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Minutes of Executive Board Meeting 86/200

3:00 p.m., December 16, 1986

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

Executive Directors	Alternate Executive Directors
	J. A. K. Munthali, Temporary
	Song G., Temporary
	M. K. Bush
J. de Groote	H. G. Schneider
	C. A. Salinas, Temporary
M. Finaish	
	M. Sugita
G. Grosche	
	A. Iljas, Temporary
	L. M. L. Piantini, Temporary
	M. Foot
	S. Simonsen, Temporary
	D. McCormack
	K. Yao, Temporary
	A. Ouanes, Temporary
	C. Noriega, Temporary
H. Ploix	S. de Forges
	G. Schurr, Temporary
	A. V. Romuâldez, Temporary
	O. Kabbaj
	A. Vasudevan, Temporary
S. Zecchini	

L. Van Houtven, Secretary
S. J. Fennell, Assistant

Also Present

IBRD: J. D. Shilling, Europe, Middle East and North Africa Regional Office. African Department: A. D. Ouattara, Director; C. A. François, R. A. Franks, P. Lenain. Exchange and Trade Relations Department: S. Kanesa-Thasan, K. P. Regling. External Relations Department: H. P. Puentes. Fiscal Affairs Department: A. Ize. Legal Department: F. P. Gianviti, Director; A. O. Liuksila, R. H. Munzberg, J. M. Ogoola. Treasurer's Department: D. Berthet, D. Gupta. Personal Assistant to the Managing Director: R. M. G. Brown. Advisors to Executive Directors: K. Murakami, I. Sliper. Assistants to Executive Directors: H. Alaoui-Abdallaoui, J. R. N. Almeida, R. Fox, K.-H. Kleine, A. H. Mustafa, D. V. Nhien, S. Rebecchini.

1. MOROCCO - STAND-BY ARRANGEMENT AND OVERDUE VALUATION ADJUSTMENT

The Executive Directors continued from the previous meeting (EBM/86/199, 12/16/86) their consideration of a request from Morocco for a stand-by arrangement in an amount equivalent to SDR 230 million, together with a paper on the need for a valuation adjustment as a result of late payments to the Fund (EBS/86/262, 11/24/86; Sup. 1, 11/26/86; Sup. 1, Cor. 1, 12/15/86; and Sup. 2, 12/16/86).

Ms. Bush stated that she understood that the valuation adjustment had been calculated on the basis of a procedure that had been followed by the Fund in all cases when a member had made a late payment. Furthermore, the overdue valuation adjustment payment represented an overdue obligation to the Fund. She hoped that the Moroccan authorities, in the spirit of cooperation with the Fund, would be able to make the valuation adjustment payment so that they would be eligible to make the drawing under the stand-by arrangement. If the authorities were concerned about the procedure that had been followed, the Executive Board should re-examine the practice and procedures that had operated with respect to the valuation adjustment in the very near future.

Mr. Grosche commented that he was in agreement with Ms. Bush.

Mr. Foot remarked that he agreed with the two previous speakers. However, the outcome of the subsequent Board discussion on the procedures regarding the valuation payment should not be prejudged, and the possibility of retroactively changing the procedure should be left open. The procedure that had been applied by the staff was unusual and was not in line with normal commercial banking practice.

Mr. Schurr commented that the question raised by the Moroccan authorities was not the first or only case in which a member had questioned the valuation practice. His Romanian authorities had also questioned the valuation procedures a few days previously and were awaiting the staff response.

The staff representative from the Treasurer's Department remarked that the Romanian authorities' question was not the same as the one raised by the Moroccan authorities. The Romanian authorities had asked the staff on November 20 how much they would have to pay the Fund on November 21. The staff had advised them of the amount on the basis of the exchange rates on November 20. The authorities had made the payment but had questioned why the valuation date of that payment had not been based on the exchange rate three days before the payment date. The staff would be responding to the Romanian authorities on a bilateral basis.

In response to a question from the Chairman, the staff representative stated that it would be a major task from an administrative viewpoint to retroactively change the procedures relating to the valuation adjustment, should the Executive Board take a decision to that effect.

Mr. Finaish stated that as the procedures regarding valuation adjustment were unclear, it might be more appropriate to delay consideration of Morocco's related overdue payment until the Executive Board had had an opportunity to discuss the general procedures governing valuation adjustment and look into the experience in other cases.

The staff representative from the Treasurer's Department commented that there had been several other countries that had been in the same situation as Morocco. The rationale behind the procedures followed by the staff had been to ensure equity of treatment among members. Those members that made a payment on time, on the basis of instructions issued by the Fund on a particular date, should not be at a disadvantage compared with other members that might delay payment by a few days on the basis of a more favorable exchange rate. Furthermore, there were technical reasons that had led to the establishment of the procedures, which the staff would address in a forthcoming paper on the issue.

Mr. Foot remarked that the SDR was the unit of account for the Fund, and if the payment was to be made in SDRs, it seemed that, based on normal banking practices, the amount should be determined on the basis of the exchange rate on the date of payment.

The staff representative from the Treasurer's Department, in response to a question from Mrs. Ploix, stated that special charges were not applicable for the first two weeks following the due date, so that in Morocco's case special charges would not have been applied.

Mr. Zecchini observed that there were two issues to be considered at the present meeting: whether to apply the procedures regarding valuation adjustments in Morocco's case, bearing in mind the need to ensure equality of treatment; and whether, should there be a change in procedures in the future, the new procedures should be applied retroactively only to Morocco or to all previous cases in which the valuation adjustment procedure had been applied.

Mr. Schneider indicated his agreement with Mr. Zecchini's remarks. However, he was not entirely convinced of the appropriateness of applying retroactively any new procedures on valuation adjustments.

The Chairman stated that the practical consequences of the retroactive application of any new procedures that were agreed by the Executive Board would have to be determined before a decision was taken on the matter. There were two ways of dealing with Morocco's situation at the present meeting. The Executive Board could decide to follow the procedures practiced in similar cases in the past by requiring that Morocco make the overdue valuation adjustment payment prior to making any drawings under the stand-by arrangement. The Executive Board could then reconsider the procedures regarding valuation adjustments on the basis of a paper to be prepared by the staff. At that time, the Board would decide whether or not to apply any new procedures retroactively to Morocco's case or to all cases. Alternatively, the Executive Board could ask the Moroccan authorities to set aside the amount of the overdue valuation adjustment payment in its SDR account until the Executive Board had decided whether the present procedures should be maintained.

The staff representative from the Legal Department commented that there had been a few cases in the past in which a member had earmarked an amount of resources in order to discharge obligations to the Fund at some future date. Such an arrangement would not involve a transfer of SDRs; the SDRs would be held in Morocco's account and Morocco would receive interest on its SDRs. The Executive Board would base its action on a statement by Morocco, transmitted through the Executive Director elected by Morocco, declaring that Morocco would hold a certain amount of SDRs in its account in an unencumbered form pending the review by the Executive Board. That approach would necessitate a decision at the present meeting to waive the effects of the nonpayment of the overdue valuation adjustment for purposes of paragraph 5 of the stand-by arrangement for Morocco, setting aside the legal effect of Rule G-4(e) of the Rules and Regulations. Such a decision would permit Morocco to make the first purchase under the stand-by arrangement pending a full review by the Executive Board of the procedures regarding the valuation adjustment. The question of retroactivity could be avoided in such a case, because Morocco's pledge would not be tantamount to a payment to the Fund by Morocco. If there were a subsequent decision by the Board to change the procedures for valuation adjustments, Morocco would be in a different position from those members that had already made such payments in the past in accordance with the established procedures. However, the Executive Board would have to decide whether or not to collect the overdue payment from Morocco.

Mr. Finaish stated that he was in favor of the second option, whereby Morocco would set aside an amount equal to the overdue payment arising from the valuation adjustment pending a review of the matter by the Executive Board.

Mrs. Ploix commented that she agreed with Mr. Finaish.

Mr. Grosche observed that the second option was complicated and was not in line with the principle of equal treatment of all members. He therefore favored the first option.

Mr. Schneider commented that he agreed with Mr. Grosche.

Mr. Foot, Mr. McCormack, and Mr. Schurr stated that they preferred option 1, although they could go along with the second option.

Mr. Kabbaj indicated that his authorities would be able to make the payment. However, completion of the payment would delay the first disbursement under the stand-by arrangement by a number of days, which would jeopardize the program for the elimination of arrears and would complicate the financing arrangements. He therefore suggested that the payment could be made from the first SDR disbursement under the stand-by arrangement on December 22, 1986.

The staff representative from the Treasurer's Department, responding to a question from the Chairman, remarked that the Moroccan authorities could authorize the staff to debit from their account the amount of the overdue valuation adjustment payment on the date of the first disbursement under the stand-by arrangement.

The staff representative from the Legal Department stated that he could draft a paragraph for the decision on the overdue valuation adjustment payment that would waive paragraph 5 of the decision on the stand-by arrangement.

The Chairman invited the staff representative from the World Bank to answer questions raised by Directors at the previous meeting concerning World Bank activities in Morocco.

The staff representative from the World Bank stated that the World Bank staff had looked at public service employment levels within specific agencies of the Government and had made a number of recommendations. The possibility of reviewing employment levels in the Government as a whole would be a daunting task given the structure of the civil service in Morocco. Such a study could not be easily undertaken as it would involve the establishment of job descriptions and job classifications. The World Bank staff was encouraging the authorities to review the structure of their civil service within the framework of an overall plan.

The public enterprise restructuring program had begun to be implemented, the staff representative indicated. The authorities had introduced a series of measures to reduce prices and reduce the investment programs of the public enterprises. The staff had identified a series of additional measures in areas of management reform. By the time the public enterprise restructuring program, to be supported with World Bank resources, was considered by the Executive Board, a significant number of the measures would have been implemented or would be in the process of being implemented.

The World Bank was convening a consultative group meeting--the third for Morocco--at the request of the Government in mid-March 1987. The Moroccan Government would have an opportunity to present its medium-term strategy and adjustment program, as it had been developed over the past two years in cooperation with the World Bank and the Fund. The Moroccan authorities and the World Bank had expressed concern about the effect of the expenditure reductions on investment, and it had been proposed that approximately SDR 100 million in additional funds would be allocated to the investment program if concessional financing could be raised from the donor community for that purpose. The World Bank staff had recently returned from Morocco having identified the high priority investment projects that could be financed from the Government's own resources and the additional investment projects that could be financed if the additional SDR 100 million were raised at the consultative group meeting.

Mr. Kabbaj recalled that at the Executive Board discussion of the 1986 Article IV consultation with Morocco, most Directors had been concerned that the authorities might be tempted to relax their adjustment efforts as a result of the sharp improvement in the external and domestic environment. However, the authorities had worked closely with Fund management and staff to devise and implement a strong and viable adjustment program aimed at putting Morocco on a sustainable growth path. He had also stated on that occasion that the results for the first half of 1986 should not be considered as representative of the year as a whole, partly because the benefits of the oil price decrease had not yet been felt.

The authorities were committed to eliminating their external arrears before 1987, Mr. Kabbaj indicated. The trade liberalization measures had been partly responsible for the accumulation of external arrears. It was the responsibility of Morocco's trading partners to ensure that the flow of resources to Morocco was commensurate with the level of imports assumed under the programs. However, there had been a reduction in financial inflows to Morocco in 1986, including from commercial creditors. Furthermore, Morocco had received virtually no grants in 1986. In addition, the delays in concluding the stand-by arrangement with the Fund and, consequently, the agreement with commercial creditors had put added pressure on the balance of payments position. Therefore, the Executive Board should be understanding and grant a waiver, if Morocco was unable to meet its performance criterion on external arrears, as the slippage would clearly be beyond the authorities' control.

The Executive Directors then considered the proposed decisions.

The staff representative from the Legal Department stated that the first two paragraphs of the decision relating to the overdue valuation adjustment payment should read as drafted in EBS/86/262, Supplement 2. However, the third paragraph should read: "The Fund notes the intention of Morocco to settle the overdue valuation adjustment upon making its first purchase, and with respect to that purchase decides to set aside the legal effects of the nonpayment of the overdue valuation adjustment for purposes of paragraph 5 of the stand-by arrangement for Morocco and Rule G-4(e) of the Rules and Regulations of the Fund." That paragraph would permit Morocco to make the overdue valuation adjustment payment to the Fund at the time of the first purchase under the stand-by arrangement.

Ms. Bush remarked that the last clause of paragraph 2, "pending a review of the valuation procedures on late payments," seemed to imply the possibility that any new procedures would be applied retroactively. However, it was her understanding that that issue would be discussed at the time of the Board discussion on the valuation adjustment procedures. Perhaps that clause should be deleted from paragraph 2.

The staff representative from the Treasurer's Department agreed that it would be preferable to delete that clause.

The Chairman confirmed that the possibility of retroactive adjustment would be considered in the light of the staff paper to be prepared on the procedures regarding valuation adjustments.

Mr. Vasudevan suggested that paragraph 2 might not be necessary since it would not refer to the review.

The Executive Directors agreed to the decision regarding the overdue valuation adjustment payment, as amended.

The Executive Board then took the following decisions:

Stand-By Arrangement

1. The Government of Morocco has requested a stand-by arrangement for the period from December 16, 1986 to March 31, 1988 in an amount equivalent to SDR 230 million.

2. The Fund approves the stand-by arrangement set forth in EBS/86/262, Supplement 3.

3. The Fund waives the limitation in Article V, Section 3(b)(iii).

Decision No. 8477-(86/200), adopted
December 16, 1986

Overdue Valuation Adjustment

1. The Fund takes this decision relating to paragraph 5 of the stand-by arrangement for Morocco (EBS/86/262, Sup. 3).

2. The Fund notes the intention of Morocco to settle the overdue valuation adjustment upon making its first purchase, and with respect to that purchase decides to set aside the legal effects of the nonpayment of the overdue valuation adjustment for purposes of paragraph 5 of the stand-by arrangement for Morocco and Rule G-4(e) of the Rules and Regulations of the Fund.

Decision No. 8478-(86/200), adopted
December 16, 1986

APPROVED: August 5, 1987

LEO VAN HOUTVEN
Secretary