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

The attached paper on the Fund's current and prospective liquidity and its financing needs for the remainder of 1984 has been scheduled for discussion on Wednesday, September 5, 1984.

If Executive Directors have technical or factual questions relating to this paper prior to the Board discussion, they should contact Mr. Dhruba Gupta, ext. (5)7627.

Att: (1)

INTERNATIONAL MONETARY FUND

The Fund's Liquidity and Financing Needs

Prepared by the Treasurer's Department

Approved by W.O. Habermeier

August 8, 1984

This paper reports as of August 1, 1984 on the Fund's current and prospective liquidity and its financing needs for the remainder of 1984. The paper also presents the outlook for the Fund's liquidity in 1985 and, more tentatively, in 1986 taking into account some preliminary indications of likely demand for Fund credit on the assumption of unchanged policies on access to the Fund's resources. ^{1/}

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 special facilities through 1985, and also provides some highly tentative indications of likely demands in 1986 on the assumption of unchanged policies on the use of Fund resources. Section III outlines the Fund's financing needs in 1984 and 1985; and Section IV draws some conclusions.

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

1. Ordinary resources

As of the beginning of August 1984, the Fund's stock of usable currencies and SDRs stood at SDR 43.2 billion, comprising SDR 36.9 billion of currencies of members whose external financial positions the Executive Board decided in June 1984 were sufficiently strong to be included for transfers in the Operational Budget (EBS/84/123), and SDR 6.3 billion in SDRs. This compares with a total of usable currencies and SDRs of SDR 39.5 billion at March 1, 1984, comprising SDR 32.5 billion in usable currencies and SDR 7 billion in SDRs.

The increase in the holdings of usable currencies between March 1 and August 1, after taking account of net sales of currency amounting to SDR 1 billion, is due to the additions of Finland, France, Spain, and Sweden to the list of members whose external positions were sufficiently

^{1/} The previous half-yearly report on the Fund's liquidity position is contained in EBS/84/44, March 7, 1984. A limited set of data on the Fund's liquidity position was provided in "Operational Budget for June-August 1984" (EBS 84/123, June 6, 1984), pp. 6, 7, 13 and 14.

strong for their currencies to be included in the Operational Budget. ^{1/} It is noteworthy that at present the currencies of all but three industrial countries (Iceland, Luxembourg, and New Zealand) are now considered sufficiently strong for the Fund to sell their currencies. In contrast, over the last six months the currencies of two developing countries--Colombia and Malaysia--have been dropped from the Operational Budget or are no longer considered for making early repurchases because of the apparent deterioration in their external financial positions. Furthermore, the reserve and balance of payments positions of a number of developing countries, including some of the major oil-exporting countries, are not improving at a rate that it could confidently be expected that they will be in a position to add significantly to the Fund's usable assets in the foreseeable future, though, of course, such improvement could reduce the demand for Fund credit.

It would thus appear that, over the next few years, there is relatively little scope for further substantial increases in the total of usable currencies from additions of members hitherto excluded. Furthermore, a number of members presently included in the Operational Budget are running current account deficits, which in some instances are relatively large, and the possibility cannot be precluded that the external financial situations of such countries could deteriorate further. Such a development could, of course, put pressure on the Fund's liquidity which could arise not only from the exclusion of such members from the list of usable currencies but also because of a possible need for them to have recourse to the Fund for balance of payments financing.

In an attempt to take into account the relatively weak balance of payments positions of some members presently included in the Operational Budget and the Fund's need to maintain working balances of individual currencies, the Fund's total of usable currency holdings has been reduced by one quarter, or the equivalent of SDR 9.2 billion. After making such an adjustment, the total of adjusted usable currency holdings and SDRs amounts to SDR 34.0 billion as of August 1, 1984 (Table 1), compared with a total of SDR 31.5 billion in March 1984.

The total of members' undrawn balances of ordinary resources under existing stand-by and extended arrangements amounts to SDR 2.1 billion as of August 1, 1984. However, after taking into account an amount of SDR 0.2 billion of ordinary resources for commitments that are not likely to be drawn upon, the total of members' undrawn balances of ordinary resources amounts to SDR 1.9 billion (Table 1). After deducting these balances from the total of usable resources, the total of uncommitted ordinary resources (adjusted) as of August 1, 1984 is SDR 32.1 billion (compared with SDR 29.1 billion at March 1, 1984).

^{1/} The inclusion of the currencies of these four industrial countries increased the stock of usable currencies by SDR 5.4 billion.

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

(In billions of SDRs)

	July 31, 1984	December 31, 1984	December 31, 1985
1. <u>Ordinary Resources</u>			
(i) Usable currencies and SDRs (adjusted)	34.0 <u>1/</u>	30.8 <u>2/</u>	27.9 <u>2/</u>
Of which:			
Members' undrawn balances under commitments	<u>-1.9</u> <u>3/</u>	<u>-1.8</u>	<u>-0.9</u>
(ii) Uncommitted ordinary resources	32.1	29.0	27.0
2. <u>Borrowed Resources</u>			
(i) EAR credit lines and investments	8.2	6.3	1.4 <u>4/</u>
Of which:			
Members' undrawn balances under commitments	<u>-4.6</u> <u>3/</u>	<u>-4.3</u>	<u>-2.4</u>
(ii) Uncommitted borrowed resources	3.6	2.0	
(iii) Need for borrowing in 1985	--	--	1.0
<u>Memoranda</u>			
1. Total liquid liabilities	42.0	43.4	47.4
Of which:			
Reserve Tranche	27.9	29.0	29.5
Outstanding borrowing (Loan Claims)	14.1	14.4	17.9
2. Total enlarged GAB and associated agreement with Saudi Arabia	18.5	18.5	18.5

1/ See Annex Table 1, lines 1 and 1a.

2/ Includes an allowance for reserve tranche purchases of SDR 0.5 billion in the last five months of 1984 and SDR 0.8 billion in 1985.

3/ The amounts have been reduced by undrawn balances of SDR 0.2 billion of ordinary resources and SDR 0.6 billion of borrowed resources under arrangements that are inoperative and are not likely to be drawn upon.

4/ This would be the expected amount of credit lines and investments if no additional credit lines became available.

2. Borrowed resources

Reflecting the addition of the new lines of credit totaling SDR 6 billion that became effective at end-April 1984, the amount of borrowed resources available to finance the policy of enlarged access amounted to SDR 8.2 billion as of August 1, 1984 (Table 1). The total of uncommitted borrowed resources as of August 1 is SDR 3.6 billion, after deducting SDR 4.6 billion of undrawn balances of borrowed resources under commitments and after excluding SDR 0.6 billion of borrowed resources that are committed under stand-by arrangements that are presently inoperative and which are unlikely to be drawn upon. (The repayment of short-term debt from ordinary resources is discussed below.)

II. Demand for the Fund's Resources Through 1985

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

(i) Total--The demand for Fund credit under stand-by and extended arrangements is expected to remain high in 1984, though somewhat less than estimated in March 1984. Commitments of ordinary and borrowed resources under arrangements concluded in the period January-July 1984 amounted to SDR 1.8 billion (Table 2). For the period August-December 1984, it is estimated, on a country-by-country basis, that the Fund is likely to enter into new stand-by and extended arrangements for about SDR 3.5 billion. ^{1/} Thus, a total of SDR 5.3 billion of new commitments is expected for CY 1984, all of which would be for developing countries.

This estimate for CY 1984 is about one-third (or SDR 3.0 billion) less than the total estimated in March 1984 (EBS/84/44), when new commitments for developing countries were estimated to total SDR 8.25 billion for 1984 (including SDR 0.25 billion for a possible augmentation of an existing arrangement). The revised lower estimate for 1984 is due to the following factors:

(a) the Area Departments have indicated reduced probabilities of arrangements being concluded this year for five members, including a sharply reduced probability for one member with a relatively large quota, due in part to the improved prospects of financing the reduced balance of payments deficits through the international capital markets. The probability for concluding arrangements in 1984 has now been put at zero for a number of countries, most of which are relatively small, because it is not likely that conditional credit programs can be completed in 1984. These reduced probabilities and the exclusion of some members from the list of likely users of the Fund's resources in 1984 account for a reduction of SDR 2.3 billion from the estimate made in March 1984;

^{1/} These figures have been reduced by a probability factor--or the likelihood--of the arrangement being concluded for a particular amount in a given year; for example, without taking into account the probability factor, the total arrangements indicated for the remainder of 1984 amount to SDR 5.9 billion.

Table 2. Commitments and Changes in Use and Receipt of the Fund's Resources
January 1, 1984 - December 31, 1985

(In billions of SDRs)

	1984			1985
	Jan.1- July 31	Aug.1- Dec.31	Total	
A. <u>New Commitments</u>				
Total	1.8	3.5	5.3	5.1
of which				
- ordinary resources	1.2	1.9	3.1	2.1
- borrowed resources	0.6	1.6	2.2	3.0
B. <u>Use and Receipts</u>				
1. <u>Use and Receipt of Ordinary Resources</u>				
a. <u>Purchases</u> 1/				
i) Under arrangements	1.7	2.0	3.7	3.0
ii) Under compensatory financing	0.7	0.6	1.3	1.2
iii) Under buffer stock	--	--	--	--
	2.4	2.6	5.0	4.2
b. <u>Repurchases</u> 2/				
i) Under arrangements	0.6	0.5	1.1	1.1
ii) Under CFF	0.5	0.4	0.9	1.1
	1.1	0.9	2.0	2.2
c. Net change in Fund credit financed by ordinary resources (a-b)	1.3	1.7	3.0	2.0
d. Repayment of short-term debt	--	1.0	1.0	0.1
e. Change in stock of ordinary resources (-(c+d))	-1.3	-2.7	-4.0	-2.1
2. <u>Use and Receipt of Borrowed Resources</u>				
a. Disbursements	2.1	1.9	4.0	4.9
b. Repayment through repurchases 3/	0.2	0.3	0.5	1.3
c. Net change in Fund credit financed by borrowed resources (a-b)	1.9	1.6	3.5	3.6
d. Repayment through use of ordinary resources	--	1.0	1.0	0.1
e. Change in stock of borrowed resources (d-c)	-1.9	-0.6	-2.5	-3.5
C. <u>Change in Fund Credit Outstanding</u>				
(1c+2c)	3.2	3.3	6.5	5.6

1/ Excluding use of reserve tranche positions which totaled SDR 0.8 billion in the first seven months of 1984 and are expected to amount to SDR 0.5 billion and SDR 0.8 billion in the last five months of 1984 and 1985 respectively.

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

3/ Represents repayments through repurchases of borrowing under SFF and EAR loan agreements.

(b) the estimated amounts of arrangements have been reduced in a number of cases due mainly to a shortening of the expected duration of the arrangements arising from difficulties of agreeing on the policy measures over a three-year period. This factor accounts for SDR 1.2 billion of the reduction in the estimate provided earlier this year.

(c) It is not now expected that there will be an augmentation of any existing arrangements--in the March estimate it was indicated that one existing arrangement might be augmented by SDR 0.25 billion;

(d) new arrangements for six countries for a total amount of SDR 0.5 billion are now expected but were not indicated in March;

(e) arrangements for ten members are now larger than indicated in March, thereby adding SDR 0.3 billion to the total of arrangements expected in 1984.

It should also be noted that it is difficult to estimate the exact timing of the coming into effect of arrangements, and in the present estimates one large potential arrangement which is expected to come into effect late in 1984 but could well slip into early 1985; slippage is also possible in the case of a number of other projected arrangements.

It will be recalled that in recent reviews of the Fund's liquidity, it was considered prudent to provide for the possible conclusion of arrangements with some smaller industrial countries for an amount totaling SDR 2 billion. As was stressed at the time, no indications of potential use of the Fund's resources had been given by the Area Departments. In view of the relative improvement of the external financial positions of the industrial countries as a group, and given that the Area Departments have again confirmed that there are no indications that an industrial country might seek to use Fund credit in 1984, no provision is made in this liquidity review for possible use of the Fund's resources by this group in 1984.

(ii) Mix of resources--estimated new stand-by and extended arrangements amounting to SDR 5.3 billion for 1984 would involve, on the basis of the mix of resources required by the applicable Executive Board decision adopted in January 1984, the commitment of approximately SDR 3.1 billion of ordinary resources and the commitment of SDR 2.2 billion of borrowed resources (compared with an estimate in March 1984 of a commitment of borrowed resources of SDR 3.95-4.95 billion).

For the remainder of 1984, it is estimated that new commitments of borrowed resources would amount to SDR 1.6 billion (Table 2), compared to the current level of uncommitted borrowed resources of SDR 3.6 billion. Consequently, there is no need for further borrowing by the Fund during 1984 to meet expected commitments under the policy of enlarged access. Indeed, on present indications, there would be a carry over of uncommitted borrowed resources into 1985 of the order of SDR 2 billion.

2. Total new commitments under stand-by and extended arrangements
in 1985 and 1986

As indicated earlier, estimates of use of the Fund's resources can be made for 1985 only on the basis of present policies on access to the Fund's resources, and consequently such estimates should be regarded as preliminary until access limits for 1985 have been determined. Indications of use of the Fund's resources for 1986 can be presented at this stage only as a rough order of magnitude. It is likely that the estimates for 1986 will be subject to considerable revision, and much will depend on the availability of resources in the international capital markets for a relatively large number of countries during the latter part of 1985 and in 1986.

Very tentative country-by-country estimates for stand-by and extended arrangements based on unchanged access limits, and taking account of probability factors, suggest that total new commitments in 1985 would amount to the order of SDR 5.1 billion, all for developing countries. ^{1/} The Area Departments do not indicate use of Fund credit by any industrial country in 1985, and no provision is made for use of the Fund credit by this group of countries in this liquidity review, though any substantial deterioration in the external financial position of some of these countries could significantly affect the Fund's liquidity through a reduction in the supply of usable currencies (see below).

Commitments in 1985 of the order of SDR 5.1 billion would imply, on the basis of the present provisions governing the mix of resources, a commitment of SDR 2.1 billion of ordinary resources and a commitment of SDR 3.0 billion of borrowed resources (Table 2). As discussed further below, a borrowing requirement of the order of SDR 3 billion, given the carry over of SDR 2.0 billion of uncommitted borrowed resources at the end of 1984, would result in the emergence of a commitment gap of the order of SDR 1 billion in the latter half of 1985.

As already indicated, only the most highly tentative estimates can be provided on a country-by-country basis for the demand for Fund resources under arrangements in 1986. The indications provided by the Area Departments suggest that, on the basis of present access limits, and taking into account probability factors, total new arrangements could amount to SDR 3.2 billion, of which SDR 1.5 billion would represent a commitment of ordinary resources and SDR 1.7 billion of borrowed resources would be committed. All the projected new arrangements would be for developing countries; there were no indications that an industrial country will request recourse to Fund credit in 1986.

^{1/} Without taking account of probability factors, arrangements indicated by the Area Departments for 1985 would have totaled SDR 8.2 billion, only slightly less than the total for 1984.

To a considerable extent, the indications of new arrangements in 1986 are based on the likelihood that some members may request a stand-by arrangement in 1986 following one-year arrangements in 1984 and 1985, in lieu of a three-year extended arrangement. To this extent, the estimates for 1986 reflect a deferred demand for Fund credit. Relatively few indications have been given by members to the Area Departments of the need for Fund programs and Fund credit in 1986. The estimates might therefore be on the low side, and in assessing the likely need for Fund credit in 1986, the relatively large repurchases which build up after 1985 should be kept in mind. ^{1/} In this latter respect, the availability of resources from the international capital markets will significantly determine demand for Fund credit in 1986. In general, then, the estimates for the demand for Fund credit in 1986 are at this stage too uncertain to draw any firm conclusions in connection with assessing the Fund's liquidity in 1986 and beyond, though they tend to confirm a slowing down in the rate of expansion of Fund credit, as compared with the last three years.

3. Other demand for Fund resources in 1984 and 1985

(i) Reserve positions in the Fund--As of August 1, 1984, reserve positions in the Fund totaled SDR 42 billion, of which reserve tranche positions amounted to SDR 27.9 billion, and loan claims on the Fund totaled SDR 14.1 billion. While some encashment of reserve tranche positions can be expected through 1985, encashment of loan claims in any significant amount is not anticipated.

Encashment of reserve tranche positions amounted to SDR 0.8 billion in the first seven months of 1984; there were no encashments of loan claims during this period. Excluding the United States and Saudi Arabia, the other relatively large countries running current account deficits in 1984 hold reserve tranche positions totaling SDR 4.3 billion (smaller deficit countries hold reserve tranche positions totaling approximately SDR 0.7 billion). Outside the group of industrial countries, additional use of reserve tranche positions can reasonably be expected during the balance of 1984, and also in 1985, and it would seem reasonable to provide for use of the reserve tranche position of SDR 0.5 billion for the remainder of 1984 and, for SDR 0.8 billion in 1985--slightly less than the average pace over the past few years.

While it is generally difficult to estimate the amount and timing of use of reserve tranche positions, it is particularly difficult to make any judgments about possible use of reserve tranche positions by the industrial countries. These countries' use of their Fund positions is often related to the settlement of indebtedness within a particular swap network or in the context of the EEC settlements system, which reflect past exchange market intervention, as well as for general current exchange market intervention. Reserve tranche positions held by the

^{1/} See Table 2 in "Access Limits in 1985--Preliminary Considerations--Financial Aspects" (EBS/84/170, 8/8/84.)

industrial countries (excluding the United States whose reserve tranche position totals SDR 9.8 billion) now total SDR 11.1 billion. It would not be prudent to assume that all these positions are firmly held and that none of them would be mobilized in the period to end-1985. While it is not possible to effectively quantify potential use by these countries of their Fund positions, it is necessary for the Fund to maintain a safe relationship between the Fund's uncommitted usable assets and members' reserve tranche positions (this relationship is referred to as the "cash ratio" in Appendix Table 2), in order to assure holders of these positions of the liquidity of the claims, taking into account that the downward adjustment made to the Fund's total holdings of usable currencies partly compensates for any mobilization of these positions. It is, nevertheless, of considerable significance for the Fund's liquidity if one or more of the major industrial countries needs to mobilize its reserve tranche position, or even if its currency is no longer usable by the Fund. As pointed out above, the present comparatively comfortable liquidity position derives from the concentration of the currencies of the industrial countries in the total of usable currencies, and some caution needs to be exercised regarding the continued usability of all these currencies.

(ii) Repayment of short-term borrowing--The Fund is committed to repay through January 1985 a total of SDR 1.1 billion of EAR loans arranged with the BIS, the Swiss National Bank, and several industrial countries under short-term loan arrangements agreed in mid-1981 (Table 2). As agreed at EBM/84/83 (5/30/84), these loan repayments by the Fund will be financed from the Fund's ordinary resources in the absence of further new borrowing by the Fund which could be used to finance repayments of these loans. As a result of the use of ordinary resources, there will be an effective, although temporary, substitution of ordinary resources for borrowed resources until the relevant repurchases are made over the next few years.

(iii) Use of Fund resources under special facilities--August 1984 through 1985--On the basis of a country-by-country survey, it is estimated that purchases under the compensatory financing facility will amount to SDR 1.3 billion in 1984, slightly less than estimated in March 1984 and of which SDR 0.7 billion has already been purchased. A small amount of use is estimated for buffer stock financing in 1984.

In view of the recovery in exports experienced by developing countries in 1983/84 and which is expected to continue in 1985-86, purchases under the special facilities in 1985 are expected to decline slightly from their projected 1984 level to about SDR 1.2 billion in 1985 and to remain at that level in 1986.

(iv) Commitment of ordinary resources under arrangements--August 1984 through 1985--As indicated earlier, stand-by and extended arrangements entered into in 1984 are expected to total SDR 5.3 billion, of

which the commitment of ordinary resources is expected to amount to SDR 3.1 billion (Table 2).

The commitment of ordinary resources under arrangements that are expected to be entered into in 1985 (for a total of SDR 5.1 billion) is estimated to amount to SDR 2.1 billion, and, on a highly tentative basis, to SDR 1.5 billion in 1986. It will be recalled that none of these estimates provide for possible use of the Fund's resources by industrial countries.

(v) Total uncommitted ordinary resources at end-1984 and end-1985--As noted in Table 1, the stock of uncommitted ordinary resources (adjusted) is estimated to be SDR 29 billion at the end of 1984, and reflects a net reduction of ordinary resources (adjusted) of SDR 3.1 billion during the last five months of 1984. As can be seen from Table 2, the reduction in the total of ordinary resources results from the net effect of expected reserve tranche purchases of SDR 0.5 billion, purchases under special facilities totaling SDR 0.6 billion, repayments of short-term borrowing totaling SDR 1.0 billion, estimated new commitments of ordinary resources under arrangements of SDR 1.9 billion and repurchases of ordinary resources totaling SDR 0.9 billion.

The level of uncommitted ordinary resources is estimated to be SDR 27 billion at the end of 1985, which represents a net reduction of usable ordinary resources of SDR 2 billion in the course of the year. The comparative slow down in the net use of ordinary resources in 1985 primarily reflects the much smaller use of ordinary resources for the repayment of short-term debt and the increase in repurchases of ordinary resources relative to 1984. Furthermore, disbursements of ordinary resources in connection with present and prospective arrangements are also estimated to slow down considerably in 1985, which is expected to be more than offset by an increase in the disbursement of borrowed resources.

In view of the highly tentative nature of the estimates of the demand for the Fund's resources in 1986, and the assumption that the present list of usable currencies would remain unchanged, it is difficult to project the stock of uncommitted ordinary resources at end-1986 with any degree of certainty. On present indications, the total of uncommitted ordinary resources would not be expected to change substantially, unless, of course, there was a weakening in the payments positions of some industrial countries.

III. The Fund's Borrowing Needs in 1984 and 1985

As of August 1, 1984 the uncommitted lines of credit arranged in connection with the policy on enlarged access totaled SDR 3.6 billion.

Further commitments of borrowed resources are estimated to total SDR 1.6 billion during the remainder of this year, leaving a total of uncommitted lines of credit of SDR 2 billion at the beginning of 1985.

As noted earlier, it is estimated that the Fund will commit a further SDR 3 billion of borrowed resources in 1985 in connection with new stand-by and extended arrangements. This would imply that a commitment gap of SDR 1 billion would, on present indications, arise in the second half of 1985. The cancellation of arrangements or if some arrangements became inoperative and would not be likely to be drawn upon could release borrowed resources, as in the past, which would delay the timing and possibly reduce somewhat the size of the commitment gap.

In terms of disbursement of borrowed resources, the resources available under existing EAR credit lines amount to SDR 8.2 billion (Table 1). These resources are expected to cover fully the disbursements of borrowed resources likely to be made in the remainder of 1984 (amounting to SDR 1.9 billion) and in 1985 (amounting to SDR 4.9 billion) as indicated in Table 2. Undisbursed credit lines are estimated at SDR 1.4 billion at the end of 1985, and a disbursement gap is not expected to arise until the second quarter of 1986.

IV. Overall Position

The Fund's liquidity is at present at a relatively comfortable level. The significant improvement in liquidity is a result of the payment of reserve assets and usable currency following the coming into effect of the increased quotas, and as a result of the decision to reduce access to the Fund's resources relative to quotas. The Fund's liquidity has improved further since the last review was conducted in March 1984. Since March 1984, the currencies of four members--all industrial countries--have been included in the Operational Budget for net sales, thereby adding SDR 5.4 billion to total usable resources. As a result, the stock of uncommitted ordinary resources, after making adjustments for working balances and for some countries' relatively weaker balance of payments and reserve positions, totaled SDR 32.1 billion at August 1, 1984, or about 10 percent larger than at March 1, 1984.

As regards borrowed resources, the position has also improved following the coming into effect in April of this year of the new short-term EAR credit lines amounting to SDR 6 billion subsequent to the coming into effect of the enlarged GAB and associated arrangement with Saudi Arabia. At present, uncommitted borrowed resources (excluding resources available under the GAB and associated arrangement) total SDR 3.6 billion, compared with a negative position--a commitment gap--of SDR 2.8 billion at March 1984.

Concurrent with the improvement in the supply of usable assets available to the Fund, the overall demand for Fund resources has apparently moderated slightly since the last review. This reflects some reduction in the expected duration of some likely arrangements, the fact that the conclusion of arrangements with a few countries is judged to be less probable now and because of delays in concluding arrangements with others. To some extent the demand for Fund resources has been pushed forward into 1985 and perhaps beyond, but there may also be a downward trend in the demand for Fund credit in 1985 in the light of the upswing in the world economy and the improved current account positions of a number of countries. The estimated demand for credit through 1985 under the special facilities has also tended to level off.

In making an assessment of the Fund's liquidity to late 1985 and early 1986, the following considerations might need to be borne in mind:

(i) while the level of usable currency holdings might be judged as being comfortable at this time, some caution regarding the continued usability of all such holdings is warranted, particularly in view of the high concentration on a few relatively large industrial countries whose currencies are usable and taking into account the current account deficits of some of these countries. The present stock of usable ordinary resources might, then, be regarded as at or near a peak. In the event of a deterioration in the balance of payments and reserve positions of some industrial countries, the total of usable currencies would fall without necessarily benefitting from significant compensating additions to the list of usable currencies;

(ii) on present indications of the total of stand-by and extended arrangements to be concluded before the end of 1985, the commitment of borrowed resources is expected to exceed available EAR credit lines by SDR 1 billion in the latter half of 1985, i.e., a commitment gap is expected to arise by end-1985.

The policy on enlarged access calls for the Fund to arrange for borrowed resources to meet its commitments to lend under that policy. The emergence of a commitment gap would represent a potential call on the Fund's ordinary resources. It is the Fund's policy to avoid the developments of sizeable commitment gaps and the involuntary commitment of the Fund's ordinary resources in substitution for borrowed resources.

However, in view of the likelihood that the commitment gap would not arise until the second half of 1985--almost one year later than had previously been estimated--and also because the preliminary discussions on access limits to the Fund's resources and the financing of enlarged access have not yet been held, it would seem reasonable to delay any decision on the financing of an emerging commitment gap until the next half-yearly liquidity review early in 1985, when firmer estimates for

use of the Fund's resources in 1985 and 1986 can be made. (A disbursement gap is not expected to arise until the second quarter of 1986.)

(iii) no provision has been made for use of the Fund's resources by any industrial country in the estimates presented above. Any such use by a major industrial country, or by a number of smaller countries, would have a significant impact on the Fund's liquidity.

Principal Ratios for Assessing Fund Liquidity

1. Data on the principal elements of the Fund's liquidity and its borrowing for the period 1978-1985 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 at 38.5 percent, which represents a slight decline since March 1, 1984 (EBS/84/44) due to some repayment of credits under the supplementary financing facility. The quota ratio is projected to decline further to about 37 percent at December 1984 on the basis of the estimates presented in this paper in view of the fact that there will be no additions to borrowing (i.e. outstanding borrowing plus unused credit lines) while there will be repayment of loans under the SFF and short-term EAR loans.

Actual outstanding borrowing is at present SDR 14.1 billion, or 16 percent of total quotas; this is projected to increase slightly by December 1984 and to about SDR 18 billion at December 1985 when it would reach about 20 percent of total quotas.

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 upward movement in the ratio since March 1, 1984 to about 77 percent on July 31, 1984 reflects the effect of the inclusion of four currencies (SDR 5.4 billion) in the operational budget for transfers, reserve tranche purchases (SDR 0.4 billion), purchases under the compensatory financing facility (SDR 0.7 billion), new commitments of ordinary resources (SDR 0.7 billion), and net borrowings (SDR 0.4 billion). Based on the present list of currencies considered usable and other estimates in the paper, the liquidity ratio is expected to decline to about 67 percent at end 1984 and 57 percent at end 1985. These ratios are relatively high as compared with similar periods in the past.

A variant of the "liquidity ratio", which is 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 upon 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 115 percent on July 31, 1984 to 92 percent in December 1985. At present, about one-sixth of reserve tranche positions are held by members with relatively weak current account positions (not including Saudi Arabia and the United States).

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 account 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 104 percent, thereby representing some improvement since March 1, 1984, as the addition of four currencies since early March 1984 currently lends strength to this ratio as well as to the liquidity and cash ratios. Including gold, the asset ratio is about 112 percent. Both ratios are expected to decline during 1984 and 1985 as the Fund's holdings of ordinary resources decline and as liquid liabilities continue to expand.

5. Overview

In present circumstances, as there has been improvement in the main factors that affect both the supply and the demand for Fund resources, these ratios may be judged to be indicative of a relatively comfortable liquidity position in the period immediately ahead notwithstanding the fact that the currencies of the industrial countries account for a very large proportion of the total usable currencies, and that some of these countries might experience a deteriorating external financial position. No particular action is thus called for by the Executive Board at this time. The liquidity position will be examined again in the next half-yearly review of the Fund's liquidity which is due to be considered by the Executive Board in early 1985.

Appendix Table 1. Selected Balance Sheet Data

(In billions of SDRs)

Item	December 31						July 31	Dec.31	Dec.31
	1978	1979	1980*	1981	1982	1983*	1984	1984 (est)	1985 (est)
1. Usable Ordinary Resources (unadjusted)	10.9	7.7	20.8	27.8	20.3	39.8	43.2	39.5	36.2
of which:									
(a) Adjusted <u>1/</u>	8.5	6.0	14.7	22.1	16.9	31.6	34.0	30.8	27.9
(b) Adjusted and uncommitted of which: SDR holdings	5.3 (1.2)	4.0 (0.9)	12.8 (5.6)	18.0 (5.0)	13.0 (3.7)	27.7 (7.0)	32.1 (6.3)	29.0 ...	27.0 ...
2. Gold at SDR 35 per fine ounce	4.1	3.7	3.6	3.6	3.6	3.6	3.6	3.6	3.6
3. Borrowing	6.6	11.4	10.5	18.8	17.9	16.8	22.0	20.7	20.3
(a) Outstanding borrowing									
i) EAR <u>2/</u>	--	--	--	1.1	2.0	6.2	7.3	7.9	12.4
of which BRS Accounts	--	--	--	(0.4)	(0.4)	(0.9)	(0.3)	(--)	(--)
ii) SFF	--	0.3	1.5	3.6	5.3	6.8	6.8	6.5	5.5
iii) GAB and associated <u>3/</u>	1.4	0.8	0.8	0.8	0.8	--	--	(--)	(--)
iv) Other <u>4/</u>	5.0	2.8	1.9	0.9	0.1	--	--	--	--
Total	6.4	3.9	4.2	6.4	8.2	13.0	14.1	14.4	17.9
(b) Unused credit lines									
i) EAR	--	--	--	8.2	7.3	3.0	7.9 <u>5/</u>	6.3	2.4 <u>6/</u>
ii) SFF	--	7.5	6.3	4.2	2.4	0.8	--	--	--
iii) Other <u>4/</u>	0.2	--	--	--	--	--	--	--	--
Total	0.2	7.5	6.3	12.4	9.7	3.8	7.9	6.3	2.4
4. Unused GAB and Associated <u>3/</u>	2.1	2.6	2.6	2.5	2.4	3.2	12.3	(12.3)	(12.3)
5. Total Liquid Liabilities	14.9	11.8	16.8	21.5	25.9	40.3	42.0	43.4	47.4
(a) Reserve tranche positions	8.5	7.9	12.6	15.1	17.7	27.3	27.9	29.0	29.5
(b) Outstanding borrowing	6.4	3.9	4.2	6.4	8.2	13.0	14.1	14.4	17.9
6. Total Quotas	39.0	39.0	59.6	60.7	61.1	88.5	89.2	89.2	89.2

* Years in which quota increases became effective.

1/ Usable currency holdings that are included in this total are reduced 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 as follows:

End of period	1978	1979	1980	1981	1982	1983	7/84	1984	1985
Adjustment factor	(0.25)	(0.25)	(0.40)	(0.25)	(0.20)	(0.25)	(0.25)	(0.25)	(0.25)

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

3/ As defined in the Guidelines for Borrowing, which provide that the amount included would equal outstanding borrowing by the Fund under the GAB and associated borrowing arrangements or two thirds of the total under these arrangements, whichever is greater. The present total of these arrangements is SDR 18.5 billion. The amounts in parenthesis indicate 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 1984 borrowing arrangements of SDR 6.0 billion.

6/ Based on assumption that borrowing need of SDR 1.0 billion has been fully met with additional credit lines of SDR 1.0 billion.

Appendix Table 2. Fund Liquidity - Selected Ratios

(In percent)

Item	December 31						July 31	Dec.31	Dec.31
	1978	1979	1980	1981	1982	1983	1984	1984 (est)	1985 (est)
1. Quota ratio <u>1/</u>	22.3	35.9	22.0	35.1	33.2	22.6	38.5	37.0	36.5
2. Liquidity ratio <u>2/</u>	35.6	33.9	76.2	85.6	51.7	71.0	77.1	66.8	57.0
3. Cash ratio <u>3/</u>	62.4	50.6	101.6	119.2	73.4	101.5	115.1	100.0	91.5
4. Asset ratio <u>4/</u>									
(i) excluding gold	73.2	65.3	123.8	131.2	79.9	101.0	103.6	91.0	76.4
(ii) including gold	100.7	96.6	145.2	147.9	93.8	109.9	112.1	99.3	84.0

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 unused resources in the (conditional) GAB category 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).

