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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 84/88

3:00 p.m., June 6, 1984

J. de Larosière, Chairman
R. D. Erb, Deputy Managing Director

Executive Directors	Alternate Executive Directors
	W. B. Tshishimbi
	H. G. Schneider
B. de Maulde	X. Blandin
	J. Delgadillo, Temporary
	M. K. Bush
M. Finaish	T. Alhaimus
T. Hirao	T. Yamashita
	Jaafar A.
R. K. Joyce	D. I. S. Shaw, Temporary
A. Kafka	C. Robalino
G. Laske	G. Grosche
	G. Gomel, Temporary
	A. S. Jayawardena
	J. E. Suraisry
J. J. Polak	T. de Vries
	K. G. Morrell
G. Salehkhou	O. Kabbaj
	E. I. M. Mtei
M. A. Senior	
J. Tvedt	
	T. A. Clark
Zhang Z.	

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

Also Present

A. Peacey, Principal Resident Representative for South Africa.
C. Greenidge, Minister of Finance of Guyana; C. Grant, Ambassador of Guyana; P. E. Matthews, Governor of the Central Bank of Guyana.
R. Sevilla, Minister Counsellor, Embassy of Nicaragua. European Department: L. A. Whittome, Counsellor and Director; U. Dell-Anno, G. H. Spencer, R. G. Thumann, H. Vittas. Exchange and Trade Relations Department: W. A. Beveridge, Deputy Director; M. Guitian, Deputy Director; S. Mookerjee, Deputy Director. Fiscal Affairs Department: A. A. Tait. Legal Department: G. P. Nicoletopoulos, Director; A. O. Liuksila, S. A. Silard. Secretary's Department: J. W. Lang, Jr., Deputy Secretary. Treasurer's Department: W. O. Habermeier, Counsellor and Treasurer; D. Williams, Deputy Treasurer; T. B. C. Leddy. Western Hemisphere Department: S. T. Beza, Associate Director; M. Caiola, S. C. de Sosa, R. A. Elson, J. P. Guzman, T. M. Reichmann. Personal Assistant to the Managing Director: S. P. Collins. Advisors to Executive Directors: A. A. Agah, E. A. Ajayi, H. A. Arias, S. E. Conrado, L. Ionescu, W. Moerke, G. E. L. Nguyen, Y. Okubo, P. Péterfalvy. Assistants to Executive Diretors: E. M. Ainley, J. R. N. Almeida, I. Angeloni, R. L. Bernardo, J. Bulloch, M. B. Chatah, Chen J., L. E. J. M. Coene, M. Eran, I. Fridriksson, V. Govindarajan, D. Hammann, J. M. Jones, A. K. Juusela, H. Kobayashi, E. Landis, G. W. K. Pickering, E. Portas, M. Rasyid, J. Reddy, D. J. Robinson, A. A. Scholten, Shao Z., M. A. Weitz.

1. SOUTH AFRICA - 1984 ARTICLE IV CONSULTATION

The Executive Directors continued from the previous meeting (EBM/84/87, 6/6/84) their consideration of the staff report for the 1984 Article IV consultation with South Africa (EBS/84/95, 4/30/84; and Sup. 1, 6/1/84). They also had before them a report on recent economic developments in South Africa (SM/84/112, 5/21/84).

Mr. A. Peacey, Principal Resident Representative for South Africa, was also present.

Mr. Peacey said that his authorities shared the staff's concern about the strong consumer demand that was jeopardizing both the fight against inflation and--because of the open nature of the economy--the current account of the balance of payments.

Many Executive Directors apparently were interested in South Africa's structural problems, Mr. Peacey continued, and most of his comments would therefore be related to the questions on rigidities in the labor market. It should be recognized that South Africa's economy had both a developed and less developed component, and that the structural imbalances and the disparities among population groups were the result of that dichotomy. His authorities shared Executive Directors' concern about the disparities and had asked experts in many fields to suggest ways of reducing them.

The increasing rate of urbanization was a major developmental problem that, incidentally, involved a degree of geographic mobility not generally recognized outside South Africa, Mr. Peacey said. The South African rate of urbanization, perhaps the highest in the world, had made it difficult to provide for an acceptable standard of living in both the urban and the rural sectors. In the long run, that situation could be improved only if per capita productivity and income increases were sufficient to support the cost of providing the needed additions to the urban infrastructure.

A balanced effort to improve the general standard of living was obviously needed, and, in that connection, education and training would have to play an important role, Mr. Peacey remarked. A recent survey of the business sector by the National Manpower Commission had revealed that fully trained people from other countries would be by far the largest source of new employees in the private sector, in coming years, while partially trained persons would be the second largest source of recruitment. The pool of untrained and unemployed persons would not be the most significant source. The survey results suggested that increased mobility of labor per se was not the solution to the structural problems facing the economy.

It was important to take a realistic approach to solving the difficult and complex problems facing South Africa's economy, Mr. Peacey commented. In education for its developing peoples, for instance, South Africa, like other developing countries, had a relatively young and inexperienced core of teachers; their average age was less than 30. Moreover, the quality of education could not be increased merely by providing proficient teachers; the management structure would have to be improved. The Ministry of Education and Training had had to prepare a number of persons to fill its senior management positions, and had concluded that senior black teaching personnel had accumulated sufficient experience to take on such jobs. In considering persons to fill top positions, the Ministry took into account not only academic qualifications, but also managerial experience, and it was implementing a plan to give senior black teachers the experience needed to qualify. Under past government policy, persons from a particular population group had been given priority in filling public sector positions designed specifically to serve the needs of their group. There was now a sufficient number of qualified black teachers for the Ministry to begin to consider appointing black persons to positions that no members of the black community had held in the past. Accordingly, qualified black persons would be encouraged to compete with others for promotions in the educational field. The increasing opportunities for black persons in the educational area were typical of recent developments in total public sector employment. In passing, he noted that 40 percent of the approved public service personnel establishment, other than security personnel, had been allocated to the education of the less developed population groups.

Several Executive Directors have mentioned, and the staff had accurately noted in its report, that statutory restrictions on the geographic mobility of labor had essentially been retained in new draft legislation introduced in Parliament in early 1984, Mr. Peacey commented. Although that draft legislation had been tabled in Parliament, further consideration had been postponed. In that connection, the Minister concerned had stated that "the Government and myself are determined to reach a meaningful solution to this delicate problem through discussions with the public and private sectors, including the black leaders, and, with their cooperation, to realize the laid-down objectives of the Government, namely, the improvement of living standards of the black people also outside the national states."

The problems of education and urbanization that he had described had important financial implications, Mr. Peacey noted. In fact, a most important structural task facing South Africa was the need to improve the fiscal apparatus, which would have to be the basis on which the developmental problems were solved. In the fiscal area, the Government was formulating a balanced system of priorities and not merely a list of appropriate priorities.

Adjustment was actually a way of life in South Africa, Mr. Peacey concluded, and the considerable adjustment effected in recent years had not been widely recognized outside the country. His authorities looked forward to a further fruitful exchange of ideas with the Fund on the difficult and complex matters of development finance and fiscal procedures, which affected all levels of activity and regions of the country.

The Chairman made the following summing up:

In their discussion of the 1984 Article IV consultation with South Africa, a number of Directors stressed the volatility of the economy's external position, the serious long-term structural problems, and the difficulties that economic policymakers have had in dampening domestic repercussions of swings in the terms of trade.

The recent economic performance was qualified as mixed, even though, owing to gold price developments and to the containment of imports, the objectives of the stabilization program with respect to the external current account and the overall payments position had been substantially met.

Directors generally shared the view that financial policies and conditions had been allowed to ease prematurely during 1983. In particular, they regretted that fiscal policy in the financial year 1983/84 had deviated markedly from the intentions that the authorities had expressed in the context of the stand-by arrangement. It was recognized that factors beyond the authorities' control, including the drought, had been responsible in part for the deterioration in public finances. However, the situation had been made worse by policy decisions, such as the sharp increase in public sector pay, and by the inadequate control over public spending. Directors were much concerned about these developments, which had stimulated an unsustainable consumption-led upswing in domestic demand and had contributed to the renewed weakness of the external current account position, the downward pressure on the rand, as well as the rekindling of inflationary pressure, which was seen to be particularly worrisome.

Directors noted the authorities' willingness to allow interest rates to be determined flexibly in the market, which had been instrumental in ensuring the financing of the large budget deficit by nonmonetary means. Nevertheless, some Directors noted with concern that credit to the private sector was still rising too rapidly and believed that monetary policy had not yet been tightened sufficiently to contain cost and price inflation. Moreover, speakers agreed that monetary policy was at present carrying an unduly heavy burden in the stabilization effort. This was reflected in the very high level of interest rates, in both nominal and real terms, which was undermining the prospects for a recovery of investment and for a sustainable upturn in economic activity. The point was also stressed that interest rate policy in South Africa made it necessary for other countries in the rand area to maintain very high rates in order to avoid capital outflows.

The measures that the authorities had taken in recent months to strengthen the fiscal position, including the recent decision to raise the general sales tax, were viewed as steps in the right direction that were likely to lead gradually to an improvement in the policy mix. Nevertheless, the authorities were encouraged to seek a further reduction in the budget deficit and in the borrowing requirement of the wider public sector. Directors stressed in particular that it was still critically important to contain the growth of aggregate public expenditure, and at the same time to reorder expenditure priorities in favor of outlays for the development of the country's manpower resources and for economic and social infrastructure. The authorities were encouraged to correct deficiencies in the tax system and to broaden the tax base.

Directors observed that exchange rate policy continued to be conducted in a flexible manner. This was viewed as appropriate, bearing in mind the frequent unpredictable changes in the external environment, the need to maintain monetary control, and the need to avoid substantial recourse to foreign borrowing. In the latter context, Directors stressed the unfavorable maturity structure of the external debt and the need to lengthen its term structure.

Directors expressed serious concern about the continuing rapid escalation of labor costs, which was eroding profitability and the competitive position of the traded goods sector. They believed that labor market policies and import controls were, to a large extent, responsible for the perpetuation of strong cost-push pressures. In addition, in the recent past, the pay policy in the public sector was seen as having exacerbated these pressures. The authorities were, therefore, urged to tighten pay policy for government employees.

Directors stressed that they were concerned about the rigidities prevailing in the labor markets. They expressed regret that regulations constraining geographical labor mobility had not been removed or alleviated.

Directors expressed concern regarding the adequacy of the steps taken by the authorities in education. They urged the authorities to pursue vigorously the needed upgrading of the educational and skill qualifications of the various population groups. Directors expressed doubts, given present trends in policy, regarding the attainability of the objective of educational parity by the turn of the century. The authorities were urged to remove labor supply rigidities, so as to let the country take full advantage of its human resources. They added that the inadequacies in labor market policies exacerbated the wage pressures and the shortage of skilled labor which were in turn constraining growth and compounding the unemployment problem among the lower-income groups. Directors requested the staff to pursue and deepen the analysis of labor market policies in future consultations with South Africa.

Directors noted the recent shift away from quantitative controls in favor of tariff protection, but they believed that a more significant lowering of protective barriers and a move away from the policy of import substitution would increase the economy's flexibility, dampen inflation, reduce rigidities, and promote greater specialization in production and more efficient allocation of economic resources.

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

2. GUYANA - COMPLAINT UNDER RULE K-1

The Executive Directors considered, in accordance with Decision No. 7660-(84/54), adopted at EBM/84/54 (4/5/84), the Managing Director's complaint with respect to Guyana's overdue financial obligations to the Fund (EBS/84/47, 3/9/84; Sup. 1, 4/2/84; and Sup. 2, 4/4/84). They had before them a letter from the Managing Director to the President of Guyana, and the reply of the President (EBS/84/127, 6/4/84).

Mr. C. Greenidge, Minister of Finance of Guyana, Mr. P. E. Matthews, Governor of the Central Bank of Guyana, and Mr. C. Grant, Ambassador of Guyana in Washington, D.C., were also present.

The Chairman made the following statement:

I would like to inform Executive Directors of the latest developments regarding the overdue financial obligations of Guyana.

At present, Guyana's overdue obligations amount to SDR 16,042,411 in the General Department. This compares with an amount of SDR 13,991,394 shown in EBS/84/47, Supplement 1, when I reported to the Executive Board on April 2, 1984, and reflects newly overdue repurchases and quarterly charges as well as payments made by Guyana on May 18, 1984 (see EBS/84/115, 5/24/84).

As agreed at the Executive Board meeting on April 5, 1984, I sent a letter to the Honorable L. F. S. Burnham, President of Guyana. My letter and the reply from President Burnham have been ciruclated for the information of Directors (EBS/84/127).

The 1984 Article IV consultations in Guyana, conducted in May, were held in a cordial atmosphere, and focused on discussions of the overdue obligations and of the major economic policy areas. The mission explained to the Guyanese authorities that no discussions of a program supported by Fund financial assistance could be held as long as Guyana's overdue obligations to the Fund remained outstanding. The authorities with whom the mission met indicated that they were in broad concurrence with the mission's assessment and that steps in the major areas discussed were under consideration; the mission was unable, however, to conclude that a policy package of the necessary strength and direction was in prospect. The authorities indicated that the present and prospective availability of foreign exchange did not permit them to effect payment of the overdue amounts, but expressed the hope that a way could nonetheless be found that would enable Guyana to have a program supported by the Fund. They indicated that they would try to keep arrears with the Fund from mounting, but they could as yet perceive no clear set of policies compatible with the economic and political realities open to them.

The Fund seems to have three options: it may declare the member ineligible to use the general resources of the Fund; it may decide that the member may not make use of the general resources of the Fund until such time as it is fulfilling its obligations under the Articles of Agreement relating to purchases and the payment of charges in the General Department; or it may refrain from taking formal action under the relevant provisions. In the circumstances of this member, however, I would not consider this last possibility to be a true option. I therefore recommend that the Board reach a decision promptly based on the remaining two options. An appropriate decision will be circulated to Executive Directors in the light of the Board discussion.

Mr. Greenidge stated that the Guyanese authorities felt obliged to make every effort to maintain Guyana's overall financial integrity and remain a member in good standing of the Fund. However, they had been unable to reschedule foreign debt and faced the possibility of being declared in default. A Fund-supported program could help Guyana to restore the creditworthiness that was essential to the rehabilitation of its key industries.

While there might be some room for debate on the weight to be given to the various causes of the present difficulties, their magnitude was beyond dispute, Mr. Greenidge commented. In 1981-83, both discretionary and involuntary adjustments had caused Guyana's total imports to fall by 40 percent, the equivalent of $178 million. Current estimates suggested that, of the total 1984 import bill of approximately $300 million, only $250 million could be covered by Guyana's own resources. At first glance, Guyana's debt to the Fund of $60 million appeared relatively small, but given the fall in imports and the overall balance of payments crisis, it was clearly significant.

It was important to understand, Mr. Greenidge remarked, that only 8 percent of total imports consisted of consumer goods, and most of those were milk, vegetables, drugs, and soap. The present inadequacies of such imports had contributed to the rise of the parallel economy, and had been a factor in the growing disincentive to work. Eighty percent of imports consisted of inputs for the bauxite and sugar industries, such as fuel and fertilizer, but they were insufficient to support the present output of those industries much longer.

The authorities would certainly be pleased to be in a position to undertake a Fund-supported adjustment program, Mr. Greenidge said. In the circumstances, however, such a program could not be implemented, even though there was no significant difference in opinion between the staff and the authorities on the policies that should be adopted. In 1983, the Guyanese Government and the staff of the Inter-American Development Bank had agreed on the measures needed to rehabilitate the agricultural sector in general, and the rice industry in particular. Ongoing discussions were being held on measures needed to solve some problems concerning management and ownership in the bauxite industry, but agreement had been reached on the measures needed to achieve the basic rehabilitation of the industry.

Those who criticized Guyana's adjustment performance had apparently failed to note the series of measures under the 1984 budget concerning domestic pricing, the exchange rate, and wages, Mr. Greenidge said. With the exception of the exchange rate, the scope and direction of those measures were fairly close to the Fund staff's recommendations made in November 1983; some of them, for instance, were intended to reduce the Government's need for bank financing.

The Fund staff recognized that Guyana could not hope to complete the adjustment process with its own resources alone, Mr. Greenidge went on. Guyana was willing to implement stringent measures, but they could be effective only if adequate resources were available to support an increase in the use of productive capacity and human resources. If the adjustment measures were to be economically advantageous, they would have to be supported by a fundamental restructuring of the use of resources available to Guyana, and they would have to be politically sustainable.

During the first quarter of 1984, Mr. Greenidge continued, there had been some improvement in the performance of the sugar and bauxite industries. The planned restructuring of the public sector was also intended to contribute to improvements on the supply side. When the improvements became evident, the balance of payments deficit would probably be reduced, and a successful and internally consistent program supported by the Fund and other international agencies might be possible.

During the latest Article IV consultation, Mr. Greenidge recalled, the Guyanese authorities had indicated that they intended to at least hold Guyana's debt to the Fund at the present level. To that end, additional sacrifices--including further curtailment of consumer imports--would have to be made, and the attempt to reschedule debt would have to be renewed.

Although the Fund was not permitted to negotiate a program with Guyana while the country's arrears to the Fund were outstanding, Mr. Greenidge remarked, he hoped that the Fund would provide technical assistance to facilitate the formulation and implementation of policies designed to restore equilibrium to the economy. Guyana was not attempting to avoid its responsibilities as a debtor, but it wished to ensure that the arrangements for eliminating its arrears would not jeopardize its ability either to make future payments or to maintain social stability.

Mr. Kafka said that, while the Fund was obviously required to protect the temporary character of the use of its resources, there were different ways in which that could be accomplished. It was best to do so in a fashion that showed the Board's comprehension of, and disposition to reciprocate, Guyana's own action. The Board should communicate its expectation to the authorities that they would expeditiously present a program enabling the country to improve its situation and repay the Fund in a reasonable period. The Fund should be prepared to provide technical assistance, if necessary, in formulating such a program, and should stand ready to give its support to initiatives that Guyana might then undertake to arrange for financing to repay the Fund.

Mr. Polak commented that the Executive Board's decision to take the unusual actions provided for under Rule K-1 had clearly been correct. The Chairman's letter to the President of Guyana reflected the strong feelings of the Executive Board about the country's inability to make its scheduled repayments to the Fund; the President's reply showed that he was fully aware of the Fund's position, and that he was anxious to restore what he called "the stance of integrity in financial dealings," to which he correctly attached great importance. The recent payment to the Fund by Guyana was further evidence of the country's wish to restore its position in the Fund. He hoped that the present discussion would make it clear to the authorities, first, that the Fund could not and would not tolerate delays in payments, which it saw as a negation of the relationship of trust between the Fund and a member country, and, second, that the Fund continued to wish to assist Guyana in formulating a program of action that would solve the present financial and economic difficulties and place the economy on the path to recovery and prosperity.

Among the options available to the Fund that the Chairman had mentioned in his opening statement, Mr. Polak said, he favored the second one, under which the Executive Board would decide that Guyana could not use the general resources of the Fund until such time as it was fulfilling its obligations under the Articles relating to purchases and the payment of charges in the General Department. At the same time, the authorities should be strongly encouraged to make every effort to design and adopt a set of measures to revive the economy and to restore the health of the country's finances. Given the present state of the economy, Guyana obviously could not immediately eliminate its arrears to the Fund. It was widely recognized that the unfavorable conditions in the world economy had been an important factor in the deterioration in the economic situation in Guyana, but mistaken economic policies had also played a large role and would have to be changed. The President's statement indicating the country's readiness to proceed to achieve "internal restructuring" was encouraging, and, while the authorities made that effort, the services of the Fund staff should be at their disposal. In present circumstances, although the Fund could not negotiate a program of financial assistance for Guyana, it should stand ready to provide any technical assistance that could help to turn Guyana's economy around. Drastic policy action was the only means that Guyana had to restore its creditworthiness and pave the way for Fund financial assistance.

Mr. Laske noted that Guyana's overdue payments to the Fund had increased since the previous discussion on the matter, in April 1984, and that additional repurchase charges and interest payments would be due in coming years. The letter from the President of Guyana and the opening statement by Mr. Greenidge had clearly described the problems facing the economy, but it was not clear to him that the authorities fully understood how to solve them.

Given the amount and duration of the arrears to the Fund, and the authorities' wish to solve the problems facing the economy, the first of the three options mentioned by the Chairman--limiting Guyana's access to the general resources of the Fund--might be the appropriate approach, Mr. Laske considered. That limitation should be removed as soon as Guyana had made all the required payments to the Fund.

Negotiations on a stand-by or other arrangement with the Fund should not be conducted while the arrears remained, Mr. Laske commented, but the authorities urgently needed advice in formulating policies, and he strongly supported their request for technical assistance. The assistance could enable the authorities to formulate and implement a stabilization program that would place Guyana in a position to repay the Fund by convincing its other creditors of its determination to achieve meaningful and rapid adjustment.

Mr. Joyce commented that Guyana obviously faced serious economic problems. The Guyanese people had already made large sacrifices, but solving the problems, with or without Fund assistance, would require further sacrifices in coming years. The letter from the President and the opening statement by the Minister of Finance showed that the authorities clearly recognized the gravity of the situation and the need to introduce additional important adjustment measures. There was a clear understanding by both the Fund and the authorities of the nature of the problems and of the need for further action, and the main question at the present stage was what steps the Fund should take in responding to Guyana's overdue payments.

The main point, Mr. Joyce continued, was that arrears to the Fund could not be tolerated, as they reduced the resources available for other member countries facing balance of payments problems. To ensure that the Fund's resources were available for all member countries, repurchases had to be made on time.

He fully understood the reasons why Guyana was unable to repay the Fund, but the Fund should not provide financial assistance to a country that had outstanding arrears to the institution, Mr. Joyce said. Apparently the Guyanese authorities themselves felt that that approach was appropriate.

It would not be appropriate for the Fund either to note that Guyana's situation was serious and then refrain from taking any further action, or to declare Guyana ineligible to use the general resources of the Fund, Mr. Joyce went on. It was important to recognize that Guyana was committed to making the required repayments as soon as possible, and that it wished to continue to have a close and useful relationship with the Fund. Hence, the most appropriate response would be to decide that Guyana should not use the general resources of the Fund until it was fulfilling its obligations under the Articles relating to repurchases and the payment of charges. But it was one thing to agree that the Fund could not extend additional financial resources as long as arrears existed, and another to say that the Fund had no role to play in assisting the Guyanese authorities. The Fund should therefore not abandon Guyana but should respond positively to the authorities' request for technical assistance in formulating adjustment measures that would place them in a position either to repay the Fund directly, or to gain access to additional financial resources that would permit the country to meet its obligations.

The Executive Board should also agree, Mr. Joyce considered, to review the situation, say, in six months. Thus, Executive Directors could examine the latest developments and consider ways in which the Fund could assist the country.

Mr. Tvedt said that he fully recognized the serious imbalances in the economy, and hoped that the authorities would soon be in a position to implement a program to correct them. The Fund should provide technical assistance in the formulation and implementation of such a program. Finally, he agreed with Mr. Joyce that the Executive Board should decide that Guyana should not make use of the general resources of the Fund until it was fulfilling its obligations under the Articles relating to repurchases and the payment of charges, and that the decision should be reviewed in the near future.

Mr. Clark considered that overdue financial obligations to the Fund were a serious matter. The essence of the Fund's cooperative character was that members provided resources, through either quotas or lending, for the benefit of members generally. Failure to make repurchases or to pay charges on schedule undermined the Fund's cooperative character and was unfair to the majority of member countries that made repayments on time, often in difficult circumstances.

Guyana's arrears to the Fund had reached SDR 16 million, approximately half of which had been outstanding for more than six months, Mr. Clark observed. Moreover, in net terms, the arrears had increased since the Executive Directors had previously considered the matter at EBM/84/54 (4/5/84). On that occasion, the Executive Board had agreed to allow two months to pass before considering the Chairman's complaint under Rule K-1 and had asked the Chairman to communicate with the highest authority in Guyana. That had been done, but the outcome had been inconclusive, and he fully agreed with the Chairman that, in the circumstances, it would be inappropriate for the Executive Board to refrain from taking formal action under Rule K-1.

He had noted the arguments for a formal declaration of ineligibility, but he recognized the extreme economic difficulties of Guyana and could therefore stop short of such a declaration for the present, Mr. Clark said. He could support a decision that Guyana should not use the general resources of the Fund until it was fulfilling its obligations under the Articles relating to repurchases and the payment of charges.

During the discussion of the 1983 Article IV consultation with Guyana, Mr. Clark recalled, he had mentioned the clear need for decisive and radical policy measures. Since then, that need had become even more pressing. Irrespective of Guyana's position in relation to the Fund, the authorities could act to bring the fiscal position under control and the parallel economy back within the formal economy. The need to establish a more appropriate pattern of domestic prices should be stressed, and, in that context, an exchange rate adjustment could play a particularly important role. If such measures were taken, it might be possible to look at prospects for the economy in a rather more positive light. He supported Guyana's request for technical assistance.

Mr. Delgadillo considered that it was important to underscore the severity of the problems facing the economy and the efforts that the authorities were making to resolve the issue of overdue payments to the Fund. In the circumstances, he was pleased to note from the Chairman's opening statement that the 1984 Article IV consultation with the authorities had been held in a cordial atmosphere.

Of the three options proposed by the Chairman, Mr. Delgadillo commented, he preferred to have the Executive Board decide that Guyana should not make use of the general resources of the Fund until it was fulfilling its obligations under the Articles relating to repurchases and the payment of charges. The authorities should be encouraged to adopt an economic program aimed at eliminating the imbalances in the economy. At the same time, the Fund should provide technical assistance in the preparation of a meaningful program that would help Guyana to become current in its financial obligations to the Fund.

Mr. Zhang remarked that the economic problems facing Guyana during the previous five years had been compounded by the unfavorable international environment. Unlike some other developing countries with large external debt burdens, Guyana had not been given relief in the form of new inflows of foreign capital. The Government had shown its willingness to cooperate with the Fund in eliminating its overdue payments to the institution, but it was clear that the payments could not be made fully and quickly. In the circumstances, there was no need for the Fund to declare Guyana ineligible to use its general resources. Instead, the Fund should decide that Guyana should not use the general resources of the Fund until it was fulfilling its obligations under the Articles with respect to repurchases and the payment of charges. At the same time, the Government should be encouraged to formulate a program of action, and its request for technical assistance in that effort should be approved.

Mr. Gomel commented that overdue obligations were a serious matter that posed difficult problems for the entire membership. The Fund had to maintain a proper balance between the need to uphold the principles governing the use of its resources, and the need for a flexible attitude toward a member country, particularly one facing exceptionally difficult problems. The recent reaffirmation by the Executive Board of the practice whereby the Fund did not engage in discussions on the use of its resources with a member country that had overdue payments to the institution was correct. Nevertheless, the Fund was obliged to assist member countries in their attempts to reduce their payments imbalances and to generate the foreign exchange proceeds necessary to make overdue payments.

The Fund should consult further with the Guyanese authorities on the appropriate domestic adjustment measures for the coming period, Mr. Gomel considered. However, domestic adjustment alone would not solve the problem of the payments arrears; it would have to be accompanied by foreign concessional assistance. Access to such assistance was conditional upon the authorities' reaching understandings with the Fund on a new program. They should be encouraged to take corrective actions that would give potential lenders and donors confidence that Guyana's policies were on the right track. It would therefore be crucial for the staff to make clear and concrete recommendations concerning a feasible package of measures. Finally, he accepted the Chairman's proposal to adopt a decision stating that Guyana should not make use of the general resources of the Fund until the overdue payments had been made.

Mr. Schneider said that he appreciated that the economic situation in Guyana was extremely difficult, and that the authorities wished to restore a normal relationship with the Fund as soon as possible. Overdue payments were a serious matter, and, despite the recent payments by Guyana, the remaining outstanding overdue payments were still sizable in relation to the country's quota. It was therefore necessary for the Executive Board to take steps at the present meeting to protect the Fund's credit standing and the revolving character of its resources. It was particularly important to deal with the problem of Guyana's overdue payments in the light of recent reports that other member countries might be on the point of incurring overdue obligations to the Fund.

He agreed with the Chairman, Mr. Schneider went on, that for the Fund to refrain at the present stage from taking formal action under the relevant provisions might send the wrong signal and have undesirable effects. The best approach seemed to be for the Board to accept the second option that the Chairman had proposed, that Guyana should not make use of the general resources of the Fund until it was current on its payments to the institution. However, he agreed with Mr. Joyce that the decision should be reviewed in due course.

The provision under which a Fund-supported program could not be negotiated with a member country with payments arrears to the Fund should be applied in a flexible manner, Mr. Schneider continued. Accordingly, the dialogue between the Fund and Guyana should not be brought to a halt.

Indeed, the Fund should provide technical assistance on the formulation of a possible stabilization program. In so doing, the Fund would avoid giving the impression that Guyana had become isolated from the Fund.

Mr. Suraisry said that, as his chair had stated during the previous discussion at EBM/84/54, overdue obligations undermined the Fund's credibility and effectiveness. The Fund should take appropriate steps whenever necessary to protect its resources. At the same time, it should be flexible and deal with each case on its merits.

He agreed with the Chairman that it would be inappropriate to refrain from taking formal action with respect to Guyana at the present meeting, Mr. Suraisry continued. Given the important principles involved and the long period in which the arrears had been outstanding, he was prepared to accept the Chairman's proposal to declare Guyana ineligible to use the general resources of the Fund. However, he could go along with the second option proposed by the Chairman--namely, to decide that Guyana should not use the general resources of the Fund until it was current in its obligations to the institution--provided that that decision would apply to a specified period at the conclusion of which the Executive Board might wish to review Guyana's situation to determine what progress it had made in repaying the Fund. The period could be limited to three, or even six, months. If after that time the member had made no further payments to the Fund, the Executive Board could consider taking additional steps to protect the Fund's resources. Finally, he supported Guyana's request for technical assistance. The country should not be denied such assistance, particularly at the present stage.

Mr. Hirao recalled that, during the previous discussion on Guyana, Executive Directors had stressed that overdue payments to the Fund were a serious matter. As agreed, management had since taken a number of steps, and he was encouraged to note that Guyana had made some payments to the Fund, despite its difficult problems. Nevertheless, Guyana still had overdue obligations to the Fund; almost all other member countries in similar difficulties had made strenuous efforts to keep their payments to the Fund current, in keeping with the revolving nature of the Fund's resources. In the circumstances, the Fund had no alternative but to follow the rules designed to protect its integrity and the interests of its member countries. He could accept the Chairman's proposal to adopt a decision stating that Guyana should not use the general resources of the Fund until it was current in its obligations to the institution.

He was encouraged by the authorities' determination to make every effort to restore order to the economy, Mr. Hirao concluded. Guyana urgently needed technical assistance, and the Fund should certainly provide it.

Mr. Jaafar stated that his position was the same as that of Mr. Polak. A decision declaring Guyana ineligible to use the general resources of the Fund would be counterproductive. The Executive Board should choose a more constructive solution, and the Fund should provide technical assistance to the authorities in their adjustment efforts. A decision should be adopted limiting Guyana's access to the Fund's resources as long as it maintained overdue obligations to the Fund, and the decision should be reviewed within a reasonable period.

Ms. Bush considered that overdue payments were directly contrary to the revolving character of the Fund's resources and undermined the credibility of the Fund that was critical to its public image and to its role vis-à-vis other lenders. Overdue obligations detracted from the liquidity and financial soundness of the Fund and caused uneven treatment of members. The Fund could not tolerate such strains.

The Managing Director had issued a formal complaint regarding Guyana's overdue payments to the Fund, Ms. Bush noted, and the appropriate response by Guyana would have been to repay fully all its obligations to the institution. The President of Guyana and the Minister of Finance had described the difficulties in making the necessary payments while stressing their recognition of their responsibilities to the Fund. Nevertheless, the arrears remained, and, in view of the repeated calls for repayment, even prior to the Managing Director's complaint, a decision by the Executive Board declaring Guyana ineligible to use the general resources of the Fund was probably the most appropriate solution.

However, Ms. Bush went on, she could accept the proposal to adopt a decision that Guyana could not use the general resources of the Fund until it was current in its obligations, provided that several understandings were also reached. First, it should be clear that the Executive Board expected the remaining overdue payments to be fully paid forthwith. Second, if the remaining arrears were not eliminated, the problem should be examined again in the near future. Accordingly, she felt strongly that the decision adopted at the present meeting should be reviewed no longer than three months from the date of the present meeting. It should also be clearly understood that the staff and the authorities would not discuss Guyana's use of Fund resources as long as the country had overdue payments to the Fund. The authorities should be urged to use any payments that they might receive under the supplementary financing facility subsidy account to reduce immediately their overdue obligations to the Fund, and to take immediate and appropriate steps to make the adjustments that would enable them to meet their financial obligations in a timely manner. Guyana's request for technical assistance was acceptable, but it should regard the assistance as an additional incentive to repay fully their overdue obligations forthwith.

Mr. de Maulde stated that, for the reasons mentioned by previous speakers, he could go along with the Chairman's proposal to adopt a decision under which Guyana would not make use of the general resources of the Fund until it was current in its obligations to the institution. The decision should be reviewed within six months, and the Fund should continue to provide Guyana with technical assistance.

Mr. Mtei said that the Government had clearly shown its determination to honor the country's obligations to the Fund. Guyana obviously faced a number of difficult problems, some of which were due to factors beyond the authorities' control. The Executive Board might decide that Guyana should not use the general resources of the Fund until it was current in its obligations to the institution. It should also agree that the Fund would provide all possible technical assistance to Guyana in coming months, so that the authorities could formulate a program that would enable them to repay their creditors.

Mr. Tshishimbi stated that his chair continued to believe that the Fund must ensure the prompt repayment of its resources. However, in the light of the difficult problems facing Guyana, as highlighted by the opening statement of the Minister of Finance, it seemed safe to go along with the proposal to adopt a decision under which Guyana would not use the general resources of the Fund until it was current in its obligations to the Fund. Guyana's request for technical assistance was acceptable.

Mr. Morrell said that he wished to associate himself with Mr. Joyce's comments. He understood that Guyana had been unable to make the scheduled payments to the Fund because of the serious economic problems that it faced, but many other countries in the same situation had made every effort to keep their payments current. Guyana's inability to meet its financial obligations to the Fund underscored the need for the Government to adopt a strong adjustment program, and the request for technical assistance was therefore acceptable.

The Executive Board should decide that Guyana could not use the Fund's resources until it was current in its payments to the Fund, Mr. Morrell considered. As to the timing of the review of that decision, the Article IV consultation mission to Guyana had recently returned to headquarters, and the relevant staff report presumably would be brought to the agenda of the Executive Board within three months. The discussion of that report would provide a good opportunity to review the decision adopted at the present meeting.

Mr. Finaish said that, for the reasons mentioned by previous speakers, he could support the proposal to adopt a decision under which Guyana could not use the general resources of the Fund until it was current in its obligations under the Articles. The proposal to provide technical assistance to Guyana was consistent with the Chairman's summing up of the previous discussion on overdue payments to the Fund. On that occasion, the Chairman had mentioned that such discussions "did, of course, entail consideration of the adjustment measures which would make it possible to repay and which may possibly be supported later by a program."

Mr. Jayawardena commented that the Fund was based on the principles of international cooperation, and all member countries were thus required to be current in their financial obligations to the institution. At the same time, all member countries were beneficiaries of an orderly evolution of the world economic and financial system, and undertook to help each other to achieve such a system.

Guyana had obviously gone through a difficult period, Mr. Jayawardena continued. The world recession of the 1980s had been unprecedented in the history of the Fund, and he was surprised that so few countries had the same problems that confronted Guyana. The Executive Board should therefore base its response on caution and understanding, consistent with the Fund's role in the treatment of much larger overdue obligations by member countries to commercial banks. The Fund had spared no effort to bring those parties together, prevent massive defaults, and keep the international system working. Given its larger responsibilities, the Fund had to respond differently from a commercial bank to overdue financial obligations, and a declaration of Guyana's ineligibility to use the Fund's general resources would be counterproductive. He was pleased that Guyana did not intend to use the Fund's general resources until it was fulfilling its obligations under the Articles, and that the authorities intended to work out a program that would permit Guyana to settle its overdue obligations at an early stage. The Fund should provide technical assistance in the formulation of the program.

Mr. Salehkhou said that he, like previous speakers, fully recognized the difficulties that had prevented the authorities from fulfilling their obligations to the Fund. While it was important to maintain the revolving character of the Fund's resources, the Executive Board should show its understanding of the problems facing Guyana. The best solution was to decide that Guyana could not use the general resources of the Fund until it was current in its obligations to the institution. The Fund should provide technical assistance to Guyana.

Mr. Greenidge commented that Guyana would refrain from seeking to use the general resources of the Fund until it was current in its obligations. He welcomed Executive Directors' support of his request for technical assistance, and the Government would make every effort to ensure that it was used to formulate a program that would move the economy out of the present recession. The authorities had already taken a number of steps, with the assistance of other multilateral agencies, on the supply side. Further measures were envisaged on the demand side, some of which would be consistent with proposals already made by the Fund staff.

He hoped that the Fund would make every effort to support Guyana by explaining the country's situation to any agencies that approached the Fund for information before the desired adjustment program was in place, Mr. Greenidge commented. Such support for policies that were consistent with the Fund staff's recommendations would go a long way to help Guyana formulate a program that could be supported by the Fund.

Mr. Kafka said that he welcomed Executive Directors' support of the proposal for further technical assistance for Guyana. In coming months, the Fund should maintain close contacts with Guyana and remain well informed of the latest developments in the economy.

It seemed best not to tie the Executive Board to a specific period in which to review the decision adopted at the present meeting, Mr. Kafka considered. The Executive Board would of course review the situation in Guyana during its discussion on the staff report for the 1984 Article IV consultation with Guyana, but it was important to bear in mind the seasonality of Guyana's payments pattern. At present, there was virtually no flow of exports out of Guyana. Guyana would of course make every effort to make payments to the Fund as soon as possible, but its ability to make major payments would depend on the resumption of export flows.

The Chairman remarked that Executive Directors had again underscored the seriousness of overdue obligations, which undermined the credibility of the Fund, its cooperative character, and the revolving nature of its resources, and were unfair to member countries that had fully met their obligations to the Fund, often at great sacrifice to themselves. Executive Directors were concerned that Guyana's net overdue obligations to the Fund had increased, despite some payments since the previous discussion on the matter on April 5, 1984. Of the several optional responses by the Fund that he had suggested, Executive Directors seemed agreed that Guyana should not be authorized to use the Fund's resources until it had eliminated all its overdue payments to the Fund. The Executive Directors had also agreed to review their decision in order to determine a course of action in light of the progress made by the member in dealing with the problem of its overdue obligations to the Fund.

In considering the date of the review, the Chairman remarked, Executive Directors should bear in mind that, during the coming six months, Guyana was scheduled to make repurchases of SDR 5.5 million and to pay charges of SDR 4.4 million. The staff report for the 1984 Article IV consultation with Guyana was due to be circulated in July, and it would accordingly be brought to the agenda of the Executive Board at some time in August. As a result, the Executive Directors would have an opportunity to review the situation in Guyana in approximately three months' time.

Mr. Clark said that a review of Guyana's overdue payments position during the discussion on the staff report for the Article IV consultation would be acceptable.

Mr. Joyce considered that it would be useful to review Guyana's situation within three months and to discuss the consultation report at the same time. The Executive Directors could decide on that occasion whether or not further action would be required.

The Chairman noted that Executive Directors had also indicated that a strong adjustment program--covering all the relevant issues, such as fiscal policy, pricing policy, exchange rate policy, credit policy, and structural adjustment--was called for. Both the President and the Finance Minister of Guyana apparently fully agreed with that conclusion. Technical assistance should be provided to the authorities to help them design an adjustment program that would be conducive to early repayment of the overdue obligations to the Fund. The Fund staff clearly could not be authorized at the present stage to negotiate a Fund-supported program for Guyana.

The Executive Directors then considered a draft decision (see Annex I).

Ms. Bush commented that the words in paragraph 4 "until such time as Guyana is fulfilling its obligations" could be taken to mean that Guyana would again be permitted to use the general resources of the Fund once it had merely begun to fulfill its obligations, rather than after it had fully eliminated all its overdue payments to the Fund.

The Director of the Legal Department explained that the text in question was intended to say that Guyana would have to eliminate all its overdue obligations to the Fund and be current in its obligations to the institution before it could use the general resources of the Fund.

Ms. Bush suggested that the word "fulfilling" could be replaced by "current on."

The Executive Directors accepted Ms. Bush's proposal.

Mr. Jayawardena considered that the reference to "sound economic and financial policies" in paragraph 5 was unclear. It would seem better to say that Guyana should be urged to adopt appropriate economic and financial policies that would enable it to fulfill its obligations to the Fund.

Mr. Clark remarked that he was unhappy to associate the adoption of policies with the meeting of obligations to the Fund. The overdue obligations existed irrespective of the nature of the country's policies.

Mr. Greenidge noted that the text of paragraph 5 wrongly gave the impression that Guyana had not adopted sound or appropriate economic and financial policies. In fact, of course, a number of measures had been introduced.

Mr. Kafka suggested that paragraph 5 could read: "The Fund also calls upon Guyana to adopt additional economic and financial adjustment measures."

The Chairman remarked that, in the light of the discussion, it would be appropriate to mention that there was an urgent need for the adoption of additional economic and financial measures.

After a further brief discussion, the Executive Directors agreed that paragraph 5 should read: "The Fund also calls upon Guyana to adopt urgently additional economic and financial adjustment measures. The Fund staff will stand ready to provide technical assistance for this purpose."

Mr. Kafka suggested that, in keeping with the Chairman's earlier observation, paragraph 6 should read: "The Fund shall review the present decision in connection with the forthcoming Article IV consultation."

Ms. Bush considered that the text of paragraph 6 should stipulate that the review should take place within three months of the present meeting.

Mr. Joyce said that he agreed with Ms. Bush.

After a further brief discussion, the Executive Directors agreed that paragraph 6 should read: "The Fund shall review the present decision in connection with the forthcoming Article IV consultation, but not later than three months from the date of the present decision."

The Executive Board approved the proposed decision, as amended.

The decision was:

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

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

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

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

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

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

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

3. NICARAGUA - COMPLAINT UNDER RULE K-1

The Executive Directors considered, in accordance with Decision No. 7660-(84/54), adopted at EBM/84/54 (4/5/84), the Managing Director's complaint with respect to Nicaragua's overdue financial obligations to the Fund (EBS/84/48, 3/9/84; and Sup. 1, 4/6/84). They also had before them a staff paper updating Nicaragua's overdue financial obligations to the Fund (EBS/84/128, 6/4/84; and Sup. 1, 6/5/84) and a statement by the Chairman.

The Chairman made the following statement:

I would like to inform Executive Directors of the latest developments regarding the overdue financial obligations of Nicaragua.

Executive Directors were last informed of Nicaragua's overdue obligations of SDR 10,105,121 in EBS/84/48, Supplement 1, April 6, 1984. Since then, Nicaragua became overdue with respect to quarterly charges and additional repurchases, as well as the SDR assessment and net SDR charges in the SDR Department. We have, however, just received confirmation that on June 5, 1984, Nicaragua made a payment of SDR 4.25 million, which was used to fully settle outstanding obligations in the SDR Department, fully settle overdue charges in the General Department, and reduce outstanding repurchase obligations. (Detailed information is being circulated separately as EBS/84/128, Supplement 1).

Following this payment, Nicaragua's overdue obligations in the General Department total SDR 10,103,379.

Following the Executive Board meeting of April 5, 1984, I have cabled the authorities the text of my memorandum of March 9, 1984, as amended on April 6, 1984, which includes my complaint under Rule K-1.

It seems that the Fund has three options: it may declare the member ineligible to use the general resources of the Fund; it may decide that the member may not make use of the general resources of the Fund until such time as it is fulfilling its obligations under the Articles of Agreement relating to purchases and the payment of charges in the General Department; or it may refrain from taking formal action under the relevant provisions. In the circumstances of the member, however, I would not consider this last possibility to be a true option. I therefore recommend that the Board reach a decision promptly based on the remaining two options. An appropriate decision will be circulated to Executive Directors in the light of the discussion.

Mr. Senior made the following statement:

At our Board meeting on April 5, 1984, I stated that the Nicaraguan authorities were making efforts to obtain the appropriate financing in order to pay all overdue obligations to the Fund. Since that meeting, the authorities intensified these efforts, reflecting their concern to resolve this issue as soon as possible. Unfortunately, however, up to now all the efforts to arrange this financing have not yet had positive results. While there are still some conversations that have not yet been concluded, the authorities consider that it would be very difficult to expect a complete resolution before our meeting on June 6, 1984.

In the light of these circumstances, my Nicaraguan authorities have indicated that they will make a significant effort to resolve, at least partially, with their own resources, the problem of overdue payments to the Fund. In this regard, I have been informed that on Monday, June 4, the authorities cabled instructions to the Fund in order to pay SDR 4,250,000 of the overdue obligations. This payment is to be applied in the following manner:

Compensatory financing facility repurchase due May 16, 1983	SDR 2,125,000
Compensatory financing facility repurchase due August 16, 1983	SDR 1,054,447 1/
SDR net charges due May 1, 1984	SDR 852,126
SDR September assessment due April 30, 1984	SDR 2,727
Quarterly charges in General Resources Account	SDR 215,700
	SDR 4,250,000

1/ Partial payment

With this payment, Nicaragua continues to be current in the SDR Department and in discharging all quarterly charges in the General Resources Account. As the Board may recall, I indicated at the April 5 meeting that Nicaragua would pay that same day SDR 1,282,064 in full settlement of overdue charges of SDR 441,987 in the General Department and net SDR charges of SDR 840,077 in the SDR Department. This was effectively done, as the Managing Director informed the Board in EBS/84/48, Supplement 1. Even though there might be some advantages to settling repurchases before charges, the authorities have considered that, at the least, they should remain current in their obligations arising from charges in order not to affect the Fund's income position and the proper reflection of income under the accrual system.

The payment being made today represents a significant effort on the part of the Nicaraguan authorities. In total, this payment is equivalent to 30 percent of all of Nicaragua's overdue payments to the Fund today. It is also equivalent to two full compensatory financing facility repurchases--of SDR 2,125,000 each--now overdue. With this payment, Nicaragua has now totally canceled the most overdue of its repurchase obligations, and partially the next most overdue one. Since our meeting on April 5, with this payment Nicaragua has repaid the Fund over SDR 5.5 million, remains again current in all obligations arising from charges, and has even reduced total overdue payments by SDR 1.3 million in spite of two new repurchases--amounting to more than SDR 3 million--that became due after that meeting. In this regard, I think it important to mention that Nicaragua has no additional repurchases coming due in the future, so that all additional efforts that the authorities make to settle overdue obligations with the Fund will, in effect, fully reduce total overdue payments rather rapidly. Somewhat differently, I should also mention that, since the April meeting, Nicaragua has already paid the reserve asset portion of the increased subscription in its quota under the Eighth General Quota Review to which it consented on January 27, 1984.

As I have said on previous occasions, Nicaragua's current situation of payments to the Fund does not in any way represent a lack of willingness on the part of the authorities duly to fulfill their obligations to the Fund. Rather, it represents a real inability to fulfill such obligations. The situation in Nicaragua is difficult, not only because of the crisis confronting practically all developing countries, but also more important, because of the security situation, of which account has been amply given in the media. In these circumstances, the authorities consider it difficult to do much more with their own resources at the moment than I have just indicated in the second paragraph of this statement. Indeed, the effort they are making now is significant and shows the authorities' determination to resolve this problem as soon as possible. However, total overdue payments to the Fund represent a significant proportion of Nicaragua's total exports--of about $420 million in 1983--and a high percentage of the country's total consumption imports--of about $173 million in 1983. Thus, it would not be reasonably feasible to expect that all overdue payments to the Fund could be canceled in one payment with Nicaragua's own resources. That is the reason the authorities are continuing their effort to obtain the appropriate financing to resolve this problem, or in any case their efforts gradually to reduce overdue payments with their own resources in the future. The authorities consider that their relations with the Fund are important, patently demonstrated by their determination to service the outstanding debt. As I have indicated, Nicaragua's present overdue payments to the Fund arise from two purchases made in 1979, one on May 17 under the compensatory financing facility decision, and the other in respect of a credit tranche purchase made on June 1, both practically only weeks before the end of the revolutionary struggle in mid-July 1979. A compensatory financing facility purchase made by the current authorities in August 1979, using the early drawing procedure, was later fully repaid when actual data indicated a much smaller shortfall than originally estimated.

While Nicaragua's current economic situation and difficulties are very serious and may, if not justify, at least clearly explain, the reasons for the overdue payments, the authorities understand and share the concern of the Board regarding this anomaly. Overdue payments are harmful to the credibility and image of the Fund, and they should be avoided by members. When such a situation appears, however, the Fund is clearly required to safeguard its interests and the temporary character of its resources. However, this should be done in a flexible manner when the situation of the member concerned warrants it, and in a way conducive to a harmonious resolution of the problem within a prudent period of time. The significant effort being made by the Nicaraguan authorities to solve their payments problem with the Fund should be reciprocated by the institution through its understanding and flexibility. Sufficient time should be allowed for the authorities to continue their efforts to arrange the appropriate financing, or to cancel their obligations to the Fund gradually. In the case of Nicaragua, this is, of course, helped by the fact that no further repurchases are coming due in the future. The authorities have no intention of using the Fund's resources while they have overdue payments outstanding. They share the concern of many members that, while such payments are outstanding, there could be a limitation on the member's use of such resources. The authorities continue to be firmly committed to settling their obligations with the Fund as soon as possible.

Mr. Polak remarked that he was confident that the Nicaraguan authorities understood that the Executive Board felt that the country's overdue obligations to the Fund were a serious matter. The substantial partial payment that Nicaragua had made in the face of obvious difficulties showed that the country was making a strong effort to deal with the matter. It was also an indication of the value that Nicaragua placed on continued good relations with the Fund. In consideration of the Fund's income position, and at some cost to itself, Nicaragua had paid the charges due to the Fund before the principal. The Fund was an organization in which countries with widely varying economic systems collaborated for the common good, and Nicaragua had a fully acknowledged place as an original member. As had become clear during the Board discussion of the staff report for the 1984 Article IV consultation with Nicaragua (EBM/84/36, 3/5/84), the Fund could offer much to Nicaragua in policy advice that the authorities might be well advised to accept. Finally, for reasons that were well understood in Nicaragua, as Mr. Senior had made clear, the Fund had to adopt a decision concerning the country's overdue payments obligations. It seemed best to agree that Nicaragua should not make use of the general resources of the Fund until it was fulfilling its obligations under the Articles relating to repurchases and charges.

Mr. Salehkhou commented that the nature and extent of the serious problems facing the Nicaraguan economy were well known. They had by no means resulted from economic mismanagement but rather from a hostile internal environment.

While the revolving character of the Fund's resources was important, the cooperative nature of the Fund also had to be recognized, Mr. Salehkhou considered. The Nicaraguan authorities had amply demonstrated their sincerity and cooperation by paying the equivalent of 30 percent of all the overdue obligations to the Fund since the previous discussion on April 5, 1984. It was important to understand that those payments had involved enormous sacrifices by Nicaragua, and that the present overdue payments obligations had arisen from two purchases made only weeks before the end of the revolution, in mid-July 1979. Given those facts, and the authorities' strong commitment to settling their obligations with the Fund at the earliest possible date, the third option that the Chairman had mentioned--namely, refraining from taking formal action under the relevant provisions of the Articles--was a genuine option, and he warmly supported it.

Mr. Tvedt considered that the authorities had made a strong effort to solve the problem of overdue obligations to the Fund. He hoped that they would soon succeed in finding the resources to repay the Fund in full, thereby restoring the country's normal relationship with the institution. Meanwhile, in keeping with the principle of the uniform treatment of members, he accepted the proposal for limiting Nicaragua's access to the Fund's resources. The decision adopted at the present meeting should be reviewed in three months.

Mr. Joyce stated that he welcomed Nicaragua's efforts to meet its overdue financial obligations to the Fund, including the recent payment of SDR 4.25 million and the settling of all of the country's outstanding obligations in the SDR Department. Those significant steps demonstrated the authorities' ability to meet their obligations. Nevertheless, Nicaragua's outstanding arrears still exceeded SDR 10 million and were approximately the same as they had been at the time of the previous discussion of the matter, in April 1984.

The Nicaraguan authorities had no intention of seeking to use Fund resources as long as they had outstanding payments to the Fund, Mr. Joyce commented. In addition, the authorities had been trying, thus far without success, to obtain appropriate financing that would permit them to repay the Fund quickly. He hoped that they would persist in those efforts. The authorities had noted that, if they were to repay the Fund entirely out of their own resources, they were unlikely to be able to do so in a single payment. In those circumstances, it seemed best to recognize the efforts that Nicaragua had made and the continued good intention of the authorities, and to decide formally that Nicaragua should not be permitted to use the general resources of the Fund until it was fulfilling its obligations under the Articles. That decision should be reviewed within three months if, by then, Nicaragua had not been able to eliminate all its arrears to the Fund. The decision on Nicaragua should encourage the authorities to take whatever additional measures might be needed to place themselves in the position to discharge quickly their obligations to the Fund, which should be prepared to offer technical assistance in identifying and making whatever policy changes might be necessary.

Mr. de Maulde said that, while the logical solution was to agree that Nicaragua should not use the general resources of the Fund until it was fulfilling its obligations under the Articles, he was not fully satisfied with that approach. The decision on Nicaragua should, as Mr. Senior had suggested in the final paragraph of his opening statement, be part of a flexible response by the Fund to Nicaragua's serious efforts to deal with the problem of its overdue payments. It seemed best to adopt a somewhat different approach from the one taken to deal with Guyana's overdue payments obligations. The Executive Board could agree, for instance, that its decision on Nicaragua's overdue payments obligations would not become operative unless it were found that after, say, two or three months, the country had not fully discharged its payments obligations to the Fund.

Mr. Suraisry stated that Nicaragua's settlement of part of its overdue obligations was encouraging. However, sizable arrears remained, and it seemed best to treat Nicaragua in the same manner in which Guyana had been treated.

Mr. Laske said that he had noted with satisfaction the efforts made by the Nicaraguan authorities to meet their payments obligations to the Fund, including the recent sizable payment. More than SDR 3 million in arrears had been outstanding for three months, and the total amount of overdue payments had not been significantly reduced since the previous Board discussion on Nicaragua in April 1984. However, he recognized the desire and determination of the authorities to restore their regular relationship with the Fund, and he hoped that they could make further progress toward reducing those overdue payments in the near future. The

Executive Board should decide that Nicaragua should not use the general resources of the Fund until it was fulfilling its obligations under the Articles, and the Board should review its decision within three months.

Mr. Gomel remarked that, as Executive Directors had learned during the latest Article IV consultation with Nicaragua, the country's foreign exchange holdings were minimal, and its balance of payments difficulties were likely to persist. He noted with satisfaction the authorities' intention to discharge their overdue obligations to the Fund, and he particularly welcomed the recent repayment of part of their debt. The authorities should be urged to provide the Fund with a schedule estimating the dates of the remaining payments. In the circumstances, and after careful consideration of the various courses of action available to the Fund, he could accept the proposal that Nicaragua should not use the general resources of the Fund until it had fulfilled its financial obligations to the institution.

Mr. Clark said that his general comments in relation to Guyana's situation were no less relevant in the present case. He supported the proposal for the adoption of a decision under which Nicaragua would not use the general resources of the Fund until it was fulfilling its obligations under the Articles. The authorities had said that they had no intention of using the general resources of the Fund while they had payments outstanding to the Fund, but it would be consistent with established policy for the Fund to act in line with Rule K-2.

Nicaragua's recent payment had been used to fully settle outstanding obligations in the SDR Department, fully settle overdue charges in the General Department, and reduce outstanding repurchase obligations, Mr. Clark noted. He hoped that the authorities would continue to work toward the removal of the remaining overdue payments at an early date.

Mr. Schneider said that he appreciated the authorities' efforts to reduce their payments obligations to the Fund despite the difficult environment in which they had to act. Nevertheless, the Executive Board had to act to protect the Fund's financial position, and he could accept the Chairman's proposal that Nicaragua should not use the general resources of the Fund until it was fulfilling its obligations under the Articles.

Mr. Delgadillo noted that the authorities had made a substantial effort to reduce the overdue payments obligations, despite the difficult circumstances in Nicaragua. His first preference was to accept the third option that the Chairman had mentioned, namely, to refrain from taking formal action under the relevant Fund provisions. However, he could go along with the Chairman's second proposal, namely, to decide that Nicaragua should not use the general resources of the Fund until it was fulfilling its obligations under the Articles.

The Nicaraguan authorities obviously were not ignoring their obligations, as was evident from their recent payment to the Fund, Mr. Delgadillo continued, but the financial situation of the country was clearly a difficult one. Such countries should be given adequate technical assistance to make it easier for them to repay the Fund.

He was opposed to the idea of establishing a fixed period for review of the decision on Nicaragua adopted at the present meeting, Mr. Delgadillo said. It would be difficult to agree on a specified date. An excessively long period might encourage postponement of the settlement of the obligations, while an excessively short period would not be fair in the light of the efforts being made by the authorities to eliminate their overdue financial obligations to the Fund.

Mr. Hirao recalled that the serious nature of overdue payments had been stressed during the discussion on Guyana. Although he greatly appreciated the Nicaraguan authorities' significant effort to discharge their financial obligations to the Fund, Nicaragua, like Guyana, should not be permitted to use the general resources of the Fund until it was fulfilling its obligations under the Articles.

Ms. Bush recalled that, during the discussion on Guyana, she had stressed that it was critical to keep payments arrears from persisting. Nicaragua's payments to the Fund had been overdue for a long time. Nicaragua had recently made a payment of SDR 4.5 million, but there had been repeated calls for it to repay the Fund, and overdue payments remained. In view of the lengthy period for which the payments had been overdue, a case could have been made for declaring Nicaragua ineligible to use the general resources of the Fund if it had not been for the country's recent payment partially fulfilling its outstanding obligations. She could accept the proposal to adopt a decision that Nicaragua should not use the general resources of the Fund until it was fulfilling its obligations under the Articles, provided that it was understood that the Executive Board expected full payment forthwith, that the decision would be reviewed within three months if Nicaragua had not become fully current in its payments to the Fund, that Nicaragua would not use Fund resources as long as arrears remained, and that the Fund staff would not discuss any use of Fund resources by Nicaragua as long as arrears remained.

Mr. Senior remarked that, in considering the date for the review of the decision, Executive Directors should bear in mind the marked seasonality of the country's exports. Nicaragua was an agricultural country, and most of its crops were rain fed and were planted in May and June of each year. Foreign exchange receipts were not substantial until November and December, when the crops had been harvested and exported. Hence, it would not be useful to review the decision on Nicaragua any sooner than in six months' time.

Mr. Zhang stated that he supported the proposal under which the Executive Board would decide that Nicaragua should not use the general resources of the Fund until it was fulfilling its obligations under the Articles.

Mr. Tshishimbi said that, in the light of the information that Mr. Senior had provided in his opening statement and the recent payment by the Nicaraguan authorities, which had fully settled the country's outstanding obligations in the SDR Department, he could accept the proposal that Nicaragua should not use the general resources of the Fund until it was fulfilling its obligations under the Articles.

Mr. Jaafar remarked that, despite the difficulties to which Mr. Senior had referred in his opening statement, the Nicaraguan authorities had taken impressive steps to settle fully both their outstanding obligations in the SDR Department and the overdue charges in the General Department. Hence, there was solid evidence of the authorities' commitment to solve the problem of the overdue payments as soon as possible. Nevertheless, a sizable balance of overdue payments remained, and he could go along with the proposal for limiting Nicaragua's access to the Fund's general resources until the country had fulfilled its obligations under the Articles.

Mr. Morrell considered that Nicaragua's recent payment was significant and was part of its strenuous effort to eliminate its overdue financial obligations to the Fund. However, the latest Article IV consultation with Nicaragua had indicated that there was a need for considerable economic adjustment, and he hoped that the decision adopted on Nicaragua at the present meeting would convey that message. He could accept the proposal for a decision stating that Nicaragua should not use the general resources of the Fund until it was fulfilling its obligation under the Articles. Mr. de Maulde's suggestion that the decision should become operative in two or three months' time would not be appropriate. Nicaragua's overdue payments had been brought to the Executive Board's attention some three months ago, and any further delay would not be warranted.

Mr. Jayawardena said that he appreciated that, despite substantial difficulties, the authorities had made a strong effort to repay a part of their overdue obligations to the Fund. It was only fair to recognize the difference from the case of Guyana in the decision that was to be taken on Nicaragua by recognizing the payment that Nicaragua had made after the country had been notified of the complaint under Rule K-1.

The last of the three options mentioned by the Chairman seemed to be the fairest, Mr. Jayawardena remarked. However, he could go along with the second one, while noting the authorities' intention not to use Fund resources as long as they had outstanding payments to the Fund. One way of distinguishing between the cases of Nicaragua and Guyana was to decide that the decision on Nicaragua should be reviewed after six months, rather than after three months. The case for a longer review had been made by Mr. Senior.

Mr. Mtei remarked that Nicaragua had made a substantial effort to fulfill its obligations to the Fund despite the serious problems facing the authorities. In the case of Nicaragua, unlike that of Guyana, economic policy management had not been an important factor in the overdue payments to the Fund. The Executive Board should note the authorities' commitment not to use the Fund's resources until Nicaragua was current in its financial obligations to the Fund. That commitment had the same effect as the second option proposed by the Chairman, under which the Fund would decide that Nicaragua should not use the general resources of the Fund until it was fulfilling its obligations under the Articles.

In his opening statement, Mr. Senior had made the important point that Nicaragua's exports were seasonal, Mr. Mtei noted. It was also important to bear in mind that there were physical constraints on exports from Nicaragua. It seemed sufficient for the Executive Board merely to note the authorities' commitment not to use the Fund's general resources until Nicaragua was current in its financial obligations to the Fund.

Mr. Finaish commented that Mr. Senior's statement clearly described the difficult situation in Nicaragua. The authorities' strong effort to settle Nicaragua's financial obligations to the Fund was commendable. Given the authorities' commitment to avoid using Fund resources while Nicaragua had outstanding obligations to the Fund, he could go along with the Chairman's second proposal. In setting the date for the review of the decision on Nicaragua, Executive Directors should bear in mind Mr. Senior's comments on the seasonality of Nicaragua's exports.

The Director of the Legal Department said that the idea that Mr. de Maulde had in mind could be reflected in the text of paragraph 4, which could include the following sentence:- "The Fund decides, pursuant to Rule K-2 of the Fund's Rules and Regulations, that Nicaragua is not current in its financial obligations to the Fund, and that Nicaragua shall not make use of the Fund's resources until it is current in its financial obligations to the Fund."

The question had been raised, the Director of the Legal Department noted, whether there was any legal difference between Nicaragua's announced intention of not using Fund resources until it was current in its obligations to the Fund, and the adoption of a decision by the Executive Board stating that Nicaragua should not use the general resources of the Fund until it was fulfilling its obligations under the Articles. If a decision were adopted by the Executive Board, Nicaragua would be unable to use the Fund's resources unless all its financial obligations to the Fund had been met. If the only action taken at the present meeting were to note Nicaragua's statement about its intentions, Nicaragua could conceivably change its mind and proceed to use the Fund's resources without the Executive Board's adopting another decision on Nicaragua.

Mr. Joyce said that he had no difficulty in accepting the proposal for noting in the decision on Nicaragua that the authorities had recently made a significant payment to the Fund. However, it might be inappropriate to note also in that decision the authorities' intention not to use the Fund's resources while payments to the Fund were outstanding; no such reference had been made in the decision on Guyana, which had announced the same intention.

Mr. Polak commented that it was his impression from Mr. Senior's comments that Nicaragua, unlike Guyana, might well be able to repay the Fund fairly soon. That likelihood could be reflected in the text of the decision on Nicaragua. For instance, the text could say that, unless Nicaragua had become current on its obligations to the Fund before a specified date, the Fund would review the decision in three months.

Mr. de Maulde commented that there seemed to be little support for his proposal, and he wished to withdraw it.

The Chairman remarked that Executive Directors had again underscored the seriousness of overdue obligations to the Fund; they were detrimental to the Fund's credibility and the revolving character of its resources, and were unfair to countries that had fully met their obligations to the institution, often at great cost. However, Executive Directors had noted with satisfaction the recent payment of SDR 4.25 million and the authorities' intention to settle their overdue obligations as soon as possible. Executive Directors seemed to favor the second solution that he had mentioned, namely, a decision under which Nicaragua could not use the general resources of the Fund until it was fulfilling its obligations under the Articles. At the same time, Executive Directors wished to draw a distinction between the decision on Nicaragua and that on Guyana.

Mr. Senior said that he continued to believe that the review of the decision of Nicaragua should be held in six months, rather than in three. The timing of the review seemed to be the best way to make the distinction that the Chairman had mentioned. The next Article IV consultation with Nicaragua probably would be held in roughly six months and would provide a good opportunity to review the situation with respect to the country's overdue payments.

Mr. Salehkhou commented that the situation in Nicaragua was fluid. Several relevant issues were still unresolved, including a complaint registered by Nicaragua with the GATT that would have a bearing on the country's export earnings. Nicaragua had made every effort to meet its payments obligations to the Fund, and no one had suggested that the authorities' management of the economy had been a factor in the accumulation of the overdue payments. The goodwill and commitment of the authorities was beyond question. They had already stated that they would not use the Fund's resources while payments to the Fund were outstanding; therefore, it was unnecessary to adopt a decision to the same effect. Moreover, it would be inappropriate to set a time limit with respect to the review, as no one could say for certain that it would be possible for Nicaragua to eliminate its overdue payments within the agreed period.

Mr. de Vries remarked that, as Mr. Senior had noted, the authorities had recently made a payment to the Fund, and no additional repurchases were scheduled for the coming months, so that the authorities' efforts henceforth could be concentrated entirely on reducing the overdue payments to the Fund. Mr. Senior had stressed that the authorities were continuing their efforts to reduce gradually the overdue payments to the Fund. It might be helpful to ask the authorities to submit a concrete proposal for eliminating the overdue payments.

The Chairman responded that, under the approach that Mr. de Vries had suggested, management and the Executive Director for Nicaragua could seek from the authorities a plan for eliminating the overdue payments. It would seem useful to agree that, after three months, management could review the situation and report to the Board on progress made by the authorities. Nicaragua would not necessarily have to eliminate all the overdue payments obligations to the Fund by that time, but the decisions on Nicaragua and Guyana would then be consistent. The important difference would be that management would encourage the Nicaraguan authorities to devise a plan for eliminating the remaining overdue payments obligations and report to the Executive Board on their progress in implementing it.

Mr. de Maulde considered that the approach that the Chairman had described would give the appearance of a rescheduling and would therefore be inappropriate.

Mr. Clark and Ms. Bush said that they agreed with Mr. de Maulde.

The Executive Directors then considered a draft decision (see Annex II).

Mr. Joyce considered that the decision should include a provision for a review, which should be held in three months, rather than in six. The authorities had indicated that they had been trying, thus far without success, to obtain financing to eliminate the overdue obligations to the Fund. It would be useful for the Executive Board to have an account of developments and the further efforts that the authorities would have made during the coming three months and then to decide whether any further action was required. The disadvantage of holding a review after six months was that the Executive Board might have no alternative but to declare Nicaragua ineligible to use the general resources of the Fund if the authorities had still been unable to make progress in reducing the overdue payments. The idea of linking the review with the preparation of a plan for reducing the overdue payments was attractive, but he wondered whether it could be formulated without giving the appearance of a rescheduling operation.

Mr. Finaish stated that he agreed with Mr. Senior that the review should be held after six, rather than three, months. There was obviously a feeling among Executive Directors that the case of Nicaragua was different from that of Guyana, and that reasonable attention had to be paid to Nicaragua's difficult situation and to the authorities' strong effort and positive attitude with respect to the overdue payments to the Fund.

Mr. Suraisry said that he agreed with Mr. Joyce that, if it were decided to hold the review after three months, Nicaragua would not have to be current on its obligations by then in order to avoid being declared ineligible to use the general resources of the Fund. During the review, the Executive Directors would take into account all the relevant factors, one of which would be the effort that Nicaragua had made and planned to make to reduce the overdue payments to the Fund.

Mr. Teijeiro considered that the review should be held after six months.

Ms. Bush remarked that she agreed with Mr. Joyce that the Executive Directors should review the situation in Nicaragua within three months of the present meeting. It was important to adhere to the principle that payments arrears to the Fund were an urgent matter that should be kept under review.

Mr. Jaafar said that he was inclined to accept a review after six months.

Mr. Morrell stated that Mr. Joyce's proposal for a review after three months was acceptable. Choosing the shorter of the two possible review periods should not be seen as a reflection on the efforts by the Nicaraguan authorities to reduce their overdue payments to the Fund.

Mr. Mtei said that he preferred to hold the review after six months.

Mr. Jayawardena remarked that he tended to favor holding the review in six months, at the time of the Article IV consultation. A compromise solution might be to give the authorities three months to send the Fund a statement on their plans for settling their payments obligations. The statement could be circulated to Executive Directors, any one of whom could place it on the agenda of an Executive Board meeting.

After a further brief discussion, Mr. Clark said that he preferred to hold the review in three months. However, the Executive Board had already agreed to review all outstanding arrears to the Fund every six months, and the next staff paper on the matter would probably be circulated in September 1984. To provide some recognition of the particular circumstances of Nicaragua, it might be useful to change the opening sentence of paragraph 4 to read: "The Fund acknowledged the recent payment of a portion of the overdue payments and took note of the fact that the Nicaraguan authorities proposed to make further repayments and of their intention not to seek access to Fund resources while arrears to the Fund remained outstanding." The word "nevertheless" should be inserted at the beginning of the subsequent sentence.

The Executive Directors accepted Mr. Clark's proposal.

The Chairman suggested the addition of the following paragraph:

> The present decision shall be reviewed within a period of three months from the date of the decision. The Managing Director will consult with the Nicaraguan authorities regarding the prompt elimination of the remaining overdue obligations and

may request an extension of that period up to an additional three months in the light of the repayment performance and the prospects.

He would discuss with the authorities possible means of promptly eliminating the remaining overdue obligations, the Chairman explained. In the light of their actual performance and the prospects for eliminating the remaining arrears, he would decide whether or not to ask for an extension of the review period.

The decision whether or not to postpone the formal legal review of the situation in Nicaragua for a further three months would be entirely up to the Executive Board, based on a report by management and Mr. Senior on the progress made by the authorities in eliminating the remaining arrears and their further intentions, the Chairman continued. The Nicaraguan authorities would know that, if they made a reasonably good effort to reduce the payments arrears in the coming three months, they might have three additional months before the formal review was held. Mr. Senior had explained that it was highly unlikely that the authorities would be able to make significant progress in reducing the overdue payments in just three months. It should be clearly understood that, under the compromise that he was proposing, management would be asked to reach an understanding with the authorities that should enable him to make a proposal for a three-month extension of the review period if Nicaragua had not settled all the outstanding payments to the Fund within three months. The general review of overdue payments to the Fund would be held on schedule.

Mr. Senior said that the Chairman's proposal was acceptable. He hoped that Executive Directors would bear in mind the great difficulty that Nicaragua would have in meeting its payments obligations in just three months.

Mr. Gomel noted that during the discussion no mention had been made of the need for Nicaragua to adopt economic and financial policies to restore sustainable external equilibrium and domestic economic growth. Draft paragraph 5 could therefore be eliminated.

Mr. Zhang, Mr. de Maulde, and Mr. Jayawardena agreed with Mr. Gomel.

The Executive Board agreed to eliminate draft paragraph 5 and approved the decision, as amended.

The decision was:

1. The Managing Director has reported under Rule K-1 of the Fund's Rules and Regulations to the Executive Board the facts on the basis of which it appeared to him at the dates of these reports that Nicaragua was not fulfilling its obligations under the Articles of Agreement and submitted a complaint on March 9, 1984 in accordance with that rule. The complaint,

amended on April 6, 1984, was that Nicaragua was not fulfilling its obligation relating to repurchases in the General Department in the total amount of SDR 10,105,121. These facts, and the complaint of the Managing Director in EBS/84/48, Supplement 1, have been communicated to the authorities of Nicaragua.

2. Since then, Nicaragua's overdue financial obligations in the General Department at first increased to a total amount of SDR 13,498,526, including the obligation to pay charges of SDR 215,700, but were then reduced to the total amount of SDR 10,103,379, all of which relates to repurchases.

3. Having considered the reports of the Managing Director, the complaint and the views of Nicaragua, the Fund finds that Nicaragua has failed to fulfill its obligation relating to repurchases in the General Department in the total amount of SDR 10,103,379.

4. The Fund acknowledged the recent payment of a portion of the overdue payments and took note of the fact that the Nicaraguan authorities proposed to make further repayments and of their intention not to seek access to Fund resources while arrears to the Fund remain outstanding. It nevertheless regrets the nonobservance by Nicaragua of its remaining obligation and urges Nicaragua to resume its observance forthwith. The Fund decides, pursuant to Rule K-2 of the Fund's Rules and Regulations, that Nicaragua shall not make use of the general resources of the Fund until such time as Nicaragua is current on its obligations under the Articles of Agreement relating to repurchases and the payment of charges in the General Department.

5. The present decision shall be reviewed within a period of three months from the date of the decision. The Managing Director will consult with the Nicaraguan authorities regarding the prompt elimination of the remaining overdue obligations and may request an extension of that period and the prospects.

Decision No. 7720-(84/88), adopted
June 6, 1984

4. 1984 REGULAR ELECTION OF EXECUTIVE DIRECTORS - AD HOC COMMITTEE

The Chairman proposed that an ad hoc committee be established to draw up rules for the 1984 Regular Election of Executive Directors.

Without discussion, the Executive Board approved the following decision:

An ad hoc committee on the Rules of Election for the 1984 Regular Election of Executive Directors shall be established to propose rules for the conduct of the forthcoming regular election of Executive Directors and to examine and submit recommendations to the Executive Board on any related matters. The Committee shall be composed as follows: Mr. Tvedt, Chairman; Mr. Alfidja, Mr. Donoso, Mr. Finaish, Mr. Joyce, Mr. Malhotra, Mr. Salehkhou, and Mr. Wicks.

Adopted June 6, 1984

APPROVED: January 22, 1985

LEO VAN HOUTVEN
Secretary

Guyana - Complaint Under Rule K-1

Draft Decision

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

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

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

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

5. The Fund also urges Guyana to adopt sound economic and financial policies.

Nicaragua - Complaint Under Rule K-1

Draft Decision

1. The Managing Director has reported under Rule K-1 of the Fund's Rules and Regulations to the Executive Board the facts on the basis of which it appeared to him at the dates of these reports that Nicaragua was not fulfilling its obligations under the Articles of Agreement and submitted a complaint on March 9, 1984 in accordance with that Rule. The complaint, amended on April 6, 1984, was that Nicaragua was not fulfilling its obligation relating to repurchases in the General Department in the total amount of SDR 10,105,121. These facts, and the complaint of the Managing Director in EBS/84/48, Supplement 1, have been communicated to the authorities of Nicaragua.

2. Since then, Nicaragua's overdue financial obligations in the General Department at first increased to a total amount of SDR 13,498,526, including the obligation to pay charges of SDR 215,700, but were then reduced to the total amount of SDR 10,103,379, all of which relates to repurchases.

3. Having considered the reports of the Managing Director, the complaint and the views of Nicaragua, the Fund finds that Nicaragua has failed to fulfill its obligation relating to repurchases in the General Department in the total amount of SDR 10,103,379.

4. The Fund acknowledged the recent payment of a portion of the overdue payments but regrets the nonobservance by Nicaragua of its remaining obligation and urges Nicaragua to resume its observance forthwith. The Fund decides, pursuant to Rule K-2 of the Fund's Rules and

Regulations, that Nicaragua shall not make use of the general resources of the Fund until such time as Nicaragua is fulfilling its obligations under the Articles of Agreement relating to repurchases and the payment of charges in the General Department.

5. The Fund also calls on Nicaragua to urgently adopt economic and financial policies to restore sustainable external equilibrium and domestic economic growth.