

DOCUMENT OF INTERNATIONAL MONETARY FUND
AND NOT FOR PUBLIC USE

FOR
AGENDA

EBS/85/173
Supplement 1
Correction 1

CONFIDENTIAL

August 14, 1985

To: Members of the Executive Board
From: The Secretary
Subject: The Role of the Fund in Assisting Members with Commercial
Banks and Official Creditors

The attached corrected page 1 of EBS/85/173, Supplement 1
(8/13/85) is reissued to include the last line of footnote 3.

Att: (1)

CONFIDENTIAL

INTERNATIONAL MONETARY FUND

The Role of the Fund in Assisting Members
with Commercial Banks and Official Creditors
Supplementary Material

Prepared by the Exchange and Trade Relations Department
(In consultation with area departments, the Legal Department,
and other departments)

Approved by C. David Finch

August 13, 1985

During the Board discussion of the procedure to monitor performance under Colombia's economic program 1/ the issue was raised by several Directors of whether some deletions or modifications should be made to the staff reports to be provided by the member to commercial creditors. The Chairman's summing up of the discussion indicated that this issue would be addressed in a broader fashion during the discussion of the enhanced surveillance procedures on August 30, 1985. This supplement provides additional background material for that discussion.

As was indicated in EBS/85/173, enhanced surveillance has been proposed as a temporary and exceptional arrangement appropriate to the special circumstances that have arisen and to the need to facilitate, together with the multiyear rescheduling of amortization payments, the normalization of financial market relations. The release of staff reports by the member country to banks participating in a MYRA has been seen as an essential element of enhanced surveillance, helping the member provide to its creditors the information required to monitor its economic performance. In the case of Venezuela, the member's intention to make available to creditors the reports prepared by the staff in connection with the Article IV consultation was noted in the staff report and the agreement of the Board to this procedure was indicated in the Chairman's summing up of the discussion. 2/ The issue of the release of staff reports was also considered, although in these cases not yet formally, in the context of informal consideration by Directors of proposed monitoring procedures under the MYRAs for Mexico and Yugoslavia.

A first point raised by some Directors during the discussion on Colombia concerned the deletion of references to the summings up of previous Board discussions. 3/ The issue of whether the views of the

1/ EBM/85/114, 7/26/85.

2/ "Venezuela--Staff Report for the Mid-Year Article IV Consultation", SM/85/115 (4/24/85) and SUR/85/64 (6/18/85).

3/ This issue had also been raised by some Directors during the discussion on Venezuela (EBM/85/84).

Board should be transmitted to commercial creditors in addition to staff views is to be considered as part of the general discussion. If the basic decision remains not to provide banks with access to the views of the Board, then a logical extension would be to establish the practice of making available to commercial creditors only staff analyses and views and deleting references to the summings up of earlier Board discussions. In those cases for which enhanced surveillance has been agreed already or is being proposed, commercial banks have understood that their access would be limited to factual information and the views of the staff. Appropriate deletions of references to Board views in these reports should be seen as consistent with this general understanding. The suggestion could be made that future agreements include a clause similar to that in the draft agreement for Yugoslavia specifying that deletions would be made to the staff reports consistent with policies and practices of the Fund. 1/

The range of possible deletions or modifications referred to during the discussion of the arrangement for Colombia, however, was somewhat broader. The issue was raised by a few Directors of whether portions of staff reports considered to be sensitive, including those involving staff judgments, should in some cases be omitted or modified. A suggestion was also made that it would be more appropriate to prepare a separate staff paper for release to banks rather than making available the Article IV report itself, even though the separate paper could be similar to the Article IV report.

The preparation of separate papers, or deletions or modifications to staff reports would help preserve some of the confidentiality of the Article IV consultation process. However, commercial banks have expected that debtor countries for which enhanced surveillance procedures are approved would provide them with the staff reports prepared for the Article IV consultation with the member as well as with reports prepared for the six-monthly reviews of progress in implementing annual programs. 2/ The language of the restructuring agreements makes it clear that banks expect that these reports will include an evaluation by the staff of the adequacy of the countries' policies. Providing papers different from the actual Article IV reports or providing such reports with substantive deletions or modifications (other than the already understood deletion of references to earlier Board discussions) would greatly reduce the usefulness of staff reports to creditor banks. Selective deletions or modifications would create significant uncertainty concerning the nature of the changes. Providing less than the staff's full assessment of developments and policies of the member country as presented to the Board could also raise questions, especially

1/ "Yugoslavia--Enhanced Surveillance--Note Prepared by the Staff for the Background Information of Executive Directors," EBS/85/171 (7/19/85).

2/ EBS/85/173, p. 20, and Annex, pp. 34-35 (Mexico), pp. 39-40 (Venezuela), and pp. 44-45 (Ecuador).

in case new difficulties emerge at a later date, about the nature of the judgments provided to creditors. It should also be noted that, since staff judgments typically are found throughout the papers and not only in the Appraisal, deleting staff judgments would require that substantially different papers be prepared.

Providing papers to commercial creditors substantively different from the Article IV staff reports would thus constitute a significant departure from the understanding of banks in agreeing to MYRAs with enhanced surveillance. The issue must be considered in this context of whether such a change in procedures agreed between debtor countries and their creditors could increase the latter's reluctance to enter into such agreements. Enhanced surveillance, including Fund agreement to the member's request to release to banks a normally confidential document prepared by the Fund staff about the member, has been conceived as an exceptional and temporary adaptation of Fund procedures and practices in equally exceptional circumstances. Limiting acceptance by the Fund of enhanced surveillance procedures only to those cases for which such exceptional circumstances justify a departure from the normal requirement of confidentiality will ensure that this does not lead to pressures for a greater availability of Fund documents than at present. 1/ In those cases, however, it would seem desirable to provide to banks documents which they are assured include full and complete staff assessments of current developments and policies. Separate staff papers or altered Article IV staff reports would not provide such a clear assurance.

1/ Criteria for the adoption of enhanced surveillance are discussed in Section III of the main paper (pp. 15-18).