

DOCUMENT OF INTERNATIONAL MONETARY FUND AND NOT FOR PUBLIC USE

August 31, 1988 - 88/60

Supplementary Statement by Mr. Dallara on
Overdue Financial Obligations to the Fund -
Draft Report to the Interim Committee
(Preliminary)
Executive Board Meeting 88/132
August 30, 1988

In addition to the general comments I made in the Board meeting, below are suggested insertions/deletions to the draft report and explanations for the same (insertions are underscored, deletions are shown between brackets).

1. Page 2, Para 1

"It thus poses a serious threat to the Fund's continued ability to assist members and to perform its broader responsibilities in the international economic and financial system, including its central role in the international debt strategy."

Comment: This sentence should be expanded to underscore the seriousness of the arrears problem, in particular by noting its implications for the Fund's role in the debt strategy.

2. Page 3, Para 3

"... to treat the Fund as a preferred creditor. Such treatment is seen as critical by many Directors to preserve the Fund's position in the international monetary system, and needs to be reinforced by creditors and debtors alike."

Comment: This addition elaborates, as suggested by Mr. Donoso, on the importance of the Fund's position as a preferred creditor.

3. Page 4, Para 1

"... rescheduling of repurchases or payment of charges in local currency. In their view, such a step would devalue the Fund's role in the international financial system, seriously erode its credibility and reduce its effectiveness in the debt strategy."

Comment: This is designed to stress the adverse implications for the Fund of rescheduling or making payments in local currency.

4. Page 4, Para 2

"... these members found it increasingly difficult to meet their debt service obligations, including those to the Fund. It should be emphasized, however, that many Fund members experienced similar adverse external developments and yet, avoided arrears to the Fund."

Comment: This would provide greater balance to this section by pointing out that there were members of the Fund in similar circumstances who were able to remain current.

5. Page 5, Para 1

"Explicit assessments of capacity to repay the Fund have become a feature of staff papers on requests for use of Fund resources, although further work needs to be done to broaden these assessments and, in some cases, strengthen our standards in this respect."

Comment: While progress has been made on this front, there is room for improvement, both in the assessments themselves, as well as, in some cases, in the standards of ability to repay which the Fund applies when making loans.

6. Page 6, Para 2

"Such arrangements would not change the member's foreign exchange inflows or requirements under the arrangement-- nor would they in any way substitute for the need for strong, comprehensive programs--but would represent a form of strengthened reserve management,"

Comment: This responds to the concerns of Mr. Goos and others by underscoring that special arrangements to help members meet their obligations to the Fund should not, in any way, be seen as a substitute for, strong adjustment programs.

7. Page 6, New Paragraph

"... interruption of the member's program.

Executive Directors also underscored the importance of avoiding circumstances wherein new arrears problems are allowed to grow to an extent that they become less tractable. The Board plans to intensify its efforts in this regard."

Comment: Like other Directors, we believe the Fund should react more vigorously when new arrears emerge, before they turn into protracted

cases. Although the Board has not yet had the opportunity to discuss in detail this aspect of the arrears problem, the amendment draws attention to the need for further work in this area.

8. Page 7, Para 1

Replace "some" with "most" in the sentence "... recognized that most of the present cases of protracted arrears [will] require special attention...."

Comment: Most of these cases are not likely to be solved without exceptional efforts.

9. Page 7, Para 2

["These elements are envisaged as distinct, but possibly overlapping phases, with the first being implemented while the other elements are put into place."]

Comment: The last sentence in the paragraph could create confusion in the minds of readers by referring to overlapping phases immediately after referring to an integrated approach.

10. Page 7, Para 2

"This framework would consist of an integrated approach with three key elements all fully specified at the outset. This would allow each party to clearly see how its efforts relate to an overall plan to eliminate arrears, restore the debtor's normal relations with creditors and donors, and thereby help pave the way for sustained economic growth."

Comment: These changes were to make clear the interrelationships among the three elements, explain why they need to be developed simultaneously, although implemented somewhat sequentially.

11. Page 8, Para 1

Insert following the sentence "Frequently, the member's poor record of implementation of economic policies would seem to necessitate the establishment of a new track record in order to overcome doubts about the ability of the member to overcome its payments difficulties. In some cases, a sufficient level of confidence may be achieved through prior actions."

Comment: This addition is intended to make clear that, in some cases, it may be appropriate to consider prior actions as the basis for demonstrating commitment to a strong program and willingness to take actions.

12. Page 8, Para 2

"Generally, the member would be expected to resume payments to the Fund to meet financial obligations to the Fund as they fall due during the program, although such payments should not be misinterpreted as satisfying the member's financial obligations to the Fund."

Comment: While this could be a helpful step, the report should make clear that a member's financial obligations will not be fulfilled until all arrears are eliminated.

13. Page 9, Para 1

Delete [a restructuring as necessary of the member's external debt] and [the organization of other financing needed]. The sentence would read "The second element of this approach, framed in the context of continuing implementation by the member of a strong adjustment effort, would center on the design of financing arrangements needed to mobilize resources for the clearance of overdue obligations to the Fund and to support the continuing adjustment effort. Such arrangements could include, as appropriate, bridge financing, the establishment of escrow accounts, debt rescheduling, and new money."

Comment: The amendment and deletions better explain the role of the second element of the approach and provide a clearer description of the specific parts of this step. They also avoid the troublesome implication of Paris Club reschedulings before a formal Fund program is in place.

14. Page 10, Para 3

Replace "comprising" with "including" in the sentence beginning "Such support groups, including high-level governmental representatives"

Comment: This change opens up the possibility of others, such as Executive Directors and staff, to be included in support groups.

15. Page 11, Para 1

"... but also that the adjustment programs they were being asked to support were commensurate to the requirements. Participation in or leadership of a support group would not imply a commitment to provide financing in any particular amount or form."

Comment: This would help assure members that might participate in or lead support groups that neither participation nor leadership would imply any financing commitment.

16. Page 14, Para 3

Replace "less" with "also some" so the sentence reads "There was also some support for adding to such notifications a request that the institutions take the situation into account in their own relations with the member concerned."

Comment: The amendment simply restates the sentiment of some of the Board members more positively.

17. Page 15, Para 1

Delete the following sentence "[Most Executive Directors did not favor addressing notification to private creditors]".

Comment: There would not appear to be any need to mention in the report an action for which there was so little support.

18. Page 16, Whole Paragraph

Delete the entire paragraph.

Comment: For the reasons offered by a number of Directors, we would prefer to drop the paragraph rather than to revise it.