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December 10, 1992

To: Members of the Executive Board

From: The Secretary

Subject: Compensatory and Contingency Financing Facility (CCFF) - Review of Operations - Supplementary Report

The attached report provides background information to the paper reviewing the compensatory and contingency financing facility (EBS/92/201, 12/4/92), which is tentatively scheduled for consideration by the Executive Directors on Wednesday, January 13, 1993.

Mr. S. Brown (ext. 38431) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

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INTERNATIONAL MONETARY FUND

Compensatory and Contingency Financing Facility--Review of Operations; Supplementary Report

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(In consultation with other departments)

Approved by Jack Boorman

December 9, 1992

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I. Introduction

This paper provides--as background to the 1992 review of the CCFF (EBS/92/201, 12/4/92)--additional details on selected aspects of the compensatory and contingency financing elements of the CCFF, as well as contingency mechanisms outside of the CCFF. Section II focuses on the compensatory element; Section III reviews the treatment of import volumes under both elements of the facility; and Section IV describes experience during 1990-92 with external contingency mechanisms (ECMs) under the CCFF and in-built contingency mechanism (ICMs) involving automatic adjustment of performance criteria under Fund arrangements.

II. Compensatory Financing--Selected Aspects of Operational Experience

During the period January 1990-November 1992, 17 members purchased a total of SDR 3.5 billion under the compensatory financing element of the CCFF. (Net of prompt repurchases by four members, total purchases were SDR 3.2 billion.) All 17 countries that made compensatory purchases were classified as developing countries. They represented all regions of the world: five countries each in Asia, Eastern Europe, and the Western Hemisphere, and one each from Africa and the Middle East. The relatively low use of compensatory financing by members in Africa can be attributed to the higher proportion of such members eligible for concessional assistance from the Fund.

Purchases under the temporary oil element accounted for over two thirds of the total amount purchased during the period under review. Under the temporary oil element, energy policies had to be judged appropriate before the Fund would approve a request for a purchase on account of an excess in oil import costs. 1/ The yardstick for assessing the appropriateness of energy policies was whether or not there had been a passthrough to pre-tax domestic prices of the increase in international oil prices occasioned by the Middle East crisis. In cases where energy prices were subsidized, or where the budgetary position was weak, there was generally a full and immediate passthrough. Where past policies had resulted in a heavily distorted energy pricing structure--as in Eastern Europe--significant steps were taken to move the prices of all types of energy products toward international market level and to phase out energy-related subsidies. Energy policies in countries that made use of the temporary oil element have therefore been consistent with the requirements of the CCFF.

1. Cooperation requirements

For all but two of the 25 compensatory financing purchases during 1990-92, the member's past record of cooperation with the Fund was considered satisfactory (Tables 1 and 2). In the cases where past

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1/ Paragraph 49(g) of the CCFF Decision.

cooperation was not satisfactory, the member had a poor track record under an earlier Fund arrangement and a recent record of arrears to the Fund or the World Bank. Of the 23 purchases involving satisfactory cooperation, seven purchases were made under the lower cooperation limit, while the remaining 16 purchases were made under the provisions for higher access--which require that the member's policies meet the criteria for an upper credit tranche arrangement.

Only one of the seven purchases made under the lower access limits was made without a concurrent Fund arrangement; the other six were under the oil element and were accompanied by a written statement that the member would pursue appropriate macroeconomic policies and objectives. 1/ In five of these cases the letter of intent for a proposed Fund arrangement (including three in the upper credit tranches) also served as the written statement and was issued prior to the Board discussion of the compensatory financing request; India's second request for a purchase under the oil element was the only case where the written statement of policies did not take the form of a letter of intent.

All but one of the 16 purchases where access was based on the higher cooperation provisions, were made with an upper credit tranche Fund arrangement in place or a concurrent request for such an arrangement. For India's third compensatory request, the Board approved the request based on the authorities' letter of intent and memorandum of economic policies in support of a request for an upper credit tranche stand-by arrangement, which in the Fund's judgment satisfied the higher cooperation condition, even though the requested arrangement had not yet been approved by the Board.

2. Averaging techniques

In the wake of the decision to adopt an arithmetic average for computing oil import cost excesses, questions have arisen regarding the appropriate use of arithmetic versus geometric averaging techniques under the compensatory element. Under both the cereal and oil elements, excesses have been computed using arithmetic averages, while shortfalls in export earnings utilize geometric averages. The geometric rule for computing export shortfalls replaced the arithmetic rule in 1979 (Decision No. 6224-(79/135), adopted August 2, 1979). At that time, a staff paper showed that export earnings tended to grow geometrically, rather than arithmetically. Consequently, use of a geometric average resulted in approximate balance between shortfalls and excesses over time, while an arithmetic average resulted in cumulative shortfalls that were substantially larger than cumulative excesses. 2/ (Experience since 1979 has confirmed these earlier conclusions, as noted below.)

1/ Paragraph 49(h) of the CCFF Decision.
2/ "Review of the Compensatory Financing Facility" (SM/79/74, 3/15/79).

Cereal import excesses have been calculated on the basis of the arithmetic rule since the inception of the cereal facility in 1981, two years after the change to geometric averaging for export shortfalls. 1/ It was recognized when the cereals element was introduced that countries registering cereal import excesses might--say, owing to a drought--switch from being net exporters or non-importers of cereals to being net importers. Under these circumstances, the geometric average would have led to calculated excesses that were erratic and tended to heavily outnumber shortfalls; a single zero entry would make a geometric average zero and cause the excess to be identical to imports in the excess year, while a negative entry (net exports rather than net imports) would make it impossible to compute a geometric average.

There were 16 cases of cereal excess purchases between 1981 and 1989 and there have been none during the period under review. Experience with these cases supports the earlier conclusion concerning the difficulties associated with geometric averages in the case of cereal imports. Moreover, cereal imports by past users of the cereals element have not exhibited a trend growth comparable to that shown by exporters; thus the strong arguments for geometric averages that exist for exports are absent for cereal imports. In one purchase where cereal imports in the pre-excess year were nearly zero, had computations been performed on the basis of the geometric average the calculated excess would have been almost 300 percent higher. For the other 15 cases, the excess calculated on the basis of the geometric rule would have been about 14 percent higher. Provisions for the temporary oil element were substantially similar to those of the cereals element, and oil import excesses were calculated utilizing the arithmetic mean. No operational issues arose in connection with averaging techniques.

The recommendation in 1979 to adopt geometric averaging for calculating export shortfalls under the Compensatory Financing Facility (CFF), was based on a study of patterns of export earnings for 74 non-OPEC developing countries during the period 1957-1978. 2/ The results suggested that export earnings tended to grow geometrically, rather than arithmetically. Since then, the number of Fund members has increased; the composition of export earnings has changed, particularly for developing countries; and information covering an additional 14 years has become available. The staff has therefore updated the 1979 study.

1/ "Possible Assistance to Members Adversely Affected by Higher Food Import Costs" (SM/80/264, 11/26/80) and "Fund Assistance to Finance Food Import Costs - Projected Operational Experience with Integrated Plans" (SM/81/52, 3/6/81).

2/ The results of that study were reported in "Review of the CFF" (SM/79/74, 3/15/79), Annex II. A summary is contained in Louis M. Goreux, Compensatory Financing Facility, IMF Pamphlet Series No.34 (1980).

A sample of nominal export earnings denominated in SDRs was assembled for 116 non-OPEC developing countries, covering the period 1957 to 1992, from the World Economic Outlook (WEO) database. 1/ The sample was grouped according to various analytic categories: geographic region, type of export, past CCFF users, and SAF/ESAF eligible countries. Following the 1979 study, the statistical fit of ordinary least squares (OLS) regressions of export earnings based on the logarithm of export earnings (a geometric trend) was compared to the fit based on their actual values (a linear arithmetic trend). The statistical fit for equations using logarithm values for export earnings was better for the overwhelming majority of countries (see Table 3), regardless of economic and regional classifications.

Also following the 1979 study, the cumulative calculated export shortfalls and excesses were compared over time to determine whether or not any systematic bias exists. The presumption is that over sufficient time, shortfalls and excesses should balance out. Accordingly, five-term moving arithmetic and geometric averages of export earnings (approximates calculations of export shortfalls under the CCFF) for the countries in the sample were computed to determine the incidence of the export shortfalls according to the two averaging techniques.

For the sample as a whole, the geometric averaging technique produced a balance between the number and cumulative magnitude of the shortfalls and excesses, while for the arithmetic averaging technique the incidence and cumulative magnitude of shortfalls were greater than those of excesses. (Tables 4 and 5). This result held not only for the entire sample period, but also when the sample was split into subsamples for shortfall calculations centered on years in 1959-1976 (the period used in the 1979 study) and for shortfall calculations centered on years in 1977-1990. 2/ While the geometric averaging technique clearly yielded a more balanced incidence of shortfalls and excesses, geometric averages yielded only slightly better balance between cumulative shortfalls and excesses as a percent of exports. Shortfalls calculated using arithmetic averaging totalled 5.7 percent of the export earnings of the countries in the sample, compared with 4.3 percent of export earnings for excesses; while geometric averaging yielded calculated shortfalls totalling 4.4 percent of quota and excesses totalling 5.7 percent of export earnings. This qualitative comparison also held for the subsamples 1959-76 and 1977-90. In absolute SDR terms over the entire 32 year sample period, net cumulative shortfalls--that is, shortfalls minus excesses--calculated using arithmetic averaging totalled SDR 43 billion more than net cumulative shortfalls based on

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1/ Corresponding to the World Economic Outlook, May 1992. As reported below, updated calculations were also performed including the 14 OPEC members that were excluded from the 1979 study.

2/ A shortfall year centered on 1990 requires data for 1988-92, with 1992 being the final data point in the time series. Thus the time period for the shortfall centered years is reduced by two years at either end of the time series.

geometric averaging. As indicated in Table 6, when OPEC members are added into the sample, the results are virtually unchanged.

In general, the conclusions reached by the staff in 1979 continue to hold today, for a larger number of countries and longer time series of data. Experience and this analysis would not suggest that there is a sufficient basis at this time to discontinue the use of a geometric formula for calculating export shortfalls under the compensatory financing element.

3. The twenty percent rule

As experience with the geometric rule was gathered during the period 1979-1987, some compensatory purchases were considered not to be within the spirit of the CFF. 1/ Of particular concern were instances of steep declines in export earnings, strong upward surges in export earnings, and sharp increases in exports in the shortfall year. The twenty percent rule, which limited the projection for post-shortfall export earnings to be no more than 20 percent higher than the average for pre-shortfall exports, was introduced in 1988 in order to eliminate many "outliers" while leaving unaffected core cases. 2/

During the 1990-92, the twenty percent rule came into play in the case of six requests for compensatory financing by four countries (Table 7). 3/ It limited the amount of purchases for three countries; for the fourth (Philippines) the cumulative access limits applied first. In the cases of India (in its first request for compensatory financing) and Pakistan, export earnings were expected to increase substantially in the shortfall year. In the other two country cases (Jamaica and the Philippines), export earnings were anticipated to rise sharply in the two post-shortfall years (by about a cumulative 30 percent in each case).

The twenty percent rule was a binding constraint in a greater proportion of cases during 1990-92 (for three out of 17 countries) than during the period from August 1988 (when the rule was adopted) to end-1989 (when the rule was binding for only one of eight countries). One important reason for the recent increase appears to have been the introduction of the temporary oil element into the CCFF. Under the CCFF decision, any compensation in respect of an excess in oil import costs must be offset by any excess in export earnings. For this reason, averaging calculations were made in respect of export earnings for periods which may not otherwise have generated requests for compensatory financing. Indeed, for three of the four countries affected by the twenty percent rule in 1990-92 (India, Jamaica and Pakistan), the initial request was entirely in respect of an

1/ "Review of the Compensatory Financing Facility" (EBS/87/165, 7/30/87).

2/ EBS/87/165, 7/28/87; and EBS/88/20, 2/3/88.

3/ Three of the six requests constrained by the twenty percent rule were consecutive requests by India for compensatory financing in respect of the same excess/shortfall year.

anticipated excess in petroleum product import costs. In these cases, calculated exports had an excess during the compensable period (after allowing for the operation of the twenty percent rule), thereby reducing the net compensable amount; there was a shift from an export excess to an export shortfall in later requests by India covering the same compensable period, and in the second request under the phased procedure by Jamaica. In the case of the Philippines, an export shortfall increased the compensable amount from the outset.

III. Compensatory and Contingency Financing--Treatment of Changes in Import Volumes

When the contingency element was established, Executive Directors agreed that ECMs could cover unanticipated changes in export earnings, import prices, interest rates, and other current account transactions that were beyond the authorities' control. Unanticipated capital movements and deviations in the volume of imports of goods and services from their respective baselines were explicitly excluded (Section 11 of SUR/88/133, 7/15/88), owing to the difficulties in separating the endogenous impact of adjustment policies from exogenous movements and, in the case of capital movements, also to the implications for the Fund's policy on financing assurances. This treatment of import volumes differs from that under the compensatory element, where financing has been provided related to either price or volume movements, subject to a judgment that the shortfall/excess is largely beyond the authorities' control.

These different approaches to the "beyond the control" question have resulted in the apparently paradoxical situation of different import volumes being utilized for two concurrent calculations under the CCFF. In one case, even though common import volume estimates had been used in an initial compensatory request under the oil element and in establishing an ECM baseline, the lower actual import volume data used in the final calculation for the compensatory purchase produced a repurchase expectation, while the requirement of constant import volumes for the ECM meant that the higher original volume figures were utilized to calculate a concurrent request for contingency financing. The staff was asked to study this difference in treatment in the context of the CCFF review.

The rationale for different procedures reflects different approaches to the beyond-the-control issue. Contingency mechanisms provide for a combination of additional financing and prespecified policy adjustment. Since the latter may lead to a reduction in import volume, a member that promptly implements the prespecified policy adjustments could be "penalized" for the decline in import volume by a reduction in contingency financing; conversely, Directors did not wish to provide Fund financing for higher import volumes that could stem from inappropriate policies. For these reasons, changes in import volumes were considered endogenous and were specifically excluded in the calculations for contingency financing. Where ICMs have covered import costs (in practice, oil imports), import volumes have generally been held constant for purposes of calculating deviations from the baseline and adjustments to performance criteria because it is operationally simpler. In contrast, changes in import volume may be an important element of a temporary increase in cereal imports, which is compensable under the cereal element. Changes in export volume are permissible under both the compensatory and contingency elements if largely beyond the control of the authorities.

It would be possible to permit import volumes to vary from their ECM baseline for purposes of calculating the symmetry provisions and contingency financing and to have the Fund reach a judgment as to whether the deviation in import volumes was largely beyond the control of the authorities. In practice, however, such a judgment for import volume would often not be clear cut and the need for a Board decision could hinder the smooth and quick operation of ECMs. Thus, the benefits of introducing variable import volumes do not appear to outweigh the costs.

IV. External and In-Built Contingency Mechanisms

This section provides additional detail on experience with external and in-built contingency mechanisms (ECMs and ICMs), as background for Section II of the 1992 review of the CCFF. Part 1 discusses similarities and differences between ECMs and ICMs, drawing on experience with both types of contingency mechanisms from January 1990 to November 1992. Part 2 summarizes operational experience with ECMs attached to Fund arrangements during the same period, focusing on the four cases in which the mechanisms were triggered, while Part 3 summarizes operational experience with ICMs during the period under review.

1. Comparison of main provisions of recent external and in-built contingency mechanisms

Contingency protection is intended to improve the prospects for sustained implementation of Fund-supported adjustment programs in the face of unanticipated external developments. Such protection can be extended to Fund arrangements through ECMs under the CCFF, or through ICMs involving adjustable performance criteria.

As indicated in the main paper, contingency mechanisms have been used more frequently with stand-by or extended arrangements than with SAF and ESAF arrangements. While the latter may be eligible for contingency protection under the CCFF, no SAF or ESAF has yet been accompanied by an ECM. As was noted at the last CCFF review, and again in the 1991 review of SAF and ESAF operations, there are several reasons. First, given the data problems and limited administrative capacities frequently encountered in SAF/ESAF cases, these cases often are better served by a technically simpler approach to contingencies. Second, external shocks have been met through adaptation of policies and augmentation of ESAF access, both at the time of approval of annual ESAF arrangements and at the medium-term reviews; in particular, augmentation of ESAF access in response to external developments--such as the 1990-91 crisis in the Middle East and the 1992 drought in southern Africa--has provided alternative contingency protection. Third, the concessional terms of ESAF resources are generally more compatible with the external situations of SAF/ESAF-eligible countries. Purchases under the CCFF are financed with the general resources of the Fund and therefore carry normal GRA charges and repurchase terms. Because of the greater flexibility to tailor ICMs to a member's circumstances, four annual ESAF programs have included contingency protection through the use of an ICM for current account variables. More generally, however, the use of ICMs in low-income countries is complicated by the same data limitations and weak administrative capacities that make ECMs problematic. Semiannual performance criteria used under ESAF arrangements also appear to have lessened interest in ICMs as compared with arrangements with quarterly monitoring, while the annual monitoring procedures for SAF arrangements have meant that these arrangements did not lend themselves to the incorporation of ICMs.

The two forms of contingency protection have many features in common but also some important differences. As discussed in the main paper, a fundamental distinction is that in the event of unanticipated external developments, ECMs provide the possibility of additional financing from the Fund, while ICMs do not. Other distinctions are discussed below. The main features of ECMs and ICMs (e.g., baseline period) as approved in 1990-92 are summarized in Tables 11-12, and further details on modalities are provided in Tables 15-16.

a. Coverage

For both ECMs and ICMs, external deviations are measured relative to baseline projections for prespecified exogenous key variables affecting the member's current account. Under the CCFF decision, variables incorporated in an ECM should be key external determinants of the member's current account and must be beyond the control of the member, highly volatile, and easily identifiable. Most of these characteristics have also been applicable to ICMs; however, the coverage of ICMs has included variables that affect both the current and the capital account. 1/ In practice, the current account variables covered under either type of mechanism have been a compromise between comprehensiveness and operational simplicity; while a more extensive coverage of external variables improves the comprehensiveness of the contingency protection, it may also significantly increase the difficulty of monitoring and delay reporting.

1/ For comparability, this review has limited comparisons with ICMs to those which include current account variables (possibly in combination with capital account variables).

ICMs have tended to focus on a smaller number of external current account variables than ECMs. During the period since 1990, no ICM has covered more than four such variables (the average was nearly two), while ECMs have covered up to eight variables, averaging somewhat more than four and with no ECM covering fewer than two. This difference in the number of covered variables appears to have reflected two factors. First, even though the CCFF decision was modified in July, 1990 to eliminate the requirement that ECMs cover a substantial proportion of the exogenous components of the country's current account, there may remain a lingering presumption that the coverage under ECMs should be broad. Moreover, even where current account variables are excluded, the CCFF decision requires in the event of the triggering of the ECM an assessment of offsets owing to favorable deviations in uncovered variables; if appropriate, the amount of contingent financing from the Fund could be reduced. This additional safeguard may induce some members to seek broader coverage of variables under ECMs. Second, since ICMs do not provide for additional Fund financing, adverse shocks may require more extensive adjustment than under ECMs, particularly where the underlying level of net international reserves is low. Such adjustments are more easily negotiated in advance when the ICM is relatively uncomplicated.

Both ICMs and ECMs have tended to cover readily identifiable, important commodity prices. ICMs and ECMs established during the period since 1990 have generally provided coverage against unanticipated movements in oil prices and the prices of related petroleum products. ICMs have been used frequently in conjunction with Fund arrangements with oil exporting countries: the only covered variable in five of the 17 ICMs approved since January 1990, was the export price of crude oil or related petroleum products. In two other cases (Zambia and Zimbabwe), the ICM covered oil import prices along with a non-oil export variable. In one arrangement (Guinea), the ICM covered only import prices of refined petroleum products. ECMs also have been used frequently to protect against changes in oil prices, particularly oil import prices. In each of the six cases where ECMs accompanied Fund arrangements with East European countries and for two other stand-by arrangements (the Philippines and Costa Rica), oil import prices were among the covered variables. ECMs covered oil export prices in the cases of Algeria, Poland, and Trinidad and Tobago; Algeria's program was the only one involving both an ECM and an ICM.

A number of ICMs and ECMs have provided coverage in respect of other commodity prices, including gold and tobacco (Zimbabwe, ICM), copper (Zambia, ICM and the Philippines, ECM), coffee (Costa Rica, ECM and Burundi, ICM), and coconut oil (Philippines, ECM). One contingency mechanism covered total receipts (reflecting both volume and price changes) for exports of bauxite, diamonds, rutile and fisheries (Sierra Leone, ICM). Some ECMs have covered unanticipated interest rate movements (Trinidad and Tobago, Philippines, and Hungary), and one ICM covered deviations in interest payments to foreign commercial banks (Ecuador). In the case of the Philippines, its ECM covered the aggregate non-oil import volumes and non-oil export prices of major trading partners. The ECM for Hungary initially covered aggregate non-oil trade prices and non-oil export volumes to non

CMEA countries; however, these covered variables were dropped at the first program review because of data reporting problems. To protect Lesotho's ESAF-supported program against deviations in workers' remittances, the ICM for Lesotho covered unanticipated changes in the number of migrant workers. For the second annual program coverage of the ICM was extended to unanticipated changes in cereal imports in the context of a drought.

b. Thresholds and deductibles

Access to contingency financing under the CCFF is subject to the requirement that the cumulative net deviation in the covered variables from the baseline projection exceed a prespecified threshold, which normally must be 10 percent of quota. Cumulative net deviations are calculated as the sum of unexpected deviations in the covered variables relative to their respective baseline values since the beginning of the baseline period. The threshold also acts as a deductible, with financing provided (or symmetry provisions triggered) only in respect of cumulative net sums of deviations that exceed this amount. 1/ Most ECMs have incorporated thresholds larger than this minimum; of the eleven ECMs established since 1990, thresholds were set at 10 percent of quota in only three cases. In the other eight cases, thresholds ranged from 15 to 45 percent of quota. Overall, thresholds for ECMs averaged 22 percent of quota. In determining thresholds, staff took into account the historical volatility of variables covered by the ICM and the different impact in terms of quota of a given deviation on a member's external position.

There is no established policy for ICMs related to thresholds and deductibles; practice has therefore varied in accordance with the members' circumstances and the requirements of the Fund arrangement. Eight of the seventeen ICMs established since 1990 included no threshold (Algeria, Burundi, Gabon, Lesotho (two annual programs), Nigeria, and Zambia (two annual programs)). 2/ In five of these eight cases (Algeria, Gabon, Nigeria, Zambia 1991 and 1992) the ICMs were triggered, leading to adjustments in performance criteria. 3/ In cases where thresholds were specified, they were defined relative to specific external variables rather than in terms of the member's quota. For example, thresholds frequently have been specified in terms of a deviation in the U.S. dollar price of a benchmark crude petroleum from the baseline path (in one case requiring that deviations be sustained for a minimum number of consecutive months). Where

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1/ Section III, paragraphs 19.(a)(iii) and 20.(b), Decision No. 8955-(88/126), August 23, 1988, as amended.

2/ While the ICM for Algeria had no threshold, the threshold of 45 percent of quota under the ECM attached to the same program was the largest threshold of any ECM.

3/ ICMs were not triggered in the cases of Burundi, where data reporting lags made the ICM difficult to implement; and Lesotho 1991, where there was no deviation from the baseline. The ICM for Lesotho's second annual ESAF arrangement (April 1992-March 1993) has not been triggered so far.

non-zero thresholds were specified, they were equivalent to amounts ranging from 3 to 101 percent of quota; including cases where thresholds were set at zero, thresholds under ICMs averaged 23 percent of quota or nearly the same, on average, as for ECMs.

The CCFF decision limits the maximum financing (or adjustment under the symmetry provision) to the SDR amount committed under the ECM. This maximum has averaged about 26 percent of quota or 44 percent of the Fund arrangement. Adjustments to performance criteria through ICMs have also involved caps. All ICMs established during 1990-92 have included caps in respect of adverse contingencies, where these might trigger an automatic easing of program targets. 1/ However, there was only one case (Algeria) where an ICM had a cap in respect of adjustments to performance criteria for favorable deviations. Where ICMs have included caps these have not been specified relative to members' quotas, but in U.S. dollar or local currency amounts or in terms of deviations in the covered variables. The ICM for Burundi implicitly set a cap in respect of adverse contingencies through the establishment of a minimum acceptable floor for net international reserves. In the case of Venezuela, a cap on adjustments was established by limiting the amount of any drawdown in international reserves in response to adverse contingencies to amounts previously deposited in an Oil Contingency Fund, following favorable deviations.

c. Specification of baselines

In accordance with the CCFF decision ECM baselines should generally be established for a period of 12 to 18 months and all specified parameters of the baseline are required to remain unchanged throughout the life of the associated Fund arrangement. By contrast, no comparable requirement exists for ICMs, permitting the length of the ICM baseline to correspond to the period for which performance criteria have been specified and the baseline of the ICM to be adjusted in line with any modifications of the program baseline.

For nine of the ten annual programs with associated ECMs concluded during 1990-92, some performance criteria were either specified after the ECM was approved or were modified during the ECM baseline. The problems associated with a possible divergence between the modified program baseline and the fixed ECM baseline are discussed in detail in the main paper. Such problems have not arisen with the operation of ICMs, whose baselines were adjusted whenever the program baseline was modified.

1/ In the case of Gabon, adjustments to performance criteria in the event of adverse contingencies were not automatic. In the cases of Nigeria, Sierra Leone, and Zambia, no adjustments to performance criteria were provided for in the event of adverse contingencies.

In nine out of ten cases during the review period the ECM baseline covered a period of 12 months, while in one case it covered 18 months, equivalent to the duration of the associated stand-by arrangement. By contrast, during the review period the length of ICM baselines ranged from 3 to 18 months. In five of the 17 cases, the ICM baseline period was shorter than 12 months.

The requirement of 12-18 month ECM baselines has also led to difficulties when programs and arrangements were extended for periods shorter than 12 months or when an arrangement covered less than 12 months. In two out of ten cases during the review period, no ECM could be specified for the period of the extension of the program and in one case the ECM baseline had to be designed in such a way as to avoid its triggering during the period in which the ECM and program baselines did not overlap.

d. Automaticity of adjustments to performance criteria

Following the triggering of an ECM, a Board review would normally be required in order to approve additional financing or changes in performance criteria. As noted in Section III of the CCFF review paper, this requirement has resulted in the delayed adjustment of performance criteria under ECMs. Additional details on this aspect of experience with ECMs is contained in the next section on operational experience with ECMs. In contrast, no Board review is required to activate ICMs and performance criteria are generally adjusted automatically. In a limited number of cases, however, ICMs have provided for further consultations with the Fund in the event of deviations in covered variables. Provision was made in another case (Gabon 1991) for consultations with the Fund regarding the design of the Fund arrangement in the event that the ICM were triggered by lower than anticipated oil prices, while performance criteria were to be adjusted automatically if oil prices were higher than anticipated.

e. Symmetry provisions

The CCFF decision requires that ECMs be symmetrical--that is, that they operate with respect to both adverse and favorable external contingencies. In the event of adverse external developments additional Fund financing may be provided, while following favorable developments the target for net international reserves may be increased or access to Fund financing reduced. The financing/adjustment mix for adverse and favorable developments need not be identical; however, the CCFF decision does require that the adjustment to reserve targets in the case of favorable developments be equivalent to a substantial part of the favorable net sum of deviations. In any event the CCFF decision states that the adjustment to reserve targets for a favorable deviation should be no larger than the financing that would have been provided if the applicable net sum of deviations had been unfavorable; consistent with this principle, all ECMs have been specified with equivalent maximum adjustments--or "caps"--in the event of adverse or favorable deviations. 1/ In practice, all ECMs also have provided for equivalent financing proportions in the event of adverse or favorable deviations.

Under ICMs there is no symmetry requirement: ICMs may be specified to cover either adverse or favorable contingencies, or both. The maximum adjustment in either direction is not specified, nor does it have to be the same. Eleven of the 17 ICMs approved since 1990 covered both favorable and adverse external developments. Of the other six, three were specified to operate only in the event of favorable deviations (Guinea, Nigeria, and Sierra Leone); one covered only adverse deviations (Zimbabwe); and two were to become operational only if favorable deviations outweighed unfavorable deviations (Zambia 1991 and 1992). One-sided ICMs were adopted because low levels of reserves imposed a constraint on downward adjustments to net international reserves targets. 2/ In most cases where ICMs were symmetrical, the pre-specified adjustments in the event of positive deviations have differed from those that were expected in the event of negative deviations.

f. Financing proportions

The CCFF guidelines specify that ECMs should normally be expected to finance a substantial proportion of the initial shock but that the proportion of financing be reduced in subsequent quarters when the specified policy response is expected to take effect. The initial financing proportion under ECMs during the review period has ranged from 50 to 100 percent--with an unweighted average of 78.5 percent--of the cumulative net deviation in excess of the threshold. For subsequent quarters all ECMs specified a reduction in the financing proportion; except that if the cumulative net deviation increased, the initial financing proportion would apply to the additional deviation. In eight out of ten cases financing proportions were to be reduced only once to, on average, half of the initial level, while in the two other cases financing proportions were lowered stepwise in each of the subsequent quarters. For ICMs, which do not require symmetrical specification of financing proportions or caps, only one program explicitly used declining financing proportions for unfavorable deviations. In all other programs declining financing proportions were introduced through the use of caps for unfavorable deviations. For favorable deviations full adjustment of reserve targets or higher caps were specified.

1/ Section III, paragraph 27(a) and (b), Decision No. 8955-(88/126), August 23, 1988, as amended.

2/ In the cases of Nigeria, Sierra Leone, Zambia (1991) and Zambia (1992), gross international reserves at the beginning of the program were equivalent to 2.8 months of imports, 1.9 months, 1.7 months and 1.2 months, respectively; in most instances a substantial portion of gross reserves was illiquid. In the case of Zimbabwe, a downward adjustment of the performance criteria for NIR was to be only temporary, accompanied by a strengthening of policies in order to restore the original target within two quarters.

2. Operational experience with ECMs approved during 1990-92

During 1990-92, external contingency mechanisms have been attached to ten annual Fund-supported programs, for nine members. 1/ Of these ten ECMs, four have been triggered: three by favorable external developments and one by adverse developments.

a. ECMs triggered by favorable external developments

The symmetry provisions of ECMs have been triggered in three cases during 1990-92--Trinidad and Tobago (1990), Czechoslovakia (1991), and the Philippines (1991) (see Table 13). Under the CCFF decision, the symmetry provisions of ECMs may give rise to an upward adjustment to the performance criteria for net international reserves (NIR) or a reduction in access under the Fund arrangement; the latter alternative has not been adopted in any case to date. Due to the requirement of an Executive Board review, performance criteria remained unadjusted for as much as three quarters following the triggering of an ECM. Consequently it was too late to modify the performance criteria and the associated purchases from the underlying arrangement were delayed.

In the case of Trinidad and Tobago, the ECM was triggered by favorable deviations from the ECM baseline during the first three months of the program (i.e., during the first quarter of 1990). 2/ Under the provisions of the ECM, this would have resulted in an upward adjustment to the end-March 1990 (and subsequent) performance criteria on net international reserves. However, since the program was not approved by the Executive Board until April 20, 1990, the prompt activation of the ECM would have required an almost immediate program review by the Board as actual prices of variables covered by the ECM would have been known by the beginning of May 1990. In the event, activation of the ECM was delayed until the Board review in November 1990, at which point it was not possible to make retroactive adjustments to the NIR targets for either end-March or end-June. However, at the time of the November review, NIR targets for end-September and end-December were adjusted for the favorable net sum of deviations, after deduction of the threshold (SDR 20.2 million or 11.9 percent of

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1/ A summary of ECMs approved during 1988-92 is provided in Table 11. Comprehensive details on the specification of the ECMs are provided in Table 15.

2/ "Trinidad and Tobago - Staff Report for the 1989 Article IV Consultation and Request for a Stand-By Arrangement and Possible Access to External Contingency Financing Under the CCFF" (EBS/90/55, 3/23/90), and "Trinidad and Tobago - Stand-By Arrangement and Technical Memorandum on External Financing" (EBS/90/55, Supplement 2, 4/27/90).

quota). 1/ Additional favorable deviations occurred during the fourth quarter that could have resulted in a further upward adjustment to the end-December NIR target under the ECM symmetry provisions. In practice, reserves exceeded the required level by a large margin, and the adjustment to this target was not formally adopted by the Executive Board.

In the case of Czechoslovakia, the ECM was activated more promptly and only one performance date was passed. The ECM was triggered by favorable external developments during the first quarter of the program period, which would have justified an increase in the end-March 1991 target for net international reserves. 2/ The ECM was activated at a Board review in June 1991 and the NIR targets for end-June, end-September, and end-December 1991 were adjusted upward by the amount of the favorable net sum of deviations through June 1991, after deduction of the threshold (SDR 148 million or 25 percent of quota). At the time of the second review of the program in November 1991, the end-December NIR target was adjusted upward again, both on account of revised projections of oil and gas prices and on account of developments in uncovered variables. 3/ However, as the maximum allowable adjustment to performance criteria under the ECM had already been reached in June 1991, the adjustment did not result from the operation of the ECM.

The third triggering of the symmetry provisions of an ECM occurred in the case of the Philippines, following favorable external developments during the first two quarters of an 18-month stand-by arrangement. 4/ While deviations during the first quarter of the program did not exceed the ECM threshold, continuing favorable deviations during the second quarter (through end-June 1991) produced a cumulative favorable net sum of deviations sufficient to trigger the ECM. The first program review, originally scheduled for end-August 1991, was delayed until February 1992 on account of discussions of measures to deal with policy slippages. The net sum of deviations up to end-December 1991 was incorporated, following the February 1992 review, into the NIR targets for end-March 1992 (the final performance criteria under the program); at that time the NIR targets were

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1/ "Trinidad and Tobago - Review Under Stand-By Arrangement and Request for Modification of Performance Criteria" (EBS/90/172, Supplement 1, 10/31/90). The letter from the authorities reviewing performance and requesting the modification of the end-September and end-December performance criteria on account of higher oil prices, dated September 28, 1990, was circulated to Executive Directors on October 10, 1990 owing to procedural delay in transmitting the request.

2/ "Czech and Slovak Federal Republic - Review Under Stand-By Arrangement, Activation of the External Contingency Mechanism, and Request for a Purchase Under the Oil Import Element of the CCFF" (EBS/91/89, Supplement 1, 6/13/91).

3/ "Czech and Slovak Federal Republic - Review Under Stand-By Arrangement" (EBS/91/178, 10/18/91).

4/ "Philippines - Recent Economic Developments" (SM/91/29, 2/6/91).

also increased substantially on account of developments in uncovered variables but not pursuant to the provisions of the CCFF decision. 1/

Delays in the adjustment of performance criteria in these cases following the triggering of ECMs raised the possibility that purchases might have been made under the associated Fund arrangements, with members having met the original but not the appropriately adjusted targets for reserves. However, in each of these cases the favorable external contingencies were associated with higher than programmed reserve accumulation, and in six of the seven cases performance criteria would still have been met even if they had been adjusted in a timely manner.

In the case of Trinidad and Tobago, whose net international reserves targets remained unadjusted for end-March and end-June 1990 following the triggering of an ECM, the end-March target would have been missed had a symmetry-based adjustment been implemented (reserves exceeded the original target by US$7 million, compared to a US$11.9 upward adjustment required under the symmetry provisions of the ECM). The adjusted end-June target would have been achieved by a large margin. 2/ In the case of Czechoslovakia, the level of reserves at end-March 1991 exceeded the unadjusted target by US$600 million, substantially more than the US$206 million adjustment which would have been warranted on account of the triggering of the ECM. In the Philippines, no disbursement of Fund resources was made during the period for which targets remained unadjusted following the triggering of the ECM, as completion of the program review was delayed. However, while the monetary and fiscal performance criteria were not met, both the original and notionally adjusted NIR targets would have been exceeded by a very large margin for end-June, end-September, and end-December.

b. ECMs triggered by adverse external developments

In the period 1990-92--indeed, since the establishment of the CCFF in 1988--only one ECM has been triggered by unfavorable external developments. Under the ECM associated with the 12-month stand-by arrangement with Bulgaria (1991) initial developments in petroleum and natural gas import costs were favorable, but beginning in the second quarter of the program, import costs rose steadily relative to the ECM baseline and during the fourth quarter the net sum of cumulative deviations exceeded the ECM threshold. An Executive Board review was concluded in December 1991, activated the mechanism and provided for SDR 56.9 million (equivalent to 18.4 percent of quota) of additional Fund financing under the contingency element of the CCFF.

1/ "Philippines - Review Under Stand-By Arrangement" (EBS/92/24, 2/11/92).
2/ See SM/91/96 (5/15/91), Table 3.

While the ECM for Bulgaria proved relatively uncomplicated to monitor, with estimates of deviations available on a timely basis, 1/ a number of issues arose in connection with the appraisal of uncovered variables and of the overall balance of payments position. Under the CCFF decision, if a net sum of deviation has occurred with respect to the covered variables then the Fund determines if such deviations have been largely offset by unanticipated developments in uncovered variables. In any case, contingency financing may be no larger than the shortfall in the overall balance of payments relative to that envisaged under the program.

Bulgaria's current account deficit was estimated to be almost US$700 million lower than originally programmed, compared to a net adverse sum of deviations in covered variables of around US$160 million, and a compensable deviation of around US$80 million. Hence, it appeared that unfavorable deviations in covered variables had been more than offset by favorable deviations in uncovered variables. However, the more favorable outcome on the current account resulted from the collapse in trade as a result of the breakdown of the CMEA. Total merchandise imports and exports fell by US$3 billion and US$4 billion, respectively. Imports were compressed more than exports mainly on account of lower than projected external financing and, to a lesser extent, as the result of a decline in domestic demand. Deviations caused by those two factors were not considered to be external contingencies for the purpose of the activation of the contingency mechanism. 2/

With regard to Bulgaria's overall balance of payments position, initial calculations indicated a US$330 million reduction in the balance of payments deficit relative to that programmed, which might have precluded the provision of contingency financing. This decline was the result of a technical presentation in which World Bank and G-24 financing was included below the line, as exceptional financing, rather than above the line as capital inflows. Since such financing proved to be US$500 million lower

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1/ Because the reference prices in the ECM were lagged one month, the Executive Board review concluded in December 1991 was able to activate the ECM using actual rather than estimated figures for the U.S. dollar value of the net sum of deviations for the fourth quarter. However, the U.S. dollar/SDR exchange rate was known at the time of the review for only two of the three months; consequently the SDR amount of the cumulative net deviations and associated contingency financing were not known with certainty.

2/ No clear-cut guidelines govern what factors qualify as offsets in the context of the activation of ECMs. However, the summing up of the review of the CCFF in April 1990 made clear that "... due consideration would be given to the effects on the current account of changes in excluded exogenous variables which were widely recognized to have been influenced substantially by developments in world markets" (SUR/90/78, 4/17/90). In the case of Bulgaria, shortfalls in external financing and domestic demand were not considered to be covered by this description.

than originally projected, the overall balance of payments improved when measured in this way, with lower imports but no counterpart in reduced capital inflows. However, since this balance of payments treatment had not been used consistently in all other countries, to avoid placing Bulgaria in an adverse position relative to other members in a similar situation the balance of payments position was assessed for purposes of the activation of the ECM with the World Bank and G-24 financing treated as capital inflows. On this basis, the balance of payments position had deteriorated by US$200 million, an amount which was larger than the calculated net sum of deviations and which therefore did not constrain the provision of contingency financing.

In assessing developments in uncovered variables and the overall balance of payments position, problems also arose in respect of the quality of data. The data were in some cases estimated (jointly by the staff and the authorities) on the basis of highly partial information, and were subject to wide margins of error. Indeed, certain variables had been excluded from the ECM precisely because the data would not have been of sufficient quality or timeliness to permit the monitoring and activation of the ECM. While such data did not constrain access to contingency financing in this case, it was a matter of concern that balance of payments data with a weak statistical basis might have been used to limit access under the CCFF.

3. Operational experience with ICMs during 1990-92

The ICM included in the stand-by arrangement for Algeria (1991) provided for adjustments to the performance criteria for net international reserves, net domestic assets, the minimum balance on treasury operations, and credit to the Central Government in the event of deviations in hydrocarbon export prices from the baseline projections. The NIR target was to be adjusted by 33 percent of the cumulative impact of the price deviations, with corresponding adjustments to the NDA and fiscal targets. An external contingency mechanism under the CCFF, covering hydrocarbon export prices, was also associated with the arrangement. The period of the ICM baseline corresponded with the period for which performance criteria were set (April-December 1991) but the ECM baseline, in order to fulfill the requirement that ECM baselines cover at least 12 months, covered the period January-December 1991.

Following policy slippages and the failure to meet the first quarterly performance criteria (for end-June 1991), the program was redesigned and the targets for the remainder of the arrangement were modified. The target on net international reserves was maintained at its original level as the result of offsetting developments all unrelated to the variables covered by the ICM/ECM. The original baseline of both contingency mechanisms was maintained. During the following quarter hydrocarbon export prices were lower than the baseline and the relevant end-September performance criteria were adjusted automatically. The adjusted performance criteria were met (Table 14). The end-December performance criteria were adjusted for higher-than-expected export prices, and all the adjusted performance criteria were again met. The ECM was not triggered during either of these two quarters, because the net sum of deviations was within the threshold (45 percent of quota) established for the ECM; the threshold for the ICM was zero.

The contingency mechanism attached to the first annual arrangement under Burundi's 1991 ESAF provided for the adjustment of performance criteria on net foreign assets, net domestic assets of the banking system and net credit to the central government in the event of deviations in coffee export prices from the program baseline. For favorable deviations adjustments were to be made for 100 percent of the deviation without cap. For unfavorable deviations performance criteria were to be adjusted by 40 percent of the deviation and were limited by a floor on net foreign assets of US$98.8 million at end-December 1991, and US$111.2 million at end-June 1992.

At the time of the mid-term review, it became clear that for the second half of the first annual program (1991/92) coffee prices would be far below the program baseline. In the event, the program baseline was revised to take into account the dramatic fall in coffee prices (from US$0.89/lb to US$68/lb). Similarly, the ICM baseline was adjusted to the revised program baseline. Thus, despite the decline in coffee prices, the ICM was not triggered.

Under the 1991 stand-by arrangement for Ecuador, the performance criteria for net international reserves, net domestic assets, and credit to the nonfinancial public sector were to be adjusted in the event of deviations from the baseline projections for oil prices and interest payments to foreign commercial banks. In the event of favorable deviations in oil prices, the performance criteria were to be adjusted by the full amount of any resulting additional oil export revenues in excess of the threshold level of US$50 million on an annual basis. In the case of unfavorable deviations in excess of US$50 million on an annual basis, adjustments would be made up to a maximum of US$50 million.

Oil export prices fell below the baseline projection almost from the outset of the program. While in the first quarter of the program (fourth quarter of 1991) the deviation did not exceed the threshold, the contingency mechanism was triggered for the March and June 1992 performance criteria. In both quarters, the threshold was exceeded but adjustments to performance criteria on account of unfavorable deviations in oil prices were exceeded by the (opposite) adjustments on account of lower-than-baseline interest payments to foreign commercial banks. The adjusted performance criteria for both March and June 1992 were exceeded by large margins.

The contingency mechanism under the stand-by arrangement for Gabon (1991) called for adjustments in fiscal expenditure in order to offset unfavorable deviations in oil revenue. Consultations with Fund staff would be triggered if during three consecutive months the price of Gabonese crude oil declined by at least US$2 a barrel from that assumed in the program. If oil revenues exceeded the amount projected under the program, the excess was to be placed in an account at the Central Bank to constitute a reserve fund, and the performance criteria for net bank credit to the Central Government and net domestic assets were to be revised downward. The subsequent use of the reserve fund was to be discussed during program reviews.

Oil prices in the first quarter of the program (the third quarter of 1991) were significantly higher than programmed and the end-September performance criteria for net domestic assets and net bank claims on the Central Government were revised downward. The adjusted performance criteria were met. Oil revenues exceeded again program projections in the fourth quarter and the end-December 1991 performance criteria were adjusted, this time also taking into account higher than expected exceptional external financing. The adjusted performance criteria were not met. In view of subsequent downward revisions of oil price projections, discussions on possible offsetting measures were initiated in early 1992. These discussions have focused primarily on reductions of current fiscal expenditure, increases in non-oil revenues, and the deferment of some lower-priority capital outlays.

The contingency mechanism in the first annual arrangement under Guinea's 1991 ESAF provided for adjustment of the targets for net foreign assets of the Central Bank, net domestic assets of the banking system and net bank credit to the Government in the event of favorable deviations in import prices of refined petroleum products from the program baseline. If the average f.o.b. price of refined petroleum imports fell below US$200 per metric ton, performance criteria were to be adjusted for the full amount of the deviation in prices multiplied by a fixed volume of imports (34,930 metric tons per quarter), as long as this was not offset by unfavorable deviations in inflows of nonproject official grants and concessional medium- and long-term loans (including debt rescheduling). There were no thresholds or caps to the adjustment. In the event of an unfavorable net sum of deviations, no adjustments were to be made.

During the period for which the contingency baseline was specified (July 1991-June 1992) the ICM was not triggered as unfavorable deviations in gross financing flows overwhelmed minor favorable deviations in petroleum prices. After a considerable delay owing to policy slippage, the first annual arrangement was extended to cover the period through December 1992. As the result of reduced uncertainty in world oil markets, coverage of oil import prices was dropped from the ICM.

The first and second annual programs under the ESAF arrangement for Lesotho included a contingency mechanism specifying adjustments to net foreign assets and net domestic credit. The contingency mechanism attached to the first annual program covered deviations of workers' remittances from the program baseline resulting from changes in the number of migrant workers, evaluated at a fixed average wage. There were no thresholds, and in case of unfavorable deviations performance criteria were to be adjusted for the full amount of the deviations up to a maximum of SDR 9 million. For unfavorable deviations beyond this cap, full policy adjustment was required. Under the second annual program coverage of the mechanism was extended to include deviations in cereal import costs. The cap on the adjustment of performance criteria in the event of unfavorable deviations was raised to SDR 20 million. During the first annual program the ICM was not triggered as the number of migrant workers corresponded with the baseline assumption. For the second annual program no information is available yet.

The 1990-92 annual programs under the extended arrangement for Mexico included contingency mechanisms specifying that the performance criteria for net international reserves, net domestic assets, and a number of fiscal variables would be adjusted in the event of deviations in oil export prices from their baseline path. Under the 1990 program, there were no thresholds for the triggering of the ICM but adjustments for both favorable and unfavorable deviations were subject to a cap of US$675 million on an annual basis (the equivalent of a deviation of US$1.50 a barrel in the price of oil under assumed export volumes). Under the 1991 and 1992 ICMs, adjustments to performance criteria were to be made for favorable deviations, once the additional oil export revenue resulting from higher than projected oil prices exceeded the threshold of US$1 billion on an annual basis (the equivalent of US$2 a barrel); an increasing proportion of receipts was to be saved as export prices rose, rising to 100 percent for deviations larger than US$4 a barrel. Downward adjustments were to be made in case of shortfalls in oil export receipts, with no threshold. Performance criteria were to be adjusted fully for unfavorable deviations of up to US$2 a barrel; a declining financing proportion was called for as the price deviation widened, with no further adjustment of performance criteria once the deviation reached US$4 a barrel.

During 1990 oil prices were above the program baseline in all but the second quarter; adjustments were also made for the impacts of deviations in capital account variables. All adjusted performance criteria were met. In 1991 adjustments were made in all four quarters for unfavorable deviations in oil prices, and 23 of the 24 adjusted performance criteria were met. During the first two quarters of 1992 adjustments were again made for unfavorable deviations in oil prices, and all adjusted performance criteria were met. 1/

The 1991 stand-by arrangement for Nigeria contained a contingency mechanism for deviations in oil prices from the program baseline. The ICM was to be triggered once oil prices exceeded the program baseline by more than US$0.50 a barrel; performance criteria on net foreign assets of the central bank, net credit of the banking system and net bank credit to the government were to be adjusted for 100 percent of favorable deviations in export earnings arising from higher than expected oil prices. No adjustments were to be made for unfavorable deviations. This arrangement expired without a review having been completed.

1/ The performance criteria for end-March 1992 were indicative.

The first annual arrangement under Sierra Leone's rights accumulation program (April 1992-February 1994) provides for the adjustment in the performance criteria for net international reserves and net domestic assets in the event of favorable deviations in export proceeds from bauxite, rutile, fisheries and diamonds. The amount of the adjustment is limited to one third of the excess over program projections for the first three products and one tenth of the excess for official diamond exports. The mechanism is to be triggered once deviations exceed a threshold of US$2.5 million, without any maximum limit. No adjustments are to be made for unfavorable deviations. The first test date on which performance criteria are to be adjusted for the operation of the ICM is end-December 1992.

The first- and second-year programs under the extended arrangement for Venezuela provided for adjustments to the performance criteria for net international reserves and the public sector borrowing requirement in response to deviations in oil export prices from the program baseline. In the event of favorable deviations in excess of a threshold of US$1.3 billion, additional reserves equal to 100 percent of the excess oil revenues were to be accumulated in an oil contingency fund. This proportion was reduced to 75 percent in the 1991 program. In the event of unfavorable deviations, the use of international reserves was to take the form of withdrawals from oil contingency fund equivalent to 25 percent of the shortfall in revenues, thereby ensuring that any reserves used for contingency financing would have been generated previously by favorable deviations.

Deviations from the program baseline during 1990 were consistently favorable, but deposits in the oil contingency fund were lower than envisaged under the ICM and the adjusted performance criteria were met only for end-December 1990. During 1991 deviations were favorable in the first quarter but unfavorable thereafter; the adjusted performance criteria for NIR were met in all four quarters but the adjusted PSBR targets were met only in the first and third quarter.

The contingency mechanism associated with the first rights accumulation program for Zambia (1991) provided for adjustments in the target for gross international reserves equal to the favorable deviations in net excess copper earnings--defined as additional copper export receipts resulting from prices in excess of the program baseline, net of excess oil import costs and shortfalls in external assistance. As the program target for reserve money was not subject to adjustment, implicitly the target for the net domestic assets of the central bank was to be modified in parallel with the reserve target. Given Zambia's low initial level of reserves and limited access to additional external financing, there was no provision for adjustments to program targets in the event of unfavorable net deviations. The contingency mechanism placed a limit of US$100 million on the required increase in the gross reserve target. Half of any net excess copper earnings above US$100 million were to be used to make additional payments to the Fund to reduce the level of overdue obligations, with the remaining 50 percent to be available for the discretionary use of Zambia.

Copper export earnings in the first quarter of 1991 exceeded program projections and, in the absence of significant excess oil import costs or shortfalls in external assistance, the contingency mechanism was triggered. The adjusted target for gross international reserves was met, as was the target for net claims on government, but the ceiling on reserve money was exceeded by a substantial margin. In the remainder of 1991 copper prices remained above the baseline but major shortfalls in external assistance emerged in response to policy slippages, and the contingency mechanism was not again triggered.

Under the present rights accumulation program with Zambia (1992), the ICM has been modified to exclude consideration of excesses in oil import costs. In addition, the limit below which net excess copper earnings are to lead to full adjustment of the gross international reserves target was reduced to US$40 million; half of any net excess copper earnings above this amount are to be accumulated in Zambia's SDR account, with the remainder to be available for the discretionary use of Zambia. The use of any amounts accumulated in the SDR account under this mechanism is to be determined in the context of discussions on the program for 1993.

In the first quarter of the rights program (July-September 1992), copper export earnings exceeded program projections by US$91 million. As a result of delays in disbursements of external assistance net excess earnings amounted to US$65 million, leading to an equivalent adjustment in the target for end-September 1992. While several performance criteria were observed, the adjusted NIR target was not met and the ceiling on reserve money was exceeded.

The contingency mechanism attached to the first annual arrangement under Zimbabwe's 1992 extended arrangement provided for adjustment of the performance criteria for net international reserves and net domestic assets of the Central Bank in the event of unfavorable deviations in gold and tobacco export prices and oil import prices from the program baseline. Performance criteria were to be adjusted for an amount equal to 100 percent of the net cumulative deviation in the quarter in which the mechanism was triggered and 50 percent in the following quarter. Adjustment policies were to be strengthened so as to restore the original NIR target within two quarters. The ICM was to be triggered when the sum of net cumulative deviations exceeded US$20 million. Adjustments to performance criteria were limited to prevent gross international reserves from falling below US$330 million. No adjustments were to be made in the event of favorable deviations. As the result of the severe drought affecting most of Southern Africa, the original program baseline had to be significantly revised. In the event, the extended arrangement was replaced by a combined ESAF-Extended arrangement and the contingency mechanism was discontinued as gross international reserves were estimated at US$299 million, leaving no room for further downward adjustments.

Table 1. Access Limits and Cooperation Requirements for Compensatory Financing

I. Balance of Payments Position, Apart from Export Shortfall and Cereal or Oil Import Excess, is Satisfactory
Paragraphs 8(a), 12(c), 36(d), and 37(a)

Access Limits	Export Shortfall	Cereal import excess	Oil import excess	Oil and Exports	Joint access
(In Percent of Quota):	83	83	83	83	105

II. Balance of Payments Difficulties Extend Beyond Export Shortfall and Cereal or Oil Import Excess

A. Previous Record of Cooperation Satisfactory: Paragraphs 8(b), 12(a), 36(b) and 37(b)

(i). Applicable 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.

Access Limits	Export Shortfall	Cereal Imports	Oil Imports	Oil & Exports	Joint Access
(In percent of quota):	40	17	40	40	57

(ii). Applicable if (a) 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 (b) if the Fund approves such an arrangement at the time of the request; or (c) if the member's current and prospective policies meet such criteria.

Access Limits	Export Shortfall	Cereal Imports	Oil Imports	Oil & Exports	Joint Access
(In percent of quota):	65	42	82	82	82

B. Previous Record of Cooperation Nonsatisfactory: Paragraphs 8(b), 12(b), 36(c), and 37(b)

(i). Applicable if the Fund is satisfied the member has taken action that gives reasonable assurance that corrective policies will be adopted.

Access Limits	Export Shortfall	Cereal Imports	Oil Imports	Oil & Exports	Joint Access
(In percent of quota):	20	17	20	20	37

(ii). Applicable if (a) 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 tranche, under which performance is broadly satisfactory; or (b) if the Fund approves such an arrangement at the time of the request; or (c) if the member's current and prospective policies meet such criteria.

Access Limits	Export Shortfall	Cereal Imports	Oil Imports	Oil & Exports	Joint Access
(In percent of quota):	40	17	40	40	57

(iii). Applicable if (a) 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 at the time of the request, or (b) if the member's policies in the recent past, as well as its current and prospective policies, continue to meet such criteria.

Access Limits	Export Shortfall	Cereal Imports	Oil Imports	Oil & Exports	Joint Access
(In percent of quota):	65	42	82	82	82

Source: Compensatory and Contingency Financing Facility (Decision No. 8955-(88/126), August 23, 1988, as amended).

Table 2. Access Limits and Cooperation Requirements Associated
with Compensatory Financing Purchases Under the CCFF, 1990-92

Previous Record of Cooperation Satisfactory	
Paragraph (12)(a)(ii): 40 percent of quota	Paragraph (12)(a)(ii): 65 percent of quota
Israel (1992; no arrangement)	Papua New Guinea (1990; approved at the same time)
	Côte d'Ivoire (1990; existing SBA)
	Barbados (1992; SBA approved)
	Honduras (1992; existing SBA)
Paragraph (49)(c)(i): 40 percent of quota	Paragraph (49)(c)(ii): 82 percent of quota
Romania (1991, first purchase; SBA requested at the same time, and approved shortly after)	Czechoslovakia (1991, first purchase; SBA approved) 2/
	Czechoslovakia (1991, second purchase; existing SBA) 2/
	Czechoslovakia (1992; existing SBA) 2/
India (1991, first purchase; first credit tranche SBA approved at the same time)	Hungary (1991; existing SBA)
India (1991, second purchase; statement of policy)	Hungary (1992; existing SBA)
Bulgaria (1991; SBA requested at the same time, and approved shortly after)	Jamaica (1991, first purchase; existing SBA) 2/
	Jamaica (1991, second purchase; existing SBA) 2/
Panama (1992; SBA approved)	Philippines (1991; SBA approved)
Pakistan (1991; third-year SAF approved)	Poland (1991; EA approved)
	Romania (1991, second purchase; SBA approved)
	Romania (1992, Existing SBA)
	India (1991, third purchase; SBA approved shortly after)
Previous Record of Cooperation Nonsatisfactory	
Paragraph (49)(d)(ii): 40 percent of quota	
Costa Rica (1991; SBA approved)	
Dominican Republic (1991; SBA approved)	

Source: Fund CCFF database.

1/ SBA = stand-by arrangement; EA = extended arrangement; SAF = structural adjustment facility.
2/ In these cases, two purchases took place under the phased drawing procedure.

Table 3. Arithmetic and Geometric Descriptions of Export Growth Trends, 1957-1992

	Relative Goodness of Fit (R^2)		Equation with Higher Goodness of Fit 1/	
	Arithmetic	Geometric	Arithmetic	Geometric
			(Number of countries)	
Developing countries	0.69	0.78	14	102
Africa	0.66	0.72	8	38
Asia	0.69	0.79	3	22
Europe	0.84	0.91	2	7
Middle East	0.58	0.72	1	5
Western Hemisphere	0.74	0.84	0	30
Memorandum item:				
Total 76 CCFF users	0.75	0.82	7	69
Export category	0.69	0.78	14	102
Fuels	0.61	0.78	0	4
Manufactures	0.82	0.92	2	13
Agricultural products	0.69	0.75	5	35
Mineral products	0.76	0.82	1	12
Services and receipts of private transfers	0.62	0.70	4	27
Diversified export base	0.77	0.85	2	11
SAF/ESAF eligible countries	0.62	0.68	10	49

Source: WEO database - May 1992.

1/ Hypothesis about export growth which produced a higher R^2.

Table 4. Numbers of Export Shortfalls and Excesses, Calculated Using Arithmetic and Geometric Averages, 1959-1990 1/

	Arithmetic average		Geometric average	
	Shortfalls	Excesses	Shortfalls	Excesses
Developing countries	2,091	1,594	1,825	1,843
Africa	776	618	713	691
Asia	471	323	398	396
Europe	174	114	129	159
Middle East	126	98	111	113
Western Hemisphere	544	441	474	484
Total 76 CCFF users	1,368	1,019	1,197	1,179
Export category 2/	2,091	1,594	1,825	1,843
Fuels	73	77	68	55
Manufactures	297	183	228	252
Agricultural products	694	556	613	647
Mineral products	222	189	208	203
Services and receipts of private transfers	559	419	492	486
Diversified export base	246	170	216	200
SAF/ESAF eligible countries	1,021	821	921	931

Source: WEO database - May 1992.

1/ Export shortfalls and excesses computed for each year in the sample period, compared to a five-year moving average.
2/ Developing countries.

Table 5. Export Shortfalls and Excesses as Percent of Export Earnings, Calculated Using Arithmetic and Geometric Averages, 1959-1990 1/

	Arithmetic average		Geometric average	
	Shortfalls	Excesses	Shortfalls	Excesses
Developing countries	5.7	4.3	4.4	5.7
Africa	6.0	4.7	4.8	6.1
Asia	6.5	4.9	5.0	6.7
Europe	3.0	2.1	2.1	2.8
Middle East	6.7	4.2	4.9	6.1
Western Hemisphere	5.2	3.8	4.0	4.9
Memorandum item:				
Total 76 CCFF users	4.8	3.7	3.8	4.6
Export category 2/	5.7	4.3	4.4	5.7
Fuels	6.1	3.9	4.5	5.3
Manufactures	3.8	2.2	2.5	3.1
Agricultural products	5.8	4.4	4.7	5.9
Mineral products	5.2	4.5	4.1	5.7
Services and receipts of private transfers	7.0	5.4	5.4	7.3
Diversified export base	4.8	3.4	3.8	4.3
SAF/ESAF eligible countries	6.4	5.2	5.2	6.9

Source: WEO database - May 1992.

1/ Export shortfalls and excesses computed for each year in the sample period, compared to a five-year moving average.
2/ Developing countries.

Table 6. Arithmetic and Geometric Averaging: Frequency and Size of Shortfalls and Excesses

Averaging Procedure	Proportion of calculations indicating shortfalls or excesses				Relative magnitude of calculated shortfalls and excesses			
	All Members		CF Users		All members		CF Users	
	Shortfall	Excess	Shortfall	Excess	Shortfall	Excess	Shortfall	Excess
	(Percent of calculations)				(Percent of Exports)			
1959-1990								
130 developing countries								
Arithmetic	57.4	42.6	57.7	42.3	6.0	4.4	4.9	3.7
Geometric	50.0	50.0	50.6	49.4	4.6	6.0	3.9	4.7
116 non-OPEC developing countries								
Arithmetic	56.7	43.3	57.3	42.7	5.7	4.3	4.8	3.7
Geometric	49.5	50.5	50.2	49.8	4.4	5.7	3.8	4.6
1959-1976								
130 developing countries								
Arithmetic	61.0	39.0	61.9	38.1	6.4	3.9	5.2	3.3
Geometric	52.0	48.0	53.0	47.0	4.7	5.6	3.9	4.3
116 non-OPEC developing countries								
Arithmetic	60.5	39.5	61.4	38.6	6.1	3.9	5.1	3.2
Geometric	51.9	48.1	52.7	47.3	4.6	5.4	3.9	4.2
74 non-OPEC developing countries (Goreaux 1979)								
Arithmetic	59.0	41.0	--	--	5.1	3.2	--	--
Geometric	54.0	46.0	--	--	3.7	4.0	--	--

Source: Fund staff estimates.

Table 7. Operational Experience with the Twenty Percent Rule, 1990-92

Country 1/	Date of purchase	Growth of export earnings: Pre-shortfall year	Growth of export earnings: Shortfall year	Growth of export earnings: Post-shortfall years: Year 1	Growth of export earnings: Post-shortfall years: Year 2	Reduction in Calculated Shortfall on Account of the Operation of the 20 Percent Rule: Calculated reduction (Millions of SDRs)	Calculated reduction (Percent of quota)	Impact on purchase 2/ (Millions of SDRs)	Impact on purchase 2/ (Percent of quota)
		(Percent per annum)							
India	01/23/91	13.9	5.2	13.9	14.6	855.9	(38.8)	166.2	(7.5)
India	07/22/91	16.3	-2.0	16.9	15.8	634.9	(28.8)	--	--
India	09/16/91	16.3	-6.0	22.4	14.8	632.5	(28.6)	458.3	(20.6)
Philippines	02/25/91	6.1	-1.5	13.7	13.5	62.7	(14.2)	--	--
Jamaica	07/03/91	25.1	-9.3	20.8	8.0	19.5	(13.4)	19.5	(13.4)
Pakistan	12/19/91	5.9	8.0	18.1	11.4	327.7	(60.0)	96.1	(17.6)

Source: Staff papers.

1/ India made three requests for compensatory financing in respect of the same twelve-month period. The initial request was in respect of an excess of oil import costs. The second was following a downward revision of export earnings sufficient to generate an estimated export shortfall (compared to an excess in the original calculations). The third was made following the approval of a stand-by arrangement with the Fund, and India's consequent eligibility for compensatory financing in excess of 40 percent of quota.

2/ Impact on purchase, taking into account the applicable access limits.

Table 8. Compensatory Financing: Lag Between the End of the Shortfall Year and Date of Purchase, June 1963-November 1992

	1963-1992		1963-1979		1980-1989		1990-92	
	Number of Purchases	Percent	Number of Purchases	Percent	Number of Purchases	Percent	Number of Purchases	Percent
I. Distribution of purchases by length of lag								
All compensatory financing purchases	328	100	158	100	145	100	25	100
Purchase before end of shortfall year	50	15	15	9	21	14	14	56
Less than or equal to six months	233	71	122	77	102	70	9	36
In the seventh month	28	9	15	9	13	9	--	--
In the eighth month	13	4	6	4	6	4	1	4
In the ninth month	4	1	--	--	3	2	1	4
Excluding early purchases	223	100	131	100	85	100	7	100
Less than or equal to six months	182	82	110	84	66	78	6	86
In the seventh month	25	11	15	11	10	12	--	--
In the eighth month	12	5	6	5	6	7	--	--
In the ninth month	4	2	--	--	3	4	1	14
Early purchases	105	100	27	100	60	100	18 1/	100
Purchase before end of shortfall year	50	48	15	56	21	35	14	78
Less than or equal to six months	51	49	12	44	36	60	3	17
In the seventh month	3	3	--	--	3	5	--	--
In the eighth month	1	1	--	--	--	--	1	6
				(Number of months)				
II. Average lag								
All compensatory financing purchases	3.2		3.5		3.5		0.4	
Excluding early purchases	4.6		4.3		5.0		5.5	
Early purchases 2/	0.6		-0.2		1.8		-2.3	

Source: Fund CCFF database.

1/ Two of these purchases occurred before the 1990 liberalization of the early drawing procedure.

2/ Negative lags reflect a predominance of purchases taking place prior to the end of the shortfall year under the early drawing procedure. Since 1990 this possibility has been enhanced by the use of up to 12 months of estimated data on export earnings.

Table 9. Compensatory Financing: Purchases Occurring More Than Seven Months After the End of the Shortfall Year

Country	End of Shortfall Year	Date of Staff Paper	Date of Board Approval	Date of Purchase	Number of Months From End of Shortfall to Staff Paper	Board Approval	Purchase
1963-79							
Iraq	3/31/67	10/25/67	11/8/67	11/08/67	6.8	7.3	7.3
Zambia	12/31/71	7/3/72	8/3/72	8/8/72	6.1	7.1	7.3
India	6/30/73	2/5/74	2/15/74	2/19/74	7.2	7.6	7.7
Chad	12/31/75	7/19/76	7/28/76	8/2/76	6.6	6.9	7.1
Israel	12/31/75	7/21/76	8/4/76	8/9/76	6.7	7.1	7.3
Morocco	12/31/77	6/5/78	8/11/78	8/16/78	5.1	7.3	7.5
1980-89							
Sierra Leone	6/30/82	1/18/83	2/14/83	2/17/83	6.6	7.5	7.6
Sudan	6/30/82	2/11/83	3/11/83	3/16/83	7.4	8.4	8.5
Ghana	12/31/82	7/12/83	8/3/83	8/08/83	6.3	7.1	7.2
Zaire	3/31/83	12/1/83	12/16/83	12/30/83	8.1	8.5	9.0
Malawi	12/31/83	7/12/84	8/6/84	8/09/84	6.4	7.2	7.3
Argentina	5/31/84	12/4/84	12/28/84	1/03/85	6.1	6.9	7.1
Somalia	6/30/84	1/8/85	1/15/85	3/04/85	6.3	6.5	8.1
Ethiopia	6/30/85	1/21/86	2/14/86	2/20/86	6.7	7.5	7.7
Jordan	12/31/88	8/9/89	8/18/89	8/23/89	7.3	7.6	7.7
1990-92 1/							
Barbados	6/30/91	1/24/92	2/7/92	2/12/92	6.8	7.3	7.5
Romania	9/30/91	5/5/92	5/29/92	6/15/92	7.2	8.0	8.5

Source: Executive Board documents.

1/ Through November 1992.

Table 10. Compensatory Financing: Experience with the Early Drawing Procedure, 1976-92 1/

	1976-92	1976-79	1980-89	1990-92	
Compensatory financing purchases					
Number	270	100	145	25	
Amount (SDR million)	19,949	3,698	12,722	3,528	
Of which: early purchases					
Number	105	27	60	18	2/
Amount (SDR million)	8,891	712	5,252	2,927	
Early purchases resulting in an expectation of prompt repurchase					
Number	22	3	14	5	3/
Amount (SDR million)	558	45	175	339	4/
Early purchases resulting in undercompensation					
Number	13	1	7	5	5/
Amount (SDR million)	646	4	173	469	4/

Source: Executive Board documents.

1/ Through November 1992. The first early purchase as a consequence of the introduction of an early drawing procedure (Decision No. 4912-(75/207), 12/24/75), occurred in April 1976.
2/ Two of these purchases occurred before the 1990 liberalization of the early drawing procedure.
3/ Purchases by Bulgaria, Czechoslovakia (the second purchase), Hungary and Romania (two).
4/ Sum of differences between the final calculation and the sum of all purchases relating to same shortfall year for each country.
5/ Purchases by Jamaica (two) and India (three).

Table 11. Fund Arrangements with External Contingency Mechanisms under the CCFF, 1989-1992 1/

Country	Type	Arrangement: Date of Approval	Arrangement: Amount in Millions of SDRs	Maximum Amount: In Millions of SDRs	Maximum Amount: In percent of the Amount of Arrangement	Maximum Amount: In Percent of quota	Baseline Period (In months)	Threshold (In percent of Quota)	Contingency Purchases in Millions of SDRs	Symmetry Provision Triggered
Trinidad and Tobago	SBA	Jan. 1989	99.0	42.5	43	25	Oct.88-Dec.89 (15)	10	--	Yes
Philippines	EA	May 1989	660.6	286.3 3/	43 3/	65 3/				
First year			188.7	110.1	58	25	Apr.89-Mar.90 (12)	15	--	No
Trinidad and Tobago	SBA	Apr. 1990	85.0	42.5	50	25	Jan.90-Dec.90 (12)	10	--	Yes
Czechoslovakia	SBA	Jan. 1991	619.5	147.4	24	25	Jan.91-Dec.91 (12)	20	--	Yes
Hungary	EA	Jan. 1991	1,114.0	299.5 3/	27 3/	56 3/				
First year			477.6	159.2	33	30	Jan.91-Dec.91 (12)	30	--	No
Second year *		Mar. 1992 2/	318.4	159.2	50	30	Jan.92-Dec.92 (12)	30	...	...
Philippines	SBA	Feb. 1991	264.2	88.0	33	20	Jan.91-Jun.92 (18)	15	...	Yes
Bulgaria	SBA	Mar. 1991	279.0	77.6	28	25	Jan.91-Dec.91 (12)	20	56.9	No
Romania	SBA	Mar. 1991	380.5	130.9	34	25	Apr.91-Mar.92 (12)	20	--	No
Costa Rica	SBA	Apr. 1991	33.6	21.0	62	25	Jan.91-Dec.91 (12)	10	--	No
Poland	EA	Apr. 1991	1,224.0	442.0 3/	36 3/	65 3/				
First year			306.0	170.0	56	25	Jan.91-Dec.91 (12)	20	--	No
Algeria	SBA	Jun. 1991	300.0	210.0	70	34	Jan.91-Dec.91 (12)	45	--	No

Source: Executive Board documents.

1/ Through end-November 1992. Operative ECMs are indicated with asterisks (*).
2/ Date of approval of ECM for second year of extended arrangement.
3/ Total commitment for the multiyear arrangement.

Table 12. In-Built Contingency Mechanisms in Fund-Supported and Fund-Monitored Programs, 1990-92 1/

Country	Arrangement: Type	Program Period	Amount: In Millions of SDRs	Amount: In Percent of Quota	Contingency Mechanism: Baseline Period (In months)	Threshold (In percent of quota)	Nature of Mechanism	Mechanism Triggered
Algeria	SBA	06/03/91-03/31/92	300.0	48	Apr. 91 - Dec. 91 (9)	--	Symmetric	Yes
Burundi	ESAF	07/01/91-06/30/94	42.7	100				
First annual program*					July 91 - Dec. 92 (18)	--	Symmetric	No
Ecuador	SBA	12/11/91-12/10/92	75.0	50	Oct. 91 - Sep. 92 (12)	6.25/12.5/18.75/25	Symmetric	Yes
Gabon	SBA*	09/30/91-03/29/93	28.0	38	July 91 - Dec. 91 (6)	--	Symmetric	Yes
Guinea	ESAF	07/01/91-06/30/94	57.9	100				
First annual program					July 91 - June 92 (12)	--	Asymmetric	No
Lesotho	ESAF	05/22/91-05/21/94	18.1	120				
First annual program					Apr. 91 - Mar. 92 (12)	--	Symmetric	No
Second annual program*					Apr. 92 - Mar. 93 (12)	--	Symmetric	...
Mexico	EA	05/26/89-05/25/93	2,797.2	240				
Second annual program					Jan. 90 - Dec. 90 (12)	10.5/21/31.5/42 2/	Symmetric	Yes
Third annual program					Jan. 91 - Dec. 91 (12)	16/32/48/64 2/	Symmetric	Yes
Fourth annual program*					Jan. 92 - Dec. 92 (12)	15 2/	Symmetric	Yes
Nigeria	SBA	01/09/91-04/08/92	319.0	38	Oct. 90 - March 91 (6)	--	Asymmetric	No
Sierra Leone	RAP	04/03/92-02/28/94	87.3	151			Asymmetric	No
First annual program*					Apr. 92 - Jun. 92 (3)	3		
Venezuela	EA	06/23/89-03/22/93	3,701.0	270				
Second annual program					Jan. 90 - Dec. 90 (12)	72	Symmetric	Yes
Third annual program					Jan. 91 - Dec. 91 (12)	101	Symmetric	Yes
Zambia	RAP	04/17/91-04/16/94	836.9	310				
First annual program					Jan. 91 - Dec. 91 (12)	--	Asymmetric	Yes
	RAP	07/17/92-07/16/95	836.9	310				
First annual program*					June 92 - Dec. 92 (6)	--	Asymmetric	Yes
Zimbabwe	EA	06/24/92-01/23/94	343.8	180				
First annual program					Jan. 92 - Dec 92 (12)	7	Asymmetric	No

Source: Executive Board documents.
1/ Through end-November, 1992. Operative ICMs are indicated with asterisks.
2/ Cumulative thresholds. Applicable only for higher than projected oil prices; no threshold on downside.

Table 13. Symmetric Activation of ECMs Since 1990

	Quarter In Which ECM Triggered	Date ECM Activated By Board	NIR Targets Unadjusted Despite Symmetry Provision
Trinidad and Tobago	1990 Q1	Nov. 1990	End-Mar. 1990 End-Jun. 1990 End-Dec. 1990
Czechoslovakia	1991 Q1	Jun. 1991	End-Mar. 1991
Philippines	1991 Q2	Feb. 1992	End-Jun. 1991 End-Sep. 1991 End-Dec. 1991

Source: Fund documents.

Table 14. Characteristics of In-Built Contingency Mechanisms Triggered During 1990-92

Country	Program Period	Covered Current Account Variables	Targets adjusted under ICM 1/	Performance criteria adjusted on account of ICM	ICM activated by favorable or unfavorable deviations 2/	Adjusted Targets Achieved
Algeria	6/3/91-3/31/92	Hydrocarbon export prices	NIR, MLD, NDA, CG, TO	End-Sep '91	Unfavorable	Yes
				End-Dec '91	Favorable	Yes
Ecuador	12/11/91-12/10/92	Oil export prices; external interest payments	NIR, NDA, CG	End-Mar '92	Favorable 3/	No
				End-Jun '92	Favorable 3/	No
Gabon	9/30/91-3/29/93	Oil export prices	NDA,CG	End-Sep '91	Favorable	Yes
				End-Dec '91	Favorable	No
Mexico	5/26/89-5/25/93					
- Second annual arrangement		Oil export prices	NIR, NDA, CG, PSBR, others 4/	End-Mar '90	Favorable	Yes
				End-Jun '90	Unfavorable	Yes
				End-Sep '90	Favorable	Yes
				End-Dec '90	Favorable	Yes
- Third annual arrangement		Oil export prices		End-Mar '91	Unfavorable	Yes
				End-Jun '91	Unfavorable	Yes
				End-Sep '91	Unfavorable	Yes
				End-Dec '91	Unfavorable	No 5/
- Fourth annual arrangement		Oil export prices		End-Mar '92	Unfavorable	Yes 6/
				End-Jun '92	Unfavorable	Yes
Venezuela	6/23/89-3/22/93					
- First-year program		Oil export earnings	NIR, PSBR	End-Mar '90	Favorable	No
				End-Jun '90	Favorable	No
- Second-year program		Oil export earnings		End-Dec '90	Favorable	Yes
				End-Mar '91	Favorable	No
				End-Jun '91	Unfavorable	No 7/
				End-Sep '91	Unfavorable	Yes
				End-Dec '91	Unfavorable	No 7/
Zambia						
- Rights accumulation program (1991)		Copper prices, oil import prices	NIR, PSBR, NDA 8/	End-Mar '91	Favorable	Yes
- Rights accumulation program (1992)		Copper prices	NIR, NDA 8/	End-Sep '92	Favorable	No

Source: Executive Board documents.

1/ NDA=Net domestic assets; NIR=Net international reserves; MLD=Medium and Long-term debt; CG=Credit to government sector; TO=Minimum balance on Treasury operations; PSBR=Public sector borrowing requirment.

2/ Deviations are classified in terms of changes in covered current account variables. Favorable deviations are defined as contingencies which, without policy or financing adjustments, would tend to reduce (increase) the balance of payments deficit (surplus).

3/ Favorable impact of changes in external interest payments exceeded unfavorable impact of deviation in oil prices.

4/ See Table 3.

5/ All targets achieved except that for the primary surplus of the non-financial public sector.

6/ Targets only indicative.

7/ PSBR target not achieved.

8/ NDA implicitly adjusted through unchanged target for base money.

Table 15. External Contingency Mechanisms: Coverage, Adjustment and Financing

	Covered Variables	Targets or Performance Criteria Affected by Adjustment	Percent of Deviation to be Financed
Trinidad & Tobago (1989)	Export prices of crude oil and petroleum products; interest rate on variable rate external debt (including repurchase obligations to the Fund), net of receipts on international reserves.	In the event the symmetry provision was triggered, the NIR target was to be increased by 75 percent of cumulative net sum of deviations (after deduction of 4 percent of quota) in the first quarter when the threshold was exceeded; in subsequent quarters this proportion would be reduced in the same manner as the financing proportions. In the event the contingency mechanism was triggered, the authorities were to consult with the Fund on the appropriate adjustments of the quantitative program targets and performance criteria, and on such policy adaptations as may be necessary to attain the objectives of the program supported by the SBA.	75 percent for the cumulative net sum of deviations (after deduction of 4 percent of quota) in the first quarter in which net sum of deviations exceeded the threshold; reduced by 25 percentage points in each subsequent quarter. Financing proportion remained at 75 percent to the extent that the net sum of deviations in any subsequent quarter exceeded the largest net sum of deviations in any previous quarter. A maximum of 2 percentage points applied to the increase in interest rates on variable rate external debt that would be taken into account in calculating the net sum of deviations.
Philippines (1989)	Export prices of coconut oil, copper metal and copper concentrate; partner countries' volume of non-oil imports; import prices for petroleum and petroleum products; partner countries' non-oil export prices; and interest payments on net external debt at variable interest rates.	In the event the symmetry provision was triggered, the NIR target was to be increased by 50 percent of the net sum of deviations (after deduction of 4 percent of quota) in the initial semester; in subsequent semesters this proportion would be reduced in the same manner as the financing proportion. In the case of unfavorable deviations, the floor on NIR, the ceiling on the borrowing requirements of the monitored public sector, and the limit on external nonconcessional borrowing were to be adjusted by appropriate amounts, in light of the magnitude of the contingency, and the contingency financing available from commercial banks.	50 percent of the cumulative net sum of deviations (after deduction of 4 percent of quota) in the initial semester; in the subsequent semester, financing of the net sum of deviations was to be reduced by 20 percentage points to the extent that deviation was equal to or less than in the previous semester. Financing proportion remained at 50 percent to the extent that the net sum of deviations was greater than in the previous semester.

Table 15 (continued). External Contingency Mechanisms: Coverage, Adjustment and Financing

	Covered Variables	Targets or Performance Criteria Affected by Adjustment	Percent of Deviation to be Financed
Trinidad & Tobago (1990)	Export prices for crude petroleum, petroleum products, methanol, urea, steel (wire rods); variable interest rates on external debt (including use of Fund credit) net of interest receipts on foreign exchange holdings by the central bank.	In the event the symmetry provision was triggered, the program target for NIR was to be increased by 75 percent of the cumulative net sum of deviations (after deduction of the threshold), declining by 25 percentage points in each subsequent quarter. If the positive quarterly net sum of deviations in any subsequent quarter exceeded the largest positive quarterly net sum of deviations in any previous quarter, the buildup of NIR would be 75 percent of the excess and would be reduced by 25 percentage points in each following quarter. The net domestic assets target would be adjusted correspondingly. In the event of unfavorable deviations, the authorities were to consult with the Fund on the appropriate adjustment of the quantitative program targets and performance criteria, and on such policy adaptations as might be necessary to attain the objectives of the program supported by the SBA. The target for NIR was to be adjusted by an amount equal to the financing provided by the Fund under the CCFF. The ceiling on the net domestic assets, the limit on the overall central government deficit, and the ceiling on net credit of the financial system to the non financial public sector would be adjusted by appropriate amounts.	75 percent of the cumulative net sum of deviations (after deduction of 4 percent of quota) to be provided in the quarter in which the contingency mechanism is triggered; reduced by 25 percentage points in each subsequent quarter. Financing proportion remained at 75 percent to the extent that the net sum of deviations in any subsequent quarter exceeded the largest quarterly net sum of deviations in any previous quarter. A maximum of 2 percentage points applied to the increase in interest rates on variable rate external debt that would be taken into account in calculating the net sum of deviations.
Czechoslovakia (1991)	Import prices of crude petroleum and natural gas.	In the event the symmetry provision was triggered, the NIR target was to be increased by 100 percent of the cumulative net sum of deviations after deduction of the threshold; falling to 50 percent in subsequent quarters. The Fund was to be consulted in the formulation of adjustment measures to absorb adverse contingencies not financed by the Fund.	100 percent of the cumulative net sum of deviations after deduction of the threshold, 50 percent of the quarterly net sum of deviations in each subsequent quarter.

Table 15 (continued). External Contingency Mechanisms: Coverage, Adjustment and Financing

	Covered Variables	Targets or Performance Criteria Affected by Adjustment	Percent of Deviation to be Financed
Hungary (1991, 1992) 1/	Export prices on sales of non-petroleum exports to all countries other than former members of CMEA; prices of non-petroleum merchandise imports from non-CMEA countries; the price of net trade in petroleum and petroleum products; variations in non-CMEA partner countries' import demand; interest payments on convertible currency external debt at variable rates, less interest earnings on the convertible currency floating rate international assets. Not covered by interest rate caps/swaps.	If the threshold is exceeded in a positive direction this would trigger a special review. It is expected that 70 percent of the cumulative net sum of deviations after deduction of the threshold would be added to the NIR during the first semester in which the contingency mechanism is triggered. In subsequent periods this proportion would be determined in the same manner as the financing proportion. The ceiling on NDA would be adjusted by an appropriate amount. If the country experiences a favorable net sum of deviations following an earlier period in which contingency financing has been provided, Hungary will use the increase in the required level of NIR to repurchase promptly purchases made under the contingency mechanism. In the event of unfavorable deviations, the floor on NIR and the ceiling on NDA will be adjusted by appropriate amounts in the light of the magnitude of the contingencies, their expected duration, the likely timing of the impact of policy measures, and the availability of contingency financing from other sources.	70 percent of the cumulative net sum of deviations (after deduction of the threshold) to be provided in the semester in which the contingency mechanism is triggered. In the next two quarters, financing proportion to be reduced by 40 percentage points to the extent that the deviation is equal or less than in the previous semester. Financing proportion remains at 70 percent to the extent that the net sum of deviations in any subsequent semester is greater than in the previous semester.
Philippines (Jan.1991-Jun.1992)	Export prices for coconut oil 2/, copper metal, copper concentrate; import prices for petroleum and petroleum products; variable interest rates on external debt. 3/	If the symmetry provision was triggered, the NIR target was to increased by 60 percent of the cumulative net sum of deviations after deduction of the threshold. In subsequent quarters, this proportion would be reduced in the same manner as the financing provided in the case of net unfavorable deviations. In the event of unfavorable deviations, the floor on NIR, the ceiling on public sector borrowing, and the limit on nonconcessional borrowing were to be adjusted by appropriate amounts in light of the magnitude of the contingency financing available from commercial banks.	60 percent of the cumulative net sum of deviations after deduction of the threshold in the first quarter, declining by 20 percentage points in subsequent quarters. Financing proportion to remain at 60 percent to the extent that the net sum of deviations in any subsequent quarter exceeded the amount in the previous quarter. The change in interest rates taken into account in calculating the net sum of deviations will be limited to 2 percentage points during the base line period.

Table 15 (continued). External Contingency Mechanisms: Coverage, Adjustment and Financing

	Covered Variables	Targets or Performance Criteria Affected by Adjustment	Percent of Deviation to be Financed
Bulgaria (1991)	Import prices of crude petroleum and natural gas.	In the event of deviations exceeding the threshold, the authorities were to discuss with the Fund staff adjustment to the program's targets. In the event of a favorable deviation, the NIR target was to be increased by 100 percent of the cumulative net sum of deviations after deduction of the threshold; in subsequent quarters the proportion was to be reduced in the same manner as the financing proportion.	100 percent of the cumulative net sum of deviations (after deduction of the threshold) in the first quarter in which the contingency mechanism was triggered. Reduced to 50 percent in each subsequent quarter. Financing proportion was to remain at 100 percent to the extent that the net sum of deviations in any subsequent quarter exceeded that in the previous quarter.
Romania (Apr.1991-Mar.1992)	Import prices of crude petroleum and natural gas.	In the event of deviations exceeding the threshold, the authorities were to discuss with the Fund staff adjustment to the program's targets. In the event of a favorable deviation, 100 percent of the cumulative net sum of deviations (after deduction of the threshold) was to be added to NIR; in subsequent quarters the proportion was to be reduced in the same manner as the financing proportion.	100 percent of the cumulative net sum of deviations (after deduction of the threshold) in the first quarter in which the contingency mechanism was activated. Reduced to 50 percent in each subsequent quarter. Financing proportion was to remain at 100 percent to the extent that the net sum of deviations in any subsequent quarter exceeded that in the previous quarter.
Costa Rica (1991)	Import prices of crude and refined oil products; export prices for coffee.	In the event of deviations exceeding the threshold, the authorities were to discuss with the Fund staff adjustments to the program's targets. In the event of a favorable deviation, the Fund was to determine if Costa Rica's reserves would be increased (the preferred option) or if the amount of the associated arrangement would be reduced or a combination of both, by an amount that would not exceed the maximum financing available in the event of a corresponding unfavorable net sum of deviations. 80 percent of the cumulative net sum of deviations after deduction of the threshold was to be added to the NIR target. In subsequent quarters this proportion was to be reduced in the same manner as the financing proportion. Ceiling on NDA to be adjusted correspondingly.	80 percent of the cumulative net sum of deviations after deduction of the threshold were to be financed in the quarter in which the contingency mechanism was activated. Reduced to 40 percent for each subsequent quarter. Financing proportion to remain at 80 percent to the extent that the net sum of deviations exceeded the amount in the previous quarter.
Poland (1991)	Import prices of crude petroleum and natural gas; import and export prices of petroleum products.	In the event of deviations exceeding the threshold, the authorities were to discuss with the Fund staff adjustment to the program's targets. In the event of favorable deviations, it was expected that 80 percent of the cumulative net sum of deviations after deduction of the threshold would be added to the NIR target, and that in each subsequent quarter this proportion would be determined on the same basis as the financing proportion.	80 percent of the cumulative net sum of deviations after deduction of the threshold in the first quarter after the contingency mechanism is triggered. Reduced to 50 percent in subsequent quarters. Financing proportion was to remain at 80 percent to the extent that the net sum of deviations in any subsequent quarter exceeded the amount in the previous period.

Table 15 (concluded). External Contingency Mechanisms: Coverage, Adjustment and Financing

	Covered Variables	Targets or Performance Criteria Affected by Adjustment	Percent of Deviation to be Financed
Algeria (1991)	Export prices of crude oil, petroleum products, and natural gas.	In the event of deviations exceeding the threshold, the authorities were to discuss with the Fund staff adjustment to the program's targets. Positive deviations in excess of the threshold were to trigger discussions of adjustments to the underlying program. It was expected that the NIR target would be increased by 50 percent of the cumulative net sum of deviations after deduction of the threshold, in addition to the adjustment required under the in-built contingency mechanism. In the case of unfavorable deviations, the floor on NIR would remain unchanged on account of the external contingency mechanism, but this and other performance criteria would be adjusted in accordance with the in-built contingency mechanism.	50 percent of the cumulative net sum of deviations after deduction of the threshold in the first quarter in which the threshold was exceeded. In subsequent quarters, the proportion financed under the ECM was to be 50 percent of the cumulative net sum of deviations to the extent that it exceeded the level of the cumulative net sum of deviations on which the previous external contingency mechanism drawing was based.

Source: Executive Board documents.

1/ Coverage of non petroleum export earnings and import prices was dropped from the external contingency mechanism attached to the second annual arrangement; otherwise, this ECM has the same features as the ECM attached to the first annual arrangement.

2/ Because the Philippines is a large exporter of coconut oil, if the actual volume of coconut exports in the quarter in which a price deviation occurred deviated by more than 10 percent from the projected volume, the actual price rise used in calculating the deviation was to be raised (lowered) by one third of the percentage change by which the volume is higher (lower) than projected.

3/ Non-oil import volume growth in partner countries, and non oil export unit values in partner countries were dropped because experience indicated that WEO estimates of these variables did not necessarily provide good indicators for shifts in world demand and for changes in the prices of imports.

Table 16. In-built Contingency Mechanisms: Coverage, Adjustment and Financing

	Covered current account variables	Targets or Performance Criteria Affected by Adjustment	Adjustments of targets or performance criteria and caps.
Algeria (1991)	Hydrocarbon prices: oil and gas export prices	Minimum balance on treasury operations, credit to the Central Government, net domestic assets, net international reserves, and ceiling on disbursements of medium- and long-term debt	Target on net international reserves and ceiling on disbursements of medium- and long-term debt to be adjusted by 33 percent of the cumulative deviation in hydrocarbon prices (after first deducting ECM drawings or symmetry adjustments). Other performance criteria to be adjusted by an amount in millions of dinars equivalent to the cumulative sum of export deviations expressed in millions of U.S. dollars multiplied by 14.3. 1/ If the sum of deviations is negative, the adjustment is limited to minus DA 5.7 billion, corresponding to a negative US$400 million export deviation or 45 percent of quota, the threshold for the ECM. In the event of positive deviations the maximum adjustment is to be capped at DA 10.1 billion (80 percent of quota) for end-September 1991 and at DA 25.3 billion (200 percent of quota) for end-December 1991.
Burundi (1991)	Coffee export price	Net foreign assets, net domestic assets of the banking system, net credit to the central government.	Deviations are calculated in respect of movements in the world market price for coffee relative to a baseline forecast for 1991-92. For prices lower than anticipated, targets for net foreign assets will be reduced by 40 percent of the deviation; targets for net credit to the government and net domestic assets will be increased by corresponding amounts. In the event of higher than expected prices, targets will adjusted by the full magnitude of the deviation. Adjustments are capped in respect of adverse contingencies by a minimum floor (expressed in US dollars) for the targets for net foreign assets; adjustments in respect of favorable contingencies are not capped.
Ecuador (1991)	Oil export price; interest payments to foreign commercial banks.	Net domestic assets of the Central Bank, net credit to the nonfinancial public sector by the Central Bank, net international reserves of the Central Bank.	Performance criteria to be adjusted by 100 percent of the deviations in export earnings arising from oil prices that exceed baseline prices by more than US$0.75/barrel (equivalent to US$50 million or 24 percent of quota an annual basis). If oil prices are lower than expected, the targets can be relaxed up to a maximum of US$50 million or 24 percent of quota an annual basis. Performance criteria also to be adjusted by 100 percent of deviations in external interest payments to commercial banks.
Gabon (1991)	Oil price	Net domestic assets of the banking system, net bank claims on the Central Government	In case of negative deviations from baseline for up to US$2 a barrel; for deviations in excess of US$2 a barrel, to be determined in the context of a consultation with the Fund; in case of positive deviations, excess oil reserves to be deposited in a reserve fund, the use of which to be discussed during program reviews.

Table 16 (continued). In-built Contingency Mechanisms: Coverage, Adjustment and Financing

	Covered current account variables	Targets or Performance Criteria Affected by Adjustment	Adjustments of targets or performance criteria and caps.
Guinea (1992)	Price of refined petroleum products.	Net foreign assets of the Central Bank, net domestic assets of the banking system and net bank credit to the government.	Performance criteria to be adjusted for 100 percent of favorable deviations in the f.o.b. price of refined petroleum products from the program baseline of US$200 per metric ton, provided they are not offset by unfavorable deviations in gross inflows in official grants and concessional medium- and long-term loans (including debt rescheduling). Deviations in petroleum prices to be evaluated at the volume of imports assumed in the program baseline. No adjustments to be made for net sum of unfavorable deviations.
Lesotho (1991-93)	Workers' remittances/workers' remittances and commercial grains imports. 2/	Net international reserves, net domestic assets of the Central Bank and net credit to the government	Performance criteria to be adjusted by 100 percent of the unfavorable deviations in workers' remittances for up to SDR 9 million under the first annual program and for unfavorable deviations in workers' remittances and commercial grain imports for up to SDR 20 million under the second annual program. Performance criteria to be adjusted by 100 percent of favorable deviations in both cases.
Mexico (1990-92)	Oil price	Net international reserves and net domestic assets of the Central Bank; net credit to the nonfinancial public sector; public sector borrowing requirement; primary surplus of the nonfinancial public sector; operational surplus of the nonfinancial public sector	Under the third annual arrangement, performance criteria to be adjusted if the cumulative additional oil export revenue resulting from higher than projected oil prices exceeded US$1 billion on an annual basis (equivalent to 64 percent of quota or US$2 a barrel). An increasing proportion of receipts to be saved as export prices rise; the increments above a deviation of US$4 a barrel (equivalent to 127 percent of quota) to be saved fully and the programmed minimum improvement in net international reserves to be adjusted accordingly. In the case of negative deviations up to US$2 a barrel (equivalent to 64 percent of quota), full adjustment of performance criteria required. With widening deviations, the program envisaged smaller downward adjustments of foreign reserves; full policy adjustment was required if deviations exceeded US$4 a barrel (equivalent to 127 percent of quota). The maximum foreign reserve downward adjustment was US$1,375 million for 1991 (equivalent to 88 percent of quota). 3/ A similar ICM was designed for the fourth-year annual arrangement. 4/
Nigeria (1991)	Oil price	Net foreign assets of the Central Bank, net credit of the banking system, net bank credit to the Government.	Performance criteria to be adjusted by 100 percent of the deviation in export earnings arising from higher than expected oil prices. In case of deviations of up to US$1 a barrel (equivalent to 45 percent of quota on an annual basis), one half of the windfall gains could be used for priority projects and the other half to reduce the Federal Government's financing requirements or to offset any shortfalls in foreign financing. All increases greater than US$1 a barrel to be used to reduce the overall budgetary deficit.
Sierra Leone (1992)	Foreign exchange earnings from exports of rutile, bauxite, fisheries, and diamonds	Net international reserves and net domestic assets of the Central Bank	The floor on net international reserves to be adjusted upwards by the sum of one third of the excess over the program's export revenue projections, and one tenth of the excess over official diamond exports in the preceding quarter. Performance criteria for net domestic assets to be adjusted accordingly.

Table 16 (continued). In-built Contingency Mechanisms: Coverage, Adjustment and Financing

	Covered current account variables	Targets or Performance Criteria Affected by Adjustment	Adjustments of targets or performance criteria and caps.
Venezuela (1990-92)	Oil export earnings	Net international reserves and public sector borrowing requirement	During 1990 performance criteria to be adjusted by 100 percent of excess net of the deductible of US$1,300 (equivalent to 72 percent of quota). In 1991, the adjustment equals 75 percent of cumulative excess. In the event that the cumulative excess of oil export receipts falls in any given quarter, withdrawals from the oil contingency fund are triggered (which are equal to 25 percent of the shortfall) in that particular quarter. Withdrawals from the fund during any given quarter cannot exceed 25 percent of the level of the fund at the start of the quarter. Performance criteria for overall public sector borrowing requirement and net international reserves to be adjusted accordingly. For the period September-December 1991, the methodology to be used for calculating the oil contingency adjustment was modified. The value of local currency deposits in the contingency fund at the end of September and December 1991 was defined as the stock of deposits in U.S. dollar terms using a higher deductible of US$1,922 million (equivalent to 101 percent of quota) for the baseline scenario in 1991 to account for deficiencies in the mechanism observed in 1990. To achieve the required stock at end-1991, a phased reconstitution of deposits in the Oil Contingency Fund was established as a performance criterion for September and December 1991. The required stock to be adjusted upward (downward) in case of deviations of oil export receipts from programmed levels.
Zambia (1991, 1992)	Copper export and oil import prices	Net international reserves	During 1991, performance criteria to be adjusted upward by 100 percent of the amount of any excess in copper earnings (measured at baseline volumes) resulting from copper prices above baseline assumptions less (a) 90 percent of the additional oil bill (measured at average 1987-89 oil volumes) that results from an oil price above the baseline level; and less (b) 100 percent of any shortfall in donor assistance, with a limit of 26 percent of quota. Fifty percent of any net excess above this limit to be used to make additional payments to the Fund. The floor on net international reserves to be adjusted upward to reflect the higher gross reserves objective, as well as any further reduction in arrears to the Fund. For 1992, performance criteria to be adjusted for excess copper earnings net of 100 percent of any shortfall in donor assistance. Limit for full adjustment of performance criteria reduced to 10 percent of quota.
Zimbabwe (1992)	Gold and tobacco export prices, and oil import prices	Net international reserves and net domestic assets of the Central Bank	Adjustment for adverse deviations only. Deviations in excess of the threshold in any quarter lead to an adjustment of performance criteria by 100 percent in that quarter, and by 50 percent in the following quarter. These adjustments are to be capped at 32 percent of quota, making sure that the level of gross international reserves does not fall below US$330 million (two months of imports). Adjustment policies to be strengthened so as to restore the original NIR targets within 2 quarters.

Source: Executive Board documents.

Table 16 (concluded). In-built Contingency Mechanisms: Coverage, Adjustment and Financing

Footnotes:

1/ Exchange rate of DA 16.2 per U.S. dollar multiplied by the 88 percent effective rate of taxation on the profits of Sonatrach.

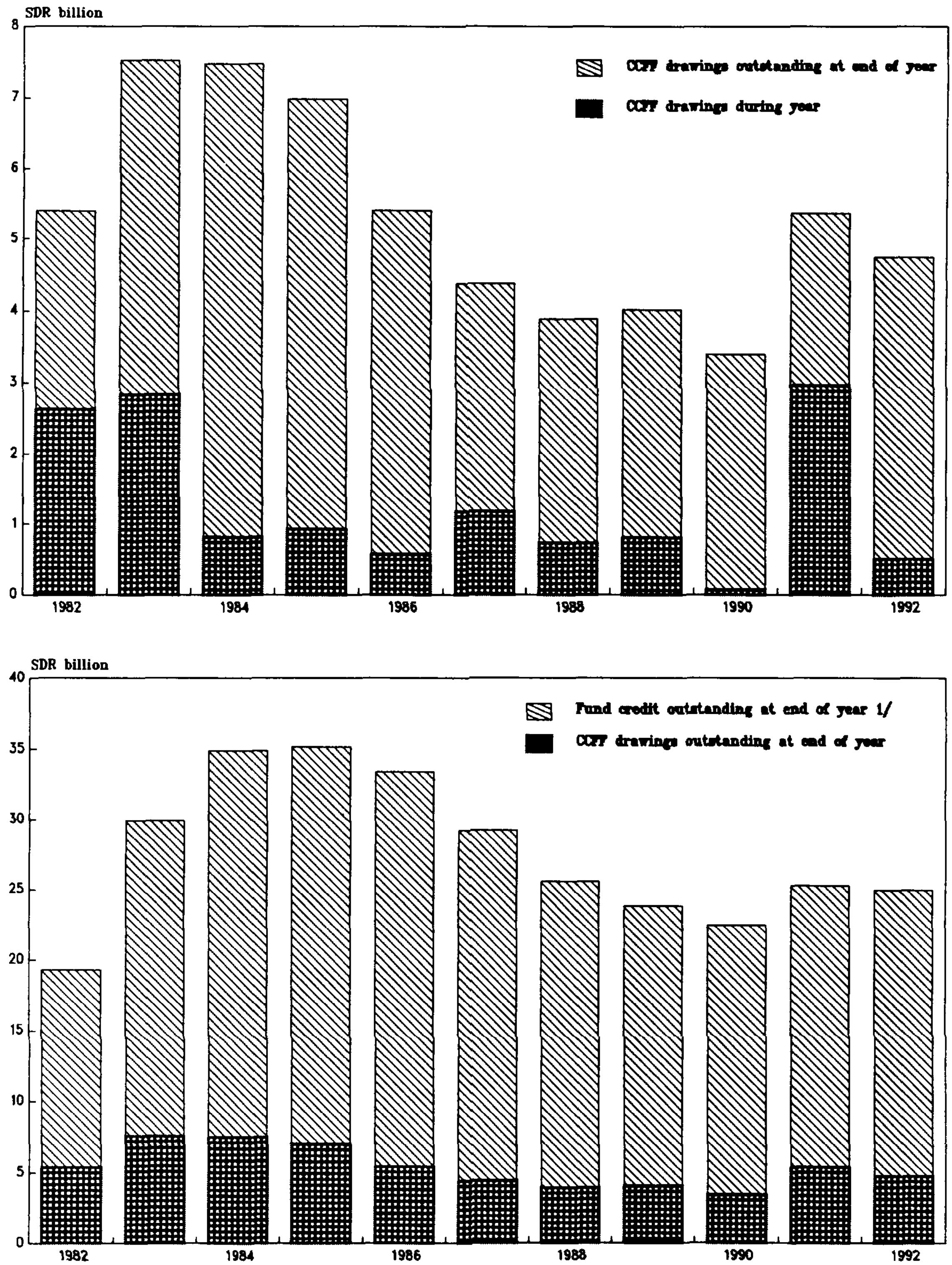
2/ The first annual arrangement covered workers' remittances only.

3/ For the third annual arrangement the provisions were as follows: no adjustment to performance criteria for oil prices between US$17 and US$19/barrel; between US$19 and US$20/barrel the NIR to be adjusted upward by 50 percent of the incremental oil proceeds (relative to program); by US$250 million plus 75 percent of the incremental for oil export prices between US$20-21/barrel; and by US$625 million plus the full amount of the incremental above US$21/barrel. In addition, the corresponding limits on the NDA, net credit to the nonfinancial public sector (NCNFPS) and on the public sector borrowing requirement to be lowered, and the targets for the primary surplus of the nonfinancial public sector (PSNFPS) and on the operational surplus of the nonfinancial public sector (OSNFPS) to be raised, by the Mexican peso equivalent of the adjustment to the NIR target. For oil prices between US$17 and US$15/barrel, the NIR target would be fully adjusted by the shortfall for a maximum of US$1 billion; by US$1 billion plus 50 percent of the incremental export shortfall from prices of US$14-15/barrel; by US$1,250 million plus 25 percent of the incremental export shortfall for prices between US$13-14/barrel, for a maximum of US$1,375 million. Full policy adjustment required if the oil price falls below US$13/barrel. In addition, the corresponding limits mentioned above to be appropriately adjusted by the Mexican peso equivalent of the adjustment to the NIR target.

4/ The fourth annual arrangement approved on May 20, 1992 includes the following adjustments in oil prices: If in any calendar quarter of 1992, oil export prices exceed US$15/barrel, the NIR target will be adjusted as follows. If export prices were to be between US$15 and US$16/barrel, the NIR target would be adjusted upward 50 percent of the incremental oil proceeds resulting from the oil export prices in excess of US$15/barrel. If export prices were to be between US$16 and US$17/barrel, the NIR target would be adjusted upward by US$62.5 million plus 75 percent of the incremental export proceeds resulting from the oil export prices in excess of US$16/barrel. If export prices were to exceed US$17/barrel, the NIR target would be adjusted upward by US$156 million plus the full amount of the incremental proceeds resulting from a price of oil in excess of US$17/barrel. In addition, the corresponding limits on the NDA will be lowered, and the targets for the PSNFPS and the OSNFPS will be raised by the Mexican peso equivalent of the adjustment to the NIR target. If in any calendar quarter of 1992, the oil export prices fall below US$13/barrel, the NIR target will be adjusted as follows: If export prices were to be between US$13 and US$11/barrel, the NIR target would be fully adjusted downward by the shortfall in oil proceeds. If export prices were to be between US$11 and US$10/barrel, the NIR target would be adjusted downward by US$250 million plus 50 percent of the incremental export shortfall resulting from the oil export prices being lower than US$11/barrel. If export prices were to be between US$10 and US$9/barrel, the NIR target would be adjusted downward by US$313 million plus 25 percent of the incremental export shortfall resulting form the oil export prices being lower than US$10/barrel, for a maximum adjustment of US$345 million. Full policy adjustment would take place to offset the incremental effect of oil prices below US$9/barrel (equivalent to US$1,380 million or 87 percent of quota). In addition, the corresponding limits on the NDA will be raised, and the targets for the PSNFPS and the OSNFPS will be lowered by the Mexican Peso equivalent of the adjustment to the NIR target.

CHART 1

Drawings and Amounts Outstanding Under the CCFF, 1982 - November 1992



1/ Excluding use of the reserve tranche and Trust Fund loans and including SAF and ESAF loans. Data on outstanding Fund credit for 1992 are as of end October.