CHAPTER 6

Fund Support of Member Countries

This chapter provides information on those financial arrangements with member countries—Stand-By Arrangements, Extended Fund Facility (EFF) arrangements, and ESAF arrangements—that were approved by the Board during 1996/97. (Fund facilities and policies are described briefly in Box 5; for data on arrangements in effect in 1996/97, see Tables II.3–II.5 in Appendix II.)

Ongoing Programs

The Board also conducted regular reviews of ongoing programs that had been approved in previous financial years. Important among these reviews were those of the three-year Extended Fund Facility arrangement with Russia, which was approved in March 1996 (see *Annual Report, 1996*, page 117). The Extended Arrangement with Russia is designed to shift the country onto a path of sustained economic growth through macroeconomic adjustment and structural reforms to consolidate the transformation to a market economy. The program's key medium-term goals include (1) a reduction in annual inflation to single-digit levels, (2) a buildup of foreign exchange reserves in the context of relative exchange rate stability, and (3) a recovery of economic activity in 1996 followed by sustained and robust growth in 1997 and beyond. This favorable outcome is to be achieved through a restrained credit policy, a fiscal policy featuring improved revenue performance coupled with a considerable reduction in the deficit, and decisive implementation of structural measures.

In the event, the targeted reduction in inflation was achieved in the first year of the program, although there were numerous difficulties in other areas. These arose as a result of (1) uncertainties during the period leading up to the presidential elections; (2) a drop in tax revenues, which meant that the targeted reduction in the fiscal deficit would be difficult to achieve; and (3) only mixed progress in the area of structural reform. Negotiations between Fund staff and the Russian authorities on the second-year program for 1997 concluded at the end of April 1997, and the proposed program was submitted to the Board for consideration early in the 1997/98 financial year. The aims of the 1997 program are to secure further progress in macroeconomic stabilization by reinvigorating fiscal consolidation through reversing the declining trend in revenues and to accelerate the program of structural reforms by focusing on certain key measures.

In addition, in 1996/97 the Board initiated a trial program of group travel by Executive Directors—onsite visits to deepen Directors' understanding of member countries' economic circumstances and policies (Box 6).

Member Countries' Use of Fund Facilities

Algeria

Financial Support

A drawing of SDR 174.62 million was approved on June 26, 1996 under the Compensatory and Contingency Financing Facility (CCFF).

Program Objectives

The drawing was intended to compensate Algeria for an excess in the cost of cereal imports during July 1995–June 1996, reflecting the increases in world grain prices that took place over the preceding year.

Azerbaijan

Financial Support

Two arrangements totaling SDR 152.1 million were approved on December 20, 1996. Of this amount, SDR 93.6 million was made available under the ESAF, and SDR 58.5 million under the EFF.

Program Objectives

Build on the macroeconomic progress made to date and prepare the country for the prospective oil boom.

Box 5

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 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. In addition to Stand-By Arrangements, the Fund makes credit available for longer periods under Extended Fund Facility arrangements. Under this facility, 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 postconflict 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). 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 staffs 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 drawings. 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.

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.

Over the medium term, achieve a growth rate of 5 percent a year in 1997 and 7–8 percent in subsequent years. Reduce annual inflation to 6 percent by 1999. The external current account deficit was expected to widen to 24 percent of GDP in 1999 from 19 percent in 1996, largely as a result of rising oil sector imports of capital goods over the period. To these ends, the general government deficit was targeted to decline from 2.7 percent of GDP in 1996 to 0.5 percent by 1999.

Box 6

Group Travel by Executive Directors

A trial program of group travel by Board members during 1996/97 was initiated to broaden Directors' understanding of the economic problems and policies in individual member countries.

Such travel by groups of up to five Directors would, in the Board's view, enable Directors to observe at first hand economic conditions in Fund member countries they might not otherwise have an opportunity to visit. As a result, they would gain a better understanding of the economic situation in these countries, the policy challenges facing the authorities—including political and social issues—and the authorities' responses to these challenges. This improved understanding would enable Directors better to contribute to the Board's discussions on country items relating to surveillance and the use of Fund financial resources and, consequently, enhance the overall effectiveness of the Fund's work.

During the trial program, Directors participated in two group travel visits. The first group of Directors, in June 1996, went to Egypt, Jordan, and the Republic of Yemen, spending two to three days in each country. The second, in October, traveled to Georgia, Hungary, and Ukraine. During both visits, Directors met not only with government and central bank officials who were already familiar with the Fund's work, but also with representatives of other groups, such as political parties, the private sector, employer and employee organizations, nongovernmental organizations, and the news media. These contacts included press conferences, meetings with representatives of both governmental and opposition parties, and travel outside the capital city.

The Board considered the report of the group that traveled to the Middle East in September 1996. Participants in the visit commented that their on-site experience increased their understanding of the three countries' economic and political situations. Such visits "humanized" the Fund's image, in their view, and helped to promote a better understanding of the institution. Participants noted that it was important to include in a group visit at least one Director from a program country and said they found value in meeting with a wide variety of political parties and interest groups, including representatives of opposition parties. Board members generally expressed support for group travel, while agreeing on the need to avoid weakening staff and management negotiations with the countries that were visited. The trial group travel program will be kept under review by the Board.

Policies

The authorities undertook to maintain a tight monetary policy, with a view to bolstering confidence in the domestic currency. Increased tax revenues were expected to help reduce the deficit by covering most existing government expenditure. External resources were to be directed toward financing capital investment and servicing the foreign debt.

Structural reforms were to be strengthened, with a focus on banking reform, privatization, and termination of the government's heavy involvement in production and trade through improvements in the legal framework. Trade liberalization was expected to be completed.

Social priorities included reforming the social safety net, eliminating cash compensation and pension arrears, and establishing a financially secure and fair pension system. The Employment Fund would be restructured to focus on job retraining, job search counseling, and public relief works.

Benin

Financial Support

A three-year ESAF arrangement for SDR 27.18 million was approved on August 28, 1996.

Program Objectives

Over the medium term, achieve sustained economic growth within a framework of financial stability by gradually reducing Benin's dependence on external foreign assistance and maintaining external competitiveness. Increase income-earning opportunities and improve the provision of services to the poorest segments of the population. Specifically, achieve annual real GDP growth of over 5 percent, annual inflation of about 3 percent, and a reduction in the external current account deficit, excluding grants, to about 5.5 percent of GDP by 1999.

Policies

The program focuses on strengthening public finances by reducing the overall budget deficit, excluding grants, to 6.6 percent of GDP in 1996 and 6.2 percent in 1997 from 7 percent in 1995. (See Chapter 5.)

Measures to increase revenues include reducing customs exemptions and increasing the taxation of a number of products. On the expenditure side, wage policy was reformed to ensure that wage increases were more closely linked to merit and performance and did not exceed productivity increases in the economy. Credit policy is to remain tight, and the use of indirect instruments of monetary policy is to be strengthened.

Structural policies are designed to reinforce the role of the private sector and promote diversification of economic activity and exports while ensuring full exploitation of the cotton sector. (See Chapter 5.) To encourage private sector development, the authorities would seek to streamline regulations, modernize business laws, create a more efficient judiciary system, and strengthen the financial sector. To address social needs, public expenditure policy in 1996 and 1997 is to give priority to education and health, including rehabilitation of schools, creation of vocational schools, provision of teaching materials, and establishment of regional health centers. Other measures include implementing productive labor-intensive public works, reinforcing the labor component of public investment projects, and improving social services for the most disadvantaged social groups.

Bulgaria

Financial Support

A 20-month Stand-By Arrangement for SDR 400 million was approved on July 19, 1996. Owing to delays in structural reform and other policy slippages, the program went off track early, and only the first purchase of SDR 80 million was made. This arrangement was replaced with a new, 14-month Stand-By Arrangement for SDR 371.9 million on April 11, 1997. In addition, a purchase of SDR 107.6 million was approved under the CCFF on account of excess cereal import costs.

Program Objectives

Restore macroeconomic stability and confidence in public institutions and set Bulgaria irreversibly on the path to a market economy. Resume economic growth from the second quarter of 1997 onward; sharply reduce inflation from 243 percent in February to about 2 percent a month by end-1997 and to an annual rate of about 14 percent in 1998; achieve current account balance in 1997 and a modest surplus of 0.5 percent of GDP in 1998; and build up official reserves from about 1 month of imports of goods and nonfactor services to 3.2 months by end-1997 and nearly 4 months by end-1998.

Policies

The program emphasizes rapid stabilization based on restrictive fiscal and monetary policies followed by the adoption of a currency board arrangement by mid-1997 to establish policy credibility and instill financial discipline throughout the economy. The overall deficit is expected to be cut from 11 percent of GDP in 1996 to less than 4 percent in 1997 through a major effort to strengthen revenue and rationalize expenditure. An ambitious privatization program is to contribute to the elimination of the need for any bank financing of the budget. In the run-up to the currency board arrangement, monetary policy is aiming to stabilize the exchange rate, with a bias toward accumulating official reserves. The stabilization effort is to be underpinned by a comprehensive program of structural reforms designed to strengthen the banking system, harden budget constraints on state-owned enterprises, and liberalize the economy to provide the basis for the development of a healthy private sector. Administered prices have been increased to cost-recovery levels, and financial rehabilitation plans are being implemented for the utilities and the largest loss-making state-owned enterprises.

Social needs are being addressed by the restoration of pensions and wages to precrisis levels and by the restructuring of the social safety net through consolidation of programs into a well-targeted system of income transfers to the poor, old-age pensions, and unemployment insurance.

Burkina Faso

Financial Support

A three-year ESAF arrangement for SDR 39.78 million was approved on June 14, 1996.

Program Objectives

Build upon the country's rapidly improving economic performance by consolidating and deepening the reform effort. Specifically, encourage domestic saving and investment so as to underpin economic growth and help reduce poverty. Over the medium term, achieve annual real GDP growth of more than 5 percent and inflation of 3 percent and reduce the external current account deficit, excluding official transfers, to 10 percent of GDP by 1998.

Policies

To these ends, the authorities are focusing on strengthening government finances. Revenue measures—expected to improve the overall fiscal balance by about 3 percentage points in 1996–98—include imposing an excise tax on nonalcoholic beverages, broadening the base for applying the value-added tax on imports, increasing excise taxes on domestic and imported tobacco products, and expanding the tax base on wages and salaries to include all benefits. Tight credit policies are to be continued.

Structural measures include privatizing public enterprises; completing the financial sector restructuring begun in 1991; reforming the civil service, judiciary system, labor code, and regulatory environment; and eliminating remaining trade restrictions. To address social and environmental concerns, the authorities increased budget allocations to improve access to basic social services—in particular, primary education in the rural areas and basic health care. Also, the supply of clean water would be increased and the management of land and natural resources improved.

Chad

Financial Support

A second annual ESAF arrangement for SDR 16.52 million was approved on October 16, 1996.

Program Objectives

Over the medium term, achieve annual real GDP growth of more than 5 percent; lower inflation to 3.5 percent by 1999 from an average of 10 percent in 1996. Reduce the external current account deficit, excluding official transfers, to less than 13 percent in 1999 from 17 percent in 1996.

Policies

The program emphasizes the continued consolidation of the government's finances. On the revenue side, measures involve reorganizing the tax directorate and further improving customs efficiency. On the expenditure side, overall spending, including the wage bill, would be strictly limited. In monetary policy, the central bank would seek to keep a prudent credit stance to prevent the resurgence of excess demand pressures while consolidating foreign exchange reserves at a regional level.

Structural reforms are designed to promote the recovery and development of the private sector. The government took steps to privatize a number of state-owned enterprises and to restructure others. In response to social concerns, the government would take steps to soften the impact of the reform program on the most vulnerable groups of society.

Congo, Republic of the

Financial Support

A three-year ESAF arrangement for SDR 69.48 million was approved on June 28, 1996.

Program Objectives

Accelerate output and employment growth, attain sustainable fiscal and external positions by the end of the decade, and achieve external public debt sustainability over the long term. Specifically, achieve average real GDP growth of more than 6 percent a year; cut end-period inflation from 5.5 percent in 1995 to 2 percent during 1997–99; and reduce the external current account deficit, excluding official transfers, from 25 percent of GDP in 1995 to about 11 percent by 1999.

Policies

To these ends, the program called for increasing government revenues through oil sector reforms and an increase in oil output as well as through tax reforms, a broadening of the tax base, and a further strengthening of tax administration. Expenditures other than interest would be lowered through reductions in the civil service wage bill. Monetary policy, carried out by the regional central bank, would be directed at validating the parity of the CFA franc vis-à-vis the French franc, and the authorities would rehabilitate the banking system.

Structural reform plans, designed to unlock the Republic of the Congo's growth potential in sectors other than oil and stimulate the development of the private sector, included reform of the civil service and the financial and public enterprise sectors and a further liberalization of the legal and institutional framework. The government would take steps to alleviate the impact of adjustment on vulnerable groups, including paying severance benefits, resuming payment of retirement and other social security benefits, helping the unemployed find jobs, and improving agricultural support services. With the 1997 budget, the government planned to raise substantially outlays on the social sectors.

Côte d'Ivoire

Financial Support

A third annual ESAF arrangement for SDR 95.28 million was approved on June 14, 1996.

Program Objectives

In light of slower growth in the industrial countries and a downward trend in primary commodity prices, achieve real GDP growth of 6.5 percent, slow consumer price inflation to 5 percent by end-1996, and contain the external current account deficit at 5.6 percent of GDP.

Policies

The strengthening of domestic tax administration and additional tax measures, together with royalties from the recent resumption of oil exploitation, were expected to compensate for the envisaged reduction in the taxation of cocoa and coffee exports and allow the revenue-to-GDP ratio to stabilize at 21.3 percent. Spending was to be reduced by 0.4 percent of GDP to 18.5 percent, while outlays on human resource development were to be increased. The regional central bank would maintain a prudent policy stance consistent with the fixed-peg regime and the goal of further improving its net foreign asset position. The array of instruments available for indirectly regulating banking sector lending and liquidity was expected to expand in 1996.

Structural reforms would be deepened and accelerated, so as to improve the institutional and regulatory environment for the development of the private sector. The authorities intended to accelerate privatization and improve the monitoring and management of enterprises remaining in the public domain. Other measures included working toward a common external tariff with other countries of the West African Economic and Monetary Union, further reducing intraregional tariffs, harmonizing indirect taxation, adopting harmonized business laws, implementing regional surveillance procedures, further liberalizing prices and nontariff barriers, and completing the regional financial market to promote long-term saving and financing. To reduce poverty, the authorities were to implement a comprehensive social strategy in education, family policy, agriculture, and housing, along with social actions directed at the most vulnerable population groups.

Croatia

Financial Support

A three-year EFF arrangement for SDR 353.16 million was approved on March 12, 1997.

Program Objectives

Consolidate the stabilization gains made to date while providing for postwar reconstruction and social needs. Implement structural reform that will foster an externally competitive market economy. Consistent with the medium-term framework, the 1997 program aimed for real GDP growth of 5.5 percent, inflation of 3.5 percent, and an increase in reserve cover to almost three months of imported goods and nonfactor services.

Policies

The program relies on appropriately restrained monetary, credit, and government wage policies, as well as a continuation of the stable exchange rate policy, to keep financial discipline tight. The consolidated central government deficit is to be limited to 3 percent of GDP in 1997 to permit substantial public investment in economic reforms and an adequate social safety net while maintaining prudent public sector debt dynamics and avoiding domestic bank financing of the deficit.

Structural reforms include restructuring and privatizing large state-owned enterprises and banks; improving fiscal management and its institutions while scaling back the role of the state in economic activity and reducing the tax burden; developing financial markets; and reducing trade distortions. Ongoing structural reform is designed to promote improved productivity and profitability and thereby foster the increase in private saving needed to underpin adjustment in the external sector. To address social concerns, expenditures for the social safety net are being increased; the bulk of the increase is designed to help war invalids and participants, the families of war victims, and refugees from other parts of the former Socialist Federal Republic of Yugoslavia. In addition, the authorities are providing for continuing postwar reconstruction needs and higher expenditures for capital and net lending.

Egypt

Financial Support

A 24-month Stand-By Arrangement for SDR 271.4 million was approved on October 11, 1996. The authorities intend to treat the arrangement as precautionary.

Program Objectives

Over the medium term, increase economic growth so as to create employment opportunities and raise living standards. Specifically, increase real GDP growth to about 5 percent in 1997–98, decrease inflation to about 6 percent, and maintain a viable external position.

Policies

To these ends, the authorities would seek to reduce the overall 1996/97 budget deficit to 1.1 percent of GDP, excluding privatization receipts and further debt relief. They would continue to restrain other elements of demand-management policy, consistent with inflation reduction and maintenance of a sound external position.

Structural reforms were designed to foster private sector expansion so as to promote investment, growth, and employment. A central goal was to transform the ownership structure of the Egyptian economy through divestiture of nonfinancial public sector enterprises. Other key reforms included further liberalizing the international trade system through tariff reductions and elimination of quantitative restrictions; fiscal revenue reforms, including transformation of the general sales tax into a value-added tax; rationalization of the income tax to make it simpler, more broadly based, and more transparent and equitable; reforming the civil service; and accelerating financial sector reform, including privatization of banks and insurance companies, and further strengthening banking supervision. In addition, the government took steps to reduce bureaucracy and red tape. To address social needs, the government committed itself to improving Egypt's health and education systems within the framework of a comprehensive civil service reform program. It also further strengthened the social safety net while improving its targeting.

El Salvador

Financial Support

A 14-month Stand-By Arrangement for SDR 37.68 million was approved on February 28, 1997. The authorities intend to treat the arrangement as precautionary.

Program Objectives

Strengthen public finances while accommodating larger outlays for infrastructure; maintain an appropriate monetary policy; and continue to advance structural reforms. In 1997, achieve real GDP growth of about 4 percent, reduce the overall deficit of the nonfinancial public sector to 1.4 percent of GDP, lower inflation to 5–6 percent, and increase net international reserves to the equivalent of five months of imports.

Policies

In the context of modernizing the public sector and improving social expenditure, the authorities would increase their efforts to contain current expenditure and increase tax collections. As a result, the tax ratio is expected to rise from 11.1 percent of GDP in 1996 to 11.8 percent in 1997, despite a reduction in import duties. In the area of structural reforms, privatization of the telephone company and the first of four electricity distribution companies was begun and was expected to be completed by year's end. The telecommunications system was expected to be fully privatized in two years. An administrative unit of the Ministry of Finance will prioritize, monitor, and control the physical and financial implementation of the public investment program. Legislation was passed in December 1996 to reform the pension system.

Social expenditure was increased from 3.5 percent of GDP in 1995 to 4.8 percent in 1996 and would be maintained at that level in 1997. Military expenditure was held to 1 percent of GDP in 1996 and would be reduced to 0.9 percent in 1997. To facilitate economic development, the government will continue to expand and improve basic health and educational services and strengthen public safety.

Estonia

Financial Support

A 13-month Stand-By Arrangement for SDR 13.95 million was approved on July 29, 1996. The authorities intend to treat the arrangement as precautionary.

Program Objectives

Strengthen the economic recovery begun in 1995 while preserving macroeconomic stabilization. Achieve real GDP growth of 3.1 percent in 1996 and 4.4 percent in 1997; reduce period-average inflation to 27.1 percent in 1996 and 21 percent in 1997; and contain the external current account deficit at 6.9 percent of GDP in 1996 and 5.8 percent in 1997.

Policies

The aim of fiscal policy was to ensure that government operations neither generated excessive pressures on prices and wages nor crowded out private sector access to domestic and external financing. The overall general government deficit was to be limited to 1.4 percent of GDP in 1996 and 0.5 percent in 1997. Total revenues would be maintained at 38.7 percent of GDP in 1996 and 38.2 percent in 1997. The fiscal adjustment was to fall entirely on current expenditures on goods and services in 1997. In the exchange area, Estonia planned to continue with its strict currency board arrangement.

Key structural measures included improving the control and monitoring of borrowing by local governments as well as the efficiency of government expenditure. Under the program, bank restructuring and strengthening of bank supervision would continue, and privatization would focus on industrial monopolies and land. To address social needs, the government submitted new pension and social tax laws designed to establish a more direct link between contributions and benefits.

Ethiopia

Financial Support

A three-year ESAF arrangement for SDR 88.47 million was approved on October 11, 1996.

Program Objectives

Over the medium term, achieve at least 6 percent growth in real GDP; limit inflation to 2 percent; contain the external current account deficit at about 9.2 percent of GDP; and maintain gross official foreign reserves at the equivalent of 7.5 months of imports.

Policies

The authorities undertook to sustain economic growth with price stability by increasing domestic saving and investment and further liberalizing the exchange and trade system. A rigorous fiscal policy would be based on the continued broadening of the tax base and strengthening of tax administration, as well as on expenditure restraint. The authorities instituted appropriately tight monetary targets, which would require a move toward market-determined interest rates. Measures in the external area included reducing the export proceeds surrender requirement, introducing foreign exchange bureaus within the banking system, and moving toward lower tariffs in the near and medium term.

Structural reforms included easing restrictions on foreign investment, adopting more realistic prices for the few commodities still subject to controls, and stepping up the market-based allocation of land. Privatization of public enterprises is to be accelerated, as is the public auctioning of urban land leases. To address social needs, the authorities are continuing to emphasize physical and social infrastructure. They plan to increase budget shares for primary education and basic health services and improve health care financing. To enhance the status of women, they intend to revise laws and regulations to guarantee equal access by women to resources, property, and business activities.

Georgia

Financial Support

A second annual ESAF arrangement for SDR 55.5 million was approved on March 21, 1997.

Program Objectives

For 1997, achieve real GDP growth of 8–10 percent. Reduce the 12-month inflation rate to 10–12 percent.

Further reduce the current account deficit to about 7 percent of GDP. Reach a level of gross official international reserves equivalent to 2.5 months of imports.

Policies

Fiscal policy is designed to reduce the overall deficit, on a cash basis and including grants, to 3.5 percent of GDP in 1997 from 4.4 percent of GDP in 1996 by increasing revenue through further improvements in tax and customs administration. These include expanding the taxpayer unit, identifying new taxpayers, and issuing taxpayer identification numbers. The authorities intend to maintain expenditure at a level that would be sustainable over the medium term while redirecting outlays toward basic health and education and improving the targeting of social safety net spending. Monetary policy would be geared toward achieving the program's inflation target.

The authorities intend to accelerate the implementation of structural reforms. In addition to reforms in the banking sector and in tax administration, they undertook to restructure the energy sector, privatize medium- and large-scale enterprises, accelerate agricultural land reform, develop a legal framework for privatizing urban and industrial land, and further develop the enforcement of existing laws and regulations. To address social needs, the authorities have worked since 1995 to improve the population's standard of living. Corrective measures include quadrupling the monthly minimum wage in real terms and doubling average real pensions (which had fallen sharply during the period of economic contraction and hyperinflation), implementing a flat-rate pension, and establishing a program to assist the disabled. The authorities committed themselves to focusing on education and health care reform.

Guinea

Financial Support

A three-year ESAF arrangement for SDR 70.8 million was approved on January 13, 1997.

Program Objectives

Promote private sector growth through improving the performance of public administration in the context of a more efficient legal and regulatory environment and through upgrading the infrastructure. By 1999, achieve real GDP growth of 5 percent a year; limit inflation to 4 percent a year; and reduce the external current account deficit, excluding official transfers, to 7 percent of GDP.

Policies

Fiscal policy is designed to raise government saving to 2.3 percent of GDP by 1999. Over the same period, government investment would be raised to 7.4 percent, concentrating on energy, education, health services, and infrastructure. The authorities sought to achieve a primary budget surplus of 3.1 percent of GDP by raising revenue through measures to reduce the scope of customs duty exemptions and strengthen customs and tax administration. Expenditure would be restrained in several areas. To achieve the program's inflation objectives, monetary policy is designed to limit the expansion of reserve money.

Structural reforms center on strengthening fiscal and government management, particularly tax and customs administration. Other measures—expected to foster a greater private sector contribution to the development of productive sectors—include improving the judicial environment, reducing government intervention in the foreign exchange markets, reforming the money markets, and restoring the financial health of the banking sector. Social priorities include improving the supply of basic health services and primary education, with steps also being taken to begin improving the financial viability of the social security system.

Guinea-Bissau

Financial Support

A second annual ESAF arrangement for SDR 4.2 million was approved on May 31, 1996. Total access under the arrangement included part of an undisbursed amount under the first annual ESAF arrangement.

Program Objectives

Achieve real GDP growth of at least 4 percent a year; lower the average rate of inflation to about 7.5 percent by 1998; and reduce the external current account deficit, excluding grants, from 26 percent of GDP in 1995 to about 23 percent of GDP in 1998.

Policies

Fiscal policy was designed to contain the overall budget deficit at 21.5 percent of GDP in 1996 and to achieve a current primary surplus of 4.7 percent of GDP. To increase revenues, import duty exemptions were reduced, and efforts were made to collect direct tax arrears. To strengthen expenditure control, the government intended to assess the decentralized expenditure authorization system introduced in 1995 and strengthen treasury control over all expenditures. Monetary policy was designed to reduce inflation sharply.

Structural reforms centered on increasing the role of the private sector in the economy and supporting broadly based growth by accelerating privatization, reforming the civil service, and strengthening the legal framework through revisions of the investment code, adoption of a land code, and extension of the network of judicial courts. On the social front, the government placed high priority on providing education and primary health care, particularly in rural areas, and developing measures to reduce poverty.

Guyana

Financial Support

A third annual ESAF arrangement for SDR 17.92 million was approved on April 16, 1997.

Program Objectives

The 1997 program aims to achieve a real GDP growth rate of 7 percent; lower the annual inflation rate to 4 percent by year's end; limit the deterioration of the current account deficit of the balance of payments to about 12 percent of GDP; and maintain the level of gross official international reserves at about five months of imports.

Policies

The focus of fiscal policy is to limit the overall public sector deficit to about 4½ percent of GDP. Efforts to collect customs duties and tax arrears and expand taxpayer coverage would ensure that central government revenues remain constant in terms of GDP. Government expenditure will be carefully managed, and program budgeting will be introduced. Monetary and credit policy will continue to promote the attainment of the inflation and balance of payment objectives.

The program emphasizes a deepening of structural reform. The government intends to complete the privatization of companies offered for sale in 1995 and 1996 and bring others to the point of sale; and recruit qualified staff for the civil service and gradually align wages to those in the private sector while further streamlining and reorganizing the civil service to improve efficiency. Other measures include streamlining the regulatory and incentive regimes for tourism, agroprocessing, and manufacturing; publishing an investment code; and accelerating land reform. To address social needs, the authorities intend to raise enrollment rates in primary education and reinvigorate primary health care.

Haiti

Financial Support

A three-year ESAF arrangement for SDR 91.05 million was approved on October 18, 1996.

Program Objectives

Achieve an economic growth rate of 4–5 percent a year; reduce inflation to low single-digit levels; and strengthen the balance of payments and increase international reserves to the equivalent of 3.2 months of imports of goods and services by the end of the program period.

Policies

To these ends, the authorities undertook to broaden the tax base and streamline the tax systems, reducing exemptions from income taxes and customs duties, improving administration, and strengthening enforcement. They took measures to reduce current budgetary outlays and introduced procedures to strengthen control over spending from discretionary ministerial accounts. Monetary and credit policies are geared toward the program's inflation and balance of payments objectives.

Structural reform plans emphasize public administration—introduction of a modern system of budgeting, expenditure control, accounting, and auditing; decentralization of government functions and reinforcement of local administrations; and reform of the civil service. The major public enterprises and state-owned banks were slated for restructuring, and land reform would be implemented. The authorities plan to increase spending in the social sectors, with assistance from humanitarian organizations and external aid agencies.

Jordan

Financial Support

Jordan's existing EFF arrangement, approved on February 9, 1996, was increased by SDR 37.2 million on February 11, 1997 to SDR 238.0 million.

Program Objectives

Jordan has made significant progress toward the objectives of its medium-term economic and structural reform program, which include achieving average annual real GDP growth of at least 6 percent, maintaining low inflation rates, narrowing the external current account deficit to less than 3 percent of GDP on average, and building up gross official reserves to the equivalent of about three months of imports.

Policies

Fiscal policy was designed to lower 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. The relative attractiveness of dinar-denominated assets was to be maintained through tight monetary policy and flexible interest rates. Structural reforms, including overhauling the regulatory framework, reforming public sector enterprises, intensifying privatization, and divesting government holdings in the productive sectors, were to be accelerated.

To address social needs, the authorities intend to strengthen the social safety net. Food subsidies were to be partially replaced by a rationing system and direct income support for extremely poor families. The

National Aid Fund was to be extended to cover all poor families.

Kazakstan

Financial Support
A three-year EFF arrangement for SDR 309.4 million was approved on July 17, 1996.

Program Objectives
Consolidate the gains in stabilization while moving ahead with structural reforms. Specifically, reduce annual inflation from 60 percent in 1995 to 26 percent in 1996 and 10 percent or less by 1998. In 1996, the decline in output was expected to stabilize before rebounding to a positive rate of growth of at least 2 percent a year in 1997–98. The external current account deficit was projected to remain at 4–5 percent of GDP, and gross international reserves were expected to rise to 4 months of imports of goods and nonfactor services during 1996–98 from 3.2 months in 1995.

Policies
Fiscal restraint is a key element of the program. Revenue measures include increases in selected indirect taxes, further reductions in tax exemptions and benefits, an increased contribution from the natural resource sector, and improvements in tax administration.

Structural reforms focus on completing privatization programs and enterprise restructuring; reforming the financial sector by enhancing banks' financial position, improving banking supervision, and restructuring part of the banking system; overhauling the civil service and state structures; and implementing measures aimed at the health, education, energy, transportation, and agricultural sectors. The authorities are addressing social needs by reforming the social security system and the social safety net so as to increase cost effectiveness and improve the targeting of benefits.

Kyrgyz Republic

Financial Support
A third annual ESAF arrangement for SDR 32.25 million was approved on March 27, 1997. In addition, an extension to March 31, 1998 of the three-year commitment period under the arrangement was approved.

Program Objectives
Build on the country's achievements in macroeconomic stabilization. Key objectives for 1997 included economic growth of 7 percent; a reduction in end-of-period inflation to 17 percent from 35 percent in 1996; and a buildup in the coverage of gross international reserves to 2.8 months of imports from 2.0 months in 1996.

Policies
The cash budget deficit is expected to decline to 5.3 percent of GDP in 1997 from 6.4 percent of GDP in 1996. Revenues are targeted to remain unchanged at 17 percent of GDP, with measures to improve tax collection and administration to broaden the tax base. At the same time, expenditures are to fall by 1 percentage point, to 22.4 percent of GDP, with reductions in net lending and wages. Monetary policy is designed to contain the growth in broad money. The authorities plan to maintain a floating exchange rate with intervention to smooth seasonal pressures on the currency.

On the structural front, the authorities are emphasizing privatization and demonopolization, enterprise restructuring and governance, and agricultural reform. Other priorities include strengthening the legal framework for private farms, restructuring the budget process and intergovernmental financial relations, and financial sector reforms. To address social needs, the authorities undertook to reform the social protection system. Reforms are to focus on refining the targeting of benefits while improving the quality of basic services.

Lao People's Democratic Republic

Financial Support
A third annual ESAF arrangement for SDR 11.73 million was approved on May 8, 1996.

Program Objectives
In 1996, maintain macroeconomic stability through enhanced fiscal discipline and tight monetary policy. Specifically, maintain real GDP growth at about 7.5 percent; reduce inflation to about 7.5 percent; contain the external current account deficit, excluding grants, to less than 14 percent of GDP; and increase reserves to the equivalent of three months of imports by end-1996.

Policies
The authorities planned to continue to pursue tight fiscal and monetary policies to ensure that inflation would decrease substantially and that the exchange rate would stabilize. Despite an expected shortfall in timber royalties, revenues were slated to remain constant at 12.5 percent of GDP as a result of tighter surveillance of customs revenues, increased excise duties on cigarettes and alcohol, and adoption of a market-based exchange rate for tax valuation purposes. The authorities would restrain current expenditure by tightly controlling the wage bill and spending on material and supplies. By implementing a public expenditure review, they would be better able to determine the country's expenditure needs and avoid projects with little social or economic return. Using direct and indirect instru-

ments, the authorities sought to contain broad money growth to 23 percent during 1996.

Structural reforms included privatizing more public sector enterprises; retraining and reallocating civil service employees; and strengthening the management, accounting, and credit practices of state-owned banks. The authorities intended to further strengthen the legal framework to support ongoing structural changes in the economy. Priorities included developing a sound financial system, defining legal rights to land use, and implementing a land titling project. To address social needs, the authorities would improve the provision of essential social and economic infrastructure to enhance the earning potential of the poor. Strengthening social services and human resource development would be emphasized.

Latvia

Financial Support

A 15-month Stand-By Arrangement for SDR 30 million was approved on May 24, 1996. The authorities intend to treat the arrangement as precautionary.

Program Objectives

Increase GDP by 2 percent. Achieve an end-of-period inflation rate of 18 percent, an external current account deficit of 3 percent of GDP, and gross official reserves equivalent to three months of imports.

Policies

Fiscal tightening was aimed at ensuring that sufficient resources were available for private sector investment. The government financial deficit was to be limited to 1.3 percent of GDP in 1996. Steps were taken to strengthen revenues, including improving tax administration and addressing the problem of tax arrears. Monetary policy was designed to support the program's inflation and balance of payments objectives.

Structural reform emphasized accelerating privatization and financial sector reform and encouraging competition and efficient intermediation in the banking system. The government authorized the privatization of most enterprises, including the large ones such as the shipping company and the energy utilities. Foreign investors were allowed the same access to investment opportunities, including privatization vouchers, as domestic investors. The government drafted insolvency and bankruptcy legislation covering legal definitions, liquidation procedures, delineation of responsibilities, and the rights of all parties. On the social front, increased expenditure on social services and infrastructure maintenance was expected to result from the fiscal policy measures taken. Over the medium term, the government envisaged a more equitable tax burden as a result of the reforms.

Lesotho

Financial Support

A 12-month Stand-By Arrangement for SDR 7.2 million was approved on September 23, 1996. The authorities intend to treat the arrangement as precautionary.

Program Objectives

Support Lesotho's continued growth, external adjustment, and structural reform, using the fiscal surplus to accumulate international reserves while promoting further investment in the manufacturing sector to reduce unemployment and poverty. Specifically, achieve a real GNP growth rate of 10.2 percent; limit the increase in the consumer price index to no more than 10 percent; and reduce the external current account deficit to 1.8 percent of GNP from 2 percent in 1995/96.

Policies

By improving the sales tax yield and increasing customs and noncustoms revenues and grants, the authorities sought to provide for a fiscal surplus of 1.3 percent of GNP by 1996/97. They restrained government wages to keep the wage bill below 10 percent of GNP and maintained capital expenditure at about 11 percent of GNP.

Structural reforms focused on deregulating agricultural markets, promoting further expansion in manufacturing, and reforming the operations of the principal state-owned public utilities. The government also planned to privatize several large enterprises, improve the management of public investment, implement a value-added tax, and implement a number of reforms of the judicial system. The social strategy focused on sharpening priorities in education and health and increasing the efficiency of the social safety net. Spending on education would increase in real terms, with a focus on improving primary and secondary education, and support for health care would be increased.

Macedonia, former Yugoslav Republic of

Financial Support

A three-year ESAF arrangement for SDR 54.56 million was approved on April 11, 1997.

Program Objectives

Over the medium term, achieve sustainable growth and reduce unemployment and poverty by further restructuring the economy along market lines and maintaining a stable financial environment. Specifically, achieve annual GDP growth of about 5 percent and inflation of 2–3 percent a year and reduce the external current account deficit to 5.3 percent of GDP from 12 percent in 1996.

Policies

Fiscal policy, underpinned by tight budget discipline, is designed to achieve balance in the general government accounts. Accordingly, a value-added tax was introduced to shore up the tax base and reduce the heavy burden of direct taxation. Agricultural and export subsidies are to be virtually eliminated, and the freeze on budget sector wages is to remain in place. Public investment is to be expanded by 5 percent in real terms to support economic growth.

Structural reform focuses on further restructuring the enterprise sector. Other measures include tax and other incentives for the conversion of wage arrears into equity; the reform of legislative and judicial procedures; privatization of all eligible enterprises by the end of 1997; legislation governing the use and ownership of state-owned land; and further liberalization of the trade regime. To encourage small farm development, a percentage of state-owned land will be leased on a competitive basis. To meet social needs, the program calls for additional resources for social assistance and the Employment Fund. In addition, spending on education is to be maintained at the 1996 level, and health benefits are to be restructured.

Madagascar

Financial Support

A three-year ESAF arrangement for SDR 81.36 million was approved on November 27, 1996.

Program Objectives

Restore confidence so as to create the conditions for a sustained recovery of private investment and reduce poverty. By 1999, economic growth is programmed to reach 4.5 percent from 2 percent in 1996, and inflation is expected to drop to 3 percent from 10 percent in 1996. The overall fiscal balance, excluding grants, is projected to decline from 8.5 percent of GDP in 1996 to 5.5 percent in 1997.

Policies

The authorities are seeking to increase tax revenue by broadening the tax base and strengthening tax and customs administration. They plan to maintain current expenditure, excluding interest, at about 8 percent of GDP, paying particular attention to the resources allocated to basic health services, primary education, public security, and the judiciary. Monetary policy is designed to limit the growth of broad money, and, in line with the decline in inflation, the central bank lowered nominal interest rates while maintaining them at positive real levels.

Structural reforms focus on improving the business environment; divesting public enterprises; strengthening tax and customs administration and reforming the value-added tax; improving government operations; improving basic health and primary education facilities as well as public security; raising agricultural productivity; and completing the liberalization of the foreign exchange market. The goal of civil service reform is to attract, train, and motivate skilled personnel. On the social front, the strategy is to alleviate poverty by improving the provision of essential services through a restructuring of expenditures.

Malawi

Financial Support

A second annual ESAF arrangement for SDR 15.3 million was approved on December 4, 1996.

Program Objectives

Consolidate the gains achieved to date and sustain economic growth within a framework of financial stability. Specifically, achieve an average annual GDP growth rate of 7 percent during 1996–98; attain an annual inflation rate of 6 percent by end-1998; reduce the external current account deficit, excluding grants, to about 6.4 percent of GDP in 1998 from 14.1 percent in 1995; and build up international reserves to the equivalent of 4.5 months of imports by end-1998.

Policies

The authorities are to continue to pursue tight financial policies. Fiscal management was strengthened, including, on the expenditure side, temporarily reinstating the cash budget and emphasizing efficient expenditure allocation and control through improved budgetary procedures. On the revenue side, measures included broadening the tax base, creating an autonomous revenue authority, and introducing a value-added tax. Domestic financing of the budget is to be avoided to ensure achievement of inflation targets. Monetary policy is designed to be consistent with the program objectives and to allow for faster growth in credit to the private sector.

Structural reforms focus on reestablishing agriculture as an engine of growth, increasing food security, and alleviating poverty. The liberalization of agricultural marketing and production arrangements is designed to improve the growth of smallholder production and diversification into nontraditional crops. Other measures include privatization, civil service reform, and enhancing the economy's outward orientation by improving Malawi's access to seaports and streamlining import and export licensing requirements. Social priorities include helping smallholders, reallocating budgetary resources to the social sectors, limiting population growth, and improving the role of women in economic activities.

Mali

Financial Support

A second annual ESAF arrangement for SDR 20.67 million was approved on April 21, 1997.

Program Objectives

For 1997, achieve an increase in real GDP of almost 6 percent. Lower average annual inflation to 3.5 percent and the external current account deficit to 11 percent of GDP from more than 13 percent in 1996.

Policies

The authorities will continue to pursue fiscal consolidation. On the revenue side, they will improve administration of tax collection, broaden the tax base, and minimize tax evasion. In cooperation with regional partners, Mali is preparing to introduce in January 1998 a low common external tariff as well as regional harmonization of indirect taxation, securities taxation, and investment incentives. On the expenditure side, the authorities are pursuing restrained policies.

The emphasis of structural reforms is on promoting private sector development, including a strengthening of the judicial system; reforming the agricultural sector to increase and diversify production; and privatizing and restructuring the remaining public sector enterprises. Banks will be rehabilitated and privatized to strengthen the banking system. To address social needs, the authorities intend to improve primary education and basic health services, increasing spending to 33 percent of current expenditure in 1997 from about 31 percent, and to implement measures designed to reduce poverty.

Moldova

Financial Support

A three-year EFF arrangement for SDR 135 million was approved on May 20, 1996.

Program Objectives

Over the medium term, lay the foundation for sustainable growth and a viable balance of payments. Achieve an average real GDP growth rate of 4–5 percent, lower inflation to 6 percent by 1998, and reduce the external current account deficit to 2 percent of GDP.

Policies

Fiscal policy for the first year of the arrangement emphasized reducing the overall budget deficit to 3.4 percent of GDP in 1996 from 5.5 percent of GDP in 1995 by reforming the tax structure and administration and better prioritizing and rationalizing expenditures. Monetary policy was tightened after the monetary expansion of the second half of 1995 and was made more reliant on indirect monetary instruments. The authorities adopted measures to strengthen the banking system and maintained a stable, though flexible, exchange rate in line with the program's inflation objective.

Structural measures are designed to reform the energy and land sectors, establish a sound legal system, and complete the privatization process. Financial discipline would be promoted through bankruptcy proceedings against loss-making state enterprises and limits on loan guarantees and budgetary transfers to such enterprises. The government has introduced measures to address the problems of the energy sector and reduce the risk of a further buildup of external arrears. Other measures include establishing a market-based agricultural sector. To address social costs, the government intends to restructure the social safety net by consolidating programs into a well-targeted system of old-age pensions, unemployment benefits, and income transfers for the poor.

Mozambique

Financial Support

A three-year ESAF arrangement for SDR 75.6 million was approved on June 21, 1996.

Program Objectives

Over the medium term, raise gross domestic saving and improve the allocation of resources so as to create the conditions for sustained economic growth and poverty reduction. Specifically, achieve an average annual growth of nonenergy GDP of 5 percent; reduce the rate of annual inflation to 10 percent by 1998; and increase international reserves to the equivalent of four months of imports of goods and nonfactor services by 1998.

Policies

For 1996, the authorities planned to reduce the overall fiscal deficit, before grants, to 16.5 percent of GDP from 20.3 percent in 1995 by, on the revenue side, accelerating customs reform and increasing taxes on petroleum products and, on the expenditure side, by reducing overall expenditure as well as further consolidating the public investment program. Monetary policy was designed to achieve the program's inflation and balance of payments targets.

Structural reforms center on privatization and financial sector reforms, export promotion, strengthening the revenue base, public administration reforms, and promoting greater transparency and accountability in the public finances and in the economic regulatory system. The judicial system would also be strengthened. The social strategy entails developing the agricultural sector through market incentives so as to reduce poverty. A review by the authorities of the existing safety nets is to be followed by a poverty assessment and action plan. Attention is also to be given to expanding primary and secondary education and to increasing primary health care, training midlevel professionals, and meeting the needs of mothers and children.

Niger

Financial Support

A three-year ESAF arrangement for SDR 57.96 million was approved on June 12, 1996.

Program Objectives

Achieve annual real GDP growth of over 4 percent; reduce the annual inflation rate to 3 percent in 1997; and contain the external current account deficit, excluding official transfers, at the equivalent of 11.4 percent of GDP in both 1996 and 1997.

Policies

Fiscal policy is designed to eliminate the primary deficit and reduce the overall budget deficit while raising budgetary revenue. On the revenue side, measures include merging the general income tax with the tax on wages and income, introducing a single general business license tax to bring the informal sector into the tax system, and introducing a property tax on owner-occupied housing. On the expenditure side, measures focus on ensuring that the wage bill would not crowd out other essential outlays, including maintenance and social services.

Structural reforms aim to broaden the scope for the growth of the private sector through privatization and parastatal reform, deregulation of the energy sector, liberalization of the labor market, strengthening of the judicial system, and civil service reform. Recognizing the role of human capital in realizing the country's growth potential, the authorities are also increasing budgetary allocations for health and education.

Pakistan

Financial Support

Pakistan's existing Stand-By Arrangement, approved on December 13, 1995, was extended in December 1996 through end-September 1997, and the amount available under it was augmented by SDR 160.74 million.

Program Objectives

Reduce macroeconomic imbalances and address a range of structural issues—goals of the original program that were not met because of slippages in policy implementation. In particular, fiscal policy entailed an excessive increase in bank borrowing by the government that put pressure on the balance of payments.

Policies

The authorities' stabilization policy consists in reducing the budget deficit, increasing interest rates, and depreciating the exchange rate to promote a rapid recovery in the country's reserve position. These measures were to be supported by far-reaching structural reforms, with an emphasis on improving the operations of Pakistan's major banks, broadening the tax base, and rationalizing government expenditures.

Peru

Financial Support

On July 1, 1996, a three-year EFF arrangement for SDR 248.3 million was approved. On February 12, 1997, the arrangement was augmented by SDR 51.9 million to assist in the financing of Peru's debt- and debt-service-reduction operations with the commercial banks.

Program Objectives

Consolidate the gains made in 1993–95 by creating the conditions for sustained real output growth of 5–6 percent; lowering inflation to industrial country levels by the end of the program period; and reducing the external current account deficit to about 5 percent of GDP in 1998 from 7.3 percent of GDP in 1995. The debt- and debt-service-reduction operations are intended to reduce the ratio of Peru's debt-service obligations to commercial banks by 3.1 percent of exports of goods and nonfactor services in 1997 and to provide the basis for a return to voluntary financing by foreign commercial creditors.

Policies

The authorities intend to improve further the overall position of the combined public sector by strengthening tax administration and continuing to implement tight expenditure policies. They continue to pursue a disciplined monetary policy.

The authorities are deepening their structural reform efforts and intend to complete the privatization process by end-1998. To promote private investment, they are improving the regulatory framework and, in the trade area, intend to strengthen their policy of trade liberalization by lowering the external tariff rate. To address social needs, the government is working toward reducing poverty and has increased expenditure in education and health.

Romania

Financial Support

A 13-month Stand-By Arrangement for SDR 301.5 million was approved on April 22, 1997.

Program Objectives

Reduce the external current account deficit to 4.5 percent of GDP in 1997 from 6.6 percent in 1996. Cut the monthly rate of inflation sharply to about 2 percent by end-1997 from a monthly rate of 10 percent at end-1996. Owing in part to a drop in output at a large number of state enterprises as subsidies are withdrawn and input prices are increased, real GDP is expected to decline by 1.5 percent in 1997.

Policies

The authorities are undertaking a major fiscal adjustment, lowering the combined total of the general government deficit and quasi-fiscal subsidies from 8.3 percent of GDP in 1996 to 3.7 percent of GDP in 1997. On the expenditure side, measures include reducing support to industrial enterprises and agriculture by 5.1 percent of GDP on an accruals basis, and, on the revenue side, increasing taxes on domestic crude oil and natural gas production and raising certain excise and value-added tax rates. The program is based on a flexible exchange rate policy—the exchange rate is to be determined by supply and demand in the interbank market for foreign exchange. Monetary policy has been sharply tightened and will be guided primarily by a reserve money target.

Structural reform plans emphasize restructuring—through liquidation or privatization—many state-owned farms and industrial and commercial enterprises. Financial sector reforms include improving prudential supervision, strengthening the legal framework governing banks and other financial intermediaries, and privatizing the banks. Price and trade liberalization are to be continued. To address social concerns, the government will extend and improve the targeting of existing social programs and will use severance pay packages selectively to help workers affected by layoffs in economically depressed regions. Child allowances have been increased substantially.

Rwanda

Financial Support

A drawing equivalent to SDR 8.925 million under the Fund's policy on emergency assistance to postconflict countries was approved on April 22, 1997.

Program Objectives

Over the medium term, promote economic and social reintegration of more than 2 million former refugees, foster economic and financial recovery, and pave the way for sustained growth and development. For 1997, achieve real GDP growth of 12.7 percent, inflation of 7 percent, and a level of gross international reserves equivalent to about four months of imports.

Policies

Fiscal reform will focus on reducing the primary current budgetary deficit to 0.9 percent of GDP in 1997 from 2.7 percent in 1996. Budgetary revenue is projected to increase by about 26 percent, largely through broadening the tax base. Expenditure will be held to an increase of only 7.7 percent. Structural reforms will emphasize civil service reform; demobilization of soldiers; reform or liquidation of several public enterprises and privatization of the management of water, electric, and telecommunications companies; and elaboration of strategies for developing the health, education, and agriculture sectors.

To address social needs, the government is developing a program to support the reintegration of returning refugees by providing housing, investments to increase the availability of primary health care and basic education, and seed capital to help refugees start productive activities.

Senegal

Financial Support

A third annual ESAF arrangement for SDR 35.7 million was approved on January 13, 1997.

Program Objectives

Build on the success of reforms to date and establish the basis for strong, sustainable, and equitable economic growth led by the private sector. Over the medium term, achieve average economic growth of at least 4.5 percent a year, allowing for annual increases in real per capita incomes of at least 1.5 percent; maintain inflation at 2–3 percent a year; and reduce the external current account deficit, excluding official transfers, to about 5.5 percent of GDP by 1999.

Policies

The authorities intend to bring the overall fiscal balance to a moderate surplus in 1999 by increasing revenues and containing low-priority expenditures. They also seek to increase the efficiency of the tax system, broaden the tax base, and reduce tax fraud. The focus of monetary policy continues to be on pursuing a prudent credit policy, consistent with safeguarding the credibility of the parity of the CFA franc.

Structural reforms center on improving the legal and judiciary system to promote private initiative and encourage foreign direct investment. To encourage integration and trade, business laws are being harmonized at the regional level. Other priorities include the privatization of public enterprises; reforms in the agriculture, transport, and energy sectors; and measures to improve natural resource management. On the social front, the authorities are seeking to reduce poverty and strengthen human resource development. They are taking steps to raise school enrollment rates, reduce adult illiteracy, and expand the availability of health services, emphasizing preventive health care. They are also seeking to reduce the rate of population growth.

Tajikistan

Financial Support

A Stand-By Arrangement in the first credit tranche for SDR 15 million was approved on May 8, 1996. It represents Tajikistan's first use of Fund resources.

Program Objectives

Eliminate macroeconomic imbalances relatively quickly while proceeding with structural reforms. Specifically, reduce monthly inflation to about 4 percent by September 1996; move toward a viable external balance of payments, including by building up convertible currency reserves to the equivalent of almost six weeks of nongrant imports of goods other than alumina by end-1996 and by normalizing relations with external creditors; and slow the decline in output and real income.

Policies

The authorities sought to maintain a tight monetary policy that would strictly limit domestic bank credit financing to the budget and the rest of the economy. They aimed for an overall budget deficit for 1996 of 5.4 percent of GDP compared with 11.2 percent of GDP for the eight months after the currency was introduced in 1995. They would achieve this goal by, on the revenue side, levying transparent presumptive taxes on cotton and aluminum as well as other tax measures and by strengthening tax administration. On the expenditure side, they would lower spending in almost all categories except the social safety net and certain priority categories.

Structural reforms centered on land reform and privatization. In the banking sector, the authorities intended to introduce legislation to enable the National Bank of Tajikistan to exercise full and independent control over monetary and credit policies. They would continue to liberalize domestic and foreign trade and maintain a unified exchange rate. To protect the most vulnerable population groups, the authorities increased compensating cash transfers. They also sought to strengthen and better direct the social safety net and reform the pension fund.

Tanzania

Financial Support

A three-year ESAF arrangement for SDR 161.59 million was approved on November 8, 1996.

Program Objectives

Accelerate the growth of economic activity to achieve higher per capita incomes and reduce poverty. Over the medium term, achieve a real GDP growth rate of 6 percent; an average rate of inflation of 5 percent; and an external current account deficit, excluding grants, of 13.3 percent of GDP compared with 20.6 percent in 1995/96. Increase gross official reserves to the equivalent of three months of imports by end-June 1999.

Policies

The goal of fiscal policy is to improve the government's saving performance so as to reduce budgetary dependence on foreign financing. To strengthen its revenue performance, the government is to eliminate important sources of revenue loss; rationalize the number and type of bonded warehouses; intensify efforts to collect tax arrears; and broaden the tax base to include previously underrepresented sectors. To curtail tax evasion, import taxes between Zanzibar and mainland Tanzania are being harmonized. On the expenditure side, the budgetary process is being reinforced to ensure adequate funds for health, education, and the water supply. Monetary policy is designed to reduce money growth while ensuring sufficient bank credit to the private sector.

Structural reforms focus on expanding privatization and instituting a hard budget constraint for the parastatals. Imports of refined petroleum were to be liberalized by January 1997, and petroleum prices completely freed by June 1998. To address social concerns, the authorities are increasing spending for primary and secondary education and focusing health care spending on cost-effective community efforts and preventive measures. In addition, high priority is being accorded to providing water and sanitation services to both rural and urban populations.

Uganda

Financial Support

A third annual ESAF arrangement for SDR 46.9 million was approved on November 18, 1996.

Program Objectives

Over the medium term, strengthen actions designed to eradicate poverty, particularly by achieving strong economic growth. Maintain macroeconomic stability by pursuing sound fiscal and monetary policies in a liberalized environment. Achieve real GDP growth of 7 percent a year, contain inflation at 5 percent a year, strengthen the balance of payments, and accumulate gross reserves equal to more than five months of imports.

Policies

Fiscal policy is designed to reduce the overall budget deficit by more than 3 percentage points of GDP. Improvements in tax and customs administration are expected to increase revenues by 1 percentage point of GDP a year, while expenditures are to be maintained broadly constant relative to GDP. Through a continued diversification of the export base, buoyant private inflows, and a moderation of import growth, the authorities expect the external current account deficit, excluding grants, to decline to 5.3 percent of GDP by 1998/99.

Structural reforms center on privatization and restructuring of public enterprises, with a view to opening new opportunities for the private sector and ensuring that the services offered by utilities are reliable and competitively priced. Financial sector reform emphasizes restructuring weak commercial banks and strengthening the Bank of Uganda and its supervisory capacity. Other measures include an income tax bill to rationalize tax holidays and provide tax incentives for investors, revision of legislation on mineral taxation, and a review of the size and organizational structure of the central government. To address social and environmental issues, the government established a framework for addressing poverty and is implementing a policy calling for environmental education, improved information dissemination, community participation, and environmental impact assessments.

Ukraine

Financial Support

A nine-month Stand-By Arrangement for SDR 598.2 million was approved on May 10, 1996.

Program Objectives

Resume economic stabilization and liberalization in the wake of delays and slippages in policy implementation that occurred during the second half of 1995. Specifically, reduce inflation to about 1–2 percent a month by year's end, limit the decline of output, and realize the country's economic potential.

Policies

The aim of fiscal policy was to reduce the consolidated budget deficit to 3.5 percent of GDP in 1996 from 5 percent in 1995 by removing most ad hoc tax exemptions and levying taxes to support the restructuring of the energy sector. On the expenditure side, measures included regulating the increase in budgetary wages, reducing subsidies, and adjusting or postponing other programs in line with financial targets. To contain public expenditures, a new treasury management system would help project cash flows and manage liquid resources by centralizing paying agents' funds. Monetary policy was designed to be consistent with lowering inflation and replenishing net international reserves.

Structural reforms, intended to create the conditions for a sustainable recovery in output, centered on privatization. The authorities sought to address social needs by improving the targeting of social protection policies. They took steps to improve the efficiency of the subsidy scheme and to strengthen the pension system to make it sustainable, affordable, and more effective.

Venezuela

Financial Support

A 12-month Stand-By Arrangement for SDR 975.65 million was approved on July 12, 1996.

Program Objectives

Set the stage for sustained growth and a reduction in poverty. Reduce the monthly rate of inflation to 1.5–2.0 percent by the second half of 1996 and to 1 percent in the first half of 1997. Increase the external current account surplus from 2.4 percent of GDP in 1995 to 4.3 percent in 1996, followed by a halving of the surplus in 1997. Net international reserves were expected to increase to the equivalent of 5.6 months of imports in 1996 and to rise further in 1997.

Policies

The fiscal effort was based on containing expenditures and increasing tax revenues as well as on improving the efficiency and equity of the tax system. Revenue measures included increasing the rate of the general sales and luxury taxes and domestic fuel prices. Exchange rate policy aimed to lower inflationary expectations while providing a measure of exchange rate flexibility.

Structural reforms were designed to allow Venezuela to achieve sustained economic growth. Privatization would resume, and the groundwork would be laid for reforming the public sector. Other measures focused on strengthening banking supervision and banks' capital base. Social priorities included protecting the living standards of the most vulnerable social groups.