

INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 89/90

3:00 p.m., July 14, 1989

R. D. Erb, Acting Chairman

Executive Directors

J. de Groot

M. Finaish

M. Fogelholm

Mwakani Samba

Y. A. Nimatallah

H. Ploix

G. A. Posthumus

Alternate Executive Directors

C. Enoch

Shao Z., Temporary

C. S. Warner

A. Y. El Mahdi, Temporary

F. E. R. Alfiler, Temporary

P. O. Montórfano, Temporary

G. Montiel, Temporary

N. Kyriazidis

M. Pétursson

M. A. Hammoudi, Temporary

B. Goos

E. Kiriwat

L. E. N. Fernando

J. R. N. Almeida, Temporary

D. McCormack

I. A. Al-Assaf

J.-L. Menda, Temporary

K. Ichikawa, Temporary

L. Van Houtven, Secretary and Counsellor

D. J. de Vos, Assistant

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Also Present

IBRD: S. Chitale, Europe, Middle East, and North Africa Regional Office.
Exchange and Trade Relations Department: L. A. Whittome, Counsellor and
Director; J. T. Boorman, Deputy Director; N. Kirmani, B. C. Stuart.
External Relations Department: G. P. Newman. Fiscal Affairs Department:
W. R. Mahler. Legal Department: H. Elizalde, P. L. Francotte. Middle
Eastern Department: S. El-Khoury, S. H. Hitti, C. A. Sisson, A. Tahari,
M. Yaqub. Research Department: B. B. Aghevli, R. G. Alter,
T. A. Bayoumi, R. Pownall, B. E. Rourke. Secretary's Department:
C. Brachet, Deputy Secretary; J. W. Lang, Jr., Deputy Secretary.
Treasurer's Department: A. J. Mathuran. Advisors to Executive Directors:
M. Al-Jasser, M. B. Chatah, M. Eran, A. Raza. Assistants to Executive
Directors: S. K. Fayyad, J. Heywood, A. Iljas, C. J. Jarvis,
M. E. F. Jones, P. Kapetanovic, K.-H. Kleine, R. Marino, N. Morshed,
D. Saha, J.-P. Schoder.

1. JORDAN - 1989 ARTICLE IV CONSULTATION; STAND-BY ARRANGEMENT; AND PURCHASE TRANSACTION - COMPENSATORY AND CONTINGENCY FINANCING FACILITY - FLUCTUATIONS IN EXPORTS

The Executive Directors resumed from the previous meeting (EBM/89/89, 7/14/89) their consideration of the staff report for the 1989 Article IV consultation with Jordan and Jordan's request for a stand-by arrangement in an amount equivalent to SDR 60 million (EBS/89/113, 6/2/89; and Sup. 1 and Sup. 2, 7/12/89), together with Jordan's request for compensatory financing under the compensatory and contingency financing facility in an amount equivalent to SDR 16.66 million (EBS/89/114, 6/2/89; and Sup. 1, 6/30/89). They also had before them a background paper on recent economic developments in Jordan (SM/89/121, 6/22/89).

Mr. Menda stated that, after consultation with his authorities, he could support Mr. Finaish's request that Jordan be considered as falling under paragraph 12(a) of the decision on the compensatory and contingency financing facility.

Mr. Montórfano said that he supported Mr. Finaish's request to consider Jordan under paragraph 12(a).

Mr. Finaish commented that he had taken careful note of the Acting Chairman's remarks at the previous discussion. While he agreed with him that the classification of Jordan under the compensatory and contingency financing facility should have received some attention in the staff report, he differed with the Acting Chairman's apparent conclusion to the effect that, had the issue been covered in the staff report, the proposal to consider Jordan under paragraph 12(b) would have been seen as justifiable. Directors were fully aware of the implications of the proposed decision, and most of them considered that Jordan should be treated under paragraph 12(a).

It was important to clear up any impression that the guidelines for the compensatory and contingency financing facility referred only to two categories of countries or situations, Mr. Finaish continued. There was a third category, encompassing countries that had adequate existing policies and balance of payments difficulties that were attributable only to an export shortfall, in which case, the country could gain access of up to 83 percent of quota. Countries to be treated under paragraph 12(a) should not be confused with that third category, paragraph 12(c), but they should not be confused with countries to be treated under paragraph 12(b), either.

In any event, he wished to thank Directors for their support and for the views they had expressed, which the Jordanian authorities would carefully consider, Mr. Finaish added. As noted by many Directors, the

difficulties facing Jordan were quite challenging. But as he had elaborated on the roots and evolution of those difficulties in his opening statement, he just wished to stress some points that he hoped would shed some more light on the policymaking environment in Jordan at the current critical juncture.

First and foremost, it should be kept in mind that the economic and financial difficulties that Jordan was experiencing could not be viewed in isolation of the broader context of developments vis-à-vis the security situation in the region, which, for a prolonged period of time, had been quite unsettled, Mr. Finaish continued. To say that the difficulties associated with those developments had complicated the task of economic management in Jordan vastly understated the influences involved. Beside the obvious implications of the lingering unsettled situation that diverted substantial portions of Jordan's resources to defense and security expenditures, the country had, for many years, to deal with the consequences of the dislocation and human suffering associated with the conflict in the region. In addition, the implications of the uncertainty emanating from that regional instability for planning, for the execution of policies, and for investors' confidence, could hardly be overstated. It was true that legal and administrative ties between Jordan and the West Bank were severed in July 1988. But, of course, that did not mean that the strong economic influences associated with the high degree of interaction between the peoples on both sides of the river had vanished. Those influences would inevitably continue to be shaped to a large extent by developments and actions that were well beyond the authorities' control. For example, measures taken by the occupying authorities could very well have an influence on the demand for the Jordanian dinar--currently a currency in circulation in the occupied territories--which in turn could lead to instability of the currency. There were numerous other channels of influence, the combined effect of which introduced a major element of uncertainty that the authorities had to constantly cope with. As was indicated in the authorities' supplementary letter, for example, there had been an upward revision of \$60 million in capital outflows for 1989, owing in part to the larger than expected drawdown of deposits held by West Bank residents in Jordan, associated with the unsettled conditions there.

It was clear, Mr. Finaish noted, that there was not much that the Fund could do regarding that source of influence on economic developments in Jordan. But, it would perhaps be possible to study and analyze the influences involved. In fact, given their magnitude of importance, it was surprising that those influences received attention in only a cursory manner in the staff report. Another reason why he sought to highlight that point was to draw attention to the potential effects that developments in the security situation in the region could have on the course of economic developments under the program.

The second point he wished to make related to the reservations expressed by some speakers regarding the envisaged pace of adjustment in Jordan, Mr. Finaish remarked. The Board was all too familiar with the parameters, and the arguments on both sides, of that issue. So, rather than dwell on those, he would highlight the following aspects of Jordan's experience.

It should be kept in mind that the structures of Jordan's budget and the balance of payments evolved into the situations they were in prior to the introduction of comprehensive adjustment measures in mid-1988, after many years of dependence on external assistance, Mr. Finaish explained. It would be extremely difficult, to say the least, to adjust those structures to the new realities over a period shorter than what was envisaged in the authorities' medium-term framework.

For one, given the prolonged period of prosperity that the country had enjoyed prior to its recent economic and financial difficulties, it would be extremely difficult to adopt an adjustment program that would entail transitional adjustment costs that were more severe than those associated with implementation at the envisaged pace, Mr. Finaish added. The authorities, at all levels of government, had been trying to do all they could to increase the public's awareness of the need for, and the desirability of, persevering in the adjustment effort. That was precisely the message that the authorities sought to emphasize and reinforce in the wake of the events of the previous April. They did not even remotely or implicitly attempt to lay the blame for the hardship on outside institutions--for the authorities considered the program to be their own. They in fact started, well ahead of negotiations with the Fund, to implement comprehensive and strong adjustment measures that were very much in line with the policy advice that the Fund typically gave under programs supported by use of its resources. It might be interesting to note that whatever association had been made between the difficulties in Jordan and Fund involvement had been made by the international press. The authorities' message was clear and definitive; it was one that emphasized the need for adaptation and perseverance. Besides, it would only be fair to say that the authorities' effort was amply strong and, indeed, courageous. What had to be kept in mind in evaluating the measures introduced in April was that those measures were adopted on the heels of an earlier package of adjustment measures, which themselves were characterized by the staff as having been both strong and comprehensive.

In addition, Mr. Finaish continued, those April measures were expected to yield a budgetary impact of 4.5 percent of GDP on an annual basis--no mean achievement, particularly when one considered that they involved increases in the prices of sensitive commodities, including some foodstuffs.

The third point he wished to make, Mr. Finaish said, was that the authorities were firmly committed to adhere resolutely to the adjustment path they had charted. As Directors had noted from the authorities' supplementary letter, rather than using the net difference between the

excess of grants and shortfall of World Bank disbursements to finance expenditures, the authorities had undertaken to adjust the credit ceiling downward. It was, of course, the authorities' hope and expectation that their strong adjustment effort would be supported by a generous and commensurately strong response by the international financial community.

The Acting Chairman made the following summing up:

Directors commended the authorities for their adoption of an economic program aimed at addressing the imbalances that have emerged since 1985. Directors generally agreed with the objectives of the authorities' medium-term adjustment program and observed that the achievement of those objectives depended on the pursuit of a strong and sustained adjustment effort, and on the availability of domestic and external financing. In this connection, they particularly emphasized the chief aim of the adjustment effort--to raise domestic savings by as much as the equivalent of 11 percentage points of GDP by 1993, including an increase of 5 percentage points of GDP in 1990 alone. They also stressed the importance of providing appropriate incentives for increased investment and savings by the private sector, which was expected to be the main engine of economic expansion. In this connection, Directors welcomed the discussions that were taking place between the authorities and the World Bank on the implementation of structural reform in several areas, including investment incentives, export promotion, the composition of government expenditure, and the tariff structure.

Directors stressed that a significant and sustained reduction in the budget deficit over the medium term constituted a crucial element for the success of the adjustment effort. They commended the authorities for taking strong measures to reduce the budget deficit in 1989, and encouraged them to continue on the path of deficit reduction in the coming years. It was observed further that many of the authorities' policy intentions still needed to be translated into practical action. A large burden of fiscal restraint would fall on the containment of expenditure, particularly in the areas of subsidies, personnel and military outlays, and extrabudgetary spending. Several Directors urged a stronger commitment to public expenditure containment on the authorities' part. Directors also emphasized the need for structural reform of the revenue system to expand and diversify the revenue base, reduce loopholes and exemptions, and generally improve the elasticity of the tax system. It was noted that the authorities intend to take concrete steps toward the introduction of a general consumption tax in 1991. The importance of the forthcoming fiscal mission and the implementation of appropriate recommendations regarding structural reforms and revenue mobilization were emphasized.

Directors noted that a substantial part of the monetary expansion in the past two years had resulted from increased domestic bank borrowing by the Government to finance its fiscal deficit. They therefore urged the authorities to adhere strictly to the program limits on domestic bank borrowing by the Government, which represented a significant reduction from past years. The adherence to those limits would help ensure that the genuine credit requirements of the private sector would be met within the framework of overall credit restraint. In view of the crucial importance of raising domestic savings, Directors emphasized the importance of ensuring positive real interest rates.

Directors observed that the Jordan dinar had depreciated substantially in real effective terms in recent years, particularly since mid-1988. This had helped enhance export competitiveness and promote efficient import substitution. The maintenance of competitiveness would be essential to achieving the ambitious export targets. Some Directors cautioned, however, that the maintenance of competitiveness should not translate into excessive reliance on exchange rate policy.

Directors viewed with concern Jordan's high level of external indebtedness and the continuing vulnerability of the balance of payments. They welcomed the authorities' intentions to pursue a prudent debt management policy. And Directors observed that Jordan would need debt relief and exceptional external financial assistance for several years to come, and concern was therefore expressed that, under present policies, external viability would not be restored until the early to mid-1990s.

Overall, Directors were of the view that while Jordan's adjustment program was well conceived and an important first step, there was no margin for slippages in implementation. Directors therefore stressed that it was crucial for the Jordanian authorities to pursue their corrective policies with vigor and consistency and to strengthen them whenever possible, particularly in the fiscal area, where, on present policies, a viable position would not be restored until 1993. It was thus essential that beyond the period of the stand-by arrangement Jordan should continue to follow policies that deserved the full support of the international community.

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

The Acting Chairman suggested that the Board take up the proposed decisions on the Article XIV consultation and the request for a stand-by arrangement before considering the proposed decision on the request for compensatory financing under the compensatory and contingency financing facility.

The Executive Board then took the following decisions:

Exchange Measures Subject to Article VIII

1. The Fund takes this decision relating to Jordan's exchange measures subject to Article VIII, Section 2, and in concluding the 1989 Article XIV consultation with Jordan, in the light of the 1989 Article IV consultation with Jordan conducted under Decision No. 5392-(77/63), adopted April 29, 1977, as amended (Surveillance over Exchange Rate Policies).

2. Jordan maintains exchange restrictions on the making of payments and transfers for current international transactions evidenced by limitations on certain invisible payments in accordance with Article XIV, Section 2, as described in EBS/89/113. Jordan also retains an exchange restriction evidenced by arrears on external debt service payments which is subject to Fund approval under Article VIII, Section 2(a). The Fund notes the intention of the authorities to eliminate all external payments arrears by November 15, 1989 and approves the retention of the restriction until November 15, 1989.

Decision No. 9209-(89/90), adopted
July 14, 1989

Stand-By Arrangement

1. The Government of Jordan has requested a stand-by arrangement for the 18-month period beginning July 14, 1989 in an amount equivalent to SDR 60 million.

2. The Fund approves the stand-by arrangement set forth in EBS/89/113, Supplement 4.

Decision No. 9210-(89/90), adopted
July 14, 1989

Mr. Finaish said that he believed that there was enough support in the Board to amend the proposed decision on Jordan's request for a purchase under the compensatory and contingency financing facility.

The Acting Chairman responded that a number of proposals had been advocated, including by Mr. Finaish and Mr. Goos, and that there was a close division of views between those Directors who had explicitly favored the decision proposed by the staff and those who had not.

The Secretary observed that, in terms of voting power, of the 20 speakers, those representing approximately 47 percent of the total voting power had favored the proposed decision classifying Jordan under paragraph 12(b), and those representing approximately 47 percent had favored treating Jordan under paragraph 12(a). A number of Directors, moreover, had favored considering the matter in the context of the coming review of the compensatory and contingency financing facility.

Mr. Enoch, noting that the authorities had not actually requested the optional tranche, remarked that there seemed to be both a widespread view in the Board that the wording of paragraphs 12(a) and 12(b) was ambiguous, and a consensus that those paragraphs should be reviewed at the time of the overall review of the facility. Without first clarifying the wording of the paragraphs, it would not be clear what the Board would currently be deciding. As the Board was split, perhaps Mr. Finaish could accept a compromise to the effect that the Board would consider a request for the optional tranche by Jordan upon the completion of the review of the compensatory and contingency financing facility, which would take place before the first program review. In any event, a request for the optional tranche would require a reassessment of the program.

The Deputy Director of the Exchange and Trade Relations Department, responding to an inquiry by the Acting Chairman about whether the Board had to take a decision on whether Jordan's request fell under paragraph 12(a) and 12(b), said that the proposed decision was a general one under Section II of the decision establishing the compensatory and contingency financing facility. No reference had thus been made in the proposed decision to any specific subparagraph.

Mr. Al-Assaf commented that, given the amount of funding requested, Jordan would implicitly be judged as falling under paragraph 12(b) if the proposed decision was approved as it stood.

Mr. Kyriazidis indicated that he agreed with Mr. Al-Assaf.

In response to a question by Mr. Posthumus, the staff representative from the Research Department noted that the current request for compensatory financing would increase Jordan's outstanding purchases by the equivalent of 17.5 percent of quota, or up to 40 percent of quota.

Mr. Finaish stated that there had been a precedent for changing the access proposed in a decision, namely, the Yemen Arab Republic in 1983 (EBM/83/35, 2/23/83; and EBM/83/40, 2/28/83). While the Fund had not yet received a formal request for the optional tranche, he had noted support from Directors other than those who had expressed support for such a request at the previous meeting. Perhaps the current decision could be

approved on the understanding that the Board had reached a conclusion that Jordan was eligible for the optional tranche under paragraph 12(a), thereby allowing the authorities to purchase that tranche before the first program review and the overall review of the compensatory and contingency financing facility. Alternatively, it might be possible for an Executive Director to request a purchase on behalf of his authorities.

Mr. McCormack said that the request from Jordan's Central Bank for a compensatory financing purchase was consistent with the language of paragraph 12(a) in that it noted that the authorities "will cooperate with the International Monetary Fund in taking, where required, appropriate measures to address the balance of payments difficulties." As for the request for compensatory financing of up to 40 percent of quota, the Fund was proceeding implicitly under paragraph 12(b).

The staff representative from the Legal Department observed that Rule G-4(a) specified that the Board would consider only a duly authenticated request by a member for a purchase, meaning that it would have to consist of a hard copy of the request coming from the authorities' fiscal agent, bearing the agent's special number. Thus, while a Director could--upon the instructions of his authorities--act as a representative of the member in the Board, he would not be in a position to present, currently, a fully authenticated request, without fulfilling the conditions he had described. Upon receipt of such a request, the Board could approve the purchase.

The Deputy Director of the Exchange and Trade Relations Department, replying to a question by the Acting Chairman, agreed that only if the authorities actually requested total financing above 40 percent of quota would the issue of Jordan's eligibility for the optional tranche under paragraph 12(a) or paragraph 12(b) become relevant.

The Acting Chairman noted that when the Fund received a request by the authorities for a purchase in addition to the 40 percent of quota currently under consideration, the Board would have to discuss the request on its own merits at that time.

The Deputy Director of the Exchange and Trade Relations Department noted that, in respect of the need to assess a possible future request by the authorities for the optional tranche, it was important to remember that the proposed decisions involved a combination of Fund resources under a stand-by arrangement and a compensatory financing purchase, framed in the context of a fully funded program, including contributions from non-Fund sources. It would be difficult to conceive of a pledge by the Board in some manner to honor a request for an additional 25 percent of quota without at the same time having to go back and assess the contribution of the Fund to the program. There would also be the issue, when and if a request for the optional tranche was received, of the status of the export shortfall at that particular moment, which would have to be assessed by the staff and the Board.

Mr. Finaish pointed out that access under the Fund's policy on emergency assistance had been doubled for the Yemen Arab Republic in 1983 (EBM/83/35, 2/23/83; and EBM/83/40, 2/28/83) without the Board having received a cable from the authorities. But while he could accept the legal argument about the need for a duly authenticated request, he wished to challenge the judgment that had been made already by the staff that Jordan did not qualify under paragraph 12(a). He would favor approval of the proposed decision if there were an understanding that Jordan would be considered eligible under paragraph 12(a) at the time a duly authenticated request was received.

The staff representative from the Middle Eastern Department, in reply to a question by the Acting Chairman, stated that the staff had indicated to the authorities that Jordan's eligibility for the optional tranche would be subject to a program review, and that the authorities were therefore entitled to draw only the currently proposed amounts. The authorities had not raised any objections or questioned whether they were eligible under paragraph 12(a) or paragraph 12(b).

Mr. Al-Assaf said that he agreed with Mr. Finaish and the staff representative from the Middle Eastern Department that the staff had decided at the time of the consultation that Jordan was not eligible under paragraph 12(a). He was not sure, however, that he agreed with the reference made by the Deputy Director of the Exchange and Trade Relations Department to a fully funded program. The operational guidelines for the compensatory and contingency financing facility indicated that eligibility for 40 percent of quota under paragraph 12(a) did not involve any calculation of total financing; as long as the country in question was willing to cooperate with the Fund, it would receive 40 percent of quota and the right to draw the optional tranche with the concurrent approval of an arrangement. Even without the approval of such an arrangement, a member country could in some cases draw the optional tranche if the Fund was satisfied that the member's policies were appropriate.

The Deputy Director of the Exchange and Trade Relations Department commented that Mr. Al-Assaf was obviously correct with respect to the compensatory and contingency financing facility's operational guidelines, but whenever Fund resources were purchased under any Fund facilities, a judgment needed to be made about the balance of payments need at the time of the purchase itself. If the Board had approved a program under the presumption that the program was fully funded on the external side, it would be difficult to see in what sense a judgment of balance of payments need would be made at an immediately subsequent date, unless circumstances had changed.

Mr. Al-Assaf commented that he would think that there would be an obvious need for assessing the balance of payments need at the time of the request for the optional tranche.

The staff representative from the Middle Eastern Department noted that the staff had divided Jordan's external financing requirements into two separate years, 1989 and 1990. The staff had taken into account the Fund resources likely to be disbursed in 1989, and had assumed that the residual balance of payments need would be met from other resources. If a larger amount of Fund resources was disbursed in 1989, there would be new financing in 1989 with a corresponding decline in the availability of Fund resources in 1990.

Mr. Posthumus remarked that the current method of assessing a country's eligibility under the compensatory and contingency financing facility seemed to have resulted in a situation in which the Board could never decide when a country was eligible under paragraph 12(a) or paragraph 12(b), other than to agree with the status of eligibility proposed by the staff. If the staff believed that a country was not eligible under paragraph 12(a), it would obviously indicate that finding to the authorities, who could then do one of two things. In the current case, they had requested an amount of financing that did not require a judgment whether Jordan was eligible under either of the paragraphs, so that Jordan could draw immediately. The staff could then come to the Board only when the rest of the balance of payments gap was filled; otherwise there would be no financing assurances. If the country opted to make a request that would not likely be approved by the Board--according to the staff--the authorities could then not demonstrate their need for financing, given that there would then be too much money available to fill the balance of payments gap. The staff would, in that case, state that the authorities had requested too much financing, and the Board would therefore not accept their request. A member country, in fact, did not have a real choice.

The Deputy Director of the Exchange and Trade Relations Department responded that if the authorities took issue with a position taken by a staff mission negotiating the use of the Fund resources, they had recourse to bring the matter to the attention of management.

Mr. Finaish noted that he had discussed the matter extensively with the staff of the Research Department and the Middle Eastern Department well ahead of the present Board meeting. When he had received a written communication from the staff stating that Jordan would not qualify under paragraph 12(a), he had informed management of his position and of his intention to bring the issue to the higher court of the Board, particularly as the Jordanian case would affect subsequent ones.

The Acting Chairman said that the authorities could formally make a request for a purchase beyond 40 percent of quota at any time they chose. Mr. Finaish's communication to the staff and the Managing Director had been taken not as representing the authorities' current desire, but as an inquiry about what the Fund's position would be if a request beyond 40 percent of quota was made. Management and staff had not yet had substantive discussions with the authorities on the matter.

The staff representative from the Research Department indicated that the issue of whether Jordan would qualify under paragraph 12(a) or 12(b) had been raised only after the staff paper had been issued. Consequently, the staff paper had not discussed the issue explicitly. Had the staff anticipated the issue coming to the Board, the staff paper would have provided the background for classifying Jordan under paragraph 12(b), notwithstanding the conflicting interpretations of the language of the decision that had established the compensatory and contingency financing facility.

Mr. Warner remarked that Mr. Finaish had made important observations. In effect, the Board was discussing future actions that it might take that would affect the further interests and rights of Jordan under the provisions of paragraph 12 or--if the Board was able in the intervening period to resolve the conflicting interpretations of paragraph 12--that would establish a clearer view of what Jordan's interests in fact were under the paragraph. In fairness, it was important to preserve Jordan's interests under the paragraph. He favored complete clarification of the provision in paragraph 12 during the review of the compensatory and contingency financing facility, to be followed by close consideration of a request by Jordan for the optional tranche.

Mr. Posthumus suggested that the Board adopt the solution used during the recent discussion on Mexico (EBM/89/64 and EBM/89/65, 5/26/89), by adding to the consultation summing up qualifications to the effect that the Board would consider favorably a request by the authorities for a certain amount of resources under the compensatory and contingency financing facility. The understanding reached would thereby not be in the proposed decision, but could be reconsidered on a later occasion.

Replying to a question by Mr. de Groote, Mr. Finaish pointed out that the Yemen Arab Republic had been granted twice the access proposed for it in 1983 under the Fund's policy on emergency assistance. The doubling in access had been approved without a formal request by the authorities after he, the Director for that country, had made a representation that the access proposed was inadequate. A formal request was received at a later date.

The Secretary recalled that the Board had indeed approved Mr. Finaish's request at that time, but on the clear understanding that full or formal approval would follow the receipt of an authenticated request, which then had to be circulated on a lapse of time basis or as a Secretary's understanding. The Board had been in sufficient agreement at that time to decide that it would be unnecessary to reconvene when an authenticated request was received.

The Deputy Director of the Exchange and Trade Relations Department commented that the initial estimate of the financing need in the Yemen Arab Republic's case had been substantial compared with the usual one

credit tranche drawing under the Fund's policy on emergency assistance. That substantial difference had led the Board to decide that a larger contribution by the Fund would be appropriate.

Mr. Finaish asked the staff representative from the Legal Department whether the Board could approve the proposed decision with an addition indicating that Jordan in fact qualified for the optional tranche and could purchase it, the understanding that a formal request would be received later and considered by the Board, or be dealt with under the format referred to by the Secretary.

The staff representative from the Legal Department replied that he was not sure that the case of the Yemen Arab Republic contributed a precedent for the proposal by Mr. Finaish: he saw a possible difference between the case of the Yemen Arab Republic and the current case, in that there had probably been no doubt in the former case that all of the conditions for making a purchase at the time a duly authenticated request was received would in fact have been met, and that there clearly was a balance of payments need and would still have been one when the request was received. In the current case, he did not know whether, when a duly authenticated request was received, a shortfall or a balance of payments need would still exist, and whether the other applicable conditions for a purchase would necessarily be met.

The Secretary remarked that he agreed with the staff representative from the Legal Department on the differences between the case of the Yemen Arab Republic and the current one. In the former case, the Board had not discussed a program but rather a request for emergency assistance under circumstances of devastation that had led to a balance of payments need far in excess of not only the initial request for financing of one tranche, but also even of what the Board had ultimately been prepared to grant, namely, two tranches. Moreover, the request being discussed at present had been made in the context of a fully funded program. If Jordan came forward with a further request for financing under the compensatory and contingency financing facility, then surely among the questions that would arise for the staff and the Board to consider was whether the amount available under the stand-by arrangement should thereby be reduced. A request could only be considered by the Board in the context of a fully funded program.

Mr. Al-Assaf said that if it was the staff's opinion that a request by Jordan for the optional tranche would result in overfinancing of the program, he would withdraw his earlier request that Jordan be made eligible under paragraph 12(a). However, in principle, he still believed that all countries requesting resources under the compensatory and contingency financing facility should be treated under paragraph 12(a), except those few that were not cooperating.

The staff representative from the Middle Eastern Department commented that whether or not the program would be overfinanced depended also on actions by the Paris Club, or, in other words, on the assumption in the

program that rescheduling of some interest and of principal would in fact materialize. If the optional tranche were to be made available at present, it would obviously then result in an overfinancing of the program, statistically speaking. One could not be presumptuous in that regard, as the Paris Club might take into account any increased access granted by the Fund and thereby reduce its own debt relief, so that financing in net terms would be the same. Moreover, the actions by commercial banks were also not predictable.

The Acting Chairman observed that management and staff had not yet had a discussion with the authorities on the full implications of Jordan requesting financing beyond the amount already requested, including the implications for the amount of resources available under the stand-by arrangement. A judgment would need to be made of the sufficiency of the resources available to Jordan. For instance, if a certain amount of funding would be made available under the compensatory and contingency financing facility, that would influence the amount to be made available under a stand-by arrangement. Many considerations were involved, including not only the financing gap during the period, but also the relative contribution of the Fund to closing the financing gap, and also the question of whether the Fund could be repaid in the future if it currently provided greater financing.

The Deputy Director of the Exchange and Trade Relations Department noted that there seemed to be a presumption in the Board that approval of the decision as originally proposed would somehow stamp Jordan irrevocably as coming under paragraph 12(b). However, it should be borne in mind that the substance of the current discussion would remain on record, and that, from a legal point of view, the authorities had simply made a request for an amount of resources under the compensatory and contingency financing facility which, if approved, did not classify the country for all time under a certain category of access. Many other considerations were also involved, including the size of the shortfall, and the amount of resources already outstanding that would generate the particular access accorded to the current purchase.

The Acting Chairman suggested that the Board approve the proposed decision, with the understanding that such approval would not prejudice a later decision on a request by the authorities for the optional tranche, given that a number of Directors indicated that they would receive such a request favorably. Upon the receipt of a request, Directors would have to make a judgment on the basis of a range of criteria, and not solely on the basis of whether Jordan was eligible under paragraph 12(a) or paragraph 12(b) at that moment. The staff could then discuss the matter on a timely basis with the authorities, who would have to decide whether they would go forward with the additional request and accept all of the implications of that course of action. Some Directors had indicated that they wished that the paragraphs in question would be subject to a broader discussion in the context of the overall review of the compensatory and contingency financing facility.

Mr. Finaish stated that he would agree with Directors approving the proposed decision if they recognized at the same time that Jordan would qualify under paragraph 12(a) when the authorities requested the optional tranche.

Mr. Goos said that possible pre-emption of Board decisions would raise difficulties. To resolve the current impasse, perhaps it would help if the Acting Chairman indicated that he would be prepared to submit a request by Jordan for the optional tranche to the Board, and thereby withhold management's apparent difficulties with Jordan's eligibility under the compensatory and contingency financing facility. A majority of Directors favoring treatment of Jordan under paragraph 12(a) would probably emerge in the Board. It would be useful if by the time of a request by Jordan for the optional tranche, the staff had provided a short paper explaining its thinking in evaluating the status of eligibility of countries under the compensatory and contingency financing facility.

The staff representative from the Research Department noted that part of the problem was the ambiguous language of the decision that had established the compensatory and contingency financing facility. One interpretation of the decision would be to say that the key criterion in assessing a country's eligibility under paragraph 12 was its record of cooperation, which would make almost all countries with an upper credit tranche arrangement, including Jordan, eligible under paragraph 12(a). An alternative interpretation would imply that countries with an arrangement would not automatically qualify under paragraph 12(a). The issue would then become that of deciding how to classify countries with existing programs under paragraphs 12(a) and 12(b). In the case of Jordan, the staff had clearly given some emphasis and consideration to the initial problems confronting the country, and to the size of adjustment and policy undertakings required. It went without saying that if a country was facing serious difficulties, all of the adjustment required could not be achieved immediately, but would have to be spread over time. But, in such cases, the country in question would not necessarily be classified under paragraph 12(a). There seemed to be a sentiment in the Board, however, that in future applications of paragraphs 12(a) and 12(b), the focus should be more on the member's record of cooperation, rather than on the size of its initial imbalance and the envisaged pace of adjustment.

The Acting Chairman observed that further discussion of the application of paragraph 12 would be needed in the context of the coming review of the facility. On receipt of a formal request by the authorities for a further purchase under the compensatory and contingency financing facility, management would bring the request to the Board, although he could not indicate whether the staff or management would at that time support the request. Management was prepared to discuss the matter with the authorities on a timely basis, and would encourage the staff to provide the Board with a paper explaining its assessment of countries' eligibility under paragraph 12 in light of the current discussion and the various issues involved.

Mr. Al-Assaf commented that the Board would have to reopen the question if it did not decide to approve Jordan's eligibility under paragraph 12(a) at present. The staff representative from the Research Department had mentioned the tendency of the Board in the current discussion to focus on the member's record of cooperation, which, in Jordan's case, was not in doubt. The Board should indeed concentrate on the issue of cooperation, but, in the context of the coming review of the compensatory and contingency financing facility, it should not reopen consideration of the matter in general terms, as the wording of the decision in that regard was clear and as the matter had been a difficult one to deal with during the discussions that had led to the establishment of the facility in 1988. As to the question of the adequacy of the policies in place, the decision noted that for countries to fall under paragraph 12(b), their existing policies would have to have been seriously deficient, which, if judged to be the case with Jordan, would mean that the Board was contradicting itself, in that it had just approved the stand-by arrangement.

Mr. Warner remarked that paragraph 12 would need to be revised, because, if the Jordanian authorities came with an additional request under the compensatory and contingency financing facility, the whole question of Jordan's eligibility under the paragraph would have to be discussed again, as Mr. Al-Assaf had pointed out.

Mr. Enoch noted that there seemed to be a majority in the Board that would be prepared to look favorably on a request by Jordan for the optional tranche under paragraph 12(a), although Directors had come to that view on the basis of a number of different grounds. To some Directors, the test of cooperation was the only important criterion. To others, the criterion of whether or not policies had been seriously deficient was the factor to consider, with some speakers noting that Jordan's policies had at no time in the past been seriously deficient. A third group also considered both criteria to be important, while stating that what mattered in that regard was the authorities' position at present. While the wording of the sections of the paragraph dealing with cooperation and serious policy deficiencies was ambiguous--with Directors stating that perhaps one should examine the policy stance in the present, instead of in the past--the latter would provide a basis for granting Jordan the optional tranche under paragraph 12(a) at present. In favoring Jordan's eligibility under paragraph 12(a), Directors were thus coming from different positions, and he was unsure whether one could thereby draw conclusions from the current case before the Board. Given the number of issues that had been raised, a solution to the current impasse might be to state that Jordan was eligible for the optional tranche under paragraph 12(a), but that the current decision would not constitute a precedent, given that Directors had recognized a number of ambiguities in paragraph 12 that required urgent review.

Mr. Finaish said that he believed that Directors had taken into account both the record of cooperation and whether or not Jordan had had seriously deficient policies, in favoring treatment of the country under paragraph 12(a).

A means of getting around the current impasse, Mr. Finaish remarked, would be to add a paragraph to the decision noting that the Board considered Jordan to be eligible under paragraph 12(a), in which event the authorities would have the right to purchase the optional tranche without having to wait for the review of the stand-by arrangement. Alternatively, if there was not sufficient support for that proposal, one could mention in the first paragraph of the decision that Jordan was requesting resources under paragraph 12(a) of the decision that had established the compensatory and contingency financing facility, and that the Board would have an opportunity to approve the request on a lapse of time basis or on the basis of a discussion to follow.

The Acting Chairman said that it was certainly the sense of the Board that Directors would be prepared to consider a request by the authorities for the optional tranche, but it was not clear at present whether or not, on balance, they would approve the request.

Mr. Goos considered that future Board decisions should not be pre-empted. Upon receiving a request by the authorities for the optional tranche, Directors would have to assess the situation in terms of balance of payments need and in terms of Jordan's compliance with the program. They could not exclude the possibility that Jordan might be out of compliance with the program in one month's time, for instance. However, in the interest of reaching a consensus in the Board, he could support Mr. Finaish's proposal that Jordan's current request for resources under the compensatory and contingency financing facility had been made under Section II, paragraph 12(a), on the understanding that it would not imply any pre-emption of a decision by the Board when the authorities requested the optional tranche.

Mr. Fernando said that, instead of referring to a request by the authorities under Section II, paragraph 12(a), the second paragraph of the decision should state that "the Fund notes the representation of Jordan, finds that Jordan is eligible for a purchase under Section II, paragraph 12(a), and approves the purchase in accordance with the request."

Mr. Posthumus, Mr. Kyriazidis, and Mr. Almeida expressed support for either of Mr. Finaish's proposals, and for that of Mr. Fernando.

After some discussion, Mr. McCormack noted that Mr. Fernando's suggestion had the advantage of making it clear that the reference to paragraph 12(a) emanated from the Board, and not from the authorities, as would be implicit if the reference to paragraph 12(a) was made in the first paragraph of the proposed decision. The decision should not give a misleading impression that the authorities were, in effect, making the decision that they were eligible under paragraph 12(a).

Mr. Enoch asked the staff representative from the Legal Department whether Mr. Fernando's formulation would imply that the Board would have to discuss again whether Jordan was in compliance with the criteria specified under paragraph 12(a) at the time the authorities presented a request for the optional tranche.

The staff representative from the Legal Department responded that, as he understood it, the proposal by Mr. Fernando represented a judgment by the Board at the current discussion that Jordan's record of cooperation was satisfactory at present, and that its policies were not seriously deficient. The proposal would not go beyond that in the sense of affecting a subsequent decision that would have to be taken at the time Jordan requested the optional tranche.

Mr. Enoch said that on that basis, he could support Mr. Fernando's proposal.

Mr. Posthumus, Mr. de Groote, and Mr. Warner indicated their support for Mr. Fernando's proposal.

After some further discussion, Mr. Al-Assaf indicated that if Jordan's eligibility under paragraph 12(a) had to be reassessed in the future, Jordan would effectively be treated more onerously than countries classified under paragraph 12(b).

Mr. Finaish stated that it was his understanding that the Board considered Jordan eligible for the optional tranche under paragraph 12(a); its record of cooperation was satisfactory, and its policies were not seriously deficient. He therefore believed that those two criteria would not be rediscussed at the time the official request for the optional tranche was considered by the Board. He doubted whether the authorities would wait a few months before submitting a request for that tranche.

The staff representative from the Legal Department remarked that the Board would recognize by its current decision that, as of the current discussion, Jordan had a good record of cooperation and its policies were not seriously deficient. It was likely that the Board would not wish to discuss again Jordan's eligibility under paragraph 12(a) if the authorities' request for the optional tranche came quickly, within a matter of days, because it was unlikely that the situation would change in such a short period. If Jordan waited longer to request the additional purchase, however, a full examination of all applicable conditions would be necessary.

Mr. Goos and Mr. Pétursson said that they could accept Mr. Fernando's proposal, subject to the qualifications expressed by Mr. Enoch.

The Executive Board then took the following decision:

1. The Fund has received a request by the Government of Jordan for a purchase of the equivalent of SDR 16.66 million for the compensatory financing of an export shortfall under Section II of the Decision on the Compensatory and Contingency Financing Facility (Decision No. 8955-(88/126), adopted August 23, 1988, as amended).

2. The Fund notes the representation of Jordan and finds that Jordan is eligible for a purchase under Section II, paragraph 12(a) of Decision No. 8955-(88/126), and approves the purchase in accordance with the request.

3. The Fund waives the limitations in Article V, Section 3(b)(iii).

Decision No. 9211-(89/90), adopted
July 14, 1989

Mr. de Groote observed that it was appropriate to compare the current decision--taken on Bastille Day--with an even more momentous occasion in the past when the Board had overturned a proposed decision. As the Secretary would agree, the past example was probably the most historic single moment in the Board's life, or its most important reaction ever to a staff proposal. At the time, the late Mr. Lieftinck had succeeded, after a long discussion, in reversing a consensus in the Board in favor of the staff's recommendation to approve a request for a purchase by South Viet Nam the day before Saigon fell. He convinced the Board that the authorities' duly authenticated request for a purchase should not be considered, because, as he said, "if you applied the law perfectly, you do the perfect inequity." After a suspension of the Board discussion, Directors came to the conclusion that Mr. Lieftinck was correct, and with a few days for further reflection, requested that the French Executive Director make contact with his country's Ambassador in Viet Nam to decide on the appropriate course of action. That decision had, indeed, been an important one, and was an interesting parallel with the current discussion, particularly in view of Mr. Lieftinck's recent death.

DECISIONS TAKEN SINCE PREVIOUS BOARD MEETING

The following decisions were adopted by the Executive Board without meeting in the period between EBM/89/89 (7/14/89) and EBM/89/90 (7/14/89).

2. PARAGUAY - REPRESENTATIVE RATE FOR PARAGUAYAN GUARANI

The Fund finds, after consultation with the authorities of Paraguay, that the representative exchange rate for the Paraguayan guarani under Rule 0-2(b)(i) against the U.S. dollar is the Central Bank of Paraguay's average buying rate for U.S. dollars in the exchange market. (EBD/89/213, 7/11/89)

Decision No. 9212-(89/90), G/S adopted
July 14, 1989

3. ECUADOR - TECHNICAL ASSISTANCE

In response to a request from the Ecuadoran authorities for technical assistance in the fiscal field, the Executive Board approves the proposal set forth in EBD/89/212 (7/10/89).

Adopted July 14, 1989

4. STAFF MEMBER - LEAVE WITHOUT PAY

The Executive Board approves the proposal set forth in EBAP/89/177 (7/7/89) and Supplement 1 (7/12/89) concerning an extension of leave without pay for a staff member.

Adopted July 14, 1989

5. EXECUTIVE BOARD TRAVEL

Travel by Assistants to Executive Directors as set forth in EBAP/89/181 (7/13/89) and EBAP/89/184 (7/13/89) is approved.

APPROVED: February 15, 1990

LEO VAN HOUTVEN
Secretary

