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January 11, 1984

To: Members of the Executive Board

From: The Secretary

Subject: Supplementary Financing Facility and Exceptional
Use of Fund Resources - Interest Rate and Charges
for the Six Months Ended December 31, 1983

Attached for the information of the Executive Directors are notes on (i) the interest rate and charges for the six-month period ended December 31, 1983, as regards the Supplementary Financing Facility and Exceptional Use of Fund Resources (Attachment I) and (ii) the net cost of borrowing and periodic charges under the policy on Enlarged Access to the Fund's Resources (Attachment II).

Att: (2)

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DEPARTMENTS

INTERNATIONAL MONETARY FUND

Supplementary Financing Facility and Exceptional Use of Fund
Resources - Interest Rate for the Six Months Ended December 31, 1983

Prepared by the Treasurer's Department

January 11, 1984

1. The rate of periodic charges payable by members on amounts purchased under the Supplementary Financing Facility (SFF) equals the rate of interest payable by the Fund on the amounts borrowed under the SFF borrowing agreements plus 0.2 percent per annum for the first three and one-half years after a purchase and 0.325 percent per annum thereafter. ^{1/} For each half of a calendar year, the rate of interest payable by the Fund is the average during that period of the daily yields (rounded up to the next 1/8 of one percent) on actively traded U.S. Government securities, determined on the basis of a constant maturity of five years. The rate is calculated as a simple arithmetic average of the daily yields over the six-month period. The calculated average rate was 11.42 percent for the six-month period ended December 31, 1983, which yielded an interest rate of 11.50 percent payable on SFF borrowings and rates of charges on purchases under the SFF of 11.70 percent and 11.825 percent. The corresponding rates in the January-June 1983 period were 10.18 percent, 10.25 percent, 10.45 percent, and 10.575 percent. In the period July 1-December 31, 1983, there have been six additional purchases financed under the Supplementary Financing Facility totaling SDR 406,424,500; over the same period, repurchases amounted to SDR 104,057,939; and at December 31, 1983, the amount of purchases outstanding were SDR 6,806,332,243.

2. In April 1978, the Executive Board decided on the charge to be applied to holdings of currency in excess of 200 percent of quota acquired by the Fund as a result of purchases under stand-by arrangements, and to holdings acquired by the Fund as a result of purchases under an extended arrangement to the extent that the Fund's holdings of a member's currency resulting from purchases under the Facility exceeded 140 percent of quota. ^{2/} This charge is applicable to purchases under arrangements which took effect prior to the effective date of the SFF. The charge on such holdings is equal to the average yield to constant five-year maturity of U.S. Government securities (in New York) over the six months preceding the determination of the rate

^{1/} The main features of the Supplementary Financing Facility were set out for the information of Executive Directors in SM/79/84 (4/2/79), "Supplementary Financing Facility."

^{2/} Executive Board Decision No. 5732-(78/65), adopted April 24, 1978 and Executive Board Decision No. 5998-(79/1), adopted December 27, 1978. See also SM/78/301 (12/20/78).

of charge, rounded up to the next 1/4 of one percent, plus 1/4 of one percent. The charge calculated in the above manner yielded a rate of 11.75 percent for the six-month period ended December 31, 1983, compared with 10.50 percent in the previous half-year. Balances subject to this rate of charge amounted to SDR 7,066,667 as of the end of December 1983, and averaged SDR 8,171,739 for the six-month period ended December 31, 1983.

3. The following table sets out the interest rates and charges for the six months ended December 31, 1983, applicable under the loan agreements and schedules of charges mentioned in paragraphs 1 and 2 above.

| Period | Average yield to constant 5-year maturity on U.S. Government securities | Interest rate payable on SFF borrowing agreements | Rate of charge on purchases under the SFF for first 3 1/2 years | Rate of charge on purchases under the SFF after first 3 1/2 years | Rate of charge on exceptional use of Fund resources |
|---------------|---|---|---|---|---|
| <u>1983</u> | | | | | |
| July | 11.21 | | | | |
| August | 11.63 | | | | |
| September | 11.43 | | | | |
| October | 11.28 | | | | |
| November | 11.41 | | | | |
| December | 11.54 | | | | |
| July-December | 11.42 | 11.50 | 11.70 | 11.825 | 11.75 |

4. Executive Directors will continue to be advised after the determination of the rate following the conclusion of each calendar half-year. The average yields to constant five-year maturity on U.S. Government securities (monthly and weekly averages) are available in the monthly reports on developments in the foreign exchange and financial markets, which are issued in the Departmental Memoranda (DM) series.

Policy on Enlarged Access to the Fund's Resources--Net
Borrowing Cost and Periodic Charges Payable by Members

1. Net borrowing costs in relation to average outstanding purchases and the rate of charge for the use of borrowed funds under the policy of Enlarged Access to the Fund's Resources (EAR) were 10.40 percent and 10.60 percent, respectively, for the period of six months ended December 31, 1983. The corresponding rates were 10.56 percent and 10.76 percent per annum for the six months ended June 30, 1983.

2. Periodic charges payable by members on amounts purchased under EAR consist of the net borrowing costs payable by the Fund on the amounts borrowed to finance purchases under the EAR plus a margin of 0.2 percent per annum. ^{1/} Net borrowing costs for each half-year consist of the actual gross cost of borrowing less net income earned on the temporary employment of borrowed funds pending their disbursement. The actual gross cost of borrowing comprises interest paid or accrued to lenders on the average daily amounts of balances borrowed to finance purchases under EAR plus the amortized portion of costs incurred to obtain such balances. Net income earned on the temporary employment of borrowed funds pending their disbursement takes into account income received and accrued from investments, amortized actual operational costs incurred directly by the Fund in order to obtain investment income, and the net gain or loss, if any, calculated from exchange valuation adjustments of currency balances representing the undisbursed proceeds of borrowing in terms of the SDR.

3. During the six months ended December 31, 1983, an additional amount of SDR 1,070,000,000 was borrowed and there was a repayment of borrowing of SDR 72,133,333, bringing outstanding borrowing to SDR 6,187,866,667. In the same period there were 60 purchases financed from these borrowed resources totaling SDR 2,271,422,227 thus bringing the amount of purchases outstanding to SDR 5,287,100,559. At December 31, 1983, borrowed resources held in the Borrowed Resources Suspense Accounts amounted to SDR 900,630,396 and for the six months ended December 31, 1983, net income (including exchange valuation gains or losses) on the temporary employment of borrowed funds pending their disbursement amounted to SDR 63,942,692.

^{1/} See SM/81/48 (2/23/81) and SM/81/48, Correction 1 (3/20/81).
"Charges to be Levied on the Use of Borrowed Funds Under the Policy of Enlarged Access," and Rule I-6(5) of the Fund's Rules and Regulations.

4. The calculation of the rate of periodic charges for the period ended December 31, 1983, on the amounts purchased under the EAR is as follows:

| | |
|--|--------------------------|
| Gross borrowing costs | SDR 273,009,743 |
| Less net income on borrowed funds pending disbursement | <u>63,942,692</u> |
| Net borrowing costs | SDR 209,067,051 |
| Average daily balances of outstanding purchases | <u>SDR 3,987,599,168</u> |
| Net borrowing costs as a percentage of average daily balances of outstanding purchases | 10.40 |
| Margin | <u>0.20</u> |
| Rate of charge (percent) | <u>10.60</u> ===== |

5. Members of the Executive Board will continue to be advised of these rates following the conclusion of each calendar half-year period.