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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 90/161

3:00 p.m., November 15, 1990

M. Camdessus, Chairman
R. D. Erb, Deputy Managing Director

Executive Directors	Alternate Executive Directors
M. Al-Jasser	
	L. E. N. Fernando
C. S. Clark	
	Shao Z., Temporary
T. C. Dawson	
	F. Moss, Temporary
E. A. Evans	
R. Filosa	N. Kyriazidis
	M. B. Chatah, Temporary
M. Fogelholm	
	B. Goos
	T. Sirivedhin
A. Kafka	L. M. Piantini
	J.-F. Cirelli
	O. Kabbaj
	J. M. Jones, Temporary
D. Peretz	P. Wright
G. A. Posthumus	
	N. Toé, Temporary
A. Torres	R. Marino
A. Végh	A. G. Zoccali
K. Yamazaki	

L. Van Houtven, Secretary and Counsellor
K. S. Friedman, Assistant

Also Present

African Department: M. Touré, Counsellor and Director; S. J. Anjaria. Asian Department: W. S. Tseng. European Department: M. Guitián, Deputy Director. Exchange and Trade Relations Department: J. T. Boorman, Director; T. Leddy, Deputy Director; S. Eken, C. Puckahtikom. External Relations Department: J. E. McEuen. IMF Institute: O. B. Makalou. Legal Department: F. Gianviti, General Counsel; W. E. Holder, Deputy General Counsel; R. H. Munzberg, Deputy General Counsel; P. L. Francotte. Research Department: J. A. Frenkel, Economic Counsellor and Director; B. B. Aghevli, R. C. Baban, N. M. Kaibni, M. S. Kumar, E. C. Meldau-Womack, P. R. Menon, B. E. Rourke, P. Wickam. Secretary's Department: J. W. Lang, Jr., Deputy Secretary; A. Tahari. Treasurer's Department: G. Laske, Treasurer; D. Williams, Deputy Treasurer; D. Gupta. Personal Assistant to the Managing Director: B. P. A. Andrews. Advisors to Executive Directors: M. A. Ahmed, A. Gronn, Z. Iqbal, D. Powell, A. M. Tanase. Assistants to Executive Directors: B. Abdullah, T. S. Allouba, G. Bindley-Taylor, C. Björklund, B. A. Christiansen, B. R. Fuleihan, M. A. Ghavam, J. Gold, S. Gurumurthi, M. E. Hansen, M. E. F. Jones, P. Kapetanovic, M. Mrakovcic, M. Nakagawa, S. Rouai, N. Sulaiman, S. von Stenglin, J. C. Westerweel.

1. FUND RESPONSE TO RECENT DEVELOPMENTS IN MIDDLE EAST - INTRODUCTION OF OIL IMPORT ELEMENT INTO COMPENSATORY AND CONTINGENCY FINANCING FACILITY, AND AMENDMENT OF COMPENSATORY AND CONTINGENCY FINANCING FACILITY AND OR OTHER DECISIONS

The Executive Directors continued from the previous meeting (EBM/90/160, 11/15/90) their consideration of a staff paper on the possible introduction of an oil import element into the compensatory and contingency financing facility (CCFF) (EBS/90/179, Sup. 3, 11/9/90) and a staff paper (EBS/90/179, Sup. 2, 10/29/90) containing draft decisions reflecting that and other proposals on the response of the Fund to recent developments in the Middle East set out in EBS/90/179 (10/16/90) and Supplement 1 (10/29/30). The Directors agreed, in order to provide ready access to the full record of the discussion on the response of the Fund to recent developments in the Middle East, to include, in the present record, the minutes of an informal discussion on September 17, 1990 as an Annex.

The staff representative from the Research Department, responding to a question by Mr. Chatah concerning the number of drawings that could be made in a year under the oil import element, said that it would helpful to consider the case of a member under paragraph 12(b) of the CCFF decision that had taken the necessary prior actions and had prepared the written statement that was required because the country did not have an arrangement with the Fund, and for which the Fund was using more than eight months of estimated data for oil import costs. In such a case, 65 percent of the access would be provided up front, and the remaining 35 percent would be available when six months of actual data were available. If the same member were to undertake an arrangement with the Fund in, say, three months after the initial drawing of 65 percent of access, and the member wished to make another purchase at the time the arrangement was approved by the Board, the new shortfall or excess would be calculated, and purchases would be provided on the basis of the new calculations, after adjusting for double compensation. If those new calculations still required the use of 12 months' estimated data, the same provision would apply.

Mr. Fernando said that he wondered whether he was correct in understanding that if there were six months or more of actual data available for a member country, the 65/35 tranching would not be applied, but the other tranches would be applied, depending on whether the country was under paragraph 12(a) or paragraph 12(b) of the CCFF decision.

The staff representative from the Research Department replied that Mr. Fernando's understanding was correct. In fact, even on the basis of eight months' data the full amount would be provided up front. However, the additional 35 percent would be provided only when six months of actual data were available, whenever that might occur. More than six months might be needed in some cases, because the data in some countries were available on only an annual basis.

The Chairman made the following summing up:

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; members falling under paragraph 12(b)(ii) would be able to obtain up to 40 percent; 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.

Mr. Fernando said that he wondered whether he was correct in assuming that the 12 months of estimated data to be used for the shortfall year would relate to the oil and cereal import costs as well as to total export earnings, including workers' remittances.

The staff representative from the Research Department responded that the option to include or exclude workers' remittances in calculating export shortfalls would remain unchanged, and the 12 months of estimated data would include oil and cereal imports, and total exports. The proposed 65/35 percent tranching would be effective only if a portion of the purchases were on account of oil; they would not apply for the export shortfall. Accordingly, if, say, 40 percent of requested compensations was on account of an export shortfall and 20 percent on account of oil, then the 65/35 tranching would apply to the oil element, not to the export element.

Mr. Yamazaki considered that the press release on the oil import element and other decisions should send a clear and strong message that the Fund was responding quickly and with unanimity to the recent developments in the Middle East.

The Chairman said that he fully agreed that the Fund should send a strong signal that it was acting expeditiously and with unanimity. At the same time, the Fund should avoid raising expectations unduly.

Mr. Posthumus commented that the first sentence of the Managing Director's opening statement at the previous meeting would be appropriate for the start of the press release. The text of the press release should not go too far, as the Fund should avoid sending the message that its present machinery was not suitable to face a situation like the current one.

The Chairman commented that Mr. Posthumus's point was well taken. The press release should explain that the Fund was able to respond quickly because the Fund was reacting basically with its present machinery; in that connection, the Fund was designed precisely to be able to react to shocks.

Mr. Peretz said that he agreed that the beginning of the Managing Director's opening statement at the previous meeting would make a good opening for the press release. He also agreed with Mr. Yamazaki that it was important to stress that the membership was acting unanimously in using its existing facilities, which were quite appropriate.

There had been a recent article in the press summarizing much of the Board's discussion thus far on the Fund's response to recent developments in the Middle East, Mr. Peretz remarked. The article mentioned the proposal to establish a subsidy account. He hoped that that proposal would not be mentioned in the Fund's press release following the present meeting.

Mr. Evans said that he agreed that the first paragraph of the Managing Director's opening statement at the previous meeting could be used in the forthcoming press release.

The Executive Board then took the following decisions:

Amendment of Policy on Enlarged Access - Guidelines on Access Limits

The third sentence of paragraph (a) of Decision No. 7600-(84/3), adopted January 6, 1984, as amended, shall be amended to read as follows:

"Access by members to the Fund's general resources under arrangements approved under Decision No. 6783-(81/40) during 1986, 1987, 1988, 1989, and the period until the date on which the requirement for the effectiveness of increases in quotas under the Ninth General Review of Quotas specified in paragraph 3 of the proposed Resolution of the Board of Governors on the Ninth General Review of Quotas, attached to Decision No. 9436-(90/79), adopted by the Executive Board on May 21, 1990, has been fulfilled shall be subject to annual limits of 90 or 110 percent of quota, three-year limits of 270 or 330 percent of quota, and cumulative limits of 400 or 440 percent of quota net of scheduled repurchases, depending on the seriousness of the member's balance of payments needs and the strength of its adjustment effort, provided that, through December 31, 1991, the annual, three-year, and cumulative limits shall be 110 percent of quota, 330 percent of quota, and 440 percent of quota net of scheduled repurchases, respectively."

Decision No. 9584-(90/161), adopted
November 15, 1990

Amendment of Instrument to Establish ESAF Trust

(a) The following subparagraph shall be added to paragraph 1 of Section II of the Instrument to establish the ESAF Trust (Annex to Decision No. 8759-(87/176) ESAF, adopted December 18, 1987, as amended), as subparagraph (e):

"After the expiration of the third annual arrangement for an eligible member, the Trustee may approve an additional annual arrangement for that member, if it is satisfied that the performance of the member under the arrangement has been satisfactory and that the member has adopted appropriately strong measures in response to its external circumstances in an effort to strengthen substantially and in a sustainable manner its balance of payments position. Commitments under such additional annual arrangements shall be within the access limits determined in accordance with paragraph 2 of this Section, and may be made during the period specified in (d) above."

(b) Paragraph 2(d) of Section II of the Instrument to establish the ESAF Trust (Annex to Decision No. 8759-(87/176) ESAF, as amended) shall be amended to read as follows:

"The amount of resources committed to a qualifying member under a three-year arrangement and the amounts for the second- and third-year arrangements shall be reviewed at the time of the consideration of each annual program. The Fund may increase the overall amount of resources committed under a three-year arrangement, when increasing the amount to be made available for the second disbursement under an annual arrangement to help meet adverse external contingencies occurring during the period of the arrangement. The amounts committed to a member shall not be reduced because of developments in its balance of payments, unless such developments are substantially more favorable than envisaged at the time of approval of the three-year arrangement and the improvement for the member derives in particular from improvements in the external environment."

(c) Paragraph 3(c) of Section II of the Instrument to establish the ESAF Trust (Annex to Decision No. 8759-(87/176) ESAF, as amended) shall be amended to read as follows:

"No disbursement under any commitment to a member shall be made after the expiration of the period specified in Section III, paragraph 3."

Decision No. 9585-(90/161), adopted
November 15, 1990

Amendment of Compensatory and Contingency Financing Facility - Coverage of Services

(a) Paragraph 13 of Decision No. 8955-(88/126), adopted August 23, 1988, as amended, shall be amended to read as follows:

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

(b) Paragraph 46 of Decision No. 8955-(88/126), adopted August 23, 1988, as amended, shall be renumbered paragraph 47, and the following paragraph shall be added as paragraph 46:

"Notwithstanding paragraph 13, any member that has specified, for a purchase made prior to [the date of adoption of this Decision], that receipts from travel and workers' remittances shall be included in the calculation of the shortfall, shall specify, for the first purchase under Section II or Section IV following [the date of adoption of this Decision], whether services shall be included or excluded in the calculation of the shortfall."

Decision No. 9586-(90/161), adopted
November 15, 1990

Amendment of Compensatory and Contingency Financing Facility - Early Drawing Provision

Paragraph 14 of Decision No. 8955-(88/126), adopted August 23, 1988, as amended, shall be amended to read as follows:

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

Decision No. 9587-(90/161), adopted
November 15, 1990

Amendment of Compensatory and Contingency Financing Facility - Contingency Mechanism

(a) Paragraph 17 of Decision No. 8955-(88/126), adopted August 23, 1988, as amended, shall be amended to read as follows:

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

(b) The introductory sentence of paragraph 19 of Decision No. 8955-(88/126), adopted August 23, 1988, as amended, shall be amended to read as follows:

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

Decision No. 9588-(90/161), adopted
November 15, 1990

DECISIONS TAKEN SINCE PREVIOUS BOARD MEETING

The following decisions were adopted by the Executive Board without meeting in the period between EBM/90/160 (11/15/90) and EBM/90/161 (11/15/90).

2. DOMESTIC PUBLIC DEBT OF EXTERNALLY INDEBTED COUNTRIES - PUBLICATION

The Executive Board approves the proposal to publish, in the Occasional Paper series, a revised version of the staff paper on domestic public debt (SM/90/119, 6/20/90), as set forth in EBD/90/366 (11/1/90).

Adopted November 15, 1990

3. STAFF MEMBER - LEAVE WITHOUT PAY

The Executive Board approves the proposal set forth in EBAP/90/291 (11/9/90) concerning an extension of leave without pay for a staff member.

Adopted November 15, 1990

APPROVED: September 9, 1991

JOSEPH W. LANG, JR.
Acting Secretary

ROLE OF THE FUND IN CURRENT CIRCUMSTANCES

The Executive Directors considered the following statement by the Managing Director on the role of the Fund in current circumstances:

> I would like to report briefly on the work that management and staff have initiated on the basis of the discussion on my statement at EBM/90/136 (9/7/90) on the role of the Fund in current circumstances. You will readily see that my comments today will be fully in line with the thrust of my previous statement. I would hope that this report, together with my statement of September 7, (see Appendix), might be helpful as Ministers and Board members consider appropriate responses by the Fund to recent developments affecting the current and prospective world economic situation.
>
> What should be the response of the Fund to the current and prospective world economic situation? On the basis of your initial reactions and intensive further reflection, I continue to believe that we do not need to undertake major revisions of our policies but rather to use the instruments that we have available in an appropriately flexible way.
>
> As estimated in the latest revisions to the world economic outlook, and under the specific assumptions made therein--including on oil price of $26 in the fourth quarter of 1990 declining thereafter to $21 in the fourth quarter of 1991--the effect of the current situation is likely to be considerably smaller than the oil shocks of the 1970s, and many countries are in a much better position to withstand the current crisis than they were in the past. Here I would note that the Fund and the World Bank still have separate projections on the world economy; so this report is based on our world economic outlook assumptions, which continue to be reasonable in our view. I must stress, of course, that any projections made in the present circumstances are highly uncertain.
>
> Leaving aside the front-line countries most seriously affected by the crisis in economic and human terms, the staff has estimated that, based on the latest world economic outlook projections, the effect in 1991 on the external current account of other developing countries adversely affected by the crisis would be of the order of SDR 5 billion, or on average roughly 35 percent of their Fund quotas. These estimates generally take into account only the effects of increases in oil prices and the likely adverse effect of the crisis on workers remittances, tourism receipts, and the likely impact of the embargo on those countries whose exports would be most seriously affected, and the estimates would need to

be refined to take into account possible second round or indirect effects. Also, the estimates are based on a mechanical exercise to assess the direct impact of the crisis on individual economies before assuming any adjustment response; they are not meant to be a forecast of what should or will be the actual balance of payments needs arising from the crisis. Nevertheless, the estimates give us an order of magnitude of the problem that we are faced with.

Of course, these estimates are also not meant to suggest the magnitude of the need for Fund support. As regards their overall financing needs, countries will need to adopt an adjustment/financing mix appropriate to their particular circumstances. Apart from the general policy response that we have been discussing in the context of the world economic outlook that countries should pass through oil price changes and should follow non-accommodative monetary and fiscal policies, there are no single recipes with respect to the particular adjustment response of individual countries. The authorities of member countries are now assessing their adjustment needs, and we will be addressing these issues in meetings with officials during the next few weeks. Of course, we will try to devote all appropriate time and care to the countries we know are particularly affected. As noted below, a large number of countries currently have arrangements with the Fund, and for many countries the policy discussions will take place in the context of an existing policy and quantitative framework.

Also, other creditors and donors, including the World Bank, can be expected to provide increased financing in many cases. A number of countries are not in a position to take on added debt at market terms and will need recourse to highly concessional loans and grants to help them appropriately to adjust to the crisis. In considering possible increases in access to Fund resources in individual cases, careful attention will need to be paid to the existing level of Fund exposure and the capacity of the member to repay the Fund. Finally, we have the countries that are currently in arrears to the Fund and have embarked, or will embark in coming months, on an adjustment path to normalize their relations with the Fund. A special effort will need to be made by the international creditor and donor community to help these countries sustain adjustment efforts on which they have embarked.

In sum, we need to approach the question of how to respond to this crisis on a case-by-case basis. In considering possible recourse to Fund resources, countries have an array of options, and it is difficult to predict which of the various approaches will be most widely used. An important consideration in assessing our options is that the Fund now has arrangements (stand-by, extended, structural adjustment, and enhanced structural adjustment) with close to 50 members. This compares with about 10 members with arrangements at the time of the first oil shock and about 20 at the time of the second shock. The marked increase in the number of members with arrangements suggests that we could more expeditiously enter into discussions on the appropriate adjustment and financing mix within the framework of existing programs and arrangements.

For low-income countries, we have the enhanced structural adjustment facility in place. Almost all of the 14 members with enhanced structural adjustment arrangements have been adversely affected by the crisis, and under the enhanced structural adjustment facility we have the scope to take into account both the financing and the adjustment requirements of current developments. Several of the members with structural adjustment arrangements are approaching the end of their structural adjustment facility programs, and some of these could be expected to move on to the enhanced structural adjustment facility. I hope that many of the eligible countries that have yet to come forward with programs that could be supported by enhanced structural adjustment arrangements will act to do so in the near future.

Some countries--The Gambia, Ghana, Malawi, Niger and Senegal--are also about to enter into the third year of their enhanced structural adjustment arrangements. However, with the added problems that are now before us I believe that it will be important to have the possibility of a fourth-year enhanced structural adjustment arrangement. I will therefore ask the Executive Board and contributors to the enhanced structural adjustment facility to consider that issue again. It is highly important at this time also that contributors to the enhanced structural adjustment facility make maximum efforts to increase subsidy contributions to reach the full amount required.

For stand-by and extended arrangements, our access policies already have the flexibility needed for modifying adjustment policies as necessary and for augmenting existing arrangements in accord with that additional adjustment on a case-by-case basis, and we can also take due account of the effects of the current crisis in determining access for new arrangements. There are currently 23 members with upper credit tranche stand-by or extended arrangements, and 15 of these countries have been adversely affected by the crisis. The annual rate of access under existing arrangements with countries adversely affected by the present crisis averages 50 percent of quota, compared to annual limits under the enlarged access policy of 90 percent and

110 percent of quota. Only three of the countries have annual access in excess of 60 percent of quota.

It is plain now that we need to give much more emphasis to developing contingency planning in adjustment programs, including the use of contingency mechanisms under the compensatory and contingency financing facility, to protect programs in the future. As part of this effort, I will be asking Executive Directors to revise the decision on that facility to allow contingency mechanisms to be attached at the time of midterm reviews (as well as in annual reviews, as at the present); this will be especially important in connection with requests for augmentation to help deal with the effects of recent developments.

As regards the compensatory element of the compensatory and contingency financing facility, I believe that we should proceed with the suggestions regarding the treatment of services that I made on September 7. Thus, I will propose to the Board that members that had opted for narrower coverage in the past 5 years be allowed now to move to broader coverage, and to extend the definition of services to include additional items such as pipeline and canal fees. Also, I may recommend an early drawing procedure in cases where there is adequate justification. These changes do not touch on basic features of the facility, but they can be of significant benefit to some of the countries most immediately affected by present circumstances.

I also indicated last year that I would give further reflection to the possibility of including an oil import element in the compensatory and contingency financing facility. A preliminary assessment indicates that incorporating an oil element into the facility would not give additional access to several countries that are clearly affected in an adverse way by the crisis (because of the particular way in which the export shortfall and oil import excess will be calculated under existing rules governing the facility and the possibility of mutual offset by the one to the other). Also, many countries that would qualify for compensatory financing might opt for financing in the context of an enhanced structural adjustment arrangement, because of the concessional nature of these resources. However, a large number of countries could gain additional access to compensatory financing if an oil element were added and if other conditions for access--including, I would stress--policy adjustments, were met. We would need to examine these matters further, as well as the provisions for adjustment that should accompany such a broadening of coverage. In the meantime, I hope you will be thinking of these issues, and I look forward to hearing the views of your authorities in the Interim Committee and at the Annual Meeting. My own views on these complex issues are not yet firm. I see the pros and the cons, and I look forward to having your thoughts.

It is important to stress that our present reflections are based on the current assessment of world economic prospects embodied in the world economic outlook. If developments were to move in dramatically different directions, we would need to be ready to look again at our instruments and policies in a more fundamental way. So far, I think that we could go a long way with our present instruments, properly utilized.

While I am of the view that, in general, we are well served by these instruments, and that we have sufficient resources to meet the challenges posed by the present situation, I must emphasize again my deep concern regarding the Fund's ability to meet the requirements of low-income countries. And here I am not only thinking of the countries eligible for resources of the structural adjustment and enhanced structural adjustment facilities, but also, and possibly more so, the low-income countries adversely affected by the current situation with current per capita income levels below the historical cutoff for IDA eligibility but not currently eligible for structural adjustment and enhanced structural adjustment facilities' resources. In fact, here we have a kind of a vacuum in our arsenal of instruments.

Of course, as we assess the implications of the present crisis for the balance of payments situation of the poorer countries and work with other members of the creditor and donor community in seeking an appropriate response to the crisis, we will be examining ways in which the countries in a position to assist, and in particular those that are benefiting economically from the present trend in oil prices, could help the poorer countries continue with their adjustment efforts in the face of higher oil import costs.

There are various ways in which the surplus countries could help, for instance through concessional resources provided in parallel with Fund financing, and/or through concessional resources provided for administration by the Fund. I am not suggesting a specific initiative at this time, but I will be exploring these possibilities in the coming weeks with a number of our members that might best be in a position to help. I hope that several of them will volunteer proposals at the time of the Annual Meetings.

Mr. Yamazaki made the following statement:

I would like to mention my own reaction to some of the points raised in the Managing Director's statement, without committing the final official position of my Government. Our official views will be conveyed in due course.

First, I would like to express my hearty appreciation to the Managing Director once again, and, indeed, I want to commend him highly for the positive, flexible, and timely manner in which he and the staff have tried to cope with the emerging difficult situation associated with the current crisis, in view of the urgency of the problem. I think that he was quite right in trying to explore every possible avenue to assist severely affected member countries through more flexible use of Fund resources. We are prepared to give careful study to each and every item the Managing Director has suggested and to come back to him in due course.

My authorities' view is that assistance for countries suffering economic damage in the wake of the crisis in the Middle East should be provided within an international cooperative framework, and that multilateral institutions, especially the Fund and the Bank, should be the center of the framework. In this context, as well, I would like to commend the Managing Director for his courageous leadership in exploring ways to assist member countries.

Before I make my preliminary comments on the specific points included in the Managing Director's proposal, let me briefly explain the contributions that the Japanese Government is prepared to make within an international cooperative framework to assist the Middle East.

On August 29, 1990, the Japanese Government announced its plan to provide $1 billion to assist the activities to restore peace in the Middle East. This amount has been raised to $2 billion by a cabinet decision on September 14.

In addition, the Japanese Government also decided, the same day, to take new actions to assist the most immediately affected countries in the Middle East by providing economic assistance equivalent to $2 billion. More specifically, in the case of Egypt, Turkey, and Jordan, assistance will be provided immediately in the form of $600 million in emergency commodity loans on an untied basis. These loans will be provided at the exceptionally low interest rate of 1 percent, with a maturity of 30 years. This amount is a short-term response and is to be disbursed immediately, taking account of the amount needed by these countries by the end of this year.

The remaining $1.4 billion is a medium-term response and will be provided to assist these countries in the course of next year. This amount will be provided in the form of yen loans, grants, or technical assistance, or a combination of these, and is intended to be an important part of the international assistance framework for the Gulf countries in the future.

These new initiatives taken by the Japanese Government have increased the amount of the Japanese contribution to $4 billion. We hope that the international organizations, as well as other donors, will join our initiatives.

Let me now make some preliminary comments on the specific points included in the Managing Director's proposals. First, the Managing Director mentioned augmentation of access for member countries. We understand that this proposal is intended to introduce some flexibility in deciding access to Fund resources. This would enable members in need to obtain higher access within the present limit, and, in this context, I think that it is one of the most feasible ways to help severely affected member countries. However, careful consideration should be required in assessing appropriate access for each country, and we should stick to the case-by-case rule. We should be more careful in using the exceptional access clause. I understand that the average use of access this year is around 52-53 percent of quota, and there seems to be room for an augmentation of access. Therefore, careful consideration would be needed on a case-by-case basis in applying the exceptional clause. Moreover, when we consider the problem of access, we also need to take into account the gradually weakening position of the Fund's liquidity.

Second, the external contingency facility is designed to be used during economic disturbances, such as the one we are facing at the present time. In this sense, I think that the Managing Director is quite right in proposing that a more enhanced use of contingency elements be built into the program.

Third, we welcome the Managing Director's initiatives toward more flexible use of the compensatory and contingency financing facility. Apparently the widening of the definition of services to be included in the export shortfall and the introduction of flexibility in applying the five-year rule governing the services option would enable the Fund to make quick and wider assistance to those member countries that have been hurt economically in the wake of the Middle East crisis. Considering the severity of the present situation and the fact that an urgent and timely response is expected from the Fund, I believe that there is a good case to be made for considering early drawing procedures on an ad hoc basis for the compensatory and contingency financing facility.

As regards the possible introduction of an oil import element in the compensatory and contingency financing facility. I think that we need to make a very careful and deliberate examination of the matter. Since the rise in oil prices affects the world economy so widely, the financial impact on Fund resources might be profound if the suggested mechanism were to be introduced into the compensatory and contingency financing facility. In this respect, I would appreciate hearing from the staff on the possible magnitude of the effect in the event this scheme is introduced.

The Managing Director's proposal also mentioned the possibility of a fourth-year arrangement under the enhanced structural adjustment facility. With regard to the extension of the facility, my authorities hold the same position that I expressed at the Board Meeting on the review of the facility last July. The extension of the program period under the facility should, in my view, be considered in relation to the assessment of the medium-term adjustment efforts made by the member country itself. I think that it would be more appropriate to raise this matter for consideration after we have more examples of member countries that have made adjustment efforts through a full three-year period of programs under the enhanced structural adjustment facility. At that stage, we will be able to make a more comprehensive and deliberate consideration of this matter.

Finally, I would like to refer to the proposal to introduce mitigation of the high cost of Fund resources. This question also requires careful consideration. I am of the view that the question of whether or not Fund resources themselves should be provided at a lower cost than at present should be considered in the context of the total financing package extended to the countries concerned.

Mr. Dawson considered that the Managing Director's statement was a very helpful and timely response to the current situation. As a first reaction to the ideas in that statement, he wished to raise several questions. The Managing Director had indicated that his approach was based on the revised world economic scenario oil price of $26 oil by the end of the year, with the price falling back to $21 by the end of 1991. A number of different observers, including the World Bank, had different baseline approaches; the World Bank had recently suggested four scenarios. It would be helpful to have eventually some analysis of the sensitivity of the world economic outlook data to changes in the oil price level. He suspected that, owing to recent events, the oil price of $26 had already been overtaken.

He wondered whether he was correct in understanding that the figure of SDR 5 billion that the Managing Director had mentioned was based on the assumption that there would be a pass-through of increased oil costs in individual economies, Mr. Dawson said. That was certainly a good policy approach, but there was no reason to expect that it would necessarily be implemented.

He still had some interest in taking a look at the idea of early drawings under the compensatory and contingency financing facility, Mr. Dawson commented. Because of the nature of both the original compensatory financing facility and the revised compensatory and contingency financing facility, and the various ways in which utilization of the facility was determined, there were several possible ways--from the contingency side or the compensatory side, for instance--to achieve the proposed goal. He wished to find the most effective way without losing too much time, but clearly, as the Managing Director had indicated, the early drawing proposal should be seen in association with a strong policy element. He looked forward to future discussions on the issues that the Managing Director had raised.

Mr. Peretz said that he, too, welcomed the Managing Director's statement. The general conclusions in that statement did not seem very different from those reached in the World Bank's paper on the same subject discussed by the Bank Board on September 14, 1990. An important conclusion was that there was a need for extra policy adjustment efforts by the countries concerned alongside the provision of extra financing for them.

The various proposals were to be discussed at the forthcoming meeting of the Interim Committee and during the 1990 Annual Meetings, Mr. Peretz noted, and he need not make detailed comments at the present stage. His chair had already indicated general support for more flexible use of the compensatory and contingency financing facility in particular.

One of the most useful things the Fund could do--indeed, the Fund had a central role to play in that connection--was to assess the effects on a country-by-country basis of the recent developments, Mr. Peretz considered. The data should cover, at the least, the most seriously affected countries. The figures would be particularly useful for donors. It would be helpful to have data that could be widely available and on which everyone would agree. In that connection, it was disappointing that the Fund and the World Bank had not been able to make a common assessment. It would be very helpful to have as soon as possible a joint assessment by the two staffs, perhaps on the basis of a number of different scenarios, one of which could be the world economic outlook assumptions.

The Chairman said that it seemed best to use the central assumptions and data of the world economic outlook--which had been revised in light of the recent developments--for the work of the Fund. The staff was working on individual country data, but it would not wish to circulate such data before they had been discussed with the countries concerned.

Mr. Peretz noted that the World Bank staff had used the world economic outlook among the four scenarios that it had provided to the Bank Board. His reference to work on individual countries was meant to encompass work in the coming period.

Mr. Landau said that he welcomed the Managing Director's opening statement. He shared Mr. Peretz's wish to have data on individual countries but he understood the difficulties involved. It would also be helpful to know which countries were likely to be affected by the policy measures that the Managing Director had mentioned in his statement; that information would help Governors during their consideration at the 1990 Annual Meeting of the various possible policy responses by the Fund to recent developments. As he understood it, while there need be no dramatic changes in the Fund's policies, the institution should have at its disposal any tool necessary to face any type of situation that might arise. His authorities were clearly very favorably disposed toward the suggestion to mitigate the increased cost of Fund financial assistance; that effort should be dealt with as a matter of urgency.

Mr. Goos commented that he welcomed the Managing Director's statement and wished to pose several questions. First, it was not clear to him how the problems resulting from the recent developments could be dealt with through a contingency window for compensatory financing; contingency financing was meant to deal with problems that were unknown at the time access to contingency financing was arranged, but the effects of the recent developments were more or less known already.

His second question related to the proposal to introduce an oil element in the compensatory window of the compensatory and contingency financing facility, Mr. Goos continued. He wondered whether that proposal was consistent with the general feeling that there should be no new facilities in response to the recent developments. The proposal with respect to oil would in effect be a new facility. His authorities would likely have difficulty accepting that proposal. Most of the countries facing the problems emanating from the Middle East crisis would need to adjust and could best be handled through stand-by and extended arrangements.

One of the new proposals was to add additional services to the coverage of the compensatory window, Mr. Goos remarked. He wondered whether the coverage should not be extended to all services, rather than differentiating between various categories of services. That approach would obviate the need for the safeguard clause under which a member was not permitted to shift from one category of compensatory financing to the other.

The proposal to introduce an early drawing provision was not clear to him, Mr. Goos said. As he understood it, a request to compensate shortfalls in services should be based on shortfalls that were fully estimated and projected for 12 months in advance, and he saw no reason to change that requirement.

Mr. Landau remarked that the proposed oil element was certainly a very difficult issue, and it was perhaps accurate to say, as Mr. Goos had suggested, that it would represent a significant evolution of the present compensation mechanism. Still, his authorities believed that the proposal was useful; it could be readily available to the most seriously affected countries that were not eligible for assistance from IDA or the enhanced structural adjustment facility. That was one reasons why it would be helpful to have the staff assess the categories of countries that would likely benefit from the various proposals that the Managing Director had mentioned.

Mr. Goos said that he agreed that the assessment that Mr. Landau had requested would be useful. Before changing any existing facility, the Board should be certain that there would actually be a need for the proposed modification.

Mr. Al-Jasser commented that the Managing Director's statement was welcome. It sent the right message to the membership, namely, that the Fund would review the current situation and adapt itself as necessary in a balanced manner. His authorities would wish to respond to the statement during the coming Annual Meetings.

Mr. Prader commented that the figures in the Managing Director's statement on the effect of the recent developments seemed rather low; the SDR 5 billion SDR might well be seen as representing the effect on a single constituency alone, rather than on 50 member countries. However, the Managing Director's proposals were clearly a timely response to the recent developments, and the figures in the statement could be further assessed when the data on individual countries became available.

He shared Mr. Goos's concerns about the proposed oil element, Mr. Prader said. It was not clear to him whether the proposed assistance was to be in the form of a separate facility in the context of the existing compensatory and contingency facility, or merely a new window. In any event, the new form of assistance should be limited to the particular problem it was meant to address; accordingly, there should be an understanding that the new window would be eliminated when the problem it was to address had ceased to exist. Finally, he wondered how the proposed oil element would differ from the cereal element.

Mr. Ghasimi commented that, although the impact of recent developments in the Persian Gulf was not as great as the impact of developments during the 1970s, naturally many developing countries, especially oil-importing developing countries, had been adversely affected, and if the situation continued and deteriorated, those countries would certainly be severely influenced. In that context, the Managing Director's suggestions were welcome. The case-by-case approach was clearly very appropriate. A mixture of financing and adjustment, if properly devised and designed, would be appropriate. Member countries should be encouraged to adopt contingency elements in their programs, within the context of the compensatory and contingency financing facility, and any efforts to reduce the rigidities in that facility would be very welcome. Early drawings would be acceptable, and the inclusion of an oil import element into the compensatory and contingency financing facility was a good idea, and the modalities should be worked out by the staff.

The most attractive of the Managing Director's proposals was the additional year for arrangements under the enhanced structural adjustment facility, Mr. Ghasimi commented. That proposal should be assessed in the context of the needs created by the present situation, rather than in the context of the need for appropriate adjustment in the context of the medium-term framework.

For the non-ESAF eligible countries, he agreed that the high cost of the use of Fund resources was a problem, Mr. Ghasimi said. Encouraging parallel financing at cheaper rates would naturally reduce the aggregate cost to those members. It was also important to look carefully at the cost of the Fund resources in relation to the burden sharing mechanism.

He shared the concern that had been expressed about the figure of SDR 5 billion, Mr. Ghasimi commented. He hoped that the authorities in member countries would not have to face two divergent sets of data from the Fund and the World Bank.

Mr. Dawson commented that the estimate of SDR 5 billion did not seem to take into account the second- and third-order effects of the recent developments in the Middle East. Those additional effects were particularly difficult to quantify. Many of the countries involved--such as those in Eastern Europe--were experiencing a number of different major changes simultaneously, such a the introduction of a market-oriented system and increases in oil prices. Finally, he agreed with the Managing Director that the access limits of 90 percent and 110 percent should prove to be adequate. A few countries affected by the recent developments had major programs, but they also had relatively low levels of access.

The oil element could be in the context of the compensatory side or the contingency side of the compensatory and contingency financing facility, with different triggering and conditionality depending on the choice that was finally made, Mr. Dawson said. In that connection, one of the factors to bear in mind would be any change made with respect to early drawings. There was a wide range of possible choices with respect to an oil element, and none of them should be ruled out at the present stage. The reluctance of some Directors to accept an oil import element was understandable, given the record of the establishment of the cereal import facility.

The Chairman remarked that, for the few cases that Mr. Dawson had mentioned, the exceptional circumstances clause might be appropriate. That clause was specifically designed to meet the kind of circumstances that had recently arisen.

The Director of the Exchange and Trade Relations Department said that the exercise of immediately estimating the impact on individual countries must be approached with considerable humility. In that connection, the staff had not yet held discussions with individual country authorities. In most cases, countries had already indicated a policy response to events, but some had not done so. It was difficult to know exactly what set of assumptions with respect to revised policies should be made, and the staff's estimates should therefore be approached with caution. The estimates would be further discussed with member countries in the coming period. It was clear that--even when corrected for varying oil price assumptions--some of the World Bank's estimates were significantly different from the Fund's. For the most seriously affected countries in particular, it would be necessary to try to reconcile the figures of the two institutions fairly quickly.

It was difficult to try to identify now the specific members that would benefit from the various proposals mentioned by the Managing Director, the Director of the Exchange and Trade Relations Department said. It was of course too soon to know what kind of package of responses by the Fund would be agreed. Undoubtedly there would be several options available for each country; the staff would have to see how the package emerged and how it could be tailored to each individual country's circumstances. At the same time, it was possible to define groups of countries that were more affected by, say, the oil price or remittances impact of recent developments.

Mr. Landau said that the Board should not have to know precisely which countries would be affected by a particular Fund policy modification before that modification was introduced. The Governors could usefully be given a broad indication of the categories of countries that were likely to benefit from the recommended initiatives.

The Chairman commented that the participants in the coming meeting of the Interim Committee were unlikely to wish to discuss in detail possible responses by the Fund to the current circumstances. The Board should try to indicate the broad strategy that would be appropriate for the coming period--for instance, whether or not a new facility would be helpful, possible increased flexibility in making Fund assistance available, and the mix of adjustment and financing that would be appropriate. After the coming meetings, the Board could adopt specific solutions.

The Director of the Exchange and Trade Relations Department remarked that the suggested oil element was not meant to deal with the current problems. The staff had in mind the lesson taught by experience that programs could be effectively protected through more widespread use of the contingency mechanism. Hence, it might be useful to introduce--perhaps in midyear reviews of programs that would soon be coming forward--contingency mechanisms to protect against additional events. For example, if the baseline was the world economic outlook scenario, there could be contingencies built into programs--especially if the current oil price persisted--which could be covered under a forward-looking contingency mechanism. As to whether or not the introduction of an oil-import component would be viewed as a new facility, one could make a judgment after the details of the initiative had been worked out.

The staff representative from the Research Department said that there were several options for introducing the suggested oil element in the compensatory and contingency financing facility. For example, the oil component could be introduced alongside the cereal element, which was in a sense separate, and the shortfalls could be added together. Of course, purchases under that option would be subject to the separate access limit of the cereal element. Another option would be to introduce the oil element as part of the export shortfalls, so that the oil element would be calculated as part of the overall shortfall. However, it would be technically very difficult to incorporate the oil element into the contingency portion of the facility in order to provide financing for a need that was already evident, as contingency element was inevitably forward looking.

Including all the various forms of services in the CCFF, as Mr. Goos had suggested, was conceivable, the staff representative from the Research Department said. In general, however, there were two criteria that would limit the number of services that could be included: the availability of the data, and the application of the principle that the export shortfall should be due to factors beyond the control of the authorities of the country seeking Fund assistance.

The Executive Directors concluded for the time being their discussion on the role of the Fund in current circumstances.

Managing Director's Comments on the Role of the Fund in Light of the Altered World Economic Prospects
Executive Board Meeting 90/136 - September 7, 1990

Before summing up our discussion on the world economic outlook, I would like to reflect with you further on the views that many of you have expressed on the role of the Fund at this juncture; namely, how to respond to the economic implications of the crisis in the Middle East.

We all agreed at EBM/90/134 and EBM/90/135 (9/5/90) that the shock of the present tensions appears to be much smaller than that which we experienced in the 1970s, and that the world, in general, is better prepared to face such shocks. But even if, at least thus far, the crisis has not had a major systemic impact, it has left all of us in the greatest uncertainty about the future, and in a situation, so to speak, of global vulnerability. Moreover, as all Directors stressed in the discussion, the oil-importing developing countries in every part of the globe will pay a heavy price. In Europe, the Eastern European group from Poland to Turkey; in Africa, countries such as Morocco and Côte d'Ivoire, Zambia, Uganda, Zaire, and a number of small, very low-income countries; and, in Asia, countries such as the Philippines and India come immediately to mind. In the Middle East itself, Egypt, Jordan, and Pakistan are very severely affected, and many others, as well. In Latin America, some countries will gain, but a number of others such as Brazil and, in particular, small countries such as Jamaica, Guyana, Haiti, the Dominican Republic, and the Central American countries will suffer a good deal.

You have emphasized that, as the central monetary institution in the system, the Fund has a critical role to play in responding expeditiously to members' needs. In that context, you have stressed the need for continuing adjustment, including, with very few exceptions, support for the quick pass-through to the consumer of the increase in oil prices. Similarly, it has been a general view, I think, that at this stage, we should not consider creating new lending facilities, such as a new oil facility, provided that we proceed expeditiously with a reassessment of the modalities of our assistance and stand ready to introduce more flexibility in the use of existing facilities. A number of you have singled out the CCFF, and in particular its CFF component, for this kind of reassessment.

Within these parameters, I have been reflecting with the staff on what we can do to assist our members better, and give them confidence. I wish to share with you these first reflections, and since they are an ongoing process, I would also appreciate your reactions.

1. Access to Fund resources under our access policy is decided on a case-by-case basis, and it could therefore take into account, as needed, the impact of the increase in oil prices. Through augmentation and, if

necessary in some cases, through the use of the exceptional circumstances clause, we would be in a position to address in our programs the immediate consequences of recent events through a mixture of financing and adjustment.

2. At the same time, we should encourage countries, instructed as we have been by this new experience, to build into programs contingency elements based on the CCFF mechanism that would give the member confidence that it could cope with future unforeseen circumstances. The recent review of the CCFF has simplified the mechanism, and the staff will make use of this simplification.

3. With regard to the compensatory financing element of the CCFF, I intend to propose, in accordance with your suggestions, that the rules governing the option for services be adapted. You will recall that members that had opted for narrower coverage are precluded from changing the definition until a five-year period has lapsed. This is a rigidity that I think we might live without. I also intend to propose that you adopt a definition of services going beyond tourism and workers' remittances alone; I have in mind in particular oil pipeline and canal fees. Also, on an ad hoc basis, I may recommend early drawing procedures, though only in those specific cases where there appears to be adequate justification.

4. Beyond these proposals, I am reflecting on the possible introduction of an oil import element in the CFF, through a mechanism comparable to that of the cereals facility. However, I wish to consider further how this could work in practice, and on the degree of further adjustment that should be associated with such broadening of coverage.

5. A number of severely affected Fund members are ESAF users, and I may propose to the Board that it revisit the matter of a possible fourth-year ESAF arrangement. This was discussed by the Board during the review of the ESAF at EBM/90/106 (7/2/90). A wide range of views was expressed on that occasion, with many Directors feeling that this would permit appropriate continued Fund assistance, while others expressed reservations. Given the number of ESAF countries that are affected by the crisis in the Middle East, I believe that it is now timely to reassess the possibility of a fourth-year ESAF, which could be a very effective manner of assisting low-income countries that pursue strong adjustment programs.

6. With regard to the other countries, in particular middle-income countries not eligible for ESAF and adversely affected by the consequences of recent events, I must admit that I am most concerned, particularly in the present circumstances, about the high cost of regular Fund facilities, and in particular, of the CCFF. I wonder whether we should not perhaps discuss this matter with creditor countries that might be willing to engage in forms of parallel financing with the Fund, to mitigate this--hopefully temporary--shock for the most affected countries. In that fashion, ad hoc arrangements could possibly be designed so that the high cost of Fund financing would be mitigated by low cost parallel financing. However, it may also prove

necessary or desirable to develop more systemic arrangements to that effect--by that I mean, of course, a new form of subsidy account.

I am confident that action along the lines that I have just sketched out could make an effective contribution to assisting our members in the present circumstances. We all hope, of course, that the current tensions and uncertainties will subside, but we cannot be sure. We must be prepared for worse-case scenarios. Thus, we should always stand ready to reconsider our lines of action in light of events in the world economy. It is in this spirit that I would like you to help us along in our thinking.