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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 84/176 - Corrected

10:00 a.m., December 6, 1984

J. de Larosière, Chairman

Executive Directors

J. de Groote
B. de Maulde

G. Grosche
J. E. Ismael

R. N. Malhotra

F. L. Nebbia
Y. A. Nimatallah
P. Pérez
J. J. Polak

G. Salehkhoul
J. Tvedt

S. Zecchini
Zhang Z.

Alternate Executive Directors

w. B. Tshishimbi
M. K. Bush
D. C. Templeman, Temporary
H. G. Schneider

T. Alhaimus
T. Yamashita

Jaafar A.
L. Leonard
C. Robalino

S. M. Hassan, Temporary
B. Jensen

G. Ortiz
T. de Vries
A. V. Romuáldez
O. Kabbaj

T. A. Clark
N. Coumbis
Wang E.

L. Van Houtven, Secretary
R. S. Laurent, Assistant

1. Nicaragua - Overdue Financial Obligations - Completion
of Review of Decision on Complaint Under Rule K-1 and
Issuance of Complaint Under Rule S-1 Page 3
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Also Present

R. Sevilla, Minister-Counsellor, Embassy of Nicaragua. African Department:
R. J. Bhatia, Deputy Director. Exchange and Trade Relations Department:
C. D. Finch, Director; M. Guitián, Deputy Director; S. Kanesa-Thasan.
Legal Department: G. P. Nicoletopoulos, Director; 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;
D. Berthet, D. Gupta, W. E. Hermann, T. B. C. Leddy, G. Wittich. Western
Hemisphere Department: E. Wiesner, Director; M. Caiola, C. Cha, J. Ferrán,
G. Jauregui, T. F. Lehwing, S. Umana. Personal Assistant to the Managing
Director: S. P. Collins. Advisors to Executive Directors: A. A. Agah,
H. A. Arias, G. R. Castellanos, G. E. L. Nguyen, P. Péterfalvy,
G. W. K. Pickering, M. Z. M. Qureshi, T. Sirivedhin, A. Vasudevan.
Assistants to Executive Directors: I. Angeloni, W.-R. Bengs, J. Bulloch,
M. B. Chatah, L. E. J. M. Coene, J. de la Herrán, V. Govindarajan, N. Haque,
Z. b. Ismail, A. K. Juusela, A. Koné, K. Murakami, J. E. Rodríguez,
A. A. Scholten, L. Tornetta, A. J. Tregilgas, E. L. Walker, B. D. White.

1. NICARAGUA - OVERDUE FINANCIAL OBLIGATIONS - COMPLETION OF REVIEW
OF DECISION ON COMPLAINT UNDER RULE K-1 AND ISSUANCE OF COMPLAINT
UNDER RULE S-1

The Executive Directors, in completing a review of their decision taken on June 6, 1984 to limit Nicaragua's right to use the general resources of the Fund, considered a staff paper describing developments with respect to Nicaragua's overdue obligations to the Fund, together with a complaint by the Managing Director under Rule S-1 regarding Nicaragua's overdue obligations in the SDR Department (EBS/84/254, 12/4/84).

Mr. Rolando Sevilla, Minister-Counsellor of the Embassy of Nicaragua, was present for the discussion.

Mr. Pérez made available the following statement, which was circulated to Executive Directors:

My Nicaraguan authorities have authorized me to present to the Board the following statement related to the overdue payments situation of Nicaragua.

As the Board will recall, the current arrears of Nicaragua are a result of purchases made in 1979, only a few weeks before the revolutionary struggle ended. In this regard, payments already made should be considered as a positive signal of the will to honor the country's commitments with the Fund. The reduction of Nicaragua's overdue payments to the Fund since last March from SDR 11.4 million to the current amount of SDR 9 million is evidence of that commitment. Furthermore, prior to the decision to limit Nicaragua's access to Fund resources, the country had repaid SDR 4.25 million. During the past three months, little progress has been made, owing to factors related to the extremely difficult economic and political circumstances that the country has been experiencing during this period.

As a direct consequence of this situation, the level of reserves is so low that no payments can be effected without damaging the chances of having a normal harvest, which is of vital importance for the country. The scarce reserves now available should be devoted to this task in order to avoid unnecessary risks that could endanger the level of agricultural output. Above all, the worst circumstance is the persistence of abnormal political conditions, not only in Nicaragua but in the whole area, which do not contribute to the attainment of the favorable environment needed for an economic takeoff of these countries.

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Nevertheless, the Nicaraguan authorities are perfectly aware of the importance of paying the remaining arrears to the Fund. In this connection, the following measures are proposed:

(1) On December 7, the authorities will send instructions to the Fund authorizing a payment of SDR 631,000, which will fully settle outstanding obligations in the SDR Department, as well as overdue charges in the General Department.

(2) Before January 17, 1985, a schedule of payments will be prepared and submitted to the Fund. Payments will be scheduled in such a way as to allow Nicaragua to become current with the Fund in 1985.

(3) The plan mentioned above will include an effective payment of part of the obligations to the General Department before January 17.

More concrete data are not being issued now because the results of the harvest--the main factor that will determine the available amount of reserves--will not be known in detail until the beginning of next year.

During the most recent visit of the Fund mission, the authorities of Nicaragua discussed the implementation at the beginning of 1985 of a package of economic measures aimed at the improvement of internal and external equilibria as well as other structural reforms in order to strengthen total supply in the medium term.

My Nicaraguan authorities are aware that despite this effort there are still some overdue obligations that should be promptly paid. They are greatly concerned about this matter and perfectly understand the challenge to the credibility of the Fund that is created by the persistence of arrears. The authorities recognize the revolving nature of Fund resources, and they will therefore not request additional resources until they have become current with the Fund. Until that time, they will try to face the problem by devoting as many of their own resources as they can to paying their obligations to the Fund.

At this stage, all of Nicaragua's obligations to repurchase have fallen due, and no further such obligations will accrue.

Taking into account this consideration and all the others pointed out previously, the Nicaraguan authorities propose the following decision to this Board:

Paragraphs 1, 2, and 3 of the proposed decision on page 5 of the staff paper would remain the same. Paragraph 4 would read as follows:

The Fund shall review further Decision No. 7720-(84/88) on January 17, 1985, taking into account any further developments. Unless at that time Nicaragua has taken some steps to improve its financial relations with the Fund, the Fund will consider the appropriateness of further measures.

Mr. Polak, supported by other Directors, suggested that the discussion be deferred until Executive Directors had had enough time to examine Mr. Pérez's statement.

The Chairman recessed the meeting between 10:15 a.m. and 11:00 a.m.

When the discussion was resumed, Mr. Pérez noted that the specific proposals contained in his statement had been decided upon at the last moment by the Nicaraguan authorities, so that he had been unable to make the statement available to the Board before the present meeting.

Mr. Nimatallah observed that after the previous Board meeting on the topic (EBM/84/136, 9/6/84), the Nicaraguan authorities had failed to take the steps that the Board had expected them to take. Instead, they had gone in the opposite direction and had failed to come up with concrete, reassuring steps to settle their arrears and meet their obligations to the Fund. At present, they had gone back to speaking of their good intentions.

Mr. Grosche said that the case of Nicaragua's overdue financial obligations to the Fund should be regarded as being between the case of Viet Nam and that of Guyana. Nicaragua had been continually in arrears with the Fund since February 16, 1983; in recent months, the authorities had made practically no payments, and arrears had risen again. Although welcoming the news that Nicaragua had pledged to pay all outstanding obligations in the SDR Department and to submit a specific plan for settling the remaining obligations, he could not agree to an extension of repayments over a long period, which could create a precedent for rescheduling countries' arrears. As Nicaragua had demonstrated its cooperation and willingness to repay the Fund, he could support the proposed decision as it stood.

Mr. Leonard observed that two things were clear: first, payments should be made promptly to the Fund; second, the Board could not approve what was in effect a unilateral rescheduling; he could not accept such a de jure position, which was implicit in the revised decision proposed by Mr. Pérez. He did agree, however, that Nicaragua should be given the

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opportunity of fulfilling the commitments that the authorities had just made. Although the Executive Board could leave the proposed decision exactly as it was, it might go a little further in the direction indicated by Mr. Pérez. The proposed wording "unless at that time Nicaragua has taken some steps to improve its financial relations with the Fund" implied a de jure recognition of rescheduling; he would prefer the wording to read "unless Nicaragua has taken adequate steps to regularize its financial relations with the Fund."

Mr. de Maulde agreed with Mr. Leonard that the wording submitted by Mr. Pérez was not entirely satisfactory. The Board should incorporate into the decision the proposals made by Mr. Pérez and make it clear that it was taking a decision in view of those proposals.

He was happy that Nicaragua had decided to make a commitment to repaying the Fund, Mr. de Maulde went on. Perhaps a new staff mission to the Nicaraguan authorities could help to determine what schedule for repayment would be consistent both with the country's obligation to repay promptly and with the country's special circumstances. In the meantime, the Board should not take a decision committing itself to act in a certain way on January 17, 1985, the date on which Executive Directors were to take the matter up again.

Mr. Nimatallah said that he was still disappointed with the Nicaraguan authorities because they had not indicated clearly what they intended to do to clear all arrears as soon as possible. Although he appreciated their efforts to demonstrate their good intentions, he was uncertain how far the Fund should go in attempting to help them. Therefore, he did not approve of the Board's amending paragraph 4 of the proposed decision in the direction suggested by Mr. Pérez. However, the authorities might be given more time, perhaps until the end of January 1985, to put together concrete proposals and settle their arrears with the Fund. The rest of paragraph 4 should stay as was; being current on their obligations to the Fund would be the best way for the Nicaraguan authorities to demonstrate their good intentions. In addition, he could consider Mr. Leonard's proposal for including the wording "unless they have taken adequate steps to regularize their financial relations with the Fund," even though he was apprehensive that the Board would then be stepping into the area of rescheduling.

Mr. Polak stated that the Fund's procedures for dealing with countries in arrears appeared to be working, as confirmed by the experience with Nicaragua. In the decision, the Fund should note the commitments that Nicaragua had made to pay SDR 631,000 on December 7 and to make payments on part of their obligations to the General Department before January 17, 1985. He would not wish to approve the proposal suggesting that the authorities would prepare a schedule for repayments, as it would seem to suggest Board acceptance of a unilateral rescheduling.

He had been glad to note that the Nicaraguan authorities had discussed the implementation early in 1985 of a package of economic measures aimed at improving internal and external equilibria, Mr. Polak continued. As the Fund had always believed that changes in policy were essential elements in putting a country in a position to repay the Fund, perhaps the Board could include in the decision on Nicaragua the second paragraph of the decision taken on Guyana (No. 7854-(84/173), 12/3/84): "the Fund calls on [the country] to adopt urgently a strong and comprehensive program of economic adjustment. [The country] is urged to take steps to achieve a substantial acceleration of payments to the Fund, with the objective of prompt and full settlement of its overdue obligations to the Fund, and to advise the Fund of its plans as a matter of urgency," with the addition of the words "and in any event, not later than January 17, 1985." It would be impractical for the Executive Board to meet on January 17, because there was a chance that the Nicaraguan authorities could again present a program on the day of the Board meeting. Moreover, the Board's next review of Viet Nam's overdue financial obligations would take place on January 15; the press release containing the decision on Viet Nam would come out on January 16; the Board should not meet the day after the issuance of that press release. As Mr. Nimatallah had suggested, the Board should review the decision on Nicaragua before the end of January 1985.

Although the clause in the final two and a half lines of paragraph 4 of the proposed decision had been included in the decision taken on the second review of Guyana's arrears, Mr. Polak concluded, the Board was reviewing Nicaragua's arrears for the first time. There would thus be some justification for omitting the final clause.

Mr. Templeman recognized that Mr. Pérez's statement represented a positive sign from the Nicaraguan authorities. The amounts involved were quite modest, although the authorities did seem to recognize the seriousness with which the Executive Board was approaching the question of their arrears.

He was attracted by Mr. Polak's suggestion that the Board might use language from the Guyana decision as a way of recognizing certain commitments made by the authorities and exhorting them to make more, Mr. Templeman went on. As other Directors had said, the Board should in no way recognize a plan for repayment that sounded greatly like a proposal for unilateral rescheduling. Therefore, no mention should be made in a decision of any plan for repayment. However, the decision should take into account the authorities' promise to settle their outstanding obligations in the SDR Department and overdue charges in the General Department. There was, however, no reason to change the decision; notwithstanding what Mr. Pérez had said, the Executive Board would have to consider the possibility of a declaration of ineligibility on the next occasion when it reviewed Nicaragua's case. Thus, he was more inclined to support Mr. Nimatallah's approach than to attempt to manipulate Mr. Pérez's wording or to adopt Mr. Leonard's option.

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In response to a question by Mr. Templeman, the staff representative from the Treasurer's Department observed that the timing of Nicaragua's case was like that of Guyana's. Technically, the Executive Board had decided three months previously to extend the period of its review of Nicaragua; the current Board meeting represented the completion of that review. Some days previously, the Board had conducted its second review of Guyana. In both cases, roughly six months had passed since the Board's first decision. Three reviews of Guyana had been held. As to Nicaragua, there had been a Board discussion in September and an extension of the review until the present date.

Mr. de Maulde recalled that he had not been advocating any kind of rescheduling in any formal sense. Mr. Pérez had given the Executive Board the reassurance that Nicaragua would become current with the Fund in 1985; Mr. Polak had correctly noted that if the Board made any allusion to that statement in its decision, it would in effect be rescheduling Nicaragua's repayments, allowing it to delay them until the end of 1985. However, the Board should take into account the declaration made by the Nicaraguan authorities. If the Board then urged them to make prompt payments in 1985, it would be acting practically and not jeopardizing the Fund's interest.

Mr. Malhotra said that he would go along with the proposals made by Mr. Polak. The Nicaraguan authorities had taken some steps forward: they had promised not only to make a payment on the following day, but also to make another one by January 17, and they were prepared to commit themselves to a plan to clear all arrears with the Fund in 1985.

Some Executive Directors had stated that they would have been happier if the Guyanese authorities had kept to their previous intention of repaying their arrears before the end of 1985 and had expressed disappointment at the statement by the Ambassador of Guyana suggesting a delay in the repayment of all overdue obligations to the Fund until 1986, Mr. Malhotra remarked. He could understand that the Fund should not appear to be entering into a rescheduling exercise. At the same time, Executive Directors should realize, as practical men, that time had to be allowed in such difficult cases. He agreed with Mr. de Maulde that a compromise was available in the wording suggested by Mr. Pérez, which should serve to satisfy those who were keen that the Fund should not be appearing to reschedule debts owed to it while offering a practical way of handling the current case. The Board should take into account the offer made by the Nicaraguan authorities in their first two proposals. The Board need not take formal note of the third proposal, containing a plan for payment, but the Fund ought to contact the authorities and try to ensure that repayments were accelerated as much as possible. The alternative was for the Board to decide on January 17 whether to declare Nicaragua ineligible to use Fund resources. The Board might then encourage the authorities to accelerate repayments or hope that the declaration of ineligibility or other steps such as giving the declaration wide publicity would compel the authorities

to make payments. In conclusion, so long as Executive Directors were convinced that the authorities had taken a step forward, they would do well to accept the first two measures proposed by the Nicaraguan authorities.

Mr. de Groote observed, first, that Nicaragua was making efforts to settle its accounts with the Fund. Second, the Board could not take a decision that would go further than what the circumstances and legal rules allowed the Fund to do. Therefore, the decision should not incorporate any notion of rescheduling--even indirectly--especially not the rescheduling asked for by the country. Third, the Board had to be fundamentally concerned with the measures that the Nicaraguan authorities were implementing to improve the economic situation, which would eventually allow them to reimburse the Fund. For those reasons, he strongly supported, with one exception, Mr. Polak's comprehensive proposal, which incorporated three ideas: to recognize the efforts made by the country, to avoid mentioning rescheduling, even indirectly, and to stress the need for a program that would enable the country to reimburse the Fund. However, he could not support Mr. Polak's proposal for omitting the last two and a half lines of paragraph 4 of the proposed decision. Instead, paragraph 4 should be amended to extend the review period until the end of January 1985. In that way, the Board would be explaining to the Nicaraguan authorities that it regarded in a favorable light the steps that they had taken.

Mr. Nimatallah commented that, during the discussion on Guyana, he had said that there was evidence that the country was moving away from settling its arrears with the Fund, just as Nicaragua was doing at present. He welcomed the good intentions of the Nicaraguan authorities, and two months should give them enough time to translate their intentions into concrete action before the next Board discussion of the country. A declaration of ineligibility would not prevent Nicaragua from repaying the Fund; rather, it would encourage the country to repay before the next Board review. At the end of January, if Nicaragua still had arrears, the Fund could impose further sanctions.

Mr. Zecchini recalled, first, that the Nicaraguan authorities had not made any payments to the Fund for the past three months. Second, they had not presented any plan for payment during the Annual Meetings or during the meeting with the staff on November 13. Third, the authorities had provided no indication of such a plan even during the Article IV consultations in Managua that had occurred only a few days previously. Therefore, unless Nicaragua took adequate steps to become current with the Fund in a brief period, the Board should consider the appropriateness of further steps.

However, the Nicaraguan authorities were now promising to pay their obligations to the SDR Department and were planning to pay overdue charges in the General Department, Mr. Zecchini noted, and they were also discussing a package of economic measures aimed at improving internal and external equilibrium. Therefore, as Mr. Polak had suggested, the Board should give some time to the authorities to see what they were actually planning to do and to learn whether they actually had the capacity to repay. Should

other considerations prevent Nicaragua from clearing its arrears to the Fund, he could go along with Mr. Polak's proposal, including the elimination of the last two and a half lines of paragraph 4 of the proposed decision. As it was, the possibility of declaring Nicaragua ineligible to use Fund resources was still included in the range of the steps that could be taken.

Mr. Salehkhrou said that he believed as firmly as every other Executive Director in the revolving character of the Fund's resources and the importance of maintaining the Fund's credibility. Before adopting a decision on Nicaragua, Executive Directors should review the other two cases of arrears--that of Viet Nam and that of Guyana--to see whether any similarities existed. In discussing the case of Viet Nam, Mr. de Groote had given Directors a firsthand account of the background and had assured the Board that the Fund had not acted improperly concerning purchases made by that country; however, Mr. Perez's statement left the impression that the Nicaraguan authorities were raising some doubts which, for the good of the Fund, deserved to be clarified. Indeed, the Nicaraguan authorities were fully committed to paying their obligations, even under the severe constraints that they were facing. Even before the 1984 Article IV consultation, they had been pleading with the Fund to tell them how to meet their obligations; they were trying their utmost under severe circumstances. They had even promised to become current in 1985.

As firmly as he believed in rules and regulations, Mr. Salehkhrou continued, he thought that the Fund had an image to protect in the international community. His preference would be for Mr. Pérez's proposed amendment to the decision. The Fund had nothing to lose by accepting that amendment. However, if there were not enough support in the Board for Mr. Pérez's proposal, then he could agree to an amendment along the lines suggested by Mr. Polak.

Mr. Nebbia remarked that Mr. Pérez's statement indicated the authorities' commitment to repaying their arrears, taking into consideration the difficulties that the country was facing, and also in view of the importance that they attached to the revolving character of Fund resources. It would be fair to accept the wording of the decision proposed by Mr. Pérez. Nevertheless, he could go along with the proposal made by Mr. Polak, including the elimination of the final two and a half lines in paragraph 4 of the proposed decision.

Mr. Clark said that the Nicaraguan case was closer to that of Guyana than to that of Viet Nam. On that basis, he would support making the proposed decision closely parallel in form to the Guyanese decision. As to the date when the Board should next discuss Nicaragua, he would be prepared to accept a modest extension of the period until the next Board review, along the lines suggested by Mr. Nimatallah. More generally, although there was clearly a need to differentiate among individual cases, the Board had left itself a great deal of flexibility in its decisions. He wondered whether Executive Directors should spend too much time trying to fine tune the words themselves.

Mr. Robalino commented that he had no doubts about the good intentions of the Nicaraguan authorities. He supported the proposed decision offered by Mr. Pérez.

Mr. Tshishimbi recalled that the first decision taken on Nicaragua had mentioned that the Fund management was going to enter into a discussion with the authorities to determine how soon they could settle their obligations to the Fund. As he recalled, that understanding had not been taken to mean that Nicaragua's arrears were being rescheduled. Nicaragua was expected to settle its obligations to the Fund in 1985. He was not advocating rescheduling, but favored flexibility in dealing with such matters. He also supported an extension in the period for consideration to the end of January 1985.

Mr. Romuáldez associated himself with the remarks made by Mr. Groote. In terms of the decision, he supported Mr. Polak's position, except as it pertained to the two and a half lines at the end of paragraph 4. Finally, he supported Mr. Nimatallah's proposal for changing the date for the next Board consideration of Nicaragua to the end of January.

Mr. Tvedt expressed support for the suggestions put forward by Mr. Polak.

Mr. Alhaimus said that he could go along with Mr. Polak's suggestions.

Mr. Hassan considered that the information contained in Mr. Pérez's statement represented a positive step: the Nicaraguan authorities were assuring the Fund of their commitment to clearing their arrears as soon as possible. The Fund should show its appreciation of that step, on which basis he would support the amendment proposed by Mr. Pérez. If that amendment did not have enough support, he would go along with Mr. Polak's proposal.

Mr. Yamashita stated that his basic position was quite similar to that of Mr. Grosche. He could also go along with Mr. Polak's suggestion, as amended by Mr. de Groote, so that paragraph 4 of the original proposed decision could remain as it was.

Mr. Leonard said that he could go along with Mr. Polak's suggestion but did not wish to see the last two and a half lines in paragraph 4 omitted; the omission would detract from the evenhandedness of the Fund's approach to member countries in arrears.

Mr. Grosche expressed appreciation for Mr. Polak's comments, with which he could agree. Like Mr. de Groote and others, however, he would like to keep the last two and a half lines in paragraph 4. As to the data for the review, he was open minded.

Mr. Nimatallah stated that, notwithstanding what he had said on paragraph 4, he would like to support Mr. Polak's additional points on paragraphs 1, 2, and 3. He would also wish to retain the last two and a half lines in paragraph 4.

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Mr. Templeman commented that his position resembled Mr. Nimatallah's. His support for Mr. Polak did not extend to the deletion of the final two and a half lines in paragraph 4.

The staff representative from the Treasurer's Department recalled that Mr. Tshishimbi had asked whether the wording of earlier decisions on Nicaragua had implied any acceptance by the Executive Board of rescheduling. The Board had reached two conclusions. The first, a decision taken on June 6, 1984 (Decision No. 7720-(84/88)), had said that the Managing Director would consult with the Nicaraguan authorities regarding the prompt elimination of the remaining overdue obligations and might request an extension of the period in view of the payments performance and prospects. The second conclusion, reached at EBM/84/159 (10/31/84), had said that the Executive Board looked forward to a further report by the Managing Director dealing with Nicaragua's specific plans for promptly eliminating any remaining obligations. The operative word in both cases had been "prompt." It had not been intended by the Executive Board or understood by the staff or conveyed to the Nicaraguan authorities that there was any question of rescheduling; the question was one of prompt elimination of arrears. The term "prompt," often used by the staff in communications with member countries, meant "as soon as the instructions could be issued and the payment completed"; the meaning was "immediate."

A number of Executive Directors had commented on the need to retain balance in decisions regarding countries in arrears and to consider each of those decisions in relation to decisions taken on other countries, the staff representative noted. Indeed, that aspect had been an important factor in drafting the decision proposed by the staff; paragraph 4 in the present proposed decision was much like that in Guyana's case. Although there were no well-defined criteria by which to determine an appropriate balance, the staff had noted that the length of time that obligations to the Fund had remained overdue was nearly the same in both cases. Guyana had, in fact, made somewhat larger payments than Nicaragua since the circulation of the complaint by the Managing Director. Guyana's effort was significant in terms of export receipts, as the Board had recognized in the decision taken earlier in the week (Decision No. 7854-(84/173), 12/3/84). As to the future, the Guyanese authorities had given the Fund a plan of what they intended to do, although the Board had considered it unacceptable and had asked them to revise their plan and to make substantially greater efforts. By contrast, to date Nicaragua had submitted no such plan to the Board. On balance, the staff had seen no reason to propose a decision on Nicaragua any easier or softer than the decision already taken by the Board on Guyana.

A number of Directors had mentioned that the proposed decision should not imply acceptance by the Fund of the concept of rescheduling, the staff representative from the Treasurer's Department concluded. The staff shared that view. The second sentence of paragraph 4 was intended to convey the point that Nicaragua must become current promptly, and the staff hoped that

the point would be retained. The latter part of the sentence left ample latitude for the Board to consider what should be done if Nicaragua were not to become current.

The staff representative from the Western Hemisphere Department observed that the amount involved represented a little over 2 percent of Nicaragua's estimated exports for 1984. The amount that Guyana was paying to the Fund would be equal to about 15 percent of the country's exports for 1984.

The Director of the Legal Department explained that the second half of paragraph 4, referring to the possibility of a declaration of ineligibility, served the purpose that, if the Executive Board intended to consider that possibility in January, it had to be brought to the authorities' attention so that they could be put on notice, as provided for in the Rules of the Fund.

With respect to Mr. Polak's proposal for noting the authorities' intention to make payments on some of their obligations, the wording could easily be included, either in paragraph 3 or in a separate paragraph, the Director of the Legal Department remarked. Reference could be made to the authorities' intention to meet their obligations in the SDR Department on December 7 and to make other payments on their obligations in the General Department before January 17, 1985.

The Secretary, in response to a question by the Chairman, noted that the Executive Board favored the suggestions made by Mr. Polak. It was his understanding that there would be no change in the drafting of paragraphs 1 and 2. Paragraph 3 would be divided into two new paragraphs, one noting the authorities' intention to pay and the other closely related to paragraph 2 of the decision on Guyana's arrears to the Fund. In paragraph 4, the phrase "on January 17, 1985" would be changed to "before the end of January 1985."

The Chairman commented that he would like to understand how Mr. Polak's proposal--calling on the Nicaraguan authorities to adopt urgently a strong and comprehensive program of economic adjustment--related to the case at hand. In Guyana, in view of the sizable dimensions that the repayment represented in relative terms in the economy, the authorities had not had the means to discharge their obligations to the Fund, unless they undertook a comprehensive effort at adjustment.

Mr. Polak observed that he had not wished to imply that, if the Nicaraguan authorities failed to adopt such a program, they would be more or less excused from repaying the Fund. Thus, if the sentence calling on Nicaragua to adopt a strong, comprehensive program of economic adjustment might give the wrong impression, it should be omitted.

Mr. Pérez explained that he had mentioned the package of economic measures to be implemented at the start of 1985, following instructions

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from his Nicaraguan authorities. In their opinion, the most recent staff mission had found the measures proposed by the Government adequate to the situation.

The Executive Directors then reviewed the proposed decision, paragraph by paragraph.

Paragraph 1

The Secretary observed that, in line 3, there was no need to repeat "December 4, 1984," mentioned in the previous line.

The staff representative from the Treasurer's Department explained that the staff would urge the Nicaraguan authorities to submit their plans for payment well before the date on which the Executive Board would next discuss their case.

The Secretary, in response to a question by the Chairman, recalled that Executive Directors had not specifically defined any date for future Board consideration of Nicaragua. They had said "before the end of January 1985."

The Chairman proposed that the text read "January 30, 1985."

The Executive Directors agreed to the proposal by the Chairman.

Paragraph 2

The Chairman stated that some reference should be made to Mr. Pérez's presentation earlier in the present meeting.

The Director of the Legal Department suggested that a phrase be added reading "and the statement made on December 6, 1984 in the Executive Board on behalf of the Nicaraguan authorities."

The Executive Board accepted the suggestion.

Paragraph 3

The staff representative from the Treasurer's Department suggested that a new sentence might be added after the first sentence: "However, the Fund notes the statement made on December 6, 1984 in the Executive Board on behalf of the Nicaraguan authorities regarding their intention to meet the overdue charges in the SDR and General Departments on December 7, 1984 and to make further payments in respect of the overdue obligations in the General Department before January 17, 1985."

Mr. de Maulde commented that there was no need to allude twice to Mr. Pérez's statement.

Mr. Nimatallah, Mr. Grosche, Mr. Leonard, Mr. Schneider, Mr. Yamashita, and Mr. Polak supported the addition proposed by the staff representative, which was accepted.

Paragraph 4

The Chairman commented that the decision should include a sentence urging the authorities to lay out their plans for repaying the Fund and to so inform the Fund before a certain date. Mr. Polak had suggested that the following sentence be included: "Nicaragua is urged to take steps to achieve a substantial acceleration of payments to the Fund, with the objective of prompt and full settlement of its obligations to the Fund, and to advise the Fund of its plans as a matter of urgency and in any event not later than January 17, 1985." As the Board was to discuss the matter again on January 30, 1985, it should have due time to examine the authorities' proposal.

Mr. de Maulde proposed that the words "as proposed by the Nicaraguan authorities" should be added after the words "and in any event."

The Executive Directors accepted both amendments.

Paragraph 5

The Chairman noted that the dates in the paragraph should be changed from January 17 to January 30. The rest of the text would remain unchanged.

Mr. Nimatallah asked the Chairman to mention in the letter to be written to the Nicaraguan authorities that, on January 30, 1985, Nicaragua might face not only ineligibility to use Fund resources but also the possibility that the Fund would publicize the member's arrears.

The Chairman took note of Mr. Nimatallah's request.

Mr. Pérez recalled that, in the case of Guyana, the Executive Board had decided to postpone any question of publicity until the Board discussion of the general subject of publicity.

Mr. Polak commented that it would be pointless for the Executive Board to declare a member ineligible to use Fund resources and then to keep the matter a secret. He was, however, certain that Mr. Pérez would inform his Nicaraguan authorities about the Executive Board's feeling on the matter.

The staff representative from the Treasurer's Department recalled that, during the discussion of Viet Nam's arrears to the Fund, some Executive Directors had expressed concern about mentioning publicity in the decision or in a letter, especially since the Board had not yet considered the general question of publicity. The suggestion had been made that the Managing Director, in communicating with the authorities, would make a general reference to the Executive Board's intention of

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reviewing not merely the question of ineligibility but also possible further steps, without necessarily specifying a particular step. He was unable to recall precisely what had been agreed without reference to the record of the discussion.

The Chairman remarked that the question was open. The Board would shortly conduct a review of the question of publicity, at the same time as its discussion of the possible effects of overdue obligations on the Fund's financial statements. Meanwhile, his communication to the Nicaraguan authorities following the present meeting would be in language similar to that previously authorized by the Executive Board.

The Executive Board then took the following decision, as revised:

1. The complaint of the Managing Director dated December 4, 1984 regarding Nicaragua's obligations in the SDR Department, in EBS/84/254, is noted. It shall be placed on the agenda of the Executive Board for January 30, 1985. If at that time Nicaragua is not current in its obligations to pay charges in the SDR Department, the Fund will consider suspending the right of Nicaragua to use SDRs it acquires after the suspension, pursuant to Article XXIII, Section 2(b). Consideration of the complaint in accordance with Rule S-1 particularly affects Nicaragua. The member shall be informed of its right to present its views through an appropriately authorized representative.
2. The Fund has completed its review of Decision No. 7720-(84/88), adopted June 6, 1984, regarding the nonobservance by Nicaragua of obligations to the General Department, in the light of recent developments as described in EBS/84/254 (12/4/84) and the statement made on December 6, 1984 in the Executive Board on behalf of the Nicaraguan authorities.
3. The Fund regrets the continuing nonobservance by Nicaragua of its financial obligations to the Fund and again urges Nicaragua to settle the overdue obligations promptly. However, the Fund notes the statement made on December 6, 1984 in the Executive Board on behalf of the Nicaraguan authorities regarding their intention to meet the overdue charges in the SDR and General Departments on December 7, 1984 and to make further payments in respect of the overdue obligations in the General Department before January 17, 1985.
4. Nicaragua is urged to take steps to achieve a substantial acceleration of payments to the Fund, with the objective of prompt and full settlement of its obligations to the Fund, and to advise the Fund of its plans as a matter of urgency and in any event, as proposed by the Nicaraguan authorities, not later than January 17, 1985.

5. The Fund shall review further Decision No. 7720-(84/88) on January 30, 1985, taking into account any further developments. Unless at that time Nicaragua is current in its financial obligations to the Fund in the General Department, the Fund will consider the appropriateness of further steps, including the possibility of declaring Nicaragua ineligible to use the general resources of the Fund pursuant to Article XXVI, Section 2.

Decision No. 7858-(84/176), adopted
December 6, 1984

DECISION TAKEN SINCE PREVIOUS BOARD MEETING

The following decision was adopted by the Executive Board without meeting in the period between EBM/84/175 (12/5/84) and EBM/84/176 (12/6/84).

2. AUDIT COMMITTEE - FY 1985

The Executive Board confirms that the three members to be invited to submit nominations to the 1985 External Audit Committee shall be Bangladesh, Greece, and the United States, as set forth in EBAP/84/248, Supplement 1 (11/30/84).

Adopted December 5, 1984

APPROVED: September 6, 1985

LEO VAN HOUTVEN
Secretary