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January 4, 1988

To: Members of the Executive Board
From: The Secretary
Subject: Final Minutes of Executive Board Meeting 87/94

The following correction has been made in the final minutes of EBM/87/94 (6/29/87):

Page 3, para. 1, line 2: for "EBAP/87/147," read "EBAP/87/141,"

A corrected page is attached.

Att: (1)

Other Distribution:
Department Heads

1. TRAVEL BY MANAGING DIRECTOR

The Acting Managing Director informed the Executive Board that the Managing Director, when on his current official travel (see EBAP/87/141, 6/17/87), had paid a brief visit over the weekend to Côte d'Ivoire at the invitation of the President of Côte d'Ivoire.

The Executive Directors took note of the travel by the Managing Director.

Adopted June 29, 1987

2. EXECUTIVE DIRECTOR

The Acting Chairman welcomed Mr. Othman, Alternate Executive Director.

3. ECUADOR - 1986 ARTICLE IV CONSULTATION; AND PURCHASE TRANSACTION - EMERGENCY ASSISTANCE

The Executive Directors had before them the staff report for the 1986 Article IV consultation with Ecuador (SM/87/68, 3/11/87), together with the staff paper on Ecuador's request for emergency assistance (EBS/87/126, 5/12/87; Sup. 1, 5/26/87). They also had before them a background paper on recent economic developments in Ecuador (SM/87/75, 3/27/87).

Mr. Zeas made the following statement:

My Ecuadoran authorities wish that on their behalf I discuss several points in this statement.

In the first place, I would like to convey the message that the Ecuadoran authorities are in general agreement with the analysis of the Ecuadoran economy made by the staff in SM/87/68. The authorities acknowledge that the exchange of views during the time of the mission was quite fruitful. They disagree, however, with the size of the 1986 external gap presented in the report, as I will explain later.

Second, the stand-by arrangement which became effective in August 1986 was interrupted in January 1987, owing to a delay, on the part of the commercial banks, to take a decisive action on the refinancing package requested by the authorities. Under the present emergency circumstances, the financial program conceived for 1987 is no longer viable and therefore the authorities canceled the stand-by arrangement on June 10.

Third, the authorities have also requested that I present to the Board a summary of the most important economic policy reforms carried out during 1985 to mid-1987 and of the adjustment achieved so far.

Fourth, considering the substantial amount of damage caused by the March 5, 1987 earthquake and based on the commendable record of performance on policy implementation, the authorities request the Board's generous approval of an emergency loan for SDR 37.7 million, equivalent to one tranche of Ecuador's quota in the Fund.

1. The 1986 external gap and the point of disagreement

According to the Ecuadoran authorities, the overall deficit of the balance of payments in 1986 amounted to \$50 million, which is in line with the target of the financial program supported by the August 1986 stand-by arrangement. This reserve loss excludes \$40 million of unrefined gold purchased by the Central Bank during 1986. According to the staff report, the deficit amounted to \$225 million. The reason for the discrepancy in the figures is that the Fund staff included in the short-term foreign liabilities a loan from the Andean Reserve Fund for \$175 million. The staff included this loan in the short-term foreign liabilities, based on what is said in the annex to the letter of intent of July 14, 1986 (EBS/86/148, page 47, Table 3, and footnote 1):

Table 3. Ecuador: Targets on the Net International Reserves of the Central Bank of Ecuador. 1/ Footnote 1: Defined as the difference between the foreign assets of the Central Bank and its external liabilities of UP TO ONE YEAR, including obligations to the Fund and obligations to the Andean Reserve Fund and under the Santo Domingo Agreement. For the purpose of these targets, the external liabilities of UP TO ONE YEAR exclude the deposits of international nonmonetary organizations in the Central Bank of Ecuador and the allocations of SDRs, but include external arrears. The gold holdings of the Central Bank will be valued at \$300 per ounce; and the accounts denominated in SDRs will be converted at the rate of \$1.09 per SDR.

I underline the fact that the footnote I have just quoted speaks of external liabilities of up to one year. On the other hand, the loan from the Andean Reserve Fund has a five-year maturity, including a one-year grace period. For this reason, the Ecuadoran authorities treat this loan as a medium- and long-term foreign liability of the Central Bank. To treat this loan as a short-term foreign liability would be unusual and would violate Ecuadoran monetary law.