November 15, 1990 - 90/210

Summing Up by the Chairman
The Response of the Fund in the
Wake of Recent Developments in the Middle East
Executive Board Meeting 90/161 - November 15, 1990

Recent developments in the Middle East have increased the vulnerability of the world economy and exacerbated the difficulties facing many of the Fund's members. The Fund has a central role to play in helping its members to overcome such shocks, and the Executive Board has acted expeditiously, and in a spirit of consensus and cooperation, in forming the Fund's response to the present crisis. Notwithstanding the difficulties and uncertainties, Executive Directors continue to consider that the overall situation is manageable through the use and adaptation of the existing instruments available to the Fund; it is in the nature of the institution to be able to respond quickly and efficiently when unexpected shocks strike the world economy. Executive Directors at the same time emphasized that the present situation, and the Fund's responsibilities in managing it, underscore the need for the earliest possible implementation of the quota increase and the associated amendment to the Articles of Agreement.

Executive Directors have agreed broadly with the range of staff proposals regarding assistance to members in the context of stand-by, extended, and SAF/ESAF arrangements; technical modifications to enhance the flexibility of the compensatory financing component of the CCFF; and encouragement of members to make suitable contingency planning against adverse developments in the future. I will not repeat now all that was said on these measures in my concluding remarks following our meeting on November 2. At the end of our meeting today, I will ask you to turn to the specific decisions that are needed on these aspects, which have been circulated in draft form in EBS/90/179, Supplement 2. With respect to one of these decisions--the temporary suspension of the lower limits under the enlarged access policy--I confirm that the intention is that access will continue to be related very closely to the strength of adjustment; access approaching the upper limits would continue to be associated with programs that, in the words of our guidelines, are such that the balance of payments improvement will be quick, sufficient, and durable. I am mindful of the concerns expressed by some Directors about the potential access which is being made available to deal with the current crisis. On this I can assure Directors that the staff will take special care to avoid double compensation for the impact of oil price increases and that, as in all operations, an assessment of the capacity of a member to repay the Fund will be part of any recommendation for approval of use of Fund resources put to the Board.

The Executive Board has today agreed on the addition of a potentially important complement to the measures discussed earlier--that is, the introduction of an oil import element into the CCFF. A draft decision will be circulated for your formal approval very shortly. I will today summarize in some detail the agreed features of the oil element, so that there is full understanding and the necessary legal documentation can be prepared and adopted quickly--in the first days of next week.

1. It is agreed that an oil import element will be introduced on a temporary basis for the period up to end-1991.

2. The oil import element would operate very much like the cereal element in its relation to the export shortfall element. Thus, the option to request a drawing under the oil import element would be at the discretion of the member, in that it could continue to request purchases on account of export shortfalls without reference to the oil element.

3. Coverage would consist of imports of crude petroleum and petroleum products and natural gas. An oil import excess would be calculated on the basis of an arithmetic average of five annual observations centered on the excess year, and the excess derived would be netted against a calculated export excess, or added to an export shortfall, to obtain the compensable amount. Up to 12 months of estimated data could be used for the excess year.

4. Access to purchases under the oil import element would be provided within the present total access limit of 122 percent of quota for the CCFF. This includes, of course, access equivalent to 40 percent of quota under the contingency element of the CCFF. The remaining 82 percent of quota is the sum of the basic access under the compensatory element, the optional tranche, and the cereal element. Up to the full amount of this 82 percent of quota, to the extent it remained available to a member, could be used to compensate for an oil excess.

5. All drawings under the oil element would be in the basic framework presently provided by paragraph 12 of the CCFF decision but would require in addition that the member follow appropriate domestic energy policies, including, when needed, prior actions in the energy field. Within this general framework, which is illustrated in the attachment to my statement of November 14, I would particularly note:

a. Members falling under paragraph 12(a)(i) of the decision would present a written statement of their macroeconomic policies and objectives in order to qualify for purchases up to 40 percent of quota under the oil element, and members falling under paragraph 12(a)(ii) would be able to obtain up to 82 percent.

b. Members falling under paragraph 12(b)(i) of the decision would submit a written statement of their macroeconomic objectives and policies in order to qualify for up to 20 percent of quota under the oil element; 40 percent falling under paragraph 12(b)(ii) would be able to obtain up to and members falling under 12(b)(iii) would be able to obtain up to 82 percent.

c. As under the export compensatory and cereals elements of the decision, and subject to the combined limit of 105 percent of quota that presently applies, a member having a satisfactory balance of payments position apart from an oil import excess could obtain up to 83 percent of quota under the oil import element.

6. The written statement that would be required in cases where the member requesting a purchase under the oil import element did not have an upper credit tranche conditionality arrangement or equivalent policies would be developed with the staff and would be modeled on the documentation submitted in support of first credit tranche purchases.

7. Where nine months or more of estimated data are used for an excess year, 65 percent of the calculated compensable amount on account of an oil import excess could be purchased at the time of the initial request. The remaining 35 percent would become available when actual data covering six months of the shortfall year have become available. If the compensable amount and the policies and understandings underlying the initial purchase were to materialize as initially expected, the second purchase could be approved on a lapse of time basis. However, if the compensable amount had changed significantly, or if actual policy implementation or the member's external circumstances differed materially from that originally anticipated, management would recommend that a Board discussion take place. In any case, of course, a meeting could be requested by an Executive Director.

8. A report to the Board on the operation of the oil import element will be provided before the spring 1991 meeting of the Interim Committee. We will of course keep developments under continuing review.

As I mentioned during the course of our discussion, we still need to look at the issue raised by the Interim Committee concerning problems that certain members could potentially encounter in servicing new debt. I intend to come back to you on these matters in the near future.

With the decisions and conclusions reached today, the Fund is in a position to extend appropriate support to members' efforts to contend with the effects of the Middle East crisis as well as the broader changes sweeping the world. Nevertheless, it is the broadly shared view of the Executive Board and management that these sweeping changes do not call only for temporary forms of relief--indispensable as they may be--but for bold and comprehensive growth-oriented structural adjustment programs, helping the membership to better face these challenging times. This is the reason why the Executive Board recommends that countries consider the adoption of such programs if they are not already in place.