November 14, 1990 - 90/209

Statement by the Staff Representatives on the
"Response of the Fund to Recent Developments in the Middle East -
Introduction of an Oil Import Element into the
Compensatory and Contingency Financing Facility (CCFF)"
Executive Board Meeting 90/160, November 15, 1990

This statement provides additional information on a number of technical questions relating to the introduction of an oil import element, which were raised by Executive Directors at the Informal Board Meeting on Monday, November 12, 1990.

1. Phasing/early repurchase

Under the phasing option, the staff would make new calculations of the net compensable amount (oil import excess netted against the export excess or added to the export shortfall) at the time of the second drawing. The request for the second drawing would not in general be scheduled for a Board meeting unless management felt issues had arisen requiring Board discussion or a meeting was requested by an Executive Director. The new calculations could either increase, subject to access limits, or decrease the amount of the second drawing that was anticipated in the initial calculations. The issue of overcompensation would be raised only when actual data for the whole of the excess year became available. If the calculations indicated overcompensation, the member would be expected to repurchase promptly up to the amount of the overcompensation.

2. The 20 percent rule for oil

The rule limiting export projections in the two post-shortfall years to 20 percent over the two preshortfall years was essentially aimed at safeguarding against overly optimistic forecasts. An analogue of such a rule was not adopted for projections of cereal imports, even though cereal import excesses are netted against export shortfalls. Given the volatile nature of oil prices at present, the staff is not proposing the imposition of an analogous floor on oil import projections in the two post-excess years of 20 percent below the oil imports in the two pre-excess years. The imposition of such a floor would entail the Fund taking a position on oil prices in the future which might be significantly different from the market's assessment. Applying such a floor could imply an average of about $13 per barrel in the two post-excess years, a scenario which, despite the uncertainty about oil prices, is not generally expected to occur.

3. Coverage

The oil import element could be introduced to cover imports of crude oil and petroleum products (SITC 33) and imports of natural gas (SITC 34).

4. Effect on the Fund's liquidity ratio

Executive Directors asked about the effects of introduction of an oil import element on the Fund's liquidity ratio which, in the last liquidity update (EBS/90/185, 10/25/90), had been projected to fall to 69.9 percent at end-December 1991. As stressed in EBS/90/179, Supplement 3 (11/9/90), a number of factors would have an important bearing on members' use of such an element. These factors would have to be assessed in each individual case, and the staff does not believe that actual use can be projected accurately at this stage. Furthermore, use of an oil import element may offset other projected use of the Fund's resources although it is difficult at this stage to estimate any such offset. Nevertheless, assuming all other elements of the October 25 liquidity projections remain unchanged, each additional SDR 1 billion of purchases by end-1991 would be projected to reduce the liquidity ratio by 4-4 1/2 percentage points at end-1991; Thus, for example, if additional purchases resulting from an oil import element amounted to SDR 3.5 billion through end-1991 (corresponding to the maximum potential access simulated for the middle option of the Table attached to the Supplement), the liquidity ratio would be expected to fall to approximately 55 percent at end-1991. For the reasons discussed, any such simulations of maximum potential access probably overstate by a substantial amount the likely use.

5. Geographical distribution of compensable amounts and access

The attached Table supplements the information provided in the table presented in EBS/90/179, Supplement 3, giving potential additional financing with an oil import element on the basis of a regional breakdown.

Table. CCFF: Potential Additional Financing For Selected Members Under an Oil Import Element: Alternative Assumptions on Access Where Oil Excesses are Netted Against Export Shortfalls 1/

	Existing Total Access Limit of 122% of Quota		Total Access Limit Raised to 162% of Quota
	Oil element drawing chargeable to:		
	One element: Exports only + Optional Tranche (40%+25%)	Two elements: Export+Cereal + Optional Tranche (40%+17%+25%)	Oil element Has own Access + Optional Tranche (40%+25%)
Countries with potential additional financing	66	76	76
Not SAF/ESAF eligible	31	38	38
AFR	5	7	7
ASD	4	5	5
EUR	6	8	8
MED	1	2	2
WHD	15	16	16
SAF/ESAF eligible	35	38	38
AFR	22	23	23
ASD	6	6	6
MED	1	2	2
WHD	6	7	7
		(In percent of quota)	
Average potential additional financing	26	26	29
Not SAF/ESAF eligible	30	29 2/	34
AFR	24	22	27
ASD	30	27	32
EUR	23	25	33
MED	65	41	53
WHD	32	34	35
SAF/ESAF eligible	22	22	23
AFR	18	18	18
ASD	18	18	18
MED	61	41	53
WHD	38	35	38
		(In billions of SDRs)	
Total potential additional financing	2.67	3.48	4.23
Not SAF/ESAF eligible	1.97	2.71	3.41
AFR	0.08	0.11	0.15
ASD	0.64	0.65	0.66
EUR	0.66	1.07	1.36
MED	0.05	0.06	0.08
WHD	0.54	0.82	1.16
SAF/ESAF eligible	0.70	0.77	0.82
AFR	0.28	0.30	0.31
ASD	0.04	0.04	0.04
MED	0.33	0.38	0.42
WHD	0.05	0.05	0.05

1/ IMF staff calculationss.

2/ Revised.