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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 91/63

3:00 p.m., April 24, 1991

R. D. Erb, Acting Chairman

Executive Directors	Alternate Executive Directors
M. Al-Jasser	A. A. Al-Tuwaijri
	S. Gurumurthi, Temporary
C. S. Clark	D. Powell, Temporary
	Wang J., Temporary
	J. M. Abbott, Temporary
	S. B. Creane, Temporary
	J. Prader
	V. Kural, Temporary
E. A. Evans	
	B. Bossone, Temporary
	M. B. Chatah, Temporary
M. Fogelholm	I. Fridriksson
B. Goos	B. Esdar
J. E. Ismael	T. Sirivedhin
	P. K. Kafle, Temporary
A. Kafka	J. C. Jaramillo
	G. Bindley-Taylor, Temporary
	J.-F. Cirelli
	J.-L. Menda, Temporary
	S. Rouai, Temporary
L. B. Monyake	
	P. Wright
G. A. Posthumus	R. Meron, Temporary
	Y.-M. T. Koissy
	D. Saha, Temporary
A. Torres	
A. Végh	
	K. Ichikawa, Temporary

L. Van Houtven, Secretary and Counsellor
B. J. Owen, Assistant

Also Present

IBRD: N. M. Gorjestani, Africa Regional Office; H. M. Codippily, Latin America and Caribbean Regional Office. African Department: E. L. Bornemann, Deputy Director; N. Abu-zobaa, A. Bessaha, I. C. Lienert, R. C. Williams. Exchange and Trade Relations Department: T. Leddy, Deputy Director; A. Basu, C. V. A. Collyns, G. R. Kincaid. Legal Department: F. P. Gianviti, General Counsel; R. H. Munzberg, Deputy General Counsel; D. Asiedu-Akrofi, H. Elizalde, P. L. Francotte, L. J. Ordoobadi. Research Department: J. De Gregorio. Secretary's Department: A. Tahari. Treasurer's Department: G. Laske, Treasurer; D. Williams, Deputy Treasurer; J. E. Blalock, J. C. Corr, Z. Farhadian-Lorie, P. Fontana, D. Gupta, G. Hacche, B. E. Keuppens, G. Wittich. Western Hemisphere Department: S. T. Beza, Counsellor and Director; M. Caiola, Deputy Director; J. Ferrán, Deputy Director; J. Fajgenbaum, T. Gudac, A. M. Jul, C. M. Loser, P. Ramlogan, T. M. Reichmann, S. J. Stephens, M. R. Stone, A. J. Tweedie. Advisors to Executive Directors: B. R. Fuleihan, A. Gronn, M. Gálan, Y.-H. Lee, A. Raza, A. M. Tanase. Assistants to Executive Directors: T. S. Allouba, T. Berrihun, Chen M., B. A. Christiansen, M. Da Costa, H. Dognin, S. K. Fayyad, M. E. Hansen, L. I. Jácome, M. E. F. Jones, K. Kpetigo, W. Laux, G. Lindsay-Nanton, G. Montiel, L. J. Morelli, F. Moss, M. Mrakovcic, L. Rodríguez, J.-P. Schoder, S. von Stenglin.

1. RWANDA - 1990 ARTICLE IV CONSULTATION, AND STRUCTURAL ADJUSTMENT ARRANGEMENT

The Executive Directors resumed from the previous meeting (EBM/91/62, 4/24/91), their consideration of the staff report for the 1990 Article IV consultation with Rwanda and the request by Rwanda for an arrangement under the structural adjustment facility (SAF), together with an appendix providing statistical background information (EBS/91/61, 4/4/91; and SM/91/69, 4/10/91). They also had before them a policy framework paper for the period 1991-93 (EBD/91/100, 4/3/91).

The staff representative from the Secretary's Department, and head of mission, said that as a number of Directors had noted, the fiscal outlook and the probable outcome of the budgetary deficit, in 1991 as well as in subsequent years, would depend not only on the measures envisaged under the program, but also on the security situation and the reduction in defense outlays. The assumption made in the program, which had been provided by the authorities, was for an increase in defense outlays in terms of GDP from 2 percent in 1989, prior to the crisis, to about 4 1/2 percent in 1990 and 1991. The assumption also had been made that peace would return in the first few months of 1991, so that defense-related outlays would return to their normal level in 1992. The recent announcement relating to the ceasefire was, therefore, not likely to have a major impact on expenditure in 1991.

As for the tax measures that had been implemented since November 1990, and whether the projected increase in revenue of 33 percent was not somewhat optimistic, the staff believed that it had been somewhat conservative in estimating the impact of those measures, especially as the ratio of revenue to GDP would still be lower in 1991 than it had been in 1989, the staff representative continued. The impact on revenue of the measures outlined in the staff report would stem mainly from the devaluation--of about 67 percent in local currency terms--by increasing customs receipts; from the increase in the minimum import duty from 5 percent to 10 percent; and from the envisaged increase in imports for 1991. Receipts from domestic taxes would also increase, particularly as a result of the sharp increase in the sales tax as well as the adjustment of specific rates on petroleum products. In addition, two temporary measures had been taken, first, to introduce a 5 percent fee on the value of all import license applications, and second, a national solidarity tax. The program included quarterly benchmarks for receipts, and if there was any shortfall, the authorities were committed to take additional measures to ensure that the program targets were achieved.

The reform of public enterprises was being supported by a project loan which had been approved by the World Bank in 1990, the staff representative stated. Unfortunately, with the October events, the timetable agreed upon between the authorities and the World Bank had had to be revised somewhat. The reform was expected to take about three years. As mentioned in the staff report, there were 62 enterprises, some of which were administrative units. There were about 32 enterprises which were fully owned by the Government and some 30 enterprises in which the Government participated,

with a share of less than 50 percent in 18 of them. The first phase of the reform would be the implementation of the planned divestiture of 8 public enterprises.

The question of interest rates was closely related to the assumption made in the program for the inflation rate, the staff representative continued. The estimated rate of inflation of 28 percent was an average for the whole year. The basic assumption had been that inflation would be high in the first months of 1991--taking into account not only the devaluation but also the adjustment of key prices, such as the 79 percent increase in the prices of petroleum products--and that it would start declining in the second half of the year perhaps to about 15 percent. Information for the months of January and February indicated that inflation would be lower than projected in the program because the average inflation rate for those two months was only 20 percent. Of course, the situation would have to be followed closely.

It might perhaps be argued that since inflation was going to average 28 percent for the year, the increase in interest rates should have been much higher until inflation started to decline, when they could have been reduced, the staff representative went on. After protracted negotiation with the authorities, the staff had accepted the increase in the one-year deposit rate, from 4.5 percent to 12 percent, and lending rates of up to 19 percent. If indeed the inflation rate fell to about 15 percent in the second half of the year, it should be possible to achieve a positive rate without any further adjustment. However, as indicated in the letter of intent, the authorities were committed to adjust the interest rate, should the inflation rate in the second half of the year be much higher than assumed.

A number of factors had been taken into account by the staff in suggesting the devaluation of 40 percent in foreign currency terms, which had been one of the main issues in the negotiations that began as long ago as January 1990, the staff representative continued. One important factor was the nominal effective exchange rate, which had appreciated by 50 percent since the early 1980s--a real appreciation of about 30 percent; that figure had, however, been based on the consumer price index, which the staff believed underestimated domestic costs. Another important factor had been the competitiveness of exports, particularly in the coffee and mining sectors.

Thus, the staff felt that the 40 percent devaluation had been sufficient to correct the overvaluation and to restore competitiveness, the staff representative remarked. The statement in the staff report that the exchange rate would remain under review did not, of course, mean that there would necessarily be an additional adjustment of the exchange rate. It was simply to indicate that exchange rate policy, like any other policy, would have to be considered in following up the implementation of the program, particularly before the second-year program was negotiated. The staff noted that, with inflation decelerating to an even lower rate than was envisaged under the program, there would in fact be a real depreciation.

With respect to the import programming system and the allocation of foreign exchange, the depletion of Rwanda's foreign reserves had led to heavy reliance on restrictions and import programming, the staff representative said. In fact, the Central Bank had permitted very few imports in the last few months of 1990. An orderly move to an open general licensing system would depend on the availability of foreign exchange, and the staff had felt that the transitional system that would be put in place, to be replaced in turn by mid-1992 with an open general licensing system, would ensure an efficient, nondiscriminatory allocation to importers, of the resources to be made available. The temporary 5 percent fee on import license applications was intended to help the authorities monitor the pressures on foreign exchange, and to ensure that available resources were not channelled unduly toward the importation of certain nonessential products, so that importers would not exaggerate their demands. The Central Bank would announce each month the amount of foreign exchange available. In any event, the fee was temporary and would be eliminated as soon as adequate foreign exchange could be made available.

In that connection, the staff representative observed that the March 20 meeting of the donors had been successful. The financing gap for 1991 was more than covered, but the timing of the financing would be crucial owing to the total depletion of Rwanda's foreign exchange reserves. The authorities intended to implement the transitional system for imports and the allocation of foreign exchange by the end of April; the availability of adequate foreign reserves thus would be extremely important.

It was clear, after almost five years of decline in real GDP and economic stagnation, that a return to growth of at least 3 1/2 to 4 percent was going to be absolutely essential for Rwanda, the staff representative said. There were a number of structural constraints which were impeding sustainable economic growth that would have to be removed. The authorities were working closely with the World Bank to implement all the necessary measures. The projected rate of growth of 3.7 percent for 1992 might be achievable, in the staff's view. For instance, the growth projection for the agricultural sector and exports was about 4 percent, compared with stagnation in the previous two years combined, with a sharp decline in the volume of coffee output in one year and a sharp increase in the next. The staff was also projecting a 4 percent increase in output in the mining and manufacturing sectors. For the tertiary sector, the projected increase was 3.5 percent, most of which would be accounted for by the trading and transport sectors, which had been drastically affected by the war; the growth in that sector might thus be higher than had been projected. There was no doubt, however, that given the structural and other constraints, it would take time for Rwanda to achieve a higher growth rate than that provided for in the program.

As for prices, those that remained fixed represented 10-15 percent of the CPI basket and were related mainly to petroleum products, and to tariffs on electricity and public transportation, the private transportation sector having been liberalized, the staff representative from the Secretary's

Department, and head of mission, concluded. There were also minimum producer prices for some agricultural commodities.

Mr. Koissy thanked Executive Directors for their comments, which he would convey to his authorities.

His Rwandese authorities were fully committed to the adjustment process, despite the many adverse factors that had added to the costs of adjustment, Mr. Koissy stated. The support of the Fund and other donors and creditors was critical at the current juncture and would go a long way toward helping Rwanda restructure its economy, returning it to the path of sustainable economic growth.

The Acting Chairman made the following summing up:

Directors were in broad agreement with the thrust of the staff appraisal. They observed that Rwanda had been facing serious economic and financial difficulties in recent years, including a sharp drop in the export price of coffee and overvaluation of the exchange rate. Directors also noted that the war that erupted in Rwanda in October 1990 had severely compounded the economic and financial situation and necessitated a substantial increase in security-related outlays. Those factors led to a decline in real GDP, large fiscal deficits, and the depletion of net foreign exchange reserves.

Directors welcomed the adoption by Rwanda of a medium-term structural adjustment program, one that encompassed wide-ranging macroeconomic and structural policies designed to achieve sustainable economic growth, low inflation, and to move the economy toward a viable external position over the medium term. Directors stressed the difficult conditions under which the adjustment efforts were being made. They viewed the implementation of a number of key prior actions since mid-November 1990 as a clear demonstration of the Government's commitment to the program. The effective implementation of the adjustment program would be strongly influenced by the evolution of the security situation, and Directors viewed recent political developments as encouraging in that regard.

Directors welcomed the correction of the overvaluation of the Rwanda franc, and some speakers stressed the importance of anchoring the exchange rate in nominal terms. They also welcomed the Government's decision to progressively liberalize imports and foreign exchange allocation, and to introduce an open general licensing system by mid-1992. Directors stressed the importance of effectively implementing the reforms of tariffs and customs legislation, and of simplifying administrative procedures.

Directors underscored that the reduction of the fiscal deficit, the elimination of arrears, and the pursuit of

restrictive credit policies were crucial elements of the program. In particular, the programmed reduction in the fiscal deficit was seen as essential and also, at the same time, recognized to be ambitious. They welcomed the revenue-raising measures that had already been taken, and observed that the implementation of the tax reform--aimed at improving the efficiency of the tax system and its administration--will have to be pursued with determination. Directors supported the restrictive current expenditure policy stance adopted by the Government, and they underscored that stringent control on all expenditure items is required. They urged the authorities to reduce budget subsidies through accelerated reform of loss-making enterprises as well as reform of the coffee sector. Directors noted that the interest rate structure had been simplified, that preferential rates have been abolished, and that in addition all rates have been raised, but they emphasized the importance of achieving positive real interest rates before the end of the first-year program.

Directors urged the effective implementation of the structural reforms aimed at removing impediments to growth, promoting economic efficiency, and expanding the role of the private sector. In particular, the authorities need to accelerate and effectively implement the reform of public enterprises and the sectoral strategies, particularly for the coffee and mining sectors. Directors welcomed the liberalization of most prices and also the adjustment of those prices that remained fixed.

It is expected that the next Article IV consultation with Rwanda will be held on the standard 12-month cycle.

The Executive Board then took the following decisions:

Decision Concluding Article XIV Consultation

1. The Fund takes this decision relating to Rwanda's exchange measures subject to Article VIII, Section 2(a), and in concluding the 1990 Article XIV consultation with Rwanda, in the light of the 1990 Article IV consultation with Rwanda conducted under Decision No. 5392-(77/63), adopted April 29, 1977, as amended (Surveillance over Exchange Rate Policies).

2. The restrictions on the making of payments and transfers for current international transactions described in SM/91/69 are maintained by Rwanda in accordance with Article XIV, Section 2, except that the exchange restrictions which relate to imports of merchandise items, travel allowances, and transfers abroad of personal income earned by foreigners are subject to Fund approval under Article VIII, Section 2(a). The Fund notes the intention of Rwanda to eliminate these latter restrictions, and grants approval

for their retention until the completion of the next Article IV consultation or April 30, 1992, whichever is earlier.

Decision No. 9718-(91/63), adopted
April 24, 1991

Structural Adjustment Arrangement

1. The Government of Rwanda has requested a three-year structural adjustment arrangement, and the first annual arrangement thereunder, under the structural adjustment facility.

2. The Fund approves the arrangements set forth in EBS/91/61, Supplement 2.

Decision No. 9719-(91/63), adopted
April 24, 1991

2. GUYANA - EXCHANGE SYSTEM; STAND-BY ARRANGEMENT - REVIEW AND EXTENSION; AND ENHANCED STRUCTURAL ADJUSTMENT FACILITY - REVIEW UNDER FIRST ANNUAL ARRANGEMENT

The Executive Directors considered the staff report for the review under the stand-by arrangement for Honduras and the midterm review of the first-year arrangement under the enhanced structural adjustment facility, together with a proposed decision on the exchange system (EBS/91/64, 4/12/91).

The staff representative from the Western Hemisphere Department said that when the staff report had been issued, the exchange rate in the cambio market had remained stable for about four weeks. The rate had continued to be stable, and was even showing a tendency toward appreciation.

Mr. Kafka made the following statement:

I would like to express my Guyanese authorities' sincere appreciation for the work done by the staff in support of Guyana's adjustment efforts, and compliment them for the spirit of frankness and understanding in which the negotiations for this review have been conducted.

The 1990 program represented an intensification of the efforts begun in 1988 to transform the Guyanese economy significantly, both in terms of policy direction and implementation. When this Board approved the current program in July 1990, it was generally acknowledged that the economic circumstances faced by my authorities were extremely difficult. These difficulties were further heightened during the latter half of 1990 when weather conditions adversely affected output in the two critical export

sectors and the crisis in the Middle East led to a sharp and unexpected increase in oil prices. These circumstances created substantial challenges for my authorities as they tried to attain the quantitative benchmarks agreed to in the program. In response to and in spite of the factors mentioned above, my authorities continued with the task of economic adjustment.

The impact of adverse weather conditions and high petroleum prices resulted in a significant deterioration in the expected primary current account surplus in the nonfinancial public sector. To contain the impact on the overall public sector finances, central government expenditures were severely compressed, increases in civil service and public sector wages were held at levels that were negative in real terms, and stronger efforts were made with respect to the collection of tax revenue. Although the overall public sector deficit was higher than programmed, the difference was substantially less than it would have been in the absence of the valiant corrective efforts made by my authorities.

In the other sectors of the economy, the adjustment process continued at a fairly rapid pace. Most prices were decontrolled with a full pass-through of the effects of adjustments in the exchange rate as well as for the international price of petroleum. With respect to the divestment process, my authorities sold one corporation, partially divested four others, and began negotiations for the divestment of two additional ones. In response to the fall in export earnings on bauxite and sugar and shortfalls in the balance of payments support, imports were contained substantially below their 1990 program level, while the level of gross reserves was enhanced. In the external sector, after clearance of arrears to multilateral institutions in early 1990, Guyana kept current in its obligations to these institutions. Moreover, with respect to its official creditors, Guyana completed a comprehensive debt rescheduling agreement on Toronto terms.

Unfortunately, inflation picked up in the latter half of the year primarily influenced by the pass-through effect of oil prices and the rapid depreciation of the exchange rate in the cambio market, at a time when the U.S. dollar depreciated against other major currencies and when some 50 percent of the transactions from the official market were transferred to the cambio market.

Despite their best efforts, my authorities failed to meet several of the performance criteria under the program. It should be noted, however, that all quantitative performance criteria would have been met were it not for a delay in the receipt of proceeds from the divestment of one state corporation--a factor truly beyond the control of my authorities. Where there have been slippages in implementation, it has been due to the obvious need for caution when making harsh economic choices in domestic political circumstances that can be considered difficult, as well

as certain administrative shortcomings within the structure of the civil service. With respect to the latter, my authorities are vigorously pursuing corrective measures with the help of technical assistance from bilateral and multilateral institutions. The tenacity of my authorities to stay the course of their economic recovery program cannot be denied, and this track record of perseverance in the face of adversity surely earns them the right to have their request for waivers favorably considered.

The program for 1991 reaffirms the objectives of 1990, and targets a more modest reduction in the rate of inflation and a higher level for gross international reserves.

My authorities, as a signal of their determination, took several difficult decisions in the first quarter of the year, many of which represent an acceleration of the program objectives, the most important being the effective unification of the exchange rate on February 21, 1991. Additional action was taken with respect to further decontrolling certain prices, particularly bus and taxi fares, rice transactions were transferred to the cambio market and the price of rice fully liberalized, the subsidy on sugar was eliminated, and electricity tariffs were increased. No new price controls will be added and the remaining price controls will be reviewed monthly.

With respect to central government operations, my authorities have taken measures aimed at broadening the tax base and rationalizing the tax structure. Some effort is also being made to introduce an element of cost recovery in the areas of education, health services and agriculture. Additional efforts will be made to improve tax administration, and the Inter-American Development Bank (IDB) is providing assistance in this area.

On the expenditure side, firm control will continue to be exercised. Already my authorities have eliminated all transfers to public sector enterprises with the exception of the Electricity Corporation. In 1991, they intend to keep a tight rein on all recurrent forms of expenditures, particularly wages, and have set up a system of monthly monitoring of central government expenditure. To strengthen expenditure administration, the number of government ministries will be reduced and some restructuring of the civil service will be implemented.

The divestment thrust will continue and is already ahead of the expectations of the program. The Government will divest some or all of its shareholding in at least six companies, while the completion of the sale of assets of GNTC and Guyana fisheries and the closure of GTSL will also take place this year. Some two thirds of the proceeds of divestment will be used to finance the public sector investment program. In the critical areas of bauxite and sugar, the foreign private firms of Alcan and Booker

Tate are engaged in the preparation of plans for rehabilitation and reorganization of these two industries. In an effort to strengthen the finances of the rest of the public sector, wage restraint will be enforced and efforts to strengthen management and technical competence within all corporations will continue, particularly within the Electricity Corporation.

The need to enhance public sector savings is critical if the policy of monetary restraint is to be successful, gross international reserves enhanced, and inflation contained. In the first quarter of this year, my authorities instituted the required legislation which will allow the conversion of 75-80 percent of those excess reserves of commercial banks frozen at their end-July 1990 level into variable interest rate debentures. While in the past liquid asset ratios and reserve requirements were used to carry out monetary policy, technical assistance is currently being sought further to develop more market-oriented instruments of monetary policy. In fact, competitive bidding for treasury bills is to be established by mid-year; in the meantime, the treasury bill and the bank rate have been raised as were the penalty rates for noncompliance with minimum reserve and liquid asset requirements. Interest rates will continue to be freely determined, and my authorities prefer to combat the effects of negative interest rates by lowering the level of inflation through sound fiscal and monetary policy rather than risk the effect of excessive nominal interest rates on growth and inflation.

In the external sector, the level of official imports is expected to rise, reflecting the necessary investments in the public sector and an expected increase in the level of economic activity. The resulting increase in the external current account deficit is expected to be temporary, as it is assumed that the present investments will have a positive impact of export production in the areas of bauxite, rice, and sugar, thereby reducing the current account deficit in the medium term. Nevertheless, the need for concessional external financing remains critical in 1991 and over the medium term.

The normalization of financial relations with external official creditors was a major achievement in 1990. My authorities are in the process of working out a comprehensive agreement with Guyana's commercial creditors in 1991 as well as finalizing some of its Paris Club arrangements agreed to in 1990.

In the context of their recovery program, my authorities have sought to alleviate the burden of adjustment on the more vulnerable groups in society through the launching of a Social Impact Amelioration Program (SIMAP). Unfortunately, external financing which was critical to SIMAP proved not to be forthcoming, and my authorities in the interim set up a quick-disbursing Emergency Social Assistance Program (ESP). In August 1990,

legislation to establish the SIMAP agency was passed, and the agency is expected to disburse approximately US$1.3 million in 1991. Most of those resources are expected to originate from an IDB grant of US$2.8 million to be disbursed over an 18-month period. My authorities had expected additional financial resources from other multilateral, bilateral, and private sources and are truly disappointed at the tardiness of external assistance.

The establishment of appropriate macroeconomic conditions for growth is seriously hampered by continuous migration of skilled labor, the deterioration of social and physical infrastructure, and a large vibrant underground economy that has proven quite elusive with respect to efforts to integrate it into the formal economy. As these factors feed into each other they undermine the economic confidence of the population, which manifests itself in continuous depreciation of the exchange rate and an inflation psychology. My authorities are ready, willing, and with the necessary support capable of restoring the confidence which is a prerequisite for the implementation of sound macroeconomic policies. But to do this they need substantial concessional resources to restore the most basic elements of their social infrastructure--electricity, education, water, and transportation. In addition, they need substantial technical assistance with respect to information management and technology so that the coverage and accuracy of economic information can be improved and economic decision making enhanced. The population has already paid a high price both in respect of inappropriate policies of earlier years and in respect of current stabilization policies. Additional adjustment, therefore, requires that the more vulnerable members be protected from the full brunt of the adjustment process. My authorities, therefore, require resources to protect the aged and the young and to offer hope to the existing as well as the newly unemployed, with respect to employment opportunities and the retraining of skills. Donor assistance for SIMAP is therefore crucial.

My authorities are convinced that the combination of their will to succeed, the help of the multilateral financial institutions, and the financial support from donor countries will enable them to set their country on the long-delayed path of sustainable growth.

Mr. Clark made the following statement:

I am particularly pleased to observe that Guyana, the first member country to clear its arrears to the Fund, continues to meet its debt-servicing obligations to this institution and to the World Bank as well. I wish to congratulate the authorities on this achievement. Moreover, against a background of increasingly

difficult circumstances, such as heavy rains and higher world oil prices, it is fair to say that significant progress was made in 1990.

First, although recorded GDP suggests that economic activity declined in 1990, there are indications that there has been a pick-up in private sector activity and an expansion of exports of the nontraditional sectors. Of particular relevance to this development was the establishment of a free exchange market which culminated in the unification of the exchange rate in February of this year. The authorities must be congratulated on this achievement, which represents a key element of the program.

Second, the authorities also made substantial efforts to attain the program's fiscal targets, and central government expenditure was severely contained. Combined with higher than expected tax receipts, the primary surplus target was surpassed by 3 percent of GDP. Moreover, were it not for a delay in receipts from the divestment of the telephone company, all quantitative performance criteria for end-September and for end-December 1990 would have been met.

Third, significant progress was achieved in the area of trade liberalization, which included the removal of most import restrictions.

And lastly, the divestment program, which aims at rationalizing the operations of the public sector and enhancing the role of the private sector, proceeded relatively quickly in 1990.

Notwithstanding these achievements, however, there were several less favorable developments. Notable, among these has been the persistence of high inflation, which can, in large measure, be attributed to the pass-through of higher oil prices in the latter half of 1990 and the sharp depreciation of the Guyana dollar in the cambio market.

Another worrying development was the performance of the state enterprises--bauxite, sugar, and electricity. Poor output performance and higher operating expenditures led to substantially lower primary surpluses in the bauxite and sugar corporations, while the deficit of the electricity corporation exceeded the program's projections by 2 percent of GDP. This poor performance of state enterprises, combined with a further rise in external debt-service charges, resulted in a widening of the overall deficit of the nonfinancial public sector.

Let me now turn to Guyana's economic program for 1991. I concur with the staff that additional corrective measures will have to be adopted if policy slippages which occurred in 1990 are to be partially offset and the objectives of the program are to be

achieved. Of particular relevance is the authorities' continuing commitment to implementing its public sector investment program (PSIP) and to increasing domestic savings.

The staff paper notes the serious deterioration of the basic infrastructure in the country and the impediment which this poses to output growth and private sector initiative. In this context, I welcome the formulation of a public sector investment program in collaboration with the World Bank and note the significant improvement in project implementation which occurred in 1990. The authorities are to be encouraged with their planned investment program, aimed at rebuilding Guyana's physical and social infrastructure and thus creating the conditions necessary for private sector growth.

According to the staff report, failure to rehabilitate the sugar, bauxite, and electricity corporations in 1990 will likely lead to large shortfalls in output in 1991, relative to what was envisaged earlier. In addition, it was anticipated that the primary surplus of the public sector would fall short of program targets by some 10.5 percent of GDP in the absence of policy actions. I, therefore, welcome the authorities' speedy implementation of new tax and cost-cutting measures along with a further reduction of real wages in the public sector. With these actions, the primary surplus is now expected to be some 30 percent of GDP in 1991.

In particular, I believe that continued success of Guyana's economic recovery program will rest heavily on the authorities' ability to resist public sector wage pressures, as they have done in the past, but which are likely to intensify owing to wage increases that are necessary in the sugar sector.

I have already noted the faster than envisaged pace of divestment of public enterprises which occurred in 1990. In particular, I am pleased to note the recent management contract signed with Booker Tate, which will in some measure relieve the technical, managerial, and financial bottlenecks in the sugar industry. In addition, while I am aware that the pace of divestment is in large measure dependent on market conditions, I would hope that the necessary financing will be forthcoming to allow for the finalization of an agreement on a management contract between ALCAN and GUYMINE.

As regards monetary policy, I regret the delay experienced in converting the excess reserves of the commercial banking sector into medium-term debentures. I am pleased, however, that legislation has now been enacted, and I would like to encourage the authorities to proceed with this conversion without further delay. I welcome the authorities' ongoing efforts to make the financial system in Guyana more reflective of market conditions. In this

regard, I note the proposed auctioning of two special issues of treasury bills, and I wish to stress that the plan to adopt competitive bidding of treasury bills should proceed on schedule, as the interim measures adopted by the authorities represent less than optimal arrangements.

The commitment with which the Guyanese authorities implemented their adjustment program in 1990 is to be admired. However, Guyana's external prospects remain precarious, at best, on account of its large external debt and its ever rising interest payments. Reflecting largely an increase in interest payments, the staff paper notes the deterioration in the services account in 1991, a marginal improvement in 1992, but a steady deterioration thereafter.

I firmly believe that the success of Guyana's economic recovery program rests in large part with the sustained implementation of its adjustment policies, and I would like to urge the authorities to continue to pursue their adjustment efforts vigorously in 1991. However, it is also clear that the continuing support of the international community will be necessary in order to ensure success of the program. In this regard, the debt-service rescheduling on Toronto terms of pre-cutoff debt maturities falling due in 1991, by the Paris Club, is welcome. Furthermore, I would encourage the exploration and possible utilization of the IDA debt reduction facility of the World Bank so as to provide further relief on Guyana's commercial bank debt.

I am particularly pleased that Guyana has done as well as it has in the past year, and in light of this commendable performance, I can support the proposed decisions.

Mr. Torres made the following statement:

After two years of continuous efforts to restore external and internal balance and re-establish orderly relations with the international financial community, the Guyanese authorities continue to face the challenge of transforming the economy in the framework of serious social and political difficulties. Although the authorities remained committed to the adjustment program, external shocks, bad weather, and delays in the payment for the sale of the telephone company caused the nonobservance of some of the quantitative performance criteria for September and December 1990. Furthermore, factors underlying the noncompliance of some of the structural benchmarks under the enhanced structural adjustment arrangement were beyond the control of the authorities. In contrast, outstanding progress has been made on the trade reform and the privatization programs.

Guyana's starting point for the 1991 program is a very complex one. It is not possible to defer the reactivation of the economy after two years of decline in the level of economic activity. Hence, the Guyanese authorities have the difficult task of creating an environment to foster growth propelled by the private sector, while at the same time strengthening the fiscal stance. The debt burden of the domestic and external financial sectors, and the investment needed to restore the public infrastructure makes this task even more difficult.

In this connection, we welcome the authorities' efforts to increase revenues and reduce fiscal expenditures in the context of public sector structural reform. These measures will contribute to the reduction in the overall primary deficit. Nevertheless, interest payments related to external debt will account for 50 percent of GDP. Although a public sector deficit to the tune of 61 percent of GDP leaves room for an expansion of the private sector, owing to the availability of external savings and the sale of public assets, one can wonder about the sustainability of financial discipline and monetary policy management in a market-oriented framework. Hence, in this context, we question the wisdom of substituting government debentures for frozen excess reserves, at this precise moment, because of the impact on the debt service of the public sector.

While we recognize the unfavorable impact of an increase in the reserve requirement on the interest rate structure and the financial sector accounts, Guyana's unbearable debt burden makes one consider choosing a further increase in reserve requirements, which could be phased out in line with an established program. We would appreciate staff comment on this point.

Guyana's external difficulties are also reflected in the monetary program. The decrease in real terms of the demand for financial assets envisaged in the program might suggest a lack of confidence on the part of economic agents in the success of the program in a context of flexible interest rates, which might not compensate for the risk premium. We would be interested in some comments by the staff on the assumptions embodied in the monetary program that give rise to an increase in the velocity of circulation, and at the same time an increase in both nominal and real income and a deceleration of inflation. We would also like to know more about the staff's views on the existence of undesired balances at the beginning of 1991 in order to better understand the dynamics behind the monetary program. In addition, and as a methodological note, we suggest that when valuation changes arising from a modification of exchange rates occur, the staff should present the accounts of the banking system for the previous year with the same exchange rate in order to facilitate flow comparisons.

The medium-term outlook for Guyana shows increasing external financing gaps after 1993. Therefore, the Guyanese efforts to put the economy on a sustainable growth path in a framework of price stability and financial viability would be wasted without the support of the international community on concessional terms. As mentioned in Mr. Kafka's statement, the progress made in the negotiation of an agreement with commercial creditors and the conclusion of Paris Club arrangements is welcome. I endorse also the suggestion made by Mr. Clark on the possibility of Guyana using IDA resources in connection with the commercial bank debt agreement.

Finally, I support the proposed decisions and wish the Guyanese authorities well in their commendable efforts to implement a courageous adjustment program in the midst of so many difficulties.

Mr. Esdar said that he fully agreed with other speakers that Guyana faced a very difficult economic situation. On the other hand, the international donor community had made considerable efforts to support Guyana in its adjustment efforts. Against that background, it was disappointing to note that, even at such an early stage of the current program, performance criteria in important policy areas had not been met. The delays in the process of structural adjustment were another reason for concern.

He fully supported the staff in its assessment that Guyana would only overcome its severe economic problems if the adjustment program was implemented strictly, Mr. Esdar added. Therefore, he urged the authorities to strengthen their efforts and return to the path of adjustment. That would at the same time encourage donors to mobilize the necessary financial flows to support the program. Given that situation, it was highly welcome that the authorities of Guyana had reacted to slippages in its implementation by taking corrective policy measures. Therefore, he could go along with the proposed decision, including the granting of waivers; however, considering those slippages, he could do so only on a very exceptional basis and with the understanding that the authorities remained committed to the course of adjustment.

Turning to the policy issues, Mr. Esdar said that he was in broad agreement with the staff's recommendations. In particular, he welcomed the unification of the exchange rate in February 1991. In addition, it would be appropriate for Guyana also to follow a policy of stabilizing the exchange rate as a nominal anchor for purposes of domestic stabilization. Highest priority in that respect should be given to the monetary sector and to fighting inflation. An adequate interest rate policy was of the utmost importance. A more ambitious pace in liberalizing interest rates would certainly improve the possibilities for influencing monetary growth and improving the allocation of resources. He had noted from the staff report with some concern that interest rates had remained unchanged throughout the rest of 1990, despite the acceleration of inflation during that period. The

establishment of positive real interest rates should be given highest priority. It would be unacceptable to keep interest rates at an artificially low level in order to reduce the burden of interest payments on the budget.

Finally, Mr. Esdar observed that it was pointed out in the staff paper that there was a significant emigration of qualified workers from Guyana. raising the question of an adequate policy response to reverse the outflow and to provide adequately paid job opportunities in Guyana. Perhaps the staff could elaborate.

Mr. Menda made the following statement:

It was already clear, when the Board approved the program for Guyana last year, that the clearance of arrears was an essential step, especially difficult to complete but only the beginning of a long and difficult process. The authorities indeed face the daunting task of rebuilding the country's productive capacity while restoring internal and external equilibria. The slippages registered reflected these difficulties, which were compounded by administrative weaknesses as well as adverse external shocks. At the same time, domestic demand continued to be severely constrained and output declined by 3.5 percent compared with a positive target of 2.9 percent.

During the past few months, however, the authorities have demonstrated their commitment to the pursuit of reforms: among the many measures adopted, the unification of the exchange rate, the liberalization of prices, the elimination of subsidies, and the reform of the trade system are certainly encouraging. The authorities have also formulated a revised path of adjustment which takes into account the difficulties experienced in restoring output. We can therefore support the proposed requests, including the revision of several targets, while being aware of the difficult medium-term prospects and of the risks borne by the Fund.

I am in broad agreement with the staff's very detailed report, and I have only a few remarks to make.

On macroeconomic policies, the deterioration, last year, of public finances, when the overall primary balance target was missed by almost 6 percentage points of GDP, is certainly worrying. We therefore welcome the ambitious objectives for 1991: the primary current account will almost reach the original objective, which implies an amelioration of close to 13 percent of GDP. This will necessitate a further improvement in the central government accounts, which have already performed beyond expectations, especially on the revenue side. We therefore welcome the new revenue measures adopted recently, aimed at broadening the tax base and reducing exemptions. The strengthening of tax

administration will certainly be an essential element in the progress that is anticipated. Crucial to the observance of the target will also be continued restraint of the Central Government's noninterest expenditure, especially the wage bill, and the elimination of subsidies.

Last year's slippages were mainly due to the difficulties in restoring the level of output and enhancing the profitability of the state enterprises. Tremendous efforts will still be needed to restore the viability of these enterprises, including a considerable amount of technical assistance. The pursuit and timely implementation of the divestment program will certainly be of the utmost importance.

Concerning monetary and credit policies, I have little to add to the staff report. I believe that the reduction of the outstanding credit of the public sector will be an important element in containing inflation and reducing the pressures on the exchange rate. Given the adoption of a floating exchange rate, the authorities should not hesitate to strengthen monetary conditions in order to avoid too large a depreciation of the currency, which could fuel inflation. To this end, full interest rate flexibility will be necessary, and we urge the authorities to introduce competitive bidding for treasury bill without delay.

Turning now to the external sector, improving the balance of payments position will necessitate increasing the output and competitiveness of traditional exports, as well as stimulating the development of nontraditional exports. To this end, the unification of the exchange rate is certainly an important step, which we welcome. I will not insist at this stage on the adoption of a fixed exchange rate, since the country's external reserve position is extremely precarious and the determination of such a rate could be particularly difficult. However, I fully agree with the staff that the authorities should avoid a wage-price spiral as a result of currency depreciation and that they should respond by tightening demand-management policy, if necessary. Trade and price liberalization will also be a key element in increasing economic efficiency as a whole, and stimulating the export sector. We therefore welcome the measures adopted so far.

Despite all these efforts, the attainment of external viability over the medium term remains a difficult challenge. Moreover, the period 1994-95 will be a sensitive period, given the significant amount of repayments due to the Fund. Therefore, I fully agree with the staff on the importance of Guyana accruing sufficient reserves as soon as possible in order to allow it to remain current to the Fund and other creditors.

Mr. Wright made the following statement:

I can generally endorse the comments of other speakers, particularly Mr. Esdar's. The original program agreed last year contained very little margin for slippage, and Guyana's poor performance in the second half of 1990, which was not wholly because of the factors outside of the authorities' control, is particularly disappointing. It is imperative that the authorities continue to make strenuous efforts to make necessary macro-economic--and, crucially, in this case, structural--adjustments if they have any hope of achieving viability in the medium term. The reform of the state enterprises is clearly of paramount importance here.

The outlook for Guyana's external financing is even tighter than it appeared last summer, adding to the misgivings which this chair has expressed before about the appropriateness of financing for Guyana under a stand-by arrangement. We would have been prepared to see a far higher proportion from the enhanced structural adjustment facility (ESAF), which would have made a material difference to the Fund's external financing.

Guyana also will need exceptional debt relief. Cases such as theirs underline the need for progress to be made on the issue of official debt reduction of the kind advocated by the U.K. Prime Minister in Trinidad in 1990. I hope that Guyana can be a beneficiary of such an arrangement.

Turning to the economic performance, I am unclear as to why credit growth to the private sector was so very low last year. The economy was, of course, extremely depressed, but the sharp fall in real terms in credit to the private sector nevertheless seems surprising to me, particularly since public sector borrowing took the form of arrears accumulation and interest rates remained negative in real terms.

Like Mr. Torres, I wonder why the staff is projecting a substantial fall in the real value of currency in circulation this year. The assumption seems odd, given that real interest rates are still negative and that one of the elements in the Government's fiscal package is a withholding tax on interest on resident savings. I might say in this connection that I would urge the authorities to move to a market-based interest rate system as soon as possible, to raise interest rates to a level which is positive in real terms; I am unsure about the wisdom of a fiscal measure which is likely to deter domestic saving when the external position is so precarious. I wonder whether the adoption of a competitive tender for treasury bills, which is expected in the middle of 1991, will necessarily ensure that interest rates are determined on a market basis.

On the exchange rate, the authorities have clearly been taken somewhat by surprise by the extent of the switching out of domestic currency. I note with some alarm the staff's comment that holdings of domestic financial assets remain above desired levels, which suggests to me, on the face of it, that notwithstanding the recent stability of the exchange rate, some further significant depreciation cannot be ruled out. Staff comment would be helpful. I note that limits have been placed on banks' holdings of foreign exchange, but I doubt whether this can be anything but a short-run, band-aid solution, and further evidence of convincing action on further interest rates is called for.

The external situation, as others have pointed out, remains very fragile, with exceptional financing required up to and beyond the year 2000. The first thing that strikes me about the projections in Table 12 is the crucial importance of sustained growth in the bauxite sector, which, in the staff projections, is still expected to account for about 40 percent of the value of total exports at the end of the century. This underlines the imperative requirement that the problems in this sector be addressed as soon as possible. I was also struck by the modest growth in imports, of about 7 percent a year in current U.S. dollar terms, between now and the year 2000. I wonder whether such modest growth is really consistent with the growth in the economy to which the authorities aspire.

I would also be interested in learning more about the reasons for the change in the interest rate used for the staff's projections of external interest payments in calculating the fiscal position.

Finally, I note that the social assistance program was wound up in 1990, having been ineffective partly because of shortcomings in design and administration. A new agency is now in place, which is better funded, but still has very limited resources in absolute terms. Therefore, I wonder whether it is appropriate for the agency to have the ambitious remit set out in the staff report. Perhaps the staff or Mr. Kafka can reassure me that adequate steps have been taken to make sure that the problems of design and administration which were encountered in the previous arrangement have been overcome. I can support the proposed decisions and the requested waivers.

Mr. Fridriksson made the following statement:

We are certainly disappointed that, despite some progress during 1990, quantitative performance criteria and structural benchmarks were missed in the latter half of the year. We acknowledge the fact that Guyana was hit by negative external

developments, but there were also a number of domestic policy slippages and delays in policy response.

On the economic program, I share the concerns expressed by several previous speakers. Let me just touch briefly upon a few elements of the Guyanese situation.

First, the authorities must maintain a firm grip on fiscal policy. Close monitoring of and firm discipline in current expenditures of the Central Government are crucial to the success of the program.

Second, the bulk of the improvement in the public finances during 1991 was to have originated from the public enterprises, but owing to their poor performance in 1990, their primary current account surplus is projected to fall well short of the initial target. Moreover, the improvement will mainly stem from the adjustment of the official exchange rate. I note the warning by the staff that there exists considerable potential for slippages in the public enterprise sector, which requires careful monitoring. We agree that the authorities have to stand ready to act quickly to ensure that the increased export revenues of the enterprises are utilized appropriately. They must also seek substantially to increase efficiency and productivity in the public enterprises; it seems that ambitious efforts are badly needed to overcome technical, managerial, and financial shortcomings.

Third, I note that important domestic prices and tariffs were decontrolled, and others were raised to cover production costs, at the time of the "unification" of the exchange rates. However, price controls remain in some areas, and, although the prices and tariffs in question will be reviewed by the authorities on a monthly basis, the price reform measures for 1991 appear to be below expectations. I acknowledge that no new price controls will be introduced, but will further price liberalization occur? Comment by the staff would be appreciated.

Fourth, in 1990, interest rate policy was not implemented as expected under the program. I note the intentions in this area for the current year, but would like to ask the staff to elaborate on the implementation of interest rate policy so far this year. I noted the comments in Mr. Kafka's statement on interest rate policy, but its implementation is still not clear to me.

Fifth, there is a considerable amount of interesting information in the footnotes of the staff report on Guyana. I note, for example, that the poor quality of statistical information and the large parallel economy make it difficult to estimate actual GDP. Moreover, the fact that no customs data are available on private exports and imports makes the interpretation of the balance of

payments projections difficult. It is also stated that the consumer price index ceased to be compiled by the Statistical Bureau of Guyana in June 1989 as the Government felt that it did not appropriately capture price developments. What information does the Government use, for instance, in its assessment of the level of real interest rates?

Finally, in our view, the two arrangements being discussed implied exceptional risks for the Fund already at their inception, in part due to the high access and front-loading of drawings. Unfortunately, these risks have not diminished. Despite the efforts undertaken so far, Guyana's economic situation seems to be as precarious now as at the beginning of the program period.

The staff puts it perspicuously when it states that sustained implementation of adjustment policies and further external financial support are required if undue risk to Fund resources is to be avoided. This attests to the fact that the Guyanese authorities must vigorously pursue appropriate economic policies in a timely and disciplined fashion in order to secure the much-needed bilateral and multilateral support.

With these remarks, and in acknowledgment of the Guyanese authorities' reform efforts and the fact that Guyana has stayed current with the Fund, I can approve the proposed decisions.

Mr. Abbott made the following statement:

Guyana is still in the early stages of what will undoubtedly be a long and difficult economic workout. Some significant progress has been made over the last year; there have been delays and setbacks in some areas; and gaps in the adjustment program are evident. An easy adjustment was not anticipated when the Guyanese program was adopted. We are encouraged that the Guyanese authorities have pushed forward on many fronts and in crucial areas have taken decisive actions to keep their program on track. While there are several aspects of Guyanese policy that concern us, we believe Guyana has earned the continued support of the international community and we support the proposed decisions.

In its fiscal policy, Guyana appears to have made significant strides in improving the financial position of the Central Government. However, weak performance in the state enterprise sector has dissipated a considerable amount of this gain. The original program anticipated that much-needed infrastructure investment would be financed by increased savings in the public sector. Without better performance in the public enterprises, this central element in the program is at risk. From the staff report, it is clear that the state enterprises are not only a burden on public sector finances; their operating performance has

also been weak. While lagging output can be associated with a complex of micro and macro distortions, my sense from reading between the lines of the staff report is that much more vigorous management would go a long way toward improving operating performance. In this regard, we are encouraged by the decision of the electricity corporation (GEC) to negotiate management contracts with foreign corporations and by the collaboration of the Inter-American Development Bank in this effort. Further progress on divestiture should also contribute greatly to needed supply-side improvements.

We are pleased that in February the authorities effectively unified the exchange rate, and that important prices have been decontrolled. The anecdotal reports of prompt private sector response to better pricing incentives indicate that these actions will lead to necessary rationalizations and efficiencies.

Inflation is worrisome. Corrective inflation had been anticipated in response to devaluation and price deregulation. The oil price run-up and crop losses aggravated the problem. However, the jump to a rate of inflation of 75 percent last year, and an average of 65 percent this year, is well beyond what had been anticipated when the program was adopted. Ensuring that these one-time shocks do not radiate out into a cycle of rising inflation must be an overriding priority of the authorities. The measures discussed in the staff report do not seem adequate, and I would appreciate fuller discussion by the staff.

Despite the run-up in prices, interest rates have been kept well below inflation. The buildup in domestic arrears is a fair indication that the public sector adjustment to corrective inflation is being delayed, and problems are piling up for the future. By holding a very firm line on public sector wages, the authorities have taken a major step to contain a potential breakout of inflation. But this needs to be reinforced by adequate control of money and credit. Larger than anticipated devaluation will put pressure on central bank credit as the complex foreign currency restructurings and reschedulings are translated into domestic currency. Staff projections of a sharp decline in the real money supply are consistent with what needs to be done to achieve the projection of 20 percent annualized inflation in the second half of 1991. However, the forceful and convincing monetary actions necessary to achieve this result do not seem to be contemplated. The staff report indicates that financial asset holdings now exceed desired balances, implying that lower real balances will not cause financial constraints. An alternative interpretation is that it confirms that financial policy has been too lax and that an inflationary adjustment is developing. Vague suggestions that asset holders are switching out of domestic currency and into dollars reinforces the impression of inadequate monetary discipline.

The agenda of policy reforms under way in Guyana is very long, and many of the changes require both difficult adjustments and scarce administrative skills. We are not surprised that there have been delays and slippages in implementing many of the scheduled actions. Perseverance and patience will be required. We believe the Guyanese authorities have demonstrated their commitment to continuing adjustment and that they deserve the continuing support of the international community.

Mr. Kural made the following statement:

Guyana continues to face major macroeconomic imbalances and has a continuing structural need for external development financing. The financial opening that has taken place in Guyana since 1988, and Guyana's medium-term economic recovery program (ERP), were parts of a broader economic policy which was subsequently incorporated into a policy framework paper and which was based on a market-oriented economy.

I welcome Guyana's progress under the ERP, which has focused on radically changing the severely misaligned exchange rate and domestic price structure, eliminating subsidies, and setting up a divestment program. I even more strongly appreciate the expansion of the ERP to embrace additional corrective measures, which now include a further tightening of monetary and wage policies, increasing the role of the private sector in economic development, and accelerating the timetable for implementing the measures agreed under the original program.

Although Guyana has made a substantial adjustment effort since 1988, major structural and financial problems remain. One might say the emphasis given to the chronic imbalance in the external sector and to the ramifications of the revenue measures in the 1991 program shows that the same old problems still confront the Guyanese authorities.

The effects of the overvalued exchange rate misdirected the productive potential of the official economy into unsustainable, nontradable activities. Thus, maintaining an unsustainable exchange rate by borrowing abroad only shifted the burden to the future, not only by increasing future debt service but also by aggravating the costs to low-income groups when the inevitable restructuring of production toward tradable activities eventually occurs. Over the medium term, it is also true that maintaining an overvalued exchange rate generally promotes inefficiency in the economy during a period when external conditions call for a reallocation of resources toward efficient tradable activities.

The legalization of the parallel foreign exchange market in February 1990 was a welcome step toward strengthening the balance

of payments, but the monetary sphere has been characterized since 1988 by negative real interest rates. These negative rates on financial assets generate excess liquidity in the system, produce a strong demand for foreign currency, and result in a significant spread between the official and unofficial foreign exchange rates. Can the present monetary policy measures reverse the decline in real money demand in order to withdraw the excess liquidity from the system and halt currency substitution? Could the staff comment on Guyana's monetary policy measures and the relative weights given to exchange rate developments, and domestic liquidity and interest rate considerations during the formulation of monetary policy? In this connection, what is the prospect of a credit program in 1991?

In the area of fiscal policy, reducing the share of the public sector in the economy through the divestment program is a major goal of the Guyanese authorities. Public enterprises currently burden the public sector, and a significant fiscal improvement is required for their further rehabilitation and restructuring to enhance productivity and competitiveness. The Government sought to soften the adverse effects of accelerating inflation, declining economic activity, and the underperformance of some public enterprises, first, by adopting new measures amounting to about 8 percent of GDP, and later on by increasing the primary current surplus to permit an expansion of the public sector investment program in terms of recorded GDP.

The primary current surplus, in light of the high tax rates amounting to 31.3 percent of GDP in the revised 1991 program, represents an attempt to further improve the statistical issues, which are also addressed in the staff report. It is important to analyze both the sources and the volume of parallel market activity, since it has significant implications for the setting of fiscal and monetary policies. The official statistics (e.g., national income and prices) distort the actual levels in proportion to the volume of the parallel or unrecorded economy. Perhaps the staff could comment on the possible size of Guyana's unrecorded economy: is there any positive statistical correlation between the current tax rate and the size of the unrecorded economy in Guyana?

Let me now stress the importance of providing social services by raising productivity and real incomes. I welcome the priority the authorities are now giving to the Social Impact Amelioration Program (SIMAP), and I fully share the staff's view that special attention should promptly be given to the implementation of social projects to prevent the spread of inequality, unemployment, and social deprivation. I accordingly support the proposed decision.

Mr. Ichikawa made the following statement:

The performance of the Guyanese economy in 1990 was disappointing. The performance criteria were breached on almost every front, and economic growth fell sharply by 3.5 percent, whereas the program assumed 3 percent growth.

It was already recognized at the time of the Board's approval of the program in July 1990 that the situation was extremely vulnerable and that there was no room for slippages in the program. In fact, adverse weather conditions and labor unrest damaged the exporting sector considerably. Furthermore, policy slippages in the monetary and structural areas have contributed to the deterioration.

We welcome the progress achieved in the Central Government's fiscal adjustment, following intensified efforts in adverse circumstances. However, the sharp deterioration in the parastatal sector, owing to continued operational deficiencies, has more than offset the gain. The public sector as a whole is still contributing to dissavings.

The lack of reliable price statistics and the absence of timely adjustments of interest rates have amplified the inflationary pressure of the sharp depreciation in the cambio market.

While the current account deficit has decreased, this was the result of a contraction in imports resulting from the decline in growth. The sharp depreciation in the cambio market is a dangerous sign, indicating a loss of confidence in the economy.

Against this background, the 1991 program was formulated with prior actions in exchange rate and fiscal policies. Notwithstanding the prior actions and policy tightening, the program targets had to be significantly lowered, reflecting the significant deviation in 1990.

I believe that it is essential at this stage to concentrate on the stabilization of the economy; however, there is still uncertainty in the program, and we would emphasize again that there is no room for slippage.

I have little to add to the staff appraisal of the details of the program. The key to restoring confidence in Guyanese dollars and the economy is timely implementation of monetary tightening and improvement of public sector finance. With respect to the latter, in addition to consolidating the central government fiscal adjustment, continued attention should be paid to the financial position of the three largest public enterprises. The slippages

in the last two years require vigorous efforts to improve management and operational efficiency.

I welcome the progress in unification and market orientation of the exchange rate. However, monetary policy needs to be firm enough to support exchange rate stability. I wonder whether the current scheme of official control of interest rates might not risk timely adjustment of the rate in the face of abrupt structural change in the economy.

The poor medium-term prospects are a source of concern. While I believe that the program should be strengthened further over the medium term, much uncertainty remains at this juncture. In light of the immediate need to prevent the deterioration of the economy, and the prior actions taken for this purpose, I can go along with the proposed decision. However, formidable concern remains about medium-term issues, and the Board will have to return to these at the next review discussion.

The staff representative from the Western Hemisphere Department explained that the conversion of frozen reserves into medium-term debentures would not have an impact on the servicing of public debt because interest was paid on those reserves, which were basically held in treasury bills and special deposits at the Bank of Guyana. The frozen reserves that were to be converted were not those held to meet the reserve requirement, on which no interest was paid.

The main cause of the continuing emigration seemed to be the state of the infrastructure, despite the changes that had been made in recent years, the staff representative went on. Even people with good jobs in the private sector emigrated because of the inadequacy of various public services, including education and health facilities, as well as the lack of a reliable supply of electricity, which many overcame by running their own generators. The availability of good job opportunities in the private sector, as a result of the many measures and economic incentives that had been put in place, would not be enough to stem the outflow of people if an adequate social and economic infrastructure was not put in place. That was why the staff attached so much importance to the public sector investment program, and the need to reverse the process of deterioration of the infrastructure.

It was true that the Social Impact Amelioration Program (SIMAP) had been beset by many problems, the staff representative commented. Even the emergency social program had not materialized to the extent expected. However, an Inter-American Development Bank grant for SIMAP had just been signed, and no further delays were foreseen so that the SIMAP could now be implemented as planned. While the program might seem ambitious given the past difficulties, it was actually modest in scope and, fortunately, it was not the only one of its type. The Canadian Hunger Foundation, in association with other nongovernmental agencies, was also implementing a similar type of program. Once those programs gained momentum, they should

lead to progress in what was an important area, given the major impact of the adjustment program on prices of basic commodities and the effects on the more vulnerable segments of the population.

The projected growth of imports did appear to be modest, particularly in light of the rate of growth of GDP assumed in the program, the staff representative observed. That was a reflection of one of the underlying problems mentioned in the staff report, namely, the fact that not all imports were being recorded in the balance of payments. As with GDP, there were no reliable estimates of the extent of nonrecording, so that it was difficult to assess to what extent the projections might tend to overestimate or underestimate the underlying trends. An estimate of an import demand function would have been useful in that regard, both for preparing data on GDP and the national income accounts, as well as for projecting imports, but that had not been possible given the data constraints. Nonetheless, the staff believed that the projected increase in imports--at least in terms of officially recorded imports--would be consistent with the assumed rate of growth of GDP. The Guyanese authorities were receiving technical assistance on improving their statistics, and it should be possible to provide more realistic projections for the medium term.

Estimates of the size of the parallel economy ranged from as little as 50 percent up to 100 percent, or more, the staff representative commented. The visible evidence--in terms of activity in the cambio market and other reported economic activity--suggested that it was sizable. Certainly, tax rates were one of the main elements contributing to the existence of the parallel economy. As activity went underground, the tax base narrowed, and, in what was a vicious circle, the Government was forced to increase tax rates or maintain them at high levels. The consumption tax, and tariffs, which had a multiplicative effect, imposed a tax burden that drove many private sector activities underground. The authorities' further efforts within the context of the 1991 budget, in particular, to bring down tax rates and thereby enable them to broaden the tax base and eventually merge the two economies, were encouraging. The ultimate goal of exchange rate unification, and of other measures adopted under the program--including the liberalization of trade and elimination of price controls, and the review of the tax system, including the consumption tax which was being studied with the technical assistance of the World Bank--was indeed to merge the two economies.

Interest rates and monetary policy had been the main area of concern, the staff representative observed. For instance, it was difficult to assess how tight was monetary policy, whether there was still an overhang of liquidity, and if so, what was its potential impact on exchange rate developments, and what could be done to deal with the overhang.

It was particularly difficult to determine what would be an adequate level of interest rates for Guyana currently, the staff representative said. With the acceleration of inflation in the second half of 1990, at a rate double that of the first half of the year, and with interest rates that were maintained at about 30 percent, the level of interest rates had become

significantly negative in real terms. It should be noted, however, that a large increase in nominal interest rates--from 14 percent to 40 percent--had been provided for at the beginning of the Fund-monitored program, in 1989. Those higher rates had been maintained over the second half of 1989, when inflation had dropped to about 30 percent a year or even less. Interest rates had thus not been consistently negative since the inception of the ERP. It also had to be borne in mind that the inflation rates that had been recorded included large elements of corrective inflation, which again made it difficult to determine an interest rate level that would be consistent with the expected rate of ongoing inflation.

In the first quarter of 1991, interest rates had risen only slightly, by 2 1/2 percentage points, the staff representative continued. The rate of inflation had been substantial, but it included a major element of corrective inflation stemming from the unification of the exchange rate, the liberalization of many prices, and the adjustment of other prices to reflect the effects of the devaluation. Furthermore, the situation had stabilized in the previous six weeks, during which period the exchange rate had been stable and the pressures on prices had not been as great. On the basis of those most recent developments it could even be argued that the current interest rate of 34-35 percent was too high, but that was not necessarily the case. That was why the staff attached so much importance to moving as fast as possible to competitive bidding for treasury bills. The special issue of treasury bills, to be auctioned at the end of April and in May to nonbanks, would also offer an indication of the market interest rate level.

The small increase in credit to the private sector in 1990, despite the existence of interest rates that were highly negative in real terms, had puzzled the staff also, the staff representative said. Part of the explanation might be the high debt-equity ratio of many private companies in the manufacturing and other sectors, given the many years of negative real interest rates, as well as the steep cost of borrowing, in terms of nominal interest rates, for nonexport-related sectors of the domestic economy. For such companies, there might be no incentive to borrow, even if interest rates for the economy as a whole were negative. In addition, the banking system in Guyana was not highly competitive; of the five banks, one held 75 percent of credit to the private sector, and the quality of that bank's portfolio had been undergoing scrutiny, with new loans being extended only on a very cautious basis. Certainly, negative interest rates had been an important element in the large depreciation of the cambio rate in 1990 and in February 1991. Again, the difficulty of determining an appropriate level of interest rates under current circumstances was the reason why the staff was urging a move to competitive bidding as soon as possible.

As for whether the move to competitive bidding would result in interest rates that were positive in real terms, and at what levels, the outcome of the treasury bill auctions could not be guaranteed, the staff representative noted. The Fund had been requested to provide technical assistance in establishing a forecasting framework for determining the amount of bills to be auctioned. Problems might be encountered at the outset, owing to the undeveloped nature of the financial system, but the staff was confident that

the authorities were determined to introduce competitive bidding as agreed and that, ultimately, that measure would be of major benefit in providing appropriate signals as regards the level of interest rates.

On the related issue of the overhang of liquidity, the authorities had wished, when the Fund-monitored program had been introduced, to avoid an expansion of liquidity stemming from the excess reserves of commercial banks that threatened to complicate the conduct of monetary policy on the basis of fixed interest rates, the staff representative recalled. The authorities had decided to freeze those excess reserves and convert them into medium-term debentures, which they were now in the process of doing, with a delay. Even following the freeze, banks' reserves had consistently exceeded the level of the freeze, and by widening amounts, so that the authorities had had to increase the level--on the latest occasion, in July 1990. The existence of excess reserves was consistent with the lack of buoyant demand for credit by the private sector.

Given the large movements in the cambio rate in 1990, the fact that the economy previously had been beset by restrictions from which it had now been freed, and the indications of a shift in portfolio composition and other elements that were difficult to quantify, the staff had adopted a conservative approach in estimating the demand for liquid assets in the 1991 program, the staff representative stated. Thus, it had again been assumed that there was a level of unwanted balances in the economy, with the result that there may be a negative shift in the demand for Guyanese dollars during 1991, calling for the credit program to be based on a decline in the demand for money in real terms. The price and exchange rate movements in 1990, and possibly also those in early 1991, together with the more recent stabilization of the cambio exchange rate, had led the staff to believe that most, if not all, of the excess balances might have been absorbed by the increase in prices. Nevertheless, the staff had made conservative estimates, and fiscal policy had been designed in such a way that the domestic borrowing requirements of the public sector would be negative, so that there would be a reduction in the stock of domestic public debt. Under those assumptions, the inflation and exchange rate developments that could be anticipated for the rest of the current year should be fairly closely in line with the assumptions under the program.

The authorities were prepared to respond to any changes in the cambio rate that deviated from the projections in the program, as they had already done in March/April 1991, and they were prepared to tighten further the stance of monetary policy if that was appropriate, the staff representative said. Again, the lack of good estimates of the demand for money, and the absence of reliable GDP statistics, complicated the management of monetary policy, and the staff hoped that the technical assistance being provided to Guyana would improve that situation, slowly but surely.

The Paris Club debt rescheduling had been on contractual terms, and although debt service had not been reduced, rescheduling of debt and debt-servicing arrears had been granted, the staff representative from the Western Hemisphere Department commented, thus providing an accompanying

element of financing. As reported in the public sector accounts, scheduled debt-service payments exceeded the amounts proposed by 21 percent of GDP, but the available financing was also increased by the equivalent of 21 percentage points, so that the cash position in the two fiscal programs did not differ. Obviously, however, the result would be a buildup of debt that would eventually have to be repaid.

Mr. Kafka thanked Executive Directors for their interest and for recognizing the extraordinarily difficult situation in which Guyana found itself, and the even more difficult situation it had confronted at the inception of the program.

The appropriate comparison was not with the normal adjustment program of a less developed country, Mr. Kafka commented, but, considering the depth of disruption of the Guyanese economy at the start of the program, with the reforms that had to be undertaken in the countries of Eastern Europe. Guyana had shown remarkable decisiveness, the best example of which--and it had not been an easy decision--was the early unification of the exchange rates. It was that very decision that had revealed the shoestring of resources, particularly external resources, on which Guyana operated. For a small country like Guyana, a modest addition to its exchange reserves--of even $1-2 million--could have averted the subsequent explosion of the cambio rate on a market that was dominated by a handful of operators, and was at best oligopolistic.

The Executive Board then took the following decisions:

Exchange System

Guyana maintains the following exchange measures that are subject to approval under Article VIII, Sections 2(a) and 3: (a) the restrictions evidenced by external payments arrears to commercial banks; and (b) the segregation of the exchange market of Guyana into an official and a "cambio" market, as described in EBS/91/64, which may give rise to multiple exchange rates. The Fund notes the intention of the authorities to take steps soon to avoid large spreads between the official and the "cambio" exchange rates, and grants approval of the retention by Guyana of the multiple currency practice described under (b) above until September 30, 1991 or the next Article IV consultation with Guyana, whichever is earlier.

Decision No. 9720-(91/63), adopted
April 24, 1991

Stand-By Arrangement - Review and Extension

1. Guyana has consulted with the Fund in accordance with paragraph 4(b) of the stand-by arrangement for Guyana (EBS/90/125, Sup. 2) and the last paragraph of the letter dated June 17, 1990

from the Minister of Finance and the Governor of the Bank of Guyana, in order to review the progress made in implementing the policies described in the Memorandum on the Economic and Financial Policies of Guyana annexed to the letter dated June 17, 1990, and to reach understandings with the Fund on the extension of the period of the arrangement, the phasing of purchases, and the establishment of performance clauses for the remaining period of the stand-by arrangement.

2. The letter dated April 11, 1991, from the Minister of Finance and the Governor of the Bank of Guyana, with attached Memorandum on the Economic and Financial Policies of Guyana, and Technical Memorandum of Understanding and tables, shall be annexed to the stand-by arrangement for Guyana, and the letter with attached memorandum and tables from the Minister of Finance and the Governor of the Bank of Guyana, dated June 17, 1990, shall be read as modified and supplemented by the letter dated April 11, 1991, with attached memorandum and tables.

3. Accordingly, paragraphs 1 and 2(a) of the stand-by arrangement for Guyana (EBS/90/125, Sup. 2) shall be amended to read as follows:

> 1. For the period from July 13, 1990 to December 31, 1991, Guyana will have the right to make purchases from the Fund in an amount equivalent to SDR 49.5 million, subject to paragraphs 2, 3, 4, 5, and 6 below, without further review by the Fund.
>
> 2. (a) Purchases under this stand-by arrangement shall not, without the consent of the Fund, exceed the equivalent of SDR 39.68 million until November 15, 1990; the equivalent of SDR 42.96 million until August 15, 1991; and the equivalent of SDR 46.24 million until November 15, 1991.

4. Moreover, paragraphs 4(a) and (b) of the stand-by arrangement for Guyana (EBS/90/125, Sup. 2) shall be amended to read as follows:

> 4. Guyana will not make purchases under the stand-by arrangement for Guyana that would increase the Fund's holdings of Guyana's currency in the credit tranches beyond 25 percent of quota or increase the Fund's holdings of that currency resulting from purchases of borrowed resources beyond 12.5 percent of quota:
>
> (a) during any period in which the data at the end of the preceding quarter indicate that:
>
> (i) the targets for the net foreign assets of the Bank of Guyana, or the subtargets for the gross

international reserves of the Bank of Guyana specified in paragraphs 1 to 6 of the Technical Memorandum of Understanding; or

(ii) the ceiling on net domestic assets of the Bank of Guyana specified in paragraphs 7 and 8 of the Technical Memorandum of Understanding; or

(iii) the ceiling on the net borrowing requirement of the nonfinancial public sector, or the subceiling on its net domestic borrowing requirement, specified in paragraphs 9 to 13 of the Technical Memorandum of Understanding; or

(iv) the ceiling on the contracting of public or publicly guaranteed external debt with a maturity of 12 years or less, specified in paragraph 17 of the Technical Memorandum of Understanding,

is not observed; or

(b) if the intention

(i) to avoid external payments arrears of the public sector, as specified in paragraphs 14 to 16 of the Technical Memorandum of Understanding; or

(ii) to implement the exchange rate policy specified in paragraphs 18 and 19 of the Technical Memorandum of Understanding and in Table 5 attached thereto; or

(iii) to implement the monetary and interest rate policies specified in Table 5 attached to the Technical Memorandum of Understanding,

is not carried out; or

(c) after August 14, 1991 until the review contemplated in the attached letter has been completed; or

5. Paragraph 4(c) of the stand-by arrangement for Guyana (EBS/90/125, Sup. 2) shall be renumbered as paragraph 4(d).

6. The Fund decides that the review contemplated in paragraph 4(b) of the stand-by arrangement for Guyana (EBS/90/125, Sup. 2) is completed.

Decision No. 9721-(91/63), adopted
April 24, 1991

Enhanced Structural Adjustment Facility - Review under First Annual Arrangement

1. The Fund determines that the midterm review specified in paragraph 2(c) of the first annual arrangement under the enhanced structural adjustment facility (ESAF) for Guyana (EBS/90/125, Sup. 3) has been completed.

2. The letter from the Minister of Finance and the Governor of the Bank of Guyana dated April 11, 1991, with attached Memorandum on the Economic and Financial Policies of Guyana, and Technical Memorandum of Understanding and tables, shall be annexed to the first annual arrangement under the ESAF for Guyana, and the letter with attached memorandum and tables from the Minister of Finance and the Governor of the Bank of Guyana, dated June 17, 1990, shall be read as modified and supplemented by the letter dated April 11, 1991, with attached memorandum and tables. Accordingly, the indicators referred to in paragraph 3(a) of the first annual arrangement under the ESAF for Guyana shall include the financial benchmarks for the period through June 1991 and the indicative financial benchmarks for the period through December 1991, referred to in the attached memorandum and tables.

3. The Fund finds that no further understandings are necessary and that Guyana may proceed to request the disbursement of the second loan referred to in paragraph 1(c)(ii) of the first annual arrangement, notwithstanding the nonobservance of the performance criteria referred to in paragraphs 2(a)(i), 2(a)(ii), and 2(a)(iii) of the first annual arrangement under the ESAF for Guyana.

Decision No. 9722-(91/63), adopted
April 24, 1991

3. OVERDUE FINANCIAL OBLIGATIONS - SPECIAL CHARGES - SUSPENSION OF APPLICATION IN GENERAL RESOURCES ACCOUNT

The Executive Directors, following the agreement in principle reached during their discussion of the six-monthly report on overdue financial obligations (EBM/91/42, 3/25/91), considered a staff paper on the suspension of the application of special charges in the General Resources Account for those members actively cooperating with the Fund under a Fund-monitored or rights accumulation program (EBS/91/66, 4/15/91; and Cor. 1, 4/18/91).

Mr. Végh recalled that as mentioned by his chair on March 25, 1991, he supported the suspension of the application of special charges in the General Resources Account from the beginning of financial year 1991 for those members that were actively cooperating with the Fund.

While he could go along with the proposed decision, he would have preferred a clearer and uniform signal for all members in a similar

situation of renewing cooperation with the Fund. Therefore, eventually, he would also support, first, the application of the decision to other members which had also incurred protracted arrears but which after end-1989 were seriously cooperating with the Fund toward their settlement and satisfying the criteria in that regard; second, a somewhat longer technical grace period for newly maturing obligations of eligible members, standard in many official bilateral agreements, of, say, 20 business days before such special charges again became applicable; and third, the termination of the suspension in case of failure to comply with reduced ceilings on arrears in the future, taking into account exogenous factors affecting a member's payment capacity, including the availability of compensatory financing.

Mr. Gurumurthi said that the proposal in the staff paper to extend the coverage for the proposed suspension of special charges to those countries which were judged to be cooperating with the Fund with respect to their overdue obligations was welcome. That modification was a good improvement and would give some relief to countries like Peru and Viet Nam that were actively cooperating with the Fund to clear their arrears. However, he was not sure whether the system of special charges itself should be continued.

In the first place, Mr. Gurumurthi commented, while special charges had been introduced with a view to removing the concessionality in the Fund's rate of charge for those countries that fell into arrears, in practice, their impact had been very limited. It was true that special charges had helped to reduce the rate of charge retroactively during the current financial year. The fact remained, however, that special charges to the tune of SDR 25 million had been realized, either from those countries that had cleared their arrears altogether or those that were meeting their current obligations, whereas 89 percent of outstanding overdue special charges were due from four members, and eight ineligible members accounted for virtually all the special charges that had accrued so far in financial year 1991.

Even though special charges were not subject to burden sharing, refunds to creditors and debtors could increase, in the absence of special charges, when piecemeal payments were received from overdue members from time to time, Mr. Gurumurthi added. As special charges had not proved to be a disincentive to countries in arrears to the Fund, their suspension might not act as an incentive either. Also, he did not see the logic behind restricting eligibility for the proposed suspension of special charges only to those countries in protracted arrears at the end of 1989. An independent view must be taken, without linking special charges to the strengthened arrears strategy covering the 11 overdue members in protracted arrears to the Fund at the end of December 1989. It could not be ruled out that countries might fall back into arrears at a future date, for reasons beyond their control, while they were undertaking sincere steps to clear outstanding arrears. Would it be right to deny those countries the benefit of suspending special charges?

In addition, his chair felt that the administration of special charges, in accordance with the proposed decision, might prove to be complex and

cumbersome, Mr. Gurumurthi remarked. In that connection, he pointed out that the World Bank did not charge any interest on its interest arrears, and that the Joint Audit Committee report had expressed the view that charging interest on overdue interest was unlikely to influence a country's ability to pay on time, and could even exacerbate the problem. He wondered whether the same reasoning would not apply to the levy of special charges by the Fund. Considering all those factors, his chair recommended that special charges be abolished, instead of being selectively applied, as proposed.

Mr. Ismael said that he welcomed the proposal to implement a suspension of special charges in the General Resources Account. In his opinion, it was entirely appropriate that special charges should not be imposed on members in protracted arrears that were judged to be cooperating with the Fund. He could go along with the criteria for cooperation being proposed, namely, that a member be making payments at least equivalent to obligations falling due and that it be regarded by the Executive Board as cooperating with the Fund in the area of economic policies at the time the application of special charges was suspended. He could also go along with a grace period of ten business days to allow for the possibility of technical delays before special charges were reapplied.

He did, however, have one concern, namely, that of equity of treatment, Mr. Ismael observed. In all fairness, it would seem to be appropriate to give retroactive suspension of special charges to members with a track record of cooperation, including members that had become current in all payments to the Fund. Nonetheless, the arguments presented by the staff against retroactivity were compelling, particularly with respect to the question of how refunds would be financed, so he would not insist on it. However, if there would be a majority in favor of retroactivity, he could certainly lend his support to it.

His concern, Mr. Ismael continued, was that according to the staff's proposal, members that had begun the process of cooperation earlier, instead of being rewarded, were at a disadvantage because their arrears had to be maintained at a level determined on an earlier date--in one case, more than two years earlier than the date the proposed decision was to become effective. Because the member had committed itself, under a program of active cooperation with the Fund, to keep arrears at no higher than a specified ceiling, he could understand the Board's reluctance to increase the ceiling that had been set. But he wondered whether it might not be possible, while in principle maintaining the said ceiling, to allow a certain leeway, for example, by giving a longer grace period than ten days before reimposing special charges, if the arrears did not increase beyond the ceiling and including the special charges that had already been paid from the date the member started its active cooperation with the Fund. He would welcome comments from Directors and from the staff on that alternative. Needless to say, he looked forward to a discussion of the possible elimination of the system of special charges.

Mr. Goos said that he could support the proposed decision. The suspension of special charges on overdue financial obligations to the Fund

could certainly provide further incentives for members currently in protracted arrears to resume full cooperation with the Fund, and that would clearly be in the interest of the institution. At the same time, however, it was not clear to what extent the proposal might give rise to problems of moral hazard and difficult discussions in the Board. Such discussions might be most likely to arise when it came to assessing the degree of cooperation on adjustment policies, which was often a matter of judgment, most notably in circumstances where a weakening in economic and financial cooperation followed an initial suspension of special charges, and where the reimposition of such charges might be indicated. But those risks could be minimized if the Board concentrated appropriately, in assessing the degree of cooperation, on the payments performance of the member.

Ms. Creane noted that as her chair had stated during the review of the arrears strategy, the U.S. authorities had some concern about the costs of suspending special charges. Nonetheless, they were prepared to agree that, for countries showing a high degree of cooperation with the Fund, the suspension of special charges could be a strong incentive to continue or advance their efforts. Therefore, for those countries, her authorities would be willing to switch the use of special charges from a "stick" to a "carrot" approach.

At the previous meeting on the review of overdue obligations to the Fund, her chair, along with many other Directors, had also been in favor of showing some flexibility in determining the standard of cooperation, Ms. Creane recalled. Specifically, it had been suggested that eligibility be based both on the member remaining current in its payments above a certain level of arrears, and on adherence to an economic adjustment program--but not necessarily a formally sanctioned Fund-monitored program.

In all their details, the staff paper and proposed decision accurately drew the logical conclusions from the views expressed by the Board, and her chair fully supported the decision, Ms. Creane said. It might not be long before the effectiveness of the "carrot" approach was tested, but although Panama, Peru, and Zambia should be eligible for the suspension of special charges as of May 1, 1991, Vietnam's arrears had yet to be reduced to the specified level before the suspension could become effective.

Mr. Torres recalled that during the Board's previous discussion on the evaluation of the arrears strategy, the majority view was that the accrual of special charges was increasing the difficulty of members with protracted arrears in settling overdue obligations to the Fund. Furthermore, many Directors shared the staff's view that in those cases, "special charges may have a minor effect in influencing a member's decision to repay the Fund once overdue obligations have accumulated to a substantial level."

Therefore, Mr. Torres considered, the framework for the decision on the suspension of special charges should be, on the one hand, the Board's views on special charges and, on the other hand, the consensus on the criteria used by the Board to establish whether a member was actively cooperating with the Fund, namely, payment performance and the adoption of appropriate

economic and financial policies. According to his understanding of paragraph 4 of the proposed decision, those basic principles had not been observed. First, special charges were once again, in the case of protracted arrears, supposed to act as a deterrence measure in a very inflexible way, since they were to be used as a penalty for delays in payment of future maturing obligations. Second, the criteria for evaluating a member's active cooperation with the Fund were reduced to the criterion of the payment performance with a margin of only ten days to clear maturing obligations, or, in other words, a period during which arrears were considered to be technical. Hence, after that short period of time, a member that might be implementing an economic program and have a cash flow problem would be in the same situation as other members that were neither implementing appropriate economic policies nor making any payment to the Fund.

He had some difficulties with the automatic evaluation of cooperation introduced in the decision by paragraph 4, thereby jeopardizing the possible benefits of a suspension of special charges for the solution of the arrears problem, Mr. Torres stated. Consequently, he considered that it would be more desirable for the Board to evaluate the re-establishment of special charges for any member during the Board's periodic review of the member's overdue financial obligation to the Fund, during which a member's cooperation with the Fund was evaluated. Therefore, he suggested that paragraph 4 should be amended to reflect that concept of cooperation.

Nevertheless, Mr. Torres said that he considered the proposed decision, with his suggested amendment, to be temporary until the review of the system of special charges was completed. He expected that at that time, all the deficiencies of the current system mentioned already by many Directors during the previous review of overdue financial obligations to the Fund would be addressed.

Mr. Wright recalled that as he had noted during the Board's discussion of the arrears strategy in March 1991, special charges had an important role in deterring the emergence of arrears, and there seemed to be some evidence that they were working. But, in cases such as those being considered, where deterrence had failed and arrears had become protracted, special charges could weaken a member's incentive to cooperate and make the clearance of arrears more difficult. He had suggested that there might be a case for suspending special charges altogether for members in protracted arrears. However, as other Directors had correctly pointed out, whatever the theoretical merits, that would send a perverse signal to the members that were not cooperating with the Fund of a kind which could not be contemplated. Therefore, he supported the more limited proposal before the Board, which would make it significantly easier for members in protracted arrears and cooperating with the Fund to meet their obligations falling due.

In general, the adoption of appropriate economic policies must be part of the initial test of cooperation for members in protracted arrears to the Fund, Mr. Wright stated. After all, there could be little prospect of a sustained improvement in a member's payments capacity without strong policies. But he accepted that once the Board had decided that a member's

policies were broadly satisfactory, a continuing test based primarily on payments performance would be the most simple and objective means of determining whether special charges should be suspended in individual cases. Like Mr. Goos, he very much hoped that emphasis on payments performance would avoid the need for a protracted debate on the extent of each member's cooperation every time the Board reviewed a member's overdue obligations.

Mr. Saha recalled that during the Board's discussion on the six-monthly report on overdue financial obligations to the Fund in March, his chair had supported the proposal for the selective suspension of special charges, despite a preference for the abolition of the system altogether, for reasons that were well known. With respect to the proposed decision, his chair was of the view that reimposing special charges when there was a delay of ten business days in the discharge by a member of any newly maturing obligations would impose an undue burden on the countries implementing comprehensive Fund-monitored programs or otherwise actively cooperating with the Fund. Ten business days was too short a period to deal with technical and administrative problems that added to the cause of the delays. Nevertheless, he could support the proposed decision with a provision that the number of ten business days be extended to a full month or to 28 business days, as suggested by Mr. Végh.

Mr. Monyake remarked that he hoped that Mr. Wright could give some examples of the success of special charges in dealing with protracted arrears.

Mr. Wright commented that he had been referring to a statement in the staff paper that the Board had discussed in March, citing evidence of the initial deterrent effect, not of the effect on countries in protracted arrears.

Mr. Monyake reiterated that he had a problem with the approach. The contention of his chair had been that the application of special charges was an anomaly in the strategy for resolving the problem of protracted arrears, and, more specifically, for resolving the problem of protracted arrears that did not arise because countries were deliberately deciding that they would not pay. In such cases, imposing further punishment could surely not be called an incentive, which was usually taken to mean a step taken in anticipation of a reward. A penalty was not rewarding at all, and it could not be an incentive. The Board should take the opportunity to try to correct that anomaly.

The staff, in raising the matter of suspension in its paper on progress under the cooperative strategy, had left him with the conclusion that special charges only worsened the debt burden of countries already unable to repay the Fund, Mr. Monyake continued. His own point of departure had been that special charges should be abolished. In proposing criteria for the selective suspension of special charges, the staff recalled that payments performance and the strength of the adjustment effort were already used as guideposts. It was the suggestion that greater weight should be placed on the former that posed a potential problem, namely, with respect to a member

in protracted arrears that was doing fairly well in implementing corrective policies but that was unable to meet payments as they fell due, not because of deliberate unwillingness to pay but because the necessary foreign exchange was simply not available. The economy had reached such a low point that the funds needed to keep up with payments simply could not be mobilized. In his judgment, a member in that situation should not be viewed as failing to cooperate with the Fund and thus as being ineligible to benefit from the suspension of special charges.

Moreover, Mr. Monyake went on, the availability of foreign exchange for such a member was subject to certain major factors that were beyond the authorities' control, in a variety of cases, whereas the adjustment effort was largely a matter of the determination to act by the authorities themselves. It would not be helpful to emphasize only the exogenous circumstances affecting the payments criterion, without giving due recognition to the largely endogenous adjustment effort. Indeed, it had become all too clear to him that assessing the member's cooperation with the Fund was a matter for discretion, rather than for strict rules. Of course, too much discretion would open the door to unequal treatment. But all in all, he did not believe that the straight elimination of special charges would be seen as a lack of determination on the Fund's part to resolve the matter of protracted overdue obligations.

On the matter of the retroactive application of the suspension and reimposition of special charges, Mr. Monyake said that it should not be forgotten that the main objective--at least as he saw it--was to lessen the burden, both on the member country and on the creditors and donors who were expected to mobilize funds in order to help the member clear its arrears. Retroactive suspension would go a long way toward facilitating that objective, and he was not sure that the explanations given in footnote 2 on page 3 were sufficient to rule out the Board's returning to that issue at some time in the near future. The reimposition of charges, if a member failed to settle any maturing obligations to the Fund, seemed to revert to the concept of overdue obligations as a symptom of a temporary liquidity shortage on the part of member countries. As his chair had indicated in the past, the shortage of funds was not a temporary phenomenon but one with deep-rooted causes that would take time to deal with.

It would be clear from the trend of his remarks that the proposed decision confronted him with a real problem, Mr. Monyake concluded. He had no difficulty with the proposed suspension of special charges for the members listed in paragraph 2. If the abolition of special charges, which was his preferred position, was not possible, those that could benefit from the suspension of charges should be allowed to do so. But he could not accept the conditions laid down in paragraphs 3 and 4 of the proposed decision relating to the criteria for the suspension and reimposition of special charges.

Mr. Prader recalled that from the beginning of the debate on special charges, his chair had expressed doubts about the usefulness of introducing special charges as a remedial or punitive measure for countries in arrears

to the Fund. As it turned out, special charges had had an ambivalent effect. One of the negative effects was apparently that they added to the cost of Fund-monitored and rights accumulation programs, so that in the end it was the donors and the financial community at large that would have to bear the cost of special charges.

Yet it might be useful to use special charges in a positive sense, and to differentiate between different categories of countries in arrears, Mr. Prader considered. To that extent, the proposed suspension of special charges for countries that were apparently cooperating with the Fund might be beneficial, at least from the point of view of distinguishing between countries making an effort and those ignoring the Fund. To prevent an erosion of the concept through a lack of clearcut criteria, however, he would insist on the strict implementation of the staff's criterion for granting suspension, namely, that only countries in arrears that made payments at least equivalent to obligations falling due would be exempt from special charges.

Mr. Ichikawa noted that as his chair had indicated at the Board's previous discussion of overdue financial obligations to the Fund, his authorities could support the proposed decision on the suspension of special charges. That being said, they believed that, in accordance with the Fund's accounting practices, the continuation of special charges as a general rule was fully justified, and that suspension should be regarded as an exceptional measure to increase the incentive for cooperation. In addition, his authorities did not rule out the possibility of a further extension of the incentive, as proposed by some Directors during the present meeting. He had taken note of the proposals that had been made for future review of the matter. However, at the current stage, his authorities preferred to follow a prudent approach and support the staff proposal as it stood.

Mr. Cirelli stated that it had not been an easy task for the staff to find appropriate objective criteria. But the proposed decision appeared to sit well with the requests made during the Board's previous discussion; therefore, he endorsed its main thrust. Second, he could go along with the flexibility in the new system that was provided by the 10-day grace period, although he was prepared to accept a longer period of, say, 15 or 20 days, to take into account administrative delays, as mentioned by Mr. Saha. Third, like Mr. Ismael and Mr. Monyake, he believed that it was important to treat members equally. As Mr. Ismael had said, it was somewhat puzzling that the active pursuit of cooperation with the Fund over a lengthy period was not to be fully rewarded. He could therefore support Mr. Ismael's alternative proposal for applying the grace period.

Fourth and finally, Mr. Cirelli said that he agreed that Viet Nam should reduce the level of its arrears in order to benefit from the proposed decision. He also asked the staff why Panama's arrears level had not been set as of January 1, in line with the Board's consistent request to Panama to reduce its arrears to that level, given that the budgetary appropriations had been made and that the retention of that date would have provided an incentive to Panama.

Mr. Meron said that he supported the proposed decision. The Fund, in suspending the payment of special charges by those members that undertook not to increase their overdue obligations, was applying a welcome objective criterion.

The proposed decision did not specify how long those members with protracted arrears that were not listed in paragraph 2 would have to remain current on obligations falling due before they qualified for the suspension of special charges, Mr. Meron observed. He was concerned that determining the period on a case-by-case basis might create a problem of unequal treatment.

Mr. Al-Jasser remarked that he preferred not to dwell on the question of special charges in general, by reopening the debate that the Board would be returning to in the not too distant future, and he would restrict his comments to the proposed decision. He was in broad agreement with the staff proposal regarding the suspension of special charges for those members that were cooperating with the Fund. In that respect, he agreed with the staff that the criterion of payments performance should be given heavy weight in assessing cooperation. Moreover, the possible extension of the suggested list of members that began to cooperate with the Fund, subject to an appropriate period of cooperation, was reasonable. He also endorsed the staff suggestion that the suspension of special charges would be lifted if a member no longer cooperated with the Fund, and that special charges would be reimposed if a cooperating member failed to settle a maturing obligation within ten days. He supported the proposed decision.

Mr. Fogelholm said that he could support the proposed decision. However, like some other Directors, he was very doubtful about the usefulness and effectiveness of the whole system of special charges. In order to retain the system, the Board would have to be convinced that it was fulfilling its original purpose. If that was not the case, and in keeping with the discussion of the administrative budget at the previous meeting (EBM/91/62), special charges would seem to be an excellent candidate for a function that could be abolished. The decision that the Board was about to take would not render the system easier to manage--on the contrary, it would only make it more expensive to maintain.

Mr. Chatah said that his chair could join the consensus on the proposed decision, while at the same time not finding the proposed course of action to be the most desirable one. There were alternative approaches that could achieve most of the underlying objectives without the risks and hazards mentioned by a number of speakers. He would not elaborate on those possible alternatives, because as he understood it, the Board had agreed at its previous meeting simply to approve the decision and to return to the issue later.

However, he had two points to make on the proposed decision, Mr. Chatah said. First, while the proposal would help to mitigate the incremental burden that special charges placed on the settlement of protracted arrears under the cooperative strategy, in a number of cases it was recognized that

for obvious reasons, cooperation in the understood sense might not currently be possible and might not be for some time. In the meantime, special charges would continue to accumulate, thus adding to the burden of eventual settlement.

The other point was a legal one, and, in a way, was broader than the specific issue at hand, Mr. Chatah added. His chair felt a little uneasy about the implication of the proposed decision for the interpretation of certain provisions in the Articles. Without going into too much detail, he noted that special charges were based on two provisions in the Articles: Article V, Section 8(c), which dealt with special charges on overdue repurchases, provided explicitly that the Fund could apply such charges differentially among members. Special charges on overdue charges, however, were not specifically provided for in the Articles themselves, but had been based on the broad provision of Article XII, Section 2(g), which simply stated that the Executive Board could adopt such rules and regulations as may be necessary to conduct the Fund's business. When the system of special charges was approved in 1985, the staff had argued that a system to recover costs associated with overdue charges could be applied under that provision, an interpretation that had been debated a little bit but eventually accepted. The proposed decision on the suspension of special charges included a list of several members to which the provisions of the decision would apply. Again, in his mind, and without questioning the substance or motivation of the proposed decision, a precedent would be set if that broad provision of Article XII, Section 2(g) were taken to mean that the Fund could adopt not only general policies but also policies that pertained to specific members that were identified by name. Perhaps it might be possible to achieve the same result by drafting the decision in a generic way, without explicit reference to its application to specific members. While it might be difficult to achieve the substance of the proposed decision without creating such a precedent, it was important to be clear on the implications of that decision for the interpretation of Article XII, Section 2(g).

Ms. Powell said that her chair could support the proposed decision. In looking at the staff proposal, some of the same reservations expressed by Mr. Wright and Mr. Goos had come to mind; on balance, as they too had accepted, it had seemed best to give priority to the record of payment. Her chair had also raised the question of retroactivity and equity of treatment during the earlier discussion, but could accept the staff argument that there were quite severe practical problems to such an approach.

Mr. Bindley-Taylor commented that the views of his chair on the purpose and the results of special charges were well known; therefore, he would not repeat them.

He had three problems with the current proposal, Mr. Bindley-Taylor stated. The first was that while it implicitly acknowledged that the imposition of special charges had failed to produce the intended results, paradoxically it sought to restate the original intent as valid--namely, that special charges would act as a disincentive to countries in arrears and thereby encourage members in protracted arrears to cooperate with the Fund.

The history of special charges spoke for itself; over the years, arrears and special charges had increased in tandem, and the latter had not contributed to a reduction in the former. Where countries were unable to pay, special charges had proven not to be an incentive but merely an additional financial burden. Where countries chose not to pay, the same applied. Were there any grounds on which to assume that the premise on the usefulness of special charges which had proved to be wrong in the past was correct in the present? His chair did not think that there were, and that the most appropriate action that should be taken was to abolish the system altogether.

His chair's other two problems had to do with the structure of the proposed modification of special charges in EBS/91/66, Mr. Bindley-Taylor added. The first concerned the statement in paragraph 4 of the decision that special charges would be reimposed on any country which had had its charges suspended and which failed to make a payment within 10 days of any subsequent payment falling due. Like several other speakers, he would prefer that period of time to be extended to between 20 and 30 working days.

The second problem concerned the suggestion that the suspension of charges be applied only to those countries in protracted arrears, Mr. Bindley-Taylor said. His chair did not agree with that proposal, which could lead to inconsistency of treatment. It was possible to have a hypothetical case of a country newly in arrears--for less than one year--taking the necessary policy measures and making payments on all its obligations falling due but being subject to special charges, while a country in protracted arrears taking the same measures would have its special charges suspended. Equal circumstances should result in equal treatment.

Mr. Wang considered that the proposed decision and the staff paper on the suspension of special charges marked a turning point in the Fund's attitude toward the issue. From the very beginning, the imposition of special charges had never been free of controversy. On purely economic grounds, one could not argue with the application of special charges; however, upon closer scrutiny, the practice revealed certain drawbacks, such as those illustrated by the staff. It was time to review special charges in the light of changes in circumstances over the past five years.

The staff had presented a fairly balanced case, Mr. Wang observed. Therefore, he had only a few brief points to make. First, it was obvious that the proposed decision, while solving some problems, gave rise to others, such as the uneven treatment of members in arrears, and the failure to deal with the debt-service burden of ineligible members in protracted arrears. The only way to get rid of these drawbacks seemed to lie in the complete abolition of special charges.

His second point, Mr. Wang went on, concerned the staff's recommendation that relatively heavy weight be given to the criterion of payments performance in determining eligibility for the suspension of special charges. That was understandable, given the lack of uniform criteria for the other indicator, for which he understood that the staff proposed that cooperation in terms of policy adoption was a necessary condition while the

payment record was a sufficient condition. If a reasonable degree of flexibility was allowed, incentive would be given to those that did not have a good payment record yet were ready and willing to undertake adjustment policies.

The third point was that the proposed decision, if adopted, would take care of the four members listed in paragraph 2, which would be better than nothing, Mr. Wang remarked. But the position of the other protracted cases of arrears would get relatively worse as their debt-service burden continued to increase. Perhaps the whole point was to give an incentive for cooperation and payment. But those members that continued to be subject to special charges seemed to need the suspension no less than the four members chosen to benefit under the proposed decision; if anything, they needed the help even more, but unfortunately, the proposed suspension would not end their present plight. Thus, the incentive could only be one sided.

Finally, Mr. Wang said that he shared the views expressed by Mr. Gurumurthi and, like him, would favor an elimination of special charges. However, for the time being, he could go along with the consensus and look forward to the next review, hoping that by then sufficient justification would be found for their removal. In that sense, he welcomed the clause in the proposed decision providing for future review.

Mr. Rouai stated that his chair's first preference was to eliminate the system of special charges. However, he could join the majority of the Board and support for the time being the proposed decision.

Mr. Evans stated that he could support the proposed decision. He could also support the amendment suggested by Mr. Végh.

Mr. Monyake said that he wished to draw attention to some interesting features. Of the list of nine members in protracted arrears, four had been listed in the decision as being eligible for the suspension. His question was whether it was really practical to consider imposing special charges on the remaining five countries.

The staff representative from the Treasurer's Department noted that a number of Directors had referred to paragraph 4 of the proposed decision, in particular the time period after which special charges might reaccrue if members did not meet payments as they fell due and adhere to the test of cooperation on policies. In drafting the decision, the staff had attempted to make the test as automatic as possible, as requested by a number of Executive Directors at EBM/91/42 on March 25, 1991. It was for that reason that the test relied primarily on an objectively measurable period of time. However, it was conceivable that a member might cease to cooperate on policy measures, an eventuality that it would be very difficult to incorporate in a quantitative or objective test. Therefore, the possibility had been left open for the Executive Board, when it reviewed the member's policies and concluded that that criterion had been violated, to reach a decision that special charges should be reimposed. A separate decision would be necessary for that purpose.

If he had understood it correctly, Mr. Torres would wish paragraph 4 to provide for an evaluation of the member's total situation on each occasion when the reimposition of special charges was considered, the staff representative said. That approach had not been taken in order to avoid the repeated analysis of situations that had been foreseen by Executive Directors at the previous discussion. The number of days suggested in the staff paper was derived directly from the decision on special charges, under which such charges would accrue if a payment had not been made within ten days beyond its due date. The staff had considered that the same time period would most logically also apply to the reimposition of special charges. If the Board wished to change that period, it would seem that both time periods ought to be considered together. However, experience had shown that most delayed payments were settled quickly and within that relatively short time. The delays were usually strictly administrative, and were often the result of mislaid instructions or cables that did not arrive in time.

In the same context, Mr. Ismael had asked whether it would be possible to have different ceilings for members that had been cooperating with the Fund, or meeting their payments for a considerable period of time, the staff representative noted. It had seemed to the staff that that issue raised exactly the same question as retroactivity in general did, in the sense that a number of members had been in that position for some time. Any change in the definition of the level of arrears which the member would agree to consider as a maximum level at which it would stay current thereafter would, for equity reasons, have to apply to other members as well, which again would raise the question of refunds for those members that had paid charges.

A related question had been raised by Mr. Cirelli on the case of Panama, a difficult case, which involved different understandings, the staff representative noted. In its proposal, the staff had chosen the date of May 1, 1991 because it had had the impression from the Board's previous discussion that the intent of the Board was to stick to the date by which the member had undertaken--whether under a program or not--to meet payments as they fell due. While it was correct that Panama's budget included allocations to meet outstanding payments to the Fund that had matured after January 1, 1990, the commitment by Panama related to payments falling due after May 1, 1990.

As for Mr. Meron's question on the staff's expectations about the time period during which other members that were not on the list in the decision but that had protracted arrears would have to stay current in order to fall within the framework of the decision in future, and the need to ensure equitable treatment, the staff representative said that no particular time period had applied in the past. Most such periods had been related either to the beginning of negotiations of a Fund-monitored program or of a rights accumulation program; those time periods had differed from member to member. The staff's intention was to indicate that the time period for staying current would have to be taken into account by the Board when it made the decision to add a member to the list, bearing in mind the member's situation in relation to that of other members and the payments made or the time period during which other members had stayed current.

With respect to Mr. Bindley-Taylor's view that the proposed suspension of special charges ought to be made available to all members in protracted arrears, the staff representative from the Treasurer's Department said that there were two points to be made. First, it was indeed the intention of the staff not to be discriminatory in any way; that was why the possibility of adding to the list later was left open. For the time being, only members that were considered to be in protracted arrears were listed. The staff's expectation, and presumably that of the Fund in general, was that the arrears problem would eventually be solved, and that the issue of how to deal with protracted arrears under the intensified strategy would no longer arise. The question posed by Mr. Bindley-Taylor would therefore not arise; but if it nevertheless arose at a later stage, the Board would have to consider it, of course, at that time.

The Deputy General Counsel said that Mr. Chatah had correctly identified the problem posed by the two different legal bases for the two different types of special charges that were under consideration. Article V, Sections 8(c) and (d) established the basis for special charges on overdue repurchases in the General Resources Account. That provision provided explicitly for ad hoc decisions to be taken in individual cases. Special charges on overdue charges were based on implied powers. With respect to those charges, the existing system would remain in place, based on that same concept of implied powers and the same considerations put forward in 1985 when the decision on special charges was adopted. The question, therefore, was whether it was possible for the Executive Board to make exceptions. The following considerations would seem relevant. First, the Executive Board could have decided not to levy special charges. Second, if the Executive Board found it justified not to recover the cost imposed by a delay in payment, would it be necessary to make exceptions on the basis of a generic description, or could they be made in individual cases? Admittedly, there was a combination of both approaches in the proposed decision. The most appropriate approach would be the generic. In such a case, the staff could implement the Board's decision in individual cases, without the need for a further Board decision. Basically, that was the approach achieved in paragraph 4 when reimposing special charges; i.e., after a ten-day period special charges would reapply automatically if any new obligation falling due was not discharged. However, it proved difficult to use a generic definition for the suspension in the proposed cases, which differed, in particular, by levels and duration of arrears. However, clear criteria were outlined that categorized a group, recognizing that judgments would need to be made in individual cases, and justifying the exceptions from the system in those individual cases.

Mr. Chatah said that he agreed that it was perfectly acceptable to have a general decision which provided guidelines and policies for exceptions to be implemented in individual cases. His concern was with the list in the Annex on page 7 of the staff paper, which basically limited the policy to a set of countries. That list of all the countries that were in protracted arrears was part of the proposed decision. In his mind, it would have been preferable, if that was at all possible, to define the policy in such a way as to make it applicable in those individual cases. The interpretation of

the provision would not then have to be stretched in such a way that not only were guidelines being established but countries to which they would be applied were also being listed.

The Deputy General Counsel responded that the list basically was the definition of cases of protracted arrears at the time of the decision's adoption. A clause was included that provided for the review of all aspects of the decision at a later date.

Mr. Ismael asked whether it was appropriate, since Fund decisions were public knowledge, to put specific amounts next to the names of the eligible members, and whether it would not be possible to phrase the decision in such a way that the amounts were specified elsewhere.

The Deputy General Counsel replied that the amounts had to be specified because they triggered the effectiveness of the particular suspension or of the return to the system. A reference could be made in the decision to the Board paper, which would indicate the particular triggering events.

The Acting Chairman suggested that a date be used in the decision, together with a reference in the staff paper to the level of arrears associated with the date.

Various suggestions for modifications had been made during the discussion, none of which had attracted support from other Directors, the Acting Chairman observed. Since the Board would be returning to the issue in the future, he proposed that those suggestions be reconsidered at that time. Unless there were any other amendments, the proposed decision would be approved, as amended, to include specific dates instead of amounts of arrears.

The decision was:

1. The Fund has reviewed Decision No. 8165-(85/189) G/TR, as amended.

2. The special charges on overdue repurchases and on overdue charges in the General Resources Account prescribed by Sections I and II of Decision No. 8165-(85/189) G/TR, as amended, shall cease to be levied on the following members:

Member	Specified Ceiling Level as Calculated in EBS/91/66
Panama	Arrears as of April 30, 1990
Peru	Arrears as of August 31, 1989
Viet Nam	Arrears as of December 31, 1988
Zambia	Arrears as of March 15, 1991, and, effective December 31, 1991, as of July 1, 1990

The suspension shall be effective May 1, 1991, or as of the date when the member's overdue obligations to the Fund are equal to or below the level specified above, whichever is later.

3. The Fund will extend the suspension of special charges under paragraph 2 to any member presently in protracted arrears to the Fund as listed in the Annex to this decision if the Fund endorses a Fund-monitored or rights accumulation program for that member, or if the Fund determines that (i) the member is actively cooperating with the Fund toward the clearance of its arrears to the Fund, and (ii) the member has undertaken not to increase its overdue obligations to the Fund above a specified ceiling level. In this case, the suspension of special charges shall become effective as of the date of the Fund's decision to add the member to the list under paragraph 2, or as of the date on which the member's overdue obligations to the Fund are equal to or below the specified ceiling level, whichever is later.

4. If, after a suspension of special charges under paragraph 2, a member fails to make payment of any newly maturing obligation to the Fund or the equivalent thereof within ten business days of the due date of such obligation, the member shall be subject to special charges on the total of its overdue repurchases and charges in the General Resources Account to which special charges are applicable for as long as such payment is not made. In addition, such suspension shall cease as of the date on which a member fails to reduce its overdue obligations to the Fund to or below any ceiling level that becomes applicable after the effectiveness of suspension, for as long as the member's overdue obligations to the Fund exceed that applicable ceiling level.

5. The Fund will review this decision not later than the next regular annual review of the system of special charges pursuant to Decision No. 8165-(85/189) G/TR, as amended.

Decision No. 9723-(91/63) G/TR, adopted
April 24, 1991

ANNEX

List of Members in Protracted Arrears

Democratic Kampuchea
Liberia
Panama
Peru
Sierra Leone
Somalia
Sudan
Viet Nam
Zambia

APPROVED: November 26, 1991

LEO VAN HOUTVEN
Secretary