FOR AGENDA

EBS/98/223

CONFIDENTIAL

December 18, 1998

To: Members of the Executive Board

From: The Secretary

Subject: **Review of Access Policy and Limits Under the Credit Tranches and the Extended Fund Facility and Review of the Supplemental Reserve Facility—Background Information**

The attached paper provides background information to the papers on the review of access policy and limits under the credit tranches and the Extended Fund Facility (EBS/98/222, 12/18/98) and on the review of the Supplemental Reserve Facility (EBS/98/214, 12/9/98), which are tentatively scheduled for discussion on January 6 and January 13, 1999, respectively.

Mr. Bennett (ext. 38784) or Mr. Corr (ext. 38774) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

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Review of Access Policy and Limits Under the Credit Tranches and the Extended Fund Facility and Review of the Supplemental Reserve Facility— Background Information

Prepared by the Policy Development and Review Department and the Treasurer's Department

Approved by Jack Boorman and Michael G. Kuhn

December 18, 1998

1. This paper provides background information for the review of access policy and limits under the credit tranches and the Extended Fund Facility (EFF) and for the review of the Supplemental Reserve Facility (SRF).[1] It comprises two sections. Section I reviews access in individual arrangements over the past year under the credit tranches, the EFF, and the SRF, and Section II discusses the prospects for members' financing needs.

I. Recent Application of Access Policy

2. Within the present annual and cumulative access limits (100 percent and 300 percent of quota respectively), access in individual cases continues to be guided by the criteria spelled out in 1983—the member's balance of payments need, the strength of its adjustment effort, its capacity to repay, and its outstanding use of Fund credit and record of past use of Fund resources.[2] Between 1992 and 1997, one of the most important factors in determining access within the limits was the opening up of the transition economies: with higher financing needs, nascent relationships with other potential sources of financing, and lower outstanding use of Fund resources, transition economies tended to have higher access than other members (Table 1). More recently, however, the importance of these factors has begun to lessen, so

[1] "Review of Access Policy and Limits Under the Credit Tranches and the Extended Fund Facility and Proposed Access Limits under Special Facilities and the Enhanced Structural Adjustment Facility in Connection with the Quota Increase", and "Review of the Supplemental Reserve Facility and Preliminary Consideration of a Contingent Credit Line", EBS/98/214, December 9, 1998.

[2] "The Chairman's Summing Up at the Conclusion of the Discussion on Criteria for the Amount of Access in Individual Cases", December 2, 1983. These criteria continue to apply, mutatis mutandis, under the current access limits.

Table 1. Access Under Stand-by and Extended Arrangements By Year of Approval, 1992-1998 1/
(as of December 2, 1998)
(In percent of quota unless otherwise indicated)

	1992 2/	1993	1994	1995	1996	1997	1998 3/
Average annual access							
Stand-by and extended 4/ 5/	37	32	35	50	40 6/	36 6/	46
Transition	49	33	28	61	44 6/	40	50
Other 5/	30	32	39	37	37 6/	28 6/	36
Average annual access, including associated STF purchases							
Stand-by and extended 4/ 5/	37	45	42	57	40 6/	36 6/	46
Transition	49	56	50	73	44 6/	40	50
Other 5/	30	33	39	37	37 6/	28 6/	36
Range of annual access 5/							
Stand-by 4/	18 - 60	18 - 60	11 - 68	24 - 100	18 - 80	24 - 69	20 - 81
Extended	15 - 47	20 - 28	17 - 43	33- 43	17 - 55	27 - 45	45 - 55
Use of Fund credit at beginning of arrangement, including special facilities 7/ 8/							
Stand-by & extended, average 4/ 5/	47	64	71	55	95	95	107
Transition	32	65	85	61	106	106	121
Other 5/	55	62	64	46	82	82	99
Gross Fund financing as percent of gross financing need							
Stand-by & extended, average 4/ 5/	10	11	9	14	12	12	15
Transition	11	14	15	21	15	15	13
Other	10	7	6	7	8	8	16
Number of arrangements							
Stand-by and extended 4/	20	15	22	22	19	19	10
Transition	8	8	7	12	10	10	3
Other	12	7	15	10	9	9	7
Committed resources (in bns of SDRs) 9/	7.0	3.1	3.8	22.1	11.6	28.5	30.6

Source: Staff estimates based on data from Executive Board documents.

1/ Simple arithmetic averages; reflects amount and duration of arrangements at the time of initial approval; excludes potential access under external contingency mechanisms and other augmentation.

2/ Figures expressed in terms of quota have been calculated on the basis of the quotas prevailing in 1996. Expressed in terms of contemporaneous quotas, such figures for the period 1991-92 would be about 50 percent larger than shown here.

3/ As of December 2, 1998.

4/ Including first credit tranche arrangements.

5/ Excluding arrangements which exceed the annual and cumulative limits--i.e. Mexico in 1995 and Thailand, Indonesia and Korea in 1997, and Indonesia and Brazil in 1998. The average annual access for 1995 including Mexico would be 70 percent of quota, for 1997 including Thailand, Indonesia and Korea, it would be 97 percent of quota and for 1998 including Indonesia and Brazil would be 74 percent of quota.

6/ Excluding the EFF/ESAF blends approved for Azerbaijan in 1996 and Pakistan and Yemen in 1997.

7/ Special facilities include CCFF, STF, SAF, and ESAF.

8/ The STF expired on December 31, 1995.

9/ Includes augmentations in the approved year.

that access levels for transition countries and non-transition countries have started to converge.[3] Instead, the most important recent development in the area of access has been the emergence of large-scale arrangements relating to crises of capital market confidence, which initially took a number of arrangements well outside the access limits (through a finding of "exceptional circumstances") and which, more recently, have featured the establishment and use of the SRF.

3. Abstracting from these high access cases, however, access under the credit tranches and the EFF has remained relatively steady. In the thirteen months since the last review, annual access, for the ten arrangements that did not exceed either the annual or cumulative limits, has averaged 42 percent of quota (Table 2). This figure is comparable to the average annual access for arrangements approved in the previous twelve months of quota (Table 3).[4]

4. As always, these averages mask significant variations among individual cases, reflecting the different circumstances of each member in terms of balance of payments need, strength of program, and capacity to repay. Annual access since November 1997 has ranged from 26 percent in Cape Verde to 81 percent in the Philippines. Three of the four low level access cases (below 30 percent of quota) were for arrangements intended by the authorities to be precautionary on approval (Cape Verde, El Salvador, and Estonia). Two other originally precautionary arrangements, however, had higher levels of access—Argentina (45 percent) and the Philippines (81 percent). Access under the latter's 24-month stand-by arrangement, which touched 100 percent during the period of the arrangement, reflected the country's proximity to the center of the Asian crisis and corresponding vulnerability to external financial shocks.[5] The range of access for non-precautionary arrangements was narrower at 27-55 percent of quota.

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[3]See the 1995 Review of Access Policy and Limits (EBS/95/165) for a discussion of the differences between transition and non-transition countries in terms of access policy.

[4]Excluding the arrangement for Thailand, which exceeded both the annual and cumulative limits, and the extended arrangements that were blended with ESAF arrangements, average access under arrangements approved in the twelve months to October 1997 was 39 percent of quota. Including the blended arrangement and including also purchases and disbursements under other facilities (CCFF and ESAF), average annual access was 46 percent of quota. There were no blended arrangement or new arrangements combined with the CCFF in the succeeding thirteen months period.

[5]Although annual access under the Philippines' stand-by arrangement was only 81 percent of quota, access over the 12-month period March 1998-February 1999 (which took account of the final purchase released under the previous extended arrangement), as well as access over the 12-month period March 1999-February 2000, was scheduled to reach 100 percent of quota.

Table 2. Access under Stand-by and Extended Arrangements Approved during November 1, 1997 - December 2, 1998

(In percent of quota unless otherwise indicated)

	Effective Date of Arrangement	Duration *(months)*	Average Annual Access 1/	Associated Purchases Under CCFF 2/	Associated Purchases Under ESAF 3/ 4/	Average Annual Access Under All Facilities 5/	Gross Fund Financing/ Gross Financing Need 6/ *(In percent)*
Upper credit tranche SBAs							
Bosnia and Herzegovina	05/29/98	12	50	--	--	50	2
Brazil 10/	12/02/98	36	200	--	--	200	8
Cape Verde	02/20/98	14	26	--	--	26	2
El Salvador	09/23/98	17	20	--	--	20	40
Estonia	12/17/97	15	28	--	--	28	3
Indonesia 8/	11/05/97	36	163	--	--	163	22
Korea 9/	12/04/97	36	646	--	--	646	32
Philippines	04/01/98	24	81	--	--	81	16
Zimbabwe	06/01/98	13	46	--	--	46	17
Average, all SBAs 7/			42 11/			42 11/	13 11/
Extended arrangements							
Argentina	02/04/98	36	45	--	--	45	4
Bulgaria	09/25/98	36	40	--	--	40	22
Indonesia	08/25/98	26	144	--	--	144	11
Panama	12/10/97	36	27	--	--	27	6
Ukraine	09/04/98	36	55	--	--	55	15
Average, all extended arrangements 7/			42 11/			42 11/	12 11/
Average, all arrangements 7/			42 11/			42 11/	13 11/

Source: Executive Board Documents and staff estimates.

Note: On June 1, 1998 the Executive Board approved a request to augment Djibouti's SBA by SDR 1.65 million (14 percent of quota). The Indonesia SBA was augmented by SDR 1 billion (67 percent of quota) on July 15, raising the total access under arrangement to SDR 8.3 billion. Russia's EFF was augmented by SDR 6.3 billion on July 20, with SDR 4 billion of the augmented amount being made available under the SRF.

1/ Total amount approved divided by number of years of the arrangement. Reflects amounts agreed at the time of initial approval of arrangement; excludes potential access under external contingency mechanisms and other augmentation.

2/ Purchases envisaged at the time of approval of use of Fund resources, including the entire amount under phased drawing procedure.

3/ Average annual access under ESAF.

4/ The STF expired on December 31, 1995.

5/ Including any disbursements under ESAF, as well as purchases under CCFF and STF, occurring during the period of the arrangement.

6/ Gross Fund financing includes all use of Fund resources in support of program under arrangement and associated purchases that were anticipated at the time of approval. Gross financing need is defined as the sum of the current account deficit (excluding grants), amortization of maturities in excess of one year (including Fund repurchases), the targeted reduction in arrears and the targeted buildup in gross reserves. Figures may be estimates based on information available for period most closely corresponding to the program period.

7/ Simple arithmetic average.

8/ The Fund's share in the financing package for the "first line of defense" of US$ 18 billion was 55 percent.

9/ The Fund's share of the gross financing need in the first year of the arrangment was 51 percent and the share in the financing package for the "first line of defense" of US$ 35 billion was 60 percent.

10/ The Fund's share of the total financing package of US$41.6 billion is 44 percent and its share of the gross financing need in the first year of the arrangement is 17.4 percent.

11/ Excluding Indonesia, Korea and Brazil.

Table 3. Access under Stand-by and Extended Arrangements Approved during November 1, 1996 - October 31, 1997

(In percent of quota unless otherwise indicated)

	Effective Date of Arrangement	Duration *(months)*	Average Annual Access 1/	Associated Purchases Under CCFF 2/	Associated Purchases Under ESAF 3/ 4/	Average Annual Access Under All Facilities 5/	Gross Fund Financing/ Gross Financing Need 6/ *(In percent)*
Upper credit tranche SBAs							
Bulgaria	4/11/97	14	69	23	-	88	30
El Salvador	2/28/97	14	26	-	-	26	10
Latvia	10/10/97	18	24	-	-	24	6
Romania	4/22/97	13	37	-	-	37	6
Thailand 7/	8/20/97	34	178	-	-	178	10
Ukraine	8/25/97	12	40	-	-	40	14
Uruguay	6/20/97	21	32	-	-	32	10
Average, all SBAs 9/			38 8/			41 8/	13 8/
Extended arrangements							
Croatia	3/12/97	36	45	-	-	45	8
Extended arrangements with ESAF							
Azerbaijan	12/20/96	36	17	-	27	43	6
Pakistan	10/20/97	36	20	-	30	50	8
Yemen, Republic of	10/29/97	36	20	-	50	70	9
Average, all extended arrangements 9/			25			52	8
Average, all arrangements excluding EFF/ESAF 9/			39 8/			42 8/	12 8/
Average, all arrangements 9/			33 8/			46 8/	11 8/

Source: Executive Board Documents and staff estimates.

Note: In addition to the arrangements approved as shown above, access was augmented during this period for the following arrangements: Djibouti, (SBA initially approved 4/15/96), by 17.4 percent of quota; Jordan (EFF initially approved 2/9/96), by 30.6 percent of quota; Pakistan (SBA initially approved 12/13/95), by 21.2 percent of quota; Peru (EFF initially approved 7/1/96), by 11.1 percent of quota; and the Philippines (EFF initially approved 6/24/94), by 50 percent of quota. The arrangements for Djibouti, Pakistan, and the Philippines were also extended.

1/ Total amount approved divided by number of years of the arrangement. Reflects amounts agreed at the time of initial approval of arrangement; excludes potential access under external contingency mechanisms and other augmentation.

2/ Purchases envisaged at the time of approval of use of Fund resources, including the entire amount under phased drawing procedure.

3/ Average annual access under ESAF.

4/ The STF expired on December 31, 1995.

5/ Including any disbursements under ESAF, as well as purchases under CCFF and STF, occurring during the period of the arrangement.

6/ Gross Fund financing includes all use of Fund resources in support of program under arrangement and associated purchases that were anticipated at the time of approval. Gross financing need is defined as the sum of the current account deficit (excluding grants), amortization of maturities in excess of one year (including Fund repurchases), the targeted reduction in arrears and the targeted buildup in gross reserves. Figures may be estimates based on information available for period most closely corresponding to the program period.

7/ In the first year of the arrangement, access is 366 percent of quota, and the ratio of Fund financing to gross financing need is 31 percent. The Fund's share in the total financing package of US$ 17.2 billion was 23 percent.

8/ Excluding Thailand.

9/ Simple arithmetic average.

5. Aside from high access and/or SRF cases discussed below (Indonesia and Russia), only one arrangement was augmented during the period since the last review: Djibouti's stand-by arrangement was extended for 9 months and augmented by 14 percent of quota (to a total of 72 percent of quota, for a three-year arrangement).[6]

6. Since November 1997, four members have been granted access to Fund resources in excess of the prescribed limits (on the basis of "exceptional circumstances") and/or the SRF, all of them with heavy front loading. Two stand-by arrangements, approved prior to the establishment of the SRF, involved access well in excess of both the annual and cumulative access limits—those for Indonesia and Korea. The arrangement for Korea was soon modified to provide a large share of its resources through the SRF, while the arrangement for Indonesia was later augmented with additional credit tranche resources, and then replaced by an extended arrangement. Some six months after the introduction of the SRF, the existing extended arrangement for Russia was augmented with both additional EFF and SRF resources (as well as supplemented by access under the Compensatory and Contingency Financing Facility). Finally, on December 2, 1998, a stand-by arrangement involving use of SRF resources was approved for Brazil.

7. Following a severe loss of investor confidence, Indonesia was granted a stand-by arrangement in early November 1997, amounting to SDR 7.3 billion, or 490 percent of quota. With this contribution, the Fund was providing a little over half of a total financing package of US$18 billion.[7] Of the Fund's resources, US$7½ billion (371 percent of quota) was to be made available in the first year. During the first months of the program, policy implementation (with repeated reversals) and political unrest led to a continued loss of confidence and low rate of rollover of maturing external obligations. As a result, the program had to be strengthened and supported by a voluntary debt restructuring scheme, and, in July 1998, the arrangement was augmented with additional credit tranche resources (67 percent of quota). It was clear by this point that the continuing crisis in Indonesia owed much to deep-seated structural problems and that it was not likely to be resolved quickly, so that an augmentation using SRF resources would not have been appropriate. In recognition of the structural nature of Indonesia's balance of payments problems, in August 1998 the remainder of the stand-by arrangement was converted into an extended arrangement (with the same access).

8. Like Thailand and Indonesia before it, Korea suffered a collapse of capital market confidence in the final quarter of 1997. In early December 1997 Korea was granted the largest ever Fund arrangement (SDR15.5 billion, or 1,938 percent of quota), with the understanding

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[6]There were also short extensions to Ukraine's stand-by and the Philippine's extended arrangements without any change to access.

[7]In addition, a number of countries pledged their willingness to consider supplementary support (a "second line of defense"), totaling some $20 billion, should adverse external circumstances create a need for further resources.

that much of the resources provided under this arrangement would come from the SRF once this was established. The Fund's support represented some 60 percent of a total financing package of about US$35 billion.[8] US$19 billion (1,758 percent of quota) was to be provided in the first year. At the time of the first review (and second purchase), two weeks after approval, the arrangement was modified to provide for purchases scheduled for the ensuing twelve month period (amounting to 1,244 percent of quota) to come from the just-established SRF rather than the credit tranches. The program's financing objectives were assisted shortly thereafter by a concerted rollover of commercial bank debts by external creditors. At the same time, the schedule of Fund purchases was modified to increase the degree of frontloading.

9. In July 1998, Russia became the second user of the SRF. In response to intensifying financial market pressures and in support of a substantially strengthened policy package, its extended arrangement (which had originally been approved in 1996) was augmented by 54 percent of quota in EFF resources (up to the annual access limit) and 93 percent of quota in SRF resources. At the same time, a 50 percent of quota purchase was approved under the CCFF to compensate the country for a shortfall in (oil) export earnings. Some additional financing from the World Bank was also secured, and a limited voluntary debt conversion scheme was simultaneously undertaken.

10. In December 1998, a three-year stand-by arrangement involving use of the SRF was approved for Brazil. The Brazilian arrangement totaled SDR 13.0 billion, of which SDR 3.9 billion (180 percent of quota) from the credit tranches and SDR 9.1 billion (420 percent of quota) from the SRF. All but 80 percent of quota is phased to be available in the first year of the arrangement. The Fund's support represented a little over 40 percent of a total package of some US$42 billion, including contributions from other multilateral institutions and bilateral support from a number of industrial countries provided through, or in coordination with, the Bank for International Settlements (BIS).

II. External Environment and Balance of Payments Needs of Members

11. The dominant feature of recent global economic developments is, of course, the crisis in emerging markets. Affecting mainly Asia last year, the crisis has spread to involve other regions, especially since the Russian devaluation and debt default of August 17, 1998.

12. According to the latest (interim) WEO projections (discussed by the Board on December 16), and reflecting the crisis, the "gross financing needs" (GFN) of past users of Fund resources are projected to expand only slightly during the 1998-2001 period, compared

[8] In addition, bilateral creditors pledged some US$20 billion in supplementary contingent support on a similar basis as that provided for Indonesia.

with 1994-97—in contrast to a continuing sharp rise predicted last year (Table 4).[9] The downward revision is confined to the group of countries with capital market access, and reverses the sharp upward movement noted beginning two years ago in the 1996 review of access policy (EBS/96/163), while GFNs of countries still reliant on official financing have increased slightly. For countries with access to capital markets, the slow expansion of needs overall during the 1998-2001 period masks a decline in 1998-99, followed by growth in 2000 and beyond (Figure 1).

13. As has been stressed in earlier reviews, GFN is an imperfect indicator of possible future strains in members' external positions. First, it takes no account of the need to roll over short-term debt (a shortcoming which the present review attempts to begin to remedy below), nor does it take into account the possibility of capital *outflows*. Second, a change in gross financing "need" may reflect changes in the *supply* of financing as much as in the *demand* for financing—although, as was emphasized in last year's review, high GFNs imply significant vulnerability even if they are driven by the availability of capital inflows. This year, it is clear that the projected contraction of the GFN of members with capital market access is symptomatic of a pronounced reduction in the *availability* of capital inflows.

14. Among countries with access to capital markets, much of the revision since last year is concentrated in Asia, and especially in Indonesia, Korea, Thailand, and the Philippines, whose combined projected annual (narrow) GFN has shrunk to some SDR 12 billion, from over SDR 50 billion expected last year and almost SDR 40 billion in 1994-97. But the projected GFNs of other countries also show significant downward revisions, being now only 50 percent (versus 70 percent last year) above their level of 1994-97. For members with capital market access overall, projections of current account deficits have been dramatically revised. Projected deficits, which explained the bulk of the increase in overall GFN as projected last year, have now been revised down to a third of their earlier level, and are expected to fall to about three quarters of the level recorded during the 1994-97 period. Amortization, on the other hand, has been revised up, reflecting, in part, the rollover and restructuring of short-term debts into medium-term maturities (of two to three years) that has been a feature of the adjustment in some of the Asian countries, as well as the general tightening of market conditions which is forcing other emerging market economies to switch to medium-term from longer term borrowing. At the same time, even with the contraction of current account

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[9]The narrow definition of gross financing needs comprises the sum of current account deficits (excluding official transfers), amortization payments on debts in excess of one year's maturity, and repurchases and repayments to the Fund. The broad definition comprises the narrow definition plus the clearance of arrears and the accumulation of official reserves. As discussed further below, neither definition includes short-term debt repayments; the stocks of short-term debt, as projected in the WEO, are shown as memorandum items in Tables 4 and 5. "Past users" are members that have used Fund resources (either GRA or SAF/ESAF) since 1985. Compared with previous reviews, the separate category "transition economies" has now been dropped, and the relevant countries reallocated to the other two categories, as appropriate.

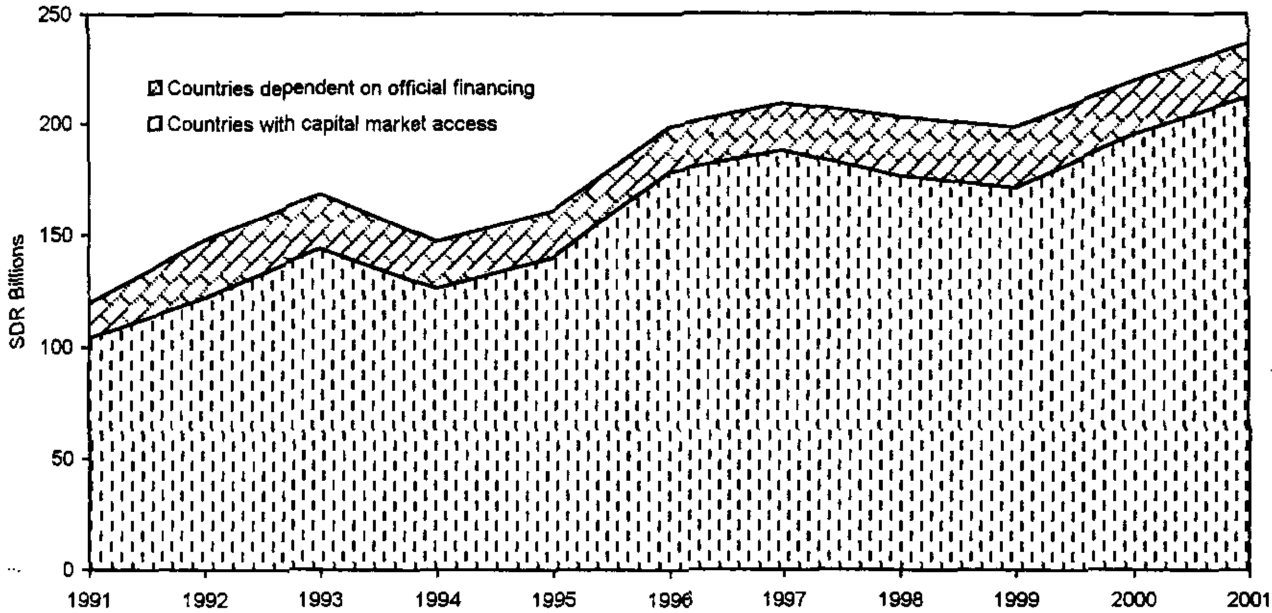
Table 4. Gross Financing Need of Past Users, 1994 - 2001 1/
(in billions of SDR)

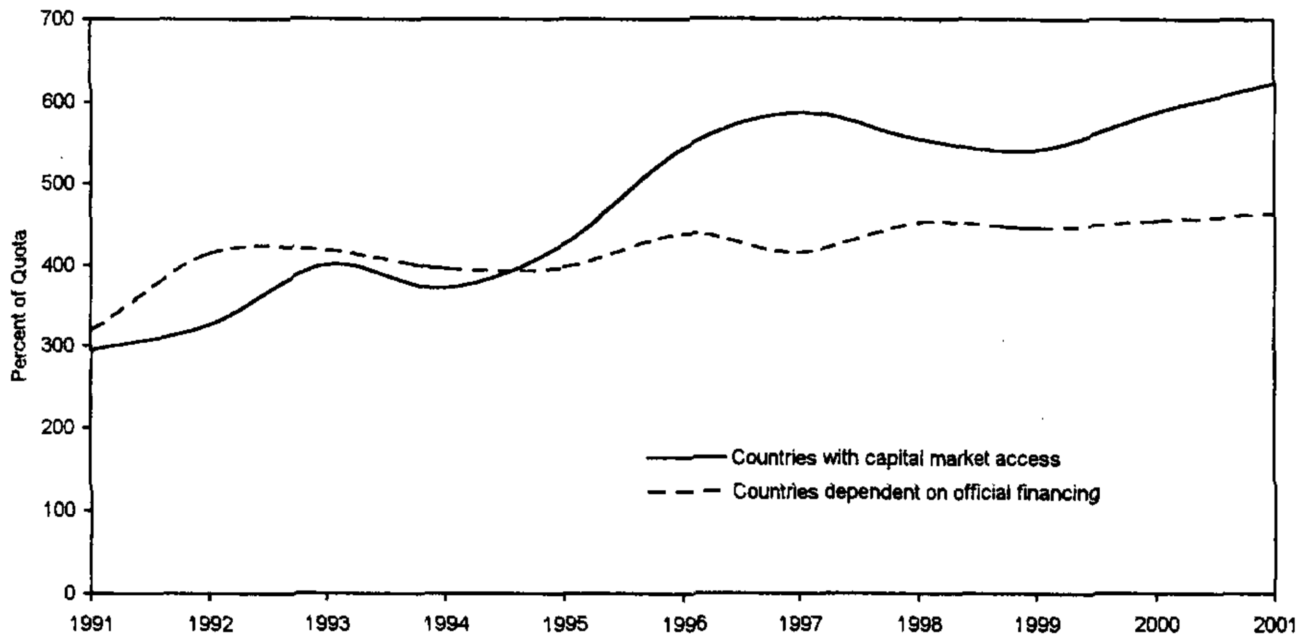
	1994-97 Annual Average	1998-2001 Annual Average Fall 1997 WEO	1998-2001 Annual Average Fall 1998 WEO
With capital market access (49) 2/ 3/			
Current account (excl. official transfers)	64.9	148.9	48.7
Amortization (incl. Fund repurchases)	93.6	109.4	140.1
Narrow gross financing need	158.5	258.3	188.8
Reserve accumulation and arrears clearance	45.2	36.9	31.3
Broad gross financing need	203.8	295.2	220.1
Memorandum item:			
Short-term debt stock	232.7	...	259.3
Dependent on official financing (64) 2/ 4/			
Current account (excl. official transfers)	11.0	13.8	16.9
Amortization (incl. Fund repurchases)	9.6	8.0	8.8
Narrow gross financing need	20.6	21.8	25.7
Reserve accumulation and arrears clearance	1.5	4.4	6.8
Broad gross financing need	22.1	26.2	32.4
Memorandum item:			
Short-term debt stock	17.3	...	12.0

Source: Staff estimates based on data from the World Economic Outlook database.

1/ "Narrow gross financing need" comprises the sum of current account deficits (excluding official transfers) and amortization payments (including Fund repurchases and repayments). "Broad gross financing need" include the narrower measure as well as reserve accumulation and clearance of arrears (actual or projected as appropriate
2/ Number of countries in parentheses.
3/ Countries with capital market access defined as those which have either sought a sovereign credit rating or have since 1995 issued bonds on capital markets.
4/ All other countries.

Figure 1.
Narrow GFN in SDR Billions and in percent of Quota





Sources: WEO and Staff Estimates

deficits, the projected (narrow) financing needs of countries with capital market access remain high—annually some SDR 189 billion, or an average of about 575 percent of quota (Table 5).

15. Past users of Fund resources with very high prospective (narrow) GFN (an average in excess of 1000 percent of quota during 1998-2001) currently include Argentina, Azerbaijan, Brazil, Lithuania, Mexico, Nepal, and Turkey. Indonesia, Korea, and Thailand, all of which were in this list last year and the year before, have now dropped out, reflecting the onset of their crises and the major adjustments that are underway. Malaysia, although no longer designated a "past user"under the definition noted above, would also now drop out of this list.

16. As noted in earlier reviews of access policy, gross financing needs have not traditionally included measures of short-term debt stocks in the aggregates. In part, this reflected the fact that, until fairly recently, most short-term debts were of a type—e.g., trade financing—for which rollover was a reasonably safe assumption. Also important (and not unrelated) was the fact that short-term debt data were not, in the past, of sufficiently good quality or reliable enough to provide a firm basis for analysis. The events of the past year, however, have clearly demonstrated the dangers of undue reliance on short-term debt, whether public or private, and efforts have been redoubled to improve the quality and coverage of short-term debts in the WEO exercise. Although no doubt there remain considerable margins of error in the data, the current global data set is now considered to be sufficiently reliable to begin to inform our understanding of potential financing needs.

17. Figure 2 shows the evolution of short-term debt stocks during 1991-1997, in SDR terms and in relation to quota, with projections from the WEO for 1998 through 2001. Short-term debts stocks rose steeply during the 1991-96 period—more than doubling to SDR 258 billion—until the current crisis resulted in a significant part of these stocks being either paid off or rescheduled/rolled over into longer-term debt.[10] After declining during 1997 and 1998 (to a low of SDR 242 billion), stocks are expected to recover during 1999-2001, but at a slower pace.

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[10]Had this exercise in projecting short-term debts stocks been undertaken during last year's review of access policy, it would have yielded what can be seen, with hindsight, to have been seriously misleading results: the path of short-term debt stocks was estimated to have been much flatter during the 1991-96 period. The recent crisis has clearly resulted in a considerable improvement in these data.

Table 5. Gross Financing Need of Past Users, 1994-2001 1/
(In percent of quota)

	1994-97 Annual Average	1998-2001 Annual Average	
		Fall 1997 WEO	Fall 1998 WEO
With capital market access (49) 2/ 3/			
Current account (excl. official transfers)	254.9	389.5	235.7
Amortization (incl. Fund repurchases)	227.0	267.8	340.7
Narrow gross financing need	**481.9**	**657.2**	**576.4**
Reserve accumulation and arrears clearance	132.6	79.7	103.2
Broad gross financing need	**614.5**	**736.9**	**679.6**
Memorandum item:			
Short-term debt stock	**534.7**	...	**588.0**
Dependent on official financing (64) 2/ 4/			
Current account (excl. official transfers)	291.3	302.7	330.4
Amortization (incl. Fund repurchases)	120.3	119.7	123.5
Narrow gross financing need	**411.6**	**422.4**	**453.9**
Reserve accumulation and arrears clearance	70.8	50.3	92.7
Broad gross financing need	**482.4**	**472.7**	**546.7**
Memorandum item:			
Short-term debt stock	**172.5**	...	**147.5**

Source: Staff estimates based on data from the World Economic Outlook database.

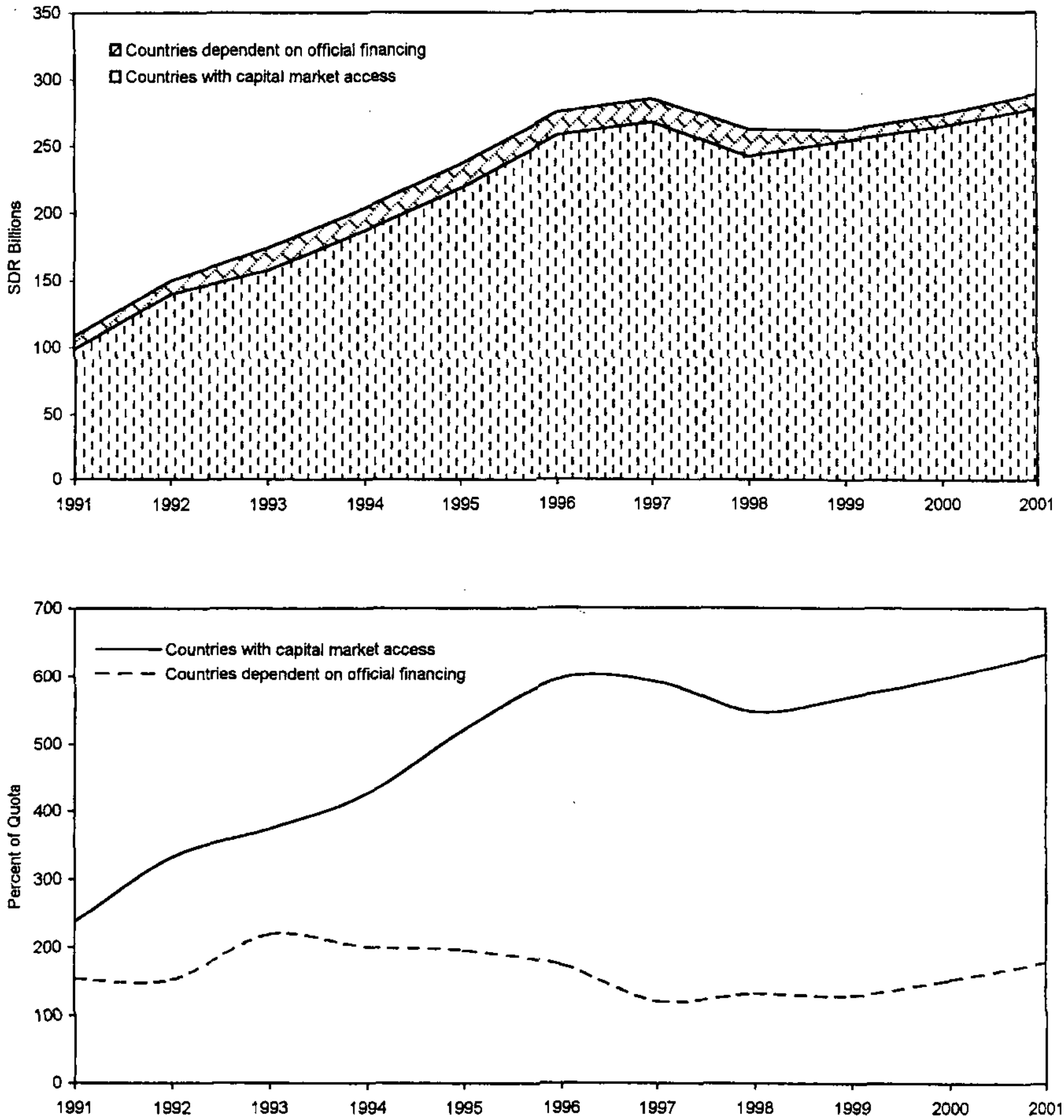
1/ "Narrow gross financing need" comprises the sum of current account deficits (excluding official transfers) and amortization payments (including Fund repurchases and repayments). "Broad gross financing need" includes the narrower measure as well as reserve accumulation and clearance of arrears (actual or projected as appropriate).

2/ Number of countries in parentheses.

3/ Countries with capital market access defined as those which either have a sovereign credit rating or have 1995 issued bonds on capital markets.

4/ All other countries.

Figure 2.
Stock of Short-term Debt in SDR Billions and Percent of Quota



Sources: WEO and Staff estimates

18. Now that short-term debt data are more reliable, it is possible to construct an expanded definition of financing needs, which adds to (narrow) GFN for a given year the entire stock of short-term debt outstanding at the end of the previous year.[11] The resulting, "augmented" GFN captures the amount of financing, maturing beyond the end of that year, that the country needs in a given year.[12] As is evident from Figure 3, this augmented definition behaves much as does the narrow definition of GFN reported in Figure 1, but at significantly higher levels, emphasizing the magnitude of the risks that countries with capital market access, especially, are exposed to. Past users of Fund resources with prospective augmented GFN above an arbitrary threshold of 2000 percent of quota include Brazil, Indonesia, Korea, Mexico, Nepal, Slovak Republic, Thailand, and Turkey. Some 28 past users have prospective augmented GFN in excess of 1000 percent of quota.[13]

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[11]The reason for using the projection of narrow GFN is that it involves less judgment than that of broad GFN, which includes what the staff judges to be a desirable (and feasible) accumulation of reserves. As a result, and since the accumulation of reserves for most past users of Fund resources is projected to add rather than subtract from financing needs, the estimate of "augmented" GFN is a conservative one.

[12]For example, a debt of US$1 million with a maturity of one month, outstanding on December 31, 1997, *might be rolled over 12 times in the course of* 1998. While on a gross basis this might lead to the recording of US$12 million in outflows and US$12 million in inflows during 1998, its contribution to financing "augmented" GFN would be US$1 million, since this is the corresponding amount of debt contracted during 1998 that matures beyond end-1998.

[13] Eight of these members are ESAF eligible and not likely to make use of the Fund's general resources in significant amounts.

Figure 3: Narrow GFN Plus Stock of Short-term Debt
in percent of Quota