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To: Members of the Executive Board  
From: The Acting 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. Hatanpää, FIN (ext. 35484).

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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 Andrew Tweedie

April 24, 2009

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## I. INTRODUCTION

1. **This paper reviews the Fund's liquidity position.**<sup>1</sup> The review covers the Fund's financial activities for the period September 2008 through April 17, 2009.<sup>2</sup> It also discusses recent policy developments likely to influence the Fund's liquidity position. Against this backdrop, it examines the outlook for liquidity using the one-year Forward Commitment Capacity (FCC), the primary measure of the Fund's liquidity (Box 1). The FCC in this paper is calculated on basis of available ordinary (quota-based) resources. The treatment of resources made available through borrowing by the Fund in deriving the FCC will be discussed in a forthcoming paper on operational modalities related to borrowing by the Fund.
2. **The paper concludes that the Fund's liquidity position, including already agreed and committed bilateral loan resources, is adequate in the near term. However, it needs to be further supplemented given the potentially large demand for Fund resources arising from the current global crisis.** New commitments have recently increased at a record pace. The supplemental resources already available under the borrowing agreement with Japan are critical to ensuring that the Fund is able to meet members' needs in the near term. However, the global economy is in the grips of a severe recession and the global financial system remains under extraordinary stress, such that the current outlook is exceptionally uncertain, with considerable downside risks. In this context, the recent pledges of resources from a number of members are very welcome. The immediate priorities are to obtain Executive Board approval of specific borrowing agreements and to mobilize additional resources to further bolster the Fund's liquidity. In parallel, work will continue to expand and enlarge and make more flexible the New Arrangements to Borrow (NAB).

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<sup>1</sup> 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/09/99, 4/17/09).

<sup>2</sup> More recent, preliminary data on the Fund's finances (including related to a Stand-By Arrangement for Guatemala approved on April 22, 2009) can be found at <http://www.imf.org/external/fin.htm>.

### **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.

The prudential balance is calculated as 20 percent of the quotas of members included in the FTP and any amounts activated under the New Arrangements to Borrow or the General Arrangements to Borrow.

## **II. RECENT DEVELOPMENTS**

3. **The Fund has responded rapidly and flexibly to members' needs arising from the global crisis, and has begun to supplement its resources through borrowing.** During the period under review, it has provided financing involving exceptional access to 11 members, and in a number of these cases the Emergency Financing Mechanism (EFM) was invoked to ensure timely financing at short notice. Moreover, the Fund's GRA lending toolkit has been thoroughly modernized, including through the creation of the Flexible Credit Line (FCL), by clarifying the exceptional access framework with respect to High Access Precautionary Arrangements (HAPAs), by increasing access limits, and by allowing for increased flexibility to front-load access under SBAs.<sup>3</sup> In parallel, the Executive Board reached consensus on the need to supplement the Fund's resources to address the current crisis, and that official borrowing was the most promising approach.<sup>4</sup> As a first substantial step, a bilateral borrowing agreement was concluded with Japan for up to US\$100 billion, and a number of members have subsequently pledged additional resources.

<sup>3</sup> See *GRA Lending Toolkit and Conditionality—Reform Proposals* (SM/09/69, 3/13/09), *GRA Lending Toolkit and Conditionality—Reform Proposals* (SM/09/69, Sup. 2, 3/24/09), and *The Acting Chair's Summing up of GRA Lending Toolkit and Conditionality—Reform Proposals* (BUFF/09/50, 3/27/09).

<sup>4</sup> See *Review of the Adequacy of and Options for Supplementing Fund Resources* (EB/09/7, 1/12/09), and *The Acting Chair's Summing Up of the Review of the Adequacy of and Options for Supplementing Fund Resources* (BUFF/09/24, 2/11/09).

### A. Demand for Fund Resources

4. **Credit outstanding rose to SDR 20.4 billion at mid-April 2009 compared with SDR 7.7 billion at end-August 2008** (Figure 1, and Table 1). During this period purchases rose to SDR 14.1 billion, mainly owing to front-loaded disbursements under a number of new Stand-By Arrangements (SBAs). Repurchases totaled SDR 1.3 billion, of which voluntary advance repurchases accounted for SDR 81 million.<sup>5</sup>

5. **New commitments increased at a record pace.** Commitments (including purchases under Emergency Assistance) during the period under review totaled SDR 65.2 billion (Table 1).<sup>6</sup> The commitments comprised one precautionary FCL arrangement for Mexico, thirteen SBAs, of which three were precautionary at the time of the approval (El Salvador, Serbia, and Costa Rica) and ten were non-precautionary (Georgia, Ukraine, Hungary, Seychelles, Iceland, Pakistan, Latvia, Belarus, Armenia, and Mongolia), two disbursements under Post Conflict Emergency Assistance (Lebanon and Comoros) and one disbursement under Natural Disaster Emergency assistance (Belize) (Table 2, Appendix).

6. **Fifteen members had GRA arrangements as of April 17, 2009, with undrawn balances amounting to SDR 51.1 billion.** Over half of the undrawn balances were accounted for by Mexico's FCL of SDR 31.5 billion, which the authorities intend to treat as precautionary. The combined undrawn balances under the 14 SBAs amounted to SDR 21.7 billion (Table 3, Appendix). Currently, four of the SBAs (Costa Rica, Gabon, El Salvador, and Serbia) are being treated as precautionary, with a combined undrawn balance of SDR 1.4 billion.<sup>7</sup>

7. **The share of the largest user of Fund resources has declined steeply but credit concentration remains high** (Figure 1). As of April 17, the largest user, Hungary, accounted for 31 percent of credit outstanding, as compared with Turkey's share in total credit of 79 percent at end-August 2008. The three largest users—Hungary, Turkey, and Ukraine—accounted for about 71 percent of total credit outstanding as of April 17, while total credit to the five largest users of Fund resources accounted for about 86 percent of total credit outstanding.

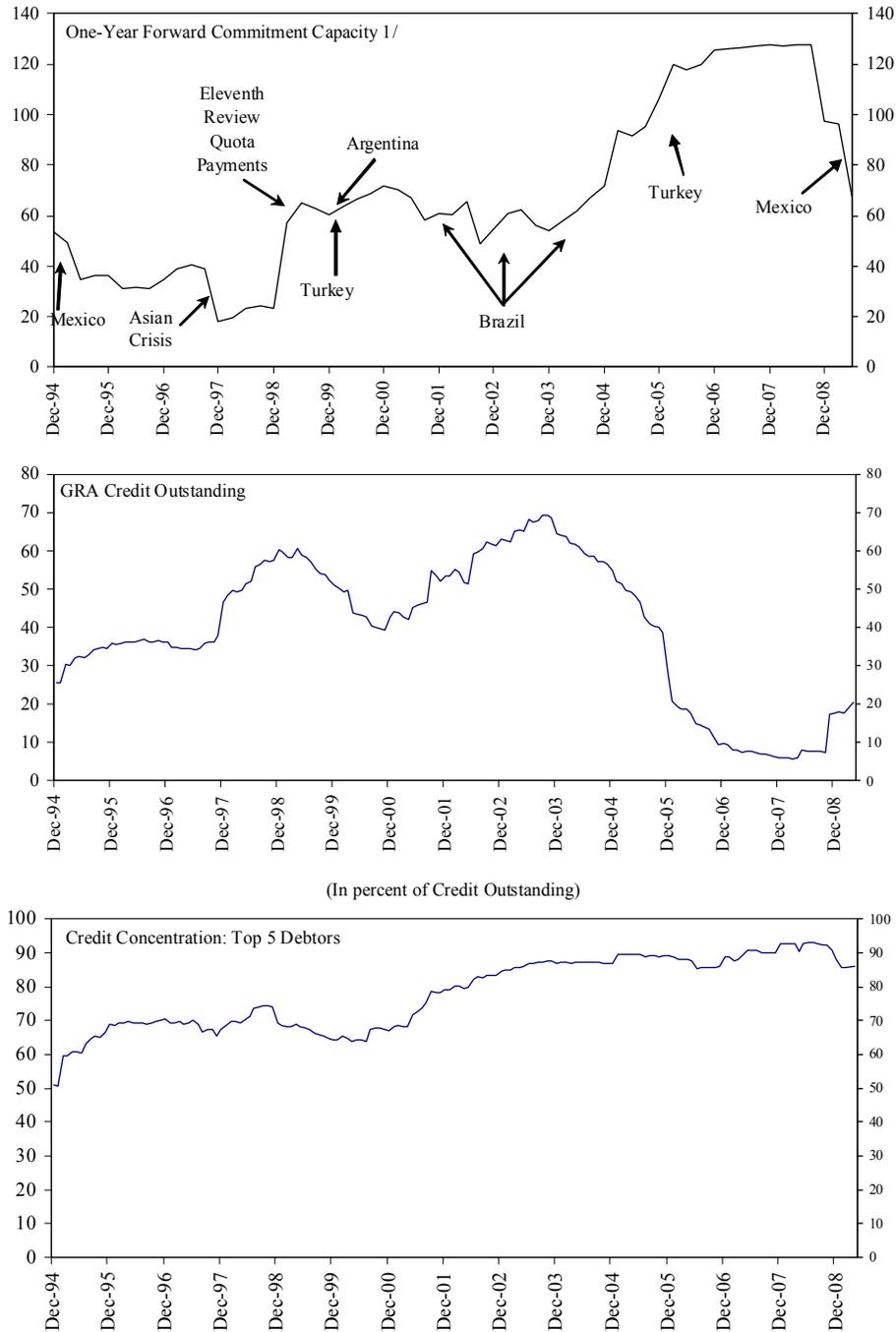
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<sup>5</sup> Cote d'Ivoire was the only member to make voluntary advance repurchases during the period.

<sup>6</sup> The previous record for new commitments during a full calendar year is SDR 39.2 billion in 2002.

<sup>7</sup> The SBA for Serbia was precautionary upon approval and no drawings under this arrangement have been made. However, the Serbian authorities are seeking an augmentation to the existing SBA and would envisage making purchases under the modified SBA.

**Figure 1. One-Year Forward Commitment Capacity, GRA Credit Outstanding and Credit Concentration: December 1994–April 17, 2009**  
(In billions of SDRs)



Source: Finance Department.

1/ Arrows indicate date of approval of major arrangements. The FCC in 2009 is determined on the basis of ordinary (quota-based) resources only.

**Table 1. The Fund's Liquidity, 2005–April 17, 2009 1/**  
(In billions of SDRs)

	2005	2006	2007	2008	Mar. 2008- Aug. 2008	Sep. 2008- Apr. 17, 2009 4/
<b>Flows during the period</b>						
New commitments 2/	8.9	0.1	0.8	30.7	0.6	65.2
Purchases	2.3	2.4	1.0	13.4	2.8	14.1
Repurchases	29.2	21.0	4.7	1.9	1.0	1.3
<b>End of period</b>						
Usable resources 3/	145.2	161.2	165.4	152.4	163.4	154.1
Less: Undrawn balances under GRA arrangements	12.7	3.9	3.1	20.3	0.8	51.1
Plus: Projected repurchases one-year forward	8.0	2.8	0.3	0.1	0.2	0.1
Less: Prudential balance	34.1	34.8	34.9	34.7	34.9	35.7
<b>Equals: One-year Forward Commitment Capacity (FCC)</b>	<b>106.4</b>	<b>125.4</b>	<b>127.7</b>	<b>97.6</b>	<b>128.0</b>	<b>67.3</b>
Available NAB/GAB borrowing	34.0	34.0	34.0	34.0	34.0	34.0
<b>Memorandum items, end of period:</b>						
Quotas of members in Financial Transactions Plan	170.5	173.8	174.4	173.4	174.4	178.7
GRA credit outstanding	28.4	9.8	6.0	17.5	7.7	20.4
Borrowing agreement with Japan						67.3

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 and (ii) holdings of SDRs.

4/ The FCC is determined on the basis of ordinary resources only; in addition, the Fund has access to US\$100 billion under the borrowing agreement with Japan and SDR 34 billion under the NAB/GAB.

## B. Supply of Fund Resources

8. **The supply of quota-based resources available under the Financial Transactions Plan (FTP) increased moderately.** During the period under review, two countries (Hungary and Kazakhstan) were excluded from the FTP as their external positions weakened, and five new countries (Peru, Brazil, Colombia, Libya, and Malta) were included.<sup>8</sup> As a result, the number of countries included in the FTP reached a record of 51. In net terms, these changes increased the aggregate quotas of members included in the FTP by SDR 4.3 billion, while the positive impact on the FCC was SDR 2.8 billion.<sup>9</sup>

<sup>8</sup> Hungary was excluded from the FTP effective December 2008 (see *Financial Transactions Plan for the Period December 2008–January 2009*, EBS/08/130, 11/21/08). The exclusion of Kazakhstan and inclusion of Peru from the FTP became effective in February 2009 (see *Financial Transactions Plan for the Period February–April 2009*, EBS/09/13, 1/26/09). Brazil, Colombia, Libya, and Malta were included in the FTP in mid-April 2009 (see *Enlargement and Extension of the Financial Transactions Plan, Extension of the SDR Designation Plan for the Period February–May 2009, and Use of Borrowed Resources*, EBS/09/52, 4/15/09).

<sup>9</sup> The net positive impact on the FCC was 80 percent of the change in aggregate quotas of the FTP countries, less the combined reserve tranche positions that the five countries had at the time of their inclusion in the FTP, plus Hungary's reserve tranche position, which was not drawn down.

9. **Quota-based resources included in the FTP could strengthen somewhat further in the near term, although there are also downside risks to the availability of these resources.** Consultations are still ongoing regarding the inclusion of Algeria in the next FTP and staff will continue to assess the positions of other members for their possible future inclusion in the FTP.<sup>10</sup> At the same time, during the current crisis there is an increased risk that the external position of some of the current FTP participants could deteriorate to the point that their inclusion in the FTP would no longer be appropriate.

10. **A bilateral borrowing agreement with Japan, concluded on February 13, 2009, made up to US\$100 billion (equivalent to SDR 67 billion) of supplementary resources available to the Fund.**<sup>11</sup> The initial period of the commitment under the agreement with Japan is for one year, and may be extended by the Fund for up to a total of five years if warranted by the Fund's liquidity situation and its actual and prospective borrowing needs. Resources available under this agreement may be used flexibly to support any financing provided through the GRA. In light of the potential scale of this borrowing, the traditional encashment provision was modified to allow the Fund to repay as soon as practicable within a 12-month period, rather than immediately. These resources may also be used to repay other borrowing, so long as such borrowing provides reciprocal repayment arrangements.

11. **The G-20 summit supported a trebling of the Fund's pre-crisis resources, and substantial progress has been made to an immediate doubling of Fund resources.** In early April, the G-20 leaders agreed to increase the resources available to the IMF through immediate borrowing from members of US\$250 billion, with such borrowing subsequently incorporated into an expanded and more flexible NAB, increased by up to US\$500 billion. The recently announced commitments by Canada and Switzerland (about \$10 billion each), the European Union (Euro 75 billion), and Norway (about \$4.5 billion), combined with the borrowing agreement with Japan, amount to some US\$225 billion for immediate borrowing, and work is underway to bring specific borrowing agreements to the Executive Board for its approval. Work towards a major enlargement and expansion of the NAB, together with amendments to improve its flexibility, has also begun.<sup>12</sup>

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<sup>10</sup> When implemented, the ad hoc quota increases for 54 members under Resolution No. 62-3 will increase total quotas of current FTP participants by about SDR 19.8 billion.

<sup>11</sup> See *Borrowing Agreement with the Government of Japan* (EBS/09/19, 2/10/09), and Decision No. 14264-(09/15), adopted on February 12, 2009.

<sup>12</sup> An informal briefing of the Executive Board on the NAB was held on April 20, 2009.

### III. OUTLOOK

12. **The Fund's liquidity position, including already agreed and committed bilateral loan resources, remains adequate in the near term but needs to be further supplemented.** The FCC stood at SDR 67 billion at mid-April 2009, compared with SDR 128 billion at end-August 2008, a decline of SDR 61 billion (see Table 1 and Figure 1, Appendix).<sup>13</sup> The substantial resources made available under the borrowing agreement with Japan broadly offset this reduction in liquidity, and further substantial resources have been committed by other members. Altogether, available liquidity appears adequate to meet the potentially large near-term resource needs. Among the potential larger commitments to be made in the near future, Poland and Colombia have expressed interest in precautionary FCLs in an amount of SDR 13.7 billion and SDR 7.0 billion, respectively, and staff level agreement has been reached with Romania for an SBA in the amount of SDR 11.5 billion.

13. **However, the global economy is in the grips of a severe recession inflicted by an extraordinary financial crisis and acute loss of confidence, and the availability of external financing to emerging and developing countries has been sharply curtailed.**<sup>14</sup> In the Spring 2009 World Economic Outlook, world output is projected to contract by 1.3 percent in 2009 and recover only gradually in 2010, growing by about 1.9 percent, and considerable downside risks to the global outlook remain. As discussed in the Spring 2009 Global Financial Stability Report, the problems of the advanced country banking sectors and the global contraction are now having severe effects on emerging market countries, and availability of external financing is likely to be curtailed for a prolonged period.

14. **This outlook, together with the recent reforms of Fund lending facilities, underscores the need to bolster the Fund's resources.** The global outlook suggests that high demand for Fund resources may continue beyond the near term. Initial experience suggests that the modernization of Fund facilities may increase the number of members seeking Fund support, or may encourage them to seek this support at an earlier stage as a precautionary measure. Given the potential for a substantial additional Fund commitments, a timely increase in the supplementary resources available to the Fund is needed to ensure the Fund's liquidity is sufficient to fulfill its mandate. The immediate priorities are to obtain the necessary approval from the Executive Board of specific borrowing agreements with members that have already indicated their willingness to provide supplementary resources to the Fund, and to mobilize additional resources. In parallel, work will continue toward

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<sup>13</sup> As noted earlier, the FCC in this paper is determined on basis of quota resources only.

<sup>14</sup> See *World Economic Outlook*, April 2009, <http://www.imf.org/external/pubs/ft/weo/2009/01/index.htm>, and *Global Financial Stability Report*, April 2009, <http://www.imf.org/External/Pubs/FT/GFSR/2009/01/index.htm>.

expanding and enlarging the NAB by up to US\$500 billion and making it more flexible. During this time of increased uncertainty, the Fund's liquidity will continue to be monitored closely.

## APPENDIX

Table 2. New Commitments (GRA), May 2007–April 17, 2009 1/

(In millions of SDRs)

Date of Approval 2/	Member	Type of Arrangement	Total Amount
5/7/2007	3/ Gabon	Stand-By	77
8/7/2007	Cote d'Ivoire	Emergency Assistance	41
12/19/2007	3/ Iraq	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	3/ Honduras	Stand-By	39
4/8/2008	Cote d'Ivoire	Emergency Assistance	41
7/29/2008	Guinea-Bissau	Emergency Assistance	2
9/15/2008	Georgia	Stand-By	477
11/5/2008	Ukraine	Stand-By	11,000
11/6/2008	Hungary	Stand-By	10,538
11/14/2008	Seychelles	Stand-By	18
11/18/2008	Lebanon	Emergency Assistance	25
11/19/2008	Iceland	Stand-By	1,400
11/24/2008	Pakistan	Stand-By	5,169
12/17/2008	Comoros	Emergency Assistance	1
12/23/2008	Latvia	Stand-By	1,522
1/12/2009	Belarus	Stand-By	1,618
1/16/2009	3/ El Salvador	Stand-By	514
1/16/2009	3/ Serbia, Republic of	Stand-By	351
2/20/2009	Belize	Emergency Assistance	5
3/6/2009	Armenia	Stand-By	368
4/1/2009	Mongolia	Stand-By	153
4/10/2009	3/ Costa Rica	Stand-By	492
4/17/2009	3/ Mexico	Flexible Credit Line	31,528
<b>Total</b>			<b>66,333</b>

Source: Finance Department.

1/ Also includes disbursements under Emergency Assistance. The commitments below the dotted line took place during the period under review.

2/ Date of disbursement for Emergency Assistance.

3/ Precautionary at time of approval.

**Table 3. Current Arrangements (GRA) as of April 17, 2009**  
(In millions of SDRs unless indicated otherwise)

Member	Effective Date	Date of Expiration	Amount Approved	Undrawn Balance	Total GRA Credit		Drawings Available Thru End-2009 1/	Scheduled Repurchases Thru End-2009
					Outstanding	As percent of Quota		
<i>Stand-by Arrangements</i>								
Armenia	3/6/09	7/5/11	368	206	162	176	75	--
Belarus	1/12/09	4/11/10	1,618	1,100	518	134	825	--
Costa Rica 2/	4/11/09	7/10/10	492	492	--	--	410	--
El Salvador 2/	1/16/09	3/31/10	514	514	--	--	471	--
Gabon 2/	5/7/07	5/6/10	77	77	--	--	68	--
Georgia	9/15/08	3/14/10	477	189	288	192	142	--
Hungary	11/6/08	4/5/10	10,538	4,215	6,323	609	3,794	--
Iceland	11/19/08	11/18/10	1,400	840	560	476	420	--
Latvia	12/23/08	3/22/11	1,522	986	535	422	535	--
Mongolia	4/1/09	10/1/10	153	102	51	100	56	--
Pakistan	11/24/08	10/23/10	5,169	2,533	2,639	255	1,437	3
Serbia, Republic of 2/	1/16/09	4/15/10	351	351	--	--	327	--
Seychelles	11/14/08	11/13/10	18	11	7	80	4	--
Ukraine	11/5/08	11/4/10	11,000	8,000	3,030	221	6,500	30
14 Arrangements			33,696	19,617	14,112		15,064	33
<i>Flexible Credit Line</i>								
Mexico 2/	4/17/09	4/16/10	31,528	31,528	--	--	31,528	--
1 Arrangement			31,528	31,528	--		31,528	--
<i>Extended Arrangements</i>								
0 Arrangements			--	--	--		--	--
Total Arrangements (15)			65,224	51,145	14,112		46,592	33

Source: Finance Department.

1/ Indicates undrawn and scheduled purchases.

2/ Precautionary as of April 17, 2009.