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July 25, 1986

To: Members of the Executive Board

From: The Secretary

Subject: Supplementary Financing Facility and Policy on
Enlarged Access - Interest Rate and Charges
for the Six Months Ended June 30, 1986

Attached for the information of the Executive Directors are notes on (i) the interest rate and charges as regards the supplementary financing facility for the six-month period ended June 30, 1986, and (ii) the net cost of borrowing and periodic charges under the policy on enlarged access to the Fund's resources for the six-month period ended June 30, 1986.

Att: (1)

Other Distribution:
Department Heads

INTERNATIONAL MONETARY FUND

Supplementary Financing Facility and Policy on Enlarged Access - Interest Rate and Charges for the Six Months Ended June 30, 1986

Prepared by the Treasurer's Department

Approved by David Williams

July 24, 1986

I. Supplementary Financing Facility 1/

The rate of periodic charges payable by members on amounts purchased under the Supplementary Financing Facility (SFF) equals the rate of interest payable by the Fund on the amounts borrowed under the SFF borrowing agreements plus 0.2 percent per annum for the first three- and one-half years after the purchase and 0.325 percent per annum thereafter. For each half of a calendar year, the rate of interest payable by the Fund on the amounts borrowed under the SFF is the average during that period of the daily yields on actively traded U.S. Government securities, determined on the basis of a constant maturity of five years. The rate is calculated as a simple arithmetic average of daily yields over the six-month period (rounded up to the next 1/8 of one percent). The average rate was 7.77 percent for the six-month period ended June 30, 1986 which, when rounded up to the next 1/8 of one percent, yielded an interest rate of 7.875 percent payable on Fund borrowing under the SFF and rates of charges on purchases under the SFF of 8.075 percent and 8.20 percent; these rounded rates are each 1.75 percentage point lower than the corresponding rates in the preceding six-month period. No purchases have been financed under the SFF since February 1, 1984. However, in the period January 1-June 30, 1986, repurchases and repayment of Fund's borrowings under

1/ The main features of the Supplementary Financing Facility were set out for the information of Executive Directors in SM/79/84 (4/2/79), "Supplementary Financing Facility." For purchases under arrangements that took effect prior to the effective date of the SFF (February 23, 1979), the rate of charge, applied to (i) Fund holdings of a member's currency that exceeded 200 percent of quota as a result of purchases under stand-by arrangements or to (ii) Fund holdings as a result of purchases under an extended arrangement to the extent that these holdings exceeded 140 percent of quota, was equal to the average yield calculated for purposes of determining the SFF interest rate, rounded up to the nearest 1/4 of one percent, plus 1/4 of one percent; since December 30, 1983, however, this calculation was no longer necessary because purchases subject to this rate of charge had been fully repurchased. See Executive Board Decision No. 5732-(78/65), adopted April 24, 1978, Executive Board Decision No. 5998-(79/1), adopted December 27, 1978 and SM/78/301 (12/20/78).

the SFF amounted to SDR 601 million and SDR 683 million respectively. Consequently, the outstanding levels of purchases by members and the Fund's indebtedness declined, respectively, from SDR 5,608 million and SDR 5,418 million on December 31, 1985 to SDR 5,007 million and SDR 4,735 million on June 30, 1986.

The following table sets out the interest rate and rates of charge for the six-month period ended June 30, 1986, applicable under the SFF loan agreements and schedules of charges mentioned above, compared with the calculations for the latest two six-month periods.

Period	Average yield to constant 5-year maturity on U.S. Government securities	Interest rate payable by the Fund under SFF borrowing agreements	Rate of charge on purchases under the SFF for first 3 1/2 years	Rate of charge on purchases under the SFF after first 3 1/2 years
<u>1985</u>				
Jan.-June	10.751	10.875	11.075	11.20
July-Dec.	9.51	9.625	9.825	9.95
<u>1986</u>				
January	8.68			
February	8.34			
March	7.46			
April	7.05			
May	7.52			
June	7.64			
January-June	7.77	7.875	8.075	8.20

Members of the Executive Board will continue to be advised of the rates after their determination following the conclusion of each calendar half-year. The average yields to constant five-year maturity on U.S. Government securities (monthly and weekly averages) are published in the Monthly Reports on Developments in the Foreign Exchange and Financial Markets, which are issued in the Departmental Memoranda (DM) series.

II. Policy on Enlarged Access to the Fund's Resources--
Net Borrowing Cost and Periodic Charges

The net borrowing cost in relation to average outstanding purchases and the rate of charge for the use of resources borrowed under the Policy on Enlarged Access to the Fund's Resources (EAR) were 8.11 percent and 8.31 percent per annum, respectively, for the period of six months ended June 30, 1986. The corresponding rates were 9.08 percent and 9.28 percent per annum for the six months ended December 31, 1985.

Periodic charges payable by members on amounts purchased under the EAR consist of (i) net borrowing costs payable by the Fund on the amounts borrowed to finance purchases under the EAR, (ii) an imputed borrowing cost on the amount of ordinary resources used to finance outstanding EAR purchases following the repayment of short-term EAR loans, and (iii) a margin of 0.2 percent per annum. 1/ Net borrowing costs for each half-year consist of the actual gross cost of borrowing less net income earned on the temporary investment of borrowed funds pending their disbursement, and less the imputed interest on SDR holdings resulting from repurchases made in SDRs pending repayment to lenders. The gross cost of borrowing comprises interest paid or accrued to lenders on the average daily amounts of balances borrowed by the Fund to finance purchases under the EAR plus the amortized portion of costs incurred to obtain such balances. 2/ Net income earned on the temporary investment of borrowed funds pending their disbursement takes into account income received and accrued from investments, amortized actual operational costs incurred directly by the Fund in order to obtain investment income, and the net gain or loss, if any, calculated from exchange valuation adjustments of currency balances representing the undisbursed proceeds of borrowing in terms of the SDR. The imputed borrowing cost of the

1/ See SM/81/48 (2/23/81) and SM/81/48, Correction 1 (3/20/81). "Charges to be Levied on the Use of Borrowed Funds Under the Policy of Enlarged Access;" see also SM/84/97 (5/1/84) and SM/84/97 Supplement 1, corrected (6/5/84): "Charges on Holdings Outstanding under the Policy on Enlarged Access - Amendment of Rule I-6(5)," and Rule I-6(5) of the Fund's Rules and Regulations. Paragraphs I-6(5)(d)(i) and I-6(5)(d)(ii) are reproduced in footnote 1, p. 4.

2/ These costs include amortization of the stand-by fee paid by the Fund to the Bank for International Settlements in connection with the borrowing arrangements effective April 30, 1984 and the costs associated with the printing of bearer notes.

use of ordinary resources being used to finance purchases of borrowed currency is calculated in accordance with Rule I-6(5)(d), as amended. 1/

During the six months ended June 30, 1986, the Fund borrowed SDR 473,021,591 under its policy of enlarged access and made repayments of short-term EAR borrowings with ordinary resources amounting to SDR 137,000,000 bringing outstanding EAR borrowings to SDR 9,631,000,000. In the same period there were 27 purchases under the EAR totaling SDR 515,761,936 and repurchases amounted to SDR 200,995,919 thus bringing the amount of EAR purchases outstanding to SDR 10,244,842,182. At June 30, 1986, borrowed resources held in the Borrowed Resources Suspense Accounts amounted to SDR 565,789,201, SDR holdings pending repayment to lenders amounted to SDR 1,689,095, and the use of ordinary resources being used to finance purchases of borrowed currency amounted to SDR 1,181,324,010. For the six months ended June 30, 1986, net income (including exchange valuation gains or losses) on the temporary investment of borrowed funds pending their disbursement amounted to SDR 24,773,689.

1/ Rule I-6(5)(d) reads as follows:

- "(d) (i) The imputed borrowing cost of the use of ordinary resources being used to finance purchases of borrowed currency shall be the product of the daily amount of such resources as determined in accordance with (ii) below multiplied by the rate of interest for the weekly period commencing each Monday calculated in accordance with the method set forth in Rule T-1(b) and (c) for determining the rate of interest on holdings of SDRs except that, in place of the rates or yields for the preceding Friday on the instruments listed in Rule T-1(c), the yields for the preceding Wednesday on the instruments specified under paragraph 3(b) of Annex A to the letter referred to in Executive Board Decision No. 6843-(81/75) adopted May 6, 1981, shall be used.
- (ii) The amount of ordinary resources being used to finance purchases of borrowed currency is equal to the amount of the Fund's holdings of currency resulting from members' purchases of borrowed currency under the Policy on Enlarged Access less the outstanding amount of currency borrowed by the Fund to finance such purchases after deducting the amounts of currency held in the Borrowed Resources Suspense Accounts."

The calculation of the rate of periodic charges for the period ended June 30, 1986 on the amounts purchased under the EAR is shown below:

Borrowing costs	SDR 383,174,168
Imputed borrowing cost	<u>SDR 43,716,952</u>
Total	SDR 426,891,120
Less:	
Net income on borrowed funds pending disbursement	SDR 24,773,689
Imputed interest on repurchases made in SDRs, pending repayment to lenders	<u>SDR 671,658</u>
Net borrowing cost	SDR 401,445,773
Average daily balances of outstanding purchases	<u>SDR 9,985,497,720</u>
Net borrowing cost as a percentage of average daily balances of outstanding purchases (percent per annum)	8.11
Margin (percent)	<u>0.20</u>
Rate of charge (percent)	8.31 =====

Members of the Executive Board will continue to be advised of these rates following the conclusion of each calendar half-year period.