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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 83/152

10:00 a.m., November 4, 1983

W. B. Dale, Acting Chairman

Executive Directors	Alternate Executive Directors
	N. Toe, Temporary
	H. G. Schneider
	X. Blandin
	J. Delgadillo, Temporary
	J. C. Williams, Temporary
	S. R. Abiad, Temporary
	T. Yamashita
J. E. Ismael	
R. K. Joyce	
A. Kafka	C. Robalino
G. Laske	
	C. P. Caranicas
	A. S. Jayawardena
	S. El-Khouri, Temporary
	T. de Vries
A. R. G. Prowse	
G. Salehkhou	
	E. I. M. Mtei
	E. Portas, Temporary
	A. Lindø
	T. A. Clark
Zhang Z.	

L. Van Houtven, Secretary
K. S. Friedman, Assistant

Also Present

Exchange and Trade Relations Department: D. K. Palmer, Associate Director; W. A. Beveridge, Deputy Director; G. Begashaw. Fiscal Affairs Department: R. H. van Til. IMF Institute: A. H. Gantt. Legal Department: A. O. Liuksila. Research Department: A. K. McGuirk. Treasurer's Department: D. S. Cutler. Western Hemisphere Department: E. Wiesner, Director; J. Ferrân, A. M. Jul, E. S. Kreis, R. Ramaciotti, T. M. Reichmann, S. C. de Sosa. Advisor to Executive Director: J. R. N. Almeida. Assistants to Executive Directors: H. Alaoui-Abdallaoui, H. A. Arias, M. Camara, V. Govindarajan, D. Hammann, M. Hull, A. Juusela, H. Kobayashi, A. A. Scholten, D. I. S. Shaw, S. Sornyanyontr.

1. GUYANA - 1983 ARTICLE IV CONSULTATION

The Executive Directors considered the staff report for the 1983 Article IV consultation with Guyana (SM/83/205, 10/13/83). They also had before them a report on recent economic developments in Guyana (SM/83/214, 10/26/83).

The staff representative from the Western Hemisphere Department explained that officials from the Government of Guyana had recently visited Fund headquarters to continue discussions with the staff on the possible use of Fund resources by Guyana. During the discussions a common view of the country's problems and of the size and characteristics of the required adjustment effort had been developed. The authorities had expressed their willingness to introduce strong adjustment measures, but they had concluded that the external assistance that was needed to make the adjustment viable would not be forthcoming at the present stage, and that they were not in a position to embark forthwith on a program supported by the Fund.

The Executive Directors had been informed in a number of earlier reports that Guyana had several overdue obligations to the Fund, starting with a repurchase due on April 29, 1983, the staff representative from the Western Hemisphere Department continued. At present, the overdue payments amounted to some SDR 9.5 million. In the staff's most recent report, at the end of September 1983, the staff had indicated that a payment had been received in early September and that further payments were expected in the near future. Those further payments had not been received, and the Guyanese authorities had been unable to say when the overdue obligations could be settled. A further report on the obligations would be issued shortly.

Mr. Kafka made the following statement:

> My Guyanese authorities have benefited from the Article IV consultation and as a result have last week and this week engaged in discussions with the Fund staff with a view to concluding an early stand-by arrangement. The basic problem facing Guyana is now seen in a very similar fashion by both the authorities and the staff. The Guyanese mission is returning to Guyana for consultations with the President and Cabinet, but I am hopeful that Guyana and the Fund will be able to come to an early conclusion.
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> As elsewhere, Guyana's economic problem has its roots both in events beyond the member's control and in the member's own policies.
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> I do not want to spend much time on the past, but wish rather to speak of the solutions that are now being envisaged. After substantial improvement in the Guyanese economic situation in the context of a one-year upper credit tranche stand-by arrangement during 1978, the economic situation steadily deteriorated. This deterioration and its sources are described by the staff on

pages 2-8 of their consultation report. There is, however, one major omission from this description, namely, the overwhelming impact of the 1979/80 oil price rise, to which I referred in my introductory statement last year. The devastating impact of the oil price increase on Guyana can be judged from the fact that in 1982 Guyana spent over 25 percent of its gross national product on petroleum imports. What the oil price impact for a country that finds itself in a situation like Guyana means can be understood by reflecting that if the United States were in a similar situation its import bill for petroleum alone would be $750 billion, three times its total actual imports in 1982. Further, all countries nowadays have an underground economy, but I am a little preoccupied by the precision with which the paper describes certain of its features in Guyana.

The Guyanese authorities are aware of the vicious circle in which the economy is caught. Without an improvement in output, exports cannot increase, but output cannot increase without an increase in exports which are required to finance the necessary foreign imports. To break the impasse, an infusion of foreign resources substantially larger than in 1983 is essential. These resources must be of a highly concessional nature in view of Guyana's difficult external debt position. These resources, which cannot for obvious reasons come only from the Fund, will have to be assured if a viable program is to be put in place.

It is obvious that any financial aid from abroad requires decisive action on the part of the Guyanese authorities to increase the operating efficiency of the economy, particularly in the three main export sectors: bauxite, rice, and sugar. The staff gives a correct description of the numerous and difficult measures which have already been taken. In addition to the other measures described in the paper, the Guyanese authorities have also started reducing the labor force in the bauxite mines in line with the recommendations of the two U.S. companies which reported to the Government two months ago on that sector. The Guyanese authorities are also proceeding with a general program of expenditure reduction, which is being progressively strengthened. In addition, they are speeding up the preparation of the Investment Code in order to attract foreign as well as domestic private sector investment.

The Guyanese authorities are convinced that a substantial adjustment of the exchange rate with full pass-through to domestic prices and elimination of subsidies for all commodities are unavoidable. They have discussed with the staff various formulas which would make it possible to undertake such an adjustment while at the same time avoiding its erosion by pressures, which might be irresistible, for an increase in the general level of wages--the authorities are, of course, conscious of the need to raise wages for skilled personnel. The exchange rate adjustment--while creating certain accounting problems--would also raise the net operating revenue or reduce the net operationg loss in several of the most important state corporations where current foreign currency receipts exceed current foreign currency payments. While in arrears on certain payments to the Fund, Guyana has tried to keep up the payment of charges and has done so to the extent possible, although these absorb an important part of currency receipts and have a direct reflection on the availability of essential imports, including such items as medicines.

In sum, a comprehensive internal adjustment effort by Guyana is required; but foreign assistance must be substantially increased above the level in sight at present even with a Fund program.

Mr. de Vries considered that the data in the staff report clearly showed that the Guyanese economy was on the road to ruin: the public sector deficit was the equivalent of 57 percent of GDP; the central bank's international reserves had been exhausted; GNP had declined by a third in the previous four years, and the main part of the fall had occurred in the past two years; the balance of payments deficit was the equivalent of 30 percent of GDP; and output had declined in every sector, particularly in the main export sectors--rice, sugar, and bauxite.

The deterioration in Guyana's economy was not surprising, Mr. de Vries went on. The Executive Directors had discussed the Guyanese economy on a number of occasions. During the discussion on the Fund-supported program for Guyana, some Executive Directors had said that they doubted whether the program could succeed and they had stressed that they did not intend to approve further support for the country until the authorities took steps to improve conditions. Hence, he doubted whether there was any purpose at the present stage in discussing the possible use of Fund resources by Guyana; a substantial change in the Government's policy stance was clearly needed first.

It had been argued by Mr. Kafka, Mr. de Vries noted, that payment of the present arrears to the Fund would reduce essential imports in Guyana. The accumulation of the arrears was another reason why the staff should not hold further discussions with the authorities on the possible use by Guyana of Fund resources. There was little that the Fund could do in the present case but continue to hold regular consultations with the Guyanese authorities and to encourage them to make major policy changes.

In his opening statement, Mr. Kafka had mentioned that the staff had failed to take into account the fact that Guyana spent the equivalent of more than 25 percent of its GNP on petroleum imports, Mr. de Vries remarked. Presumably the large petroleum import requirement was the result of the energy-intensive domestic production of bauxite. However, Guyana was paid immediately for the energy content of its exports, when it managed to produce a sufficient volume of bauxite and arrange for its export, something that was not occurring at present.

The authorities were aware of the vicious circle in which the economy was caught, but they had not taken steps to solve the problem, Mr. de Vries said. They understood that the exchange rate was inappropriate, but they had not adjusted it. The staff had shown in its report that it had a clear idea of what needed to be done. On the other hand, the ideas were rather general, and it appeared that the authorities themselves had made no contribution to the staff's understanding of them. In the present circumstances, the staff should not hold further discussions on the possible use by Guyana of Fund resources. At the same time, the staff should make it clear to the authorities that the problems facing the economy would certainly increase if the arrears to the Fund were allowed to accumulate.

Mr. Clark commented that he agreed with the thrust of Mr. de Vries's statement. The Guyanese economy had declined considerably over the previous five years, and the external debt had risen to the equivalent of 140 percent of GNP. Decisive action was clearly needed, and he fully endorsed the staff's recommendations. However, he doubted whether it was worthwhile at the present stage to specify measures in detail. First priority should be given to securing the necessary political commitment.

Given the present state of the economy and the record of inaction in response to previous Article IV consultations, Mr. Clark said, his authorities felt strongly that the Fund should require Guyana to introduce substantial policy measures before it formally considered any program, including a substantial devaluation and a major reorganization of the bauxite, rice, and sugar industries. In the bauxite sector, the recommendations of the external study group should be fully implemented. In the sugar sector, a devaluation would be helpful, and in due course, new investment and spare parts would be needed. The Rice Marketing Board should be dismantled and reconstructed on a different basis. In addition, arrears to the Fund would have to be repaid before drawings on the Fund's resources could be made. In light of Guyana's track record and the depth of the present problems facing the economy, he felt strongly that any program agreed with the authorities would have to be closely monitored.

Mr. Joyce remarked that the economic situation in Guyana had worsened in recent months. It was true that the exogenous factors to which Mr. Kafka had referred in his opening statement had not made the Government's task any easier, and that the authorities had taken some steps in both 1982 and 1983. For instance, they had moved toward reorganizing some of the public corporations. In the area of rice production, steps had been taken to improve the efficiency of the Rice Board, producer prices had been increased, marketing procedures had been streamlined to some extent, and changes in the managerial structure were being made. The authorities had sought outside assistance in rationalizing the bauxite industry, and steps had been taken to revitalize domestic production. In addition, there had been curbs on government expenditure; for example, the number of civil service employees had been reduced, and in 1982 nominal wages had been frozen. However, the reductions in expenditure had not been sufficient to offset the decline in government revenues, and in 1983 public expenditure was expected to have grown by 14 percent, despite a freeze on expenditures on goods and services and on wages; the principal factor behind the increase had been the large debt payments.

As Mr. Kafka had mentioned, Mr. Joyce went on, there was in Guyana an appreciation of the seriousness of the economic situation, and for good reason. After all, bauxite production had been falling steadily, and sugar production was inefficient and had been declining. Large new investment would be needed if the bauxite industry was to become competitive again, and its share of world markets recaptured when the demand for bauxite increased. The sugar sector had been hit hard by heavy rains in 1982 and by a drought in 1983, and while some improvements in the sector had been made, the fundamental problem was that there had been no new investment in the industry in the previous ten years; large new injections of capital were clearly needed.

The authorities, Mr. Joyce noted, had said that they had "misgivings" about an adjustment policy that would curb domestic expenditure, and wished instead to stimulate domestic production to generate the foreign exchange needed to restore consumption and to finance investment. In fact, a realistic program approached adjustment from both sides. In any event, no solution could be viable unless the exchange rate was brought more into line with the underlying realities of Guyana's payments position. It was clear that the present value of the Guyana dollar should be changed. It would also be advisable in the period after the devaluation for the authorities to maintain a much more flexible exchange rate policy than hitherto, as they had promised to do in June 1981.

It was reasonable to ask, Mr. Joyce remarked, how all the needed changes were to be brought about, particularly if the central government deficit kept rising, the banking system continued to finance the deficit, interest rates were maintained at negative real levels, and the arrears kept accumulating. Mr. Kafka had stated that the authorities and the staff now saw the basic problem facing the economy in very similar terms and that he was hopeful that the discussions on a new program could be brought to an early conclusion. He strongly shared Mr. Kafka's hope. The negotiations on a new program had been dragging on, and the basic problem seemed to be that the authorities had not been prepared to take the necessary difficult steps. Presumably they had hoped that the steps that they had taken would prove to be sufficient, that the market for bauxite would turn around, that sugar prices would increase, and that they could attract the necessary external resources to meet their needs even in the absence of a Fund-supported program.

None of those hopes had been met, Mr. Joyce went on, but he, unlike Mr. de Vries, believed that the time had come to work with the authorities on a rounded and well-crafted program, however politically difficult it might be to implement. The authorities had no alternative. Indeed, he was not fully confident that Guyana would be able to attract the additional resources that might be needed if a Fund-supported program was to be successful; however, an effort should be made. The authorities themselves had said that one of the reasons why the negotiations could not be concluded was that sufficient funding might not be available from other sources to parallel Fund financing. In fact, such statements merely meant that the authorities were still not prepared to take the kinds of measures that would sufficiently reassure international donors and lenders. He could not envisage any improvement in the coming year or so in the position of the authorities. Another 12 months of hemorrhaging in the economy would only make matters even more difficult than they already were. Hence, he agreed with Mr. Clark that, if a program was agreed, it should be a strong one and should involve prior conditions, particularly with respect to the exchange rate and to the reorganization of the bauxite and sugar industries. Such moves would be essential if the program was to be successful and was to be accompanied by adequate financing from other sources.

Some of the authorities of the Caribbean countries in his constituency, and particularly the authorities of Barbados, Mr. Joyce commented, had noted that, possibly for understandable reasons, Guyana had not been able to meet all of its obligations to the CARICOM Clearing Facility. Consequently, serious problems had arisen, for example, in Barbados, where the reserves of the Central Bank were constrained by the large debt to it as a result of the arrears on the part of Guyana. His authorities in Barbados and Jamaica hoped that Guyana and the Fund would attach the highest priority to the settlement of those CARICOM claims. Settlement was essential if a kind of domino effect in the region was to be avoided.

Mr. Williams said that it was regrettable that the acute economic and financial crisis facing Guyana had worsened since the previous Article IV consultation. The urgent call that a number of Executive Directors had made for the authorities to adopt additional measures in order to reverse the adverse trends had been ignored. As a result, real GDP had declined a further 8.4 percent, the overall external balance of payments deficit had widened to 30 percent of GDP, and external payments arrears had increased nearly 50 percent in the first six months of 1983 alone. In addition to the decline in overall economic activity, the substantial shift in activity to the parallel economy had continued.

He fully agreed with the staff that "the main factor behind the disarray of the economy" had been the cumulative effects of poor government policies, Mr. Williams said. The tentative measures taken during the previous year by the authorities to redress the situation had proved to be inadequate.

The staff appraisal was thorough and balanced, Mr. Williams considered. The broad range of policy recommendations contained in the appraisal should be resolutely and swiftly implemented. He too had noted that there had been recent discussions between the staff and the authorities "with a view to concluding an early stand-by arrangement." It was imperative that the authorities introduce an appropriate set of policies--especially with respect to the exchange rate, producer and consumer prices, and government operations, including a reorganization of the productive sectors--prior to the conclusion of negotiations on a Fund-supported program.

He was very concerned about the continued buildup of overdue payments to the Fund, Mr. Williams commented. During the discussion on Guyana's request to use the compensatory financing facility (EBM/82/142, 11/5/82), his chair had expressed great concern about Guyana's ability to meet its obligations to the Fund in a timely manner. The country's ability to meet its external obligations, including those to the Fund, would continue to be doubtful if the present policies were maintained. He welcomed Mr. Kafka's statement on the authorities' intentions with respect to the timing of implementation of policy measures that were urgently needed if Guyana was to have any hope of meeting its obligations to the Fund and other creditors. In the absence of comprehensive and resolute prior actions, there seemed to be no way in which the downward spiral in which the economy was caught could be broken and a climate for financial support from external sources could be created.

The Fund had shown flexibility by continuing discussions with the authorities despite the existence of arrears to the Fund, Mr. Williams remarked. However, negotiations on a program should proceed only after there had been a significant reduction in the arrears. In addition, given the country's performance record, it would be desirable for Guyana to re-establish a satisfactory track record before negotiations on a program were finalized. Such an approach was consistent with that taken by the Fund in other countries in similar circumstances, including, for example, the program for Haiti that was to be discussed by the Executive Board on November 7, 1983.

The staff representative from the Western Hemisphere Department said that the staff had noted the Executive Directors' comments, especially those concerning the continuation of discussions with the Guyanese authorities. The staff had already made it clear to the authorities that the present cycle of discussions, which had dragged on through most of the previous year, had come to an end, and that any reopening of discussions would require evidence of some resolute action by the authorities to come to grips with the problems facing the economy and to settle the arrears with the Fund. The authorities understood the staff's position.

Mr. Kafka remarked that there seemed to be no disagreement between himself, the staff, the authorities, Mr. Clark, Mr. Joyce, and Mr. Williams. He, too, had been disappointed that the plans of the authorities to which he had referred during the previous discussions had not been successfully realized, and that the economic situation in Guyana had continued to deteriorate.

As several Executive Directors had stressed, Mr. Kafka continued, the Fund would have to continue to be involved in Guyana. The authorities recognized that the country's economic situation was steadily deteriorating and that dramatic remedial steps would have to be taken. The authorities were prepared to act, but they faced a political impasse. The program that they would have to adopt would be necessarily harsh, and it should at least be possible to hold out some hope to Guyana that the program would eventually improve the country's economic situation.

The difficulties had been compounded by the accumulation of arrears, and it was of course possible that the authorities would not be able to accumulate further arrears. Any adjustment program would probably take some time--perhaps one or two years--to improve the economic situation; meanwhile, the situation might actually deteriorate further with the cessation of the accumulation of arrears. Ideally, the authorities should prepare an outline of the measures that they were prepared to introduce and should discuss it with the staff. Indeed, the authorities had promised to send him such an outline in the near future. The Fund should then try to reach an agreement with bilateral donors under which Guyana would adopt suitable and effective prior measures, and donors would provide concessional assistance to enable the country to restore its productive structure. It was clear that, even if bauxite production was returned to the private sector, the producer price of sugar was increased, and subsidies were eliminated, the productive structure of Guyana would steadily deteriorate without the infusion of more concessional assistance than currently in prospect. Given the country's relatively large external debt, any aid would have to be concessional. Without it, the living conditions of the entire population of Guyana would quickly deteriorate seriously, with adverse consequences not only for the Guyanese, but for the whole region. The Fund could not escape the problems facing the Guyanese economy.

Mr. de Vries commented that unless substantially different policies were adopted in Guyana, foreign assistance and discussions with the Fund would make no positive contribution to improving the economic situation in Guyana.

Mr. Kafka said that the staff had clearly transmitted that message to the authorities in its report. The authorities had understood the message, and the Fund must be prepared to act if the authorities introduced the needed measures.

The Acting Chairman remarked that the imbalances in the Guyanese economy were extraordinarily large. The rapid downhill slide of the economy and the increase in parallel market activity were naturally causes for great concern about the future of the country. He then made the following summing up:

> Executive Directors expressed great concern with Guyana's extraordinarily difficult economic situation. They stressed the unsustainable nature of the internal and external imbalances and urged the Guyanese authorities to take prompt and determined action to redress the situation. Directors noted that exogenous factors played a role in the poor performance of the economy and that the authorities had taken some measures to counteract the deterioration, but they emphasized that the very poor performance of recent years was attributable primarily to the inadequacy of policies, including the extremely large public sector deficit and the attendant expansionary stance of monetary policy, the severe overvaluation of the currency and other distortions in the price system, and managerial deficiencies in the main export sectors.

The large accumulation of external payments arrears in the past several years was deplored by Directors, who emphasized the unsustainability of this situation and urged the Government to implement policies that would permit their elimination. It was observed that neighboring countries had been adversely affected by this situation.

Directors stressed that a substantial devaluation of the currency would be needed not only as part of the policies to strengthen the public finances, but also to facilitate an adjustment in relative prices and to provide a more favorable environment for production and exports. Directors emphasized the need for an overhaul of marketing arrangements in the rice sector and for policies that would ensure that adequate incentives are provided to producers.

An orderly and major adjustment process in Guyana would be facilitated by external financial support which, in view of the precarious external debt situation of the country, would need to be mainly on highly concessional terms. It appears, however, on present indications that the prospects in this respect are not very encouraging. The Fund would have to be confident that such external support was forthcoming and that there would be a major political commitment on the part of the authorities to implement substantive domestic adjustment measures, including prior actions in critical areas, and that all overdue obligations to the Fund have been met before access by Guyana to the use of Fund resources could be contemplated. Any Fund program that might be agreed would have to be monitored very closely.

Finally, it is expected that the next Article IV consultation with Guyana will be held on the standard 12-month cycle.

DECISIONS TAKEN SINCE PREVIOUS BOARD MEETING

The following decisions were adopted by the Executive Board without meeting in the period between EBM/83/151 (10/31/83) and EBM/83/152 (11/4/83).

2. ZAMBIA - FUND REPRESENTATIVE

The Executive Board approves the recommendation set forth in EBAP/83/265 (10/28/83).

Adopted November 2, 1983

3. MALI - TECHNICAL ASSISTANCE

In response to a request by the Minister of Finance of Mali for technical assistance, the Executive Board approves the proposal set forth in EBD/83/275 (10/26/83).

Adopted November 1, 1983

4. EXECUTIVE BOARD COMMITTEES

The Executive Board approves the proposal set forth in EBD/83/279 (10/31/83).

Adopted November 2, 1983

5. APPROVAL OF MINUTES

The minutes of Executive Board Meetings 83/87 and 83/88 are approved. (EBD/83/276, 10/27/83)

Adopted November 2, 1983

6. EXECUTIVE BOARD TRAVEL

Travel by Executive Directors as set forth in EBAP/83/264 (10/28/83), EBAP/83/267 (10/31/83), and EBAP/83/269 (11/2/83), by an Advisor to Executive Director as set forth in EBAP/83/269 (11/2/83), and by an Assistant to Executive Director as set forth in EBAP/83/266 (10/31/83) is approved.

7. STAFF TRAVEL

Travel by the Managing Director as set forth in EBAP/83/270 (11/2/83) is approved.

APPROVED: March 23, 1984

LEO VAN HOUTVEN
Secretary