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March 9, 1987

To: Members of the Executive Board

From: The Secretary

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

The attached paper has been scheduled for discussion at an Executive Board meeting on Monday, March 30, 1987.

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)

CONFIDENTIAL

INTERNATIONAL MONETARY FUND

Review of the Fund's Liquidity and Financing Needs

Prepared by the Treasurer's Department

Approved by W.O. Habermeier

March 9, 1987

I. Introduction

This paper reports on the Fund's liquidity position as of January 31, 1987. It also discusses prospective developments in the Fund's liquidity position through the end of 1987 and, on the assumption of unchanged policies related to access and to the financing of purchases in 1988, considerations bearing on availability of resources in relation to demand projected for 1988. The paper also reviews issues raised in connection with the management of the Fund's liquidity and the use of the 1986 borrowing agreement with Japan.

The paper is organized along the following lines: Section II discusses the supply of usable resources as of January 31, 1987; Section III reviews projections of demand for the Fund's resources for 1987 and 1988; Section IV discusses the availability of ordinary and borrowed resources in relation to demand through 1988; Section V reviews the approach agreed by the Executive Board in December 1986 relating to the use of the 1986 Japan loan, including the change in mix decided at that time, while Section VI draws some conclusions.

II. The Supply of Resources as of January 31, 1987

1. Ordinary resources

As of January 31, 1987, the Fund's stock of usable resources totaled SDR 39.1 billion, and was comprised of a total of SDR 36.9 billion of currencies of members considered sufficiently strong to be included for transfers in the current operational budget (EBS/86/268, November 26, 1986), and the balance of SDR 2.2 billion represented SDRs held by the Fund. At that level, the stock of usable resources remained basically unchanged from the total of SDR 39.2 billion as of July 31, 1986 as reported in the last liquidity review (EBS/86/187, August 13, 1986).

The small reduction in Fund's holdings of usable resources by SDR 0.1 billion from the level as of July 31, 1986 was due to the following: (i) a net reouction of SDR 0.4 billion resulting from the exclusion of Finland and Oman from the list of members considered sufficiently strong for their currencies to be used for transfers under the operational budget, and the inclusion of Papua New Guinea, and (ii) net inflows of SDR 0.3 billion as a result of transactions and operations through the General Resources Account, reflecting repurchases exceeding purchases by that amount.

Although on the occasion of the last two semi-annual liquidity reviews there has been a reduction in the number of members considered suffiently strong for inclusion in the budget, the number remains relatively large and includes all but five of the industrial countries (Australia, Finland, Iceland, Luxembourg and New Zealand). However, further exclusions of one or more of the members presently included in the operational budget cannot be precluded in the near term in light of the continued difficulties that some of these members are experiencing in their balance of payments and reserve positions. At the same time, no major additions to the stock of usable currencies are currently in prospect as a result of the inclusion of other members in the operational budget.

Under the circumstances, the staff considers it appropriate to continue to adjust the stock of usable currencies by a factor of one quarter to take account of the weakening of certain members' balance of payments positions and the Fund's need to maintain working balances of individual currencies. This adjustment, amounting to SDR 9.3 billion, should also provide a reasonable allowance for any encashment of reserve tranche positions that might take place in excess of the figure of SDR 1.0 billion included for 1987 and for 1988 (see Section III, paragraph 4(i) below). After taking account of this adjustment, the total of adjusted usable currencies and SDRs amounted to SDR 29.8 billion as of January 31, 1987 (Table 1), representing a decline of SDR 0.3 billion from the level reported on the occasion of the last liquidity review.

Undrawn commitments of ordinary resources totaled SDR 1.4 billion as of January 31, 1987 (after deducting SDR 0.2 billion representing amounts that are not likely to be drawn). 1/ Thus, the total of adjusted and uncommitted ordinary resources was SDR 28.4 billion at January 31, 1987, compared with SDR 29.4 billion at July 31, 1986.

2. Borrowed resources

a. As of January 31, 1987, borrowed resources available to the Fund (excluding amounts available under the General Arrangements to Borrow) amounted to SDR 7.1 billion, comprising SDR 4.1 billion--including investments--arranged specifically to finance the policy of enlarged access (EAR) and SDR 3.0 billion under the loan from Japan

1/ See footnote 1, Table 1.

Table 1. Estimates of Fund's Usable Resources as of January 31 and December 31, 1987 and December 31, 1988

(In billions of SDRs)

	End-January 1987	End-1987	End-1988
A. Ordinary Resources			
1. Usable currencies and SDRs (adjusted)	29.8	28.0	25.8
Less: Members' undrawn balances under commitments	1.4 1/	1.6	1.7
2. Uncommitted ordinary resources	28.4	26.4	24.1
B. Borrowed Resources			
1. Unused EAR credit lines and investments	4.1	2.1	0.9
2. Japan (1986) credit line	3.0	2.8	2.6
3. Total unused credit lines and investments	7.1	4.9	3.5
Less: Members' undrawn balances under commitments	1.5 1/	0.9	0.3
4. Uncommitted borrowed resources	5.6	4.0	3.2
Memoranda			
1. Total liquid liabilities	37.7	35.2	33.4
Of which:			
Reserve tranche positions	24.4	24.1	25.3
Outstanding borrowing (loan claims)	13.3	11.1	8.1
2. Total enlarged GAB and associated agreement with Saudi Arabia	18.5	18.5	18.5

1/ The amounts have been reduced by SDR 0.2 billion of ordinary resources and SDR 0.5 billion of borrowed resources to adjust for: (i) undrawn balances under arrangements that are inoperative and are not likely to be drawn upon; and (ii) an additional amount to allow for the possibility that existing operative arrangements may not be fully utilized.

approved in December 1986 (Table 1). At this level, available borrowed resources are SDR 2.6 billion higher than on the occasion of the last liquidity review, as a result of the new borrowing agreement with Japan. Undrawn commitments of borrowed resources totaled SDR 1.5 billion (after deducting SDR 0.5 billion that are not likely to be drawn). 1/ The stock of uncommitted borrowed resources as of January 31, 1987 thus amounted to SDR 5.6 billion, compared to a total of SDR 3.8 billion as of July 31, 1986.

b. The Fund has fully drawn all borrowing agreements arranged to finance the policy of enlarged access except the agreements with SAMA, under which a total of SDR 3.7 billion remained undrawn as of January 31, 1987. Of this total, SDR 0.7 billion represented the balance available under the 1981 medium-term borrowing agreement 2/ and SDR 3.0 billion the balance available under the 1984 short-term borrowing agreement. In December 1986 SAMA agreed to extend the drawdown period of its borrowing agreements with the Fund, by six months (to November 6, 1987) for up to SDR 500 million under the 1981 agreement, and for two years (to May 6, 1989) under the 1984 short-term agreement for SDR 3 billion, but not the maturity of the drawdowns made in the extended periods (see EBS/86/250, November 12, 1986).

c. A borrowing agreement for SDR 3 billion with the Government of Japan was approved by the Executive Board in December 1986. 3/ Although this borrowing agreement is available to be used in conjunction with stand-by or extended arrangements whether involving enlarged access or not, the view of the Executive Board at EBM/86/205 was that initially the loan should be used to help finance purchases of borrowed resources under the enlarged access policy, alongside other resources borrowed under EAR credit lines. 4/

The borrowing agreement with Japan became effective on December 24, 1986. No calls under the agreement had been made as of January 31, 1987, in light of the availability of invested balances and calls already made under the borrowing agreement with SAMA. It is anticipated that a small call on the new borrowing agreement will be made toward the end of March 1987.

1/ See footnote 1, Table 1.

2/ Further calls of SDR 500 million have been made under the 1981 agreement since January 31, 1987; the remainder is expected to be drawn down by mid-1987.

3/ Executive Board Decision No. 8486-(86/205) adopted December 19, 1986.

4/ See "Chairman's Summing Up at the Conclusion of the Discussion on Borrowing by the Fund from the Government of Japan and on the Management of the Fund's Liquidity in Connection with the Borrowing Agreement with Japan and the Extension of Drawdown Periods Under the Borrowing Agreement with SAMA", (86/244) dated December 24, 1986.

3. Overdue obligations to the Fund

Overdue financial obligations to the General Resources Account increased to SDR 1.0 billion as of January 31, 1987, as compared with SDR 0.9 billion at the time of the last liquidity review. Overdue obligations were equivalent to 3.4 percent of the Fund's stock of adjusted usable ordinary resources, an increase from 3.0 percent reported in the last liquidity review as of July 31, 1986 (line 5, Appendix Table 2). At present levels, overdue obligations to the General Resources Account are beginning to represent a visible portion of the Fund's stock of adjusted ordinary resources. The adverse effects of rising overdue payments on the Fund's liquidity, perceptions of its financial integrity and monetary character, and its ability to obtain sufficient financial resources, have been noted in previous reviews. While the staff has not made projections of overdue obligations, recent increases in arrears give rise to particular concern when viewed in the context of forthcoming obligations totaling some SDR 2 billion on the part of members currently experiencing protracted arrears.

III. Demand for the Fund's Resources in 1987 and 1988

1. Overview

New commitments under arrangements are projected at SDR 4.4 billion during 1987, which represents an increase relative to the amounts committed in 1985 and 1986 (SDR 3.3 billion and SDR 3.7 billion, respectively). New commitments for 1988, on the assumption of unchanged policies on access to the Fund's resources, are very tentatively projected to decline somewhat to a level of about SDR 3.7 billion (Table 2). The projections of commitments (and disbursements), especially for 1988, should be regarded only as broad indications of the likely demand on the Fund's resources during the period ahead. Many members, including some industrial countries, continue to face difficult economic circumstances, and considerable uncertainty remains regarding the extent to which these members will respond to these difficulties by agreeing adjustment programs with the Fund, and the size, timing, and actual disbursements under such programs.

The mix of borrowed and ordinary resources in financing EAR purchases was changed in December 1986 to modify the proportion of ordinary resources mixed with borrowed resources in the second through fourth credit tranches from 1:1 to 1:2. 1/ As a result, commitments of borrowed resources under existing arrangements have increased by SDR 0.2 billion, and projected commitments of borrowed resources during

1/ Executive Board Decision No. 8487-(86/205), adopted December 19, 1986.

Table 2. Commitments and Changes in Use and Receipt of the Fund's Resources 1986 to 1988

(In billions of SDRs)

	1986 (Actual)	1987 Jan. 1- Jan. 31	1987 Feb. 1- Dec. 31	1987 Total	1988
A. Gross New Commitments					
Total	3.7	0.7	3.7	4.4	3.7
Of which:					
Ordinary resources	1.7	0.7	2.1	2.8	2.9
Borrowed resources	2.0	--	1.6	1.6	0.8
B. Use and Receipts					
1. Use and Receipt of Ordinary Resources					
a. Purchases					
i) Under arrangements	2.2	--	1.9	1.9	2.8
ii) Under compensatory financing	0.6	--	2.0	2.0	1.0
iii) Under buffer stock	--	--	--	--	--
	2.8	--	3.9	3.9	3.8
b. Repurchases					
i) Under arrangements	1.4	0.1	2.1	2.2	2.3
ii) Under CFF and buffer stock	2.3	0.2	2.2	2.4	1.2
	3.7	0.3	4.3	4.6	3.5
c. Net use of ordinary resources to finance Fund credit (a-b)	-0.9	-0.3	-0.4	-0.7	0.3
d. Net use of ordinary resources to finance:					
(i) repayment to EAR and SFF lenders 1/	-0.1	--	1.2	1.2	0.9
(ii) encashment of reserve tranche positions	0.4	--	1.0	1.0	1.0
e. Net use of ordinary resources (c+d)	-0.6	-0.3	1.8	1.5	2.2
2. Use and Receipt of Borrowed Resources					
a. Purchases	1.0	--	2.2	2.2	1.4
b. Repurchases	1.9	0.2	3.0	3.2	3.5
c. Net use of borrowed resources to finance Fund credit (a-b)	-0.9	-0.2	-0.8	-1.0	-2.1
C. Change in Fund Credit Outstanding					
a. Total purchases (1a + 2a)	3.8	--	6.1	6.1	5.2
b. Total repurchases (1b + 2b)	5.6	0.5	7.3	7.8	7.0
c. Net change in Fund credit outstanding (1c + 2c)	-1.8	-0.5	-1.2	-1.7	-1.8
Of which: CFF and buffer stock	-1.7	-0.2	-0.2	-0.4	-0.2
Memorandum Item					
Financing under Structural Adjustment Facility	0.1	--	0.6	0.6	...

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

1987 and 1988 are also about SDR 0.2 billion higher in each year than they would have been in the absence of the change in mix. The overall impact of the change in mix has thus been to increase expected use of borrowed resources by about SDR 0.4 billion through end-1987 1/ and SDR 0.6 billion through end-1988, thus conserving ordinary resources to an equivalent extent.

Total purchases under arrangements and special facilities are projected at SDR 6.1 billion in 1987 and at SDR 5.2 billion in 1988, somewhat higher than in 1985 and 1986 when total purchases averaged about SDR 4 billion annually. The projected increase in purchases reflects several relatively large stand-by arrangements that were agreed during the latter half of 1986 or are anticipated in 1987, as well as a substantial increase in anticipated use of the special facilities.

As discussed in earlier liquidity reviews, the volume of repurchases is increasing rapidly, reaching a peak of SDR 7.8 billion during 1987, and then declining to SDR 7.0 billion in 1988 (in contrast to a total of SDR 5.6 billion in 1986).

The current projections of purchases and repurchases suggest that outstanding Fund credit financed from the General Resources Account, which totaled SDR 32.8 billion as of January 31, 1987, will decline during 1987 by about SDR 1.7 billion (or about the same as in 1986). A similar decline in outstanding Fund credit by perhaps SDR 1.8 billion is projected for 1988, although there is considerable uncertainty with regard to this projection. Notwithstanding the overall decline in Fund credit outstanding projected for 1987 and 1988, about 30 members, including several with relatively large quotas, are projected to receive net financing from the Fund each year during this period. Almost half of these members are projected to make net purchases in excess of 25 percent of quota. In 1987 as well as in 1988 about 50 members are projected to make net repurchases to the Fund; somewhat less than half of these members are projected to make net repurchases of less than 25 percent of quota, about one-third between 25 and 50 percent of quota, and the remaining few between 50 and 80 percent of quota. These figures do not include projected disbursements under the Structural Adjustment Facility (SAF). 2/ The projections for a modest reduction

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1/ This compares with the estimate of SDR 0.3-0.5 billion in EBS/86/266, November 25, 1986, page 9.

2/ The projected reduction in outstanding Fund credit financed from the General Resources Account will be partially offset by an increase in Fund credit provided under the SAF to developing countries during 1987 and 1988. Taking into account the projected SAF disbursements an additional ten countries would be projected to receive net financing from the Fund. The distribution among the groups of net repurchases in relation to quota for the remaining 40 countries is projected to be similar to the one excluding SAF drawings.

in Fund credit outstanding are consistent with the medium-term character of Fund financing and reflect the fact that repurchases tend to rise substantially after a period of about three to four years following a period of peak use of the Fund's resources; the last peak occured in 1983, when total purchases amounted to almost SDR 13 billion. They are also broadly consistent with past cycles in members' use of Fund credit and reflect the very large net expansion of financing provided by the Fund, over SDR 27 billion, in the period 1980-1985. The decline in purchases in the period since 1983 will be reflected in a fall-off in repurchases beginning in 1988. The distribution of purchases, repurchases, and the use of Fund credit by region and by analytical category is set out in Appendix Table 3.

The projected decline in outstanding Fund credit over the next two years resulting from net repurchases would normally be accompanied by an increase in the stock of usable currencies. However, the inflow of net repurchases will be more than offset by repayment of Fund borrowing, and thus the stock of usable currencies is projected to decline. In particular, repayments under the Fund's Supplementary Financing Facility (SFF), the 1984 BIS and related short-term agreements, and the medium-term EAR borrowing agreement with SAMA are expected to amount to SDR 8.6 billion during the remainder of 1987 and 1988. To a substantial extent, these repayments will be financed from repurchases corresponding to purchases financed under these credit lines. Nevertheless, as indicated in earlier liquidity reviews, repayments totaling SDR 2.1 billion in 1987 and 1988 will be financed with ordinary resources as a result of the mismatch of the maturities of Fund borrowing and related repurchases (paragraph 4(iii) below). In part reflecting this use of ordinary resources, in effect substituting ordinary for borrowed resources in the financing of outstanding EAR purchases, the stock of uncommitted usable ordinary resources (adjusted) is projected to decline from the present level of SDR 28.4 billion to SDR 24.1 billion at end-1988 (Table 1). Total reserve tranche positions are projected to increase somewhat to over SDR 25 billion by end-1988.

Outstanding borrowing is projected to fall by SDR 5.2 billion, from a total of SDR 13.3 billion as of January 31, 1987 to SDR 8.1 billion by end-1988, as repayments of borrowings are projected to be offset only in part by new calls on available credit lines. This represents a substantially greater reduction than is foreseen for the total of outstanding Fund credit. As a result, the proportion of outstanding Fund credit that is financed with borrowed resources will be reduced considerably. The proportion of outstanding Fund credit financed by borrowing remained at a level of just under 50 percent during the period 1979-1981 and declined to just over 40 percent during the period 1982-1986. The substantial repayments scheduled during the next two years will result in further declines, to about 35 percent at end-1987 and about 27 percent at end-1988 (see lines 3(a) and 7, Appendix Table 1). In terms of total quotas, Fund borrowing outstanding increased from about 10 percent in 1981 before the beginning of the debt crisis to a peak of about 17 percent in 1985; the ratio has declined to about 15 percent at present and is expected to decline further to under 10 percent by end-1988.

2. New commitments under arrangements in 1987

Current projections indicate that during 1987 the Fund will enter into new stand-by and extended arrangements with developing countries for a total of SDR 4.4 billion, of which SDR 2.8 billion would be financed with ordinary resources, and SDR 1.6 billion would be financed with borrowed resources (Table 2). 1/

Although the projected commitments for 1987 are SDR 1.4 billion greater than projected in the fall 1986 liquidity review, when corrected for a shift of two large arrangements from end-1986 to early 1987, the projection of new commitments in 1987 is broadly unchanged. The changes in the estimates are as follows: (i) seventeen arrangements for a total of SDR 2.7 billion that were not anticipated earlier are now projected for 1987 (including the shift of two large arrangements accounting for SDR 1.7 billion of this total); (ii) arrangements for a total of SDR 1.6 billion that were projected earlier are now not expected to materialize during 1987; and (iii) changes in probabilities attached to the likelihood that arrangements would be concluded and in the amounts reported by Area Departments resulted in a net increase of SDR 0.3 billion.

3. New commitments under arrangements in 1988

New commitments under arrangements during 1988, on the assumptions of unchanged policies regarding access and the mix of ordinary and borrowed resources, are very tentatively projected to amount to SDR 3.7 billion, 2/ of which SDR 2.9 billion would be financed with ordinary resources and SDR 0.8 billion with borrowed resources. The projections make no provision for arrangements with many developing countries that are projected in the WEO to have large external deficits and relatively substantial financing needs in the near future. If arrangements with such members were concluded later in 1987 or in 1988, the total of commitments could be substantially greater than currently projected.

1/ These figures reflect adjustments for the probability that individual arrangements will actually be concluded. Without such adjustments, projected commitments under arrangements in 1987 would total SDR 5.5 billion.

2/ These figures reflect adjustments for the probability that individual arrangements will actually be concluded. Without these probability adjustments, projected commitments under arrangements in 1988 would total SDR 5.6 billion.

The proportion of new commitments to be financed with borrowed resources is projected to fall from 54 percent in 1986 to about 36 percent in 1987 and about 22 percent in 1988. This change in the relative amounts of financing is expected to come about mainly because a number of relatively large commitments in 1987 and in 1988 are projected with members that have little or no prior use of Fund credit; these arrangements will not, in many cases, increase the Fund's holdings of these members' currencies beyond 200 percent of quota and will therefore be financed exclusively with ordinary resources. A further contributing factor is that the rising amount of repurchases will restore access to ordinary resources for a number of members, which will increase the proportion of ordinary resources used in financing arrangements projected for them.

4. Other use of Fund resources in 1987 and 1988

(i) Reserve positions in the Fund

Liquid claims on the Fund totaled SDR 37.7 billion as of January 31, 1987, of which SDR 24.4 billion represented reserve tranche positions and SDR 13.3 billion represented loan claims on the Fund. The decline in reserve tranche positions from the level of SDR 25.6 billion at July 31, 1986 is due mainly to net repurchases completed in currencies during the last six month period. Of the total of reserve tranche positions, close to 20 percent (SDR 4.5 billion) was held by countries (excluding Saudi Arabia and the United States) that are expected to experience current account deficits in 1987. Although prospective current account deficits do not, of course, provide a reliable guide to probable drawdowns of reserve positions, they may nevertheless be used as a possible indicator of the firmness with which these positions in the Fund are held.

Provision has again been made in the projections for both 1987 and 1988 for reserve tranche purchases of SDR 1.0 billion. This compares with actual encashment of reserve tranche positions of SDR 0.4 billion during 1986 and SDR 0.2 billion in 1985. As in the past, the amount of SDR 1 billion in the projections is essentially a notional figure to cover encashment of reserve tranche positions by members whose currencies are not usable for transfers under the operational budgets. The possibility of encashment of reserve tranche positions in excess of these notional amounts, or encashment of loan claims (which is not expected during the period under review), is taken into account in the adjustment to the stock of usable resources (see discussion in Section II(1) above).

As mentioned above, over the period under review, total reserve tranche positions are expected to increase somewhat through end-1988 to about SDR 25.3 billion. This projection, combined with a drop in outstanding loan claims of SDR 5.2 billion, can be expected to result in a net reduction in total liquid liabilities of SDR 4.3 billion, to about SDR 33 billion at end-1988.

(ii) Use of Fund resources under special facilities in 1987 and 1988

Purchases under the compensatory financing facility (CF) are projected to total about SDR 2.0 billion in 1987, considerably above purchases in 1985 and 1986 (SDR 0.9 billion and SDR 0.6 billion, respectively). Although greater uncertainty exists in respect of the projections for 1988, it would appear that CF purchases could amount to about SDR 1.0 billion in that year. The decline in the projection for 1988, relative to 1987, reflects a leveling out of the trend in earnings of primary producing countries in 1986 and possibly also in 1987, as discussed in the WEO papers.

(iii) Repayments of EAR and SFF borrowing

As discussed in previous liquidity papers, a mismatch in maturities arises in connection with the repayments of borrowings in connection with the policy of enlarged access, and to a lesser extent, the Supplementary Financing Facility. Repurchases with respect to purchases financed using borrowed resources under both the SFF and the policy of enlarged access commence 3 1/2 years and are completed after 7 years after the date of the purchase. However, resources borrowed under the policy of enlarged access under the 1981 and 1984 short-term agreements, which totaled SDR 4.2 billion as of January 31, 1987, must be repaid 2-2 1/2 years from the date of drawdown. 1/ A further element of mismatch also arises in the case of some calls made on the 1981 medium-term borrowing agreement with SAMA, because the proceeds of drawings have frequently needed to be invested pending disbursement in financing purchases in view of the prodecure of 90 day notice for calls under the agreement. Some mismatch also arises in the case of SFF repayments, as certain SFF borrowing agreements are repayable no later than five years after the date of drawdown, though this will not be significant in 1987 and 1988.

The mismatch in maturities is financed by using ordinary resources to meet the Fund's obligations to make repayments to lenders before the corresponding repurchases are made. The mismatch, which will be reversed as and when these repurchases are received, is projected to evolve as follows through end-1988.

1/ Calls on the 1984 SAMA short-term agreement made after May 1987 will be subject, unless otherwise agreed between SAMA and the Fund, to repayment no later than November 6, 1989 and will thus be subject to a progressive shortening of maturities.

	End 1986	End 1987	End 1988
Cumulative amount	1.1	2.3	3.2
Change during year		1.2	0.9

IV. Availability of the Fund's Resources through 1987 and 1988

1. Uncommitted ordinary resources

The stock of uncommitted ordinary resources (adjusted) is projected to decline during the period through 1988, falling from a level of SDR 28.4 billion at January 31, 1987 to SDR 26.4 billion at end-1987 and SDR 24.1 billion at end-1988. The decline of SDR 2.0 billion during the remainder of 1987 is projected to result from (i) new commitments of ordinary resources of SDR 2.1 billion, drawings under the special facilities of SDR 2.0 billion, reserve tranche purchases of SDR 1.0 billion, and net repayments to EAR and SFF lenders amounting to SDR 1.2 billion and (ii) partially offset by repurchases with respect to ordinary resources amounting to SDR 4.3 billion.

Tentative projections suggest that the stock of uncommitted ordinary resources will decline by a further SDR 2.3 billion in the course of 1988, reflecting estimates of new commitments and other outflows of ordinary resources at about the same levels during 1988 as expected during the remainder of 1987; however, the volume of repurchases of ordinary resources is scheduled to be somewhat lower in 1988 than in 1987. A further reduction in usable ordinary resources due to the weakening in the external positions of some members whose currencies are presently regarded as usable also cannot be ruled out.

2. Uncommitted borrowed resources

As mentioned above, the stock of uncommitted borrowed resources, including the credit lines with SAMA and Japan, amounted to SDR 5.6 as of January 31, 1987. Commitments of borrowed resources are projected to amount to SDR 1.6 billion in 1987 and SDR 0.8 billion in 1988, with the result that the stock of uncommitted borrowed resources is projected to decline to about SDR 3.2 billion by end-1988. This projection suggests that the 1984 credit line with SAMA is likely to be almost fully committed during the course of 1988. For the purposes of these projections, no use of the Japanese loan except for financing EAR purchases has been assumed; other uses are not precluded, and this matter is subject to regular review (see Section V below).

The conclusion of the loan agreement between the Fund and Japan has substantially increased the stock of borrowed resources available to the Fund and provides reasonable assurance, on the basis of current projections, of an adequate supply of credit lines to continue financing the policy of enlarged access through 1988. Even if there were large arrangements not now foreseen, the situation with respect to borrowed resources would probably not change appreciably through end-1988 for reasons given in Section III (3) above, except if there were substantial unanticipated use of borrowed resources under large scale multi-year arrangements or in "exceptional financing" under the enlarged access policy.

As noted above, SAMA has agreed to extend the commitment periods of the 1981 and 1984 borrowing agreements with the Fund beyond the original expiration date of May 6, 1987. However, and as explained in EBS/86/250, there has not been a commensurate extension of maturity dates on the Fund's drawings during the extension periods. Thus, drawings on the 1984 borrowing agreement after May 6, 1987, the final date of the commitment period prior to the extension, must be repaid in November 1989 and will thus have maturities shorter than the 2 1/2 years provided under the original agreement. Drawings made very late during the extended period would have effects on Fund's liquidity that would be increasingly similar to the direct use of ordinary resources in financing purchases of borrowed resources. Possible consideration of an extension of the maturities at some later date has been left open, and it may become desirable to pursue the matter with SAMA at an appropriate point.

In the meanwhile, the staff intends to continue to give primary emphasis to drawdowns on the SAMA credit lines in the period ahead. It is also desirable to maintain investment balances at relatively low levels. For these reasons, calls on the 1986 borrowing agreement with Japan to finance purchases under the policy of enlarged access are likely to be relatively moderate for the foreseeable future. These matters will be kept under consideration in future liquidity reviews. Although the question of more extensive use of the agreement with Japan in the period ahead is discussed in Section V below, no proposals are made at this time. This matter will be considered on the occasion of the next liquidity review, in light of Executive Directors' comments.

V. Management of the Fund's Liquidity--Use of the Borrowing Agreement with Japan and Related Issues

Executive Directors will recall that in connection with the proposed borrowing agreement with Japan approved in December 1986, the staff considered that the availability of these additional resources, and the extension of the commitment periods under the borrowing agreements with SAMA, provided the Fund with an opportunity to reassess the relationship between the availability of and demands for Fund resources and to consider adaptations that would introduce use of the loan from Japan and result generally in a more effective pattern of use of Fund resources.

The suggestions put forward by the staff were intended to meet several objectives: first, to introduce the financing from Japan into the Fund's operations in a way that would be directly supportive of members' efforts to overcome their balance of payments difficulties, which is the basic purpose of the loan; second, to ensure use of the loan in a gradual and measured way, having regard to the possibility of unforeseen demands for Fund resources and the potential value of the loan in such contingencies; third, to assure most efficient utilization of the borrowed resources available to the Fund, bearing in mind the relatively short period in which the resources from SAMA will remain available and the effective shortening of maturities that will occur as drawings are made progressively later in the extended commitment period; and fourth, to offset, to some extent at least, the drain of ordinary resources that is occurring as a result of the use of these resources in repayment of loans used to finance purchases of borrowed resources under the enlarged access policy--i.e., the mismatch.

In order to achieve these objectives, the staff proposed specifically that, subject to continuing review and modification as appropriate, (i) the loan from Japan should be used to finance a part of purchases that would otherwise be financed with ordinary resources under arrangements; (ii) while the loan would also be available for purchases of borrowed resources under the enlarged access policy, emphasis should be given for the time being to use of resources available from SAMA; and (iii) the mix of ordinary and borrowed resources in financing purchases under the enlarged access policy should be modified so as to increase the use of borrowed resources. 1/ The overall effect of the proposed approach would be to conserve ordinary resources, in light of a prospective shift in emphasis toward use of ordinary resources in the financing of purchases and repayment of borrowings, uncertainties about the continued adequacy of the Fund's usable ordinary resources, and the availability of borrowed resources in relation to prospective demands.

While the proposed change in mix under the enlarged access policy was agreed by the Executive Board in December, a number of Executive Directors raised questions about the suggested use of the loan from Japan in substitution for ordinary resources and expressed concern that such use could entail an increase in charges for members using the

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1/ See "Borrowing by the Fund from the Government of Japan," EBS/86/265, 11/25/86, and "Management of the Fund's Liquidity in Connection With the Borrowing Agreement With Japan and the Extension of Drawdown Periods Under the Borrowing Agreements with the Saudi Arabian Monetary Agency (SAMA)," EBS/86/266, 11/25/86.

Fund's ordinary resources. In the event, it was agreed to begin using the loan from Japan in connection with purchases of borrowed resources under the enlarged access policy and to review the approach as needed and in any case in connection with the semi-annual reviews of the Fund's liquidity position. 1/

In the discussion in December, some Executive Directors expressed the view that it would be preferable to consider the staff's proposals in the context of a more comprehensive and updated review of the Fund's liquidity than was available at that time. The present liquidity review essentially confirms the prospects presented in EBS/86/266. As fully explained in the preceding sections, the stock of usable ordinary resources is projected to fall by about SDR 4 billion in the period through end-1988, on the basis of currently foreseeable uses; about one-half of the reduction, some SDR 2 billion, will represent use of ordinary resources to repay borrowing under the enlarged access policy. The agreed change in mix has increased the use of borrowed resources as expected, but there is nonetheless a pronounced shift toward emphasis on use of ordinary resources, both in repayment of borrowings and in financing purchases in the period ahead as many members have substantial unused access to such resources. Present projections suggest that perhaps SDR 1 billion of the borrowed resources available from SAMA will remain unused by the end of 1988 despite the change in mix, assuming a continuation of the enlarged access policy in that year and only moderate use of the loan from Japan in financing enlarged access purchases.

Also in the December discussion, several Executive Directors indicated a preference for use of borrowed resources only in meeting extraordinary demands for Fund resources, such as under the enlarged access policy, and considered that use of the loan from Japan in substitution for ordinary resources, even in part, might be inconsistent with the quota-based nature of the Fund. Others recognized that the Fund faces a growing mismatch between the maturity of its borrowings and repurchases of purchases financed with those borrowings, which represents, in effect, a use of ordinary resources to finance outstanding purchases of borrowed resources under the enlarged access policy. In light of this use of ordinary resources, some expressed the view that it might have been preferable if the loan from Japan could be used to repay earlier borrowings, preserving the Fund's ordinary resources in this way. While such use is not prohibited by the borrowing agreement itself, it was recognized that this would not be consistent with the understandings reached when the loan was offered by Japan.

Utilization of the loan from Japan in part in lieu of ordinary resources in the financing of purchases under arrangements could nonetheless serve to offset or forestall to some extent the drain on

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1/ See the Managing Director's summing up of the discussion on December 19, Buff Statement 86/244, 12/24/86.

ordinary resources represented by the mismatch, and would take place against the general background of a substantial decline in the Fund's overall reliance on borrowed resources in the financing of outstanding credit. As indicated earlier in this paper, the mismatch is currently projected to rise by about SDR 2 billion by end-1988, to a cumulative total of SDR 3.2 billion at that time. Depending on the timing of drawings on existing borrowing arrangements, the cumulative mismatch could rise to some SDR 5 1/2 billion toward the end of 1989--at which point it would represent a commitment of some 20 percent of the present stock of ordinary resources to the financing of enlarged access--and begin to decline gradually thereafter. The mismatch is projected to remain well above SDR 3 billion through the end of 1991 and SDR 1 billion through the end of 1993, being fully reversed only in 1996 as repurchases of purchases of borrowed resources under existing and currently projected arrangements are completed. Overall, it is expected that the mismatch will have averaged roughly SDR 2 1/2 billion per year during the ten-year period 1986-1995, representing a sustained and substantial engagement of ordinary resources in the financing of enlarged access.

In the context of the general decline of the Fund's reliance on borrowing and more specifically of the evolution of the mismatch, the staff would regard some utilization of the loan from Japan in conservation of ordinary resources as consistent with the quota-based nature of the Fund and, indeed, as representing in effect only a relatively limited reversal of the use of ordinary resources in financing enlarged access, which was to have been financed to the maximum extent possible with borrowing on the basis of matching maturities.

Use of the loan from Japan in financing purchases of ordinary resources would be gradual and subject to continuing review by the Executive Board in any event. Nonetheless, it would also be possible, if Executive Directors wished, to consider specific guidelines limiting such use of the loan in relation to the mismatch. For example, it could be agreed that such use of the loan from Japan would not (barring unforeseen contingencies) exceed some fraction of the average mismatch projected to occur through 1996, along the lines calculated above. Alternatively, taking into account the 5-year maturity of drawings on the loan from Japan, it could be provided that further such use would not be made at any point if that would result in outstanding drawings for this purpose that would exceed an agreed fraction of the mismatch projected for 5 years hence. 1/ Limitations along such lines could

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1/ For example, a drawing at the end of 1987 would be repayable at the end of 1992. The mismatch is projected at roughly SDR 2 billion at end-1992. Under such a formulation, further use of the Japanese loan in financing purchases of ordinary resources at the end of 1987 would not be made if it would result in outstanding drawings for this purpose in excess of the agreed proportion of the mismatch after end-1992.

serve both to provide operating guidelines and to avoid any implication of a shift toward reliance on borrowing, as opposed to quotas, in financing the Fund's operations. If Executive Directors wish, the staff would examine these and other alternatives with a view to presenting specific guidelines for consideration by the Board.

Even if so confined, it would remain the case that use of the loan from Japan in substitution for ordinary resources could imply some increase in ordinary charges. In EBS/86/266 it was estimated that, on the basis of interest rates prevailing during the past five years and assuming full use of the Japanese loan to finance purchases of ordinary resources, the effect of such use might be to raise ordinary charges by some 2-3 bases points on average. Calculations on the basis of present interest rates and a more realistic illustration of use of the Japanese loan for this purpose (say, one-half) would yield a much smaller effect on the rate of ordinary charge, on the order of 1/2 of one basis point on average.

The estimated effects on charges of use of the Japanese loan in substitution for ordinary resources thus remain extremely small. The staff considers that this would very likely remain the case, in light of the relatively small differences that normally prevail between the relevant interest rates and the fact that use of the Japanese loan in financing purchases of ordinary resources would be marginal in relation to the balances of the Fund's holdings of currencies that form the basis for calculation of ordinary charges (presently amounting to some SDR 18 1/2 billion). Nevertheless, the effects would be monitored and reported. Should they become significant, this could be taken into account by the Executive Board in considering the subsequent use to be made of the loan from Japan in the course of its periodic reviews of the matter.

In sum, the Fund's present and prospective liquidity remains broadly as foreseen in EBS/86/266. The loan from Japan will begin to be used shortly, in moderate amounts, in the financing of borrowed resources under the enlarged access policy. The staff believes that the considerations underlying the suggestions made for use of the loan also in part in substitution for ordinary resources remain valid. This section has reviewed concerns raised by Executive Directors in December and has discussed some further possibilities intended to respond to concerns that the Fund should remain quota-based and that a part of the loan from Japan should serve as a reserve against unforeseen contingencies. No proposals are advanced at this time for modification of the approach that has been adopted so far. The staff would, however, welcome Executive Directors' further comments on the issues and possibilities discussed, looking toward further consideration of the matter at the time of the next review of the Fund's liquidity position in September 1987.

VI. Conclusions

1. The Fund's stock of usable ordinary resources (adjusted) totaled SDR 28.4 billion as at January 31, 1987 and, although somewhat below recent levels, remains relatively high. Current projections suggest a decline in this total, notwithstanding net repurchases in both 1987 and 1988, to about SDR 24.1 billion by end-1988. This decline is expected to result in part from repayments of Fund borrowings, that are not matched by repurchases. A faster rate of decline could, of course, occur as a result of a weakening of the positions of members whose currencies are presently included in the operational budget, unanticipated demands for Fund resources, or further increases in arrears to the Fund.

2. The availability of borrowed resources has been augmented substantially by the SDR 3 billion borrowing agreement with Japan. The stock of unused borrowed resources (excluding the GAB) has increased to SDR 7.1 billion as of January 31, 1987, as compared with SDR 4.5 billion at the last liquidity review. Uncommitted borrowed resources presently total SDR 5.6 billion and are projected to decline to SDR 4.0 billion at end-1987 and SDR 3.2 billion at end-1988. SAMA has agreed to extension of the commitment periods under the 1981 and 1984 borrowing agreements with the Fund, which would otherwise have expired on May 6, 1987, for six months (for up to SDR 500 million) in the case of the 1981 medium-term agreement and for two years in the case of 1984 short-term agreement for SDR 3 billion. A commensurate extension in the maturities of calls under these agreements has not been provided, but the possibility has been left open that consideration could be given to such an extension at a later date.

3. Commitments under arrangements in 1987, projected at SDR 4.4 billion, are expected to be somewhat higher than in the past two years. For 1988, tentative projections are for commitments under arrangements amounting to SDR 3.7 billion.

4. Purchases during 1987 are projected to increase to about SDR 6.1 billion, compared to SDR 3.8 billion in 1986, reflecting several large arrangements as well as an increase in purchases projected under the special facilities.

5. Taking into account the substantial increase in repurchases, which are scheduled to peak at SDR 7.8 billion in 1987 and decline somewhat to SDR 7.0 billion in 1988, outstanding Fund credit is projected to decrease by SDR 1.7 billion in 1987 and by a further SDR 1.8 billion in 1988. At the same time, large-scale repayments of credit lines will reduce the proportion of Fund credit financed with borrowed resources to levels lower than at any time since the late 1970s.

6. At the present time, the stock of uncommitted ordinary resources is considered fully adequate to meet projected demands through end-1988, subject to the risks and qualifications mentioned. The stock of uncommitted borrowed resources, taking into account the new borrowing agreement with Japan, would be ample to finance the enlarged access policy through 1988 unless there were very substantial unanticipated demands for use of borrowed resources under multi-year arrangements or in exceptional circumstances under the enlarged access policy.

7. While the Fund's liquidity may be judged satisfactory at present and for the period immediately ahead, the prospects over the medium term, and particularly the adequacy of the Fund's holdings of ordinary resources, are considerably more uncertain. In its discussion of the new borrowing agreement with Japan and related issues concerning the management of the Fund's liquidity in December, the Executive Board considered two suggestions designed in part to conserve the Fund's ordinary resources: a change in the mix of ordinary and borrowed resources in financing purchases under the enlarged access policy, and utilization of the loan from Japan in financing a portion of purchases that would otherwise be financed with ordinary resources. With respect to the agreed change in mix, the results presently projected are consistent with those envisaged at the time of the change, and the staff suggests no further modification at this time. With respect to use of the loan from Japan in financing purchases of ordinary resources, this paper has reviewed a number of considerations and concerns raised by Executive Directors at the December meeting. No proposals are advanced at this time. However, the staff would welcome Executive Directors' comments on the issues discussed, looking toward further consideration of the matter in connection with the next review of the Fund's liquidity position in September 1987.

Principal Ratios for Assessing Fund Liquidity

1. The principal financial elements of the Fund's liquidity and its borrowing for the period 1981 through 1988 are set out in Table 1 of the Appendix. On the basis of these data, various ratios have been calculated and are shown in Table 2 of the Appendix.

2. Quota Ratio

The "quota ratio" (line 1), at 35.9 percent at end of January 1987, has increased by 1.7 percentage points from its level at July 31, 1987 (EBS/86/187) due to the net effect of inclusion of the credit line under the borrowing agreement with Japan and 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/

The quota ratio will decline to 31.2 percent at end-December 1987 and to 26.3 percent at end-December 1988 on the basis of the projections in this paper, as repayments made of loans under the SFF and under EAR continue to be made.

Outstanding borrowing as of January 31, 1987 totaled SDR 13.3 billion, or 14.8 percent of total quotas, and is projected to decrease to SDR 11.1 billion by end-1987 and SDR 8.1 billion by end-1988 (12.3 percent and 9.0 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, 1987, this ratio stood at about 76.4 percent, which represents an increase of 1.3 percentage points from the level six months earlier. This increase adds to a substantial gain (4 points) registered in the first half of 1986 (February-July), primarily due to increasing repurchases. However, based on the present list of currencies considered usable and other projections in the paper, the liquidity ratio is expected to decline to 75.6 percent at end-1987 and to 72.8 percent at end-1988 mainly because the use of ordinary resources for purchases under arrangements and the compensatory financing facility and for net repayments of SFF and EAR lenders will exceed repurchases.

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 decline from 116.4 percent at end-January 1987 to 109.5 percent at end-1987 and 95.3 percent at end-1988, reflecting a decrease in the Fund's holdings of usable ordinary resources.

At present, about 18 percent of reserve tranche positions in the Fund (or about SDR 4.5 billion) are held by members expected to have weak current account deficits in 1987 (not including 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 1987, the asset ratio, excluding gold, was 104.8 percent and, including gold, the asset ratio was about 114.3 percent. During the remainder of 1987 both variants of this ratio are expected to rise slightly as a decline in the Fund's holdings of ordinary resources will be more than offset by a decline in total liquid liabilities. Both of the asset ratios are projected to decline by about 3 percentage points in 1988.

5. Ratios of Arrears

Overdue financial obligations to the Fund in the General Resources Account in relation to adjusted usable ordinary resources and credit outstanding (lines 5(i) and 5(ii)) stood at 3.4 percent and 3.1 percent respectively at January 31, 1987, 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
	1981	1982	1983*	1984	1985	1986	1986	1987	1987 (Proj.)	1988 (Proj.)
1. Usable Ordinary Resources (unadjusted)	24.4	17.4	39.8	41.0	38.5	39.2	38.4	39.1	37.0	34.1
of which:										
(a) Adjusted 1/	19.5	14.7	31.6	32.0	29.6	30.1	29.3	29.8	28.0	25.8
(b) Adjusted and uncommitted	15.4	10.8	27.7	30.6	28.0	29.4	28.4	28.4	26.4	24.1
of which: SDR holdings	(5.0)	(3.7)	(7.0)	(5.1)	(3.1)	(2.9)	(1.9)	(2.2)	(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	18.8	17.9	16.8	20.7	19.2	18.2	20.2	20.0	15.8	11.4
(a) Outstanding borrowing										
i) EAR 2/	1.1	2.0	6.2	7.5	9.3	9.6	9.6	9.5	8.7	6.8
ii) of which BRS Accounts	(0.4)	(0.4)	(0.9)	(--)	(0.6)	(0.5)	(0.3)	(0.4)	(0.2)	(0.2)
iii) SFF	3.6	5.3	6.8	6.5	5.4	4.6	3.9	3.8	2.2	0.9
iv) Japan 1986	...	...	...	...	...	...	...	--	0.2	0.4
v) GAB and associated	0.8	0.8	--	--	--	--	--	--	--	--
vi) Other 3/	0.9	0.1	--	--	--	--	--	--	--	--
Total	6.4	8.2	13.0	14.0	14.7	14.2	13.5	13.3	11.1	8.1
(b) Unused credit lines										
i) EAR	8.2	7.3	3.0	6.7	4.5	4.0	3.7	3.7	1.9	0.7
ii) SFF	4.2	2.4	0.8	--	--	--	--	--	--	--
iii) Japan 1986	...	...	...	...	...	...	3.0	3.0	2.8	2.6
Total	12.4	9.7	3.8	6.7	4.5	4.0	6.7	6.7	4.7	3.3
4. Unused GAB and Associated 4/	2.5	2.4	3.2	12.3	12.3	12.3	12.3	12.3	(12.3)	(12.3)
5. Total Liquid Liabilities	21.5	25.9	40.3	42.8	41.7	39.8	38.3	37.7	35.2	33.4
(a) Reserve tranche positions	15.1	17.7	27.3	28.8	27.0	25.6	24.8	24.4	24.1	25.3
(b) Outstanding borrowing	6.4	8.2	13.0	14.0	14.7	14.2	13.5	13.3	11.1	8.1
6. Overdue Financial Obligations in GRA 5/	--	--	0.1	0.2	0.6	0.9	1.0	1.0	...	...
7. Total Fund Credit Outstanding	13.4	19.3	29.9	34.9	35.2	33.9	33.3	32.8	31.6	29.8
8. Total Quotas	60.7	61.1	88.5	89.2	89.3	89.3	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	1981	1982	1983	1984	1985	1986	Jan.87
Adjustment factor	(0.25)	(0.20)	(0.20)	(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 renewed GAB will expire on December 25, 1987 and those figures assume that the GAB will be renewed for a further period prior to its expiry date. 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 1987 and 1988, the figures have been placed in parentheses in order to indicate that no assumption has been made regarding the use of these arrangements.

5/ Overdue repurchases and GRA charges.

Table 2. Fund Liquidity - Selected Ratios

(In percent)

Item	December 31 1981	December 31 1982	December 31 1983	December 31 1984	December 31 1985	Jul.31 1986	Dec.31 1986	Jan.31 1987	Dec.31 1987 (Proj.)	Dec.31 1988 (Proj.)
1. Quota ratio 1/	35.1	33.2	22.6	37.0	35.3	34.2	36.1	35.9	31.2	26.3
2. Liquidity ratio 2/	73.5	43.2	71.0	71.5	68.6	75.1	74.9	76.4	75.6	72.8
3. Cash ratio 3/	102.0	61.0	101.5	106.3	103.7	114.8	114.5	116.4	109.5	95.3
4. Asset ratio 4/										
(i) excluding gold	115.3	68.7	101.0	95.8	93.8	99.8	101.0	104.8	105.7	102.7
(ii) including gold	132.1	82.6	109.9	104.2	102.4	108.8	110.4	114.3	115.9	113.5
5. Ratio of arrears:										
(i) to adjusted usable ordinary resources 5/	--	--	0.3	0.6	2.0	3.0	3.4	3.4	...	...
(ii) to Fund credit outstanding 6/	--	--	0.3	0.6	1.7	2.7	3.0	3.1	...	...

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 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 and charges in GRA as percent of adjusted usable ordinary resources (see Appendix Table 1, lines 6 and 1(a)).

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

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

(In SDR billions)

	1986 (Actual)			1987 1/			1988		
	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	--	--	--	--	--	--	--	--	--
Developing countries	3.8	5.6	-1.8	6.1	7.8	-1.7	5.2	7.0	-1.8
a. By region:									
Africa	0.7	1.5	-0.7	1.2	1.8	-0.6	1.3	1.4	-0.1
Asia	1.2	1.6	-0.4	1.4	1.8	-0.4	0.6	1.8	-1.2
Europe	0.1	0.9	-0.8	0.3	1.4	-1.2	0.5	1.4	-0.9
Middle East	--	--	--	0.1	--	0.1	0.2	--	0.1
Western Hemisphere	1.8	1.6	0.1	3.1	2.7	0.4	2.6	2.3	0.3
b. By financial criteria: 2/									
i. By predominent type of credit:									
Market borrowers	2.3	2.7	-0.4	4.0	4.2	-0.2	3.9	3.6	0.2
Official borrowers	0.6	1.2	-0.7	0.8	1.6	-0.8	0.6	1.4	-0.8
Diversified borrowers	1.0	1.7	-0.7	1.3	2.0	-0.7	0.7	1.9	-1.2
ii. By debt-service experience:									
Recent difficulties	2.7	3.7	-1.0	4.6	5.2	-0.6	4.4	4.3	0.1
Other	1.2	2.0	-0.8	1.5	2.6	-1.1	0.8	2.7	-1.9
Memorandum Item:									
Prolonged users of Fund's resources 3/	1.7	2.3	-0.5	2.0	2.9	-0.8	1.2	2.9	-1.7

Note: Details may not add to totals due to rounding.
1/ Based on actual data through February 26, 1987 and projections for the remainder of 1987.
2/ Based on classification used in World Economic Outlook. See Statistical Appendix, World Economic Outlook - April 1986 (pp. 171-175).
3/ Members making prolonged use of the Fund's resources include countries with arrangements with the Fund for five or more years since 1977 and outstanding use of Fund credit in excess of 200 percent of quota as at February 28, 1987.