

EBS/03/128

September 3, 2003

To: Members of the Executive Board
From: The Secretary
Subject: **The Fund's Liquidity Position—Review and Outlook***

Attached for the **information** of Executive Directors is a paper on the Fund's liquidity position—review and outlook.

The staff does not propose the publication of this paper.

Questions may be referred to Ms. Metzgen (ext. 37863) and Mr. S. Ding (ext. 35469) in FIN.

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INTERNATIONAL MONETARY FUND

The Fund's Liquidity Position—Review and Outlook

Prepared by the Finance Department

(In consultation with other departments)

Approved by Eduard Brau

September 2, 2003

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I. INTRODUCTION

1. **This paper provides information for the Board's semiannual review of the Fund's liquidity position.** It discusses developments since the beginning of 2003 and the near-term outlook using the one-year forward commitment capacity (FCC) as the primary measure of the Fund's liquidity (Box 1).¹

2. **The paper concludes that the Fund's current liquidity position is adequate, and that the Fund will likely be able to meet near-term projected needs of its members, even under somewhat unfavorable circumstances.** In this regard, the FCC rose to some SDR 63 billion at end-July 2003, a level that is projected to be ample under the assumption of a pickup in global economic activity in the second half of 2003. Given the importance of the Fund having adequate resources to fulfill its responsibilities, and that difficulties in the world economy are hard to predict, continued close monitoring of the Fund's liquidity position will be important.

Box 1. The Fund's Forward Commitment Capacity

In December 2002, the Fund introduced a new measure of its liquidity called the forward commitment capacity (FCC), which is designed to be a clearer measure of its capacity to make loans (Press Release No. 02/55). The one-year FCC indicates the amount of quota-based, non-concessional resources available for new lending over the next 12 months.

The one-year FCC is defined as: the Fund's stock of usable resources less undrawn balances under existing arrangements, plus projected repurchases during the coming 12 months, less a prudential balance intended to safeguard the liquidity of creditors' claims and to take account of any erosion of the Fund's resource base. Usable resources are resources that can be used in Fund lending. They consist of: (i) Fund holdings of the currencies of members considered by the Executive Board to have a sufficiently strong balance of payments and reserve position for them to be included in the Financial Transactions Plan (FTP) for the financing of the Fund's operations and transactions; and (ii) Fund holdings of SDRs. The prudential balance is calculated as 20 percent of the quotas of members included in the FTP and any amounts activated under borrowing arrangements.

The FCC is reported weekly in *Financial Activities: Week-at-a-Glance* and monthly in *Financial Resources and Liquidity*, both available on the Fund's external website, <http://www.imf.org/external/fin.htm>.

¹ The paper describes the developments and the outlook for the General Resources Account only. For the review of the PRGF/HIPC trust fund, see *Update on the Financing of PRGF and HIPC Operations and the Subsidization of Post-Conflict Emergency Assistance* (SM/03/296, 8/19/03).

II. RECENT DEVELOPMENTS

3. **The Fund's financing activities declined during the first seven months of 2003 compared with the record commitments made in 2002.**² New commitments amounted to SDR 4.3 billion, with arrangements for Argentina and Colombia accounting for about 86 percent of the total (Tables 1 and 2).³
4. **Nineteen members have active GRA arrangements** (Table 3). Of the 19 arrangements, 5 have been treated as precautionary.⁴ Fund credit remains concentrated on a few members, with the largest 5 arrangements constituting over 90 percent of total commitments.
5. **Credit outstanding rose to levels unseen before as purchases continued to exceed repurchases.** In the first seven months of 2003, purchases reached SDR 13.6 billion, reflecting mostly those made under existing large arrangements (Brazil, Indonesia, Turkey, and Uruguay) as well as under the new arrangement with Argentina. Total repurchases were sizable (SDR 8.9 billion) as repayments on previous large arrangements (Brazil, Argentina, Russia, Indonesia, and Turkey) were made. Consequently, credit outstanding continued to climb throughout the period to a new record high of SDR 68 billion at end-July 2003 (Figure 1).
6. **The FCC, which declined to SDR 55 billion at end-2002, recovered to SDR 63 billion by late July 2003** (see Figure 1). This reflects lower commitments and larger reflows during the period.
7. **In other developments, Kyrgyz Republic, Lithuania, and Thailand made advance repurchases (SDR 309 million).** Thailand alone repurchased SDR 269 million in advance and has cleared all its outstanding borrowing from the Fund. Relatedly, **Thailand becomes a participant in the Financial Transactions Plan (FTP)** from September 2003 and this will further increase the usable resources of the Fund and strengthen the FCC.⁵

² For a detailed review of Fund liquidity in 2002 and early 2003, see EBS/03/44 (4/9/03).

³ Argentina cancelled its previous arrangement, approved in March 2000, with an undisbursed balance of SDR 7.0 billion, immediately prior to approval by the Executive Board of a new SDR 2.2 billion arrangement in January 2003.

⁴ Colombia, Croatia, Guatemala, and Peru have not made a purchase under the existing arrangements. Jordan purchased once when the current arrangement was approved in July 2002, but has recently indicated that it does not intend to purchase (see Press Release No. 03/113, 7/11/03).

⁵ Thailand has a quota of SDR 1,081.9 million.

Table 1. The Fund's Liquidity, 1999–July 2003
(In billions of SDRs)

	1999	2000	2001	2002	Jan. 2003– July 2003
Flows during the period					
New commitments 1/	13.7	16.8	31.2	39.4	4.3
<i>Of which:</i> non-precautionary	10.2	15.8	18.6	39.1	2.6
precautionary	3.5	1.0	12.6	0.3	1.7
Purchases	10.0	7.2	23.8	25.2	13.6
Repurchases	19.4	15.2	13.3	15.1	8.9
End of period					
Usable resources	95	110	103	100	96
Less: Undrawn balances under GRA arrangements	22	21	26	32	16
Plus: Projected repurchases one-year forward 2/	15	13	15	19	15
Less: Prudential balance	29	30	31	33	33
Equals: One-year Forward Commitment Capacity (FCC)	60	72	61	55	63
Available NAB/GAB borrowing	34	34	34	34	34
Memorandum items, end of period					
Quotas of members in Financial Transactions Plan	143	151	155	163	163
GRA credit outstanding	51	43	53	64	68
Liquidity ratio (in percent)	115	164	115	84	95

1/ Gross amount of new commitments not netted for undrawn balances under expired/cancelled arrangements.

2/ Actual repurchases used as a proxy for projected repurchases for periods prior to the year 2001.

Table 2. New Commitments, January–July 2003
(In millions of SDR)

Date of Approval	Member	Type of Arrangement	Total Amount
1/15/03	Colombia 1/	Stand-By	1,548
1/24/03	Argentina	Stand-By	2,175
1/27/03	Grenada	Emergency assistance	3
2/3/03	Croatia 1/	Stand-By	106
3/21/03	Ecuador	Stand-By	151
4/2/03	Bolivia	Stand-By	86
4/18/03	Sri Lanka	EFF	144
4/30/03	FYR Macedonia	Stand-By	20
5/5/03	Burundi	Emergency assistance	10
6/18/03	Guatemala 1/	Stand-By	84
Total (January–July 2003)			4,326

1/ Precautionary at approval.

Table 3. Current Arrangements, End-July 2003

(In millions of SDRs unless indicated otherwise)

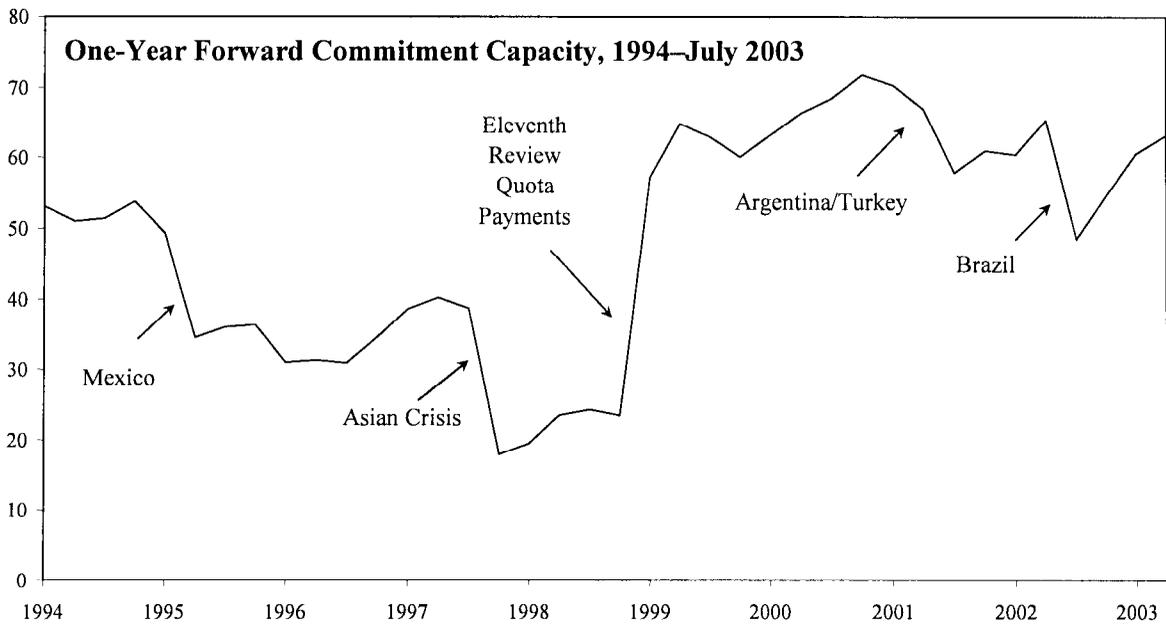
Member	Date of Approval	Date of Expiration	Amount Agreed	Undrawn Balance	Total Credit		Drawings Available Thru End-2003 1/	Scheduled Repurchases Thru End-2003
					Outstanding	As Percent of Quota		
<i>Stand-By Arrangements</i>								
Argentina	1/24/03	8/31/03	2,175	226	10,715	506	226	3,008
Bolivia	4/2/03	4/1/04	86	32	54	31	21	--
Bosnia and Herzegovina	8/2/02	11/1/03	68	12	106	63	12	14
Brazil	9/6/02	12/31/03	22,821	8,664	21,256	700	8,664	5,242
of which SRF	9/6/02	9/5/03	7,610	1,521	6,088	201	1,521	4,458
Bulgaria	2/27/02	2/26/04	240	78	800	125	52	27
Colombia 2/	1/15/03	1/14/05	1,548	1,548	--	--	774	--
Croatia 2/	2/3/03	4/2/04	106	106	--	--	102	--
Dominica	8/28/02	2/27/04	3	1	2	29	1	--
Ecuador	3/21/03	4/20/04	151	121	246	81	91	14
Guatemala 2/	6/18/03	3/15/04	84	84	--	--	74	--
Jordan 2/	7/3/02	7/2/04	85	75	315	185	48	29
FYR Macedonia	4/30/03	6/15/04	20	16	20	29	8	6
Peru 2/	2/1/02	2/29/04	255	255	107	17	227	13
Romania	10/31/01	10/15/03	300	110	341	33	110	51
Turkey	2/4/02	12/31/04	12,821	2,381	16,427	1,704	1,021	894
Uruguay	4/1/02	3/31/05	2,128	652	1,654	540	186	29
of which SRF	6/25/02	8/8/02	129	--	129	42	--	--
Total STBY (16)			42,891	14,362	52,044		11,618	9,328
<i>Extended Arrangements</i>								
Indonesia	2/4/00	12/31/03	3,638	688	6,515	313	688	288
Serbia and Montenegro	5/14/02	5/13/05	650	450	517	111	150	--
Sri Lanka	4/18/03	4/17/06	144	124	221	53	21	--
Total EFF (3)			4,432	1,262	7,253		859	288
Total STBY and EFF (19)			47,323	15,624	59,297		12,476	9,617

1/ Indicates undrawn and scheduled purchases.

2/ Precautionary as of end-July 2003.

Figure 1. GRA Credit Outstanding and One-Year Forward Commitment Capacity, 1994–July 2003

(In billions of SDRs)



III. OUTLOOK

8. In the Fall 2003 World Economic Outlook (WEO), **the staff projects economic activity to pick up in the second half of 2003, but at a moderate pace.**⁶ This projection is underpinned by receding geopolitical uncertainties, lower oil prices, policy stimulus in the pipeline in the mature economies, and a gradual diminution of the after effects of the collapse of the equity market bubble. Under these assumptions, global growth is projected to be close to its long-term average.

9. **Turning to risks to the outlook, the extraordinary uncertainty surrounding the global economic prospects noted in the last review of the Fund's liquidity position has diminished in recent months.**⁷ However, on balance the risks remain slanted to the downside. Specifically, as outlined in the WEO, the continued unwinding of the equity boom in the late 1990s—the largest in modern history—is uncharted. In addition, both advanced and developing countries need to accelerate efforts to address medium-term fiscal pressures and to rebalance GDP and domestic demand growth to reduce dependence on the United States and minimize the risk of a disorderly adjustment in global imbalances.

10. **Even under adverse conditions, however, the near-term demand for Fund resources would likely be relatively modest.** Among the emerging economies with access to international capital markets, most have already satisfied their financing needs for the year. In addition, many emerging economies accumulated substantial foreign exchange reserves. Taking into account these developments, the last vulnerability assessment concludes that most members would be able to withstand negative shocks by drawing down their reserves and implementing exchange rate and policy adjustments.

11. Therefore, **the available resources of the Fund appear adequate at present.** As outlined above, the demand for Fund resources is expected to be small. On the supply side, the FCC remains at a comfortable level. Should the need arise, the New Arrangements to Borrow/General Arrangements to Borrow (SDR 34 billion) also remain available. In the face of adverse shocks affecting the world economy, the resources of the Fund would also likely be adequate to meet the potential needs of the membership. However, changes in the world economy and financial markets are hard to predict and close monitoring of the Fund's liquidity position will continue.

⁶ *World Economic Outlook—Prospects and Policy Issues* (EBS/03/113, 8/4/03).

⁷ *Fund's Liquidity Position—Review and Outlook* (EBS/03/44, 4/9/03).