

INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 86/76

10:00 a.m., May 6, 1986

J. de Larosière, Chairman  
R. D. Erb, Deputy Managing Director

Executive Directors

Alternate Executive Directors

C. H. Dallara

Mawakani Samba

M. K. Bush

H. G. Schneider

M. Finaish

H. Fujino

B. Goos

Huang F.

S. Ganjarerndee, Temporary

H. A. Arias

T. P. Lankester

M. Foot

H. Fugmann

M. Massé

L. Leonard

A. Abdallah

J. Abramovich

Y. A. Nimatallah

G. Ortiz

P. Pérez

S. de Forges

H. Ploix

J. de Beaufort Wijnholds

J. J. Polak

A. V. Romuáldez

R. Msadek, Temporary

A. K. Sengupta

A. S. Jayawardena

S. Zecchini

N. Kyriazidis

L. Van Houtven, Secretary

K. S. Friedman, Assistant

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Also Present

African Department: C. Enweze. Asian Department: W. G. L. Evers.  
Exchange and Trade Relations Department: M. Guitián, Deputy Director;  
A. Chopra, G. Oliveros. External Relations Department: H. O. Hartmann,  
H. P. Puentes. Fiscal Affairs Department: M. I. Blejer. Legal  
Department: F. P. Gianviti, Director; W. E. Holder, A. O. Liuksila,  
S. A. Silard, J. V. Surr. Middle Eastern Department: F. Drees,  
M. A. El-Erian, P. S. Griffith. Research Department: O. E. G. Johnson.  
Secretary's Department: A. P. Bhagwat, P. D. Péroz. Treasurer's  
Department: T. Leddy, Deputy Treasurer; D. Williams, Deputy Treasurer;  
D. Berthet, J. E. Blalock, J. C. Corr, D. Gupta, D. V. Pritchett. Western  
Hemisphere Department: E. Wiesner, Director; S. T. Beza, Associate  
Director; M. Caiola, H. M. Flickenschild, B. Fritz-Krocow, P. Kohnert.  
Personal Assistant to the Managing Director: M. R. G. Brown. Advisors  
to Executive Directors: A. A. Agah, W.-R. Bengs, M. B. Chatah, L. K. Doe,  
S. M. Hassan, G. D. Hodgson, J. Hospedales, A. Ouanes, P. Péterfalvy,  
I. Puro, D. C. Templeman, A. Vasudevan. Assistants to Executive Directors:  
H. Alaoui-Abdallaoui, B. Bogdanovic, J. de la Herrán, J. J. Dreizzen,  
W. N. Engert, S. Geadah, V. Govindarajan, L. Hubloue, Z. b. Ismail, S. King,  
H. Kobayashi, M. Lundsager, J. A. K. Munthali, J. K. Orleans-Lindsay,  
J. E. Rodríguez, V. Rousset, L. Tornetta, A. J. Tregilgas, H. van der Burg,  
E. L. Walker.

1. REPORT BY MANAGING DIRECTOR

The Managing Director said that during his recent visit to Costa Rica, he had met with the President and the President-elect as well as most of the Cabinet that was about to take office. The visit was remarkably organized and successful, and the authorities had shown that they keenly appreciated the assistance that had been provided by the Fund. The staff planned to work with the new Administration in the coming weeks to determine how the fruitful collaboration between the Fund and Costa Rica could best be continued.

2. PERU - OVERDUE FINANCIAL OBLIGATIONS - REVIEW OF DECISION ON COMPLAINT UNDER RULE K-1

The Executive Directors considered a staff paper on a further review of Decision No. 8200-(86/22) on a complaint under Rule K-1 with respect to Peru's overdue financial obligations in the General Department (EBS/86/79, Sup. 2, 5/5/86).

Mr. Abramovich said that the authorities wished to avoid having Peru be declared ineligible to use the Fund's resources. Accordingly, his authorities intended to pay the arrears to the Fund by August 15, 1986. In his telex of April 17, 1986 to the Prime Minister and the President of the Central Reserve Bank of Peru the Managing Director had mentioned that "Directors are sensitive to possible constraints on immediate full settlement. They will be prepared to refrain from a declaration of ineligibility on May 5, 1986 if the Peruvian authorities provided the Fund by that time with a firm assurance that Peru would become current with the Fund by mid-August 1986." Becoming current with the Fund by mid-August would entail a significant effort by Peru. The authorities were fully aware of the decision that the Executive Board had recently adopted reducing the charges that other poor countries had to pay for using the Fund's resources. The authorities hoped that Peru's commitment--taken in full exercise of Peru's national sovereignty--to eliminate its arrears to the Fund would help to reduce those charges further, and that that commitment would be seen by the industrial countries as meeting Peru's responsibility to those countries and as a clear message of Peru's desire to continue as a sovereign member in full standing of the international community in general, and of the Fund in particular.

Mr. Pérez recalled that during the previous discussion on Peru's overdue financial obligations to the Fund on April 14, 1986 the Executive Board had agreed to postpone taking a final decision for three weeks in the hope that the Peruvian authorities would make a clear statement of Peru's intention to eliminate its arrears before August 15, 1986. In his opening statement Mr. Abramovich had conveyed to the Executive Board the firm intention of the Government to become current in the Fund by the August 15, 1986 date that the Executive Board had stipulated. The authorities' commitment to repay the Fund was a very positive development in terms of the Fund's income position and the rate of charge that would be

applied in financial year 1987. The repayment by Peru would improve the Fund's liquidity position and make more resources available to help members facing external financing difficulties.

As his chair had stressed during the substantive consideration of Peru's arrears to the Fund, the Executive Board had shortened the period for the first review and had included in its decision the expectation that Peru could be declared ineligible to use the Fund's resources if the country were not current with the Fund in two months; that arrangement had represented a major departure from the established procedures for treating cases of overdue obligations, Mr. Pérez continued. The authorities' stated commitment to repay the Fund by August 15, 1986 had obviated the need to adopt the decision under which Peru would have been automatically ineligible to use the Fund's resources on that date, as the Executive Board had agreed three weeks previously. However, he was worried that the treatment of Peru's case might have established a precedent for dealing with future similar cases by sharply cutting the period in which members were able to become current in the Fund. Such an approach could introduce rigidities into the process of dealing with overdue obligations. The decision on Peru that was to be adopted at the present meeting should have an element of flexibility; any major problems concerning the case of Peru that might arise in coming months should be discussed by the Executive Board.

Mr. Arias said that Mr. Abramovich's opening statement was encouraging. The Peruvian authorities clearly intended to continue making payments to the Fund and clearly recognized the cooperative nature of the institution. The circumstances of Peru were difficult, but the authorities appreciated the need to alleviate the cost of the burden of adjustment on the poorest members. Given Peru's commitment to eliminate its arrears to the Fund, which was reflected in Peru's payment to the Fund on April 16, 1986, a further review of Peru's overdue obligations should take place no later than August 15, 1986.

Mr. Sengupta stated that he welcomed the authorities' bold decision to give the Fund assurance in full exercise of Peru's sovereignty that Peru would become current with the Fund by mid-August 1986. Given that declaration, the Fund could refrain from declaring Peru ineligible to use its resources. As Mr. Abramovich had stressed, Peru's commitment to repay the Fund would be costly to Peru and would create difficulties for the country. Peru's decision had been taken with the interest of the poorest members in mind, as the repayment of the arrears would contribute to the process of reducing the Fund's charges. His chair had consistently maintained that a declaration of ineligibility was an extreme step that the Executive Board should try to avoid. Moreover, the Fund should try to help members to become current by understanding the problems facing members with overdue obligations and by assisting the members concerned in solving their payments problems. Peru's decision to repay the Fund confirmed the correctness of that approach.

Mr. Dallara said that he too welcomed Mr. Abramovich's opening statement, especially the firm assurance that his authorities intended to become current in their obligations to the Fund by August 15, 1986. Mr. Abramovich's statement had provided assurance that the problem of Peru's arrears could be solved without a declaration of ineligibility. Accordingly, he could accept a decision at the present meeting that would be consistent with the understandings that the Executive Board had reached during its previous discussion on Peru's overdue obligations.

Mr. Lankester commented that he welcomed Mr. Abramovich's statement that Peru intended to eliminate all its arrears to the Fund by August 15, 1986. He hoped that the repayment would enable the Fund and the rest of the international financial community to help Peru to deal with its severe adjustment problems. The decision that the Executive Board adopted at the present meeting should be consistent with the conclusions that it had reached during the discussion on Peru's arrears on April 14, 1986.

Mr. Massé remarked that Mr. Abramovich's statement constituted a significant change in the attitude of the Peruvian Government toward its relations with the Fund. The statement was welcome; it was most important for Peru to remain an active participant in the international monetary system. Given the existing political conditions in Peru, the authorities' decision to repay the Fund was courageous as well as correct. Given the authorities' firm commitment to repay all the arrears by August 15, 1986, the decision adopted at the present meeting should be consistent with the understandings that had been reached on April 16, 1986.

Mr. Nimatallah remarked that Peru had maintained contact with the Fund during the period of its overdue financial obligations to the institution. In addition, the authorities had introduced effective adjustment measures and had made occasional payments to the Fund. Most important, the authorities had declared their intention to settle all their overdue financial obligations to the Fund by August 15, 1986. The positive steps that the authorities had taken were welcome, and the authorities should be encouraged to continue their economic reforms in order to place the economy on a path of sustainable growth.

Mr. Fujino stated that he too welcomed the assurance that Mr. Abramovich had given with respect to the authorities' intention to repay the Fund by August 15, 1986. Meeting that commitment would require a significant effort by the authorities. He hoped that the Fund would be able to assist Peru in its efforts to formulate and implement policies designed to achieve economic growth and structural reform. As previous speakers had suggested, the decision adopted at the present meeting should be consistent with the understandings reached by the Executive Board during the discussion in April on Peru's overdue obligations.

Mr. Huang said that he welcomed the recent payment by the Peruvian authorities and their intention to cooperate with the Fund as reflected in Mr. Abramovich's opening statement. He hoped that Peru would continue

to be an active member of the Fund, and he supported the suggestion by previous speakers concerning the decision that should be adopted at the present meeting.

Mr. Goos remarked that he too welcomed the firm assurance that Mr. Abramovich had given regarding the intention of the authorities to eliminate their arrears to the Fund. The elimination of the arrears would normalize the Fund's relations with Peru and would be a step toward lowering the rate of charge that would be paid by members that used the Fund's resources. Eliminating its arrears to the Fund would also help Peru to deal with the problems facing its economy. He agreed with previous speakers on the decision that should be adopted at the present meeting.

Mr. Zecchini said that the assurance that the authorities had given with respect to their intention to eliminate their arrears to the Fund by August 15, 1986 was encouraging. He recognized that the effort to eliminate the arrears would cause considerable difficulty for the authorities. He hoped that Mr. Abramovich's opening statement was the first sign of a new phase of cooperation between Peru and the Fund that would help Peru to solve its economic and financial problems. The decision on Peru at the present meeting should be consistent with the understandings that were reached during the previous discussion on Peru. If necessary, the subject of Peru's overdue financial obligations to the Fund could be brought to the Executive Board's agenda before August 15, 1986.

Mr. Polak commented that he too was pleased that the authorities had responded positively to the offer that the Executive Board had made to them following the previous discussion on Peru, and that the country had decided to resume its rightful place in the Fund. As Mr. Abramovich had stressed, Peru's action would help to reduce the charges that other poor members would have to pay. He looked forward to the resumption of close cooperation between the Fund and Peru in nonfinancial areas; such cooperation could be beneficial for Peru. The decision adopted at the present meeting should express the expectation that, unless Peru repaid the Fund on August 15, 1986, Peru would become ineligible to use the Fund's resources; however, the text of the decision should not imply in any way that the Executive Board lacked confidence in the authorities' commitment to repay the Fund.

Mr. Romuáldez said that he welcomed Mr. Abramovich's opening statement and the authorities' appreciation of the effect of arrears of one country on other members that used the Fund's resources. The authorities were to be commended for their expression of solidarity with the membership in general and with other users of Fund resources in particular. Meeting the commitment to repay the Fund by August 15, 1986 would entail sacrifices by Peru. The decision on Peru adopted at the present meeting should be consistent with the understandings that were reached by the Executive Board on April 16, 1986.

Mrs. Ploix remarked that she welcomed Mr. Abramovich's opening statement. The decision on Peru adopted at the present meeting should be consistent with the understandings that had been reached on April 16, 1986.

Mr. Finaish remarked that he too welcomed the assurance that had been given by Mr. Abramovich that Peru would become current in the Fund by August 15, 1986.

The Director of the Legal Department suggested that the first paragraph of the decision on Peru's overdue financial obligations could read:

The Fund has reviewed the matter of Peru's overdue financial obligations to the Fund in the General Resources Account in the light of Decision No. 8200-(86/22), adopted February 10, 1986, and the facts described in EBS/86/79 (4/11/86), Supplement 1 (4/23/86), and Supplement 2 (5/5/86).

The second paragraph could state that: "the Fund welcomes the payments made by Peru and the assurance of the Peruvian authorities communicated to the Fund on May 6, 1986 to become current with the Fund by August 15, 1986." If the third paragraph were to be drafted on the basis of the understandings that had been reached during the previous discussion on Peru, it could read: "Unless by August 15, 1986 Peru is current in its financial obligations to the Fund in the General Resources Account, with effect on that date Peru will be ineligible to use the general resources of the Fund."

The Chairman remarked that the third paragraph should perhaps have a more positive tone in reflection of the positive statements that Executive Directors had made at the present meeting. Accordingly, the third paragraph could include a reference to the understandings that had been reached by the Executive Board on April 14, 1986.

Mr. Abramovich said that in drafting the decision it was important for Executive Directors to bear in mind that the authorities had made a firm commitment to repay the Fund fully by August 15, 1986. However, the decision should contain an element of flexibility in the event that the authorities were unable to meet that commitment fully because of an unforeseen natural disaster. The payment would be in full if all the economic and social variables that were valid at present remained the same on August 15. The decision should provide for a further review of Peru's case prior to August 15, 1986 in the event that unforeseen circumstances made it impossible for Peru to eliminate all of its arrears by August 15, 1986.

Mr. Nimatallah stated that he agreed with Mr. Abramovich that the text of the decision should provide for an element of flexibility. He was confident that the authorities would meet their commitment, but the text should provide for a further discussion by the Executive Board on Peru's overdue financial obligations in the light of any circumstances that might result in a delay in a portion of Peru's repayment to the Fund.

Mr. Arias remarked that, in order to provide some flexibility in the decision, the text could stipulate that the Executive Board intended to review Peru's case further by August 15, 1986.

The Chairman commented that a provision for a further review of Peru's case on August 15, 1986 would be consistent with the understandings that the Executive Board had reached on April 14, 1986. It might be helpful to refer to those understandings in the draft decision. The text could say that it was on the basis of those understandings that the Executive Board had deferred declaring Peru ineligible to use the Fund's resources and that the question of Peru's overdue obligations would be reviewed again on August 15, 1986.

Mr. Dallara said that he understood the wish to avoid conveying a negative reaction in the decision to the positive commitment of the authorities to eliminate their arrears to the Fund by August 15, 1986. As Mr. Abramovich had mentioned, natural disasters and other unforeseen developments could keep the authorities from meeting their firm intention to repay the Fund, and he himself was confident that, in the event of such developments, the Executive Board would bring the matter of Peru's overdue obligations back to its agenda. His authorities had assumed that the decision adopted at the present meeting would be fully consistent with the understandings that had been reached on April 14, 1986, under which Peru would automatically become ineligible to use the Fund's resources if it were not current in the Fund by mid-August 1986. Accordingly, there would be no need to hold a further review of Peru's overdue obligations to the Fund on August 15, 1986.

Mr. Sengupta considered that the approach that the Chairman had suggested was appropriate. In his cable to the Peruvian authorities after the April 14, 1986 discussion on Peru, the Chairman had clearly stated that the Executive Board would refrain from declaring Peru ineligible to use the Fund's resources if the authorities provided assurance that they would eliminate their overdue financial obligations to the Fund by mid-August 1986. In that communication to the authorities it had been presumed--and not explicitly stated--that if, despite the assurance that the authorities had given, Peru did not fully repay the Fund by mid-August 1986, Peru would automatically become ineligible to use the Fund's resources. The Executive Board should hold a further review of Peru's arrears on August 15, 1986. On that occasion, a declaration of ineligibility could be made if Peru were not current in the Fund. Agreeing at the present stage to hold a further review on that date would show that the Fund was willing to consider any problems that the authorities might encounter in the period prior to mid-August 1986. There was every reason to believe that the arrears to the Fund would be eliminated by that time, but scheduling a review at the present stage would be a helpful gesture by the Fund and would be an appropriate response to the authorities' positive commitment to repay the Fund.

Mr. Zecchini said that, in the light of the statement by Mr. Abramovich on the commitment of the Peruvian authorities, the Executive Board should

show some flexibility in the decision on Peru's overdue financial obligations. At the same time, the Executive Board should not depart from its established procedures and practices. The Chairman usefully suggested that the third paragraph of the decision should mention the assurance that the authorities had given and the efforts that they were making to repay the Fund. The text could then say that the Fund was therefore prepared to refrain from a declaration of ineligibility on August 15, 1986 if Peru was current by that date.

Mr. Dallara commented that the approach that was favored by the Chairman and Mr. Zecchini was problematic because it implied a further review of Peru's overdue financial obligations on August 15, 1986 if necessary. There was every reason to believe that such a review would not be required; indeed, the overdue obligations might be eliminated before August 15, 1986. The proposal to hold a further review on August 15, 1986 seemed to be inconsistent with the understanding that had been reached, namely, that a declaration of ineligibility would be made automatically if Peru were not current in its obligations to the Fund on August 15, 1986; the Chairman's proposal seemed to avoid the automaticity that had been explicitly agreed previously. An agreement at the present stage that the Executive Board would merely review Peru's arrears on August 15, 1986 was substantively different from an agreement at the present stage that it was expected that Peru would be declared ineligible to use the Fund's resources if it were not current in its obligations to the Fund by August 15, 1986. Peru's commitment to repay the Fund was obviously a positive development, but he would not wish to schedule a further review at the present stage.

Mr. Zecchini said that Mr. Dallara's point was well taken. The flexibility that he himself wished to introduce would be in form--affecting the text of the decision--rather than in substance. His proposal would not provide for an automatic review of Peru's case but would merely leave room for the possibility that the authorities might request the Executive Board to discuss Peru's overdue financial obligations on or before August 15, 1986 in the event of unforeseen developments.

The Chairman remarked that the aim of the understandings that had been reached on April 14, 1986 had been to encourage the authorities to provide assurance that they would fully repay the Fund by mid-August 1986. The authorities had in fact given such assurance in Mr. Abramovich's opening statement at the present meeting. The positive atmosphere that had been created by that statement of assurance might be diminished if the Executive Board were to respond by stating that Peru would automatically become ineligible to use the Fund's resources if the country were not fully current in the Fund by mid-August 1986. Instead, the decision on Peru adopted at the present meeting could reaffirm the understandings that had been reached on April 14, 1986, under which the Executive Board had deferred temporarily a declaration of ineligibility of Peru. The decision at the present meeting should stress that, in the light of the present discussion, the Executive Board assumed that the issue of Peru's arrears would be resolved by August 15, 1986.

Mr. Dallara suggested that the second paragraph of the decision could begin with a statement reaffirming the understandings that had been reached on April 14, 1986, including the understanding that the Executive Board would defer temporarily the declaration of ineligibility if the authorities provided the Fund by May 5, 1986 with a firm assurance that they would become current in the Fund by August 15, 1986. The rest of the text could include the positive statements that had been proposed by the Chairman.

Mr. Arias suggested that the decision could include the following statement: "The Fund shall review further its decision not later than August 15, 1986 taking into account further developments. It is expected that the decision to declare Peru ineligible will be taken with effect on the date of the review in the absence of full settlement of Peru's overdue financial obligations to the Fund."

Mr. Goos said that the Executive Board should adhere to its previous understandings regarding Peru, under which the country would automatically become ineligible to use the Fund's resources if it did not eliminate all its arrears by August 15, 1986. It would also be understood that, in the case of Peru, as in other cases, the Executive Board would reconsider the case in the event of unexpected developments. The Chairman's proposed text was attractive, although it was not fully clear to him whether it embodied the necessary automaticity with respect to the declaration of ineligibility. Mr. Arias's proposal was not acceptable because it did not provide for the necessary automaticity.

Mr. Massé remarked that the decision could read in part: "The Executive Board decides to adhere to the understandings reached at its meeting on April 14, 1986 as set out in the Managing Director's telex to Peru of April 17, 1986. The Board therefore will allow Peru until August 15, 1986 to eliminate its overdue financial obligations to the Fund."

Mr. Polak said that he would prefer not to refer specifically to the cable that had been sent to the authorities after the April 14, 1986 discussion on Peru. The final sentence of the second paragraph of that telex was unclear. It read: "They would be prepared to refrain from a declaration of ineligibility on May 5, 1986." As he understood it, the text meant that the Executive Board would be prepared to refrain from a declaration of ineligibility as of--rather than on--May 5, 1986.

Mr. Lankester said that he too preferred not to refer to the cable, as it did not mention the understanding that had been reached on April 14, 1986 that in the absence of full payment of the arrears by August 15, 1986, Peru would automatically be ineligible to use the Fund's resources as of that date. He understood the need to use tactful language in the decision that was to be adopted at the present meeting, but that decision should not constitute any substantive change in established practices and procedures. The new decision should mention the understandings that had been reached on April 14, 1986. If unforeseen developments made it impossible for Peru to repay the Fund by August 15, 1986, it would always be

possible for an Executive Director to call for a review of the situation, but the decision adopted at the present meeting should not contain any reference to a further review.

Mr. Dallara remarked that he would be willing to accept a text that contained a basic reaffirmation of the understandings that had been reached on April 14, 1986, provided that it was understood that, in the absence of full settlement of Peru's arrears to the Fund by mid-August 1986, Peru would automatically be declared ineligible to use the Fund's resources; there would be no need for an Executive Board meeting or a further review in order to make such a declaration. There would be no need to spell out that automaticity explicitly in the decision.

Mr. Sengupta said that he preferred to include a reference in the decision to the cable that had been sent on April 17, 1986. The language of the text was prudent and tactful. The reference to automaticity in the text was implicit. The first paragraph of the telex had mentioned that the Executive Board had deferred temporarily taking a decision pursuant to its earlier expectation that Peru would be declared ineligible to use the Fund's resources if the country were not current in the Fund by April 16, 1986. The second paragraph had explained that the Executive Board intended to return to the matter of Peru's arrears on May 5, 1986, and that the Executive Directors would be prepared to refrain from a declaration of ineligibility on that date if the authorities had provided the Fund by that time with a firm assurance that Peru would become current with the Fund by mid-August 1986. The indication was that if the authorities had failed to provide the assurance, the Executive Board would have decided at the present meeting to declare Peru ineligible to use the Fund's resources. The tone of the cable of April 17, 1986 was conciliatory, and the same tone should be evident in the decision that was adopted at the present meeting.

Mr. Abramovich remarked that the text of the decision should be clear, leaving no room for misinterpretation, and the tone of the text should be consistent with the positive nature of the authorities' commitment to repay the Fund by mid-August 1986. The language of the decision should be firm, if the Executive Directors wished it to be so, but the tone of the decision should reflect the ongoing cooperation between the Fund and the Peruvian authorities.

The Executive Directors agreed to adjourn for one hour in order to give the staff time to draft and circulate a proposed decision.

Upon reconvening the Chairman observed that the proposed decision would not change the substance of the understandings that had been reached on April 14, 1986 and that had been reaffirmed at the present meeting. In addition, the proposed text expressed the Executive Board's appreciation for the assurance of the Peruvian authorities that had been communicated through Mr. Abramovich and indicated that the Executive Board would meet

on August 15, 1986 to discuss Peru's situation. A meeting on August 15, 1986 was not strictly required, but Mr. Abramovich had said that he attached importance to holding a discussion on that date.

Mr. Abramovich said that he had requested the inclusion of a statement in the draft decision to the effect that the Executive Board would meet on August 15, 1986 because meeting the commitment to repay the Fund by mid-August 1986 would require a major effort by Peru, and the Executive Board meeting on August 15, 1986 would be seen by the authorities as an acknowledgment of the efforts that the Government and the Peruvian people had made.

The staff representative from the Treasurer's Department, responding to a question, recalled that on occasions in the past there had been a request by a member to have the Executive Board meet following a successful effort by the country concerned to become current with the Fund.

Mr. Dallara said that he had no objection to agreeing to hold a meeting on August 15, 1986. As he understood it, the meeting would be held as a courtesy to the Peruvian authorities and not to reach any decision of substance.

Mr. Nimatallah commented that Mr. Abramovich's opening statement had reflected the important fact that a member in arrears to the Fund should bear in mind that the arrears hurt not only the country concerned, but also other members by leading to an increase in charges.

The Chairman said that Mr. Nimatallah's point was well taken. During the recent discussion on the rate of charge, a number of Directors had said that they had been inclined to favor an increase in the rate because of Peru's overdue obligations. He hoped that the elimination of Peru's arrears would be borne in mind during the next review of the rate of charge.

Mr. Dallara remarked that he too believed that Mr. Nimatallah's point was well taken. Peru's overdue charges had been registered by the Fund as deferred income. That fact underscored the positive effects of the elimination of overdue obligations to the Fund and the need for members to act to do so as quickly as possible.

Mr. Nimatallah said that extra efforts by members in arrears to eliminate their overdue obligations to the Fund would have a positive effect on the discussions on the Ninth General Review of Quotas. Elimination of arrears to the Fund also might have a significant effect on conditionality; he hoped that the Executive Board would not have to tighten conditions on the use of Fund resources in order to make certain that members would be able to repay the Fund.

Mr. Goos commented that he agreed with Mr. Nimatallah. He was somewhat worried about the tendency in recent months for Executive Directors to suggest changes in draft decisions on members' overdue financial

obligations that seemed to weaken those decisions. He hoped that in the future such changes in decisions would be kept to the minimum. Some creditor countries might be reluctant to take on a greater share of the burden in meeting the Fund's income target if the effectiveness of the Fund's procedures for dealing with cases of arrears was undermined by prolonging the review process, thereby prolonging the period in which financial obligations to the Fund remained overdue.

Mr. Nimatallah said that it was important to bear in mind the specific circumstances of each case of arrears. A member that maintained contact with the Fund and was attempting to introduce policies that would solve its problems and enable it to repay the Fund should be treated differently from a country that was not making such an effort. The Executive Board should not be locked into specific procedures that prevented it from responding flexibly in certain cases. Changes in draft decisions in recent cases reflected the effort by the Executive Board to respond in a flexible manner; they did not constitute a relaxation of the Fund's efforts to encourage members to eliminate their overdue financial obligations. The Fund must maintain a pragmatic attitude toward cases of arrears. It had been unfortunate that the Fund had had to declare Sudan ineligible to use the Fund's resources. That decision had clearly had a negative effect on the Sudanese authorities' attitude toward the Fund. The Executive Board should continue to respond in a flexible and pragmatic manner to a member with arrears that maintained contact with the Fund and was making an effort to solve its problems so that it could repay the Fund. In general, the Executive Board was moving in the right direction in its treatment of cases of arrears. The Board was learning from its experience with those cases.

Mr. Abramovich stated that he agreed with Mr. Nimatallah.

Mr. Dallara said that he was worried that the words "would become ineligible" toward the end of paragraph 2 of the draft decision might not clearly express the idea that Peru would automatically become ineligible on August 15, 1986 to use the Fund's resources if it were not current in its financial obligations to the Fund. His concern was underscored when draft paragraphs 2 and 4 were considered together.

The Director of the Legal Department noted that draft paragraph 2 was a factual statement recalling understandings that had been reached on April 14, 1986. Paragraph 4 referred to the implementation of the understandings that had been reached on August 15, 1986; that implementation would not require further action by the Executive Board.

Mr. Dallara remarked that draft paragraphs 2 and 4 would be acceptable if paragraph 4 contained a reference to paragraph 2, and especially the portion of paragraph 2 that described the understanding that unless by August 15, 1986 Peru was current in its financial obligations to the Fund, Peru would become ineligible on that date to use the general resources of the Fund.

Mr. Abramovich suggested that the words "in full exercise of its national sovereignty" should be added to paragraph 3 of the draft decision.

Mr. Nimatallah said that he doubted whether the additional words that Mr. Abramovich suggested were needed. The idea that they conveyed was implicitly understood.

Mr. Dallara commented that, while he agreed with Mr. Nimatallah that the idea was implicitly understood, he could accept Mr. Abramovich's proposed change if Mr. Abramovich thought that would be helpful.

Mr. Zecchini remarked that paragraph 3 should clearly show that the Fund appreciated not only the efforts that the authorities had already made to repay the Fund but also the efforts that the authorities were still making to eliminate all the remaining arrears.

Mr. Nimatallah suggested that the word "unless" at the beginning of paragraph 4 should be replaced by "if" to make the text somewhat milder in tone.

Mr. Dallara stated that he had no difficulty in accepting paragraph 5 of the draft decision, provided that the meeting on August 15, 1986 would be held as a courtesy to the Peruvian authorities and would not constitute a substantive review.

Mr. Abramovich, responding to a question, said that he would like the Executive Board to hold a meeting on August 15, 1986 whether or not Peru had actually eliminated all its arrears to the Fund by that date.

Mr. Nimatallah suggested that the text of paragraph 5 should read: "The Executive Board will meet on August 15, 1986 at the request of the Peruvian authorities." That text would provide for the possibility that the Peruvian authorities might decide that a meeting of the Executive Board on August 15, 1986 to discuss Peru would be unnecessary.

Mr. Lankester said that he wondered what kind of publicity was to be given to the decision. Whether or not the decision was published by the Fund, it would eventually come to the attention of the public. He was willing to see the Fund publicize the decision in a manner that would help the Peruvian authorities.

The Chairman remarked that the Fund usually did not make public statements on such matters. Given the importance of the case of Peru and the attention that it had already attracted, there would of course be many questions by the public about the case.

Mr. Pérez considered that the Executive Board should adhere to its established procedures concerning publicity. Accordingly, he preferred to avoid any kind of publicity of the decision on Peru at the present stage.

Mr. Dallara remarked that he had no strong feelings on the matter. However, following previous Executive Board discussions on Peru's overdue financial obligations information had been inappropriately provided to the public and the Fund had been forced to respond to it. He wondered what Mr. Abramovich's preference was with respect to publicity.

Mr. Nimatallah said that he, too, wondered whether Mr. Abramovich would not wish to publicize the decision. It might be important for Peru to inform the world that smooth relations between the Fund and Peru had been restored, and that Peru had not been declared ineligible to use the Fund's resources.

Mr. Abramovich noted that the authorities were still in the process of mobilizing national opinion in favor of their intention to repay the Fund fully by mid-August 1986. A limited announcement informing the press that Peru had not been declared ineligible to use the Fund's resources would be sufficient. The Fund should avoid making any detailed statement.

The Chairman said that he agreed that the Fund should avoid making any detailed statement. The Fund could answer inquiries by saying that a declaration of ineligibility had not been made at the present meeting and that the process that had been developed on the basis of the understandings reached on April 14, 1986 was advancing. Journalists making more detailed inquiries could be referred to the office of Mr. Nebbia and Mr. Abramovich.

The Executive Board then took the following decision:

1. The Fund has reviewed the matter of Peru's overdue financial obligations to the Fund in the General Resources Account in the light of Decision No. 8200-(86/22), adopted February 10, 1986, and the facts described in EBS/86/79 (4/11/86), Supplement 1 (4/23/86), and Supplement 2 (5/5/86).

2. The Fund recalls the understandings reached by the Executive Board on April 14, 1986 (i) to defer temporarily the declaration of ineligibility pursuant to its earlier expectation if the Peruvian authorities provided the Fund by May 5, 1986 with a firm assurance that Peru would become current with the Fund by August 15, 1986, and (ii) that unless by August 15, 1986 Peru was current in its financial obligations with the Fund in the General Resources Account, Peru would become ineligible on that date, pursuant to Article XXVI, Section 2(a), to use the general resources of the Fund.

3. The Fund welcomes the payments made by Peru and the assurance of the Peruvian authorities communicated to the Fund on May 6, 1986 to become current with the Fund by August 15, 1986, and warmly appreciates the efforts being made by Peru in this manner in full exercise of its national sovereignty.

4. If by August 15, 1986 Peru is not current in its financial obligations to the Fund in the General Resources Account, the understandings referred to in paragraph 2(ii) will take effect.

5. The Executive Board will meet on August 15, 1986 at the request of the Peruvian authorities.

Decision No. 8276-(86/76), adopted  
May 6, 1986

DECISIONS TAKEN SINCE PREVIOUS BOARD MEETING

The following decisions were adopted by the Executive Board without meeting in the period between EBM/86/75 (5/2/86) and EBM/86/76 (5/6/86).

3. ZAMBIA - TECHNICAL ASSISTANCE

In response to a request from the Bank of Zambia for technical assistance in the central banking field, the Executive Board approves the proposal set forth in EBD/86/128 (4/29/86).

Adopted May 2, 1986

4. APPROVAL OF MINUTES

a. The minutes of Executive Board Meetings 85/115 through 85/118 are approved. (EBD/86/125, 4/28/86)

Adopted May 2, 1986

b. The minutes of Executive Board Meetings 85/119 through 85/121 are approved. (EBD/86/127, 4/29/86)

Adopted May 5, 1986

5. EXECUTIVE BOARD TRAVEL

Travel by an Assistant to Executive Director as set forth in EBAP/86/102 (4/30/86) is approved.

APPROVED: January 22, 1987

LEO VAN HOUTVEN  
Secretary

