MASTER FILES
ROOM C-525

0404

NOT FOR PUBLIC USE

INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 90/80

10:00 a.m., May 23, 1990

M. Camdessus, Chairman
R. D. Erb, Deputy Managing Director

Executive Directors	Alternate Executive Directors
G. K. Arora	L. E. N. Fernando
	C. Enoch
C. S. Clark	
Dai Q.	
	B. S. Newman, Temporary
	J. Prader
E. T. El Kogali	
E. A. Evans	
	R. J. Lombardo
L. Filardo	
R. Filosa	
	A. M. Othman
	I. Thorláksson
	O. Kabbaj
	B. Goos
J. E. Ismael	T. Sirivedhin
A. Kafka	L. M. Piantini
J.-P. Landau	J.-F. Cirelli
	C. V. Santos
	M. Al-Jasser
	J. C. Westerweel, Temporary
	S. Yoshikuni
	N. Adachi, Temporary

J. W. Lang, Jr., Acting Secretary
S. W. Tenney, Assistant

Also Present

IBRD: G. F. Flood, Latin America and the Caribbean Regional Office. African Department: F. Le Gall. Asian Department: J. E. Zeas. European Department: G. C. Pastor. Exchange and Trade Relations Department: T. Leddy, Deputy Director; S. Eken, J. M. Landell-Mills, S. Tiwari. External Relations Department: E. Ray. Legal Department: F. Gianviti, General Counsel; W. E. Holder, Deputy General Counsel; P. L. Francotte, J. W. Head, R. Leckow. Secretary's Department: A. Tahari. Treasurer's Department: G. Laske, Treasurer; D. Williams, Deputy Treasurer; D. Berthet, M. P. Blackwell, J. E. Blalock, K. Boese, Z. Farhadian-Lorie, P. Fontana, D. Ross. Western Hemisphere Department: S. T. Beza, Counsellor and Director; K. Gerhaeusser, A. M. Jul, C. G. Muñiz B., P. Ramlogan, T. M. Reichmann. Office of the Managing Director: E. A. Milne. Personal Assistant to the Managing Director: B. P. A. Andrews. Advisors to Executive Directors: M. B. Chatah, A. Gronn, Z. Iqbal, A. R. Ismael, P. O. Montórfano, A. Napky. Assistants to Executive Directors: T. S. Allouba, G. Bindley-Taylor, C. Björklund, T. T. Do, S. K. Fayyad, B. R. Fuleihan, J. Gold, S. Gurumurthi, O. A. Himani, K. Ichikawa, L. I. Jácome, M. E. F. Jones, H.-J. Scheid, Wang J., Yang J.

1. GUYANA - OVERDUE FINANCIAL OBLIGATIONS - REVIEW FOLLOWING DECLARATION OF INELIGIBILITY

The Executive Directors considered a staff paper on the further review of Guyana's overdue financial obligations to the Fund following the declaration of its ineligibility to use the general resources of the Fund, effective May 15, 1985 (EBS/90/96, 5/22/90).

The staff representative from the Western Hemisphere Department noted that, during a recent mission to Guyana, the staff and the authorities had held discussions on an economic program for 1990 and beyond that could be supported by Fund resources once Guyana's eligibility to use such resources was restored. Those discussions had recently continued at the Fund, and the basis for an agreement had been established.

While the details on the implementation and quantification of certain measurers still needed to be worked out over the coming days, the authorities had indicated their firm commitment to the policies to be followed in the context of the program, which would build on the progress that had been achieved over the past year under a Fund-monitored program, the staff representative continued. In the fiscal area, planned policy measures would seek to increase the primary current account surplus of the public sector and reduce its domestic financing requirement, while substantial further actions would aim to increase the efficiency and flexibility of the exchange system.

The discussions between the staff and the authorities had also addressed structural measures in the area of divestment, import liberalization, tax and expenditure policy, and the rehabilitation of infrastructure, the staff representative went on.

The staff expected to be able to report to the Board on the successful conclusion of discussions with the authorities and to put forward a timetable for action, including the clearance of Guyana's arrears to the Fund, in the near future, the staff representative from the Western Hemisphere Department concluded.

Mr. Clark made the following statement:

> It is regrettable that we are reviewing Guyana's overdue financial obligations to the Fund, rather than a new adjustment program, as expected. Directors will recall that during a previous discussion, the Deputy Managing Director informed the Board that a support group had concluded a financing plan to help Guyana clear its arrears to international financial institutions and normalize its relations with other creditors. At that time, the staff was already negotiating an economic program with the Guyanese authorities. Following some delay, these negotiations are very close to being concluded.

The delay in reaching an agreement, as disappointing as it may be, should not be interpreted as a sign of noncooperation on the part of the authorities. On the contrary, the delay reflects a number of factors that may have been underestimated when the negotiation process began. These factors include the very difficult economic and social circumstances of Guyana; the tough decisions required by the Guyanese authorities, in the light of the prevailing circumstances, despite their willingness to cooperate; and the need to put together a strong program that will ultimately do more for Guyana than facilitate the clearance of its arrears.

The list of difficult economic circumstances faced by Guyana is extensive. Among the most important are a very run-down infrastructure that demands larger capital investment to ensure that the economy continues operating even at its present low level of capacity utilization; a very large debt burden, and extremely limited sources of foreign exchange earnings; as well as the difficulties faced by the Government in tapping the informal sector and, as a result, in putting together a fiscal plan that is consistent with their heavy debt-servicing obligations.

As the staff paper indicates, the authorities have taken a number of important measures, including a very steep depreciation of the exchange rate in March 1989; substantial fiscal and monetary measures; rapid progress toward divestment of state enterprises; and more recently, the full legalization and transfer of the majority of foreign exchange transactions to the free market or cambio system. The extent and impact of these measures on the structure and management of the economy should not be underestimated. Nevertheless, more action is required, and such action will not be without risk. The extended work stoppages and strikes of the past year weigh heavily on the authorities. As in other countries, public debate centers on the appropriate pace, rather than the ultimate objective, of adjustment.

In the light of the above-mentioned difficulties, the Fund-monitored program must aim at bringing about a fundamental turnaround in the economy and ensuring reasonable prospects for advancement in the medium term. However, the difficulty of this task is compounded by significant financing constraints and Guyana's very heavy debt burden. The need to clear Guyana's arrears implies that much of the necessary financing--which is substantial--will not be available for improvements to the infrastructure, investment in productive capacity, or for a poverty alleviation program to cushion the impact of the adjustment. This implies that the program needs to be strong at the outset in order to take into account the limited room for maneuver.

In the light of these considerations, it should be stressed that the recent delays in concluding an agreement on the program are in no way attributable to a lack of willingness to cooperate on the part of the authorities; rather, they were a consequence of the very difficult choices required of them. Moreover, the authorities have taken strong measures in the recent past, only to be disappointed by the lack of timely support from the international community. Nevertheless, an agreement will be completed soon, and Guyana is expected to be able to clear its arrears to all the international financial institutions in about one month, and soon thereafter the Board will have an opportunity to discuss the adjustment program in detail.

Mr. Enoch stated that it was disappointing that the current review of Guyana's overdue financial obligations was necessary. Directors had hoped that Guyana would have been in a position to regularize its relations with multilateral creditors and embark on a further adjustment program with the support of the Fund by the current stage. During the previous review of Guyana's overdue financial obligations (EBM/90/4, 1/12/90), he had noted that although there had been some slippages in the authorities' policy implementation, the unexpectedly slow progress toward resolving Guyana's arrears also reflected slippages in donors' contributions.

Therefore, it was encouraging to note that the Support Group had, despite delays, arrived at a financing package that could bring about the clearance of arrears, Mr. Enoch commented. As the staff had indicated--in the paper currently under consideration as well as in its opening remarks--a final agreement on the Fund-monitored program was imminent. In the face of the difficulties described by Mr. Clark, it was encouraging that the authorities had continued to implement a number of important measures, including the recent transfer of transactions in the nontraditional sectors to the parallel exchange market. The authorities' divestiture program was impressive, in particular as it involved sectors that were of major importance to the economy.

In the light of the above-mentioned considerations, he supported the proposed decision, Mr. Enoch concluded. It was imperative for the credibility of the Fund's intensified collaborative approach that the problem of Guyana's arrears be solved soon. In that connection, as well as with respect to future programs, he hoped a lesson would be taken from the Guyanese experience on the damaging effect of delays in fulfilling donor commitments.

Mr. Adachi said that, like other speakers, he regretted the delayed clearance of Guyana's arrears to the Fund, but he was pleased to announce that Japan had recently decided to provide additional grants of $9 million to Guyana in the context of the Support Group's effort to solve Guyana's arrears problem. That decision had been taken by his authorities as a final effort to reflect the importance they attached to the problem of arrears to the Fund, as well as Japan's desire to contribute to the international financial payments system. The provision of the additional grants would be conditional, however, on several events, including a satisfactory agreement between the Fund and Guyana on an economic program. Thus, he welcomed the staff's indication that a basic agreement between the Fund and the Guyanese authorities had been reached, and he looked forward to reviewing the Guyanese letter of intent as soon as possible following the clearance of the country's arrears to the Fund.

Mr. Goos stated that he shared the sentiments expressed by Mr. Clark and Mr. Enoch, and that he welcomed the indication from the staff that the conclusion of the negotiations on an enhanced structural adjustment arrangement was imminent. At the same time, however, he was disappointed by the recent payments performance of Guyana vis-à-vis the Fund. The total absence of payments to the Fund in the first quarter of 1990, while other creditors had received almost $15 million, was difficult to reconcile with the previously stated commitment of the Guyanese authorities to stay current in their obligations to the Fund in recognition of the Fund's preferred creditor status.

Against that background, it should be stressed that entering into a Fund-monitored program under the intensified collaborative approach by no means excused a country from attaching the highest priority to servicing its obligations to the Fund, Mr. Goos considered. Despite the severe financing constraints described by Mr. Clark, the authorities should have been expected to demonstrate their commitment to normalize their relations with the Fund by making regular payments--not just payments immediately prior to Board consideration of recent developments in Guyana.

Like other Directors, he welcomed the indications contained in the staff paper that a number of structural adjustment measures had recently been adopted, such as the further steps taken under the privatization program and the transfer of certain transactions to the free market for foreign exchange, Mr. Goos said. However, the existing large spread between the free market exchange rate and the official rate, as well as the potentially adverse impact that gap would have on market confidence and the efficiency of resource allocation, continued to be a cause for concern, especially in light of the recent reduction in interest rates, which might induce a further widening of the exchange rate spread in the current unsettled economic circumstances. In such circumstances, the actual rate of price inflation was not a reliable guide for setting the interest rate at a level that would be sufficiently attractive to compensate for both inflationary and devaluation expectations. He hoped that those issues would be adequately addressed in the program currently under negotiation, and he wondered whether the staff could comment on them.

With respect to the proposed decision, the extension of the interval before the next review of Guyana's overdue financial obligations until mid-August 1990 seemed awkward, Mr. Goos concluded, in particular as it would not be consistent with either the expectation of an imminent conclusion of the negotiations between the staff and the authorities or the urgent need to clear Guyana's existing arrears to the Fund.

Mr. Newman commented that the adoption of Guyana's economic program was the final, but most important, piece of a puzzle that would enable the Fund to successfully conclude its initial effort to help members clear their arrears under the intensified collaborative approach that had been established two years previously.

The experience of forming the support group for Guyana over the past few years had demonstrated the importance of timing, with respect to both the implementation of agreed measures and the provision of financing, Mr. Newman noted. In that connection, the staff should be urged to complete the details of the envisaged enhanced structural adjustment arrangement and to submit the program to the Board as quickly as possible in order to meet the envisaged deadlines for the disbursement of resources under the support group arrangement. It should be stressed that any delay in putting the envisaged program in place could adversely affect the provision of financing, given the specific deadlines that had been set in the context of various bilateral agreements and bridging arrangements. Any need to renegotiate those arrangements could only lead to further negotiations and further delays in financing flows, which would clearly be detrimental to the country's economic progress.

Mr. Cirelli said that he joined other speakers in welcoming the imminent agreement between Guyana and the Fund. Indeed, the need for the current review of Guyana's overdue financial obligations was disappointing. He hoped that an enhanced structural adjustment arrangement for Guyana could soon be submitted to the Board for consideration. In that connection, he also hoped that the success of the first case under the strengthened collaborative approach would be followed by other success stories, in particular with respect to Vietnam.

The staff representative from the Western Hemisphere Department stated that the staff shared the concerns expressed by Mr. Goos on the large spread between the official and the cambio market exchange rates. Indeed, the staff and the authorities were trying to address that issue in the context of the program under consideration. However, the authorities' room for maneuver in making exchange rate changes was constrained by the current situation with respect to labor. Nevertheless, the envisaged program would aim to narrow the spread between the exchange rates, while minimizing the risks of further industrial action.

Discussions between the staff and the authorities were also aimed at establishing an effective interest rate policy, the staff representative continued. In that connection, the authorities considered that the monetary policy followed in the past had prevented an exchange rate depreciation in the cambio and parallel markets, but only at the expense of unduly constraining the private sector. Therefore, they had lowered interest rates somewhat, but to a level that remained positive in real terms.

The discussions between the staff and the authorities were continuing, and he could assure Directors, in particular Mr. Newman, that the staff would make every effort to keep to the envisaged timetable, the staff representative from the Western Hemisphere Department concluded.

The Chairman noted that during a meeting he had had with the Guyanese Minister of Finance on May 22, 1990, the Minister had stressed the continued willingness of the authorities to cooperate with the Fund, despite the tremendous difficulties they faced. Although an arrangement for bridge financing was expected to be in place in June 1990, Directors should remind their authorities that support from the international community to Guyana would continue to be needed. In that connection, he did not wish to indicate that any member should stand ready to compensate for a deficiency of policy implementation; but, rather that the international community should be able to actively support the increased efforts of the Guyanese authorities in implementing an appropriate adjustment program.

Mr. Kafka said that he was grateful to Directors for their helpful advice. He would convey their comments to the Guyanese authorities. In the light of comments made during the current discussion, it would be appropriate to add a sentence at the end of paragraph 2 of the proposed decision that would read: "The Fund urges all members of the international community to give the highest priority to promoting the early settlement of arrears and providing adequate external resources for the promotion of adjustment and sustained growth.

The Deputy General Counsel commented that, as the second paragraphs of decisions on cases involving overdue financial obligations to the Fund traditionally addressed the measures that were being taken with respect to improving the member's relations with the Fund, the proposed sentence put forward by Mr. Kafka was unusual, and would change the balance of the paragraph.

The Chairman noted that the sentence proposed by Mr. Kafka addressed the international community as a whole. While decisions taken by the Board were generally known to all members, he wondered whether the proposed decision would be transmitted to members other than Guyana.

The Deputy General Counsel stated that a separate decision by the Board would be needed to approve publication of the proposed decision.

Mrs. Filardo said that she supported the revision of the proposed decision put forward by Mr. Kafka. In light of the tremendous efforts that had been made by the authorities--since Guyana had been declared ineligible to use the general resources of the Fund in 1985--toward the implementation of a viable adjustment program and the lack of financing that had been made available by the international community, it was important to include the sentence suggested by Mr. Kafka in the proposed decision.

Mr. Ismael noted that it might be more appropriate to include the sentence proposed by Mr. Kafka at the end of paragraph 3 of the proposed decision.

Mr. Enoch suggested that an appropriate means of addressing Mr. Kafka's concerns would be to insert the fourth paragraph of the previous decision taken with respect to Guyana's overdue financial obligations--Executive Board Decision No. 9343-(90/4)--at the end of paragraph 3, but revised to read: "The Fund recalls the need for appropriate and timely external assistance to support Guyana's adjustment efforts, facilitate the elimination of arrears, and assist in the rehabilitation of the economy."

Mr. Kafka said that he could agree to Mr. Enoch's suggestion, with the understanding that additional financing for the economic adjustment program in Guyana might be needed.

Mr. Goos asked whether the interval before the next review of Guyana's overdue financial obligations could be shortened, since the Fund hoped to have a program in place before August 10, 1990.

The Chairman replied that although the Guyanese authorities had indicated their willingness to implement the adjustment program that was being worked out with the staff, many details remained to be finalized, in particular the provision of bridge financing that was being arranged through the Bank for International Settlements. In the light of the work that remained, it would be appropriate to allow as much time as possible for all the arrangements related to the envisaged adjustment program to be put in place before the next review.

Following some further brief discussion, the Executive Directors adopted the following decision:

1. The Fund has reviewed further the matter of Guyana's overdue financial obligations to the Fund in the light of the facts and developments described in EBS/90/96 (5/22/90).

2. The Fund welcomes the continued efforts of the Guyanese authorities in working toward the adoption and implementation of a comprehensive set of structural reform and adjustment policies. It also welcomes the continuing discussion on a comprehensive adjustment program. The Fund urges the authorities to adopt as a matter of urgency a comprehensive economic and financial program for 1990-93 aimed at creating a basis for sustained growth, balance of payments viability, and normalization of relations with

external creditors. The Fund intends to continue collaborating actively with Guyana under the intensified collaborative approach.

3. The Fund regrets that only a modest payment has been received from Guyana since the last review. The Fund also deeply regrets the continued existence of Guyana's arrears to the Fund and their further increase, which place a financial burden upon other members and reduce Fund resources needed to help others. It stresses that full and prompt settlement of these arrears should be given the highest priority, and notes that efforts toward settlement are under way. The Fund recalls the need for appropriate and timely external assistance to support Guyana's adjustment efforts, facilitate the elimination of arrears, and assist in the rehabilitation of the economy.

4. The Fund will review the matter of Guyana's overdue financial obligations to the Fund again at the time of the 1990 Article IV consultation with Guyana, or by August 10, 1990, whichever is earlier, in the light of actions taken by Guyana in the meantime regarding settlement of its arrears to the Fund and implementation of a comprehensive adjustment program.

Decision No. 9437-(90/80), adopted
May 23, 1990

2. SUSPENSION OF VOTING AND RELATED RIGHTS - DRAFT AMENDMENT OF ARTICLES OF AGREEMENT

The Executive Directors considered a staff paper on a possible amendment of the Articles of Agreement to provide for the suspension of voting and related rights (SM/90/89, 5/11/90).

Mr. Kafka noted that, since Directors had only received the staff paper that morning, they had not had time carefully to examine the proposed amendment of the Articles or to consult with their authorities.

Following some further brief discussion, Directors agreed to continue their consideration of the proposed amendment on Friday, May 25, 1990.

DECISIONS TAKEN SINCE PREVIOUS BOARD MEETING

The following decisions were adopted by the Executive Board without meeting in the period between EBM/90/79 (5/21/90) and EBM/90/80 (5/23/90).

3. YUGOSLAVIA - TECHNICAL ASSISTANCE

In response to a request from the Yugoslav authorities for technical assistance in the central banking field, the Executive Board approves the proposal set forth in EBD/90/153 (5/17/90).

Adopted May 22, 1990

4. EXECUTIVE BOARD TRAVEL

Travel by Executive Directors as set forth in EBAP/90/130 (5/18/90) is approved.

APPROVED: April 18, 1991

LEO VAN HOUTVEN
Secretary