November 14, 1990 - 90/208

Statement by Mr. de Groote on
The Response of the Fund in the Wake of Recent Developments
in the Middle East
Executive Board Meeting 90/160 - November 15, 1990

Mr. Chairman,

After having heard the various opinions on the shape of a possible oil window inside the CCFF at last Monday's informal meeting and the complexities to which it would give rise, as evidenced already by the differences of interpretations voiced at that time, my earlier conviction as expressed in our November 2 Board meeting was wholly confirmed. That is that we should not make our immediate response to the Gulf crisis dependent on a full and detailed agreement on the remodeling of the CCFF but that we should rapidly agree on a package as presented by the staff in EBS/90/179. Ideally, we could equally decide in principle to incorporate into the CCFF all types of unexpected external shocks, to simplify its mechanism and promote its use. Implementing all the modalities of such a decision of principle could then take place in a less time-constrained way.

An additional reason for this conviction was that, in the view of the staff, there exists only a narrow range of countries which might prudently be assisted through the introduction of an oil element into the CCFF. My conclusion therefore was that these countries would be better served through an augmented access to the Fund's resources. Following Mr. Prader's specific question in this regard at Monday's meeting, it would now seem that there does exist a number of countries which could benefit foremost from an oil window. Given the cooperative nature of this institution, it would thus be unfair not to grant these countries access to the Fund's resources in a way which would serve them best. If a workable solution can be found to have an effective oil window inside the CCFF rapidly, I would accordingly accept such an ad hoc solution as a temporary device envisaged to help certain countries in dealing with the effects of the Gulf crisis. I do hope though that our next review of the CCFF could yield a more lasting solution to take account of unexpected external shocks of which the oil price is but one.

This leaves the question of finding a workable solution which at the same time can satisfy the majority of this Board. You yourself, Mr. Chairman, have hinted at second- or third-best solutions in order to be able to reach a consensus. My intention here is to facilitate this consensus-building by going over the different positions taken at last Monday's informal meeting in a systematic way. And what more systematic and yet simple way exists for economists than to make use of a graph modeling the views expressed. Allow me therefore, Mr. Chairman, to turn to this rather unorthodox means of putting forward one's ideas in this Board, since I do believe it will ultimately help in deriving a sensible set of characteristics for an oil element in the CCFF.

The type of graph I have in mind resembles the rather familiar IS-LM diagram for an open economy and is, for matters of convenience, reproduced in annex. With the level of compensatory financing for oil imports on the y-axis and time on the x-axis, three relationships can be visualized. The first one being the positively sloped conditionality line. Indeed, more compensatory financing is made available only under more stringent conditions of conditionality and requires more time to be agreed upon between the Fund and the member country. The second relationship concerns the negatively sloped relative access line, illustrating the potential trade-off that exists between obtaining additional financing to cope with the increased oil import bill through an oil import window and through augmentation of access under ordinary arrangements. This line represents the fact that to help compensate for the oil import shock, it is possible for a country either to opt for a quick disbursement under the oil window of the CCFF or to go for a more time-consuming renegotiation of its existing Fund arrangement, yielding an augmented access under ordinary arrangements which leaves less or possibly even no room for compensation under the oil import window. The third relationship concerns the eligibility line. The level of this line is being determined by the conditions on access for an oil element drawing. Its positive slope reflects the fact that over time more drawings will be made by members, while its sudden end represents the lapsing of the oil window at the end of 1991.

Given the different options the staff has outlined in EBS/90/179 Supplement 3, an area of indeterminacy, represented in the graph by the triangle ABC, had to be dealt with. This could be done in various ways and speakers at last Monday's meeting have suggested different packages of options.

Most of the large industrial country chairs, to the extent that they took the necessity of an oil import window for granted, were in favor of attaching sufficient conditionality to the oil window drawings, thus favoring a shift to the right of the conditionality line and yielding a determinate solution at point B in the graph.

Most developing country chairs were in favor of increasing total access under the oil import element, thereby pleading for an upward shift of the eligibility line yielding a solution at point A in the graph.

A number of other speakers such as Mr. Fogelholm, Mr. Posthumus, Mr. Vegh as well as our chair remained in doubt about the need for a separate oil window, finding themselves located at point T in the graph. That it to say, they preferred access to be augmented under existing arrangements rather than to extend financing through a new oil window. It would seem now that the staff will be able to convince us of the need for a separate arrangement for a well-determined number of countries. In this case we would evidently have to start looking also for a way of having the three lines intersect at one point in the graph, thus yielding an effective oil window.

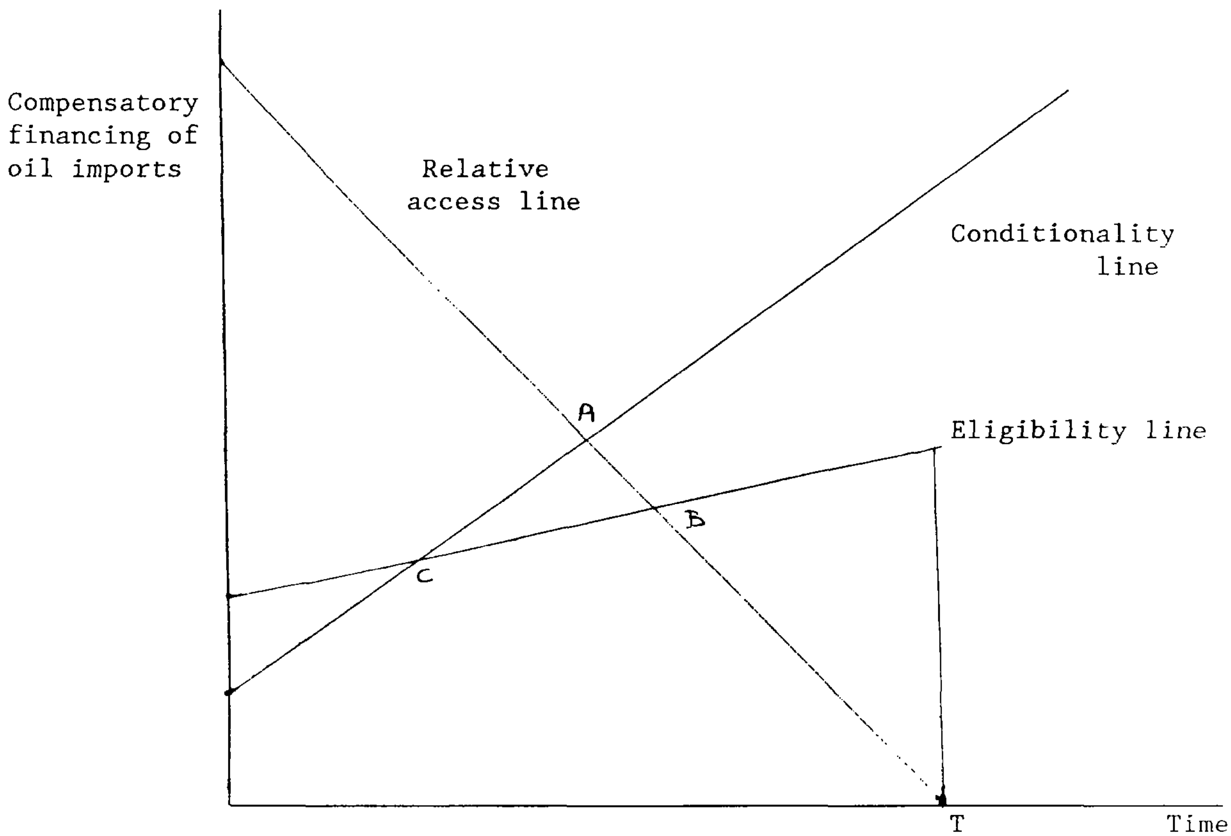
Contrary to the solutions favored by both the large industrial countries, preferring solution B, and the majority of developing countries going for solution A, I would be inclined to opt for solution C. Such a solution would entail no change in the conditionality as compared with the other windows of the CCFF, keeping the special character of the CCFF, as opposed to that of ordinary Fund arrangements, intact. It would thus not open the door for an overall contamination of the CCFF with stringent conditionality later on, a danger to which Mr. Posthumus has already pointed.

Such a solution C would then have to combine a sufficient degree of overall access while avoiding the possibility of excessive overcompensation. On the face of it and pending further detailed staff estimates on the potential use of such an oil window, this would lead us to prefer the option whereby the total access limit is maintained at 122 percent of quota, drawings are chargeable to the cumulative access limits for the export and cereal elements combined and purchases are phased in two equal tranches. In terms of the graph, this option will shift the eligibility line upwards since potential access is increased. At the same time, it would make the slope of the relative access line less negative, since only half of the total drawing would take place at the outset.

In practical terms, such a solution will result in an oil window fitting nicely into the mould of the CCFF, thereby satisfying Mr. Dawson's insistence that we are not going for a separate oil facility. At the same time though, it would provide something more than token financing, given that the oil import element would be chargeable to the cumulative access limits for the export and cereal elements combined. Yet this extra financing would be balanced, not by increased conditionality, but instead by a more careful disbursement in two phases as well as by the fact that it is a temporary device intended to deal with the particular consequences of developments in the Middle East.

I believe this approach constitutes the best possible outcome in reconciling the different demands : an increased financing potential for the affected countries, a relatively simple system being able to generate assistance in an expeditious way, adequate assurances that no unneccesary disbursements of Fund resources will take place, keeping with the spirit of compensatory financing.

Whatever the merits of my graphical exposition in terms of clarifying the different positions regarding the need for and content of an oil window in the CCFF, it has at least reminded us, Mr. Chairman, of our younger days when we were confronted regularly with graphical analysis in trying to master the theoretical aspects of economics. The problem of course is that our decision today has to be taken in a real world.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