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EBS/84/47
Supplement 4

CONFIDENTIAL

August 29, 1984

To: Members of the Executive Board

From: The Secretary

Subject: Guyana - Review of Decision to Limit Use of the Fund's General
Resources

The attached supplement to the paper on the overdue financial obligations of Guyana to the Fund has been prepared in connection with the forthcoming review of Decision No. 7719-(84/88), adopted June 6, 1984. A draft decision appears on page 4.

If Executive Directors have technical or factual questions relating to this paper prior to the Board discussion on Friday, August 31, 1984, they should contact Mr. Leddy (ext. (5)8332) or Mr. Silard (ext. (5)7715).

Att: (1)

CONFIDENTIAL

INTERNATIONAL MONETARY FUND

Guyana--Review of Decision to Limit Use
of The Fund's General Resources

Prepared by the Legal, Treasurer's and
Western Hemisphere Departments

Approved by W. O. Habermeier,
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August 29, 1984

1. On August 31, 1984, the Executive Board will review the decision, taken June 6, 1984 pursuant to Rule K-2 of the Fund's Rules and Regulations, that Guyana shall not make use of the general resources of the Fund until such time as Guyana is current on its obligations under the Articles of Agreement relating to repurchases and the payment of charges in the General Department (Decision No. 7719-(84/88)). The text of the decision is contained in Attachment I. The text of a letter sent by the Managing Director to the Honorable L.F.S. Burnham, President of Guyana, following the Board's decision is provided in Attachment II. This paper describes recent developments with respect to Guyana's overdue obligations to the Fund and proposes a further decision for adoption by the Executive Board.

2. Executive Directors were informed in EBS/84/115 (May 24, 1984) of Guyana's overdue obligations to the Fund totaling SDR 16,042,411. Since that time, further obligations totaling SDR 5,580,960 have become due. However, Guyana paid Trust Fund interest of SDR 27,987 in early July and within the last few days has made further payments to the Fund totaling SDR 2,245,871, of which SDR 909,038 represented the use of the proceeds of an SFF subsidy payment to Guyana made by the Fund following the discharge of the balance of semiannual charges due July 13, 1983. As a consequence of these payments and new obligations falling due, Guyana's overdue obligations to the Fund increased to SDR 19,349,513 as of August 29, 1984, as shown in Table 1. 1/

3. In discussing the forthcoming review with the staff on August 23, 1984, Guyanese representatives recalled that the Executive Board had been informed during its discussion on June 6, 1984 2/ that due to the seasonality of Guyana's payments pattern there was virtually no flow of exports out of Guyana at that time, and that Guyana's ability to make

1/ In addition, Guyana has just advised that a further payment of SDR 700,000 will be made value August 31, 1984, as partial payment of the balance of semiannual charges that were due on January 12, 1984.

2/ EBM/84/88.

Table 1. Guyana: Overdue Payments to the Fund
in the General Department

(August 29, 1984)

Type of obligation	Due date	Days overdue	SDR amount
CF repurchase*	May 31, 1983	456	2,187,500
EFF repurchase	June 27, 1983	429	1,078,125
CF repurchase	July 15, 1983	411	781,250
CF repurchase*	July 29, 1983	397	1,093,750
Quarterly charges	August 4, 1983	391	756,007
CF repurchase	October 14, 1983	320	781,250
Quarterly charges	November 8, 1983	295	744,084
EFF repurchase	December 27, 1983	246	1,078,125
Semiannual charges	January 12, 1984	230	852,422
CF repurchase	January 16, 1984	226	781,250
EFF repurchase	February 3, 1984	208	710,938
Quarterly charges	February 7, 1984	204	732,360
CF repurchase	April 16, 1984	135	781,250
Quarterly charges	May 7, 1984	114	713,463
EFF repurchase	May 11, 1984	110	1,062,500
EFF repurchase	June 27, 1984	63	1,078,125
Semiannual charges	July 13, 1984	47	1,871,407
CF repurchase	July 16, 1984	44	781,250
EFF repurchase	August 3, 1984	26	710,938
Quarterly charges	August 8, 1984	21	773,519
Total			19,349,513

*The relevant purchases have been outstanding for more than five years.

major payments to the Fund would depend on the resumption of export flows. They explained that export receipts had begun to be realized in the first part of August, enabling the payments noted above to be made. On the basis of projected export receipts through the end of 1984, they expected to be able to make further payments to the Fund amounting to approximately SDR 2 million in September, SDR 2 million in October, SDR 4.5 million in November and SDR 1 million in December. In total, including these expected payments, payments made to the Fund during the period June-December 1984 would amount to some SDR 11.7 million. If these payments were made in full, and taking account of further obligations to the Fund falling due in 1984, ^{1/} the balance of Guyana's overdue obligations would amount to SDR 15.9 million at the end of the year, slightly under the amount outstanding at the time of the Executive Board's consideration of Guyana's overdue payments on June 6, 1984.

^{1/} Including charges estimated on the basis of current rates of charge.

4. The staff urged that every effort be made to accelerate payments to the Fund, pointing out that the objective must be to eliminate the arrears and not simply achieve a return to the level outstanding in June, and that it must be borne in mind that further obligations to the Fund totaling on the order of SDR 18 million will fall due in 1985. Guyana was encouraged to adopt urgently additional economic and financial adjustment measures so as to bring about a strengthening of the internal and external situation, including specifically measures which could facilitate an early elimination of the overdue obligations to the Fund. The Guyanese representatives outlined a number of policy measures that were being pursued or considered by the authorities and indicated that the Fund's technical assistance might be requested in connection with the formulation of some of these measures, as has been offered pursuant to the Executive Board's decision of June 6, 1984.

5. In the absence of a strong program of economic adjustment, Guyana's debt situation will remain most difficult. Although Guyana has made several payments to the Fund in recent days, total overdue obligations to the Fund have increased since the Executive Board's last consideration of the matter in June. Guyana has indicated its intention to make further payments in coming months, but the payments now envisaged by the authorities would not reduce the overdue obligations below about the level outstanding in June, and further substantial obligations to the Fund will fall due in 1985 and following years, as indicated in Table 2.

Table 2. Guyana: Overdue and Forthcoming Obligations, 1984-89 ^{1/}
(In millions of SDRs)

	Outstand- ing as of 8/29/84	Sept.- Dec. 1984	1985	1986	1987	1988	1989
Repurchases	12.9	2.9	11.1	14.7	13.7	7.2	5.0
Quarterly and semi- annual charges	6.4	2.8	6.0	4.4	2.8	2.0	1.8
Net SDR charges	--	0.3	1.4	1.4	1.4	1.4	1.4
Trust Fund repay- ments	--	--	--	1.1	2.3	2.3	2.3
Trust Fund interest	--	*	0.1	0.1	*	*	*
Grand total	19.3	6.0	18.4	21.6	20.1	12.7	10.5
of which:							
principal							
repayments	12.9	2.9	11.1	15.9	15.9	9.4	7.3
interest							
payments	6.4	3.1	7.3	5.7	4.2	3.3	3.2

^{1/} Calculated on the basis of present use of Fund credit, Trust Fund loans outstanding and Guyana's present position in the SDR Department, and on the assumption that currently overdue repurchases are discharged on the date of last scheduled repurchase. Charges are projected on the basis of current rates of charge.

*Less than SDR 50,000.

6. In these circumstances, the staff would propose to continue to pursue the issue of needed policy changes and to urge further progress in making payments to the Fund, and that the Executive Board review the matter further within three months in light of the payments performance and prospects at that time. The following draft decision is proposed for adoption by the Executive Board:

1. The Fund has reviewed Decision No. 7719-(84/88), June 6, 1984, in light of the discussions between the Fund and Guyana, the recent payments made and the payments proposed to be made, as described in EBS/84/47, Supplement 4, August 29, 1984.

2. The Fund calls upon Guyana to adopt urgently additional economic and financial adjustment measures and to become current on its financial obligations to the Fund.

3. The Fund shall further review Decision No. 7719-(84/88) not later than November 30, 1984.

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Guyana - Complaint Under Rule K-1

Executive Board Decision No. 7719-(84/88) - June 6, 1984

1. The Managing Director has reported under Rule K-1 of the Fund's Rules and Regulations to the Executive Board the facts on the basis of which it appeared to him at the dates of these reports that Guyana was not fulfilling its obligations under the Articles of Agreement and submitted a complaint on April 4, 1984 (EBS/84/47, Supplement 2) in accordance with that rule. The complaint was that as of March 30, 1984 Guyana was not fulfilling its obligations relating to repurchases and the payment of charges in the General Department in the total amount of SDR 13,991,394 including both overdue repurchases and charges. These facts and the complaint of the Managing Director have been communicated to the authorities of Guyana.

2. On May 18, 1984 Guyana made a payment equivalent to SDR 506,196 to discharge part of the outstanding semiannual charges of SDR 1,505,295 due July 13, 1983, reducing this obligation to SDR 999,099. Since the submission by the Managing Director of the complaint on April 4, 1984, Guyana has become overdue in discharging additional obligations totaling SDR 2,557,213 in respect of two repurchases due April 16, 1984 and May 11, 1984 and quarterly charges due May 7, 1984. Taking into account the payments made by Guyana and the obligations that have become overdue since March 30, 1984, Guyana's overdue payments to the Fund have increased to a total amount of SDR 16,042,411 in the General Department.

3. Having considered the reports of the Managing Director, the complaint and the views of Guyana, the Fund finds that Guyana has failed to fulfill its obligations under the Articles of Agreement as stated in 1 and 2 above.

4. The Fund regrets the nonobservance by Guyana of its obligations and urges Guyana to resume their observance forthwith. The Fund decides, pursuant to Rule K-2 of the Fund's Rules and Regulations, that Guyana shall not make use of the general resources of the Fund until such time as Guyana is current on its obligations under the Articles of Agreement relating to repurchases and the payment of charges in the General Department.

5. The Fund also calls upon Guyana to adopt urgently additional economic and financial adjustment measures. The Fund staff will stand ready to provide technical assistance for this purpose.

6. The Fund shall review the present decision in connection with the forthcoming Article IV consultation, but not later than three months from the date of the present decision.

June 18, 1984

Dear Mr. President:

I wish to acknowledge your letter of May 3, 1984 and to express my appreciation for the attendance of your representatives and the views of Minister Greenidge at the Executive Board meeting on June 6, 1984. This letter explains our views on Guyana's economic and financial situation and on Guyana's financial obligations to the Fund, and discusses the conclusions of the meeting on June 6 that are reflected in the attached decision of the Executive Board.

I recognize the impact that the adverse economic environment has had on Guyana's financial position. However, the resulting situation is in large measure also attributable to weak economic and financial policies that have been followed by Guyana over a number of years, and the remedy must lie in the implementation of an energetic adjustment program. An infusion of foreign exchange on concessional terms is, as you note, urgently needed to help rehabilitate the economy; however, it must be stressed that in the circumstances of Guyana, foreign resources cannot be relied upon except in a limited way. Thus the thrust of the adjustment program must be centered on a basic reformulation of domestic policies.

The necessary elements of adjustment policies and measures have been discussed between the authorities of Guyana and the Fund staff on a number of occasions and by the Executive Board. Again, in the context of the recent 1984 Article IV consultation discussions with Guyana, the findings of the staff show a fundamental need to redirect economic and financial policies away from heavy reliance on foreign borrowing. A strong fiscal policy, aimed primarily at reducing public expenditure, is needed to generate domestic savings. More flexible policies, in particular with respect to the exchange rate, should replace the unduly rigid and distortive pricing policies that have been followed up to now.

I very much appreciated the concern expressed in your letter about the situation which has arisen between the Fund and Guyana and your unwavering desire to honor all Guyana's debts, as the failure to settle the overdue payments to the Fund constitutes, under the Fund's Articles of Agreement, a breach of Guyana's obligations, and adversely affects Guyana's credit standing and is damaging to the position of the Fund itself. The fact that some payments have been made is, of course, welcome. Nonetheless, the total and duration of the overdue obligations outstanding have both risen, and Guyana will face substantial additional obligations to the Fund in the future.

Guyana's failure to settle its overdue payments is of grave concern to the Fund. The Executive Board decided on June 6, 1984, pursuant to Rule K-2 of the Fund's Rules and Regulations, that Guyana shall not make use of the general resources of the Fund until such time as Guyana is current on its obligations under the Articles of Agreement relating to repurchases and the payment of charges in the General Department.

Moreover, the Executive Board urged Guyana to resume fulfilling its obligations to the Fund forthwith and called upon Guyana to adopt urgently additional economic and financial adjustment measures.

In considering this matter, the Executive Board noted carefully the expressions by you and by Minister Greenidge of Guyana's desire to honor its financial obligations to the Fund and your assurance that best efforts will be made to ensure that payments due to the Fund will be made. I wish to express my strong hope, Mr. President, that you will give your urgent attention to positive action by Guyana on this matter.

In response to a request by Minister Greenidge, the Executive Board decided also that the Fund staff will stand ready to provide technical assistance to Guyana. Pending the settlement of Guyana's overdue obligations, the provision of such assistance would be purely advisory in nature and could not envisage any financial assistance by the Fund. Such technical assistance would be productive only if there were clear evidence of Guyana's determination to implement the basic reformulation of domestic policies that is needed. It should also concentrate immediately on steps to permit a regularization of Guyana's financial relations with the Fund. I hope that Guyana's determination to implement a program of appropriate economic and financial adjustment measures will be reflected in the adoption of early and concrete measures to that end.

The decision taken by the Executive Board on June 6 will be reviewed by the Executive Board in connection with the Article IV consultation with Guyana and in any case not later than three months from the date of the decision. In the course of this review, it will be necessary for the Executive Board to assess Guyana's performance and prospects with respect both to the overdue payments and to adjustment policies, and in the light of this assessment to consider whether further action by the Fund is warranted. It is my sincere hope, as I know it is yours, that at the time of that review I will be able to report to the Executive Board major progress in the settlement of the overdue obligations and in the adoption of a comprehensive and forceful adjustment program by Guyana designed to improve the domestic economy and strengthen the balance of payments and reserve situation.

Respectfully yours,

J. de Larosière

Attachment

The Honorable
L.F.S. Burnham
President of Guyana
Georgetown