

MASTER FILES

ROOM C-130

D4

INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 86/62

3:00 p.m., April 14, 1986

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

Executive Directors

A. Alfidja  
C. H. Dallara  
  
H. Fujino  
G. Grosche  
  
J. E. Ismael  
A. Kafka  
T. P. Lankester  
  
M. Massé  
E. I. M. Mtei  
F. L. Nebbia  
  
P. Pérez  
H. Ploix  
J. J. Polak  
  
G. Salehkhoul  
  
S. Zecchini

Alternate Executive Directors

M. K. Bush  
H. G. Schneider  
T. Alhaimus  
M. Sugita  
B. Goos  
Jiang H.  
  
H. A. Arias  
M. Foot  
H. Fugmann  
G. D. Hodgson, Temporary  
A. Abdallah  
J. Abramovich  
C. A. Salinas, Temporary  
J. E. Suraisry  
C. Ortiz  
S. de Forges  
J. de Beaufort Wijnholds  
A. V. Romuáldez  
O. Kabbaj  
A. Vasudevan, Temporary

L. Van Houtven, Secretary  
S. L. Yeager, Assistant  
R. S. Franklin, Assistant

1. Administrative Budget, FY 1987 . . . . . Page 3
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Decision on Complaint Under Rule K-1 . . . . . Page 4

Also Present

Administration Department: G. F. Rea, Director; H. J. O. Struckmeyer, Deputy Director; C. Ahl, D. S. Cutler, A. D. Goltz, J. H. Huddleston, N. S. Jackson, J. B. Kaiser, P. J. McClellan, P. D. Swain, H. Wiesner, L. A. Wolfe. Exchange and Trade Relations Department: M. Guitián, Deputy Director; G. Oliveros. External Relations Department: H. O. Hartmann, H. P. Puentes. Fiscal Affairs Department: M. I. Blejer. Legal Department: F. P. Gianviti, Director; J. G. Evans, Jr., Deputy General Counsel; S. A. Silard. Middle Eastern Department: P. Chabrier, Deputy Director. Secretary's Department: A. P. Bhagwat. Treasurer's Department: T. Leddy, Deputy Treasurer; D. Williams, Deputy Treasurer; D. Berthet, J. E. Blalock, J. C. Corr, D. Gupta, M. F. Melhem. Western Hemisphere Department: E. Wiesner, Director; S. T. Beza, Associate Director; P. D. Brenner, M. Caiola, J. Ferrán, H. M. Flickenschild, J. Jaramillo-Vallejo, P. Kohnert, J. E. Leimone, C. M. Loser, F. van Beek. Internal Auditor: R. Noë. Personal Assistant to the Managing Director: R. M. G. Brown. Advisors to Executive Directors: A. A. Agah, W. R. Bengs, M. B. Chatah, L. K. Doe, L. P. Ebrill, J. Hospedales, A. Ouanes, P. Péterfalvy, D. C. Templeman, M. A. Weitz. Assistants to Executive Directors: H. Alaoui-Abdallaoui, B. Bogdanovic, J. de la Herrán, F. Di Mauro, J. J. Dreizzen, W. N. Engert, R. Fox, L. Hubloue, J. M. Jones, M. Lundsager, J. E. Rodríguez, S. Simonsen, L. Tornetta, A. J. Tregilgas, H. van der Burg, E. L. Walker.

1. ADMINISTRATIVE BUDGET - FY 1987

The Executive Directors, meeting in restricted session, continued from the previous meeting (EBM/86/61, 4/14/86) their consideration of the proposed administrative budget for financial year 1987 (EBAP/86/75, 4/1/86; and Sup. 1, 4/10/86), together with supplementary background information on the nationality distribution of Fund staff (EBAP/86/85, 4/9/86) and on Executive Board and other meetings of Executive Directors during calendar year 1985 (Sec. Cir. 86/42, 4/11/86).

At the conclusion of the discussion, the Executive Board approved the following decisions:

a. Assessment Under Article XX, Section 4, FY 1986

Pursuant to Article XVI, Section 2, and Article XX, Section 4, of the Articles of Agreement, and Rule T-2 of the Fund's Rules and Regulations, it is decided that:

(i) The General Department shall be reimbursed for the expenses of conducting the business of the Special Drawing Rights Department for the period from May 1, 1985 to April 30, 1986, and

(ii) An assessment shall be levied on all participants in the Special Drawing Rights Department. The special drawing rights holdings accounts of participants shall be debited on April 30, 1986 with an amount equal to 0.0172628 percent of their net cumulative allocations of special drawing rights. The total assessment shall be paid into the General Department.

Adopted April 14, 1986

b. Budget Estimates, FY 1987

1. Appropriations for the financial year 1987 are approved in total amount of \$242,840,000. The amount will apply to the various categories of expense as follows:

I. PERSONNEL EXPENSES

A - Salaries	\$99,210,000
B - Other Personnel Expenses	64,990,000

II. TRAVEL EXPENSES

C - Business Travel	13,800,000
D - Other Travel	12,020,000

## III. OTHER ADMINISTRATIVE EXPENSES

E - Communications	5,505,000
F - Building Occupancy	15,340,000
G - Books and Printing	2,110,000
H - Supplies and Equipment	4,570,000
I - Data Processing	19,330,000
J - Miscellaneous	<u>5,965,000</u>
	\$242,840,000
	=====

2. Commitments may be made for each lettered Category A-J up to the amount indicated above. Any commitment going beyond the total approved for each category will be submitted to the Executive Board for approval.

3. The total staff ceiling of 1,688 and its distribution by departments, bureaus, and offices as set forth in the budget on page 55 are approved and shall not be exceeded without prior approval of the Executive Board.

Adopted April 14, 1986

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

The Executive Directors considered a staff paper (EBS/86/79, 4/11/86) on the review of Decision No. 8200-(86/22) on a complaint under Rule K-1 with respect to Peru's overdue obligations in the General Department. They also had before them an earlier staff paper on the complaint (EBS/86/28, 2/4/86; Sup. 1, 2/13/86; and Sup. 2, 2/14/86), together with an information notice on the real effective exchange rate of the Peruvian inti (EBS/86/61, 3/13/86).

The staff representative from the Treasurer's Department informed Directors that Peru had earlier in the day made a payment of SDR 30 million, which had reduced Peru's overdue obligations to SDR 97 million. The staff was in touch with the authorities regarding the attribution of that payment.

Mr. Abramovich remarked that since January 1986, Peru had been making payments to the SDR Department, and he was happy to note that Peru was current in its obligations to that Department. On Friday, April 11, 1986, instructions had been given to make a substantive payment of SDR 30 million to the General Department, and, as the staff had noted, that payment had been effected. Regardless of the outcome of the present meeting, the latest payment represented an element in the promise of President Garcia to honor Peru's foreign debt. The payment was a

significant one, and it was hoped that it would convey to the international community that the Peruvian authorities were serious about meeting their commitments.

Recently, Peru had also made payments to the Inter-American Development Bank and would be making payments during the month to members of the international banking community with a view to reducing Peru's arrears, Mr. Abramovich continued. The payment of SDR 30 million to the Fund's General Department would alleviate the burden of charges on other members of the Fund and entailed a first payment toward ensuring that Peru regained its position as a member in good standing in the Fund. Peru would continue making payments until the arrears to the Fund were eliminated; it was to be hoped that the decision adopted by Executive Directors at the conclusion of the present meeting would enable the Peruvian authorities to do so. In that connection, he proposed that Directors decide to review Peru's case again in 90 days.

Mr. Zecchini welcomed the latest payment by Peru as a sign that the authorities were moving toward a better understanding of the function and purpose of the International Monetary Fund. He also welcomed some of the recent economic adjustment measures adopted by Peru, although he was not in agreement with all of them. In particular, he did not feel that import restrictions were justified. In spite of the positive signs he had mentioned, the Peruvian case remained a disturbing one, mainly because the country was not so much unable as unwilling to repay the Fund and to cooperate with the institution as required by the Articles of Agreement. In that respect, he could not accept as a basis for the Board's discussions the table in the staff paper that drew a comparison between the Peruvian case and those of other countries. The comparison was neither appropriate nor valid, because it overlooked a significant difference between the Peruvian situation and that of all other countries mentioned in the table: the difference lay in the international reserve position of Peru, which, according to the latest edition of IFS, amounted to nearly \$2 billion in gross reserves minus gold at the beginning of 1986. In that respect, one had to be careful about drawing any quick comparisons between Peru's extraction and that of other countries whose reserves were insignificant by comparison with their overdue obligations to the Fund.

In addressing those problems of arrears, it was important to make clear the objectives and principles on the basis of which a decision should be taken, Mr. Zecchini continued. As he saw it, it was important, first, for the Fund to be repaid as soon as possible, and the achievement of that objective might require in certain circumstances a degree of flexibility on the part of both the Fund and the debtor country. Second, it was not appropriate to depart from the established procedures for dealing with overdue obligations, since doing so would give the wrong signal to other countries, especially those struggling to remain current in their obligations to the Fund. Third, the credibility of the Fund should not be endangered by the adoption of decisions that could undermine the dealings of the Fund with similar cases in future.

He was not prepared to define at present what the most appropriate decision should be in the Peruvian case; rather, he preferred to limit himself to stating what the decision should not be, Mr. Zecchini commented. First, he could not accept a decision calling for another review in three months with yet another expectation that the member would be declared ineligible to use the resources of the Fund. A repetition of the expectation without any firm guarantee or commitment on the part of the country concerned for a full repayment in a short period of time represented a dangerous innovation in procedures and risked undermining the usefulness of the "expectation clause" as a means of increasing pressure on the debtor. Second, a decision calling for a review of the Peruvian case without any expectation of a declaration of ineligibility was unacceptable because it would constitute a softening of the Board's already stated position at a time when the overdue obligations to the Fund were even larger than they had been on the occasion of the previous discussion in February 1986. Third, the conditions envisaged in Article V, Section 7 allowing for a rescheduling of debt maturities on the basis of demonstrated exceptional hardships in repaying clearly did not apply in the Peruvian case.

Whatever decision was adopted at the present meeting it should contain three elements, Mr. Zecchini considered. The first was the extent of flexibility that could be applied in the Peruvian case, given that country's current financial situation. The second element must be the action taken or promises made by Peru on the basis of which a flexible approach might be adopted. The third element was a definition of the areas in which flexibility could be applied, a matter that was particularly important in the Peruvian case if the credibility of the Fund was to be maintained.

Mr. Pérez asked whether any other cases had arisen in which the country's reserves exceeded the amount of arrears at the moment when the Executive Board gave substantive consideration to the complaint. He also wondered whether there were cases in which the member's reserves had increased between the substantive consideration of the complaint and the first review of the decision to limit the use of the Fund's general resources.

The staff representative from the Treasurer's Department replied that he could recall only one other case in which the member's usable foreign exchange reserves had been larger than the overdue obligations at the time the Board first considered the member's case. With that exception, reserves in virtually all other cases had been so small in relation to arrears that any change in the level of reserves between the substantive consideration of the complaint and the first review would not have significantly affected the relationship between the overdue obligations and the member's foreign exchange reserves.

Mr. Pérez said that he was particularly interested in the level of reserves in the case of Viet Nam.

The staff representative from the Treasurer's Department replied that IFS had no data on the reserves of Viet Nam, but that a staff mission was in Viet Nam at present. The Asian Department might be able to provide the data requested by Mr. Pérez.

Mr. Pérez welcomed the payment of SDR 1.7 million by Peru to the SDR Department on February 1, 1986 and the fact that Peru was current in its obligations in the SDR Department at present. Also welcome was the latest payment of SDR 30 million to the General Department. Both payments showed the willingness of the Peruvian Government to deal with its arrears to the Fund.

In looking at the decision to be adopted at the present meeting, Mr. Pérez considered that the Executive Board should avoid giving great weight to political issues, which intrinsically were difficult to assess. As he saw it, the Peruvian case should be viewed in relation to the precedents and general rules for dealing with overdue obligations established by the Board. The table on page 7 of the staff paper showed that Peru had made payments before the substantive consideration of its case by the Board and that payments had not been made by Viet Nam, Liberia, Tanzania, or The Gambia. The table also showed that Peru had made a substantial payment before the first review, an action that had not been taken by either Viet Nam or Liberia. It could be argued that the reserve position of Peru allowed the country to make larger payments; but the same could have been said for Nicaragua, Viet Nam, and Tanzania.

Despite the payments he had mentioned, the Executive Board during the previous discussion of the Peruvian case had decided to shorten the period for the first review and to include in the decision an expectation that Peru would be declared ineligible if it was not current in its financial obligations to the Fund on April 16, 1986, Mr. Pérez continued. In his view, that decision by the Board had been a major departure from agreed procedures and had been adopted because the Board had had some doubts about the country's willingness to clear its arrears with the Fund. The latest payment, together with Mr. Abramovich's opening statement, should have dispelled those doubts, which was why, invoking the principle of equal treatment of members, he would propose the following decision for approval at the present meeting:

1. The Fund has reviewed Decision No. 8200-(86/22), adopted February 10, 1986, in light of the facts described in EBS/86/79 pertaining to Peru's overdue financial obligations to the Fund.

2. The Fund welcomes the partial payments that have been made by Peru. However, the Fund regrets the continuing nonobservance by Peru of its financial obligations to the Fund and notes that further substantial obligations will fall due in the near future. The Fund urges Peru to make full and prompt settlement of the overdue financial obligations to the Fund.

3. The Fund shall again review this Decision not later than July 14, 1986.

Mr. Dallara recalled that during the previous week, the members of the Interim Committee had devoted much of their attention to the international debt situation and strategy. There had been broad agreement that the success of the strategy required close cooperation among all parties, with a key role to be played by the Fund. Although the precise form and content of the cooperation would vary from case to case, there were certain minimum standards that all countries were expected to follow; one of those was to honor obligations to the International Monetary Fund. Also, in order for the Fund to play its central role in the debt strategy, it must have credibility. In that respect, his authorities considered the issue at the present meeting to be broader than the Peruvian case and its financial relations to the Fund; the issue was one of the international debt strategy and the credibility of the institution.

While welcoming the payment of SDR 30 million to the General Department, Mr. Dallara said that he had missed hearing a clear indication by Mr. Abramovich of the commitment of his Peruvian authorities to eliminating their arrears to the Fund. Moreover, the latest payment received was an insufficient basis for the Board to deviate from the course of action established during its previous consideration of Peru's arrears to the Fund. His authorities considered that Peru had left them with no alternative but to support a declaration of ineligibility for Peru to use the general resources of the Fund effective April 16, 1986 unless Peru had eliminated its arrears to the Fund by that date, a prospect that he understood was not likely to materialize. Such a declaration of ineligibility would be fully in accordance with the Board's February 10, 1986 decision.

The conclusion of his authorities had been based on a number of factors, Mr. Dallara noted. The Executive Board had advised Peru that if it was not current by April 16, Peru could be expected to be declared ineligible. The Peruvian authorities in his view had had ample time--two months--to react to that advisement and to eliminate their arrears. However, not only had those arrears not been eliminated; they remained higher--the latest SDR 30 million payment notwithstanding--than they had been in February 1986. The staff papers indicated that a declaration of ineligibility, effective April 16, could be seen by some as occurring "earlier" than similar declarations for other countries that had been in arrears to the Fund. The Fund must of course be careful to treat Peru in a nondiscriminatory fashion; at the same time, it was necessary to make a distinction between cases that were significantly different. In his summing up of the November 25, 1985 Board discussion on overdue financial obligations to the Fund, the Chairman had stated that "while equal treatment and evenhandedness are essential in Fund procedures, there must be sufficient flexibility in applying those procedures to take into account specific circumstances, performances, and problems." There were of course certain characteristics that might be viewed by some as distinguishing the Peruvian case from others. As he saw it, what mainly made Peru



distinct was the continued unwillingness of the authorities to eliminate their arrears to the Fund, even though they had adequate resources to do so. Even at the present meeting, he had little reason to hope that Peru's arrears would be held at current levels, much less eliminated, in the near future. The Board could not accept unilateral rescheduling by any member, and the fact that the Board was being asked to do so by a country that had adequate resources to repay the Fund immediately was difficult to understand, much less to accept.

In other cases in which the Board had declared members ineligible to use the general resources of the Fund, more time had been allowed before the expectation of a declaration of ineligibility had been incorporated in a Board decision, Mr. Dallara recalled. However, a review of the financial circumstances of the members in those "first reviews" showed that, for example, Guyana had owed the Fund SDR 19 million but had had gross reserves of only SDR 4 million and net negative reserves in excess of \$600 million. In the case of Viet Nam, arrears had amounted to SDR 23 million, while gross reserves had been in the range of \$15-39 million. Sudan had accumulated arrears of nearly SDR 120 million on the occasion of its first review, against gross reserves of \$11 million and net negative reserves approaching \$1.9 billion. Liberia had been in arrears to the Fund for SDR 40 million while holding gross reserves of less than \$3 million and registering net negative reserves of more than \$200 million. In the case of Peru, however, arrears to the Fund even after the latest payment amounted to SDR 97 million, while gross reserves totaled approximately \$2.6 billion and net reserves were positive and in the range of \$1.4 billion. While the data he had mentioned might not be completely accurate and might not have fully taken into account the existence of arrears to others, it was clear that the financial circumstances of Peru were entirely different from those of other countries for which declarations of ineligibility had been considered. If uniformity and equity of treatment were to be preserved in the way in which he understood those concepts, those financial differences should be reflected in the Board's actions, as indeed they had been in the February 1986 decision.

In conclusion, Mr. Dallara said that he continued to hope that Peru would pay its obligations in full to the Fund and that a declaration of ineligibility could be avoided. His authorities continued to believe that it was in the best interests of Peru and the Fund for Peru to become once again a member in good standing with the institution. The political circumstances that complicated Peru's current position could not change the fact of Peru's obligations to the Fund. He hoped those complications could be overcome and that the authorities would understand that it was not possible for Peru to honor its responsibilities as a member of the Fund by making only partial payments over an extended period of time; what was required was prompt and complete payment.

Mr. Grosche stated that, like others, he welcomed the payment by Peru of SDR 30 million. Nonetheless, he was concerned that Peru had not yet become current with the Fund. Despite the latest payment, Peru's overdue obligations to the Fund were at present higher than they had been

in February when the decision under review had been adopted. That fact, together with the recent nonobservance by Peru of obligations in other areas of the Articles of Agreement, would appear to provide sufficient grounds for declaring Peru ineligible to use the general resources of the Fund, a course of action that would be consistent with the decision adopted on February 10, 1986. Nonetheless, having heard the initial statement by Mr. Abramovich, he was somewhat hesitant to follow such a course of action at the present meeting. It appeared that the Peruvian authorities were aiming at a restoration of cooperation with the Fund and were seeking an early settlement of their overdue obligations to the institution. What he had missed in the statement by Mr. Abramovich was the clear indication of a date in the near future by which all arrears would be settled. He understood that the Peruvian authorities had encountered some difficulty in reaching a consensus on how quickly to settle their obligations, particularly those to the Fund; on the other hand, the authorities had had sufficient time to ponder the position of the Fund, which had been put to the authorities on many occasions in unequivocal terms.

The average time elapsed between the emergence of a member's overdue obligations to the Fund and the date of a declaration of ineligibility was longer in other cases than was being proposed in the case of Peru, Mr. Grosche observed, but that difference was based on other, rather striking distinctions. For example, the size of Peru's reserve holdings in foreign currency should easily allow for an immediate settlement of Peru's obligations to the Fund, but the authorities were not ready to make such settlement. Nonetheless, considering the latest payment and the statement by Mr. Abramovich, he was prepared to give the authorities more time to reach a decision on a date in the near future by which all obligations to the Fund would be settled. Toward that end, he was willing to postpone the present meeting for, say, a week or two in the hope that the Peruvian authorities would be able to make a commitment to fully settle their obligations to the Fund. For its part, the Fund should be prepared to declare Peru ineligible without further delay if such a commitment was not forthcoming or if, on the agreed date, Peru was not current in its financial obligations to the institution.

Mr. Polak recalled that in February 1986, when the previous decision had been adopted, there had been every indication that Peru had been on a confrontation course with the Fund. And the fact that the Article IV consultation had been canceled had reinforced that impression. In the circumstances, the decision of the Board to shorten the traditional timetable and express the expectation of a declaration of ineligibility after a two-month period had been appropriate. Since then, the Fund had received a payment of SDR 30 million, which was some evidence that Peru was moving away from its confrontation course with the Fund. That evidence, rather than the payment itself, was a welcome development and deserved a positive response from the institution. In that context, he believed that it would not be proper to declare Peru ineligible at the present meeting.

It was not easy, as Mr. Zecchini had observed, to define the appropriate positive response, but it was clear that there were a number of actions to be avoided, Mr. Polak continued. First, it was important to make a clear distinction between the Peruvian case and other cases, and he was among those who did not want to treat Peru as an average case with a succession of reviews of the decision to limit the use of the Fund's general resources. Second, the Fund should not be engaged, or appear to be engaged, in rescheduling. Third, it should be made clear to the Peruvian authorities that, while the Fund was willing to give them some further time to sort out their internal political difficulties, the Fund's patience was limited. As he saw it, the Fund could not tolerate the use by the Peruvian authorities of internal political difficulties as an argument for stringing out payment of its arrears to the Fund. It was important to avoid misunderstandings, and the authorities should thus be under no illusion that it would be possible for Peru not to be declared ineligible if it had not paid all its arrears to the Fund well before the 1986 Annual Meeting.

As to what should be done at the present stage, Mr. Polak proposed that Peru be given a two-month reprieve from a declaration of ineligibility, during which period the Board would be looking at various indicators. First, Directors should expect a substantial repayment during the two months, and that meant a payment greater than the latest SDR 30 million payment, which had not reduced the level of arrears even below the level of February 10, 1986. Second, the Article IV consultation discussions should take place, so that Peru could show it was collaborating with the Fund on other requirements of Fund membership. Third, public statements about the Fund at the highest level in Peru should contribute to, rather than hamper, the effort to restore normal relations between Peru and the Fund. Only if the evidence on all three fronts was clearly positive would he be prepared to grant Peru one further brief reprieve to complete the settlement of its arrears. He had an open mind on the drafting of the decision at the present meeting; it was however important that Peru should clearly understand the intention of the Board, which was why he had been willing to take the unusual step of indicating his views not only on the decision to be adopted at the present meeting but also on what should be done at the later stage or stages.

Mr. Lundstrom stated that, like others, he welcomed the recent payment by Peru of SDR 30 million in settlement of its obligations in the General Department. However, he did not find that payment sufficient to obviate the decision adopted in February 1986, which included the expectation of a declaration of ineligibility. If the Board wanted to demonstrate a certain measure of flexibility and good will, it could do so with respect to the effective date of the declaration. The main concern of Directors should be to maximize the chances of full repayment without compromising the reputation and credibility of the institution, particularly among those debtor countries that, sometimes at great sacrifice, remained current in their obligations to the Fund. He had an open mind on how a decision demonstrating that concern should be worded. Mr. Pérez had suggested giving the authorities an additional three months before

again reviewing the decision, while Mr. Polak had mentioned a two-stage procedure, under which the first stage would be reached after two months. He would be hesitant to adopt a decision that did not fix a date when the declaration of ineligibility would be adopted if Peru was not on that date current in its obligations to the Fund; the specific date was less important to him, although he saw the three months mentioned by Mr. Pérez as an outside limit.

Mr. Kafka, welcoming the latest payment of SDR 30 million, recalled that in February 1986 he had recorded his opposition to the decision finally adopted, a decision that contained an expectation of a declaration of ineligibility and a somewhat shorter period for review than usual. In the circumstances, he could not at the present meeting support any ratification of the expectation of a declaration of ineligibility and would therefore support Mr. Pérez's proposal. At the same time, he called on Peru to make every effort to clear its arrears as soon as possible, and he reiterated an earlier suggestion that the Board should define the conditions of applicability of Article V, Section 7(g) and Section 8(e) of the Articles of Agreement.

Mr. Suraisry stated that he too welcomed the payment made recently by the Peruvian authorities, which he hoped signified a turning point in the relationship between Peru and the Fund. It should be noted, however, that the amount paid was rather small in relation to the remaining overdue obligations and in relation to Peru's reserves. He agreed with Mr. Zecchini and Mr. Dallara that the Peruvian case was different from other cases mentioned on page 7 of the staff report, and he noted that it was well understood that the overdue financial obligations should be dealt with on a case-by-case basis.

While appreciating the problems Peru was facing, Mr. Suraisry observed that accumulating arrears to the Fund could only aggravate those problems. The staff report that pressure and shortages had already begun to build in some areas was one of the reasons he was insisting on prompt elimination of the arrears. If the remaining arrears were not paid soon, the amount already paid would have little or no effect on the total remaining. Hence, he urged the authorities to settle their overdue obligations to the Fund promptly.

Like Mr. Dallara, he had expected a larger payment from the Peruvian authorities and would have preferred a clearer indication of their intentions to become current in their obligations to the Fund, Mr. Suraisry remarked. However, he was prepared to give the authorities another chance because he believed that the Fund should respond positively to the positive actions taken by the Peruvian authorities. Another review was warranted in the circumstances, and he could agree to review Peru's case in two months. If at that time Peru was not current in its obligations to the institution, the Fund should seriously consider declaring Peru ineligible to use the general resources of the Fund. Like Mr. Polak and others, he had an open mind on the drafting of the decision.

Mr. Lankester recalled that the Executive Board had decided on February 10, 1986 that unless Peru had become current in its obligations to the Fund by April 6, 1986, the expectation was that Peru would be declared ineligible on that date to use the general resources of the Fund. That decision had been adopted in the full knowledge that the Board had been proceeding more rapidly toward a declaration of ineligibility than it had in other cases. Nonetheless, most Directors felt that the Board's action had been entirely justified, given that Peru had built up its arrears to the Fund not because it was unable to pay but simply because it did not wish to do so.

Most Directors had also taken the view in February that it was unfair to other members--particularly borrowers in worse economic straits--for Peru to take unilateral action in refusing to pay, given the effect that continued arrears would have on the Fund's charges, Mr. Lankester continued. He was concerned that other borrowers faced with severe economic and political problems might be given the impression that they too could choose not to meet their obligations to the Fund. Earlier in the day, Peru had paid SDR 30 million to the General Department, but the amount seemed rather small, particularly taking into account that, even with the payment, Peru's arrears to the Fund were at present higher than they had been in February when the decision being reviewed had been adopted. At the same time, moreover, Peru's reserves had been increasing. It was clear in the circumstances that the Peruvian authorities had not taken the Fund's decision of February 10, 1986 very seriously but had decided that the Fund could still be made to wait. That was unacceptable in his view. Peru was able to pay and should pay to the full extent of the arrears to the institution, and that payment should be made on the Fund's timetable not one established by the Peruvian authorities. He was well aware of the arguments in favor of a more flexible approach and had heard that, for internal political reasons, Peru needed more time to come to grips with its problems. There was also some evidence from Mr. Abramovich's opening statement that the authorities wished to regularize their position vis-à-vis the institution. However, he remained more convinced by the argument that, if the Fund were to show flexibility in the present meeting, it would be acting unfairly toward other countries that were paying and would be giving a striking signal to other borrowers that could, over time, undermine the financial integrity of the institution. In the circumstances, the Fund would be fully justified in declaring Peru ineligible to use the Fund's general resources as of April 16, 1986 if full payment had not been received by that time.

Recognizing that it might not be possible to reach a consensus for declaring Peru ineligible on April 16, he proposed a somewhat different approach, Mr. Lankester said. As he understood it, it was important for domestic political reasons for Peru not to pay off its arrears before July 31, 1986. He had serious doubts about whether the Fund should be deferring to such considerations, particularly since the political problems that Peru seemed to be having in dealing more responsibly with the Fund were to some extent of the Government's own making. Nonetheless, he was willing to propose that the Fund should request firm assurances from

the Peruvian authorities that all arrears would be cleared by some date in August and that it should state that, if those assurances were not forthcoming in, say, one week, Peru should be declared immediately ineligible to use the general resources of the Fund. It would be preferable if Mr. Abramovich could provide those assurances at the present meeting, but if that was not possible, he would be willing to postpone the discussion for seven days while Mr. Abramovich consulted with his authorities. Finally, if the requested assurances were provided but Peru then failed to clear the arrears by the specified date, Peru would automatically be declared ineligible on that date.

Mr. Fujino recalled that on the occasion of the substantive review of Peru's overdue financial obligations in February 1986, he had joined other Directors in expressing his strong expectation that the Peruvian authorities would utilize the period until the present meeting to effectively review and resolve the arrears problem. The payment of SDR 30 million received earlier in the day was a welcome step forward, but it had fallen short of clearing Peru's overdue obligations to the Fund. In the meantime, gross international reserves in Peru had increased to some \$2.6 billion in mid-March.

The Fund played a central role in the international monetary system, and the preservation of the revolving character of the Fund's resources and the maintenance of the institution's credibility should be an obligation of first priority for any member country, Mr. Fujino continued. Unless there was a clear indication that Peru was going to make immediate payment of all its arrears, he was inclined to feel that the Board must follow the decision it had adopted in February. He hoped that relations between the Fund and Peru would remain as close as possible and that the Peruvian authorities would give an immediate and positive response to the Fund. In that connection, he had listened carefully to the comments of his colleagues and had taken note with interest of the suggestion put forward by Mr. Lankester.

Mr. Massé said that he too welcomed the latest payment by Peru and the indication of the authorities' intention to repay their arrears to the Fund in full, but he was disappointed that no date for full repayment had been mentioned; and he found it difficult to accept the possibility of indirect rescheduling through a consistent or frequent renewal of delays in the requirements for payment or delays in the declaration of ineligibility. On the other hand, he agreed with Mr. Polak that the Peruvian authorities had departed somewhat from the confrontation course with the Fund that Peru had been on earlier, and he had noted a positive change in the way in which the Peruvian Government had been viewing its obligations to the Fund. To reject the chance that that improvement would lead eventually to a full repayment of Peru's arrears to the institution might not be the wisest course; in the circumstances, it might be preferable to give the Peruvian authorities more time to continue on the path they had begun to follow while reaffirming the Fund's view that it could not continue to accept indirect rescheduling of the arrears. His Canadian authorities were prepared to accept the solution proposed by

Mr. Polak under which the authorities would be given two months to take very positive action toward eliminating all their arrears--including the setting of a date in, say, mid-August by which full repayment would be made--and they could agree to an automatic declaration of ineligibility if all arrears had not been paid by the mid-August date. He could also support a one-stage solution that would make the declaration of ineligibility automatic some time in August unless all arrears were paid fully by that date. Mr. Lankester's proposal might be viewed as somewhat "tougher" in that it demanded a commitment by the Peruvian authorities within seven days to pay all arrears by some date in August. There was no doubt that the end result must be the same, but he was not certain that the one-week requirement for a commitment by the Peruvian authorities stood much chance of being met.

Mr. Schneider, reiterating the view of those who had noted that the latest payment of SDR 30 million seemed to signal a change in the attitude of the Peruvian authorities toward the Fund, considered that the payment deserved a positive response. Hence, he was prepared to give Peru another chance to become current in its obligations to the Fund, and he could go along with the period of two months mentioned by some of his colleagues.

Mrs. Ploix, also welcoming the latest payment of SDR 30 million by the Peruvian authorities, noted that the payment should not blind Directors to some unpleasant developments that had taken place since the previous meeting. As some had recalled, Peru's overdue financial obligations to the Fund at present totaled SDR 97 million, or more than on February 10, 1986. Moreover, an Article IV consultation mission, which might have improved the relationship between Peru and the Fund, had been canceled in the context of excessive statements by Peruvian officials. It was important at the present meeting to reach a common understanding on Peru's interests, the interests of the institution, and the interests of the international financial system as a whole, both in the long run and in the immediate future. Directors should also be focusing on the special circumstances in Peru before reaching agreement on the actual timing of the steps to be followed in dealing with the Peruvian case. As much as she could support the general principle of infusing flexibility into the application of the procedures for dealing with overdue obligations, she nevertheless felt that the decision adopted in February had accelerated the timing of steps by comparison with the timing of other cases. The Fund had earlier in the day received a payment of SDR 30 million, and Mr. Abramovich had stated the authorities' intention to make additional payments in the coming weeks. While those actions did not represent full repayment of Peru's arrears, they did seem to reflect a desire by the authorities to ease the tense relationship between Peru and the Fund, and the Executive Board should respond in kind. In sum, therefore, her authorities opposed taking any decision on ineligibility at the present meeting, including a decision that could automatically be applied at some future date without reconsideration by the Executive Board. They supported a review of the February 10 decision and the Peruvian case in three months, or some other period if that was the consensus of Directors.

Mr. Jiang said that he too welcomed the Peruvian authorities' latest payment, which reduced Peru's total arrears to the Fund to SDR 97 million from a previous high of SDR 127 million. He noted from the staff paper that the Peruvian authorities had stressed their desire to clear their overdue obligations to the Fund and to regularize their relations with the institution. In the circumstances, he could support either Mr. Perez's or Mr. Polak's proposal to postpone the review of the February 10, 1986 decision for two-three months so as to give the Peruvian authorities another opportunity to become current in their obligations to the Fund.

Mr. Alfidja stated that, as he saw it, it was in the interest of both Peru and the Fund to show flexibility, and he could go along with any decision along the lines described by Mr. Massé.

Mr. Romuáldez remarked that it was only with great difficulty and after many discussions among the members of his constituency that the position of his chair had been arrived at; and throughout those discussions, an earnest effort had been made to reach a deeper understanding of Peru's situation. Every member of his constituency had expressed the hope that appropriate solutions to Peru's problems would be reached soon and in a manner fully satisfactory to the Peruvian authorities. In the final analysis, however, those in his constituency had expressed considerable sympathy for the position articulated by Mr. Dallara, Mr. Zecchini, Mr. Lankester, Mr. Grosche, and others. In order to avoid the extreme measure of declaring Peru ineligible at the present meeting, he was prepared to welcome the proposal put forward by Mr. Lankester as a way of preserving the Fund's credibility while demonstrating reasonable flexibility. He hoped that the Peruvian authorities would see Mr. Lankester's proposal as an earnest effort to provide them with the time and the opportunity to move closer to resolving their problems and meeting their financial obligations to the Fund.

Mr. Dallara said that, as he understood them, the positions of Mr. Grosche and Mr. Lankester seemed similar. He wondered whether the position put forward by Mr. Lankester could be supported by Mr. Grosche.

Mr. Grosche replied that his intention had been to give the Peruvian authorities more time, albeit a relatively short time, to make a firm commitment that they would clear all of their arrears in the near future. There seemed to be some feeling in the Board that August 15, 1986 was a date by which Peru could reasonably be expected to clear its arrears; and if the authorities could make a commitment to that effect, he would be willing to agree that Peru would be declared ineligible on August 15 unless the arrears had been cleared by that date. However, in the absence of a firm declaration in, say, two weeks that the authorities would clear all their arrears in the near future, then the Board should consider declaring Peru ineligible at that point.

Mr. Zecchini asked that his position be associated with that of Mr. Grosche.



Mr. Lankester observed that his proposal was nearly identical to that of Mr. Grosche except with respect to the time to be given the authorities to make the commitment that all arrears would be cleared by mid-August. He was prepared to allow the authorities two weeks as recommended by Mr. Grosche.

Mr. Abramovich observed that the approach being recommended by Mr. Lankester and Mr. Grosche might give the wrong signals to the Peruvian authorities; indeed, it might be interpreted as discriminatory and disrupt the effort to restore good relations between Peru and the Fund.

Mr. Dallara stated that he was uncertain how to interpret Mr. Abramovich's reaction to the suggestion put forward by Mr. Lankester and Mr. Grosche, which seemed to be a genuine attempt to convey to the Peruvian authorities some additional willingness on the part of the Executive Board to be flexible in dealing with the Peruvian case. As he understood it, some brief additional period of a week or two weeks would be given to the Peruvian authorities to make a commitment to eliminate their arrears by some later date; and it allowed even more time after that commitment for the actual elimination of the arrears to take place. If Mr. Abramovich considered that there was nothing to be gained by bringing that proposal to the attention of his authorities, then further discussion was unnecessary. However, in the interest of achieving some consensus in the Board, and in spite of the fact that his authorities were not convinced that additional time was necessary, he would be in a position to accept an approach along the lines outlined by Mr. Lankester or Mr. Grosche. He hoped that Mr. Abramovich would not reject that proposal.

Mr. Pérez agreed with Mr. Abramovich that the approach being suggested might lead the Peruvian authorities to feel that they were being treated in a discriminatory manner, and he urged his colleagues to follow existing principles and precedents to reach a solution in the Peruvian case. Mr. Polak's proposal would seem to fit within those principles and precedents and would convey to the Peruvian authorities the strong concern of the Board without provoking negative reactions.

Mr. Fujino observed that the proposals put forward by Mr. Grosche and Mr. Lankester seemed reasonable, and he could go along with either.

Mr. Grosche said that he sensed a consensus emerging in favor of extending an automatic declaration of ineligibility if Peru had not settled all its arrears to the Fund by mid-August, an approach that reflected significant concessions from those members of the Board who had been prepared to declare Peru ineligible at the present meeting. Moreover, the extension of the deadline for an automatic declaration of ineligibility would bring Peru close to the average time allotted to other cases. The only difference of view left in the Board was between those who were looking toward a declaration of ineligibility if Peru was unable to commit itself in, say, two weeks to eliminating all its arrears by a particular date and those who preferred to review the Peruvian case

after two months, with a focus on specific signs that Peru was making an effort to eliminate its arrears. The distinction in his view was not large, and he urged the Peruvian authorities to appreciate the concessions that the Board would be making in not declaring Peru ineligible at the present meeting.

The Chairman added that under Mr. Lankester's proposal, the Peruvian authorities would have to make a commitment in one or two weeks to pay off all of their arrears by mid-August. He understood from Mr. Abramovich that the requirement of such a commitment could complicate the subtle moves toward repairing the relationship between Peru and the Fund in which he and others in Peru were currently engaged. Under Mr. Polak's approach, stock would be taken not of the intentions of the authorities but, perhaps more important, of specific actions toward restoring normal relations between Peru and the Fund.

The Peruvian case was certainly an unusual one, as Directors had noted in their interventions, and the latest payment of SDR 30 million had been made only after long discussions within the Peruvian Government, the Chairman continued. It was important to the Executive Board to be certain that that payment and the positive actions behind it would be enhanced rather than impaired by the Board's decision at the present meeting. As was clear to all, the objective was to eliminate the member's overdue obligations and improve the relationship between that member and the Fund without impairing the credibility of the institution, particularly in the eyes of other members. Those elements were not easily reconciled, but he was happy to note that an effort was being made.

Mr. Massé agreed with the Chairman that the approaches put forward by Mr. Polak and Mr. Lankester were reasonable steps toward the achievement of a consensus in the Board. He himself could accept whichever approach the Peruvians were prepared to accept. However, he would appreciate some further clarification from Mr. Abramovich of why firm assurances of full repayment by some date would be difficult for the authorities in Peru to make.

Mr. Abramovich replied that he had at the beginning of the meeting stressed the position of his Government and its desire to become current in its obligations to the Fund. He had asked Directors to understand the special position in which his authorities found themselves and to allow Peru additional time to pay off its arrears.

Mr. Lankester remarked that he would feel more comfortable if the Peruvian authorities could provide some assurance that they would pay off the arrears by a certain date. While Peru's position as outlined by Mr. Abramovich at the beginning of the meeting showed some movement on the part of the authorities, it did not go far enough. A clear statement to the Board providing a date by which Peru would pay off its arrears would seem to be warranted, although he would not insist that it be made public.

On a related matter, Mr. Lankester recalled that some had suggested that the Board should not be seen to be treating Peru differently from other members. But Peru had been treating the Fund differently by acting in an unreasonable manner. The Board had adopted a decision on February 10, 1986 for good reason, and even though the approach he had proposed would represent some softening of that decision, he was willing to support it in the hope that the result would be full repayment of Peru's overdue obligations to the Fund.

Mr. Pérez remarked that the SDR 30 million recently paid to the Fund by the Peruvian Government was not an insignificant amount and represented in his view a clear signal that the authorities were willing to become current in their obligations to the Fund, despite their difficult circumstances. When the Board had discussed the case of Nicaragua, it had been noted that Nicaragua's reserves had been larger than the amount owed to the Fund. On that occasion, however, the flexibility shown by the Executive Board had been an important ingredient in the final positive solution that had been reached. He was calling for similar flexibility and pragmatism in the Peruvian case.

Mr. Dallara stated that he too was looking toward a positive solution to the problem of Peru's arrears to the Fund. For that reason, he was willing to go along with the approach outlined by Mr. Lankester and Mr. Grosche, and that support represented substantial concessions on the part of his authorities. Unfortunately, he had not seen comparable movement on the part of the Peruvian authorities. While he agreed with the Chairman that there appeared to be a broad consensus in favor of allowing the Peruvian authorities until mid-August to repay all of their arrears to the Fund, he would not be able to go along with the mid-August date in the absence of assurances by the Peruvian authorities within one or two weeks that all arrears to the Fund would be eliminated by mid-August. The vague statements made by Mr. Abramovich thus far of the Peruvian authorities' intentions did not provide the assurances his own authorities required.

The Chairman noted that the situation with respect to Peru was a delicate one, and all Directors were conscious of the fact that a number of imponderable elements must be taken into account. In the approach outlined by Mr. Lankester and Mr. Grosche, Peru would be given until mid-August to fulfill its financial obligations to the Fund, but only if it had earlier clearly stated its intention to eliminate its arrears to the Fund by the mid-August date.

That Directors were willing to allow an extension until mid-August seemed to suggest that they understood that something other than the availability of reserves was hampering repayment before the August date, the Chairman continued. The question was whether that imponderable blockage would be eased by a decision at the present meeting that the authorities must make a statement within one or two weeks that they would repay by mid-August. He would be delighted if the authorities were prepared to make such a statement; but if they did, the August date would no longer

have much relevance, since the political decision to repay would in effect have been taken. If the commitment being required of the authorities was considered not consistent with the effort currently under way to repair relations between Peru and the Fund, it might be better to look at Mr. Polak's proposal for a checkpoint at which a tangible demonstration of the commitment of the authorities would have to be made. The authorities in Peru had already taken one tangible step toward normalizing relations with the Fund through the latest payment of SDR 30 million; but a number of Directors felt that more was needed, and one approach was to agree on a date by which additional action would have to be taken. On that agreed date, any response by the Board would be possible, which would eliminate the two-step procedure with which some Directors had expressed concern.

Mr. Polak added that he too had been struck by the fact that most Directors seemed to agree on mid-August as the time when Peru's arrears to the Fund must be eliminated. He was not in favor of attempting to elicit a difficult commitment from the Peruvians at short notice and then waiting nearly four months to see whether they lived up to it; he would much prefer giving the authorities two months in which to prove with specific actions their willingness to make ultimate repayment by, say, August 15. The Board was already proposing to deviate from its normal procedures by agreeing to a final date in mid-August, an approach that was tantamount to rescheduling. He was proposing only to monitor the situation through, say, June 15 to see what progress had been made that time toward the elimination of Peru's arrears. Of course a firm commitment by the Peruvian authorities, either in June or earlier, would make matters easier.

Mr. Mtei said that he shared the views of those who felt that the Peruvian case was not similar to other cases on page 7 of the staff paper. As he saw it, Peru could pay off its arrears and would do so if the political will existed. In the circumstances, he agreed that the Fund should give the Peruvian authorities some additional time--perhaps the two months suggested by Mr. Polak--to demonstrate their commitment to clearing their arrears to the Fund. If the authorities were able to take significant action toward clearing their arrears before mid-June, he would be willing to give Peru an additional two months to complete the process.

Mr. Suraisry noted that his chair was among those seriously concerned about the problem of overdue obligations to the Fund, and he well understood the call by Mr. Lankester and Mr. Grosche for a clear indication from the authorities that they would repay the Fund by, say, mid-August. Still, he considered actions to be more important than statements, which was why he had supported Mr. Polak's proposal. In passing, he noted that the amount still owed the Fund was very large. Before any decision was taken to declare Peru ineligible to use the Fund's resources, prudence demanded that an effort be made to exhaust all avenues to settle those arrears without compromising the institution's credibility and procedures.

Mr. Dallara agreed with the Chairman that the Peruvian case was certainly a difficult one. Whenever the Board in the past had been faced with the task of declaring a member ineligible he had asked himself whether such a decision would enhance the short-term prospects for repayment and had been forced to answer that it would not. And if that question were the principal one, the Board would never declare a member ineligible to use the Fund's resources because, with the focus narrowed to one country at one moment in time, the pressure to be flexible was only natural. Unfortunately, the Board had been faced with the necessity of adopting declarations of ineligibility in a number of cases on the basis of broader considerations, not least of which was the credibility of the institution. He had been influenced at the present meeting by the effort to find the appropriate balance between maximizing the prospects for repayment by Peru while minimizing the adverse effects of any decision. In that context, his authorities had indicated a willingness to extend the date for repayment beyond the range that had been given in any other case in which an expectation of ineligibility had been stated. It was thus difficult to accept the notion that, given the economy's financial circumstances, a more liberal approach should be taken in the Peruvian case. His authorities were willing to take into account the political difficulties in Peru that might prevent the authorities from repaying the Fund before late July, and his implicit recognition of those difficulties represented a substantial movement on the part of his authorities away from an immediate declaration of ineligibility. However, to offer that flexibility, they required some clear commitment by the Peruvian authorities in one or two weeks of their intention to repay the Fund by mid-August. He wondered whether a sufficient majority existed in the Board to move ahead on that basis.

Mr. Grosche remarked that it seemed the question was whether a firm commitment by the authorities could be replaced by action along the lines proposed by Mr. Polak. The Peruvian authorities might feel unable to make firm commitments of the sort requested, but they might be able to demonstrate in a relatively short period of time that they were moving toward repairing relations between Peru and the Fund.

Mr. Massé agreed with Mr. Grosche that if the Peruvian authorities judged that they were unable for political reasons to make a commitment to repay fully by mid-August, a significant payment within, say, four weeks would be the equivalent in his view, and he could support Mr. Polak's approach with that change.

Mr. Pérez agreed that actions were more important than words. If Peru in two months time made a significant payment and provided some signal of its intention to reinforce its cooperation with the Fund, those actions would in his view be far more important than any public declaration of a commitment to repay the institution.

On another matter, Mr. Pérez recalled the indication by Mr. Dallara that giving Peru an additional three or four months to repay would be the most flexibility the Board had shown in cases when an expectation of a

declaration of ineligibility had been incorporated in a decision. As he saw it, the decision adopted in February 1986 had been inappropriate. If his colleagues felt that approving a decision containing an expectation of a declaration of ineligibility was the proper way in the first instance to deal with members overdue in their obligations to the Fund, he could reluctantly go along, so long as the approach was applied generally to all members. But the approach adopted in Peru's case was not similar to those adopted in other cases, and it was for that reason that he felt that further flexibility, perhaps along the lines suggested by Mr. Polak, would be appropriate.

Mr. Zecchini said that he strongly disagreed with Mr. Perez's interpretation of the Fund's procedures for dealing with overdue obligations. In the previous review of those procedures and policies, it had been made clear that periods for review were not grace periods and that any flexibility demonstrated by the Fund must be based on consideration of a number of factors, including the cooperation shown by the member in attempting to resolve the arrears problem. In the Peruvian case, the February 10 decision was in his view the correct one, based on the lack of cooperation in resolving the arrears problem demonstrated by the Peruvian authorities.

Mr. Lankester reiterated his request of Mr. Abramovich to indicate why it would be difficult for the Peruvian authorities to provide the Executive Board with the assurances called for in his proposal.

Mr. Abramovich replied that he had explained the intricacies of the Peruvian situation on a number of occasions in informal meetings with his colleagues. The situation in Peru was a dynamic one, with movement driven by both politics and economics. If his authorities were publicly to commit themselves to repaying the Fund by a particular date, they would be breaking an earlier promise to the people. Peru was undergoing difficult times, and the current president had been elected by only 49 percent of the vote. His popularity since the election had risen dramatically, with the polls showing that at present he was supported by 80 percent of the population. But that popularity and the promises on which it was based had their political price. Again, therefore, he asked his colleagues to understand the dynamic and sensitive situation in his country and to show their understanding by giving Peru more time to repair its relations with the Fund.

The Secretary, at the request of the Chairman and following a brief tour de table on the various proposals put forward, observed that Directors holding 47 percent of the voting power favored the approach put forward by Mr. Lankester; Directors holding 37 percent of the voting power favored the proposal suggested by Mr. Polak.

The Chairman observed that, according to the Board's procedures, Mr. Lankester's approach was considered to have the support of the Board.

Mr. Lankester observed that there remained the question of how much time would be given the authorities to make a commitment to repay by mid-August. He had originally suggested that seven days would be sufficient, but he was prepared to stretch the time to fourteen days in light of some of the points that had been raised in the course of the discussion.

Mr. Grosche remarked that while his original position had been for giving the authorities a minimum of two weeks, he was prepared to give them even longer, say, three weeks, to make their commitment.

The Chairman observed that the Board seemed to be willing to accept a three-week period, which meant that the Peruvian authorities must make a commitment to repay in full by May 5, 1986. He presumed that legal language could be drafted translating the proposal into the text of a Board decision.

Mr. Lundstrom asked whether it would not be possible for the Executive Board simply to postpone its decision on the Peruvian case until May 5, 1986. Any decision adopted at the present meeting would be tantamount to another review, which in his view should be avoided if possible.

Mr. Zecchini considered Mr. Lundstrom's proposal to be a sensible one. Adopting a decision at the present meeting would represent a softening of the approach taken in February when the expectation of a declaration of ineligibility had been incorporated in the decision. His inclination was simply to adjourn the present meeting and to ask the Chairman to convey the sense of the meeting to the Peruvian authorities.

Mr. Grosche said that he too could agree to postponing the present meeting if such an approach was acceptable.

Mr. Alfidja said that it was his understanding that Directors had adopted a decision at the present meeting, and he would appreciate clarification about the implications of not formalizing it.

Mr. Zecchini observed that following a decision that incorporated an expectation of a declaration of ineligibility, any action less than a declaration of ineligibility at the present meeting would be considered by his authorities as a step backward in the approach to the Peruvian case. Since he did not feel that it was appropriate to rush into a declaration of ineligibility, his preference was to adjourn the present meeting, wait for the assurances that had been requested, and then take whatever action was warranted.

Mr. Alfidja asked about the operational significance of the deadline of April 16 that had been incorporated in the February 10 decision.

The Director of the Legal Department noted that the February decision had contained an expectation that Peru would be declared ineligible unless it was current with the Fund by April 16, 1986. However, that decision

did not state that Peru would automatically become ineligible; hence, ineligibility would require a further decision which could be taken at a later date, and the postponement recommended by Mr. Zecchini was a legally acceptable approach.

Mr. Dallara stated that he had no difficulty with Mr. Zecchini's approach so long as the essential elements of Mr. Lankester's proposal were captured in the Chairman's summary of the meeting to be delivered to the Peruvian authorities.

The Executive Board agreed to postpone its consideration of the Peruvian case until May 5, 1986 and urged the Managing Director to convey the sense of the present meeting to the Peruvian authorities, including the condition that, by May 5, 1986, the authorities should be prepared to state that they would meet all their obligations to the Fund by mid-August 1986.

APPROVED: December 30, 1986

LEO VAN HOUTVEN  
Secretary