were likely to create further uncertainty about external financing. Directors generally endorsed the view that the Fund must continue to address the economic aspects of governance, especially through advice on measures to promote transparency and accountability. They also agreed that programs should place more emphasis, in collaboration with the World Bank, on improving members' administrative capacity.

Adapting Fund Facilities

During the 1995/96 financial year, the Board took a number of measures to strengthen the Fund's ability to respond in support of its members. These included an agreement to formalize the procedures used following the Mexican crisis in an emergency financing mechanism; the establishment of guidelines for Fund support of currency stabilization funds; and the expansion of the guidelines on the provision of emergency assistance to include countries in post-conflict situations. In addition, work advanced on the options for continued financing and adaptation of the ESAF.

Emergency Financing Mechanism

In September 1995, the Executive Board agreed on the elements of an emergency financing mechanism to strengthen the Fund's ability to respond to a member facing an external financial crisis and seeking assistance from the Fund in support of a strong macroeconomic adjustment program. The essence of the emergency financing mechanism is exceptional procedures to facilitate rapid Board approval of Fund financial support while ensuring the conditionality necessary to warrant such support.

Directors agreed that emergency procedures would be expected to be used only in circumstances representing or threatening to give rise to a crisis in a member's external accounts that required an immediate response from the Fund. Identification of such an emergency would be based on an initial judgment by management, in consultation with the Board. While a number of Directors would have preferred to limit the use of emergency procedures to situations involving significant spillover or contagion effects, most noted that such an approach would unduly restrict the availability of such procedures. Nevertheless, the potential for spillover or contagion effects would be an important consideration in a decision to activate the emergency financing mechanism.

Conditions for activation of emergency procedures would include the readiness of the member to engage immediately in accelerated negotiations with the Fund, with the prospect of early implementation of an agreement on measures sufficiently strong to address the problem. A member's past cooperation, in particular its record of reporting and responding to the Fund's policy advice in the context of strengthened surveillance, would also affect the speed at which the Fund could assess the situation and agree on necessary corrective measures. Directors noted the responsibility of members, in this context, to come to the Fund early in order to avert a crisis or limit the cost of repair.

The use of emergency financing mechanism procedures would be expected to be rare, and the role of the Fund, in the context of such use, would remain catalytic. Further, the availability of the emergency financing mechanism procedures would not represent a guarantee against sovereign default.

Under the emergency financing mechanism, a request for a Fund arrangement would be considered

Box 8

THE EMERGENCY FINANCING MECHANISM AND SUPPLEMENTARY BORROWING

Use of the emergency financing mechanism would involve exceptional procedures that, in the event a member faced a financial crisis, would facilitate a rapid response by the Fund. In certain situations, there may also be a need for large and front-loaded access to Fund resources.

However, there is not necessarily a link between use of emergency financing mechanism procedures and either the level of access to Fund resources or the need for supplementary financing.

Therefore, no formal link has been established between the emergency financing mechanism and the General Arrangements to Borrow or other supplementary borrowing arrangements.

expeditiously by the Board once agreement had been reached on a program with the member (see Box 8). To enable such rapid consideration, the Board would be informed immediately by management of the intention to activate emergency financing mechanism procedures and, during the negotiations with the member, the Board would be briefed frequently on economic and financial developments, the progress in the negotiations, the key parameters of the program, and the likely impact on the Fund's liquidity. In instances where support from other creditors is likely to be important, consultations with key creditors would be initiated at the outset of the emergency. Until the emergency was definitively resolved, there would be frequent assessments of the effectiveness of the member's policy response, and the Board would continue to be closely involved. There would also be an understanding that if the financial crisis was resolved quickly, the member would make early repurchase of the resources made available under emergency procedures.

Fund Policy with Regard to Currency Stabilization Funds

Building on two earlier discussions, the Board in September 1995 discussed the conditions and modalities of possible Fund support for currency stabilization funds. These discussions took place in light of experience showing that, in certain circumstances, a nominal exchange rate anchor can be a powerful instrument, when used in the context of strong macroeconomic stabilization policies, in bringing about a rapid decline in inflation. After careful consideration, the Board decided that, under appropriate conditions, the Fund would be prepared to provide financing within the framework of a Fund upper credit tranche stand-by or extended arrangement for the specific purpose of establishing a currency stabilization fund. A currency stabilization fund would supplement reserves for a transitional period in support of an exchange-rate-based stabilization strategy aimed at reducing inflation rapidly from high levels. In deciding to provide support for currency stabilization funds, the Board noted that there was no intention to signal any preference on the part of the Fund for fixed exchange rates or exchange-rate-based stabilization, nor was it expected that there would be frequent recourse to currency stabilization funds. The Board agreed on guidelines for Fund support of currency stabilization funds, as shown in Box 9.

With respect to the framework for currency stabilization fund operations, the Board stressed the importance of the country's having a sound track record, of keeping the exchange arrangements under continuous review both during and after the disinflation effort, and of ensuring that currency stabilization fund resources were used as intended—that is, to provide a temporary supplement to reserves for confidence building and short-term intervention if needed, and not for general balance of payments support.

Fund Involvement in Post-Conflict Countries

At a discussion in September 1995, the Board reviewed the Fund's involvement in selected post-conflict countries. Directors welcomed the early provision by the Fund in previous post-conflict situations of technical assistance and policy advice in its areas of expertise. Looking to the future, Directors emphasized the need for the Bretton Woods institutions, the regional development banks, the UN, and bilateral donors and creditors to coordinate closely in supporting countries emerging from conflict situations. They observed that, in the post-conflict cases reviewed, the process of coordination had benefited from the leadership of a single agency or bilateral partner, and that different agencies or countries had performed this role effectively in the various cases. Directors concurred that the institutional flexibility that has prevailed to date remained appropriate. While it was important that a lead be taken by one institution or donor, most Directors would not expect the Fund to be the lead institution.

Directors were in broad agreement that coordination would be facilitated through early preparation, where possible, of a framework paper for organizing technical assistance and financial support. Such a report would be prepared by the affected member and the lead agency, in consultation with other relevant agencies and bilateral donors and creditors. It could be similar to a policy framework paper, but less comprehensive and with a shorter time horizon.

Box 9

GUIDELINES FOR FUND SUPPORT FOR CURRENCY STABILIZATION FUNDS

General Considerations

Framework and purpose. In the framework of an upper credit tranche stand-by or extended arrangement, Fund financial support for the specific purpose of establishing a currency stabilization fund could provide, for a transitional period, additional confidence in support of an exchange-rate-based stabilization strategy. For currency stabilization funds to play their intended role, economic policies would need to be sufficiently tight to deliver an inflation path compatible with the targeted exchange rate anchor, so that little, if any, use of the currency stabilization fund would be expected. It would also be understood that economic policies would be adapted promptly as necessary in response to changing circumstances, and that the underlying program would be fully financed.

Adjustment strategy. Fund support for currency stabilization funds would be considered in cases of high inflation where a nominal exchange rate anchor is part of a comprehensive adjustment strategy to sharply reduce inflation from high levels and, where close monitoring is possible, to ensure that the exchange rate anchor and supporting policies continue to be appropriate.

Exchange rate arrangement. The most appropriate arrangement to be supported by a currency stabilization fund would be an exchange rate peg with relatively narrow margins, or a preannounced crawl.

Policy conditions. Policy conditions for Fund support for a currency stabilization fund would include (1) fiscal adjustment and credit creation consistent with targeted inflation, (2) appropriate measures to deal with backward-looking automatic wage and other indexation schemes, (3) establishment of current account convertibility and an open trade regime, (4) contingency plans to deal with large capital account outflows or inflows, (5) integrated management of foreign exchange reserves and intervention policy, and (6) other structural and institutional elements designed to reduce inflation sharply.

Cofinancing. While cofinancing would be considered, the Board would retain control over the use of all Fund resources in support of a currency stabilization fund; cofinancing should not complicate the operations of the currency stabilization fund; the terms of resources provided through cofinancing would be at least as favorable to the borrower as those associated with Fund financing; and cofinancing resources should not affect the safeguarding of Fund resources and the Fund's preferred creditor status.

Operational Characteristics

Structure. A currency stabilization fund would be established as a "window" within a Fund upper credit tranche arrangement and would have revolving features permitting repeated use under specified conditions. ESAF-eligible members would be able to use such stabilization funds through arrangements that would operate parallel to an ESAF arrangement.

Access. Access under a currency stabilization fund could be up to 100 percent of quota but would be subject to the limits applicable to stand-by and extended arrangements. Actual access would vary on a case-by-case basis, depending on the assessed need for reserves.

Tranches. Normally, a currency stabilization fund would have four equal tranches, although there would be some flexibility to vary both the number and the size of tranches.

Reporting requirements. Daily reporting of key financial variables would be expected and would be specified in the documentation establishing a currency stabilization fund. These requirements could be modified as a condition for approving availability of resources from the currency stabilization fund or for completing reviews under the program.

Other operating procedures for a currency stabilization fund, such as activation provisions, repurchase and reconstitution obligations, and charges were also specified in the guidelines.

Most Directors thought that the Fund's existing financial instruments were adequate to deal with post-conflict situations, but that they might not be fully suitable, or available, in all cases that could merit Fund financial support. A majority of the Board endorsed the idea of expanding the scope of the present policy on emergency assistance to include carefully defined post-conflict situations. However, a number of Directors expressed the need for great caution given the limited role the Fund could play in such circumstances.

Regarding the circumstances under which the Fund would provide emergency assistance to a post-conflict country, most Directors agreed that these should include the following: where the country's institutional and administrative capacity was disrupted as a result of the conflict, so that the member was not yet able to develop and implement a comprehensive economic program that could be supported by a Fund arrangement, but where there was nonetheless sufficient capacity for planning and policy implementation and a demonstrated commitment on the part of the authorities; where there was an urgent balance of payments need to help rebuild reserves and meet essential external payments and a role for the Fund in catalyzing support from other official sources; and where Fund support would be part of a concerted international effort to address the aftermath of the conflict situation in a comprehensive way.

Directors agreed that access to Fund resources in such cases should generally be limited to one credit tranche (25 percent of the country's quota) and that the access policy under the existing emergency assistance guidelines provided sufficient flexibility to handle exceptional needs. Directors agreed that the proposed Fund financial assistance for post-conflict countries be made available only if the member intended to move within a relatively short time to an upper credit tranche stand-by or extended arrangement, or to an arrangement under the ESAF. Other conditions for this assistance would include a statement of economic policies and, where possible, a quantified macroeconomic framework. Directors stated that part of the response should be a comprehensive technical assistance program, including institution-building aspects.

Enhanced Structural Adjustment Facility

The Board on several occasions discussed a request from the Interim Committee in October 1995 to submit proposals to the April 1996 Interim Committee meeting for the future financing of the ESAF. During the course of these discussions, the views of most Directors converged, although some important differences remained.

The Board broadly agreed that the Fund should aim to be in a position to meet demands for concessional financing under the current ESAF of SDR 1.2 billion annually through 1999 and SDR 1 billion annually under ESAF operations during 2000–2004, as well as to meet continuing demands of, or close to, SDR 0.8 billion a year for a substantial period after 2004.

The Board also generally agreed that the Fund should aim to place its concessional lending as soon as feasible on a self-financed basis—that is, solely financed from the Fund's own resources. Existing ESAF resources are expected by most Directors to be fully committed by the end of 1999 and self-sustained ESAF operations at a level of about SDR 0.8 billion could start from 2005. The Board, therefore, considered various options for financing ESAF in an amount sufficient to support a lending program of SDR 1 billion annually during the interim period, 2000–2004, requiring an estimated SDR 2.1 billion to subsidize interest payments arising from commitments made over the five-year period down to a concessional rate of 0.5 percent.

Loan Commitment

Three basic alternatives were discussed for financing the loan commitments of SDR 5 billion over the five-year period 2000–2004:

- Use of the Fund's General Resources Account (GRA) through arrangements under the existing extended Fund facility, accompanied by a separate subsidy operation.
- "Early" use of amounts accumulating in the ESAF Reserve Account, which would reduce the capacity for self-sustained ESAF operations after 2004; it would also involve the use of resources in the account before balances fully cover the claims of existing ESAF creditors, thereby reducing the level of protection for those claims.
- Further borrowing by the ESAF Trust from bilateral lenders.

Subsidy Requirement

Similarly, three possibilities—some of which could be combined—were discussed for financing the associated subsidy requirement:

- Bilateral contributions, which were viewed by many Directors as an essential component of the financing for the interim ESAF.
- Investment income on the profits from the sale of a modest amount of the Fund's gold, which was also viewed by many Directors as essential.
- "Early" use of the amounts accumulating in the ESAF Reserve Account, which would reduce the capacity for self-sustained ESAF operations after 2004 and also reduce the level of protection accorded to existing ESAF creditors by the Reserve Account.

Special Contingent Account

In addition, Directors noted that the resources of the Fund's second Special Contingent Account (SCA–2)—which are expected to amount to SDR 1 billion by early 1997—might be used as an element supporting ESAF operations either as subsidies or as security.[10]

In the light of the Board's discussion, and in an effort to find common ground among the various alternatives being considered by the Board, the Managing Director put forward a framework for a continuation of ESAF operations—drawing on the foregoing elements—which was presented to the April 1996 meeting of the Interim Committee. In its communiqué, the Interim Committee reiterated its support

[10]In the context of the strengthened arrears strategy, the Fund extended, effective July 1, 1990, the mechanisms for sharing the burden associated with overdue obligations among creditor and debtor members. Extended burden sharing was designed to accumulate SDR 1 billion in a second Special Contingent Account over approximately five years, which was to be financed by a further adjustment of 35 basis points to the rate of charge—reduced to 26 basis points in May 1993 and to 4 basis points, effective February 1, 1994—and a further adjustment to the rate of remuneration to yield three times the amount generated by the further adjustment to the rate of charge, subject to the floor to the rate of remuneration of 80 percent of the SDR interest rate. The amounts thus accumulated are to safeguard purchases made after a rights accumulation program has been successfully completed by members with protracted arrears to the Fund at the end of 1989, while at the same time providing additional liquidity to assist in the financing of such purchases. This scheme provides for refunds of contributions upon full repayment to the Fund of those purchases or at such earlier date as the Fund may determine.

for continuation of the ESAF, including establishment of a self-sustained ESAF, as the centerpiece of the Fund's strategy to help the low-income countries, including in the context of the proposed initiative to reduce the debt burden of the most heavily indebted poor countries. The Committee requested the Board to conclude its discussions as soon as possible with the aim of devising acceptable financing proposals by the time of the October 1996 Annual Meetings.