

THE WORLD BANK GROUP ARCHIVES

PUBLIC DISCLOSURE AUTHORIZED

Folder Title: Moeen Qureshi Files - Gulf Persian Crisis - Correspondence - Volume 1

Folder ID: 1660724

Series: Subject files

Dates: 08/17/1990 – 09/20/1990

Subfonds: Moeen Qureshi files

Fonds: Records of Individual Staff Members

ISAD Reference Code: WB IBRD/IDA STAFF-26-01

Digitized: 08/01/2025

To cite materials from this archival folder, please follow the following format:
[Descriptive name of item], [Folder Title], Folder ID [Folder ID], ISAD(G) Reference Code [Reference Code], [Each Level Label as applicable], World Bank Group Archives, Washington, D.C., United States.

The records in this folder were created or received by The World Bank in the course of its business.

The records that were created by the staff of The World Bank are subject to the Bank's copyright.

Please refer to <http://www.worldbank.org/terms-of-use-earchives> for full copyright terms of use and disclaimers.



THE WORLD BANK

Washington, D.C.

© International Bank for Reconstruction and Development / International Development Association or

The World Bank

1818 H Street NW

Washington DC 20433

Telephone: 202-473-1000

Internet: www.worldbank.org

PUBLIC DISCLOSURE AUTHORIZED

OPNSV
SVP QURESHI'S
SUBJECT FILES

Gulf (Persian) crisis

1990

①

DECLASSIFIED
WITH RESTRICTIONS
WBG Archives



Office Memorandum

DATE: Thursday, September 20, 1990

URGENT

TO: Messrs. Conable, Qureshi, Wapenhans

CONFIDENTIAL

FROM: Koji Kashiwaya, CFSVP *lg*

DECLASSIFIED

EXT.: 80809

NOV 11 2023

SUBJECT: Gulf Crisis Countries

WBG ARCHIVES

On September 19, Mr. Chino, Director General, Japanese Ministry of Finance (MOF) discussed with Mr. Dallara, Assistant Secretary U.S. Treasury how to address the issue of economic assistance to the front line countries. The U.S. is still insisting upon an integrated meeting for the three countries (Turkey, Jordan and Egypt) chaired by the U.S. (maybe Mr. Dallara). The U.S. argues that in order to mobilize military as well as economic assistance to the maximum extent from possible donors, a joint meeting under the leadership of the U.S. Government is inevitable. The Government of Japan (GOJ) is opposed to the U.S. idea and is urging that the Bank should chair this meeting and thus show that the donors are united in their action towards the frontline countries, and that their contribution is consistent with development assistance programs for these countries. In this context, the Bank is the appropriate organ to chair the meeting. GOJ may have to reject the U.S. proposal for domestic political reasons as many MPs are critical of the Government's concessions to the U.S. GOJ, therefore, may approach other European donors for their support for this idea. The issue will be discussed today in the G7 Deputies meeting.

KKashiwaya:jed

The World Bank/IFC/MIGA
O F F I C E M E M O R A N D U M

DATE: 20-Sep-1990 11:23am

TO: See Distribution Below

FROM: David R. Bock, OPNSV (DAVID BOCK)

EXT.: 72942

SUBJECT: Grants for Repatriation of Workers

Further to my EM earlier today, Moeen would like to meet at 3 PM to discuss the issue of grants to cover repatriation costs. He will also use this opportunity to review a number of issues related to the operational response to the Gulf Crisis.

DISTRIBUTION:

TO: Gautam S. Kaji	(GAUTAM KAJI)
TO: Shinji Asanuma	(SHINJI ASANUMA)
TO: Heinz Vergin	(HEINZ VERGIN)
TO: Ram K. Chopra	(RAM K. CHOPRA)
TO: Michael H. Wiehen	(MICHAEL H. WIEHEN)
TO: Attila Karaosmanoglu	(ATTILA KARAOSMANOGLU)
TO: W. A. Wapenhans	(W. A. WAPENHANS)
TO: Enzo Grilli	(ENZO GRILLI)
TO: Hans Wyss	(HANS WYSS)
CC: Moeen A. Qureshi	(MOEEN QURESHI)
CC: C.L. Robless	(C.L. ROBLESS)

DECLASSIFIEDSTRICTLY CONFIDENTIAL

NOV 11 2023

September 20, 1990

WBG ARCHIVESMr. Moeen A. QureshiEgypt and Jordan: Your request this morning

Please find below our best very rough estimates on the impacts on the budgets of Egypt and Jordan of the "returnees" on a fiscal year basis.

For Egypt, the cost for providing food, housing and other assistance to the estimated 1 million returnees from abroad is roughly LE 500 million (about \$185 million at the prevailing exchange rate). These include about LE 100 million for food, LE 50 million for emergency assistance, and the rest for housing and/or reinstating former Government employees to the Government payroll.

For Jordan, the budget impact of returning Jordanians there would entail an increase in expenditures of about JD 60 million (\$90 million), which would include increased expenditures on education, health, housing, subsidies and relief operations.

Ram K. Chopra

cc: Messrs. Wapenhans
Bock
Blanchi
Wiehen

STVoyas:jh

The World Bank/IFC/MIGA
O F F I C E M E M O R A N D U M

DATE: 19-Sep-1990 04:20pm

TO: See Distribution Below

FROM: Shinji Asanuma, AS1DR (SHINJI ASANUMA)

EXT.: 80415

SUBJECT: Gulf Crisis and IDA Resources

As indicated in our submissions on possible responses to the Gulf Crisis for Bangladesh and Sri Lanka (a memorandum attached to Russ Cheetham's September 10 memorandum to you), we believe that any substantive responses for these two countries cannot be launched without additional IDA resources. In fact the responses suggested in said memorandum are predicated upon additional IDA resources of a maximum of \$200 million for Bangladesh and \$75 million for Sri Lanka--in the form of additional commitment authority to cover FYs91 and 92.

Most of these additional IDA resources is to be used for supplementing the adjustment operations in the existing lending program. In fact, through a separate channel, we are requesting Mr. Qureshi to approve, as the very first instance of the Gulf Crisis response for Sri Lanka, an increment of \$40 million to the \$80 million Sri Lanka Public Manufacturing Enterprises Adjustment Credit scheduled to come to the Board towards the end of October.

We are also looking into other "project-based" possibilities, and I will communicate our thoughts on this later.

DISTRIBUTION:

TO: David R. Bock	(DAVID BOCK)
CC: Moeen A. Qureshi	(MOEEN QURESHI)
CC: W. A. Wapenhans	(W. A. WAPENHANS)
CC: Attila Karaosmanoglu	(ATTILA KARAOSMANOGLU)
CC: Gautam S. Kaji	(GAUTAM KAJI)
CC: Michael H. Wiehen	(MICHAEL H. WIEHEN)
CC: Ram K. Chopra	(RAM K. CHOPRA)
CC: Heinz Vergin	(HEINZ VERGIN)
CC: Enzo Grilli	(ENZO GRILLI)
CC: C.L. Robless	(C.L. ROBLESS)
CC: Ngozi Okonjo-Iweala	(NGOZI OKONJO-IWEALA)

September 19, 1990

Mr. Conable

Barber -

We have done some more talking to various people about our Gulf Crisis Strategy, and my colleagues are working with staff in Operations to try and get a more precise handle on requirements. I hope that this will enable us to give you tomorrow the basis for an agreed view.

What seem to be emerging are the following:

- (1) Funding for the three most directly affected countries seems adequate. We need to check on the specific content of commitments and the likely rate of disbursement. That is one of the issues you might ask about when you meet with the Japanese.
- (2) Moeen was concerned, and I think quite rightly so, that we not be seen as interested only in these three countries (Egypt, Jordan, Turkey).
- (3) However, for the other immediately effected countries, the magnitudes are manageable, even though they may not be defined precisely.
- (4) Our position on the immediate aspects, therefore, should be:
 - (a) We encourage and appreciate bilateral pledges.
 - (b) We will initiate immediate consultation to see whether we can provide reconstruction loans aimed at facilities needed by returning workers.
 - (c) We can, using existing resources, increase our support in the context of agreed operations (this means we can increase adjustments loans to Sri Lanka; the Region has developed an innovative approach to using substantial amounts of available IDA funds in India). These special efforts will be funded by the reallocation of IDA resources from oil producers. (Should we wish to help finance the repatriation of refugees in Jordan, you should consider a grant to the UNCHR (or the UN relief coordinator) to help finance transport. If not already financed, Board support would be assured).

- (5) The distinction between these requirements and the impact of the oil price increases is not one of timing. Moeen is quite right on this. Clearly, the impact of oil price increases has begun to affect large numbers of countries and does so increasingly as time passes. The longer the price is high, the greater the impact.
- (6) To deal with these additional requirements needs a consolidated approach to fund raising. It is the interest in this issue which I believe you should explore -- i.e., support for the idea to convene a meeting, in December or early January, of OECD and Gulf countries to explore commitments of substantial additional concessional assistance to be used:
 - (a) To top up adjustment lending in IDA countries.
 - (b) To help finance the external requirements of the lower-middle income countries just beyond the IDA cut-off.
- (7) In addition, we should explore whether Saudi Arabia and Kuwait will take the lead in announcing a one-year moratorium on credits due to their Governments or Financial institutions.



Ernest Stern

Office Memorandum

8/18 Öng: Mr. Qureshi

900918012

01

DATE: Tuesday, September 18, 1990

TO: Messrs. Conable, Qureshi, Wapenhans

FROM: Koji Kashiwaya, CFSVP



EXT.: 80809

SUBJECT: G7 Attitude towards the Gulf CrisisSTRICTLY CONFIDENTIAL
DECLASSIFIED

NOV 11 2023

WBG ARCHIVES

cc: Messrs. Boole
Galle

1. At the G7 Deputies meeting in Paris on September 10, Japan and the U.S. strongly urged that the multilateral economic support for frontline countries be handled in economic terms through the Treasury or Ministry of Finance rather than by political demonstration through diplomatic channels.
2. When Mr. Utsumi proposed that emergency support group meetings should be held on a country-by-country basis instead of forming an integrated multilateral trust fund, as proposed by the U.S., the European donors agreed. Eventually the U.S. may have to come to terms with this suggestion. The U.K. and Italy urged the Bank to chair this emergency meeting because of the Bank's experience in this type of operation, although the French proposed co-chairmanship by the Bank and one host country, per one recipient. According to Mr. Utsumi the U.S. is a little apprehensive that maybe not only the Treasury/MOF but also the State Department/MOFA will become involved in the discussions under the chairmanship of the Bank because Germany and U.K. will send their development aid agencies.. In this regard one might argue that the IMF is the more appropriate organization to chair the meeting. But the current impasse between the IMF and Egypt causes uncertainty and irritates the G7. There may be the argument within the U.S. Government that the U.S., for practical reasons, should chair or lead the emergency meeting.
3. With respect to the Bank's proposal for hosting an emergency meeting for Egypt, Mr. Utsumi wishes to wait for the outcome of the G7 Deputies meeting in Washington on September 20, even though he would prefer the Bank's chairmanship of this emergency meeting. Under the current situation, I believe, we should first of all informally sound out the U.S. Treasury at the highest level and obtain its support. At this time the Bank may argue that so long as the IMF sticks to strict conditionality regarding Egypt, the Bank is the most appropriate international institution to mediate/coordinate the donors, the borrowers and the IMF. If the U.S. is determined to chair the meeting, the Bank may argue that aid coordination under the framework of IFIs would assure the viability of economic recovery from the Gulf crisis and stronger support from many donors as well as from the recipients. Otherwise, bilateral assistance with strong political motivations might jeopardize the efforts of the borrowers to pursue adjustment programs. In addition, multilateral leadership rather than bilateral is far more commendable in view of the fact that many Arab countries resist the imposition of economic policy reforms from the U.S. As the U.S. has skillfully enhanced the multilateral character of the U.N. Security Council by bringing to the fore the embargo against Iraq, the Bank should organize the emergency support group with other donors in the spirit of multilateralism.

KKashiwaya:jed

The World Bank/IFC/MIGA
OFFICE MEMORANDUM

DATE: 18-Sep-1990 07:40pm

TO: See Distribution Below

FROM: David R. Bock, OPNSV (DAVID BOCK)

EXT.: 72942

SUBJECT: Gulf Crisis and IDA Resources

1. We are trying (urgently!) to determine the need and scope for a reprogramming of IDA9 resources to "fund" the Bank's near term response to the Gulf crisis. There are two aspects to this: first, emergency assistance as outlined in the Board paper; second, topping up adjustment and other lending operations. The idea is to do some reallocation across countries within FY91 and to bring forward commitment authority from the outer years of IDA9. We would expect to restore and potentially increase this "borrowed" commitment authority from a number of sources, including transfers from IBRD, supplemental contributions, etc.

2. Some "back of the envelope" calculations suggest that we could make a significant contribution to the presently estimable costs of the Gulf crisis for the MIIs with an additional amount of \$500 million in FY91 commitment authority, excluding anything for Egypt or the Philippines. In Egypt, the numbers are too big to handle by pinching allocations to other borrowers and thus any short-run response would need to be handled with only token IDA lending -- and eligibility in the short run will present a number of other issues.

3. I am assuming -- perhaps wrongly -- from the discussion yesterday that you do not see major incremental lending needs or opportunities in your countries in FY91 that would require additional IDA resources -- absent a substantial oil shock. I need to have this confirmed soonest, as Senior Management will be consulting with the donors during the Annual Meetings about additional IDA resources. If we can handle the near term problem within the existing envelope, then these consultations can focus on mobilizing concessional assistance for the "frontline" countries (Egypt, Jordan and Turkey) only, leaving the larger issues for later.

4. In any event, I need your best estimate of additional lending that you would propose to do in FY91 (IBRD and IDA) by the end of the day on Wednesday. These estimates should give some idea of the specific operations that might be undertaken. You may wish to give a range. The important aspect is the aggregate figure for each country.

5. Finance staff may be contacting you separately for the same information. I would appreciate your referring them to this office. Finance's present position is that the resource requirements for the non-"frontline" countries are absorbable in CY90 and too uncertain in CY91 and beyond to be the basis for any serious discussion with donors at this stage. Your views on this point would be most welcome. I assume that the figures on near term needs that you will be sending will also address this point.

DISTRIBUTION:

TO: Gautam S. Kaji	(GAUTAM KAJI)
TO: Michael H. Wiehen	(MICHAEL H. WIEHEN)
TO: Ram K. Chopra	(RAM K. CHOPRA)
TO: Shinji Asanuma	(SHINJI ASANUMA)
TO: Heinz Vergin	(HEINZ VERGIN)
CC: Moeen A. Qureshi	(MOEEN QURESHI)
CC: Attila Karaosmanoglu	(ATTILA KARAOSMANOGLU)
CC: W. A. Wapenhans	(W. A. WAPENHANS)
CC: Enzo Grilli	(ENZO GRILLI)
CC: C.L. Robless	(C.L. ROBLESS)
CC: Ngozi Okonjo-Iweala	(NGOZI OKONJO-IWEALA)

The World Bank/IFC/MIGA
O F F I C E M E M O R A N D U M

DATE:

TO: Moeen A. Qureshi (MOEEN QURESHI)
FROM: Ngozi Okonjo-Iweala, OPNSV (NGOZI OKONJO-IWEALA)
EXT.: 81118

SUBJECT: EEC's relief efforts

The EEC has thus far spent about \$26 million on relief efforts. Another \$38 million is to be approved shortly. The money has been spent for a mixture of activities as follows:

a) Repatriation of refugees to Egypt, Pakistan, Sri Lanka, Philippines, Bangladesh, etc. This was done through direct payment to the airlines.

b) The above repatriation also included strengthening of the bus transport capacity in Jordan to help bus in refugees to transit camps.

c) Relief assistance to refugees in the camps in Jordan--purchase of tents, drugs etc. This was implemented by the Red Crescent, Medcins sans Frontiere, Medcins du monde and other NGOs.

d) Food Aid--Mainly purchase of food in Jordan on the local markets. The EEC mission in Jordan was beefed up to implement this. The Netherlands Red Cross also assisted.



Record Removal Notice

File Title Moeen Qureshi Files - Gulf Persian Crisis - Correspondence - Volume 1		Barcode No. 1660724		
Document Date 17 September, 1990	Document Type Letter			
Correspondents / Participants To: Mr. Shiratori From: Barber Conable				
Subject / Title Briefing note on potential World Bank assistance				
Exception(s)				
Additional Comments Declassification review of this record may be initiated upon request.		The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group. <table border="1"><tr><td>Withdrawn by A.May</td><td>Date November 11, 2023</td></tr></table>	Withdrawn by A.May	Date November 11, 2023
Withdrawn by A.May	Date November 11, 2023			

Office Memorandum

DATE: Friday, September 14, 1990

STRICTLY CONFIDENTIAL

TO: Messrs. Conable, Qureshi, Wapenhans

DECLASSIFIED

FROM: Koji Kashiwaya, CFSVP

NOV 11 2023

EXT.: 80809

WBG ARCHIVES

SUBJECT: Gulf-Crisis Countries

1. The U.S. Secretary of the Treasury, Mr. Brady visited Japan on September 7, 1990 and requested the following of Prime Minister Kaifu.

(1) Although the U.S. appreciated Japan's offer of \$1 billion to assist the multi-lateral military assistance, the U.S. requested a further \$1 billion in cash or commodities by the end of March 1991. The military cost to the U.S. has already amounted to \$3 billion per month and if war is waged the cost will triple.

(2) The U.S. explained its own ideas on extending economic assistance to the Gulf region as follows:

A. Short -Term Assistance. \$3.5 billion would be disbursed by the end of September to help the refugees, the cost of food, and the payment of oil. It is not expected that the Bank and Fund would contribute in any way.

B. Medium-Term Assistance. Total financial requirements amount to \$7-8 billion, which should be committed by the end of October 1990, and be disbursed in 1991. It is necessary to coordinate this bilateral assistance, and the solution might be to create a new fund for this purpose. Some conditionality should be required of the recipient countries. However, special consideration should be given to the current emergency situation in agreeing on these conditionalities.

	Short Term	Medium Term	Total
Egypt	0.9	2.1	3.0
Jordan	0.5-0.6	1.5	2.0-2.1
Turkey	1.4	2.7	4.1
Subtotal	2.8-2.9	6.3	9.1-9.2
Grand Total	3.5	7.0-8.0	10.5-11.5

(3) Donors should also try to help Pakistan, the Philippines, Morocco and the Eastern European countries. The U.S. has already urged the Bank and Fund to take systematic measures

to address the economic impact caused by the increase of oil prices.

2. Although Prime Minister Kaifu would not commit the Government of Japan's (GOJ) position immediately, GOJ announced the following position on September 14.
 - (1) to extend a further \$1 billion in addition to the \$1 billion multi-lateral military assistance.
 - (2) In order to extend economic assistance to the Gulf-crisis affected countries, GOJ will commit \$2 billion on concessionary terms, of which \$600 million is extended to Turkey, Jordan and Egypt at 1% interest with a 30-year maturity.
 - (3) It is uncertain at this time whether this \$600 million can be cofinanced or coordinated with the Bank. GOJ would like to disburse the amount by the end of November. If the Bank could offer candidate programs or projects to be cofinanced or were able to set up a donors' meeting (e.g. emergency support group) by that time, the Bank could use a part or whole of this \$600 million within the Bank's arm-length. Otherwise GOJ will extend merely bilateral assistance. With respect to the remaining \$1.4 billion, the criteria for eligibility, terms and conditions are still not firmed up. The Ministry of Finance hopes the Bank will exert strong leadership to organise a country-base committee and open up the opportunities for cofinancing.

Response of G7 donors (G7 Deputies in Paris on September 10)

- (1) According to the U.S. Saudi Arabia wishes to use a substantial amount to Egypt and Turkey but not Jordan. Saudi Arabia also requests that the IMF should use money from its own resources or extend a program under which the Saudis can cooperate.
- (2) France estimates that the total financial requirements for these countries in 1990 and 1991 should amount to \$6.3 billion.
- (3) The EEC estimate that the balance of payments gap for the three countries will be \$9 billion and wishes to extend \$2 billion financial assistance of which \$1 billion is paid for by the EEC itself, the remainder shared by member countries of the EEC.
- (4) Japan wished to use the Fund and the Bank in cases of short-term assistance, if this involves balance of payments support, however, Japan wishes to use the Bank and the Fund for medium-term assistance. Japan is opposed to creating a united multilateral trust fund suggested by the U.S., and proposed to formulate an Emergency Support Group for each of the three frontline countries, consisting of the Bank, the Fund, the G7 and wealthy Arab countries. This idea has a good deal of support. The U.K and Germany asserted that donors should

extend grants rather than soft loans, which principle has been opposed by Japan and Italy.

Role of IFIs:

- (5) The U.K. also states that if the Fund hesitates to participate, it should not be forced to participate in the multilateral meeting.
- (6) A great majority of G7 agreed that the Bank should chair these supporting groups.
- (7) Japan, Italy and France still insist on using CCFF for this support Group. Japan argues that under the current debt overhang and BIS capital adequate ratio, commercial banks have not been taking a catalytic role as they have done in the previous oil crisis. Therefore, the Fund and/or the Bank should take a lead or coordinating role in intermediating the recycling of oil dollars to the financially-distressed oil importers.
- (8) With respect to the emergency support groups, France suggested that not only the Bank but also a certain donor country should chair the group, because the Bank may insist too much on technical issues and may not be able to establish political reliance among donors.
- (9) The G7 agreed that the Treasury Department or MOF should control the filling of BP gaps and agreed to take full advantage of the IMF-IBRD Meetings for this purpose.

KKashiwaya:jed

13 septembre 1990

**Impact de l'augmentation du prix du pétrole
sur la situation financière de l'état
au Cameroun, Gabon, Congo**

On teste trois variantes du prix du baril de pétrole en dollars (21 \$/bl, 26 \$/bl, 31 \$/bl) à partir du deuxième semestre 90 pour les années 90, 91, 92, 93, le taux de change du CFA en \$ étant supposé rester à son niveau actuel (260 CFA par \$).

CONCLUSIONS :

I. En 1990 :

*** Au Cameroun :**

Pas d'impact en 89/90, l'année budgétaire se terminant en juin.

*** Au Gabon et au Congo :**

Impact très faible (de 5 à 45 milliards de CFA de recettes supplémentaires) et ce d'autant plus que le besoin de financement est très élevé cette année-là pour les deux pays (respectivement 295 et 370 milliards), compte tenu du poids des arriérés. Le surplus de recettes permettra d'éviter la constitution non prévue d'arriérés nouveaux et pour partie le report de mesures de rigueur nouvelles prévues au programme mais non encore effectives.

II. En année pleine 91 - 92 - 93, et si l'on suppose que le surplus de recettes est affecté uniquement au service de la dette, toutes les autres variables budgétaires étant inchangées et égales à celles fixées par le FMI.

*** Le Cameroun ne peut payer sa dette dans aucune des trois variantes envisagées.**

Sa production pétrolière (décroissante du fait de sa fiscalité forte) ne représente en effet que 58 % de celle du Congo et 41 % de celle du Gabon en 93. La charge annuelle de sa dette est par ailleurs plus élevée (respectivement de 64 % et 36 %).

- * **Le Gabon peut payer largement le service annuel de sa dette dès que le prix du baril atteint 26 \$ en année pleine. A 31 \$ le baril, le surplus après paiement de la charge de la dette atteint en moyenne 150 milliards de CFA.**
- * **Le Congo enfin ne s'en sort qu'en 92, à 31 \$/bl, mais à 26 \$/bl son besoin de financement est inférieur au montant des rééchelonnements envisageables, la gestion de sa dette cesse dès lors d'être désespérée, et l'instrument classique qu'est le Club de Paris reste utilisable. Un programme d'ajustement plus réaliste, peut être envisagé.**

III. Les comportements possibles - les nouvelles simulations envisagées

Le scénario esquissé ci-dessus est évidemment un cas d'école, et il est peu probable - ni nécessairement souhaitable - que la totalité du "surplus pétrolier" soit consacré au règlement de la dette ; il est peu probable également que la hausse des prix du pétrole reste identique pendant trois années. Globalement, on peut penser :

- . qu'une partie de ce supplément de recettes ira en accroissement des dépenses publiques
- . que de nouveaux crédits extérieurs pour l'investissement seront consentis à ces économies
- . et donc que l'activité économique, et par voie de conséquence les recettes de l'état, en seront modifiées
- . en matière de prix enfin, sauf à imaginer la résolution rapide de la crise (retour à la situation antérieure dès le premier semestre 91), ou une forte accentuation de celle-ci (pétrole à plus de 40 \$ en 91), cas dont la signification économique est claire (situation d'ajustement inchangée dans le premier, fin de l'ajustement "forcé" dans le deuxième), un scénario envisageable est celui d'un retour progressif au trend haussier à long terme du pétrole, avec un cheminement du type : 2ème semestre 90 et 1er semestre 91 : 30-31 \$/bl, 2ème semestre 91 et 1er semestre 92 : 25-26 \$/bl, 2ème semestre 92 et 1er semestre 93 : 20-21 \$/bl, puis indexation sur l'inflation mondiale.

Dans ce cadre, et au travers du modèle TABLO, pour chacun des trois pays, trois types de politiques pourraient être testées :

a) Le "laissez-faire"

Aucune décision n'est prise, les mesures nouvelles d'ajustement ne sont pas mises en oeuvre : pas de diminution des effectifs, pas d'amélioration de la pression fiscale, mais inversement pas de dérapage net des dépenses mais une faible résistance aux pressions socio-économiques intérieures : les

salaires sont indexés (à 80 % ?) sur les prix à la consommation des ménages, ou extérieures : l'investissement public sur prêts augmente légèrement par rapport aux programmes.

b) La relance par la dépense publique (le "dérapage organisé")

La plus grande part des recettes nouvelles issues du pétrole sont affectées aux dépenses courantes et à l'investissement - dont par ailleurs le montant sur prêts augmente notablement. On supposera un "effet cliquet" à la baisse des dépenses publiques, et l'indexation totale des salaires, au moins les années fastes.

c) La "politique vertueuse"

Les recettes nouvelles sont affectées prioritairement au paiement de la dette intérieure et extérieure, le surplus éventuel à l'investissement. La question subsidiaire de la priorité relative à la dette intérieure par rapport à la dette extérieure sera étudiée au cas par cas, suivant les pays.

*
* *

DETAIL DES HYPOTHESES ET DISCUSSIONS DE LA VALIDITE DES RESULTATS DES SIMULATIONS PRESENTEES DANS LES TABLEAUX I ET II

Les tableaux I et II ci-après présentent pour les trois pays, Cameroun, Gabon et Congo, les résultats des trois simulations.

Taux de change du dollar et production pétrolière.

Toutes les simulations ont été faites avec un taux de change de 260 CFA pour 1 dollar (5,20 FF/\$) en 91, 92, 93, correspondant au taux du jour au moment des calculs (fin août 90). Le taux retenu dans le budget 91 par la Direction de la prévision est de 5,30 FF/\$ soit 265 CFA.

En 89/90 au Cameroun 301 CFA/\$ est le taux constaté, en 90 au Gabon et au Congo 270 CFA/\$ est le résultat du taux constaté au premier semestre (285) et d'une hypothèse de 255 pour le deuxième semestre.

les productions (en millions de tonnes) sont celles retenues dans les derniers rapports du FMI, sauf pour le Gabon en 92-93 où la production a été revue à la hausse.

Situation de référence

On y fait figurer les dernières projections (avant la crise du Golfe et modifications des prix pétroliers) des modules pétroliers de TABLO calés sur le FMI. Il s'agit donc des recettes pétrolières (Redevance et impôts sur les sociétés) en milliards de CFA courants retenues par EGD en se calant sur les hypothèses de prix et de quantités proches de celles du FMI, mais en laissant jouer les relations propres de nos modules fiscaux.

Ces projections ont donc été faites avec des taux de change voisins de ceux du FMI dans chaque pays (par exemple 285 CFA en 90 au Gabon, 318 CFA en 89/90 au Cameroun...) et des prix du baril voisins de ceux du FMI. Pour mesurer valablement l'impact des nouveaux prix pétroliers, **simultanément** dans les trois pays, et compte tenu de la baisse du taux de change du dollar en CFA et du fait que le FMI valorise **différemment** dans les trois pays le baril de brut en CFA (alors que dans le passé la valeur du brut local est comparable en dollars dans les trois pays et proche du prix du Brent 38 moins 1,5 à 2 \$) **on a ajusté les prix du baril en \$**, compte tenu du taux de change CFA/\$, de manière à **conserver la valeur nominale des recettes fiscales pétrolières en CFA** retenue par EGD, et à avoir dans les trois pays des hypothèses de prix identiques.

Cet ajustement montre entre autres qu'en se calant raisonnablement sur les hypothèses FMI, **on anticipait largement un "mini-choc" pétrolier** puisqu'il en résulte en 91-93 une valeur du baril en \$ au Gabon et au Congo de 19,1 \$/bl alors qu'avant la crise le prix de vente effectif était de 15,3 \$/bl (soit + 25 %).

Du point de vue technique, on classe dans la catégorie "Redevances" :

- . au Cameroun : la redevance proprement dite et la marge de gisement de la SNH diminuée de 12,5 milliards (écart entre marge et versements effectifs observés en 89/90)
- . au Gabon : la redevance proprement dite, les partages de production et la production associée de RABI, ainsi qu'une estimation des revenus nets liés à l'exploitation de la part de l'état dans COUCAL
- . au Congo enfin, la redevance à son sens usuel.

Dans la catégorie "Impôts sur les sociétés et autres", on regroupe dans les trois pays l'IS et les dividendes éventuels reçus par l'état.

FMI

Pour mémoire, on fait figurer dans cette rubrique les hypothèses et les prévisions du **dernier document FMI disponible** concernant le pays considéré en matière de taux de change, prix du baril, production pétrolière, recettes fiscales pétrolières et non pétrolières, besoin de financement hors intérêts ("primary

balance" du FMI à laquelle on ajoute les intérêts intérieurs) ainsi que la charge de la Dette. Le détail de cette dernière est donné en fin de tableau II. Il s'agit de la charge brute de la dette extérieure, (c'est à dire avant rééchelonnement nouveaux et moratoires) à laquelle on ajoute la charge nette de la dette intérieure et les arriérés dus.

On remarquera qu'au Cameroun les hypothèses de recettes pétrolières FMI avant crise sont beaucoup plus optimistes que celles découlant du module pétrolier de TABLO (+ 34 milliards en moyenne par an, soit + 25 %) alors que les prix (en CFA) ne diffèrent que de 10 % (5,5 pour 5), le gain dans les différentes variantes sera diminué d'autant.

Au Gabon, c'est le cas contraire, en particulier en 91, la modélisation fiscale TABLO donnant pour des prix et des quantités proches (+ 6 % en prix, 1 % en quantité) des recettes bien supérieures (+ 24 %). C'est que notre module TABLO intègre les dernières modifications fiscales de l'impôt sur les sociétés (paiement de 75 % l'année même) et suppose une gestion "transparente" de la part de l'Etat dans la production associée de RAB.

Au Congo enfin, les prévisions de recettes avant crise sont quasi identiques pour le FMI et TABLO, les modèles sous-jacents étant très proches et parents du module pétrolier du comité de pilotage (modèle D. TOMMASI).

B,C,D - Nouvelles recettes pétrolières sous les 3 hypothèses d'un prix du baril local fixé à 21, 26 et 31 \$ (Brent à 22,5, 27,5, 32 \$/bl).

E,F,G - Accroissement de recettes par rapport à la projection de référence et par rapport aux prévisions FMI

Sont ici consignés les recettes nouvelles et leur accroissement par rapport à la solution de référence et par rapport aux dernières prévisions FMI. On peut s'étonner de la faiblesse des gains en 90 au Gabon et au Congo alors que la croissance des prix porte sur six mois, soit la moitié de l'année.

En fait, nos modèles pétroliers sont des modèles annuels portant sur des quantités et prix moyens, les corrections dues aux **profils** (croissance brusque de la production due à la mise en production de gisements nouveaux, croissance brusque des prix suite à un choc) doivent, en général, être introduites à la main.

Or, en matière de fiscalité pétrolière dans le Golfe de Guinée, la différence entre moyennes et glissement est très importante.

Au Gabon, par exemple, la redevance est assise sur les résultats du **trimestre précédent** et donc une hausse pendant six mois, n'interviendra que **pour trois mois** dans les résultats annuels.

Au Gabon (et avec la nouvelle fiscalité sur les bénéfices) et au Congo, l'impôt sur les bénéfices est payé par 7 (respectivement 11) acomptes sur 75 % du bénéfice anticipé, puis régularisé l'année suivante. Une hausse au cours du

deuxième semestre de l'année n'aura d'effet en terme d'encaissements que sur les acomptes restant à verser après modification du bénéfice anticipé, et là encore, l'effet sera notablement réduit.

Enfin, en matière de production pétrolière, les compagnies opérant dans le Golfe de Guinée vendent à terme et à l'avance un, deux ou trois mois de leur production (à leur maison mère ... d'où l'intérêt fiscal de la notion de "prix officiel" à première vue si critiquable). Là encore l'effet d'une hausse des prix sur les recettes effectives est notablement amorti.

Les considérations ci-dessus nous ont amené à **diviser par deux** en 90 les effets "bruts" de la hausse des prix du deuxième semestre 90 au Gabon et au Congo. De même pour le Cameroun en 90/91 un report d'environ un quart de la hausse sur 91/92 devrait être effectué (mais ne l'a pas été dans les tableaux fournis).

Taux de prélèvement

On présente pour l'année en cours et pour la moyenne des trois années 91-93, le "taux de prélèvement" de l'état sur le secteur pétrolier, défini par le rapport entre les recettes fiscales de l'état et la valeur de la production valorisée au prix du marché. On constate qu'en 90, "avant crise" :

- . la pression fiscale est proche au Gabon et au Congo, "l'avantage" allant au Congo (contrairement à ce qu'on a pu constater dans le passé), du fait probablement de moindres reports déficitaires ;
- . la pression fiscale est **double** au Cameroun (mais on compare année fiscale - et prix du \$ et du baril plus élevés - et année civile, la pression fiscale devant donc être diminuée de quelques points pour que la comparaison soit valable). Cet écart très important explique probablement à lui tout seul la décroissance observée de la production pétrolière au Cameroun.

En 91-93, dans la projection de référence, on retrouve au Gabon une pression fiscale plus élevée qu'au Congo (le poids respectif des investissements déductibles dans les deux pays doit être analysé). Le retour à une situation bénéficiaire au Gabon diminue quelque peu l'écart relatif avec le Cameroun, dont la pression fiscale dépasse malgré tout celle du Gabon de près de 50 %.

Enfin, la pression fiscale résultant du jeu du modèle dans le cas d'un prix du pétrole à 31 \$ (en accroissement logique par rapport à la situation de référence du fait de la part croissante de l'IS dans les recettes pétrolières) fait ressortir pour le Cameroun un **taux quasi confiscatoire** rendant peu crédibles les résultats eux mêmes.

H. "Gap global" ou besoin de financement après paiement de la charge de la dette

On présente ici le "Gap Global" du pays, ou besoin de financement (base engagements) augmenté de la charge de la dette et des arriérés, sur la base des recettes pétrolières de référence de TABLO et du FMI, les recettes non pétrolières et les dépenses étant celles du FMI (par exemple pour le Cameroun en 89/90 : $- 334 = - 38 - 296$). C'est ce gap qu'il faudra combler avec des rééchelonnements, moratoires, prêts projets et prêts programmes issus de l'extérieur, et qu'opportunément les recettes nouvelles dues aux nouveaux prix pétroliers va en partie diminuer, si ce n'est totalement annuler.

I, J, K Gap global résiduel (ou surplus) compte tenu des recettes nouvelles

On a ici la chronique des gaps (ou surplus) résultant de recettes pétrolières plus élevées.

Le calcul est très grossier, et surestime les gaps résultants puisque "théoriquement" les gaps de référence FMI, d'une année tiennent compte de la charge due aux gaps des années antérieures. Or, les effets cumulatifs sont ici très importants. On en a n'a pas tenu compte dans ce tableau.

C'est sur ces résultats que s'appuient les commentaires du début de cette note.

Accroissement de recettes par dollar supplémentaire Accroissement de recettes à la tonne

Donne la sensibilité des modules pétroliers aux prix dans chaque pays.

B. LEENHARDT

Diffusion :

GEO II	MM CHETAILE, JORLIN, BARBIER, PARPAIS, Mme JAVALOYES, Melle des DESERTS
EGD	Mme NOWAK, chargés d'études
DAO	M. MAURICE
Agences	Brazzaville, Libreville, Yaoundé

le 13 Sept. 1990

TABLEAU I
EFFET D'UNE AUGMENTATION DU PRIX DU BARIL SUR LES RECETTES PETROLIERES DE L'ETAT (Milliards CFA)

	89/90	Moy. 91-93	CAMEROON 90/91	91/92	92/93	1990	Moy. 91-93	GABON 1991	1992	1993	1990	Moy. 91-93	CONGO 1991	1992	1993
Taux de change du dollar US	301	260	260	260	260	270	260	260	260	260	270	260	260	260	260
Production (1 000 000 T.)	7,4	6,2	6,8	6,3	5,5	13,5	14,2	14,8	14,3	13,4	8,3	9,6	8,2	10,0	10,0
A - Version de référence (TABLEAU calé sur FMI en KCFA/bl et production, sauf exceptions) :															
Prix du Baril (\$/bl.)	17,3	19,3	18,5	19,3	20,1	16,2	19,1	18,4	19,1	20,0	16,2	19,1	18,4	19,1	20,0
Prix du Baril (KCFA/bl.)	5,2	5,0	4,8	5,0	5,2	4,4	5,0	4,8	5,0	5,2	4,4	5,0	4,8	5,0	5,2
Recettes pétrolières	182	138	144	141	130	127	215	198	225	223	84	113	95	107	113
Redevance	162	113	116	116	106	98	108	107	109	110	45	57	48	59	61
IS & Autres	20	26	28	25	24	29	107	91	117	114	39	55	48	49	7
pm FMI : Dernier art. IV ou doc de travail FMI															
Taux de change du dollar US	318	308,1	312,7	307,2	304,5	285	285	285	285	285	290	290	290	290	290
Prix du Baril (\$/bl.)	16,4	17,9	17,2	17,9	18,7	15,3	16,2	15,7	16,2	16,7	16,4	17,5	16,9	17,5	18,0
Prix du Baril (KCFA/bl.)	5,2	5,5	5,4	5,5	5,7	4,3	4,6	4,5	4,6	4,7	4,8	5,1	4,9	5,1	5,5
Production (1 000 000 T.)	7,4	6,2	6,8	6,3	5,5	13,4	13,6	14,7	13,3	12,7	7,9	9,7	8,3	10,2	10,0
Recettes pétrolières	182	172	175	170	170	129	180	160	200	180	84	114	99	111	113
Recettes non pétrolières	355	461	418	460	506	159	205	186	207	223	94	111	104	113	111
Besoin de Fin.hors intérêts (enga)	-38	52	-7	55	109	-7	94	57	117	108	-16	46	3	55	61
Service de la Dette (Ext+Int.net+Arr)	296	279	280	273	285	287	213	208	221	210	354	175	177	174	17
	SM 90/83, 7/5/90		SM 90/60	et EBS	89/213				Doc de Trav FMI	20/6/90			EBS 90/139,	1/8/9	
B - Baril à 21 dollars à partir du 2ème semestre 90:															
Recettes pétrolières	182	165	178	171	147	134	254	252	266	244	95	136	125	135	140
Redevance	162	137	150	140	120	105	121	125	121	116	48	62	54	65	60
IS & Autres	20	29	28	31	27	29	133	127	144	128	47	74	70	70	80
C - Baril à 26 dollars à partir du 2ème semestre 90:															
Recettes pétrolières	182	227	238	237	206	152	351	347	367	340	107	188	169	187	200
Redevance	162	191	210	195	169	113	153	158	154	148	51	77	67	80	80
IS & Autres	20	36	28	42	37	40	198	188	213	192	55	111	103	107	120
D - Baril à 31 dollars à partir du 2ème semestre 90:															
Recettes pétrolières	182	282	290	297	259	172	447	441	467	435	118	255	220	259	285
Redevance	162	239	262	244	212	120	186	192	187	179	54	92	80	96	100
IS & Autres	20	43	28	53	47	52	261	249	279	255	63	163	141	163	185
E - Ecart entre B et A :															
Croissance du prix du pétrole en CFA B/A	0	27	34	30	17	7	38	54	40	20	11	23	29	28	14
Ecart entre B et FMI :	0,0%	8,9%	13,5%	8,8%	4,5%	15,2%	9,8%	14,0%	10,1%	5,3%	15,2%	9,8%	14,0%	10,1%	5,3%
Croissance du prix du pétrole en CFA B/FMI	0	-6	3	1	-23	5	74	92	66	64	11	22	26	24	18
	0,0%	-1,1%	1,3%	-0,8%	-3,9%	15,5%	18,4%	21,9%	18,4%	15,0%	5,6%	7,5%	11,4%	7,6%	3,4
F - Ecart entre C et A :															
Croissance du prix du pétrole en CFA C/A	0	89	94	96	76	25	136	149	142	117	22	75	74	80	72
Ecart entre C et FMI :	0,0%	34,9%	40,5%	34,7%	29,4%	30,7%	35,9%	41,2%	38,3%	30,3%	30,7%	35,9%	41,2%	36,3%	30,3
Croissance du prix du pétrole en CFA C/FMI	0	55	63	67	36	24	171	187	167	160	22	74	71	76	76
	0,0%	22,4%	25,4%	22,8%	19,0%	31,1%	46,7%	51,0%	46,6%	42,4%	19,8%	33,1%	37,9%	33,2%	28,1
G - Ecart entre D et A :															
Croissance du prix du pétrole en CFA D/A	0	144	146	156	129	45	232	243	241	212	33	142	125	152	149
Ecart entre D et FMI :	0,0%	60,8%	67,6%	60,6%	54,2%	46,1%	62,1%	68,3%	62,5%	55,4%	46,1%	62,1%	68,3%	62,5%	55,4
Croissance du prix du pétrole en CFA D/FMI	0	110	115	127	89	44	267	281	267	255	33	141	121	148	153
	0,0%	45,9%	49,5%	46,4%	41,9%	46,6%	74,9%	80,0%	74,8%	69,8%	34,0%	58,7%	64,5%	58,8%	52,7
Taux de Prélèvement "de référence" A	67,9%	63,9%				30,8%	43,7%				33,4%	33,9%			
Taux de Prélèvement D		81,1%	taux peu crédible				56,0%					47,2%			
(rapport recettes Etat / Chiffre d'affaire pétrolier)															

TABLEAU II

le 13 Sept. 1990

EFFET D'UNE AUGMENTATION DU PRIX DU BARIL SUR LES RECETTES PETROLIERES DE L'ETAT (Milliards CFA)

	CAMEROUN					GABON					CONGO				
	89/90	Moy. 91-93	90/91	91/92	92/93	1990	Moy. 91-93	1991	1992	1993	1990	Moy. 91-93	1991	1992	1993
H - Avant modification des prix pétroliers :															
Besoin (-) Capacité (+) de Financement après paiement de la charge de la Dette Extérieure Brute, Intérieure Nette et des arriérés.															
sur la base des Recettes Pétrol. de TABLO	-334	-260	-317	-247	-217	-296	-83	-113	-78	-59	-370	-130	-177	-123	-1
sur la base des Recettes Pétrol. du FMI	-334	-227	-286	-218	-177	-295	-119	-151	-104	-102	-370	-129	-174	-119	-1
Les recettes non pétrolières et les dépenses étant celles du FMI															
I - Baril à 21 \$ à partir du 2ème semestre 90 :															
Besoin (-) Capacité (+) de Financement après paiement de la charge de la Dette															
Compte tenu des nouvelles Rec.Pét. de TABLO	-334	-233	-283	-217	-200	-290	-45	-59	-38	-38	-359	-106	-148	-95	-1
(FMI = TABLO)															
J - Baril à 26 \$ à partir du 2ème semestre 90 :															
Besoin (-) Capacité (+) de Financement après paiement de la charge de la Dette															
Compte tenu des nouvelles Rec.Pét. de TABLO	-334	-172	-223	-151	-141	-271	52	36	63	58	-348	-55	-103	-43	-1
(FMI = TABLO)															
K - Baril à 31 \$ à partir du 2ème semestre 90 :															
Besoin (-) Capacité (+) de Financement après paiement de la charge de la Dette															
Compte tenu des nouvelles Rec.Pét. de TABLO	-334	-117	-171	-91	-88	-251	149	130	163	153	-336	12	-52	28	6
(FMI = TABLO)															
Accroissement de recettes (en milliards CFA) pour 1\$ supplémentaire par baril à taux de change CFA/\$ constant															
jusqu'à 21\$/b1		15,9	13,6	17,6	18,9		20,7	20,9	21,0	19,4		12,7	11,3	14,4	13,1
de 21 à 26		12,3	12,0	13,2	11,8		19,5	19,0	20,2	19,3		10,3	9,0	10,4	11,1
de 26 à 31		11,0	10,4	12,0	10,6		19,2	18,8	20,0	19,0		13,3	10,1	14,4	15,1
Accroissement de recettes à la tonne extraite (en milliers de CFA) pour 1\$ supplémentaire par baril à taux de change CFA/\$ constant															
jusqu'à 21\$/b1		2,58	2,01	2,82	3,45		1,46	1,41	1,47	1,46		1,33	1,37	1,43	1,29
de 21 à 26		2,00	1,78	2,11	2,16		1,38	1,28	1,41	1,44		1,08	1,09	1,04	1,11
de 26 à 31		1,79	1,54	1,92	1,94		1,36	1,27	1,40	1,42		1,39	1,23	1,43	1,48
Détail du Service de la Dette FMI															
Intérêts	-128,6	-158,0	-149,5	-156,0	-168,5	-97,6	-90,4	-94,5	-91,2	-85,6	-107,9	-89,1	-98,9	-83,1	-85,5
Extérieurs	-118,5	-131,0	-121,0	-129,0	-143,0	-76,9	-78,0	-76,9	-78,2	-79,0	-98,6	-76,8	-86,6	-70,4	-73,4
Intérieurs	-10,1	-27,0	-28,5	-27,0	-25,5	-20,7	-12,4	-17,6	-13,0	-6,6	-9,3	-12,3	-12,3	-12,7	-11,9
Arriérés en intérêts (Congo), totaux (Cam & Gab)	-178,9	-6,1	-18,3	0,0	0,0	-33,8	0,0	0,0	0,0	0,0	-124,7	-1,3	-2,0	-2,0	0,0
Extérieurs	-68,1	-6,1	-18,3			-33,8	0,0				-79,0	0,0			
Intérieurs	-110,8	0,0					0,0				-45,7	-1,3	-2,0	-2,0	
Amortissements Extérieurs bruts	-96,5	-92,7	-103,0	-94,2	-81,0	-78,9	-78,9	-79,1	-75,0	-82,6	-65,6	-76,5	-75,5	-77,9	-76,0
Arriérés en capital (Congo)											-110,1				
Financement Intérieur Net (encaissement = +)	108,2	-22,6	-9,0	-23,2	-35,5	-76,8	-43,6	-34,5	-54,6	-41,8	54,7	-8,0	-0,3	-10,6	-13,0
TOTAL	-295,8	-279,4	-279,8	-273,4	-285,0	-287,1	-213,0	-208,1	-220,8	-210,0	-353,6	-174,9	-176,7	-173,6	-174,3
	SM 90/60 p 27	EBS 89/213 F 3/11/89 p 48-49				FMI 21/6/90					EBS 90/139 1/8/90 p 7				

OFFICE MEMORANDUM

Date: September 12, 1990
To: Messrs. Bock and Grilli
From: D. C. Rao, IECDR *DR*
Ext: 33800
Sub: Bank's Role in the Gulf Crisis

900913002
.1
DECLASSIFIED

NOV 11 2023

WBG ARCHIVES

I attach a memo prepared by Ishrat Husain that would be of interest to you. The principal suggestion he makes is to tap funds from Saudi Arabia, Kuwait and UAE to meet the additional financing requirements of the "most immediately impacted" countries. He notes that net flows from Arab creditors to these countries are negative; that even temporary debt relief is of significant magnitude; and that the funds required correspond to a fraction of Saudi Arabia and UAE's additional earnings from higher oil prices.

Att.

c.c. Messrs. Stern, Thalwitz, Qureshi, Linn

DCRao/kg

OFFICE MEMORANDUM

DECLASSIFIED

NOV 11 2023

WBG ARCHIVES

CONFIDENTIAL

DATE: September 11, 1990

TO: D.C. Rao, Director, IECDR

FROM: Ishrat Husain, Chief, IECDI

EXTENSION: 33801

SUBJECT: Bank's Role in The Gulf Crisis

1. I have reviewed, in the context of Mr. Conable's draft speech to the Development Committee, the September 8 memo of Mr. Qureshi to Mr. Conable on Bank response to the Gulf Crisis. In the paragraphs below I present my analysis and suggest a few ideas that can provide some more specificity to the proposals outlined in Mr. Qureshi.

2. The basic thrust of Mr. Qureshi's proposal is to target a narrower group of ten countries (Bangladesh, Egypt, India, Jordan, Pakistan, Philippines, Somalia, Sri Lanka, Sudan & Turkey) that have been most seriously affected by the present crisis. If the overall effect of all factors - higher import bill, loss in worker remittances and other invisible earnings plus the need to repatriate large numbers of refugees - exceeds 1% of GDP or 10% of exports the countries are considered eligible for special assistance. What can possibly be done to ameliorate their plight? It is proposed to reshape our lending program and disbursement pipeline so as to adapt them to altered priorities on a country by country basis. Second, special types of emergency recovery loans be provided for resettling refugees and finding new sources of income and employment to make up for the loss of remittances. Finally, other creditors and donors be approached to provide additional funds that should be coordinated by the Bank.

3. Along with this target group there is a proposal pertaining to the other low income countries especially in Sub-Saharan Africa where supplementary funds need to be raised through SPA and Special Supplementary Contributions to IDA 9 from the Saudis and other Gulf states.

4. The estimated impact of oil prices, interest rate increase, and loss in worker's remittances on these ten countries would generate an additional requirement of \$6.7 billion in 1990 and \$11.8 billion in 1991 (Table 1). As the oil price developments beyond the next twelve months are uncertain this analysis is limited to the short-term horizon. The issues are as (a) how best

and fast a financing package can be assembled to meet this requirement, (b) what will be the extent of substitution between further adjustment and additional financing and (c) what are the possible sources of financing and at what terms?

5. I believe the targetting of the countries is basically correct but the channelling of assistance should be quick and responsive to the needs of the countries affected. While the emergency recovery loans are justified the project component of these loans - Urban development, housing, employment - may take several years to materialize. In the meanwhile, the financing needs of the affected countries remain unresolved. A more appropriate quick - disbursing mechanism needs to be designed. If most of the funds are solicited from other donors and creditors, the previous track record of fast disbursements, even under SPA, has not been impressive. The tranche releases a la SAL or Fund programs would prove more effective. At the same time care should be taken that the on-going adjustment efforts are neither undermined nor substituted by additional external financing.

6. It would also be desirable that part of the costs are borne by the borrowing countries in form of adjustment in their expenditure policies or mobilization of domestic resources. They would need to further reduce consumption spending to absorb the higher cost of oil imports, at the same time strengthening economic environment for private sector investment. This calls for urgency in implementation of reforms in domestic financial sector, industrial regulation, public enterprises, tax systems, which will also contribute to domestic resource mobilization. The additional external financing should remain contingent upon strong performance of the borrower country. We are presented with an opportunity to initiate or strengthen the adjustment process in these countries rather than allow post-ponement of reforms through injection of supplementary funding.

7. Of the ten countries identified, six are IDA eligible countries while Egypt, Philippines and Jordan are debt-distressed and have rescheduled their debt in recent years. Only Turkey has some access to market borrowing albeit in limited volume and at higher spreads. The recent disruption would also affect Turkey's standing in the market. Thus, it would be safe to speculate that the type of borrowing these countries can sustain, without further deterioration in their financial standing, is concessional borrowing. IBRD terms may not be appropriate at this stage for additional financing. IDA flows or some hybrid lending instrument appear to be in order.

8. The U.S. budgetary resources are constrained and besides the forgiveness of Egypt's military debt of \$7 billion it may not be realistic to expect new flows or further debt relief. This leaves the Arab donors (Saudi Arabia, Kuwait, UAE), Japan and EEC as possible sources. The US Government efforts in mobilizing

resources from these sources have already borne fruit.

9. The impact on Turkey, Egypt and Jordan which have attracted most of the international attention is estimated at \$6.8 billion in 1991 (\$4.1 billion in 1990). Saudi Arabia, Kuwait and UAE have already pledged \$6 billion for these three countries while the EEC has committed \$2 billion and Japan \$1 billion (Table 2). Along with the write-off of Egypt's military debt to the US it appears that the requirements of these three countries upto 1991 would be, by and large, met. This leaves out the remaining seven countries in the target group which need \$2.5 billion in the current year and \$5.0 billion in 1991. It is necessary to design some specific measures to help these countries to respond adequately to the present crisis.

10. We estimate that the outstanding debt these ten countries owe to Saudis, Kuwait and UAE and Arab Funds amounts to approximately \$10 billion and debt service payments close to \$1 billion annually. They made negative net flows to Arab creditors in 1989 amounting to \$214 million and net transfers were negative \$368 million (Table 1). Even poor countries such as Bangladesh and Sri Lanka made negative net flows and transfers to the Arab creditors in 1989. While other bilateral creditors, especially Paris Club, have provided debt relief including forgiveness the Arab donors have not formally agreed to arrangements such as Toronto terms or outright write-off. The least they can do at this stage is to write off the debt outstanding of these ten countries to partly relieve them of the present crisis. The annual debt servicing relief will amount to \$1 billion. In case, debt reduction is not acceptable, debt service reduction for a limited period of time may be considered as a lesser desirable option.

11. In 1980, the share of Arab aid in World ODA was 23.5 percent. By 1988, the share had declined to 4.2 percent. In current prices, the absolute amount fell from \$9.54 billion in 1980 to \$2.34 billion in 1988. If the Saudi, Kuwait and UAE increase their net disbursements to the 1980 level, it would generate about \$14 billion of additional financing in the years 1990 and 1991 for the most seriously affected countries. Of this, \$6 billion have already been committed for Turkey, Egypt and Jordan. At least \$5 billion could be allocated to the remaining members of the target group and the remaining \$3 billion to low-income Africa. Some of this amount can be used for supplementary IDA allocations and other for direct bilateral financing under the aid coordination mechanism of the World Bank. This new money as well as debt relief are feasible propositions since Saudi Arabia alone would earn a windfall gain of \$21 billion in 1991 (\$5.2 billion in 1990) from sale of additional 2 mbd oil at average selling price of \$29 per barrel (leaving intact the gains from higher selling price on the previous quota of 5 mbd in Saudi hands).

12. It may also be possible to consider reallocation of IDA

flows including reflows for the purpose of helping countries mostly seriously affected by the Gulf crisis including low-income Africa. Some of the countries currently eligible for IDA may not require immediate financial support of the same magnitude as were assumed before the increase in oil prices. IMF's compensatory facility and augmented access to ESAF can bridge the gap.

Conclusion:

Mr. Qureshi's proposal to target the ten borrowing countries and low-income Africa deserves support. The additional financing requirements resulting from the impact of the Gulf crisis should be shared between the borrowing countries by further adjustment and creditors through increased lending at concessional terms and debt relief. The group of creditors that is able to provide bulk of the support is the Arab countries (Saudi Arabia, Kuwait and UAE) with Japan and EEC providing the balance. The mechanism for channelling this assistance should be Supplementary IDA flows or cofinancing with the WB quick disbursing loans. The momentum of adjustment programs should be retained despite pressures to do otherwise.

IHusain/lac

Table 1:

Estimated Impact of Gulf Crisis on 10 countries

	<u>\$ million</u>			<u>% of GDP</u>		<u>% of XG</u>	
	<u>1990</u>	<u>1991</u>	<u>Total</u>	<u>1990</u>	<u>1991</u>	<u>1990</u>	<u>1991</u>
Turkey	-2214	- 4101	- 6315	- 2.8	- 5.2	-10.1	-18.7
Egypt	- 771	- 1198	- 1969	- 1.9	- 2.9	- 6.6	-10.3
Jordan	-1167	- 1520	- 2687	-26.0	-33.9	-38.6	-50.3
<u>Sub-Group I</u>	<u>-4152</u>	<u>- 6819</u>	<u>-10971</u>				
Bangladesh	- 150	- 275	- 425	- 0.7	- 1.4	- 9.6	-17.7
India	-1393	- 2156	- 3549	- 0.5	- 0.8	- 6.6	-10.2
Pakistan	- 484	- 902	- 1386	- 1.2	- 2.2	- 6.2	-11.6
Philippines	- 383	- 1456	- 1839	- 0.9	- 3.3	- 3.5	-13.5
Somalia	- 25	- 37	- 62	- 2.2	- 3.2	-26.2	-38.7
Sri Lanka	- 76	- 222	- 298	- 1.1	- 3.2	- 4.0	-11.7
Sudan	- 92	- 147	- 239	- 0.8	- 1.3	-19.5	-16.5
<u>Sub-Group 2</u>	<u>-2503</u>	<u>- 4995</u>	<u>- 7498</u>				
TOTAL	-6655	-11814	-18469				

9/12/90

Table 2:

Commitments announced by donors for Turkey, Egypt and Jordan

\$ billion

Japan	1.0
EEC	2.0
Saudi Arabia)	
Kuwait)	6.0
UAE)	
US debt relief	1.4
	<u>11.4</u>

9/12/90

TABLE 3

Debt and Debt Servicing by 10 countries to Arab Creditors :1989

(U.S.\$ million)

	<u>Debt Outstanding</u>	<u>Disbursements</u>	<u>Debt Servicing Paid</u>	<u>Net Flows</u>	<u>Net Transfers</u>
Bangladesh	384	11	50	-30	-39
Egypt	5,239	121	71	78	50
Jordan	591	72	91	4	-18
India	421	76	84	-12	-7
Pakistan	477	99	216	-104	-116
Philippines	26	2	4	-1	-2
Somalia	439	0	-0	0	0
Sri Lanka	90	5	14	-8	-9
Sudan	2,326	45	18	28	27
Turkey	<u>707</u>	<u>19</u>	<u>255</u>	<u>-184</u>	<u>-236</u>
Total	<u>10,701</u>	<u>452</u>	<u>803</u>	<u>-203</u>	<u>-351</u>

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION
OFFICE MEMORANDUM

DATE: September 10, 1990

TO: Mr. Enzo Grilli - EAS

FROM: F. Stephen O'Brien, Chief Economist - AFRCE *FSOB*

EXTENSION: 34637

SUBJECT: The impact of the Gulf Crisis on Countries of Sub-Saharan Africa

This memorandum discusses the direct and indirect effects of the recent and projected oil price increase on African countries and some of the implications of this for Bank assistance strategy. We will provide the detailed, country-by-country, information, as requested in Attachment 1 of Mr. Qureshi's memorandum of September 10, early on Tuesday, September 11.

Direct financial impact of higher prices

The situation in Sub-Saharan Africa has two distinct features. First, a small number of "gainers" contrast with a large number of "losers," which opens a door for possible reallocations within the envelope of regional resources to help solve the financing problem. Second, for the losers, only a few countries require substantial sums, although relative to exports and imports the requirements are more significant. For example, only three countries would require more than \$100 million a year (Cote d'Ivoire, Kenya and Sudan), and the median annual requirement is only about \$25 million. The magnitudes of required financing indicate that the problem for Africa is manageable, provided a means is developed to mobilize and channel the additional resources. The large number of countries affected, however, suggests there could be significant economies of scale if a response were organized regionally, providing a conduit to mobilize the new aid and debt relief that would be needed. Summary and country-by-country data on the financial impact are in Tables 1-5.

Seven countries will benefit from the first round effects of the Gulf oil crisis (Angola, Benin, Cameroon, Congo, Gabon, Nigeria, and Zaire). The total gain could be \$8 billion a year, equivalent to about half the annual ODA flows to Sub-Saharan Africa.

For the 38 oil importers, thirteen are not "seriously affected," on the EAS criteria (see table 2). Of these thirteen, seven are projected to need no special help of any kind (Cape Verde, Botswana, Djibouti, Mauritius -- primarily because of positive current accounts and high reserves, Burundi -- especially if it gets additional debt relief, and perhaps Guinea and Zimbabwe). One country probably would not qualify for any additional aid because of its internal political situation and weak domestic economic management (Liberia). However, four of these "unaffected" countries may still need substantial additional financing even though they are below the global thresholds (CAR, Cote d'Ivoire, Senegal, and Zambia); the total additional annual financing needs for these four could average as much as \$250 million a year in 1990-92, with levels declining during the period.

For the 25 oil importers that are "seriously affected," six may need no special additional new financing (Niger and Gambia -- provided they get debt relief, Swaziland and Lesotho -- because of high reserves, and possibly Malawi and Ghana -- because recent increases in domestic fuel prices can be expected to dampen import demand and avoid fiscal problems). Another six "seriously affected" countries would probably not qualify for special adjustment-related aid because they lack adequate adjustment programs (although other special, humanitarian aid might be given to the "most immediately impacted" countries) (Burkina Faso, Comoros, Ethiopia, Sierra Leone, Somalia and Sudan), although three (Burkina Faso, Ethiopia, and Sierra Leone) may soon

have programs in place that could provide a vehicle for the additional \$100 million a year the three may need in total.

Finally, there are thirteen "seriously affected" oil importers that would need special additional help now, of which one (Seychelles) is an IBRD borrower. The 12 IDA-only countries (Chad, Equatorial Guinea, Guinea-Bissau, Kenya, Madagascar, Mali, Mauritania, Mozambique, Rwanda, Sao Tome and Principe, Tanzania and Uganda) would need in total about \$300 million a year. Because Kenya alone accounts for about half of this amount, exceptional action by the Paris Club to help Kenya, which has not rescheduled, could provide a significant share (perhaps a third) of the additional resources required for these countries. Some other countries, like Mali, have relatively high levels of foreign reserves (and CFA zone countries have access to the Operations Account) which could provide resources temporarily, in lieu of fresh money or debt relief. In summary, additional concessional aid of about \$150-200 million a year would be needed for these countries, assuming some use of reserves and Paris Club help for Kenya.

Overall, at least 21 Sub-Saharan countries (accounting for somewhat less than half of the Region's population and 41 of its GDP) would need significant additional financial support during 1990-92. (In addition, other countries that may be classified as most immediately impacted, and thus eligible for special support, may require assistance.)

Table 1. Sub-Saharan Africa: Estimated additional financial support, 1990-92
(millions of US\$, annual average)

	<u>Total</u>	<u>Of which possible special debt relief</u>
12 seriously affected IDA-only adjusters (of which 150 in debt relief)	300	100 (for Kenya)
4 non-seriously affected oil importers	250	150 (for Cote d'Ivoire)
3 seriously affected IDA-only potential adjusters (of which some part could be debt relief, depending on country workouts)	100	?
2 seriously affected strong domestic adjusters (Ghana and Malawi) (of which a large part could be debt relief, as neither is projected to reschedule)	100	?
Total	750	250+
<u>Memorandum item:</u>		
2 most immediately impacted countries (Somalia and Sudan which are not in adjustment)	150	

Other Costs

Effects other than those caused by higher prices are small and localized. Variable interest rates are significant only for Angola (but vastly offset by higher oil revenues) and Cote d'Ivoire (where debt actions could alleviate them). Remittances are noticeable only for Mauritania (but are tiny) and Sudan (which would probably not currently qualify for special aid). Loss of Gulf aid might affect Mauritania and Comoros, the former by possibly a substantial amount. Compensating for the loss of Gulf aid and remittances would add to the direct costs.

Africa Region's Response

The Africa Region's response will take several forms and will be implemented at several levels.

One response will be to provide policy advice to the most affected countries--oil exporters as well as importers--on designing and implementing the most appropriate policy responses. Instruments for achieving this will include ESW, technical assistance operations, and policy-related studies financed by both Bank projects and other sources.

A second response will be actions to influence both the levels, composition and terms of quick-disbursing aid provided by other donors and the volume and terms of debt relief provided by other creditors. Such assistance can be provided either independently or through co-financing of Bank adjustment operations. Instruments for achieving this will be at the "wholesale" level, most notably through the SPA, and at the "retail" level in the many aid coordination groups for African countries and in the many other consultations with other donors/creditors about the aid requirements of individual African countries. Advice on debt relief requirements on individual countries will also be provided directly in the context of meetings of the Paris and London Clubs.

A third response will be through changes in the Bank's lending program, mainly through the reprogramming and acceleration of adjustment lending to IDA countries.

Policy advice. Policy advice should help ensure that prompt and appropriate action is taken by the oil-exporting countries as well as the adversely-impacted oil-importing countries. All seven Africa oil exporting countries were greatly in need of further strong adjustment measures before the recent Gulf crisis, and the immediate challenge will be to ensure that the higher oil revenues do not erode those governments' willingness to take hard adjustment measures. Most of the African oil producers misused the windfall gains of the earlier (positive) oil shocks, and the task this time will be to build on the lessons of that prior experience.

For the most-impacted oil-importing as well as oil-exporting countries, the Region is envisaging various kinds of additional "impact analyses" that will go well beyond the initial analyses undertaken for this exercise, and near-term ESW programs (involving informal studies and the use of staffweeks now allocated to "unprogrammed" ESW) will put new emphasis on the design of appropriate energy pricing, taxation, and public expenditure policies. Numerous examples are provided in the country notes on individual countries of specific change envisaged in the ESW/policy advice area.

We will of course revisit the projections in the PFPs and are recalculating all projections to be submitted to the SPA meeting in late October. In some cases, the ongoing policy dialogue is already reflecting new analyses, and in all cases there will be discussions on the implications of the oil shock on country policies, on financing requirements and how to meet them, and on the priorities for further analysis both by the Bank and by the authorities themselves.

Other aid and debt relief. With regard to envisaged actions to mobilize more aid and debt relief for the most affected countries, the main instrument for the IDA-only countries will be the SPA. In fact, the oil crisis may present an opportunity to stress the urgency of rapid action on several fronts, including earlier SPA2 pledges, quicker SPA2 commitments, and faster disbursements (of remaining SPA1 funds and new SPA2 funds) -- including action on our proposals on untying and simplifying procedures. To finance larger SPA allocations that might be required, the donors could be asked to consider reallocating aid within Africa to countries that are seriously affected, as a parallel action to IDA-9 reallocation (the scope for such reallocation by the EC and the AfDF may be particularly large). The next meeting of the SPA will take place in late October 1990, and the documentation for that meeting will be distributed in late September. The existence of the SPA provides us with an existing and well-functioning means to mobilize and coordinate quick-disbursing assistance and to consider absolute and relative needs at the "wholesale" level.

Through the SPA and other channels, we should encourage the Paris Club to consider special emergency rescheduling agreements for countries that are not now rescheduling (e.g., Kenya, and possibly Ghana and Gambia), more concessionality for countries currently rescheduling (as described in the SPA2 paper), and special Toronto treatment for Cote d'Ivoire. Moreover, for the heavily-indebted oil-exporters, it may be worthwhile considering mechanisms to help avoid full-scale channeling of additional oil revenues to official and private creditors.

Some of the earnings of the oil exporters could also be shifted to the oil importers, but this might require concerted action, both among African countries and with the creditors of oil exporters. Two specific actions might be envisaged. First, there could be special arrangements between individual oil exporters and selected oil importers, which would take advantage of existing oil trade patterns and arrangements. For example, an oil exporter might agree to maintain mid-1990 oil prices for neighboring African importers. The cost of such arrangements to a major oil exporter would be minimal compared with the benefit to neighboring countries, and the public relations gain for Africa could be enormous. Second, one could envisage a complex arrangement between oil exporters, their creditors, and the international community through which the benefits from continuing the special debt measures put in place prior to the oil shock would be recycled to some of the seriously affected oil importing countries. For example, debt service paid by oil exporters, over and above that required by earlier debt relief arrangements, could be paid into a special fund, part of which could be disbursed in oil-importing countries. This would help preserve some of the benefits of the oil shock for the region.

Bank lending program. With regard to reprogramming and accelerating Bank and IDA lending, the scope for additional IBRD lending is minimal both because most of the borrowers deemed sufficiently creditworthy for Bank borrowing are the oil exporters rather than the importers, whereas others such as Cote d'Ivoire were already at the margin in terms of creditworthiness, so that little or no new Bank lending should be envisaged without major new developments such as a devaluation of the CFA franc. Assuming no additional IDA-9 allocation for Sub-Saharan Africa, additional IDA funds would have to come from measures to speed disbursements.

With respect to specific possibilities for acceleration of tranche releases, supplementary tranches and the advancement of forthcoming adjustment operations, the attached Tables 6 and 7 show the existing lending program (regular and standby, respectively) of adjustment operations. A large number of the country notes (e.g. for Burkina, Mauritania, and Togo) refer to the prospect of accelerating the schedule for the next adjustment operation, while notes on countries now lacking satisfactory adjustment programs (e.g. Comoros, Ethiopia) underline the increased urgency to advance the preparation of such programs. Tables 6 and 7 indicate which of the individual country notes include specific proposal of Bank responses. The table provided in Attachment 1 of Mr. Qureshi's note of September 10 to the RVPs, to be completed for all

relevant countries, will provide details on the prospects for accelerated tranche releases, supplementary tranches and advanced credits.

We do not envisage the preparation of any new emergency assistance loans for African countries, nor do we see much scope of accelerating the preparation of investment projects or changing their design in ways that would free up foreign exchange to meet the higher petroleum bills. We could finance a larger share of local costs, but this would have to be done within the context of overall Bank guidelines that presently put clear limits on such local cost financing.

Attachments.

Table 2

Sub-Saharan Africa: Direct effects of higher oil prices, 1990-92
 Scenario II
 (Annual averages)

	Number of countries	Net losses US\$ million	Percent of 1989 GDP	Percent of 1989 exports
Entire region 1/				
Sub-Saharan Africa	43	-6640	-4.1	-15.7
Oil exporters	7	-8020	-12.3	-38.5
Oil importers	36	1380	1.4	6.4
Middle income	6	383	1.6	4.1
Adjusting	5	295	1.7	3.9
Low income	30	996	1.3	8.3
Adjusting	20	688	1.4	7.3
Seriously affected countries 2/				
Sub-Saharan Africa	29	-7123	-6.4	-27.5
Oil exporters	5	-7999	-14.8	-44.0
Oil importers	24	876	1.5	11.4
Middle income	2	50	5.8	6.7
Adjusting	2	50	5.8	6.7
Low income	22	825	1.5	11.9
Adjusting	14	541	1.6	11.2
Other countries 1/				
Sub-Saharan Africa	14	483	0.9	3.0
Oil exporters	2	-21	-0.2	-0.8
Oil importers	12	504	1.2	3.7
Middle income	4	333	1.5	3.8
Adjusting	3	245	1.5	3.5
Low income	8	171	0.9	3.4
Adjusting	6	147	0.9	3.2

1/ Burundi and Djibouti are not included.

2/ Definition of seriously affected status: the average annual direct impact of the change in the price of oil exceeds any one of the following three criteria: 2 percent of 1989 GDP, 6 percent of 1989 exports of goods and non-factor services, or \$1 billion.

September 10, 1990

gg, c:\Lotus2\Energy\Afr_Oil4.wk1

Table 3

Sub-Saharan Africa: Gains of oil exporters from higher oil prices, 1990-92

Scenario II

(Annual averages)

	US\$ million	Percent of 1989 GDP	Percent of 1989 exports
Nigeria	4761.7	16.1	47.1
Angola	1348.1	18.2	42.8
Gabon	972.0	28.3	52.1
Congo	571.5	25.5	48.6
Cameroon	345.8	3.0	18.6
Benin	11.2	0.7	3.9
Zaire	9.4	0.1	0.4

Table 4

Sub-Saharan Africa: Losses of oil importers from higher oil prices, 1990-92
 Scenario II
 (Annual averages)

		US\$ million	Percent of 1989 GDP	Percent of 1989 exports
Cote D'Ivoire	MI, Adjusting	159	1.7	4.8
Kenya	LI, Adjusting	148	1.8	16.0
Sudan	LI, Non-adjusting	121	1.0	16.1
Zimbabwe	MI, Non-adjusting	89	1.5	4.9
Ghana	LI, Adjusting	78	1.6	8.8
Tanzania	LI, Adjusting	74	2.6	14.3
Ethiopia	LI, Non-adjusting	58	1.0	8.1
Zambia	LI, Adjusting	48	0.9	3.2
Botswana	MI, Adjusting	44	1.5	2.1
Swaziland	MI, Adjusting	44	7.6	8.0
Uganda	LI, Adjusting	43	0.9	19.4
Mauritius	MI, Adjusting	42	1.0	2.7
Madagascar	LI, Adjusting	37	1.4	8.4
Senegal	LI, Adjusting	35	0.8	2.7
Mozambique	LI, Adjusting	34	2.7	18.1
Burkina Faso	LI, Non-adjusting	33	1.3	13.2
Mali	LI, Adjusting	32	1.5	11.8
Somalia	LI, Non-adjusting	29	2.5	30.1
Malawi	LI, Adjusting	27	1.7	8.6
Chad	LI, Adjusting	24	2.4	9.8
Mauritania	LI, Adjusting	23	2.2	4.6
Lesotho	LI, Non-adjusting	23	4.8	21.7
Guinea	LI, Adjusting	21	0.8	2.8
Liberia	LI, Non-adjusting	21	1.8	5.3
Niger	LI, Adjusting	21	1.0	5.8
Sierra Leone	LI, Non-adjusting	16	1.5	11.5
Togo	LI, Adjusting	13	1.0	2.9
Rwanda	LI, Adjusting	11	0.5	7.6
Central African Republic	LI, Adjusting	9	0.8	4.2
Seychelles	MI, Adjusting	7	2.3	3.3
Guinea-Bissau	LI, Adjusting	5	3.0	19.9
Gambia, The	LI, Adjusting	5	2.1	3.1
Cape Verde	LI, Non-adjusting	3	1.0	4.9
Comoros	LI, Non-adjusting	3	1.3	11.1
Equatorial Guinea	LI, Non-adjusting	2	1.6	7.9
Sao Tome and Principe	LI, Adjusting	1	1.9	10.0
Burundi	LI, Adjusting	NA	NA	NA
Djibouti	LI, Non-adjusting	NA	NA	NA

LI = Low-income country

I = Middle-income country

September 10, 1990

Table 5
Total impact of direct effects of higher oil prices in sub-Saharan Africa, 1990-1992
Scenario II

1989 data					1990 effects					
	Col. 1	Col. 2	Col. 3	Col. 4	Col. 5	Col. 6	Col. 7	Col. 8	Col. 9	Col. 10
		Net imports of oil	Exports of goods and non- variable factor services	Stock of debt with interest rate	Impact of oil price differ- ential	Impact of change in LIBOR	Impact of other direct effects	Total impact of direct effects	Total impact of direct effects	Total impact of direct effects
	1989 (US\$m)	1989 (US\$m)	1989 (US\$m)	1989 (US\$m)	1990 (US\$m)	1990 (US\$m)	1990 (US\$m)	1990 (US\$m)	1990 (%GDP90)	1990 (%GDP90)
1 Angola	7396.0	-2657.0	3151.0	630.0	-1095.8	12.6		-1083.2	-14.6	-34.4
2 Benin	1677.0	-11.2	285.9		-10.6	0.0		-10.6	-0.6	-3.7
3 Botswana	MI, Adjusting	2894.3	70.0	2055.0	36.5	0.1	4.1	40.7	1.4	2.0
4 Burkina Faso	LI, Non-adjusting	2587.1	56.4	253.6	29.4	0.0		29.4	1.1	11.6
5 Burundi	LI, Adjusting				0.0	0.0		0.0	0.0	0.0
6 Cameroon		11516.0	-770.0	1864.0	1153.0	-203.0	2.3	-200.7	-1.7	-10.8
7 Cape Verde	LI, Non-adjusting	296.8	11.9	60.8	2.6	0.0		2.6	0.9	4.3
8 Central African Republic	LI, Adjusting	1099.8	20.3	211.3	7.9	0.0		7.9	0.7	3.7
9 Chad	LI, Adjusting	1010.4	40.4	243.5	21.1	0.0		21.1	2.1	8.7
10 Comoros	LI, Non-adjusting	204.0	4.4	23.6	2.3	0.0		2.3	1.1	9.7
11 Congo		2238.7	-876.3	1176.6	1161.0	-464.4	2.3	-462.1	-20.6	-39.3
12 Cote D'Ivoire	MI, Adjusting	9301.3	110.3	3287.1	5360.0	99.6	10.7	110.3	1.2	3.4
13 Djibouti	LI, Non-adjusting				0.0	0.0		0.0	0.0	0.0
14 Equatorial Guinea	LI, Non-adjusting	140.2	6.0	29.1	1.8	0.0		1.8	1.3	6.2
15 Ethiopia	LI, Non-adjusting	6034.3	107.8	716.9	230.0	46.7	0.5	47.2	0.8	6.6
16 Gabon		3439.0	-1173.0	1865.0	200.0	-744.0	0.4	-743.6	-21.6	-39.9
17 Gambia, The	LI, Adjusting	225.8	7.7	153.4	20.6	4.0	0.0	4.1	1.6	2.6
18 Ghana	LI, Adjusting	5000.0	131.0	890.0	86.0	68.3	0.2	68.5	1.4	7.7
19 Guinea	LI, Adjusting	2750.0	60.8	741.5		11.3	0.0	11.3	0.4	1.5
20 Guinea-Bissau	LI, Adjusting	169.4	8.6	25.8	5.0	4.5	0.0	4.5	2.7	17.4
21 Kenya	LI, Adjusting	8232.8	232.6	921.9	171.6	124.1	1.6	125.7	1.5	13.6
22 Lesotho	LI, Non-adjusting	470.1	39.9	105.1	31.9	20.8	0.1	21.2	4.5	20.1
23 Liberia	LI, Non-adjusting	1137.0	33.7	390.0	105.0	17.6	0.2	17.8	1.6	4.8
24 Madagascar	LI, Adjusting	2539.0	51.0	440.0	310.0	26.6	0.6	27.2	1.1	6.2
25 Malawi	LI, Adjusting	1595.2	44.6	310.9	50.0	23.3	0.1	23.4	1.5	7.5
26 Mali	LI, Adjusting	2078.1	53.3	267.7	7.8	27.8	0.0	27.8	1.3	10.4
27 Mauritania	LI, Adjusting	1034.9	46.5	499.3	5.0	19.2	0.0	21.8	2.1	4.4
28 Mauritius	MI, Adjusting	4391.3	85.9	1556.0		61.1	0.0	61.1	1.4	3.9
29 Mozambique	LI, Adjusting	1278.1	48.3	187.1	424.0	25.2	8.5	33.7	2.6	18.0
30 Niger	LI, Adjusting	2046.0	22.9	354.7	120.0	6.0	0.2	6.2	0.3	1.8
31 Nigeria		29641.0	-8802.0	10111.0	12117.0	-3733.0	24.2	67.0	-3641.8	-12.3
32 Rwanda	LI, Adjusting	2170.2	48.2	148.0		9.6	0.0	9.6	0.4	6.5
33 Sao Tome and Principe	LI, Adjusting	46.0	1.3	8.6	10.8	0.7	0.02	0.7	1.5	8.2
34 Senegal	LI, Adjusting	4663.6	95.3	1281.5	54.8	10.8	0.1	10.9	0.2	0.9
35 Seychelles	MI, Adjusting	292.0	13.1	198.0	9.3	6.8	0.0	6.8	2.3	3.5
36 Sierra Leone	LI, Non-adjusting	1062.0	26.1	135.3	3.0	13.6	0.0	13.6	1.3	10.1
37 Somalia	LI, Non-adjusting	1132.2	47.0	94.8	19.5	24.5	0.0	24.8	2.2	26.2
38 Sudan	LI, Non-adjusting	11667.0	204.0	750.0	1646.0	52.0	0.1	40.0	0.8	12.3
39 Swaziland	MI, Adjusting	576.0	70.0	548.0	8.3	36.5	0.0	4.1	40.6	7.1
40 Tanzania	LI, Adjusting	2854.1	166.8	518.5	105.6	20.0	0.2	20.2	1.0	5.4
41 Togo	LI, Adjusting	1350.0	25.0	468.0	49.0	11.0	0.1	11.1	0.6	2.4
42 Uganda	LI, Adjusting	4579.1	73.8	222.0		63.8	0.0	63.8	1.4	26.7
43 Zaire		9527.5	-17.9	2350.0	157.0	-9.3	0.3	-9.0	-0.1	-0.4
44 Zambia	LI, Adjusting	5384.5	103.1	1494.0	571.2	47.0	0.4	47.4	0.9	3.2
45 Zimbabwe	MI, Non-adjusting	6012.4	141.3	1812.5	1027.1	79.2	0.0	79.2	1.3	4.4
Sub-Saharan Africa		163740.2	-11998.1	42207.0	25919.8	-5197.0	66.1	126.4	-5004.5	-3.1
Oil exporters		65435.2	-14307.4	20803.5	15418.0	-6260.1	42.2	67.0	-6151.0	-9.4
Oil importers		98305.0	2309.3	21403.5	10501.8	1063.1	23.9	59.4	1146.4	1.2
Middle income		23467.3	490.6	9456.6	6475.0	319.7	10.9	8.2	336.8	1.4
Adjusting		17454.9	349.3	7644.1	5447.9	240.5	10.9	8.2	259.6	1.5
Low income		74837.7	1818.7	11946.9	4026.8	743.4	13.0	51.2	807.6	1.1
Adjusting		50107.0	1281.5	9387.7	1991.4	532.1	12.1	10.6	554.8	1.1

Oilprice, oilprice differential(\$/b)
LIBOR rate differential(percentage p.)

16.3

8.5

0.2%

Table 5 (continued)
Total impact of direct effects of higher crude oil prices in sub-Saharan Africa, 1990-1992
Scenario II

		1991 effects						1992 effects					
		Col. 11	Col. 12	Col. 13	Col. 14	Col. 15	Col. 16	Col. 17	Col. 18	Col. 19	Col. 20	Col. 21	Col. 22
		Impact of oil price differ- ential	Impact of change in LIBOR	Impact of other direct effects	Total impact of direct effects	Total impact of direct effects	Total impact of direct effects	Impact of oil price differ- ential	Impact of change in LIBOR	Impact of other direct effects	Total impact of direct effects	Total impact of direct effects	Total impact of direct effects
		1991 (US\$m)	1991 (US\$m)	1991 (US\$m)	1991 (US\$m)	1991 (%GDP89)	1991 (%GDP89)	1992 (US\$m)	1992 (US\$m)	1992 (US\$m)	1992 (US\$m)	1992 (%GDP89)	1992 (%GDP89)
1 Angola		-1805.5	3.6		-1801.9	-24.4	-57.2	-1161.8	2.7		-1159.1	-15.7	-38.8
2 Benin		-15.5	0.0		-15.5	-0.9	-5.4	-7.4	0.0		-7.4	-0.4	-2.6
3 Botswana	MI, Adjusting	53.3	1.1	5.9	60.3	2.1	2.9	34.8	0.4	-3.9	31.3	1.1	1.5
4 Burkina Faso	LI, Non-adjusting	42.9	0.0		42.9	1.7	16.9	28.0	0.0		28.0	1.1	11.1
5 Burundi	LI, Adjusting	0.0	0.0		0.0	0.0	0.0	0.0	0.0		0.0	0.0	0.0
6 Cameroon		-483.2	18.4		-444.8	-3.9	-23.9	-399.0	8.9		-392.1	-3.4	-21.0
7 Cape Verde	LI, Non-adjusting	3.8	0.0		3.8	1.3	6.3	2.5	0.0		2.5	0.8	4.1
8 Central African Republic	LI, Adjusting	11.5	0.0		11.5	1.0	5.4	7.5	0.0		7.5	0.7	3.5
9 Chad	LI, Adjusting	30.7	0.0		30.7	3.0	12.6	20.1	0.0		20.1	2.0	8.2
10 Comoros	LI, Non-adjusting	3.3	0.0		3.3	1.6	14.2	2.2	0.0		2.2	1.1	9.3
11 Congo		-708.5	18.6		-689.9	-30.8	-58.6	-589.4	7.0		-582.4	-25.1	-47.6
12 Cote D'Ivoire	MI, Adjusting	153.4	85.8		239.2	2.6	7.3	94.0	32.2		126.2	1.4	3.8
13 Djibouti	LI, Non-adjusting	0.0	0.0		0.0	0.0	0.0	0.0	0.0		0.0	0.0	0.0
14 Equatorial Guinea	LI, Non-adjusting	3.1	0.0		3.1	2.2	10.7	2.0	0.0		2.0	1.4	6.9
15 Ethiopia	LI, Non-adjusting	76.6	3.7		80.3	1.3	11.2	45.2	1.4		46.6	0.8	6.5
16 Gabon		-1343.8	3.2		-1340.6	-39.0	-71.9	-832.9	1.2		-831.7	-24.2	-44.6
17 Gambia, The	LI, Adjusting	5.9	0.3		6.2	2.7	4.0	3.8	0.1		3.9	1.7	2.6
18 Ghana	LI, Adjusting	99.7	1.4		101.0	2.0	11.4	65.1	0.5		65.6	1.3	7.4
19 Guinea	LI, Adjusting	31.8	0.0		31.8	1.2	4.3	19.9	0.0		19.9	0.7	2.7
20 Guinea-Bissau	LI, Adjusting	6.5	0.1		6.6	3.9	25.7	4.3	0.03		4.3	2.5	16.7
21 Kenya	LI, Adjusting	181.2	12.6		193.8	2.4	21.0	118.3	4.7		123.0	1.5	13.3
22 Lesotho	LI, Non-adjusting	30.4	0.5	0.4	31.3	6.7	29.7	19.8	0.2	-4.1	15.9	3.4	15.1
23 Liberia	LI, Non-adjusting	25.6	1.7		27.3	2.4	7.0	16.7	0.6		17.4	1.5	4.5
24 Madagascar	LI, Adjusting	47.6	5.0		52.6	2.1	11.9	28.7	1.9		30.6	1.2	6.9
25 Malawi	LI, Adjusting	33.9	0.8		34.7	2.2	11.2	22.2	0.3		22.5	1.4	7.2
26 Mali	LI, Adjusting	40.5	0.1		40.7	2.0	15.2	26.5	0.0		26.5	1.3	9.9
27 Mauritania	LI, Adjusting	25.9	0.1	2.6	28.6	2.8	5.7	15.8	0.4	2.6	18.8	1.8	3.8
28 Mauritius	MI, Adjusting	39.9	0.0		39.9	0.9	2.6	24.9	0.0		24.9	0.6	1.8
29 Mozambique	LI, Adjusting	36.7	6.8		43.5	3.4	23.3	21.9	2.5		24.4	1.9	13.1
30 Niger	LI, Adjusting	29.0	1.9		30.9	1.5	8.7	23.9	0.7		24.6	1.2	6.9
31 Nigeria		-6749.0	193.9	175.0	-6380.1	-21.5	-63.1	-4421.0	72.7	85.0	-4263.3	-14.4	-42.2
32 Rwanda	LI, Adjusting	15.8	0.0		15.8	0.7	10.7	8.2	0.0		8.2	0.4	5.5
33 Sao Tome and Principe	LI, Adjusting	1.0	0.2		1.2	2.5	13.5	0.6	0.1		0.7	1.5	8.3
34 Senegal	LI, Adjusting	46.2	0.9		47.1	1.0	3.7	47.4	0.3		47.7	1.0	3.7
35 Seychelles	MI, Adjusting	7.8	0.1		7.9	2.7	4.0	4.9	0.1		5.0	1.7	2.5
36 Sierra Leone	LI, Non-adjusting	19.9	0.0		19.9	1.9	14.7	13.0	0.0		13.0	1.2	9.6
37 Somalia	LI, Non-adjusting	35.8	0.3	0.6	36.7	3.2	38.7	23.4	0.1	0.6	24.1	2.1	25.4
38 Sudan	LI, Non-adjusting	81.0	0.5	65.0	146.5	1.3	19.5	59.0	0.0	65.0	124.0	1.1	16.5
39 Swaziland	MI, Adjusting	53.3	0.1	5.9	59.3	10.3	10.8	34.8	0.0	-3.9	30.9	5.4	5.6
40 Tanzania	LI, Adjusting	98.7	1.1	8.0	107.8	3.8	20.8	78.7	0.3	8.0	87.0	3.0	16.8
41 Togo	LI, Adjusting	17.0	0.8		17.8	1.3	3.8	11.0	0.3		11.3	0.8	2.4
42 Uganda	LI, Adjusting	40.8	0.0		40.8	0.9	18.4	24.5	0.0		24.5	0.5	11.0
43 Zaire		-13.6	2.5		-11.1	-0.1	-0.5	-8.9	0.9		-8.0	-0.1	-0.3
44 Zambia	LI, Adjusting	57.6	2.4		60.0	1.1	4.0	35.5	0.6		36.1	0.7	2.4
45 Zimbabwe	MI, Non-adjusting	113.9	0.0		113.9	1.9	6.3	72.4	0.0		72.4	1.2	4.0
Sub-Saharan Africa		-9497.2	368.5	263.4	-8865.3	-5.4	-21.0	-6339.0	139.3	149.3	-6060.4	-3.7	-14.3
Oil exporters		-11099.1	240.2	175.0	-10683.9	-16.3	-51.4	-7400.4	91.4	85.0	-7224.0	-11.0	-34.7
Oil importers		1602.0	128.3	88.4	1818.6	1.8	8.5	1061.4	47.9	64.3	1173.6	1.2	5.5
Middle income		421.5	87.2	11.8	520.5	2.2	5.5	265.8	32.7	-7.8	290.7	1.2	3.1
Adjusting		307.6	87.2	11.8	406.6	2.3	5.3	193.4	32.7	-7.8	218.3	1.3	2.9
Low income		1180.5	41.1	76.6	1298.2	1.7	10.9	795.6	15.2	72.1	882.9	1.2	7.4
Adjusting		858.1	34.4	10.6	903.1	1.8	9.6	583.8	12.9	10.6	607.3	1.2	6.5

Oilprice, oilprice differential(\$/b)
LIBOR rate differential(percentage p.)

12.4

1.6%

8.1

0.6%

Table 5 (continued)
Total impact of direct effects of higher oil prices in sub-Saharan Africa, 1990-92
Scenario II

----- Summary -----

		Total impact of direct effects, 1990-92 (Yearly averages)			Data avail- ability	Total impact of direct effects more than \$1 bn.	Total impact of direct effects more than 2 % of GDP	Total impact of direct effects more than 6 % of exports	Multi- plicity of seriously affected status	Oil exporters
		(US\$m)	(%GDP89)	(%X89)						
1	Angola	-1348.1	-18.2	-42.8	1	1	1	1	3	
2	Benin	-11.2	-0.7	-3.9	1	0	0	0	0	
3	Botswana	MI, Adjusting	44.1	1.5	2.1	1	0	0	0	
4	Burkina Faso	LI, Non-adjusting	33.4	1.3	13.2	1	0	0	1	
5	Burundi	LI, Adjusting	0.0	0.0	0.0	0	0	0	0	
6	Cameroon	-345.8	-3.0	-18.6	1	0	1	1	2	
7	Cape Verde	LI, Non-adjusting	3.0	1.0	4.9	1	0	0	0	
8	Central African Republic	LI, Adjusting	9.0	0.8	4.2	1	0	0	0	
9	Chad	LI, Adjusting	24.0	2.4	9.8	1	0	1	1	
10	Comoros	LI, Non-adjusting	2.6	1.3	11.1	1	0	0	1	
11	Congo	-571.5	-25.5	-48.6	1	0	1	1	2	
12	Cote D'Ivoire	MI, Adjusting	158.5	1.7	4.8	1	0	0	0	
13	Djibouti	LI, Non-adjusting	0.0	0.0	0.0	0	0	0	0	
14	Equatorial Guinea	LI, Non-adjusting	2.3	1.6	7.9	1	0	0	1	
15	Ethiopia	LI, Non-adjusting	58.0	1.0	8.1	1	0	0	1	
16	Gabon	-972.0	-28.3	-52.1	1	0	1	1	2	
17	Gambia, The	LI, Adjusting	4.7	2.1	3.1	1	0	1	0	
18	Ghana	LI, Adjusting	78.4	1.6	8.8	1	0	0	1	
19	Guinea	LI, Adjusting	21.0	0.8	2.8	1	0	0	0	
20	Guinea-Bissau	LI, Adjusting	5.1	3.0	19.9	1	0	1	1	
21	Kenya	LI, Adjusting	147.5	1.8	16.0	1	0	0	1	
22	Lesotho	LI, Non-adjusting	22.8	4.8	21.7	1	0	1	1	
23	Liberia	LI, Non-adjusting	20.8	1.8	5.3	1	0	0	0	
24	Madagascar	LI, Adjusting	36.8	1.4	8.4	1	0	0	1	
25	Malawi	LI, Adjusting	26.8	1.7	8.6	1	0	0	1	
26	Mali	LI, Adjusting	31.7	1.5	11.8	1	0	0	1	
27	Mauritania	LI, Adjusting	23.1	2.2	4.6	1	0	1	0	
28	Mauritius	MI, Adjusting	42.0	1.0	2.7	1	0	0	0	
29	Mozambique	LI, Adjusting	33.9	2.7	18.1	1	0	1	1	
30	Niger	LI, Adjusting	20.6	1.0	5.8	1	0	0	0	
31	Nigeria	-4761.7	-16.1	-47.1	1	1	1	1	3	
32	Rwanda	LI, Adjusting	11.2	0.5	7.6	1	0	0	1	
33	Sao Tome and Principe	LI, Adjusting	0.9	1.9	10.0	1	0	0	1	
34	Senegal	LI, Adjusting	35.2	0.8	2.7	1	0	0	0	
35	Seychelles	MI, Adjusting	6.6	2.3	3.3	1	0	1	0	
36	Sierra Leone	LI, Non-adjusting	15.5	1.5	11.5	1	0	0	1	
37	Somalia	LI, Non-adjusting	28.5	2.5	30.1	1	0	1	1	
38	Sudan	LI, Non-adjusting	120.9	1.0	16.1	1	0	0	1	
39	Swaziland	MI, Adjusting	43.6	7.6	8.0	1	0	1	1	
40	Tanzania	LI, Adjusting	74.3	2.6	14.3	1	0	1	1	
41	Togo	LI, Adjusting	13.4	1.0	2.9	1	0	0	0	
42	Uganda	LI, Adjusting	43.0	0.9	19.4	1	0	0	1	
43	Zaire	-9.4	-0.1	-0.4	1	0	0	0	0	
44	Zambia	LI, Adjusting	47.8	0.9	3.2	1	0	0	0	
45	Zimbabwe	MI, Non-adjusting	88.5	1.5	4.9	1	0	0	0	
Sub-Saharan Africa		-6640.1	-4.1	-15.7	43	2	15	26		
Oil exporters		-8019.6	-12.3	-38.5	7	2	5	5		
Oil importers		1379.6	1.4	6.4	36	0	10	21		
Middle income		383.3	1.6	4.1	6	0	2	1		
Adjusting		294.8	1.7	3.9	5	0	2	1		
Low income		996.2	1.3	8.3	30	0	8	20		
Adjusting		688.4	1.4	7.3	20	0	6	12		

Oilprice, oilprice differential (\$/b)
LIBOR rate differential (percentage p.)

PAGE 1

AFLNR006

Africa Region
FY 91 Schedule of Board Actions
Lending Program Only
for sal and sad only

Run Date : 09/10/90

TASK MANAGER	ST	MGR DIV	LND SCT	INS	IBRD (\$\$)	IDA (\$\$)	IDA (SDR)	SFA	APP DEP	RVP/LC DATE	START NEGOTS	FINAL DOCS TO RVP	FINAL AGR	FINAL DOCS TO EDS	BOARD DATE	SPC PRC	
Future Approvals																	
2 ND - QTR.																	
3TOGPA038 POP/HEALTH ADJ		AZEFOR	L	22350	NH SAD	.00	14.20	10.20	.0	06/27/90A	09/27/90	10/05/90	10/22/90	10/22/90	10/23/90	11/13/90	N
3SENP072 TRANSPORT SEC.		MITCHELL	L	23040	TT SAD	.00	65.00	46.80	.0	11/27/89A	05/11/90A	05/29/90A	10/24/90	06/22/90A	10/30/90	11/20/90	N
3ZAMP087 RECOVERY CREDIT		KARUGA	L	23210	MY SAL	.00	150.00	108.10	.0	08/25/90A	09/27/90	10/15/90	10/19/90	10/22/90	10/31/90	11/20/90	N
3NIRPA127 BUDGETARY FIN P		WARNER/SMAYZE	L	22810	DO SAD	500.00	.00	.00	.0	02/26/90A	03/27/90A	05/07/90A	10/31/90	10/31/90	11/08/90	11/27/90	N
3KENPA111 AG. SECTOR ADJUS		AHMED	L	22420	AA SAD	.00	75.00	54.10	.0	06/26/90A	10/02/90	10/15/90	11/11/90	11/28/90	11/29/90	12/18/90	N
3KENPA137 EXPORT DEVELOPM		BHATTASALI	L	22430	MX SAD	.00	100.00	72.10	.0	06/26/90A	10/12/90	10/23/90	11/07/90	11/27/90	11/28/90	12/18/90	N
3JANPA067 AG SECTOR ADJ C		VIDAEUS	L	22420	AA SAD	.00	87.00	62.70	.0	06/04/89A	09/24/90	10/08/90	11/06/90	11/09/90	11/27/90	12/18/90	N
Total Count of Proj: 7																	
L/C Totals :					500.00	491.20	354.00	.0									
3 RD - QTR.																	
3NIGPA047 HUMAN RES SECAL		FREDRIKSEN/ODAO	L	23050	EE SAD	.00	34.00	24.60	.0	06/29/89A	11/19/90	12/03/90	12/10/90	12/14/90	12/19/90	01/08/91	N
3MLIPA049 SAL I		AHLERS	L	23010	MY SAL	.00	70.00	50.50	.0	03/08/90A	09/20/90	10/11/90				01/15/91	N
3COBPA032 SAL II		JONES	L	22310	MY SAL	80.00	.00	.00	.0	10/15/90	11/30/90	12/10/90				01/16/91	N
3BENPA049 SAL II		SAYEH	L	22310	MY SAL	.00	45.40	32.70	.0	10/15/90	11/30/90	12/12/90				01/22/91	N
3RANPA059 SAL I		TATMAS	L	22610	MY SAL	.00	84.50	60.90	.0	10/05/90	01/15/91	02/02/91	02/26/91	03/05/91	03/06/91	03/26/91	N
Total Count of Proj: 5																	
L/C Totals :					80.00	233.90	168.70	.0									
4 TH -QTR.																	
3NIGPA044 TRANSPORT SECTO		LOIR	L	23040	TT SAD	.00	25.00	18.00	.0	10/15/90	01/10/91	02/15/91				04/02/91	N
3ETHPA087 EXPORT ENT DEV		SUMER	L	22430	II SAD	.00	70.00	50.50	.0	10/19/90	01/28/91	02/11/91	03/15/91	04/03/91	04/04/91	04/23/91	N
3MAGPA094 INCENTIVE PROMO		LE HOUEROU	L	22610	MP SAD	.00	84.10	60.60	.0	12/08/90	02/06/91	02/19/91	04/02/91	04/10/91	04/11/91	04/30/91	N
3GHAP084 SAL III		JONES	L	22810	MY SAL	.00	100.00	72.10	.0	10/22/90	01/15/91	02/18/91				05/14/91	N
3SENP086 AG SECAL		JONES	L	23020	AA SAD	.00	20.00	14.40	.0	01/10/91	03/15/91	04/15/91				06/04/91	N
3GHAP082 AGRIC SECTOR AD		BUNYASI/RANAWE	L	22820	AC SAD	.00	50.00	36.00	.0	01/14/91	02/28/91	04/01/91				06/11/91	N
3AFRPA009 UDEAC/BEAC		LALL	L	22330	II SAD	130.00	25.00	18.00	.0	06/29/90A	12/21/90	05/15/91				06/25/91	N
3BLRPA054 SAL I		JONAS	L	23010	MY SAL	.00	47.60	34.30	.0	01/15/91	04/19/91	04/29/91				06/25/91	N
Total Count of Proj: 8																	
L/C Totals :					130.00	421.70	303.90	.0									
Total Count Future Approvals : 20																	
L/C Totals Future Approvals :					710.00	1146.80	826.60	.0									
Grand Total Count of Proj: 20																	
Grand Total :					710.00	1146.80	826.60	.0									

Africa Region
FY 91 Schedule of Board Actions
for sal and sad only
Standby Program (92 s Only)
=====

		TASK MANAGER	ST	MGR DIV	LND INS	IBRD (\$\$)	IDA (\$\$)	IDA (SDR)	SFA	APP DEP	RVP/LC DATE	START NEGOTS	FINAL DOCS TO RVP	FINAL AGR	FINAL DOCS TO EDS	BOARD DATE	SPC PRC
Future Approvals																	

2 ND - QTR.																	
310GPA045	SAL IV	BLAKE	S	22310	MY SAL	.00	65.00	46.80	.0	06/30/90A		10/01/90				11/13/90	N
32AIPA110	SOC SEC ADJ	BALDOUY	S	22650	MX SAD	.00	31.70	22.80	.0	06/23/89A	01/09/90A	10/30/90	11/15/90	11/20/90	11/29/90	12/18/90	N
Total Count of Proj: 2																	
L/C Totals :						.00	96.70	69.60	.0								
3 RD - QTR.																	
3SILPA040	IMPORT SUPPORT	FENNEL	S	22810	MY SAL	.00	20.00	14.40	.0	10/02/90	11/20/90	12/15/90				01/29/91	N
300BPA038	EDUC SECTOR ADJ	MARTINEZ	S	22350	EE SAD	40.00	.00	.00	.0	10/26/90	12/07/90	01/07/91		01/20/91	01/31/91	02/12/91	N
Total Count of Proj: 2																	
L/C Totals :						40.00	20.00	14.40	.0								
4 TH -QTR.																	
38UIPA044	SAL III	DAMON	S	22610	MY SAL	.00	95.00	68.50	.0	12/10/90	01/20/91	02/15/91	03/05/91	03/12/91	03/13/91	04/02/91	N
3GABPA008	SAL II	TILMES	S	22310	MY SAL	50.00	.00	.00	.0	10/30/90	01/15/91	04/15/91				05/14/91	N
3MALPA054	CAPITAL & LABOR	KRUMH	S	23210	MY SAL	.00	60.00	43.20	.0	06/29/90A	03/01/91	04/01/91	05/01/91	05/09/91	05/15/91	06/04/91	N
3TANPA105	INDUSTRIAL REST	PHILLIPS	S	23230	DD SAD	.00	140.00	100.90	.0	11/10/90	03/15/91	04/29/91	05/01/91	05/01/91	05/01/91	06/11/91	N
3CANPA086	SAL II-PE	SUTCH	S	22310	MY SAL	150.00	.00	.00	.0	02/01/91		04/15/91				06/18/91	N
3IVCPA079	HUMAN RESOURCES	SALOME	S	22350	EE SAD	60.00	.00	.00	.0	10/20/90	02/15/91	04/20/91				06/18/91	N
3SEMPA076	WATER III	VAN BELZEKOM	S	23040	WJ SAD	.00	30.00	21.60	.0	11/15/90	04/15/91	05/15/91				06/18/91	N
300HPA013	MACROECONOMIC M	DEMANGEL	S	22610	MY SAL	.00	13.80	9.90	.0	06/19/88A	03/29/91	04/15/91	05/28/91	06/04/91	06/06/91	06/25/91	N
3GHAPA079	FINANCIAL SECTO	FRAMJI	S	22830	IF SAD	.00	90.00	64.90	.0	02/08/91	04/16/91	04/29/91				06/25/91	N
3GHAPA088	PRIVATE SECTOR	AGARWAL	S	22830	MX SAD	.00	35.00	25.20	.0	02/11/91	04/26/91	05/13/91				06/25/91	N
3IVCPA106	FIN SECTOR ADJ	WORMSER	S	22330	DD SAD	120.00	.00	.00	.0	03/15/91	05/01/91	05/15/91				06/25/91	N
3UNMPA054	SAL I	MEESOOK	S	22410	MY SAL	.00	100.00	72.10	.0	01/14/91	04/09/91	04/23/91	05/21/91	06/03/91	06/04/91	06/25/91	N
Total Count of Proj: 12																	
L/C Totals :						380.00	563.80	406.30	.0								
Total Count Future Approvals : 16																	
L/C Totals Future Approvals :						420.00	680.50	490.30	.0								

September 10, 1990

TO: Messrs. Jaycox, Husain, Karaosmanoglu, Wapenhans

Subject: Response to the Gulf Crisis

Attached is a memorandum to the President outlining the response that I think we need to make to the Gulf crisis. As you will see, I am thinking in terms of a three part effort, aimed at putting us in a position to provide strong leadership in helping shape the policy response of our borrowers and in coordinating assistance, especially for the most immediately impacted countries (MIs).

Given the pace with which events are moving, I do not think that we can wait until after the Annual Meeting consultations to put forward these ideas. Several special initiatives are currently being developed by the donor countries to deal with the effects of the crisis on the MIs. Accordingly, I have asked my staff to prepare a note for the Board, based on the submissions that the regions have already provided, which would (a) give our preliminary assessment of the impact of the crisis, (b) outline the sort of policy response that we think is appropriate and (c) describe in general terms how we ourselves are proposing to help. While our own response needs to also focus on the MIs, at the same time it needs to be broad enough to represent an appropriate response for all our affected borrowers.

The last opportunity to brief the Board will be Friday of this week, and the note is scheduled to be sent to the PC on Tuesday. It will be sent to you in draft by the end of the day, and I would like your comments early tomorrow morning.

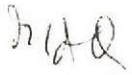
In addition, I would like you to prepare an quick assessment of the likely scope for stepped-up assistance in two areas: first, through reprogramming and accelerating planned base case adjustment lending to all borrowers; second, through special emergency assistance loans to the MIs. Attached you will find a table for summarizing possible increments in disbursements of adjustment loans and credits and a brief description of what is envisaged in the way of emergency loans for the MIs.

Questions on the ground rules for incremental/accelerated adjustment lending should be addressed to Mr. Grilli. The general principles should be that accelerated tranche releases are only feasible where borrowers undertake the appropriate actions on an accelerated basis and maintain appropriate macroeconomic performance -- taking account of their changed circumstances. Supplementary tranches to existing loans (note that this does not apply to credits unless you reprogram within existing IDA allocations) should be

governed by the same considerations. Advancing of adjustment loans/credits would require parallel advancing of contemplated policy actions.

Questions on the design of emergency loans should be addressed to Mr. Wyss.

This information is needed first thing tomorrow morning.


Moeen A. Qureshi

CC: Messrs. Bock, Grilli, Wyss

Attachment 1

Preliminary Estimate of Incremental Adjustment Lending

<u>Loan/Credit</u>	<u>Amount</u>	<u>Eff. on Disb. (\$m)</u>		
	<u>(\$m)</u>	<u>1990</u>	<u>1991</u>	<u>1992</u>
<u>Country</u>				
Accel. tranche rel.				
Supp'l tranches				
Adv.loans/credits				
Total for Country				

Criteria for Supplemental Loans to Existing Investment
Operations and for Additional Investment Loans

A. General Considerations

Country Objectives: To cushion the impact of (a) massive repatriation of adult workers, both male and female; and (b) the sudden lack of remittances to families in Jordan, Egypt, Pakistan, India, Philippines and Turkey.

Bank Objectives: to (a) accelerate the amount of disbursements through the end of FY92; and (b) to identify areas in training, credit, housing and urban development where supplemental and new additional lending in FY91 and FY92 may be justified (with preference for FY91).

Bank instruments to be considered:

- Modification of on-going loans to include specific components to address the repatriation needs;
- More flexible considerations for extending closing dates of projects which would close before the end of FY92 and significant undisbursed amounts;
- Supplemental loans (with rationale of "extraordinary situation") changing the environment for on-going loans;
- Emergency recovery loans, where the existing portfolio does not allow significant modifications to address repatriation; and
- Accelerate the preparation/processing of more advanced operations in lending program, using the experience of emergency situations.

B. Specific Considerations

Training and Education Operations

- Extend/add job training programs, particularly for construction industry, small scale production, etc., building on on-going programs;
- Extend education/training programs redesigned specifically for repatriated workers in key cities or reception areas;
- Greater involvement of church, NGO, community organizations as means for extending training programs;
- Support public information programs on training and job opportunities being created under the special program.

Housing and Urban Development Operations

- Accelerate municipal maintenance programs requiring unskilled and semi-skilled labor;
- Relax on-lending terms for housing construction or reconstruction for repatriated citizens;
- Extend scope of housing rehabilitation or resettlement programs, to provide reception areas for repatriated citizens;
- Support data collection efforts on refugees/repatriated families to better understand needs;
- Extend loan agreement to allow NGO involvement in repatriation efforts in urban areas;
- Public works programs, creating urban construction jobs, particularly in rehabilitation and maintenance of urban streets, drains, public buildings and in solid waste collection;
- Extend planned programs for wells, handpumps, community water supply schemes; and
- Expand labor-intensive road maintenance schemes, both in urban as well as in rural areas.

Credit Projects

- Support lending to:
 - . small and medium-scale enterprises;
 - . labor-intensive agro-industries;
 - . agriculture credit for smallholders;
- related to credit, support lending to:
 - . industrial, commercial and agriculture extension services

OFFICE MEMORANDUM

DATE: September 8, 1990

TO: Mr. Barber B. Conable

FROM: Moeen A. Qureshi *MAQ*

EXTENSION: 82006

SUBJECT: Bank Response to the Gulf Crisis

CONFIDENTIAL

DECLASSIFIED

NOV 11 2023

WBG ARCHIVES

1. As you know, we are in the process of preparing a country by country analysis of the effects of the Gulf crisis on our borrowers. The preliminary results of this work will be distilled into a note for the Board, which will be sent to you and the PC on Tuesday, with a Board briefing scheduled for Friday, September 14. This briefing will update and expand that given 10 days ago by PRE, and will include some discussion of the general lines of response required by the borrowers themselves, as well as rough estimates of additional financing required and--in general terms--what we would propose to do by way of assisting countries in coping with the effects of the crisis.

2. It is now clear, however, that special programs of assistance will be at the heart of the Annual Meeting discussions, notwithstanding the high degree of uncertainty about the magnitude and duration of the crisis and its economic effects. Thus, I do not believe that we can go into the Annual Meetings without some fairly clear ideas as to what role the Bank can play in this particular issue.

3. Accordingly, I have asked Operations' managers, particularly the Country Directors responsible for the most immediately impacted countries, to develop within a few days quite specific ideas as to how we can assist individual borrowers in dealing with the new burden of adjustment that the crisis has created for them. A framework for what we might do is set out below.

4. At the outset, we need to recognize that there are a number of complications in defining an expanded role for the Bank. First, as noted already, we don't know how long the crisis will last and what its effects will be on oil prices over the medium term. Thus, it is difficult to prescribe adjustment programs at this stage, though the prudent approach is clearly to expect the higher prices to be sustained for some period of time. Moreover, the magnitude of the crisis for many countries appears to be well in excess of the amount of financial assistance likely to be available. Second, whatever we do, it will represent only a limited contribution to the incremental financing requirements of the most seriously affected countries. The amount of IDA money is fixed. And many of the IBRD countries already had limited capacity to take on additional debt on commercial terms. The crisis has reduced this capacity even further. Even in the middle-income countries, therefore, the major part of the incremental financing will need to be on concessional terms. Additional debt relief will be required in a number of countries.

5. Third, no special program of assistance covering all borrowers will stand a chance at this stage. Such a program would only be justifiable on the basis of a sustained increase in the price of oil. Thus we need to think in terms of a program targeted on a narrower group of countries, i.e., those for which the loss of remittances and other invisible earnings plus the need to repatriate large numbers of refugees will be particularly burdensome. Fourth, we nonetheless need to find a way of responding, at least modestly, to the needs of all our borrowers. This applies a fortiori to the poorest countries, particularly those in Africa, where the impact of oil prices is most severe in terms of income effects.

6. Finally, there is a significant danger that the crisis and the associated emergency financing that will now become available to some countries will set back our structural reform programs. Thus, we need to find a way to use our limited financial leverage to shape the way in which emergency assistance is provided. Ideally, we would want to be in a position of coordinating this assistance in individual countries.

7. These considerations suggest that our response should be made up of three parts, intended to put us in a position to convene aid coordination meetings as necessary. To this end, we propose to use our lending program (and economic work) as the basis for coordinating emergency assistance in the most immediately impacted countries and, more generally, to catalyze additional or reprogrammed assistance to all countries that are significantly affected by the higher oil prices.

8. The first component will need to focus on what we can do with our existing lending instruments and portfolio. Here the main elements would be those that we have undertaken in the past, namely a reshaping of our lending program and disbursements pipeline so as to adapt them to altered priorities on a country by country basis. We are currently looking at the scope for several specific measures on a country by country basis: acceleration in the timing of tranche releases, supplements to existing adjustment loans, advancing the timing of planned new adjustment loans and credits, supplements to existing project loans and accelerating disbursements on project loans. However, given the changes in our lending since 1980, the effects of such measures will be more limited on this occasion. Also, acceleration of project disbursements entails a temporary relaxation of operational policies on cost-sharing. The most difficult task with respect to enhanced adjustment lending will be to get countries to take sufficient measures to maintain present programs (needed for accelerated releases and supplements) or to advance additional policy reforms (needed for acceleration of planned lending).

9. The second component--focussed on the most immediately impacted countries--should be a special type of emergency recovery loan. These loans would be for the specific purpose of enabling countries to deal with the costs of resettling refugees and finding new sources of income/employment to make up for the loss of remittances. Barring a quick resolution of the Gulf crisis (i.e., an immediate Iraqi withdrawal), the effects on worker remittances and

other invisible earnings from the Middle East is likely to be protracted. The size and composition of such operations would be country-specific, but would generally be designed to cover housing and urban development, training and credit for small and medium-sized industries. The basic concept here is analogous to other emergency lending by the Bank, e.g., for earthquake reconstruction. In this case, the "disaster" is a significant shock to a borrower's invisible earnings coupled with emergency resettlement costs. We would seek to use such loans as the anchor for expanded cofinancing efforts.

10. The main issues associated with this approach include:

- First, what criteria should govern eligibility for such loans? Related to this, can the criteria be drawn in such a way that the appropriate countries benefit without eligibility becoming so broad that the current aversion to general programs would block the initiative? We are currently working with a list of 10 countries--Bangladesh, Egypt, India, Jordan, Pakistan, Philippines, Somalia, Sri Lanka, Sudan and Turkey--where such effects are significant and where the overall effect of all factors including oil prices exceeds 1% of GDP or 10% of exports.
- Second, can we mount such operations fast enough to be effective in dealing with the urgent need for additional balance of payments support? Here the answer is clearly yes, but we will need to work out the cost in terms of disruption to existing work programs and incremental administrative budget.
- Third, will such loans give us the instrument needed to anchor our role in coordinating overall emergency assistance? Obviously, the impact of such loans will vary from case to case, but I believe that they will be seen as a constructive and appropriate response by the Bank, especially in conjunction with the reprogramming of other lending to the country.

Finally, we will need to make certain that any special legal issues can be dealt with satisfactorily.

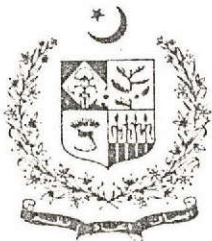
11. The third element of our response should be designed to deal with problems of the other low income countries. This is mainly an issue of finding some further financial assistance to cope with higher oil prices. There may be some scope for raising a supplement to the SPA, and I have asked Kim Jaycox to start canvassing the donor countries to see what might be done. We also have the special problem of IDA-only and weak blend borrowers such as Bangladesh and Sri Lanka. They will need some additional concessional funds; it would be highly useful if we could increase the amount of IDA money going to them. One possibility would be to approach the Saudis and other Gulf states for special supplemental contributions to IDA 9, where it would be understood that these funds would be used in the most seriously affected countries.

12. On the basis of the preliminary assessments now being completed--and subject to your overall approval--Operational managers will review these assessments with individual country delegations and donors during the Annual Meetings. Depending on the outcome of these discussions, the objective is to be in a position to convene special aid coordination meetings for the most immediately impacted countries soon after the Annual Meetings. For some of these countries (e.g., India, Pakistan, Sri Lanka), there are existing aid coordination mechanisms, and this may be a matter of simply accelerating the timing of the next meeting. For others, we will need to organize such mechanisms, if requested to do so by the country concerned. Whether to take on such a role will need to be evaluated on a case by case basis, taking account of the extent and quality of policy dialogue and economic performance. We will, of course, work closely with our IMF counterparts in this process.

13. If you agree with the overall thrust of these ideas, I would propose to include a general reference to them in the note for the Board and suggest that you discuss them in more detail with selected Directors between now and the Annual Meetings.

cc: Members of the President's Council

bcc: Messrs. Jaycox, Karaosmanoglu, Husain, Wapenhans, Kashiwaya
Messrs. Asanuma, Chopra, Kaji, Vergin, Wiehen



Telegram : ECONOMIC
Telex : ECDIV No. 05-634
Joint Secretary
Tele: 820795

Dy.No.2242/JS(Banks)/EA/90
Government of Pakistan
MINISTRY OF FINANCE AND
ECONOMIC AFFAIRS
(ECONOMIC AFFAIRS DIVISION)

Islamabad, the 9th September, 1990.

My dear Economic Minister,

Please refer to your Telex No.F.1(1)EM/90 dated 5th September, 1990 and find enclosed herewith for your information a copy of the draft Aide Memoire regarding Additional Assistance from Donors on account of the Gulf crisis. The draft has been circulated to the concerned Ministries for vetting/comments before circulation to the donors.

The final Aide Memoire will be furnished to you when issued.

With regards,

Yours sincerely,

(M. Hamid Hasan)

Mr. Mueen Afzal,
Economic Minister and
Financial Adviser,
Embassy of Pakistan,
Washington D.C.

DRAFT

Government of Pakistan
(Economic Affairs Division)

Middle East Crisis - Request For Additional
Assistance from Donors

AIDE MEMOIRE

ISLAMABAD

September 1990.

AIDE MEMOIRE

The present Middle East Crisis will have serious impact upon the economy of Pakistan. The economy will be burdened by (a) extraordinary expenditure on the repatriation and rehabilitation of Pakistanis from Iraq and Kuwait, (b) loss of home remittances from Gulf Area, (c) loss of export receipts as a result of embargo on trade with occupied Kuwait and Iraq and (d) deterioration in the balance of payments position of the country due to (i) loss of exports, (ii) increased payments for oil imports due to higher oil prices and (iii) decline in home remittances. These factors are discussed in the following paragraphs :-

(a) Evacuation and Rehabilitation of Pakistanis.

2. There are approximately 100,000 Pakistanis in Kuwait and Iraq who have to be evacuated. It is estimated that about 10,000 Pakistanis will travel back to Pakistan by their own vehicles or through other means of road transportation. The remaining 90,000 will travel by air or sea. The passage by a PIA flight from Amman to Karachi costs Rs. 7,500/-, from Riyadh to Karachi Rs. 6,000/- while the approximate cost by sea journey also comes to Rs. 7,000/- per person. The average transportation costs for bringing back a Pakistani from the various stations in the Middle East to Karachi is estimated roughly at Rs.7,000/-. The expenditure thus expected to be incurred on travel by air and sea would therefore be Rs. 630 million.

3. Those returning by their own motor cars or other means of road transportation will need to be provided Rs.10,000/- per head to meet the cost of gasoline, hiring charges of buses, temporary shelter

Contd.... P-2/....

and food charges in Turkey, Iran and Syria. The approximate expenditure in this regard is estimated at Rs. 100 million, considering about 10,000 persons travelling by road.

4. In order to facilitate the movement and to meet other expenses towards reaching home, the Government is also paying Rs. 6,000/- to each person at the time of entry into Pakistan. This money is paid irrespective of the fact whether the persons entered the country by air, sea or land route. The expenditure to be incurred in this regard works out to be Rs. 600 million.

5. The evacuees reaching Riyadh and Amman were transported from the borders, lodged in camps and provided food, blankets and medical aid before their embarkation on planes and ships. While all the evacuees in Riyadh have been cleared, there is a continuous flow to Amman. The cost of running camps at these places is estimated at \$ 3 million i.e. about Rs. 70 million. Similarly, reception camps have been established at Taftan for overland evacuees and at Karachi for those returning by sea or air. The cost per head presently is estimated at Rs. 1000 with a total cost of Rs. 100 million. Thus camps and associated relief inputs will cost about Rs. 170 million.

6. The Summary of expenditure on all the activities noted above is given below :-

a. Travel expenditure @ Rs. 7,000/- per head for 90,000 persons moving by air/sea.	Rs. 630 million
b. Travel expenditure of 10,000 evacuees moving by cars etc. @ Rs. 10,000/- per head	Rs. 100 million
c. Expenditure on refugees camps in Amman and Riyadh.	Rs. 70 million
d. Payment at entry point for 100,000 evacuees @ Rs. 6,000/- per head	Rs. 600 million
e. Miscellaneous expenditure being incurred on administrative and relief arrangements at borders for camps, transportation and food.	Rs. 100 million
Grand total:	<u>Rs. 1500 million</u>

7. The majority of expatriate Pakistanis have both the skill and enterprise for gainful absorption in the economy. To facilitate the process, a credit window/windows will be opened for equity and debt financing with an investment ceiling of Rs. 1 million. The debt equity ratio will be relaxed from 70:30 available to new comers to 85:15. The facility would provide opportunities for a good number of expatriates. The rest it is hoped would find employment through the labour market.

(b) Loss of Home Remittances.

8. Pakistan was receiving home remittances of about \$ 170 million annually from Kuwait. As a result of annexation of Kuwait by Iraq, Pakistanis in Kuwait and Iraq are returning home. Due to disturbed conditons in the Gulf Area, home remittances from other Gulf countries have also slowed down. The total loss in home remittances is estimated at \$300 million.

(c) Loss of Export Receipts.

9. As a result of enforcement of embargo on trade with occupied Kuwait and Iraq, Pakistan will also loose export receipts of US\$ 100 million.

(d) Deterioration in Balance of Payments Position

10. The Gulf Crisis will have serious impact upon the already tenuous balance of payments position of Pakistan. Import payments are estiamted to go up very significantly deu to a sudden spurt in oil prices in the wake of Gulf crisis. In the budget projections for 1990-91, crude oil prices were assumed at \$ 17 per barrel, fuel oil prices at \$ 85 per ton. and other deficit products prices at \$ 160 per ton. In the revised scenario, crude oil prices have been assumed at \$ 24 per barrel, fuel oil prices at \$ 110 per ton and other deficit products prices at \$ 226 per ton. As a result, FDL import payments for the year 1990-91 are expected to be higher by about \$ 600 million as comapred with the projections embodied

in the budget amounting to \$ 1,314 million as shown in the following table :-

<u>P.O.L. Imports</u>		
	<u>Budget</u>	<u>Projections (Revised)</u>
<u>Crude Oil</u>		
- Value (\$ million)	470	664
- Volume (million barrels)	27.7	27.7
- Price (\$ per barrel)	17	24
<u>Fuel Oil</u>		
- Value (\$ million)	161	227
- Volume (million tons)	1.9	1.9
- Price (per ton)	85	119
<u>Others</u>		
- Value	673	950
- Volume (million tons)	4.2	4.2
- Price (per ton)	160	226

11. Thus, loss of exports, surge in oil prices and drop in home remittances, will increase Pakistan's current account deficit by about \$ 1 billion in 1990-91 from \$ 1328 million (Budget) to \$ 2177 million (Revised). With a foreign exchange liquid reserves equal to about \$ 500 million sufficient only to cover 2 weeks import requirements, it will not be possible for Pakistan to absorb the loss of \$ 1 billion to the balance of payments owing to the crisis in the Gulf and also meet the additional burden (both in local currency as well as foreign exchange) on account of returning Pakistanis from Kuwait and Iraq.

12. In order to overcome this unforeseen problem, Pakistan would need additional assistance of about \$ 1100 million by way of quick disbursing aid to support the deteriorating balance of payments position

as also for the evacuation and rehabilitation of Pakistanis from Kuwait and Iraq.

13. Pakistan hopes that donor countries and international agencies would extend all possible assistance to Pakistan to overcome this unforeseen difficult situation.

Moeen,

No action required - the 9/14

Board discussion settles the issue.

DOB 9/14

OFFICE MEMORANDUM

Date: September 7, 1990
To: Mr. Moeen A. Qureshi, OPNSV
From: D. C. Rao, IECDR *Del*
Ext: 33800
Sub: Bank Response to Oil Shock: Request from Netherlands

1. Ms. Bakker of the Netherlands ED's office called me to say that their Minister for Economic Cooperation wished to provide additional assistance to the poorest developing countries that were seriously affected by the increases in the oil price and wanted to know what the Bank was doing in this regard. In particular, they wished to know what modalities the Bank was considering (accelerated disbursements, supplemental loans, etc.) and the extent to which the additional official assistance could be provided in the form of cofinancing with the Bank.

2. I replied that while we were not able to give specific answers to these questions at this stage, these issues would be covered in your statement to the EDs next week. I also indicated that the Bank was in the process of identifying the countries most seriously affected and that we hoped to be able to provide this information to the EDs next week, along with estimates of the magnitude of the impact.

c.c. Messrs. Thalwitz, PRESV; Grilli, EASDR; Linn, CECDR

DCRao/kg

OFFICE MEMORANDUM

DATE: September 6, 1990

TO: Mr. Parvez Hasan, EMNVP

THROUGH: Mr. Michael H. Wiehen, Director, EM1 

FROM: Manuel Peñalver, Chief, EMICO

EXTENSION: 32756

SUBJECT: Financial Impact of the Middle East Crisis

As per your request, please find attached notes, assessing the financial impact of the Middle East crisis on the economies of Pakistan and Turkey during the period 1990-92.

Attachment

cc: EM1 Management Team
EMICO Staff

TBaysan:bd

PAKISTAN

Financial Impact of the Middle East Crisis: 1990-1992

1. Economic Conditions in CY89 and Pre-Crisis Outlook Pakistan's GDP reached, in current US dollars, \$40.4 billion in CY89, while exports of goods and services (including workers remittances) amounted to \$7.8 billion and net imports of oil \$1.1 billion. Against these magnitudes, DOD stood at about \$17.6 billion at end-CY89, with almost \$4 billion in variable rate DOD (Table 1). As regard economic performance, developments during CY89 were characterized by generally good macroeconomic performance, with GDP growth of about 5% and inflation rate falling from above 9% in CY88 to 8%. Fiscal performance also improved as the consolidated government budget deficit fell from above 8% of GDP to 7.2% of GDP in CY89. This reflected the positive effects of some structural fiscal adjustment measures, which the Government started implementing in July 1988 as part of a four-year macroeconomic adjustment and structural reform program supported by an IMF SBA/SAF package and larger Bank lending. However, because of an unexpected deterioration in the external terms of trade, the external current account deficit did not improve and remained more or less at previous year's level of \$1.8 billion (or 4.4% of GNP), leaving Pakistan's BOPs in a precarious situation with foreign exchange reserves of less than 4 weeks of imports (about \$0.5 billion). Prior to the Middle East crisis, the trade balance had shown signs of improvement, and the FY91 budget (announced in June 1990) had introduced a set of fiscal measures aimed at reducing the fiscal deficit to 6% of GDP (below the program target of 5.5% of GDP). And the latest (pre-crisis) CSP base case scenario solutions, assuming only minor slippages from the ongoing adjustment program, had projected an annual GDP growth rate of 5.5% over the period 1990-1992, and falling budget deficit (from 6.1% of GDP in CY90 to 5% of GDP in CY92) and external current account deficit (from 3.6% of GDP in CY90 to 2.8% of GDP in CY92).

2. Balance of Payments Impact The negative impact on Pakistan's oil imports (including crude oil, fuel oil and other petroleum products) of higher oil prices is estimated at \$407 million for CY90, \$659 million for CY91, and \$406 million for CY92, while the adverse interest rate effect is estimated to be \$8 million in CY90, \$68 million for CY91 and \$30 million for CY92. Another important effect concerns remittances from Kuwait, which amount to about \$165 million p.a.; remittances from Iraq are virtually nil. In the impact calculations, it is assumed that remittances from Kuwait will drop to zero because of persistence of the crisis, with no effect on remittance flows from other countries in the region.^{1/} As for the non-oil merchandise trade, Pakistan's export trade with Iraq and Kuwait does not amount to much (\$25 million), and in estimating "other effects", it is assumed that export receipts will fall only by \$10 million in CY91 and CY92, with the rest being diverted to other trading partners.

^{1/} However, if the Pakistani workers succeed in taking out their accumulated savings and exchange these through the official channels, then remittances may indeed increase in CY90 (and, perhaps, also in CY91).

3. Fiscal Impact The effect on the budget will come from not passing through the additional oil cost to consumers --i.e., if the Government decides to absorb the entire increase in costs-- and from higher interest payments. In this case, the budget deficit, as a share of CY89 GDP, would be 1% higher in CY90 than the base line situation. On the other hand, a complete pass-through would add 1-2 percentage points to the CY90 inflation rate, and the budget deficit will increase only by the amount of additional interest cost on the external debt, which will be negligible in CY90 and about 0.2% of GDP in CY91.

4. Government's Policy Response The Government has taken no actions to date and in the first days of the Gulf crisis the Prime Minister and several other ministers announced that no actions would be taken. Partly this can be explained by the fact that the Government feels that it may not be necessary to take immediate action (because of a recent purchase of crude oil at pre-crisis prices -- large enough to meet demand for three months) and partly by the fact that this is a caretaker government with short planning horizon and a need to position itself for a possible election (end-October). However, Pakistan had been facing an extremely precarious BOP situation for some time even before the crisis, with gross reserves large enough to meet only CY90 effects of the crisis. Furthermore, the ongoing medium-term adjustment program does not allow large external current account deficits. Similarly, the pre-crisis budgetary situation had also required additional fiscal effort to reduce the FY91 budget deficit to the program target of 5.5% of GDP. All of this, coupled with a persistence of the crisis and/or a growing realization that prices are not likely to return quickly to \$17-18/b in any event, point to the urgency of larger than previously projected BOP and domestic adjustment measures; the latter including at least retail price increases for petroleum products, natural gas, and electricity. In fact, several recent statements in the newspapers by the Finance Minister suggest that the Government is attempting to prepare the population for possible price increases. Given that there is not much room for maneuver on the external accounts, in that larger nonconcessional foreign borrowing is not a desirable option, other possible policy actions on the BOP side include: more active use of exchange rate policy to boost exports and encourage larger inflow of remittances from other countries ^{1/}, measures to speed up the disbursements from the existing \$8 billion pipeline, and an effort to mobilize more concessional external assistance (supported by an effective package of domestic adjustment measures). On the fiscal side, the list of additional measures for containing the budget deficit (say at the pre-crisis target level) include the known possibilities: e.g., further broadening of the coverage of sales tax and income taxes, price increases for wheat and fertilizers.

^{1/} The net effect of larger than previously planned nominal depreciation of the rupee on the budget should be positive; in CY89, interest payments on external debt amounted to 1.4% of GDP, whereas, revenues from import duties reached 5.6% of GDP.

5. The Bank's Response A joint IMF/Bank mission is currently holding meetings with the Government on the status of the adjustment program, and specifically on the adequacy of the FY91 fiscal measures for keeping the program on track. Of course, the macroeconomic impact of the Middle East crisis and what new corrective measures the Government is contemplating to undertake is an added dimension of these meetings. Clearly, the mission's assessment of the overall macroeconomic situation and of planned policy actions (if there are any!) will have a major bearing on how the Bank should respond. The Bank's (pre-crisis) position, spelled out in the latest CSP, has been that the size of lending to Pakistan will stay at about \$700 over the next few years, on the condition that the adjustment program stays on track and increasing resources are allocated to the social sectors. The Bank position, which links the size of lending to the Government's adjustment efforts, should continue. This will also provide a guidance for determining the degree of Bank's involvement in mobilizing concessional assistance from other donors. Clearly, a strong Government response to the crisis will be crucial for the continuation of the IMF program as well as for the Bank's larger assistance in Pakistan's adjustment effort.

Table 1 - PAKISTAN: Impact of the Middle East Crisis

	BASE LINE DATA		
	1989		
	(In millions of current US dollars)		
GDP	40,436		
Net Imports of Oil	1,091		
Exports of Goods & Services 1/	7,795		
DOD (Debt Outstanding & Disbursed, Total)	17,600		
Variable Rate DOD	3,980		
<u>Effects of Recent Developments</u>			
(Under Scenario B Assumptions)			
	<u>CY1990</u>	<u>CY1991</u>	<u>CY1992</u>
Oil Price Effect 2/			
Absolute Value (US\$)	407	659	406
% GDP	1.0	1.6	1.0
% Exports of Goods & Services	5.2	8.5	5.2
Interest Rate Effect			
Absolute Value (US\$)	8	68	30
% GDP	0	0.2	0.1
% Exports of Goods & Services	0.1	0.9	0.4
Other Effect 3/			
Absolute Value (US\$)	69	175	175
% GDP	0.2	0.4	0.4
% Exports of Goods & Services	0.9	2.2	2.2
<u>Total Effect</u>			
Absolute Value (US\$)	484	902	611
% GDP	1.2	2.2	1.5
% Exports of Goods & Services	6.2	11.6	7.8

-
- 1/ Includes workers remittances.
 - 2/ Assumes that the prices of petroleum products increase (decrease) by 75% of the increase (decrease) in the crude oil price.
 - 3/ Reflects mainly the absolute size of fall in the inflow of workers remittances. For 1991 and 1992, figures also include a \$10 million reduction in merchandise exports.

9/6/90

Turkey: Impact of Gulf Crisis

1. Pre-Crisis Macro Situation and Outlook. Turkey's economy in 1989 was recovering from a sharp recession in the second half of 1988. However, an 11% drop in agricultural output due to a severe drought limited real GDP growth to 1% in 1989. The public sector borrowing requirement (PSBR) rose to 7.4% of GDP in 1989 from 6.4% in 1988 reflecting large real wage increases granted in mid-1989. Two years of current account surpluses (cumulative \$2.5 billion in 1988-89) had lowered the external debt burden: between 1987 and 1989, debt/GDP fell from 60% to 53%, debt/exports from 247% to 190%, and the debt service ratio from 36% to 33%. Interest/GDP however rose slightly from 3.6% to 3.7%. Commercial creditworthiness was also improving and international reserves had increased significantly to \$11 billion (including gold and commercial bank reserves) by mid-August 1990. However, the inability of monetary policy to sterilize the reserve inflow contributed to continued inflation in the 70% range in 1989. By July 1990, inflation had fallen to below 50% as monetary policy was tightened. But the fiscal deficit, financed through increased domestic borrowing, continued to widen notwithstanding buoyant real tax revenues, and the PSBR/GDP ratio was expected to deteriorate slightly in 1990. Real GDP growth accelerated to an annual rate of about 10% in the first half of 1990, generated by rapid industrial and agricultural growth. However, the current account had shifted to a deficit of about \$1.5 billion in the first half of 1990, reflecting rapid growth in domestic demand and a real exchange rate appreciation of about 25% over the previous 18 months. For 1990, the current account deficit was projected at \$1.2 billion (1.2% of GDP), real GDP growth at about 8%, and inflation at 50%. Projections for 1991-92 assumed relatively little fiscal adjustment, with inflation remaining in the 50-60% range. Growth was expected to slow to about 5% in 1991-92, whereas current account deficits were expected to rise in nominal terms, remaining at about 1.2% as a share of GDP.

2. Balance of Payments Impact. From the attached table, it can be observed that the estimated impact of the crisis on the BOP is large, peaking in 1991 at \$4.1 billion or 5.2% of 1989 GDP. (Note, however, that GDP in 1990 is expected to exceed \$100 billion given real appreciation and rapid domestic growth.) Given Turkey's close trading relationships with Iraq, the impact of other effects combined is expected to exceed that from higher oil prices. Most of the items in footnote 3 are self explanatory. Export losses to Iraq and Kuwait are expected to impact most severely in the short run. The negative consequences can be expected to diminish as new export markets are formed (Turkey has already re-directed a \$400 million export credit from Iraq to Iran), and manufactured export prices rise (manufacturing comprises 80% of Turkey's merchandise exports). The estimates of lost revenue from tourism and workers remittances are particularly speculative. The performance of these items as well as capital flows in Turkey's recently liberalized capital account will depend on perceptions of the security situation and the evolving nature of balance of payments trends. Losses from these items could potentially be much larger than the figures in the table.

3. Fiscal Impact. The two major items impacting the fiscal accounts are increased military expenditure due to partial mobilization (estimated at \$600m in 1990; \$800m in 1991-92) and lost revenues from the Iraqi pipeline (\$120m in 1990; \$300m in 1991-92). In addition, of the estimated interest cost about \$170m in 1991 and \$75m in 1992 would accrue to the public sector. As a

percentage of 1989 GDP, this amounts to 0.9% in 1990, 1.6% in 1991 and 1.5% in 1992. The Government's policy of adjusting domestic prices fully to higher world prices is expected to have a marginally beneficial fiscal impact since higher tax revenues more than offset the increased oil bill for the public sector's own consumption. However, the fiscal impact from the other items listed in the table is negative (lower tax revenues and possible compensation for contractors), and there will also be some additional expenditure from the refugee burden. Hence, the above estimates provide a reasonable approximation of the net fiscal impact. Finally, the delay of Iraqi debt service (see table) should enter the Central Bank's accounts as a capital account item.

4. Policy Response. The Government has increased domestic oil product prices on two occasions thus far, for a total increase of about 40%. This approximates the higher oil cost to date. In addition, arrangements have been made to ensure adequate oil supply for 1990 from Saudi Arabia and Abu Dubai to replace (at market prices) planned purchases from Iraq. The possibilities of concessional financing from these countries, UAE, Kuwait's former rulers, Japan, etc. are being discussed but have not been completed. Finally, Turkey has requested the US to ease its quotas on Turkish textile exports. To the extent that concessional financing and NATO aid (to finance the higher military expenditures) is available, they would of course ameliorate the BOP and fiscal impacts. But the critical element will be whether and when measures to reduce the fiscal deficit, which were needed even before the Gulf crisis, will be taken. A package of measures to be implemented in the context of the 1991 annual program is reportedly under consideration, but details and 1991 targets are not yet known. However, it would be preferable to take some deficit reducing measures immediately (i.e. in 1990), to set the stage for a more ambitious program of fiscal adjustment and efficiency improvements in 1991-92.

5. Bank's Response. It is evident that the financial impact of the crisis for Turkey is exacerbated by its close links with Iraq. The losses resulting from the cessation of financial transactions with Iraq should, however, be compensated with aid rather than debt, suggesting increased official rather than multilateral financing. At the same time, Turkey's recently improved creditworthiness suggests that it could accommodate about an additional \$1 billion in annual commercial financing for two to three years. Higher oil prices could be compensated through an IMF CFF, but the Government's view is that this would diminish rather than enhance creditworthiness. The Government would prefer a renewal of fast disbursing lending from the Bank, as a means of providing a positive signal to the financial community. The Bank position has been that the degree of adjustment lending should be commensurate with the Government's adjustment efforts, particularly on the fiscal front. Reduced Bank lending in FY89 and FY90 (net disbursements were -\$55m in FY90) has reduced projected Bank exposure, and would permit a significant (if limited) expansion in lending. Given an adequate adjustment effort, lending could be increased so that net disbursements could rise by up to \$200m in CY90 through release of the two FSAL tranches, and \$750-1,000m in CY91 through accelerated preparation of an ISAL, possibly transforming the TEK project into a hybrid operation, and the additional development of a SAL-type operation. The ISAL and particularly the new "SAL" would be conditional upon substantial fiscal adjustment, elimination

of sectoral subsidies and efficiency improvements in major sectors such as agriculture, housing, and transportation. Such policies together with about \$2 billion in concessional and commercial financing on an annual basis would be sufficient to tackle the crisis given the Scenario B assumptions.

Attachment

SDhar:dh

9/6/90

TURKEY

BASE LINE DATA 1989 in U.S. \$m Current Prices

GDP	79,100
Net Imports of Oil	2,456
Exports of Goods, Services & Worker's Remitt.	21,894
DOD Total	41,590
Variable Rate DOD	22,500

Effects of Recent Developments (Assuming Scenario B)

	<u>1990</u>	<u>1991</u>	<u>1992</u>
Oil Price Effect <u>1/</u>			
Absolute Value (US\$m)	1,044	1,861	1,211
% GDP	1.3	2.4	1.5
%Exports of Goods & Services	4.8	8.5	5.5
Interest Rate Effect <u>2/</u>			
Absolute Value (US\$m)	0	240	105
%GDP	0	0.3	0.1
%Exports of Goods & Services	0	1.1	0.5
Other Effects <u>3/</u>			
Absolute Value (US\$m)	1,170	2,000	1,150
%GDP	1.5	2.5	1.5
%Exports of Goods & Services	5.3	9.1	5.3
<u>Total Effect 4/</u>			
Absolute Value (US\$m)	2,214	4,101	2,466
%GDP	2.8	5.2	3.1
%Exports of Goods & Services	10.1	18.7	11.3

1/ Includes price effect on petroleum products, which are assumed to increase by 75% of oil price increase.

2/ Effect on net variable rate debt stock of \$15 billion given interest bearing reserves of \$7.5 billion.

3/ Other effects on the balance of payments are estimated as follows:

	<u>(Millions of \$)</u>		
	<u>1990</u>	<u>1991</u>	<u>1992</u>
<u>Current Account</u>	<u>570</u>	<u>1,150</u>	<u>950</u>
Oil pipeline royalties	120	300	300
Lost exports (net)	200	200	---
Freight revenue	50	125	125
Tourism	100	300	300
Contractors' income	50	125	125
Workers' remittances	50	100	100

	(Millions of \$)		
	<u>1990</u>	<u>1991</u>	<u>1992</u>
<u>Capital Account</u>	<u>600</u>	<u>850</u>	<u>200</u>
Iraqi debt service	200	550	0
Reduced financing/capital outflows	400	300	200
<u>Current + Capital Account</u>	<u>1,170</u>	<u>2,000</u>	<u>1,150</u>

4/ Balance of payments effect. See text for fiscal effect.

THE WORLD BANK

ROUTING SLIP

Date

Sept. 5, 1990

OFFICE OF THE PRESIDENT °

Name

Room No.

Mmebers, President's Council

cc. Mr. Bock

Mr. Gille

To Handle

Note and File

Appropriate Disposition

Prepare Reply

Approval

Per Our Conversation

XX

Information

Recommendation

Remarks

Anupam Khanna

From

August 31, 1990

Mr. Barber B. Conable

Barber:

We have taken a first cut at analyzing the consequences of the events in the Middle East on oil prices and the global economy. The attached note summarizes the results of our analysis of alternative scenarios for possible oil price movements and their implications. In light of the political uncertainties we have not yet settled on any one of these scenarios as the most likely one. While it is possible, as Mr. Al-Assaf indicated at the Board yesterday, that oil prices will decline rapidly from the current elevated levels (our Scenario I), we might also see larger and more protracted oil price increases (Scenarios II and III). The note also explores a worst case scenario involving war, destruction of productive capacity, and a steep and prolonged rise on oil prices (Scenario IV). In any case, for the next year or two, there will be a significant adverse impact on low-income oil importers that cannot access commercial markets and on middle-income oil importers that are exposed both to the oil price and to interest risk (such as Brazil, Hungary, Turkey and Yugoslavia).

Based on an assessment of the experience with previous oil shocks, the note explores the appropriate policy responses for oil importers and oil exporters. In the case of the former, quick domestic adjustment will be necessary. External aid and official capital should, however, be mobilized to facilitate this adjustment process and to safeguard long-term investments in social and physical infrastructure. For oil-exporting countries, the note recommends a cautious response by saving of much of the initial windfalls, rather than increasing public spending.

The attached note has been distributed to managers in operations. We intend to follow this up with further work (in collaboration with Operations) to assess in greater detail the impact of the current crisis on the most affected countries and the appropriate response by the countries themselves, and by external donors. We are also collaborating with Finance in an assessment of the consequences for the IBRD portfolio.



Stanley Fischer

Att.

cc: Mr. Thalwitz

August 31, 1990

The Middle East Crisis: Possible Consequences for the Global Economy 1/

1. The full repercussions of recent developments in the Middle East on the global economy remain uncertain. This paper makes a preliminary assessment of the rapidly evolving situation and its economic implications by drawing four scenarios of how events could shape the future trajectory of world oil prices. It examines the impact of these outcomes on the economies of industrial and developing countries, and explores the policy options available to developing countries.

Future World Oil Prices: Four Scenarios

2. Iraq and Kuwait together possess the capacity to produce 6.2 million barrels of crude a day (mb/d), roughly 23 percent of OPEC capacity (see Annex I) and 9 percent of world capacity (70 mb/d). Their actual production over the first half of 1990 averaged 5.0 mb/d (including Kuwait's share of the Neutral Zone output), and accounted for 20 percent of OPEC output. Most of Iraq's oil exports travel through three pipelines, two through Turkey that connect to terminals at Iskenderun on the Mediterranean Sea and one through Saudi Arabia to the storage facilities at Muajjez on the Red Sea. These pipelines have been effectively closed by the Turkish and Saudi governments in accordance with UN Resolution 661. The other outlet for Iraqi oil exports, along the Khawr az Zubayr and through the straits of Hormuz, is being patrolled by US warships with orders to prevent Iraqi (and Kuwaiti) oil from leaving the Gulf.

3. At the end of the second quarter of 1990, global petroleum stocks on land and sea amounted to 5.5 billion barrels, equivalent to 100 days of world consumption, the highest for several years. Of this amount, strategic reserves held by governments came to 1.2 billion barrels, including 590 million barrels stored by the United States (equivalent to 70 days of total oil imports), and another 425 million barrels held in the remaining IEA 2/ member countries (about 32 days of their total oil imports).

4. Given the considerable uncertainty surrounding any future developments in the Middle East, projecting the future course of oil prices is particularly difficult at this time. This paper, therefore, puts forward four possible oil price scenarios for purely expositional purposes. Although these scenarios serve to trace through the consequences for industrial and developing countries, they are not meant to imply any judgement on the outcome of the Middle East crisis. Indeed, the only judgement that can be made with some confidence at this point is that the trajectory of oil prices in the near future will be

1/ This paper was prepared by Mudassar Imran, Robert Lynn, Vikram Nehru, and Christian Petersen of IEC and Lawrence Bouton, Fred Jaspersen, and Phi Anh Plesch of CEC.

2/ International Energy Agency.

unpredictable, and that economic policy formulation over the next several weeks and months will have to take this into account.

5. With this brief background, the four possible scenarios on future crude oil prices are presented below. The first scenario assumes a fairly rapid return to normalcy in the oil markets. The second scenario assumes a period of uncertainty extending to over a year, and then a gradual return to fundamentals in the international oil market. The third envisages a prolonged period of uncertainty extending over several years. And the fourth speculates on the outcome for world oil markets in the event of a major military conflict.

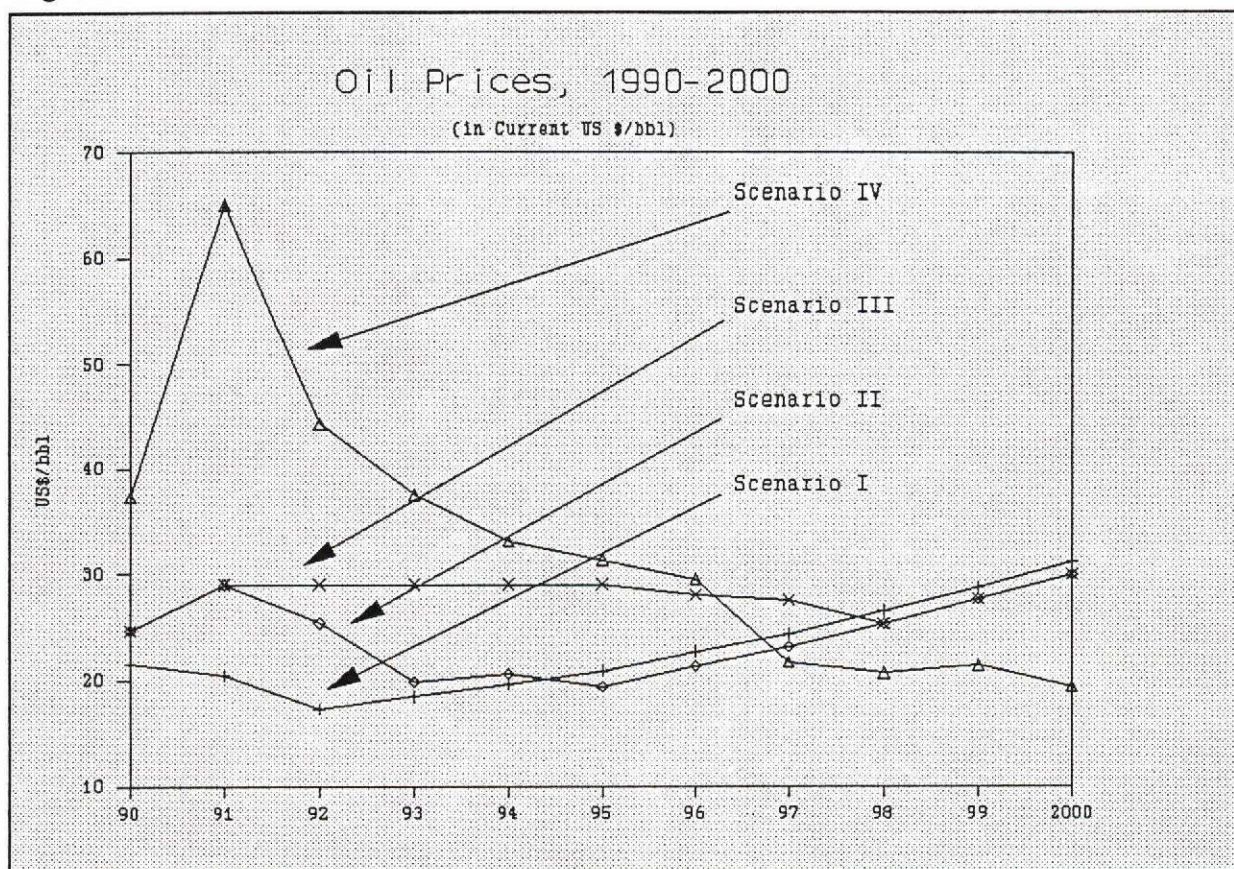
6. Scenario I: "Rapid return to normalcy". This scenario envisages that the Middle East crisis is short-lived. In the interim, world oil markets draw down existing large volumes of commercial crude oil stocks. OPEC members, acting in concert, agree to make up temporary shortfalls in supply by increasing production. ^{3/} In such a scenario, prices rise from \$16.4/bbl in the first half of 1990 to around \$25-\$26/bbl in the short term (at least until the end of the third quarter of 1990). As the crisis begins to unwind over the next few months, and despite increasing demand in anticipation of the northern hemisphere winter, prices will soften to \$23/bbl in the fourth quarter of 1990 and \$21/bbl in the first half of 1991. Both slower economic growth in the industrial countries, and a resumption of the flow of oil to normal levels, will further depress prices to \$17-18/bbl in the second half of 1991 (see Figure 1). By 1992, the oil price will have returned to the levels forecast prior to this crisis.

7. Over the longer term, fundamental factors affecting supply and demand will play an increasingly important role in determining world oil prices. With global demand for oil expected to grow at 1.5 percent a year, and an anticipated decline in oil supplies from non-OPEC sources, high-reserve Middle East producers will gain increasing control of the oil market, and this will eventually lead to a period of gradually rising prices.

8. Scenario II: "Short term uncertainty". This scenario does not foresee a resolution to the Middle East crisis for at least another year to eighteen months. Given the prevailing uncertainty in world oil markets, oil companies will not draw down stocks and may even add to them, and OPEC producers (apart from Iraq and Kuwait) may not raise production to full capacity. As a result, world demand may stay constant or increase in the short run, but world supply may fall by as much as 2 mb/d. Under this scenario, the crude oil price will rise to \$31-32/bbl for the second half of 1990, but moderate to \$29/bbl in the first half of 1991. Subsequently, even with a peaceful resolution to the

^{3/} At a recent OPEC meeting, it was agreed that members could temporarily increase output to their maximum sustainable capacity, although no specific target was set. It is estimated that this would result in a 3 - 3.5 mb/d increase in OPEC oil output. There is some uncertainty regarding additional output from non-OPEC countries in the short term. Potential non-OPEC sources are the UK, U.S. (provided prices are sustained at higher than current levels for an extended period), the USSR (which is especially uncertain) and several developing countries (mainly Mexico and Malaysia and, to a lesser extent, China, Oman, Qatar, Brunei and Colombia).

Figure 1



crisis, market insecurity will linger and keep prices in the \$25-26/bbl range for another twelve to eighteen months. After that, the trajectory of oil prices will closely resemble that of Scenario I.

9. **Scenario III: "Prolonged uncertainty".** This scenario assumes that the crisis is not resolved for several years. The risk of an outbreak in hostilities never fades, contributing to continued nervousness in the international oil market. Under such a scenario, oil prices may fluctuate around \$29/bbl for about five years and follow the same trajectory as in Scenario II thereafter. In real terms, this would mean that prices decline steadily, reflecting gradual increases in world oil supplies and a slowdown in the growth of world oil demand.

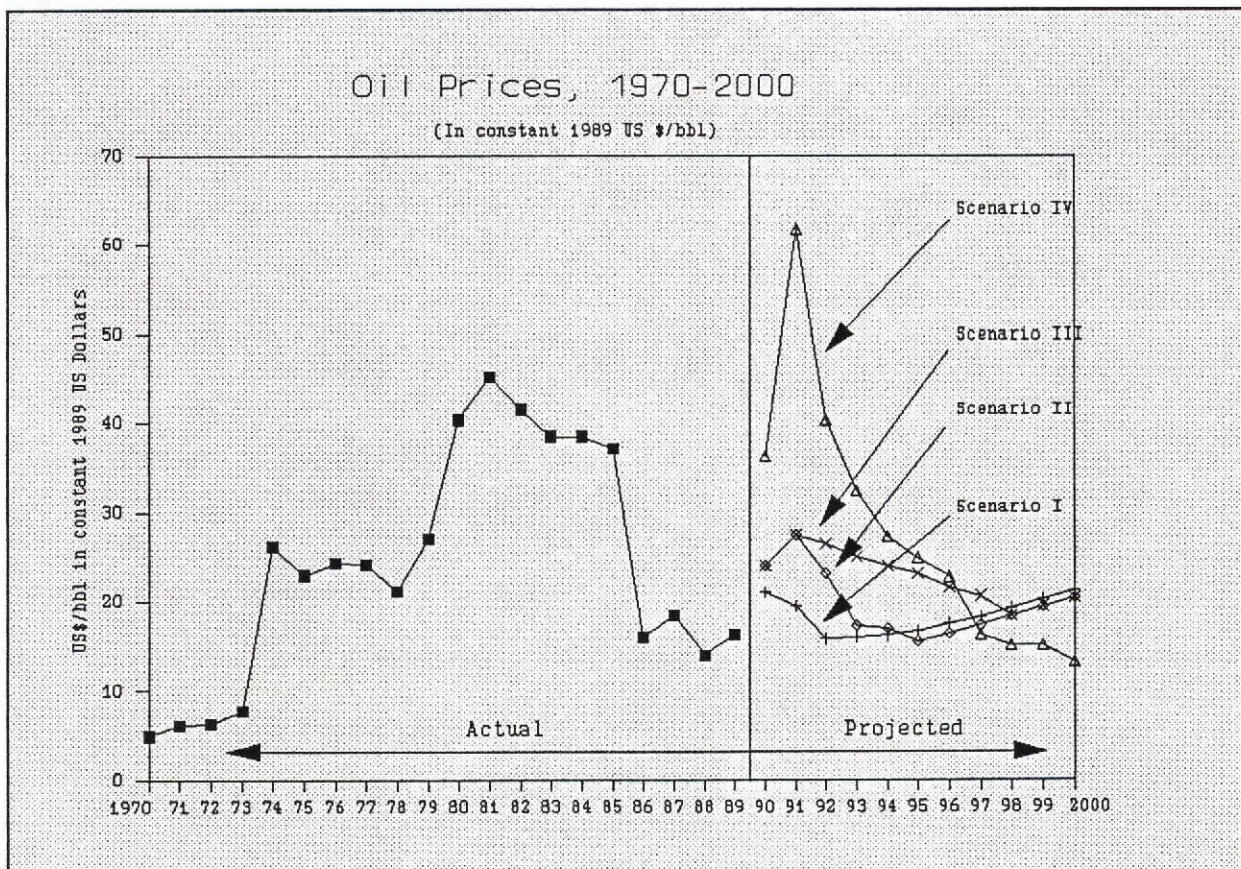
10. **Scenario IV: "War".** If efforts to defuse the existing crisis fail and war breaks out in the Middle East, Iraqi, Kuwaiti, and Saudi oil fields could suffer long-lasting damage, effectively removing up to 10 mb/d from the world market. World oil prices would rise to unprecedented levels in 1990 and 1991, and would remain at \$30-40/bbl for another five years or so. Consuming countries would react with strong policy adjustments to reduce oil consumption, including conservation measures, improvements in fuel efficiency, and substitution between oil and non-oil fuels. Shelved alternative energy projects would be dusted off and implemented, and petroleum exploration and development

would reach new heights. On the assumption that the war is not a protracted one, Gulf producers would soon begin reconstructing their damaged oil fields and install new capacity. The aggressive management of energy demand would begin to bear fruit in the second half of the 1990s, about the same time that increased investments in supply would yield results. This could mean that world oil prices in the late 1990s would dip below the levels projected in the first two scenarios.

Consequences of Higher Oil Prices for the Global Economy

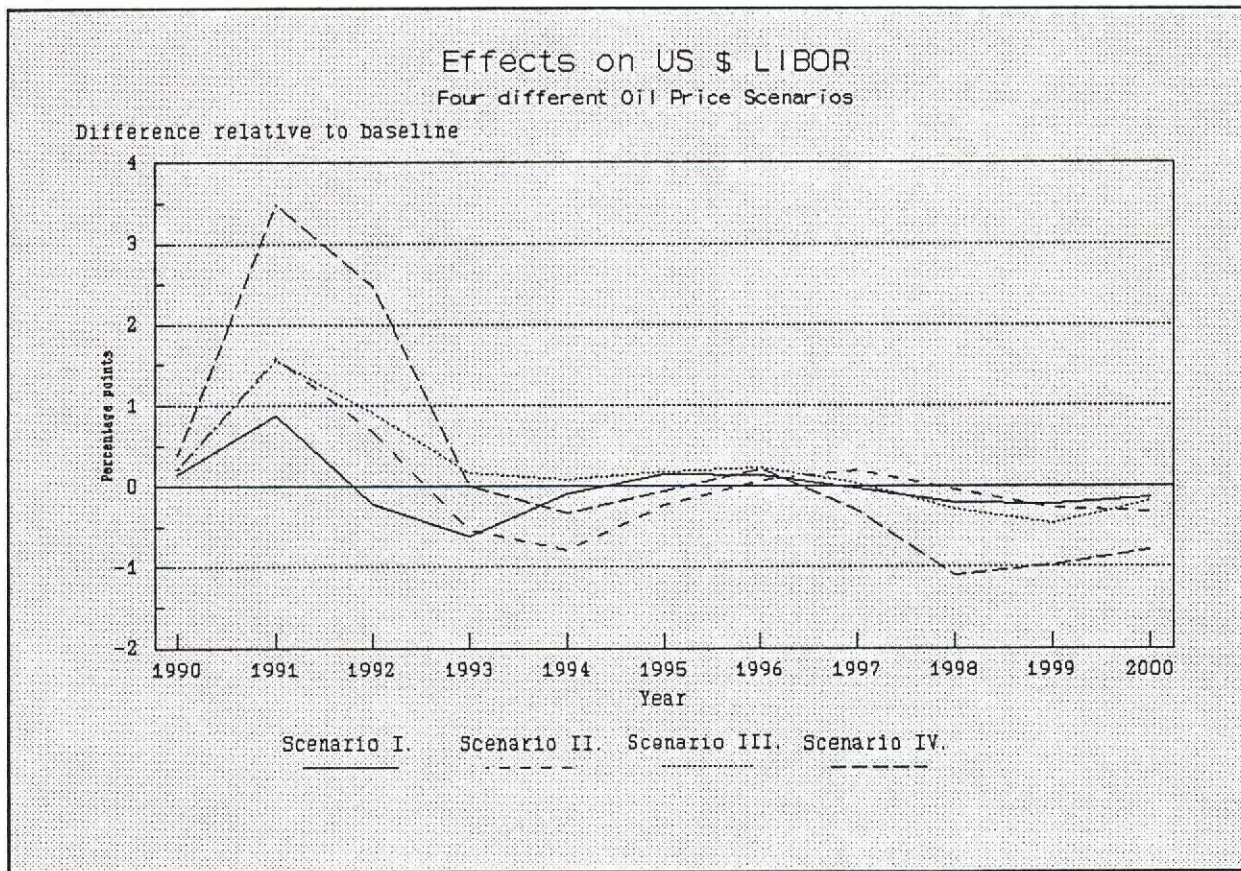
11. When compared to the oil price increases of 1973 and 1979, the increases under Scenarios I, II and III appear modest (see Figure 2). The possibility of compensating increases in production from other oil producers, relatively large stocks of commercial crude, and the availability of about 900 million barrels of crude in the strategic reserves of the United States and Japan will serve to moderate oil prices in the short and medium run. Other factors also suggest that the effects of the current rise in oil prices will not be as keenly felt in the international economy as the 1973 and 1979 increases. First, the import propensities of OPEC countries have moved closer to that of industrial economies; a sharp redistribution of income in favor of

Figure 2



OPEC will have a smaller deflationary impact in comparison to that of 1973 and 1979. Second, the economies of industrial economies are less oil-intensive than they were in the 1970s and early 1980s (although this trend was reversed in the latter half of the 1980s). Third, in 1973 and 1979, the economies of the G-7 countries were at about the same stage of their business cycles, and the adoption of contractionary monetary and fiscal policies in unison plunged the global economy into recession. This time around, business cycles in these countries are less synchronized, permitting a mixture of policy responses that would reduce the risks to the global economy of either rampant inflation or deep recession.

Figure 3



12. Although the global economy is better positioned to deal with higher oil prices, the conditions for recycling petrodollars from surplus to deficit countries is less favorable. Commercial banks will be reluctant to increase their exposure to heavily-indebted developing countries, and in any case recent regulatory guidelines in industrial countries will discourage additional exposure to the less creditworthy countries. Thus, with few exceptions, the burden of adjustment in developing countries will have to be borne with little additional assistance from external private capital inflows. This underlines the need for renewed efforts to increase official assistance especially to those developing countries that are most severely affected but do not have access to international financial markets.

13. The main consequence of higher oil prices for the global economy will be higher nominal interest rates and higher inflation. Figure 3 presents scenarios for the US-dollar LIBOR in comparison to the pre-crisis baseline 4/ corresponding to the four oil price scenarios discussed above. The simulations show a sharp increase in LIBOR in 1991, followed by an equally rapid decline as inflation subsides after the initial shock of higher oil prices. In the case of Scenario IV, LIBOR sinks substantially below the baseline towards the end of the decade, influenced by oil prices that are significantly lower than in the other two scenarios. The main difference between Scenario II and Scenario III occurs in the mid-nineties, where LIBOR in the latter case does not sink below baseline.

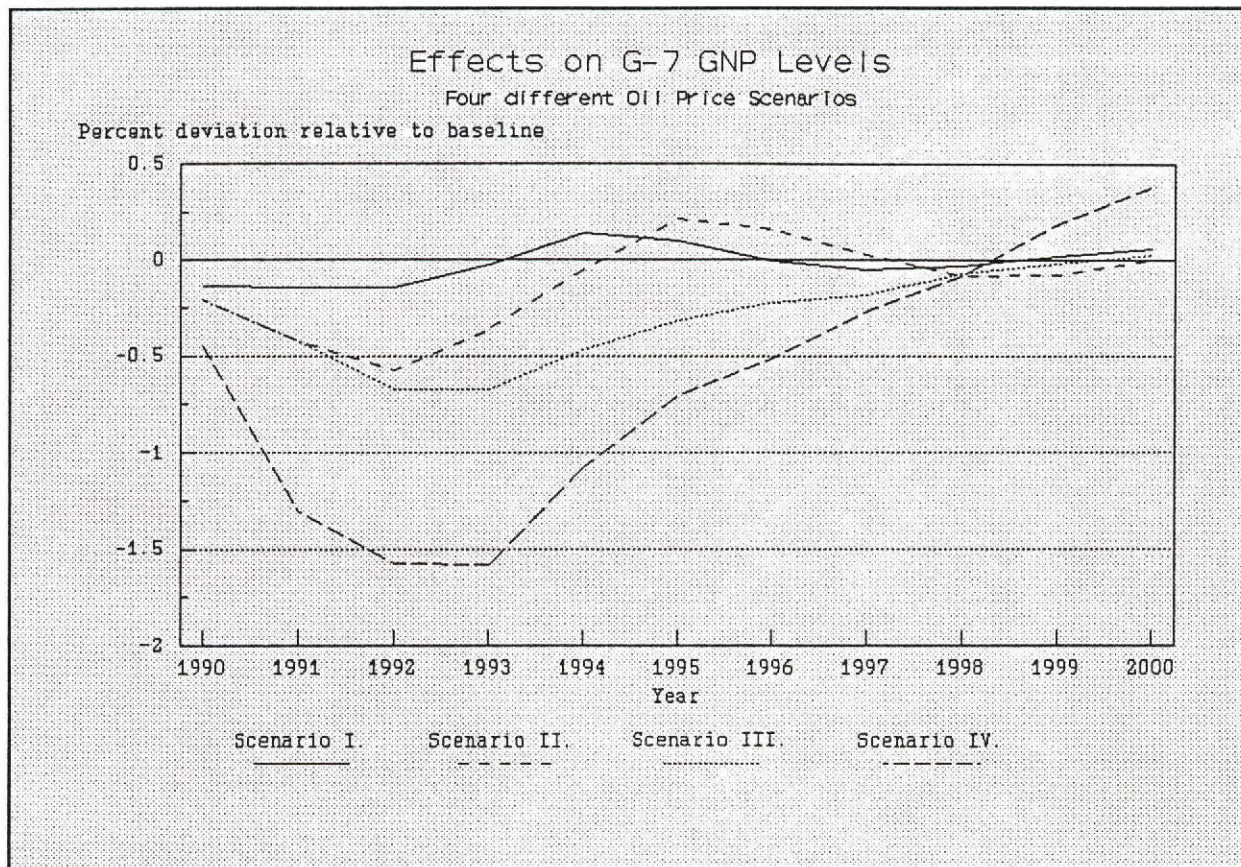
14. The effect of the oil shock on interest rates will depend on the stance of the monetary authorities. If the monetary authorities choose to cushion the impact on economic activity by easing monetary policy, real interest rates could decline in the first few quarters after the price shock, at the expense of higher inflation. A tight monetary policy on the other hand could seek to hold inflation in check but then real rates might rise and economic activity would be more depressed as a result of the supply shock. The scenarios presented in this paper adopt an intermediate position. Real interest rates (nominal rates adjusted by the GNP deflator) 5/ rise in the first few quarters after the price shock, as monetary authorities counteract inflationary pressures. Once oil prices begin to decline, and slower growth reduces wage and price pressures, inflation returns to its baseline level in the medium term.

15. The direct effect of higher oil prices on the volume of world trade is not clear. The terms of trade gains for net oil exporters will be offset by the terms of trade losses of net oil importers. The marginal propensities to import of income gainers will probably not be very different to those of the income losers, as they apparently were in the post-1973 adjustment. There is little doubt, however, that in aggregate, the growth of non-oil exports of developing countries will decline because of lower import growth in industrial countries, especially the U.S., although some developing countries will be able to capture a larger share of the growing trade with oil exporters.

4/ The baseline scenario is essentially the one included in the recent short term outlook paper, The Developing Countries and the Short-Term Outlook for the Global Economy: An Update, International Economics Department, July 1990. It differs to the extent that the database for the Global Econometric Model (NIESR) has been updated to include figures for the first and second quarters of 1990 which became available recently.

5/ If the consumer price index is used as a deflator, the real interest rate declines for the first few quarters. This difference in the behavior of the real interest rate as adjusted by the CPI and GNP deflators respectively arises because in the short run, consumer prices (CPI) increase much more rapidly than domestic producer prices (GNP deflator) since oil is mostly an imported good. Earlier oil crises led to a similar outcome. In 1980, for example, the U.S. CPI rose 13.5 percent while the GNP deflator grew at only 9.1 percent.

Figure 4



16. What is clear is that economic activity in the major industrial countries will be reduced in the near term. Figure 4 presents the effects of the four oil price scenarios on projections for the GNP of the G-7 economies, expressed as a percentage deviation from the baseline. It shows that these economies, in aggregate, will recover to their baseline GNP levels by 1993 under Scenario I, and by 1994 under Scenario II. This rapid recovery reflects not only the reduced role of oil imports in OECD countries (compared with 1973 and 1979) but also the likely output-stabilizing monetary responses by their monetary authorities together with compensating increases in expenditures by oil exporting countries. Scenario III shows GNP levels below baseline for the rest of the decade, but would not by itself lead to a recession. Scenario IV, however, presents an altogether different picture, depicting a serious recession, albeit with some prospect of a recovery to baseline levels by the end of the decade.

17. While the international economy is better placed to deal with this oil price increase, the ability of different countries to absorb such shocks has changed since the last oil shock in 1979. The United States is less well positioned than most other industrial countries. Large budget and external current account deficits, increased stress in the financial system, and rising risks of a recession will all constrain the options available to policy makers in dealing with the emerging situation. The Japanese and German economies, on

the other hand, are likely to adjust faster to the changing relative price of energy, and recover more rapidly. Among developing countries, the worst hit will be low-income oil importers that do not have access to commercial finance and middle-income importers exposed to interest risk.

18. The greater vulnerability of the United States economy compared to other G-7 countries occurs because of its higher energy consumption per capita. Under Scenario I, GNP growth in 1991 declines marginally from the baseline scenario, but this effect grows under Scenario II, although not by enough to push the economy into a recession. 6/ Inflation under Scenario II rises by between one and two percentage points relative to baseline in 1991, but a tightening in the Federal Reserve's monetary stance leads to higher nominal and real interest rates. 7/ After 1992, the decline in oil prices will dampen inflation and nudge nominal interest rates downwards, helping a recovery in real incomes and resuscitating consumption and investment expenditures. By 1995, the U.S. GNP is projected to return to the baseline, albeit with a higher external and domestic debt. As one would expect, Scenario III has much the same effect on the U.S. economy over the next two years as Scenario II; in the medium term, however, it leads to moderately higher inflation and real interest rates.

19. Under Scenario IV, the United States could find itself in a recession in 1991, although growth rates will recover strongly between 1992 and 1994. Other economic indicators will move in directions similar to the other two scenarios, but more sharply. Nominal interest rates in 1991 will be higher, slowing the depreciation of the US dollar relative to the baseline. The federal budget deficit will climb rapidly by 1991 as a result of lower taxes and higher compensatory expenditures, 8/ and the current account deficit as a share of GNP could widen significantly.

20. Japan is better placed to absorb shocks in the price of oil despite its complete reliance on oil imports. Its stronger initial position places it at an advantage in dealing with unanticipated increases in the price of oil. Moreover, the pass-through effect of higher energy prices are not expected to be quite as strong as in other industrial countries given the economy's relatively high energy efficiency and its greater wage-price flexibility. Even under Scenario IV, the Japanese economy is projected to grow more than 3 percent in 1991, though this is well below the baseline projection. By 1994, Japan's GDP could exceed the baseline level as the economy recovers under the influence

6/ Projections of key indicators for the United States, Japan, and Germany are given in Annex III.

7/ Note that the real interest rises when the GNP deflator is used but falls when the CPI is used. See footnote 5 for an explanation.

8/ It should be noted that this does not take into account the susceptibility of the U.S. financial system to a recession and the consequences for the federal budget. Similarly, no account has been taken of the effects on government defense expenditures of a U.S. military build up in the Middle East in the event of war.

of lower oil prices, lower inflation, and improved competitiveness. Nevertheless, the economy's external position would be weaker than otherwise; in particular, the external current account surplus will be significantly lower than in the baseline.

21. Germany may turn out to be a net beneficiary in the short term from the oil price increase, provided that the absorptive capacity of oil exporters does not diminish with higher oil prices. Under all four scenarios, Germany's growth rate in 1991 is projected to be marginally higher compared to the baseline because of higher export growth. However, surplus labor from East Germany notwithstanding, the German economy is likely to overheat after 1991, leading to higher inflation, higher real interest rates, and slower growth in exports. Under Scenario IV, for example, Germany's growth rate would once again be below that in the baseline by 1993, and GNP would remain below the baseline through the rest of the decade.

22. The economies of the other G-7 countries can also be expected to slow significantly under Scenario IV, with the United Kingdom and Italy being affected more severely than the others. Being a net oil exporter, the UK economy will initially benefit from higher oil incomes, but this will not be sustained as lower export levels in subsequent years would dampen growth for the remainder of the decade. In Italy, on the other hand, a large proportion of the higher prices for oil imports would be passed through to domestic wages, and the economy's adjustment to the decline in its external terms of trade would take correspondingly longer.

Impact on Developing Countries

23. Although developing countries in the aggregate are net exporters of oil, the vast majority of developing countries are net oil importers who will face a deterioration in their terms of trade. Those with variable interest rate external debt will bear the additional burden of higher interest payments (see Table 1). Table 2 presents estimates of the combined impact on the balance of payments of developing countries of an increase in the oil price and the first round effect of higher interest rates on variable rate debt. For example, under Scenario III, the combined effect in 1991 of the oil price rise and the interest rate increase is slightly less than 1 percent of GDP for oil importers as a whole. The impact on low income countries is twice as severe as the impact on middle income oil importers. At the country level, variations can be much larger. In analyzing these variations, it is useful to distinguish between countries that are heavily indebted and those that are not. Heavily indebted countries have little room for maneuver in absorbing the oil shock through additional voluntary capital inflows, and this is likely to have serious consequences for economic growth.

24. The impact on the severely indebted low income countries (SILICs) in 1991 is estimated at 1.7 percent of GDP under Scenario II. The most severely affected countries in this group would include Benin, Madagascar, Mali, Sudan, and Tanzania. For Tanzania, the preliminary estimate shows the impact at about 6 percent of GDP, equivalent to one-quarter of exports. The impact on moderately

indebted low income countries is higher than in the SILICs, estimated at 2.4 percent of GDP. Here the major countries affected include Bangladesh, Pakistan, and Sri Lanka.

Table 1 Two Indicators of External Vulnerability in Developing Countries a/

	Net fuel imports as a share of GDP b/	Variable rate debt as a share of GDP
	------(in percent)-----	
All developing countries	-0.5	14.7
Oil importers	1.2	12.1
Severely indebted		
Low income	1.9	3.3
Middle income	1.0	25.3
Moderately indebted		
Low income	3.0	2.1
Middle income	2.5	15.7
Others	0.8	4.4
Oil exporters c/	-8.3	26.4

a/ Figures are for 1988, the latest year for which comparable data are available. Based on a sample of 88 countries.

b/ A negative sign implies that the countries in the group are net exporters of oil in the aggregate.

c/ The definition of oil exporters is the same as that used in WDR 1990. All other countries were placed in the oil importers category.

Source: IECAP

25. Virtually all severely indebted middle income countries are likely to be hurt badly either because of the oil price increase (as in Honduras and Costa Rica) or the higher interest rates (as in Argentina) and often both (as in Cote d'Ivoire and Hungary). In the case of Hungary, the combined effect is estimated at 5 percent of GDP. The moderately indebted middle income countries as a group would fare even worse; those affected most severely would include the Dominican Republic, Jamaica, Paraguay, Turkey, and Yugoslavia.

26. It is worth noting that the absolute magnitudes of the impact on some oil importing countries are large even if in relation to GDP they may appear small. These include Korea (\$5.5 billion), Brazil (\$3.3 billion), Turkey (\$2.5), Thailand (\$2.0 billion), India (\$1.6 billion), and Pakistan (\$1.1 billion).

Other Consequences of the Middle East Crisis

27. The withdrawal of Iraq and Kuwait from the international oil market will also lead to some economic dislocation in countries which rely heavily for their oil imports from these two sources. Sudan is the most dependent, importing 68 percent of its oil requirements from Iraq and Kuwait, followed by Turkey (62 percent), Cyprus/Malta (29 percent), Morocco (28 percent), Brazil (26 percent), Pakistan (25 percent), India (22 percent), Yugoslavia (22 percent), and Taiwan

Table 2: Alternative Oil Price Scenarios: Impact on the Balance of Payments of Developing Countries

	1990				1991			
	I	II	III	IV	I	II	III	IV
	-----percent of GDP, relative to baseline)-----							
All developing countries	0.2	0.3	0.3	0.7	0.0	0.2	0.2	1.1
Oil importers	-0.4	-0.7	-0.6	-1.7	-0.4	-1.1	-0.9	-4.0
Severely Indebted								
Low income	-0.8	-1.2	-1.2	-3.1	-0.5	-1.7	-1.7	-6.9
Middle income	-0.4	-0.7	-0.7	-1.7	-0.5	-1.2	-1.2	-4.3
Moderately Indebted								
Low income	-1.1	-1.7	-1.7	-4.4	-0.7	-2.4	-2.4	-9.9
Middle income	-0.9	-1.4	-1.4	-3.4	-0.7	-2.0	-2.0	-7.8
Others	-0.3	-0.5	-0.5	-1.1	-0.2	-0.7	-0.7	-2.5
Oil exporters	2.9	4.5	4.5	10.4	1.9	5.9	5.9	20.1

Note: A negative sign implies a deterioration in the overall balance of payments relative to baseline.

Source: IECAP

(21 percent). ^{9/} These countries may face short run disruptions to their oil supplies until adequate alternative import arrangements are made.

28. In addition, a successful embargo on Iraqi oil exports would severely affect Iraq's ability to service its external debt. Of Iraq's estimated \$65 billion debt, about \$13 billion is owed OECD countries, with Germany as the largest commercial creditor, and another \$45 billion is owed Saudi Arabia (\$20 billion), Kuwait (\$10 billion), Eastern Europe and the Soviet Union (\$15 billion), and Turkey (about \$1 billion). To the extent that some of these countries received their debt service payments from Iraq in the form of cheap oil, as some Eastern European countries did, the loss of foreign exchange receipts from Iraq would be even greater. ^{10/}

29. Both Kuwait and Iraq are host to large numbers of foreign workers, primarily from Egypt, Jordan, India, Pakistan, Bangladesh, and Sri Lanka. Forced repatriation of these workers will not only lead to some disruption in the economies of their home countries, but would also reduce the level of workers' remittances from the Middle East. Egypt, with 1.2 million of its nationals employed in Iraq and Kuwait, will be the most severely affected. Its foreign exchange receipts from workers' remittances are expected to decline by \$2.4 billion annually. Other countries for which similar estimates are available are Jordan (\$350 million), Yugoslavia (\$200 million), Pakistan (\$166 million), Bangladesh (\$100 million), and Sri Lanka (\$100 million).

^{9/} Figures are for 1987, the last year for which internationally comparable data are available.

^{10/} For example, the extra cost to Poland of replacing oil obtained from Iraq at below market levels is estimated to amount to \$40-\$50 million per year.

30. In 1989, Kuwait extended concessional assistance amounting to US\$211 million, although net transfers of official concessional assistance were negative by US\$103 million. ^{11/} Since gross disbursements drive the pace of implementation of public investment programs, the loss of Kuwaiti aid could prove disruptive to some countries. To the extent that Kuwaiti aid has been used to cofinance projects with other donors, the disruption could be spread over a larger set of investments in developing countries.

31. A number of countries stand to lose sizable amounts of income from construction projects being undertaken under contract with Iraq and Kuwait. South Korea, for example, has 17 projects under construction in Iraq and Kuwait, worth a total of \$2.5 billion; Yugoslavia has civil and construction contracts worth \$1 billion; Turkey's largest project in Iraq is worth \$1.5 billion; and Poland is owed \$500 million for civil and construction projects nearing completion.

32. Turkey and Egypt are two countries that stand to lose the most in terms of foregone foreign exchange earnings as a result of their direct and close economic contacts with Iraq and Kuwait. In 1991, for example, Turkey is projected to lose foreign exchange receipts amounting to about \$1.7 billion, including: debt service payments from Iraq (\$500 million); export revenues from Iraq and Kuwait (\$400 million); royalty payments for use of the oil pipeline by Iraq (\$350 million); decline in tourism revenues (\$200 million); lost construction contracts in Iraq (\$125 million); lower workers' remittances from Iraq (\$70 million); and reduced revenues from transit trade (\$25 million). Egypt's foreign exchange receipts are expected to decline by about 30 percent (equivalent to over \$3.6 billion) primarily as a result of a decline in workers' remittances (\$2.4 billion); lower tourist revenues (\$500 million); lower earnings from the Suez canal (\$200 million); and a combination of lower aid receipts, slimmer airline earnings, and decreased remittances by construction and other companies operating in Iraq and Kuwait (\$500 million).

Policy Responses in Developing Countries

33. For many developing countries, and especially under Scenarios II, III and IV, the immediate financial and economic impacts of the current oil shock are substantial, but their extent and duration are highly uncertain. Their long-term economic implications will depend on how severe and how long the oil price increase turns out to be and how dependent the country is on imported oil; but as importantly, they will depend on the policy response to the oil price shock in the developed and the developing countries given the uncertain outlook for the oil markets. This section briefly summarizes the lessons from past oil shocks for the appropriate policy response in developing countries and considers their implications for oil exporters and oil importers facing the current oil price shock, taking as a point of departure the four scenarios and their impacts explored in the previous sections. The discussion is couched in general terms drawing on country examples where possible. The applicability of the general principles discussed here will depend among other things on the initial

^{11/} Bilateral aid from Iraq turned negative since 1983 as a result of the war with Iran and reduced oil revenues.

conditions of each particular country considered; especially noteworthy exceptions will be noted in passing.

34. Adjustment experience under past oil price shocks. A review of the experience of developing countries with the last two oil price shocks indicates a common pattern of policies among those countries that adjusted relatively successfully as distinct from those countries that failed to deal effectively with the oil shocks.

35. Broadly speaking, successful oil importers (Korea, Thailand, Chile, Colombia) tended to pass through the increase in oil prices to final users, limited foreign borrowing and quickly reestablished macroeconomic balance, and -- especially after the second oil price shock -- instituted structural reforms designed to improve the competitiveness and flexibility of their economies. Among the oil exporters, the successful countries (Cameroon, Indonesia) cautiously managed their financial surpluses generated by the oil price boom and maintained competitiveness of their non-oil economies through appropriate macroeconomic policies. They also initiated structural reforms designed to diversify their economic base and to increase the flexibility and responsiveness of their economic systems, and thus prepared their countries for an eventual downturn in oil prices. In effect, given uncertain oil price prospects, successful oil importers appear to have acted on the presumption that the oil price shock led to a sustained increase in oil prices, while the successful oil exporters seem to have acted on the presumption that the oil price increase was relatively short-lived.

36. Other countries pursued just the opposite set of policies and ran into severe economic difficulties, especially after the second oil shock, when the increase in oil prices was compounded by world-wide recession and by a surge in real interest rates. Countries such as the Philippines, Argentina and Cote d'Ivoire, failed to pass on the increase in international oil prices to domestic consumers, and ran up significant budget and current account deficits which were financed by substantial external borrowing. They also tended to delay much needed structural reforms that would have made their economies more competitive and flexible in their response to external shocks. In fact, often these countries attempted to resolve their macroeconomic imbalances through restrictive commercial policies (tariffs and quotas) and through price controls, policies which tended to reduce, rather than increase the competitiveness and flexibility of their economies. Among the oil exporting countries, there were those, such as Mexico, Nigeria and Venezuela, that tended to translate their financial surpluses generated by the oil boom into heavy public spending of often dubious economic value, and indeed leveraged their increased oil revenues into even higher spending by large-scale foreign borrowing. The resulting overvaluation of their currencies combined with poor structural policies to produce an economic structure poorly equipped to deal with the eventual downturn in international oil prices. In effect, the poorly performing oil importers tended to act as if oil price increases were shortlived, while the problem oil exporters appeared to act on the presumption that oil prices would remain high and even increasing for a long time.

37. This summary of adjustment experiences obviously portrays a number of stylized facts; nevertheless, they reflect the basic principles and lessons

that have been learned from the last two oil price shocks -- valuable lessons which must be borne in mind when fashioning policy responses to the current events in the international oil markets. The main policy lessons are briefly traced out below separately for oil importers and oil exporters, focusing on the major tools of economic policy that need to be brought to bear under the current circumstances: domestic energy pricing, macroeconomic management (in particular fiscal policy), exchange rate management and commercial policy, public investment strategies, and general structural reforms.

38. Policy response for oil importers. Some oil importers have successfully implemented adjustment programs in the 1980s, and now have flexible and resilient economies which should have little trouble in adjusting to the new unfavorable external shock (Korea, Chile, Thailand). Many others, however, are both more vulnerable to an oil shock today than they were in 1973 and 1979 or their capacity to respond is more constrained. For these countries it is imperative to adjust quickly. As supply and demand response to price changes work with lags, supplementary financing could avoid costly reduction in import capacity.

39. Perhaps three advantages characterize the current situation for oil importers compared with the two previous oil shocks: First, the deterioration in the international environment (interest rates, the volume of manufacturing trade, commodity prices) will probably be less severe, except in Scenario IV. Second, a decade of adjustment reform in the 1980s has made many of these economies better able to respond flexibly to the new external shock. Third, the lessons of how to frame domestic policies in the face of such a shock are now fairly clear. Applying these lessons will by no means be easy or painless, of course, in view of the already strained economic conditions in many oil importing countries.

40. Since the second shock and following the debt crisis, many middle income countries had to cut imports, investment and growth for a prolonged period. Most no longer have access to international capital markets. Many of the low income countries in Sub-Saharan Africa continue to rely heavily on commodity exports, prices of which are severely depressed. Adjustment reforms, sometimes decade-long, have begun to make a dent in long-standing domestic distortions and institutional weaknesses, but the political obstacles to further adjustment reform may be greater now than before, especially if the oil price increase delays the incipient revival of growth for these countries. The large economies of South Asia face serious domestic imbalances, which will be aggravated by the oil price shock.

41. The main lesson for the oil importing countries is that quick domestic adjustment is essential. In practice this means the following steps.

* Energy Pricing. In countries in which the public sector plays a central role in setting the price of energy products, a quick pass-through of international oil price increases to domestic private users is generally the most appropriate way both to avoid an increase in budget deficits and a deterioration of the macroeconomic situation and to ensure that producers and consumers face the higher economic costs of imported oil and adjust their demands accordingly. If the oil price shock should turn out to be

short-lived, domestic energy prices can readily be reversed. Should the oil price rise be long lived, it would be politically more difficult later to raise domestic energy prices when the linkage to the international increases in prices will be less obvious in consumers' minds. Lest it may appear that this requires highly volatile domestic energy prices, it should be remembered that the landed cost of oil tends to fluctuate significantly less than do highly volatile spot prices, since longer term delivery contracts and flexibility in traders' margins tend to even out the short term fluctuations in spot prices.

There may be cases in which existing taxes create a large distortion in the pricing of oil. For these countries, an across-the-board pass-through of oil price increases may not be appropriate. In some countries, for example in West Africa, domestic fuel prices are already substantially above international prices and above prices of neighboring countries because of unusually high energy taxes. In other countries, the highly differentiated structure of domestic fuel prices fails to reflect more limited actual cost differentials. In these cases, it may be appropriate to limit the pass-through for all, or some of the fuel price increase in the interest of a more efficient domestic fuel pricing structure. This will, however, mean that fuel tax revenues will drop, and that other taxes will have to be raised, or public expenditures cut, to offset this fiscal loss. The costs of these measures, both in terms of their efficiency losses and in terms of the political obstacles, need be considered when deciding not to go for a full pass through of international oil prices.

- * Monetary Policy. The increase in the price of oil envisaged in the four scenarios will result in a steep increase in the overall price level and therefore in measured inflation. To avoid a permanent increase in inflation, monetary policy should validate only the initial increase in the price level resulting from the price increase.
- * Fiscal Policy. If oil price increases are passed on to consumers, further fiscal measures may be avoidable with the exception of the financing of the higher oil bill for the public sector, as long as the country started with a sustainable fiscal balance and as long as secondary international effects (interest rate increases, commodity price declines, reductions in manufacturing export growth) of the oil shock are minor. If the oil price increases are not fully passed on, if the public sector is a heavy user of oil, or if initial conditions or secondary effects result in unsustainable fiscal deficits, increases in general taxes or reductions in public spending will be needed to restore fiscal balance. The burden of fiscal adjustment will be much heavier under Scenarios II and III, and especially under Scenario IV, than is the case under Scenario I. At the same time, the need for such adjustment is the more critical if adjustment and long-term economic performance are to be safeguarded.
- * Foreign and Domestic Borrowing. Given the uncertainty about future price developments, the alternatives of increased foreign or domestic borrowing to deal with an emerging fiscal imbalance are generally unavailable or inappropriate. Increased foreign borrowing is not an option for the severely indebted countries who lack access to commercial capital markets;

and even those countries that do have access will find commercial banks generally unwilling to fund prolonged budget and balance of payments deficits. In any case, with the risk of a prolonged increase in international oil prices and higher interest rates, increased international indebtedness runs the risk of loss of creditworthiness down the road. Domestic borrowing to finance an increased fiscal deficit will respectively raise domestic interest rates and crowd out private investors. Domestic money creation will lead to higher inflation.

- * Exchange rates. Oil importing countries sustain a significant terms of trade loss as a result of the rise in oil prices. If domestic prices and wages are flexible downwards, the required real devaluation can occur with appropriate fiscal and monetary policy and without a nominal devaluation. In the face of price and nominal wage rigidities, however, nominal devaluation may well be the most effective way to achieve the real depreciation and change in relative prices between tradeables and non-tradeables as well as the drop in real wage required for effective adjustment. However, devaluations in the absence of the required fiscal response and domestic oil price change are not likely to be effective.
- * Commercial Policy. There may be a temptation for governments to react to the immediate balance of payments and budgetary impacts of the increased oil prices by raising tariffs on other imports or to impose import restrictions. These temptations should be strongly resisted. Experience shows that such policies are difficult to reverse once installed, even if the oil price rise turns out to be short lived. In case of a sustained increase in oil prices, these policies pile distortions on top of distortions, reduce the ability of the economy to respond by increasing exports, and merely hide underlying macroeconomic imbalances.
- * Public Investment. After the first and second oil price shock many governments borrowed heavily to invest in alternative energy sources or to restructure their domestic energy industry so as to reduce their dependence on imported oil. Such investments represent long-term commitments that are not easily reversed, should the current increases in oil prices be temporary. The costs of mistakenly assuming that the oil price rise is sustained are therefore substantial. For that reason, it would be prudent to adjust public investment strategies in the energy sector only gradually, as and when it becomes apparent that there may be a permanent shift upwards in the oil supply curve. In the meantime, adjustments in demand in response to higher domestic oil prices are less costly and more easily reversed than increases in domestic energy supplies over and above those warranted by the long-term fundamentals of the energy markets. However, if Scenario IV materializes, the overall public investment program will have to be reassessed and most likely energy-related investment projects could become profitable.
- * Other Measures. One of the dangers of the current situation is that it might derail the ongoing structural reforms, as well as efforts at poverty reduction and investments in social and physical infrastructure required for long-term adjustment and growth in many of the oil importing countries, irrespective of whether the oil price increase is short lived or long

lasting. This would be very unfortunate. Increased bilateral and multilateral support from the outside designed to maintain and even intensify these efforts is therefore critical at this juncture. Outside support can also be directed at programs that are designed to help the poor through targetted programs dealing with the worst of the implications of the oil price shock.

42. Policy Response for Oil Exporters. One commonly stated principle for managing commodity price movements is that the revenue from temporary price increases should be saved while income from permanent increases can be spent. However, in a period of high uncertainty, as is currently the case, this principle misses the point, as it is in fact impossible to tell whether the current oil price increase will be short or long lived, temporary or permanent. Policy makers therefore need to ask which sort of mistake is more costly. Experience shows that for oil exporters the cost of assuming a temporary price increase to be permanent is probably higher than that of assuming a permanent or sustained increase to be temporary. As the examples of Mexico, Nigeria and others during the 1980s demonstrate, it is often difficult to rein back spending that increased during a supposedly permanent boom--especially if boom revenues were leveraged through borrowing into even higher spending. Delays in adjustment led to further debt accumulation. When adjustment finally comes, it is more difficult to cope not only with lower oil revenues, but also with increased debt service and reduced flows of new lending. A prudent strategy is therefore for the public sector to save a large portion of its oil revenues.

43. Of course, governments still face the question how to use their additional savings. The main alternatives are to increase the country's net foreign asset position (either through repaying debt or accumulating foreign deposits), reduce public domestic debt, or raise public domestic investment. Besides the drawbacks of increased public spending described above, public investment, including investments in augmented oil production and processing capacity, suffers from the defect that it is difficult to reverse: new investment spending is hard to stop for projects under way, and it is usually difficult and time-consuming to sell physical assets once they have been acquired.

44. Although not completely without risk, foreign assets are highly liquid and thus can be sold quickly during bad times. Botswana has protected itself against downturns in the diamond market by increasing its foreign exchange reserves to cover two years' worth of imports. Repayment of debt reduces the public sector's exposure to unstable revenues and avoids the monetary pressures caused by reserve accumulation at the central bank. Cameroon (after 1978) and Colombia (in 1986) used their commodity revenues to repay public external debt. Reducing the government's net debt to the central bank would also reduce monetary expansion by sterilizing the increase in foreign exchange reserves; Colombia used this method in 1986. In countries where oil is in public hands, the windfall could be accumulated by the Treasury in foreign exchange to avoid a monetary expansion.

45. In addition, oil exporting countries could usefully reconsider the balance between public and private saving during commodity booms. If governments save a high proportion of boom revenues, this can help the country to save enough in good times to provide resources for consumption in bad times. As discussed

above, however, governments have often spent too much in booms. It may be better in many cases to allow private producers to retain more of the boom revenue, so that they can themselves save during good times to prepare for bad times. Wise policy would try to facilitate both public and private saving during booms.

46. As in the case of oil-importers, one of the dangers of the current oil price shock is that it might reduce the resolve of some of the main oil exporting developing countries (Mexico, Nigeria, Venezuela) to continue with structural reforms which are needed to diversify their economic base, increase flexibility to respond to possible future declines in oil prices, and sustain more rapid economic growth in the longer term. It is in this connection again that external donors can play a special role in supporting governments in maintaining the longer-term reform efforts.

47. A special issue currently faces those oil exporters who are engaged in debt reduction negotiations with their commercial creditors (Nigeria, Venezuela). In view of the high degree of uncertainty regarding the future oil price outlook and the distinct possibility that oil prices will return to their trend levels after a few years it would be premature on all sides to assume that these oil exporters are out of the woods. The most appropriate approach might be to continue negotiations on the assumption that prices will rather quickly return to their pre-shock levels, but to use already frequently used recapture clauses to permit some sharing by creditors on the upside chance of a sustained oil price increase.

Annex I

OPEC Crude Oil Reserves, Capacity, and Output, in 1990

	Proven Recoverable Reserves (billion bbls)	Sustainable Production Capacity	Output in 1990 <u>a/</u> -----mb/d-----	Surplus Capacity
Algeria	9.2	0.8	0.75	0.05
Ecuador	1.5	0.3	0.28	0.02
Gabon	0.7	0.3	0.27	0.03
Indonesia	8.2	1.3	1.15	0.15
Iran	92.9	3.2	2.98	0.22
Libya	22.8	1.3	1.27	0.03
Nigeria	16.0	1.8	1.71	0.09
Neutral Zone <u>b/</u>	5.2	0.5	0.37	0.13
Qatar	4.5	0.4	0.39	0.01
Saudi Arabia	255.0	7.5-8.3	5.46	2.04-2.84
UAE	96.3	2.1	1.99	0.11
Venezuela	58.5	2.5	2.00	0.50
Iraq	100.0	4.0	2.98	1.02
Kuwait	94.5	2.2	1.82	0.38
Total	765.3	28.2-28.9	23.40	3.38-4.18 <u>c/</u>

a/ First semester, 1990.

b/ Neutral Zone output is shared by Saudi Arabia and Kuwait.

c/ Excluding Iraq and Kuwait.

Sources: Oil and Gas Journal; Cambridge Energy Associates; Middle East Economic Survey; Petroleum Economics Ltd; Petroleum Politics (July 1990).

Annex II

OPEC Petroleum Average Prices, Actual (1989) and Projected (1990-2005)
(1989 Constant US\$/bbl)

Years	Baseline Forecast	Scenario I	Scenario II	Scenario III	Scenario IV
1989	16.3	16.3	16.3	16.3	16.3
1990	15.8	21.0	24.0	24.0	36.3
1990 1st Half	..	16.0	16.0	16.0	16.0
1990 2nd Half	..	26.0	32.0	32.0	56.5
1991	15.8	19.5	27.5	27.5	61.7
1991 1st Half	..	21.0	29.0	27.5	61.7
1991 2nd Half	..	18.0	26.0	27.5	61.7
1992	15.8	15.8	23.2	26.5	40.4
1993	16.0	16.0	17.2	25.1	32.4
1994	16.2	16.2	17.0	24.0	27.3
1995	16.7	16.7	15.5	23.1	25.0
1996	17.5	17.5	16.5	21.6	22.8
1997	18.3	18.3	17.4	20.6	16.3
1998	19.3	19.3	18.4	18.4	15.1
1999	20.3	20.3	19.5	19.5	15.2
2000	21.3	21.3	20.4	20.4	13.3
2005	21.3	21.3	20.8	20.8	19.1

Source: IECCM

OPEC Petroleum Average Prices, Actual (1989) and Projected (1990-2005)
(Current US\$/bbl)

Years	Baseline Forecast	Scenario I	Scenario II	Scenario III	Scenario IV
1989	16.3	16.3	16.3	16.3	16.3
1990	16.2	21.6	24.7	24.7	37.3
1990 1st Half	..	16.4	16.4	16.4	16.4
1990 2nd Half	..	26.7	32.9	32.9	58.0
1991	16.6	20.5	29.0	29.0	65.0
1991 1st Half	..	22.1	30.5	29.0	65.0
1991 2nd Half	..	19.0	27.4	29.0	65.0
1992	17.3	17.3	25.4	29.0	44.3
1993	18.5	18.5	19.9	29.0	37.5
1994	19.6	19.6	20.6	29.0	33.1
1995	20.9	20.9	19.4	29.0	31.3
1996	22.7	22.7	21.3	28.0	29.5
1997	24.4	24.4	23.1	27.5	21.7
1998	26.5	26.5	25.3	25.3	20.7
1999	28.7	28.7	27.6	27.6	21.5
2000	31.1	31.1	29.9	29.9	19.4
2005	36.4	36.4	35.7	35.7	32.7

Source: IECCM

Annex III

United States: Key Indicators

	1989	1990					1991				
		Base	I	II	III	IV	Base	I	II	III	IV
GNP growth (%)	2.5	1.6	1.5	1.4	1.4	1.1	2.0	1.7	1.4	1.4	0.2
GNP deflator (%)	4.1	4.0	4.1	4.0	4.0	3.6	4.7	5.5	6.1	6.1	7.1
CPI (%)	4.8	4.9	5.3	5.5	5.5	6.0	5.2	6.0	7.0	7.0	9.5
Eff. exch. rate (ch%)	4.8	-8.1	-8.0	-8.0	-8.0	-8.0	-5.0	-4.0	-3.5	-3.5	-2.3
Short term interest rate (%)											
- nominal	9.1	8.1	8.3	8.3	8.3	8.5	8.1	9.0	9.7	9.7	11.6
- real <u>a/</u>	5.0	4.1	4.2	4.3	4.3	4.9	3.4	3.5	3.6	3.6	4.5
Curr. a/c balance (%GNP)	-2.0	-1.7	-2.1	-2.4	-2.4	-3.4	-1.2	-1.4	-1.6	-1.6	-3.4

Source: Global Economic Model, IEC.

Japan: Key Indicators

	1989	1990					1991				
		Base	I	II	III	IV	Base	I	II	III	IV
GNP growth(%)	4.9	4.7	4.5	4.4	4.4	4.0	3.8	3.8	3.8	3.8	3.1
GNP deflator (%)	1.5	1.8	1.8	1.8	1.8	1.8	1.2	1.8	2.2	2.2	3.6
CPI (%)	2.3	2.6	2.9	3.0	3.0	3.6	1.2	1.7	2.4	2.4	4.7
Eff. exch. rate (ch%)	-4.3	-12.5	-12.5	-12.8	-12.8	-12.7	4.8	4.9	4.9	4.9	4.9
Short term interest rate (%)											
- nominal	4.7	6.2	6.3	6.4	6.4	6.6	5.8	6.4	6.9	6.9	8.7
- real <u>a/</u>	3.2	4.4	4.5	4.5	4.5	4.7	4.6	4.6	4.7	4.7	5.1
Curr. a/c balance (%GNP)	2.0	1.7	1.1	0.8	0.8	-0.5	1.3	1.3	0.7	0.7	-2.0

Source: Global Economic Model, IEC.

Germany: Key Indicators

	1989	1990					1991				
		Base	I	II	III	IV	Base	I	II	III	IV
GNP growth(%)	4.0	4.0	3.9	3.8	3.8	3.7	3.8	4.2	4.3	4.3	4.5
GNP deflator (%)	2.5	3.2	3.2	3.2	3.2	3.1	3.0	3.4	3.7	3.7	4.2
CPI (%)	2.8	2.0	2.2	2.3	2.3	2.6	2.5	2.9	3.4	3.4	5.0
Eff. exch. rate (ch%)	-2.0	8.0	8.0	7.7	7.7	7.7	1.1	0.5	0.1	0.1	-0.7
Short term interest rate (%)											
- nominal	7.1	8.5	8.6	8.7	8.7	8.8	8.9	9.3	9.7	9.7	10.8
- real <u>a/</u>	4.6	5.3	5.4	5.5	5.5	5.7	5.9	5.9	6.0	6.0	6.6
Curr. a/c balance (%GNP)	4.4	3.3	2.9	2.5	2.5	1.3	1.3	1.5	0.9	0.9	-3.3

Source: Global Economic Model, IEC.

a/ Nominal interest rates adjusted by the GNP deflator.

Annex IV

Net Oil Imports of Low-Income Oil Importers, 1988
(As a percentage of GDP)

	1988		1988
Bangladesh	1.3	Malawi	1.8
Benin	4.6	Mali	4.0
Burkina Faso	0.6	Mauritania	2.4
Myanmar	0.1	Nepal	1.6
Burundi	0.9	Niger	1.5
Central African Rep.	0.2	Pakistan	3.1
China	0.8	Rwanda	3.4
Ethiopia	4.4	Sierra Leone	0.6
Gambia	2.1	Somalia	0.7
Ghana	2.1	Sri Lanka	4.2
Guyana	10.3	Sudan	1.4
Haiti	1.5	Tanzania	5.5
India	0.6	Togo	1.5
Kenya	3.3	Uganda	1.2
Lesotho	0.1	Zaire	0.1
Liberia	3.9	Zambia	1.8
Madagascar	4.3		

Source: IECAP

Net Oil Imports of Middle-Income Oil Importers, 1988
(As a percentage of GDP)

	1988		1988
Argentina	0.5	Malta	3.9
Barbados	2.9	Mauritius	5.4
Botswana	4.4	Morocco	2.7
Brazil	0.8	Nicaragua	2.9
Chile	0.9	Panama	2.5
Costa Rica	3.3	Papua New Guinea	3.8
Cyprus	4.1	Paraguay	3.8
Dominican Republic	7.2	Philippines	2.6
El Salvador	1.5	Poland	0.5
Fiji	3.4	Portugal	4.8
Greece	2.9	Senegal	1.3
Guatemala	2.1	Seychelles	1.1
Honduras	2.9	Taiwan, China	1.8
Hungary	5.9	Thailand	3.6
Ivory Coast	2.4	Turkey	3.6
Jamaica	4.8	Uruguay	1.8
Jordan	7.3	Yugoslavia	3.6
Korea	3.5	Zimbabwe	1.2

Source: IECAP

Annex V

Projections of US\$ LIBOR: 1990-2000
(in percent)

	1990	1991	1992	1993	1994	1995	2000
Baseline	8.3	8.2	7.8	7.4	7.1	7.0	6.9
Scenario I	8.4	9.1	7.5	6.8	7.0	7.2	6.8
II	8.5	9.8	8.4	6.9	6.3	6.8	6.6
III	8.5	9.8	8.7	7.6	7.2	7.2	6.7
IV	8.7	11.7	10.2	7.4	6.8	7.0	6.1

Source: IECAP

IECdsk1/oil2
August 31, 1990

Office Memorandum

DATE: Tuesday, September 4, 1990

TO: Messrs. Conable, Qureshi, Wapenhans

FROM: Koji Kashiwaya, CFSVP

EXT.: 80809

SUBJECT: The Role of the Bank in the Gulf Crisis

STRICTLY CONFIDENTIAL
DECLASSIFIED

NOV 11 2023

WBG ARCHIVES

I. Background

1. During my stay in Japan from August 28 to August 31, the Japanese Government (GOJ) sounded me out regarding the possibility of cofinancing to assist the Gulf-rim countries, especially Turkey, Egypt and Jordan (hereinafter called "frontline countries"). GOJ is trying to pursue the most effective measures to assist those countries affected by the embargo against Iraq. There have been different views within GOJ. One is to shortly announce bilateral assistance to these countries with specific figures, thus demonstrating to the world the strong support by GOJ. This has been supported by the Ministry of Foreign Affairs (MOFA) and many politicians. The other is to take full advantage of IFIs, with a view to achieving international coordination among donors, which was proposed by MOF and subsequently supported by the U.S. Treasury. In parallel with this decision-making, GOJ has closely discussed with the U.S., European donors and IFIs how to obtain multi-lateral cooperation to support the frontline countries. This issue will be discussed at the forthcoming G-7 Deputies' meeting on September 10-11. By that time GOJ hopes to decide its position in close coordination with the Bank, the IMF and the U.S. Government. The U.S. is scheduled to announce its own policy on these issues at the Annual Meetings. However, the U.S. is still considering various possible measures, and no consensus has been reached within its own Government. Mr. Utsumi, the Vice Minister, visited the U.S. Treasury, the Bank and the IMF last week while the Finance Minister Mr. Hashimoto visited major European donors.

2. The situation at the present time is fluid, but it is likely that many donors expect leadership from, or at least close coordination with IFIs in supporting the frontline countries and their neighbors. This may stem from two reasons. First, bilateral assistance should be consistent and coordinated. Secondly, it is politically imperative to achieve a strong link among donors, including Arab countries, in order to address the Gulf crisis (similar to the embargo endorsed by the U.N Security Council's decision). The reaction of IFIs and donors to MOF's approach differ at this stage, even within the same institution. It seems to me, however, that it is very important for the Bank to carefully follow the movements of major donors and pursue the right approach to this issue, with a view to maintaining the Bank's good relationships with donors as well as eligible countries in meeting the challenge created by the Gulf crisis. In this context, this memo summarizes the information I have been able to obtain regarding movements by donors, especially GOJ, which is expected to become one of the largest donors to these countries. For your information, it also contains what I learned about Mr. Utsumi's meeting with Mr. Conable from GOJ sources.

II. GOJ

3. On August 29 and August 30, GOJ announced that it would appropriate \$1 billion equivalent in emergency assistance to the Gulf region countries to support their transportation, basic necessities and medical care activities. (It is said that Finance Minister Mr. Hashimoto exerted strong leadership to reach this consensus). In addition, GOJ will extend a substantial amount of assistance on concessionary terms to the Gulf region countries, especially Jordan, Turkey, and Egypt which face serious economic difficulties caused by the Gulf crisis. In parallel, GOJ will work with those IFIs concerned to support these countries. Without delay, GOJ will extend a \$10 million grant to Jordan to support the refugees from Iraq and Kuwait.

III. Consultations between the U.S. and GOJ

4. On August 30 Mr. Utsumi talked with Messrs. Mulford and Dallara of the U.S. Treasury on assistance to these frontline countries, although the U.S. is still in the brainstorming stage and has as yet reached no conclusion.

- (1) The U.S. Treasury was critical of the State Department's idea of creating an "Arab Fund" financed by Saudi Arabia, the Emirates and other donors because Saudi Arabia may not like such a fund.
- (2) Mr. Utsumi suggested a case-by-case approach to the front line countries utilizing the coordinating role of IFIs. For example, in the case of Egypt, the G7 would press the IMF to create a Committee in which the Saudis and G7 would participate. In the case of Turkey, the Bank would form such a committee, in view of the less important role of the IMF in that country. The U.S. Treasury showed a strong interest in this proposal.
- (3) The U.S. proposed to estimate the short-term (through end 1990) and middle-term (through 1991) financial needs of these front line countries. For the short-term needs, the donors need not necessarily stick to strict conditionality in view of the emergency. For medium-term needs, due consideration should be paid to conditionality. Mr. Utsumi suggested that the short-term needs should be restricted for refugees and other purposes, and in the case of medium-term needs, donors should take full advantage of IFIs to fill the balance of payments gap through their program or project financing. Mr. Dallara tentatively estimated the total financial needs of the three frontline countries as \$9.1 billion, of which \$2.8 billion is for short-term needs (to December 1990), and \$6.3 billion for medium-term needs (1991). He expected that short-term assistance would consist of grant, concessionary loans and commodity aid in the form of bilateral aid. The medium-term assistance includes grant, concessionary loans and export credits possibly through multilateral approaches.

- (4) Egypt: Mr. Utsumi is firmly opposed to the concept of the "Fund monitored Program" proposed by Mr. Camdessus in which the IMF will not contribute from its own resources, but would monitor the donors' contribution under the shadow program. Mr. Mulford sympathized with Mr. Utsumi's view, but did not wish to be quoted at this stage, pointing out that the IMF has difficulty in contributing new money to the borrower that falls short of IMF conditionalities. Mr. Utsumi suggested the Bank should consider the extraordinary nature of the situation, quoting the precedent case of the moderate conditionalities for Cote d'Ivoire. Mr. Dallara is supportive of using IFIs and suggested IMF's stand-by (e.g. 40% of quota) with moderate conditionality, an IDA credit from IBRD, and IMF's ESAF.
- (5) Jordan: The U.S. has not decided what to do for Jordan at the moment.
- (6) Mr. Dallara was impressed with the tough approach by the Bank and IMF towards Egypt and Turkey.

IV. Discussions between the Bank and GOJ

- (1) Egypt: Mr. Conable told Mr. Utsumi that the slow pace of economic reform in Egypt, and the country's lack of cooperation with the IMF is a problem, although the Bank is more flexible in pursuing its reduction of the budget deficit than the IMF, which has insisted upon an increase in energy prices. Mr. Utsumi pointed out the unrealistic nature of the IMF's conditionality under the current situation, and said that GOJ is ready to provide an adequate cofinancing amount if the Bank comes through with its financing.
- (2) Turkey: Mr. Utsumi understood that Mr. Conable has instructed that disbursements of the Bank's loans to Turkey be delayed due to non-compliance with the conditionalities. He is not satisfied with the current level of inflation (from 60% to 70%) and requires agreement with the IMF's program as a prerequisite to the Bank's lending. He also pointed out that Secretary of State Baker does not understand this and has never tried to influence the Turkish Government. He urged GOJ to persuade Turkey to comply with the IMF's program.
- (3) Mr. Utsumi advocated a flexible approach under the current emergency situation. He expects strong leadership by Mr.

Conable in materializing IBRD lending, which would facilitate bilateral support through cofinancing. Mr. Conable, acknowledging the need for a flexible approach, asked Mr. Utsumi to persuade Mr. Camdessus, and the borrowers concerned to come to an agreement on some kind of support of the IMF program, whatever it may be.

V. Consultations between the IMF and GOJ

4. On August 30 Mr. Utsumi discussed Egypt with the Mr. Camdessus. Mr. Utsumi urged him to consider what the IMF can do for Egypt under the emergency situation. He asked the IMF to use its own resources like ESAF or stand-by, even if it amounts to only a symbolic sum, rather than only administering the donors' contribution under the shadow program. The Managing Director took a hard line on preserving the high standards of conditionality. He is said to have categorically rejected all attempts by the U.S. Germany and France to use the IMF's money. After examining the economic situation in Egypt he has reached the conclusion not to release any money now. He suggested that donors create a "Multilateral Assistance Fund" under the management of the IMF. Mr. Utsumi argued against Mr. Camdessus' position and suggested that the Bank should play a central role in aid coordination unless the IMF cooperates on Egypt, although he is worried about the discrepancies between the IMF and the Bank as was the case in Argentina. The Managing Director pointed out that Secretary of the Treasury, Mr. Brady, understood his position perfectly. The IMF cannot damage the conditionality and once the IMF gives way to Egypt, Germany may urge the IMF to finance Hungary, and the U.S. may urge financing for Peru, Ecuador, Trinidad and Tobago. Finally, Mr. Utsumi suggested the possibility of using IFIs other than the IMF for aid coordination for these countries.

5. On August 31 Mr. Camdessus informed the Japanese ED about his discussions with Mr. Brady to the effect that if Egypt takes appropriate economic action to facilitate the IMF's financing, he will make every effort to pursue the possibility of a back-loaded standby (SBA) or a CFF, if the conditions are met. Mr. Brady appreciated Mr. Camdessus' view. However, if Egypt's economic reforms do not meet the criteria of SBA or CCF, the IMF may consider the Fund Monitored Program proposed by Mr. Camdessus. In this case the economic policy must be sufficiently tight to facilitate the \$2.6 billion rescheduling of the Paris Club. Even if the G7 agrees with this scenario, the Paris Club cannot reach consensus without agreement of other donors. The IMF will send a small mission consisting of high-level staff on September 4 to consider the details of economic policy. Everything depends upon the substance of Egyptian economic policy.

6. Mr. Camdessus later informed the Japanese ED that the Egyptian Foreign Ministry conveyed to him the Prime Minister's decision that Egypt will fully comply with the economic adjustment program regardless of the Gulf crisis and make efforts towards agreement with the IMF. Although this is encouraging information, Mr. Camdessus wishes to watch the future developments of Egyptian economic policy.

VI. The Role of the Bank in the Gulf Crisis

7. It is essential for IFIs to preserve the conditionality of economic reform programs as their *raison d'être*. IFIs, however, should be sufficiently flexible and practical to respond to borrowers' emergency situations. We should make our best efforts to avoid conflicts among IFIs in pursuing the economic adjustment policies of our borrowers. We should also consider the reasons why borrowers cannot comply with the IMF's program especially when it comes to domestic and political reasons. If major donors urge the Bank to coordinate aid or cofinancing we should consider this request very positively, even though the borrower finds it politically difficult to reach an agreement with the IMF (e.g. Turkey). If the IMF rejects financing due to the borrowers' non-compliance with their program, as in the case of Egypt, the Bank should make every effort to mediate them. If this is not possible, the Bank should consider coordinating the donors' contributions with its own lending, as long as the borrower complies with the Bank's program and is in need of such emergency assistance, and thus rescue the borrowers from real economic chaos.

KKashiwaya:jed

11:26am

On Bock
David:

When are we on
this issue?
Mmm

TO: David R. Bock
FROM: Hans Wyss, CODDR
EXT.: 78020
SUBJECT: Temporary Increase in Cost Sharing Limits.

(DAVID BOCK)
(HANS WYSS)

David,

1. as we discussed, I continue to be concerned that the implications of the proposal made to Moeen on the above subject (as part of the Bank's response to the Gulf crisis) are not understood fully. The results of quite similar proposals enacted in the January 1983 SAP should give you a stronger basis for having the likely effects under the present proposal recognized properly.

Cost-Sharing Increases under the 1983/84 SAP.

2. The main elements related to "increased share of project costs" in the 1983/84 SAP were (R83-10 of 1/28/83):

(i) in ongoing projects:

- increased share of project financing by reducing ongoing projects;
- supplemental loans for ongoing projects to increase Bank's share in financing (i.e. without reducing scope of [indivisible] projects) with retroactive financing going back to 12 month; as a variance, a composite supplemental loan might address a number of projects in a sector;
- restructure loans financing broad sector investment (irrigation, feeder roads etc.), again to reduce scope and increase Bank's share of cost;
- make increased use of revolving funds [in 1983 such funds were exceptional - today they are the rule].

(ii) in addition to the foregoing, in new projects (FY83 and FY84) the following was to be introduced:

- finance larger share of recurrent cost for two to three years, offset by larger drop subsequently;

- emphasize maintenance and rehabilitation projects;
- finance working capital requirements in IFI operations.

3. I understand from a discussion which Al Heron had with those associated with the SAP preparation and monitoring that, as a general rule, for ongoing projects which were to be completed within around three years there was a one-time upward move in the disbursement percentages. Longer-term projects (existing and new) were frontloaded with higher percentages for such period (with a specific date put into the loan documents), after which they reverted to smaller percentages.

Results under the 1983/84 SAP.

4. The results of increased cost-sharing in the context of the overall SAP were presented in two progress reports at the beginning of 1984 (R84-25 of 2/7/84) and of 1985 (R85-30 of 3/7/85):

<u>Commitments:</u>	<u>CY1983</u>	<u>CY1984</u>	<u>Total</u>
	(in million US\$)		
SALs and SECALs	1,635	725	2,360
Modifications in old and new operations	510	120	630
Increased cost-sharing/ frontloading of disb.	(80)	(75)	(155)
Financing working capital	(335)	-	(335)
Supplementary loans	(95)	(45)	(140)
<u>Total SAP</u>	<u>2,145</u>	<u>845</u>	<u>2,990</u>
"SAP-type" operations			2,500
Total			5,490

("SAP-type operations in substance are similar to SAP but have not been formally classified as SAP" - para. 11 of R85-59). The small number of supplementary loans should also be noted (7). However, a note of caution must be given: these figures only refer to SAP operations while disbursement figures given in the same report are much higher because they include "SAP-type" operations.

4. What is clear from these figures is that increased cost sharing was indeed a minor part of the commitments made by the Bank under the total SAP.

Lessons for the present situation:

5. Increased cost-sharing is unlikely to have a large impact within the parameters indicated unless there is significant room

for related supplementary operations. Impact will be concentrated in a relatively small number of countries where cost-sharing has been small and co-financing of limited importance. The scope for supplementary loans/credits will depend on additional IDA type financing and additionality to IBRD lending ceilings. The only way reasonably exact amounts can be determined is, as we have pointed out earlier on, by a project-by-project review to be carried out by the CDs and once you can give guidance on such additionality and its implications for bringing forward lending ceilings.

6. As to the period for increasing cost-sharing, the following needs to be kept in mind:

for existing operations: impact is immediate (we have proposed September 1, 1990 as the initial date for increasing cost-sharing). Unless the period for increasing cost-sharing is significant, the "bringing-forward" effect on disbursements may become more of an irritant to borrowers and to the Board by raising unfulfilled expectations;

for new operations: it should be kept in mind that disbursements under new investment operations tend to start in measurable amounts about one year after Board presentation. To keep a short period of higher disbursements will even more result in negligible additional resource flows.

Conclusion:

7. I suggest that, keeping in mind the above considerations, you advise Messrs. Harris/Heron on the parameters within which cost-sharing instructions - consistent with the overall approach to the crisis - should be prepared.

Hans.

CC: Enzo Grilli
CC: Randolph Harris
CC: Alfred T. Heron
CC: Ngozi Okonjo-Iweala

(ENZO GRILLI)
(RANDOLPH HARRIS)
(ALFRED T. HERON)
(NGOZI OKONJO-IWEALA)

ROUTING SLIP		DATE: 8/31/90	
NAME		ROOM NO.	
Moeen Qureshi		E 1241	
APPROPRIATE DISPOSITION		NOTE AND RETURN	
APPROVAL		NOTE AND SEND ON	
CLEARANCE		PER OUR CONVERSATION	
COMMENT		PER YOUR REQUEST	
FOR ACTION		PREPARE REPLY	
X INFORMATION		RECOMMENDATION	
INITIAL		SIGNATURE	
NOTE AND FILE		URGENT	
REMARKS:			
FROM: Tim CULLEN		ROOM NO.: E 8059	EXTENSION: 81357

WORLD BANK READY TO HELP NATIONS HARD HIT BY GULF CRISIS

By Rich Miller

WASHINGTON, Aug 31, Reuter - The World Bank stood ready to help developing countries hit by the Gulf crisis but was opposed to hasty handouts by wealthy nations that ignored long-term economic goals, its president said.

"We have money in reserves," president Barber Conable told Reuters in an interview. "We can accommodate...additional demands."

But he warned rich nations against indiscriminately doling out emergency aid without taking account of the need for economic reforms in developing countries.

Such handouts could sap the resolve of Third World leaders to take the tough political decisions necessary to shape up their economies, Conable said.

"We should coordinate...contributions...in ways that will not undercut our (reform) programmes," he said.

U.S. President George Bush has called on allies to help fund U.S. forces in the Gulf and support countries suffering from the effects of international economic embargo against Iraq. Among the nations he cited were Turkey, Egypt, Jordan and the states of Eastern Europe.

A World Bank contribution could come in the form of more loans, not outright grants or concessional or low cost finance. That would come from wealthy nations.

Conable said the bank had already started to review its lending programmes to see which nations might need more money to cope with the economic fallout from Iraq's invasion.

Although the overall impact of the invasion on the world economy might be relatively modest, some poorer countries appeared to be in for a tough time, Conable said.

Developing nations would be hit in a variety of ways by the economic fallout from the Gulf crisis, he said.

The steep rise in oil prices would hurt those dependent on imported oil, such as Brazil and Eastern Europe.

The economic sanctions against Iraq would hit others, such as Egypt, which has lost remittances from Egyptian workers in Iraq and Kuwait, and Turkey, which is suffering from cutting off the flow of Iraqi oil through a pipeline.

And many would be hurt if the crisis led to slower economic growth in industrial countries.

"As the old saying goes, when the industrial world gets a cold, the developing world gets pneumonia," Conable said.

REUTER RJM WS BH Reut12:58 08-31

MOSCOW ON WAY TO JOINING IMF, WORLD BANK BUT MUCH WORK REMAINS

By Rich Miller

WASHINGTON, Aug 31, Reuter - The Soviet Union was probably on its way to becoming a member of the International Monetary Fund (IMF) and the World Bank but it had much work to do before it finally joined, World Bank president Barber Conable said.

"The Soviets have to go through quite a bit before they become members," he told Reuters in an interview.

He said that Moscow would first have to work to make its currency convertible into other currencies, a process that some Soviet economists reckoned could take five years or more.

Currency convertibility is not a prerequisite for IMF membership, but it would probably be a major consideration in judging the Soviet Union's suitability to join the world economic fold, monetary sources said.

Soviet Foreign Minister Eduard Shevardnadze told IMF managing director Michel Camdessus in Moscow last month that the Soviet Union was ready to join the fund.

"Our country regards its membership...as a logical continuation of its policy of wider global economic cooperation," Shevardnadze said.

A country must be a member of the IMF before it can join the World Bank and many countries join both groups at the same time. The two organizations were formed after World War Two to help manage the world economy and foster economic development.

Monetary sources said political factors would obviously play a big role in any decision on IMF membership for Moscow.

A senior U.S. official said earlier this month that talk of the Soviet Union joining the IMF was premature, but he did not rule it out altogether.

The United States has opposed membership for the Soviet Union but Moscow has recently won praise for its support of U.S. efforts to stop Iraq.

Camdessus was in Moscow to kick off a study of the Soviet economy mandated by the United States and its industrial allies as a possible prelude to economic assistance.

The World Bank, the Organisation for Economic Cooperation and Development and the recently-formed European Bank for Reconstruction and Development are also involved in the study.

Conable said the study "very possibly" could eventually lead to IMF and World Bank membership for the Soviet Union.

That could give Moscow access to billions of dollars of loans and aid to help rebuild its battered economy.

But Conable indicated that might be some way off. "I think it will take them some time to get their currency straightened out, to get it into a condition where it can be used in a currency exchange market," he said.

The Soviet Union is reluctant to float its currency and make the rouble convertible into other currencies because that would slash the value of savings overnight, he said.

"Hundreds of billions of roubles have gone into mattresses somewhere on the assumption the rouble is worth something," he said. "It's probably worth a tenth of what they claimed."

Conable pointed to the political problems the Soviet government ran into it in the spring when it tried to raise food prices for the first time in eight years.

Moscow has said it planned to raise food prices in the autumn, but Conable said he thought the increase would again be postponed.

cc: Mr. Booh
Mrs. (wcala)

The World Bank/IFC/MIGA
OFFICE MEMORANDUM

DATE: 27-Aug-1990 03:11pm

TO: Moeen A. Qureshi (MOEEN QURESHI)

FROM: D. C. Rao, IECDR (D. C. RAO)

EXT.: 33800

SUBJECT: oil shock paper

Moeen,

I gather you were unhappy at not being sent our paper on the impact of the middle east crisis. I had sent it to the regions because we were getting repeated requests for help with their analysis, but was reluctant to send it "upstairs" until Stan had reviewed it on his return from leave. When he saw it, he suggested a couple of small changes, but also asked that this paper be combined with some analysis in CEC on policy responses. This will be completed in the next day or so. Meanwhile, I had sent it to Enzo Grilli and assumed that he would give it to you if needed.

Some chief economists have been in touch with us and we are arranging to share our detailed numbers.

D.C.

200824005 2
01 2
1.

Office Memorandum

DATE: Thursday, August 23, 1990

TO: Mr. Moeen A. Qureshi, OPNSV

lg

FROM: Koji Kashiwaya, CFSVP

EXT.: 80809

SUBJECT: Assistance for the Gulf States

1. The Japanese Government (GOJ) has to decide shortly (maybe by this weekend) its position on how to best assist Turkey, Jordan, Egypt and other countries affected by the Iraq embargo. There are two schools of thought, one is to announce the specific figures on bilateral assistance in the form of commodity loans to these countries prior to the reopening of the U.S. Congress on September 6 with a view to appealing to the U.S., and the other is to ask the Bank and the IMF to take a leadership or coordinating role and override multi-lateral support to these countries in the framework of an IFI support program. The Ministry of Finance (MOF) would like to persuade Mr. Kaifu of this second option. In this context MOF is informally asking the position of the World Bank and the candidate Banks' programs or projects to be cofinanced.

2. Based upon our telephone conversation last night I conveyed your message to Mr. Utsumi this morning. He is pleased with the position taken by the Bank and will try to persuade the Prime Minister in this respect. The list of countries to be supported may be extended to Oman, Syria, Morocco and Yemen. The modality of Japanese assistance would be in the form of a grant for technical assistance, OECF and JEXIM loans.

3. This afternoon I will send to MOF the lists of candidate programs or projects to be cofinanced, which I have received from the Region.

cc: Messrs. Wapenhans, Sandstrom

KKashiwaya:jed

2



FORM NO. 75
(6-83)

THE WORLD BANK/IFC

ROUTING SLIP		DATE:
		8/23/90
NAME		ROOM NO.
Mr. Qureshi		
Through: 1. Mr. <i>Lari</i>		
2. Mr. Wapenhans		
APPROPRIATE DISPOSITION	NOTE AND RETURN	
APPROVAL	NOTE AND SEND ON	
CLEARANCE	PER OUR CONVERSATION	
COMMENT	PER YOUR REQUEST	
FOR ACTION	PREPARE REPLY	
INFORMATION	RECOMMENDATION	
INITIAL	SIGNATURE	
NOTE AND FILE	URGENT	
REMARKS: Please find attached revised notes on the Impact of Gulf Crisis		
FROM: Philippe Nouvel	ROOM NO.: H11-091	EXTENSION: 32550

August 23, 1990

Impact of Oil Crisis, CMEA Demise and Higher Interest Rates
on Poland's External Position

1. Recent world events have made it necessary to revise the external outlook for Eastern European countries. In the case of Poland, the sharp increase in oil prices has been compounded by a fall in oil deliveries from the USSR and a suspension of previously-paid oil deliveries from Iraq. Furthermore, it now appears that the CMEA demise will unravel faster than anticipated and that medium- and long-term interest rates will be higher than expected.

The CMEA Reform

2. CMEA trade represents roughly 40 percent of total international trade in Poland. It is widely recognized that the abandonment of CMEA trading practices will have a negative impact on Polish terms of trade. Tables 1 and 2 present the balance of payments impact of the CMEA trade reforms complemented by the effect of the oil shocks. We estimate the CMEA reform to have an adverse impact on the external accounts of Poland of about US\$1 billion per year starting in 1991. We reckon the cost will decline in later years due to efficiency gains and the relative shrinking of the former CMEA export sector. Thus, we calculate a loss between 1.7 and 2.0 percent of GDP in 1991 and a loss close to 1.0 percent of GDP in 1994, for example.

The Oil Shock¹

3. In the remainder of 1990, the oil crisis affects Poland's trade balance in two ways:

- (a) The 30 percent reduction of Soviet deliveries forces Poland to find substitute sources.
- (b) In 1985 and 1986, Poland extended a US\$500 million credit to Iraq for Polish military equipment. The loan was to be repaid in the form of oil. For 1990, Iraq has delivered so far only 25 percent of the promised 7.4 million barrels.

Calculating the cost increase due to the 30 percent Soviet drop is not straightforward given that actual opportunity

¹ For the purpose of easy comparison across countries, we also calculated the annualized impact of a US\$5 per barrel increase in the price of oil under simplified assumptions. The increase in Poland's annual import bill would be in this case about US\$680 million.

costs for CMEA transactions are not available. Under simplifying assumptions, we have estimated this additional cost to be about US\$60 million for 1990. The Iraqi oil suspension (actually a debt moratorium from Poland's perspective) can cost the Poles dearly. However, we ignore, first, how much of the loan has already been paid, and second, how much of the promised 7.4 million barrels were destined for loan repayment. Assuming the first principal payment was due in 1990 and that all Iraqi oil was meant for repayment, a protracted Iraqi suspension could cost Poland (under scenario A) US\$120 million in 1990, US\$152 million in 1991, US\$129 million in 1992 and US\$100 million in 1993.

4. Table 3 presents the additional cost of the higher oil import prices under two scenarios, A and B. The cost in 1990 is calculated taking account of the 30 percent drop of Soviet deliveries, the suspension of the Iraqi ones and an estimate of the extra cost associated with more expensive oil imports from the convertible area (US\$30 million under scenario A and about US\$60 million under scenario B). For later years, the impact is very sensitive to the oil price projections. Under scenario A, the additional cost would be about US\$500 million in 1991 but negligible afterwards. Under scenario B, it would be about US\$1.6 billion in 1991, US\$1.1 billion in 1992, US\$209 million in 1993 and US\$158 million in 1994.

5. In the case of Poland the adverse effect of the Gulf crisis will be probably dampened by an increase in the price of coal. In the calculations here we abstract from this given that it is not yet clear whether and how international coal prices will respond. However, a 10 percent increase in the international coal price would result in approximately an additional US\$120 million, a 20 percent increase in US\$240 million more, and a 50 percent in US\$620 million.

Higher Interest Rates

6. The outlook for international interest rates is not as yet clear. Long-term interest rates have been creeping up in most financial centers but especially in West Germany and Japan. In the U.S., yields of long-term government bonds have increased 1.25 percent with respect to last year. However, short-term instruments have hardly budged. This is probably due to the expectation that the Federal Reserve might loosen its monetary policy in the near future and to an expected weaker aggregate demand. For the purpose of our simulations, we assumed that interest rates on Polish debt will increase 1.5 percent for all years considered. Table 4 presents the impact of higher rates in terms of additional interest obligations. Again, the oil scenarios A and B are considered. Under scenario A, the higher interest rates and the bigger trade deficit due to CMEA reforms and higher oil prices raise interest due by 0.2 percent of GDP in 1991, 0.5 percent in 1992, 0.6 percent in 1993 and 0.7 percent in 1994. Under scenario B, additional interest obligations would amount to 0.2 percent of GDP in 1991, 0.6 percent in 1992, 0.9

percent in 1993 and 1.0 percent in 1994.

Total Impact

7. Table 5 combines the effects of higher oil prices, higher interest rates and CMEA trade reforms on the balance of payments. Under scenario A, the total cost would be between 2.7 and 3.0 percent of GDP in 1991. The additional cost then declines to reach a level of 1.6 to 1.8 percent in 1994. Under scenario B that assumes higher oil prices, the cost ranges from 4.6 to 4.9 percent of GDP in 1991. It then declines every year to reach a range of 2.1 to 2.4 percent of GDP in 1994. The declining pattern of the additional cost is due first to the expectation that oil prices will drop from 1992--under both scenarios--and second to the assumed fall in the cost associated with CMEA trade reforms.

Table 1: Balance of Payments Impact of CMEA Trade Reform
and Higher Oil Prices
(Scenario A)

	CMEA	Oil (millions of \$)	Total	CMEA	Oil (% of GDP)	Total
1990	0	210	210	0	0.4	0.4
1991	1000-1200	511	1511-1711	1.7-2.0	0.9	2.5-2.9
1992	900-1100	14	914-1114	1.4-1.7	0.0	1.4-1.7
1993	800-1000	15	815-1015	1.1-1.4	0.0	1.2-1.4
1994	700- 900	16	716- 916	0.9-1.1	0.0	0.9-1.2

Table 2: Balance of Payments Impact of CMEA Trade Reform
and Higher Oil Prices
(Scenario B)

	CMEA	Oil (millions of \$)	Total	CMEA	Oil (% of GDP)	Total
1990	0	270	270	0	0.5	0.5
1991	1000-1200	1624	2624-2824	1.7-2.0	2.7	4.4-4.7
1992	900-1100	1133	2033-2233	1.4-1.7	1.8	3.1-3.5
1993	800-1000	209	1009-1209	1.1-1.4	0.3	1.4-1.7
1994	700- 900	158	858-1058	0.9-1.1	0.2	1.1-1.3

Table 3: Impact of Oil Price Increase

	Pre-crises oil price \$/barrel	Projected oil price		Volume of net import of oil mbarrels/year	Additional cost (millions of \$)	
		A	B		A	B
1990	17.4	21.6	24.7	N.A.	210	270
1991	16.6	20.5	29.0	131.0	511	1624
1992	17.3	17.4	25.4	139.9	14	1133
1993	18.5	18.6	19.9	149.5	15	209
1994	19.6	19.7	20.6	158.4	16	158

Table 4: Balance of Payments Impact of Higher Interest Rates
Increase in Interest Obligations
(millions of dollars)

	Oil Scenario A	(% of GDP)	Oil Scenario B	(% of GDP)
1991	106	0.2	109	0.2
1992	297	0.5	415	0.6
1993	404	0.6	647	0.9
1994	521	0.7	805	1.0

Table 5: Combined Impact of Oil, Interest and CMEA Shocks
(millions of dollars)

	Oil Scenario A	(% of GDP)	Oil Scenario B	(% of GDP)
1991	1617-1817	2.7-3.0	2733-2933	4.6-4.9
1992	1211-1411	1.9-2.2	2448-2648	3.8-4.1
1993	1219-1419	1.7-2.0	1656-1856	2.3-2.6
	1237-1437	1.6-1.8	1663-1863	2.1-2.4

ROMANIA:
A Speculation about the Terms of Trade Effects
of a Change in CMEA and Oil Prices

Introduction

1. Between 1980 and 1988, Dictator Ceausescu compressed imports by over 60% and forced exports up in order to create a trade surplus that would enable him to extinguish Romania's entire external debt. As a result, in 1988 ruble-clearing trade was in approximate balance and hard-currency trade generated a surplus of over \$3.5 billion, approximately 8% of GNP. In 1989 imports increased slightly and exports declined somewhat, after elimination of the debt, but in the first half of 1990, following the December revolution, imports have increased dramatically and exports have collapsed. One would expect the trade balance to swing from a surplus of \$2.5 billion in 1989 to a deficit of over \$1 billion in 1990. The point here is that the quantitative effects of the release of the pressures on trade exerted by the dictator will be much greater than the terms of trade effects of a hardening of CMEA trade and an increase in energy prices attributable to the Iraqi crisis.

Effect of a change in CMEA prices

2. Imports from and exports to CMEA countries are in approximate balance, with each at about 6% of GNP; CMEA trade is less important to Romania than it is to other CMEA countries. Trade with the Soviet Union accounts for only half of trade with all CMEA partners. Energy accounts for half of Romania's imports from the Soviet Union; much of this is natural gas and electricity. If the terms of trade effects of hardening non-energy trade with CMEA countries cancel each other out, if the price of energy imported from the Soviet Union increases by 118% (corresponding to an increase in the price of oil from \$7.42/barrel to \$16.60/barrel on January 1, 1991, and if oil imports do not change in volume from 1989 levels, then the increase in Romania's import bill attributable to this change would be about \$260 million (equal to 3.9 mmt x 7.3 barrels/mt x \$9.18 price change). These figures have to be treated with great caution, as no analysis has been done yet on the impact of CMEA abolition, and as there is a problem of data availability and reliability in the case of Romania.

Effect of recent oil price increase¹

3. Energy imports, especially oil, dominate Romania's overall imports. In 1989, Romania imported 21.8 mmt of oil (mostly from Iran and Saudi Arabia), but it exported 13.6 mmt of oil and refined oil products. Therefore (in volume terms) Romania's net oil imports were only 8.2 mmt. Romania's 1989 net energy imports are summarized below:

	1989 Net Quantity Imported	Approximate Value (\$ b) World Prices
Oil	8.2 mmt	1.0
Natural gas	7.4 bcm	0.5
Electric power	9.2 bkwh	0.4
Total		\$1.9 billion

4. If one assumes that net domestic oil use declines in proportion to GNP, if one assumes that GNP declines 10% in 1990 and another 5% in 1991 and remains constant thereafter, and if one assumes that net oil production remains constant at 9.2 mmt per year, then net oil imports would decline from 8.2 mmt in 1989 to 6.5 mmt in 1990 and 5.7 mmt in 1991. The impact on the balance of payments of an increase in the price of oil from \$16.20/barrel to \$21.60/barrel in 1990 (Scenario A) would therefore be \$260 million declining to zero in 1992 as shown in the attached table. The impact of an increase from \$16.20 to \$24.70 in 1990 (Scenario B) would be \$400 million, increasing to over \$500 million in 1991 before declining to less than nothing in 1995, as shown in the attached table. These effects exclude gas and electricity imports, both very important in Romania as indicated in the table at the bottom of the previous page.

Combined Impact of CMEA and Oil Shock

5. The combined 1990 impact on Romania of the hardening of CMEA trade and the energy shock associated with Iraq's invasion of Kuwait under the assumptions described above would be 1.1% of GNP in 1991 declining to 0.7% of GNP in 1992 and following years (Scenario A); the impact would be 2.0% of GNP in 1991 declining to 0.5% of GNP in 1995 (Scenario B). See the attached table.

Impact of Increased Interest Rates

6. Romania's external debt is around \$500 million, but it may be expected to increase by about \$1 billion per year or even more from now on. For the moment, the impact of an increase of 1.5% in interest rates is therefore about \$7.5 million per year, increasing by perhaps \$15 million per year as debt grows. At least for now, this is negligible in the Romanian context.

TH:8/22/90
m:\rom\oilshock

1. For the purpose of easy comparisons across countries, we have also calculated the estimated impact of a \$5/barrel increase in the price of oil under simplified assumptions. The increase in Romania's annual import bill would be \$300 million (equals 8.2 mmt net imports in 1989 x 7.3 barrels/mt x \$5 price change).

August 22, 1990

Czech and Slovak Federal Republic (CSFR)
Note on the Impact of the Changes in CMEA Trade and Oil Prices

1. Introduction: Impact of CMEA Abolition

CSFR is, after Bulgaria, the Eastern country which is the most integrated with the CMEA market. CSFR's trade with CMEA represents about 55 percent of both its imports and exports. The projected change in 1991 of the CMEA markets towards using international prices and convertible currencies as means of payments, away from the transferable ruble and the use of the so-called Bucharest pricing formula will have a major effect on CSFR's terms of trade and balance of payments. An assessment of this impact is under preparation, and preliminary guesstimates indicate that this impact might be substantial, i.e., \$1.5 billion to \$2 billion using current prices, and pre-Iraqi crisis oil prices. This would be equivalent to about 2 to 3 percent of GDP. CSFR's energy sector is also highly import dependent. Domestic supplies of energy, mainly coal and some nuclear power, cover about two-thirds of its energy requirements. About 95 percent of CSFR's petroleum and natural gas needs are met through imports from the Soviet Union and bilateral clearing arrangements. At present, CSFR imports about 15 million tons of oil per year.

2. Effect of Iraqi Crisis and Recent Oil Price Increase¹

There are a number of difficulties in assessing this effect. In the figures below, we do not take into account the possible increase of other energy sources, the impact of these price increases on consumption, which may be very high as CSFR is a high energy consumer, the possible effect of disruptions in supplies, etc.

Assuming that oil import volumes for CSFR would decline from 15 million tons in 1990 to 14.5 million tons in 1991, that in 1990 the Soviet Union would continue supplying most of oil import needs of CSFR under the current CMEA guidelines and using the projections of average price per barrel provided by IED (Scenario A: \$21.6 per barrel in 1990, \$20.5 per barrel in 1991, and \$17.4 in 1992; scenario B: \$24.7, \$29.0 and \$25.4, respectively), the additional import bill for CSFR would be about \$150 million in 1990, \$400 million in 1991, and very little in 1992 as prices under Scenario A are assumed to get back to their pre-crisis level. Under scenario B, the additional bill would be about \$180 million in 1990, \$1.33 billion in 1991, and \$830 million in 1992. This would come, of course, in addition to the impact on the balance of payments of the changes in CMEA in 1991 and later (see attached table).

¹ For the purpose of easy comparison across countries, we also calculated the annualized impact of a \$5/barrel increase in the price of oil under simplified assumptions. The increase in CSFR's annual import bill would be about \$530 million.

3. Other Impact: Interest Rate

Assuming international economic developments lead to an increase in interest rates by 1.5%, the effect on CSFR's future external debt servicing would be an increase of about \$75 million. The estimate is based on variable rate debt outstanding in convertible currency as of end 1989 of \$5019 million, which includes short-term debt and medium- and long-term debt suppliers' credits. (The latter are assumed to be entirely variable rate loans.)

Table: Czechoslovakia 08/21/90

IMPACT OF OIL PRICE CHANGE AND CMEA TRADE
ON BALANCE OF PAYMENTS

years	-----SCENARIO A-----						-----SCENARIO B-----			Impact of CMEA trade (\$ Mill.)	-----Total Impact-----		-----Total Impact-----		
	Dec.'90	GDP	Net Imp.	Aug.'90			Aug.'90				SCENARIO A	SCENARIO B	SCENARIO A	SCENARIO B	
	Projected growth of Crude/		Product	Projected	Additional		Projected	Additional							
	Price	rate		Price	Import Cost		Price	Import Cost			Mill US\$		% of GDP		
	(\$/bbl)	(%)	(th B/D)	(\$/bbl)	(\$ Mill.)		(\$/bbl)	(\$ Mill.)							
	(1)			(2)	(2-1)		(3)	(3-1)							
1990	16.2	-0.01	302.9	21.6	5.4	596.9	24.7	8.5	939.6						
1991	16.6	-0.03	293.8	20.5	3.9	418.2	29	12.4	1329.6	1500-2000	1918 - 2418	2830 - 3330	3.9 - 4.9	5.7 - 6.7	
1992	17.3	-0.02	287.9	17.4	0.1	10.5	25.4	8.1	851.1	1500-2000	1511 - 2011	2351 - 2851	2.9 - 4.1	4.8 - 5.9	
1993	18.5	0.04	299.4	18.6	0.1	10.9	19.9	1.4	153.0	1500-2000	1511 - 2011	1653 - 2153	2.8 - 4.0	3.3 - 4.3	
1994	19.6	0.04	311.4	19.7	0.1	11.4	20.6	1	113.7	1500-2000	1511 - 2011	1614 - 2114	2.7 - 3.8	3.1 - 4.0	
1995	20.5	0.04	323.8	20.6	0.1	11.8	19.4	-1.1	-130.0	1500-2000	1512 - 2012	1370 - 1870	2.6 - 3.7	2.5 - 3.4	

Bulgaria		Czechoslovakia	
-----Total Impact-----		-----Total Impact-----	
-----% of GDP-----		-----% of GDP-----	
SCENARIO A	SCENARIO B	SCENARIO A	SCENARIO B
9.9 - 14.5	14.1 - 18.6	3.9 - 4.9	5.7 - 6.7
7.9 - 12.3	11.8 - 16.3	2.9 - 4.1	4.8 - 5.9
7.6 - 12.0	8.3 - 12.6	2.8 - 4.0	3.3 - 4.3
7.4 - 11.6	7.8 - 12.0	2.7 - 3.8	3.1 - 4.0
7.1 - 11.1	6.5 - 10.6	2.6 - 3.7	2.5 - 3.4
			1991
			1992
			1993
			1994
			1995

The overall impact declines after 1992. The highest burden is expected to be borne by Bulgaria among the countries considered. Under Scenario A, Hungary and Poland will have to incur an additional about 2.5% of GDP and about 4.4% under Scenario B in 1991.

Please see attached Tables on Bulgaria, Czechoslovakia, Hungary, Poland and Yugoslavia.

Yugoslavia- Impact of the Persian Gulf crisis on the balance of payments.

The crisis in the Gulf will affect negatively Yugoslavia's balance of payments as the country is a net importer of oil. This oil price 'shock' will deepen the deterioration of the balance of payments that is expected to arise as a result of the impact of the trade reform on Yugoslavia's current account.

Even though Yugoslavia is not a CMEA country, it has strong economic ties with the CMEA group and specifically with the USSR.

This note is an attempt to evaluate the impact of the CMEA trade reform and the recent oil price increase, on Yugoslavia's balance of payments.

CMEA trade reform.

Yugoslavia exports 35.3% of its global exports to CMEA and other socialist countries. USSR buys 19.2% of Yugoslavia's exports to CMEA and other socialist countries. Yugoslavia is also dependent on CMEA countries for its imports as 28.7% of its global imports come from CMEA and other socialist countries. Yugoslavia's main supplier among CMEA countries is the USSR which covers 13.1% of Yugoslavia's CMEA imports. The geographical distribution of Yugoslavia's trade clearly indicates that the CMEA trade reform will have a severe impact on Yugoslavia's trade as imports from CMEA countries will be sold at international market prices after all subsidies will be abolished and exports to CMEA countries will be exposed to competition from the western countries as trade will take place in a market oriented economy. A clear valuation of the impact of this external 'shock' on the current account has not been carried out, but it is likely that the value of imports from the CMEA area could increase up to \$500 millions after the implementation of the reform and that the share of Yugoslavia's imports to USSR might decrease sharply. A report on this issue is expected to be released by the Yugoslavian authorities about the end of August 1990.

Impact of oil price increase.

Yugoslavia imports about 11-13 million tons of oil a year. It also produces about 3 million tons to satisfy the domestic demand estimated at 14-16 million tons a year. Yugoslavia also imports about 3.5 million tons of oil equivalent of natural gas plus some oil products (mostly diesel oil and heating oil) from the USSR. On the whole, oil constitutes about one-third of the total energy consumption and natural gas about 12%. The first is locally produced coal which is about 40% of the energy use.

About one-half of the oil (6 million tons) is imported from USSR, about 3 million tons comes from Iraq. About 1 million tons is purchased from the spot market. The rest comes from Libya, Iran, and more recently from China. The price arrangements are different in each case. Most of the imports from Iraq, Iran, and Libya are on bilateral arrangements but the price varies in accordance with the bench mark oil price of OPEC. All oil imports from the Soviet Union are on bilateral arrangements, but the price closely follows the price on the spot market. However, because of the proximity, low

transportation costs, and easier payment arrangements, the imports of Soviet oil has been effectively cheaper, particularly on the occasions when the spot market prices have been below OPEC prices.

Yugoslavia's import of oil amounted to \$1.7 billion in 1989. Imports of oil in the first five months of 1990 was about 25% more than the similar period last year and amounted to about \$904 million, most of it in the last two months.

The table attached estimates the impact of the oil price change on the balance of payments under two scenarios. Scenario A envisages a defusing of the Gulf hostilities as Iraq withdraws from Kuwait and or other OPEC members increase their output to offset the shortfall in oil supply caused by the Gulf crisis. Scenario B foresees the present confrontation in the middle east remaining as it is for two or three years.

The impact of the crisis in Iraq will affect Yugoslavia's balance of payments in two ways: oil imports; and workers' remittances. As far as the oil imports are concerned, assuming that quantities of oil imports remain unchanged and assuming a \$5.4/B increase in the price of crude oil under scenario A the impact on the import bill will be roughly \$485 million a year. The impact of oil price increase on the balance of payments this year will only pertain to 5 months. Considering the already larger import of oil this year, the adverse impact may amount to \$140-\$150 million. However, if the price increase persists, the impact on the balance of payments could be substantial next year.

The situation is different with respect to the workers remittances. Presently an estimated 12-13 thousand Yugoslavs work in Iraq. The annual remittances from these workers as well as the civil engineering contracts is estimated to amount to about \$200 million a year. The average earnings of workers in Iraq has been higher than those in other countries as most of the workers are engaged in hydropower and civil engineering work. The impact of the recent crisis would effect the balance of payments more this year as there may be delays in the implementation of contracts and/or workers may depart from Iraq for security reasons. However, the flow of remittances most likely will resume soon after the situation becomes normalized again.

Another important matter relates to the capital account of the balance of payments. Outstanding Iraqi debt to Yugoslavia is reported to be about \$2 billion. With the end of the Iran/Iraq war, Yugoslavia had hoped that Iraq would resume its debt repayments which had been interrupted because of the war (arrangements were being discussed for payments in the form of crude oil). However, because of the current Gulf crisis, these repayments are likely to be delayed further.

cc: UT, AK, WD, AB, GB,

Table: Yugoslavia 08/21/90

IMPACT OF OIL PRICE CHANGE AND CMEA TRADE
ON BALANCE OF PAYMENTS

Years				-----SCENARIO A-----			-----SCENARIO B-----			Impact of CMEA trade (\$ Mill.)	-----Total Impact-----		-----Total Impact-----	
	Dec.'90	GDP	Net Imp.	Aug.'90			Aug.'90							
	Projected	growth	of Crude/	Projected	Additional		Projected	Additional			SCENARIO A	SCENARIO B	SCENARIO A	SCENARIO B
	Price	rate	Product	Price	Import Cost		Price	Import Cost						
	(\$/bbl)	(%)	(th B/D)	(\$/bbl)	(\$ Mill.)		(\$/bbl)	(\$ Mill.)			Mill US\$		% of GDP	
	(1)			(2)	(2-1)		(3)	(3-1)						
1990	16.2	-0.035	246.1	21.6	5.4	485.1	24.7	8.5	763.5					
1991	16.6	0.025	252.3	20.5	3.9	359.1	29	12.4	1141.7					
1992	17.3	0.03	259.8	17.4	0.1	9.5	25.4	8.1	768.2					
1993	18.5	0.03	267.6	18.6	0.1	9.8	19.9	1.4	136.8					
1994	19.6	0.045	279.7	19.7	0.1	10.2	20.6	1	102.1					
1995	20.5	0.05	293.6	20.6	0.1	10.7	19.4	-1.1	-117.9					

NOTE: It has been informed that the impact of CMEA trade will be provided by the Yugoslav government by the end of August, 1990.

HUNGARY - Impact Of Latest Developments In The Gulf On Hungary's Balance Of Payments.

1. The crisis in the Gulf has increased the price of crude oil, which has risen by about \$10 per barrel already (from \$16.4 per barrel in the first half of 1990 to \$25-26 per barrel). The increase in oil prices will increase the import bill, and worsen the balance of payments of oil importing countries, including Hungary.

2. This external "shock" comes at a particularly inopportune time for Hungary (and other eastern European countries). In the past, these countries were somewhat insulated from oil price shocks because of their assured supply from the Soviet Union at prices that reflected world price trends with a lag. Soviet crude oil deliveries/contracts with Hungary for 1990 still follow the lagged price. Beginning in 1991, the implicit subsidy on oil purchased from the Soviet Union will be eliminated and Hungary would have to pay world prices for Soviet oil imports.

3. This note makes a rough calculation of the likely impact on Hungary's balance of payments of CMEA conversion and the increase in oil prices. This is done in three steps:

- first, the impact on the balance of payments of conducting trade with the Soviet Union at (pre-Gulf crisis) world prices is estimated. In estimating this impact, the volume of exports to, and imports (including oil) from the Soviet Union are revalued at world prices. The impact of these price changes is equivalent to a severe terms of trade shock (paras 4-6), and would occur even if the Gulf crisis hadn't arisen and oil prices had not changed.

- second, the impact on the balance of payments of the recent increase in world oil prices is estimated (paras 7-8). Projected trends in oil prices are obtained from the Commodities Division of the Bank (note dated August 13, 1990).

- finally, the total impact, the sum of the two estimates above, is calculated (para 9).

Impact of CMEA trade reform

4. By far, Hungary's largest trading partner is the Soviet Union which accounts for more than one third of the country's total exports and a little less than 30 percent of its total imports. Thus the main concern is the impact of changes in bilateral trade arrangements with the Soviet Union.

5. Hungary's exports, about two-thirds of which are industrial goods earn a higher price than what they would earn if sold on western markets. Furthermore, Hungary buys most of its oil from the Soviet Union, and pays a lower price for these imports than what it would have to pay to purchase the same oil from other sources. The concern is that when trade with the Soviet Union is conducted at world prices, as the Soviet Union has announced it would do from the beginning of 1991, Hungary will face a severe terms of trade shock with adverse impact on its balance of payments.

6. The Bank is collaborating with the Hungarian authorities on a study to analyze the impact of the relative price changes on the economy. This study is expected to be completed in the Fall. However, preliminary estimates suggest that as a result of these changes, the over-all balance of payments could deteriorate by \$600-800 million per year, beginning in 1991. The estimates may be somewhat lower if trade patterns adjust to the changes in import and export prices.

Impact of recent oil price increase ¹

7. In the section above, the impact of increasing oil prices to the pre-Gulf crisis world prices was captured. In estimating the additional impact of the increase in world prices that has recently occurred, we use the projected oil price trends in Scenario A of the Commodities division. In this scenario A, oil prices rise from \$16.4 per barrel in first half of 1990 to \$26.7 in the second half, declining to an average of \$20.5 in 1991, and \$17.4 in 1992. We also estimate the impact under their less likely scenario B, where prices rise much more in the second half of 1990 (to \$32.9 per barrel), before declining to an average of \$29 in 1991, and \$25.4 in 1992 (Table 1).

8. For simplicity, the volume of net oil imports is projected to grow at the same rate as real GDP. The additional cost of importing oil is computed by multiplying the projected increase in oil prices over previous projections with the projected volume of net oil imports. The estimates are given in Table 1 below.

Impact of CMEA trade changes and projected increase in oil prices.

9. Table 2 provides a preliminary estimate of the total impact on the balance of payments of the increase in oil prices resulting from the transformation of trade relations with the Soviet Union and the higher oil prices resulting from the present crisis in the Gulf. In 1990, the additional cost ranges between 0.3 - 0.5 percent of GDP. Since it is likely that not all the oil purchased in the second half of 1990 will be charged the higher price, these estimates may be considered the upper bounds. After 1990, under the more optimistic scenario A, the additional cost ranges between 2.7 - 3.2 percent in 1991, and between 2.0 - 2.5 percent of GDP in 1992. In the more pessimistic scenario B, the additional cost ranges between 4.4 - 4.9 percent of GDP in 1991 and between 3.5 - 5.0 percent in 1992.

¹ In 1990, a \$5.4 increase from the pre-Gulf crisis projection in oil price per barrel means a \$98.6 mln increase in the oil import bill. In 1991, an increase of \$3.9 will show a \$239 mln rise in imports.

Impact of higher interest rates

10. The latest assumption is that interest rates are 1.5 percent points higher in 1990-2000. This translates into an additional \$324 million (0.9% of GDP) in interest payments in 1990, \$330 million (1.0% of GDP) in 1991, and \$340 million (1.0% of GDP) in 1992.

11. The above projections do not take into account the impact of several other effects which cannot be satisfactorily quantified at this time, including the presence of long-term contracts at fixed prices (which may not be honored if these prices are lower compared to market prices, possible disruptions in supplies, if the international financial environment does not permit Hungary to finance the additional costs, potential shift in other energy prices, such as coal, and shift in consumption and uses of energy, and possible strengthened conservation efforts.

Table 1: IMPACT OF GULF-CRISIS INDUCED OIL PRICE INCREASE

	Pre-Gulf Crisis	Projected Price		Volume of Net Import of Crude Oil, Crude Product (Tbd)	Additional Cost of Imported Oil (Mln US\$)	
	Oil Price \$/Barrel	Sc. A	Sc. B		Sc. A	Sc. B
1989	16.3	16.3	16.3	166.9		
1990*	16.2	21.6	24.7	50.0	98.6	155.1
1991	16.6	20.5	29.0	168.1	239.3	760.8
1992	17.3	17.4	25.4	170.6	6.2	504.4

* In 1990, deliveries/contract of Soviet crude to Hungary will be honored at the lagged price so that only about 30 percent (of the projected 166.4 tbd) of total oil imports would be affected by the oil price increase.

Table 2: IMPACT OF BALANCE OF PAYMENTS OF CHANGES IN
CMEA TRADE AND HIGHER OIL PRICES (SCENARIO A)

	in Mln US\$			as % of GDP		
	CMEA	Higher Oil Prices	Total	CMEA	Higher Oil Prices	Total
1990	0	99	99	0	0.3	0.3
1991	600-800	239	839-1,039	2-2.5	0.7	2.7-3.2
1992	600-800	6	606-806	2-2.5	0.0	2.0-2.5

Table 2: IMPACT OF BALANCE OF PAYMENTS OF CHANGES IN CMEA TRADE
AND HIGHER OIL PRICES (SCENARIO B)

	in Mln US\$			as % of GDP		
	CMEA	Higher Oil Prices	Total	CMEA	Higher Oil Prices	Total
1990	0	155	155	0	0.5	0.5
1991	600-800	761	1361-1561	2-2.5	2.4	4.4-4.9
1992	600-800	504	1104-1304	2-2.5	1.5	3.5-5.0

BULGARIA: An Assessment of the terms of trade effect of a change in CMEA and oil price

1. Introduction:

Of all the CMEA countries, Bulgaria's international trade is the most integrated with the USSR. Although Bulgaria's CMEA trade has declined since the mid-1980's, it is estimated that approximately 62% of Bulgaria's exports and 52% of its imports were with the CMEA countries¹. Of this, over 70% of both exports and imports were with the USSR. Most of this trade is conducted at highly distorted prices, where the overall bias is to undervalue raw materials and fuels, and to overvalue manufactured goods, relative to prevailing international prices. As Bulgaria's exports are predominately manufactured goods while its imports are predominately raw materials, a move to world prices would imply a substantial negative terms of trade effect.

Bulgaria is heavily dependent on imported energy. As in other East European countries, Bulgaria's industrial sector is a relatively intensive and inefficient user of energy, and it is ill-equipped to quickly adapt to higher energy prices. Aside from nuclear energy and coal (in limited quantities), Bulgaria has no other source of domestic energy supply.

Finally, Bulgaria confronts a serious debt crisis. As of end 1989, total external debt amounted to US\$9.2 billion, resulting in a debt service ratio of about 70% and a debt/export ratio of 325%. Due to a further deterioration in the external trade account, a bunching of repayments, and a drastic run down of foreign exchange reserves, Bulgaria announced a moratorium on principal payments on March 29, 1990. Following discussions with commercial banks, this moratorium was broadened to cover interest payments plus principal, and extended to September 1990. The commercial Banks are currently meeting with the government to determine the next step. The most likely outcome is an extension of the moratorium for one year i.e. Sept. 1991, to allow an IMF/World Bank program to be developed.

Against this background this note attempts to assess the effect on Bulgaria's balance of payments of: (i) moving CMEA trade to international prices; (ii) the recent increase in the price of oil; and (iii) an increase in interest rates. This assessment needs to be heavily qualified as it only looks at first round price effects, assuming everything else remains constant. For example, there is no assessment of the price elasticity of demand or the cost effects on alternative sources of energy.

2. Effect of a change in CMEA prices:

As of January 1, 1990, the USSR has indicated that it will move to a trade system based on international prices in convertible currency. This will result in a terms of trade loss for Bulgaria because of the composition

¹/ A consolidated assessment of Bulgaria's balance of payments is complicated by the use of multiple and changing exchange rates which are often implicit rather than explicit in the official data. The data used here reflects conversion at the prevailing commercial exchange rate.

of its trade with the USSR. In 1984, over 70% of Bulgaria's exports to the CMEA bloc were manufactured goods (which are expected to fall in price), whereas about 40% of its imports from CMEA countries were accounted for by fuel, metals, minerals and other raw materials (which are expected to increase in price). Almost a third of these imports is accounted for by oil from the USSR.

Using disaggregated trade data and international price comparisons, the Bulgarian authorities have derived an estimate of the terms of trade effect of the USSR proposal. This estimate is broken-down into two components: (i) the cost of maintaining the current volume of trade for "hard" goods; and (ii) the cost of maintaining the current volume of "hard" plus "soft" goods. "Hard" goods are defined as those that are essential and which could most easily be sold on international markets. "Soft" goods are the least competitive goods and therefore subject to the largest price discount. Using this approach, the Bulgarians derive an estimate which ranges from a loss of US\$1.4 billion for "hard" good trade only, and US\$2.3 billion if soft goods are included. This is equivalent to 7.0% to 11.5% of GDP.²

3. Effect of recent oil price increase³:

There are significant statistical problems in assessing the actual volume of net oil imports into Bulgaria. Until recently, government data on oil was classified, and the data currently is inconsistent with other outside data sources. In addition, Bulgaria has, in the past, imported crude oil on behalf of the USSR, which was refined and reexported to the West. It is unclear how this type of transaction is reflected in the data. Bulgaria has also been receiving a growing fraction of its oil supplies from Iraq and Libya as payment against past trade credits used to purchase Bulgarian manufactured goods - including armaments. As part of the international agreement to observe the blockade against Iraq, it is uncertain if Bulgaria is being compensated by alternative suppliers at reduced prices.

In estimating the effect of the recent increase in oil prices, we have used the projected oil prices and volumes shown in Table 1⁴. Scenario A represents a quick resolution to the crisis, whereas Scenario B represents an escalation. We assume that Bulgaria is a net importer of 9 million metric

2/ Bulgaria's GDP estimate in dollars is subject to wide variation due to the uncertainty surrounding an appropriate exchange rate. We have assumed GDP to equal approximately US\$20.0 billion.

3/ For the purpose of easy comparison across countries, we also calculated the annualized impact of a \$5/barrel increase in the price of oil under simplified assumptions. The increase in annual import bill would be about \$325 million.

4/ The volume estimates are taken from Bulgarian data. These show lower volumes than estimated by some external agencies. Using the latter data would increase the oil price effect by about a third.

tons of crude per year, and that oil consumption changes at the same rate as GDP growth. Based on these assumptions the net impact of the oil price increase is US\$355 million in 1990 and US\$243 million in 1991 under Scenario A. For Scenario B the estimate is US\$559 million 1990, US\$774 million in 1991 and US\$494 million in 1992. This is equivalent to 1.8% in 1990 and 1.2% in 1991 of GDP under Scenario A, and 2.8% in 1990, 3.9% in 1991 and 2.5% under Scenario B.

4. Effect of an increase in interest rates:

About 85% of Bulgaria's debt is with Commercial Banks, most of which is short-term at variable rates of interest. As Bulgaria is not paying interest or amortization on this debt, the effect of an increase in interest rates on a cash basis over the next year or two is negligible. On an accrual basis, however, it would increase their financing needs. If we assume that interest rates increase by 1-1/2% and that the current stock of debt is about US\$8.0 billion, the interest rate effect will be in the order of US\$120 million in 1991. It is difficult to estimate developments beyond this year as the size of the trade deficit/surplus and likely access to foreign capital are extremely vague.

5. The Overall Effect:

The combined terms of trade effect for Bulgaria of moving CMEA prices into line with international prices and the assumed oil price increase is equivalent to 9.0% to 14% of GDP. If the interest rate effect is also factored in, the range increases by about 0.6%.

Table: IMPACT OF GULF-CRISIS INDUCED OIL PRICE INCREASE

	Pre-Gulf Crisis Oil Price	Projected Price (\$/Barrell)		Volume of Net Import of Crude Oil, Crude Product (Thou. bar/day)	Additional Cost of Imported Oil (\$ mln)	
	\$ Barrell	Sc. A	Sc. B		Sc. A	Sc. B
1990*	16.2	21.6	24.7	65.7	355	559
1991	16.6	20.5	29.0	62.4	243	774
1992	17.3	17.4	25.4	61.0	0	494

*This is the average for the year, reflecting US\$16.4 for first half of 1990 and 26.7 for second half.

August 22, 1990

SUBJECT: Prospects for the Bulgarian economy

SIGNIFICANCE: Bulgaria's current economic plight is intensifying the need for economic reform.

ANALYSIS: In his inaugural address on August 5, the newly elected president of Bulgaria, Zhelju Zhelev, admitted that the country is suffering an economic crisis. The problems are manifold and cannot be divorced from the political situation.

Declining Industrial Production

At the end of June, year-on-year figures for national production showed a decline of 9.3% against an expected drop of 5%. Industrial production was down 11% (equivalent to 3.1 billion leva) and agricultural production showed a decline of 7.3%. The reasons for the fall in production are both economic and political:

- The economy has been undermined by the disruption of established patterns of trade and the loss of raw material imports. Bulgaria depended on Comecon for 80% of its external trade: the virtual collapse of that organisation, and the switch from convertible roubles to hard currency as the medium for payment, have left the country almost devoid of trade partners.
- There has been a catastrophic decline in the import of timber, fibres (especially cotton), chemical products, metals, and oil.
- Internal distribution of semi-finished products has also been chaotic, and has intensified the decline in production.
- In the middle of July the country was hit by a wave of strikes and sit-ins, mostly by Bulgarians protesting against the Turkish organisation, the Movement for Rights and Freedom.

The Oil Problem

Bulgaria has been badly hit by the Soviet Union's economic problems. By the middle of the year, Soviet oil deliveries were down by 700,000 tons, and Neftohim, the oil-processing trust, was operating at 50% capacity. The first half of the year saw oil refining fall 1.32 million tons short of plan targets, and

BULGARIA: Economic Crisis

returns from oil refining were 250 million leva less than planned.

The problem will be compounded by the Gulf Crisis. Bulgaria's largest debtor is Iraq, which owes 1.2 billion dollars. It had been agreed that Iraq would repay part of this debt in kind, supplying Bulgaria with five million tons of oil over the next four years. By accepting the UN resolution on trade sanctions, Bulgaria has deprived itself of Iraqi oil. This had an immediate effect, with the doubling of petrol prices at the beginning of August.

Inflation

The petrol price increase has fuelled inflation, but is only one of the factors pushing prices upward:

- Insufficient supply has combined with excess demands, as production has fallen by 9.3%, while gross incomes have risen by 10.8%. This is partly because no administration has sufficient authority to impose wage-restraint.
- A shortage of raw materials is compounded by hoarding against fear of shortage and/or in expectation of price rises, which has decreased supplies available to the market.

Hard-currency Debt

At the end of June 1990, the hard-currency debt stood at 10.4 billion dollars, of which 9.5 billion dollars was owed by the Bulgarian Foreign Trade Bank. The biggest creditors are the West German (1.8 billion dollars) and Japanese banks (1.4 billion dollars). Of the total debt, just under 10 billion dollars is owed in principal, whilst the interest due totals 414 million dollars. Repayment obligations are 3.4 billion dollars in 1990, and 1.8 billion in 1991.

The government has taken steps to overcome the debt problem:

- In March, the it suspended payment on debts owed by the Bulgarian Foreign Trade Bank until the end of September 1990.
- A more realistic official exchange rate has been introduced -- the leva now officially trades at three dollars -- and, by improving Bulgarian competitiveness, this should help to generate hard currency by promoting exports.

BULGARIA: Economic Crisis

- Severe limitations have been imposed on the amount of hard currency Bulgarians can take out of the country.

Together, these measures have enabled the regime to reduce the hard-currency debt by around 500 million dollars in the first half of the year. This, it is hoped, will bolster Bulgaria's chances of admission to both the IMF and the World Bank at the end of September.

Government Policy

Food and other shortages have now become so severe that some regions -- in particular, Blagoevgrad, Lovech and Stara Zagora -- have made arrangements for the introduction of food rationing, though Prime Minister Andrei Lukanov has ruled this out as an overall solution. Lukanov has also insisted that the government will press ahead with its reforms, and has promised legislation to allow much greater private enterprise, even going so far as to permit doctors, dentists and pharmacists to take private patients.

Lukanov insists that there is no alternative to the social market economy. But his opponents in parliament have criticised the government for failing to match its words with action, and indeed, although many administrative impediments have been removed, the private entrepreneur still faces numerous frustrations:

- The tax on non-agricultural profits is still 50%.
- Half of all foreign-currency earnings must still be handed over to the central authorities.
- Black market profiteering and other distortions still hamper the efficient operation of a market.

There has been little movement towards diminishing the role of the state in the economy. Private business has demanded that the deficit in the state budget be covered by the sale of state property to private individuals or companies, and for the removal of all state monopolies. But the Bulgarian government recognises that, because of the danger of social discomfort, privatisation and price reform can only really be implemented by an administration enjoying wide-spread popular support; ie, a coalition government. Recent opinion polls give support for the opposition Union of Democratic Forces 53%, compared with 47% for the ruling Socialist Party. However, the opposition at present refuses to join with the Bulgarian Socialist Party in office.

CONCLUSION: Until some form of coalition government can be formed, the prospects for radical reform are bleak. Bulgaria's

BULGARIA: Economic Crisis

economic crisis can thus be expected to deepen.

Keywords: EE/SU, Bulgaria, economy, politics, industry, debt,
growth, prices, private sector, trade, opposition, oil

THE WORLD BANK

August 23, 1990

Mr. Bock

Excellent. Thanks.

MOEEN A. QURESHI
Senior Vice President, Operations

20082004 1.

August 20, 1990

mi hnh
Excellent. Thanks.
MH

Mr. Qureshi

Re: COD's Memo on Funding for Start-up Activities

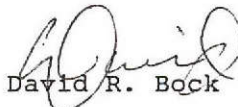
Moeen,

Regions have identified about \$800 thousand for technical studies and formulation of action programs in 14 countries (India, China, Malaysia, Egypt, Jordan, Tunisia, Pakistan, Turkey, Morocco, Mexico, Brazil, Venezuela, Argentina and Chile).

Finance advises that this funding requirement can be met through trust funds without recourse to the regular administrative budget. A receivable in the Bank's accounts would be created which would be reimbursed out of the Interim Fund to be established later this calendar year under the Montreal Protocol. The Executive Committee of the Montreal convention would probably have to approve in principle the reimbursement concept, prior to our incurring expenses.

This assurance of funding takes the CFC program out of contention for the President's contingency for the time being, at least for the direct costs of consultants and travel associated with the program. Whether the administrative costs can be covered in this fashion remains to be seen, although our expectation is that we would get some form of budget supplement out of the reimbursable programs budget.

A meeting will be held between Robbie's staff, COD, Finance and PBD to iron out details shortly after Labor Day. COD, which will take the lead in this, advises that the money will not be needed until September. My main concern at this stage is to make sure that adequate arrangements are made for compensating Operations for the full costs of the CFC program, including the costs of Bank staff management and oversight.


David R. Bock

Attachment

cc: Messrs. Robless
Heron
Wyss
Mrs. Okonjo-Iweala

OFFICE MEMORANDUM

DATE: August 10, 1990

TO: Mr. Moeen A. Qureshi, Senior Vice President, Operations

FROM: Randolph L. P. Harris, ^{GAH} Acting Director, COD

EXTENSION: 73353

SUBJECT: Budget Request for Initial CFC Start-up Activities

1. This is to request an advance from the President's contingency fund in the amount of \$800,000 to finance the costs of the Bank's start-up activities to assist developing countries in phasing out the production of CFCs and other halons as agreed under the "Montreal Protocol." The funds advanced would be reimbursed from the Interim Multilateral Fund which is expected to be operational in early 1991. There is a possibility that the establishment of the Fund be delayed beyond mid-1991, in which case the CFC start-up expenses would be charged against the Bank's FY91 budget, even though they would ultimately be reimbursed. In view of the importance of the start-up activities to prepare for when CFC funding is available and to demonstrate the Bank's commitment under the "Montreal Protocol", I believe that this is a risk which we should accept.

2. The activities financed would take place between August 15 and December 31, 1990 and consist of: (a) a review of a limited number of recently prepared CFC country studies; (b) the preparation of specific operational activities for a first round of countries which are particularly committed to pursuing the CFC phase-out; (c) a review of other countries to assess the use of CFCs and the status of work on substitution; and (d) the development of CFC work programs for each region.

3. The costs to be incurred will primarily be for consultants, Bank staff and travel. Since environmental staff are already fully programmed, there is no possibility to accomplish the CFC start-up through redeployment. A summary of the estimated costs of the CFC start-up activities is attached together with the proposals of the individual regions.

Attachment

cc: Messrs. Beck, Robless, [REDACTED] OPNSV); Wyss (o/r) (CODDR);
Christoffersen (ASTEN); Baudon, Ackermann (EMTEN)
Mmes. Ikono-Iweala (OPNSV); Davis (ASTEN); Birdsall,
Drampton (LATEN)

ESTIMATE OF COSTS BY REGION FOR CFC START-UP ACTIVITIES
DURING THE PERIOD AUGUST 1 - DECEMBER 31, 1990 (US Dollars)^{1/}

	<u>AFRICA</u>	<u>ASIA</u>	<u>EMENA</u>	<u>LAC</u>	<u>COD</u>	<u>TOTAL</u>
Consultants (Staff Weeks)	37,500 (15)	75,000 (30)	55,000 (22)	192,500 (55)		360,000 ^{2/} (120)
Staff (Staff Weeks)		16,000 (8)	8,000 (4)	104,000 (52)	34,000 (17)	162,000 (69)
Travel/ Per Diem	24,500	35,000	25,000	110,000	15,500	210,000
Other Direct Costs		30,000 ^{3/}	12,000			42,000
Contingencies	<u>4,000</u>	<u>4,000</u>	<u>10,000</u>	<u>6,000</u>	<u>2,000</u>	<u>26,000</u>
Total	<u>66,000</u>	<u>160,000</u>	<u>110,000</u>	<u>412,500</u>	<u>51,500</u>	<u>800,000</u>

1/ Countries included in CFC start-up activities are:

AFRICA: Cote d'Ivoire, Nigeria, Kenya, Zimbabwe

ASIA: India, China, Malaysia

EMENA: Egypt, Jordan, Tunisia, Pakistan, Turkey, Morocco

LAC: Mexico, Brazil, Venezuela, Argentina, Chile

2/ Based on \$2,500/staff week for AFRICA, ASIA, EMENA and \$3,500/staff week for LAC.

3/ \$3,000 for local consultants

OFFICE MEMORANDUM

DATE: August 9, 1990

TO: Mr. Alfred T. Heron, CODOP

FROM: Mr. Leif E. Christoffersen, Chief, AFTEN

EXTENSION: 34459

SUBJECT: Budget Request for CFC Start-Up Activities

Attached is the budget request for CFC start up activities in the Africa Region. Brendan Horton, AFTIE has estimated that we will need US\$ 66,000 for pilot work assessing CFC related problems and identifying remedial actions. Work initially will be done in Cote d'Ivoire, Nigeria, Kenya, and Zimbabwe, and may be expanded to Senegal, Cameroon, and Tanzania at a later stage. This budget proposal has been cleared by David Dunn, AFRCA.

LEChristoffersen:jal

The World Bank/IFC/MIGA
O F F I C E M E M O R A N D U M

DATE: 06-Aug-1990 05:13pm

TO: Alfred T. Heron

(ALFRED T. HERON)

FROM: Gloria Davis, ASTEN

(GLORIA DAVIS)

EXT.: 76863

SUBJECT: Budget Request for CFC Start-Up Activities

Given below are ASTEN's estimates of the start-up costs of CFC activities. This is larger than our earlier request (\$120,000) to take account of reimbursement for staff time, local consultants and contingencies (as per your request). I have cleared this with our CAO who confirms that we do not have adequate resources to undertake this work in our current budget.

	<u>Country A</u> (China)	<u>Country B</u> (India)	<u>Regional</u>	<u>Total</u>
Consultants (days)	(25)	(25)	(100)	(150)
Cost @\$500/day	12,500	12,500	50,000	75,000*
Staff	(10)	(10)	(20)	(40)
Cost @\$400/day	4,000	4,000	8,000	16,000
Travel/Per Diem	5,000	5,000	25,000	35,000*
(Other) (Local Consultants)	10,000	10,000	10,000 (formerly 10,000*)	30,000*
Contingencies	1,000	1,000	2,000	4,000*
				<u>150,000</u>

* In previous proposal.

CC: Habib Ahmed
CC: V.S. Mahabalan
CC: Daniel Ritchie

(HABIB AHMED)
(V.S. MAHABALAN)
(DANIEL RITCHIE)

The World Bank/IFC/MIGA
O F F I C E M E M O R A N D U M

DATE: 26-Jul-1990 08:04am

TO: Hans Wyss

(HANS WYSS)

FROM: Gloria Davis, ASTEN

(GLORIA DAVIS)

EXT.: 76863

SUBJECT: CFC Start-up Activities

On Wednesday, Dan Ritchie called a meeting of ASTEN, ASTIN and IFC staff to discuss the CFC substitution program. At the meeting, we agreed that we need about 30 SW of specialist support between August 1-December 31, 1990 to initiate work in the Asia Region. We estimate that this would cost about US\$120,000.

These resources would be used to support consultants or technical staff freed up by consultants. These specialist would:

- (a) review studies completed or underway in India, China and Malaysia, and initiate a dialogue with these countries on further actions to be taken;
- (b) carry out an overview of other countries in the region to:
 - estimate their CFC use and priority for attention;
 - determine what work, if any, is being carried out on CFC substitution in our borrowing countries; and
 - assess the interest of high priority countries in proceeding with a CFC substitution program.

This would form the basis of a regional strategy paper to be available January 1, 1990.

To complement this work we strongly support the technical audit proposed by IFC and we hope that financial resources can be identified to support it. A clear assessment of the technical viability, cost and environmental soundness of alternative CFC substitution measures will be critical to further our work.

CC: Daniel Ritchie
CC: V.S. Raghavan
CC: Kurt Constant
CC: Martyn Riddle

(DANIEL RITCHIE)
(V.S. RAGHAVAN)
(KURT CONSTANT)
(PAPER MAIL)

OFFICE MEMORANDUM

DATE: August 7, 1990

TO: Mr. Alfred T. Heron, CODOP

FROM: Thierry Baudon, ⁸Chief, EMTEN

EXTENSION: 32502

SUBJECT: EMENA Budget for CFC Start Up Activities

1. Following are the proposed start-up activities that EMTEN recommends for the Region. As indicated in our memorandum of July 27, 1990, to Mr H. Wyss, it is envisaged that these activities would be carried out in two groups of countries: Group A consists of Egypt, Jordan and Tunisia which are signatories of the Montreal Protocol; Group B are Yugoslavia, Turkey and Morocco which are not yet signatories of the Protocol, but have reported incomplete or estimated data on their CFC consumption. It is possible that Group B countries may change subject to their eligibility and interest in implementing a CFC reduction program.
2. The purpose of the start-up activities is to conduct a CFC assessment in Group A countries and a fact-finding visit in Group B countries in order to develop a regional strategy for Bank assistance in decreasing CFC use.
3. Three major tasks are to be covered for the assessment:
 - Task 1. An understanding of the industry users, its different components, its legal status and governance, its resources and technological performance.
 - Task 2. A review of previous studies, an update of current CFC data as well as a classification of CFC supply and demand needs including current and future consumption.
 - Task 3. Strategy options that the Bank may consider in assisting the countries in the region in decreasing CFC use and/or providing commercially available CFC substitutes.
4. Two tasks will be covered for the fact-finding visit for the Group B countries:
 - Task 1. Information collection on CFC production and use.
 - Task 2. Meeting with policy makers and industrialists in order to familiarize them with the Montreal Protocol and provide them with data and information on CFC and CFC substitutes.

5. Given the short lead time, we have not been able to discuss the schedule given below with the concerned country department staff. It is therefore to be considered tentative until we finalize it with them.

- . Aug.19-24: Development of detailed TORs for the assessment as well as selection of consultants.
- . Aug.27-Sept.15: Contracting with consultants.
- . Sept.17-22: Review of the work plan developed by the consultants for the assessment and the fact-finding visit.
- . Sept.30-Oct.5: Fact-finding visit in Yugoslavia.
- . Oct. 8-12: Fact-finding visit in Turkey.
- . Oct. 13-24: Assessment in Jordan.
- . Oct.27-Nov.9: Assessment in Egypt.
- . Nov.11-21: Assessment in Tunisia.
- . Nov.24-28: Fact-finding visit in Morocco.
- . Dec.16-20: Discussion and approval of the consultant report.

6. The following personnel would be needed to participate in this study:

- (a) One senior environmental specialist with extensive experience in designing and implementing industrial environment programs. He would have to be knowledgeable in CFC and CFC-alternative measures implemented by other countries. He will be responsible for reviewing the previous and current information on CFC and analyze the assessment design. He will be also responsible for the preparation of the assessment and the final report. Approximately 11 staffweeks are required.
- (b) One industrial/chemical engineer with experience in industrial CFC use and CFC substitutes. He will perform selected walk-in audits in key industrial firms, assess the involved technologies, and identify appropriate technologies for CFC substitutes. Approximately 11 staffweeks are required.

7. Budget:

<u>ITEMS</u>	<u>GROUP A COUNTRIES</u>	<u>GROUP B COUNTRIES</u>	<u>TOTAL</u>
Consultants (22sw)	35,000	20,000	55,000
Staff (4sw)	6,000	2,000	8,000
Travel/per diem			25,000
Other Direct Costs			12,000
Contingencies			<u>10,000</u>
	Total		110,000

8. I have designated Mr. Sherif Arif to be the lead staff in my Division for activities related to the implementation of the Montreal Protocol. Mr. Richard Ackermann will be available during his absence.

cc: Messrs./Mmes. Fox (EMNVP), Voyadzis, Bhargava (EM3); Nouvel, Sood (EM4); Grais, Ahmed (EM2); Penalver-Quesada, Batzella (EM1).

cc: Messrs./Mmes. Riddle (CENDD); Baratz (ENVOS); Hubert (EM3CO); Whitford, Ackermann, Lintner, Saad, Margetis (EMTEN).

EMENA, Div., Chron.(2) Files

TM: sa:ctcbudge.mem
SArif

The World Bank/IFC/MIGA
OFFICE MEMORANDUM

DATE: 08-Aug-1990 04:34pm

TO: Alfred T. Heron

(ALFRED T. HERON)

FROM: Cesar Plaza, LATEN

(CESAR PLAZA)

EXT.: 38598

SUBJECT: CFC Start-Up Budget- Brief Description for each Country

What follows is based on preliminary assumption, thus activities shown as specific should be considered tentative and subject to change. The same applies to starting and ending dates.

Mexico

Main activity would be preparation of a feasibility study which would include an overview of current situation, analysis of existing regulatory framework, if any, legal and political implications, potential costs and recommendations for phasing-in improved/new technology.

Preparation activities (starting with recruitment of consultants) could start in late October 1990

Expertise required: Industrial engineer (10 sw),
CFC specialist 18 sw) institutions specialist
2 sw) environmental lawyer (2sw).

Brazil

Main activity would focus on preparation and design of a CFC environmental component based on CFC study already submitted by GOB. Activity could start in October and end in March.

Expertise required: industrial engineer (8 sw),
CFC Specialist (8 sw).

Venezuela

Activity and expertise would be to identify and begin preparation of a project. If country data is available before end August preparation could begin in mid October and would be completed by mid December.

Argentina/Chile. Main activity would be identification and preparation of a project. Beginning and end dates, provided country data is available, would be mid October to end December. Expertise: industrial engineer 12 sw, CFC specialist 8 sw.

India

Main activity would be the preparation of a feasibility study to determine the need for CFCs and the expertise required for limited CFC use.

ozone depleting substances. Probable beginning date mid October ending in December. Expertise required industrial engineer *45 sw) LFC specialist (4.5 sw).

CC: Nancy Birdsall
CC: John Dixon
CC: Doreen Crompton
CC: Samia El-Baroudy

(NANCY BIRDSALL)
(JOHN DIXON)
(DOREEN CROMPTON)
(PAPER MAIL)

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION
OFFICE MEMORANDUM

DATE: August 6, 1990

TO: Alfred T. Haron, CODOP

FROM: Cesar Plaza, Acting Chief, LATEN

EXTENSION: 38598

SUBJECT: LAC Region Budget for CFC Start Activities

1. The table below shows the LAC's budget in the format you requested.

	Mexico		Brazil		Venezuela		Argentina/ Chile		LATEN		Total	
	SW	\$	SW	\$	SW	\$	SW	\$	SW	\$	SW	\$
1. Consultants 1/	18	63,000	8	28,000	8	28,000	12	42,000	9	31,500	55	192,500
2. Staff 2/	16	32,000	8	16,000	8	16,000	8	16,000	12	24,000	52	104,000
3. Travel/Per Diem	-	21,000	-	17,000	-	12,000	-	36,000	-	36,000	-	118,000
4. Other												
5. Contingencies												
Total	34	116,000	16	61,000	16	56,000	20	94,000	21	85,500	107	412,500

1/ Based on \$3,500 per staff week

2/ Based on \$2,000 per staff week

2. LAC Costs to December 1990 on Different Assumptions

Operations

Total Costs

Mexico only	116,000
Mexico and Brazil	177,000
Mexico-Brazil-Venezuela	233,000
Mexico-Brazil-Venezuela-LATEN	318,500

3. Please note that total costs figures in both tables include cost of LATEN's staffweeks shown separate in our EM of July 27, 1990.

cc: Birdsall, Crompton (o/r), Dixon (LATEN)

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION
OFFICE MEMORANDUM

DATE: August 6, 1990

TO: Jeri Larson, AFTEN

FROM: Brendan Horton, AFTIE *Mh*

EXTENSION: 34285

SUBJECT: Environment work (CFC): Budget Request for CFC Start Up - **REVISED**

1. Following up on our conversation of this afternoon, I enclose a revised budget to take account of the reduction in the consultant budget to US\$ 2500 per week. Otherwise, the present memo is a pure replica of Mr Ballard's memo to you yesterday.
2. In response to your EM of August 3, we propose that the CFC work should consist primarily of work on two pairs of countries: Côte d'Ivoire, Nigeria in West Africa and Kenya, Zimbabwe (in East Africa). To the extent possible, we would also include Senegal or Cameroun in West, and Tanzania in East Africa.
3. Given that this would be pilot work, we have allowed for four week consultant missions in each case, coupled with two weeks for report writing. Bank staff would also spend about 1.5 weeks on each pair of countries. The work program would consist primarily of an assessment of existing and potential CFC related problems, as well as the identification of possible remedial actions. In this connection, one possibility would be to examine the potential for replacing Freon airconditioners by evaporative aircoolers -- although we are not sure of the real scope for this in the more humid parts of the continent.
4. The proposed budget would be as follows:

West Africa (Côte d'Ivoire, Nigeria)			East Africa (Kenya, Zimbabwe)		
1.Consultants	6.0 sw	15.000	1.Consultants	6.0 sw	15.000
2.Staff	1.5 sw	3.000	2.Staff	1.5 sw	3.000
3.Travel		12.000	3.Travel		12.000
4.Contingencies		3.000	4.Contingencies		3.000
5.Total		33.000	5.Total		33.000

The total budget is therefore US\$ 66.000.

cc: Schloss, Farhandi, Horton, AFTIE; Christofferson, AFTEN

Mr. Qureshi

Moeen:

We are starting discussions and consultations with the International Economics Department and the unit in the Fund responsible for oil projections, to have a common oil price projection to prepare the country notes that you have asked for yesterday.

In the meantime, however, I'm sending you the attached note which was prepared as a very quick and rough assessment of the situation vis-a-vis the countries in Asia which you may find of interest.

AK.
Attila Karaosmanoglu

OFFICE MEMORANDUM

DATE: August 20, 1990

TO: Mr. Attila Karaosmanoglu, Vice President, Asia Region

FROM: Anoop Singh, ASIVP *AS*

EXTENSION: 81411

SUBJECT: IMPACT OF THE OIL PRICE SHOCK ON MAJOR ASIAN ECONOMIES:
A PRELIMINARY ASSESSMENT

1. I thought it would be important for you to have our views on this subject -- preliminary though they may be at this stage when many uncertainties affect our ability to make common assumptions on key determining variables. Toward this end, I have canvassed views and estimates from our lead economists, and collaborated with the work being done in the Fund.

2. Some important conclusions can be reached. (Implications for our future work are reviewed in para. 18). By and large, they relate to the direct effect of the oil price increase on import (and export) bills. This effect, combined with individual country policy responses, would affect output and price developments.

3. On this basis, in Asia, our analysis points to India, Philippines, and Sri Lanka being most affected. In these economies, the shock is relatively large in relation to GDP and vulnerable external positions, and the latitude for bold policy reforms is also more constrained. A potentially important secondary effect on Asian economies derives, of course, from changes in the industrial country environment. In this memorandum, changes in that environment are neglected, partly because to do so would require a more elaborate exercise, but also because (as explained below) most analyses that I have seen suggest that the near term world environment would be only slightly affected by developments thus far.

Industrial Country Environment

4. In examining the effect of the oil price shock on the industrial country environment, it is important to note that economic conditions there are considerably better than at the time of the two previous oil shocks in the 1970's. This is for several reasons: First, although inflation concerns are rising, price pressures are nowhere near the boom conditions of the previous occasions. Second, industrial countries are much better placed to deal with the present oil price shock, partly because the shock is much smaller than on previous occasions, but also because they have substantially reduced their energy dependence while increasing strategic oil reserves. Third, industrial countries can be expected to resist accommodating the oil price shock by expansionary monetary policies.

5. Of course, these arguments will tend to lose their persuasion, the longer the shock endures, and the greater the increase in the oil price. Thus far, it is estimated that if the disruptions remain confined to Iraq and Kuwait supplies, roughly 5-6 percent of world oil supplies will be affected. As for price, even assuming that the price of oil settles at about the level of 12-month oil futures, this means an average price of about \$24 a barrel, equivalent to about a 40 percent increase over previous levels. While these assumptions have been used in this initial exercise, they could quickly change. Should, for example, Saudi Arabian and other Gulf supplies also be curtailed, this could affect 20 percent of world oil supplies.

6. On the assumptions of a \$24 per barrel oil price being sustained for the next year, it has been estimated that the increased oil bill of industrial countries would represent only a little more than one-half percent of their economic output. On the previous occasions, such an increase claimed up to 2 percent of industrial country output. In the case of Japan, using a petroleum import base of 1989-90 equivalent to about \$30 billion, a 40 percent increase in price amounts to only slightly more than one-half percent of GDP. Japan's external position would be able to absorb such an effect without difficulty.

7. In the same way, assuming that industrial countries will persevere with previously established targets for the growth of nominal GDP, some observers have estimated that this would mean only slightly higher inflation rates and slightly lower growth rates within the target range. On this methodology, economic growth is seen as being reduced by between 0.5-1.0 percent, while the inflation rate would rise by between 0.5-1.5 percent, at the end of one year. Of course, if sustained, these are not necessarily small magnitudes, although they do not imply a recession.

Asian Economies

8. Asian economies have become much more resilient over the past decade, less exposed to external shocks, and more reliant on intra-regional demand, trade, and investment. The high growth economies of East Asia also have an impressive track record in strengthening structural adjustment programs and minimizing the budgetary impact of exogenous developments, including those resulting from oil market dislocations. They can be relied to do so again. However, in other countries, where demand imbalances were already large before the present oil price shock, and where structural adjustment efforts have lagged, the recent developments will likely cause significant additional strains. There, the risk of serious disruptions to output, prices, and external payments balances is high.

9. Table 1 estimates the effect of a 40 percent oil price increase on the import (and export) bills of major Asian economies in relation

to total imports, current account balances, and GDP growth.^{1/} Most seriously affected are likely to be India, Philippines, and Sri Lanka, where short-run macro concerns already dominated policy agendas before the recent shock.

10. In the case of India, a 40 percent increase in the price of oil has a very substantial impact in relation to key indicators of vulnerability. For example, the additional burden of \$1.8 billion in the first year is estimated to constitute between 6-7 percent of total imports, over 20 percent of an already large current account imbalance, and about 0.6 percent of GDP. The additional burden, moreover, amounts to some 40 percent of gross reserves, already considered uncomfortably low before the shock. The total impact on the balance of payments is likely to be even greater than these amounts, because of possible depressing effects on workers' remittances and non-resident deposit inflows. Workers' remittances in recent years have been close to \$3 billion annually. The Indian policy response has yet to be formulated. With inflation already nearing the double-digit range, considered to be beyond politically tolerable levels, the authorities would likely be reluctant to pass on the full impact of the oil price increase to consumers. However, any delays in doing so will exacerbate a budgetary situation already substantially at variance with initial projections for 1990-91.

11. In the case of the Philippines, the oil price shock follows closely an earthquake that has already caused the macroeconomic situation to be reassessed just weeks after broad agreement with the Fund. The oil price increase is estimated to add over \$500 million to the Philippine import bill in the first 12-month period. This additional burden would be close to 5 percent of total imports, about a third of the current account deficit, and over 1 percent of GDP. Workers' remittances are also important in the Philippines, with recent flows having been about \$1.5 billion annually. Even before the oil price shock, a major macroeconomic policy issue in the Philippines was the political will to deregulate oil prices and eliminate budgetary subsidies to the oil price stabilization fund. Those decisions will now become much more difficult.

12. Sri Lanka is also at a stage where the economic policy stance for a third-year policy framework paper and SAF arrangement is nearing completion. It will now come under new strain. In Sri Lanka, an oil price increase of the magnitude that has already occurred, if sustained over the next 12 months, would add about 2.7 percent to the import bill. This incremental burden would constitute over 12 percent of the current account deficit and as much as 0.8 percent of GDP. Sri Lanka also has relatively large workers' remittances from the Middle East which could be at some risk.

13. Elsewhere in South Asia, Bangladesh and Nepal face smaller, but still substantial, additional burdens from the oil price increase. Of

^{1/} Demand elasticities have not been taken into account, except indirectly in the sense that the impact has been based on 1990 magnitudes.

the two, the impact will be more significant for Bangladesh, potentially adding over \$130 million to the oil import bill, an amount equivalent to about 8 percent of the current account deficit. Bangladesh also has relatively large workers' remittances, in excess of \$700 million in recent years.

14. For the more dynamic and oil-importing East Asian economies of Korea and Thailand, the impact may be more manageable because of the strength of their economies as well as their greater flexibility in adjusting policies. However, there too, the effects are likely to be significant, with \$3 billion being added to their combined oil import bills in a 12-month period. This is equivalent to about 3-4 percent of total imports. While these economies can be expected to absorb the shock relatively more easily -- and Korea has a cushion in its oil price stabilization fund -- there will still be some important implications. First, it will give added urgency to demand management policies already seeking to contain an incipient rise in price pressures. Second, in the case of Thailand, it may put into jeopardy the recent plan to deregulate partially retail oil prices. Third, these economies are potentially more vulnerable to downturns in the industrial country environment and world demand for their manufactured goods.

15. China, Malaysia, and Indonesia, are net oil exporters and stand to gain substantial additional resources in the near term from the oil price increase. In all three economies, the additional foreign exchange earnings would have an inflationary potential, through its possible impact on domestic liquidity, requiring that the domestic monetary policy stance be carefully reconsidered in light of the new developments. This is especially so in the case of China, where pressures are already growing to ease the austerity effort, but also in Malaysia and Indonesia where inflation concerns were already evident.

16. For these three oil exporters, fully reliable data on relatively complex oil sector flows have still to be assembled. Nevertheless, some preliminary calculations of the impact of the oil price increase have been made. In the case of China, net additional export revenues could be about \$1.5 billion in a 12-month period. This would represent close to 3 percent of total exports, and is relatively large in relation to a recent current account deficit of \$4.3 billion.^{2/} The direct price effects would be limited since oil prices are strictly regulated in China, with no automatic pass through of international price developments into the domestic market. Higher oil export revenues would also represent a fiscal windfall to the government, ameliorating to some extent the subsidy burden. The higher returns would provide domestic industry with additional resources for exploration and development.

2/ China presently has a surplus in its external current account, in view of the austerity program and other uncertainties that have affected China's growth.

17. In the case of Malaysia, the additional foreign exchange earnings, if sustained, can be expected to result in some prepayment of external debt. Another welcome development could be the increased latitude for additional payments into the national heritage fund set up to compensate for natural resource depletion. Oil income windfalls for Indonesia would likely lead the government to build up foreign exchange reserves and reduce external indebtedness.

Implications for our Future Work

18. Assuming we are confronted with more than a temporary situation, I would suggest: (i) asking our economists and missions to prepare more detailed estimates of the oil price and related shocks; (ii) seeking early opportunities, particularly in the most vulnerable Asian economies, of discussing these conclusions and likely policy responses with country authorities; (iii) examining, in particular, the impact on adjustment programs supported by the Bank; (iv) considering other feasible regional initiatives to accelerate the desirable policy responses; and (v) examining carefully papers and operations presently under preparation to ensure that they give adequate coverage to, and take account of, these oil-related developments.

cc: Mr. O. Yenil
Lead Economists, Asia Region; Mr. Sadiq Ahmed
Daniella Gressani (AS2CO)
CEO staff

Table 1: SHORT RUN IMPACT OF OIL PRICE INCREASE:
MAJOR ASIAN COUNTRIES 1/

	Base Year (1990) Oil Imports	Estimated 12-month Impact on Import/ Export Bill of 40 percent oil price increase <u>2/</u>	Impact of 40 percent Oil Price Increase as Percent of Base Year:		GDP
			Total Imports or Exports	Current Account Deficit	
(in \$ million)			(in percent)		
<u>NET OIL IMPORTERS</u>					
Bangladesh	333	133	3.4	8.4	0.5
Nepal	46	18	1.6	3.9	0.4
Sri Lanka	195	78	2.7	12.8	0.8
Philippines	1400	560	4.7	34.0	1.2
Thailand	2430	972	3.8	36.0	1.3
Korea	5130	2052	2.8	100.0 <u>3/</u>	0.9
India	4500	1800	6.6	21.8	0.6
PNG	165	66	4.7	10.4	2.0
<u>NET OIL EXPORTERS</u>					
Malaysia	2200	880	3.1	80.0	2.1
Indonesia	3900 <u>4/</u>	2500 <u>5/</u>	9.0 <u>6/</u>	<u>7/</u>	2.5
China	3600	1440	2.8	33.0 <u>8/</u>	0.3

Source: Bank staff estimates

- 1/ The estimates are preliminary, reflect the short-run direct effect on import and export bills, and neglect demand elasticities. They should be regarded as broadly indicative only.
- 2/ In most cases, this implies an oil price of \$24 per barrel.
- 3/ About equivalent to projected current account surplus in 1990.
- 4/ Oil sector net revenue.
- 5/ The effect is greater than proportionate because oil service contract and other import costs would not increase significantly, at least initially.
- 6/ Expressed as percent of exports of goods and services.
- 7/ Would have converted a projected \$2 billion deficit into a \$0.5 billion surplus on a 12-month basis.
- 8/ Expressed as percent of 1989 deficit, rather than the 1990 surplus.

OFFICE MEMORANDUM

DATE: August 20, 1990

TO: Mr. Moeen A. Qureshi, OPNSV

THROUGH: Mr. Kemal Dervis, Acting EMNVP

FROM: Spiros Voyadzis, Acting EM3DR

EXTENSION: 3 2713

SUBJECT: Coordination of Impact Evaluation of Current Mid-East Situation

DECLASSIFIED

Confidential

NOV 11 2023

WBG ARCHIVES

cc: memo: Bock
myss

1. On Thursday August 17, I chaired a brainstorming session with representatives of our Region, PRE, IFC, the Financial Complex and the IMF to review the situation in the Middle East and begin to coordinate our analysis of the impact of these recent events on Egypt, Jordan and Yemen. The meeting was informed from the outset that this was not intended to introduce any new Bank initiative at this stage but merely to coordinate the ongoing and planned work in various parts of the Bank and Fund.

2. What is being done. PRE is preparing its model which reviews the global economic environment with two basic scenarios based on oil price levels: one analysis assumes that the price increase will be a short-term phenomenon, the other assumes a sustained shock to the global economy. The results of this quick review should be ready this week. PRE is also preparing an overview paper to look at the impact on various groups of countries with proposals on the packages of policy options available to these types of countries. This paper, in draft form, should also be available soon. Finance is planning to use the output of the PRE model to begin a review of creditworthiness issues. The IMF is beginning its own review of the global impact; their central scenario assumes an oil price of about \$26 per barrel and a stalemate situation of 12 months or more. In the Department, we have undertaken some quick analyses of the impact on Jordan and Egypt; in addition, we are beginning to prepare a detailed impact-analysis for these two countries and Yemen and agreed to coordinate and exchange information.

3. Underlying Assumptions. In a brainstorming context, the meeting focussed on two areas: the broad assumptions to use for these various analyses, and the issues which should be covered in analyzing the impacts on specific countries. There was general agreement that there is only one scenario for which one can try to plan at this stage: a sustained hostile situation for an extended period without an actual outbreak of hostilities. In the context of country-specific impacts, the main issues to be reviewed are remittances, oil projections, tourism, Suez Canal revenues for Egypt, debt and donor flows, defense expenditures and financing (although we have no specific information in these areas now), the domestic banking sector and trade with Iraq and Kuwait. It was generally agreed that the initial impact analysis will be focussed on current borrowers (Egypt, Jordan, Yemen). There was a strong sentiment that we, the Bank and the Fund, should begin to re-

think the policy conditionality of our dialogue with these countries (including the phasing of reforms) in the context of the new economic and political realities.

4. What the Bank must do. There are some specific things which we must do and are doing. First and foremost is a review of the portfolio for those projects co-financed with the Kuwait Fund and the Arab Fund where project implementation and procurement are jeopardized by the current break in disbursements. Such an internal review has already been initiated, and we expect to devise ways to minimize the impact in the short term on a case-by-case basis until the situation with regard to the future of those Funds becomes clearer. In this context, we have already postponed to the second quarter the Board Presentation of a negotiated project in Yemen pending the redefinition of the financing plan which included substantial Arab Fund co-financing. Secondly, we need to anticipate and review upcoming events, such as the second tranche release of the Jordan Trade Policy Loan and preparations for the possible Egypt SAL, to determine an appropriate response. Several speakers also made the point that, in the current volatile situation, any Bank planning of a long-term nature such as CSPs (the Jordan CSP is currently scheduled for discussion in September) should be postponed for the time being.

5. Anything more that the Bank could do. The general consensus of the meeting was that the rapidly changing nature of the current situation make any discussion of medium-term options to aid the countries premature. Furthermore, if the costs are of a relatively short-term nature, the IMF is better equipped to react to immediate balance of payments implications. At this point, therefore, our efforts should be focussed on preparing impact analyses and reviewing the broad policy options available to our borrowers, of sharing our views with them and helping to redefine the policy dialogue, of solving the immediate constraints to project implementation, and of preparing ourselves to respond operationally as well as to mobilize donors when the time comes. We intend to coordinate our efforts within the Bank and with the IMF.

cc: Messrs/Mmes. Wapenhans (o/r), Stoutjesdijk (FRS), Hassan (LEG), Shilling (CFS), Kelada Antoun (IFC), Grilli, El Serafy (EAS), Linn (CEC), Rao (IEC), Chabrier (IMF), Michalopoulos, Hasan, Garg, Zulfiqar, Yap, Bhargava, Pommier, Chopra (o/r), Tyler (o/r), Keare (o/r), Makharita (o/r)

MO'Donnell

OFFICE MEMORANDUM

Date: August 17, 1990

To: Regional Vice Presidents and
Country Directors

From: D. C. Rao, IECDR *DCR*

Ext: 33800

Subj: Impact of the Middle East Crisis

1. The attached note represents a first cut at analyzing the consequences of recent events in the Middle East on our global projections. The note covers the forecast of oil prices under alternative scenarios and related consequences for economic activity in the industrial countries and interest rates.

2. The speculations in this note are subject to two kinds of uncertainties: first, the situation in the Middle East is still unfolding; and second, our analysis of both policy and market responses in industrial countries requires further refinement. We are now in the process of systematically revising our global forecasts and we expect to have a set ready for discussion as part of the PAC process in mid September.

3. Your comments on this analysis would be most welcome and should be directed either to me or to the authors of the attached note.

Att.

c.c. Messrs. Thalwitz, Fischer, Linn, Grilli, Churchill,

DCRao/kg

The Middle East Crisis: Possible Consequences for the Global Economy 1/

1. The full repercussions of Iraq's invasion of Kuwait on the global economy remain uncertain. This paper makes a preliminary assessment of the rapidly evolving situation and its implications by drawing three scenarios of how events could shape the future trajectory of world oil prices. It examines the impact of these outcomes on the economies of industrial and developing countries, and goes on to explore how countries which have had more direct dealings with Iraq and Kuwait are likely to be affected.

Future World Oil Prices: Three Scenarios

2. Iran and Kuwait together possess the capacity to produce 6.2 million barrels of crude a day (mb/d), roughly 26 percent of OPEC capacity (see Table 1) and 9 percent of world capacity (70 mb/d). Their actual production over the first half of 1990 averaged 4.8 mb/d, and accounted for 20 percent of OPEC output. Most of Iraq's oil exports travel through three pipelines, two in Turkey that connect to terminals at Iskenderun on the Mediterranean Sea and one in Saudi Arabia to the storage facilities at Muajjez on the Red Sea. These pipelines have been effectively closed by the Turkish and Saudi governments in accordance with UN Resolution 661. The other outlet for Iraqi oil exports, along the Khawr az Zubayr and through the straits of Hormuz, is being patrolled by US warships with orders to prevent Iraqi (and Kuwaiti) oil from leaving the Gulf.

3. At the end of the second quarter of 1990, global petroleum stocks on land and sea amounted to 5.5 billion barrels, equivalent to 100 days of world consumption, the highest for several years. Of this amount, strategic reserves held by governments came to 1.2 billion barrels, including 590 million barrels stored by the United States (equivalent to 70 days of total oil imports), and another 425 million barrels held in the remaining IEA 2/ member countries (about 32 days of their total oil imports).

4. With this brief background, three possible scenarios are presented below on how the present crisis could play itself out, and the consequences for world oil prices. The first scenario assumes a fairly rapid return to normalcy in the oil markets, which could result from a negotiated settlement (as explained in Scenario A below) or from other political outcomes such as the replacement of Saddam Husain by a moderate government. The second scenario assumes a prolonged siege of Iraq and more than a year of uncertainty, but a peaceful resolution. The third speculates on the outcome for world oil markets in the event of a major military conflict.

5. Scenario A: "Limited Iraqi Withdrawal After Three Months". This scenario envisages a defusing of the Gulf hostilities as Iraq "withdraws" from Kuwait while leaving an Iraq-backed government in place, and the disputed oil fields of Rumaila and the oil rich reef islands of Bubiya and Rubwah firmly in Iraqi hands. The rest of the world accepts the new government on the grounds

1/ This note has been prepared by Mudassar Imran, Vikram Nehru and Christian Petersen of IEC.

2/ International Energy Agency.

Table 1: OPEC Crude Oil Reserves, Capacity, and Output in 1990

	Proven Recoverable Reserves (billion bbls)	Sustainable Production Capacity	Output In 1990 a/ mb/d	Surplus Capacity
Algeria	9.2	0.8	0.75	0.05
Ecuador	1.3	0.3	0.28	0.02
Gabon	0.7	0.3	0.27	0.03
Indonesia	8.2	1.3	1.15	0.15
Iran	92.9	3.2	2.98	0.22
Libya	22.8	1.3	1.27	0.03
Nigeria	16.0	1.8	1.71	0.09
Neutral Zone	5.2	0.5	0.37	0.13
Qatar	4.5	0.4	0.39	0.01
Saudi Arabia	253.0	7.5-8.3	5.46	2.04-2.84
UAE	96.3	2.1	1.99	0.11
Venezuela	58.5	2.5	2.00	0.50
Iraq	100.0	4.0	2.98	1.02
Kuwait	94.5	2.2	1.82	0.38
Total	765.3	28.2-28.9	23.40	3.28-4.18 b/

a/ First semester, 1990.
b/ Excluding Iraq and Kuwait.

Sources: Oil and Gas Journal; Cambridge Energy Associates; Middle East Economic Survey; Petroleum Economics Ltd; Petroleum Politics

that the Al-Sabah family has lost its popularity among the people. The U.S. grudgingly agrees after ensuring that the security of its Middle Eastern allies is guaranteed and that its strategic economic interests in the region are safeguarded. U.S. acceptance of the new regime would be influenced by the increasing difficulty it will face in sustaining an open-ended presence in the Gulf, and in maintaining political support for it at home. On the Iraqi side, a potential crippling of the economy could force the adoption of a more conciliatory stance that guarantees the safety of other Gulf nations.

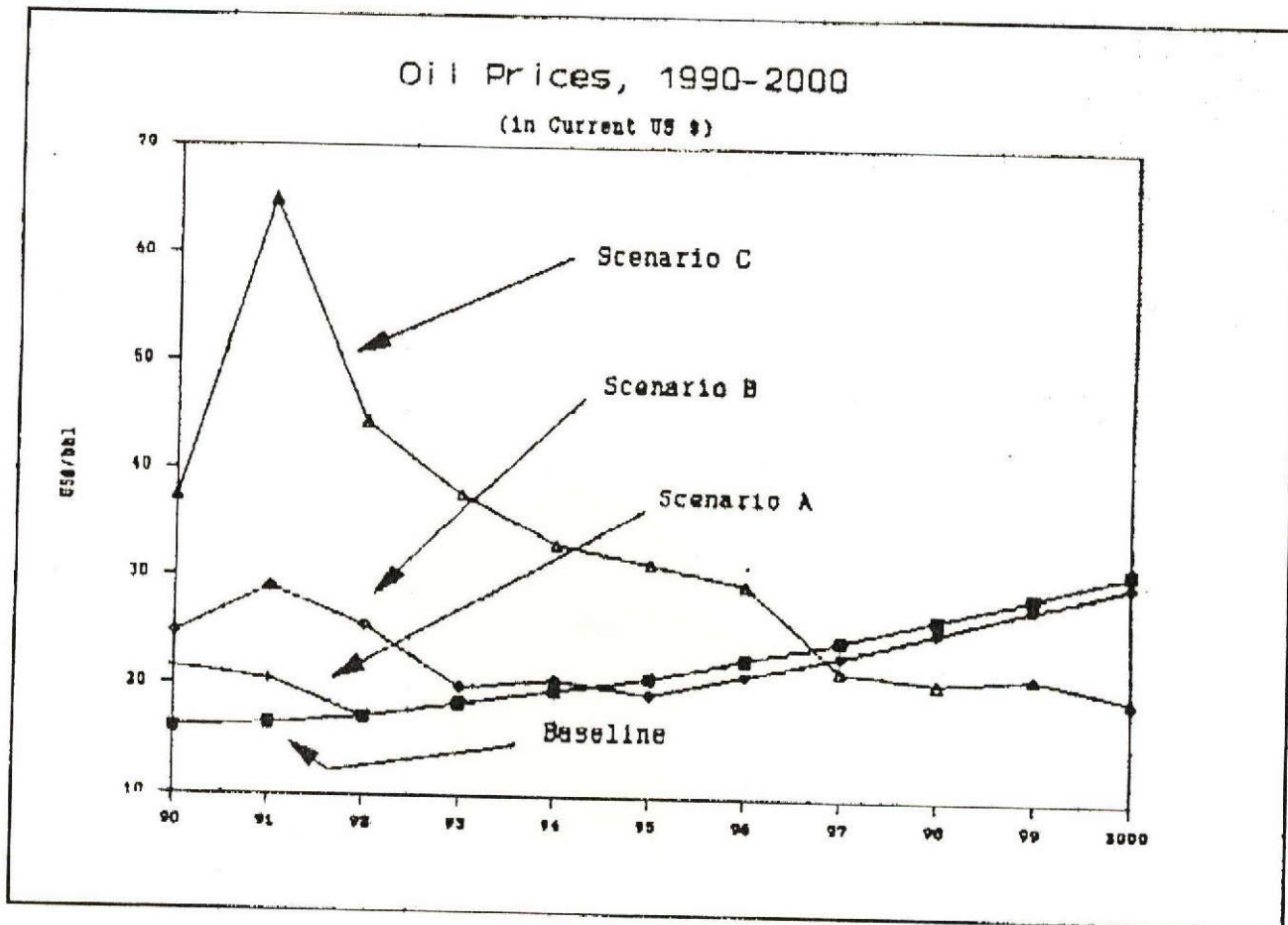
6. World oil markets will react to the expectation that the crisis is short-lived by drawing down existing large volumes of commercial crude oil stocks. OPEC members, acting in concert, could agree to make up temporary shortfalls in supply by increasing production, although they will probably insist that OECD governments, notably the U.S. and Japan, draw down their strategic petroleum reserves at the same time. 3/ In such a scenario, prices will rise from \$16.4/bbl in the first half of 1990 to around \$25-\$26/bbl in the short term (at least until the end of the third quarter of 1990). As the crisis begins to unwind over the next few months, and despite increasing demand in anticipation of the northern hemisphere winter, prices will soften to \$23/bbl in the fourth

3/ As Table 1 indicates, OPEC members can increase production by a minimum of 3.4 mb/d at relatively short notice, including Saudi Arabia (2.0 mb/d), Venezuela (0.5 mb/d), UAE (0.1 mb/d), and Nigeria (0.1 mb/d). There is some uncertainty regarding additional output from non-OPEC countries in the short term. Potential non-OPEC sources are the UK, U.S. (provided prices are substantially higher than currently), the USSR (which is especially uncertain) and several developing countries (mainly Mexico).

quarter of 1990 and \$21/bbl in the first half of 1991. Both slower economic growth in the industrial countries, and a resumption of the flow of oil to normal levels, will further depress prices to \$17-18/bbl in the second half of 1991 (see Figure 1). By 1992, the oil price will have returned to the levels forecast prior to this crisis.

7. Over the longer term, fundamental factors affecting supply and demand will play an increasingly important role in determining world oil prices. With global demand for oil expected to grow at 1.5 percent a year, and an anticipated decline in oil supplies from non-OPEC sources, high-reserve Middle East producers will gain increasing control of the oil market, and this will eventually lead to a period of gradually rising prices.

Figure 1



8. Scenario B: "Prolonged Siege; Knife Edge". This scenario foresees an effective embargo of Iraqi oil exports over an extended period, the continued presence of Iraqi forces on Kuwaiti soil, and a stand-off on the border between Kuwait and Saudi Arabia. The situation would be fragile and highly unstable. Even if one takes the conservative assumption that Iraq has prepared itself well to withstand an economic siege, the passage of time will inevitably take its toll on the economy and the effectiveness of the country's armed forces. Iraq could react in two ways. The first would be to indicate its willingness to reach a negotiated settlement, in which case this scenario would revert to the oil price trajectory described in Scenario A. The second would be war -- a possibility explored in Scenario C below.

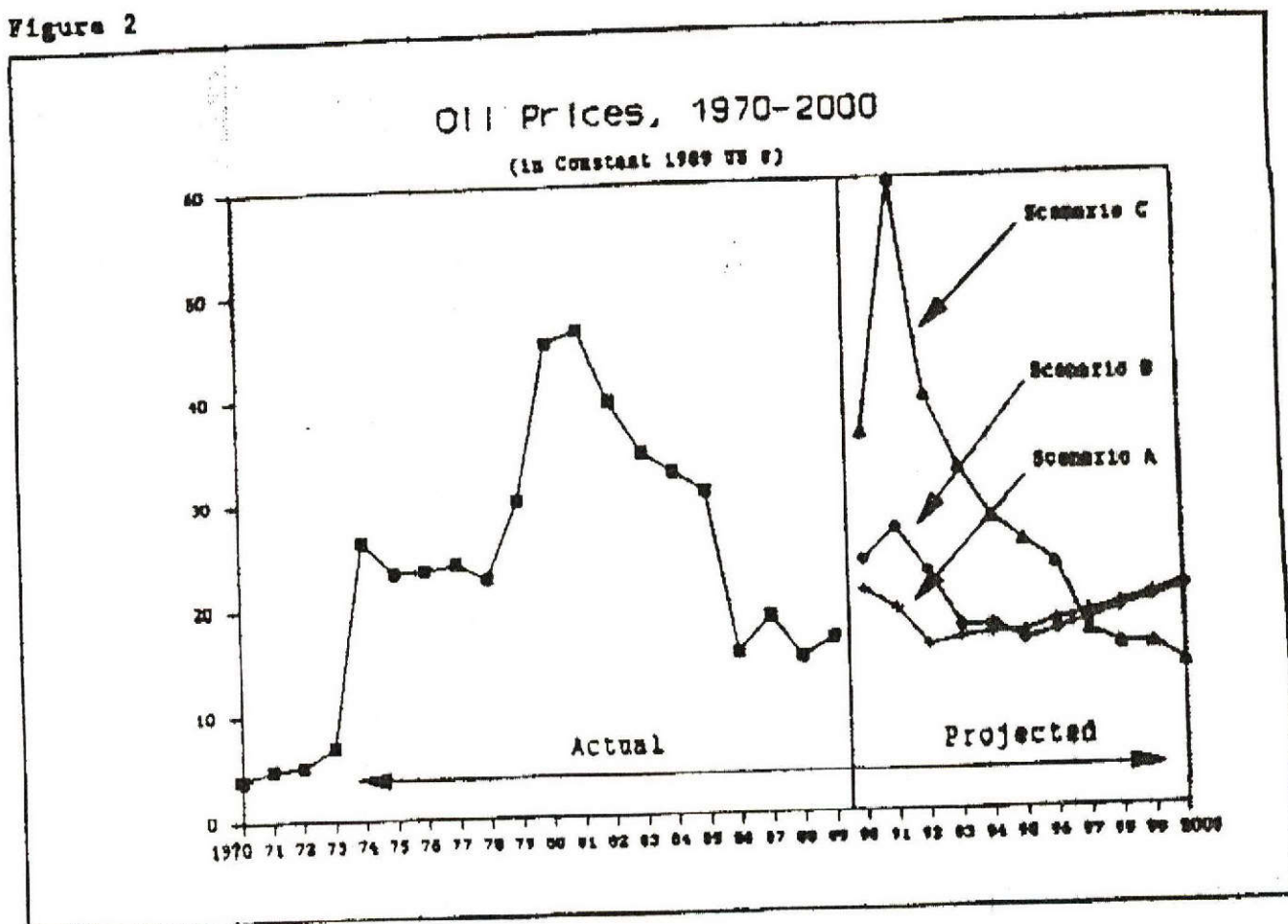
9. In Scenario B, we assume that the "knife-edge" balance is eventually resolved in favor of the peaceful option, but only after a year or more of tension and uncertainty. During this period, Iraq will attract increasing support from neighboring Arab countries using a combination of political maneuvering and populist rhetoric. In this highly charged situation, oil companies will not draw down stocks and may even add to them. OPEC producers (apart from Iraq and Kuwait) would agree to raise production but not to full capacity for fear of upsetting the delicate balance in the Gulf. As a result, world demand may stay constant or increase in the short run, but world supply may fall by as much as 2 mb/d. Under this scenario, the crude oil price will rise to \$31-32/bbl for the second half of 1990, but moderate to \$29/bbl in the first half of 1991. Subsequently, even with a peaceful resolution to the crisis, market insecurity will linger and keep prices in the \$25-26/bbl range for another twelve to eighteen months. After that, the trajectory of oil prices will closely resemble that of Scenario A.

10. Scenario C: "War". If efforts to defuse the existing crisis fail, Iraq could react to the embargo on its international trade by attacking warships controlling its export routes or by invading a neighboring country to secure an outlet for its oil exports. Under such a scenario, Iraqi, Kuwaiti, and Saudi oil fields would suffer long-lasting damage, effectively removing up to 10 mb/d from the world market. World oil prices would rise to unprecedented levels in 1990 and 1991, and would remain at \$30-40/bbl for another five years or so. Consuming countries would react with strong policy adjustments to reduce oil consumption, including conservation measures, improvements in fuel efficiency, and substitution between oil and non-oil fuels. Shelved alternative energy projects would be dusted off and implemented, and petroleum exploration and development would reach new heights. On the assumption that the war is not a protracted one, Gulf producers would soon begin reconstructing their damaged oil fields and install new capacity. The combination of aggressive energy demand management would begin to bear fruit in the second half of the 1990s, about the same time that increased investments in supply would yield results. This could mean that world oil prices in the late 1990s would dip below the levels projected in the first two scenarios.

Consequences of Higher Oil prices for the Global Economy

11. When compared to the oil price shocks of 1973 and 1979, the projections under Scenarios A and B appear modest (see Figure 2). The possibility of compensating increases in production from other oil producers,

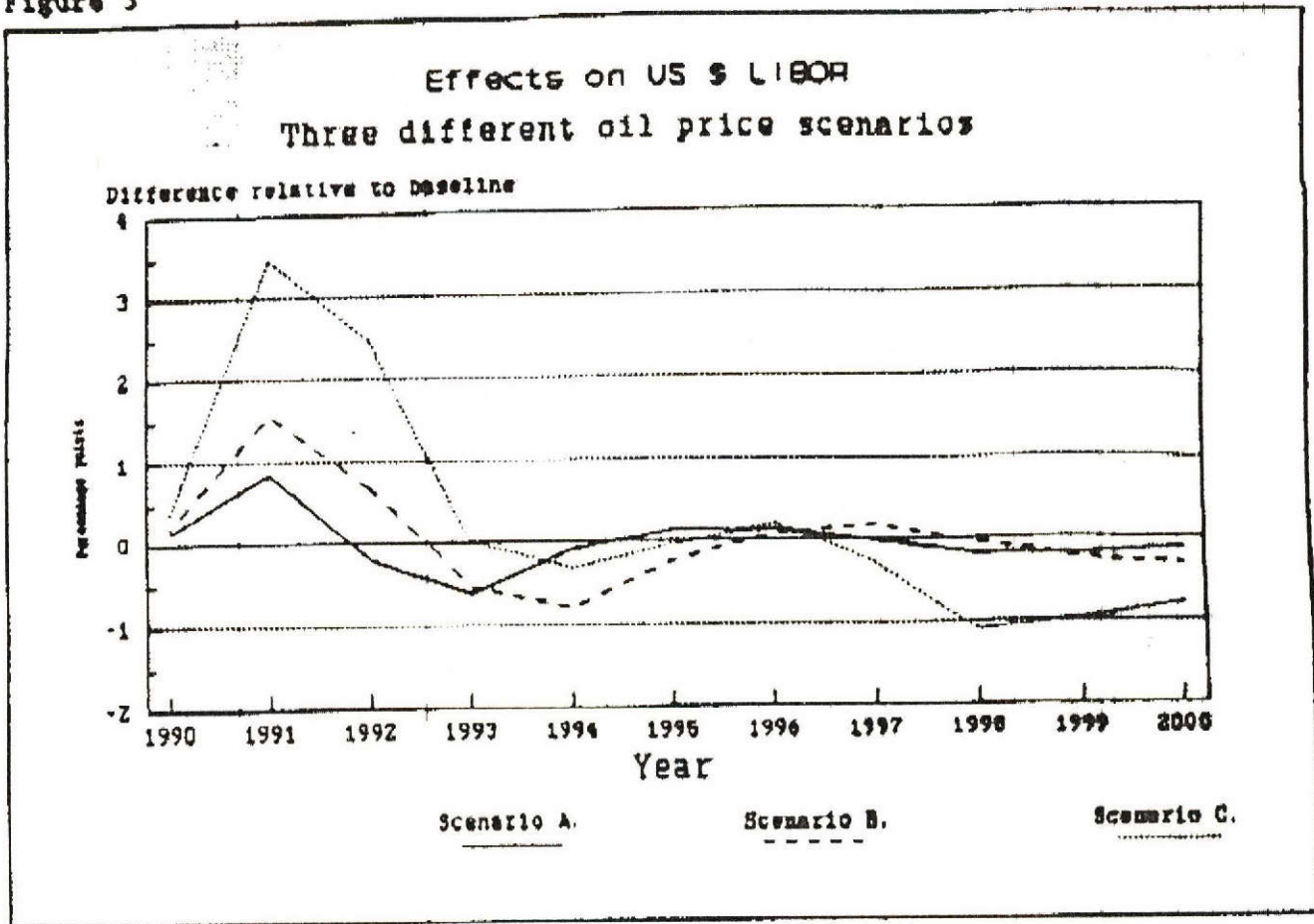
Figure 2



relatively large stocks of commercial crude, and the availability of about 900 million barrels of crude in the strategic reserves of the United States and Japan will serve to moderate oil prices in the short and medium run. Other factors also suggest that the effects of the current rise in oil prices will not be as keenly felt in the international economy as the 1973 and 1979 increases. First, the import propensities of OPEC countries have moved closer to that of industrial economies; a sharp redistribution of income in favor of OPEC will have a smaller deflationary impact in comparison to that of 1973 and 1979. Second, international financial markets have grown very large in relation to the magnitude of potential OPEC surpluses. But the conditions for recycling petrodollars to developing country oil-importers is less favorable in one crucial respect -- the reluctance of commercial banks to increase their exposure to heavily-indebted developing countries. Third, the economies of industrial economies are less oil-intensive than they were in the 1970s and early 1980s (although this trend was reversed in the latter half of the 1980s). Fourth, governments, having learned from the experiences of 1973 and 1979, will adopt appropriate monetary and fiscal policies to absorb the oil shock without precipitating an inflationary spiral.

12. The main consequence of higher oil prices for the global economy will be steeper nominal interest rates and higher inflation. Figure 3 presents

Figure 3

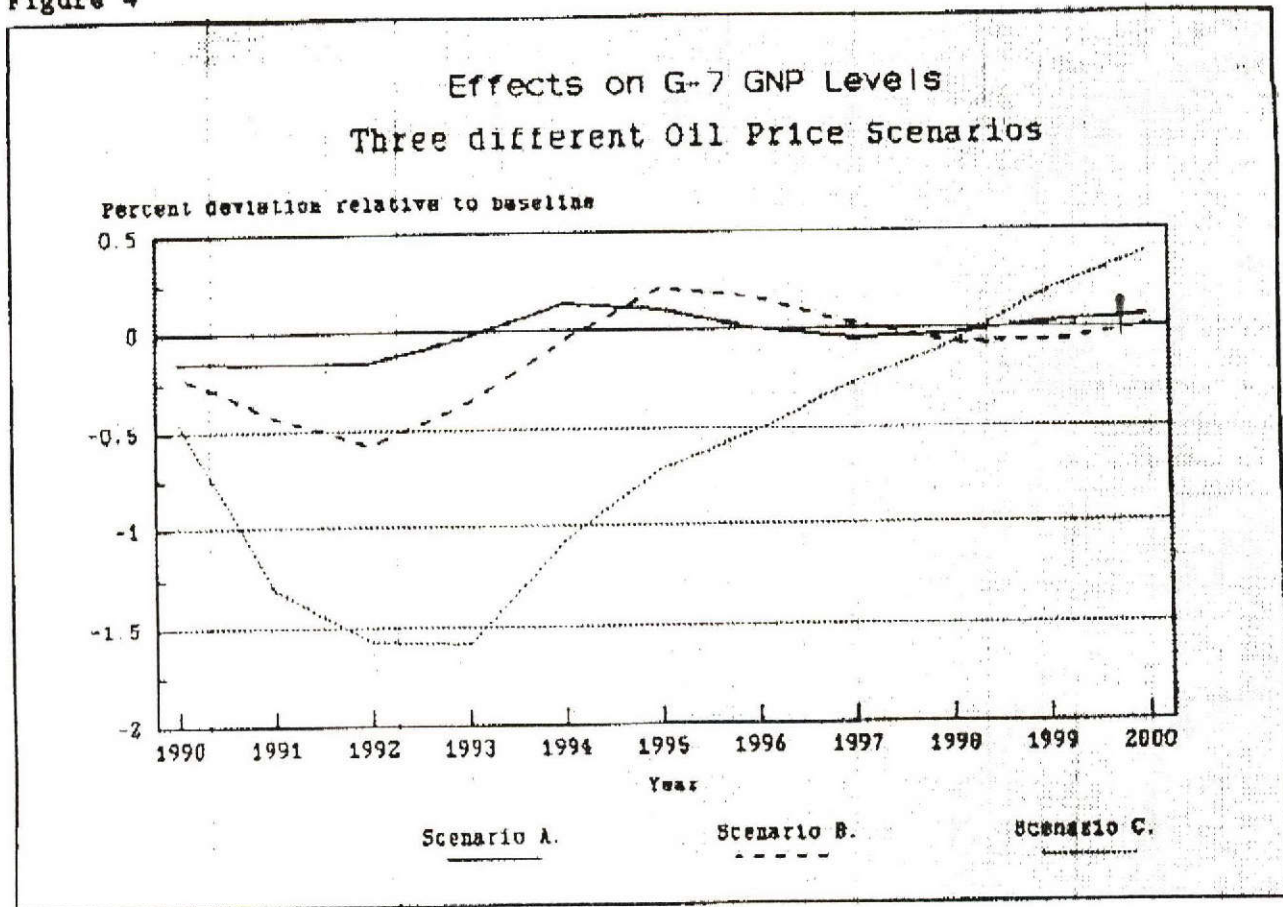


scenarios for the US-dollar LIBOR in comparison to the pre-crisis baseline ^{4/} corresponding to the three oil price scenarios discussed above. The simulations show a sharp increase in LIBOR in 1991, followed by an equally rapid decline as inflation subsides after the initial shock of higher oil prices. In the case of Scenario C, LIBOR sinks substantially below the baseline towards the end of the decade, influenced by oil prices that are significantly lower than in the other two scenarios.

13. Real interest rates may actually decline in the first few quarters after the price shock, as monetary authorities will tend to cushion the impact on economic activity by easing monetary policy and accepting a higher rate of inflation. Lower real interest rates will tend to support real domestic demand, especially in the U.S. and the UK where this demand was already weak, and therefore a countercyclical monetary response is most likely.

^{4/} The baseline scenario is essentially the one included in the recent short term outlook paper, The Developing Countries and the Short-Term Outlook for the Global Economy: An Update, International Economics Department, July 1990. It differs to the extent that the database for the Global Economic Model has been updated to include figures for the first and second quarters of 1990 which became available recently.

Figure 4



14. The effect of higher oil prices on the volume of world trade is not clear. The terms of trade gains for net oil exporters will be offset by the terms of trade losses of net oil importers. It is not clear that the marginal propensities to import of income gainers will be very different to those of the income losers, as they apparently were in the post-1973 adjustment. What is much clearer is that economic activity of the major industrial countries will be reduced in the near term. Figure 4 presents the effects of the three oil price scenarios on projections for the GNP of the G-7 economies, expressed as a percentage deviation from the baseline. It shows that these economies, in aggregate, will recover to their baseline GNP levels by 1993 under Scenario A, and by 1994 under Scenario B. This rapid recovery reflects not only the reduced role of oil imports in OECD countries (compared with 1973 and 1979) but also the likely output-stabilizing monetary responses by their monetary authorities together with compensating increases in expenditures by oil exporting countries. Scenario C, however, presents an altogether different picture, depicting a virtual certainty of a recession, albeit with some prospect of a recovery to baseline levels by the end of the decade.

15. While the international economy is better placed to deal with this oil price increase, the ability of different countries to absorb such shocks

has changed since the last oil shock in 1979. The United States is less well positioned than most other industrial countries. Large budget and external current account deficits, increased stress in the financial system, and rising risks of a recession will all constrain the options available to policy makers in dealing with the emerging situation. The Japanese and German economies, on the other hand, are likely to adjust faster to the changing relative price of energy, and recover more rapidly. Among developing countries, the worst hit will be low-income oil importers that do not have access to commercial finance and middle-income importers exposed to interest risk.

16. Among the oil-importing industrial economies, the United States is probably the most vulnerable to the projected increases in oil prices. Under Scenario A, GNP growth in 1991 declines marginally from the baseline scenario, but this effect grows under Scenario B, although not by enough to push the economy into a recession. ^{5/} Inflation under Scenario B rises by between one and two percentage points relative to baseline in 1991, but is not fully offset by the Federal Reserve. Nominal interest rates rise but the real interest rate declines marginally compared to baseline as a result of higher inflation. After 1992, the decline in oil prices will dampen inflation and nudge nominal interest rates downwards, helping a recovery in real incomes and resuscitating consumption and investment expenditures. By 1995, the U.S. GNP is projected to return to the baseline, albeit with a higher external and domestic debt.

17. Under Scenario C, however, the United States could find itself in a recession in 1991, although growth rates will recover strongly between 1992 and 1994. Other economic indicators will move in directions similar to the other two scenarios, but more sharply. Nominal interest rates in 1991 will be higher, slowing the depreciation of the US dollar relative to the baseline. The federal budget deficit will climb rapidly by 1991 as a result of lower taxes and higher compensatory expenditures, ^{6/} and the current account deficit as a share of GNP could widen significantly.

18. Japan is better placed to absorb shocks in the price of oil despite its complete reliance on oil imports, partly because of its stronger initial position, but also because the pass-through effect of higher energy prices would not be quite as strong. Even under Scenario C, the Japanese economy is projected to grow more than 3 percent in 1991, though this is still well below the baseline projection. By 1994, Japan's GDP could exceed the baseline level as the economy recovers under the influence of lower oil prices, lower inflation, and improved competitiveness. Nevertheless, the economy's external position would be weaker

^{5/} Projections of key indicators for the United States, Japan, and Germany are given in Annex II.

^{6/} It should be noted that this does not take into account the susceptibility of the U.S. financial system to a recession and the consequences for the federal budget. Similarly, no account has been taken of the effects on government defense expenditures of a U.S. military build up in the Middle East in the event of war.

than otherwise; in particular, the external current account surplus will be significantly lower than in the baseline.

19. Germany may turn out to be a net beneficiary in the short term from the oil price increase, provided that the absorptive capacity of oil exporters does not diminish with higher oil prices. Under all three scenarios, Germany's growth rate in 1991 is projected to be marginally higher compared to the baseline because of the relatively high propensity to import German goods by OPEC countries. However, surplus labor from East Germany notwithstanding, the German economy is likely to overheat after 1991, leading to higher inflation, higher nominal interest rates, and slower growth in exports. Under Scenario C, for example, Germany's growth rate would once again be below that in the baseline by 1993, and GNP would remain below the baseline through the rest of the decade.

20. The economies of the other G-7 countries can also be expected to slow significantly under Scenario C, with the United Kingdom and Italy being affected more severely than the others. Being a net oil exporter, the UK economy will initially benefit from higher oil incomes, but an appreciating currency and lower export levels in subsequent years would dampen growth for the remainder of the decade. In Italy, on the other hand, a large proportion of the higher prices for oil imports would be passed through to domestic wages, and the economy's adjustment to the decline in its external terms of trade would take correspondingly longer.

21. Although low and middle income countries are net oil exporters in the aggregate, the vast majority of developing countries are net oil importers who will face a deterioration in their terms of trade. This deterioration will be exacerbated by the slowdown projected in the G-7, which will depress other commodity prices (except precious metals). Low income oil importers are particularly vulnerable to rising oil prices. For example, were Scenario B to materialize, the effect of the projected 100 percent increase in oil prices during 1990 would be to reduce the real income of Gambia, Ghana, Mauritius, and Zambia by about 2 percent; Kenya and Pakistan by about 3 percent; Benin, Ethiopia, Madagascar, Mali, and Sri Lanka by about 4 percent; Tanzania by over 5 percent; and Guyana by 10 percent.^{1/} Oil importing middle income countries with large amounts of dollar-denominated variable interest rate debt will be affected both by higher oil prices as well as the additional costs associated with higher nominal interest rates. Countries likely to be affected most adversely would include Korea, Brazil, Turkey, Thailand, Yugoslavia, and Hungary. In addition, depreciation in the dollar would tend to increase the real debt burden of countries where a significant portion of the external debt is denominated in non-dollar currencies.

Other Consequences of the Middle East Crisis

22. The withdrawal of Iraq and Kuwait from the international oil market will also lead to some economic dislocation in countries which rely heavily for their oil imports from these two sources. Sudan is the most dependent, importing 68 percent of its oil requirements from Iraq and Kuwait, followed by Turkey (62

^{1/} Based on 1988 data. See Annex III for details.

percent), Cyprus/Malta (29 percent), Morocco (28 percent), Brazil (26 percent), Pakistan (25 percent), India (22 percent), Yugoslavia (22 percent), and Taiwan (21 percent). 8/ These countries may face short run disruptions to their oil supplies until adequate alternative import arrangements are made.

23. In addition, a successful embargo on Iraqi oil exports would severely affect Iraq's ability to service its external debt. Of Iraq's estimated \$65 billion debt, about \$13 billion is owed OECD countries, with Germany as the largest commercial creditor, and another \$45 billion is owed Saudi Arabia (\$20 billion), Kuwait (\$10 billion), and Eastern Europe and the Soviet Union (\$15 billion). To the extent that some of these countries received their debt service payments from Iraq in the form of cheap oil, as some Eastern European countries did, the loss of foreign exchange receipts from Iraq would be even greater. 9/

24. Finally, both Kuwait and Iraq are host to large numbers of foreign workers, primarily from India, Pakistan, Egypt, and the Gulf. Of Kuwait's labor force of 860,000, for example, about 750,000 are "guest" workers. Similar figures for Iraq are not available. Forced repatriation of these workers will not only lead to some disruption in the economies of their home countries, but would also reduce the level of workers' remittances from the Middle East. The estimated level of private transfers from Kuwait for 1989 was \$1.3 billion.

8/ Figures are for 1987, the last year for which internationally comparable data are available.

9/ The economic consequences of reduced Kuwaiti aid would not be significant. In 1989, Kuwait extended grants amounting to US\$ 211 million, but net transfers of official concessional assistance were negative by US\$103 million.

Annex I

OPEC Petroleum Average Prices, Actual (1989) and Projected (1990-2005)
(1989 Constant US\$/bbl)

Years	Baseline Forecast	Scenario A	Scenario B	Scenario C
1989	16.3	16.3	16.3	16.3
1990	15.8	21.0	24.0	24.3
1990 1st Half	..	16.0	16.0	16.0
1990 2nd Half	..	24.0	32.0	30.5
1991	15.8	19.5	27.5	21.7
1991 1st Half	..	21.0	29.0	21.7
1991 2nd Half	..	18.0	26.0	21.7
1992	15.8	15.8	23.2	20.4
1993	16.0	16.0	17.2	22.4
1994	16.2	16.2	17.0	27.3
1995	16.7	16.7	15.5	25.0
1996	17.3	17.3	16.3	22.0
1997	18.3	18.3	17.4	16.3
1998	19.3	19.3	18.4	15.1
1999	20.3	20.3	19.5	15.2
2000	21.3	21.3	20.4	15.3
2005	21.3	21.3	20.8	19.1

Source: IECCM

OPEC Petroleum Average Prices, Actual (1989) and Projected (1990-2005)
(Current US\$/bbl)

Years	Baseline Forecast	Scenario A	Scenario B	Scenario C
1989	16.3	16.3	16.3	16.3
1990	16.2	21.6	24.7	27.3
1990 1st Half	..	16.4	16.4	16.4
1990 2nd Half	..	26.7	32.9	38.0
1991	16.6	20.5	29.0	25.0
1991 1st Half	..	22.1	30.5	25.0
1991 2nd Half	..	19.0	27.4	25.0
1992	17.3	17.3	23.4	24.3
1993	18.5	18.5	19.9	27.5
1994	19.6	19.6	20.6	33.1
1995	20.9	20.9	19.4	31.3
1996	22.7	22.7	21.3	29.9
1997	24.4	24.4	23.1	21.7
1998	26.5	26.5	23.3	20.7
1999	28.7	28.7	27.8	21.4
2000	31.1	31.1	29.9	19.4
2005	36.4	36.4	35.7	32.7

Source: IECCM

- 12 -

Annex II

United States: Key Indicators

	1989	1990				1991			
		Base	A	B	C	Base	A	B	C
GNP growth (%)	2.9	1.6	1.3	1.4	1.1	2.1	1.8	1.4	0.3
GNP deflator (%)	4.1	4.1	4.2	4.1	3.7	4.9	3.7	3.3	7.3
CPI (%)	4.8	4.9	3.3	3.3	6.0	4.7	3.3	3.3	9.0
Eff. exch. rate (chX)	4.8	-7.4	-7.3	-7.3	-7.3	-4.3	-3.3	-3.0	-1.8
Short term interest rate (%)									
- nominal	9.1	8.4	8.6	8.6	8.8	8.3	9.2	9.9	11.0
- real	4.3	3.5	3.2	3.1	2.8	3.6	3.7	3.5	2.8
Curr. a/c balance (XGNP)	-2.0	-1.7	-2.1	-2.1	-2.1	-0.9	-2.3	-1.2	-3.1

Source: Global Economic Model, IEC, August 14, 1990.

Japan: Key Indicators

	1989	1990				1991			
		Base	A	B	C	Base	A	B	C
GNP growth (%)	4.9	4.9	4.7	4.6	4.2	4.3	4.3	4.3	3.6
GNP deflator (%)	1.3	1.8	1.8	1.8	1.8	3.0	2.6	2.0	4.8
CPI (%)	2.3	2.6	2.9	3.0	3.6	1.9	2.4	3.3	3.3
Eff. exch. rate (chX)	-8.3	-14.1	-14.1	-14.1	-14.0	2.8	3.9	3.1	3.9
Short term interest rate (%)									
- nominal	6.7	6.2	6.3	6.4	6.6	6.3	6.9	7.4	9.8
- real	2.4	3.6	3.4	3.3	3.0	4.3	4.4	4.3	3.7
Curr. a/c balance (XGNP)	2.0	1.8	1.2	0.9	-0.4	1.8	1.8	1.2	-1.3

Source: Global Economic Model, IEC, August 14, 1990.

Germany: Key Indicators

	1989	1990				1991			
		Base	A	B	C	Base	A	B	C
GNP growth (%)	4.0	4.1	4.0	3.9	3.8	4.0	4.4	4.5	4.7
GNP deflator (%)	2.3	3.2	3.2	3.1	3.0	3.0	3.4	3.6	4.1
CPI (%)	2.8	1.9	2.1	2.2	2.3	2.1	2.3	2.9	4.3
Eff. exch. rate (chX)	-2.0	8.0	8.0	7.9	7.9	1.1	0.3	0.1	-0.7
Short term interest rate (%)									
- nominal	7.1	8.0	8.1	8.1	8.2	7.2	7.6	8.0	9.1
- real	4.3	6.1	5.9	5.9	5.7	3.1	3.1	3.0	4.6
Curr. a/c balance (XGNP)	4.4	4.4	4.0	3.7	2.3	3.3	3.7	3.3	-1.1

Source: Global Economic Model, IEC, August 14, 1990.

Net Oil Imports of Low-Income Oil Importers, 1988
(As a percentage of GDP)

	1988		1988
Bangladesh	1.3	Malawi	1.8
Benin	4.6	Mali	4.0
Burkina Faso	0.6	Mauritania	2.4
Myanmar	0.1	Nepal	1.6
Burundi	0.9	Niger	1.5
Central African Rep.	0.2	Pakistan	3.1
China	0.8	Rwanda	3.4
Ethiopia	4.4	Sierra Leone	0.6
Gambia	2.1	Somalia	0.7
Ghana	2.1	Sri Lanka	4.2
Guyana	10.2	Sudan	1.4
Haiti	1.5	Tanzania	3.3
India	0.6	Togo	1.5
Kenya	3.3	Uganda	1.2
Lesotho	0.1	Zaire	0.1
Liberia	3.9	Zambia	1.0
Madagascar	4.3		

Source: IECA

Net Oil Imports of Middle-Income Oil Importers, 1988
(As a percentage of GDP)

	1988		1988
Argentina	0.5	Malta	3.9
Barbados	2.9	Mauritius	5.4
Botswana	4.4	Morocco	2.7
Brazil	0.8	Nicaragua	2.9
Chile	0.9	Panama	2.3
Costa Rica	3.3	Papua New Guinea	3.0
Cyprus	4.1	Paraguay	3.8
Dominican Republic	7.2	Philippines	2.6
El Salvador	1.5	Poland	0.3
Fiji	3.4	Portugal	4.8
Greece	2.9	Senegal	1.3
Guatemala	2.1	Seychelles	1.1
Honduras	2.9	Taiwan, China	1.8
Hungary	5.9	Thailand	3.6
Ivory Coast	2.4	Turkey	3.6
Jamaica	4.8	Uruguay	1.8
Jordan	7.3	Yugoslavia	3.8
Korea	3.5	Zimbabwe	1.2

Source: IECA

- 14 -

Annex IVProjections of USS LIBOR: 1990-2000
(in percent)

	1990	1991	1992	1993	1994	1995	2000
Baseline	8.3	8.4	7.5	6.5	6.3	6.1	6.0
Scenario A	8.6	9.3	7.2	5.9	6.2	6.2	5.9
B	8.7	10.0	8.1	6.0	5.5	5.0	5.2
C	8.9	11.9	9.9	6.5	6.0	6.1	5.3

Source: IECDP