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September 11, 1995

To: Members of the Executive Board

From: The Secretary

Subject: The Fund's Liquidity and Financing Needs - Review

Attached for consideration by the Executive Directors is a paper reviewing the Fund's liquidity position and its financing needs, which is tentatively scheduled for discussion on Monday, September 25, 1995. A summary and concluding remarks appear on pages 10-12.

Mr. Decarli (ext. 37627) or Mrs. Ecevit (ext. 37582) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

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INTERNATIONAL MONETARY FUND

The Fund's Liquidity and Financing Needs - Review

Prepared by the Treasurer's Department

(In consultation with Area Departments)

Approved by David Williams

September 8, 1995

I. Introduction

This paper reviews the Fund's liquidity position and its financing needs through end-1997 on the basis of current access policy on the use of Fund resources and access limits under the credit tranches, the extended Fund facility and the special facilities. <sup>1/</sup> The Fund's liquidity position is projected under a scenario which assumes that all purchases under Mexico's stand-by arrangement will take place as scheduled. Sensitivity analysis is provided to give an indication of the effect on the projected liquidity ratio of lower or higher levels of use of Fund resources over the next two years.

The paper is organized as follows: Section II reports on the evolution of the Fund's usable resources; Section III deals with the prospective demand for Fund resources over the period to end-1997 under current access policies and limits; Section IV presents the projected developments in the Fund's liquidity ratios and sensitivity analysis; and Section V provides some concluding remarks. The Appendix contains tables on the Fund's usable resources, selected balance sheet data and financial ratios, as well as a table on the regional distribution of Fund credit.

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<sup>1/</sup> On current access limits under the credit tranches and the extended Fund facility, see Decision No. 10819-(94/95), adopted October 24, 1994. The systemic transformation facility (STF) was amended on December 14, 1994 (Decision No. 10855-(94/109) STF) to provide for an extension of the period within which members could make a first purchase under the facility, from December 31, 1994 to April 30, 1995. The Executive Board decided on April 19, 1995 not to extend that period further. Members that had already made a first purchase by that time may make a second purchase until December 31, 1995 (Decision No. 10961-(95/41) STF), provided that the interval between the two purchases does not exceed 18 months.

## II. The Supply of the Fund's Usable Resources

At the end of August 1995, the Fund's stock of usable resources amounted to SDR 59.4 billion, of which SDR 58.4 billion represented the Fund's holdings of currencies of members considered sufficiently strong to be included for transfers in the operational budget for the period August 15 - November 30, 1995 (EBS/95/120, 7/25/95), and the balance of SDR 1.0 billion represented SDRs held in the General Resources Account (Table 2 and Appendix, Table 2). The end-August level of usable resources is SDR 4.4 billion lower than that presented for end-February in the last liquidity review, 1/ reflecting mainly the impact of the relatively large amount of purchases that took place during the period. 2/

The stock of the Fund's usable resources has been adjusted downward by SDR 10.2 billion, corresponding to undrawn balances already committed under existing arrangements and which are considered likely to be drawn so that uncommitted resources totaled SDR 49.2 billion at end-August 1995. 3/ Undrawn balances under arrangements (before adjustments) amounted to SDR 12.5 billion as of end-August 1995, compared to SDR 3.4 billion last February. 4/ The large increase in undrawn balances during the period reflected the full amount of the arrangement for Mexico (an increase of SDR 6.8 billion to SDR 12.1 billion) and the augmentation of Argentina's extended arrangement (SDR 1.5 billion), as well as a number of new arrangements, including for Russia (SDR 4.3 billion) and Ukraine (SDR 1 billion).

The stock of the Fund's currency holdings has been adjusted downward, as in the past, by a factor of 20 percent (amounting to SDR 11.7 billion) to take into account (i) the need to maintain minimum balances in particular currencies for operational purposes, and (ii) the likelihood that the

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1/ "The Fund's Liquidity and Financing Needs - Review", EBS/95/29, (3/9/95).

2/ Purchases during the period amounted to SDR 6.5 billion while repurchases were SDR 2.7 billion including an advance repurchase made by Poland on July 17, 1995 for SDR 640 million and a prompt repurchase made by Gabon on August 18, 1995 for SDR 21.5 million on account of CCFF overcompensation.

3/ Thirteen new stand-by arrangements and one extended arrangement were approved from end-February 1995 to end-August 1995, and twelve arrangements were canceled or expired. Currently, undrawn balances considered likely to be drawn exclude balances under three inoperative arrangements and an allowance for resources that will not be drawn for other reasons, amounting in total to SDR 2.3 billion (compared to SDR 0.9 billion at the time of the last liquidity review).

4/ Overdue repurchases amounted to SDR 1.7 billion at end-August 1995, about the same level as at end-February 1995. The total of overdue repurchases is equivalent to 3.5 percent of the stock of uncommitted usable ordinary resources and 5.0 percent of total credit outstanding in the GRA (Appendix Table 3).

currencies of some members would become unusable as their balance of payments positions weaken. The staff considers that, on balance, the changes that have taken place in the external financial position of some countries in the last six months do not warrant a change in the size of the adjustment factor at this time. An adjustment factor of 20 percent continues to be appropriate in present uncertain circumstances and prospects regarding the balance of payments positions of a number of members whose currencies are included in the operational budget, including some relatively large developing and industrial countries. 1/ As noted in previous reviews, the adjustment factor also helps smooth the impact of changes in the total of usable currencies on the Fund's liquidity position over time, compared to large shifts that would result without such an adjustment factor when members with relatively large quotas may be excluded from the operational budget. 2/ The appropriateness of the size of the adjustment factor will continue to be monitored on a regular basis, in particular so as to avoid overestimating or underestimating the Fund's liquidity position.

After these adjustments to the total of the Fund's usable assets, the total of the Fund's uncommitted and adjusted resources amounted to SDR 37.5 billion at the end of August 1995 compared with SDR 48.9 billion at the end of February 1995.

### III. The Demand for Fund Credit

This section presents projections of demand for Fund credit through end-1997 based on the latest country-by-country estimates by area departments and after probability adjustments. Under current access policy and limits, and assuming full use of the amount available under Mexico's current stand-by arrangement, demand for 1995 and 1996 taken together, consisting of commitments under stand-by and extended arrangements and of purchases that are projected outside those commitments, 3/ is projected to amount to SDR 32.7 billion--including actual commitments and purchases during January-August 1995 of SDR 21.1 billion (see Table 1, memorandum

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1/ It is also worth noting that if one or two large countries were excluded from the transfers side of the operational budget, such an exclusion alone would eliminate most of the amount of usable currencies represented by the adjustment factor.

2/ Considerations bearing on the adjustment factor were discussed in "Methodology Used in the Projections of the Fund's Liquidity Position and Financing Needs," (EBS/90/60, 3/27/90) which was considered by the Executive Board in April 1990.

3/ Currently such purchases are those under the systemic transformation facility (STF) (through 1995 only), the compensatory and contingency financing facility (CCFF), and purchases of additional amounts that can be made available for debt and debt service reduction operations. Purchases under the buffer stock financing facility (BSF) also would be included, but no such purchases are considered likely.

Table 1. Summary Statistics on Commitments and  
Changes in Fund Credit  
(in billions of SDRs)

	1994	Preliminary	Sept-Dec 1995	Projected		
		Jan-Aug 1995		Total 1995	1996	1997
1. Gross New Commitments 1/	5.7	20.8	2.4	23.2	10.9	6.1
a. Stand-by and Extended Arrangements	3.5	20.6	1.1	21.7	9.4	4.5
b. SAF and ESAF Arrangements	2.2	0.2	1.3	1.5	1.5	1.6
2. Purchases and Disbursements						
a. Purchases 2/	5.0	12.0	5.2	17.2	9.9	5.8
(i) Under arrangements	2.3	11.5	4.8	16.3	9.2	5.1
(ii) Additional for DDSR	0.4	--	--	--	-- 3/	--
(iii) Under the CCFF	0.3	--	0.2	0.2	0.7	0.7
(iv) Under the STF	1.9	0.5	0.2	0.7	--	--
b. SAF and ESAF loan disbursements	0.9	0.4	1.0	1.4	1.5	1.9
Total Purchases and Disbursements	5.9	12.4	6.2	18.6	11.4	7.7
3. Repurchases and Repayments						
a. Repurchases	4.6	3.4	2.1	5.5	4.4	3.7
b. Trust Fund/SAF/ESAF Repayments	0.2	0.2	0.2	0.4	0.5	0.6
4. Change in Fund Credit Outstanding (GRA) (2.a. - 3.a.)	0.4	8.6	3.1	11.7	5.5	2.1
5. Change in Total Credit Provided by the Fund (4 + 2.b. - 3.b.)	1.1	8.8	3.9	12.7	6.5	3.4
Memorandum item: Demand for Fund Credit (GRA) (1.a. + 2.a - 2.a.i.)	6.2	21.1	1.5	22.6	10.1	5.2

1/ Excludes additional resources that may be committed for debt and debt-service reduction (DDSR).

2/ Excludes reserve tranche purchases.

3/ Less than SDR 50 million.

item). 1/ Projected demand for 1995-96 together is SDR 4.4 billion higher than projected in the last liquidity review six months ago (EBS/95/29). The increase in projected commitments reflects not only new projected arrangements but also an increase in probabilities of arrangements being completed for a number of large countries, mainly reflecting progress in consideration of programs with a number of transition economies. These changes outweighed the effect of the shift of a number of projected arrangements from 1996 into 1997.

As can be expected, projections of demand for 1997 should be taken only as a broad order of magnitude. The projections provided by the area departments showed relatively little activity for 1997, particularly, the second half of 1997, and demand could, therefore, be underestimated, particularly for those countries for which future or possibly continued use of Fund resources could not be reasonably assessed at this time. With that caveat, the level of demand for 1997 is projected at SDR 5.2 billion under present policies regarding access, an amount which is commensurate with demand in 1993-94. It should also be noted that commitments projected to be approved in 1996 may be delayed into 1997, and therefore actual demand in 1996 may turn out to be less than currently projected, and demand in 1997 may consequently be somewhat larger.

1. Commitments under stand-by and extended arrangements

Commitments under stand-by and extended arrangements--on a country-by-country basis--are projected to amount to SDR 21.7 billion in 1995, SDR 2.6 billion above the projection in the last liquidity review. During the first eight months of 1995, fourteen stand-by arrangements and one EFF arrangement were approved for a total of SDR 19.1 billion (including SDR 12.1 billion under the stand-by arrangement for Mexico). 2/ In addition, an existing EFF arrangement for Argentina was augmented by SDR 1.5 billion, bringing the total commitments for the January-August 1995 period to SDR 20.6 billion. For the remainder of the year, it is projected that ten additional stand-by arrangements and two extended arrangements are likely to be approved, for a probability adjusted total of SDR 1.1 billion (see Table 1 and Appendix, Table 1); commitments to transition economies account for over 60 percent of the projected amount.

Commitments in 1996 are projected to total SDR 9.4 billion, SDR 2.3 billion more than the projection of six months ago. Commitments in support of four projected extended arrangements constitute about four-fifths of the total; the remainder is accounted for by commitments under fourteen stand-by arrangements. The share of the transition economies is projected to amount to about 90 percent of the total commitments in 1996.

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1/ No amount has been explicitly included in arrangements for a possible currency stabilization fund (CSF) since discussions are ongoing.

2/ "Mexico - Stand-By Arrangement", EBS/95/14, Supplement 3, 2/2/95.

For 1997, thirteen stand-by and four extended arrangements are projected on a country-by-country basis, amounting to SDR 4.5 billion. Arrangements with countries in transition account for about a third of the total amount projected for 1997.

## 2. Projected use of Fund resources

Based on commitments under current and projected stand-by and extended arrangements as outlined above, purchases under arrangements during the period 1995-1997 are projected to amount to SDR 30.6 billion. 1/

Twenty members have made purchases under the systemic transformation facility (STF) in the period from its establishment in April 1993 through end-August 1995 for a total amount of SDR 3.9 billion; fifteen of these members have made two purchases each. Further purchases (probability adjusted) amounting to SDR 0.2 billion are projected through end-1995 under the current decision allowing second purchases through December 1995, bringing total use of the facility to SDR 4.1 billion.

Purchases under the CCFF are projected at SDR 0.2 billion for the remainder of 1995 and SDR 0.7 billion each for 1996 and 1997. The estimates are based on an average level of compensatory financing purchases in recent years, and as such, are an allowance rather than a projection. So far, there has not been a CCFF purchase in 1995.

Provision is also made for possible reserve tranche purchases of SDR 0.1 billion for the remainder of 1995 and SDR 0.5 billion each in 1996 and 1997 by members that are not currently included on the transfer side of the operational budget. 2/ Currently, the only remaining Fund indebtedness relates to amounts outstanding under the 1986 borrowing agreement with Japan. Repayments of principal to Japan during the remainder of 1995 will total SDR 0.5 billion, followed by SDR 1.1 billion in 1996; the

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1/ In the first nine months of 1995, there has not been any purchase under additional resources made available for debt and debt-service reduction (DDSR), and none is projected for the remainder of the year. It is anticipated that an amount of less than SDR 0.1 billion will be requested under this provision by one country in 1996, but no additional amount is projected for 1997. Purchases of amounts set-aside for debt and debt-service reduction operations under current and projected arrangements are included as part of the total for projected purchases under arrangements. One member's arrangement includes a set aside provision which amounts to SDR 50 million.

2/ This provision represents on a yearly basis about 11 percent of the reserve tranche positions of SDR 4.4 billion held by such members as of end-August 1995.



Fund's current indebtedness will be fully repaid by end-March 1996. 1/ Repurchases with respect to purchases financed with borrowed resources are scheduled to amount to SDR 0.5 billion in the period September-December 1995, SDR 0.8 billion in 1996 and SDR 0.5 billion in 1997. 2/

### 3. SAF and ESAF commitments and disbursements

In the first eight months of 1995, three ESAF arrangements were approved for a total of SDR 0.2 billion (Table 1), bringing the total amount of ESAF Trust resources committed under ESAF loan agreements to about SDR 5.0 billion as of end-August 1995. 3/ Disbursements of ESAF Trust resources have amounted to about SDR 0.4 billion so far in 1995, bringing the total disbursed under arrangements to SDR 3.2 billion as of end-August 1995.

Under the extended and enlarged ESAF Trust, the total amount available for disbursements is projected at approximately SDR 10.1 billion, consisting of SDR 5.1 billion available under agreements with lenders approved prior to the enlargement of the ESAF and SDR 5.0 billion targeted for the enlargement. For projection purposes, it is assumed that the target of SDR 5.0 billion in new resources will be met and that the commitment period which currently runs through end-1996 will be extended. The staff's updated analysis of likely demands for available ESAF resources and under an "interim" ESAF based on illustrative assumptions regarding access, indicates that ESAF Trust resources of SDR 10.1 billion may be fully committed by end-1998, two years later than initially anticipated, although the precise timing remains difficult to predict. 4/ The probability adjusted projections indicate that around SDR 4.4 billion is likely to be committed in the period September 1995 to end-1997. The projections for 1995 include an expectation that in late 1995 Zambia will complete its rights accumulation program, clear its arrears to the Fund, and enter into an ESAF arrangement (together with a SAF arrangement).

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1/ Repayments to Japan are made in one installment, five years after each drawdown date, while the corresponding repurchases are made to the Fund in ten equal installments beginning 3 1/2 years and ending 7 years after the date of purchase.

2/ The maturity mismatch, which at end-August 1995 amounted to SDR 1.0 billion will be at that same level at end-1995. It is projected to peak at end-March 1996 at a level of SDR 1.9 billion. Thereafter, it will correspond to the level of outstanding purchases initially financed with borrowed resources and it will decline continuously to SDR 1.3 billion at end-1996 and SDR 0.8 billion at end-1997 as the corresponding repurchases are made.

3/ Net of SDR 0.2 billion that was committed but undisbursed under expired arrangements.

4/ "Continued Financing and Adaptation of the ESAF", EBS/95/130 (8/4/95), page v.

#### 4. Projected changes in Fund credit

Total purchases under existing and projected arrangements and under the special facilities are projected to amount to SDR 17.2 billion in 1995, SDR 9.9 billion in 1996, and SDR 5.8 billion in 1997. Repurchases are projected to total SDR 5.5 billion in 1995, SDR 4.4 billion in 1996, and SDR 3.7 billion in 1997. <sup>1/</sup> Outstanding Fund credit in the General Resources Account is therefore projected to increase on a net basis by SDR 11.7 billion in 1995, SDR 5.5 billion in 1996, and SDR 2.1 billion in 1997, to reach SDR 44.9 billion by end-1997.

Taking into account projected SAF and ESAF disbursements and repayments, total credit provided by the Fund is projected to increase by SDR 22.6 billion in 1995-97, to reach SDR 52.9 billion by end-1997 (Appendix, Table 2, line 7).

The regional distribution of total outstanding credit (including SAF/ESAF loans) provided by the Fund (Appendix Table 4) indicates increases in 1995 in the shares of the Western Hemisphere countries (from 31 percent of total Fund credit at end-1994 to 42 percent at end-1995) and European countries (from 27 percent to 29 percent), with corresponding declines in the shares of all other regions. The share of the Western Hemisphere is projected to decline slightly to 39 percent at end-1997, while the share of the European countries is projected to continue to rise and reach 35 percent at end-1997.

#### IV. The Fund's Liquidity Ratio

At the end of August 1995, the Fund's liquidity ratio was 106 percent, sharply below its level of 150 percent at end-February. As mentioned above, this reflects a decline in the level of uncommitted and adjusted resources largely on account of the increase in Mexico's stand-by arrangement by SDR 6.8 billion to SDR 12.1 billion, as well as the augmentation of Argentina's extended arrangement by SDR 1.5 billion, and new stand-by arrangements for Russia (SDR 4.3 billion) and Ukraine (SDR 1.0 billion) which were approved during the period.

On the basis of the projections of the demand for Fund credit under current access policy and limits presented above and the list of members

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<sup>1/</sup> All members are assumed to settle their forthcoming obligations on time, except when known that advance or early repurchases will be made. For the members presently in arrears to the Fund, no allowance is made for the accumulation of further arrears or settlements of any existing overdue repurchases, except in the case of Zambia, which is expected to complete its rights accumulation program and settle its overdue financial obligations to the Fund, including overdue repurchases of SDR 0.5 billion, before consideration by the Executive Board of arrangements with the Fund that would permit the encashment of the accumulated rights.

whose currencies are usable by the Fund under the operational budget for August 15 - November 30, 1995, the liquidity ratio is estimated to decline to 97 percent at end-1995, to 69 percent at end-1996 and to 61 percent at end-1997 (see Table 2), or considerably below the long-run average ratio of 70 percent. <sup>1/</sup> At the levels of the liquidity ratio currently projected for end-1996 and end-1997, for each decrease (increase) in the projected amount of purchases by SDR 1 billion, the ratio will increase (decrease) by about 3-4 percentage points.

Table 2. Summary of Projections of Fund Liquidity Through End-1997

(In billions of SDRs unless otherwise indicated)

		Preliminary August 1995 (end of period)	Projected		
	1994		1995	1996	1997
Holdings of usable resources	68.4	59.4	...	...	...
Uncommitted and adjusted usable resources	53.4	37.5	37.5	30.2	28.2
Liquid liabilities	31.7	35.5	38.6	44.1	46.2
Liquidity ratio (in percent) <sup>1/</sup>	168.5	105.6	97.2	68.5	61.0

<sup>1/</sup> The ratio of uncommitted and adjusted usable resources to liquid liabilities.

<sup>1/</sup> In the past the liquidity ratio has fallen significantly below 70 percent, at times when quota increases were expected and the Fund was undertaking large borrowings. For example, the liquidity ratio had been as low as 34 percent just before the Seventh General Review of Quotas came into effect in late 1980--which raised the ratio to 75 percent--but the Fund's liquidity both before and after the quota increase had been importantly bolstered by the large amount of credit available through the credit lines of the supplementary financing facility (a total of SDR 7.8 billion was arranged under agreements with fourteen members). Similarly, the liquidity ratio improved after the Eighth General Review came into effect in late 1983, rising from 31 percent just before the quota increase to 71 percent right after it. As in the earlier case, however, substantial lines of credit were available to the Fund at the time under the enlarged access policy (a medium-term credit line for SDR 8 billion was arranged with the Saudi Arabia Monetary Agency in 1981; in addition, a short-term credit arrangement for SDR 1.3 billion was entered into with a number of central banks and the BIS in 1981, and additional short term arrangements for a total of SDR 6 billion were concluded shortly after the effectiveness of the Eighth General Review quotas).

## V. Summary and Concluding Remarks

The following are the main points of the analysis presented above:

1. Resources. The Fund's stock of uncommitted usable resources declined significantly in 1995 mainly on account of the large commitments to and purchases by Mexico, Argentina, Russia and Ukraine. Total uncommitted usable resources currently amount to SDR 49.2 billion, or SDR 12.1 billion less than reported for end-February 1995 (EBS/95/29). After taking into account the adjustment factor for members with weakening external positions, the stock of uncommitted and adjusted usable resources amounts to SDR 37.5 billion. This is some SDR 11.4 billion below the level reported for end-February 1995.

2. Demand. On the basis of present access policy and limits, the demand for Fund credit--defined to include commitments under stand-by and extended arrangements as well as expected purchases under special facilities--is projected to continue at a relatively high rate through 1997. The demand for Fund credit during 1995-97 is projected to reach SDR 37.9 billion on a probability adjusted basis. Of this total, projected commitments under arrangements amount to SDR 21.7 billion for 1995 (including SDR 20.6 billion already committed), SDR 9.4 billion for 1996 and SDR 4.5 billion for 1997. Possible commitments to economies in transition are expected to represent approximately one-half of total commitments during this period.

It is currently expected that about SDR 4.4 billion could be committed to eligible countries under ESAF arrangements in the period September 1995 - December 1997--assuming the commitment period will be extended beyond end-1996.

3. Fund Credit. Purchases under arrangements and special facilities are projected to amount to SDR 17.2 billion in 1995, SDR 9.9 billion in 1996 and SDR 5.8 billion in 1997. Total repurchases are expected to amount to SDR 5.5 billion in 1995, SDR 4.4 billion in 1996, and SDR 3.7 billion in 1997. Outstanding credit in the General Resources Account is accordingly expected to increase on a net basis by SDR 19.3 billion in 1995-97, reaching SDR 44.9 billion by the end of 1997.

Including projected SAF and ESAF loan disbursements, net credit provided by the Fund is projected to increase by SDR 22.6 billion in 1995-97 and to reach SDR 52.9 billion by end-1997.

4. Liquidity Ratio. The Fund's liquidity ratio is at present at 106 percent, and is projected to decline sharply during the period through the end of 1997. Assuming no further exceptional use of the Fund's resources and no change in the list of usable currencies, the liquidity ratio is projected to decline to 97 percent by end-1995, to 69 percent by end-1996 and 61 percent by end-1997. Sensitivity analysis of the liquidity ratio to changes in the projections of demand indicates that for each SDR 1 billion of purchases not made in the future (or advance repurchases made), the liquidity ratio will be higher by about 3-4 percentage points; and it will

be lower by roughly the same percentage points for each SDR 1 billion in additional amounts of resources committed and purchased.

5. Conclusion. Current projections result in the liquidity ratio falling below its long run average of 70 percent by end-1996. Although on past occasions the ratio has fallen considerably below that level for prolonged periods, this usually occurred at times when there was the expectation of an imminent quota increase and when the Fund was engaged in large scale borrowing to supplement its ordinary resources in addition to amounts available under the GAB. On those occasions the liquidity position in terms of total resources had been more comfortable than when assessed only in terms of ordinary resources through the liquidity ratio.

The projected deterioration in the Fund's liquidity ratio over the next two years would bring the Fund's liquidity position to levels that would leave relatively little room for maneuver, especially if there were sudden large scale demands for resources or in the event that some of the relatively large creditors presently included in the operational budget would drop out. The Fund is expected to repay all outstanding borrowing by end-March 1996, and a possible increase in resources under the General Arrangements to Borrow or parallel arrangements or through the establishment of supplementary lines of credit are currently under consideration. In this context, early agreement on an enlargement of the GAB or the establishment of the supplementary lines of credit would be a useful interim strengthening of the Fund's liquidity position prior to the completion and successful outcome of a substantial increase in quotas under the Eleventh General Review. It is generally agreed by the Executive Board that any enlargement of the GAB or the establishment of the supplementary lines of credit could not be a substitute for an increase in quotas under the Eleventh Review (Buff 95/75, 8/2/95).

The present projections of both the demand for and supply of the Fund's usable resources contain a number of inherent uncertainties. For example, the demand projections include a few relatively large arrangements with rather low probabilities, and a significant increase in these probabilities would cause a substantial revision in the level of demand projections and a corresponding downward revision in the outlook for the Fund's liquidity. Furthermore, it is assumed that no industrial country will use the Fund's resources, including use of their reserve tranche positions in the Fund; any such use would adversely affect the Fund's liquidity position both from the demand and supply side. Moreover, no exceptional use of the Fund's resources has been assumed, and it is further assumed that no new facilities would be established during the projection period. However, the possibility of Fund support for currency stabilization funds, for assisting members in meeting unforeseen emergencies, and for addressing post conflict situations could impact on the Fund's liquidity position over the next few years, but it is not possible to assess their impact at this stage. In any event, the underlying demand for the Fund's resources appears to be relatively strong at present, and there is a reasonable chance, particularly given the volatility in capital flows and their impact on members' overall balance of payments positions, that the current estimates of possible demand for the

Fund's resources over the next two years may be somewhat conservative. The evolution of demand for the Fund's resources will be carefully monitored and the impact of any changes in the Fund's policies on the demand for its resources would be carefully assessed and brought to the attention of the Executive Board.

On the supply side, the Fund's usable resources continue to be vulnerable to a certain extent, given the relatively heavy concentration on a few large industrial and developing countries whose currencies are currently usable under the operational budget. Any weakness in the external positions of these countries could result in the exclusion of their currencies from future operational budgets.

As noted above, the liquidity ratio at end-1996--projected at 69 percent--would be below the Fund's long-term liquidity ratio of 70 percent. Moreover, the ratio is projected to decline further and reach at end-1997 a level of 61 percent which would be its lowest level since late 1983 just prior to the conclusion of the Eighth General Review of Quotas and when the Fund had ample unused borrowed resources available under the enlarged access policy and the then recently enlarged GAB. The sharp decline projected in the liquidity ratio in a period when the demand for Fund resources continues to be strong, as well as the need to have an adequate stock of usable resources at all times to meet members' potential demands for encashment of their reserve positions in the Fund, underscore the need both to monitor developments very closely and to strengthen the Fund's financial base through a timely conclusion of the Eleventh General Review of Quotas. In the meantime, an enlargement of the GAB or the establishment of supplementary lines of credit would provide a useful strengthening of the Fund's liquidity position in the interim.

Table 1. Commitments and Changes in Use and Receipts of the Fund's Resources 1994–1997

(in billions of SDRs)

	Preliminary		Projected			
	1994	Jan–Aug 1995	Sep–Dec 1995	Total 1995	1996	1997
A. <u>Gross New Commitments</u> 1/	5.7	20.8	2.4	23.2	10.9	6.1
1. Total GRA, of which:	3.5	20.6	1.1	21.7	9.4	4.5
Stand-by Arrangements	2.4	17.9	1.0	18.9	1.7	3.0
Extended Arrangements	1.1	2.7	0.1	2.8	7.7	1.5
2. Total SAF/ESAF Arrangements	2.2	0.2	1.3	1.5	1.5	1.6
B. <u>Use and Receipt</u>						
1. Use and Receipt of Ordinary Resources						
a. Purchases	5.0	12.0	5.2	17.2	9.9	5.8
i) Under arrangements 2/	2.3	11.5	4.8	16.3	9.2	5.1
ii) Additional for DDSR	0.4	--	--	--	-- 3/	--
iii) Under the CCFF	0.3	--	0.2	0.2	0.7	0.7
iv) Under the STF	1.9	0.5	0.2	0.7	--	--
b. Repurchases	3.4	2.8	1.6	4.4	3.6	3.2
i) Under arrangements	2.0	2.0	1.0	3.0	2.8	2.7
ii) Under the CCFF	1.4	0.8	0.6	1.4	0.8	0.5
c. Net use of ordinary resources to finance Fund credit (a–b)	1.6	9.2	3.6	12.8	6.3	2.6
d. Net use of ordinary resources to finance	-0.9	0.7	0.1	0.8	0.9	0.0
i) repayment to EAR lenders 4/	-0.9	0.7	0.0	0.7	0.4	-0.5
ii) encashment of reserve tranche	--	--	0.1	0.1	0.5	0.5
e. Net use of ordinary resources (c+d)	0.7	9.9	3.7	13.6	7.2	2.6
2. Receipt of Borrowed Resources in Repurchases	1.2	0.6	0.5	1.1	0.8	0.5
C. <u>Change in Fund Credit Outstanding (GRA)</u>						
1. Total purchases (B.1.a)	5.0	12.0	5.2	17.2	9.9	5.8
2. Total repurchases (B.1.b + B.2)	4.6	3.4	2.1	5.5	4.4	3.7
3. Net change in Fund credit outstanding (C.1–C.2)	0.4	8.6	3.1	11.7	5.5	2.1
D. <u>Change in Credit Provided by the Fund</u>						
1. SAF and ESAF loan disbursements	0.9	0.4	1.0	1.4	1.5	1.9
2. Trust Fund/SAF/ESAF repayments	0.2	0.2	0.2	0.4	0.5	0.6
3. Net credit provided by the Fund (C.3 + D.1–D.2)	1.1	8.8	3.9	12.7	6.5	3.4

Note: Details may not add due to rounding.

1/ Excludes amounts that may be committed for debt and debt service reduction (DDSR) operations.

2/ Includes purchases under the first credit tranche and emergency purchases.

3/ Less than SDR 50 million.

4/ Repayments under EAR borrowing agreements made using ordinary resources net of repurchases corresponding to calls made under these arrangements. Negative figures represent net receipt of ordinary resources, and positive figures net transfers.

Table 2. Selected Balance Sheet Data, 1992–1997

(in billions of SDRs)

		Preliminary				Projected		
		1992	1993	1994	August 1995	1995	1996	1997
		(end of period)						
1.	Usable Ordinary Resources unadjusted	68.2	69.3	68.4	59.4	...	...	...
	of which:							
	(a) Uncommitted 1/	63.0	66.4	65.9	49.2	...	...	...
	(b) Uncommitted and adjusted 2/	51.0	53.9	53.4	37.5	37.5	30.2	28.2
	of which: SDR holdings	(8.6)	(6.7)	(5.5)	(1.0)	(1.0)	(1.0)	(1.0)
2.	Gold at SDR 35 per fine ounce	3.6	3.6	3.6	3.6	3.6	3.6	3.6
3.	Borrowing							
	(a) Outstanding borrowing	3.5	3.2	2.9	1.6	1.1	--	--
	i) EAR	0.5	0.2	--	--	--	--	--
	ii) Japan 1986	3.0	3.0	2.9	1.6	1.1	--	--
	(b) Cumulative mismatch of maturities 3/	1.9	1.2	0.3	1.0	1.0	1.3	0.8
4.	Unused GAB and Associated 4/	12.3	12.3	12.3	12.3	12.3	12.3	12.3
5.	Total Liquid Liabilities	33.9	32.8	31.7	35.5	38.6	44.1	46.2
	(a) Reserve tranche positions	30.4	29.6	28.8	33.9	37.5	44.1	46.2
	(b) Outstanding borrowing	3.5	3.2	2.9	1.6	1.1	--	--
6.	Overdue Repurchases	2.2	1.7	1.7	1.7	...	...	...
7.	Total Fund credit outstanding	27.8	29.1	30.3	39.0	43.0	49.5	52.9
	of which:							
	(a) General Resources Account	24.0	25.2	25.6	34.2	37.3	42.8	44.9
	(b) SAF and ESAF	3.6	3.8	4.5	4.7	5.6	6.6	7.9
	(c) Trust Fund	0.2	0.1	0.1	0.1	0.1	0.1	0.1
9.	Number of Stand-by and Extended arrangements	28	21	29	31	38	30	29
9.	Total Quotas	141.4	144.8	144.9	145.0	...	...	...

1/ Excludes undrawn balances of commitments at end–August 1995 which are considered likely to be drawn.

These are estimated to be equal to the total amount of undrawn balances under arrangements of SDR 12.5 billion at end–August 1995, less SDR 2.3 billion to adjust for: (i) undrawn balances under arrangements that are inoperative and are not likely to be drawn upon; and (ii) the possibility that existing operative arrangements may not be fully utilized.

2/ Usable currency holdings that are included in this total are reduced to provide for the possible exclusion of the Fund's holdings of the currencies of creditor members with weakening balance of payments positions and for working balances. The adjustment factor was 0.20 for 1992 through end–August 1995. At end–August 1995, the adjustment yielded a reduction in resources of SDR 11.7 billion.

3/ Outstanding purchases initially financed by borrowed resources, minus outstanding borrowing.

4/ The amounts shown are as defined in the Guidelines for Borrowing which were in effect through November 15, 1991, and which provided that the amount included would equal outstanding borrowing by the Fund under the GAB and associated borrowing agreements or two thirds of the total under these agreements, whichever is greater. The present total of these agreements is SDR 18.5 billion.



Table 3. Fund Liquidity – Selected Ratios

(in percent)

				Preliminary	Projected		1997
	1992	1993	1994	August 1995	1995	1996	
	(end of period)						
1. Quota ratio 1/	11.2	10.7	10.5	9.6	...	...	...
2. Liquidity ratio 2/	150.4	164.3	168.5	105.6	97.2	68.5	61.0
3. Cash ratio 3/	167.8	182.1	185.4	110.6	100.0	68.5	61.0
4. Asset ratio 4/							
(i) excluding gold	201.2	211.3	216.0	167.3	...	...	...
(ii) including gold	211.8	222.3	227.3	177.5	...	...	...
5. Ratio of overdue repurchases							
(i) to uncommitted usable ordinary resources	3.5	2.6	2.6	3.5	...	...	...
(ii) to Fund credit outstanding (GRA)	9.2	6.7	6.7	5.0	...	...	...

1/ The quota ratio, as defined under the decision on guidelines for borrowing which was in effect through November 15, 1991, is the ratio of the total of outstanding borrowing, unused credit lines, and relevant GAB resources, to total quotas.

2/ The liquidity ratio is the ratio of uncommitted and adjusted ordinary resources to the total of outstanding borrowing and reserve tranche positions.

3/ The cash ratio is the ratio of uncommitted and adjusted ordinary resources to reserve tranche positions.

4/ The asset ratio is the ratio of usable ordinary resources (unadjusted) to the total of outstanding borrowing and total reserve tranche positions. The asset ratio (ii) also includes, in the numerator, gold held by the Fund and valued at SDR 35 per fine ounce.

Table 4. Outstanding Fund Credit by Region (end of period)

	Projected							
	1990	1991	1992	1993	1994	1995	1996	1997
	in billions of SDRs (as percent of total)							
<u>Developing Countries: 1/</u>	<u>General Resources Account (GRA)</u>							
Africa	4.1 (20)	3.9 (17)	3.5 (14)	3.5 (14)	3.9 (15)	3.7 (10)	4.0 (9)	4.1 (9)
Asia	2.8 (14)	3.9 (17)	4.6 (19)	5.0 (20)	4.2 (16)	3.1 (8)	2.1 (5)	1.6 (3)
Europe	0.9 (4)	3.5 (15)	4.7 (20)	6.2 (24)	8.0 (31)	12.3 (33)	15.8 (37)	18.2 (41)
Middle East	0.2 (1)	0.2 (1)	0.4 (2)	0.4 (2)	0.4 (2)	0.4 (1)	0.4 (1)	0.8 (2)
Western Hemisphere	12.7 (61)	11.9 (51)	10.8 (45)	10.1 (40)	9.2 (36)	17.8 (48)	20.5 (48)	20.2 (45)
<b>Total</b>	<b>20.7</b> (100)	<b>23.4</b> (100)	<b>24.0</b> (100)	<b>25.2</b> (100)	<b>25.6</b> (100)	<b>37.3</b> (100)	<b>42.8</b> (100)	<b>44.9</b> (100)
	<u>GRA, Trust Fund, SAF, and ESAF</u>							
Africa	5.8 (25)	5.9 (22)	5.7 (21)	5.9 (20)	6.5 (22)	7.2 (17)	8.1 (16)	8.9 (17)
Asia	3.6 (15)	5.0 (19)	6.0 (21)	6.4 (22)	5.8 (19)	4.7 (11)	3.9 (8)	3.7 (7)
Europe	0.9 (4)	3.5 (13)	4.7 (17)	6.2 (21)	8.0 (27)	12.4 (29)	16.0 (32)	18.7 (35)
Middle East	0.2 (1)	0.2 (1)	0.4 (1)	0.4 (1)	0.4 (1)	0.4 (1)	0.4 (1)	0.8 (2)
Western Hemisphere	12.9 (55)	12.1 (45)	11.0 (40)	10.4 (36)	9.5 (31)	18.2 (42)	21.0 (42)	20.7 (39)
<b>Total</b>	<b>23.3</b> (100)	<b>26.7</b> (100)	<b>27.8</b> (100)	<b>29.2</b> (100)	<b>30.3</b> (100)	<b>43.0</b> (100)	<b>49.5</b> (100)	<b>52.9</b> (100)

1/ Based on IFS regional classification.