

DOCUMENT OF INTERNATIONAL MONETARY FUND AND NOT FOR PUBLIC USE

MASTER FILES
ROOM C-525

0451

EBS/89/210

CONFIDENTIAL

November 1, 1989

To: Members of the Executive Board
From: The Secretary
Subject: The Fund's Liquidity Position and Financing Needs - An Update

The attached paper updating the Fund's liquidity position for the remainder of 1989 and for 1990 contains background material for the discussion on the Ninth General Review of Quotas, which is scheduled for Friday, November 3, 1989.

Mr. Bhuiyan (ext. 7627) or Mr. Zavoico (ext. 7626) is available to answer any technical or factual questions relating to this paper.

Att: (1)

INTERNATIONAL MONETARY FUND

The Fund's Liquidity Position and Financing Needs - An Update

Prepared by the Treasurer's Department

Approved by David Williams

November 1, 1989

I. Introduction

On the occasion of the last semi-annual review of the Fund's liquidity in July 1989, 1/ it was agreed that the staff would update the projections of the Fund's liquidity following the 1989 Annual Meetings in September 1989. This paper provides such an update and may serve as background material for the further discussions to be held by Executive Directors on issues relating to the Ninth General Review of Quotas. The projections presented in this paper are based on the assumption of unchanged quotas and on the continuation through 1990 of the present policies on access to the Fund's resources. The staff's conclusion of the present review is that the Fund's liquidity position continues to remain satisfactory through 1990, though the fall in the liquidity ratio by the end of 1990 underscores the need for a timely completion of discussions on the Ninth General Review and that early implementation of an increase in quotas under the Review would be prudent.

II. Demand for Fund Resources

1. Commitments Under Stand-by and Extended Arrangements

New commitments under arrangements are projected -- on a country-by-country basis -- to amount to SDR 10.0 billion in 1989 and SDR 9.6 billion in 1990. 2/ The total of SDR 19.6 billion over the two year period (Tables 1 and 2) compares with projected total commitments of SDR 17.5 billion made at the last review of the Fund's liquidity

1/ "Review of the Fund's Liquidity - Financing Needs and Financial Considerations for Access Policy in 1990", EBS/89/148, July 25, 1989.

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 20 billion in 1990.

position in July 1989. ^{1/} Commitments of set-aside amounts under arrangements for debt reduction and debt service reductions are projected at SDR 3.2 billion over the period 1989 - 1990, of which SDR 1.9 billion has already been committed. Provision for augmentation of arrangements for interest support in connection with debt reduction are included in projections of purchases.

Projected commitments for 1989 are SDR 0.5 billion lower than estimated in July 1989, and commitments for 1990 show an increase of SDR 2.6 billion as compared with the July 1989 estimate. Arrangements totalling SDR 8.3 billion have already been concluded through October 1989. The decline in commitments for 1989 is due to a shift to 1990 of eight arrangements, totalling approximately SDR 1 billion, which was partially offset by an increase of SDR 0.5 billion in size and probabilities for three arrangements in 1989. The further projected increase of SDR 2.6 billion in 1990 is due to the shift of arrangements from 1989 (SDR 1 billion), a net increase in the projected size of arrangements (after taking into account probabilities) of SDR 1.7 billion and the inclusion of arrangements with two members that had not been envisaged earlier (SDR 0.2 billion), partly offset by the deletion from the projections of arrangements with four members (SDR 0.3 billion). Any material delays in concluding negotiations with these members could, however, result in a shift of potentially large amounts of commitments into early 1991.

2. Other Demand for Fund Resources

Purchases under the compensatory element of the Compensatory and Contingency Financing Facility (CCFF) are projected to amount to SDR 1.7 billion during the period 1989 - 1990, a decrease of SDR 0.5 billion as compared with the estimate made in July 1989. Staff projections of disbursements under the contingency element of the CCFF through end-1990 remain the same as in the July 1989 review (i.e., nil in 1989 and SDR 0.7 billion in 1990), although there has been a slight shift in timing to 1990.

As regards purchases for interest support, several large interest support disbursements, which are assumed to amount to 40 percent of quota in each case under arrangements currently in effect, had been projected in July 1989 for late 1989 and are now projected to take place in early 1990. Current projections suggest that purchases for interest support will amount to SDR 1.4 billion in 1990 in connection with 14 arrangements. This represents a decline of 2 arrangements with

^{1/} Annual access during the two year period 1989-1990 is expected to range from about 15 percent to 90 percent of quota and average 50 percent of quota; this compares with a range of 21 to 50 percent of quota and an average access of about 40 percent of quota in 1988.

interest support purchases amounting to SDR 0.4 billion as compared to the projections in the July 1989 review.

Reserve tranche purchases are expected to total SDR 1.0 billion over the remainder of 1989 and in 1990 (SDR 0.2 billion for the remainder of 1989 and SDR 0.8 billion in 1990). The repayment of loans during the remainder of 1989 will amount to SDR 1.5 billion, of which net use of ordinary resources amounting to SDR 0.9 billion will be made in repayments, resulting in an increase in the maturity mismatch of an equivalent amount. ^{1/} The maturity mismatch is projected to begin to reverse itself during 1990, with the outstanding use of ordinary resources to repay loans expected to rise from SDR 3.0 billion at end-October 1989 to SDR 3.9 billion at the end of 1989 and then to decline to SDR 3.2 billion at end-1990.

3. Projected Changes in Fund Credit Outstanding

While commitments for the period to the end of 1990 are projected to increase relative to the July 1989 review, actual purchases over the two year period 1989 - 1990 are projected to decline slightly to SDR 13.2 billion (from SDR 13.7 billion projected earlier) due mainly to delays that are now anticipated in the conclusion of a number of large arrangements with a corresponding impact on the timing of related purchases. In 1990, purchases are projected to amount to SDR 9.2 billion. Repurchases are scheduled to amount to SDR 5.9 billion in 1989 and SDR 5.8 billion in 1990. Outstanding Fund credit financed by the General Resources Account is projected to fall by SDR 1.9 billion in 1989, but is projected to increase by SDR 3.4 billion in 1990 (see Table 1, line 4(c)). Taking into account SAF and ESAF loan disbursements and Trust Fund reflows, which are somewhat lower than previously projected, outstanding Fund credit is estimated to decrease by SDR 1.2 billion in 1989, but to increase by SDR 4.6 billion in 1990 and reach a total of SDR 30.0 billion at the end of 1990.

III. Supply of Resources

The Fund's supply of adjusted and uncommitted resources stood at SDR 28.1 billion as at the end of October 1989, representing a decline of SDR 0.3 billion since end-June 1989 (the date on which the July 1989 review was based). This is attributable mainly to the exclusion of Australia from the operational budget in September 1989, which reduced usable currency holdings by SDR 1.4 billion, the effect of which, however, has been partially offset by a net reflow of resources by way

^{1/} The bulk of these repayments represent the full repayment in early November 1989 of the 1984 short-term loan of SDR 1.2 billion from the Saudi Arabian Monetary Agency (SAMA).

of repurchases. 1/ It is projected that the stock of adjusted and uncommitted resources will continue to decline through 1990 falling to SDR 25.8 billion at end-1989 and to SDR 16.6 billion at end-1990. 2/

At the present time, usable uncommitted resources consist entirely of ordinary resources; borrowed resources available under the enlarged access policy have been fully committed. As of end-October 1989, undisbursed, but committed, resources available under credit lines amounted to SDR 3.3 billion while commitments of borrowed resources totaled SDR 4.2 billion, resulting in an overcommitment of borrowed resources of SDR 0.9 billion. 3/ Further commitments of borrowed resources are projected to amount to SDR 5.4 billion in the period through end-1990, and including purchases under interest support of SDR 0.7 billion financed from borrowed resources, there will be an overcommitment of borrowed resources of SDR 7.0 billion by end-December 1990. On a disbursement basis, however, it is estimated that credit lines will be drawn upon for a total of SDR 3.2 billion through end-1990, leaving a small balance of undisbursed borrowed resources of SDR 0.1 billion at end-1990 and which will be used in early 1991.

IV. Assessment

1. Present projections, based on a country-by-country analysis, suggest that commitments of the Fund's resources under arrangements at SDR 19.6 billion are likely to be approximately SDR 2 billion greater than that projected in EBS/89/148 (July 25, 1989), of which commitments in 1990 are now projected to total SDR 9.6 billion. The bulk of these commitments will represent Fund support of adjustment programs adopted by heavily-indebted members in Latin America and in Eastern Europe. Projected demand under special facilities and under interest support, however, is likely to be marginally lower than the total projected in July 1989. Total purchases over the two year period to end-1990 are projected at SDR 13.2 billion, of which SDR 9.2 billion are projected for 1990, and repurchases are scheduled to amount to SDR 11.7 billion

1/ The adjustment factor, equivalent to 25 percent of total usable currencies, has been maintained unchanged in this review despite the exclusion of Australia from the Operational Budget in September 1989, due mainly to the deterioration in the balance of payments and reserve positions of some of those countries whose currencies are included in the Operational Budget. The size of the adjustment factor will be reviewed in connection with the next full review of the Fund's liquidity position in March 1990.

2/ Overdue repurchases in the General Resources Account totaled SDR 2.0 billion at end-October 1989, or the same level as at end-June 1989.

3/ Consistent with the practice in past liquidity papers, the stock of uncommitted ordinary resources is adjusted downward by the amount by which commitments of borrowed resources exceed available credit lines.

(SDR 5.8 billion in 1990), with the result that net credit financed by the GRA will increase by SDR 1.5 billion during 1989-1990, or about SDR 0.5 billion less than projected on the occasion of the last liquidity review in July 1989.

2. Total uncommitted resources are projected to fall from SDR 28.1 billion at end-October 1989 to SDR 16.6 billion at end-1990, with a resultant decline in the liquidity ratio from the current level of 108 percent to 56 percent at end-1990. The overcommitment of borrowed resources currently amounts to SDR 0.9 billion and is projected to rise to SDR 7.0 billion by the end of 1990. Available credit lines are, however, sufficient to finance purchases of borrowed resources through end-1990 and these credit lines are expected to be fully utilized in early 1991. As noted in EBS/89/148, the staff will issue, in due course, a paper for the consideration of the Executive Board dealing with the modalities of the substitution of ordinary resources for borrowed resources and the financial terms of such a substitution.

3. Considerable uncertainties remain in respect of both the demand for and the supply of Fund resources in 1990, particularly with regard to the evolution of Fund commitments, including for debt service, as well as regarding the continued inclusion in the list of usable currencies of all those members whose currencies are currently usable. On balance, however, 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-1990, including projected disbursements related to debt and debt service. However, the latest projections indicate that a relatively large and progressive deterioration in the Fund's liquidity position is in prospect. The Fund's liquidity ratio is projected to decline to approximately 56 percent by end-1990. While the projected ratio is well below the long-run average liquidity ratio for the Fund, it can be expected to decline further in the course of 1991, and thus gives added emphasis to the need for a timely conclusion and early implementation of an increase in quotas under the Ninth General Review. The staff intends to continue to monitor closely developments in the Fund's liquidity position in the period prior to the next scheduled review in March 1990.

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

(In billions of SDRs)

	<u>Actual</u>		
	<u>end-Oct.</u> <u>1989</u>	<u>end-</u> <u>1989</u>	<u>end-</u> <u>1990</u>
1. <u>Ordinary Resources</u> (adjusted and uncommitted) <u>1/</u>	28.1	25.8	16.6
2. <u>Borrowed Resources</u> (uncommitted) <u>2/</u>	--	--	--
3. <u>Gross New Commitments</u> <u>3/</u> (in calendar years)	<u>1988</u>	<u>1989</u>	<u>1990</u>
Stand-by	2.7	2.4	3.6
EFF	<u>0.2</u>	<u>7.6</u>	<u>6.0</u>
Total	2.9	10.0	9.6
of which:			
Ordinary resources	2.5	4.6	5.1
Borrowed resources	0.4	5.4	4.5
4. <u>Fund Credit</u> (in calendar years)			
a. Total purchases	2.7	4.0	9.2
of which: (i) contingency financing	(--)	(0.0)	(0.7)
(ii) interest support	(--)	(--)	(1.4)
b. Total repurchases	6.7	5.9	5.8
c. Net change in outstanding Fund credit in General Resources Account	-4.0	-1.9	3.4
d. SAF and ESAF loan disbursements	0.4	1.1	1.5
e. Trust Fund repayments	0.5	0.4	0.3
f. Net credit provided by Fund (c+d-e)	-4.1	-1.2	4.6
<u>Memoranda</u> <u>4/</u>	<u>end-Oct.</u> <u>1989</u>	<u>end-</u> <u>1989</u>	<u>end-</u> <u>1990</u>
a. Total Fund Credit Outstanding	24.6	25.4	30.0
of which:			
General Resources Account	22.7	22.9	26.3
SAF and ESAF	1.4	2.0	3.5
Trust Fund	0.5	0.5	0.2
b. Total liquid liabilities	26.4	26.3	29.7
of which:			
Reserve tranche positions	21.5	22.8	25.0
Outstanding borrowing (loan claims)	4.9	3.5	4.7
c. Cumulative mismatch of maturities (repayment of borrowing with ordinary resources)	3.0	3.9	3.2

1/ The amounts have been reduced by SDR 1.1 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.

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

(In billions of SDRs)

	1988	1989		1990
		Jan. - Oct.	Nov. - Dec.		Total
A. Gross New Commitments ^{1/}				
Total	<u>2.9</u>	<u>8.3</u>	<u>1.7</u>	<u>10.0</u>
Of which:				
Ordinary resources	2.5	3.8	0.8	4.6
Borrowed resources	0.4	4.5	0.9	5.4
B. Use and Receipt				
1. <u>Use and Receipt of Ordinary Resources</u>				
a. Purchases				
i. Under arrangements ^{2/}	1.2	1.8	0.9	2.7
ii. Interest support	--	--	--	--
iii. Under the compensatory element of CCFE ^{3/}	0.7	0.8	0.1	0.9
iv. Under the contingency element of CCFE	--	--	--	--
	<u>1.9</u>	<u>2.6</u>	<u>1.0</u>	<u>3.6</u>
b. Repurchases				
i. Under arrangements	2.3	1.9	0.5	2.4
ii. Under CFF and buffer stock	<u>1.2</u>	<u>0.5</u>	<u>0.1</u>	<u>0.6</u>
	<u>3.5</u>	<u>2.4</u>	<u>0.6</u>	<u>3.4</u>
c. Net use of ordinary resources to finance Fund credit (a-b)	<u>-1.5</u>	<u>0.2</u>	<u>0.4</u>	<u>-0.6</u>
d. Net use of ordinary resources to finance:				
i. repayment to EAR and SFF lenders ^{4/}	1.1	-0.5	0.9	0.4
ii. encashment of reserve tranche positions	<u>0.4</u>	--	<u>0.2</u>	<u>0.2</u>
	<u>1.5</u>	<u>-0.5</u>	<u>1.1</u>	<u>0.6</u>
e. Net use of ordinary resources (c+d)	<u>--</u>	<u>-0.3</u>	<u>1.5</u>	<u>1.2</u>
2. <u>Use and Receipt of Borrowed Resources</u>				
a. Purchases	0.7	--	0.4	0.4
b. Interest support	--	--	--	--
c. Repurchases	<u>3.2</u>	<u>2.2</u>	<u>0.7</u>	<u>2.9</u>
d. Net use of borrowed resources to finance Fund credit (a+b-c)	-2.5	-2.2	-0.3	-2.5
C. Change in Fund Credit Outstanding (GRA)				
1. Total purchases (B.1.a.+B.2.a+b)	2.7	2.7	1.4	4.0
2. Total repurchases (B.1.b+B.2.c)	<u>6.7</u>	<u>4.6</u>	<u>1.3</u>	<u>5.9</u>
3. Net change in Fund credit outstanding (B.1.c+B.2.d)	-4.0	-1.9	--	-1.9
D. Change in Credit Provided by Fund				
1. SAF and ESAF loan disbursements ^{5/}	0.4	0.5	0.5	1.1
2. Trust Fund repayments	<u>0.5</u>	<u>0.4</u>	--	<u>0.4</u>
3. Net credit provided by Fund (C.3+D.1-D.2)	-4.1	-1.8	0.5	-1.2

Note: Details may not add due to rounding.

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

^{2/} Includes purchases under the first credit tranche.

^{3/} No purchases under the buffer stock financing facility are currently projected in the period through end-1990.

^{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 assume commitments of SAF resources at 70 percent of eligible members' quotas and cumulative commitments of ESAF Trust resources of SDR 1.0 billion at end-October 1989 and approaching SDR 3 billion by November 1990.

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

Item	December 31					Jun. 30 1989	Oct. 31 1989	Projected	
	1984	1985	1986	1987	1988			1989	end-Dec. 1990
1. Usable Ordinary Resources (unadjusted)	41.0	38.5	38.4	40.7	42.3	42.3	41.8	39.9	36.4
of which:									
(a) Adjusted ^{1/}	32.0	29.6	29.3	30.8	31.9	32.0	31.6	30.2	27.6
(b) Adjusted and uncommitted ^{2/} of which: SDR holdings	30.6 (5.1)	28.0 (3.1)	28.4 (1.9)	30.1 (1.2)	30.4 (0.8)	28.4 (0.9)	28.1 (1.1)	25.8 (1.0)	16.6 (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	8.3	7.9	6.4	5.2
(a) Outstanding borrowing									
i) EAR ^{3/} of which:	7.5	9.3	9.6	8.1	5.7	4.7	4.6	3.2	1.7
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	0.5	0.3	0.3	--
iii) Japan 1986	...	...	...	--	--	--	--	0.1	2.9
iv) GAB and associated	--	--	--	--	--	--	--	--	--
Total	14.0	14.7	13.5	10.3	6.7	5.3	4.9	3.5	4.7
(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	2.9	0.1
Total	6.7	4.5	6.7	5.4	4.8	3.0	3.0	2.9	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	42.8	41.7	38.3	32.9	28.3	27.5	26.4	26.3	29.7
(a) Reserve tranche positions	28.8	27.0	24.8	22.6	21.6	22.2	21.5	22.8	25.0
(b) Outstanding borrowing	14.0	14.7	13.5	10.3	6.7	5.3	4.9	3.5	4.7
6. Overdue Repurchases	0.1	0.4	0.8	1.3	1.9	2.0	2.0	...	...
7. Total Fund credit outstanding (GRA)	34.9	35.2	33.3	28.8	24.8	23.9	22.7	22.9	26.3
8. Total Quotas	89.2	89.3	90.0	90.0	90.0	90.0	90.0	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 1984-1988 and is notionally the same for the projections in 1989 and 1990.

^{2/} Undrawn balances of commitments at October 31, 1989 have been reduced by SDR 1.1 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

(In percent)

	December 31					Jun.30 1989	Oct.31 1989	Projected	
	1984	1985	1986	1987	1988			Dec.31 1989	Dec.31 1990
1. Quota ratio <u>1/</u>	37.0	35.3	36.1	31.7	26.4	22.9	22.4	20.8	...
2. Liquidity ratio <u>2/</u>	71.5	68.6	74.9	92.7	108.5	104.4	107.6	98.1	55.9
3. Cash ratio <u>3/</u>	106.3	103.7	114.5	133.2	140.4	127.9	130.7	113.2	66.4
4. Asset ratio <u>4/</u>									
(i) excluding gold	95.8	93.8	101.0	124.9	150.5	154.9	159.5	151.7	122.6
(ii) including gold	104.2	102.4	110.4	135.9	163.3	168.0	173.1	165.4	134.7
5. Ratio of overdue repurchase:									
(i) to adjusted usable ordinary resources	0.4	1.5	2.7	4.2	6.0	6.3	6.3	...	...
(ii) to Fund credit outstanding (GRA)	0.4	1.2	2.3	4.6	7.7	8.4	8.8	...	...

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, Appendix, 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, Appendix, Table 1) to reserve tranche positions (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.

