

EBS/85/56

CONFIDENTIAL

March 7, 1985

To: Members of the Executive Board

From: The Secretary

Subject: The Fund's Liquidity and Financing Needs

The attached paper on the Fund's liquidity position and prospective developments in its financial position through the end of 1985 has been tentatively scheduled for discussion on Friday, March 29, 1985.

If Executive Directors have technical or factual questions relating to this paper prior to the Board discussion, they should contact Mr. D. Gupta (ext. 7627) or Mr. Zavoico (ext. 7626).

Att: (1)

CONFIDENTIAL

INTERNATIONAL MONETARY FUND

The Fund's Liquidity and Financing Needs

Prepared by the Treasurer's Department

Approved by W. O. Habermeier

March 7, 1985

This paper reports on the Fund's liquidity position as of January 31, 1985 and discusses prospective developments in the Fund's financial position through the end of 1985. The paper also presents a preliminary survey of the Fund's liquidity in 1986 taking into account some early indications of the likely demand for Fund's resources on the assumption of unchanged policies on access to the Fund's resources. 1/

The paper is organized along the following lines. Section I discusses the latest estimate of the supply of usable resources available to the Fund. Section II deals with the projected demand on the Fund's resources in 1985, and on a preliminary basis, in 1986. A review of the resources available to the Fund, including a discussion of financing needs in 1985 and 1986, is presented in Section III. Section IV draws some conclusions. An analysis of the evolution of the ratios used in assessing the Fund's liquidity position is presented in the appendix.

I. The Supply of Resources as of January 31, 1985

1. Ordinary resources

As at January 31, 1985, the Fund's stock of usable resources totaled SDR 40.8 billion. Of this amount, SDR 36.1 billion represented the currencies of members whose external financial positions are presently considered sufficiently strong to be included for transfers in the Operational Budget (EBS/84/242) and the balance of SDR 4.7 billion represented SDRs. This compares with total usable resources of SDR 43.2 billion on July 31, 1984, comprising SDR 36.9 billion in usable currencies and SDR 6.3 billion in SDRs.

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1/ The previous half-yearly report on the Fund's liquidity position is contained in EBS/84/i71, August 8, 1984 and a limited set of data on the Fund's liquidity position was also provided in "Operational Budget for December 1984-February 1985" (EBS/84/242, November 28, 1984, pages 7-8 and appendix tables).

The decline in holdings of usable resources (SDRs and usable currencies) totaling SDR 2.4 billion was due principally to net sales of currencies and SDRs to members using Fund credit and repayments of short-term EAR loans out of ordinary resources. There have been no material changes since mid-1984 in the group of members considered sufficiently strong for inclusion in the Operational Budget for transfers. 1/ The decline of SDR 1.6 billion in SDR holdings over the past half year is consistent with the Board's decision to reduce the Fund's SDR holdings to a level of approximately SDR 4.0 billion by May 31, 1985. 2/

As on the occasion of the last review, the list of members considered sufficiently strong for the Fund to sell their currencies is relatively long and includes the currencies of all but three industrial countries (Iceland, Luxembourg, and New Zealand), as well as the currencies of several large developing members. As all major industrial members are now included in the budget and as most large developing members that could be added to the list of sufficiently strong countries would be included for early repurchases before their currencies became available for sales, there remains little scope for further major increases in the Fund's stock of usable currencies from additions of members hitherto excluded. Furthermore, a number of members presently included in the Operational Budget are experiencing current account deficits and it cannot be precluded that some of these members may encounter difficulties that could result in their exclusion from the budget.

Accordingly, for the purpose of this review, the stock of usable currencies as of January 31, 1985 has been reduced by one-fourth (the same as in the mid-1984 liquidity paper), or by SDR 9.0 billion. As in the past, this adjustment takes account of the relatively weak balance of payments positions of several members included in the budget and the Fund's need to maintain working balances of individual currencies. This adjustment also includes an allowance for the possibility that the exclusion of one or more large members currently included in the budget may be accompanied by use of the Fund's resources by these members, including possible drawings of reserve tranche positions exceeding in aggregate the total of SDR 1.0 billion provided for in 1985 and again in 1986. After making this adjustment, the total of adjusted usable currencies and SDRs amounts to SDR 31.8 billion as of January 31, 1985 (Table 1), compared with a total of SDR 34.0 billion on July 31, 1984.

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1/ The currency of one member, Botswana, was added to the list of currencies available for transfers in the budget in the half year since the last review.

2/ Executive Board Decision No. 7626-(84/23) adopted February 13, 1984.

Table 1. Estimates of Fund's Usable Resources, 1985 and 1986

(In billions of SDRs)

	End-January 1985	End-1985	End-1986
1. <u>Ordinary Resources</u>			
(i) Usable currencies and SDRs (adjusted)	31.8 <u>1/</u>	30.1	29.2
Less: Members' undrawn balances under commitments	<u>1.2</u> <u>2/</u>	<u>1.6</u>	<u>0.8</u>
(ii) Uncommitted ordinary resources	30.6	28.5	28.4
2. <u>Borrowed Resources</u>			
(i) Unused EAR credit lines and investments	6.5	3.0	0.6 <u>3/</u>
Less: Members' undrawn balances under commitments	<u>3.9</u> <u>2/</u>	<u>1.7</u>	<u>1.0</u>
(ii) Uncommitted borrowed resources	2.6	1.3	--
(iii) Potential need for borrowing in 1986	--	--	0.4
<u>Memoranda</u>			
1. Total liquid liabilities	42.6	43.7	42.5
Of which:			
Reserve Tranche	28.6	27.6	26.0
Outstanding borrowing (Loan Claims)	14.0	16.1	16.5
2. Total enlarged GAB and associated	18.5	18.5	18.5

1/ See Appendix Table 1, lines 1 and 1a.

2/ The amounts have been reduced by SDR 0.5 billion of ordinary resources and SDR 0.5 billion of borrowed resources to adjust for (i) undrawn balances under arrangements that are inoperative and are not likely to be drawn upon and (ii) a small additional amount reflecting past experience that balances under existing operative arrangements may not be fully utilized.

3/ This would be the expected amount of credit lines if no additional credit lines became available.

The total of member's undrawn balances of ordinary resources under existing arrangements was SDR 1.7 billion as of January 31, 1985, of which SDR 0.5 billion represented commitments of ordinary resources that are unlikely to be drawn (see footnote 2/, Table 1). Net undrawn balances therefore total SDR 1.2 billion and after the deduction of this amount from the total of adjusted usable currencies, the total of uncommitted ordinary resources (adjusted) as of January 31, 1985 was SDR 30.6 billion (compared with SDR 32.1 billion as of July 31, 1984).

## 2. Borrowed resources

As of January 31, 1985 the amount of borrowed resources available to finance the policy of enlarged access amounted to SDR 6.5 billion (Table 1). Undrawn balances of borrowed resources under existing arrangements were SDR 4.4 billion as of January 31, 1985 of which SDR 0.5 billion represented commitments of borrowed resources that are unlikely to be drawn; net undrawn balances of borrowed resources thus amounted to SDR 3.9 billion and the stock of uncommitted borrowed resources totaled SDR 2.6 billion.

## II. Demand for the Fund's Resources in 1985 and 1986

### 1. Overview

In contrast to the heavy use of the Fund's resources in the period 1981 through 1984, use of Fund credit under arrangements is projected to taper off in both 1985 and, more significantly, in 1986. Net expansion of Fund credit outstanding is projected to amount to SDR 3.3 billion in 1985 (compared to SDR 5.0 billion in 1984; see Table 2) and to SDR 0.3 billion in 1986. On the basis of the preliminary estimates in this paper and assuming unchanged policies on access to the Fund's resources, the net expansion of credit slows down in 1985 and more sharply in 1986 mainly because of a relatively large reflow of compensatory financing facility repurchases. Repurchases will total SDR 3.5 billion in 1985 and SDR 6.0 billion in 1986. <sup>1/</sup>

This projected slowdown in the net expansion of Fund credit reflects in part a strengthening of the current account and reserve positions of non-oil developing countries in the aggregate during 1984, relative to their performance in 1982 and 1983, and the expectation that this improvement will be sustained in 1985 and 1986. Nevertheless, a number of countries are projected to experience difficulties in

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<sup>1/</sup> As already reported previously during the discussion on the Fund's access policy in September 1984, repurchases to the Fund will rise until they reach a peak of about SDR 8 billion each year in the three years 1987-1989. See "Access limits in 1985 - Preliminary Considerations - Financial Aspects", EBS/84/170 dated August 8, 1984; pp. 7.

Table 2. Commitments and Changes in Use and Receipt of the Fund's Resources  
1984 to 1986

(In billions of SDRs)

	1984	1985			1986
		January	Feb. 1- Dec. 31	Total	
<b>A. Gross New Commitments</b>					
Total	4.1	0.1	3.7	3.8	3.8
Of which:					
Ordinary resources	2.4	--	2.4	2.4	2.1
Borrowed resources	1.7	0.1	1.3	1.4	1.7
<b>B. Use and Receipts</b>					
<b>1. Use and Receipt of Ordinary Resources</b>					
a. Purchases					
i) Under arrangements	2.9	0.1	2.0	2.1	2.9
ii) Under compensatory financing	0.8	0.3	0.7	1.0	1.0
iii) Under buffer stock	--	--	--	--	--
	3.7	0.4	2.7	3.1	3.9
b. Repurchases 1/					
i) Under arrangements	0.8	--	1.0	1.0	1.6
ii) Under CFF and buffer stock	0.9	0.2	1.1	1.3	2.4
	1.7	0.2	2.1	2.3	4.0
c. Net change in Fund credit financed by ordinary resources (a-b)	2.0	0.2	0.6	0.8	-0.1
d. Repayment of short-term debt (net use of ordinary resources) 2/	1.0	0.1	0.1	0.2	--
e. Encashment of reserve tranche positions	0.8	--	1.0	1.0	1.0
f. Change in stock of ordinary resources (-(c+d+e))	-3.8	-0.3	-1.7	-2.0	-0.9
<b>2. Use and Receipt of Borrowed Resources</b>					
a. Disbursements	3.5	0.2	3.5	3.7	2.4
b. Repurchases	0.5	--	1.2	1.2	2.0
c. Net change in Fund credit financed by borrowed resources (a-b)	3.0	0.2	2.3	2.5	0.4
<b>C. Change in Fund Credit Outstanding 3/</b>					
(1c+2c)	5.0	0.4	2.9	3.3	0.3
Of which: CFF and buffer stock	-0.1	0.1	-0.4	-0.3	-1.4

1/ Includes sales of currency towards reduction of obligations to Fund.

2/ Repayments using ordinary resources of short-term EAR arrangements concluded in 1981 and 1984 net of repurchases corresponding to calls made under these arrangements.

3/ Differs from World Economic Outlook figures in 1985 and 1986 due to inclusion in projections discussed in this paper of purchases under prospective arrangements as well as projected purchases under special facilities.

adjusting and financing their balance of payments positions during 1985 and 1986, and in these cases the Fund will need to continue to play a role in providing balance of payments assistance.

The projections of drawings and commitments in 1985 and 1986 discussed below assume that almost all of the amounts available under current arrangements, other than those that are regarded by Area Departments as inoperative, will be drawn upon during the remainder of their program periods. However, it is not unlikely that some of these arrangements may go off track or that new arrangements may be agreed in place of the remainder of existing arrangements, with the result that drawings may either be delayed, with some postponements pushing purchases into 1986, or may be cancelled altogether leading to a further reduction in overall use of Fund resources. Furthermore, the precise timing of purchases to be made under several relatively large arrangements *that are already in place is subject to a substantial degree of uncertainty.* The slippage into the succeeding year of even one large purchase under these arrangements could have a noticeable impact on the annual projections for disbursements.

## 2. New commitments under stand-by and extended arrangements in 1985

It is projected, on a country-by-country basis, that in 1985 the Fund will enter into new stand-by and extended arrangements with developing countries totaling about SDR 3.8 billion, which will be financed by SDR 2.4 billion of ordinary resources and SDR 1.4 billion in borrowed resources (of which SDR 0.1 billion in borrowed resources has already been committed in January 1985) 1/. No arrangements are currently forecast with major oil-exporting countries or industrial countries in 1985.

This compares with the projection of new commitments for 1985 totaling SDR 5.1 billion made in August 1984 (EBS/84/171). The downward revision of SDR 1.3 billion is due to several factors. Eleven arrangements that were projected to be concluded during 1985 (some with rather low probability) amounting to SDR 2.3 billion are not at present projected to be agreed this year. In some instances it is likely that the conclusion of arrangements may be shifted forward into 1986; in other cases arrangements are no longer thought to be probable. On the other hand, new arrangements that were not anticipated on the occasion of the last review are now expected for six members for a total of SDR 0.3 billion. Compared to the August 1984 projections, the net change for 1985 in new commitments as a result of these additions, deletions and delays, explains a reduction of about SDR 2 billion in commitments. For the remaining countries the

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1/ These figures have been adjusted by taking into account the probability that arrangements will actually be concluded. Without this probability factor, estimated arrangements in 1985 total SDR 4.9 billion.

probability factors attached to the likelihood that arrangements with them will be concluded have on average increased the likely amount of new commitments by SDR 0.7 billion.

3. Total new commitments under stand-by and extended arrangements in 1986

Estimates of the demand for Fund credit under new arrangements for 1986 should be regarded as only broad indications of the likely trend and should not be considered as firm projections. As usual, they have been made on the assumption that the present policies of the Fund will continue unchanged in 1986. Based upon a country-by-country survey of stand-by and extended arrangements and taking account of probability factors, new commitments in 1986 might total about SDR 3.8 billion. <sup>1/</sup> On the basis of existing provisions governing the mix of resources, this will be financed by SDR 2.1 billion of ordinary resources and SDR 1.7 billion of borrowed resources.

4. Other demand for Fund resources in 1985 and 1986

(i) Reserve positions in the Fund--Encashment of reserve tranche positions amounted to SDR 0.8 billion during 1984 and there were no encashments of loan claims during the year. This represents a moderation in the use of reserve tranche positions in comparison with 1983 (SDR 1.5 billion) and 1982 (SDR 1.3 billion). Virtually the entire amount of reserve tranche use in 1984 took place during the first seven months of the year.

Liquid claims on the Fund totaled SDR 42.6 billion as of January 31, 1985, of which SDR 28.6 billion represented reserve tranche positions and the balance of SDR 14.0 billion were loan claims on the Fund. Of this total, less than ten percent (about SDR 3.5 billion) were held by countries (other than Saudi Arabia and the United States) that are expected to experience current account deficits in 1985. Current account deficits do not, of course, provide a reliable guide, but they may be used as one of the indicators of the firmness with which reserve positions in the Fund are held.

Although no reliable estimates can be made, a figure for reserve tranche purchases totaling SDR 1.0 billion in 1985 and again in 1986 is included in the projections. These projections are also intended to underline the liquidity of these positions, and serve as a reminder that some liquidity may be needed quickly for their encashment. It is also assumed that the members with loan claims on the Fund will not seek to encash these claims during this period.

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<sup>1/</sup> Excluding probability factors, projected new commitments in 1986 total SDR 6.5 billion.



The possible impact on the Fund's liquidity position of a drawdown of reserve tranche positions and loan claims is also taken into account in the downward adjustment of the stock of usable currencies by one quarter (see Section I (1) above).

(ii) Repayment of short-term borrowing--As of January 31, 1985, the Fund had repaid a total of SDR 1.2 billion of short-term loans arranged in 1981 to finance purchases under the policy of enlarged access with the BIS, the Swiss National Bank and several other industrial members. A further SDR 0.1 billion remains to be repaid during the remainder of 1985 (Table 2, line B(1)(d)). As agreed at EBM/84/83 (May 30, 1984), these loan repayments by the Fund will be financed from the Fund's ordinary resources in the absence of further new borrowing by the Fund that could be used to finance these repayments.

Repayments of short-term debt in 1986 using ordinary resources will amount to SDR 0.1 billion. As against this, EAR repurchases corresponding to calls made under short-term borrowing arrangements that have already been repaid and which will be retained in the General Resources Account, will also amount to SDR 0.1 billion. Thus, repayments of short-term borrowing are not expected to affect the stock of ordinary resources on a net basis in 1986.

(iii) Use of Fund resources under special facilities in 1985 and 1986--The present indication on the basis of a country-by-country survey is that purchases under the compensatory financing facility could amount to SDR 1.0 billion in 1985 (compared to SDR 0.8 billion in 1984). Although country projections are not available for 1986, it is considered that the volume of CF purchases in 1986 could be of the same order as in 1985, i.e., SDR 1.0 billion, in part because of an expected moderation in 1985 of the rate of growth of exports by developing countries.

### III. Availability of Fund Resources Through 1985 and 1986 and the Fund's Borrowing Needs

#### 1. Uncommitted ordinary resources at end-1985 and end-1986

The stock of uncommitted ordinary resources (adjusted) as at January 31, 1985 was SDR 30.6 billion (see Table 1) and this total is projected to decline by SDR 2.1 billion to SDR 28.5 billion by end-1985. As can be seen from Table 2, this decline is anticipated to result from the net effect of new commitments of ordinary resources totaling SDR 2.4 billion, drawings under special facilities totaling SDR 0.7 billion, reserve tranche purchases totaling SDR 1.0 billion, repayments of short-term debt of SDR 0.1 billion and after taking into account repurchases of ordinary resources amounting to SDR 2.1 billion.

Assuming no major changes in the list of currencies considered sufficiently strong for inclusion in the operational budget, the stock of uncommitted ordinary resources (adjusted) is projected to decline marginally to a level of SDR 28.4 billion by end-1986. Scheduled repurchases of SDR 4.0 billion will offset almost entirely projected new commitments of ordinary resources (SDR 2.1 billion) and projected use of ordinary resources for financing reserve tranche and CFF purchases (SDR 2.0 billion).

2. The Fund's borrowing needs in 1985 and 1986

(i) Commitments--At end-January 1985 the Fund had uncommitted credit lines amounting to SDR 2.6 billion at its disposal. Projected commitments of borrowed funds of SDR 1.3 billion during the remainder of 1985 imply that uncommitted lines of credit of about SDR 1.3 billion are likely to be carried over into 1986. Consequently, there appears to be no need at this time to seek new sources of credit for financing commitments in 1985 under the Fund's policy of enlarged access.

As for the outlook in 1986, preliminary and highly tentative indications, as described above, suggest that commitments of borrowed resources in 1986 may be in the order of SDR 1.7 billion. As a result, present indications regarding the timing of new commitments suggest that a commitment gap of borrowed resources may emerge in the first half of 1986 and rise to about SDR 0.4 billion by end-1986. This projection is highly tentative and no conclusions can be drawn from it regarding the Fund's borrowing needs in 1986 except the likelihood that, if present projections hold up, the Fund will have little need to arrange new borrowing in 1986.

In these circumstances and keeping in mind that the access policy for 1986 will be discussed towards the end of this year, it would seem reasonable to consider the financing of the projected commitment gap in 1986, including a possible review of the mix of borrowed and ordinary resources used in financing EAR purchases, on the occasion of the next half-yearly liquidity review later in 1985. At that time, more information will be available on the prospective demand for the Fund's borrowed resources in 1986 and a clearer picture may have emerged regarding access limits under the Fund's policy on enlarged access.

(ii) Disbursements--At the end of January 1985, the Fund had SDR 6.5 billion in undisbursed credit lines. Disbursement of borrowed resources are projected to involve SDR 3.5 billion during the remainder of 1985 and SDR 2.4 billion in 1986, leaving a net balance of SDR 0.6 billion of undisbursed credit lines at the end of 1986.

#### IV. Overall Position

Since the last review of the Fund's liquidity position in September 1984, the stock of resources available to finance commitments and other demands on the Fund has declined somewhat as outflows associated with purchases and repayments of short-term borrowing by the Fund have been greater than reflows through repurchases.

However, commitments by the Fund under new arrangements are projected to be moderate during the remainder of 1985 and also in 1986 in relation to the totals of the past several years. Similarly, net use of Fund credit in 1985 is projected to rise more slowly, increasing by SDR 3.3 billion compared with a net expansion in Fund credit of SDR 5.0 billion in 1984. The net increase in Fund credit in 1986 is presently projected to slow down to SDR 0.3 billion mainly because the volume of repurchases expands rapidly during the second half of 1986 and because the rate of disbursement of Fund credit is tentatively projected to slow down somewhat from the level experienced in 1985.

The stock of uncommitted credit lines available to the Fund is expected to be sufficient to meet new commitments of borrowed resources through 1985. Highly tentative indications of commitments of borrowed resources in 1986 suggest that a commitment gap of about SDR 0.4 billion may emerge beginning in the first half of the year, although this projection is subject to a high degree of uncertainty, in part because access limits for 1986 are to be reviewed and decided upon by the Executive Board later this year. In light of all of these circumstances it is proposed to consider the Fund's borrowing needs in 1986 in connection with reviews of liquidity and access limits to take place later this year.

The Fund's liquidity is at present comfortable, and unless significant unexpected demands are made on the Fund's resources or the positions of one or more major countries should weaken to the point where their currencies would be excluded from the Fund's stock of usable currencies, the Fund's liquidity is likely to continue to be comfortable for the remainder of 1985. The situation is less clear as regards 1986, but on present indications the Fund's liquidity position is expected to remain broadly satisfactory, though a small commitment gap may emerge in the first half of 1986 depending on whether new large commitments will materialize at that time as currently projected.

Notwithstanding the apparent strength in the Fund's liquidity position at present and for the foreseeable future, the following considerations should be kept in mind:

(i) A number of uncertainties exist regarding the evolution over time of the external positions of some industrial countries and other Fund creditors. The impact of financing flows on exchange rates and developments in external reserves remain highly uncertain. While no firm predictions can be made regarding the consequences on the

Fund's liquidity of these developments, the stock of usable currencies could unexpectedly contract from the relatively high level it has reached at present due to the 1983 quota increase, the large list of usable currencies, the limited use which has been made of reserve positions in the Fund, and the slackening of the net expansion of Fund credit.

(ii) The weakness in commodity prices, including oil prices, since mid-1984 has contributed to the weakening of the balance of payments of a number of countries, and if this trend continues, it may lead to a greater demand for Fund resources in 1985 and 1986, including under the special facilities, than currently projected.

(iii) No provision has been made for use of the Fund's resources by any industrial country or major oil-exporting country in the estimates presented above. Any such use by a major industrial country, or by a number of smaller industrial countries, would have a significant impact on both the demand and supply of Fund resources.

Principal Ratios for Assessing Fund Liquidity

1. Data on principal elements of the Fund's liquidity and its borrowing for the period 1978-1986 are set out in Table 1 of this Appendix. On the basis of these data, various ratios have been calculated (Appendix Table 2).

2. Quota ratio

The "quota ratio" (line 1), is now at 36.8 percent and represents a decline of about 2 percentage points from its level of 38.5 percent at July 31, 1984 (EBS/84/171) due to repayments of credits under the Supplementary Financing Facility and short-term EAR loans. Thus, the 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. <sup>1/</sup>

It is anticipated that the quota ratio will decline further to about 35 percent at December 1985 on the basis of the projections presented in this paper, as no new borrowing agreements are expected while there will be repayment of loans under the SFF and under the enlarged access policy (including repayments to SAMA under the 1981 EAR Agreement which will commence in May 1985).

As of January 31, 1985 outstanding borrowing totaled SDR 14.0 billion, or 16 percent of total quotas, and is projected to increase to about SDR 16.1 billion at end-1985 (or about 18 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, 1985, this ratio stood at 72 percent and represented a decline of about 5 percentage points since the last liquidity review as use of Fund resources continued to exceed inflows. Based on the present list of currencies considered usable and other estimates in the paper, the liquidity ratio is expected to continue declining, reaching a level of about 65 percent at end-1985 due largely to new commitments of ordinary resources of SDR 2.4 billion. This ratio is projected to rise to about 67 percent at end-1986 reflecting a slowdown in the commitment of ordinary resources and an increase in repurchases relative to past years. These ratios are relatively high compared with periods of heavy demand for Fund resources in the past.

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<sup>1/</sup> Executive Board Decision No. 7589-(83/181), adopted December 23, 1983.

At present, less than ten percent of reserve positions are held by members with relatively weak current account positions (not including Saudi Arabia and the United States), slightly less than the proportion noted on the occasion of the mid-1984 liquidity review.

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. The ratio is expected to decline from 107 percent on January 31, 1985 to 103 percent in December 1985 and then increase to about 109 percent at the end of 1986.

#### 4. Asset Ratio

The two "asset ratios" (line 4) relate to the Fund's usable assets to its total obligations. The numerator includes all ordinary resources considered usable (without any adjustment for members with potentially weak balance of payments and reserve positions) and temporary investments in the BRS account 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 104 percent. During 1985 both ratios are expected to decline; to 90 percent, in the case of the asset ratio excluding gold, and to 98 percent, including gold. These declines will reflect a fall in 1985 of the Fund's holdings of ordinary resources and a concurrent increase in liquid liabilities reflecting the modest increase in net use of Fund credit projected for 1985. Despite the net expansion of Fund credit in 1986, a small increase in asset ratios is projected for that year because the contraction in reserve tranche positions arising from net repurchases in currencies is larger than the fall in the stock of ordinary resources after assuming substantial further use of SDRs to finance purchases.

#### 5. Overview

These ratios may be judged to represent a continuation of the Fund's comfortable liquidity position. Reflecting the prospective decline in demand for Fund resources during 1985 and 1986 in the context of a stable supply of usable currencies, it is likely that the Fund's liquidity position will remain comfortable. No particular action is thus called for by the Executive Board at this time. The liquidity position will be examined again in the next half-yearly review of the Fund's liquidity which is due to be considered by the Executive Board later in 1985.

Appendix Table 1. Selected Balance Sheet Data

(In billions of SDRs)

Item	December 31					Jan. 31		Dec. 31	Dec. 31	
	1978	1979	1980*	1981	1982	1983*	1984	1985	1985	1986
									(est.)	(est.)
1. Usable Ordinary Resources										
(unadjusted)	10.9	7.7	20.8	27.8	20.3	39.8	41.0	40.8	39.1	38.4
of which:										
(a) Adjusted <u>1/</u>	8.5	6.0	14.7	22.1	16.9	31.6	32.0	31.8	30.1	29.2
(b) Adjusted and uncommitted	5.3	4.0	12.8	18.0	13.0	27.7	30.6	30.6	28.5	28.4
of which: SDR holdings	(1.2)	(0.9)	(5.6)	(5.0)	(3.7)	(7.0)	(5.1)	(4.7)	(...)	(...)
2. Gold at SDR 35 per fine ounce	4.1	3.7	3.6	3.6	3.6	3.6	3.6	3.6	3.6	3.6
3. Borrowing	6.6	11.4	10.5	18.8	17.9	16.8	20.7	20.5	19.1	17.1
(a) Outstanding borrowing										
i) EAR <u>2/</u>	--	--	--	1.1	2.0	6.2	7.5	7.6	10.7	12.6
ii) of which BRS Accounts <u>3/</u>	--	--	--	(0.4)	(0.4)	(0.9)	(--)	(--)	(--)	(--)
iii) SFF	--	0.3	1.5	3.6	5.3	6.8	6.5	6.4	5.4	3.9
iv) GAB and associated <u>4/</u>	1.4	0.8	0.8	0.8	0.8	--	--	--	--	--
v) Other <u>5/</u>	5.0	2.8	1.9	0.9	0.1	--	--	--	--	--
Total	6.4	3.9	4.2	6.4	8.2	13.0	14.0	14.0	16.1	16.5
(b) Unused credit lines										
i) EAR	--	--	--	8.2	7.3	3.0	6.7	6.5	3.0	0.6
ii) SFF	--	7.5	6.3	4.2	2.4	0.8	--	--	--	--
iii) Other <u>5/</u>	0.2	--	--	--	--	--	--	--	--	--
Total	0.2	7.5	6.3	12.4	9.7	3.8	6.7	6.5	3.0	0.6
4. Unused GAB and Associated <u>4/</u>	2.1	2.6	2.6	2.5	2.4	3.2	12.3	12.3	(12.3)	(12.3)
5. Total Liquid Liabilities	14.9	11.8	16.8	21.5	25.9	40.3	42.8	42.6	43.7	42.5
(a) Reserve tranche positions	8.5	7.9	12.6	15.1	17.7	27.3	28.8	28.6	27.6	26.0
(b) Outstanding borrowing	6.4	3.9	4.2	6.4	8.2	13.0	14.0	14.0	16.1	16.5
6. Total Fund Credit Outstanding	10.3	8.0	8.5	13.4	19.3	29.9	34.9	35.3	38.2	38.5
7. Total Quotas	39.0	39.0	59.6	60.7	61.1	88.5	89.2	89.2	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 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	1978	1979	1980	1981	1982	1983	1984	1/85	1985	1986
Adjustment factor	(0.25)	(0.25)	(0.40)	(0.25)	(0.20)	(0.25)	(0.25)	(0.25)	(0.25)	(0.25)

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

3/ Small balances of less than SDR 50 million were held as at January 31, 1985 and may also be held in the future.

4/ 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 1985 and 1986, the figures have been placed in parentheses in order to indicate that no assumption has been made regarding the use of these arrangements.

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

Appendix Table 2. Fund Liquidity - Selected Ratios

(In percent)

Item	December 31							Jan.31	Dec.31	Dec.31
	1978	1979	1980	1981	1982	1983	1984	1985	1985	1986
									(est)	(est)
1. Quota ratio <u>1/</u>	22.3	35.9	22.0	35.1	33.2	22.6	37.0	36.8	35.2	32.9
2. Liquidity ratio <u>2/</u>	35.6	33.9	76.2	85.6	51.7	71.0	71.5	71.8	65.2	66.8
3. Cash ratio <u>3/</u>	62.4	50.6	101.6	119.2	73.4	101.5	106.3	107.0	103.3	109.2
4. Asset ratio <u>4/</u>										
(i) excluding gold	73.2	65.3	123.8	131.2	79.9	101.0	95.8	95.8	89.5	90.4
(ii) including gold	100.7	96.6	145.2	147.9	93.8	109.9	104.2	104.2	97.7	98.8

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).