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EBS/86/55

CONFIDENTIAL

March 5, 1986

To: Members of the Executive Board
From: The Secretary
Subject: Review of the Fund's Liquidity and Financing Needs

The attached paper on the review of the Fund's liquidity position and prospective developments in its financial position through 1987 is proposed to be scheduled for discussion on Friday, March 28, 1986.

Mr. D. 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 and Financing Needs

Prepared by the Treasurer's Department

Approved by W.O. Habermeier

March 4, 1986

I. Introduction

This paper reviews the Fund's liquidity position as of January 31, 1986, and discusses prospective developments in the Fund's liquidity position through 1987 based on the assumption of unchanged policies on access to the Fund's resources.

The review is organized along the following lines: Section II discusses the supply of resources as of January 31, 1986; Section III deals with the projected demand on the Fund's resources in 1986 and 1987; Section IV reviews the availability of resources in relation to projected demand through 1987, including a discussion of financing that the Fund may be called upon to provide in 1986 and 1987, and comments briefly on the medium-term outlook beyond 1987; and Section V draws some conclusions. An appendix is attached which discusses the evolution of the ratios used in assessing the Fund's liquidity position.

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

1. Ordinary Resources

As of January 31, 1986, the Fund's stock of usable resources totaled SDR 38.8 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/85/267, December 9, 1985) was SDR 35.9 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 42.2 billion (of which SDR 4.1 billion represented SDRs) as of July 31, 1985, as reported for the last liquidity review (EBS/85/186, August 7, 1985).

The Fund's holdings of usable resources were therefore SDR 3.4 billion lower than at the time of the last liquidity review, as a result of the following: (i) a net reduction of SDR 3 billion due to the exclusion of two members (Australia and China) from the list of members considered sufficiently strong for their currencies to be used for transfers under the operational budgets and the addition of Algeria to the list; and (ii) net outflows of SDR 0.4 billion in transactions and operations through the General Resources Account. The decline in the

Fund's SDR holdings of SDR 1.2 billion in the six months ending January 31, 1986 is consistent with the Board's decision to reduce the Fund's SDR holdings to a level of approximately SDR 2.5 billion by May 31, 1986. 1/

The list of countries considered strong remains relatively long and includes all but four of the industrial countries (Australia, Iceland, Luxembourg, and New Zealand) as well as a number of oil-exporting and developing members. In light of the continued weakening of the balance of payments and reserve positions of some of these members, reflecting in some cases developments in commodity prices, there remains the possibility that there will be further exclusions of members in the period ahead from the list of strong members. In the budget for the period March-May 1986, the staff has proposed the exclusion of Italy which, if accepted by the Board, would reduce usable ordinary resources by about SDR 1.9 billion. Further reductions over the coming year cannot be precluded, and no large additions are in prospect.

The staff has again considered whether it would be appropriate to change the adjustment factor from the level of one-fourth that has been applied since the March 1984 liquidity review. It is considered that an adjustment factor of one-fourth, which reduces the total of usable resources by almost SDR 9 billion, should be adequate to take account of the weakening of some members' balance of payments positions noted above and the Fund's need to maintain working balances of individual currencies. This adjustment of about SDR 9 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 that has been included in Table 2 for 1986 as well as for 1987. After taking account of the adjustment factor, the total of adjusted usable currencies and SDRs amounted to SDR 29.9 billion at January 31, 1986 (Table 1), as compared with SDR 32.7 billion at July 31, 1985.

Undrawn commitments of ordinary resources amounted to SDR 1.4 billion (after deducting amounts totaling SDR 0.4 billion that are not likely to be drawn). 2/ Thus, the total of adjusted and uncommitted ordinary resources was SDR 28.5 billion at January 31, 1986, compared with SDR 31.0 billion at July 31, 1985.

2. Borrowed Resources

Borrowed resources available to finance the policy of enlarged access amounted to SDR 5.1 billion at January 31, 1986 (Table 1). Undrawn commitments of borrowed resources were SDR 1.1 billion (after deducting amounts totaling SDR 1.7 billion that will not be drawn). 2/

1/ Executive Board Decision No. 7941-(85/50)S, adopted March 29, 1985.

2/ See footnote 2, Table 1.

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

(In billions of SDRs)

	End-January 1986	End-1986	End-1987
<u>1. Ordinary Resources</u>			
(i) Usable currencies and SDRs (adjusted) ^{1/}	29.9	28.8	27.4
Less: Members' undrawn balances under commitments	<u>1.4</u> ^{2/}	<u>1.2</u>	<u>1.0</u>
(ii) Uncommitted ordinary resources	28.5	27.6	26.4
<u>Borrowed Resources</u>			
(i) Unused EAR credit lines and investments	5.1	3.7	1.9
Less: Members' undrawn balances under commitments	<u>1.1</u> ^{2/}	<u>1.8</u>	<u>0.7</u>
(ii) Uncommitted borrowed resources	4.0	1.9	1.2
<u>Memoranda</u>			
1. Total liquid liabilities	41.1	39.3	36.2
Of which:			
Reserve tranche positions	26.5	25.6	25.0
Outstanding borrowing (loan claims)	14.6	13.7	11.2
2. Total enlarged GAB and associated agreement with Saudi Arabia	18.5	18.5	18.5

^{1/} See Appendix Table 1, lines 1 and 1a.

^{2/} The amounts have been reduced by SDR 0.4 billion of ordinary resources and SDR 1.7 billion of borrowed resources to adjust for: (i) undrawn balances under arrangements that are inoperative and will not be drawn; and (ii) a small additional amount reflecting past experience that balances under existing operative arrangements may not be fully utilized.

The stock of uncommitted borrowed resources as of January 31, 1986 thus amounted to SDR 4.0 billion, compared with SDR 3.5 billion as of July 31, 1985. The increase in the Fund's uncommitted borrowed resources resulted mainly from the release of undrawn balances under a large arrangement in an amount that was in excess of new commitments made since July 31, 1985.

The 1984 borrowing agreements with the BIS, Japan and the National Bank of Belgium (as extended) have now been drawn down in full. A total of SDR 4.3 billion currently remains available under the borrowing agreements with SAMA, of which a total of SDR 1.3 billion remains to be drawn under the 1981 medium-term agreement and SDR 3.0 billion continues to be available under the 1984 short-term agreement. The Fund has used in full all borrowing agreements arranged to finance the enlarged access policy except the agreements with SAMA. Drawdowns under these agreements with SAMA may take place until May 6, 1987.

3. Overdue obligations to the Fund

Overdue financial obligations to the General Resources Account in early March amounted to SDR 0.6 billion, or SDR 0.2 billion more than on the occasion of the last liquidity review. As in past liquidity exercises, the staff has made no assumptions with regard to the settlement of existing overdue obligations to the Fund or the likelihood that any future obligations may become overdue. The overdue obligations amount to about 1.5 percent of the Fund's stock of usable ordinary resources. At that level, they are not regarded as having a material impact on the Fund's immediate liquidity position. Nevertheless, the longer term implications are of substantial concern. Should overdue obligations persist or show a tendency to increase over time, such developments could adversely affect perceptions of the Fund's financial integrity and its ability to obtain sufficient funding.

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

1. Overview

New commitments under arrangements in 1986, projected at SDR 4.1 billion, are expected to be close to the actual level in 1984 (SDR 4.1 billion) and SDR 800 million more than the level of arrangements in 1985 (SDR 3.3 billion). Projections for 1987, which must at this stage be regarded as highly tentative, suggest a total of commitments of the order of SDR 2.7 billion for that year. As discussed further in section 3 below, there are considerable uncertainties regarding members' external financing requirements in 1987 as well as the scale of the Fund's involvement in providing such financing. The projections for 1987 (as for 1986) also do not include any use of Fund resources by industrial countries.

Members' purchases from the Fund are projected to total about SDR 5.5 billion in 1986 and in 1987, compared with SDR 4.0 billion in 1985 and an average of about SDR 8 billion per year in the period 1981-84. Thus, in spite of the projected slowing of new commitments, the level of purchases is expected to remain at a fairly high level until end-1987. As regards repurchases, a rapid build-up will occur from mid-1986 (including larger repurchases with respect to purchases under the special facilities), with total repurchases amounting to SDR 6 billion in 1986 and almost SDR 8 billion in 1987. 1/

The projections of purchases and repurchases indicate some net decrease in outstanding Fund credit during 1986. (The current WEO exercise, which does not generally attempt to project for prospective arrangements, also projects a reduction in Fund credit outstanding of about SDR 1.6 billion.) Although, as noted, considerable uncertainties surround the projections for 1987, the present indication is that there would be a more substantial reduction in outstanding Fund credit in 1987, perhaps of the order of SDR 2 billion, or about 6 percent of the present outstanding total of SDR 35 billion. This projected evolution reflects the medium-term character of Fund financing and the very large net expansion of financing provided by the Fund, over SDR 27 billion, in the period 1980-85.

2. New commitments under arrangements in 1986

It is projected, on a country-by-country basis, that in 1986 the Fund will enter into new arrangements with developing countries totaling about SDR 4.1 billion, of which SDR 2.0 billion will be financed with ordinary resources and SDR 2.1 billion will be financed with borrowed resources (Table 2). 2/

Although this level of commitments is only SDR 0.1 billion less than the projection for 1986 made on the occasion of the last liquidity review (EBS/85/186), there have been substantial underlying changes. These are as follows: (i) eight arrangements (plus one augmentation of an existing agreement) for a total of SDR 1.2 billion that were projected earlier are now not expected to materialize; (ii) six arrangements amounting to SDR 1.0 billion were not anticipated earlier and are now projected for 1986; and (iii) changes in probabilities attached to

1/ Details of flows of repurchases and repayments of loans through 1990 were set out in EBS/85/186, August 7, 1985, Appendix II. These data are still representative.

2/ These figures have been adjusted by taking into account probabilities that arrangements will actually be concluded. Without these probability factors, projected arrangements in 1986 would total SDR 7.0 billion.

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 (Proj.)
		Jan. 1- Jan. 31 (Actual)	Feb. 1- Dec. 31 (Proj.)	
A. Gross New Commitments				
<u>Total</u>	<u>3.3</u>	<u>--</u>	<u>4.1</u>	<u>4.1</u>
Of which:				
Ordinary resources	2.0	--	2.0	2.0
Borrowed resources	1.3	--	2.1	2.1
B. Use and Receipts				
1. <u>Use and Receipt of Ordinary Resources</u>				
a. <u>Purchases</u>				
i) Under arrangements	1.5	0.3 ^{1/}	2.2	2.5
ii) Under compensatory financing	0.9	--	1.6	1.6
iii) Under buffer stock	--	--	--	--
	<u>2.4</u>	<u>0.3</u>	<u>3.8</u>	<u>4.1</u>
b. <u>Repurchases ^{2/}</u>				
i) Under arrangements	1.0	0.1	1.5	1.6
ii) Under CFF and buffer stock	1.5	0.1	2.2	2.3
	<u>2.5</u>	<u>0.2</u>	<u>3.7</u>	<u>3.9</u>
c. Net change in Fund credit financed by ordinary resources (a-b)	<u>-0.1</u>	<u>0.1</u>	<u>0.1</u>	<u>0.2</u>
d. Net repayment to EAR and SFF lenders ^{3/}	0.4	-0.1	--	-0.1
e. Encashment of reserve tranche positions	0.2	--	1.0	1.0
f. Change in stock of ordinary resources (-(c+d+e))	<u>-0.5</u>	<u>--</u>	<u>-1.1</u>	<u>-1.4</u>
2. <u>Use and Receipt of Borrowed Resources</u>				
a. Purchases	1.6	--	1.4	1.4
b. Repurchases	1.1	0.2	1.9	2.1
c. Net change in Fund credit financed by borrowed resources (a-b)	0.5	-0.2	-0.5	-0.7
C. Change in Fund Credit Outstanding ^{4/}				
a. Total purchases (1a + 2a)	4.0	0.3	5.2	5.5
b. Total repurchases (1b + 2b)	3.6	0.4	5.6	6.0
c. Net change in Fund credit outstanding (1c + 2c)	0.4	-0.1	-0.4	-0.5
Of which: CFF and buffer stock	-0.6	-0.1	-0.6	-0.7

^{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.

^{4/} Includes projections discussed in this paper of purchases under prospective arrangements as well as projected purchases under special facilities.

the likelihood that arrangements would be concluded resulted in a net increase of SDR 0.1 billion. Among the eight members with whom arrangements are now not expected to materialize during 1986, current projections suggest that five members may enter into new commitments with the Fund in 1987 for a total of about SDR 0.5 billion, which indicates a partial carry-forward of projected commitments from 1986 to 1987.

3. New commitments under arrangements in 1987

The projection for 1987 is for total new commitments with developing countries of SDR 2.7 billion, on the assumption of unchanged policies regarding access and the mix of ordinary and borrowed resources. The total new commitments in 1987 are projected to be financed with SDR 2.0 billion of ordinary resources and SDR 0.7 billion of borrowed resources. The estimate of new commitments for 1987 must be regarded as highly tentative partly in view of the considerable uncertainties regarding the size and financing of members' external deficits in 1987, the availability of balance of payments financing from various sources, and the potential demand for Fund financing. It is to be noted that many developing countries that are projected in the WEO exercise to have large current account deficits and relatively high debt service requirements in 1987 are either not at present projected to make use of Fund resources in 1987 or are included in the projections for relatively small amounts. Moreover, the potential implication for demand for Fund credit arising from oil and other commodity price declines cannot yet be fully assessed, and there is at present no projected use by industrial countries.

4. Other demand for Fund resources in 1986 and 1987

(i) Reserve positions in the Fund. Liquid claims on the Fund totaled SDR 41.1 billion on January 31, 1986, of which SDR 26.5 billion represented reserve tranche positions and SDR 14.6 billion represented loan claims on the Fund. Of this total, about 10 percent (SDR 4.4 billion) was held by countries (excluding Saudi Arabia and the United States) that are expected to be in current account deficit positions 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 one indicator of the firmness with which these positions in the Fund are held.

Provision has again been made in the projections for reserve tranche purchases of SDR 1.0 billion during the remainder of 1986, and the same amount is also included for 1987. These amounts compare with actual encashment of reserve tranche positions of SDR 0.8 billion in 1984 and SDR 0.2 billion in 1985. The possibility of encashments of reserve tranche positions in excess of these amounts, or encashment of loan claims (which is not expected), is taken into account in the adjustment to the stock of usable resources (see discussion in Section II, (1) above).

(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 SDR 1.6 billion in 1986, compared with a projection of SDR 1.0 billion in the last liquidity review. The increase in the projection for 1986 reflects primarily the weakness in certain commodity prices and the resulting weakening in the balance of payments positions of some primary producing countries. Greater uncertainties attach to any projection for 1987 but as a rough order of magnitude it would not be unreasonable to assume the same total of CFF purchases in 1987 as in 1986, i.e., SDR 1.6 billion. Actual purchases under the compensatory financing facility were SDR 0.8 billion in 1984 and SDR 0.9 billion in 1985. It is unlikely that there will be purchases under the buffer stock financing facility through the end of 1987.

(iii) Repayments of EAR and SFF borrowing. Repurchases of 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 no 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 calls under the 1981 and 1984 short-term agreements, which totaled SDR 4.2 billion as of January 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. In all cases, this 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 of purchases financed with borrowed resources are scheduled to exceed, by an amount of SDR 0.1 million, loan repayments by the Fund during 1986 (see line B(1)(d) of Table 2). For 1987 repayments of calls on the 1984 short-term borrowing agreements will total SDR 1.4 billion, and there will be virtually no corresponding repurchases (which will begin in December 1987). However, there will be some repurchases of purchases financed under the 1981 short-term borrowing agreements totaling SDR 0.2 billion for which the repayments have been completed. The net use of ordinary resources to finance the maturity mismatch will therefore total SDR 1.2 billion during 1987. As a result, the total temporary involvement of ordinary resources for this purpose will increase from SDR 1.2 billion at January 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 marginally from the level of SDR 28.5 billion on January 31, 1986 to SDR 27.6 billion at the end of 1986 and to SDR 26.4 billion by end-1987 (see Table 1). ^{1/} The decline of SDR 0.9 billion during the remainder of 1986 is projected to result from new commitments of ordinary resources amounting to SDR 2.0 billion, drawings under the special facilities of SDR 1.6 billion, and reserve tranche drawings of SDR 1.0 billion, with these outflows being partially offset by repurchases with respect to ordinary resources which are scheduled to amount to SDR 3.7 billion.

The outlook for 1987 is highly tentative, reflecting the substantial uncertainties regarding use of Fund resources and the possibility that the total of usable currencies may decline because of a weakening of some creditor members' external financial positions. Nevertheless, reflecting in part large-scale repurchases and the projected decline in commitments of ordinary resources, on present indications the Fund's stock of uncommitted ordinary resources (adjusted) is projected to decline to about SDR 26 billion by end-1987.

2. Uncommitted borrowed resources

As mentioned above, the stock of uncommitted borrowed resources amounted to SDR 4.0 billion on January 31, 1986. Commitments of borrowed resources are projected at SDR 2.1 billion during the remainder of 1986 and SDR 0.7 billion in 1987. The decline in projected commitments of borrowed resources in relation to ordinary resources during 1987 (i.e., SDR 0.7 billion of borrowed resources as compared to SDR 2.0 billion of ordinary resources) is due to the fact that most members for which arrangements are projected do not have significant amounts of Fund credit outstanding, and most of the total of commitments to these members is therefore expected to be financed from ordinary resources.

3. Availability of borrowed resources

The present projections suggest that amounts available under existing credit lines would be sufficient to continue financing the policy on enlarged access through 1987 in the absence of commitments involving

^{1/} There would be a further decline in adjusted ordinary resources of the order of SDR 1.5 billion at end-1986 and end-1987 if Italy is excluded from the list of members considered sufficiently strong as discussed in Section II (1) above.

borrowed resources to industrial countries. However, if relatively large and unforeseen arrangements not now projected are concluded, or if a large arrangement presently assigned a low probability would actually materialize, the situation with respect to borrowed resources would be tighter in 1987 than suggested by the projections.

On a disbursement basis, unused credit lines and investments available to finance purchases under enlarged access totaled SDR 5.1 billion on January 31, 1986; total disbursements of borrowed resources are projected at SDR 3.2 billion through end-1987, leaving a balance of undisbursed borrowed resources of SDR 1.9 billion at that time.

As noted earlier, the Fund has used in full all borrowing agreements arranged to finance enlarged access policy, except the credit lines with SAMA under which drawdowns may take place until May 6, 1987. Substantial amounts of commitments and disbursements of borrowed resources projected in this paper would take place well after that final drawdown date. The staff has started to discuss this issue with the authorities of Saudi Arabia and will revert to the issue in the next liquidity review.

4. Some considerations regarding the medium-term outlook

A number of Directors have raised the question of the medium-term outlook of the Fund's liquidity position, particularly in relation to the timing of the work on the Ninth General Review of quotas, which is scheduled to start in the latter part of 1986.

On the whole, the Fund's overall liquidity position for the period ahead is currently projected to remain satisfactory, although subject to substantial uncertainties which must be borne in mind. The Fund's holdings of usable resources are still relatively high. Although further declines from the recent high levels are expected, the Fund's resources for the present appear likely to be adequate to meet demands through 1988. There are at present indications that new commitments of the Fund's resources will slow somewhat in 1987, with limited use currently projected for that year by developing members with larger quotas and no use by industrial countries. A substantial increase in repurchases will take place from the second half of 1986 through end-1988. Outstanding Fund credit will probably decline somewhat in 1986, and is projected to decline by a larger amount in 1987. The liquidity and asset ratios are projected to remain steady in 1986 and rise somewhat in 1987 (see Appendix).

The satisfactory position of the Fund's overall liquidity and, in particular the relatively large stock of usable ordinary resources, reflects in substantial part the borrowing that the Fund has arranged over the last several years to supplement those resources and the remaining unused line of credit on which it intends to rely. Moreover, there are certain elements of potential weakness in the medium-term. As regards demands on the Fund's resources, uncertainties arise from the

recent decreases in certain commodity prices, in particular the recent sharp declines in oil prices; the external positions of heavily indebted developing countries and the Fund's role in meeting their financing requirements; and the possibility of use of Fund resources by one or more of the industrial countries. Uncertainties also exist with regard to the degree and extent to which the resources available to the Fund would be usable in the period ahead. These factors, particularly if they were to combine, could substantially alter the satisfactory liquidity position that currently prevails.

V. Summary and Conclusions

1. The Fund's stock of usable resources, though somewhat lower than recent peak levels primarily as a result of reductions in the list of usable currencies, remain relatively high. At the end of January 1986, the total of uncommitted ordinary resources (adjusted) amounted to SDR 28.5 billion, and the total of uncommitted borrowed resources was SDR 4.0 billion. The stock of usable resources may decline further in the period ahead as a result of the weakening of the external positions of some members whose currencies are presently regarded as usable; no substantial additions to the list of usable currencies are in prospect in the near future.
2. Commitments under arrangements in 1986, projected at SDR 4.1 billion, are expected to remain broadly in the same range as in the past two years. Purchases under the compensatory financing facility are projected to rise to SDR 1.6 billion in 1986. Presently projected demands for use of Fund resources in 1987, on the assumption of unchanged access policies, are lower, at SDR 2.7 billion for commitments under arrangements and SDR 1.6 billion for CFF purchases. The projections for arrangements in 1987 do not envisage use by any industrial countries or a number of developing members with large projected external financing requirements.
3. Total purchases are projected at about SDR 5.5 billion for 1986 and 1987, compared with SDR 4 billion in 1985 and an average of over SDR 8 billion during 1981-84. Taking into account a substantial increase in repurchases (to SDR 6 billion in 1986 and nearly SDR 8 billion in 1987), a small net reduction in Fund credit outstanding is possible by the end of 1986; and a larger reduction, perhaps of the order of SDR 2 billion, is foreseen in 1987. The projected reduction reflects the medium-term character of Fund financing and the very large net expansion of Fund credit by more than SDR 27 billion during 1980-85.
4. The stock of uncommitted ordinary resources is considered adequate to meet projected demands under existing policies through end-1987. The stock of uncommitted borrowed resources would also appear sufficient through end-1987 in the absence of demands by industrial countries.

Remaining uncommitted borrowed resources are available under the borrowing arrangements with SAMA, whose drawdown periods expire on May 6, 1987. The staff has begun discussions of this matter with the Saudi Arabian authorities and will revert to the question in the next liquidity review.

5. On the whole, the Fund's liquidity for the period ahead is considered satisfactory, though perhaps somewhat less strong than at the time of the previous review. No action by the Executive Board would therefore appear to be necessary at this time. Certain elements of potential weakness in the medium-term outlook have, however, been noted. As regards the demand for use of Fund resources, uncertainties arise from the recent decreases in certain commodity prices, particularly oil prices; the external positions of heavily indebted developing countries and the Fund's involvement in meeting their financing requirements; and the possibility of use of Fund resources by industrial countries. Uncertainties also exist with regard to the degree and extent to which the resources available to the Fund will remain usable in the period ahead. These factors, and particularly in combination, could substantially alter the satisfactory liquidity position that currently prevails.

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 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 35.2 percent at end of January 1986, has declined by 0.9 percentage points from its level at July 31, 1985 (EBS/85/186) 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 January 31, 1986 totaled SDR 14.6 billion, or over 16 percent of total quotas, and is projected to decrease to about SDR 13.7 billion by end-1986 (just under 16 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 January 31, 1986, this ratio stood at about 71 percent and represents a decrease of about 4 percentage points from the level six months earlier. This decline is primarily due to the exclusion of Australia and China from the list of members that are considered sufficiently strong for their currencies to be included for transfers in the operational budgets. Based on the present list of currencies considered usable and other projections in the paper, the liquidity ratio is expected to remain steady at about 71 percent until end-1986 mainly because new commitments of ordinary resources of SDR 2.0 billion and purchases of SDR 1.6 billion under the compensatory financing facility projected during the remainder of the year are offset by repurchases of ordinary resources of SDR 3.7 billion during that period. The liquidity ratio is thereafter projected to rise to about 74 percent

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

by end-1987 primarily as a result of a significant decline in the Fund's liquid liabilities.

At present, about one-tenth of reserve positions in the Fund (or about SDR 4.4 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 remain relatively stable through the end of 1987.

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, is at present about 96 percent while, including gold, the asset ratio is about 105 percent. During the remainder of 1986 both variants of this ratio are expected to remain roughly at about the same level. Increases in the asset ratios are projected next year mainly because of the reduction of outstanding loan claims on the Fund.

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

Item	December 31				July 31		Dec.31	Jan.31
	1980*	1981	1982	1983*	1984	1985	1985	1986
1. Usable Ordinary Resources (unadjusted)	20.8	24.4	17.4	39.8	41.0	42.2	38.5	38.8
of which:								
(a) Adjusted <u>1/</u>	14.7	19.5	14.7	31.6	32.0	32.7	29.6	29.9
(b) Adjusted and uncommitted of which: SDR holdings	12.8 (5.6)	15.4 (5.0)	10.8 (3.7)	27.7 (7.0)	30.6 (5.1)	31.0 (4.1)	28.0 (3.1)	28.5 (2.9)
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. Borrowing	10.5	18.8	17.9	16.8	20.7	19.9	19.2	19.1
(a) Outstanding borrowing								
i) EAR <u>2/</u>	--	1.1	2.0	6.2	7.5	8.1	9.3	9.3
ii) of which BRS Accounts	--	(0.4)	(0.4)	(0.9)	(--)	(--)	(0.6)	(0.6)
iii) SFF	1.5	3.6	5.3	6.8	6.5	6.5	5.4	5.3
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	14.1	14.7	14.6
(b) Unused credit lines								
i) EAR	--	8.2	7.3	3.0	6.7	5.8	4.5	4.5
ii) SFF	6.3	4.2	2.4	0.8	--	--	--	--
Total	6.3	12.4	9.7	3.8	6.7	5.8	4.5	4.5
4. Unused GAB and Associated <u>3/</u>	2.6	2.5	2.4	3.2	12.3	12.3	12.3	12.3
5. Total Liquid Liabilities	16.8	21.5	25.9	40.3	42.8	41.6	41.7	41.1
(a) Reserve tranche positions	12.6	15.1	17.7	27.3	28.8	27.5	27.0	26.5
(b) Outstanding borrowing	4.2	6.4	8.2	13.0	14.0	14.1	14.7	14.6
6. Total Fund Credit Outstanding	8.5	13.4	19.3	29.9	34.9	35.0	35.2	35.1
7. Total Quotas	59.6	60.7	61.1	88.5	89.2	89.3	89.3	89.3

* Years in which quota increases became effective.

1/ Usable currency holdings that are included in this total are reduced to provide possible exclusion of the Fund's holdings of the currencies of creditor members with balance of payments positions and for working balances as follows:

End of period	1980	1981	1982	1983	1984	1985	Jan.198
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

3/ As defined in the Guidelines for Borrowing, which provide that the amount included in outstanding borrowing by the Fund under the GAB and associated borrowing arrangements of the total under these arrangements, whichever is greater. The present total of arrangements is SDR 18.5 billion. For 1986 and 1987, the figures have been placed in parentheses 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.

Table 2. Fund Liquidity - Selected Ratios

(In percent)

Item	December 31					July 31	Dec. 31	Jan.31	Dec.31	Dec.31
	1980	1981	1982	1983	1984	1985	1985	1986	1986	1987
									(Proj.)	(Proj.)
Quota ratio <u>1/</u>	22.0	35.1	33.2	22.6	37.0	36.1	35.3	35.2	33.0	28.2
Liquidity ratio <u>2/</u>	76.2	73.5	43.2	71.0	71.5	74.5	68.6	70.8	70.7	73.5
Cash ratio <u>3/</u>	101.6	102.0	61.0	101.5	106.3	112.7	103.7	107.5	107.8	105.6
Asset ratio <u>4/</u>										
(i) excluding gold	123.8	115.3	68.7	101.0	95.8	101.4	93.8	95.9	96.7	100.6
(ii) including gold	145.2	132.1	82.6	109.9	104.2	110.1	102.4	104.6	105.9	110.5

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 (Additional) GAB category to total quotas (see Appendix Table 1, lines 3, 4, and 7).

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

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

The asset ratio under (i) is the ratio of usable ordinary resources (unadjusted) and ordinary 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 (ii) also includes, in the numerator, gold held by the Fund and valued at SDR 35 per ounce (line 2).