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September 3, 1992

To: Members of the Executive Board

From: The Secretary

Subject: Restrictions and Arrears on Payments and Transfers to Persons
Within the Territory of Kuwait - Termination of Exemption from
Performance Clauses Under Arrangements from the Fund

It is not proposed to bring the attached report to the agenda of the Executive Board for discussion unless an Executive Director so requests by the close of business on Wednesday, September 9, 1992. In the absence of such a request, the draft decision that appears on page 2 will be deemed approved by the Executive Board and it will be so recorded in the minutes of the next meeting thereafter.

Mr. Francotte (ext. 37798) or Mr. Burton (ext. 36531) is available to answer technical or factual questions relating to this paper.

Att: (1)

Other Distribution:
Department Heads

INTERNATIONAL MONETARY FUND

Restrictions and Arrears on Payments and Transfers to Persons within
the Territory of Kuwait: Termination of Exemption from Performance
Clauses under Arrangements from the Fund

Prepared by the Policy Development and Review Department
and the Legal Department

(In consultation with other Departments)

Approved by Jack Boorman and François Gianviti

September 3, 1992

On November 26, 1990, the Executive Board approved a temporary exemption from performance clauses under Fund arrangements concerning restrictions and arrears on payments and transfers to the Government of Iraq and to persons within the territories of Iraq and Kuwait. The exemption is effective until the Fund decides otherwise. The purpose of the exemption is to avoid that the application by them of sanctions pursuant to Resolution No. 661 (1990) of the United Nations' Security Council lead to the suspension of their right to draw under Fund arrangements.

Resolution No. 661 called for sanctions against the persons within the territory of Kuwait, in addition to sanctions vis-a-vis Iraq. The sanctions vis-a-vis Kuwait were necessary to strengthen the effectiveness of the sanctions against Iraq, since at that time Kuwait was under the effective control of Iraq.

The rationale for the application of sanctions towards persons within the territory of Kuwait has since disappeared, and the United Nations' Security Council has lifted the call for sanctions vis-a-vis Kuwait. ^{1/} Indeed, these sanctions have already been formally removed by many countries. In view of this, it is now appropriate for the Fund to terminate the exemption approved in November 1990 insofar as it relates to exchange restrictions and external payments arrears vis-a-vis persons within the territory of Kuwait. The proposed termination of this exemption would apply immediately. Accordingly, under existing and future arrangements, the introduction of new, or the intensification of existing, exchange restrictions toward Kuwait would be a nonobservance of the standard performance criterion on the exchange and trade system, and arrears to Kuwait would again be treated as arrears for purposes of quantitative performance criteria on arrears. No change is proposed concerning the

^{1/} The measures vis-a-vis Kuwait in Resolution No. 661 (1990) were lifted by Resolution No. 686 (1991), as clarified in the preamble of Resolution No. 687 (1991).

exemption as it relates to exchange restrictions or external payments arrears to the Government of Iraq or to persons within the territory of Iraq.

Accordingly, the following decision is proposed for adoption by the Executive Board:

The exemption from performance clauses under Fund arrangements set out in Decision No. 9598-(90/166), adopted November 26, 1990 relating to restrictions and arrears on payments and transfers to persons within the territory of Kuwait is terminated.