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EBS/88/165

CONFIDENTIAL

August 10, 1988

To: Members of the Executive Board

From: The Acting Secretary

Subject: Review of the Fund's Liquidity - Financing Needs and
Financial Considerations for Access Policy in 1989

Attached for consideration by the Executive Directors is a paper on the financing needs and financial considerations for access policy in 1989. A summary and conclusions appear on pages 9 and 10.

This subject, together with the paper on preliminary considerations of access limits for 1989 (EBS/88/157, 8/4/88) and the review under the buffer stock financing facility (EBS/88/158, 8/4/88), is scheduled for discussion on Wednesday, August 31, 1988.

Mr. Dhruba Gupta (ext. 7627) or Mr. Zavoico (ext. 7626) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

Att: (1)

INTERNATIONAL MONETARY FUND

Review of the Fund's Liquidity - Financing Needs and
Financial Considerations for Access Policy in 1989

Prepared by the Treasurer's Department

Approved by Gerhard Laske

August 9, 1988

I. Introduction

This paper reports on the Fund's liquidity position as of July 31, 1988. It also discusses prospective developments in the Fund's liquidity position through the end of 1989, on the assumption of unchanged quotas and present policies on access to the Fund's resources, and considers the Fund's liquidity position in relation to the financing of enlarged access policy in 1989.

The paper is organized as follows: Sections II and III discuss the supply and demand for Fund resources, respectively, while Section IV discusses the availability of ordinary and borrowed resources in relation to projected demand through end-1989. Section V provides a summary and draws some 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 over the ten year period 1982 through 1992 and their impact on the Fund's supply of ordinary resources.

II. Supply of Resources as of July 31, 1988

1. Ordinary Resources

As of July 31, 1988, the Fund's stock of usable ordinary resources totaled SDR 41.1 billion, of which SDR 40.1 billion represented the currencies of members at present considered sufficiently strong for transfers in the current operational budget (EBS/88/103, May 27, 1988) and the balance was accounted for by SDR 1.0 billion of SDRs held by the General Resources Account. At that level, the stock of usable ordinary resources is virtually unchanged from the level of SDR 41.2 billion at January 31, 1988 as reported in the last semi-annual review of the Fund's liquidity position (EBS/88/49, dated March 2, 1988).

At the present time there are 28 members whose balance of payments and gross reserve positions are considered sufficiently strong to be

included on the transfer side of the current operational budget; the list of members is the same as on the occasion of the last liquidity review except for the inclusion of Cyprus and Greece. 1/ The countries include all but four of the industrial countries (Australia, Iceland, Luxembourg and New Zealand), and as no major additions are currently in prospect, the Fund's holdings of usable resources could continue to be regarded as being relatively high.

It is still considered appropriate to adjust downward the stock of usable currencies by a factor of one-quarter to take account of uncertainties regarding the evolution of the external positions of members currently included in the operational budget and to maintain adequate amounts of working balances of currencies. This adjustment, amounting to some SDR 10 billion, also provides a margin in the event of any encashment of members' reserve positions in excess of the SDR 1.4 billion included in the projections for the remainder of 1988 and 1989. Taking account of this adjustment, and after subtracting the balances of ordinary resources which are undrawn but committed under existing commitments, which amount to SDR 0.9 billion 2/, total adjusted and uncommitted ordinary resources amounted to SDR 30.2 billion as of July 31, 1988 (or SDR 0.4 billion less than at January 31, 1988).

2. Borrowed Resources

Available borrowed resources as of July 31, 1988 totaled SDR 5.3 billion, 3/ of which (i) SDR 3.0 billion represented undrawn amounts under the 1986 borrowing agreement with Japan, (ii) SDR 1.9 billion represented the undrawn balance under the 1984 short-term agreement with SAMA, and (iii) SDR 0.4 billion was held in the form of investments held in the Borrowed Resources Suspense Accounts pending disbursement. After taking account of undrawn balances under commitments totalling SDR 0.4 billion, 4/ uncommitted borrowed resources totalled SDR 4.9 billion as of July 31, 1988. This was SDR 0.2 billion greater than at January 31, 1988, and was due primarily to the release of borrowed resources associated with the change in the "mixing" rules for

1/ Three other members -- Korea, Mauritius and Portugal -- were considered in sufficiently strong positions and were subject to early repurchase as they had outstanding indebtedness to the Fund.

2/ See Line A. 1 and footnote 2, Annex Table 1.

3/ The General Arrangements to Borrow and the associated borrowing agreement with Saudi Arabia, which were recently renewed for a further five year period through December 25, 1993, are not included.

4/ See Line B. 3 and footnote 2 in Annex Table 1.

extended Fund arrangements agreed by the Executive Board in June 1988. 1/ As mentioned in the recent update of the Fund's liquidity position (EBS/88/115, June 10, 1988), in the light of this reduction in the projected use and commitment of borrowed resources, and taking account of the progressive shortening in the maturity of further drawdowns on the 1984 SAMA loan, it was considered appropriate to make priority use of the SAMA loan for financing purchases of borrowed resources in the period through May 6, 1989, so as to make the most effective use of that arrangement. 2/

3. Overdue repurchases to the Fund

Overdue repurchases totaled SDR 1.6 billion as of July 31, 1988--equivalent to 5.1 percent of the stock of adjusted usable ordinary resources. This compares to overdue repurchases of SDR 1.4 billion as of January 31, 1988 (4.5 percent of adjusted usable ordinary resources). In the staff's view, overdue repurchases, the total of which is rising rapidly, are currently at a level that is material in relation to the Fund's stock of usable resources.

III. Demand for the Fund's Resources

1. Commitments under Stand-by and Extended Arrangements

New commitments under stand-by and extended arrangements in 1988 are projected--on a country by country basis--to total SDR 3.6 billion (financed with SDR 2.9 billion in ordinary resources and SDR 0.7 billion in borrowed resources). In 1989, the level of commitments is tentatively projected to rise somewhat to SDR 3.8 billion (financed with SDR 2.9 billion in ordinary resources and SDR 0.9 billion in borrowed resources). 3/ All arrangements in 1988 and 1989 are projected to be with developing countries and include four extended arrangements. The number of arrangements projected to be concluded during the two year period through end-1989 is just over 50, and is greater than the average number of arrangements concluded in the two year periods 1985-86 (49 arrangements) and 1986-87 (35 arrangements).

1/ Executive Board Decision No. 8886-(88/89), adopted June 6, 1988.

2/ On the basis of current projections, this will result in an undrawn balance under the SAMA agreement amounting to about SDR 1 1/2 billion as of the final date of drawdown of the loan with SAMA.

3/ 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 SDR 5.1 billion in 1988 and SDR 6.5 billion in 1989.

Table 1: Summary of Projections of Fund Liquidity

(In billions of SDRs)

	<u>Actual</u>		<u>Projected</u>	
	end-Jan. 1988	end-Jul. 1988	end- 1988	end- 1989
1. <u>Ordinary Resources</u> (adjusted and uncommitted)	30.6	30.2	28.1	25.1
2. <u>Borrowed Resources</u> (uncommitted)	4.7	4.9	4.2	1.8
3. <u>Total Resources</u> (uncommitted)	<u>35.3</u>	<u>35.1</u>	<u>32.3</u>	<u>26.9</u>
4. <u>Gross New Commitments</u> ^{1/} (in calendar years)				
Total			<u>3.6</u>	<u>3.8</u>
Of which:				
Ordinary resources			2.9	2.9
Borrowed resources			0.7	0.9
5. <u>Fund Credit</u> (in calendar years)				
a. Total purchases			3.7	5.4
b. Total repurchases			6.4	6.3
c. Net change in outstanding Fund credit in General Resources Account			-2.7	-0.9
d. SAF and ESAF loan disbursements			0.8	1.3
e. Trust Fund repayments			0.5	0.4
f. Net credit provided by Fund (c+d-e)			-2.4	--
<u>Memoranda 2/</u>				
a. Total Fund credit outstanding	28.4	26.4	26.0	25.1
b. Total liquid liabilities	32.5	29.9	29.5	28.1
Of which:				
Reserve tranche positions	22.4	22.2	22.6	24.3
Outstanding borrowing (loan claims)	10.1	7.7	6.9	3.8
c. Mismatch of maturities (repayment of borrowing from ordinary resources)	2.1	3.4	3.2	3.7

Note: The detailed projections and other data underlying this table are to be found in Tables 1 and 2 of the annex.

^{1/} Does not include commitments under .

^{2/} No use has been made of the GAB line of credit and the associated agreement with Saudi Arabia, which total SDR 18.5 billion.

Projected commitments under stand-by and extended arrangements for 1988 are SDR 0.8 billion less than had been projected in EBS/88/49. The decline is due to (i) a net reduction in the size and probabilities associated with twelve arrangements (SDR 0.1 billion), (ii) the deletion from the projections of arrangements with seventeen members (SDR 0.8 billion), a number of which are now projected to enter into SAF or ESAF arrangements, and (iii) the inclusion of arrangements with three members that had not been projected earlier (SDR 0.1 billion). These projections do not include possible arrangements with some developing countries that have large quotas and which are expected to have relatively large external deficits and substantial financing needs in 1989.

Purchases under existing and new arrangements are projected to increase from SDR 2.1 billion in 1987 to SDR 2.5 billion in 1988 and SDR 3.8 billion in 1989, for a total of SDR 6.3 billion over the two year period through 1989. It is projected that these purchases will be financed with ordinary resources in the amount of SDR 4.5 billion and with borrowed resources in the amount of SDR 1.8 billion.

2. Other demand for Fund resources

(i) Reserve positions in the Fund

Liquid liabilities of the Fund totaled SDR 29.9 billion as of July 31, 1988, and consisted of SDR 22.2 billion in reserve tranche positions and SDR 7.7 billion in loan claims on the Fund. Total liabilities declined by SDR 2.6 billion since January 31, 1988, reflecting (i) the continued heavy use of currencies in effecting repurchases with the consequential reduction of reserve tranche positions and (ii) substantial repayments of loan claims in mid-1988 from the Fund's ordinary resources.

Of total reserve 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 are expected to be in external current account deficit in the immediate future, or the same as at January 31, 1988.

Total reserve tranche positions are projected to increase from the present level of SDR 22.2 billion to SDR 24.3 billion by end-1989, reflecting an increase in projected purchases through 1989 combined with repayments of Fund borrowing out of ordinary resources prior to the corresponding repurchases being received by the Fund. Reflecting these repayments, total loan claims are projected to fall from the

present level of SDR 7.7 billion to SDR 3.8 billion by end-1989. 1/ Furthermore, the volume of repurchases, which reached a peak in 1987, will fall slowly over the next few years. In sum, the Fund's liquid liabilities are projected to decline by SDR 1.8 billion to a level of SDR 28.1 billion in the period through end-1989.

(ii) Compensatory Financing Facility

Purchases under the CFF are projected to total SDR 1.0 billion in both 1988 and 1989. CFF purchases so far in 1988 have totalled SDR 0.5 billion. The projections for the period through end-1989 have been revised downward from earlier projections, owing partly to current expectations that export shortfalls may not be as large as forecast earlier, mainly on account of higher commodity prices, and partly to the assumption that the optional tranche would be applied to the External Contingency Mechanism (ECM).

(iii) External Contingency Mechanism

On the basis of the assumptions set out in EBS/88/100 2/ and the decisions with respect to access under the compensatory and contingency financing facility (CCFF), it is tentatively projected that total commitments of ordinary resources under the ECM could amount to a maximum of about SDR 2 billion in 1988 and SDR 2.5 billion in 1989, and that disbursements under these commitments could amount to SDR 0.2 billion in 1988 and SDR 0.6 billion in 1989. 3/

1/ The bulk of these repayments will take place in 1989 and will represent repayments of EAR loans. All short-term EAR borrowings will have been repaid by November 1989.

2/ "Modalities for the Compensatory and Contingency Financing Facility", May 24, 1988. See Section IV.

3/ In keeping with the presentation in EBS/88/115, maximum ECM commitments are not included in "gross new commitments", which continue to include only projected new commitments under stand-by and extended arrangements; maximum commitments under the ECM are shown as a memorandum item in Annex Table 2. As explained in footnote 1, page 5, EBS/88/115, one third of maximum commitments, reduced by the disbursements estimated for the relevant periods, have been taken into account in the projected data in the tables for "Members' undrawn balances under commitments" and the projected data for "uncommitted ordinary resources (adjusted)".

(iv) Repayments of EAR and SFF borrowing

As of July 31, 1988, the cumulative use of ordinary resources for the repayment of EAR and SFF loans totaled SDR 3.4 billion. Repayments to SFF and EAR lenders during the remainder of 1988 and 1989 will amount to SDR 4.6 billion ^{1/}, of which SDR 4.3 billion will be financed with the proceeds from repurchases made with respect to purchases that were financed using borrowed resources. As a result, the cumulative mismatch will rise by a further SDR 0.3 billion to a total of SDR 3.7 billion by end-1989. The current projection of the cumulative mismatch at end-1989 is lower than had been projected in EBS/88/49, in which a mismatch of about SDR 5 billion was projected for end-1989. This decline in the mismatch reflects the reduction in the prospective use of the 1984 short-term borrowing agreement with SAMA prior to its expiration in May 1989 and the corresponding reduction in the need to use ordinary resources for the repayment of that loan in November 1989 when all outstanding balances under that agreement must be repaid.

IV. Availability of Fund Resources through end-1989

1. Uncommitted ordinary resources

The stock of uncommitted ordinary resources is projected to fall from SDR 30.2 billion at July 31, 1988 to SDR 28.1 billion at end-1988 and SDR 25.1 billion at end-1989 (Table 1 and Annex Table 1). The projected decline is due primarily to the large volume of new commitments of ordinary resources under arrangements (SDR 4.9 billion), commitments under the ECM (SDR 1.6 billion), ^{2/} purchases under the CFF (SDR 1.5 billion) and reserve tranche purchases (SDR 1.4 billion); net use of ordinary resources to finance repayments to lenders in the period ahead, at SDR 0.3 billion, is a relatively minor factor. Total demand for ordinary resources will be only partially offset by scheduled repurchases of ordinary resources (SDR 4.6 billion) during the period through end-1989.

2. Uncommitted borrowed resources

Uncommitted borrowed resources totalled SDR 4.9 billion at end-July 1988, or SDR 0.2 billion greater than at January 31, 1988, due, as noted above, to the reduction in use of borrowed resources following the change in the mix of borrowed and ordinary resources with respect

^{1/} See EBS/88/49, pages 8 and 9, for details of EAR and SFF repayments 1988 and 1989.

^{2/} See page 6, footnote 3 above.

to arrangements under the EFF. Commitments of borrowed resources are projected at SDR 0.7 billion during the remainder of 1988 and SDR 0.9 billion in 1989. Current projections suggest that, at the expiration of the drawdown period under the 1984 short-term borrowing agreement with SAMA on May 6, 1989, undrawn balances under that agreement will amount to SDR 1.5 billion; this will result in an equivalent reduction in the stock of available borrowed resources at that time. Overall, the stock of uncommitted borrowed resources is projected to fall to SDR 1.8 billion by end-1989 and to consist entirely of the 1986 credit line with Japan at that time.

3. Financing the policy on enlarged access in 1989

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". ^{1/} The paper "Access Limits for 1989 - Preliminary Policy Considerations" (EBS/88/157, August 4, 1988) discusses factors bearing on those limits for 1989, while the paper "Access Limits for the Buffer Stock Financing Facility for 1989" (EBS/88/158, August 4, 1988) describes the background to the recommendation that the limits for access to the buffer stock financing facility remain the same in 1989. The present paper, which assumes unchanged policies on access to the Fund's resources in 1989, indicates that the Fund's liquidity position remains broadly satisfactory and sufficient to continue the enlarged access policy in 1989.

As indicated above, the total of uncommitted usable ordinary resources (adjusted) is projected to decline by SDR 5.1 billion, to a level of SDR 25.1 billion in the period through end-1989. A sharper decline cannot be ruled out in the event that, for example, a renewed deterioration takes place in the external financial positions of some developing members with relatively large quotas or in the external position of those members whose currencies are included for transfers in the operational budget, and which might not only drop out of the operational budget but also decide to use the Fund's resources, or if demand under arrangements or under the CCFF proves greater than provided for in the above projections. There are also uncertainties on the supply side, notably the rising level of overdue repurchases and the increasing size of the mismatch, as well as a possible reduction in the level of usable currencies as a result of, say, a deterioration in the balance of payments and reserve positions of members that are regarded as sufficiently strong at present. These factors could result

^{1/} Executive Board Decision No. 7599-(84/3), adopted January 6, 1984, as amended by Decision No. 7841-(84/165), adopted November 16, 1984.

in the emergence of some strain in the Fund's liquidity position toward the end of the review period and possibly just before an increase in quotas under the Ninth Review might come into effect. Nonetheless, despite these uncertainties, the total of usable ordinary resources would appear adequate to meet projected demands through end-1989.

Taking into account the present ratio of the mix of ordinary and borrowed resources, the existing stock of borrowed resources, at SDR 4.9 billion, is also projected to be sufficient to finance EAR commitments under the enlarged access policy through end-1989. Consequently, there does not appear to be a need at this time for the Fund to consider new borrowing to finance commitments under the Fund's policy on enlarged access in 1988, or, somewhat more tentatively, in 1989.

V. Summary and Conclusions

1. On the basis of the projections summarized in this paper, it may be concluded that the Fund's overall liquidity position can be expected to remain broadly satisfactory both for the immediate future and, with somewhat less certainty, through end-1989. The stock of usable ordinary resources (adjusted) has remained at about the same level--in the order of approximately SDR 30 billion--over the past three years, primarily due to reflows from repurchases, including advance repurchases, that have roughly offset use of ordinary resources for purchases and for repayments of loans. The stock of borrowed resources, augmented by the 1986 credit line with Japan, currently amounting to SDR 5.3 billion, is at a satisfactory level in relation to prospective demands.

2. The demand for Fund credit, not including SAF and ESAF commitments, is projected to increase from 1987 levels, with commitments under arrangements of SDR 3.6 billion in 1988 and SDR 3.8 billion in 1989, in addition to projected purchases under the CFF of SDR 1.0 billion in both 1988 and 1989. Use of ordinary resources to finance purchases under the ECM is tentatively projected at a total of SDR 0.8 billion in the period through end-1989. Total purchases are projected to amount to SDR 3.7 billion in 1988 and SDR 5.4 billion in 1989, a significant increase from the level of SDR 3.3 billion in 1987. Although repurchases will continue at a relatively high level, the totals for 1988 and 1989, at about SDR 6.5 billion per annum, will be at a significantly lower level than the 1987 peak of SDR 7.9 billion. Outstanding Fund credit in the General Resources Account is projected to decline by SDR 2.7 billion in 1988 and SDR 0.9 billion in 1989, representing a substantial moderation in the rate of decline in such

credit outstanding relative to 1987. ^{1/} Taking account of SAF and ESAF loan disbursements as well as Trust Fund repayments, total credit outstanding from the Fund (Annex Table 2, line D.3), after declining by SDR 4.8 billion in 1987, is projected to decline by SDR 2.4 billion in 1988 and to show no change in 1989.

3. Reflecting the increase in purchases, combined with some further net use of ordinary resources to make repayments to EAR and SFF lenders, the stock of uncommitted ordinary resources is expected to decline to a level of about SDR 25 billion by end-1989. However, the decline in the stock of ordinary resources will be accompanied by a substantial reduction in outstanding loan claims on the Fund due to repayments of EAR loans in 1989. The stock of uncommitted borrowed resources, currently at a level of SDR 4.9 billion, is adequate to meet projected demands for borrowed resources through end-1989, when uncommitted borrowed resources are projected to decline to SDR 1.8 billion.

4. Overdue repurchases totalled SDR 1.6 billion as of July 31, 1988, representing over 5 percent of the Fund's stock of adjusted usable resources, and continue to exert a material negative impact on the Fund's liquidity position.

5. The mix of ordinary and borrowed resources under arrangements involving the enlarged access policy was recently discussed by the Executive Board in the context of the revitalization of the EFF. No further major changes in Fund policies as they relate to the mix of resources or in relation to access to resources have been assumed in this paper. The projections of demand for the Fund's resources, which take into account the recent changes in the policies relating to the use of the Fund's resources, indicate that these demands can be accommodated by the Fund's current stock of ordinary and borrowed resources.

6. In sum, it may be concluded that the Fund's liquidity position remains broadly satisfactory and should be sufficiently strong to accommodate projected demands on the Fund's resources through 1989, including under the proposals on continuation of the enlarged access policy for 1989 as set out in EBS/88/157 and in connection with the buffer stock financing facility as set out in EBS/88/158. Nevertheless, as in past reports, it is to be noted that there are considerable uncertainties in the present situation, including the possibility that members with deteriorating external positions may be excluded from the operational budget or that currently unforeseen demands for Fund resources may emerge.

^{1/} The distribution of purchases, repurchases, and the use of Fund credit by region and analytical category is set out in Annex Table 3.

Table 1: Estimates of Fund's Usable Resources
(1988 and 1989)

(In billions of SDRs)

	End-July 1988	End- 1988	End- 1989
A. <u>Ordinary Resources</u>			
1. Usable currencies and SDRs (adjusted)	31.1	30.3	27.6
Less: Members' undrawn balances under commitments <u>1/</u>	<u>0.9</u> <u>2/</u>	<u>2.2</u>	<u>2.5</u>
2. Uncommitted ordinary resources (adjusted)	30.2	28.1	25.1
B. <u>Borrowed Resources</u>			
1. Unused EAR credit lines and investments	2.3	2.0	--
2. Japan (1986) credit line	3.0	3.0	2.6
3. Total unused credit lines and investments	5.3	5.0	2.6
Less: Members' undrawn balances under commitments	<u>0.4</u> <u>2/</u>	<u>0.8</u>	<u>0.8</u>
4. Uncommitted borrowed resources	4.9	4.2	1.8
C. Total enlarged GAB and associated agreement with Saudi Arabia	18.5	18.5	18.5
<u>Memoranda</u>			
1. Total Fund credit outstanding	26.4	26.0	25.1
2. Total liquid liabilities	29.9	29.5	28.1
Of which:			
Reserve tranche positions	22.2	22.6	24.3
Outstanding borrowing (loan claims)	7.7	6.9	3.8

1/ Includes commitments under ECM.

2/ The amounts have been reduced by SDR 0.2 billion each of ordinary and SDR 0.1 billion borrowed resources to adjust for: (i) undrawn balances under arrangements that are inoperative and are not likely to be drawn upon; and (ii) an additional amount to allow for the possibility that existing operative arrangements may not be fully utilized.

Table 2. Commitments and Changes in Use and Receipt of the Fund's Resources
1987 to 1989

(In billions of SDRs)

	1987	1988			1989
		Jan.1- Jul.31	Aug 1- Dec.31	Total	
A. <u>Gross New Commitments</u> ^{1/}					
Total	2.6	0.9	2.7	3.6	3.8
Of which:					
Ordinary resources	1.5	0.9	2.0	2.9	2.9
Borrowed resources	1.1	--	0.7	0.7	0.9
Memorandum item - Ordinary Resources under external contingency mechanism ^{2/}	--	--	2.0	2.0	2.5
B. <u>Use and Receipts</u>					
1. <u>Use and Receipt of Ordinary Resources</u>					
a. Purchases					
i) Under arrangements	0.8	0.4	1.2	1.6	2.9
ii) Under CFF	1.2	0.5	0.5	1.0	1.0
iii) Under ECM	--	--	0.2	0.2	0.6
	2.0	0.9	1.9	2.8	4.5
b. Repurchases					
i) Under arrangements	2.1	1.3	0.9	2.2	2.5
ii) Under CFF and buffer stock	2.2	0.7	0.4	1.1	0.8
	4.3	2.0	1.3	3.3	3.3
c. Net use of ordinary resources to finance Fund credit (a-b)	-2.3	-1.1	0.6	-0.5	1.2
d. Net use of ordinary resources to finance:					
(i) repayment to EAR and SFF lenders ^{3/}	0.8	1.4	-0.2	1.2	0.5
(ii) encashment of reserve tranche positions	0.1	0.1	0.4	0.5	1.0
	0.9	1.5	0.2	1.7	1.5
e. Net use of ordinary resources (c+d)	-1.4	0.4	0.8	1.2	2.7
2. <u>Use and Receipt of Borrowed Resources</u>					
a. Purchases	1.3	0.6	0.3	0.9	0.9
b. Repurchases	3.6	1.8	1.3	3.1	3.0
c. Net use of borrowed resources to finance Fund credit (a-b)	-2.3	-1.2	-1.0	-2.2	-2.1
C. <u>Change in Fund Credit Outstanding (GRA)</u>					
1. Total purchases (B.1.a. + B.2.a)	3.3	1.5	2.2	3.7	5.4
2. Total repurchases (B.1.b + B.2.b)	7.9	3.8	2.6	6.4	6.3
3. Net change in Fund credit outstanding (B.1.c + B.2.c)	-4.6	-2.3	-0.4	-2.7	-0.9
Of which: CFF and buffer stock	-1.0	-0.2	0.1	-0.1	0.2
D. <u>Change in Credit Provided by Fund</u>					
1. SAF and ESAF loan disbursements	0.4	0.1	0.7	0.8	1.3
2. Trust Fund repayments	0.6	0.4	0.1	0.5	0.4
3. Net Credit Provided by Fund (C.3 + D.1 - D.2)	-4.8	-2.6	0.2	-2.4	--

^{1/} Does not include commitments under ECM.

^{2/} Subject to further probability (estimated in this review at one-third) that external contingencies are actually activated.

^{3/} Repayments under EAR and SFF borrowing agreements made using ordinary resources net of repurchases corresponding to calls made under those arrangements.

Table 3: Purchases, Repurchases and Use of Fund Credit (GRA)-
Distributed by Region and by Analytical Criteria

(In billions of SDRs)

	1987 (Actual)			1988 1/			1989		
	Pur- chases	Repur- chases	Net use of Fund credit	Pur- chases	Repur- chases	Net use of Fund credit	Pur- chases	Repur- chases	Net use of Fund credit
Industrial countries	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Developing countries	3.3	7.9	-4.6	3.7	6.4	-2.7	5.4	6.3	-0.9
a. By region:									
Africa	0.5	1.4	-1.0	0.8	1.1	-0.3	0.7	1.2	-0.5
Asia	0.7	2.4	-1.7	0.3	1.6	-1.3	0.4	1.5	-1.1
Europe	0.0	1.4	-1.4	0.4	1.5	-1.1	0.8	1.0	-0.2
Middle East	0.1	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Western Hemisphere	2.0	2.6	-0.6	2.2	2.2	0.0	3.4	2.5	0.9
b. By financial criteria: 2/									
i. By predominant type of credit:									
Market borrowers	2.5	4.7	-2.2	2.9	3.4	-0.5	4.4	3.3	1.1
Official borrowers	0.5	1.2	-0.7	0.3	1.2	-0.9	0.3	1.2	-0.9
Diversified borrowers	0.3	2.0	-1.7	0.5	1.9	-1.4	0.6	1.7	-1.1
ii. By debt-service experience:									
Recent difficulties	2.6	4.6	-2.0	3.1	3.9	-0.8	4.7	4.3	0.5
Other	0.7	3.2	-2.6	0.7	2.6	-1.9	0.6	2.0	-1.4
Memorandum Item:									
Prolonged users of Fund's resources 3/	1.2	3.1	-2.0	1.4	2.4	-1.0	1.6	2.7	-1.1

Note: Details may not add to totals due to rounding.

1/ Based on actual data through July 31, 1988 and projections for the remainder of 1988.

2/ Based on classification used in World Economic Outlook. See Statistical Appendix, World Economic Outlook - April 1988 (pp. 104-106).

3/ Members making prolonged use of the Fund's resources include countries with arrangements with the Fund for five or more years since mid-1977 and outstanding use of Fund credit in excess of 200 percent of quota as at July 1, 1988.

Principal Ratios for Assessing Fund Liquidity

1. The principal financial elements of the Fund's liquidity and its borrowing for the period 1982 through 1989 are set out in Appendix I, Table 1. On the basis of these data, various ratios have been calculated and are shown in Appendix 1, Table 2.

2. Quota Ratio

The "quota ratio" (line 1), at 27.7 percent at the end of July 1988, has declined by 3.2 percentage points from its level at January 31, 1988 (EBS/88/49) due to continuing repayments of amounts borrowed in connection with the Supplementary Financing Facility and EAR. This ratio remains well below the limit of 50 percent of quota at which point the Executive Board would need to review the availability of unused lines of credit. ^{1/}

On the basis of the projections in this paper, the quota ratio is expected to decline to 26.4 percent at end-December 1988 and to 20.8 percent at end-December 1989 as repayments of loans under the SFF and EAR continue to be made and reflecting the expiry of the 1984 SAMA short-term loan in May 1989 with an undrawn balance of SDR 1.5 billion.

Outstanding borrowing as of July 31, 1987 totaled SDR 7.7 billion, or 8.6 percent of total quotas, and is projected to decrease to SDR 6.9 billion by end-1988 and to SDR 3.8 billion by end-1989 (7.7 percent and 4.2 percent of total quotas respectively).

3. Liquidity Ratios

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. At July 31, 1988, this ratio stood at 102.3 percent, which represents an increase of 6.6 percentage points from the level six months earlier. This substantial increase is primarily due to a decline in the Fund's liquid liabilities. Based on the present list of currencies considered usable and other projections in the paper, the liquidity ratio is projected to decline to 96.6 percent at end-1988 as the stock of usable ordinary resources declines. The liquidity ratio is projected to decline further to 89.3 percent by end-1989.

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

The "cash ratio", which is a variant of the "liquidity ratio", is the ratio of adjusted and uncommitted ordinary resources to reserve tranche positions. As reserve tranche positions appear more likely to be drawn upon than loan claims (which are included in the "liquidity ratio"), this ratio is an indicator of the Fund's highly liquid assets and liabilities. This ratio is expected to decline from 136.0 percent at end-July 1988 to 124.3 percent at end-1988 as the Fund's holdings of usable ordinary resources decline. A further decline in the cash ratio to 103.3 percent is projected at end-1989 as ordinary resources are used to effect loan repayments.

At present, about 35 percent of reserve tranche positions in the Fund (or about SDR 7.7 billion) are held by members expected to have current account deficits in 1988 (excluding Saudi Arabia and the United States).

4. Asset Ratios

The two "asset ratios" (line 4) relate the Fund's usable assets to its total obligations. The numerator includes all ordinary resources considered usable (i.e. including amounts committed and without any adjustment for members with relatively weak balance of payments and reserve positions) and temporary investments in the BRS accounts plus, alternatively, gold valued at the former official price. The denominator in both cases consists of the total of outstanding borrowing and reserve tranche positions.

At end-July 1988, the asset ratio, excluding gold, was 138.8 percent and, including gold, the asset ratio was about 150.8 percent. During the remainder of 1988 both variants of this ratio are expected to fall as the Fund's holdings of ordinary resources are projected to decline faster than total liquid liabilities. Both asset ratios are projected to decline further in 1989.

5. Ratios of Arrears

Overdue repurchases in relation to adjusted usable ordinary resources and credit outstanding (lines 5(i) and 5(ii)) stood at 5.1 percent and 6.1 percent respectively at July 31, 1988, representing further increases from the levels prevailing at the time of the last liquidity review.

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

Item	December 31						Jan. 31	Jul. 31	Dec. 31	Dec. 31
	1982	1983*	1984	1985	1986	1987	1988	1988	1988	1989
									(Proj.)	(Proj.)
1. Usable Ordinary Resources (unadjusted)	17.4	39.8	41.0	38.5	38.4	40.7	41.2	41.1	40.1	36.5
of which:										
(a) Adjusted <u>1/</u>	14.7	31.6	32.0	29.6	29.3	30.8	31.3	31.1	30.3	27.6
(b) Adjusted and uncommitted of which: SDR holdings	10.8	27.7	30.6	28.0	28.4	30.1	30.6	30.2	28.1	25.1
	(3.7)	(7.0)	(5.1)	(3.1)	(1.9)	(1.2)	(1.5)	(1.0)	(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	3.6
3. Borrowing	17.9	16.8	20.7	19.2	20.2	15.7	15.5	12.6	11.5	6.5
(a) Outstanding borrowing										
i) EAR <u>2/</u>	2.0	6.2	7.5	9.3	9.6	8.1	8.0	6.3	6.0	3.2
of which:										
BRS Accounts	(0.4)	(0.9)	(--)	(0.6)	(0.3)	(0.4)	(0.5)	(0.4)	(0.4)	(--)
ii) SFF	5.3	6.8	6.5	5.4	3.9	2.2	2.1	1.4	0.9	0.2
iii) Japan 1986	...	...	...	...	...	--	--	--	--	0.4
iv) GAB and associated	0.8	--	--	--	--	--	--	--	--	--
v) Other <u>3/</u>	0.1	--	--	--	--	--	--	--	--	--
Total	8.2	13.0	14.0	14.7	13.5	10.3	10.1	7.7	6.9	3.8
(b) Unused credit lines										
i) EAR	7.3	3.0	6.7	4.5	3.7	2.4	2.4	1.9	1.6	--
ii) SFF	2.4	0.8	--	--	--	--	--	--	--	--
iii) Japan 1986	...	...	...	...	3.0	3.0	3.0	3.0	3.0	2.6
Total	9.7	3.8	6.7	4.5	6.7	5.4	5.4	4.9	4.6	2.6
4. Unused GAB and Associated <u>4/</u>	2.4	3.2	12.3	12.3	12.3	12.3	12.3	12.3	(12.3)	(12.3)
5. Total Liquid Liabilities	25.9	40.3	42.8	41.7	38.3	32.9	32.5	29.9	29.5	28.1
(a) Reserve tranche positions	17.7	27.3	28.8	27.0	24.8	22.6	22.4	22.2	22.6	24.3
(b) Outstanding borrowing	8.2	13.0	14.0	14.7	13.5	10.3	10.1	7.7	6.9	3.8
6. Overdue Repurchases	--	0.1	0.1	0.4	0.7	1.3	1.4	1.6	...	...
7. Total Fund Credit Outstanding	19.3	29.9	34.9	35.2	33.3	28.8	28.4	26.4	26.0	25.1
8. Total Quotas	61.1	88.5	89.2	89.3	90.0	90.0	90.0	90.0	90.0	90.0

* Years in which quota increases became effective.

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 as follows:

End of period	1982	1983	1984	1985	1986	Dec. 87	Jan. 88	Jul. 88	Dec. 88	Dec. 89
Adjustment factor	(0.20)	(0.20)	(0.25)	(0.25)	(0.25)	(0.25)	(0.25)	(0.25)	(0.25)	(0.25)

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

3/ Oil facility and special borrowing arrangements with Swiss National Bank in connection with the activation of the GAB.

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). 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 1988 and 1989, the 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)

Item	December 31						Jan. 31	Jul. 31	Dec. 31	Dec. 31
	1982	1983	1984	1985	1986	1987	1988	1988	1988	1989
									(Proj.)	(Proj.)
1. Quota ratio <u>1/</u>	33.2	22.6	37.0	35.3	36.1	31.7	30.9	27.7	26.4	20.8
2. Liquidity ratio <u>2/</u>	43.2	71.0	71.5	68.6	74.9	92.7	95.7	102.3	96.6	89.3
3. Cash ratio <u>3/</u>	61.0	101.5	106.3	103.7	114.5	133.2	138.8	136.0	124.3	103.3
4. Asset ratio <u>4/</u>										
(i) excluding gold	68.7	101.0	95.8	93.8	101.0	124.9	128.6	138.8	137.2	129.8
(ii) including gold	82.6	109.9	104.2	102.4	110.4	135.9	139.7	150.8	149.4	142.6
5. Ratio of overdue repurchase:										
(i) to adjusted usable ordinary resources <u>5/</u>	--	0.2	0.4	1.5	2.7	4.2	4.5	5.1	...	...
(ii) to Fund credit outstanding <u>6/</u>	--	0.2	0.4	1.2	2.3	4.6	4.9	6.1	...	...

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 unused resources in the (conditional) GAB category to total quotas (see Table 1, lines 3, 4, and 8).

2/ The liquidity ratio is the ratio of adjusted and uncommitted ordinary resources and temporary investments in the BRS Accounts to the total of outstanding borrowing and reserve tranche positions (see Table 1, lines 1(b), 3(a)(ii) and 5).

3/ The cash ratio is the ratio of adjusted and uncommitted ordinary resources to reserve tranche positions (see Table 1, lines 1(b) and 5(a)).

4/ The asset ratio under (i) is the ratio of usable ordinary resources (unadjusted) and temporary investments in BRS Accounts to the total of outstanding borrowing and total reserve tranche positions (see Table 1, lines 1, 3(a)(ii) and 5). The asset ratio under (ii) also includes, in the numerator, gold held by the Fund and valued at SDR 35 per fine ounce (line 2).

5/ Overdue repurchases as percent of adjusted usable ordinary resources (see Table 1, lines 6 and 1(a)).

6/ Overdue repurchases as percent of total Fund credit outstanding (see Table 1, lines 6 and 7).

Repurchases and Repayments of Borrowings and the Net Reflows to
The Fund's Ordinary Resources
During the Period 1982-1992

This Appendix briefly describes the flows of repurchases and repayments of loans made in connection with the financing of purchases through end-1989 and the likely impact of these flows on the stock of the Fund's ordinary resources through 1992. Relevant data are provided in Appendix II, Table 3.

Repurchases rose from less than SDR 2 billion in 1982 to SDR 7.9 billion in 1987. The increase accelerated in 1985 and 1986 when repurchases in respect of large purchases in 1983 (SDR 12.6 billion) fell due, and reached a peak in 1987. ^{1/} Total repurchases in 1987 were also augmented by early and advance repurchases. Repurchases are projected to decline to SDR 6.4 billion in 1988 and fall gradually thereafter to reach SDR 4.7 billion in 1992.

The rise in the volume of repurchases in 1986 and 1987 resulted in net reflows of ordinary resources amounting to about SDR 3.5 billion in each year, after taking account of repayments of loans by the Fund totaling SDR 6.4 billion in those years. In 1988 and 1989, notwithstanding substantial repurchases, net reflows of ordinary resources will fall to SDR 2 billion and SDR 2.7 billion, respectively, as a result of substantially larger repayments of borrowings by the Fund during those years, including, in particular, projected repayments of borrowings in 1989 under short-term EAR borrowing agreements. It is expected that the cumulative use of ordinary resources in financing repayments of Fund borrowing will peak at SDR 3.7 billion in late 1989.

During the three year period 1990 through 1992, repurchases of purchases financed with calls made under the 1984 short-term borrowing agreements will begin to augment the Fund's usable ordinary resources with the result that net reflows of ordinary resources are projected to rise to an average of just over SDR 4 billion per annum.

^{1/} Most repurchases are scheduled to commence 3 1/4 to 3 1/2 years after the purchase date; the exception is repurchases of purchases under the extended Fund facility which begin 4 1/2 years after the purchase date.

APPENDIX II

Table 3: Projected Repurchases, Repayments to Lenders and the
Consequent Effect on Ordinary Resources
1982-1992

(In billions of SDRs)

Calendar Year	Total Repurchases			Repayments to Lenders <u>1/</u> (4)	Net Reflows of Ordinary Resources (3)-(4) (5)	Memorandum Item Total Purchases <u>2/</u> (6)
	Of purchases through 7/31/88 (1)	Of sub- sequent purchases through 12/31/89 (2)	Total (3)			
1982	1.6	--	1.6	0.7	0.9	7.4
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	6.4	--	6.4	4.4	2.0	4.3
1989	6.3	--	6.3	3.6	2.7	5.4
1990	5.9	--	5.9	1.7	4.2	...
1991	4.7	0.1	4.8	0.8	4.0	...
1992	<u>2.8</u>	<u>1.9</u>	<u>4.7</u>	<u>0.4</u>	<u>4.3</u>	<u>...</u>
Total	49.1	2.0	51.1	22.1	29.0	48.1

1/ Assumes use of SAMA and Japan credit lines totalling SDR 0.8 billion to finance
EAR purchases between August 1988 and December 1989.

2/ Excludes reserve tranche purchases.

