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EBS/83/133

CONFIDENTIAL

June 28, 1983

To: Members of the Executive Board

From: The Secretary

Subject: Review of the Policy on Access to the Fund's Resources - Financial Considerations

Attached for consideration by the Executive Directors is a paper reviewing the financial aspects of the policy on access to the Fund's resources.

This subject, together with the paper on general considerations (EBS/83/132, 6/27/83, and Correction 1, 6/28/83), has been scheduled for discussion on Monday, July 25, 1983.

Att: (1)

INTERNATIONAL MONETARY FUND

Review of the Policy on Access to the Fund's Resources--Financial Considerations

Prepared by the Treasurer's Department

(In consultation with other Departments)

Approved by David Williams

June 28, 1983

Introduction

As indicated in the staff paper, "Fund's Liquidity Position and Financing Needs" (EBS/83/59, 3/18/83) and the "Review of Enlarged Access Policy" (EBS/83/79, 4/20/83), the Fund's holdings of uncommitted usable ordinary resources are expected to be negative by the end of 1983 or early 1984, unless the Fund enters into new borrowing arrangements in the intervening period. Since those estimates were made, indications are that the demand for Fund credit has continued to rise steeply. It is now estimated that the Fund's commitment gap for borrowed resources is likely to be of the order of SDR 7-8 billion before the increase in quotas is expected to come into effect. The amount of uncommitted usable resources at the time the increases in quotas under the Eighth General Review come into effect is thus likely to be small, while the size of reserve tranche positions and loan claims on the Fund can be expected to total about SDR 40 billion.

It is further estimated that the underlying demand for Fund resources will continue strong in the period after the increase in quotas, while the Fund's holdings of uncommitted usable resources are estimated to fall sharply again in the period to April 1986. It is against this background of a relatively weak liquidity position in the immediate future that the revision of the access limits to the use of Fund resources needs to be considered. The Fund's liquidity position could, however, improve substantially after 1986 as a result of sizable reflows of resources resulting from members' repurchases with respect to drawings made beginning in 1981/82, if members' balance of payments positions had improved sufficiently by 1986/87 to allow a significant contraction of outstanding Fund credit.

The following sections deal with some of the main financial aspects of the policy on enlarged access in the light of the discussion at EBM/83/71-2 (5/18/83). Section I presents the results of a series of calculations regarding the demand for Fund resources under various hypothetical access limits for the period to April 1986; the consequent impact of this demand on the Fund's liquidity position and the need for

Fund borrowing to April 1986 are discussed in Section II; some of the factors bearing on the Fund's likely liquidity position after April 1986 are outlined in Section III; the effects of an illustrative phasing down of the access limits are presented in Section IV; related matters, including further analysis of the changes in the mixing ratio and simplifying the administration of the enlarged access policy, are discussed in Section V; and Section VI offers some conclusions.

I. Access Limits and Demand for Fund Resources to April 1986

As requested at EBM/83/71-2, Table 1 of EBS/83/79 has been expanded to include estimates of overall demand for the Fund's resources taking into account annual access limits ranging between 102 per cent and 150 per cent of the proposed quotas. Column (4) of Table 1 reproduces the country-by-country estimates made in March 1983 of commitments under arrangements for the period January 1984 to April 1986 and which were presented in EBS/83/79. Those estimates are based on the assumption that the present distribution and absolute levels of maximum access remain unchanged. They have not been updated for the current discussion in order to maintain comparability with EBS/83/59 and EBS/83/79. The potential demands for Fund resources are therefore recalculated in the subsequent columns of Table 1 with cumulative access limits set at four times the respective annual limits. The totals of use of the Fund's resources include a global estimate for smaller industrial countries; no commitments to major industrial countries are indicated by the Area Departments at this time.

As can be seen from Table 1 the larger the annual access limits, the greater is the estimated use of the Fund's resources in the period to April 1986. Annual access limits of 133 per cent and 150 per cent of proposed quotas would enlarge the range of estimates shown in EBS/83/79 from SDR 13.8 billion (access at 102 per cent of proposed quotas) and SDR 20.1 billion (access at 125 per cent) to SDR 21.6 billion and SDR 24.5 billion, respectively. Furthermore, it is to be noted that the largest absolute increases in estimated demand is shown by those members in very constrained external positions (Category I). Indeed, with the increase in access limits, the countries in Category I take an increasing share of Fund resources, rising from about one third of total demand at 102 per cent of access to two fifths of the total estimated use at 150 per cent of quota. From these estimates it would seem that the annual and cumulative limits act as a rationing device on Fund credit. In this connection, it will be recalled that these estimates make no provision for exceptional use under arrangements going beyond the stipulated limits, nor for purchases by major industrial countries, nor for purchases under the compensatory financing decision and buffer stock facility, nor for encashment of reserve positions and loan claims held in the Fund. These are severely limiting assumptions, and the overall potential demand for Fund credit is considerably larger than the

Table 1. Effect of Alternative Access Limits on Demand for Fund Resources (Commitment Basis) Under **Arrangements** 1/

(In billions of SDRs, except as indicated)

Debtor Fund members classified according to estimated propensity to use Fund resources in relation to proposed quota 2/	Present quota (1)	Proposed quota (2)	Use of Fund resources at end-1983 3/ (3)	Estimated commitments, January 1984 to April 1986: As in EBS/83/59 4/ (4)	Under alternative access limits 5/: 102 per cent (5)	110 per cent (6)	117 per cent (7)	125 per cent (8)	133 per cent (9)	150 per cent (10)
Developing countries										
I. Members in very constrained external position	4.6	6.5	*17.6* (379)	5.6 (332)	4.6	6.0	7.1	8.7	9.4	10.8
II. Members with relatively high potential financing needs	3.9	5.4	*10.8* (277)	3.9 (238)	4.1	4.4	4.6	5.2	5.5	6.2
III. Other members with present and prospective arrangements	6.8	9.3	*11.0* (162)	1.5 (123)	1.5	1.6	1.7	1.8	2.0	2.2
Subtotal (developing countries)	15.3	21.2	*39.4* (258)	11.0 (211)	10.2	12.0	13.4	15.7	16.9	19.2
Industrial countries	2.4	3.6	-- (—)	3.6 (100)	3.6	3.9	4.1	4.4	4.7	5.3
Total (all debtor members)	18.4	25.7	*39.4* (214)	14.6 (192)	13.8	15.9	17.5	20.1	21.6	24.5
Use of Fund resources at April 1986 1/				*49.3*	*48.5*	*50.6*	*52.2*	*54.8*	*56.3*	*59.2*

1/ Use of Fund resources under arrangements, shown in italics, is defined for the purposes of this table on a commitment basis, i.e., as estimated outstanding purchases plus prospective use as measured by undrawn balances under stand-by and extended arrangements.

2/ The classification of present and potential debtor members shown in this table is based on the probabilistic assessment by Area Departments of prospective use and commitment of Fund resources to individual developing countries under stand-by and extended arrangements. Group I contains two types of countries--those that are constrained by the annual limits implied by proposed quotas and those that obtain further access on the basis of the cumulative limit. For comparability with the estimates in EBS/83/59, no member is projected or estimated to reach the maximum cumulative limit; if some members were to obtain maximum use at the cumulative limits, approximately SDR 3-5 billion more of commitments would need to be added to the totals shown in Columns 5-10 of the table, as well as to that estimated in EBS/83/59 as shown in Column 4. For the members in Group II, commitments increase to a proportion (up to 75 per cent) of maximum access as indicated by the alternative access limits. Commitments for the remaining developing members (Group III) and for industrial countries are assumed to increase from those shown in Columns 4 and 5 in proportion to the average increase in access limits. Estimates for industrial countries, which are not based on a country-by-country approach, reflect a provision for the likelihood of arrangements with some of these members whose aggregate quota share could amount to 4 per cent of total quotas.

3/ Figures in parentheses represent use of Fund resources in relation to present quota, in per cent.

4/ These estimates reflect present access limits of 450 per cent of quota over a three-year period. Figures in parentheses are percentage ratios of use of Fund resources at April 1986 in relation to proposed quota.

5/ Access limits are expressed in terms of annual limits in relation to proposed quotas. Each of these alternative access limits is combined with a cumulative limit of four times the annual limit.

demand indicated for conditional assistance provided under stand-by and extended arrangements.

II. Financing the Use of Fund Resources to April 1986

Table 2 is an elaboration of Table 3 in EBS/83/79, which allows not only for greater variation in the annual and cumulative access limits to Fund resources but also shows the impact on the Fund's liquidity position, including the demand for borrowed resources, resulting from maintaining the present overall proportions of mixing ordinary and borrowed resources. The table is constructed on a number of assumptions, three of the more important being:

(i) there would be no commitment gap by the time the new quotas are expected to come into effect at the end of 1983 or early 1984; i.e., the new borrowing arrangements of the order of SDR 7-8 billion would be in place to cover commitments entered into before the new quotas come into effect. Indeed, it is assumed that the total of uncommitted usable ordinary resources available by the end of 1983 or in early 1984 remains of the order of SDR 5.5 billion (see Table 6 of EBS/83/59), and this amount would be carried forward for use together with the increased resources from the new quotas. An uncovered commitment gap could, of course, effectively reduce or even eliminate the total of uncommitted usable ordinary resources that would otherwise be available at the time the new quotas come into effect;

(ii) illustratively the mix of ordinary and borrowed resources is calculated at 1:1 up to present limits for use of ordinary resources, and thereafter financing would be entirely from borrowed resources. The liquidity effects of further illustrative mixing proportions are presented later in the paper; 1/

(iii) the broad range of estimates regarding possible absolute use of the Compensatory Financing and Buffer Stock Facilities in the period to April 1986 used in EBS/83/79 was retained. These estimates, it may be recalled, were based on present access and quota limits and did not provide for substantial purchases under the CFF by oil-exporting countries. No assumption is made regarding a comprehensive ceiling on the use of the Fund's resources, partly because of the difficulty in quantifying a particular distribution between the various sub-ceilings under the various facilities. However, it is to be noted that estimated use of the special facilities of the order of SDR 4-6 billion would be consistent with limits on the use of the facilities ranging between 50-70 per cent of proposed quotas, including estimates of purchases by major oil exporting countries. 2/ It would, of course, be possible to vary the range of potential use further. The estimate for reserve tranche purchases is largely suggestive of a possible order of magnitude.

1/ See pages 17-19.

2/ Based on the projections of annual purchases in Table 10 (p.15) of "Compensatory Financing Facility-Review of Experience," SM/83/131, (6/16/83).

Table 2. Estimates of the Fund's Liquidity Position
January 1, 1984 - April 30, 1986
with Illustrative Limits for Enlarged Access

	(SDR billions)
1. Supply of Uncommitted Ordinary Resources to April 30, 1986	
(a) Available at January 1, 1984 (see EBS/83/59, Table 2)	5.5 1/
(b) Add: (i) From quota payments (see EBS/83/59, Table 6)	15
(ii) *Repurchases, net of repayments to lenders*	5.4
(c) Total supply of usable ordinary resources to April 30, 1986	26 2/

2. Commitments under Arrangements through April 30, 1986	With Annual Access Limits of 102%	110%	117%	125%	133%	150%
Total (see Table 1)	13.8	15.9	17.5	20.1	21.6	24.5
-of which: (i) ordinary resources	5.5	6.0	6.5	7.0	8.0	9.0
(ii) borrowed resources (Assuming use of ordinary and borrowed resources in equal proportion)	8.3	9.9	11.0	13.1	13.6	15.5
3. Financing from Ordinary Resources through April 30, 1986 (assuming no use of the enlarged GAB)						
(a) Usable uncommitted ordinary resources (line 1(c) above)	26	26	26	26	26	26
(b) Deduct: *Demands on ordinary resources*						
(i) Commitments of ordinary resources under *arrangements* (line 2(i) above)	5.5	6.0	6.5	7.0	8.0	9.0
(ii) Repayment of short-term borrowing 3/	1.3	1.3	1.3	1.3	1.3	1.3
(iii) CF and BS purchases 4/	4.0-6.0	4.0-6.0	4.0-6.0	4.0-6.0	4.0-6.0	4.0-6.0
(c) Balance of uncommitted usable ordinary resources without allowance for any encashment of reserve tranche positions	13.2-15.2	12.7-14.7	12.2-14.2	11.7-13.7	10.7-12.7	9.7-11.7
Less encashment of reserve tranche positions 5/	5.0	5.0	5.0	5.0	5.0	5.0
(d) Balance of uncomitted usuable ordinary resources allowing for estimated encashment of reserve tranche positions	8.2-10.2	7.7-9.7	7.2-9.2	6.7-8.7	5.7-7.7	4.7-6.7
4. Memorandum Items						
(a) Need for Borrowed Resources to cover commitments: January 1, 1984 - April 30, 1986 (see line 2(ii) above)	8.3	9.9	11.0	13.1	13.6	15.5
(b) GAB Resources (see EBS/83/59, Table 6)	12.2	12.2	12.2	12.2	12.2	12.2
(c) Liquid Claims on the Fund	66-68	67-69	69-71	70-72	72-74	74-76
- of which Reserve Tranche Positions	41-43	41-43	42-44	42-44	43-45	44-46
Loan Claims	25	26	27	28	29	30
(d) Liquidity ratio (per cent) 6/	12-15	11-14	10-13	9-12	8-10	6-9

Note: The figures are subject to a substantial margin of variation in view of the many uncertainties.

1/ Assuming that the further borrowing need of SDR 7-8 billion through December 31, 1983 is arranged in full before that date.

2/ This total could be smaller or larger to the extent members' currencies are either excluded or added to the list of usable currencies.

3/ Credit lines under the arrangements with the BIS and central banks that are to be repaid prior to the corresponding repurchases.

4/ The range is the same as indicated in EBS/83/79.

5/ It is assumed that encashment of reserve tranche positions through April 30, 1986 may be of the same order as those held by members that now have current account deficit positions. This includes the estimate in EBS/83/59 of use of reserve tranche position in the order of SDR 1.5 - 2.0 billion through April 30, 1984.

6/ Ratio of uncommitted adjusted ordinary resources (including SDRs) to total Fund borrowing and total reserve tranche positions.

Even on the rather conservative assumptions underlying the construction of Table 2, the estimated use of the Fund's resources is expected to reduce the Fund's holdings of uncommitted usable ordinary resources to relatively low levels by April 1986. On the basis of an annual access limit of 102 per cent of proposed quotas, and taking account of CF and reserve tranche purchases, usable ordinary resources are estimated to fall to the order of SDR 9 billion by April 1986 (line 3(d) of Table 2); on the assumption of an annual access limit of 150 per cent of proposed quotas, the level of usable resources falls to the order of SDR 6 billion. The need for Fund borrowing on the basis of a mixing ratio of 1:1 ranges from SDR 8.3 billion for an annual access limit of 102 per cent to SDR 15.5 billion for an annual access limit of 150 per cent of quota (line 4(a) of Table 2). To the extent these borrowing requirements are not met, or to the extent a mix resulting in relatively greater use of ordinary resources was adopted, the balances of uncommitted usable ordinary resources will be lower than estimated. 1/ Against these usable assets, the total of liquid claims on the Fund are estimated to range between SDR 66 billion and SDR 75 billion.

These estimates show that the Fund's liquidity position, taking into account the access limits within the range already discussed, is likely to be under very considerable strain again by mid-1986 and that the Fund will need to borrow on a substantial scale early in the period following the coming into effect of the increases in quotas under the Eighth General Review. The relatively low level of uncommitted usable resources by mid-1986 raises the issue whether there would be sufficient scope, without advancing the Ninth General Review of Quotas, to use ordinary resources on a possibly more intensive scale in the financing of Fund operations in the latter part of this decade, i.e., in the period after April 1986 and before the Ninth General Review of Quotas is likely to be effective. The following Section considers some of the factors bearing on Fund liquidity after 1986, particularly to the extent that they may have a bearing on the present review of the access limits and related matters which affect the demand for Fund resources in the period to April 1986.

III. Demand for Fund Resources April 1986 to April 1989

It is not possible, of course, to indicate the likely overall demand for Fund resources, or its distribution, during the latter part of this decade. However, three considerations have a bearing on this issue: first, the large scale repurchases anticipated after 1986,

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1/ With no new borrowing over the period, the uncommitted usable ordinary resources would amount, as a point estimate, to the order of SDR 0.7 billion on the assumption of an annual access limit of 102 per cent and to -SDR 9.5 billion on the assumption of a 150 per cent annual access limit.

and associated repayments of debt, would, unless offset by further use of the Fund's resources, result in a substantial contraction of Fund credit for a large number of members. While it may be reasonable to assume that in general the need for Fund credit by the non-oil developing countries might be expected to fall after 1986, it may be questioned whether it could realistically be expected that these members could absorb a large net contraction in Fund credit unless the international financial markets would be in a position to extend balance of payments financing on a more than compensatory scale. 1/ Secondly, and perhaps as significant, it might be assumed that demand for Fund credit would be relatively low from most of the major industrial countries. Third, following a relatively long period of comparatively heavy borrowing by the Fund, it might be expected that the Fund should again rely relatively more on its ordinary resources to finance its transactions and operations, and rely relatively less on borrowed resources. 2/

In the light of the above, the practical issue that arises is what is the appropriate level of uncommitted ordinary resources that might be needed by April 1986, taking into account both the inflow of resources from repurchases and potential effective demand for Fund credit which would reflect the agreed limits on the use of Fund resources. The lower the level of ordinary resources that is likely to be needed by that date, for whatever reason, the larger could be the access to the Fund's resources for the period up to 1986, or the smaller the borrowing requirement over the same period.

Table 3, which, except for the mixing proportions, is based on the same assumptions and estimates as in Table 2, illustrates the relationships between a desired target level of uncommitted ordinary resources at end April 1986, the mixing proportions, and borrowing needs for the period January 1984 to April 1986. The estimated demand for the Fund's resources under different levels of access are the same as those shown in Table 1 above. Also, the figures are based on the standard assumption that CF purchases in the 2 1/3 year period to April 1986 would be in the order of SDR 4-6 billion, that repayment of short-term debt would be financed fully from ordinary resources, and that encashment of reserve tranche positions would amount to a total of SDR 5 billion.

1/ In this connection, it is noteworthy that the aggregate of Fund quotas (SDR 90 billion) would remain at a very small proportion of less than 5 per cent of world imports on the basis of an extrapolation of the WEO central scenario.

2/ As indicated in EBS/83/79, with broadly the present mixing proportions and access between 102 and 125 per cent of proposed quotas, and assuming that about three quarters of the commitments made in the period to April 1986 would in fact be purchased during that period, outstanding borrowing by the Fund by April 1986 is estimated to be in the range of SDR 32-37 billion which would be around 35-40 per cent of the total of proposed new quotas.

Table 3. Uncommitted Ordinary Resources at end April 1986 and Associated Borrowing Needs with Various Mixing Proportions

(In billions of SDRs)

Mixing Proportions Under Arrangements (OR to BR)	Uncommitted Usable Ordinary Resources at April 30, 1986	Borrowing Needs January 1984 - April 1986 at Levels of Annual Access 1/					
		102%	110%	117%	125%	133%	150%
1:0.5	6-8	6.5	8.5	9.5	10.5	12.0	15.0
1:0.7	7-9	7.0	9.0	10.0	11.5	13.0	16.0
1:1	8-10	8.5	10.0	11.0	13.0	14.0	17.0
1:2	9-11	9.5	11.0	12.0	13.5	15.0	18.0
1:3	10-12	10.5	12.0	13.0	15.0	16.0	19.0

1/ The amounts are those estimated to match borrowing needs (rounded to the nearest SDR 0.5 billion) with the indicated mixing ratios and the Fund's holdings of uncommitted usable ordinary resources so that they fall within the range shown. Relatively small adjustments in borrowing needs have been made where ordinary resources would be different from the ranges. The unrounded estimates, and without adjustments needed to maintain uncommitted usable ordinary resources at a particular level, are shown in Table 7, and Appendix Tables I-IV.

As can be seen from Table 3, the mixing proportions are varied from 1:0.5 (ordinary resources to borrowed resources) to 1:3 resulting in correspondingly higher levels of holdings of the Fund's uncommitted ordinary resources and larger needs to borrow to April 1986 at the same level of access. More specifically, the Fund's borrowing need is estimated to vary from SDR 6.5 billion to SDR 19 billion for the 2 1/3 year period depending on whether uncommitted ordinary resources by early 1986 should be projected at SDR 6-8 billion or SDR 10-12 billion. For example, if it is assumed that the level of uncommitted ordinary resources should be of the order of SDR 8-10 billion by April 1986, and the new access limits are fixed at 125 per cent of proposed quotas, then the mixing ratio should be set at 1:1 in order to limit the Fund's borrowing to about SDR 13 billion in the intervening period to April 1986. Alternatively, it would be possible to conserve the Fund's resources by raising the mixing ratio and also lowering the access limits.

While it is not possible to estimate the likely demand for Fund resources in the period after April 1986, two considerations need to be taken into account that might indicate an order of magnitude of the level of uncommitted ordinary resources that the Fund might need to hold by April 1986. First, account must be taken of the reflow of resources to the Fund as a result of repurchases, net of repayment of borrowing, made with respect of drawings made prior to 1984. Second, consideration would need to be given to the extent to which the Fund would need to continue to finance members' balance of payments needs in the period from early 1986 to the time the quotas would be next increased, say, in 1988/89 under the Ninth General Review of Quotas, depending in part on the access limits, the mixing proportions that had been decided upon, and also on other measures that had been taken to conserve the Fund's ordinary resources in the meantime.

Table 4 shows the reflow of ordinary resources for the period January 1984 to April 1989 from repurchases, i.e., net of repayments of loans by the Fund. As can be seen from the table, the stream of repurchases of ordinary resources is estimated to total almost SDR 23 billion for the three years ending April 1989. These estimates derive from the estimates of use of the Fund's resources to end 1983 at the present levels of maximum access for the period through April 1986 as presented in EBS/83/59. Smaller use of the Fund's resources or mixing ratios that emphasized greater use of borrowed resources would, of course, result in a correspondingly smaller total of repurchases, net of repayment of loans. On the other hand, a mixing ratio with relatively greater emphasis on the use of ordinary resources would result in a larger volume of repurchases after 1986.

Table 4. Estimates of Repurchases Adding to the Fund's Usable Ordinary Resources 1/

(In billions of SDRs)

Year to April 30	Based on purchases up to April 30, 1983	Under subsequent purchases up to April 30, 1986: Under Arrangement	Under subsequent purchases up to April 30, 1986: CF	Total
January - April, 1984	0.3	--	--	0.3
1985	2.3	--	--	2.3
1986	2.8	--	--	2.8
1987	3.6	1.8	0.8	6.2
1988	2.4	4.7	2.1	9.2
1989	0.3	4.7	2.4	7.4
	11.7	11.2	5.3	28.2

1/ The estimates for the year to April 30, 1987 and through 1989 are based on the assumption that purchases are made in accordance with the estimates to end 1983 and thereafter on present maximum access as shown in Table 1, Col. (4) above.

The projected flow of repurchases from about late 1986 to April 1989 is relatively large, amounting in total to approximately SDR 38 billion, of which SDR 15 billion represent drawings financed with borrowed resources, and the remainder, amounting to approximately SDR 23 billion, represent drawings financed by use of the Fund's ordinary resources. In contrast, the Fund's liquidity position for the immediately preceding period from late 1985 to late 1986 is estimated to be one of exceptional stringency. Furthermore, by April 1986, the liquid claims on the Fund might be estimated at approximately SDR 70 billion. In view of this relatively large total of liquid liabilities, and the rapid increase in the total of such claims over the preceding three years, it would seem essential to maintain a total of usable assets that is sufficiently high to retain fully the confidence of holders of reserve tranches and loan claims in the liquidity and, in times of need, in the usability of these assets. In these circumstances, the proportion of uncommitted usable resources to the Fund's liquid liabilities should perhaps not fall below 10 per cent, i.e., of the order of SDR 6-8 billion, while also providing the Fund with sufficient flexibility to meet demand for its conditional resources in the period prior to the reflow of resources through repurchases. 1/ Broadly, it may be prudent to maintain a total of uncommitted usable ordinary resources within the range of SDR 8-10 billion by April 1986.

As indicated in Table 2 above, the amount of uncommitted usable ordinary resources that would be available in the period from late 1983 or early 1984 to April 1986 would be of the order of SDR 26 billion (provided there was no commitment gap at the outset of the period when the new quotas come into effect) to finance commitments under arrangements, purchases under the special facilities, and repayment of short-term debt. Because the volume of usable ordinary resources to April 1986 is small both in absolute amounts and relative to potential demands, and after taking into account the desired level of holdings of usable ordinary resources by April 1986, various means might need to be considered that would tend to conserve the use of the Fund's ordinary

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1/ As noted above, it is not possible at this stage to indicate, even within a wide margin, the likely demands for use of the Fund's resources in the period between April 1986 and April 1989. However, on the assumption that the net demand for Fund credit is approximately equivalent to the inflow of resources from repurchases with respect to prior use of the Fund's ordinary resources--i.e., of the order of SDR 23 billion--the Fund's liquidity ratio (i.e., the ratio of uncommitted usable assets to outstanding reserve tranche positions and loan claims) would rise from almost 10 per cent to about 20 per cent by April 1989, i.e., the Fund will repay the equivalent of outstanding borrowed resources. If approximately SDR 19 billion of the projected repurchases of SDR 38 billion were used to finance new purchases, the improvement in the Fund's liquidity position would be considerably greater. The greater the contraction in the volume of outstanding Fund credit, the greater the improvement in its liquidity position.

resources in the period following the coming into effect of the new quotas. These measures, some of which would have implications for the overall size of the access limits, could also include changing the mixing ratio. Consideration could also be given to substitute with borrowed resources part of SDR 4-6 billion of ordinary resources presently estimated to be used in the financing of purchases under the special facilities.

IV. Illustrative Phasedown of Enlarged Access Limits

At EBM/83/71-72 some Executive Directors stressed the need to reduce over time the access limits under the enlarged access policy. In their view the phasedown of the access limits would not only underscore the temporary nature of the enlarged access policy, but a return to lower access limits would be consistent with the intent that the Fund should normally finance members' access to its resources from its holdings of ordinary assets rather than undertake borrowing over a relatively long period of time. 1/ This section discusses, mainly from the point of view of the effects on the Fund's liquidity position, various forms of phasing down the enlarged access limits to a level that remains significantly above the traditional access limit by April 1986 but might be financeable from ordinary resources.

Any reduction in annual access limits over a period of time raises immediately the issue not only of the profile of the reduction of the annual limits but also of the relationship between annual and cumulative limits. At present the cumulative limit is set at four times the annual

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1/ In this connection, it will be recalled that over the long term, and on past relationships, it was probable that the Fund could finance access to the Fund's resources at a cumulative limit that was substantially in excess of 100 per cent of quota without continuing resort to borrowing. See "Size of the Overall Increase in Fund Quotas and Related Issues," EB/CQuota/82/9 (10/13/82). It may be noted, however, that irrespective of the size of the Fund, the ratio of usable Fund resources to the demand for Fund resources will determine the access ratio that can be financed from quota resources. For example, if usable resources accounted for 50 per cent of total quotas and debtor members represented 25 percent of total quotas, the financeable access limit is 200 per cent of quota. Historically, the balance between supply and demand in the Fund's quota structure has generally been positive and this would allow, without recourse to Fund borrowing, for access ratios significantly greater than 100 per cent. If the balance diminished significantly, the Fund could have a need to borrow at relatively small access limits. In 1984-86, the financeable margin above the traditional access rule depends not only on the balance between demand and supply of usable quota resources but also on the extent to which the Fund wishes to finance enlarged access by borrowing and by considerations of preserving its liquidity. Appendix Table V provides a historical series on the self-financing ratio for the Fund.

limit. New annual and cumulative limits--which would not need to be the same for each year of multi-year arrangements--would be applied at the time that an arrangement is agreed and would not, of course, apply to arrangements outstanding at the time the new policy on access limits came into effect. Furthermore, and because a large proportion of the prospective demand for Fund financing is expected to be concentrated in the earlier part of the period after the new quotas come into effect, it would seem reasonable to allow for an annual limit that for, say, the year following the coming into effect of the new quotas would at least approximately maintain, in absolute amounts, the present annual limit, i.e., 102 per cent to 125 per cent of new quota, as discussed in EBS/83/79. Thereafter, a number of alternative forms of reduced annual access limits could be set, of which two forms are presented in schematic form in Table 5. For example, under Method A, it would be possible to maintain the same annual limit for each year of an arrangement entered into in the first year following the coming into effect of the quota increase--i.e., 102 per cent each year for up to three years--but reduce the annual limit to, say, 85 per cent, for arrangements entered into in the second year following the coming into effect of the new quotas. A further reduction could be envisaged for arrangements concluded in the third year. This method, which is illustrated in Schemes I-III in Table 5 could, however, induce a rush by members to enter into three year extended arrangements in the period immediately following the coming into effect of the new quotas.

An alternative phasedown of the annual access limits is illustrated in Method B in Table 5. That method could provide for a given reduction in the initial annual limit, for example, 15 per cent in each of the two successive years--e.g., 102 per cent, 85 per cent, and 70 per cent in 1984, 1985, and 1986 (or 125 per cent, 100 per cent and 80 per cent). These annual limits would also apply in successive years of arrangements entered into in 1984, as shown, for example, in Scheme IV of Table 5. Other variants of Method B using different illustrative schedules of annual limits are shown in Schemes V, VI, and VII of Table 5.

The cumulative limit to the Fund's resources applies essentially to the total amount of Fund credit extended to a member, and its significance as a rationing device of the size of new commitments is therefore that it depends not only on outstanding use of Fund credit by a member but also on the size and timing of scheduled repurchases. Variations in cumulative limits could be considered which would have varying effects on the use of the Fund's resources. If, for example, the cumulative limit was set significantly less than four times the proposed annual limit, a relatively sharp reduction of access to Fund credit could result in the future (Schemes I, II, III, IV(c), V(a) and VI). If the annual limits decline relatively fast, keeping the cumulative limit at four times the annual limit would reduce cumulative access proportionately (Scheme IV(a)). On the other hand, setting the cumulative limit at four times the annual limit in 1984 but at somewhat higher multiples of the annual limits in the following years would allow not only for a decline in annual access limits but also for a compensating slowdown in the decline in cumulative access limits from approximately the

Table 5. Illustrative Schedules of Maximum Access Limits

(In per cent of proposed quota)

Period covering the inception of arrangement (1)	Limit applied to new commitments agreed during period shown in col.(1) subject to cumulative limit shown in col. (5): One-year arrangement (2)	Two-year arrangement (3)	Three-year arrangement (4)	Cumulative limit applied to outstanding purchases (5)
Method A:				
Scheme I				
1984	102	204	305	407
1985	85	170	255	325
1986 1/	70	140	210	245
Scheme II				
1984	102	204	305	407
1985	95	190	285	304
1986 2/	85	170	255	300
Scheme III				
1984	125	250	375	500
1985	100	200	300	350
1986 3/	75	150	225	250
Method B:				
Scheme IV				(a) (b) (c)
1984	102	187	257	407 407 407
1985	85	155	210	340 374 325
1986 4/	70	125	180	280 343 245
Scheme V				(a) (b)
1984	110	205	290	407 440
1985	95	180	235	304 410
1986 4/	85	140	195	300 387
Scheme VI				
1984	125	225	300	500
1985	100	175	250	350
1986 3/	75	150	225	250
Scheme VII				
1984	125	225	305	500
1985	100	180	235	450
1986 4/	80	135	190	407

Note: For extended arrangements, i.e., those exceeding one year in duration, Method A employs a multiple of the annual limit indicated at the inception of the arrangement (Schemes I-III) and Method B involves a summation of the annual limits as scheduled over time (Schemes IV-VII). For example, a two-year arrangement commencing in 1985 under Method A-Scheme I would be subject to a limit of 170 per cent and under Method B-Scheme IV, 155 per cent.

1/ Annual/triennial/cumulative limits of 55/165/165 per cent in following years.
2/ Annual/triennial/cumulative limits of 75/225/270 per cent in following years.
3/ Annual limit maintained at 75 per cent in following years.
4/ Annual limit of 55 per cent in following years.

present levels of 600 per cent of present quota. Such a schedule of cumulative limits could be derived as a moving average, e.g., for arrangements obtained in 1985, the cumulative limit is four times the average annual limit in that year and in 1984, and for arrangements obtained in 1986, the cumulative limit is four times the average annual limits in 1984-86 (see Schemes IV(b), V(b), and VII in Table 5). For example, in illustration (b) of Scheme IV annual access limits are set at 102 per cent, 85 per cent, and 70 per cent in 1984, 1985, and 1986 and are combined with cumulative limits of 407 per cent, 374 per cent, and 343 per cent, respectively. If a member were to obtain a three-year arrangement in 1984, the potential maximum access would be the lesser of 257 per cent of new quota and the amount allowed by a 407 per cent cumulative limit, which would take into account outstanding use of the Fund's conditional resources. If a member enters into a two-year arrangement in 1985, it could obtain up to 155 per cent of new quota subject to a 374 per cent limit on outstanding purchases under the arrangement.

Table 6 provides a summary of estimated use, on a commitment basis, of the Fund's resources under arrangements on the basis of the various fixed and declining access limits illustrated in Table 5. As can be seen from Table 6, commitments estimated in March 1983 in EBS/83/59, which assumed access limits of 150 per cent (annual) and 600 per cent (cumulative) of present quotas, total SDR 14.6 billion for the January 1984 to April 1986 period (Col. 4). After taking into account scheduled repurchases, those limits imply a net increase in credit under arrangements of almost SDR 10 billion (Col. 5). As shown in Col. (4) of Table 6, the total of new commitments would be reduced by close to SDR 1 billion under hypothetical annual access limits of 102 per cent of proposed quota (combined with a cumulative access of 407 per cent). On the other hand, an annual access limit of 125 per cent would permit a net increase in Fund credit of SDR 15.4 billion.

It may be noted that the access limits used in EBS/83/59 and EBS/83/79 and reproduced in the upper part of Table 6 are fixed over time. The distribution of estimated commitments over time nonetheless indicate a considerable bunching in 1984, and a sharp decline in commitments occurs in subsequent years. In this latter respect, it is significant to note that in terms of new commitments the cumulative limit becomes increasingly restrictive over time as members' outstanding use of Fund credit increase relative to quota until repurchases begin. After April 1986, a given cumulative limit in terms of quota becomes less restrictive because of the large volume of scheduled repurchases which, however, in themselves would be a major contractionary element in members' net use of Fund credit.

Lines 4-10 of Table 6 illustrate the effects of phasing down access limits under the various schemes shown in Table 5. As might be expected, the total of estimated commitments would be below SDR 14.6 billion estimated in EBS/83/59 if the access limits are set below 110 per cent (annual) or below 440 per cent (cumulative) of proposed quotas (see

Table 6. Estimated Commitments and Net Increase in Use of Fund Resources (Commitment Basis) Under Arrangements Based on Alternative Access Limits

(In billions of SDRs)

Access limits for 1984-86, annual limits (a) and cumulative limits (c), in per cent	Estimated commitments based on fixed and declining access limits over time				Net increase in use of the Fund 1/
	1984 (1)	1985 (2)	Jan.-Apr. 1986 (3)	Total 1984-Apr. 1986 (4)	(5)
Present guidelines applied to present quotas (EBS/83/59 estimates)	9.8	3.8	1.0	14.6	9.9
Alternative access limits based on proposed quotas					
Fixed limits (EBS/83/79 estimates)					
1. a = 102, c = 407	9.3	3.5	1.0	13.8	9.1
2. a = 110, c = 440	11.1	3.8	1.0	15.9	11.2
3. a = 125, c = 500	14.6	4.4	1.1	20.1	15.4
Declining limits 2/					
Method A					
4. Scheme I (a = 102, 85, 70; c = 407, 325, 245)	9.5	2.6	0.7	12.8	8.1
5. Scheme II (a = 102, 95, 85; c = 407, 304, 300)	9.5	2.5	0.7	12.7	8.0
6. Scheme III (a = 125, 100, 75; c = 500, 350, 250)	14.6	3.2	1.0	18.8	14.1
Method B					
7a. Scheme IV (a = 102, 85, 70; c = 407, 325, 245)	9.3	2.6	0.7	12.6	7.9
7b. Scheme IV (a = 102, 85, 70; c = 407, 340, 280)	9.3	2.7	0.7	12.7	8.0
7c. Scheme IV (a = 102, 85, 70; c = 407, 374, 343)	9.4	3.1	0.7	13.2	8.5
8a. Scheme V (a = 110, 95, 85; c = 407, 304, 300)	10.1	2.6	0.8	13.5	8.8
8b. Scheme V (a = 110, 95, 85; c = 440, 410, 387)	11.7	3.4	0.9	16.0	11.3
9. Scheme VI (a = 125, 100, 75; c = 500, 350, 250)	14.3	3.2	1.0	18.5	13.8
10. Scheme VII (a = 125, 100, 80; c = 500, 450, 407)	14.6	4.0	1.2	19.8	15.1

1/ As in Table 1 in this paper and in Table 2 (EBS/83/79), use of Fund resources under arrangements is defined on a commitment basis, i.e., including undrawn balances. The net increase in use of the Fund for the period January 1984 to April 1986 reflects scheduled repurchases inflows to the Fund of SDR 1.5 billion, SDR 2.3 billion, and SDR 0.9 billion in 1984, 1985, and January-April 1986, respectively.

2/ The annual limits (a) and cumulative limits (c) indicated are for each of the periods 1984, 1985, and January-April 1986. For arrangements that extend beyond one year, a multiple of annual limits at the inception of the arrangement (Schemes I, II, and III) or a summation of annual limits as scheduled over time (Schemes IV-VII) would apply to new commitments (see Table 5).

lines 4, 5, and 7 of Table 6). On the other hand, access limits which at least maintain the present level of demand in the initial year of the new quotas coming into effect, and then subsquently decline, could broadly accommodate demand as originally projected on the basis of present guidelines and present quotas, as illustrated in lines 6, 8(b), 9 and 10 of Table 6. A schedule with an initial annual limit of 110 per cent which was combined with a cumulative limit of less than four times the initial annual limit (Scheme V, line 8(a) of Table 6) implies a net increase in the use of Fund resources slightly below SDR 9.9 billion projected in EBS/83/59. This effect arises principally because of the bunching of demand that has already been indicated under access limits that are fixed over time. If the demand for Fund credit were to be spread more evenly, the phasedown of annual access limits could not only be more gradual, but in the event that the initial access limit was set at somewhat less than 110 per cent of quota in 1984, and combined with cumulative limits of four times the annual limit, the total of Fund credit would also not fall much below the level estimated in EBS/83/59 under present absolute levels of access to the Fund's resources.

V. Related Matters

1. Use of ordinary and borrowed resources

As discussed in EBS/83/79, the present procedures which determine the use of ordinary and borrowed resources in connection with stand-by and extended arrangements including enlarged access are not only complicated but sometimes uneven in their impact on members. Three aspects in particular give rise to difficulties regarding the use of ordinary and borrowed resources: (i) the "catching up" requirement, whereby members that have used ordinary resources which have not been accompanied in the appropriate proportions by use of borrowed resources must initially purchase borrowed resources of the same amount; (ii) "reverse catching up", whereby a member whose outstanding use of borrowed resources exceeds that of the corresponding use of ordinary resources initially purchases ordinary resources in order to "rematch" the use of borrowed resources with ordinary resources; and (iii) the fact that the amount of ordinary resources used in connection with an extended arrangement is disregarded for the purpose of determining the amount of ordinary and borrowed resources under subsequent stand-by arrangements with the same member.

As mentioned in EBS/83/79, the present complexities of the mixing procedures could be largely eliminated and the procedures for determining the use of resources in connection with the enlarged access policy greatly simplified if previous use of ordinary and borrowed resources were disregarded--i.e. by (i) eliminating the catching up and reverse catching up provisions and (ii) adopting the same ratio of borrowed to ordinary resources under both stand-by and extended arrangements, and eliminating use of borrowed resources in connection with first credit tranche purchases under stand-by arrangements.

In order to determine the effect of the proposed simplification of the mixing procedures on the Fund's liquidity position and borrowing requirements, a simulation has been made of the commitment of ordinary and of borrowed resources in the period January 1984 through April 1986 under the present and under the proposed method of financing purchases under stand-by and extended arrangements. The simulations were based on the projected use of Fund resources shown in Table 2 of EBS/83/79 and Table 1 of the present paper; they were restricted to the hypothetical access limit of 125 per cent of quota per year and 375 per cent over a three-year period. The results of the simulation can, however, be considered generally applicable because most of the arrangements actually projected in EBS/83/79 exhaust the member's access to ordinary resources and additional amounts of assistance are financed exclusively from borrowed resources.

In EBS/83/79, total new commitments were projected at SDR 20.1 billion, which under present mixing arrangements would be financed with SDR 6.8 billion of ordinary resources and SDR 13.3 billion of borrowed resources. Under the proposed simplified mixing procedure, the use of ordinary resources would be SDR 7.0 billion and borrowed resources would amount to SDR 13.1 billion. In comparison with the total of commitments, the shift from the use to ordinary from borrowed resources and the effect on the Fund's liquidity position and borrowing requirements thus are insignificant.

The fact that the proposed change in mixing provisions would not have any marked effect on the Fund's liquidity position and its borrowing requirements does not, of course, mean that individual members will remain unaffected by the proposed change. Members will normally still make the same aggregate use of borrowed and ordinary resources, but there will be differences for individual members arising from the timing of purchases financed by one or the other source of funds, and from the credit tranche position of the member.

(i) As regards the timing of use of Fund resources, the elimination of the "catching up" provisions would have no effect on members that had not used Fund resources in the last five years, while members that had recently used Fund resources under the credit tranches without enlarged access would no longer need to "catch up" by first using borrowed resources. On the other hand, members that had made extensive purchases since the availability of supplementary finance, and will be making substantial repurchases, would use borrowed resources in a new arrangement somewhat earlier (but, <u>in toto</u>, normally not to a larger extent) than under the present system;

(ii) as regards the credit tranche position of a member, the elimination of the use of borrowed resources in the first credit tranche would shift use of borrowed funds to a later stage of an arrangement. It would also reduce the amount that would be available to the member without phasing within the context of the first credit tranche. However, this can generally be taken into account when the phasing of purchases is determined;

(iii) as regards the mixing ratio, replacing the ratio of 1 part ordinary resources to 1.2 parts borrowed resources in the upper tranches of a stand-by arrangement by a uniform ratio would result in a modest shift of the use of borrowed resources into the later periods of an arrangement, but would generally not affect the total use of ordinary and borrowed resources under an arrangement.

The replacement of the presently diverse mixing ratios by a uniform ratio and the elimination of the use of borrowed resources in the first credit tranche would result in a modest shift toward greater use of borrowed resources into the later periods of an arrangement, but would not generally affect the total use of ordinary and of borrowed resources under an arrangement for an individual member.

2. Changing the ratio of ordinary and borrowed resources

Questions were also raised at EBM/83/71-2 regarding the effect on the Fund's borrowing requirements of raising the proportion of borrowed resources used in purchases. The earlier review of the policy of enlarged access (EBS/83/79) had suggested that consideration could be given to such a change in the mix in order to avoid unduly rapid depletion of the Fund holdings of ordinary resources.

As was pointed out in EBS/83/79, the use of ordinary resources would be reduced only when the mixing ratio is raised to the extent that members are no longer making full use of the upper credit tranches; for arrangements that extend beyond the credit tranches (or the limit of 140 per cent applicable for extended arrangements) only the timing of the use of borrowed resources will be changed, and not the overall amount. Accordingly, the decrease in the use of ordinary resources is comparatively small for moderate changes in the mixing ratio, say, from 1:1 to 1:2, because most members projected to use the Fund's resources in the period to April 1986 would continue to exhaust available ordinary resources although somewhat later during the life of an arrangement. The effect of the increase in the mixing ratio would for these members thus lead only to an earlier use of borrowed resources. Mixing ratios between 1:0.5 and 1:3 would result in the use of ordinary and borrowed resources under various access limits as follows:

Table 7. Use of Ordinary Resources and Borrowed Resources at Different Mixing Ratios

Access limits (Per cent of quota per year)	Source of Finance	Mixing Ratio 1:0.5	1:0.7	1:1	1:2	1:3
102	ordinary resources	6.5	6.0	5.5	4.5	3.5
	borrowed resources	7.3	7.8	8.3	9.3	10.3
110	ordinary resources	7.5	7.0	6.0	5.0	4.0
	borrowed resources	8.4	8.9	9.9	10.9	11.9
117	ordinary resources	8.0	7.5	6.5	5.5	4.5
	borrowed resources	7.5	10.0	11.0	12.0	13.0
125	ordinary resources	9.5	9.0	7.0	6.5	5.0
	borrowed resources	10.6	11.1	13.1	13.6	15.1
135	ordinary resources	10.0	9.5	8.0	7.0	5.5
	borrowed resources	11.6	12.1	13.6	14.6	16.1
150	ordinary resources	11.5	10.5	9.0	8.0	6.0
	borrowed resources	13.0	14.0	15.5	16.5	18.5

Source: Table 2 and Appendix Tables I-IV.

As can be seen from Table 7, a doubling of the mixing ratio from equal parts of ordinary to borrowed resources to using borrowed funds of twice the amount of the Fund's own resources would lead to lower use of ordinary resources from SDR 5.5 to SDR 4.5 with annual access limits of 102 per cent and from SDR 7.0 million to SDR 6.5 million with annual access limits of 125 per cent of quota, and correspondingly raise the use of borrowed resources. Conversely, at lower mixing ratios the Fund's borrowing requirements would decline, but so would its holdings of uncommitted usable ordinary resources.

A change in the mixing ratio would not only affect the use of ordinary resources and borrowed resources under future arrangements, but would also apply to undrawn balances under arrangements already in existence and thus require a recalculation of the distribution between the sources of finance for these balances. As it seems likely that any change in the mix would be made only after the enlarged quotas of the Eighth Review have entered into effect, it would seem reasonable to make the recalculation on the basis of the new quotas. On that basis, and if a uniform mixing ratio of 1:1 were adopted, the availability to members of ordinary resources would tend to increase under existing arrangements and arrangements projected to be in effect by end-1983 from SDR 4.3 billion to SDR 6.7 billion, or by about SDR 2.4 billion, with an equivalent reduction in the use of borrowed resources, as shown in Table 8 below. The shift to ordinary resources would be much smaller--in the order of SDR 600 million--at a mixing ratio of 1:2, while at a higher ratio the use of ordinary resources would be reduced:

Table 8. Use of Ordinary and Borrowed Resources in Arrangements in Effect at end-1983 at Different Mixing Ratios 1/

(In billions of SDRs)

Source of Finance	Present Distribution	Mixing Ratio 1:0.5	1:0.7	1:1	1:2	1:3
Ordinary resources	4.4	7.6	7.2	6.7	4.9	3.7
Borrowed resources	10.4	7.2	7.6	8.1	9.9	11.1

1/ Refers to projected undisbursed balances under stand-by and extended arrangements to be in effect at end-1983.

3. Floating the extended facility above quota level

Under the Executive Board Decision establishing the Extended Facility, a member which avails itself of that Facility may retain any first credit tranche that it may have. Holdings resulting from purchases under the Extended Facility are not taken into account when determining a member's position in the credit tranches, although as a result of the combined limit of 165 per cent of quota, the amounts that a member may purchase in the upper credit tranches are progressively reduced when purchases under the Extended Facility exceed 65 per cent of quota and are reduced to zero when the maximum amount of 140 per cent of quota is drawn under the Extended Facility. A member that has part or all of its first credit tranche still available when entering into an extended arrangement may make an additional purchase equivalent to the amount remaining in the first credit tranche; such a purchase would be financed completely from ordinary resources and would not require any concomitant purchase of borrowed resources and would be in addition to the 140 per cent of quota available under the arrangement. The member could, if it so wished, retain its first credit tranche to be purchased at a later date.

The rationale for disregarding a member's credit tranche position, apart from the common limit, has lost much of its meaning with the introduction of supplementary finance and enlarged access which involve use of the Fund's resources on upper credit tranche conditionality and which enable members to make purchases under an extended arrangement far in excess of the former limit of 140 per cent of quota. As noted in EBS/83/79, it would seem reasonable in present circumstances to consider the elimination of this particular feature of purchases in connection with the extended facility.

Consideration could be given to require members to use any access remaining in the first credit tranche before making the first purchase under an extended arrangement. This would avoid the potentially delicate decision whether failure to observe one or more performance criteria would be consistent with the lower conditionality applicable in the first tranche. Such a requirement would also obviate some of the arbitrary differences in the manner of financing purchases under stand-by and extended arrangements.

Alternatively, outstanding purchases in the first credit tranche could be taken into account in determining the amount of ordinary resources available under an extended arrangement. In practice, this would mean that the combined limit for credit tranche and extended facility use of Fund resources of 165 per cent of quota would be fully used only if the first tranche had been drawn when the extended arrangement was negotiated. Alternatively, the combined limit for credit tranche and EFF use could be set at 140 per cent of quota, rather than 165 per cent.

VI. Conclusions

The following are some of the main points made in the preceding discussion.

1. As would be expected, the larger the access limits to the Fund's resources under stand-by and extended arrangements when the new quotas come into effect, the greater will be the estimated use of the Fund's resources. The largest absolute increase in estimated demand is likely to be by members in very constrained external positions (i.e. the Category I countries in Table 1). Furthermore, the estimates of use of the Fund's resources show, on indications presently available to the Area Departments, a considerable bunching of demand in 1984 and relatively small increases in the two subsequent years.

2. Annual access limits of between 102 per cent and 150 per cent of proposed quotas are estimated to result in the Fund's holdings of uncommitted ordinary resources falling to SDR 9 billion and SDR 6 billion, respectively, by April 1986, after taking into account purchases under the special facilities of the order of SDR 5 billion and after making a reasonable allowance for reserve tranche purchases and assuming that there will be no commitment gap at the end of 1983 or early 1984. The corresponding borrowing needs of the Fund, on the basis of a mixing ratio of 1:1, would be of the order of between SDR 8.3 billion to SDR 15.5 billion in the period January 1984 to April 1986.

3. While it is not possible to estimate even within reasonable margins the likely demand for Fund resources in the period after April 1986, consideration needs to be given to the level of uncommitted ordinary resources that might be held by the Fund by April 1986. It is suggested that a level of holdings in the order of SDR 8-10 billion would not seem unreasonable at April 1986, taking into account the size of reserve tranches and loan claims outstanding at that time (projected at SDR 65-70 billion) and the uncertainties on the demand for Fund credit in the period following 1986 and until the next increase in quotas. In this connection, account needs to be taken of the large reflow of resources to the Fund from late 1986 through April 1989, which are estimated to amount to the order of SDR 38 billion, including SDR 15 billion that would be repaid to lenders. This reflow implies, of course, a net contraction of Fund credit and it cannot be expected that the balance of payments of members would have improved to an extent that members could make net repurchases on the indicated scale.

4. If the level of uncommitted usable ordinary resources was to be held at between SDR 8-10 billion at April 1986, and if the increase in the amount of usable ordinary resources coming available from the quota increases was of the order of SDR 15 billion, the volume of uncommitted usable resources available to the Fund between early 1984 and April 1986 would be of the order of SDR 17 billion. In view of this relatively small supply of usable ordinary resources in the period to April 1986, various means might need to be considered that would help conserve the Fund's ordinary resources.

5. Various alternative methods of effecting a phasedown in the access limits were considered in the light of requests made by some Executive Directors for such an analysis. Limits that maintain the present absolute level of access in the first year following the coming into effect of the increase in quotas, but decline in subsequent years, tend to broadly accommodate overall demand as projected on the basis of present quotas. This arises, in part, because of an expected concentration of commitments in 1984 before the simulated phasedown begins and because scheduled repurchases act as partial offsets to the effect of lower cumulative limits in subsequent years. If the demand for Fund credit were spread more evenly over time, the simulated phase-down of the annual access limits would result in a sharper restriction on access. Furthermore, because the cumulative limit becomes increasingly restrictive as members' outstanding use of Fund credit increases relative to quotas, and taking into account the uncertainties regarding the timing of future demands on the Fund's resources, there would be considerable advantage, in terms of reducing uncertainty for members and in managing the Fund's liquidity position, to maintain fixed access limits in terms of quotas.

6. A number of significant technical aspects relating to the enlarged access policy were reviewed with the following main conclusions:

(i) in order to effect a major simplification of the administration of the enlarged access policy, the provisions requiring "catching up" and "reverse catching up" would be eliminated and the use of borrowed funds in relation to the first credit tranche might be eliminated, shifting the use of borrowed funds to a later stage of an arrangement. These simplifications could be achieved by the replacement of the present diverse mixing ratios with a uniform ratio. As regards the financing of undrawn balances under existing arrangements it would be reasonable to recalculate the distribution between ordinary and borrowed resources on the basis of increased quotas;

(ii) it is proposed that consideration be given to eliminate the floating character of the first credit tranche in connection with extended arrangements.

Estimates of the Fund's Liquidity Position
January 1, 1984 - April 30, 1986
with Illustrative Limits for Enlarged Access: Mix 1:0.5

	(SDR billions)
1. Supply of Uncommitted Ordinary Resources to April 30, 1986	
(a) Available at January 1, 1984 (see EBS/83/59, Table 2)	5.5 1/
(b) Add: (i) From quota payments (see EBS/83/59, Table 6)	15
(ii) Repurchases, net of repayments to lenders	5.4
(c) Total supply of usable ordinary resources to April 30, 1986	26 2/

	With Annual Access Limits of					
2. Commitments under Arrangements through April 30, 1986	102%	110%	117%	125%	133%	150%
Total (see Table 1)	13.8	15.9	17.5	20.1	21.6	24.5
-of which: (i) ordinary resources	6.5	7.5	8.0	9.5	10.0	11.5
(ii) borrowed resources	7.3	8.4	9.5	10.6	11.6	13.0
(Assuming use of ordinary and borrowed resources in the ratio of 1:0.5)						
3. Financing from Ordinary Resources through April 30, 1986 (assuming no use of the enlarged GAB)						
(a) Usable uncommitted ordinary resources (line 1(c) above)	26	26	26	26	26	26
(b) Deduct: Demands on ordinary resources						
(i) Commitments of ordinary resources under arrangements (line 2(i) above)	6.5	7.5	8.0	9.5	10.0	11.5
(ii) Repayment of short-term borrowing 3/	1.3	1.3	1.3	1.3	1.3	1.3
(iii) CF and BS purchases 4/	4.0-6.0	4.0-6.0	4.0-6.0	4.0-6.0	4.0-6.0	4.0-6.0
(c) Balance of uncommitted usable ordinary resources without allowance for any encashment of reserve tranche positions	12.2-14.2	11.2-13.2	10.7-12.7	9.2-11.2	8.7-10.7	7.2-9.2
Less encashment of reserve tranche positions 5/	5.0	5.0	5.0	5.0	5.0	5.0
(d) Balance of uncomitted usuable ordinary resources allowing for estimated encashment of reserve tranche positions	7.2-9.2	6.2-8.2	5.7-7.7	4.2-6.2	3.7-5.7	2.2-4.2
4. Memorandum Items						
(a) Need for Borrowed Resources to cover commitments: January 1, 1984 - April 30, 1986 (see line 2(ii) above)	7.3	8.4	9.5	10.6	11.6	13.0
(b) GAB Resources (see EBS/83/59, Table 6)	12.2	12.2	12.2	12.2	12.2	12.2
(c) Liquid Claims on the Fund	66-68	67-69	69-71	70-72	72-74	74-76
- of which Reserve Tranche Positions	42-44	42-44	43-45	43-45	44-46	45-47
Loan Claims	24	25	26	27	28	29
(d) Liquidity ratio (per cent) 6/	11-14	9-12	8-11	6-9	5-8	3-6

Note: The figures are subject to a substantial margin of variation in view of the many uncertainties.

1/ Assuming that the further borrowing need of SDR 7-8 billion through December 31, 1983 is arranged in full before that date.

2/ This total could be smaller or larger to the extent members' currencies are either excluded or added to the list of usable currencies.

3/ Credit lines under the arrangements with the BIS and central banks that are to be repaid prior to the corresponding repurchases.

4/ The range is the same as indicated in EBS/83/79.

5/ It is assumed that encashment of reserve tranche positions through April 30, 1986 may be of the same order as those held by members that now have current account deficit positions. This includes the estimate in EBS/83/59 of use of reserve tranche position in the order of SDR 1.5 - 2.0 billion through April 30, 1984.

6/ Ratio of uncommitted adjusted ordinary resources (including SDRs) to total Fund borrowing and total reserve tranche positions.

Estimates of the Fund's Liquidity Position
January 1, 1984 - April 30, 1986
with Illustrative Limits for Enlarged Access: Mix 1:0.7

	(SDR billions)
1. Supply of Uncommitted Ordinary Resources to April 30, 1986	
(a) Available at January 1, 1984 (see EBS/83/59, Table 2)	5.5 1/
(b) Add: (i) From quota payments (see EBS/83/59, Table 6)	15
(ii) Repurchases, net of repayments to lenders	5.4
(c) Total supply of usable ordinary resources to April 30, 1986	26 2/

	With Annual Access Limits of					
2. Commitments under Arrangements through April 30, 1986	102%	110%	117%	125%	133%	150%
Total (see Table 1)	13.8	15.9	17.5	20.1	21.6	24.5
-of which: (i) ordinary resources	6.0	7.0	7.5	9.0	9.5	10.5
(ii) borrowed resources (Assuming use of ordinary and borrowed resources in the ratio of 1:0.7)	7.8	8.9	10.0	11.1	12.1	14.0
3. Financing from Ordinary Resources through April 30, 1986 (assuming no use of the enlarged GAB)						
(a) Usable uncommitted ordinary resources (line 1(c) above)	26	26	26	26	26	26
(b) Deduct: Demands on ordinary resources						
(i) Commitments of ordinary resources under arrangements (line 2(i) above)	6.0	7.0	7.5	9.0	9.5	10.5
(ii) Repayment of short-term borrowing 3/	1.3	1.3	1.3	1.3	1.3	1.3
(iii) CF and BS purchases 4/	4.0-6.0	4.0-6.0	4.0-6.0	4.0-6.0	4.0-6.0	4.0-6.0
(c) Balance of uncommitted usable ordinary resources without allowance for any encashment of reserve tranche positions	12.7-14.7	11.7-13.7	11.2-13.2	9.7-11.7	9.2-11.2	8.2-10.2
Less encashment of reserve tranche positions 5/	5.0	5.0	5.0	5.0	5.0	5.0
(d) Balance of uncomitted usuable ordinary resources allowing for estimated encashment of reserve tranche positions	7.7-9.7	6.7-8.7	6.2-8.2	4.7-6.7	4.2-6.2	3.2-5.2
4. Memorandum Items						
(a) Need for Borrowed Resources to cover commitments: January 1, 1984 - April 30, 1986 (see line 2(ii) above)	7.8	8.9	10.0	11.1	12.1	14.0
(b) GAB Resources (see EBS/83/59, Table 6)	12.2	12.2	12.2	12.2	12.2	12.2
(c) Liquid Claims on the Fund	66-68	67-69	69-71	70-72	72-74	74-76
- of which Reserve Tranche Positions	41-43	42-44	43-45	43-45	44-46	45-47
Loan Claims	25	25	26	27	28	29
(d) Liquidity ratio (per cent) 6/	11-14	10-13	9-12	6-9	6-8	4-7

Note: The figures are subject to a substantial margin of variation in view of the many uncertainties.

1/ Assuming that the further borrowing need of SDR 7-8 billion through December 31, 1983 is arranged in full before that date.

2/ This total could be smaller or larger to the extent members' currencies are either excluded or added to the list of usable currencies.

3/ Credit lines under the arrangements with the BIS and central banks that are to be repaid prior to the corresponding repurchases.

4/ The range is the same as indicated in EBS/83/79.

5/ It is assumed that encashment of reserve tranche positions through April 30, 1986 may be of the same order as those held by members that now have current account deficit positions. This includes the estimate in EBS/83/59 of use of reserve tranche position in the order of SDR 1.5 - 2.0 billion through April 30, 1984.

6/ Ratio of uncommitted adjusted ordinary resources (including SDRs) to total Fund borrowing and total reserve tranche positions.

Estimates of the Fund's Liquidity Position
January 1, 1984 - April 30, 1986
with Illustrative Limits for Enlarged Access: Mix 1:2

1. Supply of Uncommitted Ordinary Resources to April 30, 1986			(SDR billions)			
(a) Available at January 1, 1984 (see EBS/83/59, Table 2)			5.5 1/			
(b) Add: (i) From quota payments (see EBS/83/59, Table 6)			15			
(ii) Repurchases, net of repayments to lenders			5.4			
(c) Total supply of usable ordinary resources to April 30, 1986			26 2/			
2. Commitments under Arrangements through April 30, 1986	With Annual Access Limits of					
	102%	110%	117%	125%	133%	150%
Total (see Table 1)	13.8	15.9	17.5	20.1	21.6	24.5
-of which: (i) ordinary resources	4.5	5.0	5.5	6.5	7.0	8.0
(ii) borrowed resources (Assuming use of ordinary and borrowed resources in the ratio of 1:2)	9.3	10.9	12.0	13.6	14.6	16.5
3. Financing from Ordinary Resources through April 30, 1986 (assuming no use of the enlarged GAB)						
(a) Usable uncommitted ordinary resources (line 1(c) above)	26	26	26	26	26	26
(b) Deduct: Demands on ordinary resources						
(i) Commitments of ordinary resources under arrangements (line 2(i) above)	4.5	5.0	5.5	6.5	7.0	8.0
(ii) Repayment of short-term borrowing 3/	1.3	1.3	1.3	1.3	1.3	1.3
(iii) CF and BS purchases 4/	4.0-6.0	4.0-6.0	4.0-6.0	4.0-6.0	4.0-6.0	4.0-6.0
(c) Balance of uncommitted usable ordinary resources without allowance for any encashment of reserve tranche positions	14.2-16.2	13.7-15.7	13.2-15.2	12.2-14.2	11.7-13.7	10.7-12.7
Less encashment of reserve tranche positions 5/	5.0	5.0	5.0	5.0	5.0	5.0
(d) Balance of uncomitted usuable ordinary resources allowing for estimated encashment of reserve tranche positions	9.2-11.2	8.7-10.7	8.2-10.2	7.2-9.2	6.7-8.7	5.7-7.7
4. Memorandum Items						
(a) Need for Borrowed Resources to cover commitments: January 1, 1984 - April 30, 1986 (see line 2(ii) above)	9.3	10.9	12.0	13.6	14.6	16.5
(b) GAB Resources (see EBS/83/59, Table 6)	12.2	12.2	12.2	12.2	12.2	12.2
(c) Liquid Claims on the Fund	66-68	67-69	69-71	70-72	72-74	74-76
- of which Reserve Tranche Positions	40-42	40-42	41-43	41-43	42-44	43-45
Loan Claims	26	27	28	29	30	31
(d) Liquidity ratio (per cent) 6/	14-17	13-16	12-14	10-13	9-12	8-10

Note: The figures are subject to a substantial margin of variation in view of the many uncertainties.

1/ Assuming that the further borrowing need of SDR 7-8 billion through December 31, 1983 is arranged in full before that date.

2/ This total could be smaller or larger to the extent members' currencies are either excluded or added to the list of usable currencies.

3/ Credit lines under the arrangements with the BIS and central banks that are to be repaid prior to the corresponding repurchases.

4/ The range is the same as indicated in EBS/83/79.

5/ It is assumed that encashment of reserve tranche positions through April 30, 1986 may be of the same order as those held by members that now have current account deficit positions. This includes the estimate in EBS/83/59 of use of reserve tranche position in the order of SDR 1.5 - 2.0 billion through April 30, 1984.

6/ Ratio of uncommitted adjusted ordinary resources (including SDRs) to total Fund borrowing and total reserve tranche positions.

Estimates of the Fund's Liquidity Position
January 1, 1984 - April 30, 1986
with Illustrative Limits for Enlarged Access: Mix 1:3

1. Supply of Uncommitted Ordinary Resources to April 30, 1986			(SDR billions)			
(a) Available at January 1, 1984 (see EBS/83/59, Table 2)			5.5 1/			
(b) Add: (i) From quota payments (see EBS/83/59, Table 6)			15			
(ii) Repurchases, net of repayments to lenders			5.4			
(c) Total supply of usable ordinary resources to April 30, 1986			26 2/			
2. Commitments under Arrangements through April 30, 1986	With Annual Access Limits of					
	102%	110%	117%	125%	133%	150%
Total (see Table 1)	13.8	15.9	17.5	20.1	21.6	24.5
-of which: (i) ordinary resources	3.5	4.0	4.5	5.0	5.5	6.0
(ii) borrowed resources (Assuming use of ordinary and borrowed resources in the ratio of 1:3)	10.3	11.9	13.0	15.1	16.1	18.5
3. Financing from Ordinary Resources through April 30, 1986 (assuming no use of the enlarged GAB)						
(a) Usable uncommitted ordinary resources (line 1(c) above)	26	26	26	26	26	26
(b) Deduct: Demands on ordinary resources						
(i) Commitments of ordinary resources under arrangements (line 2(i) above)	3.5	4.0	4.5	5.0	5.5	6.0
(ii) Repayment of short-term borrowing 3/	1.3	1.3	1.3	1.3	1.3	1.3
(iii) CF and BS purchases 4/	4.0-6.0	4.0-6.0	4.0-6.0	4.0-6.0	4.0-6.0	4.0-6.0
(c) Balance of uncommitted usable ordinary resources without allowance for any encashment of reserve tranche positions	15.2-17.2	14.7-16.7	14.2-16.2	13.7-15.7	13.2-15.2	12.7-14.7
Less encashment of reserve tranche positions 5/	5.0	5.0	5.0	5.0	5.0	5.0
(d) Balance of uncomitted usuable ordinary resources allowing for estimated encashment of reserve tranche positions	10.2-12.2	9.7-11.7	9.2-11.2	8.7-10.7	8.2-10.2	7.7-9.7
4. Memorandum Items						
(a) Need for Borrowed Resources to cover commitments: January 1, 1984 - April 30, 1986 (see line 2(ii) above)	10.3	11.9	13.0	15.1	16.1	18.5
(b) GAB Resources (see EBS/83/59, Table 6)	12.2	12.2	12.2	12.2	12.2	12.2
(c) Liquid Claims on the Fund	66-68	67-69	69-71	70-72	72-74	74-76
- of which Reserve Tranche Positions	39-41	39-41	40-42	40-42	41-43	42-44
Loan Claims	27	28	29	30	31	32
(d) Liquidity ratio (per cent) 6/	15-18	14-17	13-16	12-15	11-14	10-13

Note: The figures are subject to a substantial margin of variation in view of the many uncertainties.

1/ Assuming that the further borrowing need of SDR 7-8 billion through December 31, 1983 is arranged in full before that date.

2/ This total could be smaller or larger to the extent members' currencies are either excluded or added to the list of usable currencies.

3/ Credit lines under the arrangements with the BIS and central banks that are to be repaid prior to the corresponding repurchases.

4/ The range is the same as indicated in EBS/83/79.

5/ It is assumed that encashment of reserve tranche positions through April 30, 1986 may be of the same order as those held by members that now have current account deficit positions. This includes the estimate in EBS/83/59 of use of reserve tranche position in the order of SDR 1.5 - 2.0 billion through April 30, 1984.

6/ Ratio of uncommitted adjusted ordinary resources (including SDRs) to total Fund borrowing and total reserve tranche positions.

Use of Fund Credit, Supply of Usable Fund Resources, and Self-Financing Access Ratio

(*In per cent*)

	Quota share of debtor members					Quota share of creditor members 1/				Self-financing access ratio, 2/ col. (9) ÷ col. (5) (10)
	Industrial countries		Developing countries							
	Major seven countries (1)	Smaller industrial countries (2)	Major oil-exporting countries (3)	Non-oil developing countries (4)	Total (5)	Industrial countries (6)	Major oil-exporting countries (7)	Non-oil developing countries (8)	Total (9)	
1951-60 (average)	10.7	2.0	0.7	7.8	21.2	34.3	--	--	34.3	161.8
1961-70 (average)	11.1	0.7	0.9	12.5	25.2	33.8	0.5	1.9	36.2	143.7
1971	9.7	--	0.9	8.6	19.2	30.3	1.4	2.8	34.5	179.7
1972	--	--	0.9	9.0	9.9	31.9	1.4	2.8	36.0	363.6
1973	--	--	0.9	9.2	10.1	23.8	1.4	2.8	27.9	276.2
1974	3.4	0.8	--	14.7	18.9	31.6	2.5	3.6	37.7	199.5
1975	3.4	2.8	--	15.5	21.7	49.3	3.1	3.8	56.2	259.0
1976	13.0	5.0	--	20.4	38.5	49.4	3.1	3.2	55.6	144.4
1977	13.0	5.0	--	20.1	38.2	50.3	4.0	3.3	57.6	150.8
1978	10.7	4.8	--	15.1	30.6	39.7	8.1	11.7	59.4	194.1
1979	7.5	4.8	--	15.6	27.8	39.3	8.0	10.4	57.7	207.6
1980	7.4	4.7	--	15.7	27.8	47.0	7.9	7.6	62.5	224.8
1981	7.2	2.7	--	19.5	29.4	41.3	8.1	4.8	54.3	184.7
1982	7.2	2.7	--	23.7	33.6	43.0	6.2	1.0	50.2	149.4
1983 (April)	--	2.7	1.2	24.7	28.5	44.4	5.9	3.9	54.1	189.8

Note: Use of Fund credit in this table includes use under the Fund's special facilities in addition to use under the credit tranches and under the enlarged access policy.

1/ Creditor members are those considered sufficiently strong for inclusion in the currency/operational budgets. Prior to the coming into effect of the Second Amendment in 1978, members with loan claims on the Fund or with remunerated reserve tranche positions are considered as creditor members for the purpose of this table.

2/ Average access that could be financed solely from quota resources.