

EBS/84/44

CONFIDENTIAL

March 7, 1984

To: Members of the Executive Board
From: The Secretary
Subject: The Fund's Liquidity and Financing Needs

Attached for consideration by the Executive Directors is a report on the Fund's current and prospective liquidity and its financing needs for 1984.

This subject has been tentatively scheduled for Executive Board discussion on Monday, April 2, 1984.

Att: (1)

INTERNATIONAL MONETARY FUND

The Fund's Liquidity and Financing Needs

Prepared by the Treasurer's Department

Approved by David Williams

March 7, 1984

This paper presents a report as of early March 1984 on the Fund's current and prospective liquidity and its financing needs for 1984; ^{1/} it also presents some tentative indications of likely use of the Fund's resources in 1985 on the assumption of unchanged policies on the use of the Fund's resources. The paper is organized as follows: Section I presents the latest estimates of the supply of usable resources in the Fund; Section II deals with likely new demands on the Fund's resources including those under arrangements and under the special facilities in 1984 and, on a highly tentative basis, in 1985. Section III deals with the expected profile of disbursements; Section IV outlines the Fund's financing needs in 1984 and 1985; and Section V draws some conclusions.

I. The Supply of Resources as of March 1, 1984

1. Ordinary resources

Since the last review of the Fund's liquidity, there have been sizable additions to the Fund's total stock of usable currencies and SDRs because of (i) the inclusion of five members (Australia, Belgium, China, Denmark, and Ireland) in the operational budget for transfers of their currencies; and (ii) the receipt by the Fund of usable currencies and SDRs totaling about SDR 19.7 billion from payments for quota increases under the Eighth Review. The Fund's stock of (unadjusted) usable resources increased from about SDR 18 billion at July 31, 1983 to about SDR 39.5 billion at March 1, 1984, comprising SDR 32.5 billion in usable currencies and about SDR 7 billion in SDRs.

For the purpose of this review, the total of (unadjusted) usable currency holdings as of March 1, 1984 has been reduced by one-fourth instead of by one-fifth, as in previous liquidity reviews, thereby

^{1/} The previous half-yearly report on the Fund's liquidity position is contained in EBS/83/170, August 12, 1983. The latest estimates on demands for Fund resources in 1984 were given in "Criteria for the Amount of Access in Individual Cases" (EBS/83/233, October 31, 1983) pp. 5, 6 and 7, and "Review of Access Limits for Special Facilities" (EBS/83/232, October 31, 1983) page 9.

reducing the total stock of adjusted usable resources to SDR 31.5 billion (Table 1). The larger reduction in holdings, which takes account of the need for working balances, has been made because of a weakening balance of payments positions of some members whose currencies are currently regarded as usable and which comprise a relatively large share of the total of usable currencies.

The operational budget for the period March-May, 1984, proposes the fresh inclusion of one country (Sweden) for net sales of its currency, and, if agreed by the Executive Board, the total of the Fund's adjusted usable ordinary resources will increase to SDR 32.1 billion.

2. Borrowed resources

As of March 1, 1984 undrawn amounts of EAR lines of credit and invested balances held in the Borrowed Resources Suspense Accounts totaled SDR 3.5 billion. Including the short-term credit lines totaling SDR 6 billion that are presently being completed with the BIS and a group of industrial countries and SAMA, the total of unused credit lines and investments will amount to SDR 9.5 billion (Table 1).

The SFF lines of credit lapsed as of February 22, 1984, and no further substitution of SFF resources to finance drawings under EAR is possible. 1/

II. Demand for the Fund's Resources in 1984 and 1985

1. New commitments under stand-by and extended arrangements in 1984

(1) Total--The demand for Fund credit, both in terms of new commitments under stand-by and extended arrangements and purchases under the special facilities, is expected to be substantial in 1984. New commitments of ordinary and borrowed resources under stand-by arrangements that were entered into in January-February 1984 amounted to approximately SDR 0.5 billion. Estimates on a country-by-country basis indicate that the Fund is also likely to enter into new stand-by and extended arrangements for about SDR 7.5 billion for the period March-December 1984, making a total of SDR 8 billion for calendar 1984, all for developing countries. The amount of resources made available under one existing arrangement might be augmented by SDR 0.25 billion in the same period, depending on the outcome of a review.

1/ Total resources initially available under the SFF amounted to SDR 7.8 billion and a total of almost SDR 7.3 billion of the lines of credit was called upon, including SDR 1.2 billion that was used to finance purchases under EAR. The bulk of the balances that remained undrawn at the time of expiration of the SFF could not be utilized because of relatively weak external positions of lenders.

Table 1. Estimates of Fund's Usable Resources
As of March 1 and December 31, 1984, and December 31, 1985

(In billions of SDRs)

	March 1, 1984	December 31, 1984	December 31, 1985
1. Ordinary Resources			
(i) Usable currencies and SDRs (adjusted)	31.5	26.1	23.6
Of which:			
Members' undrawn balances under commitments	<u>-2.4</u> <u>1/</u>	<u>-2.0</u>	<u>-1.8</u>
(ii) Uncommitted ordinary resources	29.1	24.1 (24.1-23.1) <u>2/</u>	21.8 (21.8-20.8) <u>2/</u>
2. Borrowed Resources			
(i) EAR credit lines and investments	9.5 <u>3/</u>	5.2	...
Of which:			
Members' undrawn balances under commitments	<u>-6.3</u> <u>1/</u>	<u>-6.0</u>	<u>-3.3</u>
(ii) Uncommitted borrowed resources	3.2		
(iii) Need for borrowing in 1984 and 1985		0.75 (0.75-1.75) <u>2/</u>	3.3
Memoranda			
1. Total liquid liabilities	<u>41.1</u>	<u>47.0</u>	<u>52.2</u>
Of which:			
Reserve Tranche	27.4	31.5	32.0
Outstanding borrowing (Loan Claims)	13.7	15.5	20.2
2. Total enlarged GAB and associated agreement with Saudi Arabia	18.5	18.5	18.5

1/ The amounts have been reduced by undrawn balances of SDR 0.7 billion of ordinary resources and SDR 1.1 billion of borrowed resources under arrangements that are to be cancelled in the near future and are not likely to be drawn upon.

2/ Including an estimate of SDR 2 billion of commitments to smaller industrial countries in 1984 of which SDR 1 billion would be a commitment of ordinary resources and SDR 1 billion a commitment of borrowed resources.

3/ Includes borrowing agreements for SDR 6.0 billion that are agreed in principle and are being finalized.

In October 1983 it was estimated that new commitments with developing countries for 1984 would amount to SDR 6 billion and SDR 1 billion was estimated for possible augmentation of some existing arrangements (EBS/83/233). The increase of SDR 2 billion in the estimated total of new arrangements for 1984 stems from (a) two relatively large arrangements, amounting to SDR 2.7 billion, which were expected to be concluded in late 1983 and are now expected to be concluded later in 1984; (b) new arrangements for twelve countries, for a total of about SDR 0.6 billion, which were not included in the estimate made in October 1983 (this total includes the replacement of some present arrangements that have become inoperative and are expected to be canceled); and (c) reductions from the October 1983 estimate of arrangements which in total amount to approximately SDR 1.3 billion; these reductions in the amounts for new arrangements result in part from smaller estimated use of the Fund's resources in 1984 by some members that had been included in the October 1983 estimate (including seven countries that had been expected to use the Fund's resources for an amount totaling SDR 320 million, but are not now expected to do so), lower probabilities of use of the Fund's resources by some members, and one change from a three-year extended arrangement to a stand-by arrangement.

No indications have been given for possible use of the Fund's resources by industrial countries in 1984. However, it would be prudent to continue to assume some use of Fund credit by countries in this group. As estimated in EBS/83/233, a total use of about SDR 2 billion for smaller industrial countries would continue to seem reasonable. This would raise the estimated total of commitments under new arrangements (and a possible augmentation of an existing arrangement) for the period March-December 1984 to SDR 7.75-9.75 billion.

(ii) Mix of resources--New arrangements of the above order (and including an estimated SDR 2 billion for the smaller industrial countries) would imply, on the basis of the mix of resources adopted by the Executive Board in January 1984, commitments of ordinary resources for an amount in the range of SDR 3.8-4.8 billion and commitments of borrowed resources in the range of SDR 3.95-4.95 billion. This range of potential borrowing compares with the estimate of SDR 2.5-4 billion made in EBS/83/233 in October 1983, when it was assumed that the commitment gap of SDR 6 billion that had been projected for end 1983 would fully absorb the new lines of credit.

The revised estimates of new arrangements, their financing and the original estimates presented in EBS/83/233 are summarized in Table 2. The increase in the estimated commitment of borrowed resources in 1984 over the October 1983 estimate amounting to SDR 1.45-0.95 billion reflects the above-mentioned delays in concluding two large arrangements, which will involve the commitment of approximately SDR 1.2 billion of borrowed resources in 1984, and the possible augmentation of an existing arrangement, which would involve a commitment of SDR 0.25 billion of

Table 2. Summary of Estimates for 1984 - New Commitments
and Need for Financing

(In billions of SDRs)

	1984 Estimates in EBS/83/233 October 1983	1984 Revised estimates March 1984
1. Estimates of Commitments		
New Commitments		
January-February		(0.5)
March-December) 1984	6.0	7.5
Augmentation	1.0	0.25
Developing Members	7.0	7.75
Provision for smaller industrial countries	2.0	2.0
Total	7.0 - 9.0	7.75 - 9.75
Mix of Resources:		
Ordinary Resources	4.5 - 5.0	3.8 - 4.8
Borrowed Resources	2.5 - 4.0	3.95 - 4.95
2. Financing needs		
(i) Uncommitted borrowed resources (incl. SDR 6 billion now being completed)	-	3.2 <u>1/</u>
(ii) Need for Borrowing in 1984		
Total	2.5 - 4.0	3.95 - 4.95
Less: Uncommitted Borrowed Resources	-	3.2 - 3.2
	2.5 - 4.0	0.75 - 1.75

1/ See line 2(ii) of Table 1. The factors explaining the growth of uncommitted borrowed resources to SDR 3.2 billion are set out in Section IV.

borrowed resources. Moreover, new arrangements that had not been estimated earlier, amounting to SDR 0.6 billion, will increase the commitment of borrowed resources by SDR 0.2 billion. Other changes in the estimated amounts of commitments due to factors noted in (c) on page 4, and the effects of the new mixing ratio agreed in January 1984, are, however, together expected to result in a net decrease of SDR 0.2 billion in the commitment of borrowed resources in 1984. ^{1/} These changes in aggregate are estimated to result in increases in the commitment of borrowed resources in 1984 to SDR 3.95-4.95 billion compared with SDR 2.5-4 billion estimated in EBS/83/233 in October 1983. ^{2/} Despite the increase in the commitment of borrowed resources in 1984, the amount of new financing falls from SDR 2.5-4 billion estimated in October 1983 to SDR 0.75-1.75 billion now. The changes in the estimates of the financing needs in relation to the commitment of borrowed resources are dealt with in more detail in Section IV below.

(iii) Distribution of arrangements--The indications by the Area Departments are that the majority of the new arrangements in 1984 are likely to be in the form of stand-by arrangements; in terms of amounts, about one-third of the total is expected to be committed under extended arrangements. It is also expected that about two thirds of the new arrangements would be for amounts at annual access rates which fall between 30-60 percent of quotas.

The remainder are expected to be about evenly divided for amounts that fall between 71-90 percent and between 91-102 percent of quotas; there are no indications at present of arrangements with amounts falling between 102-125 percent of quota.

2. Total new commitments under stand-by and extended arrangements in 1985

Only the most tentative estimates of use of the Fund's resources can be made for 1985, partly because the access limits to the Fund's resources in 1985 are not determined but also because of the uncertainties regarding members' balance of payments and financing needs. Very preliminary country-by-country estimates for stand-by and extended arrangements based on unchanged access limits, and taking account of probability factors, suggest an aggregate commitment to developing members of approximately SDR 6.2 billion under stand-by and extended arrangements.

^{1/} It should be noted that these changes result in a reduction of estimated new arrangements of SDR 1.3 billion, of which SDR 1.1 billion represents a reduction in the commitment of ordinary resources.

^{2/} The asymmetry in the increases in the estimated range of new borrowing derives from the fact that possible augmentation of existing arrangements was included only in the upper end of the borrowing range and for an estimated amount of SDR 0.5 billion in EBS/83/233 (p.7).

Commitments of the order of SDR 6.2 billion would imply, on the basis of the present mix of resources, the commitment of ordinary resources for an amount in the order of SDR 2.9 billion and a commitment of borrowed resources in the order of SDR 3.3 billion.

3. Demand for ordinary resources in 1984

(i) Reserve positions in the Fund--As of March 1, 1984, reserve positions in the Fund totaled SDR 41.1 billion, of which reserve tranche positions amounted to SDR 27.4 billion, ^{1/} and loan claims on the Fund totaled SDR 13.7 billion. Encashment of reserve tranche positions amounted to SDR 1.3 billion in 1982 and SDR 0.7 billion in 1983 (excluding the reserve tranche purchases which followed the payment of reserve assets in connection with the increased quotas).

At present, members holding approximately SDR 5 billion of reserve tranche positions are running current account deficits (of which SDR 2 billion are held by GAB participants). Some use of reserve tranche positions can reasonably be expected in 1984, perhaps on a somewhat larger scale than in 1982 and 1983. It is, however, difficult to estimate the amount and timing of any use of reserve tranche positions and it is essential that the Fund keeps an adequate stock of liquid assets to cover requests that might be made. It is not foreseen that encashment of loan claims would be significant in the period ahead.

(ii) Repayment of short-term borrowing--The Fund is committed to repay through January 1985 a total of SDR 1.2 billion of EAR loans arranged with the BIS, Swiss National Bank, and some industrial countries under short-term loan arrangements agreed in mid-1981. These loan repayments by the Fund will need to be financed from the Fund's ordinary resources in the absence of further new borrowing by the Fund which could be used to finance the repayments of these loans. As a consequence of the loan repayments being financed from ordinary resources, there will be an effective, if temporary, substitution of ordinary for borrowed resources until the relevant repurchases are made over the next few years.

(iii) Undrawn commitments of ordinary resources--Commitments of ordinary resources under existing stand-by and extended arrangements at present total SDR 2.4 billion, after excluding (i) SDR 0.45 billion of ordinary resources out of a total of SDR 1.1 billion remaining under an extended arrangement that the Indian authorities have announced will not be drawn; and (ii) commitments of ordinary resources amounting to about SDR 0.2 billion under arrangements that have become inoperative and are highly unlikely to come back on track.

^{1/} Reserve tranche positions in the Fund increased by about SDR 6.1 billion following the quota payments by members under the Eighth Review, i.e., reserve asset payments of SDR 6.9 billion less reserve tranche purchases of SDR 0.8 billion.

(iv) Use of Fund resources under special facilities--March-December, 1984 and 1985--On the basis of a country-by-country survey, it is estimated that purchases under the compensatory financing facility are likely to amount to SDR 1.5 billion in 1984, compared with an estimate of SDR 1.2 billion made in October 1983. Over half of this amount relates to two possible purchases. A small amount of use (SDR 0.1 billion) is estimated for buffer stock financing in 1984.

Purchases under the special facilities in 1985 are tentatively estimated to be of the same order as in 1984, i.e., purchases under the compensatory financing and buffer stock facilities could amount to approximately SDR 1.5 billion.

(v) Estimated commitment of ordinary resources--March-December, 1984 and 1985--The commitment of ordinary resources in connection with new arrangements that are estimated to total between SDR 7.75 and SDR 9.75 billion in the period March-December 1984, is projected to amount to between SDR 3.8 billion and SDR 4.8 billion.

The commitment of ordinary resources under arrangements that are projected for 1985 is estimated to total SDR 2.9 billion.

(vi) Uncommitted ordinary resources at the end of 1984 and 1985--As of March 1, 1984, the Fund's stock of adjusted usable ordinary resources stood at SDR 31.5 billion (Table 1). After deducting SDR 2.4 billion of ordinary resources in connection with the Fund's commitments under arrangements that have not yet been drawn, the total of uncommitted ordinary resources now stands at SDR 29.1 billion.

After taking into account the projected use of resources under the special facilities, the repayment of short-term loans from ordinary resources and the commitment of the Fund's ordinary resources under arrangements which total between SDR 6.5 billion and SDR 7.5 billion in 1984, and taking into account net inflows of resources from scheduled repurchases (SDR 1.5 billion), the total of uncommitted ordinary resources is estimated to be of the order of SDR 24.1 billion (SDR 23.1 billion) ^{1/} by end 1984 (Table 1). The total of uncommitted ordinary resources is expected to fall to SDR 21.8 billion (SDR 20.8 billion) ^{1/} by the end of 1985. Apart from the considerable uncertainty of the estimates, especially in 1985, it is also to be recalled that no specific provision has been made in these estimates for possible reserve tranche purchases in the remainder of 1984 and in 1985.

^{1/} The lower figure in parenthesis assumes a commitment of resources in 1984 to smaller industrial countries.

III. The Fund's Liquidity on a Cash-Flow Basis

1. Ordinary resources

The staff's projections regarding the disbursements of both ordinary and borrowed resources in the remainder of 1984 and 1985 are summarized in Table 3. The Table also shows the net changes in the Fund's ordinary resources, i.e., after taking into account repurchases and the repayment of short-term debt, with a reduction of usable resources of the order of SDR 5.4 billion for the period March-December 1984. In 1985, it is tentatively estimated that the net outflow of ordinary resources will amount to approximately SDR 2.5 billion. The reduction in the rate of projected disbursements of ordinary resources in 1985 from 1984 reflects partly the estimated lower level of new commitments in 1985, partly the rising volume of repurchases, and also the increase in disbursements of borrowed resources as members' use of ordinary resources under arrangements is exhausted. The Fund's holdings of adjusted usable ordinary resources are estimated to be of the order of SDR 26.1 billion at end 1984 and SDR 23.6 billion at end 1985 (line 1(i) of Table 1), i.e., without taking into account any changes in the list of members' whose currencies are presently usable in the Fund's operations and transactions.

2. Borrowed resources

The disbursement of borrowed resources is expected to rise progressively in the remainder of 1984 and through 1985. Disbursements on the basis of existing commitments are estimated to amount to SDR 3.2 billion in both the rest of 1984 and 1985. If estimated new commitments are also taken into account, disbursements of borrowed resources are projected to be in the order of SDR 4.3 billion in 1984 and approximately SDR 6 billion in 1985.

The resources available under existing credit lines (not including the GAB) amount to SDR 3.5 billion and together with SDR 6 billion of credit lines being completed at present they are expected to cover the disbursements of borrowed resources that are likely to be made in 1984 and most of 1985. Total disbursements of borrowed resources in 1985 as a whole may exceed by between SDR 0.8-2 billion the amounts that the Fund might be able to call under available lines of credit during 1985. In addition, as noted above, a commitment gap of the order of SDR 0.75-1.75 billion could emerge in the second half of 1984, with the prospect that the commitment gap could rise by a further SDR 3.3 billion in 1985. In these circumstances, the Fund would need to address in the course of 1984 the issue of further borrowing to cover an emerging commitment gap.

Table 3: Changes in The Fund's Resources on a Cash Flow Basis -
March 1, 1984 - December 31, 1985

(In billions of SDRs)

	Mar.1-Dec.31 1984	Jan.1-Dec.31 1985
<u>Ordinary Resources</u>		
a. <u>Purchases</u>		
i) Under arrangements	4.2	3.1
ii) Under compensatory financing	1.5	1.5
iii) Under buffer stock	0.1	...
	<u>5.8</u>	<u>4.6</u>
b. <u>Repayment of short-term borrowing</u>	<u>1.1</u>	<u>0.1</u>
c. <u>Repurchases</u> ^{1/}		
(i) Under arrangements	0.8	1.1
(ii) Under CFF	0.7	1.1
	<u>1.5</u>	<u>2.2</u>
Net change (a+b-c)	<u>5.4</u>	<u>2.5</u>
<u>Borrowed Resources</u>		
Disbursement under arrangements	4.3	6.0
	==	==
Amounts available under borrowing agreements (end of period)	<u>5.2</u>	<u>...</u>

Note The estimates do not include disbursements in relation to possible commitments to smaller industrial countries.

^{1/} Excludes repurchases associated with repayments to lenders that would not add to the Fund's holdings of usable resources.

IV. The Fund's Financing Needs in 1984 and 1985

1. As regards the financing in 1984 of new commitments under arrangements which involve borrowed resources of between SDR 3.95 billion and SDR 4.95 billion, the following factors should be taken into account:

(i) The present commitment gap amounts to SDR 2.8 billion: undrawn balances of borrowed resources under existing commitments that are expected to be drawn upon amount to SDR 6.3 billion and undisbursed lines of credit total SDR 3.5 billion. When the SDR 6 billion lines of credit from the BIS group and SAMA come into effect, uncommitted borrowed resources are expected to amount to SDR 3.2 billion.

(ii) The total of SDR 3.2 billion of uncommitted borrowed resources, which had been expected to have been fully committed by the end of 1983 or early 1984, derives from:

(a) the availability of SDR 1.2 billion of borrowed resources which would have been committed in late 1983 if two large arrangements had been concluded as had been expected; 1/

(b) the decision of the Indian authorities not to draw SDR 1.1 billion in the final period of their extended arrangement will release SDR 0.65 billion of borrowed resources that had already been committed;

(c) the cancellation of arrangements with the Fund by Argentina, Grenada, and Romania and the expiration of the arrangement with the Philippines have together released approximately SDR 0.9 billion of committed borrowed resources since the second half of January 1984; the expected cancellation of other arrangements that are presently inoperative will, when canceled, release a further SDR 0.45 billion of borrowed resources in 1984.

(iii) After taking into account the expected total of uncommitted borrowed resources, the commitment gap for the remainder of 1984 is estimated at between SDR 0.75 billion and SDR 1.75 billion.

1/ At EBM/84/6 (January 13, 1984) the Managing Director noted that, "If the Executive Board approved the proposed stand-by arrangement for Hungary, the gap between the Fund's commitments to members and its available resources would be SDR 4.8 billion. The new credit lines that were anticipated to be available in the near future, which should amount to SDR 6 billion, would leave a surplus in terms of borrowing lines of SDR 1.2 billion. Although it was probable that arrangements in an amount of SDR 1 billion in borrowed resources would be canceled in the near future, some would be succeeded by new programs and arrangements." In the event, and as explained above, the amount of cancellations has been considerably in excess of SDR 1 billion and commitments under new arrangements are expected to absorb a smaller total of borrowed resources in 1984 than had been previously estimated.

(iv) The resources under the enlarged GAB and the associated arrangement with Saudi Arabia, which together amount to SDR 18.5 billion, have not been included in the discussion of the financing of the commitment gap estimated for the remainder of 1984. It is not expected that the need for further borrowing to cover fully the commitments of borrowed resources would arise before the second half of 1984. Further consideration of the financing of the commitment gap will be given in the event that the conclusion of relatively large arrangements involving borrowed resources would warrant it or at the time of the next review of the Fund's liquidity in September.

2. The estimate of the Fund's need for borrowed resources in 1985 is tentatively put at SDR 3.3 billion, and it does not provide for any further possible augmentation of present arrangements or any commitments to industrial countries.

V. Overall Position

The liquidity of the Fund, which had reached a critically low point in the latter half of 1983, has been strengthened considerably as a result of (i) the increase in quotas; (ii) the enlargement of the General Arrangements to Borrow and the coming into effect of the associated arrangement with Saudi Arabia; (iii) agreement in principle for short-term loans amounting to SDR 6 billion from the BIS and a group of industrial countries and SAMA, which are expected to be formally completed in the near future; and (iv) an increase in usable resources relative to the limits on access to Fund resources.

While the Fund's liquidity has been strengthened, demand for Fund credit, both in terms of new commitments and purchases under the special facilities, is expected to be substantial in both 1984 and 1985. The Fund should continue to be in a position to meet demands for Fund credit in accordance with its policies on the use of its resources, including those under the special facilities, and also keep an adequate stock of resources to cover requests for encashment of reserve positions in the Fund, which could also be substantial in the coming two years. For these reasons, and in view of the continuing dangers that the international debt problem poses for the stability of the international monetary system, an accelerated depletion of the Fund's ordinary resources should be avoided.

The policy on enlarged access calls for the Fund to arrange for borrowed resources to meet its commitments to lend under that policy. It is generally undesirable for the Fund to commit itself to supply borrowed resources in the absence of lines of credit to match such commitments or without the clear prospect of arranging new credit lines. The Fund should, therefore, take steps to avoid the development of sizable commitment gaps.

The Fund's estimated new borrowing needs in 1984 in connection with new stand-by or extended arrangements concluded in 1984 with developing countries are not large. Furthermore, there are no indications of possible use of the Fund's resources by any of the industrial countries, though some provision has been included in the estimates of new arrangements in 1984 for possible use by some smaller non-GAB participants. The prospective availability of borrowed resources in 1984 stems largely from the fact that borrowed resources that had been committed in previous years have been released in 1984 through the cancellation, or expected cancellation, of arrangements, and also because some large arrangements that were expected to have been concluded in 1983 have been delayed. The development of a commitment gap is not foreseen until the second half of 1984. It is proposed that the financing of the commitment gap be considered in the event that new large arrangements involving the commitment of borrowed resources would warrant it or at the latest in the next half-yearly liquidity review when firmer estimates on the use of resources in 1984 will be available. While the prospects for 1985 are not clear, there is likely to be a need for further borrowing in that year. This matter will also be examined again later this year in the light of updated estimates and after possible preliminary discussion of access limits to the Fund's resources.

Principal Ratios for Assessing Fund Liquidity

1. Data on the principal elements of the Fund's liquidity and its borrowing for the period 1977-1985 are set out in Table 1 of this Appendix. On the basis of these data, various ratios have been calculated (Appendix Table 2).

2. Quota Ratio

In accordance with the definitions provided in the Executive Board Decision on the Guidelines for Borrowing by the Fund, the quota ratio (line 1, Table 2) is now about 39 percent and is projected to be about 37 percent by December 1984 on the basis of the estimates presented in this paper (including the repayment of loans under the SFF and short-term EAR loans).

Actual outstanding borrowing is at present SDR 13.7 billion, or 15 percent of quotas; this is projected to increase to SDR 15.5 billion by December 1984 and to about SDR 20 billion by December 1985.

3. Liquidity Ratios

The "liquidity ratio" (line 2) shows the relation between the Fund's highly liquid assets (i.e., adjusted and uncommitted ordinary resources and temporary investments in BRS accounts) and the Fund's immediate obligations in the form of reserve tranche positions and loan claims. The ratio is estimated to decline from about 73 percent on March 1, 1984 to around 42 percent in December 1985.

A variant of the "liquidity ratio", which might be referred to as the cash ratio, is the ratio of adjusted and uncommitted ordinary resources to reserve tranche positions (line 3). As reserve tranche positions appear more likely to be drawn down than loan claims (which are included in the "liquidity ratio"), this ratio is an indicator of the Fund's quick assets and liabilities. The ratio is expected to decline from 106 percent on March 1, 1984 to 68 percent in December 1985. At present, about one-fifth of reserve tranche positions are held by members with relatively weak current account balances.

4. Asset Ratio

The two ratios shown in line 4 of Table 2 relate the Fund's usable assets to its total obligations. The numerator is the unadjusted ordinary resources and temporary investments in the BRS accounts plus, alternatively, gold as valued at the former official price. The denominator in both ratios consists of the total of outstanding borrowing and total reserve tranche positions.

This asset ratio, excluding gold, is at present about 99 percent; including gold, the asset ratio is about 107 percent. Both ratios are expected to decline during 1984 and 1985.

Appendix Table 1. Selected Balance Sheet Data

(In billions of SDRs)

Item	April 30							Dec.31	Mar.1	Dec.31	Dec.31
	1977	1978*	1979	1980	1981*	1982	1983	1983*	1984	1984	1985
										(est)	(est)
1. Usable Ordinary Resources (unadjusted)	6.6	12.7	10.1	11.9	28.9	22.2	18.0	39.8	39.5	33.1	30.0
of which											
(a) Adjusted	4.6	8.9	7.2	8.4	21.9	18.7	15.1	31.6	1/31.5	1/26.1	1/23.6
(b) Adjusted and uncommitted	0.7	5.3	5.2	7.0	19.6	15.1	9.4	27.7	29.1	24.1	21.8
2. Gold at SDR 35 per fine ounce	5.0	4.5	4.1	3.6	3.6	3.6	3.6	3.6	3.6	3.6	3.6
3. Borrowing	7.9	8.3	12.9	11.1	10.1	18.3	17.7	16.8	22.2	20.7	...
(a) Outstanding borrowing											
1) EAR 2/	--	--	--	--	--	1.4	4.1	6.2	6.7	9.0	14.7
of which BRS Accounts	--	--	--	--	--	(0.2)	(1.8)	(0.9)	(1.0)	(--)	(--)
ii) SFF	--	--	--	0.5	2.0	4.1	6.0	6.8	7.0	6.5	5.5
iii) GAB and associated 3/	0.9	1.6	0.8	0.8	0.8	0.8	0.8	--	--	(--)	(--)
iv) Other 4/	6.8	6.5	4.3	2.5	1.5	0.5	--	--	--	--	--
Total	7.7	8.1	5.1	3.8	4.3	6.8	10.9	13.0	13.7	15.5	20.2
(b) Unused Credit Lines											
1) EAR	--	--	--	--	--	7.9	5.2	3.0	8.5	5/	5/
ii) SFF	--	--	7.8	7.3	5.8	3.6	1.6	0.8	--	--	--
iii) Other 4/	0.2	0.2	--	--	--	--	--	--	--	--	--
Total	0.2	0.2	7.8	7.3	5.8	11.5	6.8	3.8	8.5	5.2	...
4. Unused GAB and Associated 3/	2.2	1.7	2.5	2.5	2.5	2.4	2.4	3.2	12.3	(12.3)	(12.3)
5. Total Liquid Liabilities	18.5	17.1	13.4	12.2	17.4	22.4	31.5	40.3	41.1	47.0	52.2
(a) Reserve Tranche Positions	10.8	9.0	8.3	8.4	13.1	15.6	20.6	27.3	27.4	31.5	32.0
(b) Outstanding Borrowing	7.7	8.1	5.1	3.8	4.3	6.8	10.9	13.0	13.7	15.5	20.2
6. Total Quotas	29.2	32.3	39.0	39.0	59.6	60.7	61.1	88.5	89.0	90 6/	90 6/

* Years in which quota increases became effective.

1/ Usable currency holdings are reduced by about one fourth to provide for the possible exclusion of the Fund's holdings of the currencies of creditor members with weakening balance of payments positions and for working balances.

2/ Including borrowings temporarily invested in the Borrowed Resources Suspense Account.

3/ The definition in the guidelines for borrowing, adopted in December 1983, provides for the inclusion of outstanding borrowing under the GAB and associated arrangements, or two thirds of the total under these arrangements, whichever is greater. The total of these arrangements is SDR 18.5 billion. The amounts at end 1984 and 1985 are in parenthesis as no assumption has been made regarding the use of these arrangements.

4/ Oil facility and special borrowing arrangements with Swiss National Bank in connection with the activation of the GAB.

5/ Includes new borrowing arrangements of SDR 6.0 billion that are being completed but do not include balances in BRSA. The amount does not include the borrowing need estimated in this paper through December 1984 of SDR 0.75 to 1.75 billion. The borrowing need for 1985 is tentatively estimated at SDR 3.3 billion.

6/ On the assumption that all members will consent to the authorized increases in their quotas.

Appendix Table 2. Fund Liquidity - Selected Ratios

(In percent)

Item	April 30				Dec.31		Mar.1		Dec.31	Dec.31	
	1977	1978	1979	1980	1981	1982	1983	1983	1984	1984 (est)	1985 (est)
1. Quota ratio <u>1/</u>	34.6	31.0	39.5	34.9	21.1	34.1	32.9	22.6	38.8	36.7	...
2. Liquidity ratio <u>2/</u>	3.8	31.0	38.8	57.4	112.6	68.3	35.6	71.0	73.2	51.3	41.8
3. Cash ratio <u>3/</u>	6.5	58.9	62.7	83.3	149.6	96.8	45.6	101.5	106.2	76.5	68.1
4. Asset ratio <u>4/</u>											
(i) excluding gold	35.7	74.3	75.4	97.5	166.1	100.0	62.9	101.0	98.5	70.4	57.5
(ii) including gold	62.7	100.6	106.0	127.0	186.8	116.1	74.3	109.9	107.3	78.1	64.4

1/ The quota ratio, as defined under the decision on guidelines for borrowing, is the ratio of the total of outstanding borrowing, unused credit lines and specified GAB resources to total quotas (see Appendix Table 1, lines 3, 4 and 6).

2/ The liquidity ratio is the ratio of adjusted and uncommitted ordinary resources and temporary investments in the BRS accounts to the total of outstanding borrowing and reserve tranche positions (see Appendix Table 1, lines 1(b), 3(a)(i) and 5).

3/ The cash ratio is the ratio of adjusted and uncommitted ordinary resources to reserve tranche positions (see Appendix Table 1, lines 1(b) and 5(a)).

4/ The asset ratio under (i) is the ratio of usable ordinary resources (unadjusted) and temporary investments in BRS accounts to the total of outstanding borrowing and total reserve tranche positions (see Appendix Table 1, lines 1, 3(a)(i) and 5). The asset ratio under (ii) also includes, in the numerator, gold held by the Fund and valued at SDR 35 per fine ounce (line 2).