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November 11, 1986

To: Members of the Executive Board

From: The Secretary

Subject: Program Design and Performance Criteria - Automatic Adjustments in Response to Developments in Commodity Prices and Economic Growth

The attached supplement, prepared in response to a request by the Executive Directors, presents a general review of the issues involved in the oil price and growth contingencies featured in Mexico's request for a stand-by arrangement.

Mr. G. G. Johnson (ext. 8779) or Ms. Puckahtikom (ext. 8780) is available to answer technical or factual questions relating to this paper prior to the Board discussion scheduled for Wednesday, December 3, 1986.

Att: (1)

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Program Design and Performance Criteria: Automatic Adjustments in Response to Developments in Commodity Prices and Economic Growth

Prepared by the Exchange and Trade Relations Department

(In consultation with other Departments)

Approved by C. David Finch

November 11, 1986

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One of the issues addressed in the recent staff paper "Program Design and Performance Criteria" (EBS/86/211 and Supplement 1) was the appropriateness of the use of automatic adjustments of quantitative performance criteria in anticipation of possible deviations of the actual values of specified variables from program assumptions. Numerous questions in relation to such automatic adjustments were raised during the discussion of Mexico's request for a stand-by arrangement in the Executive Board last September 8 (EBS/86/161 and Supplements 1 to 5). The stand-by arrangement included two contingency mechanisms involving automatic adjustments that would be triggered by (1) deviations in the price of crude oil from that assumed in the program and (2) a shortfall in the rate of economic growth from the level specified in the program. Besides resulting in adjustments to the performance criteria, the activation of these contingency mechanisms would result in the release of additional external financing, and in the case of crude oil price declines, it would also provide for additional use of Fund resources. During the September discussion of Mexico's request, Executive Directors asked for a review, in a general context, of the issues involved in these features of the arrangement. This paper is intended to serve as a basis for such a review by the Executive Board.

The plan of the paper is as follows. Section I provides a schematic description of the contingency mechanisms of Mexico's stand-by arrangement with respect to automatic adjustments to performance criteria and external financing, and Section II examines their economic implications in terms of progress toward balance of payments viability. Section III examines the issues involved in contingency financing from the viewpoints of commercial banks and the World Bank, and Section IV discusses the issues that arise in connection with Fund policy on the use of its resources. Section V provides a summary of issues for discussion. Background for the discussion is provided in Appendix I, which reviews past practices with respect to these types of automatic adjustments of performance criteria, and Appendix II, which contains a more general examination of the features of automatic adjustments. 1/

I. Adjustment Mechanisms

The special features of the contingency mechanisms envisaged in the stand-by arrangement for Mexico, which are limited with respect to the amount of resources that they contemplate and to the time over which they are to operate, 2/ involve automatic adjustments with respect to

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1/ Appendix II enlarges on the discussion in Section 4 of EBS/86/211, Supplement 1.

2/ The maximum amounts are US$1.8 billion for the oil contingency and US$0.5 billion for the growth contingency. The time limits are through the period of the arrangement for the oil contingency and developments over the period through March 1987 for the growth contingency.

performance criteria and availability of external financing. The details of the way these mechanisms are expected to operate in the case of Mexico are spelled out in EBS/86/161, Supplements 1 to 5. 1/ To facilitate understanding of these complex mechanisms, however, this section provides a schematic description of the adjustments of the four types of performance criteria involved: an overall credit ceiling (net domestic assets--NDA), a fiscal ceiling (nonfinancial public sector borrowing requirement--PSBR), 2/ an external debt ceiling (net use of foreign credit by the nonfinancial public sector--NFC), and a balance of payments test (target for net international reserves--NIR.) 3/ This section also contains a schematic description of the way changes in the external debt ceiling are to be reflected in changes in actual foreign borrowing.

1. Performance criteria

In the case of the commodity price contingency mechanism, the nature of the adjustment varies according to whether the average price over a calendar quarter falls within a specified range or is below or above the range. 4/ At prices below the lower limit of the range, the NDA and PSBR ceilings are raised by the local currency equivalent of the reduction in foreign exchange revenues implied by the difference between the actual average price and the lower limit, multiplied by a specified constant reference volume. As the decline in foreign exchange revenues is to be reflected initially in lower international reserves, the NIR target for the quarter is lowered by that amount. In the following quarter, the loss in external receipts is to be financed by additional foreign borrowing by the public sector. The NFC ceiling is raised correspondingly and the NDA ceiling is lowered. 5/ The proceeds of the loans are to be used to reconstitute reserves, so that the original

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1/ EBS/86/161, Supplement 5, contains the proposed stand-by arrangement as it was amended following agreement between the Mexican authorities and the commercial banks' advisory committee on the commercial bank financing package.

2/ In fact, Mexico's stand-by arrangement also includes two other types of fiscal tests which are adjusted as necessary for consistency with the adjustments to the four ceilings discussed here.

3/ All ceilings and targets are assumed to refer to stocks, or flows cumulated from the beginning of the program period; any adjustment to a ceiling in one quarter applies also to subsequent quarters unless otherwise specified.

4/ For prices outside the range, the adjustments made are additional to the full adjustment for within-range variation that is described below.

5/ Purchases from the Fund are liabilities of the Bank of Mexico, rather than the nonfinancial public sector. To the extent that external financing under this contingency comes from the Fund, therefore, there is no need to adjust the ceilings and targets referred to in this and the next sentence.

target for NIR is maintained for that quarter unless, of course, there should be a further adjustment in light of that quarter's price. For the first two quarters of the program, the adjustments are equal to 100 percent of the shortfall, but progressively lower percentages are provided for in the later quarters.

For prices above the upper limit of the range, the same adjustments are made in the opposite direction. The adjustments amount to 100 percent of the excess throughout the program period. 1/

Within the range, adjustments are made according to the difference between the actual price and a specified reference price. Deviations of revenue above or below that implied by the reference price are matched by full adjustment of the PSBR ceiling. In the initial quarter of the program the target for NIR and the ceiling on NDA are also modified to compensate fully for the deviations; however, in later quarters they are adjusted only partially, and by declining percentages. As the change in the PSBR is to be reflected in domestic financing, no adjustment is made to the NFC ceiling.

The growth contingency mechanism provides that if (a) the rate of growth of the index of manufacturing production in the year that ends with the second quarter of the program period should fall below a level on which understandings are to be reached during the first review of the stand-by arrangement, the ceiling on net foreign borrowing and on the PSBR for subsequent quarters will be raised by a specified amount. For the adjustment to the ceilings to take place, (b) the investment projects to which the credits will be applied must already have been identified and assessed by the World Bank and (c) all targets and ceilings for the first and second quarters of the program period must have been observed.

2. External financing

In Fund arrangements where assurance of availability of external finance is critical to the effectiveness of the program, this assurance needs to be established before the stand-by arrangement can be approved by the Executive Board. As a corollary to the automatic adjustments to performance criteria that are envisaged in the contingency mechanisms in Mexico's stand-by arrangement, therefore, any additional requirement for external finance that arise under the contingencies is to be met by external borrowing that has already been firmly committed. By the same token, if there should be a decline in financing requirements (because

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1/ Part of the excess revenue is earmarked for building up NIR, rather than reducing NFC; the adjustments to be made reflect this distribution.

of high oil prices) there is to be repayment of foreign loans or build-up of net reserves. 1/

With regard to the commodity price mechanism, the required financing involves augmentation of the amount of the Fund stand-by arrangement as well as additional lending by commercial banks. If the commodity price contingency mechanism is triggered, an initial part of the financing requirement is to be met by drawings on the augmented stand-by arrangement up to a specified amount; thereafter, borrowing from the banks and the Fund is to take place in a specified proportion that provides for a catch-up by the banks toward the originally envisaged financing shares. Limits are placed on the amounts available each quarter, and disbursements are subject to observance of the performance criteria in the Fund arrangement.

The growth contingency is to be financed entirely by commercial bank lending, part of which is to be guaranteed by the World Bank. There is no phasing of financing under this contingency mechanism, but all performance criteria for the first and second quarters of the program period must have been observed. (Certain other conditions that apply in the case of Mexico are noted in Section III, below.)

II. Implications for Balance of Payments Adjustment

1. Financial policies

The direct implication for financial policies of the commodity price contingency mechanism is that shortfalls in revenues that result from prices below the lower limit are to be fully offset (up to specified amounts) by additional foreign borrowing for the first two quarters of the program. During this period, the mechanism implies that there is no requirement for additional measures to increase budget revenues, limit budget expenditures or safeguard international reserves. In this manner, the mechanism provides a breathing space for the implementation of measures that will be required should the low price continue during later quarters of the program; in those circumstances, some adjustment of fiscal and exchange rate policies may be needed if the performance criteria for those quarters, which are only partly adjusted in response to revenue shortfalls, are to be observed. At the other extreme, the revenue effects of prices above the upper limit are to be fully offset by repayments of specified foreign loans and build-up of reserves, so that none of the additional revenue may be used to increase expenditures or reduce other revenues. These policy adaptations are additional to those required by the difference between

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1/ For adjustments for oil price variations <u>within</u> the specified price range, changes in financing requirements are not to be reflected in foreign borrowing or repayments, but only in changes in net reserves.

the lower or upper limit (as the case may be) and the reference price within the range.

For prices between the upper and lower limits, the revenue effects of prices below or above the reference level assumed in the program do not result in changes in the external borrowing package of the public sector and, therefore, they are to be fully offset by domestic financing of the PSBR. Consequently, for prices below the reference price, no additional measures to constrain the fiscal deficit are envisaged; by the same token, prices above the reference price cannot lead to a change in the fiscal policy stance. However, as the NDA ceiling and the NIR target are adjusted fully only for the first quarter, if low prices persist, appropriate adaptations of overall credit and exchange rate policies may be necessary; correspondingly, some policy stance variations may be possible if higher than reference prices remain beyond the first quarter and the NIR target is only strictly met rather than being viewed as a minimum. Since the PSBR ceiling is adjusted fully throughout, any tightening of overall credit policy as a result of low prices may fall on the private sector, although to the extent that adjustments to fiscal policy keep the actual PSBR below the ceiling, credit to the private sector would be protected; similarly, in the event of high prices, the private sector receives the benefit of any relaxation of overall credit policy.

For the growth contingency mechanism, the policy implication is that if all performance criteria have been observed for the first two quarters of the program period, but growth falls below the specified level, the government may undertake additional external borrowing, up to the limit specified, to finance an increase in the budget deficit. The authorities have stated their intention to use these funds to finance additional expenditure on public investment in certain projects that would have been already identified and assessed by the World Bank.

2. Continuity of adjustment during the program period

The contingency mechanisms of Mexico's stand-by arrangement reflect the authorities' concern to avoid the need for abrupt adjustment in policies should external developments prove unexpectedly unfavorable, and their concern to avoid too severe an impact on the economy's growth rate in the course of its balance of payments adjustment efforts. In the specific context of Mexico, the oil contingency mechanism is intended to take account of the high degree to which the economy's exports and government revenues are concentrated in a single commodity, crude oil, in a period when the price of the commodity has shown great variability and has fallen dramatically in a few months. Under the circumstances prevailing at the time of the negotiation of the arrangement, and in view of the fiscal actions contained in the program, the Mexican authorities were also concerned that Mexico's growth performance might be severely affected. Consequently, the authorities have stressed the need for maintenance of public sector investment in the event of a shortfall in oil revenues, and for increases in such investment in the event of a shortfall in economic growth.

The implications of the contingency mechanisms for adjustment during the program period need to be examined against this background. The concern has been that should the oil price fall and remain below the lower limit of the reference range, there might be a breakdown of the adjustment effort unless more financing was available to provide time for policy adaptation. Organizing additional financing through concerted lending, however, can be time consuming, and the ex ante arrangement of contingent additional financing through the oil contingency mechanism can be seen as providing a breathing space for policy adjustments.

An important aspect of the operation of the oil contingency mechanism is the extent to which international reserves may be used to provide a cushion in the event of revenue shortfalls. To some extent this use would be temporary, pending disbursement of the contingent financing, but some of the decline of reserves could persist, leaving reserves substantially lower at the end of the program period. This possible use of reserves reflects the fact that Mexico's reserve position will be relatively strong once the first installment of the commercial banks' new money is disbursed.

The symmetry of the mechanism is also important. Mexico's average oil price is currently somewhat above the reference price of US$11 per barrel, and is close to the midpoint of the $US9-14 reference range. At current prices, therefore, the adjustments to performance criteria would imply some strengthening in the external position relative to the objectives stated in the program, and if prices should rise a substantial further strengthening could result.

As with the oil contingency, the growth contingency mechanism can be seen as a measure to help avoid "adjustment fatigue" during the program period. It represents a means of sustaining the growth of aggregate demand through added public investment outlays, which would alleviate the bottlenecks that have resulted from the compression of investment in the recent past. Its effect on Mexico's external situation during the program period, however, will depend on the extent to which the additional external financing is reflected in additional foreign exchange expenditures. Activation of the contingency will result in a corresponding (albeit minor) increase in Mexico's external debt by the end of the arrangement.

3. Viability over the medium term

To the extent that oil prices are above the reference level during the program period, Mexico's prospects for achieving viability over the medium term are stronger than they would be in the absence of the policy restraint implied by the oil contingency mechanism. The implications of oil prices below the reference price, or of activation of the growth contingency, need further exploration.

From the medium-term perspective, financing a deterioration in the balance of payments (whatever its origin) ceteris paribus will call for a stronger balance of payments performance at a later stage than would be the case if it had been adjusted at the outset. In this case, the "medium term" can be identified as the period during which any contingent financing used under the stand-by arrangement will need to be repaid. The oil contingency provides for progressive measures of additional domestic adjustment, as well as additional financing, if low prices occur and persist during the program period. Nevertheless, if the oil price were to remain below the lower end of the range, there could be a considerable need for further adjustment measures at the end of the program period, particularly with respect to the public sector finances.

With regard to the growth contingency, at this time the investment projects to be financed have not been identified, so it is not possible to assess their potential contribution to a strengthening of Mexico's external position. A key issue from the viewpoint of external viability is the extent to which the additional investment either directly or indirectly will increase future foreign exchange receipts or reduce future foreign exchange outlays. In the absence of such results of a magnitude commensurate with the additional debt service requirements, further adjustment measures will be needed. To the extent that either contingency has made the adjustment effort easier during the program period, of course, it may be more feasible to implement the further measures needed.

III. Issues in Lending Practices

Where a debtor's financial situation appears to be fundamentally sound, contingency lending clauses do not pose major issues for financial institutions. If the contingencies have important implications for a country's creditworthiness, however, prudential concerns may arise. With respect to a commodity price contingency, a decline in export prices would, other things being equal, make a country's balance of payments prospects less favorable. While the balance of payments implications of a faltering of the economic growth rate are less clear, such an outcome might indicate difficulties encountered in the adjustment program, and it might also impair the sustainability of the adjustment effort; there may also be uncertainties about the extent to which additional public sector investment can be expected to affect the balance of payments and growth prospects over the medium term. In these circumstances, therefore, lenders might wish to reduce their commitments, not to increase them. Such considerations have to be balanced with the lenders' interest in providing additional support to mechanisms and policy initiatives that help to ensure the security of their previous loans by providing time for the measures to be put in place and to start yielding their results.

These issues lie behind the difficulties experienced in putting together the concerted lending package for Mexico. In this section issues of particular significance for commercial banks and also issues involving the World Bank are examined; the implications for the Fund are discussed separately in Section IV.

1. Commercial banks

To emphasize their view that financing under oil contingency lending mechanism be used to sustain investment, the commercial banks have placed their contingent support in a "Contingency Investment Support Facility," which will operate parallel to the Fund's oil contingency mechanism. To gain the support of commercial banks, the facility specifies that disbursements will only take place after some use of Fund resources under the augmented stand-by arrangement, as described in Section I. The banks' quarterly disbursements would be adjustable to a degree in light of (a) developments in noncrude oil exports of the public sector, and (b) developments in crude oil export volumes. Part of the proceeds of their lending would be used for on-lending to the private sector. As with other components of the banks' new money facility that are phased, disbursements are contingent not only on purchases from the Fund being made as scheduled, but also on the reaching of specific steps of implementation with respect to concrete World Bank program loans. The agreement also provides for a certification by Fund management (after consultation with Mexico and the World Bank) that there is in fact a shortfall in public sector receipts that reduces the country's capacity to maintain its budgeted investment program.

The symmetric feature of the contingency may add to its acceptability to banks, particularly since the operation of the mechanism in the upper direction specifies no maximum amount. In the event of prices above the reference range, an important part of the additional revenues would go to repayment of commercial bank loans or reduction in commercial bank commitments and the rest would go to build up reserves. Moreover, during the period in which the agreement of commercial banks to the package has been sought, prices have in fact remained well above the bottom of the range, and the probability that prices might fall below the range (which had happened briefly during the negotiation of the Fund arrangement) appears to have been reduced.

Unlike the oil contingency, activation of the growth contingency does not involve any prior or parallel augmentation of use of Fund resources, putting the banks in the position of increasing the amount committed and disbursed under circumstances where the Fund itself is not doing so. Moreover, the activation of the growth contingency would depend on understandings reached between the Fund and Mexico (during the first review of the Fund arrangement) that do not affect the Fund's own financial commitment. 1/ Given the nature of the mechanism, the banks have sought more involvement by the World Bank, which is asked not only to identify and assess the projects 2/ involved prior to activation of the contingency, but also to guarantee half the loans involved.

The terms of the commercial bank contingency loans--an interest rate of 13/16 percent over LIBOR, and maturities of 8 years with 4 years grace (oil price) and 12 years with 7 years grace (growth)--are relatively favorable to Mexico, but of course still add to Mexico's external debt.

2. The World Bank

In keeping with the Baker initiative, the development of the adjustment and financing package for Mexico involved close collaboration among the World Bank, the commercial banks, official creditors and the Fund. Nonetheless, the contingency mechanisms, particularly the growth contingency, raise a few special questions. One issue is that activation of the contingency will require that part of the Bank's resources be devoted to additional guarantees of commercial bank loans, though this must be seen in the context of the whole loan package, in which World Bank loans and guarantees play an integral role. 3/ A further issue that the World Bank has noted is that, even assuming that projects have been identified in advance, it may not be realistic to expect that expenditures can proceed quickly enough to have effects during the program period.

Concerning the oil contingency, a further issue concerns the particular way it will operate when prices are high. The additional foreign exchange receipts involved are to be used to build up reserves, but also to reduce the loans and commitments made under the various new money facilities provided by the commercial banks, and to the extent that these involve World Bank guarantees, the World Bank's exposure is reduced. In this context, the World Bank has indicated that, should external circumstances result in a significant reduction in the presently envisaged exposure of the commercial banks under the program, it will also review the level and composition of its operational program in Mexico.

1/ The banks have specified that the first disbursement under the contingency would be subject to an explanation by Fund staff of the index used for triggering it and confirmation that the trigger had been activated.

2/ The banks have specified that these would need to be identified as having significant employment generation effects and substantial spill-over effects on the private sector.

3/ The guarantee is payable at final maturity, and is equivalent to about 20 percent in present value terms. World Bank guarantees also apply to part of the rest of the commercial bank new money package.

IV. Issues for Fund Policy on Use of its Resources

Stand-by arrangements with the Fund have not previously featured contingent augmentation of resources in light of commodity price developments. Automatic adjustments to performance criteria to take account of commodity price variations have been rare, and automatic adjustments to accommodate contingency spending plans in response to difficulties in achieving program objectives have had no precedents. 1/ These features of the stand-by arrangement with Mexico raise a variety of general issues for Fund policy that are addressed in this section. Before turning to the general policy issues, however, it may be useful to examine some of the ways in which the Fund's lending objectives differ from those of other financial institutions.

1. Fund policy objectives

The Fund has a responsibility to assist member countries experiencing balance of payments problems which are willing to undertake an appropriate adjustment effort. In the event of a worsening of the balance of payments situation, the Fund would normally still be prepared to offer financial assistance even when other lenders have withdrawn their support, provided the strength of the adjustment policies proposed by the member was commensurate with the magnitude of the problem. In the specific case of the compensatory financing facility, moreover, the Fund can provide a response to adverse commodity export developments that has a degree of automaticity. Nonetheless, the Fund does have the responsibility to safeguard the revolving character of its resources, which place limits on its scope for adaptation.

More generally, one of the purposes of the Fund is to give confidence to its members by making available to them its financial support, thus providing the opportunity of carrying out appropriate adjustment. In any assessment of a Fund-supported adjustment program, it is important to keep in mind that the Fund's arrangement is granted in support of the country's program. The Fund needs to make every effort to accommodate special aspects of the country's situation and objectives, within the bounds imposed by the principle of uniformity of treatment. At the same time, the Fund needs to ensure that the adjustment program is consistent with the provisions of the Fund's Articles of Agreement, including the establishment of adequate safeguards for the revolving character of the Fund's general resources. The two contingency mechanisms under discussion must thus be evaluated in terms of their role in helping Mexico, given its particular circumstances, to develop and finance an adjustment program that can be expected, overall, to result in balance of payments viability over the medium term, as well as in terms of their potential further use in appropriate cases.

1/ See Appendix I.

Some of the issues that arise in the particular context of Mexico were examined in Section II. Both contingency mechanisms have a role in supporting the continuity of the adjustment effort during the period of the arrangement in the event of adverse developments, but both also result in an increase in Mexico's external debt over the program period. In their discussion of the contingencies at the September 8 Executive Board meeting, Directors felt that the mechanisms had been tailored to the very special circumstances of Mexico. With respect to the oil contingency, its symmetric aspect was viewed favorably, and the fact was stressed that it would be regarded as compensation for export shortfalls should Mexico request use of Fund resources under the compensatory financing facility. (The general issue of the relationship of commodity-based augmentation to the CFF is examined later in this section.)

With respect to the growth contingency, it was generally considered at the Executive Board's discussion that provision for an automatic expansion of public investment outlays in response to a faltering of economic growth would not in itself provide additional assurance of a strengthening of Mexico's medium-term prospects with respect to growth and external adjustment. It was important, moreover, that the additional external resources be used to support projects yielding satisfactory returns on capital investment. The inclusion of this feature in Mexico's program had to be seen in the context of the overall fiscal effort, as well as in view of the importance of this contingency feature for the authorities' decision to undertake the fiscal adjustment effort.

From a general standpoint, there are issues that warrant consideration with respect to the following questions: (1) the relationship of access to Fund resources under a commodity contingency mechanism to the compensatory financing facility; (2) automatic adjustments of performance criteria; and (3) the role of the Fund in concerted lending.

2. Contingent access to Fund resources and its relation to the compensatory financing facility

The commodity price contingency included in Mexico's stand-by arrangement provides for augmentation through commitment of additional Fund resources up to SDR 600 million, the first time such a contingent augmentation has been envisaged. Previous stand-by arrangements have sometimes been approved on the understanding that the member might request augmentation as a result of, for example, an expected increase in the member's quota. Such augmentations have generally been accomplished in the context of a cancellation of the arrangement and approval of a new arrangement. Changes in the circumstances confronting the country have not generally resulted in augmentation of access to Fund resources, though members may request the replacement of an arrangement with a new one in a larger amount or request another arrangement after the original one is completed. In either case this would require the development of a comprehensive new adjustment program.

Augmentation of a stand-by arrangement contingent on an exogenous deterioration of a country's external accounts does not in itself raise issues of principle with respect to use of Fund resources. International reserves are intended to provide a temporary cushion in the event of such deterioration, and this principle applies equally to owned reserves and to reserves borrowed from the Fund. Of course, the way in which an augmentation mechanism was to operate would have to be considered from the viewpoint of the Fund's various concerns regarding appropriateness of the use of its resources.

In the case of Mexico the contingent augmentation of access provides an alternative to a purchase under the compensatory financing facility. Any CFF purchases during the period would count against the contingent augmentation, and any purchases under the augmentation would count against the amount available under the CFF should Mexico request a purchase under the latter. As noted during the Board discussion on September 8, it would be possible for Mexico to qualify for a maximum purchase (SDR 968 million) under the CFF on the basis of 1986 petroleum prices, which are likely to average considerably higher than the lower limit of the US$9-14 reference range. Approval of the stand-by arrangement by the Fund, moreover, would provide sufficient evidence of cooperation with the Fund. In the event, Mexico has refrained from making a request for a CFF purchase; instead, the oil contingency mechanism safeguards the adjustment program against an even more severe decline in oil prices by providing commercial bank commitments which, together with augmentation of the Fund arrangement, are in amounts considerably larger than those Mexico could obtain from the drawings potentially available under the CFF.

The possible augmentation, therefore, must be evaluated in relation to the Fund's policy on compensatory financing purchases. There are a number of features of the augmentation provision that bear examination, such as the definition of the export shortfall (which, in contrast to the CFF, is based only on developments with respect to one commodity and only with respect to its price) and the symmetry of the mechanism (under which, in contrast to the CFF, extra foreign exchange revenues associated with a rise in prices are to be used exclusively for strengthening the country's external position through repayment of debt and build-up of net reserves). As the policy on the CFF is to be reviewed by the Board in the near future, the discussion here cannot be completed at this time. It will, however, enable the features of this alternative to be better understood and evaluated. The CFF has the advantage that drawings are subject to an analysis of export prospects and adjustment policies at the time of purchase, including, most particularly, the temporary nature of the export shortfall, while these are not required under the augmentation provision. On the other hand, the augmentation has the advantage that resources provided through prearranged agreement are available more quickly, and yet give the Fund protection because the amount made available is phased and subject to observance of the agreed performance criteria.

These issues raise questions regarding such matters as the relationship between access and phasing in the credit tranches and under the CFF. These questions are beyond the scope of the present paper, but will be addressed in the context of the forthcoming review of the CFF.

3. Automatic adjustments to performance criteria

As background for the issues raised by Mexico's stand-by arrangement, Appendix II of this paper examines the nature and main features of automatic adjustments in recent Fund arrangements. As noted there, many automatic adjustments are of a technical or definitional character and do not, by and large, raise significant issues for Fund policy. Most others are related to uncertainties regarding the timing of external financing, or serve to specify the policy response if the availability of such financing exceeds the amounts assumed in the program. 1/

The general considerations that have governed Fund policy in the area of automatic adjustments were discussed in EBS/86/211 (pages 31-32). There it was argued that automatic adjustments of performance criteria may be appropriate for dealing with minor deviations of exogenous variables from program assumptions that are clearly reversible over a relatively short period and that can be anticipated with a reasonable measure of certainty, and which call for no adaptation of the basic thrust of the policy effort. Where the uncertainties regarding the magnitude and duration of deviations from program assumptions are large, and consequently the potential policy implications can be far-reaching, however, automatic adjustments do not appear to provide a reliable indication of the extent to which adjustment policies need to be adapted. It was therefore recommended that in such cases, the need for significant adaptations of the policy stance within the program period should be evaluated through reviews, either scheduled or in response to requests for waivers or modifications. 2/

More generally, a fundamental principle of the design of Fund-supported adjustment programs is that a balance of payments difficulty, whether stemming from domestic policy problems or from exogenous shocks, should be dealt with through an appropriate mix of adjustment policies

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1/ Automatic adjustments have sometimes been provided for financing shortfalls as well. In general, however, such shortfalls require a reappraisal of the appropriate policy stance that cannot be easily dealt with by automatic adjustments.

2/ Performance criteria in stand-by and extended arrangements are generally formulated as maxima or minima (ceilings or floors), rather than as point estimates, and thus provide scope for minor policy adaptations.

and external financing. The emphasis on reviews instead of automatic adjustments reflects the judgment that, typically, the presence of significant shocks in the course of the program period, or substantially different from expected responses of program objectives to economic policies, call for an in-depth examination of the situation to consider how best to adjust policies, and, if possible and desirable, the associated financing flows. The review would need to take account both of the possible avenues for orderly adjustment in response to the changed circumstances and of the availability and terms of any additional finance.

These considerations would suggest that, by and large, responses to contingencies should be provided by means of reviews, rather than automatic adjustments. Commodity contingencies of the type incorporated in Mexico's stand-by arrangements, however, may be a reasonable exception to this principle when special circumstances warrant it. A key aspect, of course, is that the adjustments to performance criteria are associated with clear plans for financing the consequent foreign exchange requirements, through use of reserves and additional foreign borrowing. The extent to which performance criteria need to be adapted, moreover, is clearly spelled out, though the specific policy measures that may also be required are not identified. While a comprehensive review that would take into account the reasons for the fall in the price (and hence the probability that it would be temporary), and would also examine the appropriateness of the policy measures envisaged, would still be desirable, contingency mechanisms of this nature need not pose major issues for Fund policy. They do present, however, an alternative option to the assistance typically provided through the CFF, and therefore, the relative merits of contingency mechanisms need to be assessed against those of the CFF.

With regard to the growth contingency, as noted above, questions were raised in the Executive Board concerning both its broad appropriateness and, more specifically, whether an increase in public sector investment is an appropriate response to a faltering of growth. The fundamental issue in this context, however, is that growth is a major objective of members' adjustment programs, and as such, it is best viewed in the context of the design of the overall program. 1/ This broader approach has two implications. First, all aspects of the policy measures to be incorporated in the program need to be examined from the viewpoint of their effects on growth as well as their implications for external adjustment and other program objectives. Once the program has been carefully examined from this perspective, it needs to be given a

1/ The broad question of the formulation of specific growth-related performance criteria as an alternative to reviews has not been addressed in this paper, which is confined to the general aspects of the specific contingency features of Mexico's stand-by arrangements. The question is however, discussed in the paper, EBS/86/211, prepared for this Board discussion.

reasonable time to have its desired effects. It is generally not possible to forecast exactly the extent and timing of the response of the variables that represent the program's objectives, and the temptation of "fine-tuning" adjustments needs to be avoided. Second, concern that one or more of the main objectives of the program may not be achieved would in most circumstances be better reflected in provision for flexible adaptation of the program in light of an examination of the actual reasons for the shortfall in performance. These issues can rarely be determined a priori, and therefore, rather than automatic adjustments, what is needed is a comprehensive review. 1/ More generally, an adjustment program cannot be seen as guaranteeing a specific growth rate. For the Fund to consider whether a program requires adaptation on account of a faltering of economic growth, moreover, it would need to be established that the problem was not one of underperformance in policy implementation, particularly in the structural area.

While the general considerations just discussed are likely to be applicable under most circumstances, there is a possible by-product of contingency clauses that warrants discussion. This by-product is most likely to surface when members confront unusually difficult situations. In those conditions, a member may be willing to undertake a more decisive and stern adjustment effort when accompanied by some contingency clauses than in their absence. To this extent, therefore, it may be argued that such contingency mechanisms can help promote adjustment. It, however, remains valid that situations characterized by the probability of severe shocks or of significant unexpected adverse responses of policy objectives to policy measures call for an in-depth examination to assess whether corrective actions are required. Therefore, a possible approach could be to ensure that contingency mechanisms, when justified, be used in combination with review clauses to evaluate the continued appropriateness of the contingent features and the need for policy adaptation.

4. Concerted lending

As noted in Section III above, difficulties were encountered in obtaining commercial bank acceptance of the contingency features. Another consideration for Fund policy, therefore, is the potential of contingency financing mechanisms for increasing the availability of resources to countries through concerted lending operations.

1/ As with the oil contingency, the automatic adjustments to performance criteria are accompanied by provisions for financing the external consequences during the program period. If, however, the prospective return on the investments to be financed in this fashion is high enough to justify the external borrowing, one course of action would be to build the investment, and its financing, into the original program.

Key aspects of the oil contingency mechanism with respect to its acceptability to commercial banks were its symmetrical character and the protection it offered to investment in the event of an oil price-related shortfall. With respect to the growth contingency, the banks were willing to accept it only with a guarantee from the World Bank for part of the amount, raising questions of additionality. A further issue regarding the growth contingency is its bearing on the transition from concerted lending to normal creditor-borrower relationships, a key objective of the Fund's support.

V. Issues for Discussion

The contingent financing features in Mexico's stand-by arrangement represented experiments with new practices with the aim of reaching understandings with an important member, in particularly difficult circumstances, on a viable adjustment program. The general question raised by Executive Directors during last September's discussion of Mexico's request was whether these features of the arrangement had applicability to other cases, or whether their use in the case of Mexico should be considered sui generis. This section summarizes a number of issues for Executive Board discussion.

1. A key general issue with respect to contingent financing mechanisms of this nature is the extent to which they actually contribute to progress toward balance of payments viability. From this vantage point, the mechanisms can be seen as contributing to strengthening the probability of continuity of the adjustment effort as well as providing time for the formulation of a policy response during the program period; on the other hand, it would be important to avoid their use in circumstances when slowing the required policy adaptations would result in an unsustainable debt service burden over the medium term. Section II examines a number of aspects of these various considerations that Executive Directors may wish to discuss.

2. As noted in Section IV.2, the contingent commitment of Fund resources in response to export price developments raises issues of the relationship between access to resources in the credit tranches and to those under the CFF. These issues will need to be considered in the course of the forthcoming review of the CFF, but Directors may wish to comment on the differences in the degree of assurance to members regarding the circumstances under which the Fund's financial support will be available under a commodity price contingency mechanism in the context of a stand-by arrangement, and under the CFF on its own or also accompanied by a financial arrangement.

3. With respect to the general issue of the usefulness of automatic adjustments to performance criteria, Section IV.3 discussed the reasons for the Fund's emphasis on comprehensive program reviews in the case of major deviations from program projections with respect to exogenous variables and program objectives. Both procedures, reviews and automatic adjustments, have useful features and Executive Directors may wish to consider the general issues involved in the establishment of an appropriate balance between automatic adjustments and reviews, including their possible use in combination.

4. In Mexico's circumstances, the contingency features were instrumental in helping the authorities formulate their adjustment effort and were thought to facilitate the process of obtaining additional financing from commercial banks on a contingent basis. As discussed in Section IV.4, however, difficulties were encountered in the negotiation with the banks, which raise practical questions about the feasibility of generalizing such features, and which Directors may wish to consider.

Past Practices in Fund Arrangements with Respect to Adjustments of Performance Criteria for Developments in Commodity Prices and Contingency Spending Plans

1. Commodity prices

Since 1979, the only arrangements that have included automatic adjustments relating to commodity price developments have been those for South Africa (1982) and Chile (1985). In the case of South Africa, the adjustment involved reduction in the ceiling on domestic credit if the price of the principal export, gold, fell below a specified reference price. The need for a reinforcement of the contractionary effects of the export decline reflected the fact that the commodity involved also served as a major component of the country's international reserves. In the case of Chile, at the time of the midyear review of the first annual program under the extended arrangement a mechanism was established that involved downward adjustments to the NDA and PSBR ceilings, and upward adjustment to the NIR target, depending on deposits to and withdrawals from the Copper Compensation Fund. Such deposits and withdrawals were to be measured on the basis of the copper price in relation to a band around reference prices to be determined quarterly. At the time the mechanism was established no funds had accumulated in the account, so during the program period any net effect could be only in the direction of sterilizing part of the foreign exchange receipts resulting from a substantial increase in the price of copper. 1/

2. Contingency spending plans

Automatic adjustments to allow for contingency spending plans in response to developments in growth rates or other endogenous variables

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1/ Some previous arrangements for Chile incorporated automatic adjustments relating to the price of copper. In the 1968 and 1969 arrangements, provision was made for automatic adjustment of the BIR target and the NDA ceiling (but not the fiscal ceiling) with respect to deviations from projected exchange receipts from the large copper companies for domestic costs and taxes; such receipts depended largely on the price of copper. In July 1982 a request by Chile for a stand-by arrangement was presented to the Executive Board (EBS/82/134, 7/26/82), but was subsequently withdrawn when economic developments made it necessary to redesign the program. The withdrawn request provided for automatic increases (or decrease) in quarterly NDA and PSBR ceilings up to specified amounts in response to copper prices below (or above) specified reference prices. This feature, which is similar to that in Mexico's current arrangement except for the fact that no accompanying increase in external borrowing was envisaged, did not appear in the revised request (presented later in 1982 and approved January 10, 1983).

do not appear to have been a feature of Fund arrangements. 1/ When such contingency spending plans have been specifically allowed for, they have generally been either subject to a review or accommodated within the existing ceilings. In the case of the 1983 stand-by arrangement (second year) and the 1985 extended arrangement for Chile, for example, provision was made for adjustment of the PSBR ceiling up to a specified maximum to accommodate contingent public investment expenditure if private demand proved to be less vigorous than projected in the financial program, but a review of the behavior of a number of relevant factors, including developments in the non-copper trade balance, was required before the ceilings could be adjusted. 2/ (In the 1985 arrangement the contingency spending plan could also be triggered by the availability of long-term external financing for repair of damage caused by the earthquake of March 1985, in which case the adjustment of the relevant ceilings was to be automatic.) In the program for the second year of Mexico's 1983 extended arrangement, the possibility of a contingency spending plan if growth should falter was specifically mentioned, and the ceilings were set high enough to allow for domestic financing of most of the contingency plan. The remainder of any expenditure would have had to come from increases in revenues or reductions in other expenditures.

1/ In Chile's 1964 and 1966 stand-by arrangements, provision was made for additional external borrowing if public saving proved to be insufficient to finance the public investment program. As external debt was not subject to a ceiling, no adjustment of performance criteria was involved.

2/ In the current case of Mexico, the dimensions of the growth shortfall that would trigger the increases in the PSBR remain to be established at the first review of the program, but thereafter the adjustment would be automatic.

Automatic Adjustments in Stand-By and Extended Arrangements, 1979-1986

This appendix provides supplementary information on the nature and main features of automatic adjustments that have been incorporated in recent Fund arrangements. By way of general background, Tables 3 and 4 contain details of automatic adjustment provisions, by individual arrangements, in stand-by and extended arrangements approved since 1979.

1. The role of automatic adjustments

As discussed in EBS/86/211, an important operational objective in the design of performance criteria is that they be clear and simple. In practice, however, automatic adjustments that make performance criteria more complex are sometimes necessary, for two reasons: first, uncertainties in forecasting regarding the evolution of certain key exogenous variables (particularly the level and timing of certain capital flows); and second, definitional shortcomings of the variable to be monitored or imperfections in the data base.

Automatic adjustments are not the only way of dealing with such issues. Small variations are dealt with through the fact that margins are incorporated as a matter of course in the formulation of the criteria. For potentially large variations, on the other hand, flexibility in program monitoring is normally provided through reviews and waivers or modifications of performance criteria. It is in intermediate situations, where the extent of the need for policy adaptation in response to exogenous developments can be anticipated with reasonable certainty, that ex ante formulation in terms of automatic adjustments can be a useful and effective monitoring technique. This approach can help to minimize the number of reviews and the degree of Fund involvement in the details of policy implementation, while enhancing the probability of achievement of the program objectives.

2. Types of automatic adjustments

Technical automatic adjustments to correct for imperfections in the data base are limited to cases where the adjustments called for are likely to be relatively small and do not have significant policy implications, since otherwise they would raise doubts about the adequacy of the data to form the basis for policy formulation. Adjustments that have the effect of modifying the definition of the monitored variable are used to provide a better relationship between the performance criterion and the policies it monitors.

Automatic adjustments have also been provided for exogenous developments, principally of external origin. As described in section (3) below, the most common type of adjustment has been for deviations concerning the assumed flow of new external assistance or debt relief. Adjustments have frequently applied to overall credit and fiscal ceilings, and, where applicable, to balance of payments tests.

Adjustments to other performance criteria, such as ceilings on external debt and on external and domestic payments arrears, have been relatively infrequent.

The features of automatic adjustments vary with the circumstances of each case. For example, adjustment can be provided for possible deviations from the assumed values on a symmetric basis, or for only one direction of the deviation on an asymmetric basis. The adjustment may be complete, or may be for only a specified fraction of the possible deviations, or be subject to a specified limit.

Apart from the various technical features, the basic design of automatic adjustments can be classified in terms of their policy implications into two alternative approaches. One approach is aimed at accommodating exogenous developments, so as to avoid the need for changes in underlying policies. This would be appropriate when the exogenous shock in question is judged to be reversible in a relatively short period. An alternative approach is aimed at protecting broad program objectives, and calls for policy adaptation in the face of exogenous developments. This approach may be practical when there is considerable uncertainty concerning the temporary or permanent nature and the duration of the exogenous shock, or when there is limited margin for maneuver.

As described in the next section, most automatic adjustments in recent arrangements (except those for technical or definitional reasons) have adopted the first of these two approaches. As they have usually been designed to safeguard the external objectives of the programs, however, they have generally operated asymmetrically.

3. Features of recent automatic adjustments

Resort to automatic adjustments has increased markedly in recent years, reflecting both technical and definitional factors as well as greater uncertainties in the availability and timing of external financing. Two thirds of all arrangements since 1983 have included provisions for automatic adjustments, the majority of which have been for possible deviations in the values of certain exogenous variables, compared with about two fifths in the period 1979-82 (Table 1). In a few instances adjustments have been related to variations in variables that were partly endogenous. 1/

In the more recent period, the adjustments have increasingly been asymmetric. The most common adjustment has been in response to external financing in excess of projected levels, and has been to reduce the

1/ For example, Haiti 1983, where the ceilings on government expenditure were to be adjusted by 75 percent of the variation of tax revenue performance over the targeted level; see also Uganda 1982 and 1983 and Uruguay 1983. (See page 3, footnote 3/.)

credit ceilings (usually on both total credit and credit to the government or other fiscal tests) and, where applicable, to increase the targets on net foreign assets. 1/ This practice reflected principally the judgment on the basis of experience that excess financing was unlikely to be a permanent feature; the adjustment effort should therefore not be eased, and financing above expectations afforded an opportunity to build up reserves to cushion future shocks. There have also been some instances of automatic adjustments in the opposite direction for financing shortfalls, but more generally, automatic adjustments have not been viewed as an appropriate response for financing shortfalls since these shortfalls might not be temporary, and therefore pose a consequent need to strengthen the adjustment effort. 2/ There have also been instances of other asymmetric adjustments designed to protect the adjustment objectives against unforeseen adverse developments. 3/

Automatic adjustments for deviations in external financing for the balance of payments from projected levels account for some 60 percent of the total incidence of automatic adjustments in the period since 1983 (Table 2). They have been related to a wide range of financing flows, from general balance of payments financing to specific or select

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1/ For example, Turkey 1984, Jamaica 1985, Kenya 1985, Morocco 1985, and Zambia 1986.

2/ The trend away from symmetric adjustments may be seen in sequences of arrangements for individual countries. For example, in the case of Jamaica 1981, symmetric adjustments were provided in the credit ceilings and the balance of payments test for deviations in the disbursements of external loans, subject to specified limits for shortfalls in disbursements but without limits for excesses. This provision was modified in subsequent arrangements in 1984 and 1985, in which only downward adjustment was to be made automatically for excess financing. Similarly, in the case of Morocco, whereas the 1983 arrangement had provided for the credit ceilings to be raised up to specified limits for additional concessional assistance, in the 1985 arrangement the ceilings were instead to be reduced by the excess over the projected net external borrowing and debt relief.

3/ This applies, for instance, to the adjustment for variations in gold prices in the case of South Africa 1982, as noted in Appendix I. In the case of Uganda 1982, the fiscal ceilings were to be reduced by 70 percent of the excess over specified amount of profits from the operation of the second exchange rate window; the adjustment was raised to 100 percent of excess profits under the 1983 arrangement. The 1983 arrangement for Uruguay introduced at the midyear review an automatic provision to reduce the net domestic asset ceiling by 65 percent of the excess over the net international reserves target; the potential excess in the reserves target was expected to be largely exogenous, reflecting capital flows from Argentina.

loans. 1/ In an increasing number of cases, however, adjustments have involved external financing more narrowly defined and with varying degrees of specificity. These have included provisions for deviations in the amount and timing of debt relief and other exceptional financing, 2/ specific bilateral loans, 3/ and World Bank loans. 4/ Adjustments for variations in key commodity prices have been rare, as noted in Appendix I.

Automatic adjustments have also been provided to address difficulty in predicting exogenous developments of a domestic character such as variations in crop financing requirements, 5/ as well as variations in domestic arrangements relating to budgetary financing. 6/

1/ For example, adjustments for deviations in general external financing were provided for Senegal 1982-86, Jamaica 1984, Somalia 1985, and Togo 1986; and for budgetary external financing for Morocco 1983, Portugal 1983, and Zambia 1986.

2/ For example, the Philippines 1984.

3/ For example, Costa Rica 1982 (U.S. economic support loans directly disbursed to the nonfinancial public sector), and Belize 1984 (disbursements under US$10 million AID facility).

4/ These include Uganda 1982 (deposits lodged by the private sector under the IDA credit arrangement in the project account of the Treasury above a specified level); Malawi 1983 (second SAL disbursements before December 1983); Costa Rica 1985 (counterpart funds of use of SAL by the Central Government); Panama 1985 (World Bank SAL); and Senegal 1985 (drawings against some SALs deposited at the regional central bank to finance expenditures not included "above the line" in government operations).

5/ For example, Côte d'Ivoire 1983 and 1986 (for coffee stock).

6/ For example, the fiscal ceilings were to be reduced: in the case of Mexico 1983 by excess over specified limits of intermediation by the national development banks and official Trust Funds; in the cases of Zambia 1984 and the Philippines 1984, to the extent that monthly payments into a blocked account for external debt were not made; and in the case of Costa Rica 1985, by any transfers to the Government or reduction of CODESA's subsidiaries. Also, in the case of Mexico 1983, an automatic provision was introduced at the midyear review to raise the ceiling on central bank credit to the nonfinancial public sector for any reduction in the portfolio requirements of the banking system.

Table 1. Provisions for Automatic Adjustments to Performance Criteria Included in Upper Credit Tranche Stand-By and Extended Arrangements, 1979-86

Year	Arrangements Approved During Period	Arrangements with Automatic Adjustments 1/	Automatic Adjustment(s) Provided For 2/			
			Total Domestic Credit	Fiscal Tests	Balance of Payments Test	Other
	(Number)	(In percent of arrangements approved during period)				
1979	20	45	30	35	5	15
1980	23	35	27	30	4	4
1981	27	44	44	33	7	4
1982	22	45	32	32	9	9
1983	35	62	37	43	11	26
1984	21	57	52	38	19	14
1985	26	81	65	69	27	15
1986 3/	13	62	46	54	8	15
1979-82	92	42	34	33	7	8
1983-86	95	66	49	51	17	19

Sources: Staff reports; and staff calculations.

1/ This percentage is based on the total number of arrangements in which one or more performance criteria were subject to automatic adjustment.
2/ These percentages are based on the number of arrangements in which the performance criteria in question were affected by one or more automatic adjustments.
3/ January 1-September 17, 1986.

Table 2. Number and Type of Adjustments to Performance Criteria, 1979-86 1/

	Technical 2/	Definitional 3/	External Financing-Specific	External Financing-General	Other	Total	Average Number of Adjustments per Arrangement
1979	6	2	5	6	--	19	1.0
1980	--	2	2	11	1	16	0.7
1981	1	1	2	21	3	28	1.0
1982	5	--	7	6	3	21	1.0
1983	9	7	8	20	4	48	1.4
1984	6	10	3	12	1	32	1.5
1985	16	9	7	23	2	57	2.2
1986 4/	3	5	1	6	7	22	1.7
Total	46	36	35	105	21	243	1.3

Sources: Staff reports; and staff calculations.

1/ More than one adjustment may apply to a single performance criterion.
2/ Technical adjustments deal with corrections of the data base.
3/ Definitional adjustments affect the comprehensiveness of the monitored variable.
4/ January 1-September 17, 1986.

Table 3. Technical and Definitional Automatic Adjustments to Performance Criteria in Fund Arrangements, 1979-86

Country	Effective Date	Performance Criteria: Total Domestic Credit	Fiscal tests	Balance of Payments test	Other
1. Technical 1/					
Ghana	1/10/79				X 2/
Sudan	5/4/79	X			
Peru	8/10/79	X	X		
Kenya	8/20/79	X	X		
Liberia	8/26/81	X			
Peru	6/7/82	X	X		
Costa Rica	12/20/82	X	X	X	
Chile	1/10/83		X		
Sudan	2/23/83	X			
Zambia	4/18/83	X	X		X 3/
Guatemala	8/31/83				X 2/
Zaire	12/27/83	X	X		X 4/
Peru	4/6/84	X	X		
Peru	4/6/84	X	X	X	X 5/
Brazil 6/	1/15/85			X	
Ecuador	3/11/85	X	X	X	
Costa Rica	3/13/85	X		X	
Dominican Republic	4/15/85		X		
Zaire	4/24/85		X		
Côte d'Ivoire	8/3/85	X	X		X 7/
Chile	8/15/85	X	X	X	
Uruguay	9/27/85			X	X 8/
Côte d'Ivoire	6/23/86	X	X		X 7/
2. Definitional 9/					
Nicaragua	5/14/79				X 10/
Turkey	7/19/79				X 2/
Panama	4/18/80		X		X 8/
Zambia	5/8/81	X			
Zambia	4/18/83				X 3/
Panama	6/24/83		X		
Guatemala	8/31/83	X			
Guatemala	8/31/83		X		
Sri Lanka	9/4/83	X			
Zaire	12/27/83		X		
Zaire	12/27/83	X	X		

Table 3 (concluded). Technical and Definitional Automatic Adjustments to Performance Criteria in Fund Arrangements, 1979-86

Country	Effective Date	Performance Criteria: Total Domestic Credit	Fiscal tests	Balance of Payments test	Other
2. Definitional 9/ (cont.)					
Sierra Leone	2/3/84	X			
Turkey	4/4/84		X		
Peru	4/6/84				X 5/
Yugoslavia	4/18/84			X	X
C.A.R.	7/6/84	X	X		
Zambia	7/26/84	X	X		
Philippines	12/14/84			X	
Philippines	12/14/84	X 11/			
Dominican Republic	4/15/85			X	
Zaire	4/24/85	X	X		
Equatorial Guinea	6/20/85	X	X		
C.A.R.	9/23/85	X	X		
Uruguay	9/27/85	X		X	
Argentina 6/	5/28/86		X		
Uruguay 6/	5/28/86	X			
Zaire	5/27/86		X		
Gambia, The	9/17/86	X	X		

1/ Purely technical adjustments (e.g., for base data revisions). Most of these are symmetric and provide for full adjustment without upper limit.
2/ External arrears.
3/ Credit to FCCM (the mining company).
4/ External borrowing and arrears.
5/ Gross foreign liabilities of the Banco de la Nacion and COFIDE (a government owned development corporation).
6/ Introduced at program review.
7/ Domestic arrears.
8/ External debt.
9/ Adjustments that affect the coverage of the variable to be monitored.
10/ Floating debt of the Central Government.
11/ Reserve money.

Table 4. External Financing and Other Automatic Adjustments to Performance Criteria in Fund Arrangements, 1979-86

Country	Effective Date	Performance Criteria: Total Domestic Credit	Performance Criteria: Fiscal tests	Performance Criteria: Balance of Payments test	Performance Criteria: Other	Features of Adjustment: Symmetric (S) or Assymmetric (A)	Features of Adjustment: Parial (P) or Full (F)	Features of Adjustment: Upper Limit
1. External financing, specific 1/								
Liberia	3/21/79		X			A	F	
Panama	3/23/79		X			A	F	
Mauritius	10/31/79	X	X	X		A	F	
Panama	4/18/80		X			A	F	
Guyana	7/25/80		X			A	P	
Madagascar	4/13/83	X	X			A	F	
Panama	4/28/82		X			A	F	
Malawi	8/6/82	X	X			A	F	
Malawi	8/6/82				X 2/	A	F	X
Uganda	8/11/82		X			S	F	
Guinea	12/12/82				X 3/	A	F	
Costa Rica	12/20/82		X			A	F	
Brazil	2/28/83			X	X 2/	A	F	
Panama	6/24/83				X 2/	A	F	
Ecuador	7/25/83				X 2/	A	F	
Grenada	8/24/83		X			S	F	
Grenada	8/24/83			X		A	F	
Malawi	9/19/83	X	X			A	F	
Côte d'Ivoire	8/3/84				X 3/	A	F	
Belize	12/3/84	X	X			A	F	
Costa Rica	3/13/85		X			A	F	
Panama	7/15/85		X			S	F	
Panama	7/15/85		X		X 2/	S	F	
Panama	7/15/85				X 2/	A	F	
Panama	7/15/85		X			S	P/F 4/	
Chile	8/15/85		X			A	F	X
Gambia, The	9/17/86				X 5/	A	F	
2. External financing, general 6/								
Ghana	1/10/79	X	X			A	F	
Turkey	7/19/79	X	X			A	F	
Peru	8/10/79	X	X			A	F	
Bolivia	2/1/80	X		X		A	F	
Turkey	6/18/80	X	X			A	F	
Mauritania	7/23/80	X	X			A	F	
Liberia	9/15/80		X			A	F	
Morocco	10/8/80	X	X			A	F	
Pakistan	11/24/80	X	X			A	F	
Morocco	3/9/81	X	X			A	F	
C.A.R.	4/10/81	X	X			A	F	
Jamaica	4/13/81	X	X	X		S	F	X
Ethiopia	5/8/81	X	X			A	F	
Zambia	5/8/81	X	X			A	F	
Mauritania	6/1/81	X	X			A	F	
Costa Rica	6/17/81				X 7/	A	F	
Costa Rica	6/17/81	X		X		A	F	
Senegal	9/11/81	X	X			S	F	X
Pakistan	12/2/81	X	X			S	F	X
Mauritius	12/21/81	X				S	F	
Morocco	4/26/82	X	X			A	P	
El Salvador	7/16/82	X		X		S	F	X
Senegal	11/24/82	X	X			S	F	X
Philippines	2/25/83	X	X			A	F	
Kenya	3/21/83	X	X			A		
Zambia	4/18/83	X	X			A	F	
C.A.R.	4/22/83	X	X			A	F	
Uruguay	4/22/83				X 8/	A	F	
Uruguay	4/22/83	X	X			S	F	X
Ecuador	7/25/83				X	A	F	
Morocco	9/16/83	X				A	F	
Morocco	9/16/83		X			A	F	
Senegal	9/19/83				X 9/	A	F	X
Senegal	9/19/83	X				S	F	X
Senegal	9/19/83	X	X			A	F	
Portugal	10/7/83	X	X			S	F	X
Turkey	4/4/84	X	X			A	F	
Togo	5/7/84	X	X			A	F	
Jamaica	6/22/84	X		X		A	F	
Sudan	6/25/84	X	X			S	F	
Philippines	12/14/84			X	X 3/	A	F	
Philippines	12/14/84		X		X 10/	A	P 11/	
Kenya	1/9/85	X	X			A	F	
Senegal	1/16/85	X	X			S	F	X

Table 4 (concluded). External Financing and Other Automatic Adjustments to Performance Criteria in Fund Arrangements, 1979-86

Country	Effective Date	Performance Criteria: Total Domestic Credit	Fiscal tests	Balance of Payments test	Other	Features of Adjustment: Symmetric (S) or Assymmetric (A)	Parial (P) or Full (F)	Upper Limit
2. External financing general 6/ (cont.)								
Somalia	1/25/85	X	X			A	F	
Kenya	2/8/85	X	X			A	F	
Somalia	2/22/85	X	X			A	F	
Togo	5/17/85		X		X 12/	A	F	
Equatorial Guinea	6/20/85	X	X			A	F	
Jamaica	7/17/85	X		X		A	F	
Morocco	9/12/85	X	X			A	F	
Mali	11/8/85	X	X			A	F	
Niger	12/5/85	X	X			A	F	
Zambia	2/21/86	X	X			A	F	
Togo	6/9/86	X	X			A	F	
Gambia, The	9/17/86	X	X			S	F	
3. Other reasons for adjustment								
Guyana 13/	7/25/80	X				S	F	X
Ethiopia 14/	5/8/81	X	X			A	F	
Senegal 15/	9/11/81		X			S	F	
Uganda 16/	8/11/82		X			A	P	
South Africa 17/	11/3/82	X				A	P	
Senegal 18/	11/24/82		X			S	F	X
Mexico 19/	1/1/83		X			A	F	
Haiti 20/	9/17/83		X			S	P	
Uganda 21/	9/16/83		X			A	F	
Côte d'Ivoire 22/	8/3/84	X				S	F/P	
Senegal 23/	1/16/85	X				A	F	
Côte d'Ivoire 22/	8/3/85	X				S	F/P	
Chile 24/	2/28/86		X			A	F	
Chile 25/	2/28/86	X	X	X		S	F	X
Argentina 26/	5/28/85		X			A	F	
Uruguay 27/	5/28/85	X				A	P	
Côte d'Ivoire 22/	6/23/86	X				S	F/P	

1/ Adjustment for potential deviations in external financing flows where the source and for some, the approximate amounts were identified. In cases where the approximate amount was identified there was an implicit upper limit on the amount of the adjustment.
2/ External debt.
3/ External arrears.
4/ Partial (full) adjustment in the case of shortfall (excess) of external financing.
5/ Domestic arrears of the public sector.
6/ Adjustment for potential deviations in external financing where individual sources of funds were not identified. This category includes debt relief, concessional assistance and other exceptional balance of payments financing.
7/ Debt limits to be raised by excess over BOP target.
8/ Short-term external debt.
9/ Ceiling on reclassified crop credit.
10/ Deficit of nonfinancial public corporations.
11/ Full adjustment for deficit of nonfinancial public corporations.
12/ Government domestic arrears.
13/ Reduction (increase) in ceilings by shortfall (excess) in currency issue plus counterpart SDR allocation from projected levels.
14/ Reduction in ceilings by excess of foreign borrowing over projected amount and additional domestic sales of bonds to the Pension Commission.
15/ Adjustment for deviations between actual and projected repayments of bank credit by ONCAD (a rural development agency).
16/ Reduction in ceilings by 70 percent of excess profits from the operations of the second foreign exchange window.
17/ Reduction in ceilings so as to lower annual rate of credit growth by half a percentage point for each US$10 that average price of gold during preceding quarter was below US$300 per fine ounce.
18/ Adjustment for deviations between actual and projected amounts of: (1) repayments of bank credit by ONCAD (rural development agency); and (2) payments of public sector arrears.
19/ Reduction in ceilings by excess of financing intermediated by certain financial institutions.
20/ Treasury outlays to be reduced (raised) by two thirds in shortfall (excess) of tax revenues.
21/ Reduction in ceilings for excess profits from operation of the second foreign exchange window.
22/ Full (partial) reduction (increase) in the ceiling in the case of shortfall (excess) in the value of coffee stocks.
23/ Reduction in ceilings for shortfalls in crop credit.
24/ Reduction in ceiling for excess revenue from sale of certain public enterprises.
25/ Reduction (increase) in ceilings (NIR floors) if copper price rises above given range.
26/ Reduction in the ceiling by the shortfall in recoveries on government guarantees.
27/ Reduction in the ceiling by part of excess over NIR target.