FOR AGENDA

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EBS/89/148

CONFIDENTIAL

July 25, 1989

To: Members of the Executive Board

From: The Secretary

Subject: Review of the Fund's Liquidity - Financing Needs and Financial Considerations for Access Policy in 1990

Attached for consideration by the Executive Directors is a report on the Fund's liquidity position, and the financing needs and financial considerations for access policy in 1990. Conclusions appear on pages 12-14.

This subject, together with the paper on the review of access limits for 1990 under the buffer stock financing facility (EBS/89/151, 7/26/89), and a paper on preliminary policy considerations of access limits for 1990 (to be issued shortly) is now being scheduled for discussion on Monday, August 28, 1989.

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 Financial Considerations for Access Policy in 1990

Prepared by the Treasurer's Department

(In consultation with the Legal Department)

Approved by Gerhard Laske

July 24, 1989

I. Introduction

This paper reports on the Fund's liquidity position as of June 30, 1989 and discusses prospective developments in the Fund's liquidity position and the financing of enlarged access through the end of 1990, on the assumption of unchanged quotas and present policies on access to the Fund's resources. It will be recalled that the Interim Committee in its communique of September 26, 1988 concluded that the enlarged access policy should be reviewed in the light of the outcome of the Ninth General Review of Quotas; it would also be intended to review the Fund's liquidity situation at that time.

The paper is organized as follows: Sections II and III discuss the supply of and demand for Fund resources, respectively, while Section IV reviews the availability of resources in relation to projected demand, including the financing of the policy on enlarged access through end-1990. Section V discusses the financing of commitments of borrowed resources in the period ahead while Section VI provides conclusions. Two appendices are also attached. The first sets out the usual analysis of the liquidity ratios while the second discusses broad trends in repurchases and repayments to lenders in the period through 1993 and their impact on ordinary resources.

II. Supply of Fund Resources

1. Ordinary Resources

As of June 30, 1989, the Fund's stock of usable ordinary resources totaled SDR 42.3 billion, of which SDR 41.4 billion represented the currencies of members considered sufficiently strong for transfers in the current operational budget (EBS/89/112, May 31, 1989), and the balance of SDR 0.9 billion represented SDRs held in the General Resources Account. This compares with a level of SDR 42.5 billion on

the occasion of the last semi-annual review of the Fund's liquidity position. 1/

At present, there are 30 members whose external financial positions are considered sufficiently strong for their currencies to be included in the operational budget for transfers. They include all but two of the industrial countries (Iceland and Luxembourg) as well as 12 developing countries. 2/ However, a significant number of these countries, accounting for almost one half of the Fund's holdings of usable currencies (excluding Saudi Arabia and the United States), are presently experiencing relatively large current account deficits and the possibility of excluding one or more of these members from the operational budget cannot be precluded. Moreover, no major additions to the list of members with sufficiently strong external financial positions are currently in prospect. In these circumstances, and taking into account the need to maintain adequate amounts of working balances and also to provide a margin in the event that encashment of members' reserve positions exceed the amount included in current projections (SDR 1.5 billion through end-1990), the staff considers that it remains reasonable to adjust downward the stock of usable currencies by a factor of one-quarter. This adjustment is equivalent to SDR 10.3 billion as at June 30, 1989.

After taking account of this adjustment, as well as SDR 3.6 billion of ordinary resources that are committed but not yet drawn under existing operative arrangements, 3/ total adjusted and uncommitted ordinary resources amount to SDR 28.4 billion (Table 1), or SDR 2.3 billion less than the total at end-January 1989.

1/ "Review of the Fund's Liquidity and Financing Needs", EBS/89/38, dated March 3, 1989. The decrease of SDR 0.2 billion in the stock of usable resources reflects the net impact of the addition of Korea on the transfer side of the operational budget (SDR 0.4 billion) less net outflows of resources in Fund transactions and operations amounting to SDR 0.6 billion.

2/ As at June 30, 1989, the quotas of the 30 members whose currencies were considered usable for transfers amounted to 69 percent of total Fund quotas. This represented a small increase from the relatively high level that prevailed at January 31, 1989; historically, the total of usable currencies is now a very high proportion of total quotas.

3/ Including SDR 0.8 billion of ordinary resources that, in the absence of new borrowing arrangements, may need to be used to finance existing commitments of borrowed resources.

Table 1: Summary of Projections of Fund Liquidity through end-1990

(In billions of SDRs)

	Actual end-June 1989	Projected end-1989	end-1990
1. Ordinary Resources (adjusted and uncommitted) 1/	28.4	25.0	18.8
2. Borrowed Resources (uncommitted) 2/	--	--	--
3. Gross New Commitments 3/ (in calendar years)	1988	1989	1990
Stand-by	2.7	2.9	2.2
EFF	0.2	7.6	4.8
Total	2.9	10.5	7.0
of which:			
Ordinary resources	2.5	5.2	3.4
Borrowed resources	0.4	5.3	3.6
4. Fund Credit (in calendar years)			
a. Total purchases	2.7	6.0	7.7
of which: (i) contingency financing	(0.0)	(0.1)	(0.6)
(ii) interest support	(0.0)	(1.0)	(0.8)
b. Total repurchases	6.7	5.9	5.8
c. Net change in outstanding Fund credit in General Resources Account	-4.0	0.1	1.9
d. SAF and ESAF loan disbursements	0.4	1.2	2.3
e. Trust Fund repayments	0.5	0.4	0.3
f. Net credit provided by Fund (c+d-e)	-4.1	0.9	3.9

Memoranda 4/	end-June 1989	end-1989	end-1990
a. Total Fund Credit Outstanding	26.0	27.4	31.3
of which:			
General Resources Account	23.9	24.8	26.7
SAF and ESAF	1.4	2.1	4.4
Trust Fund	0.7	0.5	0.2
b. Total liquid liabilities	27.5	28.1	30.0
of which:			
Reserve tranche positions	22.2	24.0	25.5
Outstanding borrowing (loan claims)	5.3	4.1	4.5
c. Cumulative mismatch of maturities (repayment of borrowing with ordinary resources)	3.4	3.9	3.2

1/ The amounts have been reduced by SDR 1.4 billion of ordinary and SDR 0.5 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) a further 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/ Excludes commitments under the contingency element of the CCFF and for debt service reduction operations (i.e., interest support).

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

2. Borrowed Resources

As at June 30, 1989, available borrowed resources totaled SDR 3.3 billion, of which SDR 3.0 billion were undrawn balances under the 1986 borrowing agreement with Japan and the balance of SDR 0.3 billion represented temporary investments in the Borrowed Resources Suspense Accounts. 1/ Outstanding commitments of borrowed resources at June 30, 1989 amounted to SDR 4.1 billion (after allowing for SDR 0.5 billion of commitments that are not likely to be drawn upon). Accordingly, commitments of borrowed resources under arrangements exceeded the supply of borrowed resources by SDR 0.8 billion as at June 30, 1989. 2/ As discussed in Section IV below, although available borrowed resources are fully committed, presently available borrowed resources are sufficient to meet fully disbursements of borrowed resources under arrangements through early-1991.

3. Overdue repurchases to the Fund

Overdue repurchases in the General Resources Account totaled SDR 2.0 billion as of June 30, 1989, or SDR 0.1 billion greater than on the occasion of the last semi-annual liquidity review. At that level, they represented 6.3 percent of the stock of adjusted usable ordinary resources, compared with 5.9 percent as of January 31, 1989 (Appendix I, Table 2). Overdue repurchases have continued to increase during the past half year, although at a somewhat slower rate, and, in the staff's view, are at a level that is now material in relation to the Fund's stock of usable resources. 3/

III. Demand for Fund Resources

1. Commitments under Stand-by and Extended Arrangements

New commitments under stand-by and extended arrangements are projected -- on a country by country basis -- to amount to SDR 10.5 billion in 1989 and SDR 7.0 billion in 1990, for a total of SDR 17.5 billion over the two year period (Table 2); all projected arrangements

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1/ These amounts represent balances drawn under the 1984 short-term borrowing agreement with the Saudi Arabian Monetary Agency (SAMA).

2/ At the time the recent liquidity update was issued (EBS/89/100, May 5, 1989), uncommitted borrowed resources amounted to SDR 3.1 billion. This amount was fully committed upon the approval of extended arrangements with Mexico, the Philippines and Venezuela in May and June 1989.

3/ For a review of recent developments with respect to overdue obligations to the Fund, including further remedial measures that could be adopted, see "Overdue Financial Obligations to the Fund - Six-Monthly Report", EBS/89/133, June 29, 1989.

Table 2. Commitments and Changes in Use and Receipt of the Fund's Resources
1988 to 1990

(In billions of SDRs)

	1988	1989 Jan.-June	1989 July-Dec.	1989 Total	1990
A. Gross New Commitments 1/					
Total	2.9	8.1	2.4	10.5	7.0
Of which:					
Ordinary resources	2.5	3.7	1.5	5.2	3.4
Borrowed resources	0.4	4.4	0.9	5.3	3.6
B. Use and Receipt					
1. Use and Receipt of Ordinary Resources					
a. Purchases 2/					
i. Under arrangements 3/	1.2	1.4	2.3	3.7	4.0
ii. Under the compensatory element of CCFF	0.7	0.8	0.4	1.2	1.0
iii. Under the contingency element of CCFF	--	--	0.1	0.1	0.6
	1.9	2.2	2.8	5.0	5.6
b. Repurchases					
i. Under arrangements	2.3	1.1	1.3	2.4	2.7
ii. Under CFF and buffer stock	1.2	0.4	0.2	0.6	0.7
	3.5	1.5	1.5	3.0	3.4
c. Net use of ordinary resources to finance Fund credit (a-b)	-1.5	0.7	1.3	2.0	2.2
d. Net use of ordinary resources to finance:					
i. repayment to EAR and SFF lenders 4/	1.1	-0.1	0.5	0.4	-0.7
ii. encashment of reserve tranche positions	0.4	--	0.5	0.5	1.0
	1.5	-0.1	1.0	0.9	0.3
e. Net use of ordinary resources (c+d)	--	0.6	2.2	2.8	2.5
2. Use and Receipt of Borrowed Resources					
a. Purchases 2/	0.7	--	1.0	1.0	2.1
b. Repurchases	3.2	1.5	1.4	2.9	2.4
c. Net use of borrowed resources to finance Fund credit (a-b)	-2.5	-1.5	-0.4	-1.9	-0.3
C. Change in Fund Credit Outstanding (GRA)					
1. Total purchases (B.1.a.+B.2.a)	2.7	2.2	3.8	6.0	7.7
2. Total repurchases (B.1.b+B.2.b)	6.7	3.0	2.9	5.9	5.8
3. Net change in Fund credit outstanding (B.1.c+B.2.c)	-4.0	-0.8	0.9	0.1	1.9
D. Change in Credit Provided by Fund					
1. SAF and ESAF loan disbursements 5/	0.4	0.5	0.7	1.2	2.3
2. Trust Fund repayments	0.5	0.2	0.2	0.4	0.3
3. Net credit provided by Fund (C.3+D.1-D.2)	-4.1	-0.5	1.4	0.9	3.9

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/ No purchases under the buffer stock financing facility are currently projected in the period through end-1990.

3/ Includes purchases in support of debt reduction and debt service reduction operations.

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 begins in 1990.

5/ Projections are the same as in the March liquidity review (EBS/89/38, 3/3/89) and assumes commitments of SAF resources at 70 percent of eligible members' quotas and commitments of ESAF Trust resources of about SDR 2.5 billion by November 1989 and SDR 6 billion by November 1990 (see also EBS/89/35, 3/3/89 and EBS/89/127, 6/26/89).

are with developing countries. 1/ These commitments, which are somewhat higher, particularly for 1990, than reported in the recent liquidity update (EBS/89/100, 5/17/89), are expected to be financed with about equal parts of ordinary and borrowed resources, and include SDR 2.9 billion set-aside under existing and projected arrangements for debt reduction and debt service reduction operations.

It should be noted that the projections of commitments in 1990 are highly provisional. The actual level of commitments could be materially greater if arrangements are approved with a few developing country members with large quotas that are currently included in the present projections with very low probabilities. 2/ Moreover, the current projections include a number of arrangements with members with relatively large quotas where there are uncertainties regarding the timing of these arrangements, whether stand-by or extended arrangements would eventually be concluded, and the sequence of arrangements. Thus, the distribution of commitments as between 1989 and 1990 is also subject to some uncertainty.

2. Other Demand for Fund Resources

a. Interest support under arrangements

In May 1989 the Executive Board agreed that in appropriate cases the Fund would be prepared to approve requests for augmentation of arrangements in amounts of up to 40 percent of quota when these resources are to be used by members for interest support in connection with debt reduction or debt service reduction operations. Although the Executive Board has already noted the intention of four members to request such additional support as of June 30, 1989, no such request had been received by the Fund to date.

In the assessment of the implications for the Fund's liquidity of interest support in connection with debt reduction or debt service reduction operations, the staff has assumed that interest support operations will amount in each case to 40 percent of quota, after taking account of the probability that an arrangement with the member would be approved. Current projections suggest that purchases under arrangements currently in effect in connection with interest support

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1/ This total of commitments excludes provision for augmentation of arrangements for "interest support" in connection with debt reduction operations. Demand for resources for such "interest support" is included in the projections for purchases and is discussed in section 2(a) below.

2/ The figures for projected commitments reflect adjustments for the probability that individual arrangements will actually be concluded. Without these adjustments, projected commitments under arrangements would total about SDR 11 billion in 1989 and SDR 18 billion in 1990.

operations may amount to SDR 1.0 billion in 1989; projected use for 1990 is tentatively put at SDR 0.8 billion in connection with thirteen arrangements. Total use for interest support operations for the two year period is thus projected at SDR 1.8 billion, and would be financed in approximately equal amounts of ordinary and borrowed resources. 1/

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

(i) Compensatory Financing

Purchases under the compensatory element of the CCFF are projected to total SDR 1.2 billion in 1989 and SDR 1.0 billion in 1990. Compensatory purchases so far in 1989 have amounted to SDR 0.8 billion. These projections are unchanged from the projections set out in EBS/89/100 (5/17/89).

(ii) Contingency Financing

In view of the substantial uncertainty involved in the projection of commitments for contingency financing under the CCFF, and also of subsequent disbursements under these commitments, projections of only disbursements have been taken into account, as in the past. 2/ For 1989, it is assumed that disbursements would be made under existing arrangements that already provide for contingency financing (with estimates of purchases made on a case-by-case basis), plus a small margin to allow for the possibility of unforeseen demand. Projections for 1990 have been made on the initial assumption that expected stand-by, extended, SAF and ESAF arrangements will provide for contingency financing, but with further adjustments relating to the likelihood that contingency financing disbursements will actually take place. 3/ On

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1/ Whether ordinary or borrowed resources would be used in the financing of such purchases will depend upon a number of factors, including purchases already made under the arrangement.

2/ In keeping with the presentation in earlier liquidity papers, maximum commitments under the contingency element of the CCFF are thus not included in "gross new commitments" (Tables 1 and 2).

3/ For a detailed description of the assumptions used in making this projection, see EBS/88/100 (May 24, 1988) pages 26 and 27, and EBS/89/38 (March 3, 1989) pages 6 and 7. In the light of experience with the CCFF, and as the optional tranche under the CCFF (25 percent of quota) is available under both the compensatory and the contingency elements of the facility, the current projections assume that only one half - or 12.5 percent - is used for the contingency element. This is in contrast to the approach adopted in earlier liquidity reviews which assumed that the entire optional tranche would be attributed to the contingency element. This change does not have a material impact on the projections of total disbursements under the CCFF.

the basis of these assumptions, it is projected that total disbursement of ordinary resources under the contingency element of the CCFF could amount to SDR 0.1 billion in 1989 and SDR 0.6 billion in 1990. 1/

c. Repayments of EAR and SFF borrowing

As of June 30, 1989, the cumulative use of ordinary resources for the repayment of EAR and SFF loans totaled SDR 3.4 billion. 2/ Repayments to SFF and EAR lenders in the period through end-1990 will amount to SDR 3.6 billion - of which SDR 1.2 billion represents a repayment of the 1984 short-term borrowing agreement with SAMA in November 1989. The volume of these repayments compare with total repurchases of SDR 3.8 billion over the period July 1989 - December 1990 with respect to purchases that have been financed using borrowed resources. As a result, the cumulative mismatch will fall by SDR 0.2 billion to a total of SDR 3.2 billion by end-1990.

d. Reserve Positions in the Fund

Provision has been made in the projections for SDR 0.5 billion in reserve tranche purchases in 1989 and SDR 1.0 billion in 1990. No use has been made of reserve tranche positions so far in 1989, while reserve tranche purchases amounting to SDR 0.1 billion and SDR 0.4 billion were made in 1987 and 1988, respectively. 3/

Liquid liabilities of the Fund totaled SDR 27.5 billion at end-June 1989 (compared with SDR 28.0 billion at end-January 1989), of which SDR 22.2 billion represented reserve tranche positions and SDR 5.3 billion represented loan claims on the Fund. Of total reserve

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1/ There have been no purchases under the contingency element of the CCFF since the CCFF came into effect through the period ending June 30, 1989. In comparison to EBS/89/100, the current projection for 1989 has been lowered by SDR 0.3 billion; there is no change in the projection for 1990.

2/ See EBS/87/56, page 11 for a description of the factors that give rise to a mismatch in maturities. In addition to the explanation in EBS/87/56, a further element of mismatch arises in the case of calls made on the 1986 borrowing agreement with Japan because drawings under that agreement must be repaid five years after the drawdown date whereas the corresponding repurchases commence 3 1/2 years and are completed 7 years after the date of the purchase.

3/ The reserve tranche purchases included in the projections for the remainder of 1989 and 1990 are essentially notional figures. The possibility of encashments in excess of these notional amounts, which could occur in the event that one or more industrial countries would make use of their reserve positions, is taken into account in the adjustment to the stock of usable resources (see discussion in Section II, (1) above).

tranche positions, SDR 7.7 billion (or 35 percent of the total) are presently held by members (excluding Saudi Arabia and the United States) that have, or are projected to have, external current account deficits in 1989. Total Fund liabilities are projected to rise to SDR 30.0 billion by end-1990 due to an increase of SDR 3.3 billion in total reserve tranche positions (to SDR 25.5 billion). Loan claims are projected to fall by SDR 0.8 billion to a level of SDR 4.5 billion at end-1990 as repayments to lenders are expected to exceed drawdowns on credit lines.

e. Projected Changes in Fund Credit Outstanding

Total purchases, including purchases in support of debt reduction and debt service reduction operations and under the CCFF, are now projected to amount to SDR 6.0 billion in 1989 and SDR 7.7 billion in 1990. These projections are somewhat higher than projected in EBS/89/100, reflecting the inclusion of purchases arising from interest support operations which are only partially offset by the downward revision in the projections for purchases under the contingency element of the CCFF. This projected level of purchases represents a significant increase in demand for Fund resources relative to the experience during the past four years. Repurchases are scheduled to amount to SDR 5.9 billion in 1989 and SDR 5.8 billion in 1990, which represents a continuation of the downward trend in repurchases following the peak in repurchases reached in 1987 (SDR 7.9 billion).

Thus, outstanding Fund credit provided by the General Resources Account is projected to increase by SDR 0.1 billion in 1989 and SDR 1.9 billion in 1990 (Table 1, line 4(c)). Taking into account SAF and ESAF loan disbursements on the basis of the assumptions noted in Table 2 (footnote 5), and Trust Fund reflows, it is projected that the total amount of credit provided by the Fund would increase in the order of SDR 1 billion in 1989 and SDR 4 billion in 1990 (Table 1, line 4(f)). The distribution of these amounts among regions and groups of members, based on the same classification used in the World Economic Outlook, is set out in the Annex Table.

IV. Availability of Fund Resources through end-1990

1. Total Resources

The stock of uncommitted resources (adjusted), which currently comprises only ordinary resources, available to finance Fund operations is projected to fall from SDR 28.4 billion at June 30, 1989 to SDR 25.0 billion at end-1989 and SDR 18.8 billion at end-1990 (Table 1 and Appendix I, Table 1). The projected decline in the total of uncommitted resources reflects the large volume of new commitments of resources under arrangements (SDR 9.4 billion), projected purchases for interest support (SDR 1.8 billion) and under the CCFF (SDR 2.1 billion)

plus provision for encashment of reserve tranche positions (SDR 1.5 billion). The Fund's ordinary resources will be augmented by scheduled repurchases of ordinary resources (SDR 4.9 billion) during the period through end-1990, and a small excess of repurchases with respect to purchases financed with borrowed resources that is required to finance repayments (SDR 0.2 billion). 1/

Although commitments of borrowed resources exceeded available credit lines by SDR 0.8 billion at end-June 1989, total undisbursed borrowed resources are projected to be sufficient to meet disbursements of borrowed resources under enlarged access arrangements through early-1991, and perhaps later if present arrangements involving commitments of borrowed resources are not fully drawn upon. The long disbursement period arises because virtually all commitments of borrowed resources under existing arrangements (over 95 percent) are under three-year extended arrangements, and in many cases disbursements of borrowed resources will start only in the latter part of the commitment periods under the arrangements. 2/

2. Financing the Policy on Enlarged Access in 1990

The Executive Board decision in 1984 to continue the policy on enlarged access provided for annual reviews to consider the future of that policy "in light of all relevant factors, including the magnitude of members' payments problems and developments in the Fund's liquidity". 3/ The paper "Access limits for 1990 - Preliminary Policy Considerations" (forthcoming) discusses factors bearing on those limits, while the paper "Review of Access Limits for the Buffer Stock Financing Facility for 1990" (forthcoming) describes the background to the recommendations that the limits for access to the buffer stock financing facility remain the same for 1990.

As indicated above, total uncommitted resources are projected to decline by SDR 9.6 billion to a level of SDR 18.8 billion at end-1990. Thus, the Fund's liquidity position is expected to weaken over the next eighteen months, with the liquidity ratio falling from 104.4 percent at end-June 1989 to 62.7 percent at end-1990 (see Appendix I, Table 2). A sharper decline cannot be precluded arising, for example, from a

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1/ Reflows of ordinary resources would also be greater to the extent that there is a reduction in the amount of overdue repurchases (provision for which is not made in the projections).

2/ Under the amendments in 1988 to the EFF decision, purchases under extended arrangements are made first with ordinary resources up to 140 percent of quota above the first credit tranche, and thereafter with borrowed resources.

3/ Executive Board Decisions No. 7599-(84/3), adopted January 6, 1984, as amended by Decision No. 7841-(84/165), adopted November 16, 1984.

reduction in the level of usable currencies as a result of a deterioration in the balance of payments and reserve positions of one or more of the members that are currently regarded as sufficiently strong, or from a greater than projected demand for Fund resources. As indicated in earlier papers, including the May liquidity update (EBS/89/100), there are considerable uncertainties in projecting the supply of and demand for the Fund's resources over the medium-term.

Nevertheless, on present indications, the Fund's resources are adequate to accommodate projected demands through end-1990. It would be reasonable to conclude from the present analysis, which assumes unchanged quotas and unchanged policies on access to the Fund's resources in 1990, that the Fund's liquidity position is likely to remain broadly satisfactory over the period through end-1990, and sufficient to accommodate a continuation of the policy on enlarged access at present limits in 1990. In view of the uncertainties in the projections, the staff intends to closely monitor developments in the Fund's liquidity position and would report to the Executive Board if there were any significant changes.

V. Financing Commitments of Borrowed Resources

As noted above, commitments of borrowed resources exceeded available uncommitted credit lines as at June 30, 1989. Although in the past the Fund's response to a prospective shortage of borrowed resources has been to seek additional credit lines to cover projected commitments under the enlarged access policy, at the present time there does not seem to be an immediate prospect of further borrowings by the Fund to cover the emerging "commitment gap". 1/ However, it should not be precluded that the Fund would arrange further lines of credit in the future, if needed and if it would be appropriate.

While the guidelines on access under the enlarged access policy would continue to apply and the Fund would continue to make commitments under the present mix of resources until borrowed resources are fully disbursed, members' purchases under arrangements involving borrowed resources would continue to be financed with borrowed resources until existing credit lines are fully drawn upon. For the period thereafter, and in the absence of new or prospective borrowings, the staff would recommend, as indicated in EBS/89/100 (page 6), that the Fund use ordinary resources for those purchases that were originally expected to be made with borrowed resources.

1/ Moreover, the Interim Committee in its communique of September 26, 1988 noted that, in connection with the Ninth Review of Quotas, the Fund would reduce its reliance on borrowing.

It would be proposed that the same rate of charge and the same repurchase period would apply to purchases of ordinary resources substituted for borrowed resources as would have applied to purchases of borrowed resources, so that it would be necessary to amend the existing decisions on charges and repurchases, which would require majorities of 70 and 85 percent, respectively. In order to establish a special repurchase period for purchases of ordinary resources substituted for borrowed resources, the Executive Board would have to decide that such purchases are made under a special policy on the use of the Fund's general resources (Article V, Section 7(d)), that is, a policy which contributes to the solution of a special balance of payments problem.

The decision establishing the policy on enlarged access provides that purchases under a stand-by or extended arrangement under the enlarged access policy will be financed by borrowed resources in conjunction with ordinary resources. 1/ Therefore, no new commitments under the enlarged access policy could be made when all borrowed resources had been disbursed and there would be no prospect for additional borrowings to finance such commitments at least in part. In these circumstances, the Fund would need to consider the establishment of a new policy regarding access, unless by that time the Executive Board had determined a policy in the light of the outcome of the Ninth General Review of Quotas.

VI. Conclusion

1. Projections on a country-by-country basis of new commitments under stand-by and extended arrangements, on the assumption of unchanged quotas and a continuation of current access policy in 1990, amount to SDR 10.5 billion in 1989 and SDR 7.0 billion in 1990. The total of SDR 17.5 billion over the two year period 1989 - 1990 represents a substantial increase in commitments relative to actual commitments made by the Fund during the past several years. These commitments include SDR 2.9 billion of set-aside amounts under arrangements for debt reduction and debt service reduction operations. The financing of these commitments are projected, on the basis of the present mix of resources, to be made in approximately equal parts of ordinary and borrowed resources.

2. Total purchases over the two year period are projected to amount to SDR 13.7 billion, of which SDR 6.0 billion of purchases are projected in 1989 and SDR 7.7 billion in 1990. These amounts consist of purchases under arrangements (SDR 10.8 billion) - which include provision for debt and debt service reduction operations amounting to SDR 2.9 billion under the set-aside provision and SDR 1.8 billion of

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1/ Executive Board Decision No. 6783-(81/40) adopted March 11, 1981. See paragraph 1.

purchases projected for interest support operations - disbursements under the compensatory element of the CCFF (SDR 2.2 billion), and disbursements under the contingency element of the CCFF (SDR 0.7 billion). The volume of repurchases during the two year period 1989 - 1990 will be almost SDR 6 billion per annum.

The total of Fund credit outstanding in the General Resources Account is thus expected to increase by SDR 0.1 billion in 1989 and SDR 1.9 billion in 1990. Taking into account SAF and ESAF loan disbursements, as well as Trust Fund repayments, it is projected that total credit provided by the Fund will increase by about SDR 1 billion in 1989 and SDR 4 billion in 1990.

3. Total uncommitted usable resources amounted to SDR 28.4 billion at end-June 1989, a reduction of SDR 2.3 billion from the level at end-January 1989. The reduction in total usable uncommitted resources arises mainly from the conclusion of three large extended arrangements in May-June 1989. The stock of uncommitted usable resources is projected to decline by about one-third (SDR 9.6 billion), to a level of SDR 18.8 billion at end-1990. The stock of resources at end-1990 could be substantially lower if arrangements are concluded with a few members with large quotas that are currently included with very low probabilities in the projections of use of the Fund's resources.

4. As at end-June 1989, commitments of borrowed resources exceeded total available borrowed resources by SDR 0.8 billion. However, as a large proportion of commitments of borrowed resources are under extended arrangements, and as the existing policy of the mix of borrowed and ordinary resources emphasizes prior use of ordinary resources, available borrowed resources are projected to be sufficient to meet disbursements of borrowed resources under the enlarged access policy through early-1991. In the meantime, the Fund can continue to make commitments under the present mix of resources. Furthermore, borrowed resources will be disbursed until the available lines of credit are fully utilized, and thereafter the Fund could use ordinary resources for those purchases that were expected to be financed with borrowed resources. With the required majorities, the Fund could apply the same financial terms for the use of ordinary resources in the place of borrowed resources as presently apply to the use of borrowed resources. This would require the establishment of a special policy. As no new commitments under the enlarged access policy could be made after all borrowed resources had been disbursed, the Fund would need to consider the establishment of a new policy regarding access, unless by that time the Executive Board had determined a policy in the light of the outcome of the Ninth General Review of Quotas.

5. While the Fund's liquidity position remains broadly satisfactory, it is expected to deteriorate somewhat over the next eighteen months, but the deterioration is not expected to be unduly large. On present indications, the Fund's resources are adequate to accommodate the

projected demands indicated above through end-1990, including under the strengthened debt strategy. Under these circumstances, liquidity considerations would not prevent the continuation of the current access limits in 1990. In this connection, it should be noted that the current projections are subject to considerable uncertainties both in relation to the demand for resources, which could prove substantially greater than projected (e.g. if arrangements materialize that are currently included with relatively low probabilities), and in relation to the supply of resources, which could deteriorate unexpectedly in the event that members with weak external positions whose currencies represent a significant proportion of the Fund's stock of usable resources should be excluded from the list of sufficiently strong members. In view of the uncertainties in the projections, the staff intends to monitor closely developments in the Fund's liquidity position and would report to the Executive Board if there were any significant changes.

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

(In billions of SDRs)

	1988 (Actual)			1989 2/			1990 (Proj.)		
	Disbursements	Repayments	Net use of Fund credit	Disbursements	Repayments	Net use of Fund credit	Disbursements	Repayments	Net use of Fund credit
Industrial countries	--	--	--	--	--	--	--	--	--
Developing countries	3.1	7.2	-4.1	7.1	6.2	0.9	10.0	6.1	3.9
a. By Region:									
Africa	0.9	1.1	-0.2	1.6	1.3	0.3	2.4	1.1	1.3
Asia	0.3	2.1	-1.8	0.9	1.6	-0.7	1.4	1.9	-0.5
Europe	0.3	1.7	-1.4	0.2	0.9	-0.7	1.3	0.4	0.9
Middle East	0.0	0.1	-0.1	0.0	0.1	0.0	0.1	0.0	0.1
Western Hemisphere	1.6	2.2	-0.6	4.3	2.3	2.0	4.8	2.6	2.1
b. By financial criteria: 3/									
i. By predominent type of credit									
Market borrowers	2.0	3.7	-1.7	5.1	3.0	2.1	6.4	3.3	3.1
Official borrowers	0.6	1.2	-0.6	1.5	1.4	0.1	2.2	1.1	1.1
Diversified borrowers	0.5	2.3	-1.8	0.5	1.9	-1.4	1.4	1.7	-0.3
ii. By debt-service experience:									
Recent difficulties	2.3	4.0	-1.7	5.5	4.2	1.3	8.3	4.1	4.3
Other	0.8	3.2	-2.4	1.6	2.1	-0.4	1.6	2.0	-0.3
Memorandum Item:									
Prolonged users of Fund's resources 4/	1.0	2.6	-1.5	2.6	2.6	0.0	3.5	2.4	1.1

Note: 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 June 30, 1989 and projections for the remainder of 1989.

3/ Based on classification used in World Economic Outlook. See Statistical Appendix, World Economic Outlook - April 1989 (pp. 117-122).

4/ Members making prolonged use of the Fund's resources include countries with arrangements with the Fund for five or more years since 1979 and outstanding use of Fund credit in excess of 200 percent of quota as at June 30, 1989.

Principal Ratios for Assessing Fund Liquidity

The principal financial elements of the Fund's liquidity and its borrowing arrangements for the period beginning in 1984 and ending in 1990 are presented in Table 1 of this Appendix. Based on these data, various financial ratios have been calculated and are shown in Table 2 of the Appendix.

1. Quota Ratio

The "quota ratio" (line 1), which equals total borrowing (including unused credit lines and two-thirds of the GAB at present) to member's quotas, was 22.9 percent at June 30, 1989. This decrease of 1.3 percent from January 31, 1989 was due to continuing repayments to lenders in connection with the Supplementary Financing Facility and the expiry of the 1984 EAR borrowing agreement with SAMA in May 1989. This ratio is presently well below the limit of 50 percent of quota which would require the Executive Board to review the availability of unused lines of credit. 1/

The quota ratio is projected to decline by a further 2.1 percentage points to 20.8 percent by end-1989 due mainly to the repayment of the outstanding balance of the 1984 borrowing agreement with SAMA in early November 1989.

Outstanding borrowing equaled SDR 5.3 billion or about 6 percent of quotas on June 30, 1989, down from SDR 6.4 billion at end-January 1989. The drop in outstanding borrowing is expected to continue in 1989 to a level of SDR 4.1 billion by year's end. In 1990, outstanding borrowing is projected to grow modestly to SDR 4.5 billion by end-December as the Fund draws substantially upon the 1986 borrowing agreement with Japan to meet a growing volume of enlarged access purchases.

2. Liquidity Ratio

The "liquidity ratio" (line 2) shows the relationship between the Fund's highly liquid assets (i.e., adjusted and uncommitted ordinary resources and temporary investments in BRS accounts) and the Fund's liquid liabilities in the form of reserve tranche positions and loan claims. The liquidity ratio stood at 104.4 percent on June 30, 1989, down 6.4 percentage points from January 31, 1989. The liquidity ratio is projected to decline by 15.4 percentage points by end-1989 and by an additional 26.3 percentage points by end-1990 to about 63 percent due

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1/ Executive Board Decision No. 7589-(83/181), adopted December 23, 1983.

to the expansion in Fund credit projected for the eighteen month period ahead.

3. Cash Ratio

The "cash ratio", which is a variant of the "liquidity ratio", relates the Fund's highly liquid assets to its most liquid liabilities, i.e., the numerator consists only of member's reserve tranche positions in the Fund, which are more likely to be drawn upon on short notice than outstanding loan claims (line 3). The cash ratio is expected to decline from 127.9 percent at present to 104.2 percent by end-1989, reflecting increased purchases and the use of ordinary resources to repay borrowed resources. This ratio is projected to drop to 73.7 percent by end-1990 reflecting the projected substantial amounts of purchases under arrangements and under special facilities.

As of end-June 1989, about 35 percent of reserve tranche positions were held by member's expected to have current account deficits in 1989, excluding the United States and Saudi Arabia.

4. Asset Ratio

The two variants of the "asset ratio" (line 4) relate the Fund's usable resources to its total obligations. The numerator includes all ordinary resources (i.e., including amounts committed and without the adjustment factor) and temporary investments in the BRS accounts, plus, alternatively, gold valued at the former official price. The denominator in both cases consists of the Fund's total liquid liabilities comprising outstanding borrowing and reserve tranche positions.

As of end-June 1989, the asset ratio equaled 154.9 percent, excluding gold, and 168.0 percent including gold. Both asset ratios are projected to decline through end-1990 reflecting the expected increase in the use of Fund credit.

5. Ratio of Arrears

Two versions of the arrears ratio present total overdue repurchases first, as a percent of adjusted usable ordinary resources, and second, as a percent of total Fund credit outstanding in the General Resources Account. The ratio of overdue repurchases to adjusted ordinary resources (line 5(i)in Table 2) increased from 5.9 percent at January 31, 1989 to 6.3 percent on June 30, 1989. The ratio of overdue repurchase to total Fund credit outstanding (line 5(ii)) rose to 8.4 percent from 7.7 percent at end-January 1989.

APPENDIX I

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

Item	December 31 1984	1985	1986	1987	1988	Jan.31 1989	Jun.30 1989	Projected end-Dec. 1989	1990
1. Usable Ordinary Resources (unadjusted)	41.0	38.5	38.4	40.7	42.3	42.5	42.3	39.2	35.9
of which:									
(a) Adjusted 1/	32.0	29.6	29.3	30.8	31.9	32.1	32.0	29.6	27.2
(b) Adjusted and uncommitted 2/	30.6	28.0	28.4	30.1	30.4	30.7	28.4	25.0	18.8
of which: SDR holdings	(5.1)	(3.1)	(1.9)	(1.2)	(0.8)	(1.0)	(0.9)	(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	20.7	19.2	20.2	15.7	11.5	9.4	8.3	6.4	4.7
(a) Outstanding borrowing									
i) EAR 3/	7.5	9.3	9.6	8.1	5.7	5.6	4.7	3.2	1.7
of which:									
BRS Accounts	(--)	(0.6)	(0.3)	(0.4)	(0.3)	(0.3)	(0.3)	(--)	(--)
ii) SFF	6.5	5.4	3.9	2.2	0.9	0.8	0.5	0.3	--
iii) Japan 1986	...	...	...	--	--	--	--	0.7	2.8
iv) GAB and associated	--	--	--	--	--	--	--	--	--
Total	14.0	4.7	13.5	10.3	6.7	6.4	5.3	4.1	4.5
(b) Unused credit lines									
i) EAR	6.7	4.5	3.7	2.4	1.8	--	--	--	--
ii) SFF	--	--	--	--	--	--	--	--	--
iii) Japan 1986	...	...	3.0	3.0	3.0	3.0	3.0	2.3	0.2
Total	6.7	4.5	6.7	5.4	4.8	3.0	3.0	2.3	0.2
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	42.8	41.7	38.3	32.9	28.3	28.0	27.5	28.1	30.0
(a) Reserve tranche positions	28.8	27.0	24.8	22.6	21.6	21.6	22.2	24.0	25 5
(b) Outstanding borrowing	14.0	14.7	13.5	10.3	6.7	6.4	5.3	4.1	4.5
6. Overdue Repurchases	0.1	0.4	0.8	1.3	1.9	1.9	2.0	...	...
7. Total Fund credit outstanding (GRA)	34.9	35.2	33.3	28.8	24.8	24.5	23.9	24.8	26.7
8. Total Quotas	89.2	89.3	90.0	90.0	90.0	90.0	90.0	90.0	...

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 1984-1988 and is notionally the same for the projections in 1989 and 1990.

2/ Undrawn balances of commitments at June 30, 1989 have been reduced by SDR 1.4 billion of ordinary and SDR 0.5 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) a further adjustment of 10 percent 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-1989 and end-1990, 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 APPENDIX I

(In percent)

	December 31					Jan.31	Jun.30	Projected Dec.31	Dec.31
	1984	1985	1986	1987	1988	1989	1989	1989	1990
1. Quota ratio 1/	37.0	35.3	36.1	31.7	26.4	24.2	22.9	20.8	...
2. Liquidity ratio 2/	71.5	68.6	74.9	92.7	108.5	110.8	104.4	89.0	62.7
3. Cash ratio 3/	106.3	103.7	114.5	133.2	140.4	142.3	127.9	104.2	73.7
4. Asset ratio 4/									
(i) excluding gold	95.8	93.8	101.0	124.9	150.5	152.9	154.9	139.5	119.7
(ii) including gold	104.2	102.4	110.4	135.9	163.3	165.8	168.0	152.3	131.7
5. Ratio of overdue repurchase:									
(i) to adjusted usable ordinary resources	0.4	1.5	2.7	4.2	6.0	5.9	6.3	...	...
(ii) to Fund credit outstanding (GRA)	0.4	1.2	2.3	4.6	7.7	7.7	8.4	...	...

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 I, 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, Appendix I, Table 1) and temporary investments in the BRS Accounts to the total of outstanding borrowing and reserve tranche positions (see Appendix I, 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, Appendix I, Table 1) to reserve tranche postions (see Appendix I, 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 I, 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.

Repurchases, Repayments of Borrowings and Impact on the Fund's Ordinary Resources during the period 1983-1993

This section describes the flows of repurchases and repayments of borrowed resources and traces the likely impact of these flows on the stock of ordinary resources through 1993. Details are provided in Appendix II, Table 3.

The rise in the level of total repurchases in the period since 1985 occurred at the same time as substantial repayments became due to SFF and EAR lenders, with the result that net reflows of ordinary resources (column 5) declined from an average of about SDR 3 1/2 billion per annum in 1986-87 to about SDR 2 1/2 billion per annum in 1988-89.

In the period ahead, repurchases are scheduled to decline gradually, from the peak level of SDR 7.9 billion reached in 1987 to about SDR 3.9 billion in 1992 as repurchases of purchases made during the early 1980s are completed. 1/ However, the volume of repayments to lenders are also projected to fall to relatively low levels (less than SDR 1.0 billion per annum after 1991). As the volume of repurchases will not decline as rapidly as the volume of repayments, and as the stock of ordinary resources will begin to be augmented by a reversal in the maturity mismatch, 2/ the net reflows of ordinary resources are projected to rise to about SDR 3 1/2 - 4 billion per annum in 1990-93.

1/ Most repurchases are scheduled to begin 3 1/4 to 3 1/2 years after the purchase date; the exception is repurchases of EFF purchases financed with ordinary resources which commence 4 1/2 years after the purchase date.

2/ The maturity mismatch is reversed as repurchases of borrowed resources are made where the corresponding repayments to lenders have already been completed using ordinary resources. These repurchases thus represent a net addition to the stock of ordinary resources. The reversal of the mismatch is projected to start in 1990.

Table 3: Projected Repurchases, Repayments to Lenders and the Consequent Effect on Ordinary Resources 1983-1993

(In billions of SDRs)

Calendar Year	Total Repurchases: Of purchases through 6/30/89 (1)	Total Repurchases: Of subsequent purchases through 12/31/90 (2)	Total Repurchases: Total (3)	Repayments to Lenders (4)	Net Reflows of Ordinary Resources (3)-(4) (5)	Memorandum Item: Total Purchases 1/ (6)
1983	2.0	--	2.0	1.1	0.9	12.6
1984	2.3	--	2.3	1.5	0.8	7.3
1985	3.6	--	3.6	1.5	2.1	4.0
1986	5.6	--	5.6	2.0	3.6	3.8
1987	7.9	--	7.9	4.4	3.5	3.3
1988	6.7	--	6.7	4.3	2.4	2.7
1989	5.9	--	5.9	3.3	2.6	6.0
1990	5.8	--	5.8	1.7	4.1	7.7
1991	4.8	--	4.8	0.8	4.0	...
1992	3.8	0.1	3.9	0.4	3.5	...
1993	2.7	2.0	4.7	0.4	4.3	...
Total	51.1	2.1	53.2	21.4	31.8	47.4

1/ Excludes reserve tranche purchases.