FOR AGENDA

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EBS/90/155

CONFIDENTIAL

August 27, 1990

To: Members of the Executive Board

From: The Secretary

Subject: Review of the Fund's Liquidity - Financing Needs and Modalities for Financing Enlarged Access

Attached for consideration by the Executive Directors is a report on the Fund's liquidity position, and the financing needs and modalities for financing enlarged access, which is now scheduled for discussion on Monday, September 17, 1990. A summary and concluding remarks appear on pages 15-17. Draft decisions putting the proposals into effect will be issued shortly.

Mr. Dhruba Gupta (ext. 8321) or Mr. Zavoico (ext. 7626) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

Att: (1)

CONFIDENTIAL

INTERNATIONAL MONETARY FUND

Review of the Fund's Liquidity - Financing Needs and Modalities for Financing Enlarged Access

Prepared by the Treasurer's Department

(In consultation with the Legal Department)

Approved by Gerhard Laske

August 27, 1990

I. Introduction

This paper reports on the current and prospective liquidity position of the Fund and its financing needs through the end of 1991 on the basis of present quotas and the existing policy on access to the Fund's resources. 1/ It will be recalled that the Executive Board agreed in June 1990 that the enlarged access policy and the present access limits should remain unchanged until the increase in quotas becomes effective, and that, in any event, the policy will be reviewed not later than end-1991. As the Fund is expected to exhaust all credit lines available for financing purchases of borrowed resources under the enlarged access policy in early 1991, this review also includes a discussion of the modalities for financing commitments of borrowed resources already made under the enlarged access policy and prospective commitments under the enlarged access policy after existing credit lines have been fully disbursed. A companion paper is also being circulated to the Executive Board dealing with the implementation of enlarged access policy in the 1980s.

The paper is organized as follows: Section II discusses the availability of the Fund's usable resources, Section III deals with the prospective demand for Fund resources to end-1991, and the prospective evolution of the Fund's liquidity ratio, and Section IV deals with the modalities of financing commitments of borrowed resources after all borrowed resources have been disbursed in early 1991; Section V provides some concluding remarks. The usual tables on the relevant balance sheet data and selected ratios are in Appendix Tables 1 and 2.

1/ Increases in quotas approved under the Ninth General Review can become effective prior to December 30, 1991 provided that members with not less than 85 percent (or, after that date, with not less than 70 percent) of total quotas consent to an increase, provided that the third amendment to the Articles is in effect.

II. The Supply of the Fund's Usable Resources

1. Ordinary Resources

As at end-July 1990, the Fund's stock of usable ordinary resources amounted to SDR 42.6 billion, of which SDR 41.5 billion represented the currencies of members considered sufficiently strong for transfers in the current operational budget (EBS/90/112, 6/15/90), and the balance of SDR 1.1 billion represented SDRs held in the General Resources Account. This total was SDR 1.5 billion higher than at end-February 1990 when the staff last reviewed the Fund's liquidity. 1/

The external financial positions of 31 members were considered sufficiently strong for inclusion on the transfer side of the June-August 1990 operational budget, and included all but four industrialized countries (Australia, Greece, Iceland and Luxembourg) and thirteen developing countries. 2/ The quotas of these members amount to 67 percent of total Fund quotas, which represents a level of participation in the budget near its historic peak. However, as in the case of the past several liquidity reviews, a significant number of members, accounting for over half of the stock of usable currencies (excluding the U.S. dollar), have been experiencing relatively large current account deficits. Moreover, projections suggest that a number of sufficiently strong members that have recorded current account surpluses in 1989 will experience a material deterioration in their external positions in the period ahead. Accordingly, it is possible that one or more members with substantial quotas may have to be excluded from the transfer side of the operational budgets during the period under review and there is also the possibility that some of these members may also need to use their reserve tranche positions. Moreover, no major additions to the list of members with sufficiently strong external positions are anticipated. Consequently, and taking account of the need to maintain adequate working balances, the staff has continued to adjust downward the stock of usable currencies by a factor of 25 percent. As at end-July 1990, this adjustment was equivalent to SDR 10.4 billion.

After taking this adjustment into account, and deducting SDR 5 billion of ordinary resources committed but not yet drawn under existing operative

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1/ "Review of the Fund's Liquidity and Financing Needs", EBS/90/59, March 27, 1990. The increase of SDR 1.5 billion represents the combined effect of the inclusion of Thailand on the transfer side of the budget (SDR 0.4 billion) and the net inflows of ordinary resources amounting to SDR 1.1 billion, mainly on account of a continued high level of repurchases plus acquisitions of SDRs (SDR 1.6 billion) relative to purchases financed with ordinary resources (SDR 0.5 billion).

2/ This list of sufficiently strong members includes Kuwait. In light of recent developments in the region, the Kuwaiti dinar is no longer being used under the current operational budget. The Fund's current holdings of the Kuwaiti dinar amount to SDR 0.5 billion.

arrangements (including commitments of borrowed resources that exceed available credit lines), adjusted and uncommitted ordinary resources totaled SDR 27.2 billion at end-July 1990, or SDR 0.6 billion more than at end-February 1990. The total of adjusted and uncommitted ordinary resources is projected to decline to SDR 23.6 billion by end-1990 and to SDR 18.2 billion by end-1991 (Table 1, line 1).

2. Borrowed Resources

As at end-July 1990, undrawn commitments of borrowed resources amounted to about SDR 4.2 billion, while available credit lines (under the 1986 borrowing agreement with Japan) amounted to SDR 1.6 billion, resulting in an overcommitment of borrowed resources of SDR 2.6 billion. 1/ Based upon the projections for demand discussed in Section III below, the overcommitment of borrowed resources is projected to rise to SDR 4.7 billion at end-1990 and SDR 7.7 billion at end-1991. 2/

On a disbursement basis, available credit lines are projected to be sufficient to meet purchases financed with borrowed resources through 1990, leaving a small balance of approximately SDR 0.1 billion at end-1990 (Table 1, line 3). This balance is projected to be fully utilized early in 1991. In the absence of new credit lines that could be used to finance enlarged access purchases, which are not anticipated, the staff has proposed that ordinary resources be used in substitution for borrowed resources. 3/ 4/ The modalities of such substitution are discussed in Section IV below.

3. Overdue Repurchases to the Fund

Overdue repurchases totaled SDR 2.1 billion at end-July 1990 (Appendix Table 1), or the same level that existed at end-February 1990. The relative stability in the total of overdue repurchases reflects in part the success

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1/ As noted above, this amount is deducted from the stock of uncommitted ordinary resources.

2/ This and further references in this paper to "borrowed resources" include (i) borrowed resources committed under the existing enlarged access policy and (ii) ordinary resources that would be substituted for borrowed resources and committed under the enlarged access policy once credit lines are fully utilized. In the latter case, it is assumed that the current mix policy would apply.

3/ See "Review of the Fund's Liquidity and Financing Needs", EBS/90/59, March 27, 1990 and "Review of the Fund's Liquidity - Financing Needs and Financial Considerations of Access Policy in 1990", EBS/89/148, July 25, 1989.

4/ Pursuant to Executive Board Decision No. 7040-(82/7), January 13, 1982 (as amended), the Executive Board is to review the guidelines for borrowing by the Fund upon the completion by the Board of Governors of the Ninth General Review of Quotas. This review is under preparation.

Table 1: Summary of Projections of Fund Liquidity through end-1991

(In billions of SDRs)

		Actual	Projected	
		end-July 1990	end-1990	end-1991
1.	Ordinary Resources (adjusted and uncommitted) 1/	27.2	23.6	18.2
2.	Borrowed Resources (uncommitted) 2/	--	--	--
3.	Available Credit Lines 3/	1.6	0.1	--
4.	Gross New Commitments 4/ (in calendar years)	1989	1990	1991
	Stand-by	2.5	4.3	3.1
	EFF	7.2	1.5	3.9
	Total	9.6	5.8	7.0
	of which:			
	Ordinary resources	4.3	3.7	4.5
	Borrowed resources	5.3	2.1	2.5
5.	Fund Credit (in calendar years)			
	a. Total purchases	3.5	7.0	7.7
	of which: (i) contingency financing	(--)	(0.1)	(0.3)
	(ii) interest support	(--)	(1.1)	(1.0)
	b. Total repurchases	5.9	5.9	4.7
	c. Net change in outstanding Fund credit in General Resources Account	-2.4	1.1	3.0
	d. SAF and ESAF loan disbursements	1.0	0.7	1.1
	e. Trust Fund repayments	0.4	0.3	0.1
	f. Net credit provided by Fund (c+d-e)	-1.8	1.5	4.0
Memoranda 5/		end-July 1990	end-1990	end-1991
a.	Total Fund Credit Outstanding	23.6	26.2	30.2
	of which:			
	General Resources Account	21.2	23.4	26.4
	SAF and ESAF	2.1	2.7	3.8
	Trust Fund	0.3	0.1	--
b.	Total liquid liabilities	24.1	26.3	29.3
	of which:			
	Reserve tranche positions	20.6	21.7	25.3
	Outstanding borrowing (loan claims)	3.5	4.6	4.0
c.	Cumulative mismatch of maturities (repayment of borrowing with ordinary resources)	3.7	3.2	2.5

Note: Details may not add due to rounding.

1/ Undrawn balances under existing arrangements have been reduced by SDR 0.2 billion of ordinary and SDR 0.1 billion of borrowed resources to adjust for: (i) undrawn balances under arrangements that are inoperative and are not likely to be drawn upon; and (ii) an adjustment to allow for the possibility that existing operative arrangements may not be fully utilized. See also Appendix, Table 1.

2/ Commitments under arrangements in excess of available uncommitted borrowed resources have been deducted from projections of ordinary resources in line 1.

3/ Borrowed resources available to finance purchases in the Fund's General Resources Account.

4/ Excludes commitments under the contingency element of the CCFF and for debt service reduction operations (i.e., interest support).

5/ No use has been made of the GAB line of credit and the associated agreement with Saudi Arabia, which total SDR 18.5 billion.

of the collaborative approach in the case of several members. However, the current level of overdue repurchases, which amount to 6.5 percent of the stock of adjusted usable ordinary resources and 9.9 percent of total credit outstanding in the GRA, remain of considerable concern to the Fund and at these levels are material in relation to the Fund's stock of usable resources and total credit outstanding.

III. Demand for Fund Resources

1. Commitments under Stand-by and Extended Arrangements

Commitments under stand-by and extended arrangements - projected on a country-by-country basis - are expected to total SDR 12.8 billion over the two year period ending 1991, of which SDR 1.5 billion has already been committed, SDR 4.3 billion is projected to be committed during the remainder of 1990 and the balance of SDR 7.0 billion is projected to be committed in 1991. 1/

Of total prospective commitments through end-1991 amounting to SDR 11.3 billion, about two thirds, or SDR 7.1 billion, are projected to be financed with ordinary resources and the balance of SDR 4.2 billion with borrowed resources. 2/ This mix is in contrast to 1989 when ordinary resources only financed about 45 percent of total commitments, which reflected the high proportion of borrowed resources associated with two large arrangements concluded in that year with members whose access to ordinary resources was limited due to substantial prior use.

These projections of prospective commitments include eight extended arrangements with a cumulative commitment totalling SDR 5.4 billion. Several large arrangements, including one extended arrangement, are projected to be approved toward the end of 1990, and delays in the conclusion of any of these arrangements would entail a potentially large shift of commitments into 1991. The distribution of commitments as between 1990 and 1991 should thus be regarded as subject to considerable uncertainty.

The current projection for commitments during the two year period 1990 and 1991 of SDR 12.8 billion is SDR 0.7 billion lower than the amount reported for this same period in March 1990. This reduction in projected commitments is accounted for by (i) changes in the amounts and probabilities associated with new arrangements (SDR -0.1 billion) and (ii) a number of arrangements that are no longer expected to be concluded during this two year period (SDR -0.6 billion).

1/ Projected commitments are individually adjusted for the probability that the anticipated arrangements will actually be concluded. Unadjusted commitments under projected arrangements total SDR 7.7 billion in 1990 and SDR 12.2 billion in 1991.

2/ Commitments of ordinary and borrowed resources are projected on the basis of the current mix policy.

Commitments of set-aside amounts under arrangements for debt reduction operations are projected to total SDR 0.6 billion in the remainder of 1990 and SDR 0.8 billion in 1991, in addition to the SDR 2.1 billion already committed under existing arrangements. 1/ The projection for set-aside commitments in the period through end-1991 is thus of the same order of magnitude as in the March 1990 review (although there has been a shift of about SDR 0.5 billion from 1990 to 1991). Provision for augmentation of arrangements for interest support in connection with debt reduction or debt service reduction operations are included in the projections of purchases (see Section 2 (ii) below).

2. Other Demand for Fund Resources

(i) Projected use of the Compensatory and Contingency Financing Facility (CCFF)

Purchases under the compensatory element of the CCFF are projected, after probability weighting, at SDR 0.4 billion in 1990 and SDR 0.5 billion in 1991 (Table 2). This represents a combined reduction of SDR 0.6 billion from the projections set out in the March 1990 review for this two year period, and is due to a substantial reduction in the probability that one member with a large quota would seek access to the facility.

Purchases under the contingency element of the CCFF are projected in aggregate to amount to SDR 0.1 billion in 1990 and SDR 0.3 billion in 1991, which represents a decline of SDR 0.3 billion relative to the projections in the March 1990 review. There have been no purchases under the contingency element since the facility was introduced in August 1988. 2/

(ii) Interest support in connection with debt reduction or debt service reduction operations 3/

Current projections indicate that purchases for interest support could amount to SDR 1.1 billion in 1990 (all under existing arrangements)

1/ Of this total, SDR 0.5 billion has been purchased in 1990 (through end-July). These amounts are included as part of gross new commitments (Table 1, line 4).

2/ For the approach used in projecting contingency mechanism purchases see the relevant section of "Methodology Used in the Projections of the Fund's Liquidity Position and Financing Needs", EBS/90/60, March 27, 1990, pages 11 and 12. The maximum amounts of contingency financing available are adjusted by the probabilities that the corresponding arrangements will be concluded, and only 30 percent of those amounts are assumed to be disbursed over the period of the underlying arrangements.

3/ In appropriate cases, the Fund is prepared to approve the augmentation of arrangements for up to 40 percent of a member's quota, with such amounts used for interest support in connection with debt reduction or debt service reduction operations.

Table 2. Projected Commitments and Changes in Use and Receipt of the Fund's Resources 1989 to 1991

(In billions of SDRs)

	Actual 1989	1990 Jan.-July	1990 Aug.-Dec.	1990 Total	1991
A. Gross New Commitments 1/					
Total	9.6	1.5	4.3	5.8	7.0
Of which:					
Ordinary resources	4.3	1.1	2.6	3.7	4.5
Borrowed resources	5.3	0.4	1.7	2.1	2.5
B. Use and Receipt					
1. Use and Receipt of Ordinary Resources					
a. Purchases					
i. Under arrangements 2/	2.3	0.8	2.4	3.2	3.0
ii. Interest support	--	0.2	0.3	0.5	0.5
iii. Under the compensatory element of CCFF 3/	0.8	0.1	0.3	0.4	0.5
iv. Under the contingency element of CCFF	--	--	0.1	0.1	0.3
	3.1	1.1	3.1	4.2	4.3
b. Repurchases					
i. Under arrangements	2.4	1.7	1.1	2.8	2.2
ii. Under CFF and buffer stock	0.7	0.3	0.4	0.7	1.0
	3.1	2.0	1.5	3.5	3.2
c. Net use of ordinary resources to finance Fund credit (a-b)	--	-0.9	1.6	0.7	1.1
d. Net use of ordinary resources to finance:					
i. repayment to EAR and SFF lenders 4/	0.4	-0.2	-0.5	-0.7	-0.7
ii. encashment of reserve tranche positions	--	0.2	0.3	0.5	0.5
	0.4	--	-0.2	-0.2	-0.2
e. Net use of ordinary resources (c+d)	0.4	-0.9	1.4	0.5	0.9
2. Use and Receipt of Borrowed Resources					
a. Purchases	0.4	1.1	1.1	2.2	2.9
b. Interest support	--	0.2	0.4	0.6	0.5
c. Repurchases	2.8	1.5	0.9	2.4	1.5
d. Net use of borrowed resources to finance Fund credit (a+b-c)	-2.4	-0.2	0.6	0.4	1.9
C. Change in Fund Credit Outstanding (GRA)					
1. Total purchases (B.1.a.+B.2.a+b)	3.5	2.4	4.6	7.0	7.7
2. Total repurchases (B.1.b+B.2.c)	5.9	3.5	2.4	5.9	4.7
3. Net change in Fund credit outstanding (B.1.c+B.2.d)	-2.4	-1.1	2.2	1.1	3.0
D. Change in Credit Provided by Fund					
1. SAF and ESAF loan disbursements 5/	1.0	0.2	0.5	0.7	1.1
2. Trust Fund repayments	0.4	0.2	0.1	0.3	0.1
3. Net credit provided by Fund (C.3+D.1-D.2)	-1.8	-1.1	2.6	1.5	4.0

Note: Details may not add due to rounding.

1/ Excludes commitments under the contingency element of the CCFF and for debt service reduction operations (i.e., interest support).

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

3/ No purchases under the buffer stock financing facility are currently projected in the period through end-1991.

4/ Repayments under EAR and SFF borrowing agreements made using ordinary resources net of repurchases corresponding to calls made under these arrangements. Reversal of earlier use of ordinary resources started in 1990 and are represented by negative figures.

5/ Projections assume commitments of SAF resources at 70 percent of eligible members' quotas, and also that cumulative commitments of ESAF Trust resources of SDR 1.1 billion at end-July 1990 will increase to about SDR 2 billion by November 1990 and SDR 4 billion by November 1991 (folowing decisions by the Executive Board on the necessary extension of commitment and disbursement periods).

and a further SDR 1.0 billion in 1991 (all under prospective arrangements). 1/ A total of SDR 0.5 billion has already been purchased in 1990 under a current extended arrangement. The amounts for interest support purchases have been projected up to the maximum entitlement of 40 percent of quota and then reduced by the probabilities associated with the corresponding arrangements.

(iii) Reserve Tranche Purchases

Reserve tranche purchases are projected to amount to SDR 0.5 billion in 1990 and SDR 0.5 billion in 1991, which represents a minor reduction in the total as compared to the March 1990 projections. Reserve tranche purchases in 1990 (through July) have totaled SDR 0.2 billion. 2/ These projections are limited to reserve tranche purchases by members that are currently not included on the transfer side of the operational budget. 3/

(iv) Loan Repayments

The repayment of loans to the GRA during the remainder of 1990 and 1991 will amount to SDR 1.2 billion, while repurchases of purchases financed with borrowed resources during this period are scheduled to amount to SDR 2.4 billion. The reversal of the maturity mismatch is thus projected to amount to SDR 1.2 billion, with the result that the cumulative mismatch, which amounted to SDR 3.7 billion at end-July 1990, will decline to SDR 2.5 billion by end-1991. 4/ The maturity mismatch is projected to continue to decline until 1995, when it will begin to rise again on account of repayments associated with the 1986 borrowing agreement with Japan. 5/

1/ Of these amounts, SDR 1.0 billion is projected to be financed with ordinary resources and SDR 1.1 billion with borrowed resources.

2/ An additional reserve tranche purchase amounting to SDR 0.1 billion was made in mid-August 1990.

3/ Total reserve tranche positions held by members that are not included on the transfer side of the operational budget amounted to SDR 1.6 billion as at end-July 1990. The possibility of reserve tranche drawings by members included in the budget is covered by the adjustment to usable currencies (see "Methodology Used in the Projections of the Fund's Liquidity Position and Financing Needs", EBS/90/60, March 27, 1990, page 13)

4/ The maturity mismatch reached its peak of SDR 4.3 billion at end-November 1989.

5/ Repayments under this agreement are to be made in one installment five years after the drawdown date while the corresponding repurchases are made in ten installments beginning 3 1/2 years and ending 7 years after the date of purchase.

3. Projected Changes in Fund Credit Outstanding and in the Liquidity Ratio

(i) Fund Credit Outstanding

Total purchases (excluding reserve tranche purchases) are projected to amount to SDR 7.0 billion in 1990 and SDR 7.7 billion in 1991, for a cumulative amount of SDR 14.7 billion over the two year period. This compares to a total of SDR 18.1 billion projected over this same period in the March 1990 review. This reduction of SDR 3.4 billion in projected purchases is due mainly to delays in the conclusion of a number of large arrangements within the period under review, which has had the effect of shifting a number of associated purchases from 1991 into later years, as well as the reduction in purchases projected under the compensatory element of the CCFF. Repurchases are expected to total SDR 5.9 billion and SDR 4.7 billion in 1990 and 1991, respectively, 1/ with the result that outstanding Fund credit financed by the General Resources Account is projected to increase by SDR 1.1 billion in 1990 and SDR 3.0 billion in 1991. Taking into account projected SAF and ESAF disbursements, 2/ as well as scheduled Trust Fund repayments, total credit provided by the Fund is projected to increase by SDR 2.6 billion during the remainder of 1990 and SDR 4.0 billion in 1991. 3/ Total credit provided by the Fund, which amounted to SDR 23.6 billion at end-July 1990 is therefore projected to increase to SDR 26.2 billion by end-1990 and SDR 30.2 billion by end-1991 (Table 1, memoranda item).

(ii) Fund's Liquidity Ratio

The Fund's liquidity ratio was 112.9 percent at end-July 1990, up from a level of 103.5 percent as at end-February 1990. 4/ The liquidity ratio has risen further during the five months since the last review mainly on account of a shift in the projected conclusion of one large arrangement from mid-1990 to late 1990. 5/ On the occasion of the March 1990

1/ As usual, no allowance is made for any further overdue repurchases or for any settlement of existing overdue repurchases.

2/ SAF and ESAF disbursements are projected to total SDR 1.8 billion in 1990 and 1991 as compared to SDR 2.3 billion projected for this same period in EBS/90/59. This reduction reflects a slower pace of new ESAF commitments than anticipated earlier as well as to delays in making disbursements under existing arrangements.

3/ The distribution of the change in Fund credit by regions and by analytical criteria are shown in Table 3.

4/ The definition of the liquidity ratio is set out in Appendix Table 2, footnote 2.

5/ If this arrangement had been concluded with the original timing, and abstracting from the inclusion of Thailand on the transfer side of the budget, the liquidity ratio at end-July 1990 would have been below the level at end-February 1990.

Table 3: Use of Fund Credit under all Facilities
Distributed by Region and by Analytical Criteria 1/

(In billions of SDRs)

	1989 (Actual)			1990 2/			1991 (Proj.)		
	Dis-burse-ments	Re-pay-ments	Net use of Fund credit	Dis-burse-ments	Re-pay-ments	Net use of Fund credit	Dis-burse-ments	Re-pay-ments	Net use of Fund credit
Industrial countries	--	--	--	--	--	--	0.1	0.0	0.1
Developing countries	4.4	6.3	-1.9	7.7	6.2	1.5	8.7	4.8	3.9
a. By Region:									
Africa	1.3	1.2	0.1	0.8	1.0	-0.2	1.4	0.8	0.6
Asia	0.8	1.7	-0.9	0.6	1.9	-1.3	1.1	1.4	-0.3
Europe	0.1	0.9	-0.9	0.9	0.5	0.4	1.3	0.2	1.1
Middle East	0.1	0.1	--	0.1	0.1	--	0.1	0.1	0.0
Western Hemisphere	2.2	2.4	-0.2	5.3	2.7	2.6	4.8	2.3	2.5
b. By financial criteria: 3/									
i. By predominent type of credit									
Market borrowers	2.9	2.5	0.4	5.6	2.8	2.8	4.8	2.5	2.3
Official borrowers	1.5	1.6	-0.1	1.4	1.3	0.1	1.9	0.9	1.0
Diversified borrowers	0.1	2.3	-2.2	0.7	2.1	-1.4	2.0	1.4	0.6
ii. By debt-service experience:									
Recent difficulties	3.1	4.2	-1.1	6.9	4.0	2.9	7.0	3.4	3.6
Other	1.3	2.1	-0.8	0.8	2.2	-1.2	1.9	1.4	0.3
<u>Memorandum Item</u>:									
Prolonged users of Fund's resources 4/	1.4	1.6	-0.2	2.2	1.8	0.4	2.1	1.9	0.2

<u>Note</u>: Details may not add to totals due to rounding.

1/ Purchases and repurchases under stand-by and extended arrangements, and special facilities; disbursements under SAF and ESAF arrangements; and repayments to the Trust Fund.

2/ Based on actual data through July 31, 1990 and projections for the remainder of 1990.

3/ Based on classification used in World Economic Outlook. See Statistical Appendix, <u>World Economic Outlook - May 1990</u> (pp. 117-120).

4/ Members making prolonged use of the Fund's resources include countries with arrangements with the Fund for five or more years since 1980 and outstanding use of Fund credit in excess of 100 percent of quota as at July 31, 1990.

review, it was projected that the liquidity ratio would fall to 69.5 percent by end-1990 and to 48.2 percent by end-1991. Current projections indicate that the liquidity ratio will be somewhat higher than projected earlier, at a level of 89.7 percent at end-1990 and 62.1 percent at end-1991. The decline in the liquidity ratio now projected in the period ahead is somewhat slower than earlier anticipated due to the slower pace of purchases expected in the period ahead (for the reasons noted above) as well as to an increase in the initial stock of ordinary resources due to the inclusion of Thailand on the transfer side of the operational budget. Further details on the Fund's liquidity ratios are provided in Appendix Tables 1 and 2.

IV. Financing Commitments of Borrowed Resources

1. Introduction

As noted above, commitments of borrowed resources under the enlarged access policy have resulted in an excess of commitments of borrowed resources above available credit lines amounting to SDR 2.6 billion as of end-July 1990. Further commitments of borrowed resources are projected to amount to SDR 5.1 billion in the period covered by this review and will increase this commitment gap to about SDR 7.7 billion by end-1991.

In light of the need to continue to assist members facing serious payments imbalances which are large in relation to their quotas, the Executive Board decided on June 25, 1990 to continue the policy on enlarged access and the existing guidelines on access limits under that policy until the increase in quotas under the Ninth General Review of Quotas becomes effective, provided that the Fund may extend this period. 1/ Under the decision on enlarged access policy, purchases are financed by borrowed resources in conjunction with ordinary resources, with the mix between these borrowed and ordinary resources determined by the Executive Board. 2/ Borrowed resources are made available to members under stand-by and extended arrangements on uniform repurchase terms (with semi-annual repayments

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1/ Executive Board Decision No. 9476-(90/101), adopted June 25, 1990. This decision is subject to review not later than December 31, 1991, and annually thereafter as long as the decision remains in effect.

2/ Executive Board Decision No. 6783-(81/40), dated March 11, 1981. The present rules regarding the mix of resources to be used under the policy of enlarged access are as follows: (i) under stand-by arrangements ordinary and borrowed resources are used for purchases corresponding to the first credit tranche in the ratio of 2 to 1 and for purchases corresponding to the next three credit tranches in the ratio of 1 to 2; purchases beyond the fourth credit tranche are financed by borrowed resources only; (ii) under extended arrangements, purchases are made with ordinary resources until the outstanding use of ordinary resources in the upper credit tranches and under the extended facility equal 140 percent of the member's quota. Thereafter purchases are made with borrowed resources.

3 1/2 - 7 years after the date of purchase) and are subject to a special rate of charge, based upon the net cost to the Fund of these resources.

As mentioned above, projections indicate that borrowed resources available to finance enlarged access purchases will be fully utilized early in 1991. 1/ In "The Fund's Liquidity and Financing Needs - Update" (EBS/89/100, 5/17/1989) it was proposed that once this occurs (i) commitments of resources would continue to be made under enlarged access as before, even though available borrowed resources had been fully committed, and (ii) existing commitments of borrowed resources would be met entirely from the Fund's ordinary resources. 2/ To give effect to these proposals the Executive Board will need (i) to amend the decision on the enlarged access policy to provide for the substitution of borrowed resources with ordinary resources when and to the extent borrowed resources are not available, (ii) to take decisions relating to the repurchase terms and the rate of charge to be levied on ordinary resources used in substitution for borrowed resources, and (iii) to take decisions on the exclusion of holdings of currency associated with substituted ordinary resources from the reserve tranche and the credit tranches. 3/ These decisions relating to the financial terms and the exclusion provisions would apply in respect of both ordinary resources that would be substituted for borrowed resources under existing arrangements involving enlarged access resources (with undrawn balances of committed borrowed resources at the time credit lines are fully disbursed) and under new arrangements involving enlarged access resources concluded after credit lines are fully utilized. 4/

1/ To the extent that projected purchases are delayed or do not materialize, the full utilization of borrowed resources would, of course, also be delayed. A change in the mix between ordinary and borrowed resources would also delay the full utilization of credit lines, but for only a relatively brief period. This is because a substantial proportion of existing and projected commitments of borrowed resources are under extended arrangements, which already provide for full use of ordinary resources before borrowed resources are employed and thus offer no further scope for conserving borrowed resources through a change in mix policy.

2/ See "The Fund's Liquidity and Financing Needs - Update" (EBS/89/100, 5/17/89), p. 6. See also "Review of the Fund's Liquidity - Financing Needs and Financial Considerations for Access Policy in 1990" (EBS/89/148, 7/25/89), pp. 11-12 and Summing Up Buff Statement 89/161 (9/7/89, corrected 9/11/89), and Work Program Buff Statement 90/95 (5/11/90).

3/ The decision on exclusion from the reserve tranche requires an 85 percent majority and from the credit tranches a simple majority (by amendment of paragraph 12 of Executive Board Decision No. 6783-(81/40), March 11, 1981 (as amended)).

4/ Consequential changes are also proposed for the stand-by and extended arrangement forms approved by Executive Board Decision No. 6838-(81/70), adopted April 19, 1981 (as amended).

2. Substitution of Ordinary Resources for Borrowed Resources under Prospective Arrangements

(i) Liquidity considerations relating to the use of ordinary resources.

At present, there does not seem to be any prospect of further borrowing by the Fund in the immediate future to supplement existing credit lines available to finance enlarged access purchases. 1/ It has therefore been proposed that future commitments of borrowed resources under the enlarged access policy will be financed by ordinary resources. It is the staff's judgement that the Fund's prospective liquidity position is adequate to permit such use of ordinary resources in the period ahead (see also Section V, paragraph 4). Nevertheless, and as mentioned in "Extension of Enlarged Access Policy and Access Limits" SM/90/107 (6/5/90), the staff will continue to monitor closely any changes in the Fund's liquidity position and will promptly report any significant developments to the Board.

(ii) Financial Terms

As noted above, the Interim Committee stated in May 1990 that "enlarged access policy and the present access limits should remain unchanged until the increase in quotas becomes effective". The provision of resources under the enlarged access policy entails several elements, including access to resources in relation to quotas, the mix of ordinary and borrowed resources, and the repurchase terms and charges on the borrowed resources provided thereunder. 2/ The extension of the current access limits has already been agreed by the Board through end-1991. Consistent with maintaining unchanged the terms upon which resources are provided under enlarged access policy during the interim period until the Ninth Review of Quotas comes into effect, it is proposed that uniform terms, including the mix of resources, apply to the use of ordinary resources substituted for borrowed resources both in the case of arrangements already in existence at the time

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1/ Moreover, it will be recalled that the Interim Committee in its communiqué of September 1988 noted that, in connection with the Ninth Review of Quotas, the Fund would reduce its reliance on borrowing.

2/ It is not intended that the attribution rules set out in paragraph 10(b) of Decision No. 6783-(81/40), March 11, 1981 (as amended) apply in the case of ordinary resources substituted for borrowed resources as the justification for these provisions, as well as those contained in Executive Board Decision No. 6831-(81/65), adopted May 1, 1981 (as amended), do not apply to substituted ordinary resources. Thus, a member that completes a repurchase in advance of schedule would be free to attribute such payment to forthcoming obligations without regard to the mix as between ordinary resources and substituted ordinary resources. In addition, the specification of value dates for purchases and repurchases involving borrowed resources under Rules G-4(a) and (b) would also not apply in the case of purchases financed with substituted ordinary resources.

borrowed resources are exhausted and any arrangements approved thereafter under the amended policy of enlarged access. 1/ 2/

Substituted ordinary resources would thus be provided on the basis of the same repurchase period that would apply if borrowed resources had been used. This implies that repurchases of ordinary resources substituted for borrowed resources would be made in eight equal semiannual installments over 3 1/2 - 7 years from the date of purchase. As noted in "Review of Fund Liquidity - Financing Needs and Financial Considerations for Access Policy in 1990" (EBS/89/148, 7/25/89), the implementation of this proposal would require the Executive Board to establish a special repurchase period for such use of ordinary resources to finance purchases under a special policy on the use of the Fund's general resources (Article V, Section 7(d)). To maintain the same repurchase terms under the special policy as now provided under the policy of enlarged access would require an 85 percent majority. 3/

As regards charges on the use of ordinary resources substituted for borrowed resources, it is proposed that holdings of members' currencies acquired thereby attract the same rate of charge as the holdings of member's currency financed by the use of ordinary resources and as determined under Rule I-6(4). 4/ This rate would apply irrespective of whether the arrangements involving such resources were approved by the Fund before or after credit lines were fully utilized. It should be noted that the EAR

1/ Alternatively, rather than substituting ordinary resources in place of unavailable borrowed resources, it would be possible to discontinue the policy of enlarged access, an important element of which is financing by the use of borrowed resources. Instead, access to ordinary resources could be raised either temporarily or permanently to match that available under the policy of enlarged access. This alternative has not been pursued further as it would be inconsistent with the maintenance of the terms inherent in the existing enlarged access policy and also in view of the issues of equity posed by the timing of access to the present or the amended policy.

2/ The provision of ordinary resources in substitution for borrowed resources on financial terms comparable to those used for borrowed resources was also made in 1978 under the "exceptional circumstances" policy that enabled members to use the Fund's ordinary resources in excess of 200 percent of quota under stand-by arrangements and 140 percent of quota under the EFF in anticipation of the coming into effect of the Supplementary Financing Facility (SFF). Under this policy, ordinary resources at enhanced access levels were provided with the same repurchase terms as were to apply under the SFF (i.e., with repayments made semiannually over 3 1/2 to 7 years).

3/ This change would be given effect by the amendment of paragraph 10(a) of Executive Board Decision No. 6783-(81/40), adopted March 11, 1981 (as amended).

4/ Such rate of charge would thus also be subject to adjustments under the decisions on burden sharing.

rate of charge as determined under Rule I-6(5) would not apply to ordinary resources substituted for borrowed resources because this rate applies only to holdings of member's currency resulting from purchases financed with borrowed resources. To give effect to this proposal on the rate of charge to be levied upon ordinary resources substituted for borrowed resources requires an amendment on the decision on charges which needs a majority of 70 percent. Appropriate language on substituted resources used under the enlarged access policy would be introduced in the introductory paragraph of Rule I-6(4).

V. Summary and Concluding Remarks

1. The demand for the Fund's resources, which began to increase in 1989, is projected to remain strong in the period through 1991. Total commitments, which totalled SDR 9.6 billion during 1989, are projected to amount to SDR 5.8 billion in 1990 and SDR 7.0 billion in 1991. A substantial proportion of these commitments represent continued support of adjustment programs adopted by heavily-indebted members in Latin America and in Eastern Europe. As several large arrangements are projected to be concluded toward the end of 1990, any delays in the conclusion of these arrangements would entail a potentially large shift of commitments from 1990 to 1991.

2. Total purchases (excluding reserve tranche purchases), which totaled SDR 3.5 billion in 1989, are projected to amount to SDR 7.0 billion in 1990 and SDR 7.7 billion in 1991; of these amounts purchases for interest support are projected at SDR 1.1 billion and SDR 1.0 billion, respectively. Total repurchases are scheduled to amount to SDR 5.9 billion and SDR 4.7 billion in 1990 and 1991, respectively. On this basis, the increase in outstanding Fund credit (GRA) would amount to SDR 1.1 billion in 1990 and SDR 3.0 billion in 1991. Taking account of projected SAF and ESAF loan disbursements as well as scheduled Trust Fund loan repayments, total credit provided by the Fund is projected to increase by SDR 1.5 billion in 1990 and SDR 4.0 billion in 1991.

3. The members whose currencies are included in the current operational budget represent 67 percent of total quotas, which is near the historical peak. 1/ However, the continued availability of a number of currencies in the budget has become more uncertain, due not only to the scale and duration of balance of payments and reserve developments among some creditor countries, but also to recent events in the Middle East. In the staff's judgement, the possibility that some members currently regarded as sufficiently strong may need to be excluded from the budget (and potentially also draw on their reserve tranche positions), and taking account of the need to maintain adequate working balances, warrants a continuation of a downward adjustment in the stock of usable currencies by a factor of 25 percent.

1/ The exclusion of Kuwait would reduce this ratio by less than 1 percentage point.

4. After making allowance for this adjustment, the stock of uncommitted ordinary resources is projected to fall from its current level of SDR 27.2 billion to SDR 23.6 billion by end-1990 and SDR 18.2 billion by end-1991, including a cumulative commitment of ordinary resources substituted for borrowed resources amounting to SDR 7.7 billion. This decline in usable resources is projected to be accompanied by a decline in the liquidity ratio from the present level of 112.9 percent to 62.1 percent at end-1991. The current level of the liquidity ratio is about 9 percentage points higher than on the occasion of the March 1990 review, with this increase being primarily due to the continued high level of repurchases, the inclusion of Thailand on the transfer side of the operational budget and a delay in the conclusion of one large arrangement.

Although considerable uncertainties remain, particularly as regards the continued availability of the currencies of a number of members that are currently regarded as sufficiently strong, on balance it seems reasonable to conclude that the Fund's liquidity position remains broadly satisfactory at this time, and is of an order that will permit the Fund to accommodate projected demands through end-1991, including the proposed disbursement of ordinary resources substituted for borrowed resources under the recently extended policy of enlarged access. However, the Fund's liquidity position is expected to deteriorate later in the review period, as evidenced by the projected decline in the liquidity ratio, which may raise issues regarding the financing of the Fund's operations should there be any material delays in the coming into effect of the quota increases under the Ninth Review.

5. The commitment of borrowed resources now exceeds the undrawn balance under available credit lines by SDR 2.6 billion, and this commitment gap is projected to rise to SDR 7.7 billion by end-1991. Available credit lines are sufficient to finance purchases of borrowed resources through early 1991. The Interim Committee agreed in May 1990 that enlarged access policy and the present access limits should remain unchanged until the increase in quotas becomes effective and the Executive Board agreed in June 1990 to an extension of the policy of enlarged access through end-1991. The staff has proposed earlier that the continuation of this policy after available credit lines are exhausted be financed by substituting ordinary resources for borrowed resources. In light of the Fund's broadly satisfactory current and prospective liquidity position, the staff continues to regard such substitution as feasible for the period ahead. The proposals regarding the specific mix and terms on which this substitution would take place have been shaped by the desire to retain the essential features of the enlarged access policy during the interim period until the Ninth Quota review is concluded.

Ordinary resources substituted for borrowed resources would be made available on the following terms, irrespective of whether such ordinary resources are drawn under arrangements that were approved before or after credit lines are fully utilized:

a. Repurchases of purchases financed with ordinary resources substituted for borrowed resources would be made in eight equal semiannual installments over 3 1/2 to 7 years from the date of purchase. To give effect to this policy would require the adoption of a special policy on the use of the Fund's general resources which needs an 85 percent majority.

b. Charges on purchases financed with ordinary resources substituted for borrowed resources would be levied at the rate of charge on ordinary resources as defined under Rule I-6(4). The implementation of this policy on charges would require a 70 percent majority.

c. The mix of ordinary and borrowed resources would continue unchanged, with ordinary resources substituted on the financial terms set out in paragraphs a. and b. above for that portion of each purchase that would have been financed with borrowed resources had they been available.

d. Holdings of currency associated with substituted ordinary resources would be excluded from the reserve tranche (85 percent majority) and from the credit tranches (simple majority).

6. Draft decisions putting the proposals into effect are being prepared by the Legal Department and will be issued shortly.

Table 1: Selected Balance Sheet Data
(In billions of SDRs)

Item	December 31 1985	1986	1987	1988	1989	end-Feb 1990	end-July 1990	Projected end-Dec 1990	1991
1. Usable Ordinary Resources (unadjusted)	38.5	38.4	40.7	42.3	41.1	41.1	42.6	40.8	35.3
of which:									
(a) Adjusted 1/	29.6	29.3	30.8	31.9	31.0	31.1	32.2	30.8	26.7
(b) Adjusted and uncommitted 2/	28.0	28.4	30.1	30.4	26.7	26.6	27.2	23.6	18.2
of which: SDR holdings	(3.1)	(1.9)	(1.2)	(0.8)	(0.9)	(1.1)	(1.1)	(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	3.6	3.6
3. Borrowing	19.2	20.2	15.7	11.5	6.4	6.1	5.1	4.7	4.0
(a) Outstanding borrowing									
i) EAR 3/	9.3	9.6	8.1	5.7	3.2	3.0	2.1	1.7	1.0
of which: BRS Accounts	(0.6)	(0.3)	(0.4)	(0.3)	(--)	(--)	(--)	(--)	(--)
ii) SFF	5.4	3.9	2.2	0.9	0.3	0.2	--	--	--
iii) Japan 1986	...	...	--	--	0.1	0.8	1.4	2.9	3.0
iv) GAB and associated	--	--	--	--	--	--	--	--	--
Total	14.7	13.5	10.3	6.7	3.5	3.9	3.5	4.6	4.0
(b) Unused credit lines									
i) EAR	4.5	3.7	2.4	1.8	--	--	--	--	--
ii) Japan 1986	...	3.0	3.0	3.0	2.9	2.2	1.6	0.1	--
Total	4.5	6.7	5.4	4.8	2.9	2.2	1.6	0.1	--
4. Unused GAB and Associated 4/	12.3	12.3	12.3	12.3	12.3	12.3	12.3	(12.3)	(12.3)
5. Total Liquid Liabilities	41.7	38.3	32.9	28.3	25.5	25.7	24.1	26.3	29.3
(a) Reserve tranche positions	27.0	24.8	22.6	21.6	22.0	21.8	20.6	21.7	25.3
(b) Outstanding borrowing	14.7	13.5	10.3	6.7	3.5	3.9	3.5	4.6	4.0
6. Overdue Repurchases	0.4	0.8	1.3	1.9	2.0	2.1	2.1	...	...
7. Total Fund credit outstanding (GRA)	35.2	33.3	28.8	24.8	22.3	22.6	21.2	23.4	26.4
8. Total Quotas	89.3	90.0	90.0	90.0	90.1	90.1	90.1	...	...

1/ 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 0.25 for 1984-1989 and is notionally the same for the projections in 1990 and 1991.

2/ Undrawn balances of commitments at July 31, 1990 have been reduced by SDR 0.2 billion of ordinary and SDR 0.1 billion of borrowed resources to adjust for: (i) undrawn balances under arrangements that are inoperative and are not likely to be drawn upon; and (ii) an adjustment to allow for the possibility that existing operative arrangements may not be fully utilized.

3/ Including borrowings temporarily invested in the Borrowed Resources Suspense Account.

4/ The GAB was renewed for a period of five years from December 26, 1988 (General Arrangements to Borrow - Sixth Renewal, EBM/87/159, November 23, 1987). The amounts shown are as defined in the Guidelines for Borrowing, which provide that the amount included would equal outstanding borrowing by the Fund under the GAB and associated borrowing arrangements or two-thirds of the total under these arrangements, whichever is greater. The present total of these arrangements is SDR 18.5 billion. For end-1990 and end-1991, figures have been placed in parentheses in order to indicate that no assumption has been made regarding the use of these arrangements.

Table 2. Fund Liquidity - Selected Ratios

(In percent)

	December 31					end-Feb	end-July	Projected end-Dec	
	1985	1986	1987	1988	1989	1990	1990	1990	1991
1. Quota ratio 1/	35.3	36.1	31.7	26.4	20.8	20.4	19.3	...	...
2. Liquidity ratio 2/	68.6	74.9	92.7	108.5	104.7	103.5	112.9	89.7	62.1
3. Cash ratio 3/	103.7	114.5	133.2	140.4	121.4	122.0	132.0	108.8	71.9
4. Asset ratio 4/									
(i) excluding gold	93.8	101.0	124.9	150.5	161.2	159.9	176.8	155.1	120.5
(ii) including gold	102.4	110.4	135.9	163.3	175.3	173.9	191.7	168.8	132.8
5. Ratio of overdue repurchase:									
(i) to adjusted usable ordinary resources	1.5	2.7	4.2	6.0	6.5	6.8	6.5	...	...
(ii) to Fund credit outstanding (GRA)	1.2	2.3	4.6	7.7	9.0	9.3	9.9	...	...

1/ The quota ratio, as defined under the decision on guidelines for borrowing, is the ratio of the total of outstanding borrowing, unused credit lines, and relevant GAB resources to total quotas (see Appendix, Table 1, lines 3, 4, and 8).

2/ The liquidity ratio is the ratio of adjusted and uncommitted ordinary resources (after adjustment for commitments of borrowed resources as indicated in footnote 2, Table 1) and temporary investments in the BRS Accounts to the total of outstanding borrowing and reserve tranche positions (see Appendix, Table 1, lines 1(b), 3(a)(i) and 5).

3/ The cash ratio is the ratio of adjusted and uncommitted ordinary resources (after adjustment for commitments of borrowed resources as indicated in footnote 2, Table 1) to reserve tranche postions (see Appendix, Table 1, lines 1(b) and 5(a)).

4/ The asset ratio (i) is the ratio of usable ordinary resources (unadjusted) and temporary investments in the BRS Accounts to the total of outstanding borrowing and total reserve tranche positions (see Appendix, Table 1, lines 1, 3(a)(i) and 5). The asset ratio (ii) also includes, in the numerator, gold held by the Fund and valued at SDR 35 per fine ounce.