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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.

It is not intended to publish this paper on the Fund's external website.

Questions may be referred to Mr. Rossi, FIN (ext. 35651).

This document will shortly be posted on the extranet, a secure website for Executive Directors and member country authorities.

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INTERNATIONAL MONETARY FUND

The Fund's Liquidity Position—Review and Outlook

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(In consultation with other departments)

Approved by Andrew Tweedie

October 7, 2008

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I. INTRODUCTION

1. **This paper reviews the Fund's liquidity position.**¹ The review focuses mainly on developments in the Fund's financial activities for the period March through August 2008.² In addition, it examines the near-term outlook using the one-year Forward Commitment Capacity (FCC), the primary measure of the Fund's liquidity (Box 1).
2. **The staff's assessment is that the Fund's near-term liquidity is satisfactory, but should be monitored closely given the uncertain outlook for the world economy.** With the FCC at an all-time high, the Fund appears well-placed to meet the near-term external financing needs of its members. Nevertheless, the latest revision to the global economic outlook points to a major downturn in growth and increased downside risks, resulting from the worsening of the turmoil in financial markets. The significant uncertainty that remains as to how events will play out highlights the importance of ongoing monitoring of the Fund's liquidity position to ensure that the Fund has adequate resources to fulfill its responsibilities.

Box 1. The Fund's Forward Commitment Capacity

The Fund uses the one-year FCC to measure its liquidity. The FCC measures the Fund's capacity to make new financial resources available to members in the General Resources Account (GRA) over the next 12 months.

The 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 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.

For the FCC, projected repurchases one-year forward are calculated on an obligations basis except in the case of SRF resources which are calculated on an expectations basis. The prudential balance is calculated as 20 percent of the quotas of members included in the FTP and any amounts activated under borrowing arrangements.

¹ The paper describes the developments and the outlook for the General Resources Account (GRA) only. For a review of the financing of the Fund's concessional assistance, see *Update on the Financing of the Fund's Concessional Assistance and Debt Relief to Low-Income Member Countries* (SM/08/305, 9/16/08).

² The period is determined by the semi-annual frequency of the report. More recent, preliminary data (including transactions related to the Stand-by Arrangement for Georgia approved on September 15) can be found at <http://www.imf.org/external/fin.htm>.

II. RECENT DEVELOPMENTS

3. **Credit outstanding rose to SDR 7.7 billion at end-August 2008 compared to SDR 5.9 billion at end-February 2008** (Table 1 and Figure 1, Appendix). During this period purchases amounted to SDR 2.8 billion, the highest since 2004, owing mainly to disbursements to Turkey and Liberia.³ Repurchases totaled SDR 1.0 billion. There were no advance repurchases during March–August 2008, reflecting the fact that most members with outstanding Fund credit whose balance of payments positions had improved more rapidly than expected had already made voluntary advance repurchases in earlier periods; less benign market conditions also may have played a role.⁴

4. **New commitments also remained low.** Commitments (including purchases under Emergency Assistance) since February 2008 totaled SDR 558 million, 15 percent higher than during September 2007–February 2008 (see Table 1).⁵ Commitments in March–August 2008 comprised one Extended Arrangement for Liberia, one Stand-by Arrangement for Honduras (that is being treated as precautionary), and three disbursements under Emergency Assistance for Bangladesh, Cote d’Ivoire and Guinea-Bissau (Table 2, Appendix).

5. **As of end-August 2008, five members had GRA arrangements**, of which four were Stand-By Arrangements (SBAs) and one was an Extended Arrangement (Table 3, Appendix). All four SBAs have been treated as precautionary since their inception, with undrawn balances amounting to SDR 0.8 billion.

6. **Credit concentration remains high amid a low-credit environment** (see Figure 1, Appendix). Total credit to the five largest users of Fund resources remained at 93 percent of total credit outstanding as of end-August, despite the increase in total credit outstanding since end-February. The largest user, Turkey, accounted for 79 percent of credit outstanding, and the three largest users—Turkey, Dominican Republic, and Liberia—accounted for 88 percent of total credit outstanding.

³ Purchases during March–August comprised those by Albania (SDR 2.4 million), Bangladesh (SDR 133.3 million), Cote d’Ivoire (SDR 40.7 million), Guinea-Bissau (SDR 1.8 million), Liberia (SDR 342.8 million), and Turkey (SDR 2,248.4 million).

⁴ During the previous six-month period, only one member (Iraq) made advance repurchases.

⁵ Liberia’s Extended Arrangement (SDR 342.8 million) approved on March 14, 2008 accounted for more than half of the new commitments. The full amount was purchased upon approval and the Extended Arrangement lapsed thereafter.

Table 1. The Fund's Liquidity, 2003–August 2008 1/

(In billions of SDRs)

	2003	2004	2005	2006	2007	Sep. 2007- Feb. 2008	Mar. 2008- Aug. 2008
Flows during the period							
New commitments 2/	18.3	1.5	9.0	0.1	0.8	0.5	0.6
Purchases	20.3	4.2	2.3	2.4	1.0	0.2	2.8
Repurchases	18.9	13.8	29.2	21.0	4.7	1.3	1.0
End of period							
Usable resources 3/	100.7	111.4	145.2	161.2	165.4	165.5	163.4
Less: Undrawn balances under GRA arrangements	22.8	19.4	12.7	3.9	3.1	3.0	0.8
Plus: Projected repurchases one-year forward	9.2	12.9	8.0	2.8	0.3	0.3	0.2
Less: Prudential balance	32.8	32.8	34.1	34.8	34.9	34.9	34.9
Equals: One-year Forward Commitment Capacity (FCC)	54.2	72.0	106.5	125.4	127.7	127.8	128.0
Available NAB/GAB borrowing	34.0	34.0	34.0	34.0	34.0	34.0	34.0
Memorandum items, end of period:							
Quotas of members in Financial Transactions Plan	164.1	164.1	170.5	173.8	174.4	174.4	174.4
GRA credit outstanding	65.0	55.4	28.4	9.8	6.0	5.9	7.7

Source: Finance Department.

1/ Columns may not add up due to rounding.

2/ Gross amount of new commitments not netted for undrawn balances under expired/cancelled arrangements. Includes disbursements under Emergency Assistance.

3/ Usable resources consist of: (i) the Fund's holdings of the currencies of FTP members; (ii) holdings of SDRs; and (iii) unused amounts, if any, under credit lines already activated, such as under the General Arrangements to Borrow and New Arrangements to Borrow (GAB/NAB).

7. **Reflecting the above developments, the Fund's liquidity position remains strong.** The FCC stood at SDR 128.0 billion at end-August 2008, compared with SDR 127.8 billion at end-February 2008 (see Table 1 and Figure 1, Appendix). At its current level, the FCC continues to be over twice the size of the three largest arrangements approved since end-1999 (Argentina, Brazil, and Turkey).⁶

III. OUTLOOK

8. **In the Fall 2008 World Economic Outlook (WEO), global growth is projected to decline from 5 percent in 2007 to 3.9 percent in 2008 and 3 percent in 2009.**⁷ The slowdown in global activity is expected to be led by major advanced economies, though

⁶ The combined size of the three largest arrangements was SDR 59.3 billion.

⁷ See *World Economic Outlook—Global and Regional Economic Prospects and Policy Issues* (EBS/08/103, 09/03/08), *World Economic Outlook—Revised Table 1.1* (FO/DIS/08/101; 10/3/08) and *Summing Up* (SUR/08/102, 9/26/08).

growth in emerging markets and developing economies is also projected to moderate. Global growth is expected to recover gradually through the course of 2009, but continued drags from strains in financial markets are expected to result in an unusually slow recovery. The main downside risk of the projections revolves around the feedback loop between continuing strains in financial markets and slowing economic activity. Inflation risks have moderated, although they remain a concern, notably in some emerging market and developing economies, in a context of tight commodities markets.

9. **Global financial markets have come under additional strain since early 2008, which has led to a further deterioration in the outlook for financial stability.**⁸ In advanced economies, near-term liquidity pressures, deleveraging, and banking consolidation still pose significant challenges, and further financial institution failures and other market disturbances may still lie ahead. Potential for spill-overs to emerging markets remains high, and policy frameworks have started to be tested. Overall, there remains significant uncertainty as to how events will play out, and about the duration of the adjustment process.

10. **Against this backdrop, staff is of the view that the resources of the Fund are broadly satisfactory, but need to be monitored closely.** Despite considerable worsening of the global economic outlook, the FCC remains at a level which suggests that the Fund can accommodate potential external financing needs of its members. Nonetheless, the demand for Fund resources could change quickly. Staff will continue to monitor the Fund's liquidity closely, and will stand ready to undertake a review of the liquidity position before April 2009 (the end of the standard six-month period), if warranted by the circumstances.

⁸ See *Global Financial Stability Report* (SM/08/272, 08/29/08), and *Summing Up* (BUFF/08/143, 9/26/08).

Appendix

Table 2. New Commitments (GRA), September 2006–August 2008 1/

(In millions of SDRs)

Date of Approval 2/	Member	Type of Arrangement	Total Amount
1/26/2007	Peru 3/	Stand-By	172
4/11/2007	Lebanon	Emergency Assistance	51
5/7/2007	Gabon 3/	Stand-By	77
8/7/2007	Cote d'Ivoire	Emergency Assistance	41
12/19/2007	Iraq 3/	Stand-By	475
1/30/2008	Guinea-Bissau	Emergency Assistance	2
2/6/2008	Dominica	Emergency Assistance	2
3/14/2008	Liberia	Extended Arrangement	343
4/7/2008	Bangladesh	Emergency Assistance	133
4/7/2008	Honduras 3/	Stand-By	39
4/8/2008	Cote d'Ivoire	Emergency Assistance	41
7/29/2008	Guinea-Bissau	Emergency Assistance	2
Total			1,377
Memorandum items:			
Total for September 2007–February 2008			479
Total for March 2008–August 2008			557

Source: Finance Department.

1/ Also includes disbursements under Emergency Assistance.

2/ Date of disbursement for Emergency Assistance.

3/ Precautionary at time of approval.

Table 3. Current Arrangements (GRA) as of end-August 2008

(In millions of SDRs unless indicated otherwise)

Member	Date of Approval	Date of Expiration	Amount Approved	Undrawn Balance	Total Credit		Drawings Available Thru End-2008 1/	Scheduled Repurchases Thru End-2008
					Outstanding	As Percent of Quota		
Stand-By Arrangements								
Gabon 2/	5/7/07	5/6/10	77	77	5	3	32	5
Honduras 2/	4/7/08	3/30/09	39	39	--	--	37	--
Iraq 2/	12/19/07	3/18/09	475	475	--	--	440	--
Peru 2/	1/26/07	2/28/09	172	172	--	--	171	--
Total Stand-By Arrangements (4)			764	764	5	--	679	5
Extended Arrangements								
Albania	2/1/06	1/31/09	9	1	7	15	--	--
Total Extended Arrangements (1)			9	1	7	15	--	--
Total Arrangements (5)			772	765	13	15	679	5

Source: Finance Department.

1/ Indicates undrawn and scheduled purchases.

2/ Precautionary as of end-August 2008.

Figure 1. One-Year Forward Commitment Capacity, GRA Credit Outstanding and Credit Concentration: December 1994–August 2008

