

INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 89/166

3:00 p.m., December 18, 1989

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

Executive Directors

C. S. Clark  
Dai Q.  
T. C. Dawson

E. A. Evans

L. Filardo

M. Fogelholm  
M. R. Ghasimi  
G. Grosche

A. Kafka

Mwakani Samba

K. Yamazaki

Alternate Executive Directors

C. Enoch

Zhang Z.

J. Prader  
S. M. Hassan, Temporary  
S.-W. Kwon  
R. J. Lombardo  
G. Garcia, Temporary  
N. Kyriazidis  
A. M. Othman

O. Kabbaj

S. P. Shrestha, Temporary  
L. E. N. Fernando

J.-F. Cirelli  
C. V. Santos  
N. Toé, Temporary  
M. Al-Jasser  
G. P. J. Hogeweg

L. Van Houtven, Secretary and Counsellor  
S. L. Yeager, Assistant

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Also Present

IBRD: J. D. Shilling, Cofinancing and Financial Advisory Services Department. Asian Department: M. J. Fetherston. Exchange and Trade Relations Department: J. T. Boorman, Deputy Director; T. Leddy, Deputy Director; E. Brau, S. Eken, B. C. Stuart. IMF Institute: O. B. Makalou. Legal Department: F. P. Gianviti, General Counsel; W. E. Holder, Deputy General Counsel; R. H. Munzberg, Deputy General Counsel; T. M. C. Asser, P. L. Francotte, W. E. Holder, A. O. Liuksila. Research Department: J. A. Frenkel, Economic Counsellor and Director; K. S. Warwick. Treasurer's Department: D. Williams, Deputy Treasurer; D. Gupta, G. Wittich. Personal Assistant to the Managing Director: H. G. O. Simpson. Advisors to Executive Directors: N. Adachi, M. B. Chatah, M. Eran, G. Garcia, K.-H. Kleine, B. S. Newman, D. Powell. Assistants to Executive Directors: G. Bindley-Taylor, B. A. Christiansen, S. K. Fayyad, S. Gurumurthi, M. A. Hammoudi, M. Hepp, J. Heywood, L. Hubloue, A. Iljas, C. J. Jarvis, C. Y. Legg, R. Marino, J. A. K. Munthali, D. Saha, J.-P. Schoder.

1. DEBT AND DEBT-SERVICE REDUCTION OPERATIONS - EARLY REPURCHASE EXPECTATIONS

The Executive Directors continued from the previous meeting (EBM/89/165, 12/18/89) their consideration of a staff paper on early repurchase expectations with respect to debt and debt-service reduction operations, together with a proposed decision in three parts--A, B, and C (EBS/89/224, 11/22/89).

Mr. Dawson proposed that paragraphs 5 and 6 of Part B of the proposed decision should be revised to read as follows:

5. In the report submitted under paragraph 4 above, the Managing Director shall recommend such action as may be appropriate, including the possibility of an expectation of early repurchase of all or part of the accelerated set-aside.

6.(a) In the event that the Executive Board decides that the member shall be expected to repurchase all or part of the accelerated set-aside, the member would be expected to make the repurchase, to the extent that they [sic] would not yet have become available to the member under the phasing provision in the stand-by or extended arrangement in the absence of acceleration, within a period specified by the Executive Board, taking into account the member's economic and financial position, provided that such period would normally not exceed one year. The member would be entitled to purchase the set-aside amount that had been repurchased under the phasing provision in the stand-by or extended arrangement.

The addition at the end of paragraph 5--"including the possibility of an expectation of early repurchase of all or part of the accelerated set-aside"--would eliminate the reference to "beyond 12 months," which some Directors had opposed, while allowing some flexibility to management and the Board to determine what would be required, Mr. Dawson explained. The last sentence of paragraph 6(a) addressed the concern that if a member had managed to get back on track within the context of the arrangement, access to the set-aside should remain a possibility. In contrast, the staff had suggested that if a member had managed to get back on track within the context of the arrangement, access to the set-aside would not remain a possibility.

The General Counsel remarked that the sentence in paragraph 6(a) to which Mr. Dawson had referred would be an exception to the general principle that once an amount had been repurchased, there was no reconstitution to the extent of the member's drawing rights under the arrangement. Also, the meaning of the phrase "under the phasing provision" was unclear.

Mr. Dawson stated that the phrase referred to the provision in the guidelines on Fund support of debt reduction operations that dealt with the acceleration of set-asides.

The General Counsel recalled that the expectation of repurchase within 30 days in paragraph 6(a) of the original proposed decision had been a cause for concern for some Directors. He suggested an alternative formulation, namely, "repurchase...within such period, not less than 30 days, as the Executive Board may specify." The 30-day period--which was the period usually provided in decisions relating to repurchases--would thus become a minimum that nevertheless indicated an order of magnitude. The end of the first sentence of Mr. Dawson's proposed paragraph 6(a) could be amended to read, "provided that such period would normally not be less than 30 days, or exceed one year."

Mr. Dawson remarked that he could accept the staff's proposal.

Mr. Fogelholm asked for a clarification of the meaning of the expectation "to repurchase all or part of the accelerated set-aside." Did that provision assume that the acceleration period would normally not exceed one year; and did it replace Mr. Dawson's earlier notion of applying the provision only to set-asides accelerated by more than 12 months?

Mr. Dawson remarked that the reference to "all or part" was intended to avoid the difficulties that his earlier proposal, which specified "beyond 12 months," had created for some Directors, and to provide some flexibility. Implicitly, it might apply to set-asides accelerated beyond 12 months if the amount of the expected repurchase was particularly large; in that event, there was the prospect of repayment over a somewhat longer period of time.

Mr. Fogelholm asked how "all or part" would be defined. If the program went off track, would the matter be brought back to the Board, which would then decide to what extent the member was expected to repurchase?

Mr. Dawson remarked that the amount would not be decided on an ad hoc basis because in paragraph 5, the Managing Director was asked to provide a report, and the Board would have to make a decision on the basis of that report.

The Chairman suggested that in view of the concerns expressed by Mr. Fogelholm as well as his own concerns, the end of the first sentence of paragraph 6(a) be amended to read "within a period specified by the Executive Board, taking into account the member's economic and financial position, and its efforts to adopt policies to address the slippage in its economic performance...."

Mr. Dawson stated that he could accept the proposed amendment.

Mr. Fogelholm remarked that the suggested amendment would be helpful. He was, however, concerned about the rationale underlying Mr. Dawson's proposal, which seemed to contradict the objective of the exercise, namely, to specify measures to be taken by the Board when a program went off track or the Fund's resources were not used for the intended purpose.

Mr. Enoch observed that the provisions of Mr. Dawson's proposed paragraph 6(a) were mutually inconsistent. There was a possibility that repayment would occur only after a year and a suggestion that the member could regain access to the set-aside amount even before it had to effect the repurchase. If the final sentence--which was redundant--was retained, there would need to be at least a reference to another Fund review or to a modification of performance criteria, because otherwise the program would be overfinanced or underspecified. For example, if a country which suddenly had additional resources in place--because they had not been used for debt reduction as intended--was no longer stretched to meet, say, its reserve targets, its program should be subject to further review to set new reserve targets or new performance criteria. In any event, he still preferred "within 30 days, or within a longer period as the Executive Board may specify," particularly in view of the Chairman's earlier comments on the high degree of flexibility encompassed by that formulation.

Mr. Grosche said that he could not support the proposed amendment for the reasons mentioned by Mr. Fogelholm and Mr. Enoch. He preferred the original draft decision.

Mr. Hogeweg remarked that he agreed with Mr. Grosche.

Mr. García stated that he supported Mr. Dawson's proposed amendment.

Mr. Al-Jasser said that he remained unconvinced of the need to extend the period to effect a repurchase from 30 days to a year. He wondered whether the period could be narrowed to make it acceptable to a majority of Directors.

The Chairman remarked that even if Directors agreed with the substance of Mr. Dawson's amendments, the proposed formulation gave the impression that on average a member would have six months to effect a repurchase, which clearly was not the impression that the Fund wished to give. Moreover, Mr. García had asked only for some flexibility with respect to the 30-day period.

Mr. Dawson observed that the problem had been eliminated with the amendment of that paragraph by the staff to provide that the member would be expected to make the proposed repurchase "within a period specified by the Executive Board...provided that such period would normally not be less than 30 days."

Mr. Enoch remarked that the proposed change improved the text somewhat.

Mr. Kafka observed that the proposed change was purely semantic, and he opposed it.

Mr. Kyriazidis stated that the last sentence of Mr. Dawson's proposal caused him some difficulty, especially as it represented an exception to the general principle that once an amount had been repurchased, there was no reconstitution of a member's drawing rights under an arrangement with the Fund.

Mr. Dawson remarked that the intention was to restore the status quo ante for a program that had been brought back on track. The purchase would, however, be used for set-asides, rather than in the context that Mrs. Filardo had described at the previous meeting, namely, the funds would not be fungible. Moreover, the purchases would clearly be from resources that had already been repurchased; there would be no double counting.

The General Counsel suggested that the last sentence of paragraph 6(a) should be reformulated for clarification. The revised sentence would read, "If the program comes back on track after a repurchase has been made under this paragraph, the Fund may decide that the amount of the stand-by or extended arrangement will be increased by an amount equivalent to the repurchase, subject to such phasing as shall be specified." The idea was that new phasing would have to be determined for the new purchases once the amount of the stand-by arrangement had been reconstituted following the repurchase.

Mr. Enoch remarked that he understood that Mr. Dawson's proposal was more restrictive than the staff's in that the only reason for reconstitution was to allow for a subsequent set-aside. If there was to be no reconstitution after bringing a program back on track, that should be explicitly stated in the decision. If, however, a member was entitled to purchase the amount, for whatever purpose, once a program was brought back on track, then the staff's proposal should be modified to indicate that the purchase would be made in the context of a revised program, and that performance criteria would have to be specified.

The General Counsel stated that the purpose of his proposal was to provide for an increase in the stand-by or extended arrangement, but that there would be no prior earmarking of the augmented resources for set-asides. Instead, the intended use would have to be decided at the time of augmentation.

Mr. Dawson observed that under the staff's proposal, the possibility would exist for a country which had used its own resources to finance a debt reduction operation to use the augmentation of the arrangement to replenish its reserves. He was still unclear about the presumption underlying the staff's proposal. In his view, the objective was to provide an incentive for a country to bring the program back on track. In that respect, the staff's proposal offered little improvement over

the original draft decision. He would prefer language that provided more of an expectation that the reconstitution of the arrangement might materialize.

The General Counsel suggested that the phrase "the Fund may decide" could be deleted so that the reconstitution became automatic. The sentence would then read, "If the program comes back on track after a repurchase has been made under this paragraph, the amount of the stand-by or extended arrangement shall be increased by an amount equivalent to the repurchase, subject to such phasing as shall be specified."

Mr. Enoch remarked that a qualifying clause could be added to the effect that if the program came back on track, "and if the set-aside amount had been used in accordance with guidelines and for the purposes agreed by the Board..." to clarify what had actually happened to the set-aside. It was worth stating explicitly that automatic reconstitution would occur only if there had been a debt reduction operation in line with the decision of the Board at the outset of the program. Otherwise, it could be understood that the size of the facility would automatically be increased.

The General Counsel stated that paragraph 6(a) dealt exclusively with set-asides for debt reduction, and if an additional condition was that the set-aside had been properly used, the provision under discussion would not apply.

Mr. Enoch remarked that he agreed with the staff. The possibility of an increase in access, however, was not dealt with in Part B.

Mr. Fogelholm observed that the phrase "all or part" at the beginning of paragraph 6(a) tended to obscure the objective of the exercise. He therefore proposed, in the spirit of compromise, to delete "all or part of" and to insert after "in the absence of acceleration" the words, "unless the Executive Board can assess that the member has already begun to implement measures which will bring the program back on track." That must be the intention; if the member had not undertaken those measures, then it would be expected to repurchase.

Mr. Dawson commented that Mr. Fogelholm's suggestion implied a return to the original proposal with the addition of the possibility of a reconstitution. If the desire was only to establish the expectation of a repurchase, the Board could decide that whenever a program went off track, an acceleration of repurchases would be required. As that was not the case, he had suggested an additional element of flexibility, namely, "all or part of." Clearly, there were some circumstances where repurchases of all set-aside amounts would be appropriate and other circumstances where repurchase of only a part would be warranted.

Mr. Fogelholm stated that as the decision stood, there was no incentive whatsoever for a country to try to get back on track. Moreover, under Mr. Dawson's proposal, he wondered what criteria should be used

to decide whether 75 percent or 20 percent of the accelerated set-aside should be repurchased. His own proposal was not intended to require the repurchase of all accelerated set-asides, but rather to indicate to the member that unless it did something to redress the situation that gave rise to its program going off track, a repurchase expectation would arise. Once the situation had improved, the Board could take another decision. Of course, if the program went off track because of reasons beyond the control of the member, then the Board could take the view that the member could keep the set-asides.

Mr. Dawson observed that at least some portion of the accelerated set-asides could be viewed as front-loading. In his view, the establishment of set-asides was intended to give the Fund more control and obviate the need for front-loading. Indeed, he was afraid that one consequence of the original proposed decision would be to reduce the incentive of member countries to request arrangements that included set-asides. Instead, countries were being encouraged to opt for traditional programs with more front-loading. The addition of "all or part of" allowed the Board to make a judgment as to how serious or how effective the country had been in its efforts to get back on track and allowed the amount of repurchase to be varied according to the strength of those efforts and perhaps even their likelihood for success.

Mr. Evans said that he agreed with Mr. Dawson's remarks. He did not agree with Mr. Fogelholm that in the absence of an automatic requirement to repurchase all of the accelerated set-asides, there would be no incentive for the country to get back on track. There was already a strong incentive even in the absence of a repurchase requirement, namely, access to additional purchases under the program. The inclusion of a repurchase requirement was intended to strengthen that incentive, but that did not mean that the requirement had to apply to all of the accelerated set-aside.

The proposal suggested by Mr. Dawson would allow flexibility to decide, on a case-by-case basis, the amount to be repurchased, Mr. Evans commented. There could be instances where all of the set-aside amounts should be repurchased, and others where it would be appropriate to require repurchase of only a part. Mr. Dawson's suggestion therefore was a useful addition.

Mr. Kyriazidis remarked that Mr. Fogelholm's concern could be met by a redrafting, to the effect that "In the event that the Executive Board decides that the member shall be expected to repurchase accelerated set-asides...." That formulation established and maintained the link between the first part of paragraph 6(a) and the last part of paragraph 5, which clearly stated that among the actions to be recommended by the Managing Director was "the possibility of an expectation of early repurchase of all or part of the accelerated set-aside."

Mr. Hogeweg said that he agreed with Mr. Kyriazidis's suggestion and would like to see the formulation proposed for paragraph 6(a) included in

paragraph 5 as well--namely, "such action as may be appropriate, including the expectation of early repurchases of accelerated set-asides."

Mr. Kyriazidis remarked that he could accept Mr. Hogeweg's proposal.

Mr. Grosche stated that the proposed revisions resulted in a watering down of the original text, which in his view was already sufficiently flexible. Moreover, the amendments were not aiming at establishing a firm view regarding what a country was expected to do when performance was not in compliance with the program's objectives or the resources set aside for interest support were not used as intended. He therefore could not support the proposed amendments. He could accept the original draft decision.

The Chairman remarked that while the addition of "not less than 30 days" had added a greater measure of flexibility, in his view, the amendment suggested by Mr. Fogelholm would strengthen the text, and the proposal put forward by the staff would add needed clarity.

Mr. Grosche said that in paragraph 5, with the addition of Mr. Kyriazidis's suggestion, the accelerated set-aside subject to repurchase was no longer defined, but instead additional fuzziness had been introduced. Moreover, the staff's amendment to Mr. Dawson's proposal had introduced an expectation that a country would be eligible to continue to purchase following a repurchase, so that it did not matter whether a program was kept on track. To facilitate agreement on a decision, he was prepared to change his objection to an abstention.

Mr. Al-Jasser remarked that the amendments to Mr. Dawson's proposal offered by the staff and Mr. Fogelholm did not fully meet his concerns. He would have liked to see "all or part of" completely eliminated without deleting the words "accelerated set-asides." In the spirit of compromise, he could, however, go along with the proposed changes, with the understanding that the Managing Director would submit a report to the Board on the basis of which Directors would decide whether circumstances warranted an early repurchase. His authorities' primary concern--and indeed, that of the Fund--was that the adjustment process was brought back on track.

Mr. Hubloue stated that he could accept the proposed amendments.

Paragraph 4, subparagraphs (a) through (c) of Part B were accepted without further discussion.

The General Counsel observed that the incorporation of the misuse of set-asides in Part A would require changes both in the title of that section as well as in the text of paragraphs 1 through 3. The section could be retitled "Failure to Use Resources for Specified Purposes." The first sentence of paragraph 1 could be redrafted to read: "Whenever the Fund approves a member's request for (i) purchases of amounts set aside to support operations involving debt reduction under a stand-by or extended arrangement, or (ii) additional resources...." Similar references to

set-aside amounts would have to be added in paragraphs 2 and 3. Once a decision had been agreed, the staff would circulate the revised text to Directors for their approval on a lapse of time basis.

An additional paragraph had been proposed by Mr. Garcia to the effect that "The Executive Board will give consideration to those cases where the program went off track due to factors beyond the control of the authorities," the General Counsel continued. He suggested that the proposal be incorporated at the end of paragraph 6(a).

Mr. Enoch, commenting on paragraph 5, remarked that he preferred the original version, but if that did not find support in the Board, he could accept Mr. Dawson's proposal, with the amendment proposed by Mr. Hogeweg.

Mr. Al-Jasser stated that he supported the deletion of "all or part of" from both paragraphs 5 and 6 as had been suggested by Mr. Kyriazidis and Mr. Hogeweg.

Mr. Grosche remarked that his abstention was based on having "all or part of" deleted in both paragraphs 5 and 6.

Mr. Dawson stated that he preferred to see paragraph 5 amended as he had proposed. The alternative rewording--"including the possibility of an early repurchase of accelerated set-aside amounts"--could be read two ways, and he was not confident that it would be read as he had intended it to read.

Mr. Grosche remarked that he agreed with Mr. Dawson that clearer language would be preferable. It would be easier for him to support the paragraph if the word "the" was retained.

Mr. Enoch commented that he could support the inclusion of the article "the" in paragraph 5. That would not exclude other appropriate actions which the Managing Director might suggest. In paragraph 6, he had a preference for the inclusion of the article "the" but could see a case for maintaining the words "accelerated set-asides," because it was a different conditional phrase. Retaining the article "the" in paragraph 5 certainly did not exclude the objectives which Mr. Dawson wished to maintain.

Mr. Grosche said that he could support Mr. Enoch's proposal.

Mr. Dawson remarked that he could support Mr. Enoch's proposal with a shift in wording, so that the first line of paragraph 6 would read: "In the event that the Executive Board, taking into account the member's economic and financial position, decides that the member shall be expected to repurchase accelerated set-aside amounts...." It could then be argued that implicitly, the magnitude of the repurchase was being taken into account.

The Executive Directors approved Part B, without further discussion, with paragraph 6(a) amended to read:

In the event that the Executive Board, taking into account the member's economic and financial position, decides that the member shall be expected to repurchase accelerated set-aside amounts, the member would be expected to make the repurchase, to the extent that such amounts would not yet have become available to the member under the phasing provision in the stand-by or extended arrangement in the absence of acceleration, within a period specified by the Executive Board, provided that such period would not be less than 30 days. The Executive Board shall give special consideration to those cases where the program has gone off track because of circumstances beyond the control of the member.

Mr. Kafka stated that he wished his opposition to Part B of the decision to be recorded in the minutes.

The Executive Directors accepted Part C, paragraphs 7 through 10, without further discussion. 1/

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1/ The text of the revised decision was circulated as EBS/89/244. Supplement 1 (12/18/89) and was approved by lapse of time on December 19, 1989 (EBM/89/167, 12/20/89).

DECISION TAKEN SINCE PREVIOUS BOARD MEETING

The following decision was adopted by the Executive Board without meeting in the period between EBM/89/165 (12/18/89) and EBM/89/166 (12/18/89).

2. GUYANA - OVERDUE FINANCIAL OBLIGATIONS - REVIEW FOLLOWING  
DECLARATION OF INELIGIBILITY - POSTPONEMENT

Paragraph 4 of Executive Board Decision No. 9138-(89/48), adopted April 28, 1989, shall be amended by substituting "January 15, 1990" for "December 15, 1989."

Decision No. 9325-(89/166), adopted  
December 18, 1989

APPROVED: August 16, 1990

LEO VAN HOUTVEN  
Secretary