Folder Title:	President Barber B. Conable Liaison Files - International Monetary Fund [IMF] - Correspondence
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Series:	Liaison files - Non-governmental and international agencies
Dates:	02/07/1984-02/05/1991
Sub-Fonds:	Records of President Barber B. Conable
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IMF BBC files.

Poland

1. The World Bank SAL I tranche release mission is currently in the field, and has been working closely with the IMF mission currently discussing a possible extended arrangement. Prior to these missions, we worked jointly on a medium-term policy framework paper which could be used to underpin the extended arrangement, SAL I second tranche and possible additional policy-based lending from the World Bank. We also discussed medium-term macroeconomic projections and balance of payments scenarios, including possible debt and debt service reduction (DDSR) arrangements; although there are some differences between IMF and World Bank projections, they are not major and do not contradict our respective conclusions.

2. Given the large degree of uncertainty surrounding Poland's economic development as well as the international trading environment, medium and long-term projections of Poland's balance of payments and financing gaps should be approached with caution. Nonetheless, the basic conclusions relevant for creditworthiness determinations are already apparent -- namely that even with the net new flows being offered by official creditors and IFIs and optimistic assumptions about foreign investment, Poland will face significant financing gaps.

3. The G7 and the Paris Club have also recognized this, and discussions are underway about how to respond. The Paris Club seems to have accepted the conclusion that continuation of conventional reschedulings and interest capitalization provides only temporary relief and does little to restore creditworthiness. DDSR, possibly in the range of 30-50% is under consideration, although several members of the Paris Club continue to resist DDSR for official debt. The London Club is also discussing with the Polish authorities a possible Brady Plan operation, although they have made it clear that they would not proceed with such an operation without a parallel move by the official creditors.

4. One can devise various financing plans, including DDSR. For purposes of illustration, our base case assumes the following: (a) The World Bank would contribute about 40% of the new flows over the 1991-95 period, delivered via a combination of investment and policy-based loans (roughly 40% of FY91-93 lending), plus a free-standing operation to support interest reduction in a Brady Plan workout; calendar 1991 disbursements are estimated at about $650M. (b) IMF support under a 3 year extended arrangement. (c) Direct Foreign Investment would be modest. (d) Commercial bank debt would be handled under a Brady Plan package with 1/3 buyback at 25cents/$, and conversion of the remainder in par bonds. (e) Official DDSR of 50% accompanied by a 20 year annuity repayment. Both the IMF and the World Bank tested the tradeoffs between annuity type repayments and the depth of the needed DDSR, and concluded that use of an annuity repayment arrangement would be very helpful in keeping the needed DDSR within bounds politically acceptable to the Paris Club.

5. The proposed lending program for Poland is attached. We have already arranged cofinancing with the EIB for two FY90 operations, and we are working closely with the EC, EIB, EBRD and other bilateral programs to arrange additional grant and loan cofinancing.

EMENA - CD4
PROPOSED FY91-95 LENDING PROGRAM
POLAND

91 ID	91 PROJECT	91 BANK		92 ID	92 PROJECT	92 BANK		93 ID	93 PROJECT	93 BANK		94 ID	94 PROJECT	94 BANK		95 ID	95 PROJECT	95 BANK
POLAND																		
008	IND. REST. I	300.0	S	020	AGRICULTURAL DEVT	100.0	S	036	INFRA. FOR EXPORT	150.0		009	IND. REST. II	200.0	S	040	HOUSING II	100.0
011	TELECOMM I	120.0		016	ENVIRONMENT I	150.0	S	041	POWER SUPPLY RESTR	150.0	S	012	ENERGY CONSERVAT.	200.0	S	028	RURAL INFRASTRUCT	100.0
013	HEAT SUPPLY RES	300.0		026	SAL II	300.0	S	027	HOUSING	200.0	S	038	EDUCATION	100.0	S	039	FINANCIAL SECTOR	150.0
019	EMPLOYMENT SERVC.	100.0			POWER PRIVAT.	100.0	S	021	SME	200.0	S	029	TELECOM II	200.0	S	032	ENVIRONMENT II	150.0
022	FIN. INST.DEVT.	150.0		024	HEALTH	150.0	S	020	AG. SECTOR ADJUST.	150.0		017	TRANSPORT II	200.0	S	033	INDUSTR. SERVICES	100.0
025	SAL I	300.0														042	SAL III	400.0
	(6)	1270.0			(5)	800.0			(5)	850.0			(5)	900.0			(6)	1000.0

February 5, 1991

The World Bank
Washington, D.C. 20433
U.S.A.

DEEN A. QURESHI
nior Vice President, Operations

February 5, 1991

Mr. Conable:

This is a good brief but it does not highlight one central issue that will be important from our standpoint in proceeding with adjustment lending - i.e. the assurance that a financial package (including some credible posture on debt) can be put together to meet the very large financial gap that Bulgaria faces in its balance of payments, even assuming that it runs up arrears on its commercial debt. You should tell the Ambassador that if the Bulgarian Government requests it, we shall be glad to work on this issue together with the Fund. Our willingness to proceed with SAL will depend upon the existence of a viable financial package.

BRIEFING FOR MR. BARBER B. CONABLE
VISIT OF THE BULGARIAN AMBASSADOR TO THE UNITED STATES, OGNIAN PISHEV

February 5, 1991

1. The Bulgarian Ambassador, Mr. Ognian Pishev, requested a meeting with Mr. Conable to discuss the World Bank's overall program for Bulgaria. His major concern is likely to be the speed and level of assistance that the Bank can provide in CY1991. In responding, Mr. Conable may wish to reassure Ambassador Pishev that (i) a $25 million Technical Assistance Loan scheduled for Board consideration in May is "on track"; (ii) the Bank will do its best to accelerate a SAL ($250 million) from November/December to June 1991; and (iii) the Bank is willing, in principle, to consider participation in a debt reduction package (perhaps late in 1991).

Recent Events

2. The new coalition government (which took office in December 1990) reached an understanding, ad referendum, with the IMF on economic policies and a Letter of Intent on Friday, February 1, 1991. This program focuses on a major price liberalization and adjustment of remaining administered prices (including four- to eight-fold increases in essential energy and food product prices), a new incomes policy, high interest rates, and a new exchange rate system. The IMF expect that a new budget, which is consistent with the macro framework, will be in place by mid-February. The program also includes a number of priority reforms designed to create the necessary regulatory and incentive framework for a market economy, including a privatization law and land reform. The President of Bulgaria has adopted an unusually high profile in gaining political acceptance of the reform package, including close consultations with the Trade Unions and an extensive media campaign to inform and gain the support of the public.

Bank Strategy

3. The Bank has fielded a number of missions since March 1990, with Bulgaria becoming a member of the World Bank in September 1990. Mr. Qureshi visited Sofia in October, 1990. He outlined a Bank strategy based on three components: (i) an umbrella Technical Assistance Loan (TAL) to respond to the overwhelming needs of the country as it struggles with the problems of transition from a centrally planned system to a market economy; (ii) a Structural Adjustment Loan (SAL) designed to alleviate the severe foreign exchange constraint and support the restoration of growth; and (iii) early preparation of projects or SECALs to further deepen our sectoral involvement and support for the reform program over the medium-term. He also made it clear that processing of the SAL would require the formation of a credible government coupled with prior actions to both restore macroeconomic stability and initiate the process of structural change. The Bank produced a two-volume CEM on Bulgaria, which was discussed with the authorities in November 1990. These discussions went extremely well with the report gaining wide distribution to all political groups. Bank staff have participated in joint IMF/Bank missions to work out an acceptable macroeconomic reform program and have also pre-appraised the Technical Assistance Loan. We are sending a SAL

preparation mission and a TAL appraisal mission this week. The Bank's lending program for 1991 and 1992 is attached. We have not yet included debt and debt service reduction assistance, although this may be necessary for the success of Bulgaria's reform efforts.

Economic Situation

4. The Bulgarian economy is in the midst of a serious crisis. Output fell by at least 11 percent in 1990, and a further significant decline (8 to 12 percent) for 1991 looks almost inevitable. Inflation is accelerating (estimated at over 50 percent for 1990) and the budget deficit has widened. On the external side, a debt moratorium on practically all external debt since March 1990 (including interest payments on short-term officially guaranteed debt) has significantly curtailed Bulgaria's access to foreign capital. Foreign exchange reserves are at 2 weeks of imports, even though imports have been compressed to about half the 1988 level. Projections indicate that the change in CMEA payment relationships will have a severe negative impact on the economy in 1991, equivalent to over 10 percent of GDP. Soviet supplies of oil have been reduced to under half former levels, and an agreement with Iraq to supply oil has been suspended due to the current Middle East crisis. Foreign commercial banks, which hold about 85 percent of Bulgaria's external debt, fully understand that the country is in no position to meet its obligations in the near term and have deferred payment until March 1991. Even if we assume that the moratorium on existing external debt remains effective for the remainder of 1991, the IMF estimate the financing needs for calendar year 1991 to be about US$1.6 billion.

cleared with and cc: Messrs. Lari (EM4DR); Nouvel (EM4CO)

JWilton:kag (b:\jwbrief)

The World Bank/IFC/MIGA
O F F I C E   M E M O R A N D U M

DATE: 04-Feb-1991 08:12am

TO: Moeen A. Qureshi (MOEEN QURESHI)

FROM: Sven Sandstrom, EXC (SVEN SANDSTROM)

EXT.: 81138

SUBJECT: Mr Conable's meeting with Mr Camdessus

Moeen,

Mr Conable met with Mr Camdessus late Friday, as you know. The meeting went well. The content of the briefs that you had provided was essentially confirmed. The following can be added.

ALGERIA

Mr Camdessus said that Algeria will continue to move on the exchange rate till end February, then pause till July, and then resume movement. He is very pleased that we are giving priority to industrial sector reform, focusing on the 23 largest enterprises.

EGYPT

The Fund will insist that there be no reduction in domestic energy prices as international prices come down. Bank staff are welcome to continue to participate in Stand-by negotiations. Mr Camdessus will go to the Paris Club to push for a 50% debt reduction, but he thinks Egypt will eventually accept 40%. He is emphasizing to the Egyptians that this is a window of opportunity which they should not miss.

PERU

Mr Camdessus said that the US / Mulford are coming around. They will participate and play a role -- but are unlikely to contribute much financing. Mr Camdessus said that he would like the Bank to contribute more than has been indicated so far. Mr Conable explained our concerns and emphasized the need to prepare and move ahead on an overall strategy to mobilize bilateral resources. Mr Camdessus said that he understood our concerns and emphasized that he is willing to take the lead in putting together a financing package. He seemed to be prepared to move now when some US support seems more likely.

2. Zambia

There are no pressing issues to raise with the IMF on Zambia at this time, although the situation evolves on a daily basis, and may need a further update. The earlier issue of how to close the financing gap in 1991, particularly the first quarter, has been solved by the "35/35/35" plan, in which Zambia will draw down reserves by $35 million, the IMF will defer payments in the first quarter by $35 million, and IDA will contribute $35 million in the second tranche of the Economic Recovery Credit. Mr. Conable might express appreciation for the IMF's help in reaching this solution.

In proposing this solution to the financing plan, the IMF noted that it was seeking a special payment arrangement, under which Zambia would pay each month into an SDR account an amount sufficient to cover IMF debt service, and the IMF would have authority to make withdrawals as payments fell due. We have accepted this proposal on the understanding that the Bank would have a similar arrangement for its debt service payments.

One issue Mr. Camdessus might raise is whether the IMF current arrears (i.e., arrears accruing since the freeze date, less the $35 million deferred) would actually be paid by the time of Bank Board presentation of the Economic Recovery Credit. With respect to the Bank arrears in FY91, we are expecting payment by the time of signature, not the time of Board presentation. We propose similar treatment of the IMF current arrears.

If there are further developments on Zambia, we will provide an update.

3. Mr. Camdessus' trip to Southern Africa

Mr. Conable should be aware that Mr. Camdessus is about to set out on an extensive tour of countries in Southern Africa, including Botswana, Zimbabwe, Zambia and Mozambique. We have no particular issue to raise. Collaboration with the IMF in all these countries is good. However, if Mr. Conable wishes briefing on Bank/IMF subjects in these countries, we shall be happy to provide it.

The World Bank
Washington, D.C. 20433
U.S.A.

MOEEN A. QURESHI
Senior Vice President, Operations

January 31, 1991

Mr. Conable:

Barber:

Re: Peru

Further to Mr. Husain's note to you dated January 29, I met with Mr. Camdessus to follow up the discussions on Peru at the recent IMF Board Meeting. He asked me if the Bank could increase its initial financial contributions to Peru under possible quick-disbursing loans. I explained to him that while it would probably be possible for the Bank to lend somewhat more than the amount indicated in Mr. Husain's note, the most critical issue is to develop a strategy to mobilize the bilateral resources that are needed to both clear the arrears and provide the support required for the Reform Program.

Moeen.

THE WORLD BANK
Washington, D.C. 20433
U.S.A.

S. SHAHID HUSAIN
Vice President, Latin America and the Caribbean

January 29, 1991

Mr. Barber B. Conable

Barber,

Attached is a memo which gives very tentative Bank disbursement profile for Peru. The implication is that at the end of the period (1995) there should be no increase of the Bank's exposure in Peru.

We are going to send you a paper on alternative strategies on Peru. You should tell Camdessus that we would wish to have a detailed discussion with him after that.

It is imperative that Camdessus moves ahead with mobilizing bilateral finance for the program the IMF has agreed with Peru. A support group may fail because of the issue of burden-sharing. It is unlikely that the U.S. can put up any significant amount. Camdessus has to take the lead in bilateral mobilization of the Japanese, Spaniards, Italians, Canadians and, possibly, some other Europeans. What neither Peru, the Bank nor the IMF can afford is that Peru's program fails because of inadequate financing. It is certain that in that case payments to multilateral organizations will be suspended.

Shahid

cc: Mr. Qureshi

THE WORLD BANK/IFC/MIGA

OFFICE MEMORANDUM

DATE: January 22, 1991

STRICTLY CONFIDENTIAL

TO: Mr. Moeen A. Qureshi

FROM: S. Shahid Husain

EXTENSION: 39001

SUBJECT: PERU - Disbursement Projections for 1991-95

I attach a memo which I sent to you last December that describes our tentative plans for gross disbursements to Peru, their rationale and their relation to accumulated arrears and projected amortization payments for this period.

cc: Mr. Choksi (w/o attachment)

DP:sdi\s:Perudisb.mem

OFFICE MEMORANDUM

DATE: December 14, 1990

STRICTLY CONFIDENTIAL

TO: Mr. Moeen A. Qureshi

FROM: S. Shahid Husain

EXTENSION: 39378

SUBJECT: PERU: Disbursement Projections for 1991-1995

1. The IMF has formally asked us to indicate a possible profile of Bank disbursements to Peru during the next five years, assuming that a solution for the arrears problem will be found sometime in the course of 1991. The same request has been made to the IDB. These tentative disbursement profiles would be included in the documentation for a proposed Standby agreement that is now being negotiated. Prime Minister (also Finance Minister) Hurtado Miller is planning to visit Washington next week i.a. to sign a Letter of Intent with the Fund. I understand from the IMF, however, that there are still some important unresolved policy issues.

2. The numbers I authorized to be provided to the IMF are as follows:

Tentative IBRD Gross Disbursements to Peru (Calendar years)
(US$ million)

	1991	1992	1993	1994	1995
Adjustment Loans	300	200	250	250	250
Project Loans	0	100			
Totals	300	300	250	250	250

The total for the period 1991-95 is $1.350 million, or slightly less than the sum of accumulated arrears (including interest arrears) as of December 31, 1990, and projected amortization payments by Peru during the period 1991-95, as follows:

Accumulated arrears as of 12/31/90		$ 928 million [1]
of which:	principal	(557) million [1]
	interest	(360) million [1]
	late charges	(11) million [1]
Projected amortization payments 1991-95		490 million [1]
	TOTAL	$1.418 million

1 .. These numbers are approximate and subject to confirmation by the Loan Department.

3. The tentative disbursement profile for Peru indicated to the IMF would accomplish that by the end of 1995 our exposure (including the interest portion of existing arrears) would be about the same (in fact slightly less) as at the end of 1990. Net transfers to Peru would be negative by about $350 million which is about equal to the projected interest payment by Peru to the Bank during the period. I have asked the IMF to consolidate the projected IBRD and IDB disbursements in their tables. Needless to say, a large program for Peru such as implied by the tentative disbursement profile is conditioned on the implementation by Peru of satisfactory macro and structural reform programs as well as the timely availability of high quality investment projects that we can support.

cc: Messrs. Bottelier, Choksi

PB:cj

File
Romania

THE WORLD BANK
Washington, D.C. 20433
U.S.A.

RBER B. CONABLE
sident

January 8, 1991

His Excellency Petre Roman
Prime Minister of Romania
Piata Victoriei nr. 1
Bucharest,
Romania

Excellency:

Thank you for your letter of November 21. I am very glad to hear that you found the work of the Economic Mission timely and useful. Let me assure you of the great sympathy and understanding that exists in the World Bank for the difficult economic conditions now being faced by Romania, and of our willingness to assist your country in easing these conditions and support your determination to move to an efficient, competitive market economy.

The reform measures which have been initiated by your government are courageous and laudable and we are prepared to consider providing support for your program. In the first instance, we would give priority to putting in place an early Structural Adjustment Loan (SAL), as you requested. This would establish a Policy Framework for sustained structural adjustment, with a number of monitorable actions which would advance the economy along the path delineated by the reform program. Such a loan would concentrate on sectoral adjustment policies, and on institutional elements of the reform program--including, for instance, financial sector development, privatization and enterprise restructuring--that would, together, enhance the prospects for a positive supply response. It would also support the establishment of an adequate safety net. To be effective, such a loan would require a broad assurance that appropriate macroeconomic policies were being pursued. An agreement with the IMF on a Standby program would provide that assurance. I propose we begin work on a SAL when the economic report is discussed in February. The preparation of a SAL does, however, in our experience take some months and the loan is unlikely to be completed before mid-summer. In concert with the SAL we would also propose building a longer-term pipeline of projects, among which would figure the Health project which is now under preparation.

To answer the more immediate needs I would propose to quickly prepare a loan which would combine support for technical assistance needs and finance critical imports in priority sectors. The loan amount could be of the order of $100 million and the loan can be appraised this January. As you note in your letter, Romania has great needs for technical assistance and the returning economic mission has, with officials of your government, already identified a number of areas where immediate application of technical assistance could help strengthen the reform program. This proposed loan would assist in establishing a co-ordinating mechanism within Romania for channelling technical assistance, as well as financing the most immediate requirements. It would also finance the imports of some critical spare parts--in the transport, energy, industrial and agricultural sectors--to help assure the maintenance of production, and clear bottlenecks which are resulting in low levels of capacity utilization.

I hope this loan could be presented to our Board in March or April. I am reasonably confident that, as it becomes more widely known that the Bank and the IMF are developing policy-based and other quick-disbursing lending, other lenders and donors will positively review their financial participation in Romania's development. We look forward to helping Romania mobilize the additional necessary resources from both public and private sources as well as develop our own programs of assistance as the reform program takes hold.

Sincerely,

Barber B. Conable
President

cc: Mr. Conable's Office
Mr. Qureshi's Office

Cl w/& cc: Messrs. Wapenhans/Kohli (EMNVP)
cc: Messrs. Lari (o/r)(EM4DR), Nouvel (EM4), Sandstrom (EXC)
bcc: Mrs. Herfkens, Mr. Skapin (EDs)

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Eastern Europe

We understand that Mr. Camdessus may raise with you an issue relating to the extent and timeliness of the Bank's contribution to the balance of payments needs of Eastern European countries, in particular Bulgaria, Hungary and Romania.

The issue has arisen because Eastern and Central European countries face very substantial needs in 1991 resulting mostly from the CMEA demise, the developments in the Soviet Union, and the Gulf crisis, while mobilizing the necessary resources from G24 countries associated with the European Community coordination exercise--in addition to the IMF, IBRD and EC itself, is more difficult than expected. (Total gross external financing needs for these countries, excluding Albania and the Soviet Union, are estimated at about $25 billion, including repayment of external debt and reserve build up.)

Gross external financing requirements in 1991 for Bulgaria--including debt service, build-up of reserves--amount to about $3.8 billion, according to the IMF. Assuming full moratorium on debt service, net needs amount to $1.6 billion, of which $0.5 billion proposed to be financed by the IMF. For Hungary, using the same definitions, gross requirements amount to about $5 billion, to be met by: IMF ($1.2 billion), IBRD ($0.5 billion), EC ($0.6 billion), bilaterals ($0.5 billion), direct foreign investment ($0.5 billion) and roll-over of commercial debt (about $1.8 billion). We understand that gross external needs for Romania were recently estimated by the IMF mission negotiating a Standby at about $3.5 billion. The CSPs under preparation for Bulgaria and Romania will present our estimates, and views on the feasibility of these needs being met. The estimate for Hungary was worked out in agreement with the Fund, and is reflected in the IM for the SAL II.

The issue may have also arisen because of confusion between commitments and disbursements, and between fiscal and calendar years. Attached is a table showing projected Bank commitments and disbursements for Bulgaria, Hungary and Romania for calendar years 1991 and 1992. In your discussion, you may point out the following:

(a) The Bank has considerably stepped up both the overall level of lending and the proportion of policy-based, quick-disbursing loans in its lending program in these countries and is front loading its program in "new" countries (Bulgaria, Romania) with such operations (SALs of $250 million for Bulgaria, and of $400 million in Romania, both in 1991). The proportion of policy-based loans in total lending is much higher than the 25 percent guideline adopted Bankwide (about 40-50 percent on average for Eastern countries).

(b) These policy-based loans will go to our Board around June-July 1991. As a result, it is expected that the second tranche will not be released before beginning of 1992--assuming steady effective implementation of the reform program.

(c) In the case of Hungary, disbursements in 1991 are forecast at $475 million, i.e., nearly double those in 1990. (This does not include the ECO of $200 million in 1990 which provided a critical support to Hungary's ability to roll over its commercial debt.)

You may also wish to point out that the Bank already owns about 9 percent of Hungary's external debt and is--and will stay--its largest single institutional creditor. ~~Also~~, Bank lending to ~~these~~ countries is for 15 years in contrast to the IMF's 3-8 years and the EC's 5-7 years. As a result, Bank exposure will continue to steadily grow because of continuous positive transfers, while the IMF and EC will most likely reduce theirs. Thus, a longer-term perspective--than looking purely at 1991 and 1992--is needed.

EM4CO

February 4, 1991

Bucharest, November, 21, 199o

Dear Mr. Conable,

We would like to thank you for the IBRD Economic Mission which recently completed its work in Romania and through you thank to the Mission team for the strong and fruitful collaboration they entered into with my Government. The Mission provided us with a comprehensive review of our economic problems and a constructive and sympathetic analysis of our Reform Program. They have left behind a detailed Aide-Memoir with a number of important recommendations on stabilization, reform, and structural adjustment. I proposed to establish a task force to ensure that these recommendations are incorporated into my Government's policies and programs.

The Government of Romania is deeply committed to a reform program which will irrevocably lead to the establishment of a market economy. Central planning has been abolished and greater freedom has been granted to economic agents. We are now embarked upon a major price liberalization which will eventually lead to a freeing of most prices in the economy. The Government has started a major privatization program in which 3o% of the assets of the economy will initially be distributed to the population. We are about to establish a modern, two tier banking system. Major changes are being introduced in the system of taxation, the exchange rate system - which will result in a realistic rate for the Romanian leu, and our trade system. These changes will lead to a greater integration of Romania into the world economy, from which we hope to benefit through foreign investment and technology transfers. We are about to pass legislation which will provide unemployment compensation, and strengthen our social assistance, to help the vulnerable members of our population in this difficult period of economic transition. The IBRD mission has given its strong support to this program.

The Romanian economy is facing serious economic difficulties. The economy has been very badly affected by the recent rise in oil prices, and the breakdown of COMECON. This year exports have declined while imports have increased rapidly, in part to compensate for the harsh years of repression during which the foreign debt was repaid. In 199o the balance of payments deficit will be $1. 3 bln. which should be financed by our reserves - which now cover only four weeks of imports. Next year a deficit of $2. 2 bln is expected. My Government is seeking a Standby Arrangement with the International Monetary Fund which we expect to conclude in January. IMF funds, as you know, will be released in several stages. According to preliminary calculations we will need to find additional financing of about $1. 7 bln.

In the next few months the economy enters a critical period. This winter there will be an urgent need for importation of medicines, food, oil, animal feedstocks and vital spare parts. Without immediate international, financial assistance the Reform Program may not be sustainable. The Government has learned with interest that the World Bank is considering special assistance loans for countries badly hit by the Gulf crisis, and the breakdown of COMECON.

Mr. BARBER CONABLE
President of the World Bank
Washington D. C.

We ask that Romania be considered for an Emergency Loan. The Government is immediately able to receive an IBRD Mission to prepare this Loan. We also solicit your help in developing co-financing and bilateral financial assistance. We further request a Structural Adjustment Loan to support and strenthen the Reform Program. The Mission has informed us that the earliest such a Loan can be considered will be after the Standby is agreed to, and possibly after the economic report is discussed in late February.

The IBRD Mission has identified great needs for Technical Assistance to help refine the Reform Program and to implement it. The Government also, therefore, urgently requests a small Technical Assistance loan which will help mobilise grant assistance. This application should be considered distinct from the application for a Structural Adjustment Loan, but the early application of technical assistance could, we were informed by the Mission, help prepare the ground for adjustment lending.

As you know, the Romanian economy has great needs for reconstruction We cannot further postpone the rehabilitation of our factories, revitalising the agricultural sector, reducing our dependance on energy, and tackling the numerous problems of transition, as we cannot postpone meeting the desire of the Romanian population for improvements to their standards of living. We would like, therefore, to develop a program in which the presence of the World Bank in Romania can be established over many years.

The years of repression, social distress, and isolation have given the Romanian people a great ambition to turn away from the past and join in the modern progress of nations. Our economy has great potential which will be mobilized through reform and structural adjustment. Our path is committed, and we invite and request your assistance.

PETRE ROMAN
PRoman
PRIME-MINISTER

20. 11. 90

File
Camdessus lunch?

<u>Notes on Outcome of Camdessus Lunch 12/12/90</u>
(Polled from Messrs. Conable, Stern and Stanton)

1. Most of the time was spent on Soviet Study. Agreed that there would be no press conference.

   - Game plan is to give 7 copies for G-7 to Mr. Bush on Thursday, December 20, and one copy to the Soviet Embassy to send to Moscow.

   - Copies distributed to Board on Friday, December 21 (end of the day).

   - Mr. Conable will mention this to Board on Tuesday, December 18 and offer to hold briefing/seminar in early January.

2. Gulf Crisis - Mr. Camdessus reported inability to raise money for interest subsidy account since U.S. has mopped up all available funds for aid to front-line states. IMF is therefore giving up on this front. Instead, will seek to expand resources for ESAF, but Saudis not very forthcoming. Wished Bank best of luck in its own resource mobilization effort which will begin in January.

3. Operational issues - mainly exchange of information.

   - Egypt: Mr. Camdessus reported government has dug in its heels over energy prices. IMF still working with them to get something going in time for Paris Club in February 1991.

   - Czechoslovakia: Agreed on 1.5 billion (?) program (standby plus compensatory finance).

   - Hungary: Also close. Expect to release second tranche (?) soon.

   - Nicaragua: Willing to consider ESAF eligibility which will take a few months (April-May). Will need program, but skeptical of government's ability to come up with one.

   - Peru: U.S. expressed an interest in leading a support group, perhaps in cooperation with Japan. However, government may be slipping on economic management.

   - Vietnam: May be movement, but not expected before March.

   - Zambia: Nothing new. Financing needs for next year around $600m. No payments to IMF since July. Delays in donor funds $120m shortfall. (We know donors are skeptical). Mr. Stern suggested moving arrears freeze date to December 1990 (from June 1990) as Bank has suggested earlier.

   - India: Discussions going on. IMF group at lunch talked among themselves about possibility of delinking CCFF and first credit tranche (no conditionality), but even latter requires a letter of development policy which present government is likely unable to deliver, at least until budget time (Feb/March).

   - Philippines: disappointed with Cory Aquino's roll-back on gas prices.

Above conveyed by telephone to Enzo Grilli on 12/12/90.

Brief for Mr. Conable-Camdessus Lunch Meeting

December 12, 1990

A. COUNTRY ISSUES

1. EGYPT

The Managing Director has sent a letter to the Egyptian authorities outlining the steps needed for further processing of the standby. The letter expresses concern with the fact that last year's budget deficit turned out to be higher than earlier estimated and that fiscal and pricing measures promised by the Government have been delayed. The letter stresses the need to (a) implement fiscal measures, (b) design a medium term economic and financial work and (c) obtain agreement with the Bank staff.

A Fund mission is in the field to work on (a) and (b) and our staff members are participating in the mission.

It is unfortunate that Fund letter linked progress in discussions with the Bank as a condition of their second mission in early January without consulting the Bank. It created some problems with the Egyptian Government who would have preferred a Bank mission later. Although these have been resolved and we are now fielding a mission, we feel that the Fund did not act in the agreed spirit of cooperation when it sent such communication involving the Bank without prior discussion with us. We would appreciate Mr. Conable's raising this issue with the Managing Director.

2. BANGLADESH

A caretaker government has taken over in Bangladesh with the resignation of President Ershad on December 6. There is likely to be a political paralysis for the next four-to-six months, which could result in a sharp deterioration in the economic situation, which improved significantly during 1990 under the ESAF program. IDA's ability to provide additional fast-disbursing assistance to offset the impact of the Gulf crisis is likely to be limited in the absence of further policy reforms. You could ask the Managing Director to try to impress on the Government the need to keep to the ESAF targets and continue working on policy reforms so that new Bank policy-based lending can be resumed as soon as possible after elections.

3. VIET NAM

Background. There was a discussion of Viet Nam's arrears at the Fund Board on October 26. Most Directors expressed satisfaction with the progress made by the Vietnamese in moving towards a market-based economy, but expressed their uneasiness with the resurgence of inflation, in part caused by the ongoing major structural reform program without access to external assistance.

The above developments raise the possibility of the U.S. permitting a Fund program to be put in place. In turn, this would allow a bridge loan to be put together for settling Viet Nam's arrears with the Fund. In light of these events and the bilateral dialogue between Secretary Baker and Foreign Minister Thach, the Region has indicated that we would be prepared to join a formal PFP preparation mission if asked by the Fund to do so. (It is in our interest to have the U.S. position at the Fund be as consistent as its position at the Bank).

Mr. Camdessus may ask you about our plans. We are doing economic work, preparing several projects including an adjustment operation, agricultural inputs and road rehabilitation projects, providing technical assistance mostly with UNDP funds and collaborating actively with the Fund. We are participating in the "Shadow PFP" preparation process and see it as a prerequisite for a possible SAC. <u>You may therefore wish to ask when Mr. Camdessus feels he can bring a program to his Board. Would he have to wait until the next scheduled meeting to consider Viet Nam's arrears in March 1991 or could he proceed earlier? In summary, what would be the nature and timing of a Fund program?</u>

B. INFORMATION ITEMS

1. JORDAN

The economic situation in Jordan is precarious. Since the outbreak of hostilities and the resulting embargo in August 1990, output has fallen sharply, the budget and the balance of payments are under severe pressure and there is increased unemployment. So far the Government has managed by drawing down reserves and by accumulating arrears on debt service payment. If the present trends continue, however, there is a real danger of serious economic collapse.

Under the present circumstances, Jordan's creditworthiness has been seriously eroded and it's difficult to see how a viable medium term framework can be put together. We are not thus in a position to release the Second Tranche of Industry and Trade Adjustment Loan. <u>It would be useful to inquire how Mr. Camdessus views the situation.</u>

2. G-24/ EASTERN EUROPE

Mr. Conable has received a communication from the European Commission on the high level meeting of the Group of 24 which considered that 1991 Funding lined up for Eastern Europe may not be sufficient. Though gross financing requirements are difficult to quantify, large financing gaps are identified for Czechoslovakia ($1 - 1.5 billion), Hungary ($0.5 - 0.9 billion), Bulgaria and Romania (together some $4 billion).

Since early this year the European Commission (EC) has proposed to develop an institutional capacity to provide balance of payments support to countries in Eastern and Central Europe. This proposal was rejected by the G-24 countries associated with EC's program in Eastern Europe, on account of duplication with the IMF and the Bank. The EC has nevertheless pursued this proposal in a series of recent meetings of the G-24.

We continue to favor the case by case approach favored by the IMF. But you may inquire from the Managing Director, his latest thinking on the subject and his view of the proper approaches to the unidentified gaps for Eastern Europe.

3. **PHILIPPINES**

Since early November the Fund has been trying again to work out a Stand-by program with the Government. Throughout this process the Bank has been closely involved. Mr. Kaji is currently in Manila talking to the key officials and the reading we have is that matters are at a very critical stage.

Meanwhile, the following actions have been taken:

i) On October 31 the peso was devalued from around 25.75 to 28.0 to the US dollar; (ii) Central Bank reserve requirements were increased in November; (iii) on December 5 the Government raised oil prices by an average of 45% (larger increases for gasoline and lower increases for LPG and kerosene); (iv) proposals for tax increases were tabled in the Congress; (v) expenditure austerity measures were reaffirmed; and (vi) talk of a debt moratorium was put on the shelf, in light of the pressing economic issues involving the fiscal deficit and pricing.

Whether these measures will be adequate to reduce the fiscal deficit sufficiently is still being analyzed.

It remains uncertain whether the Fund team will be able to work out an agreed program. The dilemma is that the Philippines critically needs the infusion of external resources, having been severely hit by the Gulf Crisis. Yet, without additional policy actions, particularly on taxes, the economic reform program is likely to unravel further and the financial situation to deteriorate. This could lead to arrears developing on commercial debt. It now appears that the Congress appreciates the gravity of the situation and has called a special session to consider the various measures. Mr. Conable might wish to ask Mr. Camdessus for his assessment of the situation and what are the likely next Fund steps.

Roll-back of gas prices announced by govt. yesterday is disappointing & may cause problems with the Fund.

OFFICE MEMORANDUM

Annex III

DATE: November 13, 1990

TO: Mr. Barber B. Conable

THROUGH: Mr. Attila Karaosmanoglu, Acting OPNSV AK

FROM: W.A. Wapenhans, EMNVP WW

EXTENSION: 32676

SUBJECT: EGYPT: IMF

At yesterday's Board meeting in the Fund the staff were asked to make a presentation on progress thus far in the Fund staff's discussions with the Egyptian authorities. Attached is the presentation made at the Fund Board. We were not informed that this presentation would take place nor were we invited to attend the meeting.

From discussions this morning with Fund staff we understand that, in support of the attached statement, the Managing Director indicated that he was disappointed with the progress on policies; while he supported the staff position to proceed with the work and the objective to hopefully conclude negotiations on a Stand-By arrangement before the end of the year, he wished the Egyptian authorities to:

(a) implement what they have indicated in their letter to him of September 28, 1990 and provide all the requisite data;

(b) commit themselves to further reduce the fiscal deficit from the current level of 14% of GDP to what would be considered appropriate; this would be done during the negotiation of the medium-term macroeconomic and financial framework, to be prepared in association with the Bank over the next few weeks;

(c) agree that no ceiling should be introduced on lending rates; and

(d) move faster in achieving world equivalence (by June 1993) in energy pricing compared to the path agreed with the Bank (June 1995).

We understand that the MD was supported by several Executive Directors. With regard to energy, it was suggested to him that he touch base with you to reach a joint position regarding the target date for reaching international equivalence.

I will be sending you a separate memorandum by Thursday, November 15, comparing our position on energy prices with the IMF approach. In brief, while agreeing with the Government on a formula, which we feel is technically sound, to reach international prices for petroleum products and long-run marginal costs for eletricity no later than June 1995, we have repeatedly told the Egyptian authorities that we consider this formula to be a <u>minimum</u> or floor price adjustment. If the IMF were to agree with the Government on a more rapid timetable in view of the need for accelerated fiscal adjustment, we would support such an understanding. We understand the MD made this point at the meeting yesterday. In January 1990, and subsequently, this position has been communicated to the authorities.

With regard to our joint work on the medium-term macroeconomic and financial framework, I wish to inform you that we have contacted the IMF staff and the first meeting to begin working on this paper is scheduled for tomorrow afternoon.

cc: Mdmes./Messrs. Qureshi (o/r), Chopra (o/r), Zulfiqar, Tyler, Bachmann, Hubert, Dinh, Giugale

STVoyadzis:jh

Egypt: Status of Discussions on a Fund Supported Program

1. As foreshadowed in the Managing Director's letter of September 29 to the authorities, the recent mission to Cairo had as its main objective agreement on a framework and associated policies for a program that could eventually be supported financially by the Fund. The mission was also to assist the authorities to prepare for the Paris Club technical discussions to take place later this week.

2. The mission was not able to make the progress hoped for in these discussions. In order to understand where we stand in our discussions and where we propose to move, a little background is in order. The Fund staff has been negotiating for quite some time with the authorities a program the Fund could support. In 1990, the Fund has sent negotiating teams on five occasions to Cairo while the authorities came for negotiations to headquarters on three occasions. Moreover, three policy oriented technical missions went to Cairo in the past three months associated with proposed reforms of the monetary and foreign exchange systems.

3. By June 1990, the World Bank had informed the Fund staff that it had made progress in its discussions on price liberalization, public enterprise reform and trade liberalization. Also, the proposals of the authorities in exchange system reform and interest rate policy--which at that stage were very general in nature--were felt by the Fund staff to deserve encouragement. This encouragement was provided through the three technical assistance missions already referred to. However, at the same time, these reforms needed to be backed by a much stronger fiscal stance and restrained credit policies than was envisaged if an

inflationary spiral was to be avoided. These positions were clearly stated in correspondence between the Managing Director and the authorities.

4. By the time of the Annual Meetings last September, the authorities indicated their broad acceptance of the recommendations of the technical assistance missions, although some important aspects remained to be settled. They had also indicated their intent to take further fiscal actions in October-December 1990 equivalent to almost 3 percent of GDP at an annual rate above the measures already incorporated in the original budget. These intentions and policy proposals were set out in a letter of September 28 from the Governor of the Central Bank to the Managing Director which has been circulated to the Executive Directors. It was on this basis that the mission visited Cairo in October/November with the hope, as mentioned, of making substantive progress toward a Fund supported program.

5. With this background, the mission encountered difficulties and made little progress toward agreeing on a framework and associated policies. The difficulties include deficiencies in the provision of information in a number of areas such as government finances, the external debt position, and balance of payments projections. Moreover, the authorities had not yet considered their macroeconomic objectives for the period ahead and were only prepared to begin policy discussions at the very end of the mission's stay, which had to be extended for this purpose.

6. In the discussions, the authorities stressed that they wanted to proceed with quickly with a Fund arrangement. However it became clear to the mission that the authorities had weakened the policy position outlined to the Managing Director in the Governor's letter of September 28, 1990. For example, implementation of most fiscal measures promised for October-December will now only be effective from early 1991; the Sales Tax is still not approved by the Cabinet; the exchange system reform would be effective only one week prior to Board consideration of a stand-by arrangement (along with the customs duty rate increase); and final unification of the two exchange markets is now to take two years rather than one. Moreover, there was no macroframework in which to assess policies.

7. Additional to these policy delays, the authorities have not materially changed their position on two issues over which management had urged a reconsideration from their position in their September letter. On domestic energy pricing, management and staff position was that their world equivalence would need to be achieved by June 1993, implying an acceleration from the path agreed with World Bank (June 1995). The authorities stated, however, that they would only commit themselves to the adjustment formula agreed with the Bank. On monetary management and interest rate policy the authorities insist on maintaining a lending rate ceiling which they have raised modestly to 24 percent. The staff would note that domestic energy prices have only been adjusted marginally since May, and now stand at about 27 percent of Italian ex-refinery prices, well below the Bank target for this year of 45 percent. Therefore an acceleration of energy price adjustment beyond

the World Bank formula is needed. On interest rates, the proposed ceiling on lending rates will clearly be constraining given the present level of inflation, effectively making the new system inoperative, centered as it is on an open treasury bill auction. It will also impact adversely on the exchange system and capital flows. It continues to be the position of management and staff that if the market-related system is to be introduced, no interest rate ceiling be placed.

Steps ahead

For negotiations of a stand-by program to proceed speedily, it is clear that the authorities have to assemble an adequate package of essential information and take a number of policy measures and decisions in the period immediately ahead along the lines described above that would be suitable for a Fund supported program. Once this information has been assembled and the policy decisions made, the staff will be ready to go to Cairo to continue the negotiations on a stand-by arrangement and conclude hopefully before the end of the year. In the meantime, the staff is continuing with its technical work and is ready to assist the authorities as appropriate in close coordination with the Bank's SAL appraisal mission.

December 10, 1990

Mr. Enzo Grilli, Chief Economist, EAS

Ridwan Ali, Acting Director, AF6

34378

ZAMBIA: Briefing Notes for Mr. Conable's Lunch with Mr. Camdessus

1. At the lunch tomorrow, Mr. Camdessus may ask the Bank to put more IDA in Zambia to help put together the 1991 financing. We suggest that you not give any encouragement to this request. You may want to suggest that a more appropriate remedy to help the IMF to get current would be for the Fund to move the arrears freeze date.

Background

2. It has not been possible to clear Zambia's arrears to the Bank in 1990. The resources have not been available, largely because imports have been higher than expected (in part due to the oil crisis), as have debt service payments to private creditors, and there have been substantial shortfalls in donor disbursements. In addition, Zambia built up reserves during the year as a cushion against a possible downturn in copper receipts in 1991. These uses more than made up for the added copper revenues from the favorable prices in 1990. We are now trying to clear the arrears in February 1991.

3. Zambia's external financial requirements for 1991 are huge, in part because of the carryover of obligations due in 1990 (see attached table 2). This carryover includes the arrears and most scheduled obligations to the Bank and most of the second-half 1990 payments that were to be made to the Fund under the agreed 1990 program. In addition there are higher costs of oil to contend with, as well as the increased costs of imports and services generally due to the oil crisis. Also, copper exports are expected to fall substantially (about $160 million) from the 1990 level due to lower copper prices.

4. Consequently, an extraordinary effort will be required from the international community if the recently agreed PFP and 1990 program are to be adequately financed. Our estimates, agreed with the Zambian's and the IMF, show disbursements of $575 million required from the donors in 1991, of which about $130 million we assume will come from funds carried over into 1991 from undisbursed amounts in the 1990 program. The total donor shortfall in 1990 was about

$170 million, some of which cannot be carried forward due to donor constraints. In addition to this carry-forward, the donors will have to come up with approximately $450 million, which is about the same level that they had indicated for the 1990 program. We are meeting with the donors informally (without the Zambians) in Paris on Thursday, December 13, at which time we hope to get an indication as to whether this program is doable.

Issues

5. World Bank Financing Plan As regards the Bank's lending, we have assumed that we will commit the same amount of resources that we had promised in the program submitted to you last year, however the disbursements from those commitments will all be crowded into CY1991 (see attached tables on Bank financing). We will do the Economic Recovery Credit in late February and disburse the first tranche immediately (associated with the bridge financing) and the second tranche in about August/September. We would then take the second adjustment operation to the Board in September/October 1991 and disburse the first tranche in November. We would also do the full IDA reflows for the two fiscal years in this one calendar year (see table), along with the ongoing project disbursements. All told, we would be disbursing about $379 million during the year. Payments to the Bank, however, would total approximately $400 million in 1991, including $312 million in arrears and $88 million in scheduled debt service for the year. Consequently, the Bank would be negative by about $21 million in net transfer to Zambia for the year. Once the arrears are cleared early in the year, we would become positive; in the last three quarters we would disburse about $179 million and payments to the Bank would only be about $60 million. With the heavy front loading of our program, we would be only slightly positive in 1992 and 1993, with about a balance for the three years total (see the attached table on World Bank Financing. Most of the difference from our $50 million positive net transfer in last year's program is that the arrears and debt service to the Bank has increased due to exchange rate movements)

6. Cash Flow Although the overall balance of payments is covered in 1991 if the donors and the Bank are able to disburse the large amounts assumed from them, there is a large cash flow problem in the first quarter of the year that will have to be resolved. This cash shortfall, amounting to about $124 million, is due mainly to the payments to be made to the Bank (mainly arrears) and Fund during that quarter. Ways of covering this shortfall will be discussed in Paris this week.

7. IMF Support Group There has been talk in the IMF (at least the issue has been broached at the staff level)

about establishing a support group for Zambia; apparently they do not believe the CG framework is working. This is in most part due, I believe, to the shortfall in disbursements from donor pledges last year, which apparently the IMF thinks a support group could improve upon. Actually, since the program last year only got started in August, because the CG and Paris Club were in July, the donors did quite well (although they could and should have done better, in our view). There are indications that some of the donors have been dragging their feet when it comes to disbursing to Zambia. Some of them are not convinced that the Zambians are committed to the adjustment program or have the capacity to carry it out. And some want to see more of a move towards a multi-party system before they invest heavily in Zambia. In any event, it is difficult to see how a support group could do the intensive work required to ensure that the disbursements are actually made in a timely manner. One wonders, also, which donors might be willing to join a support group for the purpose of pressuring other donors to disburse. The IMF was not able to form a support group earlier to solve the arrears problem. Also, there is now in place in Zambia an external aid coordinator financed under TA (ex Bank staff), who should be able to facilitate the donor programs.

8. Burden Sharing With the IMF The IMF is beginning to ask the Bank to increase the IDA credit amounts. As you know, the Bank is already way above the IDA 9 allocation on the Zambia program and has made a special allocation ($67 million) in addition. If we were to do more, the added resources would imply a reduction in the IDA allocation to some other country. This would be hard to justify, though it may eventually have to be considered as part of an arrangement whereby all participants (Bank, Fund, Bilaterals, and Government) take additional steps to resolve the arrears problem.

9. Since the IMF will be taking large amounts ($514 million) out of Zambia during the 1991-93 period under the proposed financing plan, burden sharing considerations might suggest that they be asked to postpone their cutoff date on arrears to December 31, 1990, rather than the current June 30, 1990. This would reduce the financial requirements in 1991 by about $100 million and this amount could be included in the arrears to be covered by the "rights" approach.

The World Bank/IFC/MIGA
O F F I C E   M E M O R A N D U M

DATE: 12-Dec-1990 02:12am

TO: ENZO GRILLI (ENZO GRILLI @A1@VAX12)

FROM: Stephen Denning TEMP, (STEPHEN DENNING TEMP AT A1 AT P

EXT.:

SUBJECT: Zambia

Enzo,

We were looking over the briefing note on the Conable/Camdessus lunch, and there were one or two minor points.

On paragraph 2, we incorrectly stated that Zambia had built up reserves during 1990: in fact there has been a slight decline in reserves.

One additional cause of delay not mentioned in the briefing note is the shortfall in fiscal performance in the third quarter (particularly the increases in the salaries and housing allowances) which has been a principal cause in the IMF's slowness in reaching agreement with the Government on the macro picture. This agreement, which should have been reached in September, has only been completed in Deember -- and there is still the external funding gap in the first quarter of 1991 to be resolved. So to the extent that Mr. Camdessus complains of poor performance by the CG-style donor group, it should be kept in mind that the IMF has not yet been able to provide the group with final agreed tables for 1990 and 1991. Delay in reaching agreement with the Government on the macro picture have been definitely been a factor. Although tables will be distributed at tomorrow's donor meeting, the fact that the tables could not be sent out in advance will hamper the meeting in reaching any firm conclusions. Most, if not all, delegations will need to study the numbers and consult with their head offices.

Finally, the last sentence in para 8 about everyone having to do a bit more if we are going to clear the arrears perhaps should probably have figured in the summary in para 1. The IMF may be right that the CG-style group may not be the best forum to work out a new "deal" -- we may need discussions with a smaller group and at a higher political level. If donors were willing to form a support group, we should welcome this as a positive step: our sense from the donor representatives we deal with is that it will be even more difficult than it was in the past to establish a IMF support group.

Steve

THE WORLD BANK/IFC/MIGA
OFFICE MEMORANDUM

DATE: November 20, 1990

TO: Mr. Barber B. Conable

THROUGH: Mr. Moeen A. Qureshi, OPNSV MAQ

FROM: W.A. Wapenhans, EMNVP WAW

EXTENSION: 32676

SUBJECT: EGYPT: Energy Prices

1. In my memorandum of November 13 on the current IMF position on Egypt (Annex III), I mentioned that a separate note would follow comparing our own position on energy prices with the IMF approach. Please find below further details on this specific issue.

__Background__

2. In the context of the Fourth Power Project, it was agreed in March 1989 that the Government would undertake the pricing measures necessary to reach international prices for petroleum products and long-run marginal costs (LRMC) for electricity by no later than the end of FY95 (June 1995). Actual price increases to be implemented each year would depend on changes in oil prices in the world market and fluctuations in the exchange rate. The five year adjustment period was considered reasonable at the time because of the need to introduce a program which was politically sustainable and not overly disruptive economically. The Fund at that time did not oppose our position. They, however, did indicate that they would prefer an accelerated target date for reaching economic energy prices.

3. In March 1990, the SAL preparation mission sought Government agreement for an accelerated target date and a commitment on annual targets. The Government strongly rejected the accelerated schedule but, after consulting with President Mubarak, agreed to eliminate the difference between domestic and the world market prices in annual steps. For electricity, this implies an annual increase of about 10 percentage points, to move from 39 percent of LRMC achieved in mid-1989 to 100 percent by June 1995. For petroleum product prices, it implies an annual increase of about 11 percentage points, to move from the 34 percent of world market prices achieved in mid-1989 to 100 percent by June 1995. The nature of the agreement with the Government is such that local petroleum product prices are directly linked to published (Platt's) international prices for the Mediterranean market to ensure transparency and give a commercial focus to consumer products. To avoid the problem associated with the seasonal nature of petroleum product prices it was agreed that the average of the most recently published twelve month period would be used to determine "international price equivalents". During the President's Council meeting regarding Egypt's IDA eligibility, the

question of the pass through of world oil prices was raised. Given the definition of world prices according to our formula, fluctuations in world prices are directly passed on to the consumer within the limit of the agreed upon target that year. The impact of our definition is best demonstrated by the recent (post Aug. 2, 1990) acceleration in nominal price increases needed by the Government to meet the agreed upon target.

4. Given that there might be a substantial exchange rate adjustment as part of the stabilization and adjustment program supported by an IMF Stand-By and the SAL, we agreed on a two-step price adjustment prior to the SAL Board presentation. The first step, implemented in May 1990, brought average petroleum product prices to about 47 percent (exceeding the agreed target of 45 percent) of the estimated world prices for the previous year, based on an exchange rate of LE 2.72 (i.e. close to the actual Banks' Free Market rate in mid-1990). Over and above this understanding, in September, the Government announced a further 10 percent increase in gasoline prices, bringing the average level for all petroleum products to about 50 percent of world prices averaged over the 12 months preceding August 1990.[1] The second step would at least maintain the original target of 45 percent level but reflect any exchange rate adjustment and any movement in world market oil prices. Implementation of the second step and the Government decision on the next increase, to be taken by May 1991, would be conditions for Board presentation. Electricity prices were raised to 45 percent of LRMC by June 1990 and are to be further increased, based upon the prevailing exchange rate and interim inflation, to meet the agreed target of 47 percent before Board presentation; the slight shortfall compared to the longer-term trend (a 47 percent target instead of 49 percent), would be compensated for by the May 1991 adjustment (59 percent of LRMC would have to be agreed upon prior to release of the first tranche and implemented before the release of the second tranche). The Government has agreed to most of these proposals.

5. Subsequent to our agreements with the Government and, after having agreed to let the Bank take the lead on this issue, the Fund, without consulting us, informed the Government that due to the large budget deficit, the Fund would like the Government to reach international price levels by FY93 (June 1993) instead of the FY95 (June 1995) target date agreed with us. Until very recently, the Government rejected the FY93 target date maintaining that it was agreed that on energy prices the Fund should accept the agreement reached between the Bank and the Government. Despite the Government's views, <u>we have basically supported the Fund's position</u> in this regard and have on several occasions indicated to the

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<u>1</u>/ It should be noted that, if the percentage of world price equivalence is calculated on the basis of the <u>spot price</u> of petroleum products, rather than our approach of using a previous 12 months moving average, the weighted average of domestic energy prices would be about 25 percent based on current international prices.

Government that, unless they can come up with other means to reduce the budget deficit over the medium term, higher energy price increases than called for under the agreement with us would be necessary.

Current Status

6. The recent Fund mission has returned from Cairo (last week) without an agreement with the Government on an accelerated energy price adjustment target. The Government has undertaken to make energy price adjustments according to the target ratio agreed with us, i.e. 56% of international prices by May 1991. The Fund feels that the primary target in addressing Egypt's budget deficit is Egypt's energy subsidy. Hence, the Fund feels that the Government's proposed increase would be inadequate from this point of view. Reportedly, the Government indicated that while it is now ready to consider an acceleration of the path, it would object to the heavily front-loaded May 1991 energy price increase (projected by the Fund to be at least 115%) inherent in the accelerated schedule because under the current circumstances this would be politically and socially not feasible. The Fund staff have provided us with their calculations showing the projected weighted average nominal increases on energy prices and budget revenue impact. We have reviewed these projections and the underlying assumptions (for details see Annex I).

Conclusion

7. As noted above, we share the Fund's concerns about the need to move faster on energy prices for budget deficit reduction purposes, and have always indicated to the Egyptians that our position represented a minimum/floor which might have to be adjusted for fiscal reasons. We do have concerns, however, about the Fund's approach of reaching international equivalence by June 1993 with a strongly front-loaded increase in 1991, given: (i) the nominal average price increases which have been undertaken recently (44 percent in May 1990 and 10 percent in gasoline prices in September 1990); (ii) the prospects for substantial declines in energy prices after the Middle East crisis; and (iii) the inflows of exceptional funds to Egypt from the donors as a result of the crisis which could be partly used to offset the budget deficit. This situation may call for a reduction of the front-loading in the first year 1991 with higher increases in the second and outer years. In order to take into consideration the Fund's concerns, we propose that the Bank and Fund staff review the energy pricing issue in detail within the context of discussions on the overall macroeconomic and financial framework which have already begun and will continue over the next few weeks, with a view to hopefully reaching a mutually agreeable solution.

Cleared with and cc: Messrs. Bhargava, Voyadzis

cc: Mmes./Messrs. Chopra (o/r), Hasan (o/r), Zulfiqar, Tyler,
Stuggins, Bachmann, Hubert, Dinh, Giugale

i:energy.wp

Annex I

Comparison of Fund and Bank Energy Price Increase Positions

We find the Fund's assumption on crude oil prices (based on World Economic Outlook) significantly different from the ones used Bank-wide for macroeconomic projections. The following table compares the two crude oil price projections:

	1990	1991	1992	1993	1994	1995
Fund	22.4	26.1	24.3	25.3	26.3	27.3
Bank	23.2	23.8	18.5	18.5	20.2	22.0

There are two other differences in our respective approaches which should be noted. First, the Fund annual targets are derived from the revenue angle while the Bank's annual targets are based on a percentage of international target. Second, the Bank's targets include natural gas and electricity, whereas the Fund's projections cover petroleum products only.

For purposes of comparing the nominal energy price increases under a five year energy price adjustment period and a three year adjustment period, we have used the Fund's medium-term oil price forecast, actual petroleum product prices to the end of October 1990 and the Fund's exchange rate assumptions (REER + 5%)[2]. The projected nominal price increases and revenue impact are as follows:

	Nominal Increases		
	Five Year	Three Year	
Years	Bank Approach	Bank Approach	Fund Approach
1990 (Actual)	44%	44%	44%
1991a/	86%	115%	115%
1992	55%	65%	54%
1993	28%	33%	35%
1994	31%	15%	15%
1995	26%	12%	12%

a/ This increase may be taken in two steps, one prior to SAL Board presentation and the other in May 1991. In this event the two increases would be 26 and 48% under the five-year Bank approach, and 26 and 71% under the three-year Bank approach.

As you can see from Figure 1 (Annex II), in any of the three scenarios the 1991 increase is substantial (86-115%) and the subsequent increases are much less than for 1991 under any scenario.

2/ This is consistent with one of the four Fund scenarios found on page 7 of their October 26, 1990 note.

The Government is concerned about such a large increase coming on top of recent energy price increases (44% in May 1990 and 10% in gasoline prices in September 1990). The large increase is necessary due to a combined effect of the recent surge in oil prices and the proposed 20% devaluation of LE. Given the volatility of oil prices and uncertainties about inflation in Egypt, such projections are somewhat speculative. Our approach of agreeing on target ratios and leaving nominal increases to be determined annually on the basis of actual data avoids the need for such projections. It is also transparent, monitorable, and includes a pass through effect of international price volatility.

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: October 29, 1987

TO: Senior Management Council

FROM: Barber B. Conable BBC

EXTENSION: 72001

SUBJECT: Senior Management Retreat--Follow Up

1. Before leaving for Asia, I would like to reiterate some points on the major topics discussed during the Senior Management Retreat earlier this month. I enjoyed the frank exchange of views during the management retreat and hope we can continue to work together in the same spirit in the future. While a similar round of discussions or retreat of the Senior Management Council will be planned for February, I intend to follow up on the various issues along the following lines:

(a) Debt Management
The consensus of our discussions appeared to be to "muddle on", i.e. flexibly to adjust the full range of debt management techniques to specific country situations. I do, however, believe that we have not yet fully explored the implications of the debt crisis on the Bank's public posture about debt. For instance, it is obvious that for some countries, some forms of debt relief may become inevitable. The Bank, however, must worry about precedent, and must take all possible steps to retain the confidence of all participants in the debt drama if it is to optimize its catalytic role. I understand the full report of the Debt Task Force will be completed in late November. I plan to schedule a Policy Committee or Senior Management Council Meeting in December to discuss the report, including the above issues.

(b) Adjustment Lending
The importance of designing and implementing effective adjustment programs is well understood by all of us. While our discussion focused on the need to adjust our approaches and to be more realistic as to economic, political and social difficulties in individual countries, I feel we have not done justice to the questions raised by Mr. Rajagopalan. I am attaching his note and expect to discuss the issues raised by him again during the Policy Committee review of the draft Board paper on "Progress of Adjustment Lending" now scheduled for December.

(c) Poverty Alleviation
Poverty alleviation remains one of the central themes stressed again in my Annual Meetings speech. I expect to receive later this month from PPR, and review with the Policy Committee, the amended draft Board Paper on the

Poverty Task Force chaired by S. Husain. I understand the report defines the general framework and strategies for poverty alleviation and develops major operational recommendations. The task forces on "Poverty" and "Food Security in Africa" established last week and chaired by Mr. Karaosmanoglu and Mr. Jaycox respectively should develop more detailed operational recommendations. I would like to be briefed regularly on the progress of these Task Forces.

(d) Strategic Agenda
In this area, I am particularly concerned about the need to look beyond the tactical, operational short-, medium- and long-term problems and address the key strategic issues of our institution. Clearly, this concern cannot and should not be reserved to SPR but must involve all of us. I hope all of you will provide input during the next two months in the preparation and discussion of the scheduled policy paper on the Bank's Strategic Agenda. I expect PPR to circulate, upon my return, a draft approach paper.

2. The scope of our work is, however, more than ever conditioned by budgetary resources. The mid-term review and FY89 Budget Papers will demand the setting of priorities and difficult choices among worthy options. The manner in which we, the top management team of the Bank, will make such decisions and work together will set the tone for the entire institution.

3. Our discussion of the post-reorganization issues appeared to me particularly fruitful, and it was concluded that:

- Staff motivation and perception problems can be managed if taken seriously and addressed at all management levels. Rebuilding an efficient and humane Bank remains our top priority.

- Gradual adjustment and change will be needed.

- Structural problems (between TD and ED, Operations and PPR etc.) remain and must be dealt with over time. Clearly, our first priority must be to work with the chosen system first and limit any "mini-reorganizations" at this point in time.

4. The discussion raised a number of valid issues regarding the functioning of the Policy Committee, i.e. the need to:

- disseminate the agenda and Presidential decisions more widely;

- ensure that important "policy" issues surface in the Policy Committee and are being discussed following broad in-house exchange of views;

- limit excessive positioning and turf fighting by complexes.

I wish to reiterate that the Policy Committee is not a decision-making body. First, the Committee provides a forum for senior management discussion of important policy issues. In addition, however, I intend to use the Policy Committee to obtain advice and hear opinions of members not only on policy but also on operational, managerial and administrative issues. These two functions and purposes of the Policy Committee are inherently different. Preparation of Policy Committee Meetings, dissemination of discussions, decisions and the need for collaboration/consensus will, thus, reflect the Policy Committee Meeting objectives. Clearly, the Policy Committee is only one of many management tools which we must use collaboratively. The Policy Committee should not be forced to address issues appropriately resolved in a less formal manner. Staff is skeptical about the ability of Senior Management to address institutional issues in ways which will subordinate departmental concerns to the best interests of the Bank as a whole.

5. The perceived and actual quality of cooperation among the Senior Management Team is crucial for the success of the institution and our ability to inspire the confidence of staff, Borrowers and Shareholders. I hope we will be able to develop the right balance between professional excellence and effective management over the coming months.

cc: Messrs. Picciotto & Shakow

M:\WPMACROS\memolser

JOR

THE WORLD BANK/IFC/MIGA

OFFICE MEMORANDUM

DATE: September 10, 1990

TO: Mr. Enzo Grilli, Director, EAS

FROM: Ram Chopra, Director, EM3

EXTENSION: 32707

SUBJECT: Briefing for Messrs. Conable/Camdessus Luncheon

There are two topics that we would recommend Mr. Conable raise during the course of his forthcoming lunch with Mr. Camdessus: Egypt, which is the subject of a separate memorandum, and Jordan. In the case of Jordan, the most important point for Mr. Conable to raise is the necessity for the IMF to return to Jordan urgently to help the Government reconstruct the macroeconomic framework, which ought to be the basis for the Fund program for a new Stand-By for 1991 (the existing Stand-by was through 1990), as well as the second tranche release for the Bank's ongoing Industry and Trade Policy Adjustment Loan (ITPAL) and a number of proposed sector adjustment operations.

Even before the current crisis in the Middle East, Jordan's external debt situation was barely manageable and its financing requirements were large, although in the context of the adjustment program supported by the Bank and IMF a viable financing plan had been put together.

The crisis has sharply affected Jordan's balance of payments primarily because of an increase in the price of oil (Jordan had been receiving about half of its oil from Iraq at a substantial discount from the world price as an offset to enable Iraq to make outstanding debt service payments to Jordan) and a fall in remittances, exports to Iraq and non-factor services income (travel, tourism and operations of the Aqaba Port). As a result, the financing requirements for attaining a sustainable balance of payments will increase sharply, and Jordan's creditworthiness will be jeopardized unless significant additional financing can be raised on substantially concessional terms. Assuming a continuation of the present stalemate in the Gulf, the immediate balance of payments impact will be more than $1.2 billion on an annual basis; or, Jordan will need an additional $3.8 billion during 1990-92. (This would be in addition to the requirements of the pre-crisis financing plan designed to support the Government's adjustment program of $3.9 billion for 1990-92.) Even assuming that it were possible to secure 70% of the additional financing required on grant terms, Jordan's creditworthiness situation would still be very difficult: the debt service ratio would increase above 30% during 1993-97 until falling to about 29% in 1998. There is also expected to be a significant impact on Jordan's growth as a result of the crisis and a doubling of the current 15% unemployment rate as Jordanians return from working in the Gulf.

Because of Jordan's debt and current economic imbalances and given creditworthiness considerations, it is clear that Jordan's economy will not be viable unless (i) a strong adjustment program continues in place; (ii) most of the additional resources are raised on concessional terms; and (iii) Jordan is able to reschedule its debt at the best possible terms. In sum, although we can assist the Government by increasing the level of our lending, our support can only be marginal and our role mostly catalytic to raise the bulk of resources on concessional terms. More specifically, we could consider increasing the size of a number of operations in our lending program for Jordan (currently about $100 million/year on average), including three proposed quick-disbursing sector adjustment operations (in agriculture, energy and finance/trade). In addition, the proposed Social Development Project is designed to ease difficulties associated with rising poverty levels in areas and among population groups who have either not shared in past growth or are likely to be hard hit by aspects of Jordan's adjustment program and the current crisis. It should be noted, however, that the sector adjustment operations may create problems for the Jordanians under the present circumstances as they involve difficult policy issues.

Furthermore, in order to proceed with this program, as well as the release of the second tranche for the ITPAL, it is necessary to ensure that the macroeconomic framework is in line with the existing Letter of Development Policy. An IMF team was scheduled to visit Jordan in early September for an Article IV consultation, as well as to discuss the remaining four purchases (SDR 33.2 million) of the Stand-By arrangement concluded in parallel with the ITPAL. This mission has since been postponed due to security reasons. We understand that the IMF mission is now tentatively scheduled for some time in October after the Annual Meetings. In order for the Bank to be able to respond to the current crisis, it will be important for the IMF to visit Jordan as soon as possible after the Annual Meetings and for the Government, the IMF and the Bank to agree expeditiously on a new macroeconomic framework.

cc: Messrs. Wapenhans, Hasan, Tyler, Zulfiqar, Garg, Bhargava, Keare, Pommier

SChitale/RZaborski

M:\Robert\Grilli

Nigeria

IMF staff are completing a recommendation for an 18 month stand-by for Nigeria, but we understand there is opposition within the Fund to providing a stand-by because of the increase in oil prices. A decision not to proceed with an IMF stand-by would have dramatic repercussions on the country's negotiations with London and Paris Clubs and the consultative group; and, equally important, it would reduce the IMF's effectiveness in the joint role it has been playing with the Bank to strengthen macro-economic policies as we look toward civilian rule in the fall of 1992. The future path of oil prices is uncertain, and the expected increase in Nigeria's earnings may be short-lived. Even with higher oil revenues, Nigeria's per capita income is unlikely to rise beyond $350, and its needs remain enormous. Huge investments are required in infrastructure and in the social sectors, where expenditures have been deferred for a number of years, just to maintain basic services. Very sizeable investments are required to maintain current oil production levels, and substantial funds are required for debt servicing and possible buy-backs. It is important that the Bank and the Fund continue to collaborate closely in their support of Nigeria's adjustment program.

Mr. Stanton (CF4?)

THE WORLD BANK
Washington, D.C. 20433
U.S.A.

BARBER B. CONABLE
President

April 26, 1990

Mr. Michel Camdessus
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Michel:

The question of arrears, which will be discussed in the Interim Committee in the context of arrears to the IMF, is also to be raised in the Development Committee, although in a quite different context. Several countries are expected to note the problems of arrears to the Bank and the regional development banks, with the objective of getting us to organize a review of existing policies on provisioning, suspension of disbursement, etc.

Since the discussion in the Interim Committee is likely to lead to an inclusion in the communique reaffirming the Fund's preferred creditor status, as was done in the Berlin meeting, I would like to use the discussion in the Development Committee to obtain a parallel endorsement of the Bank's preferred creditor status. I attach a draft paragraph we are considering, which I would like to discuss at our lunch next week.

In the sometimes diffused discussion on the communique at the Development Committee luncheon, we may need your support to ensure that the concept is not diluted.

Sincerely,

Barber Conable

Attachment

Conable - Camdessus Lunch of August 29, 1989

Talking points on Country Cases

1. Cote d'Ivoire

[**Background:** The Operations Committee, on August 4, 1989, reviewed the CSP for Cote d'Ivoire and related lending strategy. An IMF representative was present. It found the CSP unclear on the links between the first stage of the adjustment program supported by the Fund and the second stage aimed at restoring growth and at bringing the country back to creditworthiness. Of the three SECALs proposed in the short term, the Committee felt that only the first should be sent to the Board (subject to a further review of the loan package) -the $150 million Agricultural SECAL- following the Fund management's approval of the letter of intent for the stand-by. The other two should await for a revision of the CSP and another review by the OC. The IMF reacted negatively, feeling that the Bank was having "second thoughts"].

We want to support the policy direction that the government there intends to follow, i.e. an adjustment path that involves major reduction in support prices for agricultural products and a substantial fiscal adjustment. Yet, this is only the first stage of an adjustment program that needs to be strengthened further through a devaluation or other internal adjustment measures that will bring about similar results in terms of ensuring competitiveness to exports and adequate incentives to the production of goods that can be exported. We are prepared to go ahead with an ASAL immediately. A donors' conference is also planned to put together a sizeable financing package for the Ivory Coast. Depending on its outcome and the performance of the Ivorian government on support prices for agricultural exports and other measures, we will proceed with additional loans. The exact amount of lending can be determined in the specific circumstances and be commensurate to the rate of progress with policies and donors' support.

2. Zambia

[**Background:** The Operations Committee reviewed the PFP on August 11, 1989 and felt that it was not clear enough in certain key areas (real exchange rate policy, interest rate objectives) and that it did not sufficiently emphasize that the present stage of the program was concerned with stabilization objectives, to be achieved as a precondition for further action aimed at ensuring medium-term growth].

We have revised and re-circulated the paper, after "clearing the changes with the IMF and the Government of Zambia, to the OC. The process is now back on track and the PFP is a better document than before, likely to give us less problems with our Board.

3. Sudan

[Background: The IMF staff was concerned that the Bank mission going to Sudan to prepare the CEM would "encroach" on the Fund's areas of primary responsibility. The IMF tried to predetermine the contents of our CEM, keeping it out of macro analysis and projections. The attempt was gently, but firmly resisted. A meeting of the staffs held on August 22 cleared up the matter to everybody's satisfaction].

We understand the Fund preoccupation with the Bank approaching the new government ahead of the Fund in connection with the CEM. Our staff will not give policy advise in the areas of Fund primary responsibility. The memorandum of understanding will be shown in draft to the IMF res. rep. and worked out taking into account his (and Headquarter's staff) reactions. We regret that the Fund could not make available staff for the Bank mission.

4. Congo

[Background: A letter of intent for a stand-by has been negotiated]

Matters have not progressed since your meetings with the French Government in Paris. The next opportunity to discuss the large official French debt to Congo may be the Annual Meetings. French authorities requested a meeting with us in August which could not take place in the absence of senior Regional staff, and are pushing to have the Bank resume policy lending to Congo. Their argument is that the Bank has reversed its position since SAL I second tranche release, in spite of the concessions they have already offered on official debt, on financing the gap and in contributing to buybacks of the relatively small amount of commercial bank debt. Our position is bound by the undertaking made to the Board at the time of second tranche release that further policy lending would be conditional upon restoring Congo's creditworthiness. The release of second tranche was based on the assessment of creditworthiness at the time SAL I was signed.

5. Somalia

[Background: The setting up of a Support Group was announced at the end of July].

We are supportive of the initiative taken by Italy to set-up a Support Group to ensure that arrears to IMF and other IFS are cleared and that a process is started to bring back Somalia to the point where it can have a new program with the Fund. We will coordinate our CG activities with the Support Group and support it through lending at the right time.

IMF

The World Bank
Washington, D.C. 20433
U.S.A.

Office of the President

June 30, 1989

Barber:

As you know, all of us, including Messrs. Stern and Vergin, were not particularly thrilled with signing the leter on Arrears to the Governors, which had been proposed by the IMF.

Mr. Stern, therefore, proposed the attached compromise. Mr. Laske said to Mr. Stern that Mr. Camdessus was rather disappointed that he could not announce to his Board on Monday the draft letter to be signed jointly by you and the MD (attached).

Apparently, Mr. Stern said that it would be impossible to agree to such a letter without further discussing informally this matter with the Board. We should not exclude that, after informal discussion in our Board, we would, at a later date, be able to sign such letter.

Mr. Stern was wondering whether you shouldn't mention to the Board, at the next Board Meeting (Thursday, July 6), that you have ongoing discussions with the Fund on the matter, i.e. the appropriate approach to the Governors regarding Arrears, and that you and Mr. Stern would explore informally with the EDs, in the next three weeks, the appropriate format.

Marianne

Managing Director's Statement Regarding Communications with Certain Fund Governors and Heads of International Financial Institutions with Respect to Members with Protracted Arrears to the Fund

The Six-Monthly Report on Overdue Financial Obligations to the Fund issued on June 28, 1989, which is on the agenda for preliminary discussion on July 5, contains a staff proposal regarding communications to certain Fund Governors and heads of international financial institutions with respect to members with protracted arrears to the Fund. I have discussed the matter of such communications with the President of the World Bank and we have agreed to keep each other fully informed. As the problem of arrears affects both our two institutions, the President and I have agreed that in case I decide to send ~~appropriate cases~~ a letter modeled on that contained in Attachment III, and modified as necessary to incorporate World Bank concerns, of the Six-Monthly Report ~~should be sent under the joint signature of the President and myself. Such joint communications would be drafted in collaboration with the World Bank and~~ we will advise the Bank well in advance to give them an opportunity to take parallel action. The letter would be sent, as appropriate, to Governors of both institutions as well as to heads of international financial institutions. ~~In any case in which the Bank did not wish to send a joint communication, the Fund could proceed to send its own communication as discussed in the Six-Monthly Report.~~

The World Bank
Washington, D.C. 20433
U.S.A.

Office of the President

URGENT

June 30, 1989

Mr. Ernest Stern

Attached are the incoming, which I presume you had, and Operations comments.

Barber was somewhat shocked by the note to the IMF Board but we had not seen the Annexes. Barber also feels that the reference to our not signing would be rather unfortunate.

He did not get the feeling from the lunch that this would lead to immediate action.

I called Laske's office and talked to the Division Chief concerned who had drafted the material and told him that we had substantive comments on both the letter adn the note to the Board and would be back to him right after lunch.

I presumed you would like to handle this matter.

Marianne Haug

Office Memorandum

To: Mr. Moeen Qureshi, Senior Vice President--Operations, IBRD

June 28, 1989

From: Gerhard Laske, Treasurer, IMF

Subject: Arrears--Communications with Governors and Other IFIs

It is my understanding from today's luncheon discussion of President Conable with the Managing Director that joint letters would be sent with the addressees and the countries concerned to be decided on a case-by-case basis. On July 5 the Fund's Executive Board will have a preliminary discussion of three papers relating to our arrears policy, with a formal discussion to follow one or two weeks later. One of these papers, the six-monthly report on overdue obligations to the Fund, the draft of which had been sent to Mr. Grilli for comment, discusses these communications in terms of letters signed by the Managing Director only. To inform our Board of the understanding reached today, the Managing Director would circulate to Executive Directors the attached statement, which should be issued not later than Monday, July 3. I would be grateful for any comments you may wish to have before c.o.b. tomorrow, June 29.

Attachment

cc: The Managing Director
The Deputy Managing Director
Mr. Whittome
Mr. H. Simpson

Managing Director's Statement Regarding
Communications with Certain Fund
Governors and Heads of International
Financial Institutions with Respect
to Members with Protracted Arrears to the Fund

The Six-Monthly Report on Overdue Financial Obligations to the Fund issued on June 28, 1989, which is on the agenda for preliminary discussion on July 5, contains a staff proposal regarding communications to certain Fund Governors and heads of international financial institutions with respect to members with protracted arrears to the Fund. I have discussed the matter of such communications with the President of the World Bank. As the problem of arrears affects both our two institutions, the President and I have agreed that in appropriate cases a letter modeled on that contained in Attachment III of the Six-Monthly Report should be sent under the joint signature of the President and myself. Such joint communications would be drafted in collaboration with the World Bank and would be sent, as appropriate, to Governors of both institutions as well as to heads of international financial institutions. In any case in which the Bank did not wish to send a joint communication, the Fund could proceed to send its own communication as discussed in the Six-Monthly Report.

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: March 28, 1989

TO: Mr. Barber Conable
Through: Mr. Moeen A. Qureshi
FROM: Edward V. K. Jaycox, Vice President, Africa Region

EXTENSION: 34637

SUBJECT: IMF Participation in the SPA

1. When the SPA was launched in December 1987, we all counted heavily on the IMF's SAF and ESAF programs to help meet the resource requirements of the low-income, debt-distressed countries in Sub-Saharan Africa. It was with this expectation, I believe, that the donor countries committed almost $8 billion (SDR 6 billion) to the Fund's ESAF. These more concessional IMF resources are particularly critical for the SPA group of African countries, because repayments from the group of 19 SPA-eligible countries to the IMF over the 1988-90 period will total $3.1 billion.

2. In light of the above, we are disappointed to observe the slow pace of commitment and disbursement of IMF resources since the initiation of the SPA program, especially for the ESAF. On the basis of our present estimates of actual and likely IMF commitments from all sources, including ESAF, over 1988-90, total outflows from the IMF to these 19 countries will be only $2.7 billion (including $700 million of hard money not really suited to the African financial situation), resulting in a negative net transfer to the IMF of $400 million. In the case of the ESAF, we are presently estimating 1988-90 disbursements at only $1.5 billion, as contrasted with an amount of $2.9 billion which would be available if all countries were to receive the norm allocation of 150% of quota during this period.

3. This situation is of particular concern to us because donor commitments to date under the SPA program to the 19 currently eligible countries have exhausted all but some $700 million of the original amount of $6.4 billion which was pledged for cofinancing under the SPA. With three more countries likely to achieve eligibility in the near future, whose financing gap is in the neighborhood of $1 billion, we will be reporting to the donors at the April SPA meeting that no "headroom" remains in funds for quick disbursing assistance to SPA countries. Under these circumstances, the discussion will inevitably turn to other sources of gap-filling finance, for which the ESAF is the largest pool of resources still potentially available. We believe that the slow pace of commitment and disbursement of the SAF and ESAF could prove extremely embarrassing to the IMF when it comes up in the SPA meeting. We have already discussed this matter with the management of the Africa Department of the IMF. We bring it to your attention at this time in case you wish to brief Mr. Camdessus prior to the SPA meeting on April 6-7.

FSO'Brien:mny

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE : March 21, 1989

TO : Mr. Barber B. Conable

FROM : Moeen A. Qureshi MAQ

SUBJECT: Bank-Fund Differences on Country Strategies in Africa

1. Differences between the IMF and the Bank on individual country strategies arise with some regularity in the course of the PFP preparation and negotiation, and there are many occasions when, in the interest of collaboration with the Fund and in a spirit of compromise we accept positions and approaches that we would not have chosen.

2. The most important area of disagreement is that of the quantitative macro-economic framework. The IMF initially prepares scenarios that Bank staff often considers insufficiently growth-oriented. Per capita income growth is generally too low or even declining. This usually reflects the Fund's concern with reducing rapidly existing fiscal and external gaps at the cost of low income growth, and in part more pessimistic estimates of the amount of available external finance. Our staff also feel that the Fund is unduly rigid in its insistence in SAF and ESAF programs on maintaining ceilings on government spending and fiscal deficits, even if the external resources do become available on a larger scale than originally programmed, and even though these resources are highly concessional. For instance, in the case of Togo, Fund staff proposed in the Letter of Intent a reduction in banking system's credit to the Government commensurate with any external financing in excess of amounts foreseen in the 1989 program. Similarly, in the case of Malawi, the IMF has been unwilling to accept Bank estimates of external resource availability, despite the fact that Malawi has been receiving excellent support under the SPA.

3. Different macro-economic paths could be reflected in alternative scenarios in PFPs. Our Board has often expressed its preference for more than one macro scenario in PFPs. However, the Fund's refusal to allow for a change of policy in its own programs when more resources are forthcoming means that in practice Bank's alternative scenarios never have a real chance. For this reason it becomes sometimes necessary for us to hold out for a compromise scenario, even if this means delaying the PFP. This has been done, for instance, in the case of Madagascar, where negotiations, started in October 1988, were only just recently concluded after a second joint mission to the field produced a compromise scenario acceptable to the Bank.

4. Another common area of disagreement is that of fiscal policy. At the most general level, differences on the degree of fiscal restraint required are directly linked to different perspectives on the overall macro-economic frameworks. The differences over macro-economic strategy in Malawi, for instance, have led to intense arguments over the desirable level of the fiscal deficit. Over the past few months, a compromise has gradually emerged, leaving a discrepancy of only about 0.5% of GDP between the Bank and the

Fund's targets (roughly at 10% differences), as the Fund now accepts significantly higher GDP growth targets and the Bank reassessed its fiscal targets in the light of higher than expected inflation and private sector absorption.

5. At the level of individual budgetary variables, the most contentious items are the size of the public investment program, the size of the civil service wage bill, and the size of recurrent expenditures on materials and supplies. Differences on the size of the civil service wage bill have arisen in the case of Ghana. The Fund is currently advocating an increase of 8% while the Bank suggests an across-the-board increase of 10% plus an increase in wage differentials to attract better qualified senior-level staff). The overall impact on the size of the wage bill is of the order of 12%, or about 0.5% of GDP and total deficit to GDP ratios remain within the previously established targets. In these circumstances the Bank feels it is important to make a start on the decompression of salary scales in the Ghanaian civil service. The Fund does not. I have held up the presentation of a SAL proposal to the Board for the last three weeks in order to allow the Fund to discuss this issue with the Ghanaian authorities and to resolve it.

6. Differences about the size of the public investment program are usually related to divergent views on external financing availabilities. The Bank is currently trying to resolve a problem in this area in connection with the Togo PFP/ESAF program, which, as mentioned above, would prevent the use of additional concessional external resource to finance public investment above the program ceilings. The over-riding concern of the IMF appears to be to reduce the size of the fiscal gap and the level of outstanding external debt. Bank staff feels that in low-income African countries where external grant resources can be employed for productive purposes without exacerbating the debt service burden, they should be used to the maximum extent possible in order to help expand production and future debt-servicing capacity.

B

The World Bank
Washington, D.C. 20433
U.S.A.

MOEEN A. QURESHI
Senior Vice President, Operations

June 14, 1988

Mr. Conable:

I do not know what Michel Camdessus wishes to raise with you but some update is provided below on certain countries and issues that could figure in your discussions:

Zaire:

Please see the attached note on Zaire from the Region. The basic strategy now should be for us and the IMF to join forces, and try to have coordinated signals sent from the governments of the U.S., Belgium, and France to President Mobutu that he is not going to get get away with non-compliance with the conditions of the IMF/Bank Agreements. We should stand firm and Mobutu must understand that he cannot get much external support without prior agreement with the Bank and the Fund. We have initiated some contacts with the State Department and other parts of the US. Administration (and I hope you will mention this matter to Secretary Baker). You should discuss with Michel Camdessus how we can coordinate our efforts. He could assist in getting the Europeans to send the right signals.

Ivory Coast:

As you know we are not proceeding with the Agricultural and Energy Sector loans to the Ivory Coast this fiscal year ($150 million and $100 million respectively). There is $400-500 million of cofinancing associated with these loans.

The basic issue is that the fiscal deficit in the Ivory Coast is of the order of about CFA 150 billion ($500 million equivalent), after including all prospective loans from the Fund and the Bank, and commerical bank rescheduling. We have asked the Ivorians to reduce the deficit by about one-half through a reduction in the Producer prices for coffee and cocoa, with a sharper reduction in the cocoa price so that it is some 20-25% lower than the coffee price. The Fund is not so committed to achieving a differential between coffee and cocoa prices, but does support an overall reduction in Producer prices to achieve the reduction in the fiscal deficit.

I had heard that Houphouet-Boigny intented to approach President Mitterrand with a view to getting him to intercede with the Bank and the Fund. During my last visit to Paris, I requested some friends in the Elysee to brief President Mitterrand fully on this issue. I believe this has been done.

Our strategy in the case of the Ivory Coast is to stand firm on a reduction in the fiscal deficit to a more manageable size. If the Ivory Coast agrees to do this, we would then be prepared to call a Donors' Meeting to discuss how the balance of the gap could be met.

Cameroon:

Both the Fund and we are actively engaged in Cameroon in an attempt to put together a structural adjustment program. President Paul Biya of Cameroon seems to be providing strong leadership and the prospects look good that a sound program can be devised. The financial crisis in Cameroon has grown to very large proportions and the issue here is to capitalize on the good intentions of the President and not to try to put together a program of such heroic dimensions that it is not implemented.

Argentina:

Argentina is expected to present a medium-term structural adjustment program (which they have prepared in consultation with the Bank) to the Fund, Bank, and the U.S. Treasury, within the next few days.

This will also provide an opportunity for the Argentinians to discuss some short-term fiscal and macro policy targets with the Fund. The medium term structural program indicates that the Argentinians will present a separate fiscal and monetary plan to supplement the medium term program. This will have to be negotiated with the Fund.

As soon as the two Programs are submitted for discussion, we and the Fund should try to see whether, and to what extent, we can join in supporting the Program.

John Reed has already mentioned to me that he would be prepared to take a leadership role in organizing the commercial banks for new money for Argentina if both of us can agree with Argentina on a satisfactory adjustment program. He would also like us to get Preston (Morgan) into the act.

Moeen

Attachment

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THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: June 14, 1988

TO: Mr. Moeen Qureshi, Senior Vice President, Operations
THROUGH: Mr. E.V.K. Jaycox, Vice President, Africa
FROM: Paul Isenman, Director, AF3

6/14

EXTENSION: 34380

SUBJECT: Zaïre: Follow-up to President Mobutu's Visit

As you requested, the following paragraph summarizes the follow-up to President Mobutu's visit.

After your meeting with President Mobutu, there were several other meetings with the Zaïre delegation. Not a great deal of progress was made, but clearly President Mobutu is much more intransigent than his ministers are. The question is how much influence they will have in explaining to him the realities of life. Also President Mobutu had an unscheduled last-minute meeting with Mr. Ouattara (who had been out of town when President Mobutu met Mr. Camdessus) where Mr. Ouattara repeated the message of the need for action. The next step is a joint Bank-Fund mission to conclude PFP negotiations in Kinshasa next week. For us the next steps would be release of our second tranche of the SAL and advancing work on the energy and financial sector credits. The toughest issue in substance is the 1988 budget deficit cuts which must precede agreement with the Fund on the SAF. The most emotionally charged issue is the second phase of the Mobayi Hydroelectric project; we are asking President Mobutu to commit himself to respect the results of the joint economic study we agreed on and to freeze work on Phase II in the interim.

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DECLASSIFIED
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CONFIDENTIAL

DATE: May 11, 1988

TO: Mr. Barber B. Conable
Through: Mr. Moeen A. Qureshi

FROM: S. Shahid Husain

EXTENSION: 69378

SUBJECT: **ARGENTINA: Brief for your Luncheon with Mr. Camdessus on May 12, 1988**

Political

1. The recent rise in popularity of the Peronist Governor, Mr. Menem as presidential candidate and competitor of Mr. Cafiero, has substantially complicated the political scene. Mr. Menem is a more traditional Peronist with strong populist tendencies and his rising popularity appears to be driving Mr. Cafiero to the left which substantially reduces his power to support President Alfonsin in current economic policies. The situation will clarify on June 28 when a Peronist Party Congress will choose its presidential candidate. The date for popular election has been set for May 28, 1989 and the transfer of Government will take place on October 12, 1989.

Economic Situation

2. The inflation rate has accelerated to around 15% per month during the last three months. The April rate was 17.3%. This is further eroding the domestic credibility of the Economic Team and calls for their urgent replacement have reappeared in the press. However, President Alfonsin has continued to support Economic Minister Sourrouille and his team. Pressure to change the team may increase in the weeks/months ahead if inflation does not come down. Such pressure may also come from Mr. Angeloz, presidential candidate for the Radical Party (Alfonsin's party) whose chances to win the elections in May of next year are thought to be declining if there is no progress on the economic side.

3. After IMF third tranche and associated commercial bank tranche disbursements in March, which permitted Argentina to be current on commercial banks debt service for a few weeks, arrears with commercial banks have reappeared in April, as was expected.

4. Most economic projections envisage a sharp improvement in the trade balance (to $2 billion plus) for 1988 and beyond. However, current account deficits remain high ($2.5 to $3 billion) for several years. The unfinanced gap is estimated at $1.5 billion p.a. plus for the next two to three years.

5. In a major speech to the nation on Sunday, May 1, President Alfonsin recommitted his Government to medium and long-term economic adjustment and to a reduction in the fiscal deficit in 1988. The speech was short on specifics and it is perhaps symptomatic of the current semi-paralysis of economic decision making in Argentina, that the May 1 speech has so far not been followed by the announcement of specific measures. Expenditure reductions, particularly in regard to nuclear power investment and transfer of the capital to Viedma, if implemented promptly, could help to reduce inflation, and improve the climate for negotiations with commercial banks.

Relations with the Commercial Banks

6. Argentina is currently preparing a new statement on the country's medium term structural adjustment program. This program would be submitted to the World Bank and the Fund for review in the second half of May. Negotiations with the commercial banks are expected to start late May or early June. John Reed of City Bank visited Buenos Aires earlier this week to make a personal assessment of the economic and political situation. I gather (from Argentine sources) that he did not leave the Argentines with much hope that a satisfactory (from Argentina's point of view) medium-term financing agreement with the commercial banks would be worked out any time soon. A major crisis between Argentina and her commercial banks creditors could develop soon. There is still US$150 million to be disbursed as the final tranche of the US$1.95 billion new money package of 1987. But the commercial banks have indicated to Argentina that they will not disburse unless Argentina is current on interest payments. Arrears are already significantly in excess of US$150 million and Argentina's foreign exchange reserves are practically non-existent. Most of Argentina's $36 billion commercial bank debt is concentrated in 40 to 50 banks. Many of those have a relatively large exposure in Argentina.

7. If a satisfactory new financing arrangement for 1988 and 1989 between Argentina and the commercial banks cannot be worked out, President Alfonsin will be strongly tempted, for domestic political reasons, to announce unilateral action on the debt. Leading opposition members, including Cafiero, have been calling for a debt moratorium for some time.

Relations with the World Bank

8. We are actively supporting the Government in the preparation of its medium term adjustment plan. I will be visiting Argentina next week.

Relations with the IMF

9. Officially the Government is maintaining good relations and open communications with the IMF but it is evident that relations have become strained during the past months, in particular, over the tightening of fiscal adjustment targets to a 2% deficit in 1988 and zero percent in 1989. The Government has made it clear that it cannot apply for an EFF because of domestic political opposition to any commitment on fiscal targets beyond the end of this Administration. We understand that the Government is planning to send a mission to Washington at the end of May. An IMF mission to Argentina is planned for the latter part of this month to review progress under the current Standby, in particular conditions for fourth and final tranche release (SDR 165 million).

cc: Messrs. Bock, Quijano, Selowsky, Eigen (o/r), Tyler, McCarthy, Newfarmer, Moreau, Nissenbaum, Ebiri

PBottelier:mac

BRIEFING NOTE

COTE D'IVOIRE

The financial package negotiated last fall is now complete. Paris and London Club rescheduling are in place. However, both Bank and Fund staff are concerned about the deteriorating situation largely due to falling cocoa prices. Missions from both institutions are in the field, and while final figures are not yet available, the order of magnitude of the gap in 1988 remaining after our projected operations are in place could reach $350-400 million. This requires measures by the Ivorians to:

(i) reduce their deficits, especially the CaisseStab deficits, preferably by reducing the cocoa price while protecting farmer incomes by ensuring adequate incentives in other crops especially coffee;

(ii) reduce other expenses, e.g., the presidential account and tighten on all areas of public sector inefficiencies;

(iii) increase government revenues without destroying incentives for private sector investment.

If we can reach agreement with Cote d'Ivoire on these measures, we could promptly move forward with our two big operations (Agricultural and Energy Sector loans) and hold a donors meeting to finance the remaining gap. These two operations are critical because of the huge co-financing tied to our loans (see attached table). Together they represent about $750 million of which the first tranche(s) would disburse about $270 million in 1988. We would be ready to go to the Board with the Agricultural loan in June and the Energy loan in July.

The key issue remaining is to provide an adequate incentive framework for farmers to reduce cocoa production and diversify into other crops, especially coffee where output is declining to below the Ivorian quota. Coffee is also a natural substitute for cocoa. This in our judgement requires a differential in prices paid to farmers in favor of coffee.

The President is adamant to keep coffee-cocoa prices equal, and may therefore reduce them equally in response to the severe financial pressures. This would satisfy both the IMF and France. It would not satisfy us. We should insist on the introduction of a differential and accept, only as a last resort, an indirect differential (e.g., through input subsidies and quality premia). This position may be a major source of friction between the Bank and the other parties involved, but we believe that the differential is essential for the medium term, regardless of the financial situation.

We recommend, therefore, to underline to the IMF that:

(i) We support measures that improve the financial situation, including a reduction of CaisseStab deficits by about CFAF 60 billion ($220 million) on an annualized basis.

(ii) We are discussing a coffee/cocoa differential of about 25% but would settle for 15% on the base price plus a quality premium (which would apply only to about 10% of the coffee crop).

(iii) In cutting public expenses it is essential to protect the export premia and other private investment incentives.

(iv) Public investments should be protected only if they are high priority, high rate-of-return investments.

Annex

	$ million			
	Agricultural Sector Loan		Energy Sector Loan	
	Total	1st tranche	Total	1st tranche
World Bank	150	50	100	30
AfDB	140	45	150	50
Japan	54	18	50	15
France	40	40	30	10
EIB	-	-	30	10
	384	153	360	115

Total commitments = $744 million

1st tranche
(disbursed in 1988) = $268 million

May 12, 1988

Mr. Conable:

At the Camdessus lunch today, one of the things you are discussing is each of your trips to Europe in preparation for the Annual Meetings. For this reason, I thought it might be useful for you to be aware of the kinds of things scheduled for your upcoming visit to Rome and Bonn/Hamburg:

Rome - You will have an audience with the Pope to discuss development/poverty issues of mutual interest; working lunch with Bank of Italy; meetings with Ministers; press encounter.

Bonn - You will meet with representatives of Protextant and Catholic Churches and members of NGOs; speak to group from development aid agencies and NGOs; meetings with Ministers; press encounter.

Hamburg - You will have meetings with press; political leaders; and speak to group of key business leaders.

In July you will be going to Spain and Switzerland for similar activities, though specifics are not yet known.

Linda

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: May 11, 1988

TO: Mr. Barber B. Conable

FROM: Moeen A. Qureshi

EXTENSION: 73665

SUBJECT: Issues that emerged from the IMF Board's Discussion on PFPs

1. At the May 4 meeting of the IMF Board, two main impressions emerged during the discussion of the joint Bank-Fund Report on the recent Seminar on PFPs and aid coordination. The first has to do with the impression conveyed by the MD and the IMF Staff, of the Fund as the institution insisting on hard conditionality (as opposed to the Bank that would tend instead to be more "growth oriented"). The second relates to the reiteration by the MD of the view, originally expressed by Mr. de Groote, that the unwillingness of the Bank to establish a formal link between PFPs and adjustment lending poses a potential serious problem for the Fund (what to do in Bank "absentia").

2. As a consequence the MD underlined in his conclusions (a) the possibility that the IMF may be compelled to assume a greater control of the PFP process, and (b) the need to think about a possible extension of the PFP process, or something analogous to it, to middle income countries (where the broad issues of Bank-Fund collaboration are similar in substance).

3. It appears to me necesasry, under the circumstances, that we try to dispel any impression that the Bank might represent the "soft" option in conditionality terms. One way to attain this result is to make clear that the Bank Board's refusal to formally link adjustment lending to the PFPs is in no sense an attempt to be less conditional in our lending to low-income countries. The opposite is, in fact, the case because our procedure allows us to obtain from countries a much more precise and up-to-date conditionality than that possible through PFPs (which are broad in scope and not monitorable).

4. Other possible points of difference of views or emphasis in our relations with the IMF in the PFP process have to do: (a) with the long term perspective that our Board wishes to see built into the PFPs (and that the Fund Board does not consider necessary in these documents), and (b) with our desire to have alternative economic scenarios included in PFPs, especially when, on the basis of available external finance, attainable growth is deemed insufficient and unsustainable (alternatives that the IMF Staff and Board wish to avoid or to "attribute" to the growth bias of the Bank). On both points, we should continue to take the position that specific country situations be dealt with pragmatically and that PFPs should reflect, to the extent possible, the diversities of problems and prospects faced by the various countries.

cc: Mr. Dubey

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

CONFIDENTIAL

DATE: February 11, 1988

TO: Mr. Barber B. Conable

FROM: Timothy T. Thahane [signature]

EXTENSION: 72185

SUBJECT: Possibility of Joint IBRD/IMF Boards Briefing Session on PFPs and Aid Coordination

1. I have canvassed our Executive Directors on the possibility of holding a joint session of the Bank and Fund Boards in order to be briefed by the Staff on the outcome of the Seminar on Policy Framework Papers and Aid Coordination in Low Income Countries, which was held on February 8-9, 1988 in the IMF Meeting Hall.

2. Messrs. Boehmer and Carling had no objection, but questioned the usefulness of such a briefing since Executive Directors' offices were invited to participate in the Seminar. Messrs. Faint and Potter were strongly supportive of the idea. Mr. Arlman was not enthusiastic and also questioned the usefulness of such a briefing. Madame Ploix preferred a written report to be circulated to the respective Boards. Mr. Ishikawa had no objection in principle, but needed assurance that such a meeting would be workable and had support of the majority of Board members. The Part II Executive Directors were strongly opposed to such a joint briefing. They preferred separate briefing by the respective Staffs of the two institutions, if the Management considered the outcome important and significant. They also pointed out that the Bank Board is due to discuss PFPs in the Board in the near future and any useful results from the Seminar could be incorporated in the papers for that meeting.

cc: Mr. Qureshi

Bill -
Would you check w/ Managing Director's office & find what results of his canvass were? We should report to Keating (or Treasury) results of the joint canvass -
B.C.

Proposed Donors' Meeting on PFPs

The Fund proposes a joint Fund/Bank meeting with donor institutions in Washington on November 16-17 to promote the Policy Framework Papers (PFPs) as major aid mobilization instrument. While the meeting could also be understood as a follow up to the July 10-11 initiative for low-income debt-distressed African countries, it is not exactly in line with the discussions at the July meeting as reflected in the Chairman's summary. The Bank, in turn, plans a follow-up meeting immediately after the high-level DAC meeting in Paris at the beginning of December, focusing on an agenda for the debt-distressed countries.

In a recent meeting, Messrs. Qureshi and Jaycox discussed the Bank's views on the proposed donors' meeting with Mr. Whittome. During the meeting, the Fund gave the proposed November meeting more of a PR character while conceding the need for more specific follow up on the debt initiative. The Bank did not object to a PR type meeting in November and Bank and Fund staff will meet shortly to sort out some of the PFP related issues in preparation of the November meeting.

With the proposed November donors' meeting, the Fund is also pursuing a hidden agenda to ascertain itself as the lead institution for adjustment lending, to some extent supported by the U.S. government's advocacy of a wider use of the PFPs for the planning of IDA lending and the mobilization of additional resources from other donors. However, even with a tripling of SAF resources the Fund is unlikely to become the most important source of funds and its staff is clearly not well equipped to perform the analytical work needed for the design of longer-term structural adjustment and development programs.

You may wish to confirm the Bank's agreement with the proposed November 16-17 PR meeting with donor institutions, while maintaining the need for specific follow up on the debt initiative for low-income African countries in December. You may also wish to stress that the PFP process should be continued and strengthened as a cooperative effort between the Bank and the Fund, without formally linking IDA operations to PFPs and without giving up the well established process of aid coordination through Bank chaired CGs.

JAMAICA

The Bank is presently completing a medium-term framework paper for Jamaica which outlines the economic policy and prospects over the next three years, together with the attendant financing requirements. This is to be presented to a special subgroup meeting for Jamaica in early December. Bank staff have been working closely with the Fund's staff on the projections. While not yet finalized, it is evident that there will be large financing gaps. The IMF will have to assist in filling these gaps.

We recognize that the Fund's exposure is high (over 300% of quota); however, the scheduled repurchases over the next three years are large and cannot be readily achieved without causing considerable difficulty for the Jamaican economy at a time when it is beginning to register positive growth. Therefore, we hope that the IMF would be prepared to moderate the pace of decline of their exposure over the next three years.

In addition, the Bank will, during November, seek to mobilize continued support from traditional donors and new donors. This is to be partly accomplished by visits to a number of bilateral donors, including Japan. We believe that the success of such an undertaking will be crucially dependent upon the IMF's willingness to undertake further programs throughout the medium-term programming period.

COTE D'IVOIRE

1. Considerable progress has been made between Côte d'Ivoire and the IMF on a letter of intent. The main issues were:

(a) government salary increases, which will probably be limited to 1.5-3.0 percent in 1988;
(b) public investment program, on which it has been agreed that the projected level could be exceeded if the Ivorians can identify and implement suitable projects with a high rate of return that fit in with the country's development strategy and can be financed on attractive terms;
(c) agricultural producer prices, which the IMF has agreed will not be lowered (present rates entail a government subsidy for some crops);
(d) recurrent government expenditures, which will be limited according to an agreed program.

2. As it now stands, the program described in the letter of intent would be in conformity with the Ivorian and World Bank objectives of restoring growth.

3. At issue remains the debt strategy. We support the government's position that it does not want to borrow to pay debt service, but would rather restructure the debt in such a way as to reduce over the medium term the size of the debt and to improve creditworthiness indicators (debt/GDP ratio and debt service ratio). The IMF is concerned about delays that this approach may entail and is pressing for a conventional debt restructuring package.

4. A conventional Paris and London Clubs restructuring agreement, even on relatively favorable repayment terms of say, 20 years including 10 years of grace would translate into a substantial increase in the stock of debt and even more crushing interest payments which already amount to CFA 200 billion (US$600 million) or 6 percent of GDP.

5. Consequently, to release the resources necessary for growth and to improve creditworthiness prospects, either the stock of debt is reduced through such schemes as debt/equity swaps or the interest burden is reduced through exit bonds and some other concessions on the level of interest payments. The government is requesting both a reduction in the stock of debt and a concession on the amount of interest payments in 1987/88.

6. Our expectation about the timetable is:

Finalization of Ivorian proposals to banks	end October
Preliminary negotiations with banks	November
Finalization of the IMF letter of intent	end November
Fund Board discussion and Paris Club	late December
London Club final negotiations, agreement	December/January

GOVERNMENT PROPOSAL ON FORTHCOMING DEBT NEGOTIATIONS

(London Club)

The Côte d'Ivoire Government's aide-mémoire of August 1987 to the London Club very clearly identifies the real sources of Côte d'Ivoire's current financial and economic difficulties, sets out the required adjustment measures and stresses the need for Côte d'Ivoire to restore economic growth in order to meet its obligations. The Government therefore considers that the aide-mémoire should be used as the basic document for all future negotiations.

The Government realizes that in the absence of any foreseeable improvement in the world economic environment, Côte d'Ivoire's economic and financial situation is likely to continue to deteriorate in the medium term with negative consequences for both per capita incomes and the nation's ability to meet its obligations.

The Government therefore proposes to set up a comprehensive program aimed at a sustainable recovery of economic growth. This is the only way in which internal balance can be restored and the external debt situation made viable. The Program would be based on:

(i) an appropriate public investment policy geared to support economic activity and help ensure macro-economic equilibria;

(ii) improvement of incentives to economic growth and increased competitiveness of the country's economy;

(iii) mobilization of internal financial resources to reduce reliance on external financing and promote the productive use of domestic savings;

(iv) restructuring of the external debt to free up necessary medium term resources while improving the country's long term capacity to service its debt.

Côte d'Ivoire has requested the international financial community's support for this program designed to bring about satisfactory growth in per capita incomes over the medium term.

GOVERNMENT PROPOSAL ON RESTRUCTURING THE EXTERNAL PUBLIC DEBT

This proposal is made in the context of the program outlined above and requests financial support from commercial banks as a complement to that given by multilateral and government agencies. Its objectives are as follows:

(i) compatibility between long term economic growth objectives and external financing requirements;

(ii) a reduction, if possible a sustained reduction, in the debt/GNP and debt service/export revenue ratios;

(iii) a reduction in interest charges;

(iv) maintenance of Côte d'Ivoire's credibility on the international market.

These objectives are crucial since the capacity of other partners to assist Côte d'Ivoire's growth and adjustment efforts with financial support will depend on their realization.

MAIN FEATURES OF THE PROPOSAL

(a) Definition of the debt to be restructured:

- Postponement of the cut off date from December 1, 1983 to end December 1986.

- Extension of the rescheduling period from 4 to 5 years (1987-1991).

(b) Terms:

- Stretching the payback terms to 20 years with 10 years grace.

- Eliminating the degressive rescheduling formula and accepting 100% rescheduling of principal.

- Reduction of interest rates to LIBOR + 13/16; part of the interest payments would be made in the form of 6 year interest-free notes with the possibility of conversion into equity.

- changing the periodicity of payments of interest from six months to one year.

- a contingent financial facility: Côte d'Ivoire's economic adjustment program is based on assumptions on prices and quantities of export commodity flows which have been established with the assistance of multilateral agencies. The prospects for adjustment, however, are fundamentally affected by fluctuations in revenue which are totally outside the control of the Ivorian authorities. Côte d'Ivoire's creditors are therefore requested to safeguard the conditions necessary for the economic recovery program through a contingent financial facility which would compensate for reductions in projected export revenues if world prices were to drop below a certain minimum level. Any increase in world prices above a fixed ceiling would trigger pre-payment of an amount proportional to the increased revenue.

Exit Bonds. Côte d'Ivoire's commercial banking creditors who do not wish to be associated with the long term economic development of the country through participation in it's debt restructuring and the associated financial facility would have the option of transforming the amounts due to them into exit bonds. These would have a maturity of 25 years and would bear interest at below market rates. The present value of these bonds would be determined in such a way as to be competitive with the value of the debts on the secondary market. Conversion of debt into exit bonds would exclude participation in the rescheduling process.

The Debt/Equity Swap Program. The Government intends to reduce its holdings in commercial enterprises and intends to carry out an audit to determine the present worth and book value of companies in which it holds shares. Given the particular situation of the Franc zone, i.e. the free convertibility of the CFA Franc, the Government will propose a series of incentives to its creditors. These would aim at reducing the public debt through conversion of debt into capital shares in such companies. They would also aim to encourage the maintenance of these investments in order to avoid any unfavorable impact on the balance of payments. The nature and means of establishing these incentives would be negotiated so as to reconcile the interests both of the Government and of the prospective shareholders. Given the size of the Gap, the Government is already making a major adjustment effort through new fiscal measures and a reduction in public expenditure; this effort is borne by the Ivorian people over and above the sacrifices which have already been made. The adjustment program is expected to reduce the Gap by about CFA 100 billion.

COTE D'IVOIRE

Talking Points for Mr. Conable's Meeting with Mr. Camdessus

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THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: October 13, 1987

TO: Ms. Marianne Haug, EXC

CONFIDENTIAL

FROM: Kemal Derviş, Director, EM2DR

EXTENSION: 3-2777

SUBJECT: Morocco

1. Bank exposure is rising rapidly from 10 percent to nearly 18 percent in the early 1990's. We have a heavy program of adjustment lending including SAL's. The Bank is providing about 40 percent of gross capital inflows and about 70 percent of net flows.

2. Investment lending is not really possible because the country has "adjusted" by cutting public investment to the bone, from about 7 to 3 percent of GDP. Counterpart funds are not available. Adjustment "fatigue" in the country is closely linked to this inability to invest.

3. We are working closely with the Fund, but there are some differences in emphasis.

a. We would like to increase the public investment budget from 3 to 5 percent of GDP. The Fund seems to doubt the feasibility of achieving this without upsetting macro-balance.

b. Both the Fund and the Bank are in full agreement on the need to raise more tax revenues. But we would like to see this happen through very serious structural tax reform, particularly by cleaning up the VAT (à la Turkey or Indonesia), whereas the Fund sometimes gives the impression that revenue has to be raised however feasible, including again raising import taxation, which would undo a lot of the liberalization achieved over the last two to three years (note: exports of finished manufactures are actually rising at rates close to 20 percent per annum, we believe in part thanks to the liberalization).

c. Provided we can see a strong domestic program, we would like to see Morocco run a current account deficit of about 2 percent of GDP to help finance more rapid domestic growth, i.e. we want more net capital inflows. This on the best possible terms. We also want to test the limits of the possible in reschedulings. The Fund is more cautious and would rather see a current account of zero or even a slight surplus.

4. The bottom line is that we cannot really be behind anything that doesn't have a chance to generate some real growth over the next three to five years for both social reasons and medium-term financial viability reasons. Ten years of massive adjustment efforts and lending by the Bank has to lead to something more than just stagnant per capita incomes! The Fund seems more cautious, and strongly concerned with "closing the books year by year".

5. I think we have to cooperate very closely, including perhaps setting up a core "joint" macroeconomic team. A lot is at stake.

cc: Messrs. Thalwitz (EMNVP) and Baudon (SVPOP)

KD/kr

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

CONFIDENTIAL

DATE: September 23, 1987

TO: Mr. Kemal Dervis, Director, EM2DR

FROM: John D. Shilling, Division Chief, EM2CO

EXT: 3-2278

SUBJECT: MOROCCO: Potential Issues with IMF

1. We have developed a close cooperating relationship with the IMF over the past several years and coordinated our operations to the extent possible. Nevertheless, there remain differences of approach and fundamental point of view between the two institutions that must be carefully monitored to assure continued coordination. The differences stem from the long run view of the Bank in contrast to the short run view of the IMF and from the tendency of the IMF to use an "availabilities" approach and the Bank to use a "requirements" approach. These differences have implications for design of programs and pressure to meet performance targets.

2. In terms of general approach and objectives, there are rarely major differences, but in matters of relative emphasis and timing, there sometimes are, particularly when the IMF is seeking short-term action to meet their performance criteria because of their short-term standby's since 1983. Then they tend to give priority to policies based on their short-term impact rather then their longer term development impact.

3. In the preparation of the SAL, we have worked extremely closely with IMF staff on preparing the fiscal program and estimating the impact on the economy. There is overall agreement on the importance of the fiscal reform, on controling current expenditures, on increasing public investment, reforming budget processes, and on using the exchange rate as a policy instrument. And there is agreement on most of the more detailed policy recommendations, subject to reaching final agreement with the Moroccans.

4. Areas where we have substantial agreement on the staff level, but need to be reinforced are:

- The need to raise Public Investment;
- The need to maintain Private investment and increase it in productive areas;
- The need to limit the growth of the wage bill to about 1.5% p.a. in real terms;
- The need to limit transfers to local authorities until their absorptive capacity is increased;

- The need to raise revenues from the VAT;

- The need to lower high marginal tax rates;

- The need to improve tax administration.

Questions of our debt strategy, devaluation, and target growth rates still need to be discussed as it is not clear the IMF view at this time.

5. Remaining areas of potential differences based on the different institutional approaches referred to earlier are:

- The IMF has until recently accepted a 3% p.a. rate of GDP growth as the maximum consistent with the amount of financing currently estimated as available. The Bank has supported an acceleration of the growth rate to 5% p.a. and a more aggressive stance of raising the necessary additional $200-300 million in financing. For both burden sharing and financing reasons, we have urged the IMF to maintain its exposure rather than decreasing it by $50 million per year. Recent discussions at the staff level indicate the IMF is now raising its growth target to 4.2% p.a. and is willing to maintain its exposure through EFFs if the Moroccans can carry out a sufficiently strong program.

- The IMF has been willing to raise trade taxes through a minimum tariff or increase in the Special Import Tax (SIT, which ITPAs have lowered from 15% to 5%) in order to raise revenues in the short term. The Bank is willing to accept a true minimum tariff on all imports except temporary admission, but not an increase in the SIT. Whether this becomes an issue or not depends on whether other measures generate enough revenues. If not, there is a possibility that the IMF will increase pressure to raise trade taxes as a sure short run way to increase revenues.

- The IMF in principle supports further devaluation, but primarily to balance the current account. Last year, it did not press hard (and the government was not at all receptive) for further devaluation despite continuing large arrears on external payments, pressure on the current account, and lack of foreign exchange for importers. We had urged further action to offset trade liberalization, promote exports and preserve the growth in tourism and workers remittances. The IMF has been concerned that a devaluation would increase the government budget deficit because of the impact of higher debt service payments in dirham terms. Our estimates show that this would be offset by higher receipts elsewhere, and with the rescheduling the debt service payments are minimized. The IMF staff are now apparently pushing more strongly for devaluation because of the current deficit.

- The IMF has argued that adjustment and return to a sustainable external position would be achieved by 1989. The Bank has pressed for a longer adjustment target. IMF staff now indicate that they are prepared to accept the necessity of rescheduling until 1992.

- The IMF has encouraged a quasi import deposit scheme requiring importers to deposit 50% on the payment on trade credits currently in arrears due to the Government's paucity of foreign exchange. The Bank views this as a restraint on trade that should be eliminated. Other general tools should be used to reduce the domestic liquidity that results from the external trade credit arrears until those arrears are eliminated.

- The IMF is aiming at reducing inflation to as near zero as possible and financing more of the government deficit by issuing bonds to the non-financial sector. The Bank sees no detriment in modest inflation rate which would permit the government to "tax" about 2% of GDP with little distortion and low costs compared to the interest that will be payable on bonds in the future. The government is currently paying 13% tax-free.

5. It should be noted that within the IMF, there are differences between what the staff feel appropriate and what the institution will accept. And I feel the staff at times use our support for positions on which we agree, but are constrained by institutional policy. Also the IMF staff frequently change and update their data for the current and following year and expect us to revise all our figures in consequence. To a reasonable extent, we have tried to do so, but it is a major effort with little real benefit for our analysis as the medium term picture changes little. We are more concerned with growth rates and relative shares than absolute levels. However the IMF often makes an issue of lack of precise agreement with their numbers in discussing coordination and policy propaganda. The numbers are important for them because so many of their performance criteria are so specifically quantitative, but I think focusing our discussion on them distracts attention from underlying policy adjustment issues. We are also limited in our ability to incorporate all their numbers as we have to respect consistency with figures we are using in the debt exercise and elsewhere.

6. Overall, there is a little tug-of-war underlying the Bank-Fund cooperation on fiscal policy. The IMF is looking to the Bank to reinforce its own objectives for short-term stabilization and provide the SAL funds to help fill the potential "gap" identified by the IMF. The Bank is trying to shift the government's and the IMF's attention to a more medium term approach consistent with the development of the economy's productive potential, with the SAL funds being available to offset potential shortfalls in revenues due to the introduction of reforms. We seem to be converging on an acceptable middle ground with compromise of some objectives and concerns on both sides.

cc: Mr. Costa (EM2DR)

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JShilling:pb/jf/rs

Record Removal Notice

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File Title	Barcode No.
President Barber B. Conable Liaison Files International Monetary Fund [IMF] - Correspondence	1104072

Document Date	Document Type
Dec 15, 1987	Briefing Note

Correspondents / Participants

Subject / Title
Joint Committee on Staff Compensation (JCC) - Briefing Note for Mr. Conable

Exception(s)
Corporate Administrative Matters

Additional Comments

The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group.

Withdrawn by	Date
Chandra Kumar	Aug 13, 2014

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Record Removal Notice

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File Title	Barcode No.
President Barber B. Conable Liaison Files - International Monetary Fund [IMF] - Correspondence	1104072

Document Date	Document Type
Aug 1, 1986	Memorandum

Correspondents / Participants
To : mr. Barber B. Conable
From : Ibrahim F. I. Shihata, Vice President & General Counsel

Subject / Title
Declaration of Ineligibility by IMF - Impact on Bank Lending

Exception No(s).

☐ 1 ☐ 2 ☐ 3 ☑ 4 ☐ 5 ☐ 6 ☐ 7 ☐ 8 ☐ 9 ☐ 10 A-C ☐ 10 D ☐ Prerogative to Restrict

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Additional Comments

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Chandra Kumar	Aug 13, 2014

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INTERNATIONAL MONETARY FUND
WASHINGTON, D. C. 20431

EXC/MC86-13

OFFICE OF THE
MANAGING DIRECTOR

CABLE ADDRESS
INTERFUND

February 28, 1986

Dear Tom:

Thank you for your letter of February 24, 1986 in which you address the fundamental issue of the balance between adjustment and financing in the process toward economic growth. As you know, I am entirely in agreement with your central point that the availability of additional amounts of sustainable financing on appropriate terms is a favorable factor for growth. Indeed, this belief was behind the strategy we adopted in the wake of the debt service difficulties that surfaced a few years ago. Of course, these observations must be supplemented by the essential need to ensure that the resources are used efficiently, without which no growth path can be sustained.

Basically, the iterative process to which you refer in your letter seems reasonable; indeed, such a process is the one we have followed so far to put together financing packages, in some cases, of an unprecedented magnitude. But as you know, we have also sought from the debtor countries strong domestic adjustment programs because without them we saw little probability of obtaining the external support that was required. From our experience, and given the efforts already made both by many debtor countries and by their creditors, I believe that we must be cautious at this time in our assessment of possible financing packages. We must avoid raising unrealistic expectations on the part of the countries involved and we must also avoid giving the impression to the sources of capital that our demands are out of reach.

The iterative process that you describe will inevitably have to be followed in some fashion. Its objective will continue to be, of course, the attainment of a higher level of financing than would be available without the support of our two institutions for the member country's adjustment effort. Looking to the future, the challenge that we confront is a multifaceted one. We need to agree with our borrowers on high quality medium-term adjustment and structural programs, as you note. At the same time, we need to see that external financial support is rallied for those programs and we must seek this support by influencing not only the level but also the composition of capital flows. External resources on an appropriate scale and a more sustainable structure of capital movements are ingredients that must accompany the adjustment and structural efforts of indebted countries, if those efforts are to bear fruit. Use of different scenarios with more or less (but in all cases <u>viable</u>) external assistance can help creditors and donors to assess better the consequences (on growth) of a particular set of external assistance levels.

You refer in your letter to Mr. Baker's proposals. I believe that the above observations go to the heart of those proposals in stressing that additional amounts of external resources, on a sustained basis, together with their productive use will allow countries to reach high growth rates. I believe that the close interconnection between efficient policies and external support cannot be overstressed: efficiency and growth are in the event the best means to stimulate autonomous flows of direct investment which are required to help economies to continue on a high growth path and at the same time reduce their reliance on foreign debt financing.

I will be happy to meet with you to discuss these issues as soon as it can be arranged.

Sincerely,

J. de Larosière

Mr. A. W. Clausen
President
World Bank
Washington, D.C. 20433

THE WORLD BANK
Washington, D. C. 20433
U. S. A.

A. W. CLAUSEN
President

February 24, 1986

Mr. J. de Larosiere
Managing Director
International Monetary Fund
Washington, D. C. 20431

Dear Jacques:

In recent staff discussions on a number of papers being produced in the Fund and the Bank, a basic issue seems to have surfaced which I think we ought to discuss as soon as possible. The issue affects how we reflect the role of our two respective institutions and how we deal with our members in the context of their debt and adjustment problems.

The core of the issue was best described in a recent note from Mr. Guitian which said:

> "I doubt that growth can be 'willed' ex ante or that it can be assured only by financing, as seems implicit by the additional reference made to an early agreement between the Fund and Bank on the likely resource implications of such growth. As you know, we typically stress the importance of working within existing resource constraints (an approach that places the emphasis on efficiency) instead of targeting growth and external needs (an approach that underscores financing)."

Without wanting to highlight the comments of one individual, or quote out of context, I believe this statement underlies a number of specific issues which have emerged recently. I agree, of course, that growth is not a matter of willpower and I certainly won't argue that it can be achieved by simply adding external financing. However, it seems to me that the essence of Mr. Baker's proposals, with which we entirely agree, is precisely that higher growth rates are an essential part of the adjustment process and that such higher growth rates, in the context of a satisfactory adjustment program, require additional external capital. I thought we had agreed that in developing medium-term adjustment programs for discussions with our borrowers, we would seek an early agreement between the Bank and the Fund on likely resources available. This does imply an iterative process with the member in case the anticipated external resources cannot be raised and additional measures or a reduction in the growth objective may become necessary. It is understood, of course, that at any one time one must work within existing resource constraints but the question surely is at what point one decides what these constraints are. By deciding too early, we do not test the flexibility of response of the commercial banks and other sources of finance, nor do we provide an opportunity to the country to state the benefits to its creditors of a more rapid growth scenario even if that involves additional external financing in the initial years. This is not a choice which we believe ought to be pre-empted by technical staff.

In order to make sure our staffs are properly guided on this matter, I suggest we get together to discuss it as early as possible.

Sincerely,

Tom

A. W. Clausen
President

BC: Managing Committee

THE WORLD BANK
Washington, D. C. 20433
U.S.A.

A. W. CLAUSEN
President

January 29, 1986

Mr, de Larosiere

Jacques:

At our meeting a week ago you mentioned a problem regarding differences in projections between the Bank and the Fund on Malawi. We have looked into this and the attached memo provides the background.

As you will see, we had distributed our document for the Consultative Group meeting in October, well before the Fund mission went to Malawi in December. When the Fund mission went it was fully aware of the basis of the Bank projections which had been discussed with them before our report was issued. During the December review mission the IMF apparently concluded that Malawi's 1985 experience justified a substantial reduction in the projected export growth but by the time they returned to Washington and the matter was discussed with the Bank staff, we were only within days of the Consultative Group meeting being convened.

While I think it is appropriate to take the latest developments into account it is perhaps unrealistic to expect that medium-term projections can be changed on such short notice. The purpose of the Consultative Group after all was not closely dependent upon these projections as the discussion demonstrated. In any event, I was glad to learn that this was not a failure of our collaboration but a matter due to the timing of your mission. There will now be time to reach a common view on Malawi's medium-term prospects.

OFFICE MEMORANDUM

DATE: January 28, 1986

TO: Ernest Stern, Senior Vice President, Operations

FROM: Jochen Kraske, Acting RVP ESA

EXT: 7-2491

SUBJECT: MALAWI: Differences Between Bank and Fund Staff on Balance of Payments Projections

1. I understand that the Managing Director of the IMF has expressed his concern about the fact that there were unresolved differences between the balance of payments projections prepared by the Bank and Fund staffs as we went into the recent Consultative Group meeting on Malawi. I would like to give you the facts as well as my views on the merits of this calamity.

2. A Fund mission visited Malawi in December, 1985, to review progress under the ongoing EFF and to prepare performance criterion for 1986. The Fund mission found that there had been a deterioration in Malawi's balance of payments performance due to a sharp drop in tobacco prices and in maize exports; the latter because of a revival of agriculture in surrounding countries, as drought conditions eased. Based on the findings of its mission, the IMF prepared a new set of balance of payments projections for the period 1986-90. This projection looks considerably different from that distributed to the Consultative Group in our Economic Memorandum of October, 1985 (and, for that matter considerably different from the Fund's own earlier projections). A side-by-side comparison of the projections aggregated for 1986-90 is presented in the table attached.

3. As can be seen from the tables, the import, export and service items differ considerably; the Fund's figures being much lower for all items than the Bank's. However the current account balances and assessments of capital requirements are quite similar, because the Fund figures are lower than ours on both sides of the current account. The differences appear to be due largely to differences in price projections. Based on 1985 = 100, the projected aggregate export price index of the Fund for 1990 is 131.8, while the Bank's is 153.8. Differences in import price trends are also large, with the Fund projecting an index of 120.6 for 1990 and the Bank 139.2. The implicit terms of trade indices for 1990 are quite similar: 109.3 for the Fund and 110.4 for the Bank. Our price projections were based on the projections provided by our Commodity Division in ERS; as far as we can see, these projections have not significantly changed in the meantime to warrant an updating of our report. In turn, the IMF staff have used commodity projections prepared by the IMF Commodity Division.

4. The key substantive difference between the two projections is the underlying assumed export growth; whereas we have projected an export growth of 4.3% per annum for 1986-90, the Fund staff projects a 1.2% growth rate. In fact, the Fund projects export volume in 1990 to be only 7%

higher than the level attained in 1980. The Fund is particularly pessimistic about prospects for any diversification of exports into a number of minor agricultural crops by not projecting any growth at all in the "other exports" category, while we feel that this is an area of opportunity which Malawi must exploit. The import volume projections and hence implicitly the GDP growth projections are the same in the two scenarios, 3.6% per annum.

5. I would like to offer two comments on this issue. The first relates to the substance of the disagreement, the second is simply a practical consideration:

As far as the substance of the disagreement is concerned, we found it difficult to accept the Fund's proposed revision of our real export projections. Our projections are based on the detailed crop-by-crop analysis and the assessment of Malawi's agricultural potential which we have carried out as part of our extensive project and sector work in Malawi. Our projections cover a 5-year period and are meant truly to reflect the medium- and long-term development of Malawi's export production. The IMF staff have arrived at the conclusions reflected in their projections in the course of a review visit last December. The basis for these projections are the interviews which IMF staff conduct with Government officials and, as opportunities present themselves,with crop agencies, marketing boards, representatives of private trading organizations, etc. It is unfortunately true that exports suffered a serious setback in 1985 as a result of the sharp drop in tobacco prices and Malawi's inability to market the considerable surplus of maize. Obviously everybody in Malawi is deeply concerned about these developments as are the IMF staff and we ourselves. But while developments in 1985 may reasonably lead one to take another hard look at the projections for 1986 and perhaps 1987, revamping medium- and longer-term projections with all the consequences such changes must have for the medium- and longer-term strategy is quite a different matter and one that should be settled not in the light of necessarily impressionistic views but in the light of a careful analysis of productive potential and investment options.

The second point I would like to make is simply that the new Fund projections were brought to our attention and discussed in a series of meetings during the first two weeks of January; in fact the latest projection attached to this memorandum is dated January 14. Staff were leaving to attend the Consultative Group meeting on January 16-17. Thus, while it might have been desirable to achieve some reconciliation of the discrepancies in our respective price projections, it was difficult to sort this all out within a matter of a day or so. Nor did it seem to us to be so essential to revamp the scenario presented to the Consultative Group since the message to the Group was not going to be affected by these changes; all along there was agreement between the IMF staff and ourselves on the magnitude of capital requirements and the economic growth of Malawi.

6. In the event, the issue did not come up in the discussion at the Consultative Group meeting. The IMF representative in his statement emphasized the critical importance of the export projections to the overall scenario including the amounts of external assistance required; he noted that there were as yet unresolved questions between the Bank and IMF in the area of export projections. In turn, we acknowledged the critical importance of rapid export growth and hence the need for the Government to monitor and stimulate export performance as a key aspect of economic strategy.

7. I want to assure you that we will be working further with the IMF staff on this issue. I have no doubt that we should be able to agree on a common set of price projections and I am confident that we should be able to convince our IMF colleagues of the merits of our projections of export production. After all, these had been discussed extensively with the IMF when the CEM was prepared and discussions at that time did not reveal fundamental differences.

Attachment

cc: Messrs. Jaycox o/r
Agueh
Greene

DGGreene:JKraske:ad

Malawi: External Resource Requirements, 1986-90, Bank-Fund Comparison

	IMF (In SDRs) 1/	IBRD (In US dollars) 2/
Exports, f.o.b.	1,302	1,805
Services and transfers 3/	-278	-409
Amortization	-203	-246
Reserve accumulation	-45	-38
Fund repurchases	-98	-116
	678	996
Imports, c.i.f.	-1,508	-1,955
Balance	-830	-959
Financing requirement	830	959
Fund purchases	24	26
Capital inflows	657	826
Secured 4/	(160)	(160)
Unsecured 5/	(497)	(693)
Gap financing charges 6/	(...)	(-27)
Remaining gap	149	107
Memorandum item:		
IBRD/IDA gross disbursements	...	426

1/ Projection of 01-14-86, assuming an exchange rate of SDR 1 = US$1.1.

2/ Projections in the Country Economic Memorandum of 10-04-85, assuming an exchange rate of SDR 1 = US$1.

3/ Excludes freight charges.

4/ Based on commitments through 1984.

5/ Assumed in most recent medium-term scenarios produced by each institution.

6/ Arising from service charges on debt contracted to fill the financing gap (including 1985).

June 12, 1985

Mr. Minister:

Thank you for your letter dated May 10 in which you informed us that parking in front of the offices of the World Bank and the International Monetary Fund will be prohibited effective immediately and that day and night police patrols around the building have been increased significantly.

These measures have improved the security of our offices but they are, unfortunately, insufficient to reassure us completely. We still believe that the posting of permanent guards in front of the offices is the only effective measure against another terrorist attempt. In this respect, we thank you for your personal efforts with the Minister of the Interior and Decentralisation and sincerely hope that they will succeed shortly. If need be, we would appreciate your bringing to the attention of the Minister of the Interior once again, the importance that our Executive Boards and ourselves attach to this matter.

Thanking you in advance for your help, we remain, Mr. Minister,

Sincerely yours,

J. de Larosiere
Managing Director

A. W. Clausen
President

Mr. Pierre Beregovoy
Minister of Economy, Finance and Budget
93, Rue de Rivoli
75056 Paris
France

Mr. Minister

Thank you for your expression of concern following the explosion of a bomb during the night of April 26 in front of the Paris offices of the World Bank and the International Monetary Fund which injured one passerby and caused serious damage to the building.

This terrorist action has been claimed by a group called Action Directe which has already claimed responsibility for a similar attack on our offices in June 1982. At that time we drew the attention of the French authorities to the urgent necessity of implementing efficient security measures for our offices, in particular an around-the-clock guarding of the building by police forces. Our letters of June 10, 1982 to Mr. Claude Cheysson, the Chief of Cabinet, as well as the personal representations made to Mr. Pautrat on June 10, 1982 by the Vice President of Personnel and Administration of the World Bank and the Director of Administration of the International Monetary Fund have unfortunately been to no avail.

The Executive Boards of our two institutions share our dismay about this latest attack and our concern about the increase in the attacks on the Bank and the Fund in Paris. They urge that adequate measures of protection be taken without delay. In particular, we request your support and intervention with the appropriate authorities to ensure our security by around-the-clock external protection of the building by the police force and the prohibition of parking in front of the building as soon as possible.

Our Paris offices often host international meetings of varying levels and in certain instances we obtain police protection. Our responsibilities to our guests as well as to our staff, however, do not allow us to be satisfied with only temporary measures. Under the present circumstances the choice of location of these meetings, and, more generally, of the location of our activities in Europe is bound to be affected by the degree of protection which the host country can offer. We hope that the measures that the French authorities will take to strengthen the protection of our building and its occupants would permit us to reassure, in good conscience, our staff and visitors and will allow us to continue our work without concern.

Thanking you in advance for your help, we remain, Mr. Minister,

Sincerely yours,

A

J. de Larosiere
Managing Director

A. W. Clausen
President

Mr. Pierre Beregovoy
Minister of Economy, Finance and Budget

Mr. Roland Dumas
Minister of External Relations

February 7, 1984

Mr. Jacques de Larosiere
Managing Director
International Monetary Fund
700 19th Street
Washington, D.C. 20431

Dear Jacques:

Thank you for your remarks on my Davos address. I'm glad you are in agreement with its general thrust.

You have raised some interesting points in your note, and I would like to comment on them.

My colleagues and I entirely agree with you that continued adherence to firm adjustment policies is essential and is in the best interests of the developing countries. We have been stressing this point for many years and shall continue to do so, and I was delighted to see you making this point in your Brussels speech this week. The Davos address stresses this point strongly. In no way are we implying that adjustment programs (which incidentally are not referred to as "austerity programs") are "negative in character and antigrowth in spirit." Indeed, the address calls upon the developing countries to pursue economic policy reforms "urgently and tenaciously," such reform being "absolutely fundamental to the resumption of their economic and social progress."

You make the point that while the hardship on the developing countries has been much greater on account of the prolonged adverse conditions in the world economy, much of these cuts represent a belated and absolutely necessary adjustment to normality after years of excessive borrowing. The Davos speech makes exactly the same point, that some developing countries used foreign borrowing to finance consumption rather than investment, postponing needed adjustments. "Those countries," we noted, "must undergo more abrupt adjustments now." And let me assure you that we fully recognize the catalytic effect of the Fund's financial support for your members' adjustment programs in unlocking additional funding. We have always gone out of our way in our public statements to support this essential role of the Fund and have been vociferous in our pleas for the timely and adequate provision of resources to the Fund to help make this possible.

You and I are in total agreement that larger official flows would alleviate the distress in many developing countries and make the adjustment process more manageable. And we are both unhappily aware of the difficulties to be faced in increasing those flows in the near future. Nonetheless, it is absolutely essential that we continue to try to secure those additional flows. As you know, we are actively promoting the processes which would lead to an increase in the Bank's ability to lend. And, in the wake of the recent set-back over the IDA-7 replenishment, we are determined to continue our efforts to bring the new IDA program up to a level more commensurate with our members'needs. We have a mandate from the IDA Deputies to obtain larger contributions to IDA-7. Your own compelling voice publicly supporting IDA would be of inestimable assistance.

I am puzzled that you drew an inference from the Davos speech that we are calling for a slowing of the pace of adjustment. I assure you we are making no such call, and intend to give no such signal. What my public statements have, for some time, been expressing is the recognition of the fact that adverse political reactions can abort adjustment programs. Frankly, we are struck by the courageous willingness of many governments to "bite on the bullet" and carry out the necessary reforms, and I cited some of these in my remarks to illustrate that willingness which we all applaud. In our judgment, there are some heavily indebted countries that are likely to suffer sustained declines in consumption, and very probably political instability, even given optimistic assumptions about the world economy and their own adjustment efforts. If current trends in commercial and official capital flows persist, more countries will be unable to cope.

We are in entire agreement that a continuation of commercial bank lending at appropriate levels depends largely on the speed and extent to which the borrowing countries restore their creditworthiness through making the necessary adjustments. In this context, I spoke at Davos of the current negative net transfer of medium- and long-term funds from the commercial banks to the developing countries. My purpose was to draw attention to the obviously alarming speed with which the net transfer switched from \$16 billion positive in 1981 to an estimated \$21 billion negative in 1983. We neither expect nor advocate an overnight reversal of this situation. But as a development institution, we have to recognize that, in the longer term, in a healthy international environment, there should be a net transfer of resources to developing countries. While your example used an 11 percent rate of interest, we believe that, in the longer term, the real rate of interest will return to its 3-5 percent historical level. When that happens, developing countries experiencing growth of real GNP and exports at rates in excess of five percent will be able to borrow more than their interest obligations and simultaneously reduce their debt-service ratio.

I am grateful to you that you brought your concerns to my attention. The two institutions do indeed need to maintain a clear and mutually consistent view of the approach toward renewed stability and a resumption of growth in the global economy. I am hopeful that this exchange has served to reinforce the mutuality and consistency of this view. Rest assured we shall continue to stress the vital and complementary roles that the IMF and the Bank together play in securing adjustment.

Sincerely,

A. W. Clausen

J.Grenfell/S.J.Burki/F.Vogl/A.Krueger:mwm
February 7, 1984

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INTERNATIONAL MONETARY FUND
WASHINGTON, D. C. 20431

MANAGING DIRECTOR

CABLE ADDRESS
INTERFUND

February 1, 1984

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Dear Tom,

I was greatly interested to read your recent speech before the European Management Forum in Davos. Needless to say, I am in broad agreement with the thrust of your remarks which, I believe, help to bring into sharp focus the case for an increase in official capital flows to the developing world, especially through the World Bank. However, there are certain points and shades of emphasis in the speech with which I have some difficulty.

WM

While you rightly stress, in my opinion, the four elements that are necessary to improve the future economic performance of developing countries, I feel that greater emphasis deserves to be placed on the fact that continued adherence to firm adjustment policies is not only essential given the existing climate of international financing, but also in the best interests of the developing countries. In fact, the speech refers to "austerity programs" in a way that leaves open the possible interpretation that the thrust of such programs is negative in character and antigrowth in spirit. In our view, while the hardship on the developing countries has been much greater on account of the prolonged adverse conditions in the world economy, much of these cuts represent a belated adjustment to normality after years of excessive borrowing, and are absolutely necessary to strengthen their economies and the system as a whole. Moreover, as you realize, in the absence of Fund financial support of members' adjustment programs and the catalytic effect of such support in unlocking additional financing, the "cutbacks" would have been far more severe.

I fully agree with you that larger official flows would alleviate the distress in many developing countries and make the adjustment process more manageable. Unhappily, however, these additional flows are not likely to be forthcoming in the near future. And in the absence of such additional flows, any call for slowing the pace of adjustment could give the wrong signal and make the Fund's task more difficult. Moreover, credible adjustment efforts are indispensable if we are to secure the necessary increase in commercial bank lending to the non-oil developing countries which we estimate at 5-7 percent in 1983 and 1984. As you know, the experience of the past year showed that such an increase in bank lending was by no means easy to achieve. Nevertheless, the indications are that this target was broadly reached last year, though a good deal of bank lending has been "unspontaneous."

In this context I was troubled by your application of the concept of net resource transfer to commercial bank lending. In our judgment, the application of this concept to commercial bank lending is inappropriate for a number of reasons. In particular, the total stock of indebtedness to commercial banks outstanding at any point in time would be expected to grow at a pace consistent with sound banking principles and the debt servicing capacities of borrowing countries; it cannot be expected to grow in any preordained relationship to the amount of interest payments falling due in a particular year.

These considerations are especially important in the present less inflationary world environment which involves a reduced growth rate of the commercial banks' deposit base. For example, if one were to assume a marginally positive net resource transfer from commercial banks to non-oil developing countries, starting from the estimated commercial bank exposure to this group at end-1982 of US$340 billion, and assuming a LIBOR interest rate plus spread of about 11.5 percent, the exposure of banks to non-oil developing countries would double in five to six years. I am sure you would agree that in current circumstances, such a trend would be neither realistic nor sustainable. Instead, it would yield a result comparable to the excessive increase in bank lending between end-1978 and end-1982 when exposure also doubled.

I hope you will consider these comments in the constructive and cooperative spirit in which I offer them to you. I believe that it is absolutely fundamental that our two institutions, each of which has such crucial responsibilities in the present difficult conditions, have a clear and mutually consistent view of the approach toward renewed stability and a resumption of growth in the world economy. Given the close personal relations that we maintain, I would be happy to hear your views if you feel my reading of the speech is inaccurate or if you have reservations about some aspects of our adjustment policies.

Sincerely,

Jacques

Mr. A. W. Clausen
President
The World Bank
1818 H Street, N.W.
Washington, D.C. 20433