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CONFIDENTIAL

August 13, 1986

To: Members of the Executive Board

From: The Acting Secretary

Subject: Review of the Fund's Liquidity - Financing Needs and Financial Considerations for Access Policy in 1987

Attached for consideration by the Executive Directors is a paper on a review of the Fund's liquidity position for the second half of 1986 and for 1987. This subject, together with a paper on preliminary policy considerations of access limits for 1987 (EBS/86/180, 8/8/86) and a paper on review of access limits for special facilities (EBS/86/185, 8/12/86), is scheduled for discussion on Tuesday, September 9, 1986.

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

Att: (1)

INTERNATIONAL MONETARY FUND

Review of the Fund's Liquidity - Financing Needs and Financial
Considerations for Access Policy in 1987

Prepared by Treasurer's Department

Approved by David Williams

August 13, 1986

I. Introduction

This paper reports on the Fund's liquidity position as of July 31, 1986. It also discusses prospective developments in the Fund's liquidity position through the end of 1986, and on the assumption of unchanged policies on access to the Fund's resources, some financial considerations bearing on the financing of enlarged access policy in 1987.

This paper is organized along the following lines: Section II discusses the supply of usable resources as of July 31, 1986; Section III deals with the projected demand on the Fund's resources in the remainder of 1986 and in 1987; Section IV reviews the availability of resources in relation to projected demand through end-1987, and discusses the implications of these projections for access policy in 1987. Section V draws some conclusions. Two appendices are also attached. The first sets out an analysis of the evolution of the ratios used in assessing the Fund's liquidity position, while the second briefly discusses broad trends, past and prospective, in repurchases and repayments to lenders over the ten year period 1981 through 1991 and their impact on the Fund's supply of ordinary resources.

II. The Supply of Resources as of July 31, 1986

1. Ordinary Resources

As of July 31, 1986, the Fund's stock of usable resources totaled SDR 39.2 billion, of which the Fund's holdings of currencies of members considered sufficiently strong to be included for transfers in the current operational budget (EBS/86/118, May 30, 1986) was SDR 36.3 billion, and the balance of SDR 2.9 billion represented SDRs held by the Fund. This compares with a stock of usable resources totaling SDR 38.8 billion (of which SDR 2.9 billion represented SDRs) as of January 31, 1986, as reported in the last liquidity review (EBS/86/55, March 5, 1986).

The Fund's holdings of usable resources were thus SDR 0.4 billion greater than at the time of the last liquidity review, as a result of the following: (i) a net reduction of SDR 0.5 billion due to the exclusion of Algeria from the list of members considered sufficiently strong for their currencies to be used for transfers under the operational budget (Italy, which had been excluded from the March-May 1986 budget was included again for an equivalent amount of usable currency in the June-August 1986 budget); and (ii) net inflows of SDR 0.9 billion in transactions and operations through the General Resources Account, reflecting primarily a rising volume of repurchases.

The list of members considered sufficiently strong for their currencies to be used for transfers under the operational budgets remains relatively long, and still includes all but four of the industrial countries (Australia, Iceland, Luxembourg, and New Zealand) as well as a number of oil-exporting and other developing countries. The staff's view continues to be that exclusion of one or more of the members presently included in the operational budget cannot be precluded in the immediate period ahead in light of the continued difficulties that some of these members are experiencing in their balance of payments and reserve positions; no major additions to the list of usable currencies are currently in prospect. Thus, it is not unlikely that the total of usable currencies will decline from present levels because of changes in the composition of the list of members considered sufficiently strong for their currencies to be used for transfers.

In present 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 9.1 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 1986 and 1987 (see Section III, paragraph 4(i) below). After taking account of the adjustment factor, the total of adjusted usable currencies and SDRs amounted to SDR 30.1 billion at July 31, 1986 (Table 1), or slightly higher than the level at January 31, 1986.

Undrawn commitments of ordinary resources amounted to SDR 0.7 billion as of July 31, 1986 (after deducting amounts totaling SDR 0.3 billion that are not likely to be drawn). ^{1/} Thus the total of adjusted and uncommitted ordinary resources was SDR 29.4 billion at July 31, 1986, compared with SDR 28.5 billion at January 31, 1986.

^{1/} See footnote 1, Table 1.

2. Borrowed resources

Borrowed resources available to finance the policy of enlarged access (unused credit lines and investments) amounted to SDR 4.5 billion at July 31, 1986 (Table 1) while undrawn commitments of borrowed resources were SDR 0.7 billion (after deducting amounts totaling SDR 0.2 billion that are unlikely to be drawn). ^{1/} The stock of uncommitted borrowed resources as of July 31, 1986 thus amounted to SDR 3.8 billion, compared with SDR 4.0 billion as of January 31, 1986.

The Fund has used in full all borrowing agreements arranged to finance the enlarged access policy except the agreements with SAMA. A total of SDR 4.0 billion is currently available under the borrowing agreement with SAMA, of which SDR 1.0 billion remains to be drawn under the 1981 medium-term agreement and the balance of SDR 3.0 billion is available under the 1984 short-term agreement. Drawdowns under these agreements may take place until May 6, 1987 (see Section IV, paragraph 2 for further discussion).

3. Overdue obligations to the Fund

Overdue financial obligations to the General Resources Account amounted to SDR 0.9 billion at July 31, 1986, or an increase of SDR 0.4 billion since the last liquidity review. Overdue obligations thus represent 2.3 percent of the Fund's stock of usable ordinary resources (in contrast to 1.5 percent as at January 31, 1986). While overdue obligations to the General Resources Account at the present level are not regarded as having a material impact on the Fund's immediate liquidity position, the relatively sharp recent upward trend in overdue obligations, if continued, will increasingly affect the Fund's position adversely not only because of the relatively large amounts that would not be included in the Fund's stock of usable resources, but also because such developments could negatively affect perceptions of the Fund's financial integrity and its ability to obtain sufficient funding on similar terms and conditions as in the past. As Executive Directors have recently noted, the longer run liquidity implications of overdue obligations can thus be viewed only with concern.

As in past liquidity exercises, in compiling data relating to Fund's financial position the staff has not made projections as to the likely settlement of existing overdue obligations to the Fund, or that future obligations may become overdue.

^{1/} See footnote 1, Table 1.

Table 1. Estimates of Fund's Usable Resources as of
July 31 and December 31, 1986 and December 31, 1987

(In billions of SDRs)

	End-July 1986	End-1986	End-1987
1. Ordinary Resources			
(i) Usable currencies and SDRs (adjusted)	30.1	28.1	25.5
Less: Members' undrawn balances under commitments	<u>0.7</u> ^{1/}	<u>1.2</u>	<u>0.7</u>
(ii) Uncommitted ordinary resources	29.4	26.9	24.8
2. Borrowed Resources			
(i) Unused EAR credit lines and investments	4.5	3.9	1.6
Less: Members' undrawn balances under commitments	<u>0.7</u> ^{1/}	<u>2.3</u>	<u>1.0</u>
(ii) Uncommitted borrowed resources	3.8	1.6	0.6
Memoranda			
1. Total liquid liabilities	39.8	39.2	37.9
Of which:			
Reserve tranche positions	25.6	25.7	26.4
Outstanding borrowing (loan claims)	14.2	13.5	11.5
2. Total enlarged GAB and associated agreement with Saudi Arabia	18.5	18.5	18.5

^{1/} The amounts have been reduced by SDR 0.3 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.

III. Demand for the Fund's Resources in 1986 and 1987

1. Overview

New commitments under arrangements are projected at SDR 4.9 billion for 1986, or somewhat greater than agreed in 1984 and 1985 (SDR 4.1 billion and SDR 3.3 billion, respectively). Projections for 1987, which should be regarded as very tentative, suggest that commitments under arrangements will decline to a level of about SDR 3.0 billion (Table 2). Projections of commitments (and disbursements) continue to be subject to considerable uncertainties, including the extent to which members will agree programs with the Fund to meet their external financing needs in the light of the evolution of their balance of payments and reserves positions during 1987. The projections for both 1986 and 1987 indicate that with the exception of one extended facility arrangement in 1987, all commitments are expected to be under stand-by arrangements; the projections do not include possible use of Fund resources by any industrial country.

Members' total purchases from the Fund under arrangements and special facilities are projected at SDR 5.2 billion in 1986. Purchases are projected to rise in 1987 to SDR 7.3 billion, as purchases are made under some relatively large stand-by arrangements that are expected to be concluded in the latter half of 1986 and a relatively large increase in purchases projected under the special facilities during that year. At those levels, total purchases in 1986 and 1987 would be notably larger than the SDR 4 billion made during 1985, and only slightly less than the peak levels experienced during the period 1981-1984 when total purchases averaged about SDR 8 billion per year. Total purchases are thus projected to continue at a relatively high level through 1987 despite the expected slowdown in overall commitments next year, as a result of disbursements under programs agreed in prior years and also because of an increase in projected purchases under the Fund's compensatory financing facility.

As discussed in recent liquidity reviews, the volume of repurchases is increasing rapidly and will continue to rise through 1987; repurchases are scheduled to total SDR 7.8 billion in 1987 and SDR 7.0 billion in 1988 (in contrast to a total of SDR 5.8 billion in 1986). ^{1/}

The present projections of purchases and repurchases indicate a relatively small decrease in outstanding Fund credit in 1986 of the order of SDR 0.6 billion to a level of SDR 34.6 billion at end-1986 (outstanding Fund credit declined by SDR 1.3 billion during the first seven months of 1986). Outstanding Fund credit is projected to show

^{1/} Details of flows of actual and projected purchases, repurchases and repayments of loans during the ten year period ending 1991 are set out in Appendix II.

Table 2. Commitments and Changes in Use and Receipt of the Fund's Resources
1985 to 1987

(In billions of SDRs)

	1985 (Actual)	1986			1987
		Jan. 1- Jul. 31	Aug. 1- Dec. 31	Total	
A. Gross New Commitments					
<u>Total</u>	<u>3.3</u>	<u>0.7</u>	<u>4.2</u>	<u>4.9</u>	<u>3.0</u>
Of which:					
Ordinary resources	2.0	0.3	2.0	2.3	2.0
Borrowed resources	1.3	0.4	2.2	2.6	1.0
B. Use and Receipts					
1. <u>Use and Receipt of Ordinary Resources</u>					
a. <u>Purchases</u>					
i) Under arrangements	1.5	1.1 ^{1/}	1.5	2.6	2.5
ii) Under compensatory financing	0.9	0.1	1.4	1.5	2.5
iii) Under buffer stock	--	--	--	--	--
	<u>2.4</u>	<u>1.2</u>	<u>2.9</u>	<u>4.1</u>	<u>5.0</u>
b. <u>Repurchases ^{2/}</u>					
i) Under arrangements	1.0	0.7	0.8	1.5	2.2
ii) Under CFF and buffer stock	<u>1.5</u>	<u>1.3</u>	<u>1.0</u>	<u>2.3</u>	<u>2.4</u>
	<u>2.5</u>	<u>2.0</u>	<u>1.8</u>	<u>3.8</u>	<u>4.6</u>
c. Net change in Fund credit financed by ordinary resources (a-b)	<u>-0.1</u>	<u>-0.8</u>	<u>1.1</u>	<u>0.3</u>	<u>0.4</u>
d. Net repayment to EAR and SFF lenders ^{3/}	0.4	-0.1	--	-0.1	1.2
e. Encashment of reserve tranche positions	0.2	0.1	0.9	1.0	1.0
f. Change in stock of ordinary resources (-(c+d+e))	<u>-0.5</u>	<u>0.8</u>	<u>-2.0</u>	<u>-1.2</u>	<u>-2.6</u>
2. <u>Use and Receipt of Borrowed Resources</u>					
a. Purchases	1.6	0.5	0.6	1.1	2.3
b. Repurchases	<u>1.1</u>	<u>1.0</u>	<u>1.0</u>	<u>2.0</u>	<u>3.2</u>
c. Net change in Fund credit financed by borrowed resources (a-b)	0.5	-0.5	-0.4	-0.9	-0.9
C. Change in Fund Credit Outstanding					
a. Total purchases (1a + 2a)	4.0	1.7	3.5	5.2	7.3
b. Total repurchases (1b + 2b)	3.6	3.0	2.8	5.8	7.8
c. Net change in Fund credit outstanding (1c + 2c)	0.4	-1.3	0.7	-0.6	-0.5
Of which: CFF and buffer stock	-0.6	-1.2	0.4	-0.8	0.1

^{1/} Includes large emergency drawing.

^{2/} Includes sales of currency that reduced obligations due to the Fund.

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

a further decrease of about SDR 0.5 billion (to SDR 34.1 billion at end-1987), though, as mentioned earlier, considerable uncertainties exist with respect to the projections for 1987. 1/ The reduction in Fund credit outstanding reflects the lag in repurchases of about three to four years that occurs after a period of peak use of Fund's resources. The last peak occurred during 1983 when purchases totaled almost SDR 13 billion. Notwithstanding the overall decline in Fund credit outstanding projected for 1987, a number of members, including several with relatively large quotas, are projected to receive net financing from the Fund during this period. The projections for a modest reduction in Fund credit outstanding are consistent with the medium-term character of Fund financing; 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 1980-85. 2/

A net reduction in Fund credit outstanding would normally result in a net increase in usable resources and, to the extent repurchases were effected in currencies, to a reduction in reserve tranche positions. However, in 1987, the portion of the reduction in net use of Fund credit arising from repurchases of borrowed resources will be used to make repayments of loans by the Fund. Furthermore, a substantial proportion of repurchases of ordinary resources will be used to finance loan repayments associated with the mismatch in the maturities in Fund borrowing (see Section 4(iii) below). As a result, the net inflow of ordinary resources through repurchases will partially finance a reduction in the Fund's outstanding borrowing rather than increase its holdings of usable resources. Total reserve tranche positions are thus projected to increase slightly to about SDR 26.4 billion through the end of 1987. Total liquid liabilities, however, are projected to fall from about SDR 39.8 billion at July 31, 1986 to SDR 37.9 billion at end-1987 reflecting a fall in loan claims as repayments are made to both SFF lenders and lenders under the Fund's policy on enlarged access.

1/ The projected reduction in outstanding purchases will be partially offset by the use of Structural Adjustment Facility (SAF) by developing countries during the latter part of 1986 and to a greater extent in 1987. For this reason, these figures overstate somewhat the degree to which members will experience a reduction in balance of payments support from the Fund.

2/ The distribution of purchases, repurchases and the use of Fund credit by region and by analytical category is set out in Appendix III, Table 4.

2. New commitments under arrangements in 1986

Current projections, on a country-by-country basis, indicate that in 1986 the Fund will agree new stand-by arrangements with developing countries for a total of approximately SDR 4.9 billion, of which SDR 2.3 billion would be financed with ordinary resources and SDR 2.6 billion would be financed with borrowed resources (Table 2). 1/

This level of commitments is SDR 0.8 billion greater than the projection for 1986 made in EBS/86/55 (March 5, 1986), and this increase reflects the following shifts in estimates: (i) eighteen arrangements for a total of SDR 0.4 billion that were projected earlier are now not expected to materialize during 1986 (of which twelve arrangements are now projected for 1987 and thus represent a shift in timing); (ii) four arrangements amounting to SDR 0.5 billion which were not anticipated earlier, are now projected for 1986; 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 0.7 billion.

3. New commitments under arrangements in 1987

The projection for 1987, on the assumption of unchanged policies regarding access and assuming the present mix of ordinary and borrowed resources, is that new commitments under arrangements with developing countries will amount to SDR 3.0 billion. These are expected to be financed with SDR 2.0 billion of ordinary resources and SDR 1.0 billion of borrowed resources. 2/ As on the occasion of the last review, many developing countries that are projected in the WEO to have large current account deficits and relatively high debt service requirements in 1987 are not at present projected to make use of Fund's resources.

It is noteworthy that whereas new commitments during 1986 are projected to be financed by ordinary and borrowed resources in roughly equal proportions, commitments during 1987 are projected to be financed largely with ordinary resources, with an implied ratio of ordinary resources to borrowed resources of about 2 to 1. 3/ The change in relative amounts of financing is projected to come about primarily because a number of relatively large commitments in 1987 are projected

1/ These figures reflect adjustments for the probability that individual arrangements will actually be concluded. Without these probability factors, projected commitments under arrangements in 1986 would total SDR 5.9 billion.

2/ These figures reflect adjustments for the probability that individual arrangements will actually be concluded. Without these probability factors, projected commitments under arrangements in 1987 would total SDR 4.5 billion.

3/ The ratio was about 1 1/2 in both 1984 and 1985.

with members that have little or no prior use of Fund credit; these arrangements will not increase 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 volume of repurchases will restore access to ordinary resources for a number of members and will thus tend to increase the proportion of ordinary resources used in financing projected arrangements.

4. Other demand for Fund resources in 1986 and 1987

(i) Reserve positions in the Fund

Liquid claims on the Fund totaled SDR 39.8 billion as at July 31, 1986, of which SDR 25.6 billion represented reserve tranche positions and SDR 14.2 billion represented loan claims on the Fund. The decline in reserve tranche positions from the level of SDR 26.5 billion at end-January is due to net repurchases completed in currencies during this period. Of the total of reserve tranche positions, just over 15 percent (SDR 4.2 billion) was held by countries (excluding Saudi Arabia and the United States) that are expected to experience current account deficits in 1986. Current account deficits do not, of course, provide a reliable guide to probable drawdowns of reserve positions, but they may be used as an indicator of the firmness with which these positions in the Fund are held.

Provision has again been made in the projections for both 1986 and 1987 for reserve tranche purchases of SDR 1.0 billion, which compares with actual encashment of reserve tranche positions of SDR 0.8 billion in 1984 and SDR 0.2 billion in 1985. During the seven months through July 31, 1986, members made reserve tranche purchases of SDR 0.1 billion. As in the past, the amount of SDR 1 billion in the projections is essentially a notional figure. The possibility of encashment of reserve tranche positions in excess of these amounts, or encashment of loan claims (which are not expected during the period under review), is taken into account in the adjustment to the stock of usable resources (see also discussion in Section II, (1) above).

As discussed above, total reserve tranche positions are projected to increase slightly to a level of about SDR 26.4 billion through end-1987, while loan claims are projected to decline by about SDR 2.7 billion during that period. As a result, total liquid liabilities are projected to decline to a total of SDR 37.9 billion by end-1987.

(ii) Use of Fund resources under special facilities
in 1986 and 1987

On the basis of a country-by-country survey, purchases under the compensatory financing facility are projected to total in the order of about SDR 1 1/2 billion during 1986, with most of these purchases materializing toward the end of the year. This projection should be regarded as a general order of magnitude rather than a firm estimate as it includes purchases by several members with large quotas but with widely varying probability factors. The final outcome for 1986 could be substantially greater or less than this projection depending upon which of these members complete CFF purchases. Considerable uncertainty also exists in respect of projections of purchases under the Fund's special facilities for 1987, but it would be reasonable to assume at present that compensatory financing purchases are likely to total in the order of SDR 2 1/2 billion. The projections for purchases under the compensatory financing facility remain at relatively high levels for both 1986 and 1987 due to continued weakness in the balance of payments positions of some primary producing countries (as commodity prices are projected to remain depressed), together with greater access arising from CFF repurchases that are being made by members (Table 2, line (B)(1)(b)). Actual purchases under the compensatory financing facility were SDR 0.8 billion in 1984, SDR 0.9 billion in 1985, and SDR 0.1 billion during the seven month period ending July 31, 1986.

(iii) Repayments of EAR and SFF borrowing

As discussed in previous liquidity papers, a mismatch in maturities arises in connection with the repayments of calls under borrowing arrangements made in connection with the policy of enlarged access that were of a shorter duration than the respective repurchases, and to a lesser extent, in the case of borrowings used to finance SFF purchases. 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 (for an average maturity of about 5-3/4 years). However, in the case of purchases financed by calls on certain SFF borrowing agreements, claims are repayable not later than five years after the date of drawdown, thus giving rise to a temporary mismatch in the maturity of the loan repayments and the corresponding repurchases. The potential mismatch in the case of resources borrowed under the policy of enlarged access is much greater, mainly because borrowings under the 1981 and 1984 short-term agreements, which totaled SDR 4.2 billion as of July 31, 1986, must be repaid 2 to 2-1/2 years from the date of drawdown. An element of mismatch is also possible in the case of borrowing made under the medium-term borrowing agreement with SAMA, because the proceeds of calls are sometimes invested pending disbursement in connection with EAR purchases. In all cases, the

mismatch in maturities is financed by using ordinary resources to meet the Fund's obligations to make repayments to lenders, and is reversed as the corresponding repurchases are made. Repurchases with respect to purchases financed with borrowed resources are scheduled to equal loan repayments by the Fund during the remainder of 1986 (see line B(1)(d) of Table 2). For 1987 repayments of calls on the 1984 short-term borrowing agreements will total SDR 1.5 billion, and there will be virtually no corresponding repurchases (which will begin only in December 1987). However, repurchases will be made of purchases financed under the 1981 short-term borrowing agreements totaling SDR 0.3 billion for which the repayments have been completed, thus augmenting the Fund's ordinary resources. The net use of ordinary resources to finance the maturity mismatch will therefore total SDR 1.2 billion during 1987. ^{1/} As a result, the total temporary involvement of ordinary resources for this purpose will increase from SDR 1.2 billion at July 31, 1986 to SDR 2.4 billion at end-1987.

IV. Availability of the Fund's Resources through 1986 and 1987

1. Uncommitted ordinary resources

The stock of uncommitted ordinary resources (adjusted) is projected to decline from the level of SDR 29.4 billion at July 31, 1986 to SDR 26.9 billion at end-1986 and to SDR 24.8 billion by end-1987 (Table 1). The decline of SDR 2.5 billion during the remainder of 1986 is projected to result from new commitments of ordinary resources amounting to SDR 2.0 billion, drawings under special facilities of SDR 1.4 billion, and reserve tranche drawings of SDR 0.9 billion; these outflows are projected to be partially offset by repurchases with respect to ordinary resources amounting to SDR 1.8 billion.

Tentative projections suggest that the stock of uncommitted ordinary resources (adjusted) will continue to decline, by about SDR 2.0 billion, in 1987. This decline is expected, despite projected net repurchases and a fall off in new commitments entered into in 1987, to result mainly from a high level of purchases under the Fund's special facilities and purchases under commitments entered into in 1986 and a relatively substantial use of ordinary resources to make repayments of loans under short-term EAR borrowing arrangements. A further reduction in usable resources due to the weakening in the external positions of some members whose currencies are presently regarded as usable also cannot be ruled out. Notwithstanding these declines, the stock of uncommitted ordinary resources (adjusted) can be regarded as remaining relatively high through end-1987.

^{1/} During 1987, SFF repayments will be virtually equal to scheduled repurchases of purchases financed by resources borrowed under the SFF.

2. Uncommitted borrowed resources and availability through end-1987

From a level of SDR 3.8 billion at July 31, 1986, the stock of uncommitted borrowed resources is projected to decline to SDR 1.6 billion at end-1986 and to SDR 0.6 billion at end-1987 (Table 1). It would seem unlikely that a commitment gap would emerge by the end of 1987, given not only the relatively large amount of uncommitted borrowed resources that is presently available, but also in view of the relatively small use of borrowed resources in the financing of commitments projected for 1987. It is, however, to be noted that current projections of use of Fund resources do not include use by any industrial country and that projected arrangements for some developing countries with relatively large quotas, which are included with relatively low probabilities, may be agreed for larger amounts than currently indicated.

On a disbursement basis, unused credit lines and investments of borrowed resources totaled SDR 4.5 billion at July 31, 1986 and are projected to fall to SDR 3.9 billion by end-1986 and to SDR 1.6 billion at end-1987.

As mentioned earlier, the Fund has used in full all borrowing agreements arranged to finance the policy on enlarged access, except the short- and medium-term credit lines with SAMA, under which SDR 4.0 billion remains available and can be drawn down until May 6, 1987. Substantial commitments and disbursements of borrowed resources are projected to occur after the final drawdown date. Consequently, the staff is engaged in discussions with the authorities of Saudi Arabia regarding the appropriate utilization of the uncalled credit lines in the light of the expiration of the drawdown periods in May 1987. The projections of uncommitted and undisbursed borrowed resources set out in this paper are based on the assumption that the current total of unused credit lines (plus investments) will remain available for use in financing EAR purchases, either by drawing and investing the proceeds pending their use in financing purchases or by a possible extension of the drawdown period, as was arranged in connection with the short-term borrowing arrangements with the BIS, Belgium and Japan. It would be preferable, from the point of view of the Fund, to minimize the period that undisbursed borrowings under these arrangements are invested before their use in financing EAR purchases. The shorter the period of investment, the shorter would be the period of mismatch and the lower would be the costs for borrowing members, because typically borrowing costs exceed investment returns.

3. Financing the policy on enlarged access in 1987

The Executive Board decision in 1984 to continue the policy on enlarged access provided for annual reviews to consider the future of that policy "in light of all relevant factors, including the magnitude

of members' payments problems and developments in the Fund's liquidity". ^{1/} The paper "Access Limits for 1987 - Preliminary Policy Considerations" (EBS/86/180, August 8, 1986) has analyzed the factors bearing on the need to maintain unchanged the 1986 annual and triannual limits in place for 1987. This paper has set out the factors bearing on the Fund's liquidity position for the remainder of this year and in 1987 on the assumption of unchanged policies on access to the Fund's resources in 1987.

As indicated above, the total of uncommitted usable ordinary resources (adjusted) is projected at the present time to decline by about SDR 4.6 billion, or by about 16 percent, in the period through end-1987. It should not be precluded, however, that a somewhat sharper decline would occur in the event of a deterioration in the balance of payments and reserve position of members whose currencies are included in the operational budget for net sales. It may also be noted that it does not appear likely that there will be significant additions to the list of currencies usable for transfers under the operational budgets in the period immediately ahead as the external positions of members with large quotas that are currently excluded from the budget are not projected to show substantial improvement. In the case of borrowed resources, the current stock is projected to be sufficient to finance commitments through end-1987, with a margin of about SDR 0.6 billion that would be available to meet presently unforeseen commitments, including possible demands by an industrial country or by a developing country with a relatively large quota for an amount appreciably larger than projected at present. Consequently, there does not appear to be a need at this time for the Fund to consider any new borrowing agreements to finance commitments under the Fund's policy on enlarged access in 1986, or, on a somewhat more tentative basis, in 1987. On the basis of these projections, the Fund's overall liquidity position can be expected to remain broadly satisfactory both for the immediate future and, with somewhat less certainty, through end-1987.

It may thus be concluded that although the outlook for the Fund's liquidity position through end-1987 is subject to some degree of uncertainty, the preliminary recommendation with respect to the continuation of the policy on enlarged access in 1987 along the lines proposed in EBS/86/180 (and the limits for special facilities in EBS/86/185) can be supported by available ordinary and borrowed resources without imposing significant strain on the Fund's liquidity. If, contrary to current projections, there were a significant deterioration in the Fund's financial position due to unforeseen changes in the

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

demand or supply of ordinary or borrowed resources, the staff would propose appropriate steps for consideration by the Executive Board, including possible consideration of the appropriate mix of the Fund's resources used to finance arrangements under the enlarged access policy. In sum, though the longer-term uncertainties need to be kept in mind, in particular, the extent to which resources available to the Fund remain usable, the Fund's liquidity position is adequate to support the maintenance of present access limits in 1987 under the various Fund facilities.

V. Summary and Conclusions

1. The stock of uncommitted ordinary resources (adjusted), currently at a level of SDR 29.4 billion, remains relatively high, but is tentatively projected to decline gradually in the period ahead to a level of about SDR 24.8 billion by end-1987. However, a faster rate of decline may occur in the period ahead if the currencies of some larger members are excluded from the operational budget as a result of a weakening of their external positions or if commitments of ordinary resources are made to members that are presently included in the projections with relatively low probabilities. Overdue payments to the General Resources Account currently total SDR 0.9 billion. The relatively sharp recent upward trend in arrears, if continued, would begin to have more noticeable effects on the Fund's overall liquidity position. Overall, however, the stock of uncommitted usable resources is currently at a relatively high level and seems likely to remain adequate over the foreseeable future.

2. Unused borrowed resources available to the Fund presently total SDR 4.5 billion, of which SDR 3.8 billion remain uncommitted. Projections, on the assumption of unchanged access policies, suggest that the total of uncommitted borrowed resources will decline to about SDR 0.6 billion by end-1987; existing unused credit lines and investments can be regarded as being sufficient to finance the continuation of the policy of enlarged access as proposed in EBS/86/180 through end-1987, without the need to seek new borrowing arrangements. The staff is presently engaged in discussions with the Saudi Arabian authorities as regards the appropriate utilization of the uncalled credit lines in the light of the expiration of the drawdown periods in May 1987.

3. Commitments under arrangements in 1986 are projected at SDR 4.9 billion and are thus expected to remain broadly in the same range as in the past two years, although well below the peak levels of commitments reached during the years 1981-1983. On the assumption of unchanged access policies, tentative projections suggest a decline of commitments under arrangements to about SDR 3.0 billion in 1987, though this projection should be regarded as highly tentative. The projections for arrangements in both 1986 and 1987 do not include use by industrial members.

4. Total purchases in 1986 are projected to increase relative to 1985, reaching a level of SDR 5.2 billion, and to increase further in 1987 to SDR 7.3 billion. Of these amounts, purchases under the compensatory financing facility are projected at about SDR 1.5 billion in 1986 and about SDR 2.5 billion in 1987. Taking into account a substantial increase in repurchases, amounting to SDR 5.8 billion in 1986 and SDR 7.8 billion in 1987, outstanding Fund credit is projected to decline by SDR 0.6 billion in 1986 and by SDR 0.5 billion in 1987. In this regard, it is noteworthy that a number of members, reflecting the catalytic role of the Fund, are likely to conclude relatively small arrangements with the Fund over the next eighteen month period.

5. In summary, the Fund's financial position for the period ahead has changed relatively little since the last liquidity review took place in March 1986. The Fund's liquidity position continues to be broadly satisfactory, despite uncertainties regarding the extent to which resources available to the Fund will remain usable in the immediate period ahead. A number of major uncertainties also remain regarding the scale of prospective demand on the Fund's resources, arising primarily from the slower than expected recovery in world output and trade, the continuing difficulties experienced by many heavily indebted developing countries, and the impact on primary producing countries of depressed commodity prices, including oil prices. Nevertheless, on present indications, and barring demands by industrial members (which are not currently anticipated), the current stock of ordinary and borrowed resources at this time appear sufficient to meet prospective demands through end-1987. The Fund's liquidity position can be regarded as adequate to support the maintenance of present access limits in 1987 under the various Fund facilities.

Principal Ratios for Assessing Fund Liquidity

1. The principal financial elements of the Fund's liquidity and its borrowing for the period 1980 through 1987 are set out in Table 1 of Appendix I. On the basis of these data, various ratios have been calculated and are shown in Table 2 of Appendix I.

2. Quota Ratio

The "quota ratio" (line 1), at 34.2 percent at end of July 1986, has declined by 1.0 percentage point from its level at January 31, 1986 (EBS/86/55) due to 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 about 33 percent at December 31, 1986 on the basis of the projections in this paper, as repayments continue to be made of loans under the SFF and under EAR.

Outstanding borrowing as of July 31, 1986 totaled SDR 14.2 billion, or 16 percent of total quotas, and is projected to decrease to about SDR 13.5 billion by end-1986 (15 percent of total quotas).

3. Liquidity Ratios

The "liquidity ratio" (line 2) shows the relationship between the Fund's highly liquid assets (i.e., adjusted and uncommitted ordinary resources and temporary investments in BRS accounts) and the Fund's liquid liabilities in the form of reserve tranche positions and loan claims. At July 31, 1986, this ratio stood at about 75 percent and represents an increase of just over 4 percentage points from the level six months earlier. This increase is primarily due to a large amount of repurchases which exceeded purchases during that period. Based on the present list of currencies considered usable and other projections in the paper, the liquidity ratio is expected to decline to about 69 percent at end-1986 mainly because purchases of ordinary resources under arrangements of SDR 1.5 billion and purchases of SDR 1.4 billion under the compensatory financing facility projected during the remainder of the year exceed repurchases of ordinary resources of SDR 1.8 billion during that period. The liquidity ratio is thereafter projected to fall to about 66 percent by end-1987 primarily as a result of the increase in the volume of purchases projected for 1987.

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

At present, about 15 percent of reserve tranche positions in the Fund (or about SDR 4.2 billion) are held by members with relatively weak current account positions (not including Saudi Arabia and the United States).

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 quick assets and liabilities. This ratio is expected to decline from 115 percent at end-July 1986 to 105 percent at end-1986 and 94 percent at end-1987, reflecting a decrease in the Fund's holdings of usable ordinary resources.

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.

The asset ratio, excluding gold, was at end-July 1986 about 100 percent while, including gold, the asset ratio is about 109 percent. During the remainder of 1986 both variants of this ratio are expected to decline by about 5 percentage points due to a decline in the Fund's holdings of ordinary resources. The asset ratios are projected to decline again slightly next year.

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

Item	December 31						Jan.31	Jul.31	Dec.31	Dec.31
	1980*	1981	1982	1983*	1984	1985	1986	1986	1986 (Proj.)	1987 (Proj.)
1. Usable Ordinary Resources (unadjusted)	29.6	24.4	17.4	39.8	41.0	38.5	38.8	39.2	36.8	34.8
of which:										
(a) Adjusted <u>1/</u>	20.0	19.5	14.7	31.6	32.0	29.6	29.9	30.1	28.1	25.5
(b) Adjusted and uncommitted of which: SDR holdings	18.1 (5.6)	15.4 (5.0)	10.8 (3.7)	27.7 (7.0)	30.6 (5.1)	28.0 (3.1)	28.5 (2.9)	29.4 (2.9)	26.9 (...)	24.8 (...)
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	10.5	18.8	17.9	16.8	20.7	19.2	19.1	18.2	17.2	12.9
(a) Outstanding borrowing										
i) EAR <u>2/</u>	--	1.1	2.0	6.2	7.5	9.3	9.3	9.6	9.7	9.3
ii) of which BRS Accounts	--	(0.4)	(0.4)	(0.9)	(--)	(0.6)	(0.6)	(0.5)	(0.2)	(0.2)
iii) SFF	1.5	3.6	5.3	6.8	6.5	5.4	5.3	4.6	3.8	2.2
iv) GAB and associated <u>3/</u>	0.8	0.8	0.8	--	--	--	--	--	--	--
v) Other <u>4/</u>	1.9	0.9	0.1	--	--	--	--	--	--	--
Total	4.2	6.4	8.2	13.0	14.0	14.7	14.6	14.2	13.5	11.5
(b) Unused credit lines										
i) EAR	--	8.2	7.3	3.0	6.7	4.5	4.5	4.0	3.7	1.4 <u>5/</u>
ii) SFF	6.3	4.2	2.4	0.8	--	--	--	--	--	--
Total	6.3	12.4	9.7	3.8	6.7	4.5	4.5	4.0	3.7	1.4 <u>5/</u>
4. Unused GAB and Associated <u>3/</u>	2.6	2.5	2.4	3.2	12.3	12.3	12.3	12.3	12.3	12.3
5. Total Liquid Liabilities	16.8	21.5	25.9	40.3	42.8	41.7	41.1	39.8	39.2	37.9
(a) Reserve tranche positions	12.6	15.1	17.7	27.3	28.8	27.0	26.5	25.6	25.7	26.4
(b) Outstanding borrowing	4.2	6.4	8.2	13.0	14.0	14.7	14.6	14.2	13.5	11.5
6. Total Fund Credit Outstanding	8.5	13.4	19.3	29.9	34.9	35.2	35.1	33.9	34.6	34.1
7. Total Quotas	59.6	60.7	61.1	88.5	89.2	89.3	89.3	89.3	90.0 <u>6/</u>	90.0 <u>6/</u>

* 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	1980	1981	1982	1983	1984	1985	Jul.1986
Adjustment factor	(0.40)	(0.25)	(0.20)	(0.20)	(0.25)	(0.25)	(0.25)

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

3/ 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 1986 and 1987, the figures have been placed in parentheses in order to indicate that no assumption has been made regarding the use of these arrangements.

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

5/ The arrangement with SAMA expires on May 6, 1987; see Section IV(3) of text.

6/ Includes Poland and Kiribati.

Table 2. Fund Liquidity - Selected Ratios

(In percent)

Item	December 31						Jan.31	Jul.31	Dec.31	Dec.31
	1980	1981	1982	1983	1984	1985	1986	1986	1986	1987
									(Proj.)	(Proj.)
1. Quota ratio <u>1/</u>	22.0	35.1	33.2	22.6	37.0	35.3	35.2	34.2	32.8	28.0
2. Liquidity ratio <u>2/</u>	107.7	73.5	43.2	71.0	71.5	68.6	70.8	75.1	69.1	66.0
3. Cash ratio <u>3/</u>	143.7	102.0	61.0	101.5	106.3	103.7	107.5	114.8	104.7	93.9
4. Asset ratio <u>4/</u>										
(i) excluding gold	176.2	115.3	68.7	101.0	95.8	93.8	95.9	99.7	94.4	92.3
(ii) including gold	197.6	132.1	82.6	109.9	104.2	102.4	104.6	108.8	103.6	101.8

1/ The quota ratio, as defined under the decision on guidelines for borrowing, is the ratio of the total of outstanding borrowing, unused credit lines and unused resources in the (conditional) GAB category to total quotas (see Appendix Table 1, lines 3, 4, and 7).

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).

Repurchases and Repayments of Borrowings and the Impact on
The Fund's Ordinary Resources
During the Period 1981-1991

This Appendix briefly describes the flows of repurchases and repayments of loans made in connection with the financing of purchases through end-1987 and the likely impact of these flows on the stock of the Fund's ordinary resources through 1991. Relevant data are provided in Table 3, Appendix II.

Total repurchases fluctuated in a relatively narrow range of around SDR 2 billion during the four year period 1981 through 1984; during this same period total purchases increased rapidly, peaking at about SDR 13 billion in 1983, as the Fund responded to the financing needs of members arising from the world recession and the debt crisis. This acceleration of purchases was reflected in an increase in scheduled repurchases in 1985 and 1986; the peak in repurchases is scheduled to be reached in 1987, or about four years after the peak in purchases, when repurchases are projected to total SDR 7.8 billion. ^{1/} During the period 1988 through 1991, repurchases are projected to fluctuate in the range of about SDR 6-1/2 to 7-1/2 billion.

Increased repurchases in 1986 are expected to result in net reflows of ordinary resources amounting to SDR 4.8 billion, after taking account of repayments of loans by the Fund totaling SDR 1 billion in that year. In 1987 and 1988, however, and notwithstanding a continued high level of repurchases, such net reflows will fall to SDR 3.5 billion and SDR 2.6 billion, respectively, as a result of substantially larger repayments of borrowings by the Fund during those years, including, in particular, repayment of borrowings under the 1984 short-term borrowing agreements. As discussed in Section III(4)(iii) above, a temporary mismatch of maturities exists in connection with these agreements, which results in the temporary substitution of ordinary for borrowed resources.

Beginning in 1989, however, repurchases of purchases financed with calls made under the 1984 short-term borrowing agreements will begin to augment the Fund's usable resources, when the net effect on ordinary resources of repurchases less repayments of borrowings will rise to over SDR 3 billion. Such net reflows of ordinary resources (including repurchases of purchases projected through end-1987) are projected to rise to the range of about SDR 5-6 billion annually during 1990 and 1991.

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

Table 3: Projected Repurchases, Repayments to Lenders and the
Consequent Effect on Ordinary Resources
1981-1991

(In billions of SDRs)

Calendar Year	Total Repurchases			Repayments to Lenders <u>1/</u> (4)	Net Effect on Ordinary Resources (3)-(4) (5)	Memorandum Item <u>Total</u> Purchases <u>2/</u> (6)
	Of purchases through 7/31/86 (1)	Of sub- sequent purchases through 12/31/87 (2)	Total (3)			
1981	2.1	--	2.1	1.0	1.1	6.8
1982	1.6	--	1.6	0.7	0.9	7.4
1983	2.0	--	2.0	1.1	0.9	12.6
1984	2.3	--	2.3	1.5	0.8	7.3
1985	3.6	--	3.6	1.5	2.1	4.0
1986	5.8	--	5.8	1.0	4.8	5.2
1987	7.8	--	7.8	4.3	3.5	7.3
1988	7.0	--	7.0	4.4	2.6	...
1989	6.4	0.1	6.5	3.2	3.3	...
1990	4.7	2.7	7.4	2.3	5.1	...
1991	<u>2.3</u>	<u>4.7</u>	<u>7.0</u>	<u>0.9</u>	<u>6.1</u>	<u>...</u>
Total	45.6	7.5	53.1	21.9	31.2	50.6

1/ Assumes use of borrowed resources totalling SDR 2.9 billion to finance EAR purchases through end-1987.

2/ Excludes reserve tranche purchases.

Table 4: Purchases, Repurchases and Use of Fund Credit -
Distributed by Region and by Analytical Criteria

(In SDR billions)

	1985 (Actual)			1986 1/			1987		
	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	4.0	3.6	0.4	5.2	5.8	-0.6	7.3	7.8	-0.5
a. By region:									
Africa	0.9	0.7	0.2	0.9	1.5	-0.6	1.9	1.8	0.1
Asia	0.9	1.6	-0.7	1.3	1.6	-0.3	2.3	1.8	0.5
Europe	0.3	0.8	-0.5	0.1	0.9	-0.8	0.2	1.4	-1.2
Middle East	0.1	0.1	--	--	--	--	--	--	--
Western Hemisphere	1.8	0.4	1.4	2.9	1.8	1.1	2.9	2.8	0.1
b. By financial criteria: 2/									
i. By predominant type of credit:									
Market borrowers	2.4	1.6	0.8	3.6	2.9	0.7	4.9	4.3	0.6
Official borrowers	0.8	0.8	--	0.8	1.3	-0.5	0.8	1.6	-0.8
Diversified borrowers	0.8	1.2	-0.4	0.8	1.6	-0.8	1.6	1.9	-0.3
ii. By debt-service experience:									
Recent difficulties	3.2	1.6	1.6	4.0	3.7	0.3	4.5	5.2	-0.7
Other	0.8	2.0	-1.2	1.2	2.1	-0.9	2.8	2.6	0.2
Memorandum Item:									
Prolonged users of Fund's resources 3/	1.3	1.2	0.1	1.9	1.9	--	1.8	2.2	-0.4

1/ Based on actual data through July 31, 1986 and projections for the remainder of 1986.

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 five or more arrangements since 1976 and outstanding use of Fund credit in excess of 200 percent of quota as at May 31, 1986.