BUFF/94/2

January 10, 1994

Summing Up by the Acting Chairman
Modalities of Fund Support for Debt
and Debt-Service Reduction
Executive Board Meeting 94/1
January 7, 1994

The Executive Board agreed to modify the guidelines on the Fund's involvement in the debt strategy that had been established in the Chairman's summing up on May 23, 1989. The Board decided to eliminate the segmentation requirements in order to facilitate commercial bank debt restructuring for some countries with difficult debt situations. After this modification, it would be possible to use both set-asides and additional resources from augmentation to support operations involving debt reduction, interest support for debt and debt-service reduction, and principal collateral for reduced-interest par bonds, provided that such operations satisfied the Fund's criteria. The Board also decided to make the consequential amendments to the decision on early repurchase expectations with respect to debt and debt-service operations.

Directors noted that decisions by the Fund to support particular debt and debt-service reduction packages would continue to be made on a case-by-case basis. As set out in the May 1989 guidelines, the Board would evaluate any proposed package in light of the strength of the member's economic policies, the likelihood that the package would help the country regain access to credit markets and attain external viability with growth, and an assessment that the package represented an efficient use of scarce resources. Directors agreed that appropriate balance between debt and debt-service reduction was an element to be taken into account in evaluating a proposed package. In assessing balance, the Fund would consider a number of factors, including (i) whether the resulting debt-service profile on restructured debt was consistent with a country's likely medium-term debt-service capacity; (ii) whether the package, taken as a whole, was cost effective; (iii) whether the package would imply continued commercial bank involvement with the debtor country, where such involvement would be appropriate and could be expected to provide the basis for a subsequent return to spontaneous financing; and (iv)--although some Directors questioned the need for such an assessment--whether the menu of options included in the package provided a sufficiently broad range of alternatives to ensure a high rate of participation in the package. As before, the member and its banks would be able to allocate the options in a package between debt and debt-service reduction so as to tailor them to the needs of each case.

Under the modified approach, it would generally be expected that set-asides would be included in an arrangement if Fund support for debt operations was likely to be requested. Priority would be given to

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accumulated set-asides in support of bank debt packages. Augmentation of access would be considered only if accumulated set-aside resources were insufficient to ensure adequate Fund financing of the package, taking into account the criteria specified in the 1989 guidelines, including the need to catalyze resources from other sources and for the member to contribute as feasible, and the strength of the member's adjustment program. The consensus of the discussion was that acceleration of set-asides would continue to be possible, but only if judged absolutely necessary, and normally after appropriate use of additional resources. An exception to that set of priorities could be permitted where access under an arrangement was particularly low, in which case it would be possible to avoid use of set-asides and rely solely on augmentation of the arrangement.