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**IMMEDIATE
ATTENTION**

SM/92/175

September 3, 1992

To: Members of the Executive Board

From: The Secretary

Subject: Restrictions and Arrears on Payments and Transfers to the
Government of the Federal Republic of Yugoslavia (Serbia and
Montenegro) and Persons Within its Territory - Temporary
Exemption from Performance Criteria 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 the Government
of the Federal Republic of Yugoslavia (Serbia and Montenegro) and
Persons within its Territory: Temporary Exemption from Performance
Criteria 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 May 30, 1992, the United Nations' Security Council adopted Resolution No. 757 (1992), which calls for the application by states of sanctions towards the Federal Republic of Yugoslavia (Serbia and Montenegro), including the suspension of payments and transfers to the Government of the Federal Republic of Yugoslavia (Serbia and Montenegro) and persons within its territory. As a result, a number of Fund members have imposed, or are in the process of imposing, sanctions that include measures that constitute restrictions on payments and transfers for current international transactions or that give rise to external payments arrears. 1/

The imposition of exchange restrictions during the period of a Fund arrangement constitutes a nonobservance of the standard performance criterion on the avoidance of exchange restrictions and the incurrence of external payments arrears may be a nonobservance of a quantitative performance criterion on arrears. In order to avoid that the application by members of sanctions called for by the UN Resolution No. 757 lead to the suspension of the right of these members to draw under Fund arrangements, it is proposed that the Fund grant a temporary exemption of performance criteria in Fund arrangements for such measures. A similar exemption was granted by the Fund in 1990 with respect to sanctions vis-a-vis Iraq and Kuwait. 2/

1/ Several members have already notified the Fund under Decision No. 144-(52/51) of the measures that constitute exchange restrictions. Exchange restrictions notified to the Fund under this decision are approved under Article VIII, Section 2(a) unless the Fund notifies the member within 30 days of the notification that it is not satisfied that the measures are imposed solely to preserve national or international security.

2/ Decision No. 9598-(90/166), adopted November 26, 1990; see EBS/90/198, 11/21/90.

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

1. Notwithstanding performance clauses pertaining to the imposition or intensification of restrictions on payments and transfers for current international transactions, and to external payments arrears, in stand-by, extended or enhanced structural adjustment arrangements, and until further notice by the Fund, disbursements under such arrangements shall not be suspended because of restrictions and arrears on payments and transfers to the Government of the Federal Republic of Yugoslavia (Serbia and Montenegro) or persons within its territories.

2. This decision shall apply to disbursements made on or after May 30, 1992.