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CONFIDENTIAL

August 12, 1983

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

Attached for consideration by the Executive Directors is a report on the Fund's current and prospective liquidity position and financing needs as of early August 1983.

This subject has been tentatively scheduled for discussion on Friday, September 2, 1983.

Att: (1)

INTERNATIONAL MONETARY FUND

The Fund's Liquidity Position and Financing Needs

Prepared by the Treasurer's Department

Approved by W.O. Habermeier

August 11, 1983

I. Introduction

*This paper presents a half yearly report on the Fund's current and prospective liquidity position and financing needs as of early August 1983. The projections in this report through April 1984 broadly confirm the estimates presented in "The Fund's Liquidity Position and Financing Needs - Updated Tables" (EBS/83/137, July 6, 1983). <sup>1/</sup> The estimates of the possible use of the Fund's resources under stand-by and extended arrangements and under special facilities are based, as in the last half yearly liquidity report (EBS/83/59) and in the recent updated tables (EBS/83/137), on the likely demand for resources within the present absolute levels of maximum access to the Fund's resources, pending the Executive Board's conclusion of its discussion on the policy of enlarged access after the increases in quotas come into effect.*

The data presented in Tables 1 to 6 and in the Appendix below, are based on the most recent indications by the Area Departments on the demand for the Fund's resources and take account of probability factors. As in the past, they do not include estimates for reserve tranche purchases or for encashment of loan claims in view of the great uncertainty about members' intentions regarding the use of these reserve assets. Nevertheless, some use of these reserve assets by members in balance of payments deficits is highly probable in the period to April 1984.

The updated estimates of the inflow of usable ordinary resources resulting from the quota increases, and the potential increases in resources from the enlarged GAB as well as the associated agreement with Saudi Arabia continue to be shown as memoranda items in the rele-

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<sup>1/</sup> The previous half yearly report is contained in EBS/83/59, March 18, 1983. Earlier papers in the series dealing with Fund liquidity are EBS/80/272 (12/17/80); EBS/81/88 and Corr. 1 (4/8/81); SM/81/116 (5/15/81); EBS/81/163 (8/5/81); EBS/81/226 (11/20/81), EBS/82/60 (4/2/82, and EBS/82/180 (10/8/82). The first of the papers listed includes references to earlier surveys of the Fund's liquidity position.

vant tables. The timing of these additions is still uncertain, but the expectation is that they will become available by end 1983 or shortly thereafter. The amounts of usable resources likely to result from the quota increase and the enlarged GAB (including the associated agreement) reflect changes in the usability of currencies determined in the context of the latest Operational Budget (EBS/83/112, 6/1/83).

The memorandum is organized as follows. The potential demands on the Fund's resources through April 30, 1986 are discussed in Section II. The elements of the supply of resources are set out in Section III. The main points and conclusions are contained in the final Section.

## II. Future Demands on the Fund's Resources

### 1. Commitments under arrangements

#### a. Year to April 30, 1984

The overall demand for Fund resources under arrangements for the year to April 30, 1984 is estimated at SDR 8.4 billion (Table 1). Although there are changes in the estimates for individual arrangements, the total is of the order of magnitude (SDR 8.3 billion) indicated in the recently issued updated tables on Fund liquidity (EBS/83/137). Of this total, some SDR 1.2 billion of resources were committed in the period May 1 - July 31, 1983, and a further SDR 7.2 billion is expected to be committed by April 1984. <sup>1/</sup>

There are, of course, a number of uncertainties about the precise amounts and timing of new arrangements. Delays that are now foreseen in concluding arrangements in the period to December 1983 have been taken into account with the consequence that, as compared with EBS/83/137, commitments of the order of SDR 0.5 billion are now shown in the early part of 1984 rather than in 1983. Some further shifts of this kind from late 1983 to early 1984 are possible. There is no change in the earlier expectation that a large majority of the arrangements through April 1984 are likely to be one-year stand-by arrangements, although the total of expected commitments under extended arrangements could account for about one-third of the estimated amount of the total of SDR 7.2 billion.

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<sup>1/</sup> An amount of SDR 0.2 billion was committed under a stand-by arrangement in early August 1983. Between the March 1983 review and August 5, 1983, the number of stand-by and extended arrangements has risen from 35 to 42; seven arrangements expired, while 14 new arrangements were agreed. Of the 42 arrangements in effect at present, one or more performance criteria are not being observed at this time under six of the arrangements.

Table 1. Actual and Estimated Commitments and Financing under Stand-by  
and Extended Arrangements (net of cancellations and expirations)  
May 1, 1983 - April 30, 1984

(In billions of SDRs)

	Memoranda May 1, 1982 - April 30, 1983	Actual		Estimates		Total May 1, 1983 - April 30, 1984
		May 1 - July 31, 1983	August 1 - Dec. 31, 1983 (or early 1984)	January - April 1984 <u>1/</u>		
1. Total net commitments	<u>11.4</u>	<u>1.2</u>	<u>4.2</u>	<u>3.0</u>	<u>8.4</u>	
2. Financing:						
a. Ordinary Resources	5.1	0.3	1.5	1.2	3.0	
b. Borrowed Resources (EAR) <u>2/</u>	6.3	0.8	2.7	1.8	5.4	

Note: Details may not add to totals due to rounding.

1/ As explained in the text (Section III, 4) the estimates for this period are more tentative.

2/ After taking account of SFF resources released under arrangements that expired or were cancelled without being fully drawn upon. See also Tables 4 and 5.

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It will also be noted that while the estimated overall total of new commitments for the year to April 1984 is about the same as estimated in early July, the composition of the estimated financing of these net new commitments shows a shift to borrowed resources of some SDR 0.3 billion.

b. Two years to April 30, 1986

There are difficult problems in estimating the demand on the Fund's resources under stand-by and extended arrangements over the two year period from May 1984 to April 1986. It remains uncertain when the quota increases will come into effect. Discussions are also continuing on the question of access to the Fund's resources under arrangements after the new quotas come into effect, as well as on the mixing proportions of ordinary and borrowed resources. Moreover, access to the compensatory financing, cereal and buffer stock facilities are also being reviewed. The way in which these uncertainties are resolved will materially affect both the demands on the Fund and the supply of resources available to it, with the latter also being influenced by the timing with which the enlarged GAB and the associated agreement with Saudi Arabia come into force. Nevertheless, broad estimates for the period through April 1986 of the supply of resources as well as potential commitments under arrangements (with different assumptions on access) and compensatory financing and reserve tranche purchases have been provided in EBS/83/133 "Review of the Policy on Access to the Fund's Resources - Financial Considerations", June 28, 1983 (see in particular, Tables 1 and 2 and Appendix Tables I through IV).

This present memorandum updates the estimate of demand under arrangements on a country-by-country basis for developing members for the two year period on the assumption that the present absolute level of access is maintained unchanged for each member. As explained earlier, this assumption is limiting and makes the estimates more uncertain because a uniform percentage ceiling relative to quota must apply to all members.

Bearing this in mind, indications from Area Departments that take into account the likely size and distribution of balance of payments deficits as indicated in the WEO papers as well as the probabilities of potential demands, suggest that commitments to developing countries over the period May 1984 - April 1986 may be of the order of SDR 9 billion. Present indications are that the total of commitments would probably be higher rather than lower. No commitments to industrial countries are indicated by the Area Departments at this time. However, the possibility of arrangements being concluded with some of the smaller industrial countries cannot be precluded, and a global estimate of commitments to these countries of the order of SDR 3.5 billion, as shown in the recent papers on the Review of the Policy on Enlarged Access, might be considered as a reasonable possibility.

Thus, the total of commitments under stand-by and extended arrangements, on the basis of present absolute levels of maximum access, over the two year period to April 1986 is estimated to be of the order of SDR 12.5 billion. In the March liquidity review (EBS/83/59), the estimate was for a total within the range of SDR 10-15 billion. The present estimate of SDR 12.5 billion for May 1984 - April 1986 together with the estimate of SDR 3.0 billion for the period January - April 1984 is also broadly comparable with the SDR 14.6 billion shown in the Access paper with present levels of access for the period January 1984 - April 1986 (see EBS/83/133, Table 1, Column 4). It should, however, be stressed that all these estimates are based on the present levels of absolute access to the Fund's resources, and therefore do not allow for any increase in access on the occasion of the increases in quotas under the Eighth General Review. The actual demand for Fund resources in that period might therefore be underestimated for this reason.

2. Other use of Fund credit

a. Compensatory financing purchases

For the year to April 1984, purchases under the Compensatory Financing Facility are estimated to total SDR 3 billion (Table 2). Purchases under the facility totaled SDR 0.2 billion during the period May 1 to July 31, 1983. The estimate for further purchases through December 1983 is SDR 1.8 billion, which is still in line with the estimate recently indicated in EBS/83/137. Purchases by two members for SDR 0.5 billion in August have already been approved by the Executive Board, and several other requests for relatively large purchases are expected to be bunched in the last quarter of 1983. For the period January - April 1984, the earlier estimate of SDR 1 billion is maintained unchanged, though this estimate is based only in part on a country-by-country evaluation.

It is not possible at this stage to make estimates on purchases under the CF facility in the period May 1984 - April 1986 entirely on the basis of country-by-country projections. Furthermore, the Executive Board has not completed its review of the limits of access to the special facilities (compensatory financing, cereal and buffer stocks) that would be applicable with regard to the new quotas. On the assumption that present absolute level of maximum access to the special facilities is maintained after the new quotas come into effect and also taking into account possible purchases by oil exporting countries that might experience compensable shortfalls, and would seek to be compensated, it is judged likely at present that use of the compensatory financing facility might amount to SDR 6 billion for the two financial years ending April 30, 1986. It will be noted that this estimate is at the upper end of the range indicated in the paper on "Review of the Policy on Access to the Fund's Resources - Financial Considerations" (page 4 of EBS/83/133).

The amounts for the financial years ended April 1985 and 1986 should be regarded more as possible orders of magnitude than precisely determined estimates of likely use with relatively stable probabilities.

b. Buffer stock facility

No estimates are given in the tables for purchases through April 30, 1984, because there are no indications of further use at this time in amounts that are significant.

c. Use of first credit tranche positions

As in the past, no assumption has been made for purchases in the credit tranches that are not agreed in connection with stand-by and extended arrangements. In particular, it may be noted that members that have actually drawn on extended arrangements still hold SDR 0.4 billion of unused first credit tranche positions on which they may draw at their option.

3. Use of reserve tranche positions, encashment of loan claims and repayment of short-term borrowing

a. Reserve tranche positions

As mentioned earlier, in view of the great uncertainty about member's intentions regarding reserve tranche purchases and the encashment of loan claims the projections of use of the Fund's resources do not provide for use of the Fund's ordinary resources to meet such demands. <sup>1/</sup> Members using the Fund's credit facilities are not required to first draw their reserve tranche positions, and a number of countries using Fund credit have not in fact done so. Furthermore, many members with balance of payments deficits have not mobilized their reserve positions in the Fund in the financing of these deficits, and the encashment of reserve tranche positions so far in calendar 1983 (SDR 840 million) has been small in relation to the substantial current account deficits of members that hold them.

At July 31, 1983 reserve tranche positions totaled SDR 21.0 billion and loan claims on the Fund were SDR 12.5 billion (Annex, Table 1). The total of reserve tranche positions of members in current account deficit positions is SDR 3.9 billion, compared to SDR 4.6 billion

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<sup>1/</sup> Provision is made, however, for the scheduled repayment of existing borrowing of SDR 777.3 million under the GAB. This amount will be repaid in November 1983 out of the Fund's ordinary resources, but there will be no corresponding repurchase as the original purchase financed with GAB resources was a reserve tranche purchase after the Second Amendment of the Articles and such purchases are not subject to repurchase.

in mid-March 1983. <sup>1/</sup> It would be prudent to keep in mind the possible use of, say, a further SDR 1.0-1.5 billion in the period to April 30, 1984, in particular by those members with present or projected arrangements that still have reserve tranche positions and also by some other members in substantial balance of payments deficit. These amounts are about one-quarter to somewhat more than one-third of the total of reserve tranche positions held by members in current account deficit positions.

b. Loan claims

Existing loan claims on the Fund amounted to SDR 12.5 billion at end July 1983, and a small proportion is held by members with current account deficits. Experience shows that loan claims on the Fund are relatively firmly held. However, early encashment of SFF loan claims held by a member in heavy balance of payments deficit should not be precluded in the months ahead. It will be recalled that under the SFF decision the Fund may finance the encashment of SFF claims by calling on other SFF borrowing agreements. <sup>2/</sup> The use of the SFF in this manner tends to preserve the Fund's ordinary resources while increasing its short-run borrowing requirement. As explained further below, in present circumstances any encashment of SFF loan claims will increase somewhat the existing commitment gap on borrowed resources.

Reserve tranche positions and liquid loan claims would increase to SDR 25 billion and SDR 13 billion, respectively, by December 31, 1983 on the assumption the volume of purchases estimated above is realized (Annex, Tables 1 and 2). As discussed in the Appendix, the ratio of adjusted uncommitted ordinary resources (including balances in the Borrowed Resources Suspense Accounts) to total reserve tranche positions and loan claims--referred to as the "liquidity ratio"--would decline from about 36 per cent at present to around 18 per cent by December 1983 on the basis of estimates presented in the tables. The ratio would be expected to be around 40 per cent next April assuming the quota increases would have been paid in full but is expected to fall substantially in the course of 1984 and 1985.

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<sup>1/</sup> This group comprises the following: (i) members that have existing arrangements with the Fund or that are likely to conclude arrangements with the Fund in the near future (SDR 0.5 billion); (ii) developing members with smaller quotas whose balance of payments and gross reserve positions are not considered "sufficiently strong" at this time for their currencies to be sold by the Fund (SDR 0.4 billion); (iii) other members--industrial and large developing members--not considered sufficiently strong (SDR 1.9 billion); and (iv) members whose positions--in spite of their deficits--are presently still considered sufficiently strong for designation and for sales of their currency through the operational budgets (SDR 1.1 billion).

<sup>2/</sup> SFF claims encashed in the past year for SDR 78 million were re-financed by calls on other SFF lenders by agreement.

c. Repayment of short-term borrowing

Short-term loans contracted with the BIS and central banks will be due for repayment on the following schedule: SDR 0.1 billion will be repaid in the year to April 30, 1984, and SDR 1.1 billion will fall due in the period May 1984 through January 1985 with the bulk of the repayments falling due in the period October to December 1984. These repayments are not matched by scheduled repurchases (though they could coincide to some modest extent with early repurchases by members) and unless new borrowing is arranged for this purpose they would be repaid from the Fund's ordinary resources.

III. The Supply of Resources

1. The Fund's uncommitted ordinary resources

The total of the Fund's adjusted and uncommitted ordinary resources at July 31, 1983 was SDR 10.1 billion (Table 2). Although it is likely that there would be some additions to usable currencies in the period through April 1984 because of the inclusion for net sales of the currency of one or more additional members, no estimate has been made for the time being until these currencies are actually included for sales. Early and advance repurchases may be expected from some members in improved balance of payments and reserve positions, and to the extent these are known they are included in the projections.

On the assumption that the Fund's borrowing needs through April 1984 are matched by new borrowings (i.e., there is no commitment gap), the level of uncommitted ordinary resources is estimated at SDR 6.7 billion at December 1983 and SDR 4.8 billion at April 1984, which are close to the estimates made in early July.

2. The disbursement of ordinary resources

As is indicated in Table 3, the Fund's holdings of adjusted ordinary resources are estimated at SDR 10.8 billion at the end of December 1983 and at SDR 8.2 billion at end April 1984, slightly higher than the estimates for these dates in July in Table 3 of EBS/83/137, mainly because it is likely that there will be some delays in the disbursements of ordinary resources arising from delays in concluding some arrangements. It is also estimated that a small amount of presently undrawn balances are likely to remain undrawn at the expiration of some arrangements.

Table 2. Estimates of Fund's Adjusted Ordinary Resources on a Commitment Basis  
August 1, 1983 - April 30, 1984

(In billions of SDRs)

	Estimates		Memoranda
	August 1 - December 31, 1983	January 1 - April 30, 1984	Increases from Quota Payments 1/
<u>Position at Start of Period</u>			
Uncommitted Ordinary Resources (adjusted)	10.1 <u>2/</u>	6.7	+15.0
<u>Changes During Period</u>			
<u>Add:</u>			
a. Net additions to usable currencies	... <u>3/</u>	...	
b. Repurchases			
i) under arrangements (net of repayments to lenders)	0.4 <u>4/</u>	0.1	
ii) under CFF	0.3	0.2	
<u>Subtract:</u>			
a. Net new commitments of ordinary resources	1.5	1.2	
b. Compensatory Financing purchases	1.8	1.0	
c. Buffer stock purchases	...	...	
d. GAB Repayment	<u>0.8</u>	<u>--</u>	
<u>Position at End of Period</u>			
Uncommitted Ordinary Resources (adjusted)	6.7	4.8	+15.0

1/ See footnote 5 in Table 6.

2/ The amount of adjusted uncommitted ordinary resources is calculated as follows: The gross amounts of ordinary usable resources of SDR 18.2 billion at July 31, 1983 was adjusted downward in the following manner:

	Unadjusted	Reduction	Adjusted	Undrawn Commitments	Adjusted and Uncommitted
Usable ordinary resources	18.2	-2.9	15.3	-5.2	10.1
of which					
(a) SDRs	3.6	--	3.6	--	3.6
(b) Usable currencies	14.6	-2.9	11.7	-5.2	6.5

The reduction of usable currency holdings by about one-fifth (SDR 2.9 billion) represents the following: (i) the exclusion of about one half of the total of the Fund's holdings of the currencies of creditor members with weakening balance of payments positions, and (ii) the exclusion for working balances of currencies of about 10 per cent of the members' quotas, with the customary larger exclusion for U.S. dollars. The further reduction of SDR 5.2 billion represents undrawn commitments of ordinary resources under existing arrangements at July 31, 1983.

3/ Net additions to usable currencies during this period are likely but no estimates are provided until actual additions or deletions are made, as discussed in Section III, 1 of the text.

4/ Includes early and advance repurchases.

Table 3. Estimates of the Supply of Ordinary Resources  
on a Disbursement Basis  
August 1, 1983 - April 30, 1984

(In billions of SDRs)

	Estimates		Memoranda
	August 1 - December 31, 1983	January 1 - April 30, 1984	Increases from Quota Payments 1/
1. <u>Adjusted Ordinary Resources</u> (at beginning of period)	15.3	10.8	+15.0
2. <u>Net Additions to Usable Currencies</u>	... 2/	...	
3. <u>Changes During the Period</u> <u>from Transactions</u>			
<u>Add:</u> Repurchases (net of repayments to lenders)	0.7 3/	0.3	
<u>Subtract:</u>			
a. Purchases			
(i) Under arrangements (Ordinary resources)	2.6	1.9	
(ii) Compensatory financing	1.8 4/	1.0	
(iii) Buffer Stock	...	...	
b. GAB repayment	0.8	--	
<u>Total net decrease</u> <u>in ordinary resources</u> <u>from transactions</u>	4.5	2.6	
4. <u>Adjusted Ordinary Resources</u> (at end of period)	10.8	8.2	+15.0

1/ See footnote 5 in Table 6.

2/ See footnote 3 in Table 2.

3/ Includes early and advance repurchases.

4/ Includes food facility.

Table 4. Actual and Estimated Supply of Borrowed Resources  
on a Disbursement Basis  
May 1, 1983 ~ April 30, 1984

(In billions of SDRs)

	Actual		Estimates			
	May 1 - July 31 1983		August 1 - December 31, 1983		January 1 - April 30, 1984	
	SFF	EAR	SFF	EAR	SFF	EAR
1. <u>Borrowed Resources Available</u> (at beginning of period)	<u>1.2</u> <sup>1/</sup>	<u>7.0</u> <sup>2/</sup>	<u>0.7</u>	<u>6.2</u>	<u>0.2</u>	<u>3.1</u>
2. <u>Disbursements During the Period</u>						
SFF	-0.5		-0.5		...	<sup>3/</sup>
EAR		-0.8		-3.1		-2.2
3. <u>Borrowed Resources Available</u> (at end of period)	<u>0.7</u>	<u>6.2</u>	<u>0.2</u>	<u>3.1</u>	<u>--</u>	<u>0.9</u>
4. <u>Cumulative Disbursements</u> <u>of EAR Resources</u>		<u>3.1</u>		<u>6.2</u>		<u>8.4</u>

<sup>1/</sup> SFF lines of credit agreed with lenders for a total of SDR 7.8 billion less SFF amounts already disbursed by April 30, 1983 (SDR 6.1 billion), early encashment of claims refinanced by calls on other lenders (SDR 0.1 billion), and lines of credit not being drawn upon at present (SDR 0.4 billion).

<sup>2/</sup> The amounts shown for EAR is the total amount of borrowing agreements in place (SDR 9.3 billion) less the amounts actually disbursed by April 30, 1983 (SDR 2.3 billion). Includes amounts called and invested temporarily in the Borrowed Resources Suspense Account (SDR 1.8 billion) pending disbursements. No addition has been made for further borrowing through April 30, 1984.

<sup>3/</sup> The extent to which further use of SFF resources may be made to finance purchases depends on the extent to which SFF credit lines can actually be used and on the extent to which the SFF credit lines are used to refinance encashment of SFF loan claims.

3. The disbursement of borrowed resources

The projections for the immediate period ahead regarding disbursements of borrowed resources (Table 4) show virtually no change from those projected in early July in EBS/83/179. It is expected that all remaining usable SFF lines of credit will be utilized by February 1984. It is estimated that a total of SDR 8.4 billion of EAR lines of credit will have been disbursed by April 30, 1984, and the remaining SDR 0.9 billion of EAR credit lines are expected to have been fully drawn by late June 1984. At that point all present credit lines arranged under the SFF and EAR would have been fully used. Unless new borrowing arrangements are put in place, commitments to supply borrowed resources would have to be met by the Fund out of its ordinary resources, thereby putting further pressure on the Fund's liquidity position.

4. The commitment gap

As has been indicated above, some arrangements previously expected to be concluded before the end of December 1983 now seem more likely to be concluded early in 1984. As a consequence, the total commitment of EAR borrowed resources at December 1983 is now estimated at SDR 16.5 billion (Table 5), as compared with an estimate of SDR 16.9 billion in EBS/83/137.

EAR borrowed resources have been provided to members by the Fund calling on EAR lines of credit, which at present amount to SDR 9.3 billion, and by substituting SFF resources for EAR resources. It will be recalled that SFF resources could be used in substitution for EAR resources if they became available through the cancellation of arrangements involving SFF funds and through undrawn balances existing at the time of expiration of arrangements involving SFF resources. In previous liquidity reviews it has been estimated that approximately SDR 1.6 billion of SFF resources would be available to substitute for EAR resources. This estimate has now been revised downward to approximately SDR 1.2 billion for two reasons. First, as a result of the deterioration in the balance of payments and reserve position of Venezuela and the exclusion of the bolivar from the last operational budget for net sales, the SFF line of credit with Venezuela is no longer being called upon, and second, provision should also now be made for the possible need for the Fund to finance the encashment of SFF claims by calling on other SFF lenders. It is thus estimated that a further SDR 0.4 billion of available SFF resources would no longer be available to substitute for the use of EAR resources, which increases the size of the EAR commitment gap by approximately the same amount.

As can be seen from Table 5, the commitment gap as of July 31, 1983 is SDR 3.3 billion, compared with a commitment gap of SDR 2.1 billion at May 1, 1983. Of this increase, SDR 0.8 billion is due to

Table 5. Actual and Projected EAR Commitment in Relation to Supply of Borrowed Resources  
May 1, 1983 - April 30, 1984

(In billions of SDRs)

	EAR Commitments of Borrowed Resources (net of cancellations) Actual and Estimates (1)	Supply of Borrowed Resources		Uncommitted EAR Lines of Credit or Commitment Gap(-) Actual and Estimates (Cols. (2) plus (3) minus Col. (1)) (4)
		EAR Lines of Credit <u>1/</u> (2)	Substitution of SFF for EAR <u>2/</u> (3)	
<u>1983</u>				
May 1	13.0	9.3	1.6	-2.1
July 31	13.8 <u>3/</u>	9.3	1.2	-3.3
<u>Estimates</u>				
December 31 (or early 1984)	16.5 <u>4/</u>	9.3	1.2	-6.0 <u>5/</u>
<u>1984</u>				
April 30	18.3 <u>4/</u>	9.3	1.2	-7.8 <u>5/ 6/</u>

1/ No further borrowing arrangements are included in the projections.

2/ Under the SFF decision, the Fund can disburse SFF funds only until February 22, 1984. The amount of SFF resources available from commitments by the Fund under arrangements that are cancelled or expire without being fully drawn is expected to be SDR 1.8 billion; against this, it is estimated that SDR 0.6 billion of the SFF lines of credit will not be available to meet disbursements of borrowed resources either because of the creditors' weak balance of payments positions or because the amounts would be used to refinance encashment of SFF claims by a lender. It is estimated for this liquidity analysis that substitution may be of the order of SDR 1.2 billion.

3/ Existing commitments of EAR borrowed resources (SDR 13.0 billion) plus purchases made under EAR arrangements that were subsequently cancelled or expired (SDR 0.8 billion).

4/ The estimate for commitments of EAR borrowed resources from August 1 to December 31, 1983 (or early 1984) is SDR 2.7 billion and more tentatively for January to April 1984 SDR 1.8 billion (see Table 1).

5/ Provision has been made for possible use of the Fund's resources by the smaller non-GAB industrial countries.

6/ As mentioned in the text (Section III, 4) this estimate is as yet more tentative in view of the uncertainty in the timing of quota increases of members and the new access policy (including the mixing proportions of financing with ordinary and borrowed resources) after the quota increases.

an increase in commitments involving EAR borrowed resources and SDR 0.4 billion arises from the adjustment for the reduced availability of SFF resources in substitution for EAR resources. The commitment gap as of December 1983 continues to be estimated at SDR 6.0 billion, i.e., the same as indicated in EBS/83/137. The gap at April 1984 is estimated to be of the order of SDR 7.8 billion, as compared with SDR 7.1 billion in EBS/83/137. This estimate would of course need to be revised in the light of the precise timing of the quota increase and the policy on access to the Fund's resources applying after that date.

#### 5. Guidelines for borrowing by the Fund

The estimates presented above suggest that borrowing by the Fund plus unused lines of credit, including one half of the existing GAB, could be about SDR 26 billion by December 1983 (see Appendix, Table 1). The unused lines of credit include provision for new borrowings that will be needed to cover expected commitments of borrowed resources. The ratio of borrowing to present quotas would increase from the present 39 percent to around 43 percent (see Appendix, Table 2). Under the present guidelines on borrowing by the Fund, outstanding borrowing and unused credit lines is not to exceed the range of 50-60 percent of total Fund quotas.

A paper on the review of the guidelines will be issued in the next few weeks for consideration by the Executive Directors.

### IV. Summary and Conclusions

The following are the main points and conclusions that may be drawn at this time.

1. New commitments under arrangements for the year to April 30, 1984 are estimated to total SDR 8.4 billion, or about the same total as estimated in the updated tables issued in early July 1983 (EBS/83/137). As compared with the July estimate, however, it is now projected that a larger proportion of the arrangements will be concluded in early 1984, rather than before the end of 1983, and a larger proportion is estimated to be financed from borrowed resources. Although continued substantial use of the Fund's resources is foreseen in the period ahead to April 1984, it is expected that most new arrangements are likely to be for relatively short periods, typically one year stand-by arrangements, though amounts under extended arrangements could be a significant part of the total yet to be committed.

Purchases under the special facilities are estimated to amount to SDR 3 billion for the year to April 1984, the same total as indicated in EBS/83/137, of which approximately SDR 1 billion are estimated will be made in the period January to April 1984.

The estimates of use of the Fund's resources in the period to end April 1984 have been based on the assumption that members' absolute access to the Fund's resources will remain unchanged during this period. This is a limiting assumption because the present absolute level of access to the Fund's resources cannot remain unchanged when the new quotas come into effect. Furthermore, the Executive Directors have not completed their discussion of access to the Fund's resources after the new quotas come into effect. If the increased quotas are assumed to come into effect at around the end of 1983 or early in 1984, and also that new access limits to the Fund's resources will have been agreed by the time the new quotas come into effect, the estimates for the period between early 1984 and April 1984 will need to be reviewed.

2. Highly tentative estimates of potential use of the Fund's resources, using a country-by-country approach, have been made for the two-year period ending April 30, 1986. Total commitments under arrangements are estimated at approximately SDR 12.5 billion, including possible use, amounting to the order of SDR 3.5 billion, for some smaller non-GAB industrial countries. In EBS/83/59, issued in March 1983, the total of commitments was estimated within the range of SDR 10-15 billion.

The estimates above for the period January 1984 - April 1986 are also broadly comparable to those indicated in EBS/83/133 "Review on Access to the Fund's Resources - Financial Considerations", June 28, 1983.

Purchases under the special facilities for the period to April 1986 are estimated at approximately SDR 6 billion, as compared with an estimate of SDR 3.5-4 billion in EBS/83/59 and SDR 4-6 billion in the recent papers on Access to the Fund's resources after the quota increases. These estimates are also somewhat uncertain because they are based on the assumption of unchanged absolute access to the Fund's resources.

3. The main data bearing on the Fund's overall liquidity position for the period to April 1984 are presented in summary form in Table 6.

a. The level of the Fund's usable and adjusted currencies and SDR holdings is estimated at SDR 8.2 billion by April 1984, SDR 0.3 billion higher than the estimates made in early July 1983, mainly because of some delays in the disbursement of ordinary resources under arrangements.

b. As indicated in EBS/83/137, all usable SFF lines of credit will be utilized by February 22, 1984, and all existing EAR lines of credit are likely to be drawn down by end June 1984. Unless new borrowing arrangements would be in place, the Fund will have to meet its commitment to provide borrowed resources from its holdings of ordinary resources, thereby putting further pressure on the Fund's liquidity position.

Table 6. Summary Data on the Fund's Liquidity Position

(In billions of SDRs)

	Actual	Estimates 1/		Memoranda Increases from Quota Payments and the Enlarged GAB
	July 31 1983	Dec. 31, 1983 (or early 1984)	Apr. 30, 1984	
1. a. Holdings of Usable Currencies and SDRs (adjusted) 2/	15.3	10.8	8.2	+15.0 5/
b. SFF and EAR Credit lines in place not yet disbursed 3/	6.9	3.3	0.9	
	22.2	14.1	9.1	
2. <u>Less</u>				
Undrawn balances under arrangements				
- Ordinary resources	5.2	4.1	3.4	
- Borrowed resources	10.2	9.3	8.7	
	15.4	13.4	12.1	
3. Loanable funds (uncommitted)				
- Ordinary resources	10.1	6.7	4.8	+15.0 5/
- Borrowed resources 4/	-3.3	-6.0	-7.8	
	6.8	0.7	-3.0	
<u>Memorandum Items</u>				
1. Total liquid liabilities, of which:	33.5	38.8	43.5	
(a) Reserve tranche positions	21.0	25.5	28.1	
(b) Outstanding borrowing	12.5	13.3	15.4	
2. GAB category: (one half of lines of credit before enlargement)	3.2	3.2	3.2	+(12.6) 6/

1/ The projections do not take account of increases in the Fund's resources through quota increases and the enlargement of the GAB, which are shown as memoranda items in the final column.

2/ Adjusted by one fifth of currency holdings for the Fund's need to hold working balances and for the possibility that the currencies of some members in weakening external positions becoming unusable in the future.

3/ The amounts exclude existing GAB resources as these are available only for use of Fund resources by GAB participants. Includes amounts called and invested temporarily in the Borrowed Resources Suspense Account, pending disbursements.

4/ The minus figures represent the estimated need to arrange further borrowing agreements to cover in full commitments of borrowed resources under stand-by and extended arrangements.

5/ Based on a total increase of the Fund quotas of SDR 29 billion and assuming that 100 per cent of the increases are effective. The increases for the currencies of members that were proposed for net sales in the quarterly period June-August, 1983, after adjusting by one-fifth, total about SDR 13 billion. The asset payments for quota increases by other members that would not be expected to be drawn back promptly as reserve tranche purchases could total about SDR 2 billion.

6/ The amounts for the present GAB participants in the enlarged GAB considered sufficiently strong together with Switzerland and the associated agreement with Saudi Arabia total about SDR 15.8 billion. This is reduced by SDR 3.2 billion (i.e. one-half of the present total GAB). It should be noted that no adjustment has been made for any of these GAB lines of credit that may not be usable in full. The question of the usability of the lines of credit under the revised and enlarged GAB and the associated agreements is discussed in the forthcoming paper on the review of the guidelines for borrowing.

In the absence of further Fund borrowing prior to the coming into effect of the quota increases, the Fund's total of uncommitted usable ordinary resources (i.e., uncommitted ordinary usable resources less the amount of the commitment gap) is estimated to amount to SDR 0.7 billion at the end of 1983 and to minus SDR 3.0 billion at end April 1984. (These estimates do not take account of possible use of reserve tranche positions by members in deficit positions, which might amount to SDR 1.0-1.5 billion, thereby effectively reducing the level of uncommitted usable resources to zero by end December 1983.)

c. On the basis of current estimates, outstanding borrowing by the Fund plus unused lines of credit could be about SDR 26 billion by December 1983 (see Appendix). On that basis, the ratio of borrowing to quotas could increase from the present 39 percent to 43 percent.

Under the present guidelines on borrowing by the Fund, outstanding borrowing plus unused credit lines are not to exceed the range of 50-60 percent of the total of Fund quotas. A paper will soon be issued reviewing these guidelines.

d. The commitment gap (i.e., the excess of the commitment to provide borrowed resources over available lines of credit) is estimated at SDR 6 billion by the end of December 1983, which is unchanged from the estimated gap in EBS/83/137. The commitment gap is estimated to be of the order of SDR 7.8 billion by end April 1984, as compared with SDR 7.1 billion in EBS/83/137. The increase in the estimated size of the commitment gap over that estimated in early July 1983 is due partly to a relatively small shift in the proportions of borrowed and ordinary resources under arrangements and in the likely reduced availability in SFF resources that could be substituted for EAR resources.

4. The commitment gap of SDR 6 billion, that is expected to emerge by the end of 1983 is a measure of further borrowing that will be needed by the Fund to meet its commitments of borrowed resources under arrangements with members by the end of the year. The level of the Fund's uncommitted usable ordinary resources is no longer of an order that the Fund could readily substitute such uncommitted resources to meet its commitments to supply borrowed resources, particularly as no provision has been made of possible use of the Fund's resources by the smaller non-GAB industrial countries. Furthermore, in view of the *reserve character of claims on the Fund*, it is indispensable that the Fund at all times maintains sufficient liquidity in ordinary resources to provide assurance that these reserve assets are totally liquid.

The rapidly widening commitment gap, the sizable depletion of the Fund's uncommitted ordinary resources, and the rapid use of existing credit lines all underscore the pressing need for the Fund to enter into new EAR borrowing arrangements at an early date. It is

most desirable, therefore, that the discussions of the Managing Director with Saudi Arabia about a possible third tranche under the EAR borrowing agreement and the initiative which he has taken with industrial countries and the BIS about EAR loans before the quota increases will lead to positive conclusions in September 1983.

(Annex) Table 1. Estimated Total Reserve Tranche Positions  
and Outstanding Loan Claims

July 31, 1983 - April 30, 1984

(In billions of SDRs)

	Reserve Tranche Positions <u>1/</u>	Outstanding Loan Claims <u>2/</u>	Total
<u>July 31, 1983 (actual)</u>	<u>21.0</u>	<u>12.5</u>	<u>33.5</u>
<u>August 1 - December 31, 1983</u>			
Purchases/borrowings	4.4	1.7	
GAB repayments	0.8	-0.8	
Repurchases/repayments	<u>-0.7</u>	<u>-0.1</u> <u>3/</u>	
	<u>25.5</u>	<u>13.3</u>	<u>38.8</u>
<u>January 1 - April 30, 1984</u>			
Purchases/borrowings	2.9	2.2	
Repurchases/repayments	<u>-0.3</u>	<u>-0.1</u> <u>3/</u>	
	<u>28.1</u>	<u>15.4</u>	<u>43.5</u>

Note: In view of the uncertainties and assumptions, all estimates are intended to suggest possible orders of magnitude.

1/ Reserve tranche positions would be larger to the extent that SDRs were used for repurchases, and smaller to the extent that decisions were taken to sell SDRs to finance the purchases. No adjustments have been made in this regard.

2/ Includes amounts that have been called under borrowing arrangements and are expected to be temporarily invested in the borrowed resources suspense accounts pending disbursement. For this reason the projected amounts will not be the same as estimated disbursements of borrowed resources shown in Table 4 of the text.

3/ Repurchases that are linked to repayment to lenders.

(Annex) Table 2. Actual and Estimates of Fund Borrowings Net of Repayments:  
July 31, 1983 - April 30, 1984

(In billions of SDRs)

	Supplementary Financing Facility	General Arrangements to Borrow <u>1/</u>	Enlarged Access Resources <u>2/</u>	Total
<u>As of July 31, 1983 (Actual)</u>	<u>6.5</u>	<u>0.8</u>	<u>5.2</u>	<u>12.5</u>
<u>August 1 - December 31, 1983</u>				
New borrowings	+0.5	--	1.2	1.7
Repayments	<u>-0.1</u>	<u>-0.8</u>	<u>--</u>	<u>-0.9</u>
<u>As of December 31, 1983</u>	<u>6.9</u>	<u>--</u>	<u>6.4</u>	<u>13.3</u>
<u>January 1 - April 30, 1984</u>				
New borrowings	--	--	+2.2	+2.2
Repayments	<u>-0.1</u>	<u>--</u>	<u>--</u>	<u>-0.1</u>
<u>As of April 30, 1984</u>	<u>6.8</u>	<u>--</u>	<u>8.6</u>	<u>15.4</u>

1/ Excludes any future commitment of GAB resources under the existing GAB arrangements.

2/ Includes amounts that have been called under borrowing arrangements and are expected to be temporarily invested in the borrowed resources suspense accounts pending disbursement. It is assumed that SDR 0.2 billion would be held in the BRS Accounts at April 1984 which accounts for the difference from Table 4 (i.e., SDR 8.4 billion rather than SDR 8.6 billion at the foot of this column).

(Annex) Table 3. Total Purchases and Repurchases on a Half-yearly Basis Beginning May 1, 1979

(In billions of SDRs)

Half-year to End	Total purchases	Total repurchases	Net purchases
October 1979	1.2	2.1	-0.9
April 1980	1.3	1.7	-0.4
October 1980	1.8	1.7	0.1
April 1981	3.1	1.2	1.9
October 1981	3.3	1.0	2.3
April 1982	4.7	1.0	3.7
October 1982	2.8	0.8	2.0
April 1983	8.6	0.8	7.8
October 1983 (est)	7.5	1.0	6.5
April 1984 (est)	7.9	0.7	7.2

*Note: Disbursements of ordinary and borrowed resources to finance purchases, net of repurchases, in the period May 1 - July 31, 1983 totaled SDR 1.8 billion.*

Principal Ratios for Assessing Fund Liquidity

1. The data on the principal elements of Fund's borrowing and its liquidity position for the period 1977-1984 are set out in Table 1 of this Appendix. On the basis of these data, the quota, liquidity, cash and asset ratios have been calculated (Table 2). The present estimates of the inflow of usable ordinary resources from quota increases and the potential increases in the GAB resources are shown as memoranda items for December 31, 1983 and April 30, 1984.

2. Quota ratio

Under the Guidelines for Borrowing by the Fund the total of outstanding borrowing plus unused credit lines is not to exceed a range of 50-60 percent of the total of Fund quotas. If the ratio were to reach the level of 50 percent, the Executive Board would assess the various technical factors that determine, at that time, the availability of unused credit lines.

The quota ratio (line 1 in Table 2) is now 39 percent and is projected to stay below 50 percent through year-end 1983, when it is expected to be about 43 percent on the basis of the estimates presented in this paper.

Actual outstanding borrowing is at present SDR 12.5 billion, or 20 percent of quotas; this is projected to increase to over SDR 15 billion by April 30, 1984, which is about 25 per cent of present quotas.

3. Liquidity ratios

The "liquidity ratio" (line 2) shows the relation between the Fund's highly liquid assets (i.e., adjusted and uncommitted ordinary resources and temporary investments in BRS accounts) and the Fund's immediate obligations in the form of reserve tranche positions and loan claims. This ratio is estimated to decline from about 36 percent on July 31, 1983 to around 18 percent in December 1983, using present quotas for the calculation. The ratio would be expected to increase to around 40 percent in April 1984 assuming the quota increases would be fully effective.

A variant of the "liquidity ratio", which might be referred to as the cash ratio, is the ratio of adjusted and uncommitted ordinary resources to reserve tranche positions (line 3 in Table 2). As reserve tranche positions appear more likely to be drawn down than loan claims (which are in the "liquidity ratio"), this ratio is an indicator of the Fund's quick assets and liabilities. This ratio is expected to decline to about 26 percent in December 1983. At present, about one-fifth of reserve tranche positions are held by members with weak current account balances.

4. Asset ratio

The two asset ratios (line 4 in Table 2) relate the Fund's total usable assets to its total obligations. The numerator includes unadjusted ordinary resources and temporary investments in the BRS accounts and, alternatively, gold as well. The denominator in both ratios consists of the total of outstanding borrowing and total reserve tranche positions.

The asset ratio, excluding gold, is at present about 60 percent and is projected to approach a level of about 36 percent by December 31, 1983 and about 26 percent by April 1984, if the quota increase were not taken into consideration. The quota increase, if fully effective by year-end, would result in asset ratios of approximately 65 percent by December 31, 1983 and 53 percent by April 30, 1984.

(Appendix) Table 1. Selected Balance Sheet Data

(In billions of SDRs)

Item	April 30							July 31 1983	Dec. 31 1983	Apr. 30 1984	Memoranda 1/ Increase from Quota payments and Enlarged GAB
	1977	1978*	1979	1980	1981*	1982	1983				
1. Usable Ordinary Resources (unadjusted)	6.6	12.7	10.1	11.9	28.9	22.2	18.0	18.2	13.7	11.1	
of which											
(a) Adjusted	4.6	8.9	7.2	8.4	21.9	18.7	15.1	15.3 <sup>2/</sup>	10.8	8.2	
(b) Adjusted and uncommitted	0.7	5.3	5.2	7.0	19.6	15.1	9.4	10.1	6.7	4.8	+15.0
2. Gold at SDR 35 per fine ounce	5.0	4.5	4.1	3.6	3.6	3.6	3.6	3.6	3.6	3.6	
3. Total Borrowed Resources	10.1	10.0	15.4	13.6	12.6	20.8	20.1	23.5	26.1	27.1	
(a) Outstanding borrowing											
1) EAR <sup>3/</sup>	--	--	--	--	--	1.4	4.1	5.2	6.4	8.6	
of which BRS Accounts	--	--	--	--	--	(0.2)	(1.8)	(1.8)	(0.3)	(0.2)	
ii) SFF	--	--	--	0.5	2.0	4.1	6.0	6.5	6.9	6.8	
iii) GAB <sup>4/</sup>	0.9	1.6	0.8	0.8	0.8	0.8	0.8	0.8	--	--	
iv) Other <sup>5/</sup>	6.8	6.5	4.3	2.5	1.5	0.5	--	--	--	--	
Total	7.7	8.1	5.1	3.8	4.3	6.8	10.9	12.5	13.3	15.4	
(b) Unused Credit Lines											
1) EAR	--	--	--	--	--	7.9	5.2	7.4 <sup>6/</sup>	8.9 <sup>6/</sup>	8.5 <sup>6/</sup>	
ii) SFF	--	--	7.8	7.3	5.8	3.6	1.6	1.2	0.7	--	
iii) GAB and Associated <sup>4/</sup>	2.2	1.7	2.5	2.5	2.5	2.4	2.4	2.4	3.2	3.2	+(12.6)
iv) Other <sup>5/</sup>	0.2	0.2	--	--	--	--	--	--	--	--	
Total	2.4	1.9	10.3	9.8	8.3	14.0	9.2	11.0	12.8	11.7	
4. Total Liquid Liabilities	18.5	17.1	13.4	12.2	17.4	22.4	31.5	33.5	38.8	43.5	
(a) Reserve Tranche Positions	10.8	9.0	8.3	8.4	13.1	15.6	20.6	21.0	25.5	28.1	+ 6
(b) Outstanding Borrowing	7.7	8.1	5.1	3.8	4.3	6.8	10.9	12.5	13.3	15.4	
5. Total Quotas	29.2	32.3	39.0	39.0	59.6	60.7	61.1	61.1	61.1	61.1	+ 29

\* Years in which quota increases became effective.

1/ See Table 6 included in text.

2/ Usable currency holdings that are included in this total are reduced by about one fifth to provide for the Fund's holdings of the currencies of creditor members with weakening balance of payments positions and for working balances.

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

4/ The total of GAB credit lines as of July 31, 1983 was SDR 6.3 billion of which SDR 777 million had been used, leaving a balance of about SDR 5.6 billion. For the purposes of this table the definition in the guidelines for borrowing is used. These guidelines provide that the GAB be included for an amount equal to outstanding borrowing by the Fund under the GAB or one half of total credit lines under the GAB, whichever is the greater. The one half of the total or SDR 3.2 billion, which is the greater amount at July 31, 1983, is composed of SDR 0.8 billion (line 3(a)(iii)) and SDR 2.4 billion (line 3(b)(iii)).

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

6/ Including further borrowing needed to fully cover commitments under stand-by and extended arrangements at these points in time.

(Appendix) Table 2. Fund Liquidity - Selected Ratios

(In per cent)

Item	April 30								Dec.31 1983	Apr.30 1984	Memoranda Including changes due to the payment of the quota increase 1/	
	1977	1978	1979	1980	1981	1982	1983	1983	(est)	(est)	Dec.31, 1983	Apr.30, 1984
1. Quota ratio <u>2/</u>	34.6	31.0	39.5	34.9	21.1	34.3	32.9	38.5	42.7	44.4	...	...
2. Liquidity ratio <u>3/</u>	3.8	31.0	38.8	57.4	112.6	68.3	35.6	35.5	18.0	11.5	49.1	40.4
3. Cash ratio <u>4/</u>	6.5	58.9	62.7	83.3	149.6	96.8	45.6	48.1	26.3	17.1	68.9	58.1
4. Asset ratio <u>5/</u>												
(i) excluding gold	35.7	74.3	75.4	97.5	166.1	100.0	62.9	59.7	36.1	26.0	64.7	53.1
(ii) including gold	62.7	100.6	106.0	127.0	186.8	116.1	74.3	70.4	45.4	34.3	72.8	60.4

1/ See Table 6 included in text.

2/ The quota ratio, as defined under the decision on guidelines for borrowing, is the ratio of the total of outstanding borrowing and unused credit lines to total quotas (see Appendix Table 1, lines 3 and 5).

3/ The liquidity ratio is the ratio of adjusted and uncommitted ordinary resources and temporary investments in the BRS accounts to the total of outstanding borrowing and reserve tranche positions (see Appendix Table 1, lines 1(b), 3(a)(i) and 4).

4/ The cash ratio is the ratio of adjusted and uncommitted ordinary resources to reserve tranche positions. See Appendix Table 1, lines 1(b) and 4(a).

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