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CONFIDENTIAL

November 25, 1986

To: Members of the Executive Board

From: The Secretary

Subject: 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)

The attached paper on the above subject is tentatively scheduled for consideration by the Executive Board on Friday, December 19, 1986, together with a companion paper on "Borrowing by the Fund from the Government of Japan" (EBS/86/265, 11/25/86).

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)

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INTERNATIONAL MONETARY FUND

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)

Prepared by the Treasurer's Department

(In consultation with the Exchange and Trade Relations and the Legal Departments)

Approved by W. O. Habermeier

November 25, 1986

This paper examines a number of specific questions concerning use of the funds that would be available under the proposed borrowing agreement with Japan, in the context of the proposed extension of the drawdown periods under the borrowing agreements with SAMA, 1/ other aspects of the Fund's liquidity, and prospective demands on the Fund's resources, and presents suggestions for consideration by the Executive Board. As indicated in the companion paper on the proposed borrowing agreement (EBS/86/265, 11/25/86), the borrowing from Japan would serve several purposes. It would be available for use generally in financing the Fund's stand-by and extended arrangements with members, whether under the enlarged access policy or otherwise. The possibility of expanded Fund financing, even within the current access limits, would permit all members to feel more confident that constraints on the Fund's liquidity would not restrict actual access; and, where justified, the loan could facilitate a positive response by the Fund for exceptional financing beyond the current maximum access limits. And it would serve as a reserve against the contingency of unforeseen shocks that could add to demands on the Fund's resources.

The availability of the loan from Japan and the flexibility with which it may be used, and the extension of the drawdown periods under the loans from SAMA, provide the Fund with an opportunity to review the relationships between the availability of and demands on Fund resources, with a view to making adaptations that would introduce the financing from Japan into the Fund's operations and result more generally in a more desirable and effective pattern of use of the Fund's resources. The following sections review a number of factors relating to the demand for and supply of Fund resources in the period ahead and suggest for consideration by the Executive Board certain guidelines on use of the loan from Japan in conjunction with borrowings from SAMA and other Fund resources.

1/ See EBS/86/250, 11/12/86.

I. Factors Bearing on Demand for and Supply of Fund Resources

The following paragraphs provide background on developments that would be particularly relevant for consideration of techniques for introducing the loan from Japan into the Fund's transactions.

1. In the last liquidity review (EBS/86/187, 8/13/86), it had been projected that new commitments under stand-by and extended arrangements would amount to about SDR 3 billion in 1987 and that total purchases under arrangements would amount to about SDR 4.8 billion, after applying probability factors to country-by-country estimates. Recent developments and discussions with members suggest a moderate reduction in demand from the earlier projections, although it is to be noted also that actual demands could be considerably larger should the probability estimates prove conservative or if arrangements not currently foreseen should be approved. Indications for commitments and disbursements for 1988 are very incomplete, but the staff would have no reason to expect significant declines in demands. Nothing can be said at this stage for 1989 and 1990, which would also be covered by the drawdown period under the borrowing agreement with Japan. The uncertainties about developments over this period would argue, in the staff's view, for considerable flexibility in procedures for introducing the financing from Japan and for regular reviews of how the financing is to be used.

2. Changes in members' positions in the Fund and in the country composition of the Fund's membership seeking arrangements are producing a shift toward greater use of ordinary resources, and lesser use of borrowed resources, in financing arrangements under the present policies regarding the mix of resources. In part for this reason, it is now projected that undisbursed borrowed resources under the agreements with SAMA could amount to as much as SDR 2 billion by the end of 1987 (as compared with about SDR 1.6 billion foreseen in the last liquidity review) and, on a highly tentative basis, perhaps up to SDR 1-1 1/2 billion by the end of 1988.

3. In order to facilitate the effective use of borrowed resources already available to the Fund, SAMA has recently indicated that it is prepared to extend the drawdown periods of its borrowing agreements with the Fund, for two years to May 1989 in the case of the 1984 short-term borrowing agreement for SDR 3 billion and for six months, for up to SDR 500 million, under the 1981 borrowing agreement (see EBS/86/250, 11/12/86). As explained in EBS/86/250, this agreement does not entail a commensurate extension of maturity dates on the Fund's drawings during the extension periods, although possible consideration of an extension of the maturities at some later date has been left open. However, the Fund must work on the assumption that all drawings on the 1984 borrowing agreement in the extended drawdown period must be repaid in November 1989 and that there will consequently be a progressive shortening of maturities below 2 1/2 years, as drawings are made later in the period. This shortening of maturities will enlarge the "mismatch"

under which ordinary resources must be used to repay loans maturing before the corresponding repurchases. Drawings very late in the extended drawdown period would have effects on the Fund's liquidity that would be increasingly similar to the direct use of ordinary resources in financing enlarged access purchases. 1/ Accordingly, it is desirable to seek to assure that use is made of these borrowed resources relatively early in the extended drawdown period, limiting to the extent possible the problem of the mismatch.

4. The Fund's holdings of usable ordinary resources (adjusted) stand at about SDR 30 billion, or at about the same level as at end-July 1986 as reported in EBS/86/187, and continue to include the currencies of virtually all industrial countries as well as a number of oil-exporting and developing countries.

In sum, the use of ordinary resources is likely to increase in the coming period, in the financing of purchases under arrangements, as a result of the repayment of short-term borrowings, and taking account of purchases under the special facilities. The positions of some members whose currencies are presently included in the stock of usable holdings are weakening. While no significant decline in usable holdings is currently projected for this reason, the potential for such declines cannot be precluded. Considerably greater uncertainties exist over the longer period during which the borrowing from Japan may be used, as the Fund may be faced with unforeseeable demands for its financing or the stock of usable ordinary resources could decline. The stock of available borrowed resources for use under the enlarged access policy remains relatively high in relation to immediately foreseeable demands under the Fund's present policies regarding the mix of ordinary and borrowed resources.

II. Techniques for Mixing Funds from the Japanese Loan with Other Resources Available to the Fund

The above considerations, and the flexibility with which the financing offered by Japan may be used by the Fund, make it desirable in the view of the staff to adapt the Fund's procedures on mixing ordinary and borrowed resources in a manner that would, inter alia, tend to conserve ordinary resources in the period immediately ahead. As noted, rapid changes can occur in the availability of and the demand

1/ The cumulative use of ordinary resources in repayment of borrowings (i.e., the "mismatch") presently totals about SDR 1.1 billion. The Fund will begin next month to repay the short-term borrowings arranged in 1984, and the cumulative mismatch will rise by about SDR 2 billion over 1987-88. Assuming full use of the funds available under the SAMA agreements, the cumulative mismatch could rise to SDR 5 1/2 billion by late 1989, representing a net drain of that amount on the Fund's ordinary resources.

for Fund resources, and the use of ordinary versus borrowed resources is influenced importantly by changes in members' positions in the Fund and the composition of the membership that makes use of its resources. It is suggested that these procedures, and the emphasis they would give to conservation of ordinary resources, be monitored and modified as necessary in response to changes in the Fund's liquidity and prospective demands.

The paragraphs below set out suggestions for use of the loan from Japan, and the following section suggests a change in the mix of ordinary and borrowed resources in connection with the enlarged access policy more generally.

1. Use of financing from Japan

In keeping with the purposes of the loan and the considerations mentioned above, it is suggested that the financing from Japan be introduced into the Fund's arrangements as a regular element from the outset, together with use of ordinary and other borrowed resources. In determining the amounts to be used in this way, it is necessary to bear in mind the period during which the loan will be available and the potential value of the loan as a reserve against contingencies. Taking these considerations into account, it would not seem unreasonable to work on the hypothesis that the Fund might draw of the order of SDR 1/2-1 billion during the first year after activation of the borrowing agreement. In order to avoid displacing other borrowed resources for the reasons discussed above, it is suggested that in the initial stages the Japanese financing be concentrated primarily on those portions of arrangements that would otherwise be financed with ordinary resources. On this basis, the introduction of the financing from Japan could begin along the lines set out below, with a tentative planning horizon of a year following activation of the loan.

a. The loan would be used for a specified percentage of all purchases under stand-by and extended arrangements that would otherwise be financed with ordinary resources. (This would include arrangements under the enlarged access policy, involving a mix of ordinary and borrowed resources under that policy, as well as arrangements financed exclusively with ordinary resources.) On present indications of demands (and also taking account of the staff's suggestions below regarding the mix of ordinary and borrowed resources under the policy of enlarged access), a mix of ordinary resources with borrowing from Japan in the ratio of 2/3 to 1/3 could be expected to result in drawings on the Japanese loan within the range of SDR 1/2-1 billion mentioned above during 1987. Also on the basis of presently foreseeable arrangements, it is expected that, with one or two exceptions, all will involve some use of ordinary resources and therefore would utilize the financing provided by Japan in this way and to that extent.

b. The loan from Japan would also be available for the financing of purchases of borrowed resources under enlarged access arrangements along with use of other borrowed resources. While, for the reasons discussed above, the staff would initially plan to give emphasis to the use of resources available under the agreements with SAMA, use of the Japanese loan could also be made in financing enlarged access purchases of borrowed resources, including the possibility of demands for financing in "exceptional circumstances," in light of the evolution of the Fund's liquidity. In that context, the staff would keep the use of borrowed resources under enlarged access under review in light of the enlarged access policy, prospective demands, the utilization of the loans from SAMA and Japan, the maturity of drawings on SAMA, and the length of time remaining for drawings under the respective borrowing agreements. No new rules for use of the Japanese loan for enlarged access would be needed, as there is already sufficient flexibility for choice in drawing on alternative borrowing arrangements for this purpose, unless a borrowing agreement were to preclude such use.

c. If the current projections of purchases are realized (and taking account of the suggestions below concerning the mix under enlarged access), it could be expected that a substantial portion of the loan from Japan would remain available at the end of the first year. The situation would be reviewed regularly by the staff, at least on the occasion of each half-yearly liquidity review and at other times if necessary. On the occasion of such reviews and in the light of all the relevant circumstances at the time, the Fund could modify the proportions of ordinary resources and financing to be provided from the Japanese loan under (a) above. In the absence of a need to alter these proportions, the rules would continue unchanged.

2. Charges on and repurchase of purchases financed with the loan from Japan

Utilization of the loan from Japan will require consideration of how this financing would be related to other aspects of the Fund's financial policies, in particular to policies relating to charges and repurchases. These matters are discussed below.

a. Ordinary resources

Two alternatives could be considered with respect to use of the loan in financing purchases that would otherwise be financed with ordinary resources. One is that, for the purposes of calculation of charges and setting repurchase schedules, these amounts would be regarded as replenishment of the Fund's ordinary resources in the same way that applies to amounts borrowed under the General Arrangements to Borrow (GAB). That is, the calculation of charges, as well as the repurchase terms, on purchases financed by drawings on the loan from Japan would be the same as are generally in effect for ordinary resources. 1/ The cost of the Japanese loan, to the extent used in this way, would be included in the calculation of charges on the use of ordinary resources, and would be spread over all holdings subject to ordinary charges, including holdings arising from outstanding purchases under existing arrangements and purchases under the special facilities. Under this alternative, the loan from Japan could be used to finance purchases of ordinary resources under both existing and future arrangements, without the need for amendment of individual arrangements.

A second alternative would be to create a separate segment of resources that would consist of amounts drawn under the loan and substituted for purchases of ordinary resources under arrangements. These purchases would carry their own rates of charge, based on the cost of the financing from Japan. This approach would parallel the approach used to determine charges and mix policy under the policy of enlarged access, and would require decisions in these areas. The Fund's general policies on repurchases of purchases of ordinary resources would apply under this alternative as well. 1/ However, in order to make use of the Japanese financing under existing arrangements under this alternative, the Fund would need to seek the agreement of members already having arrangements in place, which the staff would propose.

Under the first alternative, the cost of the financing from Japan would be spread over all Fund holdings that are subject to ordinary charges. In the case of a separate segment of resources, the cost would be applied only to those particular holdings arising from purchases financed with the Japanese loan. The interest rate that will be payable on the borrowing from Japan is a six-month domestic combined interest rate. The rate of remuneration, which represents the main basis for the calculation of charges on ordinary resources, is determined by the SDR interest rate and is thus based on a three-month domestic combined interest rate. 2/

1/ The five-year maturity of drawings on the loan from Japan would cover the 3 1/4-5 year repurchase period of purchases of ordinary resources under stand-by arrangements. It would not cover the 4-10 year repurchase period for extended arrangements and, in the absence of further borrowing for refinancing of such purchases, the mismatched repayments would require use of ordinary resources. To some extent, the overall impact on ordinary resources would be offset partially by the inflows of repurchases prior to the five-year maturities of drawings on the Japanese loan, if the Fund decided not to make repayments before five years to correspond to these repurchases.

2/ The remuneration coefficient, currently 97.49 percent, will rise to 100 percent of the SDR interest rate on February 1, 1987.

Under normal circumstances, it would be expected that the interest rate used for calculations of interest under the loan from Japan would be somewhat higher than the basic rate of remuneration used in the calculation of charges on ordinary resources. However, it would also appear quite likely that the effects would be minor. In the period 1982-October 1986, the difference between the three-month domestic combined rate and the rate to be used for the Japanese loan averaged about 0.25 percentage point. On the basis of this experience, and even if it were assumed that full use would be made of the loan to finance purchases of ordinary resources over the next few years, the effect on charges on ordinary resources under the first alterative would likely be negligible, on the order of only 2-3 basis points on average. As it is expected that the loan would be used for the financing of purchases of borrowed resources under the enlarged access policy as well, any effects on ordinary charges would be further diminished. Moreover, use of the loan from Japan for enlarged access purchases would tend to reduce the rate of charge on borrowed resources under enlarged access, as the cost of the loan from Japan is relatively low. 1/

On the basis of the same interest rate comparisons during 1982-October 1986, and taking account of the margin of 0.2 percent to cover the Fund's administrative expenses (which are taken directly into account in the calculation of ordinary charges), charges on purchases financed with the loan from Japan under the second alternative might be expected, on average, to be about 0.45 percentage point above the basic rate of remuneration. The relationship to ordinary charges would be more difficult to assess in advance, as the level of these charges is subject to a number of other influences (including, as noted, administrative costs), but even under this alternative the differences would likely not be of great significance. 2/ Under either alternative, it may be noted that the majority of members making use of Fund resources under arrangements are using both ordinary and borrowed resources, further diffusing any differences in costs.

With respect to other considerations that might guide a choice between these alternatives, parallelism with the structure of the policy of enlarged access could be seen as an advantage of a separate segment as in the second alternative. Simplicity, the avoidance of the

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1/ The rate of charge on enlarged access borrowed resources so far during the current half year has averaged 7.06 percent, in comparison with about 6.05 percent for the interest rate on which the loan from Japan is to be based.

2/ The rate of charge (adjusted) on ordinary resources for the first half of FY 1987 was 6.39 percent. The six-month combined domestic interest rate to be used for the Japanese loan averaged about 6.14 percent during the same period and would have resulted, after addition of the administrative margin, in a rate of charge of about 6.34 percent on purchases financed with the Japanese loan during this period under the second alternative.

administrative costs of establishing and managing a new system of accounts, and the inclusion of the amounts involved in calculation of ordinary charges and in any adjustments to charges as a result of deferred income, would tend to favor the first alternative, although ways of adjusting charges for deferred income could be explored under the second alternative as well. These various considerations do not seem in the staff's view to argue strongly for one alternative or the other. On balance, flexibility and simplicity in managing the Fund's liquidity may speak in favor of the first alternative.

b. Borrowed resources under the enlarged access policy

To the extent that resources are borrowed from Japan and used to finance purchases of borrowed resources under the policy of enlarged access, it is proposed that these amounts be subject to the rules on charges and repurchases pertaining to the policy on enlarged access. Interest accruing on such loans would be incorporated into the total cost of borrowing to finance purchases of borrowed resources under the enlarged access policy and would thus be reflected, pursuant to Rule I-6(5), in charges payable on the Fund's holdings of members' currencies acquired as a result of purchases of borrowed currency under the enlarged access policy. As noted above, it would be expected that use of the Japanese loan for enlarged access would have the effect of reducing charges on enlarged access purchases. Repurchases in respect of purchases of borrowed resources financed with the loan from Japan would be the same as for other purchases of borrowed resources under the enlarged access policy, pursuant to Decision No. 6783-(81/40), i.e., they would be subject to repurchase on a semi-annual basis beginning 3 1/2 years and ending 7 years after the date of purchase. 1/

III. Mix of Ordinary and Borrowed Resources in Financing Purchases Under the Enlarged Access Policy

With respect to the mix of ordinary and borrowed resources in financing purchases under the enlarged access policy, and in light of the desirability of conserving ordinary resources and preserving the effective maturity of drawings on the SAMA borrowing agreement to the greatest extent possible, it is suggested that the Executive Board also consider raising the proportion of borrowed resources used in the financing of such purchases.

1/ There would thus also be some mismatch with respect to repurchases falling due after five years in this case, and there would need to be an imputation of cost to the ordinary resources used in substitution for borrowed resources during this period. See also footnote 1 on page 6.

Specifically, it is suggested that consideration be given to altering the mix of resources for purchases in the second through fourth credit tranches, from a mix of one part ordinary to one part borrowed (1:1) to a mix of one part ordinary to two parts borrowed (1:2). Such a change would apply to all relevant purchases under enlarged access arrangements, including future purchases under arrangements in existence at the time the change was decided. On present indications, such a change would be expected to increase the use of borrowed resources by the order of SDR 0.3-0.5 billion during 1987 in comparison with present projections based on the existing mix, also conserving ordinary resources to that extent. This change would permit more effective use of the financing available from SAMA, by advancing drawings within the extended drawdown period and thus gaining the advantages to the Fund's liquidity of the longer maturities that would apply. The loan from Japan is also available for the financing of enlarged access purchases of borrowed resources within the access limits as well as under the "exceptional circumstances" provision, and it would be intended to make such use of the loan from Japan, as appropriate, in light of demands and the availability of other borrowed resources. The periodic reviews of the Fund's liquidity would provide the occasion for reviews of the mix of ordinary and borrowed resources under the enlarged access policy as well.

A change in the mix as suggested above would affect charges paid by members, as charges on purchases of borrowed resources under the enlarged access policy exceed charges on ordinary resources. This would, however, be accompanied by a corresponding lengthening of the periods for repurchase of the purchases in question, from 3 1/4-5 years to 3 1/2-7 years. Also, as noted, as the loan from Japan begins to be used in financing enlarged access purchases of borrowed resources, that would be expected to have a moderating effect on the level of enlarged access charges.

IV. Summary

The proposed extension of the drawdown periods under the borrowing agreements with SAMA and the availability of the proposed loan from Japan are of sufficient importance to the Fund's liquidity to call for review, from a more general perspective, of how the Fund's available liquid resources should be used to meet prospective demands. With a view to adaptations that would result in a more effective pattern of use of the Fund's resources, this paper has suggested for the consideration of the Executive Board policies with respect to use of the new loan from Japan and the loans from SAMA and a modification of the present policy on the mix of ordinary and borrowed resources under enlarged access arrangements.

1. The loan from Japan may be used flexibly by the Fund and can serve a number of purposes as discussed in this paper. The paper has suggested that the financing from Japan be introduced as a regular element in the financing of purchases under the Fund's stand-by and extended arrangements, bearing in mind the period during which the loan will be available and the desirability of retaining a reserve against contingencies. The amounts and proportions initially established for use of the loan would be regarded as tentative and subject to continuing review.

a. It is suggested that use of the loan from Japan be used in the financing of purchases under arrangements that would otherwise be financed with ordinary resources, including both arrangements under the enlarged access policy, involving a mix of ordinary and borrowed resources, and arrangements involving only ordinary resources under the Fund's regular credit tranche policies.

b. Use of the loan from Japan to finance, say, one third, of purchases of ordinary resources under arrangements would be expected to result in drawings on the order of SDR 1/2-1 billion in 1987.

c. The loan from Japan would also be available for the financing of purchases of borrowed resources under the enlarged access policy. Although emphasis would be given for the time being to the use of resources available from SAMA, use could also be made of the loan from Japan for such purchases, including the possibility of purchases in "exceptional circumstances," in light of the evolution of the Fund's liquidity. In this context, the staff would keep the use of borrowed resources under review in light of the policy on enlarged access, prospective demands, the utilization of the loans from SAMA and Japan, and the length of the drawdown period of the loan from Japan in comparison with the drawdown period and maturities remaining under the agreement with SAMA. No new rules for use of the loan for purchases of borrowed resources under enlarged access would be needed, as there is already sufficient flexibility for choice in drawing on alternative borrowing arrangements for this purpose, unless a borrowing agreement were to preclude such use.

d. The proportion of purchases of ordinary resources to be financed with the loan from Japan would also be reviewed regularly by the staff, at least on the occasion of each liquidity review, and revisions would be proposed for Executive Board consideration as appropriate.

2. With respect to charges on and repurchases of purchases financed by the loan from Japan:

a. It is proposed that the Fund's established policies for enlarged access charges and repurchases apply to purchases of borrowed resources under the enlarged access policy that are financed with drawings on the loan.

b. Two alternatives have been discussed with respect to use of the loan in financing purchases that would otherwise be financed with ordinary resources.

(1) The Fund's regular policies relating to charges on and repurchases of ordinary resources could be applied, in the same manner as applied to purchases financed by drawings on the GAB, with the cost of the related borrowing from Japan integrated into the Fund's periodic calculations of charges on ordinary resources. Under this alternative, the loan could be used to finance purchases under existing as well as new arrangements, without the need for amendment of individual arrangements.

(2) A separate segment of resources could be established, under which purchases would be subject to a separate schedule of charges, based on the cost of the loan from Japan. The Fund's regular policies on repurchases of ordinary resources under arrangements would apply. Utilization of the loan to finance purchases under existing arrangements under this alternative would require amendment of the individual arrangements, and the staff would propose to seek such amendments.

This paper has mentioned a number of considerations that may bear on a choice between these alternatives--related to charges, burden sharing, parallelism with the structure of the enlarged access policy, simplicity, and administrative costs--which do not seem to point strongly to one alternative or the other. On balance, flexibility and simplicity in managing the Fund's liquidity may speak in favor of the first alternative.

3. With respect to the mix of ordinary and borrowed resources in financing purchases under the enlarged access policy, the staff suggests consideration of a change in the mix to double (from 1:1 to 1:2) the proportion of borrowed resources used in financing enlarged access purchases in the second to fourth credit tranches. Such a change in mix would be expected to result in increased use of borrowed resources, and decreased use of ordinary resources, of the order of SDR 0.3-0.5 billion in 1987 in comparison with present projections. The mix would be kept under review and modifications proposed as appropriate in light of developments.

4. Illustrative draft decisions based on the suggestions made in this paper are set out below.

V. Illustrative Draft Decisions

The following decisions, which could be taken by a majority of the votes cast, would give effect to the suggestions made in this paper.

The first decision would implement the first alternative described in the paper for introduction of the financing from Japan into the Fund's lending operations. It would provide for the use of the loan in the financing of purchases of ordinary resources under arrangements and in the financing of purchases of borrowed resources under the enlarged access policy. The decision would also specify the proportion of purchases of ordinary resources to be financed with the Japanese loan at one third. Under this alternative, no further decisions would be needed to implement the loan from Japan in the financing of purchases under arrangements; as noted, the loan is also available for use in the event of contingencies that cannot be foreseen at present, and further decisions might be required for use of the loan should such contingencies arise. If it were decided to follow the second alternative of creating a separate segment of resources for use of the Japanese loan in financing purchases of ordinary resources, a further decision would be needed for charges, which would require a majority of 70 percent of the total voting power; and the staff would need to seek the agreement of members to amend existing arrangements to permit use of the Japanese loan in the financing of purchases of ordinary raesources under those arrangements.

The second decision provides for the alteration of the mix of ordinary and borrowed resources in financing purchases under the enlarged access policy as suggested in this paper, i.e., from one part ordinary to one part borrowed (1:1) to one part ordinary to two parts borrowed (1:2) in the second through fourth credit tranches. The ratios for purchases in the first credit tranche and for purchases above the fourth credit tranche would remain as under the present decision (Decision No. 7601-(84/3), 1/6/84).

The staff would review regularly the proportion specified for use of the Japanese loan under the first decision, and the mix of resources under the enlarged access policy specified in the second decision, and would propose any modifications, as may appear appropriate, for consideration by the Executive Board.

1. Decision on use of resources under borrowing agreement with Japan

a. Resources from the 1986 borrowing agreement with Japan will be available for use (a) as ordinary resources to finance purchases under stand-by or extended arrangements and (b) as borrowed resources to finance purchases under the policy on enlarged access.

b. The ratio of use as ordinary resources will be one third of the total amount of ordinary resources in each purchase.

2. Decision on use of ordinary and borrowed resources under policy on enlarged access

The Fund decides that after the effective date of this decision the proportions of ordinary and borrowed resources to be used under stand-by or extended arrangements approved in accordance with Decision No. 6783-(81/40) on the Policy of Enlarged Access will be as follows:

a. Under a stand-by arrangement, purchases will be made with ordinary and borrowed resources in the ratio of 2 to 1 in the first credit tranche, and 1 to 2 in the next three credit tranches. Thereafter, purchases will be made with borrowed resources only.

b. Under an extended arrangement, purchases will be made with ordinary resources and borrowed resources in the ratio of 1 to 2 until the outstanding use of the upper credit tranches and the extended Fund facility equals 140 percent of quota. Thereafter, purchases will be made with borrowed resources only.