

EBS/85/119

CONFIDENTIAL

May 10, 1985

To: Members of the Executive Board

From: The Secretary

Subject: Guyana - Overdue Financial Obligations to the Fund - Further
Review of Decision to Limit Use of the Fund's General Resources

There is attached for consideration by the Executive Directors a paper on the review of the decision to limit Guyana's use of the Fund's general resources. A draft decision appears on page 6.

Mr. Leddy (ext. 8332) or Mr. Dhruba Gupta (ext. 7627) are available to answer technical or factual questions relating to this paper, prior to the Board discussion on Wednesday, May 15, 1985.

Att: (1)

CONFIDENTIAL

INTERNATIONAL MONETARY FUND

Guyana - Overdue Financial Obligations to the Fund -
Further Review of Decision to Limit Use of the Fund's General Resources

Prepared by the Treasurer's, Western Hemisphere, and Legal Departments

(In consultation with the Exchange and Trade Relations and
Fiscal Affairs Departments)

Approved by W.O. Habermeier, E. Wiesner, and George P. Nicoletopoulos

May 10, 1985

1. On February 15, 1985 the Fund reviewed further Decision No. 7719-(84/88), adopted June 6, 1984, limiting Guyana's use of the general resources of the Fund in light of the nonobservance by Guyana of its financial obligations to the Fund in the General Department. The decision provided for a further review on May 15, 1985, taking into account any further developments, and expressed the Executive Board's expectation that a decision to declare Guyana ineligible to use the Fund's general resources pursuant to Article XXVI, Section 2(a) would be taken, with effect on that date, in the absence of full settlement of Guyana's financial obligations to the Fund in the General Department by that date. 1/

2. At the time of the Executive Board meeting on February 15, 1985, Guyana's overdue financial obligations to the Fund amounted to SDR 18,664,672. Since then, Guyana has made three payments totaling SDR 1,575,381 to settle semiannual charges due January 15, 1985, and a payment of SDR 2,441 for the SDR assessment, which was made on its due date. Further obligations totaling SDR 1,016,514 have become overdue. As a result of these payments and newly overdue obligations, Guyana's overdue obligations to the Fund as of May 7, 1985 amounted to SDR 18,105,805, as shown in the table below. The authorities have indicated their intention to settle on May 10, 1985 the net SDR charges due May 1, 1985 and the quarterly charges due May 6, 1985, which would reduce Guyana's overdue obligations to the Fund to SDR 17,089,291. Guyana's projected obligations to the Fund payable through 1991 are shown in Attachment II.

3. Executive Directors may recall that prior to the Executive

1/ The text of the Executive Board's decision on February 15, 1985, Decision No. 7906-(85/24), is contained in Attachment I.

Guyana - Overdue Financial Obligations to the Fund 1/

(May 7, 1985)

| Type of Obligation | Date of Purchase | Due Date | Days Late | SDR Amount |
|---------------------------|------------------|----------|-----------|--------------------------|
| <u>General Department</u> | | | | |
| CF repurchase (balance) | 7/31/78 | 5/31/83 | 707 | 187,500 |
| EF repurchase | 6/28/79 | 6/27/83 | 680 | 1,078,125 |
| CF repurchase | 1/17/80 | 7/15/83 | 662 | 781,250 |
| CF repurchase | 7/31/78 | 7/29/83 | 648 | 1,093,750 |
| CF repurchase | 1/17/80 | 10/14/83 | 571 | 781,250 |
| EF repurchase | 6/28/79 | 12/27/83 | 497 | 1,078,125 |
| CF repurchase | 1/17/80 | 1/16/84 | 477 | 781,250 |
| EF repurchase | 8/06/80 | 2/03/84 | 459 | 710,938 |
| CF repurchase | 1/17/80 | 4/16/84 | 386 | 781,250 |
| EF repurchase | 11/13/80 | 5/11/84 | 361 | 1,062,500 |
| EF repurchase | 6/28/79 | 6/27/84 | 314 | 1,078,125 |
| CF repurchase | 1/17/80 | 7/16/84 | 295 | 781,250 |
| EF repurchase | 8/06/80 | 8/03/84 | 277 | 710,938 |
| CF repurchase | 1/17/80 | 10/16/84 | 203 | 781,250 |
| EF repurchase | 11/13/80 | 11/09/84 | 179 | 1,062,500 |
| EF repurchase | 6/28/79 | 12/27/84 | 131 | 1,078,125 |
| EF repurchase | 1/15/81 | 1/14/85 | 113 | 1,006,250 |
| CF repurchase | 1/17/80 | 1/16/85 | 111 | 781,250 |
| EF repurchase | 8/06/80 | 2/05/85 | 91 | 710,938 |
| Quarterly charges | | 2/06/85 | 90 | 762,727 |
| Quarterly charges | | 5/06/85 | 1 | 716,207 |
| | | | | <u>17,805,498</u> |
| <u>SDR Department</u> | | | | |
| Net SDR charges | | 5/01/85 | 6 | <u>300,307</u> |
| Total | | | | <u><u>18,105,805</u></u> |

1/ The following obligations will become due before May 15, 1985:

| Type of Obligation | Due Date | SDR Amount |
|--------------------|----------|------------|
| EF repurchase | 5/12/85 | 553,270 |
| EF repurchase | 5/12/85 | 1,062,500 |

board's second review (December 3, 1984) of the decision of June 6, 1984, the authorities indicated that payments totaling the equivalent of US\$25 million would be made to the Fund in 1985, US\$10 million in the first half of the year, and US\$15 million in the second half. Full settlement of Guyana's arrears to the Fund was not envisaged by the authorities before early 1986. At the December review, the Executive Board again urged the adoption of comprehensive adjustment measures and called upon Guyana to achieve a substantial acceleration of payments, with the objective of prompt and full settlement of the overdue obligations. Guyana was advised that in the absence of full settlement by the time of a further review in about 2 1/2 months' time, the Fund would consider the appropriateness of further steps, including the possibility of declaring Guyana ineligible to use the general resources of the Fund.

Prior to the review of February 15, 1985, the authorities reiterated their intention to make full settlement only sometime in early 1986, as had been envisaged in the program of payments communicated earlier to the Fund. The Executive Board's decision on February 15, 1985 indicated that the Fund could not accept the program proposed by the Guyanese authorities with respect to further payments and, as noted above, expressed the expectation that if Guyana were not current with the Fund by May 15, 1985, Guyana would be declared ineligible to use the Fund's general resources with effect on that date.

4. On February 22, 1985, the Managing Director telexed the Minister of Finance, providing background on the Executive Board's discussion of February 15 and stressing that the Executive Board considered that prompt and full settlement of Guyana's overdue obligations to the Fund was the only acceptable solution to the problem. ^{1/} On April 19, 1985, the Managing Director again telexed the Minister and urged that all possible steps be taken that would render unnecessary a declaration of ineligibility. In his reply of April 22, 1985, the Minister stated that the authorities were aware of the impending review and had noted the significance of the decision taken in the course of the previous review. He also stated that they were doing their best to ensure that normal relations with the Fund could be restored with dispatch. On May 7, 1985, the Minister indicated that Guyana proposed to make at least one additional payment before May 15, but that Guyana would not be in a position to eliminate fully the outstanding arrears by that date. He noted that the authorities remained committed to improving on the schedule of payments previously provided to the Fund, and added that Guyana would seek to

^{1/} Recent communications between the Managing Director and the Honorable Carl B. Greenidge, Minister of Finance of Guyana, are contained in "Guyana - Overdue Financial Obligations to the Fund" (EBS/85/36, Supplement 2, 2/26/85, Supplement 3, 4/23/85, and Supplement 4, 5/8/85).

honor its commitments whatever decision the Executive Board takes on May 15. The Minister also provided information on the most recent developments related to Guyana's sugar crop in 1985 and expressed a willingness to move ahead with respect to certain Fund technical assistance already agreed (see also paragraph 5 below).

5. In the paper prepared for the review of February 15, 1985, the staff informed Executive Directors of a number of economic policy measures that the authorities had adopted in 1984 or announced for 1985 designed to reduce the imbalances in Guyana's economy. 1/ While these measures appeared to represent some progress, the staff continues to believe that they would not constitute the strong and comprehensive adjustment effort that is required in Guyana's situation. The staff does not have sufficient current information to assess the degree to which the measures have been implemented or to judge their possible implication for Guyana's external position.

Financial developments continue to be dominated by expanding credit to the public sector, which increased by G\$181.5 million in the first quarter of 1985 compared with G\$174.6 million in the same period of 1984. This credit expansion would be consistent with public sector borrowing from the banking system of some G\$765 million in 1985 as a whole, equivalent to 50 percent of broad money at the end of 1984. Other major problem areas in the economy, where policy action is required, are the exchange rate and price controls. Partial actions taken so far by the authorities in these areas appear to be inadequate to remove the large distortions adversely affecting economic performance, although as mentioned above the staff does not have sufficient information to assess adequately Guyana's external sector prospects. The production of sugar, which is the country's main cash export, seems likely to increase somewhat compared with 1984, but the rice crop was well below projections mainly because of unfavorable weather conditions. Guyana's bauxite industry is embarking on a long-term program of financial and operational restructuring.

With regard to technical assistance, in view of the emphasis placed by the Executive Board on the need for a strong and comprehensive program of economic and financial adjustment on the part of Guyana, the Fund has offered on a number of occasions to provide technical assistance in the formulation of such a program. As noted in EBS/85/36, the Minister of Finance indicated on February 6, 1985 that Guyana would welcome such assistance in a structured manner. However, the authorities have not yet made a specific request in this respect.

In January 1985, at the authorities' request the Fund provided

1/ See "Guyana - Overdue Financial Obligations to the Fund - Further Review of Decision on Complaint Under Rule K-1" (EBS/85/36, 2/13/85).

assistance in reviewing aspects of Guyana's fiscal system. In a subsequent letter to the authorities regarding the work and conclusions of the technical assistance mission the staff identified a number of areas where further assistance from the Fund could enhance Guyana's fiscal operations, including the establishment of a firmer link between annual budgeting and macroeconomic forecasting, reclassification of budget items and changes in budget presentation, expansion of the existing system of budget monitoring, and introduction of a formalized fiscal information system. Assistance was also offered in reorganizing the Budget Office. Moreover, although the staff regards the existing exchange rate as a serious obstacle to a strengthened revenue effort, the authorities were informed that the staff would be ready to look at taxation of the nontraditional agricultural sector which was singled out by the authorities as a special area of weakness.

The staff has again indicated to the authorities, in partial reply to the Minister's telex of May 7, 1985, (EBS/85/36, Supplement 4, 5/8/85) that they might wish to specify areas to be covered by further technical assistance on the lines indicated above (see Attachment III). Also, a staff mission is scheduled to visit Georgetown in the near future to provide assistance in the revision of the consumer price index. An Article IV consultation mission to Guyana is scheduled to go in the second half of June, which will provide another opportunity for the staff to advise the authorities and to review with them financial and economic developments.

6. The situation with respect to Guyana's overdue obligations to the Fund may be summarized as follows as of May 7, 1985. Since the Managing Director's complaint on Guyana was issued on March 9, 1984, payments to the Fund by Guyana have totaled SDR 15.5 million; payments so far during 1985 have amounted to SDR 3.2 million. ^{1/} Since issuance of the complaint, the amount of overdue obligations outstanding has increased from SDR 14.3 million to SDR 18.1 million; further obligations totaling approximately SDR 12.3 million will fall due in the remainder of 1985. Guyana's longest outstanding overdue obligation dates from May 31, 1983, and Guyana has been in arrears to the Fund continuously since April 16, 1983.

7. Guyana has not become current with the Fund, as urged in the Executive Board's decision of February 15, 1985. Developments since the Executive Board's review of February 15, 1985 and recent communications from the authorities provide no assurance that prompt and full settlement of Guyana's overdue obligations to the Fund in the General Department is in prospect. The Executive Board will be

^{1/} As noted above, the authorities have indicated that a payment of SDR 1.0 million will be made on May 10, 1985 and that it is possible that further payment might be made before May 15, 1985.

informed promptly of any further developments before the meeting on May 15, 1985.

8. Accordingly, the draft decision below, which can be taken by a majority of the votes cast and would give effect to the expectation regarding Guyana's ineligibility to use the Fund's general resources that was expressed in the Executive Board's decision of February 15, 1985, is proposed for adoption by the Executive Board:

1. The Fund has reviewed further Decision No. 7719(84/88), adopted June 6, 1984, regarding the nonobservance by Guyana of its financial obligations to the Fund in the General Department in light of recent developments described in EBS/85/119, May 10, 1985, and the communications of the authorities dated April 22, 1985 and May 7, 1985.

2. The Fund welcomes the recent partial payments by Guyana. The Fund regrets, however, the continuing nonobservance by Guyana of its financial obligations to the Fund and continues to urge Guyana to settle promptly all overdue obligations to the Fund.

3. The Fund also regrets that Guyana has not adopted a strong and comprehensive program of adjustment and again urges that the authorities adopt such a program as a matter of urgency.

4. With effect on May 15, 1985, Guyana is ineligible to use the general resources of the Fund pursuant to Article XXVI, Section 2(a).

INTERNATIONAL MONETARY FUND

Guyana - Overdue Financial Obligations -
Further Review of Decision on Complaint Under Rule K-1

Executive Board Decision No. 7906-(85/24) - February 15, 1985

1. The Fund has reviewed further Decision No. 7719-(84/88), adopted June 6, 1984, regarding the nonobservance by Guyana of its financial obligations to the Fund in the General Department in the light of recent developments described in EBS/85/36 (2/13/85) and the communications of the Guyanese authorities dated January 3 and February 6, 1985.
2. The Fund welcomes the payments made by Guyana on December 31, 1984, January 4, 1985, and February 14, 1985. In view of its policies and practices, however, the Fund cannot accept the program of the Guyanese authorities with respect to further payments, as communicated to the Fund in connection with the Executive Board's review of December 3, 1984 and confirmed in their communication of February 6, 1985. The Fund regrets the continuing nonobservance by Guyana of its financial obligations to the Fund. The Fund urges the Guyanese authorities to make prompt and full settlement of the remaining overdue obligations to the Fund.
3. The Fund reiterates its call upon Guyana to adopt urgently a strong and comprehensive program that would bring about a much needed economic adjustment.
4. The Fund shall review further Decision No. 7719-(84/88) on May 15, 1985, taking into account any further developments. It is expected that a decision to declare Guyana ineligible to use the Fund's general resources pursuant to Article XXVI, Section 2 will be taken, with effect on that date, in the absence of full settlement of Guyana's financial obligations to the Fund in the General Department by that date.

Guyana - Overdue and Forthcoming Obligations
as of May 7, 1985

(In millions of SDRs)

| Type of Obligation | Outstanding as of May 7, 1985 | Forthcoming 1/ | | | | | | | Total 3/ |
|-----------------------|-------------------------------------|----------------|------|------|------|------|------|------|----------|
| | | 1985 2/ | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | |
| Repurchases | 16.3 | 8.6 | 14.7 | 13.7 | 7.2 | 5.0 | 4.9 | 1.3 | 71.7 |
| Quarterly charges | 1.5 | 1.4 | 2.5 | 2.0 | 1.5 | 1.1 | 0.8 | 0.5 | 11.4 |
| Semiannual charges | 0.0 | 1.7 | 2.8 | 1.9 | 1.3 | 1.1 | 1.1 | 1.1 | 11.0 |
| Net SDR charges | 0.3 | 0.6 | 1.2 | 1.2 | 1.2 | 1.2 | 1.2 | 1.2 | 7.9 |
| Trust Fund | | | | | | | | | |
| Repayments | -- | -- | 1.1 | 2.3 | 2.3 | 2.3 | 2.3 | 1.1 | 11.3 |
| Interest | -- | 0.1 | 0.1 | -- | -- | -- | -- | -- | 0.2 |
| Total 3/ | 18.1 | 12.3 | 22.4 | 21.0 | 13.4 | 10.7 | 10.2 | 5.3 | 113.5 |

1/ On the basis of present use of Fund credit, Trust fund loans outstanding and Guyana's present position in the SDR Department. Charges are projected on the basis of current rates of charge.

2/ Obligations falling due after May 7, 1985.

3/ Totals may not add due to rounding.

Honorable Carl Greenidge
Minister of Finance
Georgetown, Guyana

I have received a copy of your cable to the Managing Director, dated May 7, 1985, on the question of Guyana's overdue obligations. I was puzzled by the paragraph on technical assistance in the fiscal field implying that we are not being helpful in meeting your request. A clarification seems called for. As you will recall I wrote to you on February 24, 1985, after I received the report of a staff technical assistance mission that visited Guyana last January to carry out work on lines mutually agreed between us after an exchange of cables. My letter was acknowledged by Mr. Simmons, Secretary to the Treasury in a letter dated March 22, 1985. We sought further clarification of your needs in a telex, dated April 26, 1985, which read as follows:

"Reference your letter of March 22, 1985. In his letter of February 24, 1985, Mr. Tanzi identified specific areas where we could consider providing technical assistance if so requested. I take your letter to imply that you wish to pursue the matter. As a next step please specify areas you wish to be covered by such assistance. Regards. Latham. Interfund."

Thus our understanding was that the matter rested with you and we were awaiting a positive reaction to our latest communication. We have suggested technical assistance might be helpful in establishing a firmer link between annual budgeting and macroeconomic forecasting, reclassification of budget items and changes in budget presentation, expansion of the existing system of budget monitoring and introduction of a formalized fiscal information system, and we have offered assistance in reorganizing the Budget Office. Moreover, although we regard the existing exchange rate as a serious obstacle to exercising 'fiscal effort' through the revenue side, we indicated willingness to look at taxation of the nontraditional agricultural sector which was singled out by you as a special area of weakness. We did, however, express doubts that the level of taxation could be much increased, given the present high level. I hope the foregoing clears up any possible misunderstanding.

Regards.

Vito Tanzi
Director
Fiscal Affairs Department
Interfund

Sent on May 8, 1985

