

INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 90/120

3:00 p.m., July 23, 1990

M. Camdessus, Chairman

Executive Directors

M. Al-Jasser
G. K. Arora

Dai Q.
T. C. Dawson

E. T. El Kogali

E. V. Feldman

R. Filosa
M. Finaish
M. Fogelholm
M. R. Ghasimi

J. E. Ismael

J.-P. Landau

G. A. Posthumus

Alternate Executive Directors

L. E. N. Fernando
P. Wright
G. C. Noonan

J. Prader
L. B. Monyake
S.-W. Kwon,

G. Montiel, Temporary

B. Goos

L. M. Piantini
G. Bindley-Taylor, Temporary
J.-F. Cirelli
C. V. Santos
G. P. J. Hogeweg
S. Yoshikuni
K. Ichikawa, Temporary

L. Van Houtven, Secretary and Counsellor
S. W. Tenney, Assistant

1. Sudan - 1990 Article IV Consultation; and
Overdue Financial Obligations - Review
Following Declaration of Ineligibility Page 3
2. Exchange of Documents with Other
International Agencies Page 9

Also Present

A. A. Abdalla, Ambassador to the United States for Sudan. IBRD: Y. Ansu, Africa Regional Office. Exchange and Trade Relations Department: L. A. Whittome, Counsellor and Director; J. T. Boorman, Deputy Director; T. Leddy, Deputy Director; G. R. Kincaid, F. J. Rozwadowski. External Relations Department: R. R. Brauning, H. P. Puentes. Legal Department: J. K. Oh. Middle Eastern Department: A. S. Shaalan, Director; F. Drees, J. Hicklin, S. H. Hitti, H. E. Jakubiak, I. H. Lee, A. A. Sabi, M. Zavadjil. Secretary's Department: A. Tahari. Treasurer's Department: G. Laske, Treasurer; M. P. Blackwell, J. W. Coats, Jr., P. Fontana, Z. Fahardian-Lorie, P. S. Ross. Western Hemisphere Department: S. T. Beza, Counsellor and Director; J. Sol-Perez. Office of the Managing Director: A. K. Sengupta, Special Advisor to the Managing Director. Personal Assistant to the Managing Director: B. P. A. Andrews. Advisors to Executive Directors: M. B. Chatah, Z. Iqbal, K.-H. Kleine, A. Napky, B. S. Newman, Y. Patel. Assistants to Executive Directors: T. S. Allouba, B. Bossone, B. A. Christiansen, A. Y. El Mahdi, B. R. Fuleihan, J. Gold, M. A. Hammoudi, M. E. F. Jones, P. Kapetanovic, J.-K. Orleans-Lindsay, M. J. Shaffrey, D. Sparkes.

1. SUDAN - 1990 ARTICLE IV CONSULTATION; AND OVERDUE FINANCIAL OBLIGATIONS - REVIEW FOLLOWING DECLARATION OF INELIGIBILITY

The Executive Directors continued from the previous meeting (EBM/90/119, 7/23/90) their consideration of the staff report for the 1990 Article IV consultation with Sudan (SM/90/127, 6/27/90; and Sup. 1, 7/19/90), together with a staff paper on the further review of Sudan's overdue financial obligations to the Fund following the declaration of its ineligibility to use the general resources of the Fund effective February 3, 1986 (EBS/90/133, 7/16/90). They also had before them a background paper on recent economic developments in Sudan (SM/90/133, 7/9/90).

The Chairman made the following summing up:

Executive Directors noted that Sudan's economic deterioration had reached dire proportions. While exogenous developments, including natural disasters, the conflict in the south, and the problem of refugees, had contributed to the deteriorating situation, Sudan's economic difficulties were rooted in the inadequacy of economic policies pursued over a number of years. In particular, the fiscal stance was highly expansionary, the officially recognized exchange rates were greatly overvalued, price and economic controls were pervasive, and rates of return on domestic assets were highly negative in real terms.

Directors welcomed the authorities' recognition that reform measures were essential, but noted that the Three-Year Economic Salvation Program, which had recently been adopted, was in good part only an expression of intentions. The program needed to be strengthened substantially and made comprehensive. In addition, the 1990/91 budget estimates appeared unrealistic. In the absence of decisive policy actions, the economic situation would become steadily more difficult, resulting in even more intense hardships for the Sudanese people.

Directors stressed that a substantive and comprehensive adjustment program, entailing major structural, fiscal, monetary, and external sector measures should be the focus of government attention. Those reforms would need to be implemented simultaneously in order to be mutually supporting. Directors urged the authorities to make a realistic assessment of the country's situation and implement a program that could attract international support and reverse the country's increasing isolation from the international financial community. Time was short and immediate action was imperative.

The primary policy areas on which the authorities needed to focus had been spelled out by the Fund Executive Board and staff on several previous occasions. A number of speakers reiterated

the essential elements. Sudan's economy needed to be thoroughly deregulated, which would entail government disengagement from the economy. A rapid unification of the exchange rate at a market-determined level and a substantial correction in fiscal policy were essential. The principal fiscal objectives should be a substantial reduction in the fiscal deficit and a rapid elimination of bank financing, which would necessitate far-reaching revenue and expenditure-reducing measures. Once public sector finances were brought under control, it would be possible to implement monetary policies that would reduce liquidity expansion and inflation.

Directors recognized that a successful reform program would require support from the donor community, and it was emphasized that a strong and comprehensive adjustment program may engender external assistance flows.

The conclusions reached during the discussion on Sudan's overdue financial obligations to the Fund are properly reflected in the decision that was adopted as well as in the related documentation.

Sudan is on the standard 12-month cycle for Article IV consultations.

Directors then turned to the proposed decision on Sudan's overdue financial obligations to the Fund.

The Chairman suggested that paragraph 4 of the proposed decision be amended to read: "The Fund shall issue and publish a declaration of noncooperation regarding Sudan by September 14, 1990 unless by that time, following discussions with the Sudanese authorities, the Managing Director concludes, in light of action taken by Sudan in the meantime regarding settlement of its arrears to the Fund and the formulation and implementation of a comprehensive adjustment program, that it would be appropriate to bring the matter for consideration by the Executive Board, and the Board decided that such a declaration was no longer warranted."

Mr. Cirelli said that he could go along with the Chairman's suggestion as a compromise position of the Board. However, the paragraph could end after the words "the Executive Board," in order to avoid foreshadowing any decision that the Board might reach in the event it had reason to review the case of Sudan prior to September 14, 1990.

Mr. Dawson remarked that he could not support Mr. Cirelli's proposal. The decision currently under consideration approved the declaration of noncooperation to be published on September 14, 1990; any events leading to a decision not to publish that declaration would need to be reviewed by

the Board. In that connection, a phrase should be added to paragraph 4 as amended to indicate that in the event such a review was deemed necessary, it would take place prior to the September 14, 1990 deadline.

Mr. Goos stated that he could support the text of draft paragraph 4 suggested by the Chairman and amended by Mr. Cirelli. Indeed, Mr. Cirelli's proposal would merely simplify the proposed text, since any further decision regarding Sudan would legally need to be taken by the Board.

The Director of the Exchange and Trade Relations Department noted that, according to the text of draft paragraph 4 proposed by the Chairman, any decision not to issue the declaration of noncooperation would need to be taken prior to September 14, 1990, since the first sentence of that paragraph indicated that a declaration of noncooperation regarding Sudan would automatically be published on that date unless the action taken by Sudan in the meantime appeared to warrant further consideration by the Board.

Mr. Wright suggested that the timing of the declaration of noncooperation and possible further Board consideration of that declaration could be clarified by rephrasing the text of draft paragraph 4 as proposed by the Chairman in the past tense. Thus, the paragraph would read: "The Fund shall issue and publish a declaration of noncooperation regarding Sudan by September 14, 1990 unless by that time, following discussions with the Sudanese authorities, the Managing Director has, in light of actions taken by Sudan in the meantime regarding settlement of its arrears to the Fund and the formulation and implementation of a comprehensive adjustment program, brought the matter for consideration by the Executive Board."

The Secretary proposed that, in light of the views that had been expressed by Directors, and in particular the suggestion made during the previous meeting by Mr. Dawson that consideration of compulsory withdrawal should begin in nine months, paragraph 5 of the proposed decision could be amended to read: "In any event, the Fund will review the matter of Sudan's overdue financial obligations to the Fund again not later than December 21, 1990, in light of the actions taken by Sudan in the meantime in settling its arrears to the Fund and in implementing a comprehensive adjustment program. In the event that Sudan has not resumed active cooperation with the Fund in seeking a solution to the problem of its overdue financial obligations to the Fund, the Fund will give consideration to the initiation of procedures leading to the compulsory withdrawal of Sudan from the Fund within nine months of the date of this decision."

Mr. Finaish said that he agreed with the comments that had been made by Mr. Fogelholm and Mr. Posthumus during the previous meeting about linking a declaration of noncooperation with compulsory withdrawal. Therefore, he would prefer to delete the reference to compulsory withdrawal from the draft decision entirely.

Mr. Posthumus stated that as the proposed decision was a matter between the Fund and Sudan, he could agree to accept the text of draft paragraph 5 proposed by the Secretary. However, he continued to consider that any reference to compulsory withdrawal should be deleted from the proposed declaration of noncooperation, which was to be published on September 14, 1990.

Mr. Fogelholm said that he could support Mr. Posthumus's suggestion to retain the reference to compulsory withdrawal in the draft decision, but to delete it entirely from the declaration of noncooperation, that was to be published.

Mr. Al-Jasser commented that he agreed with the arguments that had been put forward by Mr. Fogelholm and Mr. Posthumus concerning any linkage between a declaration of noncooperation and compulsory withdrawal. Therefore, he wondered whether Directors could agree, as a compromise, to replace the reference to compulsory withdrawal contained in the draft decision to indicate that the Fund would give consideration to further measures according to the Articles of Agreement. While he agreed with Mr. Posthumus that no reference to compulsory withdrawal should be made in the published declaration of noncooperation, the Chairman could include an explanation of the remedial measures that could be taken against Sudan in his written communication to the authorities.

The Chairman asked whether Directors could agree to amend the last sentence of draft paragraph 5, as put forward by the Secretary, to indicate that the Fund would give consideration to further steps in accordance with the strengthened arrears strategy.

Mr. Wright said that he could agree to the amendment proposed by the Chairman for inclusion in paragraph 5 of the draft decision. However, the declaration of noncooperation that had been issued in the case of Liberia had contained a reference to compulsory withdrawal--despite the reservations that had been expressed by a number of chairs, including his own. Therefore, it would be very difficult to delete that reference from a similar declaration regarding Sudan. Nevertheless, there was no need to include a time frame for the consideration of procedures leading to compulsory withdrawal in the declaration of noncooperation.

Mr. Filosa stated that he agreed with Mr. Wright that the declaration of noncooperation regarding Sudan should have the same wording as the declaration that had been issued in the case of Liberia, unless a convincing case could be made demonstrating that the circumstances of those two members differed significantly.

In any event, the text of the decision taken during the current discussion and the text of the declaration of noncooperation should be identical, Mr. Filosa concluded. The use of different texts for internal and published documents would only lead to confusion.

Mr. Dawson said that he agreed with Mr. Filosa that it would be confusing to use different texts for internal and published documents. He also agreed with Mr. Filosa and others that the declaration of noncooperation regarding Sudan should have an identical text to the declaration that was issued in the case of Liberia.

Mr. Goos said that, as a compromise, he could agree to accept the wording of draft paragraph 5 proposed by the Chairman. While he agreed with Mr. Filosa that the text used in the decision and the declaration of noncooperation should be identical, he shared the concerns that had been expressed by Mr. Fogelholm and Mr. Posthumus about including a reference to compulsory withdrawal in a declaration of noncooperation, even though such a reference had been included in the declaration regarding Liberia. Of course, there was some justification for the use of different language in those declarations, since the economic policies of the two countries and their degree of cooperation with the Fund differed.

The Chairman noted that the cases of Liberia and Sudan were different, in particular because the declaration of noncooperation regarding Liberia was issued before the intensified cooperative arrears strategy was agreed by the Board and endorsed by the Interim Committee. In the light of the recent establishment of that strategy, it would be appropriate to refer to "further procedures in accordance with the strengthened arrears strategy" in the declaration regarding Sudan.

Following some further discussion, the Executive Directors took the following decisions:

Decision Concluding Article XIV Consultation

1. The Fund takes this decision relating to Sudan's exchange measures subject to Article VIII, Sections 2(a) and 3, and in concluding the 1990 Article XIV consultation with Sudan, in the light of the 1990 Article IV consultation with Sudan conducted under Decision No. 5392-(77/63), adopted April 29, 1977, as amended (Surveillance over Exchange Rate Policies).

2. Sudan maintains a restriction on payments and transfers for current international transactions, as described in SM/90/133, in accordance with Article XIV, Section 2. In addition, Sudan retains restrictions on payments and transfers for current international transactions, including those evidenced by external payments arrears which are subject to approval by the Fund under Article VIII, Section 2(a), as well as multiple currency practices which are subject to approval under Article VIII, Section 3. The Fund urges the authorities to eliminate as soon as possible these

exchange restrictions and the multiple currency practices. The Fund hopes that Sudan will terminate the remaining bilateral payments agreement with a Fund member as soon as possible.

Decision No. 9508-(90/120), adopted
July 23, 1990

Overdue Financial Obligations - Review Following Declaration
of Ineligibility

1. The Fund has reviewed further the matter of Sudan's continuing failure to fulfill its financial obligations to the Fund in the light of the facts and developments described in EBS/90/133 (7/16/90).

2. The Fund deeply regrets the continuing failure of Sudan to fulfill its financial obligations to the Fund, which places a financial burden upon other members and reduces Fund resources needed to help others. The Fund acknowledges the payments made to the Fund by Sudan since the last review, and notes the authorities' intention to make further payments to the Fund. The Fund regrets that these payments remain modest, while Sudan has continued to make payments to other creditors. The Fund again urges Sudan to make full and prompt settlement of its overdue financial obligations to the Fund, and stresses that settlement of these arrears should be given the highest priority.

3. The Fund urges Sudan to adopt as a matter of urgency a comprehensive set of measures within the context of the cooperative approach that would bring about necessary economic adjustment. The Fund continues to stand ready to assist the authorities in support of efforts to formulate and implement a comprehensive adjustment program.

4. The Fund shall issue and publish a declaration of noncooperation regarding Sudan by September 14, 1990 unless by that time, following discussions with the Sudanese authorities, the Managing Director has, in light of actions taken by Sudan in the meantime regarding settlement of its arrears to the Fund and the formulation and implementation of a comprehensive adjustment program, brought the matter for consideration by the Executive Board.

5. In any event, the Fund will review the matter of Sudan's overdue financial obligations to the Fund again not later than December 21, 1990, in light of the actions taken by Sudan in the meantime in settling its arrears to the Fund and in implementing a comprehensive adjustment program. In the event that Sudan has not

resumed active cooperation with the Fund in seeking a solution to the problem of its overdue financial obligations to the Fund, the Fund will give consideration to the initiation of further procedures in accordance with the strengthened arrears strategy within nine months of the date of this decision.

Decision No. 9509-(90/120), adopted
July 23, 1990

DECISION TAKEN SINCE PREVIOUS BOARD MEETING

The following decision was adopted by the Executive Board without meeting in the period between EBM/90/119 (7/23/90) and EBM/90/120 (7/23/90).

2. EXCHANGE OF DOCUMENTS WITH OTHER INTERNATIONAL AGENCIES

Staff reports pertaining to: (i) surveillance under Article IV, Section 3(a) and (b); and (ii) the use of Fund resources by members, may be transmitted by the Managing Director to international agencies having specialized responsibilities within the Fund's field of interest, subject to the reciprocal transmittal of comparable documents of the recipients to the Fund, and on the understanding with the recipients of the reports that the reports will be kept confidential. Such transmittals and exchanges of documents shall be carried out in accordance with the criteria set forth in SM/90/120 (6/20/90), and Correction 1 (7/17/90) and in the light of the discussion and summing up of EBM/90/105 and EBM/90/106 (7/2/90).

Adopted July 23, 1990

APPROVED: July 11, 1991

LEO VAN HOUTVEN
Secretary

