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July 14, 1983

To: Members of the Executive Board

From: The Secretary

Subject: Supplementary Financing Facility and Exceptional
Use of Fund Resources - Interest Rate and Charges
for the Six Months Ended June 30, 1983

Attached for the information of the Executive Directors are notes on (i) the interest rate and charges for the six months ended June 30, 1983, as regards the Supplementary Financing Facility and Exceptional Use of Fund Resources (Attachment I) and (ii) the net cost of borrowing and periodic charges under the policy on Enlarged Access to the Fund's Resources (Attachment II).

Att: (2)

Other Distribution:
Department Heads

INTERNATIONAL MONETARY FUND

Supplementary Financing Facility and Exceptional Use of Fund Resources - Interest Rate for the Six Months Ended June 30, 1983

Prepared by the Treasurer's Department

July 14, 1983

1. The rate of periodic charges payable by members on amounts purchased under the Supplementary Financing Facility (SFF) equals the rate of interest payable by the Fund on the amounts borrowed under the SFF borrowing agreements plus 0.2 per cent per annum for the first three and one-half years after a purchase and 0.325 per cent per annum thereafter. 1/ For each half of a calendar year, the rate of interest payable by the Fund is the average during that period of the daily yields (rounded up to the next 1/8 of one per cent) on actively traded U.S. Government securities, determined on the basis of a constant maturity of five years. The rate is calculated as a simple arithmetic average of the daily yields over the six-month period. The calculated average rate was 10.18 per cent for the six-month period ended June 30, 1983, which yielded an interest rate of 10.25 per cent payable on SFF borrowings and rates of charges on purchases under the SFF of 10.45 per cent and 10.575 per cent. The corresponding rates in the July-December 1982 period were 11.81 per cent, 11.875 per cent, 12.075 per cent, and 12.20 per cent. In the period January 1-June 30, 1983, there have been 13 additional purchases financed under the Supplementary Financing Facility totaling SDR 1,271,625,000; over the same period, repurchases amounted to SDR 37,279,262; and at June 30, 1983, the amount of purchases outstanding were SDR 6,503,965,682.

2. In April 1978, the Executive Board decided on the charge to be applied to holdings of currency in excess of 200 per cent of quota acquired by the Fund as a result of purchases under stand-by arrangements, and to holdings acquired by the Fund as a result of purchases under an extended arrangement to the extent that the Fund's holdings of a member's currency resulting from purchases under the Facility exceeded 140 per cent of quota. 2/ This charge is applicable to purchases under arrangements which took effect prior to the effective date of the SFF. The charge on such holdings is equal to the average yield to constant five-year maturity of U.S. Government securities (in New York) over the six months preceding the determination of the rate of charge, rounded up to the next 1/4 of one per cent, plus 1/4 of one

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

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

per cent. The charge calculated in the above manner yielded a rate of 10.50 per cent for the six-month period ended June 30, 1983, compared with 12.25 per cent in the previous half-year. Balances subject to this rate of charge amounted to SDR 10,400,000 as of the end of June 1983, and averaged the same for the six-month period ended June 30, 1983.

3. The following table sets out the interest rates and charges for the six months ended June 30, 1983, applicable under the loan agreements and schedules of charges mentioned in paragraphs 1 and 2 above.

Period	Average yield to constant 5-year maturity on U.S. Government securities	Interest rate payable on SFF borrowing agreements	Rate of charge on purchases under the SFF for first 3 1/2 years	Rate of charge on purchases under the SFF after first 3 1/2 years	Rate of charge on exceptional use of Fund resources
<u>1982</u>					
January	10.03				
February	10.26				
March	10.08				
April	10.02				
May	10.03				
June	10.63				
January-June	10.18	10.25	10.45	10.575	10.50

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

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

1. Net borrowing costs in relation to average outstanding purchases and the rate of charge for the use of borrowed funds under the policy of Enlarged Access to the Fund's Resources (EAR) were 10.55 per cent and 10.75 per cent, respectively, for the period of six months ended June 30, 1983. The corresponding rates were 12.35 and 12.55 per cent per annum for the six months ended December 31, 1982.

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

3. During the six months ended June 30, 1983, an additional amount of SDR 3,198,429,095 was borrowed and there was a repayment of borrowing of SDR 15,000,000, bringing outstanding borrowing to SDR 5,190,000,000. In the same period there were 47 purchases financed from these borrowed resources totaling SDR 1,383,993,607 thus bringing the amount of purchases outstanding to SDR 3,015,678,332. At June 30, 1983, borrowed resources held in the Borrowed Resources Suspense Accounts amounted to SDR 2,174,321,668 and for the six months ended June 30, 1983, net income (including exchange valuation gains or losses) on the temporary employment of borrowed funds pending their disbursement amounted to SDR 39,048,547.

4. The calculation of the rate of periodic charges for the period ended June 30, 1983, on the amounts purchased under the EAR is as follows:

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

Gross borrowing costs	SDR 155,856,936
Less net income on borrowed funds pending disbursement	<u>39,048,547</u>
Net borrowing costs	SDR 116,758,389
Average daily balances of outstanding purchases	<u>SDR 2,231,090,159</u>
Net borrowing costs as a percentage of average daily balances of outstanding purchases	10.55
Margin	<u>0.20</u>
Rate of charge (per cent)	<u>10.75</u>

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