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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 90/163

10:00 a.m., November 21, 1990

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

Executive Directors	Alternate Executive Directors
M. Al-Jasser	
G. K. Arora	L. E. N. Fernando
C. S. Clark	
	Shao Z., Temporary
	S. B. Creane, Temporary
	J. Prader
	G. H. Spencer
	B. Bossone, Temporary
M. Finaish	
M. Fogelholm	
G. Grosche	B. Goos
	T. Sirivedhin
A. Kafka	L. M. Piantini
J.-P. Landau	J.-F. Cirelli
	O. Kabbaj
L. B. Monyake	L. J. Mwananshiku
	P. Wright
G. A. Posthumus	
	N. Toé, Temporary
A. Torres	R. Marino
A. Végh	A. G. Zoccali
K. Yamazaki	

L. Van Houtven, Secretary and Counsellor
M. J. Miller, Assistant

Also Present

African Department: S. J. Anjaria. Exchange and Trade Relations Department: J. T. Boorman, Director; T. Leddy, Deputy Director; B. de Schaetzen, M. G. Gilman, R. B. Johnston, J. M. Landell-Mills, M. Precious. External Relations Department: R. R. Brauning. IMF Institute: I. Otani. Legal Department: W. E. Holder, Deputy General Counsel; A. O. Liuksila. Middle Eastern Department: A. S. Shaalan, Director; P. Chabrier, Deputy Director; H. P. G. Handy, M. D. Knight. Research Department: M. Goldstein, Deputy Director. Secretary's Department: J. W. Lang, Jr., Deputy Secretary; A. Tahari. Treasurer's Department: G. Laske, Treasurer; J. E. Blalock, W. J. Byrne. Western Hemisphere Department: S. T. Beza, Counsellor and Director; O. Gronlie, C. M. Loser, C. I. Medeiros. Personal Assistant to the Managing Director: B. P. A. Andrews. Advisors to Executive Directors: M. A. Ahmed, L. F. Breuer, M. B. Chatah, A. Gronn, Z. Iqbal, M. J. Mojarrad, A. Napky, A. Raza, H.-J. Scheid. Assistants to Executive Directors: T. S. Allouba, G. Bindley-Taylor, Chen M., S. K. Fayyad, B. R. Fuleihan, J. Gold, S. Gurumurthi, O. A. Himani, K. Ichikawa, K. Ishikura, M. E. F. Jones, P. Kapetanovic, K. Kpetigo, R. Meron, F. Moss, M. Mrakovcic, J. K. Orleans-Lindsay, S. Rouai, D. Saha, J.-P. Schoder, N. Sulaiman, Tin Win.

1. REPORT BY MANAGING DIRECTOR

The Managing Director reported briefly on his recent visit to Paris to attend, at the invitation of the Secretary-General of the United Nations, a meeting on the global response to recent developments in the Middle East.

2. FESTSCHRIFT FOR J.J. POLAK - PUBLICATION

The Managing Director invited Executive Directors to attend a study conference sponsored by De Nederlandsche Bank and the Fund in honor of J. J. Polak, to be held on January 14-15, 1991, at Fund headquarters. The Festschrift volume would be published by the Fund.

The Executive Board then took the following decision:

> The Executive Board approves publication of a Festschrift volume of papers to be presented at a conference in honor of J. J. Polak, arranged by the IMF and De Nederlandsche Bank, January 13-15, 1991.

Adopted November 21, 1990

3. PAYMENTS RESTRICTIONS FOR SECURITY REASONS - TEMPORARY EXEMPTION FROM PERFORMANCE CLAUSES

The Executive Directors considered a staff statement 1/ on the temporary exemption from performance clauses under Fund arrangements of restrictions and arrears on payments and transfers to the Government of Iraq and persons within the territories of Iraq and Kuwait.

The Director of the Exchange and Trade Relations Department added that the staff was proposing a decision providing a temporary exemption under performance clauses of certain kinds of payments restrictions because it wished to ensure that purchases under arrangements that would otherwise qualify would not be disrupted as a result of the imposition of restrictions that members might have taken in accordance with the resolutions of the U.N. Security Council. The staff wished the Board to be aware of the procedures the staff intended to follow in that regard.

Mr. Finaish stated that he had no objection personally to the substance of the decision. None of his authorities had requested him to record an objection, although none of them had yet seen the text of the proposed decision. In that connection, a question of procedure arose, in his view. The staff's written statement was dated November 19, although it had only been circulated to the Board on the preceding day--November 20--and the

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1/ Issued later as EBS/90/198, 11/21/90.

proposed decision had been placed on the agenda for the current meeting. While he understood that the staff's anxiety to have the decision approved grew out of the problem of noncomplying purchases, the Board should have been given more time to consider the issues involved. Adequate time for consideration was particularly important for multi-country constituencies. He would be forced to report to his authorities that the decision had been taken, and he knew that the authorities of one of the members of his constituency--Iraq--would ask why they had not been informed of it in advance, and why they consequently had not been given the opportunity to present a statement.

The staff representative from the Legal Department replied that the Board could decide to take the decision at the present meeting if it wished, or alternatively, to consider it later, perhaps for approval by lapse of time. The staff's statement had been issued on Monday, and should have reached Directors immediately upon issuance.

The Chairman said that he recognized the point made by Mr. Finaish. Notwithstanding the urgency of providing a way to allow countries to make complying purchases under their Fund arrangements, while observing the exchange sanctions prescribed in Security Council Resolution 661, he wondered whether the decision could not be taken by lapse of time on Monday, November 26, to allow the authorities of member countries time to read and consider the decision.

The Director of the Exchange and Trade Relations Department stated that the upcoming purchase by Hungary, which the Board was scheduled to take up on Monday, November 26, would be affected by the proposed decision. There was no need to take the decision before then.

Mr. Finaish commented that approval by lapse of time on November 26 would be satisfactory. He wondered how the noncomplying purchases of other members had been handled up to the present, however, and, in particular, whether or not the decision the staff was proposing would be applied retroactively to the cases of previously noncomplying purchases.

The staff representative from the Legal Department replied that until that time the Board had dealt with the U.N.-mandated exchange sanctions on a case-by-case basis. In the case of Jamaica's purchase, for example, the letter of intent had stated that certain restrictions had been imposed during the period of the arrangement, and the necessary waiver had been incorporated into the Board's decision on the arrangement. No explicit indication of such exchange sanctions had been included in other cases submitted for consideration by the Board, however. In the upcoming cases--Hungary and Argentina--the documentation itself did not state that any such restrictions were being imposed. Therefore, to avoid noncomplying purchases in each of those cases, it would be important for the Board to take the proposed decision providing for the temporary exemption of such exchange sanctions from the applicability of performance criteria. There had also been cases in which purchases had been made after August 2, 1990 based on June 30, 1990 or September 30, 1990 performance criteria, notwithstanding the fact that they should not have been made because the authorities had imposed restrictions with effect from that date. It was clear that the authorities had been unaware of the effect that the imposition of exchange sanctions had on the ability of the member to request purchases in those cases, and the staff believed that the infringement had clearly been inadvertent. Hence, the staff proposed not to examine further past noncomplying purchases in the light of the Guidelines on Corrective Action pertaining to misreporting under stand-by and extended arrangements.

Mr. Kafka stated that he supported the Chairman's suggestion. Like Mr. Finaish, he also wondered why the staff's written statement had not been circulated to the Board earlier.

The Directors then agreed that the proposed decision should be handled on a lapse of time basis by Monday, November 26, 1990. The staff's statement was later issued as EBS/90/198, 11/21/90.

4. DOMINICAN REPUBLIC - OVERDUE FINANCIAL OBLIGATIONS - COMMUNICATION TO GOVERNORS

The staff representative from the Western Hemisphere Department stated that a staff mission had visited the Dominican Republic in late October and early November 1990 to conduct the Article IV consultation discussions, and had analyzed the strategy the authorities might adopt to deal with their problems. The mission had found the economic situation quite difficult, and external conditions had certainly evolved to the country's disadvantage. The terms of trade had deteriorated not only because of the increase in the price of oil, but also because the prices of some of the Dominican Republic's main exports--in particular, ferronickel and sugar--had weakened in international markets. That had compounded a situation of imbalances in the domestic economy--a large public sector deficit and a continued expansion of domestic credit to the private sector, in particular. Those negative factors were reflected in increased pressures on the balance of payments and on the foreign exchange markets, where the surrender of foreign exchange to the central bank had declined considerably.

The authorities had taken a number of measures since August 1990 to alleviate the problems, including an adjustment of prices, a modification of the exchange rate, and monetary and fiscal actions, including some increases in interest rates and adjustments in taxes, and a sharp reduction of investment, the staff representative went on. Nevertheless, the situation remained difficult, as the foreign exchange position had not improved to any significant extent.

The staff had discussed with and presented to the authorities a possible plan of action related to the exchange rate, monetary and fiscal policy, and a number of structural measures that would have to be implemented in order to reduce existing imbalances, which the authorities were currently considering, the staff representative concluded. The Dominican Republic had made no payment to the Fund since August 1990. The overdues problem had been raised with the authorities frequently in the staff's discussions with them. The authorities recognized the importance of clearing their overdues to the Fund, but because of the critical foreign exchange situation, they were not in a position to establish a clear timetable for the clearance of the overdues.

The Chairman commented that the Board was presented with something of a dilemma. On the one hand, overdues to the Fund were a serious matter of principle; on the other hand, in the case of the Dominican Republic there appeared to be good prospects for an agreement with the authorities on the adoption and implementation of appropriate policies. Account also had to be taken of the very difficult social and political situation in the short term; a general strike was about to be called. It needed to be considered whether the Fund should, at that moment, communicate with the main creditors of the Dominican Republic to request their assistance in urging the country to settle its arrears, and to facilitate the Dominican Republic's efforts in that regard.

Mr. Kafka stated that for the previous two to three months, the Dominican Republic had been moving in and out of arrears with the Fund. If the external situation had not deteriorated as much as it had because of recent developments in the Middle East, he was certain that the country would have been able to avoid the accumulation of arrears to the Fund beyond 30 days, as it had managed to do for most of 1990. The authorities were studying the staff's proposals on the measures to be taken. He and his Alternate were in almost daily contact with the authorities, and were pressing them in the direction of taking those measures urgently. At present, however, the attentions of the authorities were fully absorbed by the general strike, which had fortunately not yet turned violent, but the climate of opinion was tense, and the strike might turn violent at any moment. Under those circumstances, he would suggest that the Board postpone by a few days sending the letter to creditors, to allow the authorities to reply to the measures proposed in the memorandum left by the staff. The matter could be returned to in a few days.

The Chairman commented that he believed that it would be unwise to add to the problems of the authorities just as they were dealing with the general strike. He would tend to follow the suggestion of Mr. Kafka, and return to the matter shortly, it being understood that the staff would take advantage of the short respite to speak further with the authorities and ensure that they did not lose sight of the particular difficulties to the Fund and other members which their arrears were causing.

The Directors agreed to take up the matter again shortly, noting that the Managing Director's report and complaint under Rule K-1 with respect to the Dominican Republic's overdue financial obligations was to be noted by lapse of time on November 30, 1990 (EBS/90/199, 11/21/90).

5. ECUADOR - TECHNICAL ASSISTANCE

In response to a request from the authorities of the Banco Central del Ecuador for technical assistance in the central banking field, the Executive Board approves the proposal set forth in EBD/90/385 (11/15/90).

Adopted November 20, 1990

6. TOGO - TECHNICAL ASSISTANCE

In response to a request from the Togolese authorities for technical assistance in the central banking field, the Executive Board approves the proposal set forth in EBD/90/386 (11/15/90).

Adopted November 20, 1990

7. EXECUTIVE BOARD TRAVEL

Travel by Executive Directors and by Advisors to Executive Directors as set forth in EBAP/90/301 (11/19/90) is approved.

APPROVED: September 11, 1991

LEO VAN HOUTVEN
Secretary