

FOR  
AGENDA

EBS/85/186

CONFIDENTIAL

August 7, 1985

To: Members of the Executive Board

From: The Secretary

Subject: Review of the Fund's Liquidity - Financing Needs and  
Financial Considerations for Access Policy in 1986

The attached paper reviewing the Fund's liquidity position is scheduled for Executive Board consideration at a meeting scheduled for Friday, September 6, 1985.

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

Att: (1)

INTERNATIONAL MONETARY FUND

Review of the Fund's Liquidity - Financing Needs and Financial  
Considerations for Access Policy in 1986

Prepared by the Treasurer's Department

Approved by David Williams

August 6, 1985

I. Introduction

This paper reports on the Fund's liquidity position as of July 31, 1985. It also discusses prospective developments in the Fund's liquidity, including financing needs, through 1985 and, on the assumption of unchanged policies on access to the Fund's resources, sets out some financial considerations bearing on the financing of the enlarged access policy in 1986.

The paper is organized along the following lines: Section II discusses the supply of usable resources as of July 31, 1985; Section III deals with the projected demand on the Fund's resources during the remainder of 1985 and in 1986; Section IV reviews the availability of resources in relation to projected demand through 1986, and discusses the implications of these projections for access policy in 1986, including the adequacy of borrowed resources in the medium-term. Section V draws some conclusions. Two appendices are also attached, the first contains an analysis of the evolution of the ratios used in assessing the Fund's liquidity position, while the second briefly sets out projected repurchases and repayments through 1990 and their impact on the Fund's supply of ordinary resources.

II. The Supply of Resources as of July 31, 1985

1. Ordinary resources

As at July 31, 1985, the Fund's stock of usable resources totaled SDR 42.2 billion, of which the Fund's holdings of currencies of members considered sufficiently strong to be included for transfers in the current Operational Budget (EBS/85/137) was SDR 38.1 billion and the balance of SDR 4.1 billion represented SDRs held by the Fund. <sup>1/</sup> This

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<sup>1/</sup> Arrears to the General Resources Account amounted to SDR 0.4 billion as of July 31, 1985. For the purposes of this review, the staff has made no assumptions regarding the settlement of existing arrears or the likelihood that any future obligations may become overdue, primarily because of the uncertainties, but also because it is highly unlikely that any foreseeable changes in the present total of overdue payments would have a material impact on the Fund's liquidity position.

represented an increase in the Fund's stock of usable resources of SDR 1.4 billion since January 31, 1985, when the stock of usable resources was SDR 40.8 billion, comprising SDR 36.1 billion in currencies and SDR 4.7 billion in SDRs.

The increase in the holdings of usable resources since the last liquidity review was due mainly to the addition of Venezuela to the list of members considered sufficiently strong for inclusion in the budget, resulting in the addition of SDR 0.9 billion to the total of usable resources. <sup>1/</sup> The decline over the past six months of SDR 0.6 billion in SDR holdings 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. <sup>2/</sup>

The list of members considered sufficiently strong is relatively long at the present time and includes the currencies of all but three industrial countries (Iceland, Luxembourg, and New Zealand), as well as the currencies of a number of relatively large developing countries. The recent high levels of usable currencies held by the Fund have represented effectively a peak in the supply of these resources. A number of the members presently considered sufficiently strong for their currencies to be usable by the Fund are experiencing some weakening in their balance of payments and declines in their reserves. There would, therefore, seem to be a greater possibility than in the recent past that some of these members with relatively large quotas, and whose currencies are held by the Fund in relatively large amounts, may be excluded from the list of members considered sufficiently strong for inclusion in the Operational Budget and Designation Plan. A reduction in the total of usable currencies of the order of SDR 4 billion in the near future is, therefore, not unlikely. Furthermore, no additions to the list of usable currencies are presently expected which would substantially offset the possible reductions. Thus, some net reduction in the supply of the Fund's usable currencies is not an unlikely prospect over the next 6-12 months.

The staff has considered whether it would be desirable to increase the adjustment factor from the level of one-fourth used in the March 1985 liquidity review. The present adjustment factor of one-fourth

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<sup>1/</sup> In addition to Venezuela, other changes in the list of members considered sufficiently strong since the last liquidity review were the inclusion of Malaysia and the exclusion of Papua New Guinea. As both these members had outstanding indebtedness to the Fund subject to repurchase, the Fund's holdings of their currencies were not included among usable currencies and these changes do not immediately affect the Fund's stock of usable resources.

<sup>2/</sup> Executive Board Decision No. 7941-(85/50)S, adopted March 29, 1985.

effectively reduces the total of usable currencies by almost SDR 10 billion, and a reduction of this order of magnitude is considered adequate to take account of a weakening balance of payments positions of several members included in the present budget and the Fund's need to maintain working balances of individual currencies. This adjustment would also seem sufficient to provide for the possibility that the exclusion of one or more large members included in the current budget may be accompanied by encashment of reserve tranche positions in the Fund. After taking account of the adjustment factor, the total of adjusted usable currencies and SDRs amounted to SDR 32.7 billion at July 31, 1985 (Table 1), as compared to SDR 31.8 billion at January 31, 1985.

The total of members' undrawn balances of ordinary resources under arrangements was SDR 1.9 billion as of July 31, 1985, of which SDR 0.2 billion represented commitments of ordinary resources that are unlikely to be drawn (see footnote 2/, Table 1). Net undrawn balances of ordinary resources thus totaled SDR 1.7 billion; after the deduction of this amount from the total of adjusted usable resources, the total of uncommitted ordinary resources (adjusted) was SDR 31.0 billion on July 31, 1985. This compares to a total of SDR 30.6 billion as of January 31, 1985.

## 2. Borrowed resources

The amount of borrowed resources available to finance the policy of enlarged access amounted to SDR 5.8 billion as of July 31, 1985 (Table 1). Of this total, committed, but undrawn balances under existing arrangements amounted to SDR 4.0 billion on July 31, 1985, of which SDR 1.7 billion represented amounts that are unlikely to be drawn (see footnote 2/, Table 1). 1/ Commitments of borrowed resources, net of commitments unlikely to be drawn, thus amounted to SDR 2.3 billion.

The stock of uncommitted borrowed resources as of July 31, 1985, amounted to SDR 3.5 billion, compared with a total of SDR 2.6 billion as of January 31, 1985.

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

### 1. Overview

While the rate at which the Fund is expected to enter into new commitments under arrangements in 1985 and 1986 is projected to be at about the same rate as in 1984, the total of purchases under arrangements and the special facilities is expected to slacken very considerably in

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1/ The amount unlikely to be drawn includes SDR 1.5 billion under one arrangement which is likely to be replaced by a new arrangement.

Table 1. Estimates of Fund's Usable Resources as of  
July 31 and December 31, 1985 and December 31, 1986

(In billions of SDRs)

|   | <u>End-July<br/>1985</u> | <u>End-1985</u> | <u>End-1986</u> |
|---|--------------------------|-----------------|-----------------|
| <b>1. <u>Ordinary Resources</u></b>                                 |                          |                 |                 |
| (i) Usable currencies and SDRs (adjusted)                           | 32.7 <u>1/</u>           | 31.6            | 30.7            |
| Less: Members' undrawn balances<br>under commitments                | <u>1.7</u> <u>2/</u>     | <u>1.9</u>      | <u>1.2</u>      |
| (ii) Uncommitted ordinary resources                                 | 31.0                     | 29.7            | 29.5            |
| <b>2. <u>Borrowed Resources</u></b>                                 |                          |                 |                 |
| (i) Unused EAR credit lines<br>and investments                      | 5.8                      | 4.3             | 1.9             |
| Less: Members' undrawn balances<br>under commitments                | <u>2.3</u> <u>2/</u>     | <u>1.9</u>      | <u>1.6</u>      |
| (ii) Uncommitted borrowed resources                                 | 3.5                      | 2.4             | 0.3             |
| <b><u>Memoranda</u></b>   |                          |                 |                 |
| 1. Total liquid liabilities   | 41.6                     | 42.0            | 40.7            |
| Of which:   |                          |                 |                 |
| Reserve tranche positions   | 27.5                     | 27.1            | 25.5            |
| Outstanding borrowing (loan claims)                                 | 14.1                     | 14.9            | 15.2            |
| 2. Total enlarged GAB and associated<br>agreement with Saudi Arabia | 18.5                     | 18.5            | 18.5            |

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

2/ The amounts have been reduced by SDR 0.2 billion of ordinary resources and SDR 1.7 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.

1985, as compared with 1984, before rising somewhat in 1986. The projected slowdown in the net expansion of Fund credit in part reflects a continued forward shift of disbursements under some large arrangements as the terms are renegotiated, and, in part, to the strengthening of the external financial positions of indebted developing countries. Total purchases are projected at SDR 5.1 billion and SDR 6.2 billion in 1985 and 1986, respectively, in contrast to average purchases of almost SDR 10 billion per year during 1983 and 1984. <sup>1/</sup> Total repurchases, largely reflecting a sharp rise in repurchases under the compensatory financing facility, will rise from SDR 3.6 billion in 1985 to SDR 6.0 billion in 1986, compared with an average total of repurchases of about SDR 2.2 billion per year in 1983 and 1984. (The schedule of repurchases and associated loan repayments over the period to 1990 is discussed in Appendix II.) Consequently, the net use of Fund credit is projected to expand by SDR 1.5 billion in 1985 and by SDR 0.2 billion in 1986, as compared with an increase in net credit of SDR 5.0 billion in 1984 (see Table 2).

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

Current projections, on a country-by-country basis, indicate that in 1985 the Fund will enter into new stand-by arrangements with developing countries totaling about SDR 4.5 billion, which will be financed by SDR 2.6 billion of ordinary resources and SDR 1.9 billion of borrowed resources (Table 2) <sup>2/</sup>.

Although this level of commitments represents an increase of SDR 0.7 billion in new commitments as compared with the projection for 1985 made for the last liquidity review in March 1985 (EBS/85/56), the figure includes a possible new arrangement for approximately SDR 1 billion that would replace an existing inoperative arrangement under which the undrawn balance is SDR 1.5 billion. After subtracting this expected carryover of an existing commitment from gross projected commitments, the total of new commitments for 1985 would be SDR 3.5 billion, which represents a slight downward revision, amounting to SDR 0.3 billion, of the amount projected in the last liquidity review. This downward revision is due to the following factors: (i) eleven arrangements totaling SDR 0.6 billion that were projected on the occasion of the March 1985 review are now not expected to materialize;

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<sup>1/</sup> The projections for 1985 and 1986 assume that almost all the amounts available under current arrangements, other than those regarded as inoperative, will be drawn during the remainder of their program periods, and that new commitments will not be significantly larger than those projected in this review.

<sup>2/</sup> These figures have been adjusted by taking into account the probability that arrangements will actually be concluded. Without this probability factor, projected arrangements in 1985 total SDR 5.1 billion.

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

(In billions of SDRs)

|  | 1984 | 1985              |                   |       | 1986 |
|--|------|-------------------|-------------------|-------|------|
|  |      | Jan 1-<br>July 31 | Aug. 1-<br>Dec 31 | Total |      |
| <b>A. Gross New Commitments</b>                                      |      |                   |                   |       |      |
| Total  | 4.1  | 2.0               | 2.5               | 4.5   | 4.2  |
| Of which:  |      |                   |                   |       |      |
| Ordinary resources   | 2.4  | 1.2               | 1.4               | 2.6   | 2.1  |
| Borrowed resources   | 1.7  | 0.8               | 1.1               | 1.9   | 2.1  |
| <b>B. Use and Receipts</b>   |      |                   |                   |       |      |
| <b>1. Use and Receipt of Ordinary Resources</b>                      |      |                   |                   |       |      |
| a. Purchases   |      |                   |                   |       |      |
| i) Under arrangements  | 2.9  | 0.6               | 1.2               | 1.8   | 2.8  |
| ii) Under compensatory financing                                     | 0.8  | 0.6               | 0.4               | 1.0   | 1.0  |
| iii) Under buffer stock  | --   | --                | --                | --    | --   |
|  | 3.7  | 1.2               | 1.6               | 2.8   | 3.8  |
| b. Repurchases <sup>1/</sup>   |      |                   |                   |       |      |
| i) Under arrangements  | 0.8  | 0.5               | 0.5               | 1.0   | 1.6  |
| ii) Under CFF and buffer stock                                       | 0.9  | 0.8               | 0.6               | 1.4   | 2.4  |
|  | 1.7  | 1.3               | 1.1               | 2.4   | 4.0  |
| c. Net change in Fund credit financed<br>by ordinary resources (a-b) | 2.0  | -0.1              | 0.5               | 0.4   | -0.2 |
| d. Net repayment to EAR and SFF lenders <sup>2/</sup>                | 1.0  | 0.2               | 0.1               | 0.3   | 0.1  |
| e. Encashment of reserve tranche positions                           | 0.8  | 0.1               | 0.5               | 0.6   | 1.0  |
| f. Change in stock of ordinary resources<br>(-(c+d+e))               | -3.8 | -0.2              | -1.1              | -1.3  | -0.9 |
| <b>2. Use and Receipt of Borrowed Resources</b>                      |      |                   |                   |       |      |
| a. Purchases   | 3.5  | 0.8               | 1.5               | 2.3   | 2.4  |
| b. Repurchases   | 0.5  | 0.6               | 0.6               | 1.2   | 2.0  |
| c. Net change in Fund credit financed<br>by borrowed resources (a-b) | 3.0  | 0.2               | 0.9               | 1.1   | 0.4  |
| <b>C. Change in Fund Credit Outstanding <sup>3/</sup></b>            |      |                   |                   |       |      |
| a. Total purchases (1a + 2a)   | 7.2  | 2.0               | 3.1               | 5.1   | 6.2  |
| b. Total repurchases (1b + 2b)                                       | 2.2  | 1.9               | 1.7               | 3.6   | 6.0  |
| c. Net change in Fund credit<br>outstanding (1c + 2c)                | 5.0  | 0.1               | 1.4               | 1.5   | 0.2  |
| Of which: CFF and buffer stock                                       | -0.1 | -0.2              | -0.2              | -0.4  | -1.4 |

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

<sup>2/</sup> Repayments under EAR and SFF borrowing agreements made using ordinary resources net of repurchases corresponding to calls made under these agreements.

<sup>3/</sup> 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.

(ii) three arrangements amounting to SDR 0.1 billion that were not anticipated earlier are now projected for 1985; and (iii) changes in the probability factors attached to the likelihood that arrangements would be concluded resulted in a net increase of SDR 0.2 billion.

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

It is projected, on a country-by-country basis and assuming that present policies as regards the level of access to the Fund's resources and the mix of ordinary and borrowed resources will continue unchanged in 1986, that the Fund will enter into new commitments with developing countries during 1986 for a total of approximately SDR 4.2 billion, of which SDR 2.1 billion will be financed from ordinary resources and an equivalent amount from borrowed resources. <sup>1/</sup> Although some shifts in projected commitments from 1985 to 1986 have taken place, these have been largely offset by reductions in amounts and in the related probabilities associated with several arrangements projected for 1986. Consequently, new commitments for 1986 are projected to remain at the order of SDR 4 billion, or at about the same level as projected in March 1985 (EBS/85/56). It might, however, be noted that this total includes, on a relatively low probability-weighted basis, commitments for relatively large amounts for two members, including one major oil exporting developing country. If either or both members conclude programs during 1986, total commitments in 1986 could be materially larger than projected at this time.

4. Other demand for Fund resources in 1985 and 1986

(1) Reserve positions in the Fund--Liquid claims on the Fund totaled SDR 41.6 billion on July 31, 1985, of which SDR 27.5 billion represented reserve tranche positions and SDR 14.1 billion represented loan claims on the Fund. Of this total, less than 10 percent (about SDR 3.5 billion) was 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 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 been made in the projections for reserve tranche purchases of SDR 0.5 billion during the remainder of 1985 and for SDR 1.0 billion for 1986; these amounts compare with the actual encashment of reserve tranche positions amounting to SDR 1.5 billion in 1983,

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<sup>1/</sup> Excluding probability factors, projected new commitments in 1986 total SDR 8.1 billion.

SDR 0.8 billion in 1984, and SDR 0.1 billion during the first seven months of 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 1985 and 1986--On the basis of a country-by-country survey, purchases under the compensatory financing facility are projected to total SDR 1.0 billion during 1985, of which SDR 0.6 billion has already been purchased in the seven months ending July 31, 1985. Although detailed country projections are not available for 1986, it is considered that CF purchases in 1986 will continue at about the same level, i.e. at SDR 1.0 billion, as projected for 1985. 1/2/

(iii) Repayments of EAR and SFF borrowing--Repayments of Fund borrowing during 1985 are expected to result in a net use of ordinary resources amounting to SDR 0.3 billion (see line B(1)(d) of Table 2). Of this amount, SDR 0.1 billion represents repayments of short-term loans arranged in 1981 and, as agreed at EBM/84/83 (May 30, 1984), these are being financed with the Fund's ordinary resources. 3/ The balance of SDR 0.2 billion arises because of repayments to certain SFF lenders whose claims are repayable no later than five years after the date of drawdown, while repurchases with respect to drawings financed with such relatively short claims continue up to seven years after the date of drawdown of the loan.

In 1986, repayments of Fund borrowing are projected to result in the use of ordinary resources amounting to SDR 0.1 billion, all of which is attributable to SFF repayments at five years after the date of drawdown.

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1/ Purchases under the buffer stock facility are not expected to be significant during the remainder of 1985 and in 1986; in neither year are they expected to round to SDR 0.1 billion.

2/ For further discussion of CF purchases during 1986, see section 1(c) of "Review of Access Limits Under the Special Facilities" (EBS/85/187).

3/ With these payments, the Fund will have repaid, using ordinary resources, a total of SDR 1.2 billion of 1981 short-term borrowing agreements with the BIS and other industrial countries. A total of SDR 50 million remains outstanding under these arrangements. The engagement of ordinary resources for these repayments is made necessary because of the mismatch between the timing of repayments to lenders and the corresponding repurchases, arising primarily from the relatively short maturities of calls made under these borrowing arrangements. The temporary investment of borrowed funds may also prolong the period over which these resources are mismatched.

#### IV. Availability of Fund Resources through 1986 and Financing Enlarged Access in 1986

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

In the light of the estimates of new commitments and actual purchases during the balance of 1985, the stock of uncommitted ordinary resources (adjusted) is projected to decline by SDR 1.3 billion to SDR 29.7 billion by end-1985 (Table 1). It is projected that the reduction in the total of ordinary resources will result from new commitments of ordinary resources amounting to SDR 1.4 billion, drawings under the special facilities and in the reserve tranches totaling SDR 0.9 billion, and repayment to lenders with the use of ordinary resources will amount to SDR 0.1 billion. These outflows will be partly offset by repurchases with respect to ordinary resources which are scheduled to amount to SDR 1.1 billion.

In 1986, the stock of uncommitted ordinary resources (adjusted) is projected, assuming no major changes to the list of members considered sufficiently strong for the inclusion of their currencies in the operational budget, to decline marginally to SDR 29.5 billion as net new commitments of ordinary resources, purchases under special facilities, and encashment of reserve tranche positions are projected to exceed by a small amount the inflow of ordinary resources through repurchases and the Fund's net income. As discussed in Section II(1) above there is, however, a possibility that the total of usable currencies will decline because of a weakening in some creditor members' external financial positions. Nevertheless, on present indications the Fund's stock of usable ordinary resources is likely to continue at a comfortable level in relation to demands on those resources through 1986.

##### 2. Uncommitted borrowed resources at end-1985 and end-1986

As noted above, the stock of uncommitted borrowed resources amounted to SDR 3.5 billion at end-July 1985. Taking account of projected commitments of borrowed resources of SDR 1.1 billion to the end of 1985, it is anticipated that the stock of uncommitted borrowed resources will decline to SDR 2.4 billion by December 31, 1985.

On the basis of the projections presented above, commitments of borrowed resources are expected to amount to approximately SDR 2.1 billion in 1986 and that, as a result, a small amount of uncommitted borrowed resources (totaling approximately SDR 0.3 billion) may be carried over into early 1987.

However, the situation as regards the availability of uncommitted borrowed resources in the latter part of 1986 could be relatively tight. While the Area Departments have not indicated any likely use of Fund resources by industrial countries or other members presently

considered sufficiently strong for inclusion in the budget, as noted above, two relatively large arrangements with relatively low probabilities have been included in the projections for 1986. If an arrangement is concluded with a member not presently included in the projections or if one or both of the arrangements which are included in the present estimates with low probabilities are successfully concluded, it is possible that a commitment gap giving rise to a need to borrow could develop during the latter half of 1986.

On a disbursement basis, the unused lines of credit available to finance purchases under enlarged access totaled SDR 5.8 billion on July 31, 1985. Total disbursements through end-1986 are projected to amount to SDR 3.9 billion, leaving a balance of uncalled lines of SDR 1.9 billion at end-1986, though the conclusion of one or two arrangements now accorded low probabilities in 1986 could, as indicated above, reduce this uncalled balance by a significant amount.

### 3. Financing enlarged access in 1986

The Decision relating to the policy on enlarged access which was adopted in January 1984, provides for an annual review to consider the future of that policy "in light of all relevant factors, including the magnitude of members' payments problems and developments in the Fund's liquidity". 1/ In the paper "Access Limits for 1986--Preliminary Policy Considerations" (EBS/85/174, July 23, 1985), the staff has set out important reasons for maintaining the 1985 annual and triannual limits in place for 1986 while considering, if that is felt necessary, a reduction in the cumulative limit to 375-400 percent of quota.

As noted, the required review of the policy on enlarged access is to take into account developments in the Fund's liquidity. This paper has set out the staff's current projections of changes in the stocks of available resources, both ordinary and borrowed, for the remainder of 1985, and, assuming unchanged policies on access to the Fund's resources, for 1986. On the basis of these projections and subject to the caveats mentioned above, the Fund's overall liquidity position is comfortable and is projected to remain so for the foreseeable future. The total of uncommitted usable ordinary resources is projected in this paper to decline only slightly through the end of 1986 from the present level of SDR 31 billion. As regards the total of borrowed resources, it is expected that there will be a carry-over of uncommitted borrowed resources of SDR 2.4 billion at the end of 1985, and perhaps a small amount, of the order of SDR 0.3 billion, at the end of 1986. Consequently, there does not appear to be a need at this time for the Fund to seek new borrowing arrangements to finance commitments under the Fund's policy of enlarged access in 1985, or, on a somewhat more tentative basis, in 1986.

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1/ Executive Board Decision No. 7599-(84/3), adopted January 6, 1984.

It may be concluded, therefore, that although the outlook for the Fund's liquidity position to end-1986 is subject to qualifications, a continuation of the policy on enlarged access in 1986 along the lines discussed in EBS/85/174 can be accommodated from the amounts of ordinary and borrowed resources estimated to be available for 1986. If, contrary to present projections, there was a significant deterioration in the Fund's liquidity position, or if it became likely that a borrowing need might materialize during 1986, the staff would propose appropriate steps for consideration by the Executive Board, including consideration of the mix of the Fund's resources used to finance arrangements under the enlarged access policy.

#### V. Summary and Conclusions

1. Since the last review of the Fund's liquidity in March 1985, the stock of both uncommitted ordinary and borrowed resources has increased modestly due principally, in the case of ordinary resources, to the addition of Venezuela to the list of members sufficiently strong for use of its currency in the operational budget, and, in the case of borrowed resources, to the release of resources under existing commitments which have become inoperative and which have exceeded new commitments. At the end of July 1985, the total of uncommitted (adjusted) ordinary resources totaled SDR 31 billion, and the total of uncommitted borrowed resources amounted to SDR 3.5 billion. The Fund's total usable currency holdings at present appear to represent an effective peak because of the inclusion of the currencies of virtually all the industrial countries and those of a number of relatively large developing countries. The external financial positions of some members with relatively large quotas that are included in the current operational budget are, however, deteriorating. As a consequence, it is possible that the Fund's currency holdings of some of these members may not be usable in the near term and the total of usable currencies may fall, by perhaps of the order of SDR 4 billion. No additions to the list of usable currencies can reasonably be expected in the near future that would substantially offset likely reductions.

2. As regards the demand for Fund resources, new commitments by the Fund under arrangements are projected to amount to SDR 2.5 billion in the remainder of 1985, increasing the total for new commitments for 1985 to approximately SDR 4.5 billion. On the assumption of unchanged access limits to the Fund's resources, the total of new commitments in 1986 is projected to amount to SDR 4.2 billion. The level of new commitments is thus likely to remain broadly unchanged from the 1984 level within the range of SDR 4-4.5 billion per annum. However, these projections do not provide for use of the Fund's resources by countries included in the present list of those whose currencies are usable. The estimate for 1986 allows, with relatively low probabilities, for the conclusion of arrangements in 1986 with two developing countries with relatively large quotas.

3. Total purchases under arrangements and under the special facilities are projected at SDR 5 billion for 1985 and SDR 6 billion for 1986, compared with an average of SDR 10 billion per year in 1983 and 1984. The slowdown in purchases, reflecting the relative improvement in the external financial positions of a number of heavily indebted developing members, together with the buildup in the total of repurchases through end-1986, implies a considerable slowdown in the growth of outstanding Fund credit. The increase in outstanding Fund credit is projected to total SDR 1.5 billion in 1985 and SDR 0.2 billion in 1986, as compared with an increase of SDR 5 billion in 1984.

4. The present stock of uncommitted ordinary resources is ample to meet projected demands. As regards the availability of borrowed resources, the stock of uncommitted borrowed resources, which presently totals SDR 3.5 billion, is projected to fully finance new commitments in 1985 and, assuming the continuation of present access limits, also in 1986. On present indications a commitment gap is unlikely to arise until early 1987, although the conclusion of substantial arrangements that are not now anticipated or, as indicated above, of arrangements which are accorded relatively low probabilities in present estimates, could give rise to the emergence of a commitment gap during the course of 1986.

5. In the light of the projections presented above, and after taking into account certain elements of uncertainty that presently surround both the demand for and supply of Fund resources, it may reasonably be concluded that the Fund's overall liquidity position continues to be satisfactory and can be expected to remain comfortable through 1986. On the basis of the present position and prospects, liquidity considerations would not seem to provide an important reason for reductions in the access limits for 1986.

Principal Ratios for Assessing Fund Liquidity

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

2. Quota Ratio

The "quota ratio" (line 1) was at 36.1 percent at end of July 1985, and has declined by 0.7 percentage points from its level of 36.8 percent at January 31, 1985 (EBS/85/56) due to repayments of loans borrowed in connection with the Supplementary Financing Facility and EAR. 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. 1/

It is anticipated that the quota ratio will decline further to about 35 percent at December 31, 1985 on the basis of the projections in this paper, as no new borrowing agreements are expected while repayments continue to be made of loans under the SFF and under EAR (including, beginning in May 1985, repayments to SAMA under the 1981 EAR Agreement).

Outstanding borrowing as of July 31, 1985 totaled SDR 14.1 billion, or 16 percent of total quotas, and is projected to increase to about SDR 14.9 billion by end-1985 (or about 17 percent of total quotas).

3. Liquidity Ratios

The "liquidity ratio" (line 2) shows the relationship between the Fund's highly liquid assets (i.e., adjusted and uncommitted ordinary resources and temporary investments in BRS accounts) and the Fund's liquid liabilities in the form of reserve tranche positions and loan claims. At July 31, 1985, this ratio stood at about 75 percent and represents an increase of about 3 percentage points from the level of the March 1985 review. This improvement has come about primarily because of the addition of Venezuela to the list of members considered sufficiently strong to be included in the operational budget. Based on the present list of currencies considered usable and other estimates in the paper, the liquidity ratio is expected to decline to a level of about 71 percent at end-1985 due largely to new commitments of ordinary resources of SDR 1.4 billion projected during the remainder of the

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

year. The liquidity ratio is then projected to rise to about 73 percent by end-1986 as a result of the net addition of usable resources to the Fund which is projected to result from total repurchases exceeding new commitments of ordinary resources during 1986. These ratios continue to be relatively high compared with periods of heavy demand for Fund resources in the past.

At present, somewhat 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).

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 113 percent at July 31, 1985 to 110 percent at December 1985 and then increase to about 116 percent by end-1986 due primarily to the high level of repurchases expected during 1986.

#### 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 (without any adjustment for members with relatively 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 101 percent while, including gold, the asset ratio is about 110 percent. During the latter part of 1985 both variants of this ratio are expected to decline; to 98 percent, in the case of the asset ratio excluding gold, and to 106 percent, including gold. The projected declines in these ratios reflect a fall of the Fund's holdings of usable resources and a concurrent increase in outstanding loan claims during the latter part of 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

The ratios outlined in this Appendix may be judged to indicate a continuation of the Fund's comfortable liquidity position through 1986. 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 early in 1986.

Table 1. Selected Balance Sheet Data

(In billions of SDRs)

| Item                                   | December 31 |       |       |       |       |       | July 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  | 24.4  | 17.4  | 39.8  | 41.0    | 42.2  | 41.1   | 40.4   |
| of which:                              |             |       |       |       |       |       |         |       |        |        |
| (a) Adjusted <u>1/</u>                 | 8.5         | 6.0   | 14.7  | 19.5  | 14.7  | 31.6  | 32.0    | 32.7  | 31.6   | 30.7   |
| (b) Adjusted and uncommitted           | 5.3         | 4.0   | 12.8  | 15.4  | 10.8  | 27.7  | 30.6    | 31.0  | 29.7   | 29.5   |
| of which: SDR holdings                 | (1.2)       | (0.9) | (5.6) | (5.0) | (3.7) | (7.0) | (5.1)   | (4.1) | (...)  | (...)  |
| 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    | 19.9  | 19.2   | 17.1   |
| (a) Outstanding borrowing              |             |       |       |       |       |       |         |       |        |        |
| i) EAR <u>2/</u>                       | --          | --    | --    | 1.1   | 2.0   | 6.2   | 7.5     | 8.1   | 9.5    | 11.4   |
| ii) of which BKS Accounts <u>3/</u>    | --          | --    | --    | (0.4) | (0.4) | (0.9) | (--)    | (--)  | (--)   | (--)   |
| iii) SFF                               | --          | 0.3   | 1.5   | 3.6   | 5.3   | 6.8   | 6.5     | 6.0   | 5.4    | 3.8    |
| 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    | 14.1  | 14.9   | 15.2   |
| (b) Unused credit lines                |             |       |       |       |       |       |         |       |        |        |
| i) EAR                                 | --          | --    | --    | 8.2   | 7.3   | 3.0   | 6.7     | 5.8   | 4.3    | 6/1.9  |
| 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     | 5.8   | 4.3    | 1.9    |
| 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    | 41.6  | 42.0   | 40.7   |
| (a) Reserve tranche positions          | 8.5         | 7.9   | 12.6  | 15.1  | 17.7  | 27.3  | 28.8    | 27.5  | 27.1   | 25.5   |
| (b) Outstanding borrowing              | 6.4         | 3.9   | 4.2   | 6.4   | 8.2   | 13.0  | 14.0    | 14.1  | 14.9   | 15.2   |
| 6. Total Fund Credit Outstanding       | 10.3        | 8.0   | 8.5   | 13.4  | 19.3  | 29.9  | 34.9    | 35.0  | 36.4   | 36.6   |
| 7. Total Quotas                        | 39.0        | 39.0  | 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 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   | 7/85   | 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 may 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.

6/ Includes SDR 0.1 billion drawn to repay medium-term EAR borrowing. An equivalent amount will be made available in 1986 to finance EAR purchases.

Table 2. Fund Liquidity - Selected Ratios

(In percent)

| Item                         | December 31 |      |       |       |      |       |       | July 31 | Dec.31         | Dec.31         |
|------------------------------|-------------|------|-------|-------|------|-------|-------|---------|----------------|----------------|
|                              | 1978        | 1979 | 1980  | 1981  | 1982 | 1983  | 1984  | 1985    | 1985<br>(est.) | 1986<br>(est.) |
| 1. Quota ratio <u>1/</u>     | 22.3        | 35.9 | 22.0  | 35.1  | 33.2 | 22.6  | 37.0  | 36.1    | 35.3           | 32.9           |
| 2. Liquidity ratio <u>2/</u> | 35.6        | 33.9 | 76.2  | 73.5  | 43.2 | 71.0  | 71.5  | 74.5    | 70.7           | 72.5           |
| 3. Cash ratio <u>3/</u>      | 62.4        | 50.6 | 101.6 | 102.0 | 61.0 | 101.5 | 106.3 | 112.7   | 109.6          | 115.7          |
| 4. Asset ratio <u>4/</u>     |             |      |       |       |      |       |       |         |                |                |
| (i) excluding gold           | 73.2        | 65.3 | 123.8 | 115.3 | 68.7 | 101.0 | 95.8  | 101.4   | 97.9           | 99.3           |
| (ii) including gold          | 100.7       | 96.6 | 145.2 | 132.1 | 82.6 | 109.9 | 104.2 | 110.1   | 106.4          | 108.1          |

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 I, 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 I, 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 I, 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 I, Table 1, lines 1, 3(a)(ii) and 5). The asset ratio under (ii) also includes, in the numerator, gold held by the Fund and valued at SDR 35 per fine ounce (line 2).

Repurchases and Repayments and the Impact on Usable  
Resources Through 1990

This Appendix details the flows of repurchases and repayments of loans made in connection with the financing of purchases through 1986 and their impact on the Fund's ordinary resources up to 1990. Appendix II, Table 3 provides the relevant data.

The amounts of scheduled repurchases to the Fund will increase markedly in the period through 1987, rising from an annual rate of SDR 3.6 billion in 1985 to SDR 7.9 billion in 1987. Taking account of repurchases with respect to purchases projected through 1986, the flow of scheduled repurchases will level off at about SDR 7 billion per annum after 1987 and continue at that level through the remainder of the decade.

Repayments under the 1984 short-term borrowing agreements are made not later than 2-1/2 years following the drawdown date, whereas the corresponding repurchases are not made until 3-1/2 to 7 years (for an average of about 5 years) after the date of the purchase. The net effect of this mismatch is a need to substitute ordinary for borrowed resources for an average period of about 2-1/2 years (or longer if calls under the arrangements were temporarily invested), in the event that the Fund does not reborrow. Repayments of amounts borrowed under the 1984 short-term agreements are thus likely to start in 1987 and the repayments in that year totaling SDR 4.3 billion will, in the absence of new borrowing arranged to refinance these loans, substantially offset the inflow of resources resulting from the large volume of repurchases due at that time. The repurchases relating to the purchases originally financed by resources borrowed under the 1984 agreements will begin to materially augment the Fund's usable resources starting in 1989, or approximately 5 years after the corresponding purchases had been made. Repayments to SFF creditors, to SAMA under the 1981 borrowing agreement (which is more closely matched with repurchases), and further repayments under the 1984 short-term agreements will amount to SDR 4.5 billion in 1988 before falling off to SDR 2.8 billion in 1989 and SDR 1.8 billion in 1990.

The net impact of these flows will be a substantial augmentation of ordinary resources in 1986 amounting to SDR 4.0 billion; net additions to ordinary resources will then gradually taper off to average about SDR 3 billion in 1987 and 1988 as repayments to lenders increase. Repayments to lenders will drop off substantially in 1989 and 1990 and as total repurchases will continue at about SDR 7 billion per annum, this will result in a rise in net reflows to about SDR 5 billion in both 1989 and 1990.

Table 3. Projected Repurchases, Repayments to Lenders and  
Consequent Effect on Ordinary Resources 1/

(In billions of SDRs)

| Calendar<br>Year | Total Repurchases                            |   |              | Repayments to<br>Lenders<br>(4) | Net Effect<br>on Ordinary<br>Resources<br>(3)-(4)<br>(5) |
|------------------|--|---|--------------|---------------------------------|--|
|                  | Of<br>purchases<br>through<br>7/31/85<br>(1) | Of sub-<br>sequent<br>purchases<br>through<br>12/31/86<br>(2) | Total<br>(3) |                                 |  |
| 1985 (Aug.-Dec.) | 1.7  | --  | 1.7          | 0.8                             | 0.9  |
| 1986             | 6.0  | --  | 6.0          | 2.0                             | 4.0  |
| 1987             | 7.9  | --  | 7.9          | 4.3                             | 3.6  |
| 1988             | 7.0  | 0.1   | 7.1          | 4.5                             | 2.6  |
| 1989             | 5.3  | 2.1   | 7.4          | 2.8                             | 4.6  |
| 1990             | <u>3.4</u>                                   | <u>3.5</u>  | <u>6.9</u>   | <u>1.8</u>                      | <u>5.1</u>   |
| Total            | 31.3   | 5.7   | 37.0         | 16.2                            | 20.8   |

1/ No assumption is made regarding the timing of drawdowns, and the subsequent repayments, of unused EAK credit lines totaling SDR 1.9 billion projected at end-1986.

