INTERNATIONAL MONETARY FUND

Review of the Fund's Income Position for FY2010 and FY2011

Prepared by the Finance Department

In consultation with the Legal Department and the Office of Budget and Planning

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Annexes

I. INTRODUCTION[1]

1. **This paper reviews the Fund's income position for FY 2010 and FY 2011**. The paper updates projections provided at the FY 2010 midyear review and sets out related proposed decisions for the current and next financial years.

2. **The paper is structured as follows**: Section II reviews the FY 2010 income position and the main changes from the midyear projections; Section III makes proposals on the disposition of FY 2010 net income, which includes the General Resources Account (GRA) net operational income and profits from the limited gold sales; Section IV discusses the FY 2011 income outlook, the margin on the rate of charge, and projected burden sharing adjustments; and Section V reviews special charges.

II. REVIEW OF THE FY 2010 INCOME POSITION

3. **Net operational income for FY 2010 is now projected at SDR 365 million compared with SDR 440 million at the midyear review (see Table 1)**.[2] Key factors that affect the updated projections are the following:

- **Lending income**. Lending income is expected to be lower than previously projected by about SDR 97 million, primarily due to delays in program reviews under a number of existing arrangements.[3] The decrease reflects service charges and commitment fees (about SDR 30 million), surcharges (about SDR 43 million) and the margin (about SDR 24 million).

- **Investment income**. Income from the Investment Account (IA) is projected at SDR 144 million, some SDR 48 million higher than estimated at the midyear review (see Table 2). In the ten months through end-February 2010, investment income totaled SDR 135 million as the unannualized return on the IA of 2.3 percent exceeded the three-month SDR interest rate by 202 basis points (bps).[4] The IA has seen relatively strong performance through February as a result of monetary policy initiatives contributing to a drop in the SDR rate by 18 bps, and a fall in the two-year SDR yields and tightening of swap spreads by 22 bps and 15 bps, respectively. The IA also benefited from improved MTI pricing by the BIS. The full year projection assumes that yields and spreads remain unchanged in March and April 2010.

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[1] The main contributors to this paper are George Kabwe, Martin Gororo, Alexander Attie, Hélène K. Ward, Marco Rossi, and Diana Parra (all staff from FIN).

[2] See *The Fund's Income Position for FY 2010—Midyear Review* and *The Fund's Income Position for FY 2009 and FY 2010*.

[3] The updated projections include arrangements approved through end-March 2010.

[4] The current investment objective of the IA is to achieve returns that exceed the SDR interest rate over time.

- **Implicit returns on interest-free resources**. The implicit returns are projected to be lower than previously expected by about SDR 5 million, primarily reflecting the lower average SDR interest rate for FY 2010 of 0.25 percent compared with the midyear projection of 0.3 percent. Interest-free resources for FY 2010 are higher than in previous years since they include proceeds from gold sales, which are currently retained in the General Resources Account (GRA).[5]

Table 1. Projected Income Position—FY 2010
(In millions of SDRs)

1. Net operational income position (EBS/09/202)	**440**
2. Income variances	**-54**
Changes due to:	
Updated lending projections	-97
Investment Account returns	48
Income from interest free resources	-5
3. Expenditure variances	**21**
Changes due to:	
Projected budget outturn	7
US$/SDR exchange rate	14
4. Net operational income position now projected (1 + 2 - 3)	**365**

- **Expenditures**. Expenditures are expected to be higher than anticipated at the midyear review by SDR 21 million, of which SDR 14 million reflects movements in the U.S. dollar/SDR exchange rate and the remainder higher expenditures in U.S. dollar terms.

4. **Restructuring costs**. Restructuring costs associated with the staff delay period and pension contributions and employee benefits for separating staff amounted to SDR 11 million for the ten months ending February 2010. The estimate of FY 2010 restructuring costs remains unchanged at SDR 12 million. The timing of these costs includes the effects of deferring the departure of a small number of staff to support the Fund's response to the global financial crisis.[6] Annex I provides further details on the restructuring provision.

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[5] To the extent gold proceeds are retained in the GRA, the Fund's interest-free resources increase since these currency holdings reduce members' reserve tranche positions and thus the Fund's remuneration expense. The pace of gold sales affects the level of interest-free resources and projected implicit returns.

[6] While payments to staff during the delay period are charged to the restructuring budget, those under a deferral are charged to the administrative budget.

Box 1. Decisions in Effect Related to the FY 2010 Income Position[1]

The Executive Board has taken the following decisions affecting the Fund's income position for FY 2010:

Rate of Charge
The margin for calculating the rate of charge in FY 2010 was set at 100 basis points. This decision was adopted under the *exceptional circumstances* clause of Rule I-6(4), by which the margin for calculating the rate of charge may be set on a basis other than the estimated income and expense of the Fund and a target amount of net income for the year.

Limited Gold Sales
Limited sales of 12,965,649 fine troy ounces of gold that was acquired by the Fund after the second amendment of the Articles of Agreement may take place on the basis of prices in the market. A key element of the new income model is the eventual creation of an endowment with the profits from gold sales.

Poverty Reduction and Growth Trust (PRGT) Administrative Expenses
For financial years 2010 through 2012, no reimbursement shall be made to the General Resources Account from the Reserve Account of the PRGT for the cost of administering the PRGT. The estimated cost of administering the PRGT shall be transferred after the end of each such financial year from the PRGT Reserve Account (through the Special Disbursement Account) to the General Subsidy Account of the PRGT.

Burden Sharing for Deferred Charges
Income losses resulting from unpaid charges are shared equally between debtor and creditor members under the burden sharing mechanism largely pursuant to a decision taken in 2000. Unless amended by the Board, this mechanism will continue for as long as overdue obligations to the Fund persist.

[1] See *Review of the Fund's Income Position for FY 2009 and FY 2010*.

5. **IAS 19 expenses**. The Fund's pension and employee benefits expense is determined under the provisions of IAS 19, under International Financial Reporting Standards (IFRS). A timing difference arises between the actuarially determined expense related to benefits earned by employees for rendering services during the financial year and the amount actually funded under the budget. The actuarially determined IAS 19 expense for FY 2010 reported at the midyear review remains unchanged at SDR 219 million, compared with funding of about SDR 125 million, giving rise to a timing difference of SDR 94 million. The recent pension reforms will affect the IAS 19 expense for FY 2010. Specifically, under IAS 19, additional "prior service" costs will be recognized due to the changes in staff benefit entitlements for withdrawal benefits and commutation factors in the year the changes are adopted since they apply to service already provided. The one-off costs to be recognized in FY 2010 are estimated at $28 million (SDR 19 million) by the Fund's Actuary and are included in the table below.

Table 2. Projected Income and Expenditures—FY 2010
(In millions of SDRs)

	FY 2010		
	Initial Projections 1/	Mid-year Projections 2/	Current Projections
A. Operational income	**931**	**1011**	**957**
Lending income	**779**	**895**	**798**
Margin for the rate of charge	324	368	344
Service charges 3/	167	221	191
Surcharges	288	306	263
Investment income	**83**	**96**	**144**
Reserves	83	96	144
Interest free resources	**14**	**16**	**11**
SCA-1 and other	13	14	9
Gold book value	1	2	2
Reimbursements	**55**	**4**	**4**
MDRI-I Trust and SDR Department	4	4	4
PRGT	51	0	0
B. Expenses	**641**	**571**	**592**
Net administrative expenditures	603	534	558
Capital budget items expensed	11	11	8
Depreciation	26	26	26
C. Net operational income position (A-B)	**290**	**440**	**365**
Gold profits 4/	719	3251	3500
Restructuring costs	-8	-12	-12
IAS 19 timing adjustment 5/		-94	-94
Pension reforms (IAS 19 expense) 6/		0	-19
Retained endowment income 7/	9	0	0
Net income position 8/	**1010**	**3585**	**3740**
Memorandum items:			
Fund credit (average stock, SDR billions)	32.4	36.8	34.4
SDR interest rate (in percent)	0.90	0.30	0.25
US$/SDR exchange rate	1.50	1.60	1.56

1/ See *Review of the Fund's Income Position for FY 2009 and FY 2010*.
2/ See *The Fund's Income Position for FY 2010—Midyear Review*.
3/ Includes commitment fees, which are refundable (when disbursements take place) so income only arises at expiration or cancellation of an arrangement to the extent planned disbursements are not made.
4/ Includes announced gold sales during the off-market phase of 212 metric tons in October and November last year representing more than half the total sales. Initiation of the on-market phase was announced in February 2010.
5/ IAS 19 is the accounting standard that prescribes the accounting treatment of pensions and employee benefit expenses, and involves actuarial valuations. The FY 2010 IAS 19 expense was determined in the valuation completed in May 2009.
6/ Initial estimate of the accrued costs arising upon adoption of the proposed amendments to the pension plan.
7/ Transfers to the gold endowment are now assumed to commence after FY 2011.
8/ Net income on the basis presented in the Fund's annual IFRS financial statements.

6. **Gold profits.** FY 2010 net income will include profits from the limited sale of a portion of the Fund's gold (the post-Second Amendment gold), which under the new income model are to be invested in the Investment Account pursuant to an endowment strategy to generate income.[7] The proposed amendment to the Articles of Agreement mandating the placement of the profits of the gold sales in the Investment Account is currently being considered by the membership and is not yet effective. Following the sale of 212 metric tons, slightly over half of the Executive Board approved amount, to official buyers in October–

[7] The Executive Board agreed in July 2009 to use resources linked to the gold sales, some SDR 0.5-0.6 billion, to facilitate the financing of concessional lending to low-income countries.

November 2009, updated projections assume that remaining sales take place in a phased manner as contemplated in the Board decision, and that these are completed in FY 2011. On this basis, projected gold profits for FY 2010 are about SDR 3.5 billion.

7. **GRA reimbursement**. On an annual basis, the GRA is generally reimbursed for the expenses of conducting the business of the SDR Department, the PRG Trust and the MDRI-I Trust. For FY 2010, the GRA will be reimbursed for the expenses of conducting the business of the SDR Department through an assessment on participants in the SDR Department (see proposed Decision No. 1) and for the expenses of administering the MDRI-I Trust (see proposed Decision No. 2).[8] The expenses are estimated at SDR 1.664 million and SDR 1.164 million, respectively. Regarding GRA reimbursement for PRGT expenses, the Executive Board decided in July 2009 that for financial years 2010 through 2012, the GRA would forego reimbursement and instead an amount equivalent to the estimated cost of administering the PRGT shall be transferred from the PRGT Reserve Account (through the Special Disbursement Account) to the General Subsidy Account of the PRGT. The estimated expenses for FY 2010 are SDR 38 million (see Decision No. 3).

III. Disposition Decisions

8. **The FY 2010 projected GRA net operational income of SDR 365 million comprises IA income of SDR 144 million (assuming transfer of IA investment income to the GRA) and other GRA net operational income of SDR 221 million**.[9] The Executive Board needs to consider the disposition of FY 2010 investment income and GRA net income, the latter of which includes gold profits from the limited sales conducted during FY 2010. Each of these key elements is discussed separately below.

9. **FY 2010 investment income**. Under the Fund's Articles, income from the IA may be invested, held in the IA or used for meeting the expenses of conducting the business of the Fund.[10] The Board could also, by a 70 percent majority of the total voting power, decide to reduce the principal invested in the IA.[11] Since the IA was established in June 2006, the

[8] Consistent with paragraph 5(b) of Schedule M, the SDRs taken into account for purposes of calculating the assessment do not include SDR 87 million that, due to the overdue financial obligations of certain members, are being held in an escrow account pursuant to paragraph 5(a) of Schedule M.

[9] In FY 2009, the IA earned SDR 372 million while the GRA incurred a deficit of about SDR 257 million before taking account of restructuring costs and IAS 19 expenses.

[10] Article XII, Section 6 (f)(iv).

[11] Article XII, Section 6 (f)(vi).

Executive Board has decided to transfer the investment income earned annually to the GRA for meeting the expenses of conducting the business of the Fund.[12]

10. **Staff proposes that the investment income for FY 2010 be transferred to the GRA** (see proposed Decision No. 4). This will result in an increase in the net income of the GRA and thus help accelerate the buildup of precautionary balances to strengthen the Fund's financial position in light of heightened credit risks.[13] It would also be consistent with the objective of the IA to generate, over time, additional income to meet the Fund's expenditure needs, and the underlying principle in the new income model that lending income should no longer cover all the costs of the Fund. While the GRA recorded a surplus in FY 2010, it is expected that, when lending declines from current high levels, it will generally record a loss over the medium term, without transfers from the IA, because it carries all the administrative, remuneration and interest expenses of the Fund. These issues will be revisited at future income reviews, especially if there were to be major changes in key factors, including the overall level of precautionary balances.

11. **Assuming the transfer of IA income, GRA net operational income is estimated at SDR 365 million** (see Table 2). The Articles permit the Fund's net income of the GRA to be either distributed to members or placed to the general or special reserve (Article XII, Section 6(a)).[14] The practice adopted since the 1970s has been to place GRA annual net income to the special reserve (see Box 2). For a number of years, an amount equivalent to surcharge income was placed to the general reserve.[15] In similar fashion, any income shortfalls incurred are charged against the special reserve on the basis of a 1957 Board decision. Accordingly, the recent income shortfalls suffered in FY 2007–08 (some SDR 209 million in aggregate) were charged against the special reserve. A net erosion of SDR 55 million remains, following last year's return to positive net income and the placement of SDR 154 million in FY 2009 net income (resulting after the transfer of IA income to the GRA) to the special reserve.

12. **Staff proposes that GRA net operational income be placed to the special reserve** after the end of the financial year (see proposed Decision No. 5). This would be consistent with the Fund's long-standing practice and would allow for complete recovery of the erosion

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[12] Unlike the situation of GRA operational income that is projected for FY 2010, the GRA was in a situation of operational losses in the previous three financial years (FY 2007- FY 2009) prior to the transfer of IA investment income to the GRA, which in FY 2009 resulted in GRA net income of SDR 154 million.

[13] Retention of these resources in the IA would, *ceteris paribus*, limit the amounts available for placement to the Fund's reserves. On the other hand, transfer of IA income to the GRA and placement of the net income to reserves would increase reserves by an additional estimated SDR 144 million, which in turn raises the scope to make transfers to the IA (the Articles impose a ceiling—not to exceed the total amount of reserves—on the amount of currencies that can be transferred to the IA (Article XII, Section 6 (f)(ii)). At end-FY 2009, reserves were below the amount transferred to the IA in June 2006 by SDR 55 million.

[14] For FY 2010, net income comprises GRA net operational income plus the gold profits less costs related to IAS 19 expenses and restructuring (see Table 2). Total net income is estimated at SDR 3,740 million.

[15] Such decisions were taken for FY 1998 through FY 2006.

suffered in the special reserve.[16] This transfer would raise the special reserve, which is not available for distribution to the membership, to SDR 2.6 billion.[17] At this level, the balance in the special reserve would remain well below that needed to support a sustainable income position for the Fund under the new income model as approved by the Board in April 2008. Total reserves would also be well below the current target of SDR 10 billion for precautionary balances. Adoption of the proposed decision to resume the practice of placing surcharge income directly to reserves in FY 2011 (see Section IV) would, on current projections, allow placements to the general reserve to reach SDR 1.5–2 billion in FY 2011–14. The review of the Fund's precautionary balances, to take place after the Spring meetings, will provide further guidance in this area.

13. **The increase in total reserves would also provide scope for the transfer of GRA currencies to the Investment Account (IA)**. For the first time since the IA was established in June 2006, reserves would rise above the cumulative amount of transfers so far made to the IA from the GRA, which under Article XII, Section 6 (f)(ii) permits the transfer of further GRA currencies to the IA. Assuming the proposed transfer of IA income to the GRA (paragraph 10), available amounts for such transfer would be about SDR 185 million.[18]

14. **Staff proposes that the full amount available for transfer be placed in the IA for investment** (see proposed Decision No. 6). Directors will recall that the objective of the IA is to achieve investment returns that exceed the SDR interest rate over time while minimizing the frequency and extent of negative returns and underperformance over a 12-month investment horizon. Nevertheless, and as acknowledged when the IA was established, there are inherent risks to the IA strategy and some periods of underperformance and even negative returns should be anticipated. Except for its inaugural year in FY 2007, the IA has generated a higher return than the SDR interest rate in each financial year.[19] It is possible that the IA could experience some under performance in the near term if interest rates rise from current low levels. On the other hand, spreads between the SDR rate and the IA two-year rate are currently about 70 basis points and the IA could continue to outperform the SDR rate if the current interest rate structure were to remain broadly unchanged (see staff analysis on

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[16] Net income placed to reserves will be based on the audited results for FY 2010, prepared in accordance with IFRS, and will take account of restructuring costs and IAS 19 expenses, including the additional costs arising from adoption of the pension reforms.

[17] The current balance is SDR 2.4 billion. The increase reflects GRA net operational income (SDR 365 million) less IAS 19 and restructuring expenses (SDR 125 million, see Table 2).

[18] This represents the GRA net operational income (SDR 365 million) less IAS 19 and restructuring expenses (SDR 125 million, see Table 2) and also the erosion in reserves at end-FY 2009 (SDR 55 million) relative to the amounts transferred to the IA in 2006.

[19] In FY 2007 the IA underperformed the three-month SDR rate by 49 basis points. In FY 2008 and FY 2009, the IA outperformed the SDR rate by 162 and 449 basis points respectively.

FY 2011 performance scenarios in Annex II).[20] On balance, staff proposes to transfer the full amount of SDR 185 million available after the financial year to the IA for investment as this would be consistent with the IA objective, contribute to the broadening of the Fund's income sources, and avoid any perception of attempting to time the market.[21]

Box 2. The Fund's Reserves

The Fund has two reserves, the special reserve and general reserve. Under the Fund's Articles, no distributions (dividends) can be made from the special reserve. The special reserve serves as the first line of defense against income shortfalls. The general reserve is available to absorb operational or administrative losses.

Special Reserve. The special reserve was established in 1957 and was initially funded with proceeds from the gold investment program set up to address the continuous operational deficits the Fund had been facing.[1] The Executive Board agreed when the reserve was established that any administrative losses would first be written off against the special reserve. Following termination of the program, net operational income from the General Resources Account was placed to the special reserve. This has been the practice since the 1970s and any income shortfalls suffered thereafter have also been charged against the special reserve, i.e., in FY 1972-77, FY 1985 and FY 2007–08.

General Reserve. The general reserve was established in 1958 and was funded with net operational income from the Fund's lending operations while the gold investment program was active. Following termination of the program, placements of resources to the general reserve made in FY 1998 to FY 2006 were: net operational income generated from the Supplemental Reserve Facility (SRF), after meeting the cost of administering the PRGF Trust and surcharges on purchases under the SRF, credit tranches and EFF.

The end-FY 2009 balances in the special and general reserves were SDR 2.4 billion and SDR 3.5 billion, respectively.

[1] The Fund sold part of its gold and invested the proceeds in U.S. government securities. Under the program, the sale of gold was subject to conditions that allowed the Fund to reacquire the gold. The program was successful and raised SDR 0.4 billion by the time it was terminated in 1972.

15. **The staff proposes that gold profits be placed in the special reserve**. In addition to net operational income, the GRA net income in FY 2010 will include profits from gold sales during the financial year estimated at SDR 3.5 billion. While these profits could be placed in the general or special reserve, the following considerations suggest that placement to the special reserve would be more appropriate.[22] The placement of net income equivalent to the

[20] The outlook for interest rates remains uncertain. While rate hikes continue to be priced-in, as suggested by the one-year forward rates, the WEO's current projections for the six-month LIBOR rates in SDR countries imply broadly unchanged yields.

[21] The initial transfer of IA income to the GRA is an important mechanism to increase the Fund's precautionary balances. Such transfers add to resources available in the GRA and ultimately to the accumulation of reserves.

[22] The amount of FY 2010 net income placed to reserves that is attributable to gold profits will be excluded from the computation of the Fund's precautionary balances as they are distinct from the traditional role of these balances to provide a buffer against operational risks. The placement to reserves is necessary because the proposed amendment to expand the Fund's investment mandate and allow profits from post-Second

(continued…)

FY 2010 gold profits to the special reserve would be consistent with the principle under the new income model that profits at least up to a price of $850 per ounce will be placed in a permanent endowment to generate long-term income for the Fund. So far, the Fund has sold slightly over half of the agreed amount and the remaining sales are currently expected to be concluded in FY 2011. The projected profits of SDR 3.5 billion in FY 2010 are thus well below the assumed endowment under the new income model of about SDR 4.7 billion (based on an average price of $850 per ounce and total sales of 403.3 metric tons, at current exchange rates). Given that the amount needed for the gold endowment has not yet been secured, staff proposes to also place gold profits, and thus all GRA net income, to the special reserve (see Decision No. 5).[23] The disposition of gold profits earned in FY 2011 could be determined at a later date when sales are concluded.

16. **Disposition of gold profits**. The gold profits retained in the GRA so far implicitly earn the SDR interest rate, which is currently about ¼ percent. Pending the amendment to the Articles, the profits could be held in the GRA, or they could be transferred to the IA, for investment under the current mandate.[24] As noted, if current interest rates remain unchanged, the transfer of the gold profits to the IA could generate additional yield of the order of 70 basis points. However, a number of additional factors need to be considered in this regard:

- The Fund has only a limited investment authority under the current Articles, and the investment objective for the gold endowment would be difficult to achieve under the current investment authority.[25] The new income model envisages that the gold endowment will generate investment returns to contribute to the Fund's income while also preserving the long-term real value of the gold profits.[26] This will require a different investment strategy, which can only be implemented after the proposed amendment to provide the Fund with a broader authority is effective.

Amendment gold sales to be placed directly to the IA is not yet in place. As a consequence, reserves will include a portion related to gold profits. For policy and analytical purposes, these will need to be excluded from precautionary balances since they are intended to be placed in a permanent endowment to generate long-term income for the Fund and, as agreed by the Board in July 2009, a portion will be used to facilitate financing for LIC lending. The exclusion from precautionary balances is consistent with the practice followed in FY 2000 when the Fund adopted IFRS and gains of SDR 268 million associated with recognition of the surplus of pension assets over the plan's obligation were included in reserves but excluded from precautionary balances.

[23] When the proposed amendment becomes effective, the gold profits will need to be transferred to the Investment Account for investment.

[24] Article XII, Section 6 (f)(ii).

[25]The current mandate restricts investments to eligible securities under the existing Articles, i.e., domestic currency government bonds of members, bonds and other marketable obligations of eligible national and international financial organizations, and deposits with the Bank for International Settlements.

[26] In contrast, as noted, the current investment mandate is designed to generate returns that exceed the SDR rate over time and to minimize capital losses only in nominal terms.

- If gold profits were invested under the current limited mandate, the Fund could run a significant near-term risk of making losses, which would clearly violate the above principle to preserve the real value of these profits. While similar risks exist with the Fund's reserves, which are invested in the IA, the investment of the gold profits would add to the Fund's overall exposure to such risks. Moreover, these risks are further amplified by the lack of prior capital gains such as those earned by the IA, which provide some downside protection in the event of a future period of under-performance.

17. **Overall, retaining the gold profits in the GRA would appear to be more consistent with the separate investment mandates** and objectives of the IA and the endowment. Staff therefore proposes that the gold profits be retained in the GRA.

IV. FY 2011 Income Outlook

18. **The income outlook for FY 2011 currently points to a positive outturn**. Demand for Fund financing is expected to continue to be high as a result of the global financial crisis. As highlighted last year, the full extent of the demand is difficult to predict, and projections are sensitive to the timing of purchases and repurchases. In line with past practice, the projections include only lending income from arrangements so far approved and assume that there are no changes to the planned phasing of purchases under non-precautionary arrangements and no advance repurchases. The projections are also sensitive to assumptions on the SDR interest rate and the U.S. dollar/SDR exchange rate.

19. **Several principles for setting the basic rate of charge in the new income model were endorsed by the Board in March 2008:**

- The margin on the rate of charge should be set in a stable and predictable manner;
- The margin on the rate of charge should no longer cover the full range of the Fund's activities but rather be set as a margin over the SDR rate to cover the Fund's intermediation costs and the buildup of reserves; and
- A mechanism should be developed for checking the alignment of the rate of charge with long-term credit market conditions, including ensuring that the cost of borrowing from the Fund does not become too expensive or too low relative to the cost of borrowing from the market.[27]

20. **While a new rule has not yet been proposed for setting the rate of charge, the margins for FY 2009 and FY 2010 were set consistent with the above principles**. In particular, the margin was set so as to generate an amount sufficient to cover the Fund's intermediation costs and allow scope for reserve accumulation. In both years, the margin was set under the exceptional circumstances clause of Rule I-6(4), since it was considered

[27] See Annex I in *Review of the Fund's Income Position for FY 2009 and FY* 2010 for details on the new framework to implement these principles.

premature to implement a new rule before the new income model is fully in place.[28] Adoption of a new rule is contemplated when other sources of income are available to cover the Fund's non-lending activities. Progress has been made in taking other steps contemplated under the new income model, with gold sales now underway following the Executive Board decision on limited gold sales in September last year, but as aforementioned the associated amendment of the Articles to expand the Fund's investment mandate is not yet effective.

21. **Staff proposes that the lending margin be maintained at 100 basis points for FY 2011 (Decision No. 7) under the existing Rule I-6(4)**. The proposal reflects the following considerations:

- **The Fund's intermediation costs**. The most recent estimates are provided in Annex III. Similar to last year, the income associated with higher lending (the lending margin, service charges and commitment fees) is expected to be well in excess of intermediation costs in FY 2011.

- **Reserve accumulation**. Reserve growth, including surcharge income, is projected at about SDR 700 million, or 11 percent of beginning period reserves (see Table 5). This will allow for needed pick-up in reserve accumulation in light of the heightened credit risks facing the Fund.[29] As indicated in last year's paper, it should be recognized that new income from other sources, and in particular the gold endowment, will only be generated in coming years. Therefore, lending income continues to provide a major part of the Fund's income.

- **Costs relative to market borrowing**. The global financial crisis led to a sharp increase in market spreads for many borrowers, though rates have since declined on average to pre-crisis levels (see Figure 1). On the other hand, the basic rate of charge, including the margin, is currently at 1 ¼ percent, which is well below current market rates. As recommended by the Crockett Committee and endorsed by the Board, the margin should maintain a reasonable alignment with broader developments in long-term credit market conditions. While it could be argued that the current differential between borrowing costs from the Fund and markets is unusually wide, this primarily reflects the current very low SDR rate, and it would not seem appropriate to offset what is likely to be a short-term cyclical development with adjustments in the margin.

22. In light of the above factors, staff considers it appropriate to keep the margin unchanged for FY 2011. This would seem consistent with the principle of stability and

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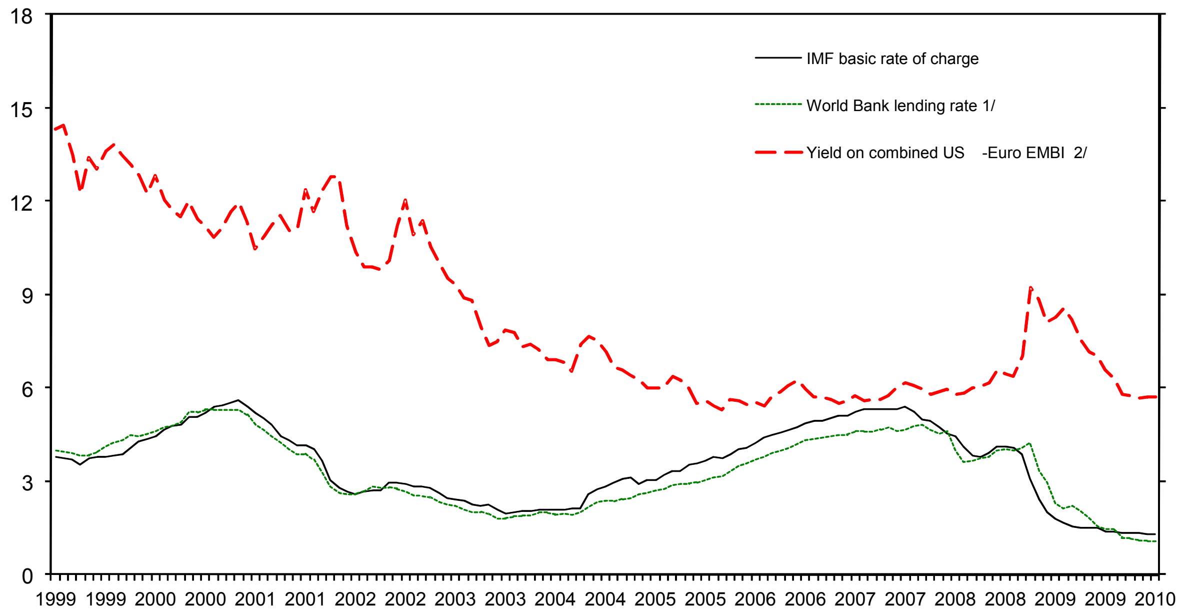
[28] Under existing Rule I-6(4), the margin for the rate of charge is generally set on the basis of the estimated income and expenses of the Fund and a "net income target" (normally 5 percent of reserves). In exceptional circumstances, the margin may be determined on a basis other than the estimated income and expense and a target for net income.

[29] Precautionary balances at SDR 7 billion are well below the current Board-approved target of SDR 10 billion. The Executive Board is scheduled to review the adequacy of precautionary balances soon.

predictability, which suggests that the margin on the basic rate of charge should only be changed when there are compelling reasons to do so.

Figure 1. Lending rates: EMBI, the World Bank and the IMF
(in percent, SDR or SDR equivalent)



Source: JP Morgan, World Bank, and Finance Department.
1/ Average rate on Fixed Spread Loans and Variable Spread Loans expressed in SDR - equivalent terms.
2/ See Table 7 for a definition of the combined U.S. dollar- Euro EMBI.

23. **Key factors that underpin the FY 2011 income outlook include the following**:

- A further increase in Fund credit outstanding as undrawn amounts are disbursed under high access arrangements already approved. Fund credit is projected to increase by almost 50 percent to just over SDR 50 billion in FY 2011 from the average of SDR 34 billion in FY 2010. As a result, lending income is expected to be higher in FY 2011 and as highlighted in Section III, staff proposes that surcharges projected at about SDR 500 million be placed directly to reserves (see proposed Decision No. 8).

- A decline in investment income reflecting the low interest rate structure expected in FY 2011. A sharp rise in interest rates could lead to losses on the Fund's investment portfolio (see Annex II). The projections assume a 50 basis point spread of IA income over the SDR rate throughout FY 2011 in line with medium-term averages.[30] Given the

[30] The table in Annex II shows excess returns for the IA of about 70 basis points if yields remain unchanged. The projections assume the current rate structure stays broadly unchanged and include a projected added value of 50 basis points based on historical performance and intended to provide an indication of the additional returns from the IA over the medium term. Actual year to year performance may vary with market conditions.

uncertainties over the timing of the proposed amendments to the Articles of Agreement becoming effective, the current mandate is assumed to be in effect throughout FY 2011.[31]

- An increase in income from interest free resources owing to retention of the gold profits in the GRA, which lowers members' remunerated reserve tranche positions and consequently the Fund's remuneration expense.

- Net administrative and capital expenditures consistent with those set in the budget paper for FY 2011.

- Gold sales with the profits retained in the GRA throughout FY 2011 pending approval of the proposed amendment.

24. **The projections for FY 2011 yield a net operational income position of about SDR 202 million, excluding surcharges (Table 3)**.[32] These updated projections show a moderate increase compared with the previous projection of SDR 190 million in January. The increase in lending income reflects new arrangements already approved in 2010 and some rephased disbursements that will now take place in FY 2011. However, investment income and income from interest-free resources are now projected to be lower owing to a slower pick-up in global interest rates than previously expected (the average SDR interest rate for FY 2011 is now projected at 0.5 percent compared with 0.9 percent previously). This projection is slightly below forward levels priced by markets at end-February (see Annex II). On the expenditure side, carry forwards from unused resources allocated to the FY 2010 budget finance some SDR 35 million (US$52 million) of temporary demands, consistent with the initial strategy developed in FY 2009 to help address costs associated with the Fund's response to the crisis. On the basis of these projections, the practice of placing surcharges directly to reserves could resume in FY 2011, and a decision to do so can be taken now in FY 2010. Table 4 provides a sensitivity analysis on the income effects of changes in some assumptions.

[31] The medium-term projections assume broadening of the investment mandate comes into effect in FY 2012.

[32] See Annex IV for assumptions underlying the projections.

Table 3. Projected Income Sources and Uses (FY 2010–11)
(In millions of SDRs unless otherwise stated)

	FY 2010	FY 2011
	(in SDR millions)	
A. Operational income 1/	**957**	**872**
Lending income	798	734
Margin for the rate of charge	344	515
Service charge 2/	191	219
Surcharges 3/	263	
Investment income	144	74
Reserves	144	74
Gold endowment pay-out	0	0
Interest free resources 4/	11	60
SCA-1 and other	9	45
Gold book value	2	15
Reimbursements	4	4
MDRI-I Trust and SDR Department	4	4
PRGT	0	0
B. Expenses	**592**	**670**
Net administrative expenditures	558	631
Capital budget items expensed	8	7
Depreciation	26	32
C. Net operational income (A - B)	**365**	**202**
Gold profits 5/	3500	2422
Surcharges 3/		499
Restructuring charge and rule of 50	-12	-3
IAS 19 timing adjustment 6/	-94	
Pension reforms (IAS 19 expense) 7/	-19	
Net income 8/	**3740**	**3120**
Memorandum items:		
Fund credit (average stock, SDR billions)	34.4	51.5
SDR interest rate (in percent)	0.25	0.7
US$/SDR exchange rate	1.56	1.5

Source: Finance Department and Office of Budget and Planning
1/ Excludes profit from gold sales and FY 2011 surcharges, which are assumed to be placed directly to reserves.
2/ Includes commitment fees, which are refundable (when disbursements take place) so income only arises at expiration or cancellation of an arrangement to the extent planned disbursements are made.
3/ FY 2010 surcharges are included in operational income, while FY 2011 surcharges are assumed to be placed directly to reserves.
4/ GRA interest-free resources reduce the Fund's remuneration expenses. SCA-1 until recently were the main source of these resources. Recent gold sale proceeds retained in the GRA have increased these resources because they reduce members' reserve tranche positions.
5/ Takes account of the 212 metric tons sold.
6/ IAS 19 is the accounting standard that prescribes the accounting treatment of pensions and employee benefit expenses, and involves actuarial valuations. The FY 2011 IAS 19 expense will be determined in the valuation to be completed in May 2010.
7/ Initial estimate of the FY 2010 prior service costs associated with the pension reforms.
8/ Net income on the basis presented in the Fund's annual IFRS financial statements.

Table 4. Sensitivity Analysis—Effect of Changes in Selected Assumptions in FY 2011

(In SDR millions)

Change in:	
SDR interest rate by 50 basis points	
Implicit returns 1/	44
Credit tranche purchases (non-FCL) by SDR 10 billion 2/	290
U.S. Dollar vis-à-vis SDR by 5 percent	30
Investment income margin by 50 basis points	30

1/ Implicit returns on GRA interest-free resources include primarily the SCA-1 and proceeds (book value and profits) from current gold sales.
2/ Assumes a May 1 transaction with full drawing of SDR 10 billion and access of 1000 percent of quota. Includes service charges, the margin on the basic rate of charge and surcharges (commitment fees are excluded).

25. **Burden sharing**. At the midyear review, the burden sharing decision was amended to take account of the current low burden sharing adjustment rates. The recent high lending activity and consequent large Fund credit and remuneration bases from which burden sharing adjustments are determined, in combination with the low global interest rates, have led to these low burden sharing adjustment rates (see Table 5 below). The amendment to the decision allows for a minimum adjustment of 1 basis point to the rates of charge and remuneration, implying some "prepayments" to the extent amounts generated are in excess of unpaid charges that are due in a particular quarter. The excess amounts are to be carried forward to offset deferred charges in subsequent quarters and if these cumulative amounts exceed the relevant share of debtor members and creditor members in unpaid charges subject to burden sharing, no burden sharing adjustments are to be made in such quarter. Current projections indicate that no adjustments will be made in the current quarter and in the first and third quarters of FY 2011.

Table 5. Recent Average Burden Sharing Adjustment Rates and FY 2011 Projected Rates
(In basis points unless otherwise stated)

	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10			FY11			
								H1	Q3	Q4	Q1	Q2	Q3	Q4
											(projected)			
Rate of Remuneration 1/														
Total average adjustment	10	9	12	23	23	14	5	1	1	–	–	1	–	1
Deferred charges	2	1	2	5	13	14	5	1	1	–	–	1	–	1
SCA-1	8	8	10	18	10	–	–	–	–	–	–	–	–	–
Rate of Charge 1/														
Total average adjustment	10	8	11	19	23	16	5	1	1	–	–	1	–	1
Deferred charges	2	1	2	4	13	16	5	1	1	–	–	1	–	1
SCA-1	8	7	9	15	10	–	–	–	–	–	–	–	–	–
Average SDR interest rate (in percent) 2/	2.06	1.58	2.09	2.93	3.96	3.64	1.79	0.34	0.24	0.25	0.55	0.65	0.75	0.85
Average basic rate of charge (in percent)	2.54	2.09	3.01	4.00	5.04	4.72	2.79	1.34	1.24	1.25	1.55	1.65	1.75	1.85

1/ The average rates have been calculated using the quarterly burden sharing rates and SDR interest rates.
2/ The SDR interest rates are projected to average 0.7 percent in FY 2011.

V. REVIEW OF SPECIAL CHARGES

26. The decision on special charges on overdue financial obligations in the GRA and the Trust Fund calls for an annual review. Special charges were established to provide members with an incentive to settle their financial obligations to the Fund in a timely manner. Under the current system, special charges are levied on overdue repurchases and charges that are in arrears for more than 10 days. Special charges on GRA obligations that are overdue for six months or more were eliminated effective May 1, 1992, reflecting a concern that these charges may complicate the efforts of a member in protracted arrears and those of its donors and creditors to resolve its arrears problem, by increasing the financing needs and making it more difficult for the member to make payments to the Fund equivalent to obligations falling due. While this policy could be reviewed in the event of new arrears, no special charges have arisen during FY 2010 and no new considerations have arisen during the financial year. Accordingly, no changes are proposed to the current system, i.e., Decision No. 9, which can be adopted by a majority of the votes cast is intended to complete this annual review.

PROPOSED DECISIONS

The following decisions are proposed:

Decisions pertaining to FY 2010

- Decision No. 1 provides for the assessment in the SDR Department in order to reimburse the General Department for the expenses of conducting the business of the SDR Department.
- Decision No. 2 provides for the reimbursement to the General Resources Account for the cost of administering SDA resources in the MDRI-I Trust.
- Decision No. 3 provides for the transfer of an amount equivalent to the estimated costs of administering the PRGT from the PRGT Reserve Account (through the Special Disbursement Account) to the General Subsidy Account of the PRGT consistent with the decision taken by the Executive Board in the context of the LIC facilities reform in July 2009 on such transfers for FY2010-2012.
- Decision No. 4 provides for the transfer of the investment income for FY 2010 from the Investment Account to the General Resources Account.
- Decision No. 5 provides for the placement of FY 2010 net income to the Fund's Special Reserve.
- Decision No. 6 provides for the transfer of net income attributable to GRA net operational income to the Investment Account, after taking account of the difference between reserves at the end of financial year 2009 and amounts previously transferred to the IA.

Decisions pertaining to FY 2011

- Decision No. 7 sets the rate of charge on the use of Fund resources for FY 2011 at 100 basis points over the SDR interest rate.
- Decision No. 8 provides for placement of FY 2011 surcharges to the general reserve.
- Decision No. 9 reviews the system of special charges.

Decisions 1, 2, 3, 4, 5, 8, and 9 may be adopted by a majority of the votes cast. Decisions 6 and 7 may be adopted by a 70 percent majority of the total voting power.

Decision No. 1

Assessment under Article XX, Section 4 for FY 2010

Pursuant to Article XVI, Section 2 and Article XX, Section 4 of the Articles of Agreement and Rule T-2 of the Fund's Rules and Regulations, it is decided that:

(i) The General Department shall be reimbursed for the expenses of conducting the business of the SDR Department for the period of May 1, 2009 through April 30, 2010; and

(ii) An assessment shall be levied on all participants in the SDR Department. The special drawing right holdings accounts of participants shall be debited on April 30, 2010 with an amount equal to 0.000815752 percent of their net cumulative allocations of special drawing rights. The total assessment shall be paid into the General Department.

Decision No. 2

MDRI-I Trust Reimbursement for FY 2010

In accordance with paragraph 6 of Decision No. 13588-(05/99) MDRI, adopted November 23, 2005, effective January 5, 2006, the General Resources Account shall be reimbursed the equivalent of SDR 1.164 million by the MDRI-I Trust in respect of the expenses of administering SDA resources in the MDRI-I Trust during FY 2010.

Decision No. 3

PRGT Reserve Account Transfer to Subsidy Account

In accordance with paragraph 19 of Executive Board Decision No. 14354-(09/79), adopted on July 23, 2009, in lieu of reimbursement to the General Resources Account, an amount equivalent to SDR 38.395 million, representing the cost of administering the Poverty Reduction and Growth Trust (PRGT) for FY 2010, shall be transferred from the Reserve Account of the PRGT (through the Special Disbursement Account) to the General Subsidy Account of the PRGT.

Decision No. 4

Transfer of Investment Income for FY 2010 to General Resources Account

The investment income of the Investment Account for FY 2010 shall be transferred to the General Resources Account for use in meeting the expenses of conducting the business of the Fund during FY 2010.

Decision No. 5

Placement of FY 2010 net income of the General Resources Account to the Special Reserve

The net income of the General Resources Account for FY 2010 shall be placed to the Fund's Special Reserve.

Decision No. 6

Transfer of Currencies to the Investment Account

Pursuant to Article XII, Section 6(f)(ii), the Fund shall transfer from the General Resources Account to the Investment Account currencies in an amount equivalent to the increase of the Fund's general and special reserves as of April 30, 2010 over their level at the end of financial year 2006, excluding any amounts in the special reserve that are attributable to profits from the sale of gold during FY 2010. This transfer of currencies to the Investment Account shall be effected in the context of the Financial Transactions Plan for the quarterly period May through July 2010. The currencies transferred to the Investment Account pursuant to this decision shall be used for immediate investment in accordance with the provisions of Article XII, Section 6(f), and in accordance with the Rules and regulations for administration of the Investment Account adopted pursuant to Decision No. 13711-(06/40).

Decision No. 7

The Rate of Charge on the Use of Fund Resources for FY 2011

Pursuant to Rule I-6(4)(a), last sentence, the rate of charge for FY 2011 shall be 100 basis points over the SDR interest rate under Rule T-1.

Decision No. 8

Disposition of FY 2011 Surcharge Income

For financial year 2011, after meeting the administrative costs of running the Fund, any remaining net operational income generated from surcharges on purchases in the credit tranches and under Extended Fund Facility shall be transferred, after the end of that financial year, to the General Reserve.

Decision No. 9

Review of the System of Special Charges

The Fund has reviewed the system of special charges applicable to overdue obligations to the General Resources Account, the Structural Adjustment Facility, and the Trust Fund.

Annex I. Restructuring Costs

In accordance with International Financial Reporting Standards (IFRS), the Fund established a restructuring provision for costs for which no rendered services are expected (e.g., the modified SBF payments) and outplacement and retraining of separating staff. Costs related to services from which the Fund will benefit, such as salaries during the staff delay period of up to 12 months under the separation plan were not included in the provision and are recognized as those expenditures are incurred. The provision amounted to SDR 55 million at April 30, 2009.

At the end of the third quarter of FY 2010 (January 31, 2010), the restructuring provision amounted to SDR 30 million, primarily reflecting costs incurred of SDR 23 million related to separating staff. The provision was revised upward by about SDR 5 million, to reflect the costs associated with outsourcing for which funding was initially uncertain, while initial estimates for retraining and outplacement costs were revised downward by about SDR 5 million. Other changes included the effects of movements in the SDR/U.S. dollar exchange rate and discount rate, which decreased the provision, in SDR terms, by about SDR 2 million. A summary of the movements in the provision is shown below.

Restructuring Provision as at end-January 2010
(In millions of SDRs)

Restructuring provision at April 30, 2009 1/	55
Amounts utilized	-23
Costs associated with outsourcing	5
Change in estimate for retraining and outplacement costs 2/	-5
Effects of movement in exchange rate and discount rate	-2
Restructuring provision as at January 31, 2010	30

1/ See *Audited Financial Statements for the Financial Years Ended April 30, 2009 and 2008.*

In addition, at end- January total FY 2010 delay costs and SRP contributions for separating staff amounted to SDR 10 million (US$16 million). Thus, total restructuring costs at end-January, including the above SBF costs of SDR 23 million, were SDR 33 million (about US$ 52 million). The actual outcome paper on the Fund's income position for FY 2010 will provide final audited figures on restructuring costs.

Annex II. Investment Account (IA) Performance Scenarios

The current investment authority of the IA permits investment in marketable obligations of the members whose currencies are used for investment, including the obligations of their central banks and official agencies, as well as marketable obligations of international financial organizations such as the World Bank, the European Investment Bank and the Bank for International Settlements (BIS).

The IA portfolio currently comprises domestic government bonds of countries in the euro area, Japan, the United Kingdom and the United States, and claims on the BIS, including BIS deposits and medium-term instruments (MTIs). MTIs are obligations of the BIS whose yield is based on the AA-rated swap yield curve. They typically provide a higher initial yield than comparable government bonds, but are subject to risk arising from the widening of swap spreads.

The analysis below outlines some forward looking analysis on possible returns in the IA relative to the three-month SDR rate, which the IA seeks to exceed over time. The table below provides eight return scenarios for the IA for FY 2011 relative to the implicit returns (equal to the SDR rate) from holding funds in the GRA. The assumed scenarios are:

1. Yields remain unchanged from end-March 2010 levels;

2. Yields follow market forward rates (Figure 2);

3. Yields increase or decrease by 25 and 50 basis points above or below market forward rates;

4. Yields increase 100 basis points above market forward rates;

5. Bond yields increase 100 basis points above market forward rates *and* swap spreads on MTIs widen by an additional 50 basis points (i.e. MTI yields increase by 150 basis points above forwards).

The table presents the unannualized returns, in percent, for all the above scenarios. In the ten month period to end-February 2010, the SDR rate returned 0.25 percent, while the IA exceeded this by 202 basis points, with returns of 2.27 percent. One-year forward rates imply an increase in the SDR rate of 86 basis points to 1.10 percent from the current 0.24 percent, and an increase in yields for the IA bonds and MTIs of 96 basis points from end-March 2010 yields of 0.92 percent and 0.97 percent, respectively.

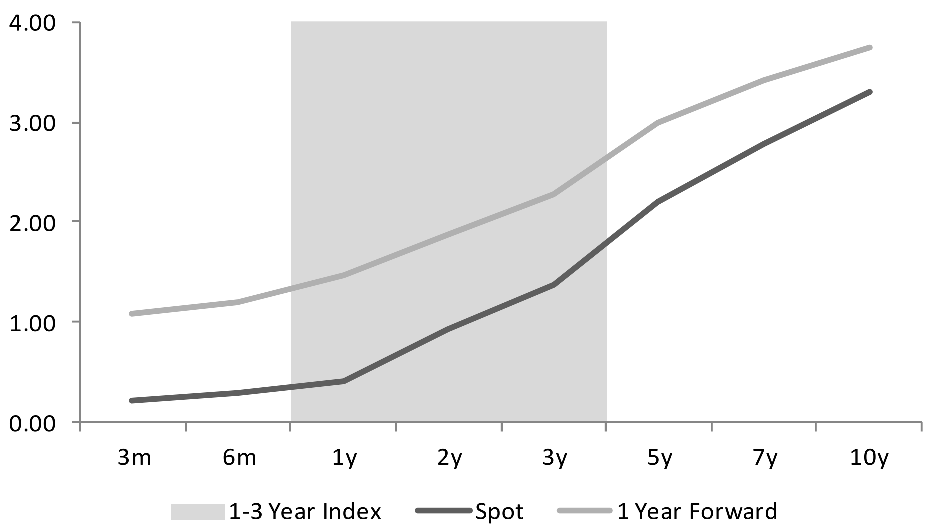
If yields remain unchanged from end-March 2010 levels, the return on the IA would exceed the SDR rate by 71 basis points over FY 2011 (column 1). If rates rise by 50 bps **more** than current forwards, the IA would underperform the SDR rate in FY 2011 by 1.93 percent (column 6), and if rates rise by 50 bps **less** than current forwards, the IA would underperform the SDR rate by 0.08 percent (column 2). The IA would break even with the SDR rate if rates rise by about 55 basis points less than what is currently priced by forwards (i.e. a rise in yields of about 40 basis points over the next fiscal year).

Investment Account Performance Scenarios
(unannualized returns in percent)

	Unchanged Yields 1/	Forwards -50bps	Forwards -25bps	Forwards	Forwards +25bps	Forwards +50bps	Forwards +100bps	Forwards +100bps +50 bps MTI Spreads Widening
Actual Returns FYTD (May 2009-Feb 2010)								
3-Month SDR/GRA	0.25	...	...	...	...	...	...	...
Bond	2.22	...	...	...	...	...	...	...
MTIs	2.32	...	...	...	...	...	...	...
IA	2.27	...	...	...	...	...	...	...
Excess Return	2.02	...	...	...	...	...	...	...
FY 2011 (May 2010-April 2011)								
3-Month SDR/GRA	0.24	0.47	0.63	0.78	0.94	1.10	1.41	1.41
Bond	0.93	0.37	0.06	-0.25	-0.55	-0.86	-1.46	-1.46
MTIs	0.98	0.41	0.11	-0.20	-0.51	-0.81	-1.42	-2.02
IA	0.95	0.39	0.08	-0.22	-0.53	-0.83	-1.44	-1.74
Excess Return	0.71	-0.08	-0.54	-1.01	-1.47	-1.93	-2.85	-3.16
Memo Items: Assumed Yields								
	Spot	1-Year Forward						
3-Month SDR/GRA	0.24	1.10						
Bonds	0.92	1.88						
MTIs	0.97	1.93						

1/ From March 26, 2010.
Note: Actual returns are based on audited performance data provided by State Street. Projections are based on current market levels for SDR weighted 3-month bills, and 2-year government notes, and 2-year MTIs, and on government bond forward rates.
Sources: State Street data, Bloomberg, and staff calculations.

Figure 2. SDR Weighted Yield Curve—Current Level and One-Year Forward



The results of the above scenarios suggest that under the current investment mandate of the IA, positive returns could potentially be achieved if rates stay unchanged or rise by less than 40 basis points over the next financial year. However, a rise in rates in line with current market expectations could result in capital losses.

Annex III. Framework on the Margin for the Rate of Charge

27. **The new framework for setting the margin for the rate of charge in the context of the new income model was outlined in last year's income paper**. The framework built on staff proposals and Directors' comments in the March 2008 discussion on the review of charges and maturities.

28. **The main elements of the framework are recapped below:**

- The margin over the SDR rate would be set at a level sufficient to cover the Fund's estimated intermediation costs and allow for reserve accumulation.
- The pace of reserve accumulation would not be pre-defined. Rather it would be left to the Executive Board to assess whether the whether the pace is adequate in light of the level of reserves relative to the target, and the expected contribution from surcharge income.
- The framework includes a cross-check of the alignment of the margin with long-term credit market conditions.
- It is proposed that the margin would be set for two year periods with a mid-term review.[33]
- The framework seeks to avoid an overly mechanistic approach. Judgment would be required in several areas, including the pace of reserve accumulation, the comparison with private market borrowing costs, and the outlook for intermediation costs, particularly when significant change in demand for Fund credit is in prospect.

29. **The application of the framework is illustrated below**. Since the new income model is not fully in place, and thus lending income continues to cover a broader range of the Fund's costs, the calculations of potential reserve accumulation in Table 6 below are hypothetical, and actual reserve accumulation in FY 2011 will be significantly below these levels. Nonetheless, as highlighted last year, these calculations illustrate the type of decision making process that would be envisaged when the new income model is fully implemented. The key aspects follow below:

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[33] In March 2008, many Directors indicated that they could support the staff's proposal of setting the margin for a longer period, say two years, in the absence of a strong rationale for an earlier adjustment, and with an interim update of the analysis prepared by the staff. A new rule to formally adopt these changes has not yet been proposed since the new income model is not yet fully in place.

Table 6. Margin Required to Cover Intermediation Costs and Reserve Accumulation
(in millions of U.S. dollars, unless otherwise indicated)

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
A. Intermediation costs 1/	151	120	89	104	128	138
Less						
B. Service charges and commitment fees 2/	33	24	23	126	306	329
C. Costs to be covered by income from margin (A - B)	118	96	66	-22	-178	-191
D. Income from margin 3/						
D.1 50 basis points	258	91	56	93	268	386
D.2 100 basis points	516	182	112	185	537	773
D.3 150 basis points	774	273	168	278	805	1159
E. Reserves accumulation (D - C)						
E.1 50 basis points	140	-5	-10	115	446	577
E.2 100 basis points	398	86	46	207	715	964
E.3 150 basis points	656	177	102	300	983	1,350
F. Reserves accumulation (as a percent) 4/						
F.1 50 basis points	1.7%	-0.1%	-0.1%	1.4%	4.8%	6.2%
F.2 100 basis points	4.8%	1.0%	0.5%	2.4%	7.8%	10.4%
F.3 150 basis points	7.9%	2.0%	1.1%	3.5%	10.7%	14.5%
Memorandum items						
Fund reserves at the beginning of FY (in SDR billions)	5.7	6	5.9	5.7	5.9	6.2
Average Fund credit outstanding (in SDR billions)	35.6	12.2	7.3	12.4	34.4	51.5
Number of active arrangements (average)	14	10	8	10	19	14
Average exchange rate U.S dollar/SDR	1.45	1.49	1.53	1.49	1.56	1.50

Source: Office of Budget and Planning, Finance Department and staff estimates
1/ Costs under "generally available facilities" item of outputs for country programs and financial support.
2/ Based on income projections for FY 2010 and FY 2011, and actuals for FY 2006–09. Includes commitment fees for expired or cancelled precautionary arrangements in FY 2006–10. FY 2010 and FY 2011 projections take account of the precautionary FCL arrangements and assume they expire with approved amounts remaining undrawn.
3/ Derived by applying the margin against average Fund credit outstanding at the average $/SDR exchange rate.
4/ Reserves accumulation as a percent of reserves at the beginning of the financial year. Assumes other sources of income sufficient to cover remaining Fund annual costs.

- *Intermediation costs* increased in FY 2010 by about 30 percent relative to the updated estimate for FY 2009. This increase reflects the continuing efforts of the Fund to assist member countries dealing with the effects of the global crisis. The average number of active arrangements in FY 2010 was 19 compared to 10 in the previous year. Costs in FY 2011 are estimated to increase to about $138 million.

- *Service charges and commitment fees* in FY 2010 and FY 2011 reflect the increased lending activity evidenced by the build-up in average Fund credit outstanding (see memorandum item in the Table). Commitment fees reflect income from precautionary Flexible Credit Line arrangements, which are assumed to remain undrawn through expiration or cancellation.

30. **As noted last year, the calculations highlight the sensitivity of potential reserve accumulation from the margin to the level of lending**. Although the share of the Fund's total costs devoted to lending activities increases with the level of lending, the increase is not proportional, particularly with the high concentrations (exceptional access arrangements) in

the Fund's lending portfolio.[34] In addition to the margin, service charges on disbursements and commitment fees for non-drawing arrangements, in particular the FCLs, contribute to the Fund's income.[35] Thus, after taking these factors into account, and assuming the new income model was already fully in place, potential reserve accumulation (from the margin, charges and fees) would be about $0.9 billion for FY 2011 (10 percent of existing reserves). On the same basis, total amounts available for reserve accumulation, including income from surcharges, would be $1.7 billion (18 percent of existing reserves). However, as the new income model is not yet in place, actual reserve growth in FY 2011 is projected at $1.1 billion (see net operational income and surcharges for FY 2011 in Table 3).

31. **The framework includes a cross check on the alignment of Fund borrowing costs relative to long-term conditions in credit markets**. Comparisons with market conditions require estimates of two elements implicit in market lending: the term premium, given that the Fund provides credit for 3 ¼ to 5 years but charges a floating short-term interest rate; and the credit risk premium implicit in market borrowing. Proxy measures have been developed for both elements and Table 7 updates the analysis presented last year in EBS/09/51:

- **Term premium**: two measures are considered—the simple spread between the yield on a five-year fixed rate (synthetic) SDR bond and the three-month interest rate, and the difference in yields between a five-year (synthetic) SDR bond and the average three-month (synthetic) SDR rate implicit in futures market contracts over a five period. It has previously been noted that the former overstates the term premium that should be applied to Fund credit. Similar to last year, data for 2010 suggest that both measures have widened sharply in the crisis, but over the longer term, the latter measure yields a term premium of 3-5 basis points.

- **Credit risk premium**: The data on median EMBI spreads for different groups of emerging market borrowers have been updated in the Table below. The trends remain broadly similar to last year—spreads narrowed sharply in the period 2002-09, reflecting structural and cyclical developments and have experienced a widening in 2010. The cost of borrowing from the Fund therefore remains below current market rates, and relative to longer term conditions, a margin of 100 basis points continues to be below the average spread faced by previous Fund borrowers in 2002 -09, and also below the average spreads in the bottom quartile of countries in the EMBI index.

[34] Other factors such as staff time for an active arrangement tend to generate similar costs regardless of the level of access involved.

[35] Service charges and commitment fees are both linked to access. The latter, in particular could be large in the future if demand for new facilities such as the FCL proves to be significant. Staff will follow developments in this area closely.

Table 7. Term Premium and Country Risk

	1992 - 2009	1999 - 2009	2002 - 2009	2010-to-date
	(Median spread, in SDR-equivalent basis points) 1/			
Five-year term premium				
Measure 1 2/	79.7	78.2	86.2	189.4
Measure 2 3/	n.a.	3.2	5.5	16.3
Country risk--EMBI-based measures 4/				
All EMBI countries	n.a.	360.4	266.3	253.1
Countries in quartile with lowest spreads	n.a.	166.0	108.3	183.6
Countries in decile with lowest spreads	n.a.	101.6	59.7	126.8
Country with lowest spread	n.a.	41.1	31.5	45.6
Past users of Fund resources				
Arrangements during 1991–2000 5/	n.a.	339.5	294.7	197.1
Arrangements during 1991–2006 6/	n.a.	413.3	305.1	232.4

Source: Bloomberg, JP Morgan and Fund staff calculations.

1/ SDR-equivalent rates are calculated using the currency weights in the SDR basket.

2/ Difference in yields between a five-year, fixed-rate bond and the 3-month SDR interest rate.

3/ Difference in yields between a five-year, fixed-rate bond and the five-year average 3-month interest rate as implied in futures market contracts. (Difference adjusted for the higher risk premium of instruments in future markets.)

4/ Table reports linear combination of spreads in EMBIG-U.S. dollar and EMBIG-Euro composites. Series were combined using the weights of the U.S. dollar and Euro in the SDR basket (normalized to 100). During the sample period, the combined EMBIG indices contained spreads for a total of 45 countries (see Annex II).

5/ Median level of the combined U.S. dollar-Euro EMBI spread for the 8 countries in the EMBI sample that had Fund arrangements in the upper credit tranches from January 1991 to December 2000, and no Fund arrangements thereafter, excluding countries that borrowed mainly from the PRGF.

6/ Median level of the combined U.S. dollar-Euro EMBI spread for the 15 countries in the EMBI sample that had Fund arrangements in the upper credit tranches from January 1991 to December 2006, and no Fund arrangements thereafter, excluding countries that borrowed mainly from the PRGF.

Annex IV. Assumptions Underlying the Income Projections (FY 2010–2011)

		FY 2010		FY 2011
	Actual through end-February	Midyear Projections	Current Projections	Projections
		(In billions of SDRs)		
Regular Facilities:				
1. Purchases (excl. reserve tranche purchases)	19.7	27.2	22.1	16.2
2. Repurchases	0.1	0.3	0.3	1.9
3. Average balances subject to charges	32.9	36.8	34.4	51.5
4. Average SDR holdings	2.4	2.3	2.4	2.4
5. Average remunerated positions	29.6	30.9	29.8	33.2
6. Average investment account assets 1/	6.0	6.0	6.0	6.0
7. Average borrowings and issued notes 2/	3.2	4.1	4.0	11.9
		(In percent)		
Return on investments 2/	2.56	1.60	2.41	1.20
Average interest rates:				
SDR interest rate and basic rate of remuneration	0.29	0.30	0.25	0.70
Basic rate of charge	1.29	1.30	1.25	1.70
Margin on the rate of charge	1.00	1.00	1.00	1.00

1/ The figures are based on a general assumption that investment income is transferred annually to the GRA.
2/ The figures in the table are period averages.
3/ End-Feburary figure is not annualized.

Annex V. Projected Income and Expenses (FY 2010–2011)

	Actual to end-Feb 2010	FY 2010 Mid-year Projections	FY 2010 Updated Projections	FY 2011 Projections
A. Income Sources				
a. Periodic charges, including burden sharing	352	478	428	873
b. Interest on SDR holdings	6	7	7	18
c. Surcharges	203	306	263	499
d. Investment income	135	96	144	74
e. Service charges 1/	99	221	191	219
f. Reimbursements	3	4	4	4
Total income	**798**	**1112**	**1037**	**1687**
B. Expenses				
Remuneration, including burden sharing	70	89	72	232
Interest on borrowing and issued notes	5	12	8	84
Administrative expenses 2/	550	677	717	673
Total expenses	**625**	**778**	**797**	**989**
C. Net operational income position	**173**	**334**	**240**	**698**
Gold profits	3190	3251	3500	2422
Net income position 3/	**3363**	**3585**	**3740**	**3120**

1/ Includes commitment fees, which are refundable (when disbursements take place) so income arises only if planned disbursements are not made.

2/ Administrative expenses presented on an IFRS basis reflect the actuarially determined IAS 19 expense rather than the periodic funding for the pension plan and post employment benefits.

3/ Net income on the basis presented in the Fund's annual IFRS financial statements.

Annex VI. Cumulative Burden Sharing Adjustments by Member as of end-January 2010

(In millions of SDRs unless otherwise indicated)

	Adjustments for Deferred Charges				Adjustments for SCA-1			
Member	Charges	Remuneration	Total	Percentage of total	Charges	Remuneration	Total	Percentage of total
Albania	0.1	0.0	0.1	0.01	0.1	0.0	0.1	0.01
Algeria	7.4	0.4	7.8	1.12	13.2	0.5	13.6	1.15
Angola	0.0	0.0	0.0	0.00	-	0.0	0.0	0.00
Argentina	31.0	-	31.0	4.44	64.7	-	64.7	5.45
Armenia	0.1	0.0	0.1	0.02	0.2	0.0	0.2	0.02
Australia	-	2.9	2.9	0.42	-	7.0	7.0	0.59
Austria	-	4.5	4.5	0.65	-	7.6	7.6	0.64
Azerbaijan	0.3	-	0.3	0.05	0.9	-	0.9	0.08
Bahamas, The	-	0.0	0.0	0.01	-	0.0	0.0	0.00
Bahrain	-	0.7	0.7	0.10	-	0.9	0.9	0.07
Bangladesh	3.1	-	3.1	0.45	2.9	-	2.9	0.24
Barbados	0.1	0.0	0.2	0.02	0.2	0.0	0.2	0.02
Belarus	0.5	-	0.5	0.08	1.0	-	1.0	0.09
Belgium	-	6.1	6.1	0.88	-	12.3	12.3	1.04
Belize	0.0	0.0	0.1	0.01	0.0	0.0	0.1	0.01
Bhutan	-	0.0	0.0	0.00	-	0.0	0.0	0.00
Bolivia	0.9	-	0.9	0.13	0.9	-	0.9	0.08
Bosnia and Herzegovina	0.5	-	0.5	0.07	0.8	-	0.8	0.07
Botswana	-	0.2	0.2	0.03	-	0.3	0.3	0.03
Brazil	23.8	0.0	23.8	3.42	57.4	-	57.4	4.83
Brunei Darussalam	-	0.1	0.1	0.01	-	0.3	0.3	0.02
Bulgaria	3.7	0.1	3.8	0.54	8.2	0.1	8.3	0.70
Burkina Faso	-	0.1	0.1	0.01	-	0.1	0.1	0.01
Burundi	0.0	0.0	0.0	0.01	0.0	0.0	0.0	0.00
Cambodia	0.0	-	0.0	0.00	0.0	-	0.0	0.00
Cameroon	0.7	-	0.7	0.11	0.8	-	0.8	0.06
Canada	-	6.0	6.0	0.86	-	14.3	14.3	1.20
Cape Verde	-	0.0	0.0	0.00	-	-	-	-
Central African Republic	0.1	-	0.1	0.02	0.1	-	0.1	0.01
Chad	0.1	-	0.1	0.01	0.1	-	0.1	0.01
Chile	5.8	0.5	6.4	0.91	5.7	1.6	7.3	0.62
China	4.0	7.7	11.7	1.68	3.5	16.2	19.7	1.66
Colombia	-	1.3	1.3	0.19	-	2.3	2.3	0.19
Comoros	0.0	0.0	0.0	0.00	-	0.0	0.0	0.00
Congo, D.R.	3.4	-	3.4	0.49	3.9	-	3.9	0.33
Congo, Rep.	0.1	-	0.1	0.02	0.2	-	0.2	0.01
Costa Rica	0.4	0.1	0.5	0.07	0.5	0.1	0.6	0.05
Cote d'Ivoire	2.5	-	2.5	0.35	2.4	-	2.4	0.20
Croatia	1.1	-	1.1	0.16	1.6	-	1.6	0.13
Cyprus	-	0.2	0.2	0.03	-	0.4	0.4	0.03

Annex VI. Cumulative Burden Sharing Adjustments by Member as of end-January 2010 (continued)

	Adjustments for Deferred Charges				Adjustments for SCA-1			
Member	Charges	Remuneration	Total	Percentage of total	Charges	Remuneration	Total	Percentage of total
Czech Republic	2.2	0.2	2.4	0.34	2.7	0.6	3.3	0.28
Denmark	-	3.5	3.5	0.50	-	6.2	6.2	0.52
Djibouti	0.0	0.0	0.0	0.00	0.0	0.0	0.0	0.00
Dominica	0.0	-	0.0	0.00	0.0	-	0.0	0.00
Dominican Republic	2.4	-	2.4	0.34	2.2	-	2.2	0.18
Ecuador	2.0	0.1	2.1	0.30	2.6	0.1	2.7	0.23
Egypt	1.4	0.1	1.5	0.22	1.5	0.2	1.7	0.14
El Salvador	0.0	-	0.0	0.01	0.0	-	0.0	0.00
Equatorial Guinea	0.0	-	0.0	0.00	0.0	-	0.0	0.00
Estonia	0.1	-	0.1	0.02	0.3	-	0.3	0.02
Ethiopia	0.2	0.0	0.2	0.03	0.2	0.0	0.2	0.02
Fiji	0.0	0.1	0.1	0.02	0.0	0.2	0.2	0.01
Finland	-	2.6	2.6	0.38	-	4.6	4.6	0.38
France	-	18.7	18.7	2.68	-	33.5	33.5	2.82
Gabon	0.7	-	0.7	0.09	1.0	-	1.0	0.08
Gambia, The	0.1	-	0.1	0.01	0.1	-	0.1	0.01
Georgia	0.2	-	0.2	0.03	0.4	-	0.4	0.03
Germany	-	38.2	38.2	5.47	-	59.1	59.1	4.98
Ghana	1.7	0.0	1.7	0.24	1.8	0.0	1.8	0.15
Greece	-	1.1	1.1	0.16	-	2.1	2.1	0.18
Grenada	0.0	-	0.0	0.00	0.0	-	0.0	0.00
Guatemala	0.4	0.0	0.4	0.05	0.3	0.0	0.3	0.03
Guinea	0.1	-	0.1	0.02	0.1	-	0.1	0.01
Guinea-Bissau	0.0	-	0.0	0.00	0.0	-	0.0	0.00
Guyana	0.4	-	0.4	0.06	0.4	-	0.4	0.04
Haiti	0.2	-	0.2	0.03	0.3	-	0.3	0.03
Honduras	0.4	0.0	0.4	0.06	0.6	0.0	0.7	0.05
Hungary	6.6	0.4	7.0	1.01	6.9	1.3	8.2	0.69
Iceland	0.1	0.1	0.2	0.02	0.0	0.1	0.1	0.01
India	24.0	2.4	26.3	3.77	28.4	3.4	31.9	2.68
Indonesia	14.7	0.9	15.6	2.24	42.5	1.6	44.0	3.71
Iran, I. Rep. of	-	0.1	0.1	0.01	-	0.0	0.0	0.00
Iraq	0.6	0.4	1.0	0.15	0.6	0.3	0.9	0.08
Ireland	-	2.0	2.0	0.28	-	3.3	3.3	0.28
Israel	0.6	0.3	0.9	0.12	0.9	0.9	1.7	0.15
Italy	-	17.5	17.5	2.52	-	28.2	28.2	2.37
Jamaica	2.5	-	2.5	0.37	2.9	-	2.9	0.25
Japan	-	39.7	39.7	5.69	-	64.5	64.5	5.43
Jordan	1.7	0.0	1.7	0.24	3.1	0.0	3.1	0.26
Kazakhstan	0.8	-	0.8	0.11	1.7	-	1.7	0.15

Annex VI. Cumulative Burden Sharing Adjustments by Member as of end-January 2010 (continued)

	Adjustments for Deferred Charges				Adjustments for SCA-1			
Member	Charges	Remuneration	Total	Percentage of total	Charges	Remuneration	Total	Percentage of total
Kenya	1.2	0.0	1.2	0.17	1.1	0.0	1.1	0.09
Kiribati	-	0.0	0.0	0.00	-	-	-	-
Korea	7.8	3.3	11.1	1.60	19.6	5.0	24.6	2.07
Kosovo	-	0.0	0.0	0.00	-	-	-	-
Kuwait	-	2.7	2.7	0.39	-	4.2	4.2	0.35
Kyrgyz Republic	0.1	-	0.1	0.02	0.3	-	0.3	0.02
Lao P.D.R	0.0	-	0.0	0.00	0.0	-	0.0	0.00
Latvia	0.3	-	0.3	0.05	0.5	-	0.5	0.05
Lebanon	0.1	0.3	0.4	0.06	-	0.3	0.3	0.03
Lesotho	-	0.0	0.0	0.00	-	0.0	0.0	0.00
Liberia	2.4	-	2.4	0.34	3.1	-	3.1	0.26
Libya	-	5.0	5.0	0.72	-	6.4	6.4	0.54
Lithuania	0.5	-	0.5	0.08	1.2	-	1.2	0.11
Luxembourg	-	0.3	0.3	0.04	-	0.6	0.6	0.05
Macedonia, F.Y.R.	0.3	-	0.3	0.04	0.5	-	0.5	0.04
Madagascar	0.4	-	0.4	0.06	0.4	-	0.4	0.03
Malawi	0.3	-	0.3	0.04	0.3	-	0.3	0.03
Malaysia	-	3.2	3.2	0.45	-	5.8	5.8	0.49
Maldives	0.0	0.0	0.0	0.00	0.0	0.0	0.0	0.00
Mali	0.2	0.1	0.2	0.03	0.2	0.1	0.2	0.02
Malta	-	0.4	0.4	0.06	-	0.5	0.5	0.05
Mauritania	0.2	-	0.2	0.03	0.2	-	0.2	0.02
Mauritius	0.2	0.0	0.2	0.03	0.1	0.1	0.2	0.02
Mexico	38.3	0.6	38.9	5.58	57.0	1.2	58.2	4.90
Micronesia	-	0.0	0.0	0.00	-	0.0	0.0	0.00
Moldova	0.5	-	0.5	0.07	1.1	-	1.1	0.09
Mongolia	0.1	-	0.1	0.01	0.1	-	0.1	0.01
Montenegro, Rep. of	-	0.0	0.0	0.00	-	-	-	-
Morocco	2.8	0.2	2.9	0.42	2.8	0.3	3.0	0.26
Myanmar	0.1	-	0.1	0.01	0.1	-	0.1	0.01
Namibia	-	0.0	0.0	0.00	-	0.0	0.0	0.00
Nepal	0.1	0.0	0.2	0.02	0.1	0.0	0.1	0.01
Netherlands	-	9.6	9.6	1.38	-	17.7	17.7	1.49
New Zealand	-	0.7	0.7	0.09	-	1.8	1.8	0.15
Nicaragua	0.1	-	0.1	0.01	0.1	-	0.1	0.01
Niger	0.2	0.1	0.3	0.04	0.2	0.1	0.3	0.03
Norway	-	6.4	6.4	0.91	-	9.2	9.2	0.77
Oman	-	0.5	0.5	0.07	-	0.7	0.7	0.06
Pakistan	6.6	-	6.6	0.95	9.4	-	9.4	0.79
Panama	1.2	0.0	1.2	0.17	1.5	0.0	1.6	0.13

Annex VI. Cumulative Burden Sharing Adjustments by Member as of end-January 2010 (continued)

	Adjustments for Deferred Charges				Adjustments for SCA-1			
Member	Charges	Remuneration	Total	Percentage of total	Charges	Remuneration	Total	Percentage of total
Papua New Guinea	0.3	0.0	0.3	0.05	0.6	0.0	0.6	0.05
Paraguay	-	0.2	0.2	0.03	-	0.2	0.2	0.02
Peru	7.1	0.0	7.1	1.02	9.4	-	9.4	0.80
Philippines	9.2	0.4	9.6	1.37	14.4	0.6	15.0	1.26
Poland	3.4	0.5	3.9	0.56	4.1	1.5	5.6	0.47
Portugal	0.8	2.0	2.8	0.39	0.8	3.8	4.6	0.38
Qatar	-	0.4	0.4	0.05	-	0.7	0.7	0.05
Romania	4.8	-	4.8	0.68	7.4	-	7.4	0.62
Russian Federation	23.7	0.1	23.8	3.42	61.9	-	61.9	5.21
Rwanda	0.0	0.0	0.1	0.01	0.1	0.0	0.1	0.01
Samoa	0.0	0.0	0.0	0.00	0.0	0.0	0.0	0.00
San Marino	-	0.0	0.0	0.00	-	0.0	0.0	0.00
Saudi Arabia	-	10.6	10.6	1.52	-	17.1	17.1	1.44
Senegal	0.5	-	0.5	0.08	0.6	-	0.6	0.05
Serbia	1.7	-	1.7	0.24	3.2	-	3.2	0.27
Seychelles	0.0	0.0	0.0	0.00	-	0.0	0.0	0.00
Sierra Leone	0.5	-	0.5	0.07	0.5	-	0.5	0.04
Singapore	-	1.8	1.8	0.26	-	3.2	3.2	0.27
Slovak Republic	1.6	0.0	1.6	0.23	2.5	0.0	2.5	0.21
Slovenia	0.4	0.1	0.6	0.08	0.4	0.4	0.8	0.07
Solomon Islands	0.0	0.0	0.0	0.00	0.0	0.0	0.0	0.00
Somalia	1.1	-	1.1	0.16	1.5	-	1.5	0.13
South Africa	1.7	-	1.7	0.24	2.9	-	2.9	0.25
Spain	-	11.0	11.0	1.58	-	16.3	16.3	1.37
Sri Lanka	2.1	0.1	2.2	0.31	2.1	0.1	2.3	0.19
St. Kitts and Nevis	0.0	-	0.0	0.00	0.0	-	0.0	0.00
St. Vincent and the Grenadines	-	0.0	0.0	0.00	-	0.0	0.0	0.00
Sudan	6.1	-	6.1	0.87	8.3	-	8.3	0.70
Suriname	-	0.0	0.0	0.00	-	0.0	0.0	0.00
Swaziland	0.0	0.0	0.0	0.00	0.0	0.0	0.0	0.00
Sweden	-	4.5	4.5	0.65	-	8.2	8.2	0.69
Switzerland	-	4.3	4.3	0.62	-	10.8	10.8	0.91
Tajikistan	0.0	-	0.0	0.00	0.1	-	0.1	0.01
Tanzania	0.3	-	0.3	0.04	0.3	-	0.3	0.02
Thailand	4.1	1.3	5.3	0.77	9.0	2.0	11.0	0.92
Togo	0.2	-	0.2	0.02	0.2	-	0.2	0.01
Tonga	-	0.0	0.0	0.00	-	0.0	0.0	0.00
Trinidad and Tobago	1.5	0.2	1.7	0.24	1.5	0.3	1.7	0.15
Tunisia	2.4	0.0	2.5	0.35	2.8	0.1	2.8	0.24
Turkey	26.0	0.3	26.3	3.78	50.9	0.5	51.4	4.33

Annex VI. Cumulative Burden Sharing Adjustments by Member as of end-January 2010 (concluded)

	Adjustments for Deferred Charges				Adjustments for SCA-1			
Member	Charges	Remuneration	Total	Percentage of total	Charges	Remuneration	Total	Percentage of total
Uganda	0.4	-	0.4	0.06	0.3	-	0.3	0.03
Ukraine	5.7	-	5.7	0.81	12.2	-	12.2	1.03
Emirates	-	2.3	2.3	0.32	-	3.3	3.3	0.28
United Kingdom	-	13.1	13.1	1.88	-	25.8	25.8	2.18
United States	-	100.8	100.8	14.45	-	157.9	157.9	13.30
Uruguay	2.2	0.0	2.2	0.31	5.8	0.0	5.9	0.49
Uzbekistan	0.3	-	0.3	0.04	0.8	-	0.8	0.06
Vanuatu	-	0.0	0.0	0.00	-	0.0	0.0	0.00
Venezuela, R. B. de	15.4	2.1	17.4	2.50	19.8	2.4	22.2	1.87
Vietnam	0.6	-	0.6	0.09	0.9	-	0.9	0.07
Yemen, Rep. of	0.3	0.0	0.3	0.04	0.7	0.0	0.7	0.06
Zambia	5.2	-	5.2	0.75	5.5	-	5.5	0.46
Zimbabwe	0.8	-	0.8	0.12	1.6	-	1.6	0.14
	348.5	349.1	697.6	100.00	603.8	583.9	1,187.7	100.00

Values of 0.0 represent amounts of less than SDR 0.1 million; "-" denotes no adjustments.

1/ Adjustments to charges and remuneration are billed quarterly; the most recent billing was for the quarter ending January 31, 2010.

Annex VII. Reconciliation of Administrative Expenses to the Budget (FY 2010–11)

(In U.S. dollar millions, unless otherwise stated)

	FY 2010	FY 2011
Administrative budget	871	947
Capital budget expenditures not capitalized	12	11
Depreciation expense	41	48
Total administrative expense 1/	924	1006
Total administrative expense in SDRs 2/	592	670

1/ Before IAS 19 timing differences and the restructuring provisions.
2/ Based on exchange rate of 1 SDR = $1.56 for FY 2010 and 1 SDR = $1.50 for FY 2011.