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RECYCLING THE OIL EXPORT SURPLUSES

by

E. Walter Robichek
International Monetary Fund

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1. Adjustment vs. Nonadjustment to Oil Deficit

Having no expertise in the tangled economics of energy, I assume I owe my invitation to participate in this distinguished symposium to my involvement, as a staff member of the International Monetary Fund, with international payments relations, relations which have been altered dramatically by the surge of petroleum prices toward the end of last year. This paper deals exclusively with this aspect of the "energy crisis", an aspect that has significance essentially for the short and medium run.

Whatever our field of specialization, we all know that the world will have to make radical adjustments to the new shape of the oil market. If we rule out a reversal of the recent gains in the terms of trade of petroleum exporting countries, which would obviate the need of petroleum importing countries to adjust, the requisite adjustments will almost certainly come on the supply as well as on the demand side. Among changes in the supply of energy, we can expect a concerted effort in oil importing countries to explore for oil within their own boundaries and to step up production of alternative sources of energy--hydroelectric, geothermal, solar, atomic, coal, gas, etc. The changes on the demand side can take various forms. The most obvious change is a reduction of the use of energy for consumption or as an input in the process of producing a great variety of goods and services for domestic use and for export. A more circuitous adjustment on the demand side that will also come into play is a general belt tightening of households in oil importing countries that will involve a reduction of their consumption of goods and services other than energy and not necessarily having a high energy component, which adjustment would release factors of production for additional

exports or for import substitution. The mix of possible forms of adjustment will differ from country to country, but time is needed everywhere to carry the adjustment process to its completion. In the meantime, the part of the increased energy costs which is being absorbed without any compensatory reduction in aggregate demand must be financed out of potential savings of households, potential profits of businesses and state enterprises and government budgets, and these changes will be reflected in a deterioration of the balances of payments of oil importing countries.

The substitution of domestic for imported energy is subject to major constraints of a technological nature and is to some extent ruled by an element of chance. We face, therefore, at this juncture the critically important but very difficult judgment of how fast it is safe to proceed with adjustments of the demand for energy or of aggregate demand, and how safe it is to delay such adjustments. If the countries affected were to try to make this judgment and act on it independently, their unilateral decisions in matters of demand management would be self-defeating, given the degree of their interdependence. But if a rational solution lies along multilateral lines, then the world community must assume full responsibility for such a solution.

It is in this spirit that Mr. Witteveen, the Managing Director of the International Monetary Fund, took certain important initiatives as far back as January of this year. At a meeting in Rome of the Committee of the Board of Governors of the International Monetary Fund on Reform of the International Monetary System and Related Issues he was instrumental in having the Governors assembled call on national authorities not to take unilateral actions that would have the effect of shifting to

other countries the burden of adjusting to their increased oil import costs. The Governors were, thus, espousing a course of cautious demand adjustment for oil importing countries. Such a course naturally raises the question of how the oil deficits are to be financed, and this financing need has come to be referred to as the problem of recycling. Fully recognizing the implications of their stand, the Governors also called on competent international organizations to collaborate toward finding an early solution to the problem of recycling, and endorsed the examination of Mr. Witteveen's proposal to establish in the International Monetary Fund a new Oil Facility to help oil importing countries, and particularly the developing countries, in the Fund's membership finance their oil-related balance of payments deficits. The relevant portions of the Rome Communiqué read as follows:

January 18, 1974

"1. The Committee of the Board of Governors of the International Monetary Fund on Reform of the International Monetary System and Related Issues (The Committee of Twenty) held their fifth meeting in Rome on January 17 and 18, 1974 under the Chairmanship of Mr. Ali Wardhana, Minister of Finance for Indonesia. Mr. Johannes Witteveen, Managing Director of the International Monetary Fund, took part in the meeting which was also attended by Mr. Wilhelm Haferkamp, Vice-President of the EEC, Mr. René Larre, General Manager of the BIS, Mr. Emile van Lennep, Secretary-General of the OECD, Mr. Olivier Long, Director-General of the GATT, Mr. Manuel Pérez-Guerrero, Secretary General of the UNCTAD, and Sir Denis Rickett, Vice-President of the IBRD.

2. Members of the Committee began by reviewing important recent developments including the large rise in oil prices and the implications for the world economy. They expressed serious concern at the abrupt and significant changes in prospect for the world balance of payments structure. They recognized that the current account surpluses of oil-producing countries would be very greatly increased, and that many other countries--both developed and developing--would have to have large current account deficits. In these difficult circumstances the Committee agreed that in managing their international payments countries must not adopt policies

which would merely aggravate the problems of other countries. Accordingly, they stressed the importance of avoiding competitive depreciation and the escalation of restrictions on trade and payments. They further resolved to pursue policies that would sustain appropriate levels of economic activity and employment, while minimizing inflation. They recognized that serious difficulties would be created for many developing countries and that their needs for financial resources will be greatly increased and they urged all countries with available resources to make every effort to supply these needs on appropriate terms. The Committee agreed that there should be the closest international cooperation and consultation in pursuit of these objectives. They noted that the International Monetary Fund, the World Bank and other international organizations are concerned to find orderly means by which the changes in current account positions may be financed, and they urged that these organizations should cooperate in finding an early solution to these questions, particularly in relation to the difficult problems facing nonoil-producing developing countries. In particular, while recognizing the uncertainties with regard to future developments in the field of energy, the Committee agreed that the proposal of the Managing Director of the International Monetary Fund for a temporary supplementary facility should be urgently explored. It is recognized that such a facility poses operational problems which must be resolved and would, particularly for nonoil-producing developing countries, be only a partial measure, in view of the nature and magnitude of the balance of payments problems created..."

2. The Magnitude of the 1974 Recycling Effort

Before proceeding to a description of the International Monetary Fund's new Oil Facility, it is worth contemplating the magnitude of the immediate recycling effort, with particular reference to the developing countries.

According to the estimates of the staff of the International Monetary Fund, this year's oil-related balance of payments deficit of the group of oil importing countries among its membership will be on the order of $65 billion. The lion's share of this deficit will be borne by the developed countries. The group of oil importers among the developing member countries of the International Monetary Fund (for a listing see Annex I) will suffer this year a prospective oil-related deficit of some $7 billion, in addition to a projected deterioration of their balance of payments on nonoil current account of roughly equal magnitude. This group of countries

gained some \$5 billion in international reserves last year. This means that if they attracted the same amount of foreign capital, official and private, as they did last year, they would stand to lose \$8 billion in reserves this year. They could probably withstand such a reserve loss, considering that their combined international reserve holdings exceeded \$24 billion at the beginning of the year. However, the figure cited exaggerates in all probability the reserve loss they stand to suffer this year because it does not take into account new facilities for receiving assistance with the financing of oil-related balance of payments deficits. Oil importing developing countries will receive this year perhaps \$1 billion in special bilateral aid from oil exporting countries and possibly some \$1½ billion from use of the International Monetary Fund's new Oil Facility. With an allowance for the use of these newly developed forms of financial assistance, the group of net oil importers among the developing member countries of the International Monetary Fund stands to suffer this year a net international reserve loss of some \$5½ billion. The staggering problem of recycling the funds newly accruing to the oil exporting countries--as distinct from the even more vexing problem of the transfer of income and wealth--is, therefore, predominantly one between them and the oil importers among the developed rather than the developing countries.

These estimates are most emphatically not presented to invite complacency. The lumping together of 79 countries in all parts of the world inevitably involves a level of generalization that does not do justice to their individual situations. We are here mainly concerned with Latin America and the Caribbean, so let us look at the 19 oil

importing member countries of the International Monetary Fund in this region, first as a group, and then identify those among them which are more severely affected than the rest.

Before proceeding, it is worth noting that the Latin American-Caribbean region will gain on balance from the surge of oil prices. The group of five net oil exporters of the region--Bolivia, Colombia, Ecuador, Trinidad and Tobago, and Venezuela--is likely to improve its combined current account balance of payments performance this year by more than $6½ billion. This prospective gain is substantially larger than the losses that the group of 19 oil importing member countries of the International Monetary Fund of the region will suffer this year--an estimated $3.8 billion increase in their oil import bill and an estimated $1.3 billion deterioration on their nonoil current balance of payments account, for an estimated overall current account deterioration of $5.2 billion. This year's net capital inflow into these 19 countries is projected at $8.8 billion, about $1.8 billion larger than last year's, not including in this projection their receipts of special bilateral assistance from two of the oil exporting countries of the region and their use of the International Monetary Fund's Oil Facility, which together could yield them another $½ billion. Since the 19 countries registered last year a net international reserve gain of $3.4 billion, their combined reserve holdings of close to $11-3/4 billion should remain substantially intact this year, as the table below shows.

Summary Balance of Payments Performance of Group of 19 Net Oil Importing IMF Member Countries in Latin America and the Caribbean, 1973 and 1974

	(In billions of U.S. dollars)		
	Actual 1973	Projected 1974	Projected Change 1973 to 1974
Net oil imports	-1.6	-5.5	-3.8
Nonoil current account transactions	-2.1	-3.4	-1.3
Net ordinary capital movement	+7.1	+8.8	+1.8
Net international reserve change	+3.4	--	-3.4

The country in this group that is by far the most severely affected by the oil price increase, as the table on the following page shows, is Brazil, whose petroleum import bill is likely to increase by some $2.3 billion, which is 60 per cent of the increased petroleum import bill for the entire group of 19 countries. Far behind follow Chile with an estimated $335 million increase in its oil import costs, Argentina with $310 million, Uruguay with $120 million, Jamaica with $110 million, Peru with $105 million, Mexico with $100 million, and the Dominican Republic with more than $90 million. The five Central American Republics are likely to have to pay a combined $230 million more for their petroleum imports than last year.

Nine countries in this group also stand to suffer this year a deterioration in their nonoil current account balance of payments performance--one of them only very marginally--which represents a prospective drain of more than $2 billion on top of the prospective increase of almost $3 billion in their combined petroleum import bill. The list of these nine countries is again led by Brazil with a projected deterioration of almost $1½ billion, which is larger than the total projected net

Summary Balance of Payments Performance of 19 Net Oil Importing IMF Member Countries in Latin America and the Caribbean, 1973 & 1974

(In millions of U.S. dollars)

	Actual Performance in 1973				End-of-1973	Projected Performance in 1974			
	Net Oil Imports	Nonoil Current Account	Total Current Account	Net Capital Movement	Gross Official International Reserve Holdings	Net Oil Imports	Nonoil Current Account	Total Current Account	Net Capital Movement
Argentina	-158	+910	+752	-104	1,468	-467	+889	+422	-
Bahamas	-16	-6	-23	+30	44	-46	+27	-19	+18
Barbados	-7	-43	-50	+51	31	-19	-41	-60	+48
Brazil	-709	-1,018	-1,727	+4,157	6,973	-3,000	-2,500	-5,500	+5,500
Chile	-121	-334	-455	+299	258	-455	+37	-417	+228
Costa Rica	-28	-86	-113	+131	51	-84	-76	-160	+140
Dominican Republic	-48	-31	-79	+82	75	-140	+24	-116	+128
El Salvador	-19	-20	-39	+11	62	-53	-60	-114	+46
Guatemala	-34	+71	+37	+30	210	-122	+78	-43	+19
Guyana	-18	-31	-50	+16	20	-53	+25	-28	+42
Haiti	-4	-22	-26	+21	17	-13	-13	-26	+22
Honduras	-22	-12	-34	+37	37	-41	-29	-70	+57
Jamaica	-65	-185	-249	+207	136	-177	-105	-282	+318
Mexico	-235	-1,047	-1,282	+1,427	1,282	-333	-1,267	-1,600	+1,600
Nicaragua	-23	+6	-16	+96	148	-58	-90	-148	+150
Panama	-12	-119	-131	+245	32	-33	-213	-246	+217
Paraguay	-7	+2	-5	+28	56	-32	+1	-32	+28
Peru	-60	-183	-244	+257	568	-164	-109	-273	+224
Uruguay	-55	+92	+38	+60	222	-176	+23	-153	+59
Total	-1,641	-2,057	-3,698	+7,081	11,689	-5,466	-3,398	-8,865	+8,844

deterioration on nonoil account for the entire group of 19 countries. It is followed by Mexico with a prospective deterioration of $220 million, and Nicaragua and Panama about $95 million each. However, all of these most severely affected countries--with the possible exception of Honduras and Uruguay--either have an adequate international reserve cushion or should manage to attract sufficient foreign capital, or both, to withstand their current account deterioration this year. The other ten countries stand to be compensated for all but $200 million of the $900 million prospective increase in their petroleum import bill by gains on their nonoil current balance of payments account.

3. The Oil Facility of the International Monetary Fund

On June 13, 1974, the Board of Executive Directors of the International Monetary Fund approved the establishment of an Oil Facility to help oil importing member countries, with an eye particularly on the developing ones, finance the balance of payments impact of their sharply increased petroleum import costs. The text of the decision to establish the Oil Facility is reproduced in Annex II. The life of this new facility is intended to be short, up to the end of 1975.

The International Monetary Fund did not have to set up a new facility to assist with the recycling of oil funds; it could have accomplished the same results by engaging in conventional operations with net oil importing members. But the conditionality applying to the Fund's conventional operations was not deemed suitable to the situation which the typical oil deficit country faces at present and hence it was felt that

oil deficit countries should be entitled to seek financial assistance from the Fund on conditions that are more appropriate to their prevailing circumstances. Moreover, the uncertainties inherent in the present state of the international monetary system call for a cautious husbanding of the Fund's liquidity, and hence it was judged that the Fund could not afford to offer, from its own capital, assistance on a scale commensurate with the new oil-related balance of payments deficits.

These considerations were deemed to warrant the establishment of a special facility financed with funds borrowed for this purpose from oil exporting and, potentially, from industrialized member countries. The International Monetary Fund has offered potential lenders an interest rate of 7 per cent per annum and a measure of exchange rate guarantee in the form of a denomination of such debt in special drawing rights, the new international unit of account, which were endowed on that occasion with a stable value in relation to a basket of the following 16 member currencies, weighted as shown:

Member Currencies in Basket	Weights
United States	33%
Germany	12½%
United Kingdom	9%
France	7½%
Japan	7½%
Canada	6%
Italy	6%
Netherlands	4½%
Belgium	3½%
Sweden	2½%
Australia	1½%
Denmark	1½%
Norway	1½%
Spain	1½%
Austria	1%
South Africa	1%
Total	100% 1/

1/ The value of the special drawing right at the start was equal to 1.20635 U.S. dollars.

To date, the International Monetary Fund has secured for the Oil Facility the amounts shown from the following seven member countries, for a total of about $3.4 billion:

	(In millions of U.S. dollars)
Abu Dhabi	120.6
Canada	311.1
Iran	699.7
Kuwait	482.5
Oman	24.1
Saudi Arabia	1,206.4
Venezuela	542.9
Total	3,387.3

The Oil Facility is available to member countries which are net oil importers and are running overall balance of payments deficits in 1974. Drawings on the Oil Facility are subject to special repayment terms. They are repayable within seven years in 16 equal quarterly installments after an initial three-year grace period, but repayment has to be accelerated if a country's international reserve position improves. The cost of drawings from the Oil Facility is an annual interest rate of 6 7/8 per cent of the outstanding balance for the first three years such a drawing is outstanding, 7 per cent for the fourth year, and 7 1/8 per cent a year for the remaining time to maturity. In addition, the transaction is subject to the Fund's standard one-time service charge of 1/2 per cent payable at the time of the drawing. The combination of interest and service charge yields an effective annual borrowing cost of 6.9095 per cent for the first three years, of 7.0351 per cent in the fourth year, and 7.1608 per cent for the last three years.

The potential use of the Oil Facility in 1974 is limited to the smaller of the following two amounts: (a) 75 per cent of a member's quota in the International Monetary Fund; or (b) the calculated entitlement, which is a presumptive formula for this year's impact on a member's balance of payments of its increased oil import costs reduced by the difference between 10 per cent of a member's gross international reserve holdings at year-end 1973 and an allowance for the variability of its export earnings.[1] The presumptive formula used for the time being is the amount yielded by multiplying a member's net oil import volume in 1972 by $5.50 per barrel, but this formula is likely to be replaced shortly by a new one that applies a higher incremental price per barrel, perhaps $7.25, to the net 1972 import volume, possibly adjusted for part of the change in the volume of imports from 1972 to 1973.

Having established, in this fashion, a member's maximum potential entitlement to use the Oil Facility, the staff of the International Monetary Fund then projects a member's balance of payments performance in 1974, and the projected deficit qualifies for financing through the Oil Facility to the extent that it does not exceed a member's maximum potential entitlement calculated as described above. In making its balance of payments projections, the Fund staff must take account of any special bilateral assistance a member is receiving this year from oil exporting countries, of its prospective net use of development

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1/ The export variability allowance is based on two standard deviations from a centered five-year moving average calculated for the period 1955-1971 but scaled to the 1972 level of exports.

loans and suppliers' credits, and of its net borrowing operations in international money markets. A distinction is made, for the time being, between developed and developing countries for projecting their market borrowings in 1974. Developed countries are expected to utilize their capacity to borrow on international markets before seeking access to the Oil Facility, whereas this presumption is not applied with equal force to developing countries.

A further condition for access to the Oil Facility is a judgment by the International Monetary Fund that a member is observing the spirit of the afore-mentioned Rome Communiqué. This judgment revolves around a view of the scope of any new trade or payments restriction that a member may have imposed this year for balance of payments reasons--including, for example, a tariff increase or an advance import deposit requirement--and on the quality of official assurances that the new restriction is intended to be of a purely temporary nature.

The decision establishing the Oil Facility calls for a review of this facility by the Executive Directors of the International Monetary Fund in mid-September and for another review around the end of the year. The first review is now in progress, and among other results, it is expected, as has already been mentioned, that it will produce an updated formula for calculating members'maximum potential entitlement to use the Oil Facility in 1974. The next review is likely to lead to a decision on whether and to what extent the Oil Facility will be continued into 1975, and if it is extended, to come up with revised rules for access to this facility in the coming year. The decision establishing the Oil Facility already sets the stage for making any use of this

facility in 1975 subject to more conditionality than is required this year, in order to encourage oil importing member countries to pursue with enhanced vigor the needed adjustment of their balances of payments.

4. The International Monetary Fund's Share in Recycling Operations

If the estimate of $65 billion for the oil exporting countries' gain this year on current balance of payments account is accepted as the measure of the need for recycling oil funds in 1974, then the International Monetary Fund's Oil Facility with its present funding of $3.4 billion does not look particularly impressive. However, this facility is intended, and is likely, to serve particularly the needs of developing member countries that are net oil importers, and as such it offers a certain compensation for the tendency of the international financial markets to lean in the opposite direction.

The Executive Directors of the International Monetary Fund have stipulated that, until they complete their mid-September review of the Oil Facility, qualified member countries may draw on the Oil Facility amounts not exceeding 35 per cent of their 1974 calculated entitlement according to the formula or 100 per cent of their assessed balance of payments need, whichever amount is smaller. Drawing requests totaling about $675 million from the following 27 member countries, and in the amounts shown, have been processed to date:

	(In millions of U.S. dollars)
Developing countries in Latin America	97.2
Chile	50.0
Costa Rica	6.5
El Salvador	5.3
Haiti	1.3
Nicaragua	4.0
Panama	8.9
Uruguay	21.2
Developing countries in other parts of the world	168.5
Bangladesh	15.0
Cameroon	5.6
Central African Republic	0.8
Chad	1.3
Fiji	0.4
Guinea	4.2
Ivory Coast	13.5
Kenya	11.1
Korea	25.3
Liberia	6.7
Malagasy Republic	4.2
Pakistan	36.9
Sierra Leone	5.2
Sri Lanka	13.3
Sudan	11.4
Tanzania	7.6
Uganda	6.0
Developed countries	408.7
Greece	43.7
Italy	316.7
Yugoslavia	48.3
Total	674.4

The drawings from the Oil Facility thus far are not overwhelming, but they are likely to accelerate during the remainder of the year. First of all, the facility became operational only in late August, when the pledges of the seven lenders to the facility were finalized. Some interested member countries have deferred their drawing requests because of difficulties of an operational nature on their side, others because they are still preparing information needed by the Fund's staff for the

assessment of their balance of payments need. Still others have held off because they are reluctant to sacrifice their gold tranche positions in the Fund--i.e., the part of their gold subscription equal to 25 per cent of their quota that is still intact--which under the Fund's Articles of Agreement they are required to draw before using the Oil Facility, and the same holds true a fortiori of the few developing member countries that have a super gold tranche position--i.e., are net creditors of the Fund. Some of these inhibitions may well be cast aside later this year when balance of payments strains become more severe than they are now.

One may assume, therefore, that the $3.4 billion now available in the Oil Facility will have been substantially utilized by the end of this year, and from the partially completed exercise of projecting 1974 balance of payments results one may expect the amounts drawn this year from the Oil Facility to be about equally divided between developed and developing member countries. Using a round figure of $1½ billion for each of these two groups, the role of the International Monetary Fund in recycling oil funds is revealed in an entirely new light. Whereas the weight of a $3 billion contribution toward the prospective global recycling need of $65 billion is less than 5 per cent, a $1½ billion share of the developing countries in the use of the Oil Facility would come close to 25 per cent of their prospective current account deterioration caused by their increased oil import costs, and the aggregate share of the developed member countries would come to only 2½ per cent of their increased oil import costs. Moreover, special bilateral assistance from oil exporting countries may finance as much as another 15 per cent of the oil related loss of the developing countries.

The intensity of the use in 1974 of the Oil Facility in relation to the balance of payments impact of higher oil import costs is likely to show marked regional differences. As against an estimated ratio near 25 per cent for the International Monetary Fund's entire membership of oil importing developing countries, this ratio is not likely to exceed 10 per cent for such member countries in Latin America and the Caribbean. But then the 19 net oil importing countries in Latin America and the Caribbean entered 1974 with an overall balance of payments surplus position of some $3\frac{1}{2}$ billion and with gross international reserves of close to $11-3/4 billion, a reserve cushion roughly equal to that of the 60 oil importing developing member countries of the International Monetary Fund in all other parts of the world.

5. Conclusions

Readers whose intuitive reaction to the conclusions drawn is that they portray too rosy a picture should bear in mind that the preceding analysis was conducted exclusively for the current calendar year. If the balance of payments strains inherent in the present situation may well be manageable this year for the oil importing developing countries as a group, they may not be so readily manageable next year, and almost certainly not the year after next, if these strains are allowed to persist.

"Recycling" is a fashionable shorthand term for generating the massive compensatory international capital flows needed in the present situation. Even when foreign capital goes to finance high priority

investments in developing countries it represents a strain on their future balance of payments position. The external debt service of many developing countries is already far too burdensome to allow them to use foreign capital for any length of time toward supporting a higher level of consumption than would otherwise be feasible. Certain developing countries have comfortable international reserve cushions which permit them to sustain consumption levels for a time without incurring additional international foreign indebtedness, but the magnitude of their increased oil import costs is such that this cushion could quickly vanish. The oil importing developing countries, therefore, have no alternative but to adjust without undue delay to their new balance of payments situations. It is the inevitability of this adjustment by developing countries that gives the problem of recycling, staggering as it may appear at the moment, its strictly temporary character.

The effort needed to adjust to the new situation looks perhaps more formidable than it is. Admittedly, the demand for energy is inelastic and, moreover, has been following a markedly ascending trend almost everywhere in the world. Until domestic sources of energy gradually displace imported petroleum, the volume of petroleum imports by oil deficit countries is, therefore, likely to be reduced only marginally by the sharp increase in petroleum prices. In this case, it is the consumption of nonenergy goods and services, be they locally produced or imported, that will have to be compressed. Leaving aside the problem that developing countries in other parts of the world may face, it would seem appropriate to quantify here the burden of the

adjustment for the group of 19 net oil importing member countries of the International Monetary Fund in Latin America and the Caribbean. The prospective increase from 1973 to 1974 in their oil import bill is, as already mentioned, $3.8 billion. Since their combined 1973 GDP is estimated at around $200 billion, the adjustment effort they need to make is equivalent to less than 2 per cent of GDP, by no means an impossible effort, if one considers changes in the tax burden and current account balance of payments performance of individual countries in this group in recent years.

The problem of adjustment would, of course, be aggravated if net oil importing developing countries simultaneously suffered a decline of their commodity export prices from the broadly satisfactory levels at present. It is, therefore, of critical importance to the developing countries that this does not happen, and this emphasizes the need to sustain and raise the level of economic activity in the industrialized countries. Recognizing the importance to the world at large of the economic performance of the industrialized countries, the Managing Director of the International Monetary Fund has come out forcefully in favor of a gradual adjustment of global demand and against unilateral actions by individual countries, particularly against the resort to trade and exchange restrictions or to competitive exchange devaluations. Measures in restraint of international trade could well precipitate a contraction of world economic activity that snowballs with every new restriction that is imposed.

The point was made earlier that developing countries need to observe caution in their external debt management in order to protect their future balance of payments position. While they cannot afford to rely on increased inflows of foreign capital in misguided efforts to sustain for any length of time consumption levels jeopardized by the recent oil price increase, a developing country typically does and should run a current account balance of payments deficit, and hence does and should rely on capital inflows to finance a level of investment in excess of its capacity to save, as it climbs up the ladder of development. However, the suddenly changed pattern of international payments relations demands that the major oil exporting countries gradually replace the industrialized nations as prime source of the foreign capital on which the developing countries should be able to count.

THE MEMBERSHIP OF THE INTERNATIONAL MONETARY FUND

Oil Exporting Countries

Western Hemisphere

Bolivia
Canada
Colombia
Ecuador
Trinidad & Tobago
Venezuela

Europe

Romania

Middle East

Bahrain
Egypt
Iran
Iraq
Kuwait
Omar
Qatar
Saudi Arabia
Syria
United Arab Emirates

Asia

Indonesia

Africa

Algeria
Libya
Nigeria
Tunisia

Oil Importing Developed Countries

Western Hemisphere

United States

Europe

Austria
Belgium
Denmark
Finland
France
Germany, Federal Republic of
Greece
Iceland
Ireland
Italy
Luxembourg
Malta
Netherlands
Norway
Portugal
Spain
Sweden
Turkey
United Kingdom
Yugoslavia

Asia

Japan

Africa

South Africa

Oceania

Australia
New Zealand

Oil Importing Developing Countries

Western Hemisphere

Argentina
Bahamas
Barbados
Brazil
Chile
Costa Rica
Dominican Republic
El Salvador
Guatemala
Guyana
Haiti
Honduras
Jamaica
Mexico
Nicaragua
Panama
Paraguay
Peru
Uruguay

Middle East

Cyprus
Israel
Jordan
Lebanon
Yemen, Arab Republic
Yemen, People's Democratic Republic

Asia

Afghanistan
Bangladesh
Burma
China, Republic of
India
Khmer Republic
Korea, South
Laos
Malaysia
Nepal
Pakistan
Philippines
Singapore
Sri Lanka
Thailand
Viet Nam, South

Oil Exporting Countries	Oil Importing Developed Countries	Oil Importing Developing Countries
		Africa
		Botswana
		Burundi
		Cameroon
		Central African Republic
		Chad
		Congo, People's Republic
		Dahomey
		Equatorial Guinea
		Ethiopia
		Gabon
		Gambia
		Ghana
		Guinea
		Ivory Coast
		Kenya
		Lesotho
		Liberia
		Malagasy Republic
		Malawi
		Mali
		Mauritania
		Mauritius
		Morocco
		Niger
		Rwanda
		Senegal
		Sierra Leone
		Somalia
		Sudan
		Swaziland
		Tanzania
		Togo
		Uganda
		Upper Volta
		Zaire
		Zambia
		Oceania
		Fiji
		Western Samoa

INTERNATIONAL MONETARY FUND

Facility to Assist Members in Payments Difficulties Resulting from Initial Impact of Increased Costs of Imports of Petroleum and Petroleum Products

Executive Board Decision - June 13, 1974

1. For a period ending on December 31, 1975, the Fund will be prepared to make resources available to members in accordance with this decision in order to assist them to meet the impact on their balances of payments of increases in the prices of petroleum and petroleum products. Resources made available under this decision will be supplementary to any assistance that members may obtain under other policies on the use of the Fund's resources.

2. (a) Requests for purchases under this decision by a member will be met by the Fund, subject to the limits in (b) and (c) below, if the Fund is satisfied (i) that the member needs assistance because of increases in the cost of its imports of petroleum and petroleum products in 1974 and because it has a balance of payments need, and (ii) that the member is following policies not inconsistent with the understandings set forth in Paragraph 2 of the Rome Communiqué of the ad hoc Committee of the Board of Governors on Reform of the International Monetary System and Related Issues and in Executive Board Decision No. 4134-(74/4). The Fund shall assess each request in order to determine whether, and the extent to which, the member has such a balance of payments need. In making this assessment the Fund shall take into account the ability of the member to reduce this need, particularly through an inflow of capital, including an increase in aid on concessionary terms, or by increased exports to oil exporting countries, or to meet this need by some use of its reserves. For the purpose of this decision, any assistance made available to a member other than under this decision shall be deemed to finance first the part of the member's deficit that is not attributable to the increased cost of imports of petroleum and petroleum products.

(b) The total of a member's purchases outstanding under Paragraph 2 of this decision shall not exceed the smaller of (i) the increase in the cost of the member's net imports of petroleum and petroleum products over the cost of its imports of these commodities in 1972, calculated in accordance with Paragraph 1 of the Attachment to this decision, minus an amount equivalent to 10 per cent of the member's reserves at the end of 1973, adjusted for variability of exports in accordance with Paragraph 2 of the Attachment to this decision, and (ii) 75 per cent of the member's quota.

(c) The total of a member's purchases outstanding under Paragraph 2 of this decision shall not exceed 35 per cent of the amount referred to in (b) above prior to any decision that the Fund may take under Paragraph 8.

3. On the request of a member, the Fund may make an appropriate adjustment in the total amount of outstanding purchases that a member may make under Paragraph 2(b) above if the Fund is satisfied that this amount should be higher because the member's imports of petroleum and petroleum products in 1972 were abnormally low because of exceptional circumstances.

4. In order to carry out the purposes of this decision, the Fund will be prepared to grant any waiver of the conditions of Article V, Section 3(a)(iii) when necessary to permit purchases under this decision or to permit purchases under other policies that would raise the Fund's holdings of a member's currency above the limits referred to in that provision because of purchases outstanding under this decision. In addition, the Fund will apply its tranche policies to requests by a member for purchases other than gold tranche purchases as if the Fund's holdings of the member's currency did not include holdings resulting from any purchases outstanding under this decision.

5. (a) A member that has made a purchase under this decision will be expected to cooperate with the Fund in order to find appropriate solutions for its balance of payments problem. For this purpose the member will consult with the Fund during the year and subsequently during the period in which it has purchases outstanding under this decision, thereby affording the Fund an opportunity to ascertain whether the member's policies are conducive to balance of payments adjustment and to repurchase in accordance with (d) below.

(b) Before submitting a request for a purchase under this decision for 1975, a member will be expected to consult the Fund on its balance of payments prospects and policies, including the effect on the balance of payments of the policies it has adopted or intends to adopt in relation to the oil problem.

(c) A member requesting a purchase under this decision will be expected to represent that it is following policies consistent with the understandings set forth in Paragraph 2 of the Rome Communiqué of the ad hoc Committee of the Board of Governors on Reform of the International Monetary System and Related Issues and that, while the purchase is outstanding, it will refrain (i) from imposing new, and from intensifying existing, restrictions on current international payments inconsistently with its obligations under the Fund's Articles of Agreement and (ii) from imposing new, or intensifying existing, restrictions on current international transactions without prior consultation with the Fund.

(d) A member requesting a purchase under this decision will be expected to represent that it will make a repurchase corresponding to the purchase, to the extent that it is still outstanding, as soon as the balance of payments problem for which the purchase was made has been overcome and, in any event, in sixteen equal quarterly installments to be completed not later than seven years after the purchase, and that it will make repurchases under this decision, other than those accruing under Article V, Section 7(b), in the media specified by the Fund at the time

of the repurchase. The Fund will specify the media of repurchase consistently with the Articles and after consultation with members. The Fund will pay due regard to these consultations and will be guided by a policy of specifying for repurchase the media in which it will made repayments in accordance with the terms of borrowing agreements.

6. The Fund will indicate in an appropriate manner which purchases by a member are made pursuant to this decision.

7. The Fund will levy charges on holdings of a member's currency resulting from purchases outstanding under this decision in accordance with Executive Board Decision No. 4238-(74/67) of June 13, 1974.

8. Not later than September 15, 1974, the Executive Directors will review developments since the adoption of this decision in order to decide, in the light of the Fund's existing and prospective liquidity, (i) whether purchases under the decision in excess of the limit specified in 2(c) above shall be permitted and (ii) on any adaptations that should be made in the provisions of this decision, including changes in the period that is taken as the basis for calculating the amount of imports of petroleum and petroleum products and in the amount representing the increase in the cost of these products. A further review will be conducted not later than December 31, 1974 in order to decide whether and on what terms to permit purchases with respect to the impact on the balance of payments of the increased cost of imports of petroleum and petroleum products in 1975. The Executive Directors will review this decision at any other time if they consider it appropriate to do so.

Decision No. 4241-(74/67), adopted
June 13, 1974

Attachment

Attachment to
Executive Board Decision
No. 4241-(74/67), 6/13/74

1. The increase in the cost of a member's net imports of petroleum and petroleum products referred to in Paragraph 2(b)(i) of the decision will be taken to be equal to the SDR equivalent of US$5.50 (at 1 SDR equals US$1.20635) multiplied by the volume in barrels of the member's net imports (i.e., imports less exports) of these commodities in 1972.

2. The adjustment for variability of exports referred to in Paragraph 2(b)(i) of the decision will be made by deducting from the member's reserves at the end of 1973 an amount equal to twice the root mean squared proportional deviation of export values from a centered five-year moving average (using export series generally covering the period 1955-71), multiplied by the SDR value of exports in 1972. If the deduction results in a negative figure, the maximum amount that the member could purchase under Paragraph 2(b)(i) of the decision would equal the increase in the cost of its imports of petroleum and petroleum products, calculated in accordance with paragraph 1 of this attachment.