

INTERNATIONAL MONETARY FUND

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In response to recommendations from the IMF Interim Committee at its September 1990 meeting, the Executive Board of the Fund has unanimously adopted a series of decisions to provide emergency financial relief to member countries seriously affected by the Gulf crisis. 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. In accordance with its mandate, the IMF has a central role to play in helping its members to overcome such unexpected shocks. Notwithstanding the difficulties and uncertainties, Executive Directors consider that the overall situation is manageable through the use and adaptation of the existing instruments available to the IMF. Such an approach is considered appropriate since--contrary to earlier times of major oil price increases--a large number of members presently have IMF arrangements in place. Also, the lessons of past experience suggest strongly that the provision of added financing by the IMF be primarily in the context of comprehensive adjustment programs.

In view of this, the core of IM's support will be provided within the stand-by, extended, structural adjustment facility (SAF)/enhanced structural adjustment facility (ESAF) arrangements, and the compensatory and contingency financing facility (CCFF). Suitable modifications in adjustment measures and IMF financing within the context of IMF arrangements could be introduced relatively quickly, in keeping with the need for a rapid response. Specifically, the IMF's Executive Board decided to:

1. Modify or rephrase the amount of financing available to members, as appropriate, to take into account the effects of developments in the Middle East.

2. Suspend, until the end of 1991, the present lower annual, three-year, and cumulative borrowing limits $\frac{1}{2}$. The upper limits of 110, 330, and 440 percent of each member's quota and the clause which allows the IMF to provide financing in excess of these limits in exceptional circumstances, remain unchanged.

$\frac{1}{2}$ / 90 percent of quota, 270 percent of quota, and 400 percent of quota respectively.

3. Allow the IMF to increase the total ESAF financing 1/ for a member at the time of mid-term reviews of such arrangements.

4. Allow the IMF to add a fourth year of ESAF support for countries that would complete their current ESAF arrangements prior to November 1992. This will enable them to benefit from a further year of concessional financing when undertaking strong programs of structural adjustment.

5. Until now, the IMF has not had the ability specifically to compensate for economic shocks caused by sharp increases in the price of oil imports. Consequently, the Executive Board agreed to introduce, for a temporary period, to the end of 1991, an oil import element into the compensatory and contingency financing facility to cover excess costs of imports of crude petroleum, petroleum products, and natural gas. Prior to such a drawing, a member will be required to undertake satisfactory energy policy actions.

Access under the oil import element will be up to 82 percent of quota. In certain cases, the financing will be disbursed in two amounts: 65 percent of the total will be available on approval by the Executive Board, and the remainder at a later date in conformity with specified requirements.

6. The Executive Board also decided to expand the coverage of IMF's compensatory financing. Whereas previously only workers' remittances and travel receipts could be included in the calculation of export shortfalls under compensatory financing, under the new policy losses resulting from shortfalls in other services, such as receipts from pipelines, canals, shipping, transportation, construction, and insurance, will also be included.

7. In view of the present uncertain global economic situation, the Executive Board agreed that an external contingency mechanism could be attached to IMF arrangements at the time of a review, provided it is done at least six months before the expiration of the underlying arrangement. Such mechanisms allow the member to be protected against external developments that could harm the implementation of their economic program. Previously, such contingency mechanisms could only be attached to an arrangement at the time of approval of the arrangement or at the beginning of any annual program.

1/ ESAF is the IMF's concessional window for assisting its poorest members undertaking macroeconomic and structural programs to strengthen substantially and in a sustainable manner their balance of payments positions.

These significant adaptations of the IMF's instruments leave unchanged, nevertheless, the basic principle governing IMF assistance and, in particular, the criteria of balance of payments need the strength of the adjustment program and capacity to repay, as well as catalytic role of the IMF calling for consideration of the contribution that can reasonably be expected from other institutions and bilateral lenders or donors.

Executive Directors have 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. They also stressed the view that while temporary forms of relief are important, the impact of the Middle East crisis, and the broader economic changes sweeping the world, call for bold and comprehensive growth-oriented structural adjustment programs that would reinforce the member countries' capacity to react to such unexpected shocks. The IMF stands ready to assist its members in the design, financing, and implementation of such programs.

