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0414

June 29, 1988

To: Members of the Executive Board
From: The Secretary
Subject: Final Minutes of Executive Board Meeting 87/146

The following correction has been made in the final minutes
of EBM/86/146 (10/16/87):

Page 37, heading: for "EBM/87/146 (11/16/87)"
read "EBM/87/146 (10/16/87)"

A corrected page is attached.

Att: (1)

Other Distribution:
Department Heads

2. The Fund regrets the continuing nonobservance by Sierra Leone of its financial obligations to the Fund and notes that further substantial obligations will fall due in the near future. The Fund urges Sierra Leone to make full and prompt settlement of the overdue financial obligations to the Fund.

3. The Fund regrets that Sierra Leone has not adopted a program that could result in necessary economic adjustment.

4. The Fund shall review further Decision Nos. 8566-(87/61) and 8647-(87/104) S/TR within a period of three months, taking into account any further developments. It is expected that a decision to declare Sierra Leone ineligible to use the Fund's general resources, pursuant to Article XXVI, Section 2(a), will be taken in the absence of full settlement of Sierra Leone's overdue financial obligations to the Fund in the General Resources Account. It is further expected that a decision to suspend, pursuant to Article XXIII, Section 2(b), Sierra Leone's right to use SDRs it acquires after the date of the suspension, other than for settlement of financial obligations to the Fund, will be taken in the absence of full settlement of Sierra Leone's overdue financial obligations to the Fund in the SDR Department.

Decision No. 8711-(87/146) G/S/TR, adopted
October 16, 1987

4. PERU - OVERDUE FINANCIAL OBLIGATIONS - FURTHER REVIEW FOLLOWING
DECLARATION OF INELIGIBILITY

The Executive Directors considered a staff paper on the further review of Peru's overdue obligations to the Fund following Peru's declaration of ineligibility to use the general resources of the Fund on August 15, 1986 (EBS/87/219, 10/15/87). They also had before them a staff paper (EBS/87/214, 10/13/87) noting that the staff report for the 1987 Article IV consultation with Peru was expected to be placed on the agenda for Executive Board discussion no later than November 25, 1987 and proposing (for adoption on a lapse of time basis) that the review of the matter of Peru's overdue financial obligations to the Fund be postponed so that it could be taken up at the same time. In addition, Directors had before them a request by an Executive Director to bring the matter to the agenda of the Executive Board for discussion (EBS/87/214, Sup. 1, 10/14/87).

Mr. Morales made the following statement:

I am pleased to note to this Board that a Fund mission went to Lima to undertake a policy dialogue with the Peruvian authorities and held lengthy and fruitful discussions on all matters pertaining to the economy of Peru. In this regard, the Fund

mission met with the Minister of Economy and Finance (and the relevant Vice-Ministers in these sectors), the head of the Planning Institute and his team, the General Manager of the Central Bank (the Governor of the Central Bank has not yet been appointed), the head of the Institute of Foreign Trade and other important officials. Also, at the end of the discussions, a meeting was held with the Prime Minister.

My authorities believe that this exercise has been an important step toward broadening the understanding of our difficulties and has provided us with an opportunity to demonstrate that major efforts are being undertaken to reconcile our external and internal commitments, a process in which the strengthening of a positive dialogue is an essential condition.

A general result of this policy dialogue is the confirmation that Peru has a potentially very difficult balance of payments situation and that its authorities share with the Fund staff a concern for its prospects. This balance of payments situation has made it impossible for the country to fully settle its financial obligations to the Fund. At the same time, I would like to reaffirm to this Board the clear commitment of my authorities to honor its obligations. Peru recognizes its commitments and wants to honor them. Certainly, the latest mission to Lima demonstrates that desire.

The authorities are at this moment in the process of reviewing their policies in depth to face the external difficulties affecting the economy of Peru. I think it is important to indicate that, in parallel with the Article IV consultation, the authorities have been holding discussions with World Bank officials. All these actions represent a serious attempt to look for policies which could improve the prospects of the economy, both to protect the opportunities for growth and to fulfill the external obligations. In this context, which implies a desire to strengthen the authorities' relationship with the multilateral organizations, I wish to reiterate that the discussions for the Article IV consultation were very positive, both in terms of their technical content as well as in terms of their contribution to fostering the appropriate environment for additional progress in this direction.

Ms. Bush welcomed Mr. Morales's comments regarding the Article IV discussions and the indications of Peru's concern about its arrears. While appreciating the restatement of the authorities' commitment to meet their debt obligations, her chair was looking beyond commitments and more toward actual payments. On July 31, 1987, the Board had adopted a decision to review Peru's arrears at the time of the Article IV consultation or by October 16, 1987, "whichever is earlier." That important clause had been