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December 14, 1990

To: Members of the Executive Board

From: The Secretary

Subject: Full Text of Decision Establishing the Compensatory and
Contingency Financing Facility

Attached for the convenience of the Executive Directors is the text in its entirety of the decision that establishes the Compensatory and Contingency Financing Facility, incorporating all the amendments that have been adopted by the Executive Board up to this date, including the most recent decision adopted on December 5, 1990.

Att: (1)

Other Distribution:
Department Heads

INTERNATIONAL MONETARY FUND

COMPENSATORY AND CONTINGENCY FINANCING FACILITY--ESTABLISHMENT

(Full Text of Decision As Amended Through December 5, 1990)

Section I. General Provisions

1. The Fund is prepared to extend financial assistance, in accordance with the provisions of this Decision, to members that encounter balance of payments difficulties arising out of (i) temporary export shortfalls, (ii) adverse external contingencies, (iii) excess costs of cereal imports, or (iv) excess costs of oil imports.

2. Purchases under this Decision will be financed with ordinary resources.

3. Purchases under this Decision and holdings resulting from such purchases shall be excluded for the purposes of the definition of "reserve tranche purchase" pursuant to Article XXX(c).

4. For the purpose of applying the Fund's policies on the use of its general resources, holdings resulting from the use of the Fund's resources under any of the policies set forth in this Decision shall be considered to be separate from the holdings resulting from the use of the Fund's resources under any other policy.

5. In order to carry out the purposes of this Decision, the Fund will be prepared to grant a waiver of the limitation of 200 percent of quota in Article V, Section 3(b)(iii), whenever necessary to permit purchases under this Decision or to permit other purchases that would raise the Fund's holdings of the purchasing member's currency above that limitation because of purchases outstanding under this Decision.

6. The Fund shall indicate in an appropriate manner which purchases by a member are made pursuant to Section II, III, IV, or V of this Decision, and the export shortfall component, the cereal import cost component, and the oil import cost component of each purchase under Section IV or Section V.

7. When a request for a purchase is made by a member under any Section of this Decision on account of circumstances that have already been taken into account in calculating the amounts of purchases made or to be made under any other Section, double compensation shall be avoided when calculating the amount of the requested purchase.

8. (a) Subject to the other limitations on purchases specified by this Decision, the Fund's holdings of a member's currency resulting from purchases under this Decision shall not exceed any of the following access limits:

(i) a combined limit of 105 percent of the member's quota for

--the sum of purchases on account of export shortfalls under Section II, Section IV, or Section V and purchases on account of external contingencies under Section III;

--the sum of purchases on account of export shortfalls under Section II, Section IV, or Section V and purchases on account of an excess in cereal import costs under Section IV or Section V;

--the sum of purchases on account of external contingencies under Section III and purchases on account of an excess in cereal import costs under Section IV or Section V;

--the sum of purchases on account of export shortfalls under Section II, Section IV, or Section V and purchases on account of excesses in oil import costs under Section V; and

--the sum of purchases on account of excesses in cereal import costs under Section IV or Section V and purchases on account of excesses in oil import costs under Section V.

(ii) a limit of 83 percent of the member's quota for purchases on account of export shortfalls under Section II, Section IV, or Section V if at the time of the request for the purchase the member's balance of payments position apart from the effects of the export shortfall is satisfactory, and a limit of 40 percent of the member's quota for such purchases in all other cases;

(iii) a limit of 40 percent of the member's quota for purchases on account of external contingencies under Section III;

(iv) a limit of 83 percent of the member's quota for purchases on account of an excess in cereal import costs under Section IV or Section V if at the time of the request for the purchase the member's balance of payments position apart from the effects of the excess in cereal import costs is satisfactory, and a limit of 17 percent of the member's quota for such purchases in all other cases;

(v) a limit of 83 percent of the member's quota for purchases on account of an excess in oil import costs under Section V if at the time of the request for the purchase the member's balance of payments position apart from the effects of the excess in oil import costs is satisfactory, and a limit of 57 percent of the member's quota for such purchases in all other cases; and

(vi) a combined limit of 122 percent of the member's quota for the sum of purchases on account of export shortfalls under Section II, Section IV, or Section V, purchases on account of external contingencies under Section III, purchases on account of an excess in cereal import costs under Section IV or Section V, and purchases on account of an excess in oil import costs under Section V.

(b) Notwithstanding the provisions of subparagraph (a)(ii), (iii), (iv), and (v) above, the limits of 40, 17, and 57 percent above may be exceeded to permit additional purchases under this Decision, provided that the aggregate amount of Fund's holdings of the member's currency resulting from such additional purchases shall not exceed 25 percent of the member's quota.

9. In providing financing pursuant to this Decision, the Fund, as under other policies of the Fund, shall pay due attention to the member's capacity to service its financial obligations to the Fund.

10. (a) Wherever used in this Decision, the expression "Fund arrangement" will mean a stand-by or an extended arrangement. It will also mean a Structural Adjustment Facility (SAF) arrangement or an Enhanced Structural Adjustment Facility (ESAF) arrangement, provided that the Fund shall decide to provide financing on the basis of a SAF or ESAF arrangement only if the program supported by the arrangement, at the time of the decision, meets the criteria for the use of the Fund's general resources in the upper credit tranches.

(b) The total amount available under Section III to a member eligible for SAF or ESAF arrangements shall not exceed the total amount that would be available under that Section to the same member if it were not so eligible.

Section II. Compensatory Financing of Export Fluctuations

11. The Fund is prepared to assist members, particularly primary exporters, encountering payments difficulties produced by temporary export shortfalls, and has decided that such members may continue to expect that their requests for purchases will be met, subject to the provisions of this Decision, where the Fund is satisfied that:

(a) the shortfall is of a short-term character and is largely attributable to circumstances beyond the control of the member; and

(b) the member satisfies the conditions of cooperation with the Fund in accordance with paragraph 12.

12. (a) Subject to the provisions of subparagraphs (b) and (c) below, a member may expect that its request for a purchase on account of an export shortfall under this Section, Section IV, or Section V will be met

immediately, whenever the purchase would not cause the Fund's holdings of the member's currency resulting from such purchases to exceed:

- (i) 40 percent of the member's quota, if the Fund is satisfied that the member will cooperate with the Fund in an effort to find, where required, appropriate solutions for its balance of payments difficulties; and
- (ii) 65 percent of the member's quota, if the member has a Fund arrangement, in support of a program that meets the criteria for the use of the Fund's general resources in the upper credit tranches, under which performance is broadly satisfactory, or if the Fund approves such an arrangement for the member at the time of the request, or if the member's current and prospective policies are such as would, in the Fund's view, meet such criteria.

(b) If the Fund considers that the record of the member's cooperation with the Fund in an effort to find, where required, appropriate solutions for its balance of payments difficulties had not been satisfactory, the member may expect that its request for a purchase on account of an export shortfall under this Section, Section IV, or Section V will be met whenever the purchase would not cause the Fund's holdings of the member's currency resulting from such purchases to exceed:

- (i) 20 percent of the member's quota, if the Fund is satisfied that the member has taken action that gives, prior to submission of the request, a reasonable assurance that policies corrective of the member's balance of payments problem will be adopted;
- (ii) 40 percent of the member's quota, if the member has a Fund arrangement, in support of a program that meets the criteria for the use of the Fund's general resources in the upper credit tranches, under which performance is broadly satisfactory, or if the Fund approves such an arrangement for the member at the time of the request, or if the member's current and prospective policies are such as would, in the Fund's view, meet such criteria; and
- (iii) 65 percent of the member's quota, if the member has a Fund arrangement, in support of a program that meets the criteria for the use of the Fund's general resources in the upper credit tranches, under which a review is completed by the Fund at the time of the request, or if the member's policies in the recent past, as well as its current and prospective policies, are such as would, in the Fund's view, continue to meet such criteria.

(c) Notwithstanding subparagraphs (a) and (b) above, if a member's balance of payments position apart from the effects of the export shortfall is satisfactory, such member may expect that its request for a purchase on account of an export shortfall under this Section, Section IV, or Section V will be met whenever the purchase would not cause the Fund's holdings of the member's currency resulting from such purchases to exceed 83 percent of the member's quota.

(d) Approval in principle of a Fund arrangement shall be deemed to fulfill the conditions in subparagraphs (a)(i) and (b)(i) above.

(e) When a member has outstanding purchases on account of excesses in oil import costs under Section V, the limits in subparagraphs (a), (b), and (c) above shall be reduced in accordance with paragraph 49(f).

13. If, in the opinion of the Fund, adequate data on receipts from services other than investment income are available, the member requesting a purchase under this Section shall specify whether the receipts shall be included or excluded in the calculation of the shortfall. The choice by the member to include such receipts shall continue to apply for a period of three years.

14. The existence and amount of an export shortfall for the purpose of any purchase under this Section shall be determined with respect to the latest 12-month period preceding the request for which the Fund has sufficient statistical data, provided that a member may request a purchase in respect of a shortfall year for which not more than 12 months of the data on merchandise exports and on receipts from services are estimated.

15. In order to identify more clearly what are to be regarded as export shortfalls of a short-term character, the Fund, in conjunction with the member concerned, will seek to establish reasonable estimates regarding the medium-term trend of the member's exports based partly on statistical calculation and partly on appraisal of export prospects. For the purposes of this Section, the shortfall shall be the amount by which the member's export earnings in the shortfall year are less than the geometric average of the member's export earnings for the five-year period centered on the shortfall year. In computing the five-year geometric average, the Fund, in conjunction with the member, will use an estimate based on a judgmental forecast for the period of the two postshortfall years, provided that any amount by which the forecast for the period of the two postshortfall years would exceed the member's export earnings for the period of the two preshortfall years by more than 20 percent shall not be included in such computation. When the Fund allows a member to purchase under the proviso in paragraph 14, the Fund may use such methods as it considers reasonable for estimating exports during the period for which sufficient statistical data are not available.

16. (a) When a member has made a purchase under the proviso in paragraph 14 on the basis of estimated data and the amount of the purchase exceeds the amount that could have been purchased on the basis of actual data for the full 12-month period under paragraph 15, the member will be expected to make a prompt repurchase in respect of the outstanding purchase, in an amount equivalent to the excess.

(b) If a member requests a purchase under this Section in relation to a shortfall year that in whole or in part is included in the period of the two postshortfall years concerning any earlier purchase under this Section, Section IV, or Section V, the amount of the requested purchase shall be adjusted so as to take into account any amount by which such earlier purchase differs from the amount that could have been purchased on the basis of data available at the time of the request.

Section III. External Contingency Financing

17. When approving a Fund arrangement, or when completing a review under such an arrangement at least six months before the expiration date of the arrangement, the Fund will be prepared to decide, at the request of the member and subject to the provisions of this Decision, that, should unfavorable deviations in the member's balance of payments due to adverse external contingencies occur during the period of the program supported by the arrangement, it will provide to the member external contingency financing in association with the arrangement.

18. (a) Such external contingency financing will only be provided in association with a Fund arrangement, generally on the basis of a review by the Executive Board, to a member facing unanticipated deviations from the baseline projections of key external variables of the member's current account that are highly volatile and easily identifiable and that relate to the specified external contingencies during the period of the projections (hereinafter called the "baseline period"), if:

- (i) the deviations from the baseline projections are outside of the control of the member;
- (ii) the member's performance under the associated Fund arrangement is satisfactory; and
- (iii) the member is prepared to adapt its adjustment policies as may be necessary to ensure the viability of the program supported by the associated arrangement through a mix of adjustment and financing appropriate to the circumstances of the member.

(b) The need for financing to be provided on account of external contingencies pursuant to this Section will be established after taking into account the extent to which the effects of unanticipated deviations in

external contingencies affecting the member's current account that have not been specified pursuant to paragraph 19(a)(i) largely offset the effects of deviations in the external contingencies that have been so specified.

(c) Such financing will be limited to the extent that the amount of the member's balance of payments deficit that exists at the time of the member's request for a contingency purchase exceeds the corresponding amount specified in the member's then current program supported by the associated Fund arrangement.

19. (a) When the Fund approves an arrangement, or when the Fund completes a review under such an arrangement, in association with which external contingency financing is to be provided under this Section, it will specify for the arrangement:

- (i) the external contingencies that will be taken into account;
- (ii) the maximum amount of purchases that may be permitted in case of unfavorable external contingent deviations;
- (iii) the minimum threshold, which shall generally be 10 percent of the member's quota, that must be exceeded by the applicable net sum of deviations, cumulated from the beginning of the baseline period, before external contingency purchases may be permitted or adjustments pursuant to paragraph 27 may be required;
- (iv) the proportion of the applicable net sum of deviations that may be financed under this Section, subject to any subsequent changes that may be required pursuant to paragraph 18(a)(iii) to ensure the viability of the member's program supported by the arrangement; and
- (v) the maximum amount by which the associated arrangement could be reduced or other adjustments pursuant to paragraph 27 could be required in case of favorable external contingent deviations, which amount will normally be the same as the amount specified pursuant to (ii) above.

(b) For purposes of this Section, the expression "net sum of deviations" shall mean the net aggregate effect on the member's balance of payments of deviations in the variables relating to the external contingencies specified pursuant to subparagraph (a)(i) above; and the expression "applicable net sum of deviations" shall mean the net sum of deviations in the situations covered by paragraph 20(b) or the net sum of deviations adjusted for the limit on interest cost deviations in the situations covered by paragraph 20(c), as appropriate.

(c) The Fund shall determine the length of each baseline period, which shall generally be from 12 to 18 months, and the maximum amount of external contingency purchases that may be permitted on account of deviations that occur during such baseline period.

(d) When a member makes a request under paragraph 17, every effort will be made to obtain contingent financing from other sources.

20. (a) Subject to the limitations specified by this Decision, the amount of an external contingency purchase under this Section shall be determined on the basis of the applicable net sum of deviations in accordance with subparagraphs (b) and (c) below. Deviations will be calculated in relation to baseline projections established for each baseline period.

(b) Except as provided in subparagraph (c) below, the amount that may be financed under this Section shall be determined as the net sum of deviations reduced by the equivalent of the minimum threshold specified pursuant to paragraph 19(a)(iii) and subsequently multiplied by the proportion specified pursuant to paragraph 19(a)(iv).

(c) In case of a favorable or unfavorable deviation in net interest costs that, when multiplied by the proportion specified pursuant to paragraph 19(a)(iv), would exceed the percentage of the member's quota that is available for purchases under paragraph 21(a), the amount that may be financed under this Section shall be determined as the sum of:

- (i) the net aggregate amount of the deviations, other than a deviation in net interest costs, multiplied by the proportion specified pursuant to paragraph 19(a)(iv); and
- (ii) the amount of the deviation in net interest costs reduced by the equivalent of the minimum threshold specified pursuant to paragraph 19(a)(iii) and multiplied by the same proportion, up to a limit equivalent to the percentage of the member's quota available for purchases under paragraph 21(a), except that any excess of a favorable or unfavorable deviation in net interest costs over such limit shall be included in the calculation as required to avoid or to reduce an unfavorable or favorable net sum of deviations.

For the cases covered by this subparagraph (c), the net sum of deviations shall be determined by dividing the amount that may be financed by the proportion specified pursuant to paragraph 19(a)(iv) and by adding an amount equivalent to the minimum threshold specified pursuant to paragraph 19(a)(iii).

(d) Once the threshold adjustment in subparagraph (b) or subparagraph (c) above has been made for a purchase in respect of a baseline period, no further such adjustment shall be made for later purchases in respect of that period.

(e) Purchases under this Section shall be permitted only when the applicable net sum of deviations exceeds the minimum threshold specified by the Fund pursuant to paragraph 19(a)(iii), provided that in applying this subparagraph (e) the limit specified by subparagraph (c)(ii) above shall be disregarded.

21. (a) Subject to the other limitations on purchases specified in this Decision, the Fund's holdings of a member's currency resulting from purchases on account of deviations in net interest costs in association with all Fund arrangements for the member shall not exceed 35 percent of the member's quota.

(b) For purposes of applying the limitation in subparagraph (a) above, when a purchase under this Section is attributable to unfavorable deviations in net interest costs and in one or more other variables relating to external contingencies, the portion of the purchase that is to be allocated to a deviation in net interest costs shall be determined on the basis of the share of such deviation in the applicable net sum of deviations, and in determining this share the portion of the threshold reduction in paragraph 20(b) that is to be allocated to net interest costs shall be determined on the same basis.

22. The maximum amount of external contingency purchases in association with a Fund arrangement to be specified pursuant to paragraph 19(a)(ii) will generally not exceed 70 percent of the amount of the arrangement, and the maximum amount of external contingency purchases in respect of any baseline period, to be specified pursuant to paragraph 19(c), will generally not exceed 70 percent of the amount available under the arrangement for the same period.

23. When, at the request of a member, the Fund has decided to provide financing to the member under this Section that would cause the Fund's holdings of the member's currency resulting from purchases under this Section to exceed 40 percent of the member's quota, the amount of such excess over 40 percent of quota shall not be available under paragraph 8(b) for other purchases under this Decision in respect of the baseline period for which the Fund decides to provide such financing, unless the member notifies the Fund that it will not avail itself of such financing in excess of 40 percent under this Section.

24. The Fund will provide financing under this Section only if the program supported by the associated arrangement continues to be adequately financed, including, if necessary, through the provision of financing from other sources.

25. (a) Purchases under this Section shall be subject to the observance of any applicable performance criteria, adjusted by the Fund as may be necessary, or other conditions specified in the associated arrangement, as if such purchases were drawings to be made under that arrangement.

(b) Purchases under this Section shall be phased to coincide with the drawings scheduled to be made under the associated arrangement in respect of the baseline period for which the Fund decides to provide the external contingency financing. The phasing shall take into account the effects of the applicable net sum of deviations on the program supported by the associated arrangement and the timing of the additional measures to be taken by the member in accordance with paragraph 18(c).

26. When a member has made a purchase on the basis of estimated data and the amount of the purchase exceeds the amount that could have been purchased on the basis of actual data, the member will be expected, unless the Fund decides otherwise, to make a prompt repurchase in an amount equivalent to the overcompensation.

27. If, in respect of any baseline period, the Fund finds that a favorable applicable net sum of deviations with respect to the contingencies specified pursuant to paragraph 19(a)(i) has occurred, the following provisions shall apply, subject to the maximum amount specified pursuant to paragraph 19(a)(v) and only if such net sum of deviations has not been largely offset by the effects of unanticipated deviations in external contingencies affecting the member's current account that have not been specified pursuant to paragraph 19(a)(i):

(a) when no purchase under this Section has been made by the member in respect of the baseline period for which the Fund makes such finding, as a preference, the limits on, or objectives for, the member's reserves under the associated Fund arrangement shall be increased or, as a second option, the amount of the associated Fund arrangement shall be reduced, or both, as determined by the Fund, by an amount that shall be equivalent to a substantial part of the applicable net sum of deviations not exceeding the amount that would have been financed under this Section if the applicable net sum of deviations would have been unfavorable; and

(b) when one or more purchases under this Section had earlier been made by the member in respect of the baseline period for which the Fund makes such finding, as a preference, the limits on, or objectives for, the member's reserves under the associated Fund arrangement shall be increased or, as a second option, the amount of the associated Fund arrangement shall be reduced, or both, as determined by the Fund, by an amount that shall be equivalent to a substantial part of the applicable net sum of deviations not exceeding the amount that would have been financed under this Section if the applicable net sum of deviations that have occurred since the latest of any such earlier purchases would have been unfavorable, provided that the member

may choose to substitute for a reduction of the amount of the arrangement a repurchase of a corresponding amount of the Fund's holdings of the member's currency in respect of such earlier purchases.

Section IV. Compensatory Financing of Fluctuations in the Cost of Cereal Imports

28. Until June 30, 1994, the Fund will be prepared to extend financial assistance subject to the provisions of this Decision to members that encounter a balance of payments difficulty produced by an excess in the cost of their cereal imports.

29. For a period of three years from the date of a member's first request for a purchase in respect of cereal imports under Decision No. 6860-(81/81), or under this Section or Section V, any purchases by the member in respect of its export shortfalls shall be made under this Section instead of under Section II of this Decision. The same provision shall apply if, after the end of the three-year period, the member makes a new purchase in respect of cereal imports under this Section or Section V.

30. A member with balance of payments difficulties may continue to expect that its request for a purchase under this Section will be met if the Fund is satisfied that:

(a) any shortfall in exports and any excess costs of cereal imports that result in a net shortfall in the member's exports are of a short-term character and are largely attributable to circumstances beyond the control of the member, and

(b) the member satisfies the conditions of cooperation with the Fund in accordance with paragraph 36.

31. (a) Subject to the limits specified in paragraphs 8 and 36, a member may request a purchase under this Section for an amount equal to the net shortfall in its exports calculated as the sum of its export shortfall and the excess in its cereal import costs.

(b) (i) For the calculation of the net shortfall in exports, an excess in exports shall be considered a negative shortfall in exports and a shortfall in cereal import costs shall be considered a negative excess in cereal import costs.

(ii) An export shortfall shall be determined in accordance with Section II.

(iii) An excess in cereal import costs shall be determined in accordance with paragraphs 32 and 33.

32. The existence and amount of an excess in the cost of cereal imports shall be determined, for the purpose of purchases under this Section, with respect to the latest 12-month period preceding the request for which the Fund has sufficient statistical data, provided that the Fund may allow a member to make a purchase on the basis of estimated data in respect of a 12-month period ending not later than 12 months after the latest month for which the Fund has sufficient statistical data on the member's cereal import costs. The estimates used for this purpose shall be made in consultation with the member. The calculation of a member's shortfall or excess in exports and its excess or shortfall in the cost of its cereal imports shall be made for the same 12-month period.

33. In order to identify more clearly what are to be regarded as excess costs of cereal imports of a short-term character, the Fund, in consultation with the member concerned, will seek to establish reasonable estimates regarding the medium-term trend of the member's cereal import costs. For the purposes of this Section, the excess in a member's cereal imports for the 12-month period referred to in paragraph 32 shall be the amount by which the member's cereal imports in that 12-month period are more than the arithmetic average of the member's cereal imports for the 5-year period centered on that 12-month period.

34. The amount of a purchase under this Section, as defined in paragraph 31, may be either on account of an export shortfall or on account of an excess in cereal import costs, or the amount may consist of two components, one on account of an export shortfall and the other on account of an excess in cereal import costs. The total amount of the purchase and the amount of each component are subject to the limits specified in paragraphs 8 and 36.

35. (a) The part of a purchase relating to an export shortfall, subject to the limits in paragraphs 8 and 36, shall not exceed the lesser of the export shortfall defined in paragraph 31(b)(ii) and the net shortfall in exports defined in paragraph 31(a).

(b) The amount of a purchase relating to an excess in cereal import costs, subject to the limits in paragraphs 8 and 36, shall not exceed the lesser of the excess in cereal import costs defined in paragraph 31(b)(iii) and the net shortfall in exports defined in paragraph 31(a).

36. (a) The provisions of paragraph 12 shall apply to purchases on account of export shortfalls under this Section.

(b) Subject to the provisions of subparagraphs (c) and (d) below, a member may expect that its request for a purchase on account of an excess in cereal import costs under this Section or Section V will be met immediately, whenever the purchase would not cause the Fund's holdings of the member's currency resulting from such purchases to exceed:

- (i) 17 percent of the member's quota, if the Fund is satisfied that the member will cooperate with the Fund in an effort to find, where required, appropriate solutions for its balance of payments difficulties; and
- (ii) 42 percent of the member's quota, if the member has a Fund arrangement, supporting a program that meets the criteria for the use of the Fund's general resources in the upper credit tranches, under which performance is broadly satisfactory, or if the Fund approves such an arrangement at the time of the request, or if the member's current and prospective policies are such as would, in the Fund's view, meet such criteria.

(c) If the Fund considers that the record of the member's cooperation with the Fund in an effort to find, where required, appropriate solutions for its balance of payments difficulties had not been satisfactory, the member may expect that its request for a purchase on account of an excess in cereal import costs under this Section or Section V will be met whenever the purchase would not cause the Fund's holdings of the member's currency resulting from such purchases to exceed:

- (i) 17 percent of the member's quota, if the Fund is satisfied that the member has taken action that gives, prior to submission of the request, a reasonable assurance that policies corrective of the member's balance of payments problem will be adopted; and
- (ii) 42 percent of the member's quota, if the member has a Fund arrangement, supporting a program that meets the criteria for the use of the Fund's general resources in the upper credit tranches, under which a review is completed by the Fund at the time of the request, or if the member's policies in the recent past, as well as its current and prospective policies, are such as would, in the Fund's view, continue to meet such criteria.

(d) Notwithstanding subparagraphs (b) and (c) above, if a member's balance of payments position apart from the effects of the excess in cereal import costs is satisfactory, such member may expect that its request for a purchase on account of an excess in cereal import costs under this Section or Section V will be met whenever the purchase would not cause the Fund's holdings of the member's currency resulting from such purchases to exceed 83 percent of the member's quota.

(e) Approval in principle of a Fund arrangement shall be deemed to fulfill the conditions in subparagraphs (b)(i) and (c)(i) above.

(f) When a member has outstanding purchases on account of excesses in oil import costs under Section V, the limits in subparagraphs (b), (c), and (d) above shall be reduced in accordance with paragraph 49(f).

37. A member shall allocate the amount of its purchase as between the export shortfall and cereal import components, where the sum of the two components, each as limited by paragraph 8,

(a) exceeds the limit of 105 percent of the member's quota, if, at the time of the request for the purchase, the member's balance of payments position apart from the effects of the export shortfall or the excess in cereal import costs is satisfactory; or

(b) exceeds the amount that the member may purchase pursuant to the access limits in paragraph 8, in all other cases.

38. (a) When a member has made a purchase under this Section on the basis of estimated statistical data and the amount of the purchase exceeds the amount that could have been purchased on the basis of actual statistical data, the member will be expected to make a prompt repurchase in respect of the outstanding purchase, in an amount equivalent to the excess.

(b) If a member requests a purchase under this Section in relation to a shortfall year that in whole or in part is included in the period of the two postshortfall years concerning any earlier purchase under Section II, Section V, or this Section, the amount of the requested purchase shall be adjusted so as to take into account any amount by which such earlier purchase differs from the amount that could have been purchased on the basis of data available at the time of the request.

39. (a) Subject to paragraph 38(a), when a reduction in the Fund's holdings of a member's currency is attributed to a purchase under this Section, the member shall attribute that reduction between the outstanding cereal import component and export shortfall component of the purchase.

(b) When the Fund's holdings of a member's currency resulting from a purchase under this Section or Section II are reduced by the member's repurchase or otherwise, the member's access to the Fund's resources under this Section will be restored *pro tanto*, subject to the limits in paragraphs 8 and 36.

40. (a) After the expiration of the period referred to in paragraph 29, the total amount of the export shortfall components of a member's purchases outstanding under this Section shall be counted as having been purchased under Section II.

(b) The provisions of Section II shall continue to apply to the export shortfall component of a purchase under this Section after the

expiration of the period referred to in paragraph 29 or the expiration of this Section.

Section V. Compensatory Financing of Fluctuations in the Cost of Oil Imports

41. Until December 31, 1991, the Fund will be prepared to extend financial assistance subject to the provisions of this Decision to members that encounter a balance of payments difficulty produced by an excess in the cost of their oil imports.

42. For the period from the date of a member's first request for a purchase in respect of oil imports under this Section through December 31, 1991, any purchase by the member in respect of its export shortfalls or of its excesses in cereal import costs shall be made under this Section instead of under Section II or Section IV of this Decision.

43. A member with balance of payments difficulties may expect that its request for a purchase under this Section will be met if the Fund is satisfied that:

(a) any shortfall in exports, any excess costs in oil imports, and any excess costs in cereal imports, that result in a net shortfall in the member's exports are of a short-term character and are largely attributable to circumstances beyond the control of the member, and

(b) the member satisfies the conditions of cooperation with the Fund in accordance with paragraph 49.

44. (a) Subject to the limits specified in paragraphs 8 and 49, a member may request a purchase under this Section for an amount equal to the net shortfall in its exports calculated as the sum of its export shortfall, the excess in its oil import costs, and, if cereal import costs are to be included in the calculation of the net shortfall in exports in accordance with paragraph 29, the excess in its cereal import costs.

(b) (i) For the calculation of the net shortfall in exports, an excess in exports shall be considered a negative shortfall in exports, a shortfall in oil import costs shall be considered a negative excess in oil import costs, and a shortfall in cereal import costs shall be considered a negative excess in cereal import costs.

(ii) An export shortfall shall be determined in accordance with Section II, and an excess in cereal import costs shall be determined in accordance with Section IV.

(iii) An excess in oil import costs shall be determined in accordance with paragraphs 45 and 46.

(c) For the purposes of this Section, oil imports will be understood to mean imports of crude petroleum, petroleum products and natural gas. Such imports shall be included in the calculation of an excess in oil import costs to the extent that, in the opinion of the Fund, adequate data are available.

45. The existence and amount of an excess in the cost of oil imports shall be determined, for the purposes of purchases under this Section, with respect to the latest 12-month period preceding the request for which the Fund has sufficient statistical data, provided that the Fund may allow a member to make a purchase on the basis of estimated data in respect of a 12-month period ending not later than 12 months after the latest month for which the Fund has sufficient statistical data on the member's oil import costs. The calculation of a member's shortfall or excess in exports, of its excess or shortfall in the cost of oil imports, and of its excess or shortfall in the cost of cereal imports shall be made for the same 12-month period.

46. In order to identify more clearly what are to be regarded as excess costs of oil imports of a short-term character, the Fund, in consultation with the member concerned, will seek to establish reasonable estimates regarding the medium-term trend of the member's oil import costs. For the purposes of this Section, the excess in a member's oil imports for the 12-month period referred to in paragraph 45 shall be the amount by which the member's oil imports in that 12-month period are more than the arithmetic average of the member's oil imports for the 5-year period centered on that 12-month period.

47. The amount of a purchase under this Section, as defined in paragraph 44, may be on account of an export shortfall, on account of an excess in oil import costs, or on account of an excess in cereal import costs, or it may be on account of any combination of two or three of these components. The total amount of the purchase and the amount of each component are subject to the limits specified in paragraphs 8 and 49.

48. (a) The part of a purchase relating to an export shortfall, subject to the limits in paragraphs 8 and 49, shall not exceed the lesser of the export shortfall defined in paragraph 44(b)(ii) and the net shortfall in exports defined in paragraph 44(a).

(b) The part of a purchase relating to an excess in oil import costs, subject to the limits in paragraphs 8 and 49, shall not exceed the lesser of the excess in oil import costs defined in paragraph 44(b)(iii) and the net shortfall in exports defined in paragraph 44(a).

(c) The part of a purchase relating to an excess in cereal import costs, subject to the limits in paragraphs 8 and 49, shall not exceed the lesser of the export shortfall defined in paragraph 44(b)(ii) and the net shortfall in exports defined in paragraph 44(a).

49. (a) The provisions of paragraph 12 shall apply to purchases on account of export shortfalls under this Section.

(b) The provisions of paragraph 36 shall apply to purchases on account of excesses in cereal import costs under this Section.

(c) Subject to the provisions of subparagraphs (d) to (i) below, a member may expect that its request for a purchase on account of an excess in oil import costs under this Section will be met immediately, whenever the purchase would not cause the Fund's holdings of the member's currency resulting from such purchases to exceed:

- (i) 40 percent of the member's quota if the Fund is satisfied that the member will cooperate with the Fund in an effort to find, where required, appropriate solutions for its balance of payments difficulties; and
- (ii) 82 percent of the member's quota if the member has a Fund arrangement, in support of a program that meets the criteria for the use of the Fund's general resources in the upper credit tranches, under which performance is broadly satisfactory, or if the Fund approves such an arrangement for the member at the time of the request, or if the member's current and prospective policies are such as would, in the Fund's view, meet such criteria.

(d) Subject to the provisions of subparagraphs (e) to (i) below, if the Fund considers that the record of the member's cooperation with the Fund in an effort to find, where required, appropriate solutions for its balance of payments difficulties had not been satisfactory, the member may expect that its request for a purchase on account of an excess in oil import costs under this Section will be met, whenever the purchase would not cause the Fund's holdings of the member's currency resulting from such purchases to exceed:

- (i) 20 percent of the member's quota if the Fund is satisfied that the member has taken action that gives, prior to the submission of the request, a reasonable assurance that policies corrective of the member's balance of payments problem will be adopted;
- (ii) 40 percent of the member's quota if the member has a Fund arrangement, in support of a program that meets the criteria for the use of the Fund's general resources in the upper credit tranches, under which performance is broadly satisfactory, or if the Fund approves such an arrangement for the member at the time of the request, or if the member's current and prospective policies are

such as would, in the Fund's view, meet such criteria;
and

- (iii) 82 percent of the member's quota if the member has a Fund arrangement, in support of a program that meets the criteria for the use of the Fund's general resources in the upper credit tranches, under which a review is completed by the Fund at the time of the request, or if the member's policies in the recent past, as well as its current and prospective policies, are such as would, in the Fund's view, continue to meet such criteria.

(e) Notwithstanding subparagraphs (c) and (d) above, if a member's balance of payments position apart from the effects of the excess in oil import costs is satisfactory, such member may expect that its request for a purchase on account of an excess in oil import costs under this Section will be met whenever the purchase would not cause the Fund's holdings of the member's currency resulting from such purchases to exceed 83 percent of the member's quota.

(f) Notwithstanding subparagraphs (c), (d), and (e) above, the Fund's holdings of a member's currency resulting from purchases on account of excesses in oil import costs under this Section shall not exceed:

- in the case of a member falling under subparagraph (c)(i), (d)(i), or (d)(ii) above, the amount of access that remains available to the member for purchases on account of export shortfalls under Section II, Section IV, or this Section, and

- in the case of a member falling under subparagraph (c)(ii), (d)(iii), or (e) above, the amount of access that remains available to the member either for purchases on account of export shortfalls under Section II, Section IV, or this Section or for purchases on account of excesses in cereal import costs under Section IV or this Section.

When a member makes a purchase on account of an excess in oil import costs under this Section, the access limits in paragraph 12 for purchases on account of export shortfalls and the access limits in paragraph 36 for purchases on account of excesses in cereal import costs shall be reduced accordingly. If the member falls under subparagraph (c)(ii), (d)(iii), or (e) above, it shall, when requesting the purchase, specify, in accordance with this subparagraph, the extent to which this purchase shall reduce the access limits in paragraph 12 for purchases on account of export shortfalls and the access limits in paragraph 36 for purchases on account of excesses in cereal import costs.

(g) The Fund shall approve a member's request for a purchase on account of an excess in oil import costs under subparagraph (c), (d) or (e)

above only if it is satisfied that the member is pursuing appropriate energy policies.

(h) A purchase under subparagraph (c)(i) or (d)(i) above shall be approved by the Fund if the Fund is satisfied, based on a written statement submitted by the member, that the member will pursue appropriate macroeconomic policies and objectives.

(i) Except in this subparagraph, when compensatory financing is phased in accordance with this subparagraph, references in this Decision to purchases on account of excesses in oil import costs under this Section shall be understood to apply to the amount of compensatory financing before phasing. Whenever estimated data are used for 9 months or more of the 12-month period referred to in paragraph 45, the amount of compensatory financing on account of an excess in oil import costs under this Section shall be phased in two purchases in accordance with this subparagraph. The member may expect that its request for the first purchase, which shall be for up to 65 percent of the amount, shall be met immediately. The member may expect that its request for the second purchase, which shall be for up to the difference between the amount recalculated on the basis of the actual data available at the time of the request and the amount of the first purchase, shall be met after actual data become available for at least 6 months of the 12-month period referred to in paragraph 45, provided that:

- if policy implementation by the member or the external circumstances of the member differ materially from that originally anticipated at the time of the request for the first purchase, the Fund may decide not to approve, or to reduce the amount available under, the second purchase, and

- if the sum of the first purchase and of the second purchase requested by the member exceeds the limit in this paragraph under which the first purchase was made, the second purchase shall be subject to the relevant provisions of subparagraph (c), (d) or (e) above instead of the provisions of this subparagraph.

(j) Without prejudice to subparagraph (g) above, approval in principle of a Fund arrangement shall be deemed to fulfill the conditions in subparagraphs (c)(i) and (d)(i) above.

50. A member shall allocate the amount of its purchase as between the export shortfall, the oil import, and the cereal import element, where the sum of the three components, each as limited by paragraph 8,

- (a) exceeds the limit of 105 percent of the member's quota, if, at the time of the request for the purchase, the member's balance of payments position apart from the effects of the export shortfall, the excess in oil import costs, or the excess in cereal import costs is satisfactory;

or

(b) exceeds the amount that the member may purchase pursuant to the access limits in paragraph 8, in all other cases.

51. (a) When a member has made a purchase under this Section on the basis of estimated statistical data and the amount of the purchase exceeds the amount that could have been purchased on the basis of actual statistical data, the member will be expected to make a prompt repurchase in respect of the outstanding purchase, in an amount equivalent to the excess.

(b) If a member requests a purchase under this Section in relation to a shortfall year that in whole or in part is included in the period of the two postshortfall years concerning any earlier purchase under Section II, Section IV, or this Section, the amount of the requested purchase shall be adjusted so as to take into account any amount by which such earlier purchase differs from the amount that could have been purchased on the basis of data available at the time of the request.

52. (a) Subject to paragraph 51(a), when a reduction in the Fund's holdings of a member's currency is attributed to a purchase under this Section, the member shall attribute that reduction between the outstanding oil import component, export shortfall component, and cereal import component, of the purchase.

(b) When the Fund's holdings of a member's currency resulting from a purchase under this Section, Section II, or Section IV are reduced by the member's repurchase or otherwise, the member's access to the Fund's resources under this Section will be restored *pro tanto*, subject to the limits in paragraphs 8 and 49.

53. (a) After the expiration of the period referred to in paragraph 42, the total amount of the export shortfall components and of the cereal import components of a member's purchases outstanding under this Section shall be counted as having been purchased under Section II or Section IV, depending on the Section under which they would otherwise have been made.

(b) The provisions of Section II or of Section IV shall continue to apply to the export shortfall and cereal import components of a purchase under this Section after the expiration of the period referred to in paragraph 42 or the expiration of this Section.

Section VI. Transitional and Other Provisions

54. This Decision shall apply to all purchases on account of export shortfalls, on account of external contingencies, or on account of an excess in cereal import costs made after August 23, 1988, provided that purchases on account of export shortfalls or on account of an excess in cereal import costs that are made before November 1, 1988 shall be governed by Decision

No. 6224-(79/135) and by Decision No. 6860-(81/81), as the case may be, if they result from requests initiated before the date of this Decision.

55. For purposes of calculating the Fund's holdings of a member's currency under this Decision, purchases made under Decision No. 6224-(79/135) or Decision No. 6860-(81/81) prior to August 23, 1988 or under paragraph 42, shall be deemed to have been made under Section II or Section IV of this Decision, as the case may be.

56. Notwithstanding the provisions of paragraph 17, the Fund will be prepared to decide, when completing a review of a Fund arrangement approved before November 1, 1988, that external contingency financing will be provided under this Decision for the remaining period of the arrangement, if such period is at least one year. The provisions of Section III shall apply to *mutatis mutandis* that decision.

57. If on August 23, 1988 the Fund's holdings of a member's currency resulting from purchases on account of export shortfalls exceed 65 percent of the member's quota, purchases by the member on account of export shortfalls under Section II, Section IV, or Section V and purchases on account of external contingencies under Section III may be permitted, up to a transitional combined access limit for the sum of such purchases, in excess of the 105 percent and 122 percent limits specified in paragraph 8(a). The transitional access limit shall be equal to the sum of such holdings of the Fund (expressed in terms of the member's quota) on August 23, 1988 and 40 percent of the member's quota. The transitional access limit shall apply until the Fund's holdings of the member's currency resulting from purchases on account of export shortfalls are reduced to 65 percent of the member's quota or the Fund's holdings of the member's currency resulting from both purchases on account of export shortfalls and purchases on account of external contingencies are reduced to 105 percent of the member's quota, whichever shall come first.

58. (a) Rule I-6(4) shall be amended by inserting the following new subparagraph (vi):

"or (vi) under the Compensatory and Contingency Financing Facility (Executive Board Decision No. 8955-(88/126), as amended)."

(b) Decision No. 5703-(78/39) shall be amended by inserting the following clause in paragraph 1(a) immediately after the reference to Decision No. 6860-(81/81):

"or the decision on the Compensatory and Contingency Financing Facility (Decision No. 8955-(88/126), as amended)."

59. Notwithstanding paragraph 13, any member that has specified, for a purchase made prior to November 15, 1990, that receipts from travel and workers' remittances shall be included in the calculation of the shortfall

shall specify, for the first purchase under Section II, Section IV, or Section V following November 15, 1990, whether services shall be included or excluded in the calculation of the shortfall.

60. Notwithstanding paragraph 41, a purchase under Section V may be made after the date of expiration of that Section, if (i) it results from a request initiated before such date of expiration and relates to a net shortfall year ending not later than December 31, 1991, or (ii) it is a second purchase within the meaning of paragraph 49(i), and the first purchase was made prior to such date of expiration or was made pursuant to (i) above, provided that a first purchase within the meaning of paragraph 49(i) may not be made after June 30, 1992.

61. The Fund will review this Decision not later than July 16, 1992.