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INTERNATIONAL MONETARY FUND

#8

Minutes of Executive Board Meeting 76/158

10:00 a.m., November 29, 1976

H. J. Witteveen, Chairman

Executive Directors	Alternate Executive Directors
M. Al-Atrash	M. Finaish
	C. P. Caranicas
	T. Leddy
J. de Groote	
L. Dini	E. O. de Toledo
B. J. Drabble	
R. Guarnieri	N. O. Caldera
F. Hollensen	J. H. Kjaer
A. Kafka	W. Temple-Seminario
M. G. Kaul	W. Rasaputram
	K. C. Ng
	T. de Vries
M. Matsunaga	
	F. G. Mogae
	C. Bouchard, Temporary
	G. Laske
	P. Kent
D. Simone	
	J. Foglizzo
	E. Leung

W. L. Hebbard, Secretary
K. S. Friedman, Assistant

Also Present

African Department: C. L. Merwin, Deputy Director; R. J. Bhatia, P. J. Boxall, E. A. Calamitsis, F. d'A. Collings, H. Horie, T. P. McLoughlin, A. B. Petersen, C. D. Pham, V. R. Sertic. Asian Department: Tun Thin, Director; P. R. Narvekar, Deputy Director; J. K. Schulz, Y. Watanabe. European Department: R. Evensen, R. J. Hides, P. Holden, B. S. Karlstroem, A. Mohammed, B. B. Zavoico. Exchange and Trade Relations Department: E. Sturc, Director; C. D. Finch, Deputy Director; D. K. Palmer, Deputy Director; L. Lipschitz, T. Sweeney, R. C. Williams. Legal Department: J. Gold, General Counsel and Director; J. G. Evans, Deputy General Counsel; G. P. Nicoletopoulos, Deputy General Counsel; R. C. Effros, W. E. Holder, P. R. Lachman. Middle Eastern Department: J. W. Gunter, Acting Director; R. C. Barth, J. G. Borpujari, A. S. Gerakis. Research Department: J. J. Polak, Economic Counsellor and Director; C. F. Schwartz, Deputy Director; G. I. Brown, K.-Y. Chu, L. U. Ecevit, L. M. Goreux, N. Kaibni, G. M. Khatchadourian, K. Krishnamurty, P. Sukachevin. Treasurer's Department: W. O. Habermeier, Treasurer; D. Gupta, A. Watkins. Western Hemisphere Department: J. Del Canto, Director; E. W. Robichek, Deputy Director; F. A. Vera, Deputy Director; E. V. Zayas, J. E. Zeas. Information Office: H. Hartmann. Office in Europe: L. Van Houtven, Director. Personal Assistant to the Managing Director: D. W. Green. Advisor to Executive Director: H. Mutewalli. Technical Assistants to Executive Directors: V. Alipui, V. Amiel, E. Avillez, D. Berthet, I. M. Cobbold, M. Danusaputro, R. De Beckker, K. L. Deshpande, A. C. Fenwick, B. Goos, G. Heyden Q., T. M. Johansen, A. Karimi, H. Kuroda, C. J. Lohmann, G. Meissner, A. K. Mullei, K. Nakayama, C. C. Ozumba, S. K. Panya, S. B. Satyal, S. P. Upasani, A. van Dorssen, L. F. Vílches, M. A. Wasfy, A. G. Zoccali.

1. AUSTRALIA AND NEW ZEALAND - EXCHANGE SYSTEMS

The Chairman announced that the Fund had been informed by the Australian authorities that the level at which the Australian dollar was pegged to a trade-weighted basket of currencies had been lowered. The change represented a depreciation of 17.5 per cent in terms of the U.S. dollar, effective November 29, 1976. In addition, the manner in which the effective exchange rate had been fixed since September 1974 had been modified; instead of holding the rate unchanged for long periods, the authorities intended to permit frequent small shifts when needed. The authorities had stated that they would continue to collaborate with the Fund in accordance with Article IV, Section 4(a).

He had also been informed, the Chairman said, that the New Zealand authorities intended to depreciate the exchange rate of the New Zealand dollar by 7 per cent vis-à-vis all currencies except the Australian dollar, with effect from November 30, 1976. The authorities also intended to review the existing export incentives with a view to increasing them to alleviate the difficulties that might arise as a result of the depreciation of the Australian dollar. News reports showed that Fiji and Papua New Guinea had apparently taken certain steps in the exchange field in response to the Australian and New Zealand changes. As yet the Fund had received no formal word from the authorities of those two countries.

Mr. Al-Atrash asked whether a member was not obliged to give formal prior notification of a depreciation of its exchange rate.

The Chairman replied that the Fund had been informed by the Australian authorities of the exchange rate change early on the previous day--November 28, 1976--prior to the Government's announcement to the press. Over the previous year the Executive Directors had decided not to try to meet on weekends to discuss an impending change in an exchange rate. They had preferred instead to discuss the matter after the staff had issued an appropriate paper.

The General Counsel added that a change of par value certainly required prior consultation with, and concurrence by, the Fund. In the past the procedure had been to convene the Executive Board and to have the Executive Directors discuss the proposed change in the par value. That procedure was also the ideal one with respect to a change in an exchange rate. Prior notification of a change in an exchange rate and a discussion by the Executive Directors had been the preferred procedure. In fact, however, the exception had become the rule in the sense that, in the light of the general state of exchange arrangements in the world, prior notification and a discussion by the Executive Directors before the exchange rate change had rarely occurred in the recent past. The proper procedure to be used under the amended Articles would have to be established before the coming into effect of the second amendment, which required the Fund to establish the principles for guidance of members in connection with exchange rate arrangements. Those principles should be in place by the time the amendment took effect, and they were only a part of the new corpus juris that would have to be discussed by the Executive Directors in the coming months. The staff was at present working on every aspect of those matters.

The Executive Directors concluded their discussion on the exchange rate changes by Australia and New Zealand.

2. APPROVAL OF MINUTES

The draft minutes of Meetings 76/82, 76/90, 76/92, 76/93, 76/95, 76/96, 76/98, 76/99, and 76/100 were approved.

3. TRUST FUND LOANS - HAITI, NEPAL, PHILIPPINES, MOROCCO, BURUNDI, ZAIRE, KENYA, AND PEOPLE'S DEMOCRATIC REPUBLIC OF YEMEN

The Executive Directors discussed general procedures and policies for loans under the Trust Fund with special reference to the loan requests by Haiti, Nepal, the Philippines, Morocco, Burundi, Zaïre, Kenya, and the People's Democratic Republic of Yemen that were to be considered forthwith.

Mr. Al-Atrash made the following statement:

> I would like to comment in a general manner on all the eight cases before us today, rather than focus on the Haitian request. It seems to me that, according to the paper on the Trust Instrument and other staff papers, the need for a loan must be assessed at the time we approve the member's financial program. Furthermore, it is clearly stated that this need cannot be re-examined during the 12 months of the program. I would appreciate it if the General Counsel could tell me whether or not my understanding is correct. If it is, then we have little to discuss with regard to the requests on the agenda, since all the countries we are considering have financial programs that are still well within the 12-month period. It would be inconceivable for us to turn down any of them on the grounds that the member does not continue to have a balance of payments deficit or a need to build up its low reserves; the authorities of the countries concerned, after reading the relevant Fund documents, would feel--and justifiably so--that they had been treated with gross unfairness. Consequently, it seems to me that the decisions on the

requests before us should have been taken on a lapse-of-time basis or by some other short procedure. I believe that it was unnecessary for the staff to argue, or to imply, in these eight short papers that the original projections made in connection with the relevant financial programs of a deficit are still more or less valid. Incidentally, seven of the eight countries we are considering have increased their reserves during the course of this year, and some of the increases are quite substantial.

This leads me to express a more general view. It seems to me that we may need to re-examine our policy on the Trust Fund in the light of recent developments in the developing countries. The November issue of IFS gives reserve data for 50 of the 61 countries eligible for Trust Fund loans. Of these 50 countries, 35 have increased their reserves in 1976, many substantially so. Only 15 have experienced decreases, and some of them were very small at that. Given these facts, it may not seem prudent for us to go on linking Trust Fund loans to a requirement of need in the traditional sense. A much simpler alternative is to provide loans outright to these countries as a uniform proportion of their quota and on the basis of the per capita income criterion agreed upon during the Jamaica meeting of the Interim Committee. This will save us from facing a situation in which we are obliged under the relevant provisions of the Trust Instrument to provide loans to countries that may not necessarily meet the balance of payments need test at the time the decision to provide the loan is made.

Mr. Caranicas remarked that he wished to associate himself with the comments that Mr. Al-Atrash had made.

The General Counsel commented that he could confirm what Mr. Al-Atrash had said about the absence of a reassessment of need during the course of a stand-by arrangement. As to the procedure by which the Executive Directors considered whether or not to make a loan, that was of course a matter for the Executive Directors themselves to decide. There was no requirement that the loan requests be placed on the agenda of the Executive Board. The Executive Directors could decide to deal with the proposed decisions on a lapse-of-time basis. However, a Trust Fund loan was not a routine matter, despite the existence of an elaborate Trust Instrument. For instance, the size of the loan was an issue in each case, and it was discussed in each paper. When the procedures for considering loans had been discussed in September 1976 the staff had noted that various possible decisions could be taken by the Executive Directors in each case of a request for a loan. There could be a limit on the amount of a loan, depending on the assessment of need. In that event, the Executive Directors could establish a limit which the loan figure could not exceed even when the mathematical calculation based on the amount available for distribution showed a larger amount. There was an element of discretion that could be exercised in passing judgment on all the loan requests, and the Executive Directors could decide to discuss each case. Alternatively, they could deal with any one, or all, of the proposals on a lapse-of-time basis.

Mr. Leddy said that he attached great importance to a discussion by the Executive Directors of requests for loans under the Trust Fund. He would not be prepared to consider any suggestion that the criterion of balance of payments need be dispensed with in connection with Trust Fund loans. Moreover, the papers on loan requests provided an opportunity to update information on a member's balance of payments and reserve positions and on its efforts to deal with its payments problems. He wondered how the precise amount of each proposed loan had been determined by the staff.

Mr. de Vries remarked that on previous occasions he had sometimes expressed the view that assistance provided through the Trust Fund should be in the form of grants. However, the existing decisions on the Trust Fund clearly called for the Fund to apply the requirement of need criterion, and the procedure that the staff had used in connection with the present loan requests was adequate. He wondered whether a member recording an unexpectedly substantial increase in its reserves or a major improvement in its balance of payments position would be required to make early repayment of its loan under the Trust Fund.

Mr. Kafka said that he too had always preferred that Trust Fund assistance should take the form of grants rather than of loans, and that ideally the extremely low per capita incomes of the eligible countries should be seen as sufficient reason to provide the assistance. For the time being, however, the existing decisions had to be adhered to, and the format of the papers that were to be discussed was therefore appropriate. The Executive Directors should review the existing decisions regulating the Trust Fund early in 1977 with a view to changing the nature of the Trust Fund.

Mr. Mogae commented that he wished to associate himself with the remarks that Mr. de Vries and Mr. Kafka had made. He agreed with Mr. Al-Atrash that the needs of members which had made a loan request could not be reassessed at the present stage. The requests on the agenda were acceptable, and the general questions about the existing policies and procedures under the Trust Fund should be discussed further on another occasion.

Mr. Kaul thought that a new decision permitting eligible members to receive Trust Fund assistance nearly automatically and perhaps in the form of grants would be consistent with the agreement that had been reached in the Interim Committee. If necessary, the existing basic decisions on the procedures and policies under the Trust Fund could be altered, and the Executive Directors should review them as soon as possible.

Mr. Caranicas commented that he had understood Mr. Al-Atrash not to be against the practice of having a paper on each loan request. A request should not be accepted automatically; rather, the procedures for approving a request should be simplified, and the discussion of a request in the Executive Board could be relatively brief. As the General Counsel had mentioned, there was an element of discretion that the Executive Directors could exercise in deciding on each loan request. In future it might be useful to circulate papers with up-to-date information and to approve the decisions on a lapse-of-time basis. He agreed with Mr. Al-Atrash that the Fund could not reassess a member's need to use the resources of the Trust Fund within the 12-month period of a stand-by arrangement or of a program submitted in support of a drawing in the first credit tranche.

Mr. Matsunaga said that he was pleased that assistance under the Trust Fund was finally to be made available to qualified members. The contributors to the Trust Fund deserved high praise. All the loan requests that were to be placed before the Executive Directors at the present meeting were acceptable; each member had an outstanding stand-by arrangement or had recently made a drawing in the first credit tranche. It would have been useful to have included in the papers both some description of the efforts that each government had made to strengthen its balance of payments position and the most recent information on the state of each economy. Presumably, a member could use Fund resources only when it was making a reasonable effort to solve its payments problems. The fact that it had an outstanding stand-by arrangement had shown that a member had a balance of payments need to use Fund resources, but it would also be useful to mention the precise size of the need in the paper on a loan request.

Mr. Leung commented that, while his chair had always favored making grants rather than extending loans under the Trust Fund, he recognized that the present staff procedures were consistent with the compromise reached by the Executive Directors earlier in the year. The decision on the Trust Fund should be reviewed as soon as possible, but in the interim the Executive Directors would have to act in accordance with it. Almost all the cases that the Executive Directors were about to consider were straightforward, and he would extend his support to them all, including one that was not very clear cut. It was important to note that the loan amount proposed in each paper was not meant to set a precise limit on each member's access to the Trust Fund. The amounts were calculated on the basis of the best judgment at the present stage in accordance with the total gold profit for the first period; that judgment could be modified from auction to auction.

Mr. Simone remarked that the initiation of disbursement through the Trust Fund of the profits derived from gold sales was welcome, and he would support the eight loan requests on the agenda. Each of the countries in question fully met the requirement of need as it was to be applied to the Trust Fund. While the estimated balance of payments deficit was clear evidence of each member's need to use the Trust Fund, the low level of reserves in Haiti and the expected deterioration in the reserve position of Kenya and Yemen strengthened their loan requests. The requirement that each member should make a reasonable effort to solve its balance of payments problems had been met, since all the members requesting loans had implemented financial programs in connection with an extended arrangement, a stand-by arrangement, or a drawing in the first credit tranche. He agreed with Mr. Kafka that the decisions regulating the Trust Fund should be reviewed at an early date.

Mr. Laske commented that he would approve all the loan requests on the agenda for the present meeting. While he agreed with Mr. Kafka that the policies and procedures under the Trust Fund should be reviewed, the Executive Directors should not do so until they had gained sufficient experience with the existing decisions. It would be premature to hold the review on the basis of the eight loans that would probably be approved forthwith. He did not agree that assistance under the Trust Fund should be provided nearly automatically. The Executive Directors should continue to make their decisions on the basis of careful consideration of the merits of each individual loan request; the lapse-of-time method for dealing with decisions was not appropriate for proposals to make loans to members.

Mr. Leddy said that he generally agreed with Mr. Laske; undoubtedly, there would be a review of the Trust Fund, but it should take place only after the Executive Directors had had sufficient experience with it. While most loan requests would probably not have to be discussed at any great length by the Executive Directors, it would be important for them to have a paper on each request with up-to-date information on the economy. As to the possibility of making grants under the Trust Fund, it had been debated extensively on previous occasions, and there was already a provision in the Trust Instrument under which the repayment terms of Trust Fund loans were to be reviewed by a specified date.

Mr. Drabble remarked that the issue of loans versus grants had been discussed at great length on previous occasions, and that it would not be helpful to raise the matter again at the present stage. As Mr. Leddy had noted, the repayment terms would have to be reviewed in five years' time. It might be useful, however, to review the conditions on which Trust Fund assistance was given. Since the Trust was being administered by the Fund it seemed illogical not to apply the traditional balance of payments need criterion, especially as there was of course an absolute limit on the total amount of money that would be available under the Trust Fund. Every benefit of the doubt, however, should be given to the member, especially in cases where there was a very low level of reserves.

He was most worried, Mr. Drabble continued, about the role that an established financial program played in a member's case for using the Trust Fund. As the eight cases that were about to be debated showed, eligible members had programs under a variety of Fund facilities with varying degrees of conditionality. The staff felt that the existence of a program showed that the member was making a reasonable effort to solve its payments problems, but in some cases the ceilings or time limits under a program had not been fully adhered to. Finally, how should the Fund deal with requests from members that had not been in collaboration with the Fund over the 12 months of the agreed financial program?

Mr. Al-Atrash commented that in his initial intervention he had meant to say that the eight loan requests should be approved on the basis of a short procedure, and that there was no need for the staff to discuss the level of reserves of each member. The estimates in the papers--all of which had been made some months previously--were obviously incorrect. For instance, the staff had projected that during the first year of its program the Philippines would have a balance of payments deficit of SDR 230 million. In fact, between December 1975 and September 1976 the level of reserves of that country had increased by $266 million. For Morocco the staff had projected a balance of payments deficit of around $150 million during the first year of its program, but between December 1975 and August 1976 the level of official reserves had risen by $282 million. Since the Executive Directors were at present required under the provisions of the Instrument to approve loan requests even from members whose reserves had risen substantially during the time of the 12-month financial program, the Instrument should be reviewed at an early date. It seemed inappropriate to apply the traditional balance of payments need requirement to Trust Fund requests, since in a number of cases such a need might not be apparent at the time that the loan was actually to be made.

Mr. Kent remarked that the basic decisions for the Trust Fund had been taken after a long discussion and only after significant compromises had been made. Under those decisions some of the major aspects of the Trust Fund were to be reviewed by specific dates, but it seemed premature to hold a review in the very near future.

On previous occasions, Mr. Kent recalled, he had said that the requirement of need should be applied more flexibly under the Trust Fund than under the regular facilities. He continued to hold that view, and the need of each of the eight members that had made loan requests thus far seemed clear. Neither loan requests nor any other kind of proposal should be accepted automatically. Although it was true that the Fund could not reassess a member's need within the 12-month period of a stand-by arrangement, the Executive Directors should consider the merits of each loan request, even if the discussion would be relatively brief in most cases.

Mr. Ng thought that the eight loan requests that had been received thus far were consistent with the decisions regulating the Trust Fund. The extent to which a degree of automaticity could be introduced into the procedures for reviewing and accepting loan requests should be discussed further. In the interim the staff should continue providing a paper on each loan request.

Mr. Hollensen commented that failure to approve the eight loan requests on the agenda might cause some problems. The need for a review of the existing policies and procedures under the Trust Fund was clear, but like some other Executive Directors he was not convinced that loan requests should be accepted automatically.

Mr. Kaul said that he fully supported the eight loan requests on the agenda. He assumed that the loan amounts in the papers were in effect interim payments which could be increased depending on the total amount of money that eventually became available under the Trust Fund. Presumably, the eight countries in question would be eligible to ask for a greater share of the total assistance under the Trust Fund as additional money became available.

The Chairman remarked that the loan amounts in the papers on the agenda were estimates based on the amount of money that was at present available under the Trust Fund.

The General Counsel said that the decision establishing the Trust Fund already provided for a review of the Instrument--including the list of eligible members and the criteria for eligibility--before January 1, 1978. Some of the provisions, however, were safeguarded by the decision establishing the Trust Fund and could not be modified during the review. The provisions concerning need and repayment were among those that could be modified. One important provision that could not be modified stipulated that the Trust Fund was to assist in fulfilling the purposes of the Fund by providing additional balance of payments assistance on concessional terms. The basic purpose of the Trust Fund was therefore to provide additional balance of payments assistance, and that fact was important in any consideration of the determination of need. There must be a need for balance of payments assistance to ensure that the purposes of the Fund were being furthered by the operation of the Trust Fund. It would be outside the scope of the Trust Fund and the Fund to provide assistance that did not meet a balance of payments need.

The provisions of the Trust Instrument, the General Counsel continued, struck a balance on the question of determining need. The Articles provided that assistance was to be given under adequate safeguards, although, when making its resources available to members, the Fund consciously ran a certain risk because there could never be perfect protection for safeguarding all its resources. The same kind of approach had been taken toward the determination of need in connection with the Trust Fund. The Trust Instrument clearly provided that the Fund had to satisfy itself that the member had a need for additional balance of payments assistance, but it also clearly provided that there was to be no further assessment of a member's need during the 12 months of a program that had been agreed in connection with an operation of the Fund. There could be a re-examination of the determination of need after the 12 months of the program. In that re-examination it could be determined that the member's circumstances had changed substantially. The emphasis on a "substantial" change showed that there was a presumption in favor of the continuation of the need. That presumption was borne out even further by the statement that the member must be given the benefit of any reasonable doubt in the course of the re-examination. At the moment, therefore, it was not open to the Fund as Trustee under the Trust Instrument to question a determination of need that had been made in connection with an operation of the Fund.

The question had been asked, the General Counsel recalled, whether the Fund could assess the member's progress toward implementing a 12-month program in connection with its consideration of a loan request from that country. All that he had said with respect to the determination of need applied equally to the question of a reasonable effort to strengthen the member's balance of payments position, which was the second criterion for transactions of the Trust Fund. The Trustee had to satisfy itself not only that there was a balance of payments need, but also that the member was making a reasonable effort to strengthen its balance of payments position. The assessment of need and the finding of a reasonable effort stood on the same footing. They could not be re-examined during the 12 months of the program.

The possibility, the General Counsel remarked, of early repayment by a member whose position improved substantially during the period in which a loan was oustanding had been raised by Mr. de Vries. The Trust Instrument had to be applied with exactness, and it contained no provision that could accelerate the repayment of a loan. The associated question whether there could be some modification of the provisions with respect to repayment, presumably to make them easier or even to eliminate them, was covered by a provision in the Trust Instrument which stated in effect that toward the end of the period of five years after the first disbursement under the first loan the Trustee was to review on the basis of uniform criteria the repayment terms of outstanding loans. The language of that provision was very guarded. It did not talk about the remission of indebtedness, but in his view that would not necessarily be impossible.

The question, the General Counsel said, of how the Fund would deal with a loan request from a member when it did not have the benefit of a program upon which it had already passed in connection with one of its operations had been raised by Mr. Drabble. Section 2, paragraph 3(e) of the Trust Instrument provided that the criteria by which to judge the efforts being made by the member were to be the first credit tranche criteria.

The Deputy Director of the Exchange and Trade Relations Department commented that some of the difficulties that Executive Directors had had with the loan requests had probably arisen because all of them were in effect retroactive cases. Future papers on requests to use the Trust Fund would contain a description of the member's effort to improve its payments position, an assessment of the member's balance of payments need, a statement on its access to other resources, and all the other kinds of information that were usually provided in connection with a request to make a drawing in the first or higher credit tranches. In the first eight cases each member's balance of payments need had been estimated when the financial program had been presented to the Fund earlier in the year. Henceforth, the staff paper on a member's financial program would be presented to the Executive Directors together with the staff's analysis of the member's request for a Trust Fund loan.

It should be clearly understood, the Deputy Director said, that in assessing a loan request the staff did not look exclusively at a member's gross reserves. Rather, it looked at the member's balance of payments position, its reserve position and developments in its reserves. More specifically, when assessing a member's balance of payments position the staff considered the member's net position and its net international reserves. For instance, although it was true that the level of gross reserves in the Philippines had risen in 1976, the level of net reserves during the first nine months of the year had declined by a substantial amount, in line with the projection in the relevant paper (TR/76/16). Of course, it was conceivable that an eligible country might have a relatively high level of reserves in absolute terms, thus raising some question as to its eligibility to use the Trust Fund, but that was certainly not the case with any of the requests on the agenda of the present meeting.

The method which the staff had used to estimate the size of the possible loans, the Deputy Director explained, was spelled out on page 2 of TR/76/10. The estimates on that page had been made on the basis of the price of gold in the most recent Fund auction and on the assumption that all 61 eligible members in question would qualify to receive loans. As to the experience thus far with the Trust Fund, the eight cases on the present agenda represented all the retroactive cases except that of Liberia. During the 1976 Annual Meeting the staff had held discussions with representatives of a number of other members that had shown some interest in using the Trust Fund. The schedule of staff missions through April 1977 showed that missions were to be sent to 25 of the 61 countries that were eligible to use the Trust Fund.

Mr. Simone asked whether he was correct in assuming that the requirement of need was seen by the Fund to be fulfilled if the country had an outstanding stand-by arrangement with the Fund.

The General Counsel replied that Mr. Simone's understanding was correct.

The Chairman said that the Executive Directors apparently wished to continue the practice of receiving a paper on each loan request. As the General Counsel had noted, there would have to be a review of the Trust Fund as provided for under the existing Trust Instrument. The Executive Directors might wish to gain some additional experience with the Trust Fund before undertaking the review. It might be best to wait until April 1977 to decide when the review should take place.

The Executive Directors then concluded their general discussion and turned to consider the specific loan requests.

(a) Haiti

The Executive Directors considered the request by Haiti for a Trust Fund loan, together with the staff's analysis and recommendation (TR/76/14, 10/26/76).

Without discussion, the Executive Directors approved the proposed decision.

The decision was:

1. In a cable dated October 22, 1976 Haiti has requested, a loan under the Instrument to Establish the Trust Fund ("Instrument") annexed to Executive Board Decision No. 5069-(76/72), adopted May 5, 1976, from the Trust Fund in respect of the first period in Section II, paragraph 1 of the Instrument.

2. The Fund as Trustee finds that Haiti is qualified for the loan requested in accordance with the requirements of Section II, paragraph 3(b) of the Instrument and the Managing Director is authorized to inform Haiti that the Trustee has approved a loan for Haiti on the basis of the request, on terms and conditions that accord with the letters approved by Executive Board Decision No. 5195-(76/134) TR, adopted September 8, 1976.

Decision No. 5256-(76/158) TR, adopted
November 29, 1976

(b) Nepal

The Executive Directors considered the request by Nepal for a Trust Fund loan, together with the staff's analysis and recommendation (TR/76/15, 10/27/76).

Without discussion, the Executive Directors approved the proposed decision.

The decision was:

1. By a communication dated October 20, 1976 the Government of Nepal has requested a loan under the Instrument to Establish the Trust Fund ("Instrument") annexed to Executive Board Decision No. 5069-(76/72), adopted May 5, 1976, from the Trust Fund in respect of the first period in Section II, paragraph 1 of the Instrument.

2. The Fund as Trustee finds that Nepal is qualified for the loan requested in accordance with the requirements of Section II, paragraph 3(b) of the Instrument and the Managing Director is authorized to inform the Government of Nepal that the Trustee has approved a loan for Nepal on the basis of the request, on terms and conditions that accord with the letters approved by Executive Board Decision No. 5195-(76/134) TR, adopted September 8, 1976.

Decision No. 5257-(76/158) TR, adopted November 29, 1976

(c) Philippines

The Executive Directors considered a request by the Philippines for a Trust Fund loan, together with the staff's analysis and recommendation (TR/76/16, 10/27/76).

Without discussion, the Executive Directors approved the proposed decision.

The decision was:

1. By a letter dated October 20, 1976, the Government of the Philippines has requested a loan under the Instrument to Establish the Trust Fund ("Instrument") annexed to Executive Board Decision No. 5069-(76/72), adopted May 5, 1976, from the Trust Fund in respect of the first period in Section II, paragraph 1 of the Instrument.

2. The Fund as Trustee finds that the Philippines is qualified for the loan requested in accordance with the requirements of Section II, paragraph 3(b) of the Instrument and the Managing Director is authorized to inform the Government of the Philippines that the Trustee has approved a loan for the Philippines on the basis of the request, on terms and conditions that accord with the letters approved by Executive Board Decision No. 5195-(76/134) TR, adopted September 8, 1976.

Decision No. 5258-(76/158) TR, adopted November 29, 1976

(d) Morocco

The Executive Directors considered a request by Morocco for a Trust Fund loan, together with the staff's analysis and recommendation (TR/76/17, 11/1/76).

Without discussion, the Executive Directors approved the proposed decision.

The decision was:

1. By a letter dated October 5, 1976, Morocco has requested a loan under the Instrument to Establish the Trust Fund ("Instrument") annexed to Executive Board Decision No. 5069-(76/72), adopted May 5, 1976, from the Trust Fund in respect of the first period in Section II, paragraph 1 of the Instrument.

2. The Fund as Trustee finds that Morocco is qualified for the loan requested in accordance with the requirements of Section II, paragraph 3(b) of the Instrument and the Managing Director is authorized to inform Morocco that the Trustee has approved a loan for Morocco on the basis of the request, on terms and conditions that accord with the letters approved by Executive Board Decision No. 5195-(76/134) TR, adopted September 8, 1976.

Decision No. 5259-(76/158) TR, adopted November 29, 1976

(e) Burundi

The Executive Directors considered a request by Burundi for a Trust Fund loan, together with the staff's analysis and recommendation (TR/76/18, 11/1/76).

Without discussion, the Executive Directors approved the draft decision.

The decision was:

1. By a letter dated October 5, 1976, the Government of Burundi has requested a loan under the Instrument to Establish the Trust Fund ("Instrument") annexed to Executive Board Decision No. 5069-(76/72), adopted May 5, 1976, from the Trust Fund in respect of the first period in Section II, paragraph 1 of the Instrument.

2. The Fund as Trustee finds that Burundi is qualified for the loan requested in accordance with the requirements of Section II, paragraph 3(b) of the Instrument and the Managing Director is authorized to inform Burundi that the Trustee has approved a loan for Burundi on the basis of the request, on terms and conditions that accord with the letters approved by Executive Board Decision No. 5195-(76/134) TR, adopted September 8, 1976.

Decision No. 5260-(76/158) TR, adopted November 29, 1976

(f) Zaïre

The Executive Directors considered a request by Zaïre for a Trust Fund loan, together with the staff's analysis and recommendation (TR/76/19, 11/1/76).

Without discussion, the Executive Directors approved the proposed decision.

The decision was:

1. By a letter dated October 8, 1976 the Government of Zaïre has requested a loan under the Instrument to Establish the Trust Fund ("Instrument") annexed to Executive Board Decision No. 5069-(76/72), adopted May 5, 1976, from the Trust Fund in respect of the first period in Section II, paragraph 1 of the Instrument.

2. The Fund as Trustee finds that Zaïre is qualified for the loan requested in accordance with the requirements of Section II, paragraph 3(b) of the Instrument and the Managing Director is authorized to inform Zaïre that the Trustee has approved a loan for Zaïre on the basis of the request, on terms and conditions that accord with the letters approved by Executive Board Decision No. 5195-(76/134) TR, adopted September 8, 1976.

Decision No. 5261-(76/158) TR, adopted November 29, 1976

(g) Kenya

The Executive Directors considered a request by Kenya for a Trust Fund loan, together with the staff's analysis and recommendation (TR/76/21, 11/15/76).

Without discussion, the Executive Directors approved the proposed decision.

The decision was:

1. By a letter dated October 22, 1976 Kenya has requested a loan under the Instrument to Establish the Trust Fund ("Instrument") annexed to Executive Board Decision No. 5069-(76/72), adopted May 5, 1976, from the Trust Fund in respect of the first period in Section II, paragraph 1 of the Instrument.

2. The Fund as Trustee finds that Kenya is qualified for the loan requested in accordance with the requirements of Section II, paragraph 3(b) of the Instrument and the Managing Director is authorized to inform Kenya that the Trustee has approved a loan for Kenya on the basis of the request, on terms and conditions that accord with the letters approved by Executive Board Decision No. 5195-(76/134) TR, adopted September 8, 1976.

Decision No. 5262-(76/158) TR, adopted
November 29, 1976

(h) People's Democratic Republic of Yemen

The Executive Directors considered the request by the People's Democratic Republic of Yemen for a Trust Fund loan, together with the staff's analysis and recommendation (TR/76/22, 11/17/76).

Mr. Leddy said that he had wondered whether Yemen's balance of payments need was not in fact smaller than the amount of the proposed loan and indeed whether a balance of payments need existed. The Trust Instrument stipulated that a member should not receive a disbursement in excess of its need. He understood that the staff had information showing that its initial assessment--which had been made some time ago--was still essentially correct. The general discussion had been instructive if not completely satisfying, and he had taken some comfort in the staff statement to the effect that there would be no additional retroactive cases beyond those on the present agenda. It would be useful to receive any further available information on the balance of payments situation in Yemen. He would of course not object to the present request.

Mr. Drabble stated that he had been somewhat concerned about the treatment of the unexpected cash assistance that the Government had received. The staff had argued that the balance of payments deficit would not be reduced by anything like the amount of the cash assistance because the authorities planned to permit a higher level of imports in the near future. In Yemen, as elsewhere, unexpected cash assistance could lead to an increase in consumption rather than to a rise in reserves, thus possibly posing some difficulties for the staff in accurately assessing members' balance of payments need to use Fund resources, especially if the imports were consumer goods rather than capital goods.

Mr. de Vries commented that he had harbored some doubts about the request by Yemen; they had, however, been completely removed by comments made during the general discussion, and he was prepared to give his full support to the proposed decision. However, he still felt that if Yemen or any borrower under the Trust Fund should record an unexpected substantial improvement in its reserves or its overall payments position it should be required by the Trust Instrument to make early repayment. He recognized that such a requirement could not be applied until it was agreed during the planned review of the Trust Instrument.

The staff representative from the Middle Eastern Department explained that the staff had recently received information from Yemen that was pertinent to the issues various speakers had raised. As reported in the relevant document, the Government had received foreign assistance which had not been taken into account in the financial program for the 12-month period ending in March 1977. In view of the extreme shortage of consumer goods in the country, the staff had expected the authorities to accelerate imports. In a recent cable the authorities had confirmed that they had in fact done so. As a result, import licenses outstanding at the end of October 1976 had amounted to the equivalent of SDR 125 million; there was no precisely comparable figure for the previous year, but at the end of September 1975, licenses being executed had been equal to SDR 90 million. The staff had also been informed that the authorities had revised their balance of payments projections for the year of the financial program. At present they were forecasting a deficit of SDR 27 million, somewhat lower than the original estimate of SDR 31 million. During the program year the Government had purchased from the Fund the equivalent of SDR 13 million in the first credit tranche and under the oil facility.

Mr. Caranicas noted that Yemen had used Fund resources in the recent past and he emphasized that the cash assistance mentioned in the paper had been entirely unexpected.

The General Counsel, responding to Mr. de Vries' statement on repayment terms, said that the Trust Instrument specifically provided that any modification of the decision could affect only loans made after the effective date of the modification unless it was favorable to the member, in which case it could be applied retroactively.

Mr. Kaul thought that by paying too much attention to unexpected increases in the level of a member's reserves the Fund might encourage the member to use the extra money quickly and unwisely merely to become eligible again to gain access to the resources of the Trust Fund.

Mr. Al-Atrash commented that the reason why some doubts had been expressed about the case of Yemen was that the paper (TR/76/22) was the only one among the eight on the present agenda in which the staff had tried to describe developments that had taken place since the financial program had been approved by the Fund. If the staff had made the same attempt to update the information in the other papers, Executive Directors would probably have felt some doubts about the other requests as well. The important fact was that the financial program of each member in question was still in effect and any further discussion on the reserve situation in those countries was unnecessary.

The Executive Directors then turned to the proposed decision on Yemen's loan request, which they approved.

The decision was:

1. By a cable dated October 21, 1976 the People's Democratic Republic of Yemen has requested a loan under the Instrument to Establish the Trust Fund ("Instrument") annexed to Executive Board Decision No. 5069-(76/72), adopted May 5, 1976, from the Trust Fund in respect of the first period in Section II, paragraph 1 of the Instrument.

2. The Fund as Trustee finds that Yemen is qualified for the loan requested in accordance with the requirements of Section II, paragraph 3(b) of the Instrument and the Managing Director is authorized to inform Yemen that the Trustee has approved a loan for Yemen on the basis of the request, on terms and conditions that accord with the letters approved by Executive Board Decision No. 5195-(76/134) TR, adopted September 8, 1976.

Decision No. 5263-(76/158) TR, adopted November 29, 1976

4. NEW ZEALAND - PURCHASE TRANSACTION - COMPENSATORY FINANCING

The Executive Directors considered the staff's analysis and recommendation with respect to a request from New Zealand for a purchase under paragraphs 2, 3 and 4 of the Decision on Compensatory Financing of Export Fluctuations (EBS/76/475, 11/9/76; Sup. 1, 11/24/76; and Cor. 1, 11/17/76).

Mr. Leung said that the case of New Zealand was a straightforward one; he agreed with the staff analysis and accepted the draft decision. The judgmental estimate of the export shortfall--SDR 110 million--was considerably in excess of the quota limitation, but the staff had noted that, even with the proposed purchase, New Zealand's total drawings under the compensatory financing facility would cover less than half of the decline in export receipts. During the export shortfall year there had been an extensive drawing down of wool stocks; otherwise, the export shortfall would certainly have been even larger than it was.

During some recent discussions, Mr. Leung recalled, Executive Directors had increasingly insisted that members making requests for greater access to the compensatory financing facility should cooperate with the Fund to find solutions to their balance of payments problems. His authorities continued to view the effort to eliminate the balance of payments deficit as a primary policy endeavor, despite both the rising rate of unemployment and the 17 per cent rate of inflation. They had confirmed their intention to continue cooperating with the Fund to solve their balance of payments problems, and in that spirit they had adopted a number of firm deflationary policy measures that would result in both a cut in real disposal income and a tighter fiscal and monetary situation. The authorities planned to continue on that course until a more satisfactory balance in the external accounts was achieved.

Mr. de Vries remarked that the purchase request met all the conditions and was acceptable.

Mr. Foglizzo said that he could accept the proposed decision. The staff had noted that New Zealand had experienced a large deterioration in the terms of trade--around 41 per cent--since 1974, but that development had been part of a larger cyclical trend; during the several years preceding 1974 there had been a major improvement in the terms of trade. As to the Government's relationship with the Fund, he had no doubt that the authorities were collaborating with the staff to solve the balance of payments problems, and the paper did mention the relevent efforts in the fiscal policy field. The authorities had also taken important steps to deal with the adverse effects of the volatile movements in export earnings; specifically, they had introduced schemes to stabilize farmers' incomes.

The staff had mentioned, Mr. Foglizzo observed, that some drawing down of wool stocks had occurred, and that the export shortfall had therefore been underestimated. At the time of the Government's previous drawing under the facility, however, there had been some stockpiling of wool, and the staff had apparently overestimated somewhat the size of the export shortfall. Although the net result did not change the total amount of assistance that New Zealand was entitled to receive, the requests would have been more consistent with the established Fund policy on stockpiling if the previous shortfall estimate had been somewhat smaller than the staff figure and if the present estimate had been somewhat larger.

The staff representative from the Research Department commented on the points raised by Mr. Leung and Mr. Foglizzo regarding changes in stocks and estimation of the shortfall. In June 1973, 24 months before the beginning of the shortfall year, wool prices had been high and New Zealand had had no stocks. The authorities had acquired stocks toward the end of 1974 when prices had fallen sharply; and they had sold them progressively, starting in April 1975, when prices had begun to recover. Stocks had been nearly depleted by the end of September 1976, and, for the purpose of projecting postshortfall earnings, stocks were taken as zero at the end of May 1978. Consequently, the accumulation and decumulation of stocks could be considered as having occurred entirely within the five-year period centered on the shortfall year. Since stockpiling did not affect the value of the trend, which was calculated as a five-year average, an adjustment for changes in stocks would have increased the calculated shortfall by approximately SDR 30 million, which was the value of net sales of stocks during 1976. On the other hand, the shortfall associated with the purchase made in July 1975 would have been reduced approximately by the same amount. Those two adjustments would not have affected New Zealand's entitlements under the facility, since the shortfall had always been far greater than the requested purchase. It might be noted that the stockpiling operations, which had been conducted cooperatively among the main exporters, had contributed to reducing the amplitude of price fluctuations during the latest wool cycle.

Mr. Leung thanked the Executive Directors for their support for the proposed decision.

The Executive Directors then turned to the proposed decision, which they approved.

The decision was:

The Fund has received a request by the Government of New Zealand for the purchase of the equivalent of SDR 50.5 million under paragraphs 2, 3 and 4 of the decision on the Compensatory Financing of Export Fluctuations (Decision No. 4912-(75/207), adopted

December 24, 1975). The Fund agrees to the requested purchase and grants the necessary waiver of the conditions of Article V, Section 3(a)(iii) of the Articles of Agreement on the repurchase terms set forth in the cable to the Fund reproduced in EBS/76/475, Supplement 1 (11/24/76).

Decision No. 5264-(76/158), adopted
November 29, 1976

DECISIONS TAKEN SINCE PREVIOUS BOARD MEETING

The following decisions were adopted by the Executive Directors without meeting in the period between EBM/76/157 (11/17/76) and EBM/76/158 (11/29/76).

5. UNCTAD - INTEGRATED PROGRAM FOR COMMODITIES - FUND REPRESENTATION

The Executive Board approves the proposal for Fund representation at meetings on the integrated program for commodities as set forth in EBD/76/225 (11/15/76).

Adopted November 17, 1976

6. JORDAN - TECHNICAL ASSISTANCE

In response to a request from the Government of Jordan for technical assistance, the Executive Board approves the proposal set forth in EBD/76/230 (11/19/76).

Adopted November 23, 1976

7. EXECUTIVE DIRECTOR - TECHNICAL ASSISTANT

The Executive Board approves the recommendation set forth in EBAP/76/265 (11/16/76).

Adopted November 17, 1976

8. EXECUTIVE DIRECTOR - TECHNICAL ASSISTANT

The Executive Board approves the recommendation set forth in EBAP/76/276 (11/22/76).

Adopted November 24, 1976

9. EXECUTIVE BOARD TRAVEL

Travel by Executive Directors as set forth in EBAP/76/190, Sup. 1 (11/24/76), EBAP/76/234, Sup. 1 (11/24/76), EBAP/76/268 (11/16/76), EBAP/76/269 (11/16/76), EBAP/76/270 (11/16/76), EBAP/76/272 (11/16/76), EBAP/76/273 (11/18/76), EBAP/76/277 (11/22/76), EBAP/76/278 (11/24/76), and by an Advisor to an Executive Director as set forth in EBAP/76/275 (11/22/76), is approved.

APPROVED BY THE EXECUTIVE BOARD:
Meeting 77/38, March 21, 1977

WILLIAM B. DALE
Acting Chairman

W. LAWRENCE HEBBARD
Secretary