EBD/84/205

July 24, 1984

To: Members of the Executive Board

From: The Acting Secretary

Subject: Supplementary Financing Facility and Policy on Enlarged Access - Interest Rate and Charges for the Six Months Ended June 30, 1984

Attached for the information of the Executive Directors is a paper containing notes on (i) the interest rate and charges as regards the supplementary financing facility for the six-month period ended June 30, 1984, and (ii) the net cost of borrowing and periodic charges under the policy on enlarged access to the Fund's resources for the six-month period ended June 30, 1984.

Att: (1)

Other Distribution:
Department Heads

INTERNATIONAL MONETARY FUND

Supplementary Financing Facility and Policy on Enlarged Access - Interest Rate and Charges for the Six Months Ended June 30, 1984

Prepared by the Treasurer's Department

Approved by David Williams

July 23, 1984

I. Supplementary Financing Facility 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. 2/ 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 daily yields over the six-month period. The calculated average rate was 12.34 percent for the six-month period ended June 30, 1984, which yielded an interest rate of 12.375 percent payable on Fund borrowing under the SFF and rates of charges on purchases under the SFF of 12.575 percent and 12.70 percent. The corresponding rates in the July-December 1983 period were 11.42 percent, 11.50 percent, 11.70 percent, and 11.825 percent. In the period January 1-June 30, 1984, there has been one additional purchase financed under the Supplementary Financing Facility for SDR 200,000,000; over the same period, repurchases amounted to SDR 188,392,483; and at June 30, 1984, the amount of purchases outstanding was SDR 6,817,939,760.

1/ The calculation of charges on exceptional use of Fund resources is no longer necessary because since December 30, 1983, Fund holdings of no member's currency exceeded 200 percent of quota as a result of purchases under stand-by arrangements or 140 percent of quota as a result of drawings under extended arrangements that took effect prior to the effective date of the SFF. See Executive Board Decision No. 5732-(78/65), adopted April 24, 1978, Executive Board Decision No. 5998-(79/1), adopted December 27, 1978 and SM/78/301 (12/20/78).

2/ 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."

The following table sets out the interest rate and rates of charges for the six month ended June 30, 1984, applicable under the loan agreements and schedules of charges mentioned 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
1984				
January	11.37			
February	11.54			
March	12.02			
April	12.37			
May	13.17			
June	13.48			
January-June	12.34	12.375	12.575	12.70

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 published in the monthly reports on developments in the foreign exchange and financial markets, which are issued in the Departmental Memoranda (DM) series.

II. Policy on Enlarged Access to the Fund's Resources--Net Borrowing Cost and Periodic Charges

The total of net borrowing cost and imputed borrowing cost in relation to average outstanding purchases and the rate of charge for the use of resources borrowed under the Policy on Enlarged Access to the Fund's Resources (EAR) were 10.47 percent and 10.67 percent per annum, respectively, for the period of six months ended June 30, 1984. The corresponding rates were 10.40 percent and 10.60 percent per annum for the six months ended December 31, 1983.

Periodic charges payable by members on amounts purchased under EAR consist of (i) the net borrowing costs payable by the Fund on the amounts borrowed to finance purchases under the EAR and (ii) an imputed borrowing cost on the amount of ordinary resources that were used to repay loans falling due during the period and which had been used to finance purchases of borrowed currency, and (iii) 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. 2/ 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. The imputed borrowing cost on the amount of ordinary resources used to repay EAR loans falling due during the period and which had been used to finance purchases of borrowed currency is calculated in accordance with Rule I-6(5)(d), as amended. 3/

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"; see also SM/84/97 (5/1/84) and SM/84/97 Supplement 1, corrected (6/5/84): "Charges on Holdings Outstanding under the Policy on Enlarged Access - Amendment of Rule I-6(5)", and Rule I-6(5) of the Fund's Rules and Regulations. Paragraphs I-6(5)(d)(i) and I-6(5)(d)(ii) are reproduced in note 2 on page 5.

2/ These costs include amortization of the stand-by fee paid by the Fund to the Bank for International Settlements in connection with the borrowing arrangements effective April 30, 1984, and the costs associated with the printing of bearer notes.

3/ Rule I-6(5)(d) reads as follows:

"(d) (i) The imputed borrowing cost of the use of ordinary resources being used to finance purchases of borrowed currency shall be the product of the daily amount of such resources as determined in accordance with (ii) below multiplied by the rate of interest for the weekly period commencing each Monday calculated in accordance with the method set forth in Rule T-1(b) and (c) for determining the rate of interest on holdings of SDRs except that, in place of the rates or yields for the preceding Friday on the instruments listed in Rule T-1(c), the yields for the preceding Wednesday on the instruments specified under paragraph 3(b) of Annex A to the letter referred to in Executive Board Decision No. 6843-(81/75) adopted May 6, 1981, shall be used.

(ii) The amount of ordinary resources being used to finance purchases of borrowed currency is equal to the amount of the Fund's holdings of currency resulting from members' purchases of borrowed currency under the Policy on Enlarged Access less the outstanding amount of currency borrowed by the Fund to finance such purchases after deducting the amounts of currency held in the Borrowed Resources Suspense Accounts."

During the six months ended June 30, 1984, an additional amount of SDR 950,000,000 was borrowed and there were repayments of borrowings of SDR 23,014,771, of which SDR 20,662,044 was repaid by the use of ordinary resources, bringing outstanding borrowing to SDR 7,114,851,896. In the same period there were 46 purchases under the EAR totaling SDR 1,800,137,908, of which SDR 89,486,060 was financed by using ordinary resources, thus bringing the amount of EAR purchases outstanding to SDR 7,087,238,467. At June 30, 1984, borrowed resources held in the Borrowed Resources Suspense Accounts amounted to SDR 137,768,695 and for the six months ended June 30, 1984, net income (including exchange valuation gains or losses) on the temporary employment of borrowed funds pending their disbursement amounted to SDR 27,926,856.

The calculation of the rate of periodic charges for the period ended June 30, 1984, on the amounts purchased under the EAR is as follows:

Borrowing costs	SDR 343,195,173
Imputed borrowing costs	SDR 2,086,913
Total	SDR 345,282,086
Less net income on borrowed funds pending disbursement	SDR 27,926,856
Net borrowing costs	SDR 317,355,230
Average daily balances of outstanding purchases	SDR 6,093,617,832
Net borrowing costs as a percentage of average daily balances of outstanding purchases (percent)	10.47
Margin (percent)	0.20
Rate of charge (percent)	10.67

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