

DOCUMENT OF INTERNATIONAL MONETARY FUND  
AND NOT FOR PUBLIC USE

**IMMEDIATE  
ATTENTION**

EBS/86/134

CONFIDENTIAL

June 20, 1986

To: Members of the Executive Board

From: The Secretary

Subject: Jamaica - Overdue Financial Obligations to the Fund -  
Report and Complaints Under Rule K-1 and Rule S-1

Attached for consideration by the Executive Directors is a report and complaints under Rule K-1 and Rule S-1 with respect to Jamaica. The proposed decision provides that the complaints will be placed on the agenda of the Executive Board for a meeting scheduled on Wednesday, July 23, 1986.

It is not proposed to bring the matter in this paper (which includes the noting of the complaints) to the agenda of the Executive Board for discussion unless an Executive Director so requests by the close of business on Wednesday, June 25, 1986. In the absence of such a request and in the absence of full settlement by Jamaica of the overdue obligations by that date, the draft decision on pages 5 and 6 will be deemed to have been approved by the Executive Board and it will be so recorded in the minutes of the next meeting thereafter.

Mr. Blalock (ext. 8341) or Mr. Berthet (ext. 7633) is available to answer technical or factual questions relating to this paper.

Att: (1)

INTERNATIONAL MONETARY FUND

Jamaica - Overdue Financial Obligations to the Fund -  
Report and Complaints Under Rule K-1 and Rule S-1

Prepared by the Treasurer's, Western Hemisphere, and Legal Departments  
(In consultation with the Exchange and Trade Relations Department)  
Approved by W.O. Habermeier, E. Wiesner, and F.P. Gianviti

June 20, 1986

1. Jamaica is at present overdue in discharging obligations to the Fund dating from a repurchase due on April 15, 1986. <sup>1/</sup> As of June 16, 1986, the overdue obligations totaled SDR 35,283,849 as shown in Attachment I. Jamaica has been overdue in its financial obligations to the Fund on a number of occasions during the past year, and Executive Directors have recently been informed of Jamaica's arrears to the Fund. <sup>2/</sup>

2. Jamaica's financial relations with the Fund are summarized in Attachment II. As of June 16, 1986, Jamaica's outstanding use of Fund resources in the General Department, including overdue repurchases of SDR 29.7 million, totaled SDR 603.5 million, of which SDR 86.9 million was purchased in the credit tranches, SDR 89.8 million under the Compensatory Financing Facility, and SDR 426.9 million under the Extended Fund Facility.

On the basis of Jamaica's present use of Fund resources and position in the SDR Department, Jamaica's projected repurchase obligations, quarterly charges, semiannual charges, and net SDR charges payable through 1992 are estimated as shown in Attachment III. The overdue and forthcoming obligations to the Fund projected through 1992 total about SDR 750 million. Jamaica's overdue obligations to the Fund of SDR 35.3 million relative to various financial indicators are shown in the following tabulation:

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<sup>1/</sup> In light of the revised procedures agreed at EBM/85/170 (11/25/85), complaints related to members newly overdue after November 25, 1985 normally are issued about two months after the due date of the longest outstanding financial obligation.

<sup>2/</sup> See EBS/86/110 (5/19/86).

<u>Jamaica's Overdue Obligations in Relation to:</u>	<u>Percent</u>
Quota	24
Outstanding Fund Credit	6
Exports of Goods and Services (fiscal year 1985 est.)	3
Imports of Goods and Services (fiscal year 1985 est.)	2
Total External Arrears (March 1986 est.)	55

3. The most recent description of economic developments in Jamaica is contained in EBS/86/26 and Supplement 1, (2/3/86), which was discussed by the Executive Board on March 3, 1986. As was noted in EBS/86/26, in October 1985 the Government of Jamaica requested that the Fund, IBRD, and U.S. AID take a "fresh look" at the Jamaican adjustment program with the objective of achieving significantly higher growth rates. Shortly after this request was made, the Government acted to revalue the Jamaican dollar to J\$5.50 per U.S. dollar, following a period when it had depreciated from J\$5.95 per U.S. dollar at the end of September to a low of J\$6.40 per U.S. dollar on October 24. The Jamaican dollar has remained at J\$5.50 per U.S. dollar since that time.

A modification to the stand-by arrangement was approved by the Executive Board in March 1986 and revised targets were set for end-March. In view of the exchange rate action, the policy modifications included a further reduction in the limit on the fiscal deficit equivalent to almost 1 percent of GDP, an improvement in the financial surplus of a group of selected public entities, and a monetary policy that required a contraction in the money supply during the last quarter of the fiscal year. On the basis of these understandings, Jamaica made the drawings scheduled on the basis of end-September and end-December 1985 performance criteria. Further purchases under the arrangement depended upon Jamaica meeting performance criteria for end-March and reaching understandings on the policies to be pursued for the second year of the arrangement.

Preliminary data indicate that the end-March quantitative performance criterion on the net international reserves was missed by US\$23.1 million. Reserve liabilities included extended payment arrears of US\$34 million (none of which were to the IMF); this breached a performance criterion for the program. The ceiling on net domestic assets of the Bank of Jamaica was exceeded by J\$206 million (equivalent to 4.5 percent of banking system liabilities to the private sector at the beginning of the period), in part reflecting large losses of the

Bank of Jamaica, and the indicative limit on the monetary base was exceeded by J\$222 million. The final outturn on the Central Government budget remains to be clarified.

The preliminary balance of payments outturn for fiscal year 1985/86 shows that the current account deficit was US\$62 million or 3 percent of GDP higher than programmed. Exports were about US\$90 million lower than programmed and, although imports were US\$56 million below program, the growth in tourism was insufficient to compensate for the export shortfall and a fall in other service receipts. Total net capital inflows were larger than programmed by about US\$39 million, reflecting a US\$37 million adjusted shortfall in net official capital and a US\$76 million excess over program in shortterm capital, including errors and omissions. The Jamaican authorities ascribe the accumulation of arrears to the Fund to the shortfall in net official capital inflows that occurred in 1985/86.

The report of the Tripartite Mission, which was completed in April 1986, placed major emphasis on a progressive reduction in the overall public sector deficit to around 2 percent of GDP by the end of the decade and on a flexible exchange rate policy. The report also advocated the early adoption of further structural adjustment measures, including reforms to the trade, tariff, and financial systems, a phase-out of exchange controls, and divestment of a number of public enterprises. The Jamaican authorities have prepared a response to the tripartite mission report which questions the pace of adjustment recommended by the mission. The Jamaican authorities also have recently presented a Quantified Economic Program for 1986/87, which the staff is currently reviewing.

On May 1, 1986, the Government of Jamaica announced its budget for 1986/87, which included a planned doubling of capital outlays by the Central Government, and a rollback in prices of basic foods and electricity for domestic consumers. However, prices of gasoline and electricity to commercial users have been kept unchanged; therefore, there will be a significant fiscal windfall from the decline in international petroleum prices.

The Jamaican authorities have stated their commitment to settle Jamaica's arrears with the Fund. As noted above, they attribute the arrears to cash flow difficulties which they are now trying to remedy.

4. The situation of Jamaica's overdue obligations to the Fund may be summarized as follows. Jamaica has overdue obligations in the General Resources Account (repurchases and charges) and in the SDR Department (net charges). Jamaica has not complied with the Fund's requests for settlement of these obligations and has explained that the delays in settlement are due to cash flow problems. Overdue obligations in the General Resources Account and in the SDR Department not only are contrary to the member's obligations under the Articles of Agreement and the purposes of the Fund but also adversely affect a member's standing in

the Fund. Overdue obligations in the General Resources Account impair the revolving character and temporary use of the Fund's general resources, and hence the Fund's ability to assist other members, and prejudice the Fund's liquidity and credit standing. Jamaica's failure to meet its obligation in the SDR Department necessitates the creation of SDRs in order to pay in full interest due on SDRs held by participants in the SDR Department and may harm confidence in the proper functioning of the SDR Department. In the circumstances, the Fund must consider what actions are possible and what steps should be taken.

5. Under the Articles of Agreement, By-Laws, and Rules and Regulations of the Fund, a member that does not observe its obligations under the Articles of Agreement is subject to the application of remedies by the Fund that seek to protect the Fund's resources in the General Resources Account and to protect the rights of participants in the SDR Department. The Fund has a certain choice of remedies, and discretion in selecting the remedy appropriate to the circumstances. These various options, as outlined in papers for other members in similar circumstances, are set out in the Annex to this report.

6. In the past, in similar circumstances, the Fund has adopted decisions in accordance with 4(a)(ii) and 4(b)(ii) as set forth in the Annex, after having given full and adequate opportunity to the member to remedy the situation or state its case.

The following procedural actions need to be taken at this stage:

(i) The Managing Director must communicate to the Executive Board a report and complaints in accordance with Rule K-1 and Rule S-1. This requirement is met by the circulation of the present report and complaints (Attachment IV).

(ii) The Executive Board will need to decide whether to consider the complaints of the Managing Director. If it decides to do so, the Executive Board would formally note the complaints, determine that consideration of the complaints particularly affects Jamaica in the sense of Article XII, Section 3(j) and By-Law Section 19(a) and (c), and place the complaints on its agenda for a date that would afford reasonable notice to Jamaica. <sup>1/</sup> This would be accomplished by taking the decision proposed at the end of this paper.

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<sup>1/</sup> Article XII, Section 3(j) provides that:

"(j) The Board of Governors shall adopt regulations under which a member not entitled to appoint an Executive Director under (b) above may send a representative to attend any meeting of the Executive Board when a request made by, or a matter particularly affecting, that member is under consideration."

By-Law Section 19(a) and (c) provides that:

(iii) In accordance with this decision, Jamaica would be informed of the complaints, of the decision of the Executive Board, of its right to present its views through a representative, who may be the Executive Director elected by Jamaica if the member so desires, and of the invitation to do so at the meeting or meetings to be held on the matter. This would be done by the dispatch of the draft cable in Attachment V.

(iv) The Executive Board would decide on the action to be taken on the complaints at the meeting or meetings at which the complaints are considered. 2/

#### Proposed Decision

The following draft decision is proposed for adoption by the Executive Board:

1. The complaints of the Managing Director dated June 20, 1986 on Jamaica in EBS/86/134, June 20, 1986, are noted. They shall be placed on the agenda of the Executive Board for July 23, 1986.

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1/ (Cont'd from p. 4)

"(a) Each member not entitled to appoint an Executive Director in accordance with Article XII, Section 3(b)(i) may, in accordance with the regulations provided in this Section, send a representative to attend any meeting of the Executive Board when a request made by, or a matter particularly affecting, that member is under consideration. A member may waive its rights under this provision. The Executive Board shall determine whether a matter under consideration particularly affects a member not entitled to appoint an Executive Director in accordance with Article XII, Section 3(b)(i), which determination shall be final."

...

"(c) Whenever the Executive Board is to consider a matter which has been determined particularly to affect a member not entitled to appoint an Executive Director in accordance with Article XII, Section 3(b)(i), the member shall be promptly informed by rapid means of communication of the date set for its consideration. No final action shall be taken by the Executive Board with respect to such matter, nor any question particularly affecting such member submitted to the Board of Governors, until the member has either waived its rights under paragraph (a) of this Section or has been given an opportunity to present its views through an appropriately authorized representative at a meeting of the Executive Board, of which the member has had reasonable notice."

2/ Should Jamaica not wish to respond to the complaints, the Fund could proceed with their consideration in any event.

2. The Fund urges Jamaica to become current in its financial obligations to the Fund promptly and to avoid thereby the need for the Fund to take remedial action.

3. Consideration of the complaints in accordance with Rules K-1 and S-1 particularly affects Jamaica. The member shall be informed by rapid means of communication of this matter and of its right to present its views through an appropriately authorized representative.

Attachments (5)

Jamaica - Overdue Financial Obligations to the Fund

(June 16, 1986)

Type of Obligation	Date of Purchase	Due Date	Days Overdue	SDR Amount
<u>General Department</u>				
CT repurchase (balance)	04/16/81	04/15/86	63	2,058,802
CF repurchase	04/21/81	04/18/86	60	2,600,000
EF repurchase	10/15/82	04/22/86	56	4,675,000
EF repurchase	10/25/78	04/24/86	54	1,166,667
EF repurchase	04/27/79	04/24/86	54	1,166,667
EF repurchase	04/27/81	04/25/86	53	2,266,667
EF repurchase	04/27/81	04/25/86	53	2,200,000
EF repurchase	04/28/82	04/25/86	53	1,562,500
EF repurchase	04/29/82	04/28/86	50	3,125,000
EF repurchase	10/31/79	04/30/86	48	429,167
EF repurchase	10/31/79	04/30/86	48	1,981,250
EF repurchase	11/05/79	05/02/86	46	166,667
Quarterly charges	---	05/14/86	34	4,984,824
Special charges	---	05/28/86	20	19,490
CF repurchase	08/30/82	05/29/86	19	2,425,000
EF repurchase	06/14/79	06/13/86	4	<u>3,875,000</u>
Subtotal				34,702,701
<u>SDR Department</u>				
Net SDR Charges		05/01/86	47	581,148
Total				35,283,849



Jamaica - Fund Relations

(June 16, 1986)

I. Membership Status

- (a) Date of membership February 21, 1963  
(b) Status Article VIII

A. Financial Relations

II. General Department (as of May 30, 1986)

- (a) Quota: SDR 145.5 million  
(b) Total Fund holdings of Jamaica dollars: SDR 749.1 million or 514.8 percent of quota  
(c) Fund credit (i.e., Fund holdings of Jamaica dollars subject to repurchase and charges):

	Millions of SDRs	As Percent of Quota
Total Fund credit	603.50	414.8
Of which: Under tranche policy	513.75	353.1
Credit tranches	86.85	59.7
Extended facility	426.9	293.4
Ordinary resources	(119.32)	(82.0)
Supplementary financing	(122.48)	(84.2)
Enlarged access resources	(185.1)	(127.2)
Under CFF	89.75	61.7

- (d) Reserve tranche position: --

III. Current stand-by or extended arrangement and special facilities

- (a) Current stand-by arrangement:  
    (i) Duration: July 17, 1985 to May 31, 1987  
    (ii) Amount: SDR 115 million  
    (iii) Utilization: SDR 41.6 million  
    (iv) Undrawn balance: SDR 73.4 million  
(b) Stand-by and extended arrangements during the last ten years:

Type	Date	Duration	Amount (Millions of SDRs)	Drawings (Millions of SDRs)	(In percent of then quota)
Stand-by	6/01/73	1 year	26.5	26.5	50.0
Stand-by	8/11/77	2 years	64.0	19.2	25.9
EFF	6/09/78	3 years	200.0		
(augmented)	6/11/79		259.7	155.0	209.5
EFF	4/13/81	3 years	477.7	402.8	362.9
Stand-by	6/27/84	1 year	64.0	64.0	44.0

(c) Special facilities during the last 5 years:

CFF	4/13/81	SDR 37.0 million
CFF	8/25/82	SDR 19.4 million
CFF	6/26/84	SDR 72.6 million

IV. SDR Department

- (a) Net cumulative allocation: SDR 40.61 million
- (b) Holdings: SDR 0.0 million

V. Administered Accounts

(a) Trust Fund loans:	None
(b) SFF Subsidy Accounts:	Payments by Fund
August 10, 1982	SDR 4.67 million
September 29, 1983	SDR 3.33 million
July 20, 1984	SDR 3.07 million
Total	SDR 11.07 million

VI. Overdue Obligations to the Fund

Jamaica has frequently experienced difficulty in remaining current with the Fund during the past two years and has been overdue on payments for periods ranging from a few days to eight weeks. As of June 16, 1986, Jamaica's overdue obligations to the Fund totaled SDR 35.3 million and were on average 48 days overdue.

B. Nonfinancial Relations

VII. Exchange System

In November 1983, Jamaica adopted a unified floating rate within an adjustable exchange rate band. An auction mechanism to determine the rate was instituted in December 1983, and modified in March and November 1984.

VIII. Latest Article IV Consultation

March 1985, completed by the Executive Board on July 17, 1985 (standard 12-month cycle).

IX. Technical Assistance

CBD: Two CBD advisors were assigned to the Bank of Jamaica from April 1983 to November 1984. A CBD technical advisory team visited the Bank of Jamaica in April 1986.

X. Resident Representative

Mr. Daniel Citrin, since December 1, 1984

Jamaica - Overdue and Forthcoming Obligations  
as of June 16, 1986

(In millions of SDRs)

Type of Obligation	Outstanding as of June 16, 1986	Forthcoming 1/							Total 3/
		1986	2/ 1987	1988	1989	1990	1991	1992	
Repurchases	29.7	55.7	135.8	163.2	130.8	61.6	19.1	6.0	601.8
Quarterly charges 4/	5.0	10.2	18.3	13.7	7.4	3.2	1.4	0.9	60.1
Semiannual charges 4/	0.0	12.9	22.0	15.3	9.0	4.3	2.2	1.7	67.4
Net SDR charges	0.6	1.6	3.1	3.1	3.1	3.1	3.1	3.1	20.8
Total 3/	35.3	80.4	179.2	195.3	150.3	72.2	25.8	11.7	750.2

1/ On the basis of present use of Fund credit and Jamaica's present position in the SDR Department. Charges are projected on the basis of current rates of charge.

2/ Due after June 16, 1986.

3/ Totals may not add due to rounding.

4/ Forthcoming charges estimated on the assumption that overdue obligations are paid promptly; to the extent that obligations remain overdue, forthcoming charges would be higher.

To: Members of the Executive Board

June 20, 1986

From: The Managing Director

Subject: Jamaica - Overdue Financial Obligations to the Fund -  
Report and Complaints Under Rule K-1 and Rule S-1

1. A number of communications have been addressed by the International Monetary Fund to Jamaica, and contacts have taken place with the authorities of Jamaica concerning the nonobservance of certain obligations under the Articles of Agreement of the Fund. The communications and contacts have not resulted in a resumption of the observance of these obligations.

2. The following complaint is made in accordance with Rule K-1 of the Fund's Rules and Regulations. It appears to me that Jamaica is not fulfilling obligations under the Articles of Agreement relating to repurchases and the payment of charges in the General Resources Account. As of June 16, 1986 these obligations were as follows:

(a) To repurchase the equivalent of SDR 29,698,387 including:

(i) A balance equivalent to SDR 2,058,802 of a repurchase due April 15, 1986 in respect of a purchase made on April 16, 1981 in the credit tranches.

(ii) A repurchase equivalent to SDR 2,600,000 due April 18, 1986 in respect of a purchase made on April 21, 1981 under the Compensatory Financing Facility; and a repurchase equivalent to SDR 2,425,000 due May 29, 1986 in respect of a purchase made on August 30, 1982 under the Compensatory Financing Facility.

(iii) A repurchase equivalent to SDR 4,675,000 due April 22, 1986 in respect of a purchase made on October 15, 1982 under the Extended Fund Facility; a repurchase equivalent to SDR 1,166,667 due April 24, 1986 in respect of a purchase made on October 25, 1978 under the Extended Fund Facility; a repurchase equivalent to SDR 1,166,667 due April 24, 1986 in respect of a purchase made on April 27, 1979 under the Extended Fund Facility; a repurchase equivalent to SDR 2,266,667 due on April 25, 1986 in respect of a purchase made on April 27, 1981 under the Extended Fund Facility; a repurchase equivalent to SDR 2,200,00 due on April 25, 1986 in respect of a purchase made on April 27, 1981 under the Extended Fund Facility; a repurchase equivalent to SDR 1,562,500 due April 25, 1986 in respect of a purchase made on April 28, 1982 under the Extended Fund Facility; a repurchase equivalent to SDR 3,125,000 due on April 28, 1986 in respect of a purchase made on April 29, 1982 under the Extended

Fund Facility; a repurchase equivalent to SDR 429,167 due on April 30, 1986 in respect of a purchase made on October 31, 1979 under the Extended Fund Facility; a repurchase equivalent to SDR 1,981,250 due on April 30, 1986 in respect of a purchase made on October 31, 1979 under the Extended Fund Facility; a repurchase equivalent to 166,667 due on May 2, 1986 in respect of a purchase made on November 5, 1979 under the Extended Fund Facility; and a repurchase equivalent to SDR 3,875,000 in respect of a purchase made on June 14, 1979 under the Extended Fund Facility.

- (b) To pay quarterly charges of SDR 4,984,824 under Article V, Section 8(b) due May 14, 1986.
- (c) To pay special charges of SDR 19,490 due May 28, 1986 under Executive Board Decision No. 8165-(85/189)G/TR, December 30, 1985.

3. The following complaint is made in accordance with Rule S-1 of the Fund's Rules and Regulations. The complaint is that it appears to me that Jamaica is not fulfilling the obligation under Article XX, Section 2 of the Articles of Agreement, referred to in Rule S-1, to pay charges in the SDR Department. As of June 16, 1986 this obligation was to pay charges in the SDR Department of SDR 581,148 due May 1, 1986.

The Honorable E.P.G. Seaga  
Governor of the Fund  
Prime Minister and Minister of Finance  
and Planning  
Kingston, Jamaica

Dear Prime Minister:

I refer to the various communications of the International Monetary Fund to you concerning the nonobservance of obligations under the Articles of Agreement of the Fund.

I attach for your information the text of my memorandum of June 20, 1986 to the Executive Board setting forth the obligations under the Articles of Agreement of the International Monetary Fund that appear to me are not being observed by Jamaica.

The Executive Board has decided to place on its agenda for a meeting to be held on July 23, 1986 the complaints set forth in paragraphs 2 and 3 of my memorandum.

Consideration of the complaint in paragraph 2 of my memorandum could result in the declaration of ineligibility of Jamaica to use the general resources of the Fund under Article XXVI, Section 2(a) of the Articles of Agreement, or the limitation of Jamaica's use of the general resources of the Fund according to Rule K-2 of the Fund's Rules and Regulations.

Consideration of the complaint in paragraph 3 of my memorandum could result in the suspension under Article XXIII, Section 2 of the right of Jamaica to use SDRs that it may acquire after the suspension.

The Government of Jamaica is entitled under the Articles and By-Laws of the Fund, and therefore invited, to present its views, both orally and in writing, through an appropriately authorized representative at the meeting of the Executive Board referred to above, and at such subsequent meetings as the Executive Board may hold on this matter, at the Fund's headquarters in Washington, D.C. If you so desire, the Executive Director elected by Jamaica may represent Jamaica at any such meetings.

I am prepared to make arrangements at your request for the full briefing of your representative on all relevant matters.

J. de Larosiere  
Managing Director  
Interfund

Attachment

Legal Provisions for Members with Overdue Financial Obligations

1. Under the Articles of Agreement, By-Laws, and Rules and Regulations of the Fund, a member that does not observe its obligations under the Articles of Agreement is subject to the application of remedies by the Fund that seek to protect the Fund's resources in the General Department and the rights of participants in the SDR Department. The Fund has a certain choice of remedies, and discretion in selecting the remedy appropriate to the circumstances.

2. With respect to the General Department, the Fund should deal with (i) the outstanding use of the Fund's resources, including the accrual of charges, and (ii) the question of future access to the Fund's resources. Such action would be based on Article XXVI, Section 2, which provides that:

(a) If a member fails to fulfill any of its obligations under this Agreement, the Fund may declare the member ineligible to use the general resources of the Fund. Nothing in this Section shall be deemed to limit the provisions of Article V, Section 5 or Article VI, Section 1.

(b) If, after the expiration of a reasonable period the member persists in its failure to fulfill any of its obligations under this Agreement, that member may be required to withdraw from membership in the Fund by a decision of the Board of Governors carried by a majority of the Governors having eighty-five percent of the total voting power.

(c) Regulations shall be adopted to ensure that before action is taken against any member under (a) or (b) above, the member shall be informed in reasonable time of the complaint against it and given an adequate opportunity for stating its case, both orally and in writing.

Such action as indicated above with respect to Article XXVI, Section 2(a) has been taken to date and has taken effect in connection with a failure to fulfill financial obligations to the Fund in the cases of Viet Nam (Executive Board Decision No. 7855-(84/173), 12/3/84), Guyana (Executive Board Decision No. 7972-(85/73), 5/15/85), Liberia (Executive Board Decision No. 8134-(85/169) G/S/TR, 11/25/85), and Sudan (Executive Board Decision No. 8168-(86/1), 1/3/86).

In circumstances in which the Fund is authorized to declare the member ineligible to use the general resources of the Fund, it can and has taken a lesser action under Rule K-2, which provides that:

Whenever the Executive Board is authorized by the Articles to declare a member ineligible to use the general resources of the Fund it may refrain from making the declaration and indicate the circumstances under which, and the extent to which, the member may make use of the general resources.

3. With respect to the SDR Department, Rule S-1 provides that:

The Managing Director shall report to the Executive Board any facts on the basis of which it appears to him that a participant is not fulfilling obligations under the Articles that could lead to suspension under Article XXIII, Section 2, and may include a complaint in his report.

If a member holds no SDRs, net charges are overdue and continue to accrue, and the Fund must create SDRs to the extent of the nonpayment, it is appropriate to consider action under Article XXIII, Section 2(b), which provides that:

If the Fund finds that a participant has failed to fulfill any other obligation with respect to special drawing rights, the Fund may suspend the right of the participant to use special drawing rights it acquires after the suspension. 1/

4. Application of the Fund's Articles, Rules, and Procedures as set forth in paragraphs 2, 3, and 4 allows for the following actions.

(a) With respect to the General Department, the Fund has a choice of actions that it may take:

(i) the Fund could find that the member has not observed the relevant obligations under the Articles of Agreement referred to earlier, and declare the member ineligible to use the general resources of the Fund. This would mean that even if the member were to resume to fulfill these obligations under the Articles, its eligibility would not be restored automatically but a further decision of the Executive Board would be required, which could provide for the restoration of eligibility with or without special limitations or conditions, or

(ii) the Fund could find as in (i), but refrain from a declaration of ineligibility by adopting the course of limitation in accordance with Rule K-2, and decide that the member may not make use of the general resources of the Fund until such time as the member is

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1/ The reference to "any other obligation" is an indirect reference to the main obligation under Article XIX, Section 4 to provide currency in a transaction with designation, which is not involved here.



fulfilling its obligations under the Articles of Agreement other than obligations with respect to SDRs, or indicate the circumstances under which, and the extent to which, the member may make use of the general resources.

(b) With respect to the SDR Department, the Fund also has a choice of actions that it may take:

(i) the Fund could find that the member has not observed its obligation to which Article XXIII, Section 2(b) applies, and suspend the member's right to use SDRs it acquires after the suspension. This would mean that termination of the suspension would require a further decision by the Executive Board, which may be taken with or without special limitations or conditions, or

(ii) the Fund could find as in (i), but provide that the suspension will terminate when the member is fulfilling its obligation under the Articles to which Article XXIII, Section 2(b) applies.