

EBS/88/257

CONFIDENTIAL

December 13, 1988

To: Members of the Executive Board
From: The Acting Secretary
Subject: Enhanced Structural Adjustment Facility (ESAF) -
Update on Status of Operations

There is attached for the information of the Executive Directors an update on the status of operations of the enhanced structural adjustment facility (ESAF).

Mr. Dhruba Gupta (ext. 7627) or Mr. Hino (ext. 8379) is available to answer technical or factual questions relating to this paper.

Att: (1)

INTERNATIONAL MONETARY FUND

Enhanced Structural Adjustment Facility (ESAF)--
Update on Status of Operations

Prepared by the Treasurer's, Exchange and
Trade Relations, and Legal Departments

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December 12, 1988

In the paper proposing decisions on the access limit and interest rate on loans by the ESAF Trust, 1/ it was indicated that the staff would inform the Executive Board of the status of Trust operations on a six-monthly basis, before the beginning of new interest periods for Trust loans.

1. Status of contributions

The attached table and accompanying notes provide detailed information on the status of ESAF contributions as of end-November 1988. Loan contributions remain at approximately SDR 5.3 billion, 2/ as reported in the last update on ESAF operations. 3/ Subsidy contributions have risen to SDR 2,167 million, reflecting both the addition of new contributions by Greece and Norway and the effects of changes in the exchange rates and interest rates used in calculating the value of subsidy contributions (see below).

As summarized in the following table, seven borrowing agreements totaling SDR 4,180 million for the Trust's Loan Account have been approved by the Executive Board, of which agreements for SDR 3,310 million have entered into effect and agreements for SDR 870 million are subject to legislative action. It is expected that these latter agreements will all enter into effect very shortly. In addition, the staff expects to submit further arrangements totaling approximately SDR 1 billion, with Germany, Korea, Saudi Arabia, 4/ and the Government of Spain, for the Executive Board's consideration and approval in coming weeks.

1/ "Enhanced Structural Adjustment Facility (ESAF)--Access Limit and Interest Rate on Loans by the ESAF Trust," EBS/88/74, March 31, 1988.

2/ Or potentially SDR 5.6 billion, taking account of the possibility that an additional SDR 0.3 billion could be provided by Japan if sufficient subsidy amounts become available to reduce the interest rate on these resources for borrowing countries to 0.5 percent per annum.

3/ EBS/88/171, August 17, 1988.

4/ The arrangement with Saudi Arabia would be for lending in association with the ESAF, as provided for in paragraph 3 of Decision No. 8757-(87/176) SAF/ESAF, adopted December 18, 1987.

ESAF--Loan Agreements Approved
as of November 30, 1988

(In millions of SDRs)

	Amount	Date of Board approval
Caisse Central de Coopération Economique (France)	800	April 4, 1988
The Export-Import Bank of Japan	2,200	April 4, 1988
Bank of Norway	90	April 4, 1988
Swiss Confederation <u>1/</u>	200	April 4, 1988
Government of Canada <u>1/</u>	300	June 3, 1988
Bank of Spain	220	June 8, 1988
Ufficio Italiano dei Cambi <u>1/</u>	<u>370</u>	July 27, 1988
	4,180	

1/ Subject to legislative action.

Subsidy contributions amount to about SDR 2.2 billion in all forms, including direct grants and the estimated subsidy value of loans provided to the Trust's Loan Account at concessional rates of interest, loans to and investments with the Subsidy Account at concessional rates, and similar placements with Administered Accounts for the benefit of the Subsidy Account. Initial payments of donations to the Trust's Subsidy Account amounted to SDR 60.6 million as of November 30, 1988, as follows:

Initial Payments of Grant Contributions
to ESAF Trust Subsidy Account
(as of November 30, 1988)

(In millions of SDRs)

Contributor	Amount
Denmark	9.0
Finland	5.4
Japan	15.2
Luxembourg	0.5
Netherlands	0.8
Sweden	18.4
United Kingdom	<u>11.3</u>
Total	60.6

In addition, concessional loans to or investments with the Subsidy Account, or equivalent arrangements through Administered Accounts for the benefit of the Subsidy Account, have been approved and received as indicated in the following table. The net investment income on contributions received in these forms becomes available to the Subsidy Account. The subsidy value of contributions in these forms is presently estimated to total SDR 153 million.

Subsidy Contributions in Other Forms

Contributor	Vehicle	Loan/Investment Amount 1/ (SDR millions)		Interest rate (percent)	Maturity
		Approved	Received		
Austrian National Bank	Adminis- tered Account	60	<u>2</u> /	0.5	5 1/2-10 years
National Bank of Belgium	Adminis- tered Account	100	30	0.5	10 years
Bank of Greece	Adminis- tered Account	35	<u>3</u> /	0.5	5 1/2-10 years
Bank Negara Malaysia	Subsidy Account	40	30	0.5	10 years
Monetary Authority of Singapore	Subsidy Account	40	10	2.0	10 years
Bank of Thailand	Subsidy Account	20	20	2.0	10 years

1/ Some of these amounts will be paid in installments.

2/ Subject to legislative action.

3/ Payment expected for value December 15, 1988.

As explained in earlier reports, the Trust's subsidy requirements and the value of subsidy contributions in the various forms are calculated with reference to amounts needed to subsidize lending provided to the Trust on the basis of market-related rates of interest down to an effective rate to borrowers of 0.5 percent per annum. For the purpose of the present calculations, the interest rate has been assumed to be

6.5 percent per annum, which is approximately equal to the average since the beginning of 1988 of the six-month combined domestic SDR rate that is used in most loans to the Trust; the same rate has also been used in calculating estimated investment yields on resources held by or for the benefit of the Subsidy Account. The six-month combined domestic rate has risen steeply in recent months and now stands at about 7.5 percent. Although this recent increase is of limited immediate relevance to the Trust's operations in view of the relatively small amount of Trust loan disbursements to date, a sustained period of high interest rates could have significant implications for the Trust's subsidy requirements and resources.

In addition, calculation of the subsidy value of contributions in the various forms is affected by the assumed pattern of Trust loan disbursements, as the calculations take into account estimated investment earnings on contributions held pending use. A delay in disbursements of Trust loans thus tends, other things remaining equal, to produce an increase in the calculated value of subsidy contributions held or expected to be received at particular times. The present calculations continue to utilize the projected disbursement pattern underlying earlier calculations, which assumed full disbursement of Trust loans totaling SDR 6 billion by end-1991. Trust loan commitments have not proceeded as rapidly as had originally been projected, and the disbursement projections will need to be revised for the purpose of similar subsidy calculations in the future.

Prospects for utilization of ESAF resources will be examined comprehensively in the forthcoming review of the SAF and ESAF, tentatively scheduled for early March 1989. This review will also include, inter alia, an examination of the implications of both interest rate developments and disbursement prospects for calculation of the Trust's subsidy requirements and the subsidy value of contributions received or pledged.

In sum, on the basis of the assumptions used for the calculations in this paper, available subsidy contributions would be sufficient to subsidize lending of about SDR 4.7 billion down to 0.5 percent over the life of ESAF operations (as compared with the estimate of about SDR 4.2 billion reported at the commencement of ESAF operations). It is anticipated that further subsidy contributions may become available in the very near future, and the management and staff continue to seek additional contributions for both the Loan and Subsidy Accounts.

2. Lending operations

As of December 12, 1988, the Executive Board has approved six ESAF arrangements (Bolivia, The Gambia, Ghana, Malawi, Niger, and Senegal) in a total amount of SDR 775.7 million. As of December 31, 1988, it is anticipated that loans of SDR 605.3 million will have been committed by the ESAF Trust, and that SDR 102.8 million will have been disbursed from the Trust, with the balance of ESAF commitments (SDR 170.4

million) and disbursements (SDR 57.1 million) being made from SAF resources. The first use of resources of the Subsidy Account will be made in connection with interest payments for the period ending December 31, 1988, when it is anticipated that subsidy resources of about SDR 0.4 million will be used.

On the basis of current information, it is likely that a number of additional ESAF arrangements will be proposed for Executive Board approval during the first half of 1989. The staff is discussing possible ESAF arrangements with a considerable number of eligible countries, and is urging the adoption of strong, growth-oriented programs that could merit support under the facility. As noted, the prospects for use of ESAF resources will be examined comprehensively in the forthcoming review.

ESAF--Contributions as of November 30, 1988 1/

(In millions of SDRs)

	Grants, or Grant Equivalents <u>2/</u>	Loans
Austria	29	...
Belgium	58	...
Canada	(140)	300
Chile <u>3/</u>	... <u>4/</u>	12
Denmark	36	...
Finland	29	...
France	(326)	800
Germany	130	700
Greece	17	...
Italy	(172)	370
Japan <u>5/</u>	309	2,200
Korea	(30)	65
Kuwait	...	37
Luxembourg	4	...
Malaysia	24	...
Mexico <u>3/</u>	(21)	45
Netherlands	52	...
Norway	21	90
Saudi Arabia <u>6/</u>	(93)	200
Singapore	16	...
Spain	(19)	260
Sweden	94	...
Switzerland	(101)	200
Thailand	9	...
Turkey	...	35
United Kingdom	<u>440</u>	<u>...</u>
Total	2,167 <u>7/</u>	5,314 <u>8/</u>

1/ Some of these contributions are subject to Parliamentary approval.

2/ Where shown in parentheses, the grant element has been calculated on the basis of the loan amount indicated, and was not specified by the contributing country. These grant elements reflect the undiscounted amounts necessary to be paid in over 14 years "as needed" to achieve an effective lending rate of 0.5 percent, assuming an interest rate of 6.50 percent on loans to the Loan Account of the ESAF Trust.

The amounts reported for other grant contributions are based on the "as-needed" contribution amount which would have the same present value as the resources committed. Thus, where a grant contribution (or the income derived from a loan or investment in the Subsidy Account) is known to be front-loaded, the figure reported here is increased in proportion to the ratio of its present value to that of grants provided "as needed" over 14 years. Grants committed in local currency are valued at November 30, 1988 exchange rates.

3/ Subject to participation by other Latin American countries.

4/ Chile will make a subsidy contribution in an amount yet to be determined.

5/ The Japanese authorities have agreed to a loan amount of SDR 2.2 billion; additional loan amounts up to SDR 0.3 billion could be provided subject to the availability of further contributions to the Subsidy Account to subsidize those amounts down to 0.5 percent (and only to the extent that total contributions by members do not thereby exceed SDR 6 billion). The first installment of the Japanese grant contribution of approximately SDR 300 million is large in relation to the Subsidy Account's needs for that period.

6/ This amount has been offered in an associated lending arrangement. Discussions on modalities continue, and the terms of such lending are yet to be established. These calculations assume that those terms will be the same as those on Trust loans.

7/ Total may not add due to rounding.

8/ With the possibility of additional loan amount of up to SDR 0.3 billion from Japan, this total could rise to up to SDR 5.6 billion.

ESAF--Notes on Contributions

Austria: Subsidy contribution accruing from net income on deposit of SDR 60 million in an Administered Account at 0.5 percent, repayable over 5 1/2-10 years.

Belgium: Subsidy contribution accruing from net income on deposits of SDR 100 million in an Administered Account at 0.5 percent, repayable after 10 years.

Canada: Contribution of SDR 300 million to Loan Account with subsidy necessary to achieve an effective lending rate of 0.5 percent per annum. It is presently anticipated that grants corresponding to loans in excess of SDR 200 million will be made available starting in 1995.

Chile: Contribution of SDR 12 million to Loan Account. Amount of subsidy contribution yet to be determined.

Denmark: Grant contribution of SDR 9 million per year in 1988-90. Size of grants for 1989-90 depends on maintenance of aid budget.

Finland: Grant contribution of SDR 5.4 million in 1988, and of Fmk 46 million per year in 1989-90.

France: Contribution of SDR 800 million to Loan Account, of which SDR 700 million is at 0.5 percent, the rate subject to adjustment in light of the interest rate on Trust loans.

Germany: Contribution of SDR 700 million to the Loan Account, and subsidy contribution of up to SDR 130 million.

Greece: Subsidy contribution accruing from net income on deposit of SDR 35 million in Administered Account at 0.5 percent, repayable over 5-1/2-10 years.

Italy: Contribution of SDR 370 million to Loan Account, with subsidy necessary to achieve an effective lending rate of 0.5 percent.

Japan: Grant contribution of SDR 300 million, somewhat front-loaded. Contribution to Loan Account of SDR 2.2 billion. Additional loan amount of up to SDR 0.3 billion could be provided, subject to the availability of further grants to subsidize this additional amount down to 0.5 percent (and to the extent that total contributions by members do not thereby exceed SDR 6 billion).

Korea: Contribution of SDR 65 million to Loan Account, accompanied by subsidy needed to achieve an effective lending rate of 0.5 percent.

Kuwait: Contribution to US\$50 million to Loan Account.

Luxembourg: Annual grant contributions of SDR 500,000 per year in 1988-93.

Malaysia: Subsidy contribution accruing from net income to Subsidy Account from an investment of SDR 30 million at 0.5 percent in 1988, and, provided the balance of

payments situation remains favorable, of a further SDR 10 million in 1989. Investments repayable after 10 years.

Mexico: Contribution of SDR 45 million to Loan Account, accompanied by subsidy needed to achieve an effective lending rate of 0.5 percent.

Netherlands: Grant contributions totaling f. 135 million in 1988-97.

Norway: Contribution of SDR 90 million to Loan Account. Subsidy contribution of NKr 60 million in 1988 and NKr 90 million between 1989 and 1992.

Saudi Arabia: Authorities have offered to provide concessional loans of SDR 200 million in an associated lending arrangement. Discussions of possible modalities continue.

Singapore: Subsidy contribution accruing from net income to Subsidy Account from loans or investments of SDR 40 million at 2 percent, repayable after 10 years.

Spain: Contribution of SDR 220 million to Loan Account at six-month combined domestic rate, and SDR 40 million at 0.5 percent.

Sweden: Grant contribution of SDR 18.4 million in 1988 and of SKr 150 million per year in 1989-91.

Switzerland: Contribution of SDR 200 million at interest rate of zero percent to Loan Account.

Thailand: Subsidy contribution accruing from net income to Subsidy Account from an investment of SDR 20 million at 2 percent, repayable after 10 years.

Turkey: Contribution of up to SDR 35 million to Loan Account.

United Kingdom: Grant contribution equivalent to amounts sufficient, at interest and exchange rates prevailing in early December 1987, to provide necessary subsidy on Trust loans rising to up to SDR 1 billion. Amount calculated on this basis totals 327 million pounds sterling.