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The Acting Chairman's Summing Up on the Role
of the Fund in the Settlement of Disputes Between
Members Relating to External Financial Obligations
Executive Board Meeting 84/99, June 22, 1984

I shall begin by outlining four general points that were made in the course of the Board's discussion. First, Executive Directors generally endorsed the approach the Fund has taken in the three major aspects of the subject dealt with in the staff paper.

Second, Directors agreed that the functioning of the international monetary system depends on members' fulfilling their international financial obligations promptly and according to the terms of those obligations. Therefore, the Fund has a direct interest in the settlement of overdue obligations and a role to play in accordance with the Articles of Agreement.

Third, there was a consensus that the circumstances surrounding overdue financial obligations typically are complex, and that there are often important differences among individual cases. Thus, Directors preferred not to codify the Fund's approach in each of the three main areas discussed. Instead, most of them supported the idea that the Fund should continue to fulfill its responsibilities under the Articles on a case-by-case basis within the context of the present policies and procedures, which can be expected to continue to evolve as individual cases of overdue financial obligations and related general policy matters are discussed. There was a strong feeling among Directors that the Fund should show caution and restraint in making judgments on issues involving claims on such overdue obligations.

Fourth, Directors stressed the importance of the Fund helping member governments to improve their statistical base and to increase the supply of information on their external debt obligations, particularly in cases involving overdue claims. Where necessary, the Fund could provide the technical resources to help sort out the frequently complex circumstances surrounding the debt situation, including individual cases.

Let me turn now to more specific comments on the three major areas dealt with in the staff paper. With respect to the Fund's jurisdiction under Article VIII and Article XIV, there was strong support for the policies and practices that the Fund has followed to date. Directors generally agreed that, in exercising its functions under Article VIII and Article XIV, the Fund is entitled to examine the context in which nonpayment of a financial obligation has occurred in order to determine whether or not it involves an exchange restriction and, as such, is subject to Fund approval, and that members are obliged to provide the information the Fund requires to make such a determination. The Fund has developed a substantial body of principles and practices for determining which measures are and are not within its jurisdiction and when approval under Article VIII is appropriate. These judgments are inherent in the exercise of the Fund's jurisdiction.

Executive Directors also generally endorsed the Fund's existing policies and practices for dealing with disputed financial obligations in the context of members using Fund resources. This concerns primarily the identification and treatment of payments arrears. Directors accepted the general premise that, to restore its financial position, a member country must reduce and eliminate its external payments arrears. In that context, there was broad support for the approach that the Fund has taken to the problems involving countries with large external payments arrears. It was noted that the degree of involvement by the Fund in helping countries to deal with their arrears has varied depending, in part, upon the severity of the case. Some Directors noted that the pivotal role that it had been necessary for the Fund to play in helping some member countries should be the exceptional practice, and not the general practice. Nevertheless, the Fund should stand ready to provide technical and analytical expertise to help a member country to negotiate a financing agreement with its external creditors.

Most Directors attached importance to the principle that a member country should give comparable treatment to all its various creditors, although there was not broad support for trying to define that principle in detail. There was a strong feeling that responsibility for the enforcement of the principle of comparable treatment is ultimately in the hands of creditors, and that the Fund should take into account the actions of the creditors when assessing the viability of, and progress under, a Fund-supported program. In that connection, Directors felt that the debt relief to help close the financing gap of a member could best be dealt with through a Paris Club negotiation, which usually involves a large number of a country's creditors. A Paris Club Agreed Minute can be seen as satisfying a member country's need for debt relief and can be used for the purpose of judging whether or not a country's financing gap has been closed. A Paris Club Agreement also has implications for official creditors not participating in the Paris Club because of the commitment of the debtor to seek and to accord comparable treatment to those creditors. Some Directors stressed that it would be helpful to know about a Paris Club meeting well in advance of its occurrence, although it was also accepted that such notification is ultimately the responsibility of the debtor country in consultation with its creditors. At the same time, it was clearly desirable for as many of a country's creditors as possible to participate in a Paris Club meeting.

Directors also generally agreed that, if an anticipated bilateral agreement required by the Paris Club, between a debtor and one of its official creditors, is not ratified within the specified period, the amount of arrears involved should be included in the calculation of arrears for purposes of the debtor country's Fund-supported program. While there was general support for that approach, there was a call for flexibility and the exercise of judgment on the part of the Fund when making such decisions during the course of a Fund-supported program. If a debtor country has made its best efforts to comply with a Paris Club requirement to conclude a bilateral agreement but has been unable

to do so, the arrears involved should not be included in the calculation of arrears for purposes of the debtor country's Fund-supported program. However, such judgments should be made on a case-by-case basis.

Decisions on whether or not a country's financing gap has been closed, and on whether or not rescheduling and refinancing agreements are being fulfilled, should be made by the Fund itself. The Fund should take into account the particular circumstances of a member, such as the preconditions on the provision of debt relief by other agencies.

There was a strong consensus on three general matters relating to the use of the Fund's good offices. First, in the light of the Fund's primary responsibilities concerning the international monetary system and of its specific authority under the Articles to provide financial and technical services, management and staff should stand ready to use their good offices in helping members engaged in a particular dispute over an external financing obligation. Second, such good offices should, however, be limited in scope and frequency, although in that connection there were differences in emphasis among Directors. Some feel that the Fund should be more active, others that the Fund must be quite cautious. In short, the use of good offices should be consistent with available resources and should be substantially technical in nature. Third, all Directors attached great importance to the Fund remaining neutral in issues of debt dispute. It should be clearly understood that the Fund's good offices are meant to bring the parties to a dispute together. Fourth, there was agreement that the Fund should act in such cases only if both parties wish to have the Fund provide its good offices.