

DOCUMENT OF INTERNATIONAL MONETARY FUND
AND NOT FOR PUBLIC USE

FOR
AGENDA

EBS/88/49

CONFIDENTIAL

March 2, 1988

To: Members of the Executive Board

From: The Secretary

Subject: Review of the Fund's Liquidity and Financing Needs

There is attached for consideration by the Executive Directors a paper on a review of the Fund's liquidity position and financing needs, which has been tentatively scheduled for discussion on Wednesday, March 23, 1988.

Mr. Ozeki (ext. 7637) or Mr. von Numers (ext. 6620) 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 and Financing Needs

Prepared by the Treasurer's Department

Approved by David Williams

March 2, 1988

I. Introduction

This paper reports on the Fund's liquidity position as of January 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 unchanged policies with respect to the various facilities of the Fund and as regards access to the Fund's resources.

The paper is organized as follows: Section II discusses the supply of usable resources as of January 31, 1988; Section III reviews projections of demand for the Fund's resources for the remainder of 1988 and for 1989; Section IV discusses the availability of ordinary and borrowed resources in relation to projected demand for Fund credit through end-1989. Section V draws some conclusions. An appendix is attached, setting out the usual analysis of the evolution of the ratios used in assessing the Fund's liquidity position.

II. The Supply of Resources as of January 31, 1988

1. Ordinary resources

As of January 31, 1988, the Fund's stock of usable ordinary resources totaled SDR 41.2 billion, consisting of (i) SDR 39.7 billion of the currencies of members that are at present considered sufficiently strong to be included for transfers in the current operational budget (EBS/87/248, November 30, 1987) and (ii) SDR 1.5 billion of SDRs held by the General Resources Account. The stock of usable ordinary resources has increased by SDR 2.1 billion since July 31, 1987, the occasion of the last liquidity review (EBS/87/176, August 5, 1987). This increase in the stock of ordinary resources reflects net reflows of resources to the Fund as a result of a large volume of repurchases, including early and advance repurchases by some members. The members whose balance of payments and gross reserve positions are considered sufficiently strong and are included on the transfer side of the current operational budget number twenty-six, and are the same as on the occasion of the last liquidity review as of July 1987, except for the inclusion of Oman and

the exclusion of Papua New Guinea. 1/ The countries included account for approximately 65 percent of total quotas, and include all but four of the industrial countries (Australia, Iceland, Luxembourg, and New Zealand), and ten developing countries, six of which are oil exporters.

The possibility of exclusion of one or more members currently included in the operational budget in the near term cannot be precluded in view of the external payments difficulties being experienced by some of them. Moreover, no major additions to the list of members with sufficiently strong external financial positions are currently in prospect. The Fund's holdings of usable resources might therefore be regarded as relatively high. Nevertheless, as noted below, the immediate prospect is for further large scale inflows to the Fund resulting from a high level of repurchases.

The staff considers it appropriate to continue to adjust downward the stock of usable currencies by a factor of one-quarter to take account of uncertainties regarding the evolution of the balance of payments and gross reserve 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, should also provide for any encashment of members' reserve tranche positions in excess of the SDR 1 billion included in the projections for the remainder of 1988 and for 1989 (see Section III, paragraph 4(i) below). After taking account of this adjustment, the total of adjusted usable currencies and SDR holdings in the General Resources Account was equivalent to SDR 31.3 billion as of January 31, 1988 (Annex Table 1), or about SDR 1.7 billion higher than at July 31, 1987.

Undrawn commitments of ordinary resources were SDR 0.7 billion as of January 31, 1988 after deductions (SDR 0.3 billion) for commitments that are not likely to be drawn upon. 2/ Accordingly, the total of adjusted and uncommitted ordinary resources amounted to SDR 30.6 billion at end-January 1988, compared with SDR 28.8 billion in July 1987 (Table 1).

2. Borrowed resources

As of January 31, 1988, available borrowed resources totaled SDR 5.9 billion 3/, of which (i) SDR 3.0 billion represented undrawn

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. Greece is being proposed for inclusion in the forthcoming operational budget covering the period March - May 1988.

2/ See footnote 1, Annex Table 1.

3/ The General Agreements to Borrow are not included.

Table 1: Summary of Projections on Fund Liquidity

(In billions of SDRs)

	Actual		Projected	
	end- July 1987	end- January 1988	end- 1988	end- 1989
1. <u>Ordinary Resources</u> (adjusted and uncommitted)	28.8	30.6	27.3	24.5
2. <u>Borrowed Resources</u> (uncommitted and including Japan)	4.9	4.7	3.5	1.6
<u>Memoranda 1/</u>				
a. Total Fund credit outstanding	31.8	28.4	27.1	25.8
b. Total liquid liabilities	35.4	32.5	30.7	29.4
Of which:				
Reserve tranche positions	24.1	22.4	23.1	25.6
Outstanding borrowing (loan claims)	11.3	10.1	7.6	3.8
3. <u>Gross New Commitments</u> (in calendar years)				
Total			4.4	3.5
Of which:				
Ordinary resources			3.1	1.6
Borrowed resources			1.3	1.9
4. <u>Fund Credit</u> (in calendar years)				
a. Total purchases			5.0	5.0
b. Total repurchases			6.7	6.3
c. Net change in outstanding Fund credit in General Resources Account			-1.7	-1.3
d. SAF and ESAF loan disbursements			1.4	1.7
e. Trust Fund repayments			0.6	0.4
f. Net credit provided by Fund (c+d-e)			-0.9	--
5. <u>Repayments to Lenders from Ordinary Resources</u> (Cumulative)			3.1	5.1

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

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

amounts under the 1986 borrowing agreement with Japan, (ii) SDR 2.4 billion was the undrawn balance under the 1984 short-term agreement with SAMA, and (iii) SDR 0.5 billion was in the form of investments held in the Borrowed Resources Suspense Accounts pending disbursement. The stock of available borrowed resources has declined by SDR 0.5 billion since July 31, 1987. Outstanding commitments of borrowed resources amounted to SDR 1.2 billion (after deducting SDR 0.2 billion of commitments that are not likely to be drawn upon). Thus, uncommitted borrowed resources totaled SDR 4.7 billion as of January 31, 1988, compared with SDR 4.9 billion in July 1987.

Purchases since July 1987 involving borrowed resources have been financed out of investments and from calls on the 1984 borrowing agreement with SAMA and have totaled SDR 0.5 billion. As the drawdown period of this loan agreement is to expire on May 6, 1989, the staff considers it appropriate to continue to give emphasis to draw on this agreement with SAMA for the time being. It should be noted, however, that all outstanding indebtedness under this agreement is to be repaid not later than November 6, 1989, and in view of the relatively short maturity of resources called under this loan agreement, and the need to repay indebtedness out of ordinary resources, it is unlikely that calls would be made on this loan during the latter part of the remaining drawdown period, unless circumstances suggest otherwise. In order to maximise use of the loan with SAMA, relatively little use has as yet been made of the 1986 borrowing agreement with Japan and this is likely to continue to be the case for the coming six months.

3. Overdue repurchases to the Fund

Overdue repurchases in the General Resources Account totaled SDR 1.4 billion as of January 31, 1988, which was SDR 0.4 billion larger than on the occasion of the last liquidity review. They were equivalent to 4.5 percent of the stock of adjusted usable ordinary resources, compared with 3.4 percent as of July 31, 1987 (line 5(i), Appendix Table 2). The total of overdue repurchases doubled in 1986 and again in 1987, and, in the staff's view, has reached an amount that is material in relation to the Fund's stock of usable resources. The total amount of forthcoming repurchase obligations of the members that at present have protracted overdue repurchases are about SDR 1.1 billion.

III. Demand for the Fund's Resources in 1988 and 1989

1. Overall trends

There are particular uncertainties on this occasion with regard to the demand for Fund resources in the period ahead. The establishment of the Enhanced Structural Adjustment Facility (ESAF), the review of the Compensatory Financing Facility, the Extended Fund Facility and consider-

ation of a possible external contingency mechanism in the Fund are likely to affect the demand for Fund credit. ^{1/} The availability of the SAF and, in particular, the Enhanced SAF, may be leading to some reduction in use of the Fund's general resources that is being reflected in the current projections for such use. However, the impact of other possible changes in policies as regards the use of Fund resources and their implications are outside the purview of this paper, though broad estimates of the possible impact on the Fund's liquidity position have been presented in the recent papers on the EFF and on external contingency mechanism. Thus, the set of projections in this paper would need to be modified if new decisions are taken which are likely to have an near-term impact on the use of the Fund's resources.

New commitments under stand-by and extended arrangements are projected to total SDR 4.4 billion in 1988 and SDR 3.5 billion in 1989. ^{2/} The overall total of commitments for 1988 is broadly in line with the projections at the time of the last liquidity review, although there have been changes in the composition among members that are now expected to conclude new arrangements with the Fund. The number of projected arrangements through end-1989 is lower at about 50 compared with a range of 60 - 80 arrangements projected in previous two year periods. The reduction in the total of projected arrangements for 1989 is rather pronounced, and may reflect greater prospective use of resources under the SAF and ESAF, and also that a number of members, especially some developing countries with relatively large quotas, have not yet given indications of their need for Fund resources in 1989. Access under the projected arrangements is largely concentrated in the range of 30 - 50 percent of quotas per year, though about one-fifth of the arrangements are projected to have larger access up to 90 percent of quota.

Purchases under existing and new arrangements are projected to total SDR 3.5 billion in both 1988 and 1989, of which about SDR 1.5 billion is expected to be financed by the use of ordinary resources and about SDR 2.0 billion with borrowed resources. Purchases under the compensatory financing facility (CFF) are projected at SDR 1.5 billion in each of the two years. Thus, total purchases are projected to amount to approximately SDR 5.0 billion in both 1988 and in 1989, as compared with SDR 3.3 billion in 1987.

^{1/} See "Review of the Compensatory Financing Facility - Further Considerations", EBS/88/20, February 3, 1988; "Reconsideration of the Extended Fund Facility", EBS/88/7, January 20, 1988; and "External Contingency Mechanisms in Fund Arrangements - Preliminary Considerations", EBS/88/30, February 12, 1988.

^{2/} The figures for projected commitments reflect adjustments for the probability that individual arrangements will actually be concluded. Without these probability adjustments, projected commitments under arrangements would total SDR 7.4 billion and SDR 6.6 billion in 1988 and 1989, respectively.

Repurchases are scheduled to amount to SDR 6.7 billion and SDR 6.3 billion in 1988 and 1989, respectively. Repurchases will therefore continue at a high level, but lower than the total of repurchases made in 1987 (SDR 7.9 billion), which was affected by advance and early repurchases totaling approximately SDR 0.6 billion. These high levels of repurchases reflect the large extension of credit by the Fund in the early 1980's. Outstanding use of Fund credit in the General Resources Account, which totaled SDR 28.8 billion at end-1987, is expected to decline by SDR 1.7 billion in 1988 and a further 1.3 billion in 1989 (to SDR 25.8 billion at end-1989) on the basis of present projections for 1988 and 1989. ^{1/} At the same time SAF and ESAF disbursements are projected to amount to SDR 1.4 billion and SDR 1.7 billion in 1988 and 1989, while Trust Fund loan repayments will amount to SDR 0.6 billion and SDR 0.4 billion in these two years. The total of balance of payments financing made available by the Fund in 1988 and 1989 is thus expected to be lower than repayments in 1988 by SDR 0.9 billion and to be about the same as repayments in 1989. Furthermore, despite the projected decline of credit made available through the Fund's General Resources Account, approximately 25 members, or about one-quarter of all members with outstanding Fund credit, are projected to receive net financing from the Fund in the two year period ahead. (If SAF and ESAF disbursements and Trust Fund repayments are taken into account, the number of members receiving net financing from the Fund could rise to approximately 50.) The distribution of purchases, repurchases, and the use of Fund credit by region and by analytical category is set out in Annex Table 3.

2. New commitments under arrangements in 1988

New commitments under stand-by and extended arrangements in 1988 are projected--on a country by country basis--to total SDR 4.4 billion, of which SDR 3.1 billion will be financed with ordinary resources and SDR 1.3 billion with borrowed resources (Annex Table 2). Prospective arrangements in 1988 number 36, all with developing countries.

These projections for 1988 are marginally higher (by SDR 0.1 billion) than those contained in EBS/87/176, August 5, 1987. The reasons for the small increase are as follows: (i) eleven arrangements for a total of SDR 0.6 billion that were not anticipated earlier are now projected for 1988; (ii) eight arrangements for a total of SDR 0.3 billion that were projected at the time of the last review are no longer expected to materialize; and (iii) changes in the probabilities attached to the likelihood that arrangements would be concluded and in the amounts reported by the Area Departments resulted in a net reduction of SDR 0.2 billion.

^{1/} These figures exclude changes in credit to members associated with SAF, ESAF loans, and Trust Fund repayments (see Annex Table 2).

3. New commitments under arrangements in 1989

New commitments under arrangements in 1989 are projected to total SDR 3.5 billion, which on the basis of present mixing policy would be financed with SDR 1.6 billion of ordinary resources and SDR 1.9 billion of borrowed resources. All projected arrangements are again with developing countries, and almost all are in the form of stand-by arrangements. In terms of amounts, extended arrangements could account for about one-third of new commitments. The projections contain provision, with relatively low probabilities, for arrangements with some developing countries that have large quotas and that are expected to have substantial external deficits and financing needs.

4. Other demand for Fund resources in 1988 and 1989

(i) Reserve positions in the Fund

Liquid liabilities of the Fund totaled SDR 32.5 billion as of January 31, 1988, and consisted of SDR 22.4 billion in reserve tranche positions and SDR 10.1 billion in loan claims on the Fund. Total reserve tranche positions declined by SDR 1.7 billion since July 31, 1987, reflecting the reduction in Fund credit outstanding and the relatively heavy use of currencies in effecting repurchases. Of total reserve tranche positions, SDR 7.7 billion (34 percent) are held by members that are expected to be in external current account deficit in the immediate future, considerably higher than the SDR 5 billion (20 percent) on the occasion of the last liquidity review. This is mainly due to some industrial countries being now projected to have current account deficits in the period ahead.

Notwithstanding the fact that an increasing number of industrial countries that hold reserve tranche positions are expected to be in current account deficit positions in 1988, there would not seem to be any indication that there would be greater use of these positions than already provided for by the staff, or that the downward adjustment for the total of usable currencies needs to be increased from the 25 percent presently allowed (see footnote 1, Appendix Table 1). The present projections include provision for SDR 1 billion in reserve tranche purchases in each of the years 1988 and 1989, compared with actual encashment of reserve tranche positions of SDR 0.1 billion in 1987 and SDR 0.4 billion in 1986.

The total of reserve tranche positions is projected to increase from the present level of SDR 22.4 billion to SDR 25.6 billion by end-1989, mainly due to repayments of Fund borrowing out of ordinary resources prior to the corresponding repurchases being received by the Fund. Moreover, loan claims are expected to fall by SDR 6.3 billion

in the period through end-1989. 1/ In total, the Fund's liquid liabilities are projected to decline to SDR 29.4 billion by end-1989 from SDR 32.5 as of January 31, 1988.

(ii) Use of Fund's resources under the special facilities in 1988 and 1989

Purchases under the CFF are projected at SDR 1.5 billion in both 1988 and 1989, which is somewhat higher than the actual level of SDR 1.2 billion in 1987. No purchases under the Buffer Stock Facility are currently projected. As noted above, there are considerable uncertainties with regard to projections of purchases under the CFF, and particularly for 1989.

(iii) Repayments of EAR and SFF borrowing

Repayments to SFF and EAR lenders are projected to total SDR 4.3 billion and SDR 5.0 billion in 1988 and 1989, respectively, of which SDR 3.2 billion and SDR 3.0 billion will be matched with corresponding repurchases, and the balances of SDR 1.1 billion and SDR 2.0 billion, respectively, will be financed with ordinary resources, unless members make advance repurchases. The use of ordinary resources to repay Fund borrowing arises from the Fund's obligation to repay lenders on due dates which are often earlier than the corresponding repurchases with respect to purchases financed with borrowed resources, so that repurchases and repayments are mismatched. Most of the repayments to lenders with ordinary resources are with respect to purchases under EAR. 2/

As of January 31, 1988, cumulative use of ordinary resources in respect of repayment of loans totaled SDR 2.1 billion. Further such use of ordinary resources amounting to SDR 1.0 billion and SDR 2.0 billion as projected for the remainder of 1988 and 1989 will increase the use of ordinary resources for loan repayments to approximately SDR 5 billion by end-1989. 3/ (The ordinary resources used to make

1/ Large repayments of short-term borrowings and SFF borrowings are due in the period ahead. SFF repayments will total SDR 1.8 billion through end-1989, and outstanding SFF borrowings will amount to only SDR 0.3 billion at that time. As regards EAR, net repayments are expected to total over SDR 4.5 billion, reducing outstanding EAR borrowings from the present level of SDR 8 billion to about SDR 3.5 billion by end-1989; of these repayments, approximately SDR 3 billion will be paid to SAMA and SDR 1.5 billion to the BIS and other short-term lenders. All short-term EAR borrowings will have been repaid by November 1989.

2/ See EBS/87/56, p. 11 for details.

3/ At the present time overdue repurchases in respect of purchases financed with borrowed resources total SDR 0.5 billion, and account for part of the cumulative mismatch of SDR 2.1 billion. The projection of the cumulative mismatch as of end-1989 assumes no net increase in overdue repurchases of purchases financed with borrowed resources.

repayments will eventually be replenished as repurchases initially financed with borrowed resources fall due and are paid.)

The projected use of ordinary resources to repay lenders is unusually large over the next two years. The present projections assume that the 1984 short-term agreement with SAMA, amounting to SDR 3 billion, will be fully drawn by mid-1989 and that all the drawings under the agreement will be repaid, with ordinary resources, by November 6, 1989. However, as noted earlier in view of the progressive shortening of maturities under this loan agreement, it may not be practical to use the entire amount available under the agreement. In that event, the projected use of ordinary resources in repayment of loans would be correspondingly less, but the amount of uncommitted borrowed resources in 1989 would also be lower than projected. This matter is discussed further below in Section IV(2).

IV. Availability of the Fund's Resources during the remainder of 1988 and 1989

1. Uncommitted ordinary resources

Uncommitted ordinary resources, which at present total SDR 30.6 billion, are projected to decline to SDR 24.5 billion by end-1989. The projected decline in the total of usable ordinary resources of SDR 6.1 billion in 1988-89 reflects the large volume of ordinary resources used to finance repayments to lenders (SDR 3.0 billion), new commitments under arrangements (SDR 4.7 billion), purchases under special facilities (SDR 3 billion), and reserve tranche purchases (SDR 2 billion), partially offset by scheduled repurchases of ordinary resources totalling SDR 6.6 billion for these two years. The discharge of outstanding overdue obligations or advance repurchase would, of course, slow the projected decline in uncommitted ordinary resources.

2. Uncommitted borrowed resources

Uncommitted borrowed resources totalled SDR 4.7 billion as of January 31, 1988. As noted above commitments of borrowed resources are projected at SDR 1.2 billion and SDR 1.9 billion during the remainder of 1988 and in 1989. On the assumption that the 1984 short-term agreement with SAMA is fully used, uncommitted borrowed resources are projected to decline to SDR 3.5 billion by end-1988 and to SDR 1.6 billion by end-1989. The balance of uncommitted borrowed resources at end-1989 will consist entirely of the credit available under the 1986 borrowing agreement with Japan. On the basis of present policies as regards the mix of ordinary and borrowed resources, these projections do not in themselves indicate any need for further borrowing by the Fund during the period under review. However, changes in policy with regard to the

mix of resources or the introduction of an External Contingency Mechanism that would be financed with borrowed resources could change the projections substantially.

The projections above as well as the estimates on the mismatch of resources assume full use of the 1984 borrowing agreement with SAMA. As indicated above, drawdowns under that agreement would need to be repaid in full on November 6, 1989. In light of that it is possible that use beyond, say, the end of 1988 may not be considered appropriate as ordinary resources would need to be used to repay the loans in November 1989 and the Fund's ordinary resources will in fact have been used to finance the purchases over most of the period that they were outstanding. In the event that no further calls would be made under the 1984 borrowing agreement with SAMA after the end of 1988, uncommitted borrowed resources and the projections on mismatched resources would be about SDR 1 billion less than indicated in this paper and in the tables; for example, uncommitted borrowed resources at end-1988 would be SDR 2.5 billion (rather than SDR 3.5 billion) and the maximum extent to which ordinary resources would be used to substitute for borrowed resources would be approximately SDR 4 billion (rather than SDR 5 billion) at end-1989. This matter will be further examined in the next liquidity review in September 1988 in the light of circumstances and the evolution of the Fund's ordinary resources.

The mix of ordinary and borrowed resources in financing purchases under the enlarged access policy was modified in December 1986 to use relatively more borrowed resources in order to make efficient use of the 1984 short-term borrowing agreement with SAMA and to conserve the use of the Fund's ordinary resources. It was agreed that this would be reviewed as needed and at least in connection with the semiannual reviews of the Fund's liquidity position. ^{1/} The issue of the mix of resources was discussed in the context of the preliminary discussion by the Executive Board on the revitalization of the EFF. As indicated by the Managing Director, the Executive Board will return to this matter in March. In the event the Executive Board would decide to change the present mixing ratio in connection with the EFF, the staff will issue a revised projection regarding the availability of uncommitted borrowed resources for 1988 and 1989.

V. Summary and Conclusions

1. The Fund's liquidity position at present may again be characterized as broadly satisfactory. The stock of ordinary resources has increased since 1986, primarily due to reflows through the large volume of repurchases, including advance repurchases; the stock of borrowed resources was augmented by the addition in 1986 of the credit line under the 1986 borrowing agreement with Japan.

^{1/} See EBM/86/205, December 19, 1986.

The demand for Fund credit for 1988 and 1989 is projected at about the same levels as in the last two years, namely with new commitments of about SDR 4 billion and CFF drawings of SDR 1.5 billion per year. Given the relatively large flow of repurchases scheduled in the next two years, outstanding Fund credit in the General Resources Account is projected to continue to decline in 1988 and 1989, though at a considerably slower rate of decline than in the past two years. After taking into account projected financing under SAF and ESAF arrangements, the amount of balance of payments financing provided by the Fund in 1988-89 is projected to broadly remain unchanged from present levels.

Despite the continued large volume of repurchases, the stock of ordinary resources is expected to decline substantially in 1988 and 1989 due in large part to the use of ordinary resources to repay Fund borrowing falling due under the EAR and SFF ahead of scheduled repurchases. The stock of borrowed resources will also continue to decline, but is expected to be sufficient to accommodate projected demand until end-1989. The Fund's liquid liabilities are projected to decline gradually over the next two years, as a decline in outstanding claims more than offsets an increase in total reserve tranche positions. These projections are based on current policies as regards use of Fund resources and on present mixing ratios of ordinary and borrowed resources.

2. Commitments under stand-by and extended arrangements are projected to total SDR 4.4 billion and SDR 3.5 billion in 1988 and 1989 respectively. (These projections are somewhat higher than actual new commitments of SDR 2.6 billion in 1987 and SDR 3.7 billion in 1986.) Total purchases under existing and new arrangements and under the CFF are projected to total SDR 5.0 billion both in 1988 and 1989.

3. The stock of adjusted and uncommitted usable ordinary resources increased to SDR 30.6 billion on January 31, 1988 from SDR 28.8 billion on the occasion of the last six-monthly liquidity review, reflecting a high level of repurchases, including a relatively large volume of early and advance repurchases. On the basis of current policies, these resources are projected to decline to SDR 24.5 billion by end-1989, despite a continued large flow of repurchases, mainly due to large scale repayments to EAR and SFF lenders that are not matched with corresponding repurchases.

4. Uncommitted borrowed resources totalled SDR 4.7 billion as of January 31, 1988, and are projected to decline to SDR 1.6 billion by end-1989 on the assumption that the 1984 short-term agreement with SAMA is fully used by May 6, 1989, when the extended drawdown period ends. As noted, all outstanding indebtedness under this agreement is to be repaid by not later than November 6, 1989 and the question of draw-downs under the agreement with SAMA will be further reviewed in the next six-monthly report. Uncommitted borrowed resources at end-1989 would be available from the 1986 credit line with Japan, and moreover

the bulk of resources under that agreement may remain undisbursed at that time. The prospects with regard to borrowed resources are broadly in line with the projections made at the time the Executive Board decided at end-1986 to give greater emphasis to the use of borrowed resources in financing Fund arrangements. ^{1/} The issue of the mix of resources was discussed in the context of the preliminary discussion by the Executive Board on the revitalization of the EFF. As indicated by the Managing Director, the Executive Board will return to this matter in March. Revised projections may need to be presented to the Executive Board depending on the outcome of Executive Board discussions on the revitalization of the EFF and the external contingency mechanism.

5. Overdue repurchases to the General Resources Account total SDR 1.4 billion as of January 31, 1988, and have begun to exert a material impact on the Fund's liquidity.

6. On balance, the overall liquidity position of the Fund is of an order that, in the view of the staff, can accommodate requests for Fund resources under the policy of enlarged access and under special facilities through end-1989, while maintaining its ability to meet demands for the encashment of Fund positions. However, there are considerable uncertainties in the present situation, as regards the continued usability of the currencies of a relatively long list of countries, some of which are experiencing increasingly difficult external financial positions; the availability of borrowed resources up to the full amounts of undrawn credit lines; and as regards potential changes in the demand for Fund credit, not only in the light of the uncertain economic situation, but in the event there would be changes in Fund policies in relation to the EFF and the special facilities.

^{1/} See "Chairman's Summing Up at the Conclusion of the Discussion on Borrowing by the Fund from the Government of Japan ...," (Buff 86/244, December 24, 1986) and Executive Board Minutes at the discussion on the Fund's Liquidity Position on March 30, 1987 (EBM/87/57).

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

(In billions of SDRs)

	End-January 1988	End- 1988	End- 1989
A. Ordinary Resources			
1. Usable currencies and SDRs (adjusted)	31.3	29.1	25.6
Less: Members' undrawn balances under commitments	<u>0.7</u> <u>1/</u>	<u>1.8</u>	<u>1.1</u>
2. Uncommitted ordinary resources (adjusted)	30.6	27.3	24.5
B. Borrowed Resources			
1. Unused EAR credit lines and investments	2.9	1.5	0.5
2. Japan (1986) credit line	3.0	2.9	2.7
3. Total unused credit lines and investments	5.9	4.4	3.2
Less: Members' undrawn balances under commitments	<u>1.2</u> <u>1/</u>	<u>0.9</u>	<u>1.6</u>
4. Uncommitted borrowed resources	4.7	3.5	1.6
C. Total enlarged GAB and associated agreement with Saudi Arabia			
	18.5	(18.5)	(18.5)
Memoranda			
1. Total Fund credit outstanding	28.4	27.1	25.8
2. Total liquid liabilities	32.5	30.7	29.4
Of which:			
Reserve tranche positions	22.4	23.1	25.6
Outstanding borrowing (loan claims)	10.1	7.6	3.8

1/ The amounts have been reduced by SDR 0.3 billion of ordinary resources and SDR 0.2 billion of borrowed resources to adjust for: (i) undrawn balances under arrangements that are inoperative and are not likely to be drawn upon; and (ii) an 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		Total	1989
		Jan.1- Jan.31	Feb.1- Dec.31		
A. Gross New Commitments					
Total	2.6	0.1	4.3	4.4	3.5
Of which:					
Ordinary resources	1.5	—	3.1	3.1	1.6
Borrowed resources	1.1	0.1	1.2	1.3	1.9
B. Use and Receipts					
1. <u>Use and Receipt of Ordinary Resources</u>					
a. Purchases					
i) Under arrangements	0.8	--	2.0	2.0	2.3
ii) Under compensatory financing	1.2	--	1.5	1.5	1.5
iii) Under buffer stock	--	--	--	--	--
	2.0	--	3.5	3.5	3.8
b. Repurchases					
i) Under arrangements	2.1	0.1	2.1	2.2	2.6
ii) Under CFF and buffer stock	2.2	0.1	1.2	1.3	0.7
	4.3	0.2	3.3	3.5	3.3
c. Net use of ordinary resources to finance Fund credit (a-b)	-2.3	-0.2	0.2	--	0.5
d. Net use of ordinary resources to finance:					
(i) repayment to EAR and SFF lenders ^{1/}	0.8	0.1	1.0	1.1	2.0
(ii) encashment of reserve tranche positions	0.1	--	1.0	1.0	1.0
	0.9	0.1	2.0	2.1	3.0
e. Net use of ordinary resources (c+d)	-1.4	-0.1	2.2	2.1	3.5
2. <u>Use and Receipt of Borrowed Resources</u>					
a. Purchases	1.3	--	1.5	1.5	1.2
b. Repurchases	3.6	0.2	3.0	3.2	3.0
c. Net use of borrowed resources to finance Fund credit (a-b)	-2.3	-0.2	-1.5	-1.7	-1.8
C. Change in Fund Credit Outstanding (GRA)					
1. Total purchases (B.1.a. + B.2.a)	3.3	--	5.0	5.0	5.0
2. Total repurchases (B.1.b + B.2.b)	7.9	0.4	6.3	6.7	6.3
3. Net change in Fund credit outstanding (B.1.c + B.2.c)	-4.6	-0.4	-1.3	-1.7	-1.3
Of which: CFF and buffer stock	-1.0	-0.1	0.3	0.2	0.8
D. Change in Credit Provided by Fund					
1. SAF and ESAF loan disbursements	0.4	--	1.4	1.4	1.7
2. Trust Fund repayments	0.6	0.1	0.5	0.6	0.4
3. Net Credit Provided by Fund (C.3 + D.1 - D.2)	-4.8	-0.5	-0.4	-0.9	--

^{1/} Repayments under EAR and SFF borrowing agreements made using ordinary resources net of repurchases corresponding to calls made under these arrangements.

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

(In billions of SDRs)

	1987 (Actual)			1988			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	5.0	6.7	-1.7	5.0	6.3	-1.3
a. By region:									
Africa	0.5	1.4	-1.0	1.2	1.4	-0.1	1.1	1.2	-0.1
Asia	0.7	2.4	-1.7	0.7	1.6	-0.9	0.7	1.5	-0.8
Europe	0.0	1.4	-1.4	0.4	1.4	-1.0	0.5	1.0	-0.5
Middle East	0.1	0.0	0.1	0.0	0.0	0.0	0.1	0.0	0.0
Western Hemisphere	2.0	2.6	-0.6	2.6	2.3	0.3	2.6	2.5	0.1
b. By financial criteria: ^{2/}									
i. By predominant type of credit:									
Market borrowers	2.5	4.7	-2.2	3.6	3.4	0.2	4.0	3.3	0.7
Official borrowers	0.5	1.2	-0.7	0.6	1.4	-0.8	0.3	1.2	-0.9
Diversified borrowers	0.3	2.0	-1.7	0.8	1.9	-1.1	0.6	1.7	-1.1
ii. By debt-service experience:									
Recent difficulties	2.6	4.6	-2.0	3.8	4.2	-0.4	3.9	4.3	-0.4
Other	0.7	3.2	-2.6	1.2	2.5	-1.3	1.1	2.0	-0.9
Memorandum Item:									
Prolonged users of Fund's resources ^{2/}	1.2	3.1	-2.0	1.3	2.7	-1.4	1.1	2.7	-1.6

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

^{1/} Based on classification used in World Economic Outlook. See Statistical Appendix, World Economic Outlook - October 1987 (pp. 33-35).

^{2/} 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 January 31, 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 Table 1. On the basis of these data, various ratios have been calculated and are shown in Appendix Table 2.

2. Quota Ratio

The "quota ratio" (line 1), at 30.9 percent at end of January 1988, has declined by 2.1 percentage points from its level at July 31, 1987 (EBS/87/176) 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 20.9 percent at end-December 1989 as repayments of loans under the SFF and EAR continue to be made.

Outstanding borrowing as of January 31, 1988 totaled SDR 10.1 billion, or 11.2 percent of total quotas, and is projected to decrease to SDR 7.6 billion by end-1988 and to SDR 3.8 billion by end-1989 (8.4 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 January 31, 1988, this ratio stood at 95.7 percent, which represents an increase of 13.7 percentage points from the level six months earlier. This substantial increase is primarily due to a large volume of repurchases, including advance and early repurchases. Based on the present list of currencies considered usable and other projections in the paper, the liquidity ratio is expected to decline to 90.6 percent at end-1988 as usable ordinary resources fall faster than Fund's liquid liabilities. The liquidity ratio is projected to decline further to 85.0 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 (line 3). 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 decrease from 136.6 percent at end-January 1988 to 118.2 percent at end-1988 as the Fund's holdings of usable ordinary resources declines, and reserve tranche positions rise. A decline in the cash ratio to 95.7 percent is projected at end-1989 as adjusted and uncommitted ordinary resources continue to fall.

At present, about 34 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-January 1988, the asset ratio, excluding gold, was 128.6 percent and, including gold, the asset ratio was about 139.7 percent. During the remainder of 1988 both variants of this ratio are expected to fall as the Fund's holdings of ordinary resources will decline. Both asset ratios are projected to continue to decline 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 4.5 percent and 4.9 percent respectively at January 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					Jul.31	Dec.31	Jan 31	Dec.31	Dec.31
	1982	1983*	1984	1985	1986	1987	1987	1988	1988	1989
									(Proj.)	(Proj.)
1. Usable Ordinary Resources (unadjusted)	17.4	39.8	41.0	38.5	38.4	39.1	40.7	41.2	38.5	33.8
of which:										
(a) Adjusted <u>1/</u>	14.7	31.6	32.0	29.6	29.3	29.6	30.8	31.3	29.1	25.6
(b) Adjusted and uncommitted	10.8	27.7	30.6	28.0	28.4	28.8	30.1	30.6	27.3	24.5
of which: SDR holdings	(3.7)	(7.0)	(5.1)	(3.1)	(1.9)	(1.0)	(1.2)	(1.5)	(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	17.4	15.7	15.5	11.5	6.5
(a) Outstanding borrowing										
1) EAR <u>2/</u>	2.0	6.2	7.5	9.3	9.6	8.4	8.1	8.0	6.5	3.2
of which:										
BRS Accounts	(0.4)	(0.9)	(--)	(0.6)	(0.3)	(0.3)	(0.4)	(0.5)	(0.5)	(0.5)
ii) SFF	5.3	6.8	6.5	5.4	3.9	2.9	2.2	2.1	1.0	0.3
iii) Japan 1986	...	...	...	...	...	--	--	--	0.1	0.3
iv) GAB and associated	0.8	--	--	--	--	--	--	--	--	--
v) Other <u>3/</u>	0.1	--	--	--	--	--	--	--	--	--
Total	8.2	13.0	14.0	14.7	13.5	11.3	10.3	10.1	7.6	3.8
(b) Unused credit lines										
1) EAR	7.3	3.0	6.7	4.5	3.7	3.1	2.4	2.4	1.0	--
ii) SFF	2.4	0.8	--	--	--	--	--	--	--	--
iii) Japan 1986	...	...	...	...	3.0	3.0	3.0	3.0	2.9	2.7
Total	9.7	3.8	6.7	4.5	6.7	6.1	5.4	5.4	3.9	2.7
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	35.4	32.9	32.5	30.7	29.4
(a) Reserve tranche positions	17.7	27.3	28.8	27.0	24.8	24.1	22.6	22.4	23.1	25.6
(b) Outstanding borrowing	8.2	13.0	14.0	14.7	13.5	11.3	10.3	10.1	7.6	3.8
6. Overdue Repurchases	--	0.1	0.1	0.4	0.7	1.0	1.3	1.4	...	...
7. Total Fund Credit Outstanding	19.3	29.9	34.9	35.2	33.3	31.8	28.8	28.4	27.1	25.8
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	Jul.87	Dec.87	Jan.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, 1987 (General Arrangements to Borrow - Sixth Renewal, EBM/87/159, December 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				Jul. 31	Dec. 31	Jan. 31	Dec. 31	Dec. 31	
	1982	1983	1984	1985	1986	1987	1987	1988	1988 (Proj.)	1989 (Proj.)
1. Quota ratio <u>1/</u>	33.2	22.6	37.0	35.3	36.1	33.0	31.7	30.9	26.4	20.9
2. Liquidity ratio <u>2/</u>	43.2	71.0	71.5	68.6	74.9	82.0	92.7	95.7	90.6	85.0
3. Cash ratio <u>3/</u>	61.0	101.5	106.3	103.7	114.5	119.5	133.2	136.6	118.2	95.7
4. Asset ratio <u>4/</u>										
(i) excluding gold	68.7	101.0	95.8	93.8	101.0	111.3	124.9	128.6	127.0	116.7
(ii) including gold	82.6	109.9	104.2	102.4	110.4	121.5	135.9	139.7	138.8	128.9
5. Ratio of overdue repurchase:										
(i) to adjusted usable ordinary resources <u>5/</u>	--	0.2	0.4	1.5	2.7	3.4	4.2	4.5	...	...
(ii) to Fund credit outstanding <u>6/</u>	--	0.2	0.4	1.2	2.3	3.1	4.6	4.9	...	...

1/ The quota ratio, as defined under the decision on guidelines for borrowing, is the ratio of the total of outstanding borrowing, unused credit lines and unused resources in the (conditional) GAB category 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 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)(ii) and 5).

3/ The cash ratio is the ratio of adjusted and uncommitted ordinary resources to reserve tranche positions (see Appendix 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 Appendix 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 Appendix Table 1, lines 6 and 1(a)).

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

