

MASTER FILES

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04

INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 85/62

3:00 p.m., April 24, 1985

R. D. Erb, Acting Chairman

Executive Directors

R. K. Joyce

E. I. M. Mtei

C. R. Rye

Zhang Z.

Alternate Executive Directors

J.-C. Obame, Temporary

M. K. Bush

M. Lundsager, Temporary

G. Ercel, Temporary

C. Flamant, Temporary

M. B. Chatah, Temporary

M. Sugita

B. Goos

Z. b. Ismail, Temporary

J. Hospedales, Temporary

A. K. Juusela, Temporary

A. Abdallah

B. Jensen

J. E. Suraisry

J. E. Rodríguez, Temporary

A. Steinberg, Temporary

H. Alaoui-Abdallaoui, Temporary

A. Vasudevan, Temporary

T. A. Clark

L. Tornetta, Temporary

L. Van Houtven, Secretary

B. J. Owen, Assistant

1. Seychelles - 1985 Article IV Consultation Page 3
2. Liberia - Overdue Financial Obligations - Report and
Complaint Under Rules K-1 and S-1 and Notice of
Failure to Settle Trust Fund Obligations Page 11

Also Present

African Department: A. D. Ouattara, Director; S. E. Cronquist, K. G. Dublin, C. Enweze, M. C. Niebling, D. E. Syvrud. Exchange and Trade Relations Department: E. H. Brau, S. Kanesa-Thasan. Fiscal Affairs Department: M. I. Blejer, G. Blöndal. Legal Department: J. G. Evans, Jr., Deputy General Counsel; A. O. Liuksila, J. M. Ogoola, S. A. Silard. Treasurer's Department: D. Berthet, J. E. Blalock, D. Gupta, T. B. C. Leddy, D. V. Pritchett. Advisors to Executive Directors: D. Hammann, S. M. Hassan. Assistants to Executive Directors: J. R. N. Almeida, A. K. Diaby, R. Fox, G. D. Hodgson, J. M. Jones, H. Kobayashi, M. Sarenac, A. J. Tregilgas, B. D. White.

1. SEYCHELLES - 1985 ARTICLE IV CONSULTATION

The Executive Directors considered the staff report for the 1985 Article IV consultation with Seychelles (SM/85/90, 3/26/85). They also had before them a report on recent economic developments in Seychelles (SM/85/100, 4/10/85).

Mr. Rye made the following statement:

My authorities consider that the Staff Report provides a generally balanced assessment of economic trends and policy issues in Seychelles. There are, however, some aspects on which elaboration, updating, and comment is warranted.

Recent economic performance

Indications are that improvements in the economy in 1984 have continued into the first quarter of 1985. This has been especially notable in the important tourism sector. Compared with the first quarter of 1984, tourist arrivals rose by 22.5 percent and tourism earnings by 17.6 percent. This upturn contributed to an overall balance of payments surplus during the first quarter of SR 6.3 million (after allowing for SR 7.2 million in repayments of short-term borrowings).

National Development Plan 1985-89

My authorities consider the objectives of the Plan to be well-founded--a view broadly shared by the World Bank, on their preliminary assessment. Its implementation will entail an increase in the public sector borrowing requirement (PSBR) in the short term, but failure to diversify the economy and strengthen the productive economic base would result in potentially more serious longer-term imbalances. Equally, however, my authorities recognize the potential adverse consequences, particularly for the external accounts and the external debt burden, of attempting to force the rate of implementation of the Plan beyond the absorptive and financing capacity of the economy. It is therefore their intention to proceed cautiously and to assess regularly the macroeconomic impact of the plan through a committee to be established especially for the purpose. Projects will be implemented on a selective basis, and priority will be given to those that can be financed on concessional terms and that will yield long-term benefits to the external accounts. Under previous investment plans, investment did not go beyond that consistent with maintaining a modest debt service ratio--currently less than one third of the average for non-oil developing countries--and an external payments system free from restrictions. Seychelles has every intention of maintaining this track record.

Fiscal policy

While fiscal policy remained expansionary in 1984, in the sense that an overall fiscal deficit persisted, both the government and the overall public sector deficits were further reduced on a cash basis as a proportion of GDP. The apparent growth of government recurrent expenditure in 1984 and 1985 should be interpreted with caution as transfers to parastatals, previously treated as extrabudgetary items, have since 1984 been brought within the scope of the budget. In line with the nature of the development plan, government capital outlays should be regarded as indicative only. The overall 1985 budget deficit of SR 235 million is thus not a formal budget target. Moreover, the Government intends to review the situation in mid-1985 in the light of developments, and it will then consider any necessary remedial measures.

Parastatal finances

Since the consultation, the Government has decided to extend and strengthen the financial reporting requirements for the parastatals. This, and other measures to reinforce financial control over the parastatal sector, as well as the proposed restructuring of this sector, will be pursued in the months ahead to minimize subsidies and net lending by the Government to the parastatals.

Credit expansion and inflationary pressures

My authorities do not believe that the expansionary fiscal policies pursued to sustain the economy through the 1980-83 cyclical downturn have contributed significantly to pressures on domestic prices or will do so in 1985. Seychelles' heavy dependence on imports provides a self-regulating mechanism in this regard. Moreover, my authorities consider that the staff assertion that "as extensive price controls remained in force, the underlying inflation rate was probably significantly higher" is questionable. The price control system has been operated flexibly, basic commodities have remained readily available, and there is no evidence of rationing or of parallel markets.

With reference to the staff concern about the prospects for monetary growth in 1985, and the related reference to the absence of a decision on government use of central bank credit, it has been decided that the Government's central bank financing requirement will be subject to quarterly review and agreement between the Government and the Central Bank. Additionally, the Central Bank is continuing to exercise close control over parastatal borrowing from commercial banks.

External system and exchange rate

My authorities do not share the fears expressed by the staff that "the introduction of comprehensive import licensing may ultimately lead to distortions under pressures of balance of payments difficulties" since, as the staff notes, the licensing system is being administered in a liberal manner.

Concerning the exchange rate, two issues have been raised, viz. an alternative basket to the SDR, and the effective appreciation of the rupee. My authorities are not averse to considering an alternative exchange rate basket, but are not yet convinced of the irrelevance of the SDR basket to their case. On a trade basis, currencies in the SDR basket and those aligned to such currencies now constitute about 63 percent of Seychelles' imports, with the dollar and currencies aligned to it accounting for about 30 percent. The authorities are doubtful whether it would be appropriate to include tourism receipts in determining the weights in their exchange rate basket, given that the relative importance of source countries changes from season to season.

On the effective appreciation of the rupee, developments are being constantly monitored. The authorities note that the Seychelles rupee has experienced wide fluctuations against individual currencies because of the highly volatile overseas exchange markets, and they are reluctant to contemplate any major decision on the exchange rate in these circumstances. They consider the beneficial impact of a rupee depreciation on exports and import substitution to be arguable, given the inelasticity of the Seychelles merchandise exports and the high import content of tourism and of local substitutes for imports.

Ms. Bush recalled that during the discussion of the 1983 Article IV consultation with Seychelles (EBM/83/149, 10/24/83), it had been noted that the adverse developments in the tourism sector and the increase in the public sector deficit had been due to exogenous factors. However, the authorities had taken corrective fiscal measures in the second half of 1983, which had helped to reduce the fiscal imbalances somewhat. The consolidated public sector deficit had declined from 21.9 percent of GDP in 1981 and had been further reduced to 9.4 percent of GDP in 1984. In the latter year, growth had resumed for the first time since 1979, mainly as a result of the recovery of tourism; the increase of 21 percent in tourist receipts had helped to reduce the current account deficit, which nevertheless remained at a high level.

The National Development Plan announced for 1985-89 had the goals of broadening the economic base, promoting economic growth, and improving the balance of payments outlook, Ms. Bush observed. She concurred with the strategy under the Plan of maximizing the benefits from tourism while developing agriculture and fishing, and she urged the authorities to

accomplish the goals of the Plan by strengthening the private sector, which had been accounting for a declining share of economic activities. At the same time, it was necessary to give weight to the World Bank's view that the investment program was out of line with both the absorptive capacity of the economy and the need to strengthen the Government's fiscal position. Therefore, she welcomed the authorities' intention to proceed cautiously and to review their investment plans and projects carefully. It was projected that the fiscal position for 1985, under the Development Plan, would deteriorate seriously. She understood from Mr. Rye that the overall 1985 budget deficit did not represent a formal target and would be reviewed. The authorities' experience with an expansionary fiscal policy should make them more careful not to set such expansionary indicative targets, particularly when they would jeopardize other economic goals if attained.

The financial performance of the parastatal enterprises had caused a serious drain on government resources, Ms. Bush commented, and she would be interested in having more specific information about the authorities' plans for improving it, particularly in view of the need to encourage market-oriented activities and greater efficiency in the parastatals. She agreed with the staff that World Bank technical assistance would be useful in that connection.

As to the external sector, Ms. Bush remarked that the authorities appeared to recognize the need for improving trade policy. She hoped that the Seychelles Marketing Board (SMB) would be successful in promoting exports, improving efficiency by consolidating a number of marketing parastatals, and curtailing the losses being incurred. However, price controls and import licensing were not a satisfactory substitute for a freely functioning market system. In that respect, she agreed with the staff that more emphasis should be placed on the price mechanism. With the Seychelles economy at its present crossroads, and with the need for continued monitoring of fiscal and exchange rate developments, she agreed that the next Article IV consultation should be held on a 12-month cycle.

Mr. Flamant observed that, in assessing the performance of Seychelles, Directors should not forget that it was a typical small tropical island economy, with a GDP of approximately \$150 million and a population of 65,000. It was thus difficult to judge such an economy by the standards used to judge a larger economy, if only because what looked like large imbalances in percentage terms were small in absolute amounts. He did not fault the staff for applying the usual statistical procedures to the economic and financial variables characterizing the economy of Seychelles but considered that it would be advisable to interpret the results with a certain sense of proportion so that issues were not unnecessarily singled out for attention.

As Chart 2 in the staff report showed, the real effective exchange rate for the Seychelles rupee had undeniably appreciated by about 30 percent from 1979 to 1984, Mr. Flamant continued. The question was whether the appreciation meant that the present exchange rate was inappropriate.

Even without casting doubt on the relevance of the choice of 1979 as the base year for the exchange rate index, the initial answer could be that the rate might well have been determined by market forces, as the external system was free of payments restrictions and as the overall balance of payments deficit had remained insignificant in terms of GDP and had recently given way to a surplus. The question could also be approached from the different angle of whether or not the exchange rate constituted an obstacle to an improvement in the current account of the balance of payments. Due to the major role of tourism in that connection, the question was in effect whether the present exchange rate was hampering the development of tourism. There was no definitive evidence in the staff report to suggest that it was. After all, the price of tourism in the Seychelles relative to that in other countries would be a relevant indicator only if tourists considered Seychelles to be a perfect substitute, which was certainly not the case, because Seychelles enjoyed a large comparative advantage.

His belief that the exchange rate did not affect tourism greatly could be supported by three facts, Mr. Flamant added. First, the number of tourists visiting Seychelles had increased by more than 13 percent in 1984, and, as Mr. Rye had said, there had been an upsurge of tourism in the first quarter of 1985. Second, the major factor limiting the development of the tourism sector was the seating capacity and airfares of the airlines serving Seychelles, which did not depend on the exchange rate of the rupee. Finally, because tourism had a high import content, of about 40 percent, it was not sensitive to a change in the exchange rate. He had therefore been led to conclude that the main criterion for judging the adequacy of the exchange rate should be whether it provided room for the diversification of the economy toward other activities, such as deep-sea fishing and agriculture. There was little information on that issue in the staff reports, and he would welcome further staff comment.

As for the public sector, Mr. Flamant continued, the financial position of a number of parastatals was characterized by deficits that had to be financed by government subsidies, recourse to credit from the banking system, or foreign borrowing. However, as stated in the staff report, the Government was aware of the problems that those deficits could pose. A major effort had been undertaken to improve the financial reporting and control procedures of the public sector. So far, the authorities had largely abstained from intervening in the day-to-day management of the parastatals. Steps had been taken to reduce further the parastatal deficit, estimated at SR 70 million in 1984. Nevertheless, the increase in the deficit forecast by the staff for 1985 was a matter for concern to the extent that it did not reflect productive investment but rather such factors as inadequate prices. However, the authorities had indicated their willingness to redress the situation by taking a number of appropriate measures, including changes in the price and cost structure of parastatals.

As to the medium-term prospects of the economy, he agreed with the staff that the National Development Plan, like almost all such plans, might appear ambitious in the light of the absorptive capacity of the economy, Mr. Flamant stated, but he doubted whether the Plan, which could be considered a shopping list, was a cause for serious concern. First, the availability of external finance would determine essentially what parts of the Plan would ultimately be implemented. Second, the sobering experience that had been accumulated in development finance over the past two decades made it reasonable to assume that external donors would provide resources only for carefully selected projects and on terms appropriately tailored to the rate of return and viability on those projects, thereby contributing greatly toward sustainable economic growth in the medium term. Third, the authorities had indicated that they would implement projects selectively and give priority to those that could be financed on concessional terms.

Mr. Clark noted that although there had been some improvement in the Seychelles economy in 1984, a serious worsening in internal and external imbalances seemed possible because of what appeared to be an overambitious or overrapid Development Plan. As the scenarios depicted by the staff suggested, the Plan could almost triple the deficit of the consolidated public sector as a percentage of GDP and lead to a severe deterioration of the already large current account deficit, besides more than doubling the debt service ratio. He joined the Fund and IBRD staff in encouraging the authorities to adopt a more measured approach, giving priority to projects that could be financed on concessional terms. The authorities had already scaled down their plans somewhat, but the staff projection of the public deficit already took that into account, suggesting that a further scaling down was necessary.

He could also endorse the staff's call for a more general tightening of fiscal policy in 1985, Mr. Clark added. The authorities had taken some steps in that direction in 1983, but they needed to take other measures that had been considered but not yet implemented. For instance, increased import duties and indirect taxes, together with improved collection of the turnover tax, were needed to reduce the deficit on the recurrent budget and improve the financial position of the parastatals. Those measures had been intended to improve financial control, but he would be interested in learning how the authorities intended to reduce the need for central government support of the parastatals.

In the external sector, some correction of the current exchange rate seemed overdue, Mr. Clark considered. Such a correction should help to give a boost to the tourist industry and constrain the growth of imports more efficiently than the existing import licensing system. He hoped that the authorities would give serious consideration to the staff's advice and, with its assistance, adopt a more appropriate peg for the rupee. According to the figures cited by Mr. Rye, the weight of the dollar in the SDR basket exceeded the weight in Seychelles' total imports of imports

from the dollar area by a factor of almost 2; according to the figures in the report on recent economic developments, the difference was even greater for Seychelles' exports.

The staff representative from the African Department noted that the large increase in the deficits of the parastatals in 1981 and 1982 had been followed by a decline in subsequent years, partly because the Central Bank had begun in 1983 to tighten credit to parastatals. However, the result had been that in 1984 the parastatals had once again financed their deficits largely from the government budget. Although the staff had been discussing the problem of the parastatals with the authorities since the consultation discussions in 1982, the authorities themselves clearly still had no detailed or comprehensive information on those enterprises' operations and finances. It was possible to estimate the total parastatal deficit from the financing side, and the staff had done so from data on their foreign indebtedness, credit from banks, and receipts from budgetary transfers and net lending. Although the staff had received no specific information, it had been informed that the authorities would finally tighten up the parastatal accounting procedures in 1985.

The significant increase foreseen in the Development Plan in investment by both the Government and the parastatals did in a sense represent a shopping list, the staff representative noted; its financing would depend upon the amount of external resources available. However, it was not a rolling plan as in the past, and its implementation--aimed at diversification of the economy--was being taken seriously by the authorities. Therefore, the staff had considered it advisable to demonstrate the financial impact of implementing the Plan. The staff hoped and expected that the authorities would in fact exercise considerable judgment in carrying out the various elements of the Plan.

Exchange rate policy had also been discussed with the authorities in the past, particularly after the 1981 revaluation, the staff representative noted. During the 1985 discussions, because of the continuing appreciation of the rupee, the staff had sought to open up a discussion of the exchange rate issue by cautiously broaching the question of the nature of the peg. The composition of the SDR basket, to which the rupee was pegged, was not regarded by the staff as being necessarily consistent with the direction of trade and services of Seychelles. The authorities had been interested in the staff approach and had asked for informal advice on alternative pegs; the staff would follow up the matter. Certainly, as Executive Directors had noted during the present discussion, the impact of the current exchange rate regime on tourism might be less serious than had been thought earlier. However, the continuing appreciation of the rupee would have an impact on the authorities' efforts to diversify the economy, especially to encourage import substitution. For that reason, the staff wished to continue to discuss exchange rate policy with the authorities of Seychelles.

In response to a question by Mr. Vasudevan about the merits and demerits of a rolling developing plan, the staff representative noted that, as had been mentioned in the report on recent economic developments, the authorities of Seychelles had tended to add projects that had not been financed in one year to the plan for the subsequent year. Thus, the gap between the implementation of projects and the number of commitments on projects had grown steadily.

Mr. Rye said that he could assure Executive Directors that the concerns that they had expressed were shared in the main by the authorities of Seychelles, who were especially concerned to ensure that their good record on external debt was not jeopardized by the ambitious pursuit of the National Development Plan.

In a small economy, where the possibility of monopolistic practices was far greater than in larger economies, it was understandable that governments would tend to look to price controls and import licensing, which Ms. Bush had suggested were not a substitute for private sector competition, Mr. Rye stated.

The authorities were looking forward to the discussions with the staff on alternative exchange rate arrangements, Mr. Rye commented, although of course the peg to the SDR basket would look quite different if the rate for the dollar began to fall.

The enhanced role of the parastatals in the public sector had had its origin in the sharp downturn in tourism and the need to fill a large gap that had opened up in the economy, Mr. Rye remarked. If tourism recovered and the pace of economic growth picked up, it would become that much easier to make a downward adjustment in the role of parastatals in the public sector and in the economy as a whole.

The Acting Chairman made the following summing up:

Directors welcomed the improvement in economic activity in Seychelles in 1984 and in early 1985, an improvement that followed several years of declining GDP in real terms. They also noted that in recent years Seychelles had experienced sizable budgetary and external current account deficits because exogenous developments had been exacerbated by expansionary public sector policies.

Directors also noted that a number of corrective measures taken in late 1983 had helped to reduce the fiscal and external imbalances in 1984. Nevertheless, Directors expressed concern that the scope of these measures had not been sufficiently broad to adequately reduce the imbalances. In particular, Directors expressed concern about the Government's fiscal policy stance for 1985. They felt that the authorities should proceed cautiously

with investment outlays that were identified in the Development Plan, limiting expenditures to the extent of available financing through receipts from concessional assistance from donor countries.

Directors also recommended that the authorities should reduce subsidies to the parastatal enterprises in order to further help bring the 1985 overall budget deficit to a sustainable level. Directors stressed the importance of ensuring the commercial viability of the parastatal sector, noting that World Bank technical assistance in that area would be useful.

Regarding the exchange rate, Directors noted the continuing appreciation of the rupee in recent years and encouraged the Seychelles authorities to monitor exchange rate developments carefully in order to ensure the competitiveness of local industry, including tourism, as well as to promote economic diversification. The authorities' intention to seek the advice of the Fund on a more appropriate peg for the rupee was welcomed. Directors were concerned lest the introduction of comprehensive import licensing should lead to restrictive trade and payments practices.

It is expected that the next Article IV consultation with Seychelles will take place on the standard 12-month cycle.

2. LIBERIA - OVERDUE FINANCIAL OBLIGATIONS - REPORT AND COMPLAINT UNDER RULES K-1 AND S-1 AND NOTICE OF FAILURE TO SETTLE TRUST FUND OBLIGATIONS

The Executive Directors gave initial consideration to the Managing Director's complaints under Rule K-1 and Rule S-1 relating to Liberia's overdue financial obligations and a notice of failure to repay Trust Fund loans (EBS/85/87, 4/4/85; and Sup. 1, 4/23/85).

The Acting Chairman proposed that the complaints and notice of the Managing Director should be placed on the agenda of the Executive Board for substantive consideration on May 24, 1985.

Mr. Mtei recalled that, shortly before the complaints and notice had been issued, a delegation from Liberia had called upon the Managing Director to explain the difficulties that the authorities were facing in settling their outstanding arrears to the Fund, touching also on the measures being taken in an attempt to meet their obligations. He had since been in touch with the Liberian authorities, who wished to assure the Executive Board that they accorded the highest priority to settling their outstanding financial obligations to the Fund. They were fully aware of the importance of making an early settlement, given the revolving nature of the Fund's resources and the need to maintain the good working relationship that had developed between the Fund and Liberia, especially in recent years. The accumulation of arrears should not be seen as a sign of indifference on the part of the authorities to their obligations.

The unfortunate situation had arisen solely because of the country's serious shortage of foreign exchange. The authorities were continuing their efforts to resolve the problem as soon as possible.

Mr. Clark stated that he supported the date proposed by the Acting Chairman for the Board's consideration of the complaints and notice.

Mr. Suraisry said that he greatly regretted that Liberia was overdue in meeting its obligations to the Fund, especially when the member was in need of support from the Fund and the international financial community in carrying out its adjustment effort. By not meeting its obligations, Liberia would be doing damage to itself as well as to other members, which were doing their utmost to honor their obligations. Furthermore, the Fund's liquidity position would suffer. Therefore, he urged the authorities to settle their arrears to the Fund in full at the earliest possible date. At present, Liberia's overdue obligations were equivalent to only about 4 percent of its export receipts and 7.5 percent of budgetary revenue. With determination and the appropriate policies, Liberia should thus be able to become current in its obligations to the Fund. Any delay in doing so would make Liberia's position even more difficult, given its already heavy debt service burden and the sizable obligations falling due to the Fund in the period ahead. Prompt settlement was also vital if Liberia were to maintain the confidence of its official and commercial creditors.

In that connection, Mr. Suraisry added, it was essential that the authorities resume their adjustment efforts and set the Fund-supported program back on track. He welcomed their recent decision to implement some of the fiscal measures recommended by the staff in February, and he encouraged them to take whatever further action was needed to strengthen the fiscal position and eliminate all external arrears. Only if Liberia acted with urgency would it be justified in obtaining the continued support of the Fund and of its creditors. He supported the proposed decision.

Mr. Chatah noted that reference was made on page 5 of EBS/85/87 to a discussion between the staff and the Liberian authorities, on the occasion of the Article IV consultation mission in February 1985, of fiscal measures that would enable Liberia to settle its obligations to the Fund. Mention was also made of discussions with the authorities on "other arrangements" that might facilitate Liberia's efforts to become current on its obligations. He would be grateful for an explanation of the nature of those arrangements.

Ms. Lundsager said that she supported the Acting Chairman's suggestion that the Board schedule its substantive discussion for May 24, 1985.

Mr. Goos said that his authorities were gravely concerned about Liberia's overdue obligations to the Fund, more particularly about the financial repercussions, for reasons that his chair had already explained on various other occasions and that were also covered in paragraph 5 of EBS/85/87. However, the Liberian case gave rise to concern for other

reasons. First of all, it cast serious doubt on the Fund's ability to help countries with deep-seated financial problems. Since 1974, the Fund had been providing significant financial aid to Liberia, apparently without tangible results. If the emergence of overdue obligations to the Fund were to be taken as an indication of the general state of Liberia's economy, it would have to be concluded that the country was even worse off following the Fund's involvement in its economy. Clearly, prolonged use of Fund resources was not an appropriate way to alleviate structural adjustment problems. Furthermore, Liberia had fallen into arrears only a few days following the presentation to the Executive Board for its approval of the previous stand-by arrangement for Liberia. Because the staff generally made thorough preparations before it presented arrangements to the Board, he would be grateful for an explanation. Finally, he supported the date proposed for discussion of Liberia's overdue obligations.

Mr. Joyce said that he could support the Acting Chairman's proposal. Like Mr. Goos, he would also be interested in any further information that the staff, or ultimately the Liberian authorities, could provide on the reasons why Liberia had fallen into arrears only a few days after the Executive Board had approved the stand-by arrangement.

The staff representative from the African Department explained that the other arrangements that might help Liberia in its efforts to remain current in its obligations to the Fund concerned the public corporations, particularly the petroleum refining corporation. That corporation was extremely costly; it was importing and distributing gasoline at a high cost and with far more employees than it needed. The corporation would have to be completely dismantled if the Government were to generate the resources that it needed from the gasoline tax. Dismantlement of the petroleum refining corporation was also a condition of the World Bank's structural adjustment loan.

As for why Liberia had fallen into arrears only a few days after the Executive Board had approved the stand-by arrangement in December 1984, the staff representative noted that the program had initially been negotiated in June 1984. Liberia had subsequently fallen into arrears with a number of international organizations but had made an effort to pay them, particularly those to the Fund, before the Executive Board took up its request for a stand-by arrangement. The program had been based on certain assumptions with respect to capital flows from other institutions and bilateral creditors. The timing of the disbursement of some of those flows had created serious difficulties, especially as funds from one of those bilateral sources had been counted upon to ensure that Liberia's external arrears would be paid by the end of December 1984, thereby enabling the member to purchase under the stand-by arrangement and be eligible for a structural adjustment loan from the World Bank. However, once that source of financing had not been forthcoming, the entire package had become unavailable, and the program had therefore become inoperative.

The Executive Board then took the following decision:

1. The complaints of the Managing Director dated April 4, 1985 on Liberia, in EBS/85/87 (4/4/85), as amended on April 23, 1985, are noted. They shall be placed on the agenda of the Executive Board for May 24, 1985.
2. The notice of the Managing Director in EBS/85/87 (4/4/85) on the failure by Liberia to fulfill obligations under Decision No. 5069-(76/72) on the Trust Fund is noted. The notice shall be placed on the agenda of the Executive Board for May 24, 1985.
3. Consideration of the complaints in accordance with Rules K-1 and S-1 and of the notice particularly affects Liberia. *The member shall be informed by rapid means of communication of this matter and of its right to present its views through an appropriately authorized representative.*

Decision No. 7958-(85/62) G/S/TR, adopted
April 24, 1985

APPROVED: February 7, 1986

LEO VAN HOUTVEN
Secretary