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FOR
AGENDA

EBS/88/146

CONFIDENTIAL

July 21, 1988

To: Members of the Executive Board

From: The Secretary

Subject: Proposed Decision Relating to the Compensatory and
Contingency Financing Facility

The attached proposed decision relating to the compensatory and contingency financing facility will be brought to the agenda for discussion on Monday, August 1, 1988.

Mr. Asser (ext. 7709) or Mr. Francotte (ext. 7798) is available to answer questions relating to this paper prior to the Board discussion.

Att: (1)



1. The first part of the document is a list of the names of the persons who have been named in the document. The names are listed in alphabetical order.

2. The second part of the document is a list of the names of the persons who have been named in the document. The names are listed in alphabetical order.



INTERNATIONAL MONETARY FUND

Proposed Decision Relating to the Compensatory
and Contingency Financing Facility

Prepared by the Legal Department

(In consultation with the Exchange and Trade Relations
and Research Departments)

Approved by François Gianviti

July 21, 1988

There follows the text of a draft decision on the compensatory and contingency financing facility which reflects the understandings on the general principles and specific modalities set forth in Buff 88/133, July 15, 1988 (Final Version of the Chairman's Summing Up of the Discussions on the Compensatory and Contingency Financing Facility Concluded at Executive Board Meeting 88/105, July 15, 1988).

This draft decision is proposed for adoption by the Executive Board.

Proposed Decision

Compensatory and Contingency Financing Facility

Section I. General Provisions

1. The Fund is prepared to extend financial assistance, in accordance with the provisions of this Decision, to members that encounter balance of payments difficulties arising out of (i) temporary export shortfalls, (ii) adverse external contingencies, or (iii) excess costs of cereal imports.

2. Purchases under this Decision will be financed with ordinary resources.

3. Purchases under this Decision and holdings resulting from such purchases shall be excluded for the purposes of the definition of "reserve tranche purchase" pursuant to Article XXX(c).

4. For the purpose of applying the Fund's policies on the use of its general resources, holdings resulting from the use of the Fund's resources under any of the policies set forth in this Decision shall be considered to be separate from the holdings resulting from the use of the Fund's resources under any other policy.

5. In order to carry out the purposes of this Decision, the Fund will be prepared to grant a waiver of the limitation of 200 percent of quota in Article V, Section 3(b)(iii), whenever necessary to permit purchases under this Decision or to permit other purchases that would raise the Fund's holdings of the purchasing member's currency above that limitation because of purchases outstanding under this Decision.

6. The Fund shall indicate in an appropriate manner which purchases by a member are made pursuant to Section II, III, or IV of this Decision, and the export shortfall component and the cereal import cost component of each purchase under Section IV.

7. When a request for a purchase is made by a member under any Section of this Decision on account of circumstances that have already been taken into account in calculating the amounts of purchases made or to be made under any other Section, double compensation shall be avoided when calculating the amount of the requested purchase.

8. (a) Subject to the other limitations on purchases specified by this Decision, the Fund's holdings of a member's currency resulting from purchases under this Decision shall not exceed any of the following access limits:

- (i) a combined limit of 105 percent of the member's quota for

- the sum of purchases on account of export shortfalls under Section II or Section IV and purchases on account of external contingencies under Section III;
 - the sum of purchases on account of export shortfalls under Section II or Section IV and purchases on account of an excess in cereal import costs under Section IV; and
 - the sum of purchases on account of external contingencies under Section III and purchases on account of an excess in cereal import costs under Section IV;
- (ii) a limit of 83 percent of the member's quota for purchases on account of export shortfalls under Section II or Section IV if at the time of the request for the purchase the member's balance of payments position apart from the effects of the export shortfall is satisfactory, and a limit of 40 percent of the member's quota for such purchases in all other cases;
- (iii) a limit of 40 percent of the member's quota for purchases on account of external contingencies under Section III;
- (iv) a limit of 83 percent of the member's quota for purchases on account of an excess in cereal import costs under Section IV if at the time of the request for the purchase the member's balance of payments position apart from the effects of the excess in cereal import costs is satisfactory, and a limit of 17 percent of the member's quota for such purchases in all other cases; and
- (v) a combined limit of 122 percent of the member's quota for the sum of purchases on account of export shortfalls under Section II or Section IV, purchases on account of external contingencies under Section III and purchases on account of an excess in cereal import costs under Section IV.

(b) Notwithstanding the provisions of subparagraph (a)(ii), (iii) and (iv) above, the limits of 40 and 17 percent above may be exceeded to permit additional purchases under this Decision, provided that the aggregate amount of the Fund's holdings of the member's currency resulting from such additional purchases shall not exceed 25 percent of the member's quota.

9. In providing financing pursuant to this Decision, the Fund shall pay due attention to the member's capacity to service its financial obligations to the Fund.

10. (a) Wherever used in this Decision, the expression "Fund arrangement" will mean a stand-by or an extended arrangement. It will also mean a Structural Adjustment Facility (SAF) arrangement or an Enhanced Structural Adjustment Facility (ESAF) arrangement, provided that the Fund shall decide to provide financing on the basis of a SAF or ESAF arrangement only if the program supported by the arrangement, at the time of the decision, meets the criteria for the use of the Fund's general resources in the upper credit tranches.

(b) The total amount available under Section III to a member eligible for SAF or ESAF arrangements shall not exceed the total amount that would be available under that Section to the same member if it were not so eligible.

Section II. Compensatory Financing of Export Fluctuations

11. The Fund is prepared to assist members, particularly primary exporters, encountering payments difficulties produced by temporary export shortfalls, and has decided that such members can continue to expect that their requests for purchases will be met, subject to the provisions of this Decision, where the Fund is satisfied that:

(a) the shortfall is of a short-term character and is largely attributable to circumstances beyond the control of the member; and

(b) the member satisfies the conditions of cooperation with the Fund in accordance with paragraph 12.

12. (a) If the Fund considers that the existing policies of the member in dealing with its balance of payments difficulties are not seriously deficient and that the member's record of cooperation with the Fund in the recent past has been satisfactory, the member may expect that its request for a purchase on account of an export shortfall under this Section or Section IV will be met whenever the purchase would not cause the Fund's holdings of the member's currency resulting from such purchases to exceed:

(i) 40 percent of the member's quota, if the Fund is satisfied that the member will cooperate with the Fund in an effort to find, where required, appropriate solutions for its balance of payments difficulties; and

- (ii) 65 percent of the member's quota, if the member has a Fund arrangement under which performance is broadly satisfactory, or if the Fund approves such an arrangement for the member at the time of the request, or if the member's current and prospective policies are such as would, in the Fund's view, meet the criteria for the use of the Fund's general resources in the upper credit tranches.

(b) If the Fund considers that the existing policies of the member in dealing with its balance of payments difficulties are seriously deficient or that the member's record of cooperation with the Fund in the recent past has not been satisfactory, the member may expect that its request for a purchase on account of an export shortfall under this Section or Section IV will be met whenever the purchase would not cause the Fund's holdings of the member's currency resulting from such purchases to exceed:

- (i) 20 percent of the member's quota, if the Fund is satisfied that the member has taken action that gives, prior to submission of the request, a reasonable assurance that policies corrective of the member's balance of payments problem will be adopted;
- (ii) 40 percent of the member's quota, if the member has a Fund arrangement under which performance is broadly satisfactory, or if the Fund approves such an arrangement for the member at the time of the request, or if the member's current and prospective policies are such as would, in the Fund's view, meet the criteria for the use of the Fund's general resources in the upper credit tranches; and
- (iii) 65 percent of the member's quota, if the member has a Fund arrangement under which a review is completed by the Fund at the time of the request, or, if the member's policies in the recent past, as well as its current and prospective policies, are such as would, in the Fund's view, meet the criteria for the use of the Fund's general resources in the upper credit tranches.

(c) Notwithstanding subparagraphs (a) and (b) above, if a member's balance of payments position apart from the effects of the export shortfall is satisfactory, such member may expect that its request for a purchase on account of an export shortfall under this Section or Section IV will be met whenever the purchase would not cause the Fund's holdings of the member's currency resulting from such purchases to exceed 83 percent of the member's quota.

13. If, in the opinion of the Fund, adequate data on receipts from travel and workers' remittances 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 shall continue to apply for a period of five years.

14. 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 twelve-month period preceding the request for which the Fund has sufficient data, provided that a member may request a purchase in respect of a shortfall year for which not more than six months of the data on merchandise exports, and twelve months of the data on travel and workers' remittances, are estimated.

15. In order to identify more clearly what are to be regarded as export shortfalls of a short-term character, the Fund, in conjunction with the member concerned, will seek to establish reasonable estimates regarding the medium-term trend of the member's exports based partly on statistical calculation and partly on appraisal of export prospects. For the purposes of this Section, the shortfall shall be the amount by which the member's export earnings in the shortfall year are less than the geometric average of the member's export earnings for the five-year period centered on the shortfall year. In computing the five-year geometric average, the Fund, in conjunction with the member, will use an estimate based on a judgmental forecast for the period of the two post-shortfall years, provided that any amount by which the forecast for the period of the two post-shortfall years would exceed the member's export earnings for the period of the two pre-shortfall years by more than 20 percent shall not be included in such computation. When the Fund allows a member to purchase under the proviso in paragraph 14, the Fund may use such methods as it considers reasonable for estimating exports during the period for which sufficient data are not available.

16. (a) When a member has made a purchase under the proviso in paragraph 14 on the basis of estimated data and the amount of the purchase exceeds the amount that could have been purchased on the basis of actual data for the full twelve-month period under paragraph 15, the member will be expected to make a prompt repurchase in respect of the outstanding purchase, in an amount equivalent to the excess.

(b) If a member requests a purchase under this Section in relation to a shortfall year that in whole or in part is included in the period of the two post-shortfall years concerning any earlier purchase under this Section or Section IV, the amount of the requested purchase shall be calculated so as to take into account any amount by which such earlier purchase differs from the amount that could have been purchased on the basis of data available at the time of the request.

Section III. External Contingency Financing

17. When approving a Fund arrangement, the Fund will be prepared to decide, at the request of the member and subject to the provisions of this Decision, that, should adverse external contingencies occur during the period of the arrangement, it will provide to the member external contingency financing in association with the arrangement.

18. Such external contingency financing will only be provided in association with a Fund arrangement, to a member facing unanticipated deviations from the baseline projections of one or more key external variables relating to the specified external contingencies during the period of the projections (hereinafter called the "baseline period"), if:

(a) the deviations from the baseline projections are outside of the control of the member;

(b) the member's performance under the associated Fund arrangement is satisfactory; and

(c) the member is prepared to adapt its adjustment policies as may be necessary to ensure the viability of the program supported by the associated arrangement through a mix of adjustment and financing appropriate to the circumstances of the member.

19. (a) When the Fund approves an arrangement in association with which external contingency financing is to be provided under this Section, it will specify for the arrangement:

(i) the external contingencies that will be taken into account;

(ii) the maximum amount of purchases that may be permitted in case of unfavorable external contingent deviations;

(iii) the minimum threshold that must be exceeded by the applicable net sum of deviations before external contingency purchases or reductions in the amount of the associated arrangement may be permitted;

(iv) the proportion of the applicable net sum of deviations that may be financed under this Section, subject to any subsequent changes that may be required pursuant to paragraph 18(c) to ensure the viability of the member's program supported by the arrangement; and

- (v) the maximum amount by which the associated arrangement could be reduced in case of favorable external contingent deviations, which amount will normally be the same as the amount specified pursuant to (ii) above.

(b) For purposes of this Section, the expression "net sum of deviations" shall mean the net aggregate effect on the member's balance of payments of deviations in the variables relating to the external contingencies specified pursuant to subparagraph (a)(i) above; and the expression "applicable net sum of deviations" shall mean the net sum of deviations in the situations covered by paragraph 20(b) or the net sum of deviations adjusted for the limit on interest cost deviations in the situations covered by paragraph 20(c), as appropriate.

(c) The Fund shall determine the length of each baseline period and the maximum amount of external contingency purchases that may be permitted on account of deviations that occur during such baseline period.

20. (a) Subject to the limitations specified by this Decision, the amount of an external contingency purchase under this Section shall be determined on the basis of the applicable net sum of deviations in accordance with subparagraphs (b) and (c) below. Deviations will be calculated in relation to baseline projections established for each baseline period.

(b) Except as provided in subparagraph (c) below, the amount that may be financed under this Section shall be determined as the net sum of deviations reduced by the equivalent of 4 percent of the member's quota and subsequently multiplied by the proportion specified pursuant to paragraph 19(a)(iv).

(c) In case of a favorable or unfavorable deviation in interest costs that, when multiplied by the proportion specified pursuant to paragraph 19(a)(iv), would exceed the percentage of the member's quota that is available for purchases under paragraph 21(a), the amount that may be financed under this Section shall be determined as the sum of:

- (i) the net aggregate amount of the deviations, other than a deviation in interest costs, multiplied by the proportion specified pursuant to paragraph 19(a)(iv); and
- (ii) the amount of the deviation in interest costs reduced by the equivalent of 4 percent of the member's quota and multiplied by the same proportion, up to a limit equivalent to the percentage of the member's quota available for

purchases under paragraph 21(a), except that any excess of a favorable or unfavorable deviation in interest costs over such limit shall be included in the calculation as required to avoid or to reduce an unfavorable or favorable net sum of deviations;

For the cases covered by this subparagraph (c), the net sum of deviations shall be determined by dividing the amount that may be financed by the proportion specified pursuant to paragraph 19(a)(iv) and by adding an amount equivalent to 4 percent of the member's quota.

(d) Once the 4 percent adjustment in subparagraph (b) or subparagraph (c) above has been made for a purchase in respect of a baseline period, no further such adjustment shall be made for later purchases in respect of that period.

(e) Purchases under this Section shall be permitted only when the applicable net sum of deviations exceeds the minimum threshold specified by the Fund pursuant to paragraph 19(a)(iii), provided that in applying this subparagraph (e) the limit specified by subparagraph (c)(ii) above shall be disregarded.

21. (a) Subject to the other limitations on purchases specified in this Decision, the Fund's holdings of a member's currency resulting from purchases on account of deviations in interest costs in association with all Fund arrangements for the member shall not exceed 35 percent of the member's quota.

(b) For purposes of applying the limitation in subparagraph (a) above, when a purchase under this Section is attributable to unfavorable deviations in interest costs and in one or more other variables relating to external contingencies, the portion of the purchase that is to be allocated to a deviation in interest costs shall be determined on the basis of the share of such deviation in the applicable net sum of deviations, and in determining this share the portion of the 4 percent reduction in paragraph 20(b) that is to be allocated to interest costs shall be determined on the same basis.

22. The maximum amount of external contingency purchases in association with a Fund arrangement to be specified pursuant to paragraph 19(a)(i) will generally not exceed 70 percent of the amount of the arrangement, and the maximum amount of external contingency purchases in respect of any baseline period, to be specified pursuant to paragraph 19(c), will generally not exceed 70 percent of the amount available under the arrangement for the same period.

23. When, at the request of a member, the Fund has decided to provide financing to the member under this Section that would cause the Fund's holdings of the member's currency resulting from purchases under this Section to exceed 40 percent of the member's quota, the amount of such excess over 40 percent of quota shall not be available under

paragraph 8(b) for other purchases under this Decision in respect of the baseline period for which the Fund decides to provide such financing, unless the member notifies the Fund that it will not avail itself of such financing in excess of 40 percent under this Section.

24. The Fund will decide to provide financing under this Section only if the program supported by the associated arrangement continues to be adequately financed, including, if necessary, through the provision of financing from other sources.

25. (a) Purchases under this Section shall be subject to the observance of any applicable performance criteria, adjusted by the Fund as may be necessary, or other conditions specified in the associated arrangement, as if such purchases were drawings to be made under that arrangement.

(b) Purchases under this Section shall be phased to coincide with the drawings scheduled to be made under the associated arrangement in respect of the baseline period for which the Fund decides to provide the external contingency financing. The phasing shall take into account the effects of the applicable net sum of deviations on the program supported by the associated arrangement and the timing of the additional measures to be taken by the member in accordance with paragraph 18(c).

26. When a member has made a purchase on the basis of estimated data and the amount of the purchase exceeds the amount that could have been purchased on the basis of actual data, the member will be expected, unless the Fund decides otherwise, to make a prompt repurchase in an amount equivalent to the overcompensation.

27. If, in respect of any baseline period, the Fund finds that a favorable applicable net sum of deviations with respect to the contingencies specified pursuant to paragraph 19(a)(i) has occurred, the following provisions shall apply, subject to the maximum amount specified pursuant to paragraph 19(a)(v):

(a) when no purchase under this Section has been made by the member in respect of the baseline period for which the Fund makes such finding, the limits on, or objectives for, the member's reserves under the associated Fund arrangement shall be increased or the amount of the associated Fund arrangement shall be reduced, or both, as determined by the Fund, by an amount that generally shall be equivalent to the amount that would have been financed under this Section if the applicable net sum of deviations would have been unfavorable; and

(b) when one or more purchases under this Section had earlier been made by the member in respect of the baseline period for which the Fund makes such finding, the limits on, or objectives for, the member's reserves under the associated Fund arrangement shall be increased or the amount of the associated Fund arrangement shall be reduced, or both, as determined by the Fund, by an amount that generally shall be

equivalent to the amount that would have been financed under this Section if the applicable net sum of deviations that have occurred since the latest of any such earlier purchases would have been unfavorable, provided that the member may choose to substitute for a reduction of the amount of the arrangement a repurchase of a corresponding amount of the Fund's holdings of the member's currency in respect of such earlier purchases.

Section IV. Compensatory Financing of Fluctuations
in the Cost of Cereal Imports

28. For the remainder of the period of eight years from May 13, 1981, the Fund will be prepared to extend financial assistance, subject to the provisions of this Decision, to members that encounter a balance of payments difficulty produced by an excess in the cost of their cereal imports.

29. For a period of three years from the date of a member's first request for a purchase in respect of cereal imports under Decision No. 6860-(81/81) or under this Section, any purchases by the member in respect of its export shortfalls shall be made under this Section instead of under Section II of this Decision. The same provision shall apply if, after the end of the three-year period, the member makes a new purchase in respect of cereal imports under this Section.

30. A member with balance of payments difficulties may expect that its request for a purchase under this Section will be met if the Fund is satisfied that:

(a) any shortfall in exports and any excess costs of cereal imports that result in a net shortfall in the member's exports are of a short-term character and are largely attributable to circumstances beyond the control of the member; and

(b) the member satisfies the conditions of cooperation with the Fund in accordance with paragraph 36.

31. (a) Subject to the limits specified in paragraphs 8 and 36, a member may request a purchase under this Section for an amount equal to the net shortfall in its exports calculated as the sum of its export shortfall and the excess in its cereal import costs.

(b) (i) For the calculation of the net shortfall in exports, an excess in exports shall be considered a negative shortfall in exports and a shortfall in cereal import costs shall be considered a negative excess in cereal import costs.

(ii) An export shortfall shall be determined in accordance with Section II.

(iii) An excess in cereal import costs shall be determined in accordance with paragraphs 32 and 33.

32. The existence and amount of an excess in the cost of cereal imports shall be determined, for the purpose of purchases under this Section, with respect to the latest twelve-month period preceding the request for which the Fund has sufficient data, provided that the Fund may allow a member to make a purchase on the basis of estimated data in respect of a twelve-month period ending not later than twelve months after the latest month for which the Fund has sufficient data on the member's cereal import costs. The estimates used for this purpose shall be made in consultation with the member. The calculation of a member's shortfall or excess in exports and its excess or shortfall in the cost of its cereal imports shall be made for the same twelve-month period.

33. In order to identify more clearly what are to be regarded as excess costs of cereal imports of a short-term character, the Fund, in consultation with the member concerned, will seek to establish reasonable estimates regarding the medium-term trend of the member's cereal import costs. For the purposes of this Section, the excess in a member's cereal imports for the twelve-month period referred to in paragraph 32 shall be the amount by which the member's cereal imports in that twelve-month period are more than the arithmetic average of the member's cereal imports for the five-year period centered on that twelve-month period.

34. The amount of a purchase under this Section, as defined in paragraph 31, may be either on account of an export shortfall or on account of an excess in cereal import costs, or the amount may consist of two components, one on account of an export shortfall and the other on account of an excess in cereal import costs. The total amount of the purchase and the amount of each component are subject to the limits specified in paragraphs 8 and 36.

35. (a) The part of a purchase relating to an export shortfall, subject to the limits in paragraphs 8 and 36, shall not exceed the lesser of the export shortfall defined in paragraph 31(b)(ii) and the net shortfall in exports defined in paragraph 31(a).

(b) The amount of a purchase relating to an excess in cereal import costs, subject to the limits in paragraphs 8 and 36, shall not exceed the lesser of the excess in cereal import costs defined in paragraph 31(b)(iii) and the net shortfall in exports defined in paragraph 31(a).

36. (a) The provisions of paragraph 12 shall apply to purchases on account of export shortfalls under this Section.

(b) If the Fund considers that the existing policies of the member in dealing with its balance of payments difficulties are not seriously deficient and that the member's record of cooperation with the Fund in the recent past has been satisfactory, the member may expect that its request for a purchase on account of an excess in cereal import costs under this Section will be met whenever the purchase would not cause the Fund's holdings of the member's currency resulting from such purchases to exceed:

- (i) 17 percent of the member's quota, if the Fund is satisfied that the member will cooperate with the Fund in an effort to find, where required, appropriate solutions for its balance of payments difficulties; and
- (ii) 42 percent of the member's quota, if the member has a Fund arrangement under which performance is broadly satisfactory, or if the Fund approves such an arrangement at the time of the request, or if the member's current and prospective policies are such as would, in the Fund's view, meet the criteria for the use of the Fund's general resources in the upper credit tranches.

(c) If the Fund considers that the existing policies of the member in dealing with its balance of payments difficulties are seriously deficient or that the member's record of cooperation with the Fund in the recent past has not been satisfactory, the member may expect that its request for a purchase on account of an excess in cereal import costs under this Section will be met whenever the purchase would not cause the Fund's holdings of the member's currency resulting from such purchases to exceed:

- (i) 17 percent of the member's quota, if the Fund is satisfied that the member has taken action that gives, prior to submission of the request for the purchase, a reasonable assurance that policies corrective of the member's balance of payments problem will be adopted; and
- (ii) 42 percent of the member's quota, if the member has a Fund arrangement under which a review is completed by the Fund at the time of the request for the purchase, or, if the member's policies in the recent past, as well as its current and prospective policies, are such as would, in the Fund's view, meet the criteria for the use of the Fund's general resources in the upper credit tranches.

(d) Notwithstanding subparagraphs (b) and (c) above, if a member's balance of payments position apart from the effects of the excess in cereal import costs is satisfactory, such member may expect that its request for a purchase on account of an excess in cereal import costs under this Section will be met whenever the purchase would not cause the Fund's holdings of the member's currency resulting from such purchases to exceed 83 percent of the member's quota.

37. A member shall allocate the amount of its purchase as between the export shortfall and cereal import components, where the sum of the two components, each as limited by paragraph 8,

(a) exceeds the limit of 105 percent of the member's quota, if, at the time of the request for the purchase, the member's balance of payments position apart from the effects of the export shortfall or the excess in cereal import costs is satisfactory; or

(b) exceeds the amount that the member may purchase pursuant to the access limits in paragraph 8, in all other cases.

38. (a) When a member has made a purchase under this Section on the basis of estimated data and the amount of the purchase exceeds the amount that could have been purchased on the basis of actual data, the member will be expected to make a prompt repurchase in respect of the outstanding purchase, in an amount equivalent to the excess.

(b) If a member requests a purchase under this Section in relation to a shortfall year that in whole or in part is included in the period of the two post-shortfall years concerning any earlier purchase under Section II or this Section, the amount of the requested purchase shall be calculated so as to take into account any amount by which such earlier purchase differs from the amount that could have been purchased on the basis of data available at the time of the request.

39. (a) Subject to paragraph 38(a), when a reduction in the Fund's holdings of a member's currency is attributed to a purchase under this Section, the member shall attribute that reduction between the outstanding cereal import component and export shortfall component of the purchase.

(b) When the Fund's holdings of a member's currency resulting from a purchase under this Section or Section II are reduced by the member's repurchase or otherwise, the member's access to the Fund's resources under this Section will be restored pro tanto, subject to the limits in paragraphs 8 and 36.

40. (a) After the expiration of the period referred to in paragraph 29, the total amount of the export shortfall components of a member's purchases outstanding under this Section shall be counted as having been purchased under Section II.

(b) The provisions of Section II shall continue to apply to the export shortfall component of a purchase under this Section after the expiration of the period referred to in paragraph 29 or the expiration of this Section.

41. The Fund will review this Section not later than May 13, 1989.

Section V. Transitional and Other Provisions

42. This Decision shall apply to all purchases on account of export shortfalls, on account of external contingencies or on account of an excess in cereal import costs made after _____ [the date of this Decision], provided that purchases on account of export shortfalls or on account of an excess in cereal import costs that are made before _____ [three months after the date of this Decision] shall be governed by Decision No. 6224-(79/135) and by Decision No. 6860-(81/81), as the case may be, if they result from requests initiated before the date of this Decision.

43. For purposes of calculating the Fund's holdings of a member's currency under this Decision, purchases made under Decision No. 6224-(79/135) or Decision No. 6860-(81/81) prior to _____ [the date of this Decision] or under paragraph 42, shall be deemed to have been made under Section II or Section IV of this Decision, as the case may be.

44. If on _____ [the date of this Decision] the Fund's holdings of a member's currency resulting from purchases on account of export shortfalls exceed 65 percent of the member's quota, purchases by the member on account of export shortfalls under Section II or Section IV and purchases on account of external contingencies under Section III may be permitted, up to a transitional combined access limit for the sum of such purchases, in excess of the 105 percent and 122 percent limits specified in paragraph 8(a). The transitional access limit shall be equal to the sum of such holdings of the Fund (expressed in terms of the member's quota) and 40 percent of the member's quota. The transitional access limit shall apply until the Fund's holdings of the member's currency resulting from purchases on account of export shortfalls are reduced to 65 percent of the member's quota or the Fund's holdings of the member's currency resulting from both purchases on account of export shortfalls and purchases on account of external contingencies are reduced to 105 percent of the member's quota, whichever shall come first.

45. Rule I-6(4) shall be amended by inserting the following new subparagraph (vi):

"or (vi) under the Compensatory and Contingency Financing
Facility (Executive Board Decision No. ____-(88/____))."

46. The Fund will review this Decision not later than _____.