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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 85/73

10:00 a.m., May 15, 1985

R. D. Erb, Acting Chairman

Executive Directors	Alternate Executive Directors
	L. K. Doe
	M. K. Bush
	H. G. Schneider
	X. Blandin
	M. B. Chatah, Temporary
H. Fujino	M. Sugita
	B. Goos
	Jaafar A.
R. K. Joyce	L. Leonard
A. Kafka	H. A. Arias
H. Lundstrom	
	A. Abdallah
	M. A. Weitz, Temporary
Y. A. Nimatallah	
P. Pérez	
J. J. Polak	J. de Beaufort Wijnholds
C. R. Rye	
	O. Kabbaj
	A. S. Jayawardena
N. Wicks	T. A. Clark
S. Zecchini	
Zhang Z.	Wang E.

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

Also present

L. Robinson, Minister Counsellor, Embassy of Guyana. Asian Department: S. Kohsaka. Exchange and Trade Relations Department: W. A. Beveridge, Deputy Director. External Relations Department: H. O. Hartmann. Fiscal Affairs Department: V. Tanzi, Director; G. Blöndal. Legal Department: J. G. Evans, Jr., Deputy General Counsel; A. O. Liuksila, S. A. Silard. Secretary's Department: A. P. Bhagwat. Treasurer's Department: D. Williams, Deputy Treasurer; D. Berthet, J. E. Blalock, J. C. Corr, D. Gupta, T. B. C. Leddy, B. B. Zavoico. Western Hemisphere Department: S. T. Beza, Associate Director; M. Caiola, J. Ferrân, T. Gudac, A. M. Jul, T. M. Reichmann, D. C. Ross, F. van Beek, K. Yokokawa. Advisors to Executive Directors: G. R. Castellanos, D. Hammann, S. M. Hassan, J. Hospedales, J.-C. Obame, P. Pêterfalvy, G. W. K. Pickering, T. Sirivedhin, E. M. Taha, A. Vasudevan. Assistants to Executive Directors: E. M. Ainley, W.-R. Bengs, A. K. Diaby, V. Govindarajan, N. Haque, G. D. Hodgson, Z. b. Ismail, J. M. Jones, A. K. Juusela, H. Kobayashi, S. Kolb, K. Murakami, M. Rasyid, J. Reddy, D. J. Robinson, M. Sarenac, L. Tornetta, E. L. Walker, B. D. White, A. Yasseri.

1. GUYANA - OVERDUE FINANCIAL OBLIGATIONS - FURTHER REVIEW OF DECISION ON COMPLAINT UNDER RULE K-1

The Executive Directors considered a staff paper on the fourth review of the decision taken on June 6, 1984 to limit Guyana's right to use the Fund's general resources (EBS/85/119, 5/10/85; and Sup. 1, 5/13/85).

Mr. Leslie Robinson, Minister Counsellor, Embassy of Guyana, was also present.

Mr. Kafka made the following statement:

> The Guyanese authorities have made a number of payments since our last meeting on February 15, so that there has been practically no increase in overdue obligations since that date. In their latest telex, the Guyanese authorities declare that they are unable fully to settle their overdue obligations before May 15. At the same time they emphasize that they will continue to seek to honor their commitments to the best of their ability whatever decision the Board should arrive at during the May 15 meeting. The Guyanese authorities also state that they hope that the Board will take no action that will have the effect of reducing Guyana's capacity to honor its obligations.
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> I hope that the Board will show understanding for Guyana by refraining from making a declaration of ineligibility which would not contribute in any way to accelerating payments by Guyana nor have a deterrent effect on other countries.
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> There can be no question that overdue obligations to the Fund constitute an extremely serious development and that the financial integrity of the Fund must be safeguarded. Guyana has never denied this, and for this reason it has made such payments as it was able to make although to its regret they have been insufficient to remove arrears. It should be noted that less than 5 percent of overdue obligations represent charges due to the General Department and all payments due to the SDR Department have been settled. I have already indicated last time that if Guyana's payments had given preference to repurchases over charges, her situation would today be considerably better than it is, but the Fund's income would have suffered. It seems to me that recognition should be given to the choice that Guyana has made.
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> The question before us is not whether members should be encouraged to make timely payments and full settlement but whether a declaration of ineligibility is the proper and efficient way of doing so. Such a declaration is a discretionary act in no way mandated by the Articles of Agreement. Moreover it is an act which, while embarrassing to the member, will have

no direct substantive effect, as under Board decisions Guyana is already prevented from having access to the Fund's resources or even from negotiating with the Fund. Countries like Guyana accumulate arrears not because they do not want to pay but because they cannot, i.e. because to pay would have counterproductive consequences.

Even from a wider point of view a declaration of ineligibility cannot be assumed to constitute an incentive to countries to pay which they would otherwise not have. We have so far had one declaration of ineligibility on account of overdue obligations, specifically in the case of Viet Nam, the first declaration of ineligibility since the late 1940s. Since then, no further payments have been received from Viet Nam. In the only other case, in which a declaration of ineligibility was contemplated, Nicaragua, full settlement was received a few days before the date in respect of which the Board had declared an expectation that ineligibility might be declared in the absence of full settlement. One cannot from this draw any conclusion regarding the efficacy of the possibility of a declaration of ineligibility. In the case of Nicaragua the impact of full settlement and therefore the ability fully to settle is completely different than in the case of Guyana.

Let us look at some figures. Guyana's total obligations to the Fund represent over 20 percent of Guyana's GDP and well over 2,000 percent of her reserves. Overdue obligations, at the time the complaint was issued, represented close to 4 percent of GDP and close to 400 percent of reserves. In the case of Nicaragua, total obligations represented less than 0.5 percent of GDP and somewhat less than 100 percent of reserves; overdue obligations at the time of complaint represented 0.4 percent of GDP and 85 percent of reserves. Without in the least failing to recognize the effort made by Nicaragua, her situation was obviously different from that of Guyana.

In addition to these basic differences in magnitude, which show a very different level of ability to pay, one must consider in particular the various special problems which Guyana is facing. Guyana's largest export, calcium bauxite, suffered a price fall of nearly one third between 1982 and 1984; sugar, the second largest export, had experienced a catastrophic decline in world market prices (exports under Commonwealth agreement do not absorb all exportable production); while rice prices have also fallen sharply. In the case of Nicaragua, coffee and cotton prices increased in 1984; these commodities represent over 50 percent of exports, while sugar is of far less importance.

Hard currency export receipts are, as explained at our last meeting, devoted to repayments to the Fund, except to the extent that they are required to maintain current export capacity or to prevent a breakdown in health and in the most basic operations of the economy in the short run. This was explained in my last statement to the Board.

The Guyanese authorities, as the staff paper recognizes, have taken action regarding the exchange rate and price controls although these cannot be expected, in fact no action can be expected, in the short run significantly to increase Guyana's export capacity. The Guyanese authorities have informed me that most products for the domestic market are free of price control or--in a continuing process--have been adjusted sharply (sugar increased sixfold in 1984, to a level which covers production costs). It is the world market price which is the problem, owing to various factors including the subsidization policy of the European Community. On bauxite, the country's main industry, the problem is not the exchange rate but the physical state of the industry; however, an agreement is expected within 12 weeks which should lead to the rehabilitation of the industry. Sugar production has exceeded the export flow which has been arranged with Commonwealth importers and at present low prices the stocks accumulated would only be sufficient to enable $3.0 million of the arrears to be repaid even if these stocks could be sold at the world market prices. Poor weather conditions and inadequate harvesting equipment supplies have reduced rice production. Moreover, the decline in the rice production foreseen for 1985, comes after a year during which rice output was exceptionally high. Changes in industry structure and pricing in that industry have been considerable in line with an agreement conducted in 1984 with the IDB.

I would like to add one final consideration. It seems to me that no decision regarding a declaration of ineligibility should be taken before the Board has had an opportunity to make a general decision regarding the conditions for the application of Article V, Section 7(g) and Article V, Section 8(e), which were introduced by the Second Amendment.

In sum, I appeal to my colleagues to take a decision which will be helpful to the Fund as well as to Guyana: i.e., to ask them to work out with us, within a few weeks, the quickest possible settlement program that can be undertaken without prejudicing export capacity and health.

Mr. Pérez welcomed the recent payment made by Guyana to the Fund, which, although falling short of expectations, had demonstrated the authorities' willingness to fulfill their commitment to the Fund. In reaching a decision, the Executive Board should take into account the economic difficulties facing the country arising from circumstances beyond the authorities' control, including the adverse weather conditions in 1984, which had severely affected agricultural production, and the sharp decline in export prices. Guyana's overdue obligations to the Fund represented more than 2,000 percent of the country's reserves. A declaration of ineligibility would not accelerate the payment process and was not a pragmatic solution to Guyana's problem. The authorities were faced not only with a lack of reserves but also with the need to implement a comprehensive economic program as soon as possible so that they could meet their obligations to the Fund.

Mr. Schneider stated that while he understood Guyana's serious position and its present inability to repay its overdue obligations to the Fund, the problem should be considered in a much broader framework, as the Fund would be increasingly confronted with similar cases. The Executive Board should consider options to cope with overdue obligations in a way that would protect the Fund's financial position without alienating the countries concerned. As the Executive Board would be considering the question of overdue obligations more generally at a meeting in the near future, he suggested that the review of Guyana's overdue obligations be postponed for one month in order to take into account the outcome of the more general discussion.

Mr. Weitz remarked that it was regrettable that Guyana had not repaid its overdue financial obligations to the Fund as expected. He agreed that Guyana's overdue obligations to the Fund represented an extremely serious development and that the financial integrity of the institution must be safeguarded. A strong and comprehensive adjustment effort by the authorities was urgently needed. A declaration of ineligibility would not encourage Guyana to repay its overdue obligations; a more gradual approach should be adopted, as Guyana's total obligations to the Fund represented 18 percent of GDP, over 2,000 percent of its reserves. Guyana's situation was clearly different from that of other countries. In sum, he supported Mr. Kafka's proposal to allow the authorities to work out with the Fund in the next few weeks a timetable for the quickest possible settlement of the country's overdue obligations.

Mr. Jaafar observed that Guyana was facing a difficult situation, which, nevertheless, did not absolve the country from the responsibility of settling its overdue obligations to the Fund. The authorities had demonstrated their resolve by taking various measures to settle those obligations. Although it was disappointing that they had been unable to repay the Fund by May 15, he could support Mr. Kafka's proposal to give Guyana more time in view of the particularly difficult situation facing the country. It would be counterproductive to declare Guyana ineligible to use Fund resources at present. Nevertheless, he regretted that lack of any significant progress toward the implementation by the authorities of the comprehensive adjustment measures proposed by the Executive Board at the third review of the decision to limit Guyana's right to use the Fund's resources. He supported any technical assistance the staff might provide in that regard.

Mr. Zhang remarked that given the size of Guyana's overdue payments in relation to its GDP, exports, and international reserves, it appeared impossible for the authorities to make prompt and full repayment to the Fund. Furthermore, Guyana should be treated as a hardship case as the prices of its major exports were declining, resulting in a reduction in total export earnings. He urged the Board to be flexible and sympathetic in reaching a decision, particularly as Guyana was making the maximum effort to continue making repayments to the Fund. He fully supported Mr. Kafka's proposal.

More generally, the increasing number of countries with overdue payments to the Fund should convince the Board and Fund management of the need to identify a suitable approach for dealing with overdue obligations that would both safeguard the Fund's liquidity position and accommodate genuine hardships in individual cases, Mr. Zhang commented. He supported Mr. Kafka's suggestion regarding a general decision on the conditions of application of Article V, Sections 7(g) and 8(e).

Mr. Kafka, responding to a question from Mr. Nimatallah, stated that he was proposing that Guyana should be asked to present to the Fund a program of repayment. The Executive Board would accept the repayment program only if it were the quickest possible settlement program that could be undertaken without prejudicing export capacity and health. He was also suggesting that the Executive Board define the conditions under which it would be prepared to act on the two provisions in the Second Amendment of the Articles of Agreement: Article V, Section 7(g), allowing the Executive Board by a 70 percent majority of the voting power, to postpone a scheduled repayment, and Article V, Section 8(e), under which the Fund could accept in exceptional circumstances payment of charges in national currencies. A country should not be declared ineligible until the Fund had examined the conditions under which it would be prepared to apply those provisions.

Mr. Nimatallah remarked that Mr. Kafka's suggestion regarding the Articles of Agreement was a policy matter that should not be entangled with the discussion on Guyana's overdue obligations. More general policy issues should be discussed when the Executive Board reviewed various aspects of the Fund's income position for financial years 1985 and 1986. The last paragraph of Mr. Kafka's opening statement was, in effect, proposing a rescheduling of Guyana's obligations to the Fund, a course of action that was not acceptable to the Executive Board, whereas he had assumed that Mr. Kafka would propose that Guyana should implement an adjustment program.

Mr. Wicks asked Mr. Kafka to explain what he had in mind when he referred to the quickest possible settlement program, which would indicate some kind of rescheduling arrangement. What did Mr. Kafka mean by saying that such a program should not prejudice export capacity or health?

Mr. Kafka remarked that the last paragraph of his opening statement referred to the possibility that the Fund might agree with the Guyana authorities on a program that would lead to the settlement of their overdue obligations in full at the earliest possible opportunity. The timetable for settlement should clearly depend on Guyana's export capacity and on the level of transfer payments to the nationalized industries. Furthermore, the health of the population should not be jeopardized as a result of the schedule of repayments by Guyana to the Fund.

The Deputy Treasurer, in response to a question from Mr. Nimatallah, remarked that the policy regarding rescheduling of overdue obligations had been outlined by the Chairman in his summing up of the discussion on overdue payments to the Fund at EBM/84/55 (4/5/84) in the following way:

> The Executive Board clearly did not wish to open the way for rescheduling of obligations. The staff's arguments on the point were clearly found convincing and were supported by the Board. This does not mean that the relevant Articles, and particularly Article V, Section 7(g) cannot be resorted to in exceptional cases if the Board so decides. But, while the Board would have to satisfy itself that discharge on the due date would result in exceptional hardship, the burden of proof that such hardship would result must rest on the country, and they did not sense much support in the Board for the use of this provision.

The Chairman's summing up on that issue represented a statement of policy.

With respect to Mr. Kafka's proposal to allow the Guyanese authorities to formulate a settlement program, the Deputy Treasurer recalled that at the Executive Board's initial consideration of Guyana's overdue obligations approximately a year earlier at EBM/84/55 (4/5/84), the proposal had been made to impress upon the authorities the need to adopt a strong and comprehensive adjustment program. The Executive Board had agreed to delay substantive consideration of the Managing Director's complaint. The Managing Director had communicated with the authorities, a mission had visited Guyana, and Guyana had been offered the Fund's technical assistance in the preparation of appropriate adjustment measures in order to facilitate early settlement of the country's overdue obligations to the Fund. He wondered how Mr. Kafka's proposal would provide a greater certainty of early settlement of Guyana's arrears to the Fund.

The Deputy General Counsel recalled that the Fund's policy regarding rescheduling or postponement of obligations, as presented in the Chairman's summing up at EBM/84/55, had already been applied to one member. It would be inconsistent with the principle of uniform treatment of Fund members not to apply that policy in the case of Guyana, although the Executive Board could agree to change the policy. Prior to the Second Amendment of the Articles of Agreement, the staff had reviewed the application of the repurchase provisions of the 1952 decision on the use of the Fund's resources and repurchases, which set the general policy on repurchases/ purchases in the credit tranches. Under that policy, members were expected not to make purchases if they could not reasonably expect to repurchase within 3 to 5 years. Only in the case of unforeseen circumstances beyond the member's control that would make repurchase unreasonably difficult would the Fund consider an extension. The exception had been applied only once.

Mr. Kafka stated that the Chairman's summing up at EBM/84/55 had stated that the burden of proof that a country would experience exceptional hardship as a result of repayment of its obligations to the Fund must be on the country. No decision had been taken at that time on what the Executive Board would consider to be acceptable proof.

Mr. Rye considered that as Guyana had been overdue in its payments to the Fund for 22 months and the Executive Board had considered the country's overdue obligations five times, excluding its initial noting of the Managing Director's complaint. Thus, given the nature of the Board's previous decision regarding Guyana, there was no alternative but to declare Guyana ineligible to use the general resources of the Fund. In reaching that conclusion, he had taken careful note of Mr. Kafka's opening remarks; Guyana had made some effort to honor its commitments to the Fund and intended to honor its commitments whatever decision the Executive Board took at the present meeting. However, Guyana needed to fundamentally redirect its economic policies. In particular, the massive fiscal deficit required urgent and decisive action. The continuation of previous efforts to scrape together sufficient foreign exchange to pay its overdue obligations would almost certainly fail.

The Executive Board's chief consideration must be the viability of the Fund, Mr. Rye remarked. A decision merely to ask the authorities to cooperate could be taken by the financial community as an indication of the Fund's weakness and reluctance to deal firmly with the worsening problem of overdue obligations. In any event, a declaration of ineligibility would not preclude the course of action advocated by Mr. Kafka. It should create additional incentive for the authorities to cooperate with the Fund so that the declaration of ineligibility could be reversed. Finally, the suggestion made by Mr. Kafka in paragraph 10 of his opening statement was not relevant to the case of Guyana and should be taken up at another meeting. He supported the proposed decision.

Mr. Polak recalled that on February 15, 1985 the Executive Board had decided after serious consideration that Guyana should be declared ineligible to use the Fund's general resources in the absence of full settlement of its financial obligations to the Fund by May 15, 1985. The economic difficulties of Guyana, including its low level of reserves and poor export performance, had been known when that decision had been taken. Directors had also been aware of the authorities' hesitancy in previous years to adopt an appropriate adjustment program that would enable Guyana to discharge its obligations to the Fund. There were no new developments that could induce the Executive Board to postpone putting into effect its declared intention of February 15. A decision by the Board to allow Guyana more time to repay its overdue obligations would represent a breach of faith with Nicaragua, which had recently been declared ineligible to use the Fund's resources. A decision on ineligibility would not be a break between the Fund and Guyana. The staff would be visiting Guyana to carry out the Article IV consultation discussions, and the country would still be eligible for technical assistance.

Mr. Wicks stated that he agreed with the staff's recommendation to declare Guyana ineligible to use the Fund's resources. Some of Guyana's arrears to the Fund had been outstanding for almost two years, and the amount of arrears outstanding on May 13, 1985 had been slightly in excess of the arrears that had been outstanding at the time of the Board's discussion on February 15, 1985. There was little evidence that the authorities were implementing a much needed economic reform program. While he agreed that Guyana was suffering special hardship, he was not convinced that the country's hardship was greater than that of some other members, particularly some in sub-Saharan Africa, which were managing to remain current in their obligations to the Fund despite difficult economic circumstances.

Mr. Nimatallah stated that it was disappointing that Guyana had not introduced serious economic reforms that would enable it to repay the Fund. He supported the proposed decision but suggested that the word "regret" in the second sentence of paragraph 2 and in paragraph 3 be changed to read "is disappointed."

Mr. Kafka, responding to a question from Mr. Nimatallah, explained that the first sentence of paragraph 4 of his opening statement meant that there was no question that countries must be encouraged to make timely payments to the Fund and to settle their overdue obligations.

Mr. Joyce remarked that a declaration of ineligibility was one of the most serious matters with which the Board must deal. A decision on ineligibility not only cut off a member's access to the Fund's financial resources but also signaled to the international community that the member had failed to meet its obligations as a member of the Fund. As a representative of another country that depended heavily on bauxite production, he appreciated the difficulties Guyana was experiencing in the export markets. However, the authorities had allowed the physical plant to deteriorate, a problem that was partly of their own making. Guyana had not dealt effectively with its problems in the past, and the authorities had no option but to take even more difficult measures than might otherwise have been necessary.

The Executive Board and staff had shown considerable patience and had clearly demonstrated their willingness to help the authorities to repay their obligations to the Fund, Mr. Joyce pointed out. Despite the fact that Guyana's arrears had been outstanding for almost two years, the Executive Board had not thus far taken a decision on ineligibility, in the hope that the authorities would find a way to meet its obligations. The authorities had not followed up on policy advice and technical assistance provided by the staff.

There was clearly little likelihood that Guyana would settle promptly and fully its arrears to the Fund, Mr. Joyce noted. While the repayment of SDR 2.6 million by Guyana in the period since February 15, 1985 was welcome, total arrears had in fact increased. The failure of the authorities to implement a strong and comprehensive adjustment program to address the deteriorating economic situation was disappointing. The measures taken with respect to prices and exchange rates had not been sufficient to enable Guyana to settle its arrears.

The Minister of Finance of Guyana, had asked the Managing Director to ensure that the Board took no action that would reduce the country's capacity to honor its commitments, Mr. Joyce noted. That request was troubling, as the Fund had made a considerable effort to try to strengthen Guyana's capacity to meet its obligations. To reinforce that point, he fully supported a technical mission to advise the authorities on appropriate fiscal action. Could Mr. Kafka explain what the Secretary to the Treasury meant by "the other problem of fiscal effort," in his telex to the Director of the Fiscal Affairs Department (Attachment 1 to EBS/85/119, Sup. 1)? Could the staff outline the issues that the technical mission might address?

He did not agree with the proposals outlined by Mr. Kafka in his opening statement, Mr. Joyce indicated. Given the need for evenhanded treatment of all Fund members and the authorities' failure to take adequate measures to eliminate promptly their obligations to the Fund, the proposed decision to declare Guyana ineligible to use the Fund's resources was appropriate. The credibility of the Fund would be impaired if the Executive Board did not adopt the recommended decision. The seriousness of the decision was fully appreciated by the authorities, and it was to be hoped that they would take action to put their affairs in order.

Mr. Fujino welcomed the payments made by Guyana--totaling about SDR 2.5 million--since the Executive Board's previous review of the decision to limit Guyana's right to use the Fund's general resources. However, Guyana's overdue obligations to the Fund still amounted to some SDR 18 million, and the country had been in arrears to the Fund continuously for more than two years. In the absence of assurance from the authorities that prompt and full settlement of the overdue obligations was likely and given the decision taken by the Executive Board in the case of Viet Nam, he had no alternative but to support the proposed decision. Nevertheless, the authorities must settle promptly and fully their overdue obligations. The Fund should stand ready to help the authorities to formulate a strong and credible adjustment program, which was particularly needed given the large amount of obligations that would be falling due in the next six years.

Ms. Bush welcomed the efforts of the authorities to make some payments to the Fund in the past year. Nevertheless, the authorities had not become current in their obligations and had not adopted appropriate measures to address the growing economic imbalances in the country. At the previous Board discussion on Guyana, Directors had clearly expected to declare Guyana ineligible to use the Fund's general resources at the present meeting in the absence of full settlement of its obligations to the Fund. The Executive Board must, therefore, adopt the proposed decision declaring Guyana ineligible to use the Fund's resources. However, such a decision did not diminish the need for continued dialogue between the Fund and the authorities and for technical assistance from the Fund to help the authorities to implement much needed adjustment measures. Furthermore, the decision on ineligibility would not reduce the immediate need for Guyana to settle its obligations to the Fund. In sum, she supported the proposed decision.

Mr. Goos stated that he agreed with other Directors that Guyana's economic situation had not changed significantly since the Executive Board's previous review of Decision No. 7719-(84/88). Guyana had not only failed to settle fully its obligations to the Fund, but had also allowed those obligations to increase since February 15, 1985. Although adverse external developments had contributed significantly to Guyana's economic problems, its economic situation would have been better if the authorities had followed the Fund's advice to adopt a strong and comprehensive adjustment program. To a considerable extent, therefore, Guyana's economic problems were self-inflicted. The restoration of normal relations between Guyana and the Fund was dependent on the adoption by the authorities of an adjustment effort that was commensurate with the economic situation. He hoped that forthcoming contacts between the staff and the authorities in the framework of technical assistance missions and Article IV consultation discussions would lead to an early agreement on an appropriate adjustment course. The authorities' refusal even to consider the staff proposals, for example, in the area of fiscal adjustment, was disappointing.

With respect to Mr. Kafka's suggestion, Mr. Goos considered that Guyana would probably not meet the condition of exceptional hardship as stipulated in Article V. A number of countries experiencing even greater difficulties than those of Guyana had remained current in their obligations to the Fund. Granting special treatment to Guyana would not only conflict with the principle of equal treatment of members but also establish an unwarranted precedent. More important, it would be difficult to reach a judgment that Guyana was experiencing exceptional hardship, as the authorities had not embarked on an appropriate adjustment program. He supported the proposed decision declaring Guyana ineligible to use the Fund's resources.

Mr. Blandin stated that while he recognized the serious economic problems facing Guyana, the country's situation had to be considered in the broader framework of the Fund's policy toward arrears. The existence of arrears threatened the credibility of the Fund and worsened the terms on which any country might borrow from the Fund. Rules regarding overdue obligations to the Fund should be applied firmly, with a small margin of flexibility only when that was the most efficient way for the Fund to be repaid. Such flexibility had already been shown in Guyana's case. No major developments since February 15, 1985 justified a postponement of a decision declaring Guyana ineligible to use the Fund's resources. The repayments made since that date had been modest, and the authorities had not implemented a strong and comprehensive adjustment program to deal with the country's difficult economic situation. He supported the decision to declare Guyana ineligible to use the Fund's resources. Such a decision would not preclude the course of action outlined by Mr. Kafka in the final paragraphs of his opening statement. It was to be hoped that the authorities would implement appropriate adjustment measures that would enable them to repay the Fund.

Mr. Doe agreed that the authorities should formulate and implement a comprehensive economic and financial program aimed at restoring economic viability and becoming current in their payments to the Fund. The Executive Board should show understanding and flexibility in Guyana's case. In light of the steps taken thus far by Guyana to settle its payments arrears to the Fund, the country should not be declared ineligible to use the Fund's general resources.

Mr. Lundstrom remarked that he was disappointed that Guyana had not settled its overdue obligations to the Fund, despite the repeated requests and prolonged time placed at its disposal. Some payments were overdue by two years. It was unlikely that Guyana would settle its remaining obligations within a reasonable period, given the authorities' unwillingness to implement necessary adjustment measures. While Guyana's efforts to make partial repayments to the Fund were welcome, the Board had no option but to declare Guyana ineligible to use the Fund's resources in view of the Executive Board's decision of February 15.

In his opening statement, Mr. Kafka had appealed to the Board to take a decision that would be helpful to the Fund as well as to Guyana, Mr. Lundstrom recalled. Mr. Kafka had suggested that Guyana should formulate the quickest possible settlement program. The formulation of a strong and comprehensive adjustment program was the most appropriate course of action; the Fund had repeatedly declared its willingness to provide technical assistance in the formulation of such a program for Guyana, and a declaration of ineligibility should not put an end to the Fund's endeavors in that respect.

Mr. Jayawardena agreed that the existence of overdue obligations to the Fund was a serious development and that every effort should be made to preserve the integrity of the Fund. However, whatever action the Fund took in that regard should help to resolve rather than aggravate the problem. It was regrettable that the staff had not discussed the issue of exceptional hardship raised by Mr. Kafka even though it had figured in the Executive Board's earlier discussions. An examination of recent economic circumstances in Guyana indicated that the country would face exceptional hardship if it were to settle fully its overdue obligations to the Fund and to other creditors in the immediate future.

Taking all factors into account, it would be counterproductive to declare Guyana ineligible to use the Fund's general resources, Mr. Jayawardena commented. The problem of Guyana's overdue obligations was not entirely caused by domestic policies but was largely related to external factors beyond the authorities' control. He suggested that a group of officials from the Fund and the World Bank be appointed to identify problem countries, study their special problems, and examine the adjustment measures and financing arrangements that would enable them to repay their obligations to the Fund. The committee should report to the Executive Board on specific proposals to overcome the problem of overdue payments in an orderly manner and in a cooperative spirit.

Mr. Zecchini remarked that his chair had shown flexibility in Guyana's case, but that the lack of any positive developments regarding Guyana's overdue obligations to the Fund since the previous Board discussion on Guyana was disappointing: Guyana had remained overdue in its obligations to the Fund, and the authorities had not taken adequate corrective economic measures. In 1985, Guyana had made payments to the Fund totaling only SDR 4.2 million. That amount fell considerably short even of the authorities' plan to make payments to the Fund totaling $10 million in the first half of 1985, a plan that was considered inadequate by the Executive Board. Furthermore, Guyana's total overdue obligations to the Fund had increased slightly since February 15, 1985. The country had been continuously in arrears to the Fund for almost two years. Substantial payments would fall due in the next few years, raising serious concerns about the possible evolution of Guyana's overdue obligations. The authorities' economic policies were inadequate to deal with the situation, and strong corrective action must be taken promptly to curb the fiscal deficit and limit the increases in domestic credit to the public sector. Furthermore, exchange rate and pricing policies should be reassessed.

In sum, there had been no new developments that warranted a departure from past procedures and from the course of action decided by the Executive Board during the previous review of the decision limiting Guyana's access to the Fund's resources, Mr. Zecchini considered. He therefore supported the proposed decision and urged the authorities both to settle promptly their obligations to the Fund and to adopt sound economic policies that might ensure a more viable financial position in the medium term. He strongly supported the continuation of any technical assistance the Fund could provide to the authorities in the formulation and implementation of appropriate adjustment policies.

Mr. Kabbaj considered that Mr. Kafka had made a strong case for dealing flexibly with Guyana, which was suffering from exceptional hardship induced by a sharp decline in its major export. He supported the proposal outlined in the final paragraph of Mr. Kafka's opening statement.

Mr. Zhang inquired what Directors had in mind when they referred to a strong and comprehensive adjustment program. Was the staff confident that such an adjustment program, if adopted, would enable Guyana to repay its overdue obligations?

Mr. Abdallah observed that the increasing incidence of overdue obligations undoubtedly undermined both the credibility of the Fund and the revolving character of its resources. All countries that were in arrears to the Fund should exert maximum effort to settle fully and promptly their overdue obligations. That Guyana had been unable to settle its obligations to the Fund over a period of almost two years was clear evidence that the economy was severely off balance and that strong and comprehensive adjustment measures must be implemented. The fiscal imbalances should be eliminated, the efficiency of the parastatals improved, and price controls relaxed. The exchange rate would also need to be adjusted to provide greater incentive for exports and to discourage unnecessary imports. Guyana must increase substantially its foreign exchange earnings and the flow of capital from external sources in order to reduce and eventually eliminate its external obligations.

Guyana was clearly facing a difficult situation, Mr. Abdallah observed. Mr. Kafka had explained that the authorities expected to conclude a contract in the next three months that would increase bauxite exports. Additionally, efforts were being made to dispose of accumulated sugar stocks. In view of those prospects, there was good reason to believe that Guyana might be in a position to formulate a payments program that was acceptable to the Executive Board. However, given the country's circumstances, Guyana's situation might be the same in four months. He was inclined to give the benefit of the doubt to the authorities, and he therefore supported Mr. Kafka's suggestion to allow the authorities to work out the quickest possible settlement program.

The staff representative from the Western Hemisphere Department remarked that the authorities had requested technical assistance in the fiscal field. During a visit to Guyana in February 1985, the staff had identified the major fiscal problems to be in the areas of fiscal expenditure and pricing of state corporations. The tax burden in Guyana was approaching 30 percent of GDP, and the staff had decided that there was little room for further action on that front. As the authorities had particularly requested Fund assistance in that area, the staff had indicated its willingness to examine specifically taxation in the private agricultural sector. The staff recommendations had been concentrated on the budgetary side; improving the formulation and monitoring of the budget, and relating the budget process to general planning and macroeconomic policies. Further, a staff representative from the Bureau of Statistics would soon be visiting Guyana to help the authorities to reconstruct the consumer price index, which had been suspended in 1982. In addition, the 1985 Article IV consultation discussions would be held in Georgetown in July.

Guyana was facing major economic imbalances, the staff representative pointed out. The public sector deficit amounted to more than 60 percent of GDP, indicating the need for strong fiscal adjustment, particularly in the area of expenditure, pricing, and exchange rate policies. The economic imbalances had persisted over many years, and although exogenous factors had played a role in Guyana's situation, the country's economic problems were largely the cumulative result of the authorities' policies. Action had been taken on the supply side, yielding some positive results, but that action had been insufficient to deal with the economy's major imbalances. The authorities were faced with considerable political difficulties in implementing strong adjustment measures. Nevertheless, even if the authorities did implement a comprehensive adjustment program, the economic situation would not be turned around rapidly, and the authorities would not be able to settle their overdue obligations to the Fund immediately without difficulty.

The "other problem of fiscal effort" mentioned by the Secretary to the Treasury referred to the taxation of the private agricultural sector, the staff representative from the Western Hemisphere Department stated. The authorities had interpreted the staff's advice that little benefit could be obtained from further action on the tax side as being a rejection of measures aimed at improving taxation of that sector. The Director of the Fiscal Affairs Department had clarified the authorities' misunderstanding in that respect in a subsequent letter to the authorities (Attachment III to EBS/85/119). All requests for technical assistance by the authorities either had been honored or would be honored in the near future.

Mr. Nimatallah stated that he was concerned that the authorities might relax their efforts to repay the Fund following a declaration of ineligibility. Did the staff seriously expect the authorities to request technical assistance from the Fund? It would be difficult to convince the authorities that they must repay the Fund to ensure the revolving nature of the Fund's resources.

The Deputy General Counsel commented that the Fund had no greater instrument to force the authorities to repay the Fund. In addition, the Executive Board could indicate its sentiment in a decision on the issue.

Mr. Kafka stated that he maintained that a declaration of ineligibility would not be helpful to the Fund or the authorities for the reasons outlined in his opening statement. A decision on ineligibility would not safeguard the institution's financial integrity any more than the decision adopted on June 6, 1984, limiting Guyana's use of the Fund's general resources. He assured the Executive Board that Guyana would continue to do its best to honor its obligations to the Fund and, with the help of the Fund, to strengthen its economy. The precise nature of the adjustment program would be determined after the staff visit to Guyana. The prospects for the rehabilitation of the bauxite industry would also be clarified at that time.

Following a short discussion, the Executive Directors adopted the following decision:

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).

Decision No. 7972-(85/73), adopted
May 15, 1985

DECISIONS TAKEN SINCE PREVIOUS BOARD MEETING

The following decisions were adopted by the Executive Board without meeting in the period between EBM/85/72 (5/8/85) and EBM/85/73 (5/15/85).

2. EXTERNAL INDEBTEDNESS OF DEVELOPING COUNTRIES AND EXPORT CREDIT COVER POLICIES - PUBLICATION

The Executive Board approves publication in the Occasional Papers series, following the discussion at Executive Board Meetings 85/45 and 85/46, of Fund staff papers relating to developing countries' external indebtedness to commercial banks and to official creditors and of export credit cover policies and payments difficulties as set forth in EBD/85/113 (5/2/85).

Adopted May 8, 1985

3. NIGERIA - 1985 ARTICLE IV CONSULTATION - POSTPONEMENT

Notwithstanding the period of three months specified in Procedure II of the document entitled "Surveillance over Exchange Rate Policies" attached to Decision No. 5392-(77/63), adopted April 29, 1977, the Executive Board agrees to extend the period for completing the 1985 Article IV consultation with Nigeria to not later than June 17, 1985.

Decision No. 7973-(85/73), adopted
May 14, 1985

4. VENEZUELA - 1985 MIDYEAR ARTICLE IV CONSULTATION - POSTPONEMENT

Notwithstanding the period of three months specified in Procedure II of the document entitled "Surveillance over Exchange Rate Policies" attached to Decision No. 5392-(77/63), adopted April 29, 1977, the Executive Board agrees to extend the period for completing the 1985 midyear Article IV consultation with Venezuela to not later than May 30, 1985.

Decision No. 7974-(85/73), adopted
May 8, 1985

5. TANZANIA - TECHNICAL ASSISTANCE

In response to a request from the Bank of Tanzania for technical assistance with respect to the reconciliation of the accounts of the IMF with those of the Bank of Tanzania, the Executive Board approves the proposal set forth in EBD/85/114 (5/2/85).

Adopted May 8, 1985

6. URUGUAY - TECHNICAL ASSISTANCE

In response to a request from the Uruguayan authorities for technical assistance in the tax field entailing a survey of aspects of tax administration and tax policy, the Executive Board approves the proposal set forth in EBD/85/117 (5/3/85).

Adopted May 9, 1985

7. ASSISTANT TO EXECUTIVE DIRECTOR

The Executive Board approves the appointment of an Assistant to Executive Director as set forth in EBAP/85/121 (8/8/85).

Adopted May 13, 1985

8. APPROVAL OF MINUTES

a. The minutes of Executive Board Meeting 84/117 (EBD/85/112, 5/2/85) are approved.

Adopted May 8, 1985

b. The minutes of Executive Board Meeting 84/118 (EBD/85/119, 5/8/85) are approved.

Adopted May 14, 1985

9. EXECUTIVE BOARD TRAVEL

Travel by Executive Directors as set forth in EBAP/85/120 (5/8/85), EBAP/85/123 (5/9/85), and EBAP/85/125 (5/13/85) and by an Advisor to Executive Director as set forth in EBAP/85/125 (5/13/85) is approved.

10. STAFF TRAVEL

Travel by the Managing Director as set forth in EBAP/85/122 (5/9/85) is approved.

APPROVED: February 19, 1986

ALAN WRIGHT
Acting Secretary