INTERNATIONAL MONETARY FUND

# Review of the Fund's Income Position, the Rate of Charge, Precautionary Balances, and Burden Sharing for FY 2003 and FY 2004


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## I. Executive Summary

Key Points:

- The current Executive Board decisions with regard to charges, the net income target, retention of income to strengthen precautionary balances, and burden sharing are functioning well and are achieving the intended results.
- Consistent with the Executive Board's understanding reached during the review of Fund facilities (in November 2000), and the broad agreement at the Executive Board's discussion of the adequacy of precautionary balances (in November 2002), it is proposed that the mechanisms continue in effect for FY 2004 by adopting similar decisions for FY 2004 to the ones existing for FY 2003.

- **This paper provides the basis for the Executive Board's annual review of the Fund's income position.** On this occasion, the Board also reviews the Fund's precautionary balances, burden sharing mechanism and the system of special charges. The purpose of this review is to set the net income target and the rate of charge for FY 2004 and to adopt a decision on implementation of burden sharing. A number of other decisions, such as the allocation of income to reserves, are also proposed.

- **For FY 2003, regular net income[1] is projected to be in the order of SDR 112 million, compared to a target of SDR 69 million set in the last review.** In accordance with the decisions taken at the beginning of the financial year, net income in excess of the target amount is to be refunded after the end of the financial year. Staff will inform the Executive Board of the actual result upon the completion of the annual audit.
- **Other income for FY 2003 is currently estimated to be in the order of SDR 623 million.** The Executive Board has already decided to place this income to the General Reserve to strengthen the Fund's precautionary balances.
- **For FY 2004, the net income target, calculated in accordance with Rule I-6(4) and the existing decisions, amounts to SDR 108 million. In order to achieve this target, the rate of charge would be set at 132.0 percent of the SDR**

[1] The paper refers to *regular net income* and *other income*. Regular net income, which consists of all income other than surcharges, enters into the calculation and achievement of the net income target and the determination of the rate of charge. Other income represents income derived from surcharges, net of certain costs as determined by the Executive Board (see Text Box 2).

**interest rate.** This would result in a rate of charge which is lower (by approximately 36 basis points) than the average rate in FY 2003. Staff will provide an updated calculation of the required rate of charge prior to the Executive Board consideration, if needed.

## II. The Fund's Income Position in FY 2003

1. **The decisions affecting the Fund's income for FY 2003 are summarized in Box 1.**

**Box 1. Decisions Affecting the Fund's Income Position for FY 2003**[1]

- The net income target for FY 2003 was set at SDR 69 million, resulting in a coefficient of the rate of charge of 128 percent of the SDR interest rate. The target for net income, equal to 5 percent of the Fund's reserves at the beginning of the year, is reduced by SDR 94 million to take account of the estimated cost of the off-market gold transactions completed in FY 2000.
- To offset the reduction of the net income target, SDR 94 million is to be generated through burden sharing and placed in the First Special Contingent Account (SCA-1).
- Net income in excess of the income target is to be refunded through a retroactive reduction in the rate of charge; any shortfall is to be recovered in FY 2004.
- All surcharge income, as well as the cost resulting from implementing IAS 19 (Employee Benefits), is to be excluded from the net income target.
- Income from surcharges, net of the cost of administering the PRGF Trust, is to be transferred to the General Reserve after the end of the financial year.
- The GRA has forgone the reimbursement of the cost of administering the PRGF Trust for financial years 2001–2004.
- The burden sharing mechanism to offset the loss of income due to deferred charges will continue for as long as arrears persist.

[1]See Decision No. 12065-(99/130), adopted on December 8, 1999, Decision No. 12189-(00/45), adopted on April 28, 2000, and Decision Nos.12729 through 12731 and 12733-(02/43) adopted on April 26, 2002.

2. **Regular net income in FY 2003 is projected to be in the order of SDR 112 million, exceeding the net income target of SDR 69 million by SDR 43 million** (see Table 1 and Appendix Table 1).[2] The main factors leading to higher-than-projected net income are explained in Table 1:

[2] See *Midyear Review of the Fund's Income Position for FY 2003* (EBS/02/202, 12/2/02) and *Review of the Fund's Income Position, the Rate of Charge, Precautionary Balances, and Burden Sharing for FY 2002 and FY 2003* (EBS/02/60, 4/3/02).

Table 1. Projected Regular Income – FY 2003
(In SDR millions)

| | |
|---|---|
| Regular net income as projected at beginning of the year | 69 |
| Variance due to: | |
| • higher charges because of higher purchases | +54 |
| • lower administrative expenses | +43 |
| • lower margin because of lower SDR interest rate | -54 |
| Regular net income: updated projection | 112 |

- Use of Fund credit was SDR 5.3 billion higher than estimated, resulting in additional income from service and periodic charges. This increased the Fund's net income by SDR 54 million, including stand-by charges equal to SDR 23 million.
- Administrative expenses are now projected at SDR 542 million, or SDR 43 million lower than estimated at the beginning of the financial year. The latest revised outlook indicates that the Administrative Budget will be underspent by approximately SDR 8 million ($11 million); the depreciation of the U.S. dollar vis-à-vis the SDR accounted for a further reduction of SDR 35 million (see Appendix Table 4).
- The decrease in the SDR interest rate compresses the margin between the rate of charge and the rate of remuneration (which is equal to the SDR interest rate) since the rate of charge is set as a fixed proportion of the SDR interest rate. This reduced the Fund's net income and also lowered the revenue on the Fund's own resources by SDR 54 million.

3. **Regular income in excess of the net income target is to be refunded to members paying charges during FY 2003.** This refund takes the form of a retroactive reduction of the rate of charge for the financial year. Based on current estimates, a refund of SDR 43 million will be made to members paying charges in FY 2003 (reducing the average coefficient of the rate of charge for FY 2003 from 128 percent to 124.3 percent).[3] In line with long-standing practice, it is proposed that the net income target of SDR 69 million be

[3] The actual outcome and the precise amount of refund will be presented to the Executive Board after the completion of the annual audit in June, at which time the refund will be made.

placed to the Special Reserve after the end of the financial year (see proposed Decision No. 1).[4]

4. **Other income is projected to be in the order of SDR 623 million.** In accordance with existing decisions, this income is derived from level-based and SRF surcharges (SDR 259 million and SDR 467 million, respectively) and is net of the cost of administering the PRGF Trust (SDR 64 million) and the implementation of IAS 19 (SDR 39 million). The significant amount of other income reflects the substantial use of Fund credit under the SRF and in the credit tranches by several large debtor members. The Executive Board has already decided that surcharge income in excess of the cost of administering the PRGF Trust for FY 2003 is to be placed to the General Reserve, and no further decision on the disposition of this other income is needed. The placement of this income to the General Reserve serves to build up the Fund's precautionary balances, as intended by the Executive Board.

Table 2. Projected Other Income – FY 2003
(In SDR millions)

| | |
|---|---|
| Surcharge income | 726 |
| Less: Cost of administering the PRGF Trust | (64) |
| Net surcharge income (to be transferred to the General Reserve) | 662 |
| Less: IAS 19 post-retirement expenses (to be charged against the "earmarked" portion of the Special Reserve) | (39) |
| Other income | 623 |

[4] The Executive Board has the option to place the target net income to the General Reserve or Special Reserve. The Fund may use the Special Reserve for any purpose for which it may use the General Reserve, except for a distribution. In the past, it has consistently been decided to place regular net income equal to the target amount to the Special Reserve.

**Box 2. Other Income and Expenses**

**The following income and expenses are excluded from the calculation of regular net income:**

- **Income from surcharges on purchases under the SRF, the CCL, in the credit tranches and under the EFF** is excluded because such income could significantly distort the rate of charge in any given year. Furthermore, including income from surcharges in the determination of the rate of charge would defeat the purpose for which these surcharges were established, i.e., to set a higher rate of charge as a disincentive to large and prolonged use of Fund credit.
- Under **IAS 19 – Employee Benefits**[1]**, gains and losses** due to changes in the value of the Fund's post-retirement obligation are to be recognized in the Fund's financial statements. Since IAS 19 accounting gains and losses, and the associated costs of implementation, do not generate any additional financial resources for the GRA, the Executive Board has excluded them from the net income calculation. Gains/losses in years subsequent to the introduction of IAS19 are to be charged against the one-time (and earmarked) gain held in the Special Reserve that arose from the introduction of IAS19.
- **The GRA is not reimbursed for the cost of administering the PRGF Trust** in order to assist in the financing of the HIPC Initiative. To mitigate the impact on the rate of charge, the cost is excluded from the target income but is offset against income from surcharges.

[1]The Fund adopted International Accounting Standard 19 – Employee Benefits in FY 2000. See *International Accounting Standard 19—Accounting for Pension Benefits in the Fund* (EBS/99/62, 4/21/99).

5. **The actuarial cost of post-retirement employee benefits under IAS 19 for FY 2003 amounts to SDR 39 million.** Under IAS 19, the cost of post-retirement employee benefits are recognized on an accrual (i.e., when the entitlement is earned) rather than a cash basis. When the Fund adopted this accounting standard in FY 2000, an accounting gain (SDR 268 million) was realized because pension assets, at market value, exceeded the net present value of pension liabilities. As required by the accounting standard, this gain was included in the Fund's balance sheet and placed to an "earmarked" portion of the Fund's Special Reserve with the understanding that subsequent costs (or additional windfalls) would be charged against this "earmarked" portion. In line with this understanding, annual decisions have been taken to charge the recurring cost arising from the implementation of IAS 19 to the Special Reserve. Accordingly, similar treatment is again proposed for the current year cost of SDR 39 million (Decision No. 1).

## III. The Fund's Precautionary Balances

6. **The Fund's precautionary balances consist of the General and Special Reserves and the SCA-1.** The Fund's reserves provide protection against the risk of operational deficits and losses of a capital or general nature. The balances accumulated in the SCA-1 cover the risk of loss arising from any ultimate failure to settle financial obligations to the Fund by members in protracted arrears.

7. **In November of last year, the Executive Board had a comprehensive review of the adequacy of the Fund's precautionary balances and reached the following broad agreements:**[5]

- the Fund should continue to build up precautionary balances and aim at doubling these balances (to reach approximately SDR 10 billion) in view of the growing concentration and volatility of Fund credit, as well as the increased risks associated with the more uncertain international environment, and the possibility of disruption of payments from members with large arrangements;
- the Fund should maintain significant precautionary balances to fully cover credit outstanding that is in protracted arrears and provide a margin for the exposure to risk associated with credit in good standing;[6]
- the present system of accumulating precautionary balances, in which surcharge income and regular net income are placed to reserves and SDR 94 million is financed through burden sharing, is appropriate;
- the pace of accumulation should be reviewed annually in light of the uncertainty regarding the flows of surcharge income and the risks confronting the Fund.

8. **During FY 2003, precautionary balances are projected to increase from SDR 4.6 billion to SDR 5.4 billion.** The increase of SDR 825 million consists of regular income of SDR 69 million, surcharge income of SDR 662 million and SDR 94 million placed to the SCA-1. However, the ratio of precautionary balances to credit outstanding has declined from 8.9 to 8.2 percent during the current financial year because of the substantial increase in Fund credit to SDR 66 billion (see Table 3). Free reserves as a percentage of total credit outstanding remained relatively stable at 7.2 –7.3 percent.[7]

9. **Outstanding principal in arrears decreased to SDR 735 million from SDR 881 million at the beginning of FY 2003, mainly because of the settlement of arrears by the**

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[5] See *Concluding Remarks by the Acting Chair, The Fund's Policy on Precautionary Balances* (BUFF/02/182, 11/22/02) and *The Fund's Policy on Precautionary Financial Balances* (EBS/02/185, 11/1/02).

[6] Staff is working on an analytical framework that takes into account credit capacity, credit concentration and credit outstanding, as requested by some Directors.

[7] Free reserves refer to the sum of reserves and the SCA-1, less outstanding credit in arrears. These reserves protect the Fund against the risk derived from credit in good standing.

**Democratic Republic of Congo.**[8] Resources accumulated in the SCA-1, amounting to SDR 1.4 billion, more than cover credit in protracted arrears. The Fund allocates SDR 94 million annually to the SCA-1 (and reduces the income target by the same amount) to mitigate the effect of accepting payments in gold in connection with the off-market gold transactions to assist in the financing of the HIPC Initiative. A similar decision needs to be adopted for FY 2004 as agreed during the November 2002 review of precautionary balances. Without such mitigation, the incidence of higher remuneration resulting from the acceptance of payments in gold would fall entirely on debtors.

Table 3. The Fund's Precautionary Balances

| | End of Financial Year | | | | |
|---|---|---|---|---|---|
| | 1999 | 2000 | 2001 | 2002 | 2003 [1] |
| | (In millions of SDRs) | | | | |
| Reserves[2] | 2,569 | 2,858 | 2,943 | 3,308 | 4,039 |
| SCA-1 | 991 | 1,119 | 1,213 | 1,307 | 1,401 |
| SCA-2 | 1,000 | -- | -- | -- | -- |
| Precautionary Balances | 4,560 | 3,997 | 4,156 | 4,615 | 5,440 |
| less: credit in arrears | -992 | -962 | -865 | -881 | -735 |
| SCA-2 | -1,000 | -- | -- | -- | -- |
| Free reserves | 2,568 | 3,015 | 3,291 | 3,734 | 4,705 |
| Credit outstanding | 60,651 | 43,913 | 42,219 | 52,081 | 66,134 |
| | (In percent) | | | | |
| Free reserves as a percentage of credit in good standing | 4.3 | 7.0 | 7.9 | 7.3 | 7.2 |
| Precautionary balances as a percentage of total credit outstanding | 7.5 | 9.0 | 9.8 | 8.9 | 8.2 |

[1] Projected balances at the end of the year.
[2] Excluding the accounting gains arising from the implementation of IAS 19 – Employee Benefits.

[8] Afghanistan settled its financial obligations to the Fund but had no obligations overdue to the GRA. All overdue obligations consisted of obligations in the SDR Department.

## IV. Implementation of Burden Sharing for Deferred Charges

10. **The Executive Board decided in April 2000 to continue the burden sharing mechanism for deferred charges for as long as arrears persist.**[9] Prior to that time, annual decisions were adopted to prevent this mechanism from lapsing.

11. **During FY 2003, lost income due to deferred charges of SDR 21 million has been recovered through the burden sharing mechanism.** The adjustments for FY 2003 to the rate of charge and the rate of remuneration will average 9 and 10 basis points, respectively. Adjustments are refundable when overdue members settle their arrears. During the financial year, the Democratic Republic of the Congo settled its overdue charges to the GRA and proceeds from the settlement of deferred charges, amounting to SDR 77 million, were distributed to members that had contributed to the burden sharing mechanism. At the end of March 2003, total deferred charges outstanding from the four members in protracted arrears amounted to SDR 868 million.

**Box 3. Burden Sharing**

**The financial consequences of overdue obligations are shared equally between members paying charges and members receiving remuneration under the burden sharing mechanism.**

- **Deferred charges**. The rate of charge is adjusted upward and the rate of remuneration is adjusted downward to cover the loss of income due to overdue charges. Adjustments are refunded when overdue charges are settled.
- **SCA-1.** The rates of charge and remuneration are also adjusted to finance allocations to the Special Contingent Account (SCA-1), established to strengthen the Fund's financial position in light of protracted overdue obligations. For FY 1988-2000, the amount generated each year was equal to 5 percent of the Fund's reserves at the beginning of the year. For FY 2001-2003, SDR 94 million was generated each year to compensate for the reduction in the net income target (see Box 1). The SCA-1 balances are refundable when there are no overdue charges or repurchases, or at such earlier time as the Fund may decide.

## V. Net Income Target and the Rate of Charge for FY 2004

12. **The current income mechanism has served the Fund well and it is proposed, in line with the broad agreement reached in November 2002 at the review of precautionary balances, that similar decisions to those existing for FY 2003 be adopted for FY 2004.** At that time, the Executive Board recognized that the principles underlying the current income mechanism continue to be valid and that this mechanism should be maintained. The decisions are provided in Section VII.

[9] Executive Board Decision No. 12189-(00/45), adopted April 28, 2000.

13. **The net income target for FY 2004 is calculated, in accordance with Rule I-6(4), as 5 percent of reserves at the beginning of the year,[10] equal to SDR 202 million, less SDR 94 million to account for the gold mitigation.** On this basis, the coefficient of the rate of charge for FY 2004 would be set at 132.0 percent of the SDR interest rate. The new coefficient is higher because it applies to a lower SDR interest rate. At the current SDR interest rate of 1.76 percent, the rate of charge in effect on May 1, 2003 would be equal to 2.32 percent, which is 36 basis points lower than the average rate in effect during FY 2003. The margin between the rate of charge and the SDR interest rate is slightly lower—56 basis points in FY 2004 compared to 59 basis points in FY 2003 (see Table 4).

Table 4. Rate of Charge
(In percent)

| | Rates in Effect at Beginning of FY 2003 | Average Rate in FY 2003[1] | Proposed New Rate for FY 2004[2] |
|---|---|---|---|
| SDR Interest Rate | 2.28 | 2.09 | 1.76 |
| Basic Rate of Charge | 2.92 | 2.68 | 2.32 |
| Margin between Rates of Charge and Remuneration | 0.64 | 0.59 | 0.56 |
| Coefficient of the Rate of Charge | 128 | 128 | 132 |

[1] Projected and before the effect of the retroactive reduction after year-end.
[2] Based on the prevailing SDR interest rate.

14. **The coefficient is sensitive to changes in the underlying SDR interest rate and, to a lesser degree, to the projected use of Fund credit.** An increase of SDR 1 billion in assumed purchases would reduce the coefficient of the rate of charge to 131 percent. An increase of only 10 basis points in the SDR interest rate would reduce the coefficient to 130 percent (see Appendix Table 3). Staff intends to revise the projections for changes in the prevailing SDR interest rate and will update the proposed coefficient, if necessary.

[10] Reserves at the beginning of the year exclude the cumulative effect of implementing IAS 19 (equal to SDR 293 million).

## VI. Review of Special Charges

15. The decision on special charges on overdue financial obligations in the General Resources Account and the Trust Fund calls for an annual review.[11] The system of special charges was established to provide members with incentives to settle their financial obligations to the Fund in a timely manner. While the overall effectiveness of the system of special charges is doubtful because there are so many exceptions to the system, Directors have opposing views on the retention of the system. No new considerations have arisen during the current financial year and no changes are proposed to the system currently in place, i.e., special charges are levied on overdue repurchases and charges that are in arrears for less than six months. Special charges collected during the year consisted entirely of overdue special charges, amounting to SDR 91,088, as a result of settlement of arrears by the Democratic Republic of Congo. Decision No. 5, which can be adopted by a majority of the votes cast, is intended to complete this annual review.

## VII. Proposed Decisions

**The following five decisions are proposed:**

- Decision No. 1 places the target net income for FY 2003 to the Fund's Special Reserve and charges the cost arising from the application of IAS 19 during FY 2003, equal to SDR 39 million, against the "earmarked" portion of the Special Reserve.

- Decision No. 2 sets the rate of charge on the use of Fund resources for FY 2004 at 132.0 percent of the SDR interest rate and the net income target at SDR 108 million. Net income in excess of the net income target for FY 2004 is to be refunded by retroactively reducing the rate of charge for FY 2004, and any income shortfalls in FY 2004 would be recovered in the following financial year.

- Decision No. 3 implements the burden sharing mechanism with respect to the SCA-1 for FY 2004.

- Decision No. 4 places FY 2004 income from surcharges, after meeting the cost of administering the PRGF Trust, to the Fund's General Reserve.

- Decision No. 5 concludes the review of the system of special charges.

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

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[11] Decision No. 8165-(85/189) G/TR, adopted December 30, 1985, effective February 1, 1986, as amended.

**Decision No. 1**

**Disposition of Net Income for FY 2003**

1. SDR 69 million of the Fund's net income for FY 2003 derived from the application of paragraph 2 of Decision No. 12730-(02/43), adopted April 26, 2002, shall be placed to the Fund's Special Reserve after the end of the financial year.

2. The expense derived from the application of International Accounting Standard 19 – Employee Benefits during FY 2003 shall be charged against the Fund's Special Reserve and shall be recorded separately in the financial records of the Fund.

**Decision No. 2**

**The Rate of Charge on the Use of Fund Resources for FY 2004**

1. Notwithstanding Rule I-6(4)(a), effective May 1, 2003, the proportion of the rate of charge referred to in Rule I-6(4) to the SDR interest rate under Rule T-1 shall be 132 percent.

2. The net income target for FY 2004 shall be SDR 108 million. Any net income for financial year 2004 in excess of SDR 108 million shall be used to reduce retroactively the proportion of the rate of charge for financial year 2004. If net income for financial year 2004 is below SDR 108 million, the amount of projected net income for financial year 2005 shall be increased by the equivalent of that shortfall. For the

purpose of this provision, net income shall be calculated without taking into account net operational income generated by the surcharges on purchases under the Supplemental Reserve Facility and Contingent Credit Lines, the surcharge on purchases in the credit tranches and under the Extended Fund Facility or the effect on income of the implementation of International Accounting Standard 19—Employee Benefits.

**Decision No. 3**

**Implementation of Burden Sharing in FY 2004**

**Section I. Principles of Burden Sharing**

1. The financial consequences for the Fund that stem from the existence of overdue financial obligations shall be shared between debtor and creditor member countries.

2. The sharing shall be applied in a simultaneous and symmetrical fashion.

**Section II. Determination of the Rate of Charge**

The rate of charge referred to in Rule I-6(4) shall be adjusted in accordance with the provisions of Section IV of this decision and Section IV of Executive Board Decision No. 12189-(00/45), adopted April 28, 2000.

**Section III. Adjustment for Deferred Charges**

Notwithstanding paragraph 1(a) of Section IV of Executive Board Decision No. 12189-(00/45), adopted April 28, 2000, the rate of charge and the rate of remuneration determined under that Section shall be rounded to two decimal places.

**Section IV. Amount for Special Contingent Account-1**

1. An amount of SDR 94 million shall be generated during financial year 2004 in accordance with the provisions of this Section and shall be placed to the Special Contingent Account-1 referred to in Decision No. 9471-(90/98), adopted June 20, 1990.

2. (a) In order to generate the amount to be placed to the Special Contingent Account-1 in accordance with paragraph 1 of this Section, notwithstanding Rule I-6(4)(a) and (b) and Rule I-10, the rate of charge referred to in Rule I-6(4) and, subject to the limitation in (b), the rate of remuneration prescribed in Rule I-10 shall be adjusted in accordance with the provisions of this paragraph.

(b) Notwithstanding paragraph 1 above, adjustments to the rate of charge and the rate of remuneration under this paragraph shall be rounded to two decimal places. No adjustment in the rate of remuneration under this paragraph shall be carried to the point where the average remuneration coefficient would be reduced below 85 percent for an adjustment period.

(c) The adjustments under this paragraph shall be made as of May 1, 2003, August 1, 2003, November 1, 2003 and February 1, 2004; shortly after July 31 for the period May 1 to July 31; shortly after October 31 for the period from August 1 to October 31; shortly after January 31 for the period from November 1 to January 31; shortly after April 30 for the period from February 1 to April 30.

3. (a) Subject to paragraph 3 of Decision No. 8780-(88/12), adopted January 29, 1988, the balances held in the Special Contingent Account-1 shall be distributed in accordance with the provisions of this paragraph to members that have paid additional charges or have received reduced remuneration as a result of the adjustment when there are no outstanding overdue charges and repurchases, or at such earlier time as the Fund may decide.

(b) Distributions under (a) shall be made in proportion to the amounts that have been paid or have not been received by each member because of the respective adjustments.

(c) If a member that is entitled to a payment under this paragraph has any overdue obligation to the Fund in the General Department at the time of payment, the member's claim under this paragraph shall be set off against the Fund's claim in accordance with Decision No. 8271-(86/74), adopted April 30, 1986, or any subsequent decision of the Fund.

(d) Subject to paragraph 4 of Decision No. 8780-(88/12), adopted January 29, 1988, if any loss is charged against the Special Contingent Account-1, it shall be recorded in accordance with the principles of proportionality set forth in (b).

**Section V. Review**

The operation of this decision shall be reviewed when the adjustment in the rate of remuneration reduces the remuneration coefficient to the limit set forth in paragraph 2(b) of Section IV of this decision and Section IV of Executive Board Decision No. 12189-(00/45), adopted April 28, 2000.

## Decision No. 4

### Surcharges on Purchases Under the Supplemental Reserve Facility and Contingent Credit Lines, and in the Credit Tranches and Under the Extended Fund Facility — Disposition of Net Operating Income

For financial year 2004, after meeting the cost of administering the PRGF Trust, any remaining net operational income generated by the surcharges on purchases under the Supplemental Reserve Facility and the Contingent Credit Lines and the surcharges on purchases in the credit tranches and under the Extended Fund Facility shall be placed, after the end of that financial year, to the General Reserve.

## Decision No. 5

### 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.

Table 1. Projected Income and Expense
Financial Years 2003 and 2004

(In millions of SDRs)

| | FY 2003 | | | |
|---|---|---|---|---|
| | Actual ten months ended Feb. 28, 2003 | Midyear projections 1/ | Revised projections 2/ | FY 2004 preliminary projections 3/ |
| **Regular Income** | | | | |
| 1. Operational Income | | | | |
| a. Periodic charges, including burden sharing | 1,429 | 1,761 | 1,682 | 1,681 |
| b. Interest on SDR holdings | 25 | 27 | 28 | 20 |
| c. Service and stand-by charges | 108 | 123 | 131 | 105 |
| Total operational income | 1,562 | 1,911 | 1,841 | 1,806 |
| 2. Operational Expense | | | | |
| a. Remuneration, including burden sharing | 988 | 1,217 | 1,157 | 1,111 |
| b. Allocation to SCA-1 | 78 | 94 | 94 | 94 |
| Total operational expense | 1,066 | 1,311 | 1,251 | 1,205 |
| 3. Net operational income | 496 | 600 | 590 | 601 |
| 4. Administrative expenses | 442 | 561 | 542 | 564 |
| Less: estimated cost of administering the PRGF Trust | (56) | (67) | (64) | (71) |
| | 386 | 494 | 478 | 493 |
| 5. Regular net income | 110 | 106 | 112 | 108 |
| **Other Income** | | | | |
| 1. Surcharges | | | | |
| Supplemental Reserve Facility | 366 | 466 | 467 | 460 |
| Level-based | 210 | 255 | 259 | 319 |
| Less: estimated cost of administering the PRGF Trust | (56) | (67) | (64) | (71) |
| | 520 | 654 | 662 | 708 |
| 2. Other - IAS 19 | (33) | (39) | (39) | (58) |
| 3. Total other income | 487 | 615 | 623 | 650 |

1/ Based on assumptions set out in "Midyear Review of the Fund's Income Position for FY 2003" (EBS/02/2002 12/2/02).

2/ Revised projections based on the actual outcome for the first ten months of the financial year.

3/ Based on a coefficient of 132.0 percent necessary to achieve the net income target of SDR 108 million, plus surcharge income, net of expenses of the PRGF Trust.

Table 2. Assumptions Underlying the Projections
for Financial Years 2003 and 2004

(in billions of SDRs and in percent)

| | FY 2003 | | | |
|---|---|---|---|---|
| | Actual ten months ended Feb. 28, 2003 | Midyear projections | Revised projections | FY 2004 preliminary projections |
| Use of Fund Credit, SDR holdings and Remunerated positions | | | | |
| 1. Purchases (excluding reserve tranche purchases) | 18.2 | 23.4 | 21.7 | 21.0 |
| 2. Repurchases | 6.5 | 7.6 | 7.6 | 18.8 |
| 3. Average balances subject to charges | 60.2 | 62.1 | 61.0 | 70.4 |
| 4. Average SDR holdings | 1.0 | 1.3 | 1.3 | 1.2 |
| 5. Average remunerated positions | 56.3 | 58.2 | 57.0 | 65.9 |
| Average interest rates: | | | | |
| 1. SDR interest rate and basic rate of remuneration | 2.14 | 2.12 | 2.09 | 1.76 |
| 2. Basic rate of charge | 2.74 | 2.71 | 2.68 | 2.32 |
| 3. Margin between the rate of charge and SDR interest rate | 0.60 | 0.59 | 0.59 | 0.56 |
| Coefficient of the rate of charge | 128.0 | 128.0 | 128.0 | 132.0 |

Table 3. Effect on Projected Net Income for FY 2004 of
Changes in Selected Assumptions

(in millions of SDRs and in percent)

| | Average SDR Rate of Interest (in percent) | | | | | | |
|---|---|---|---|---|---|---|---|
| | 1.40 | 1.50 | 1.60 | 1.76 | 1.80 | 1.90 | 2.00 |
| 1. Non-SRF income with a fixed proportion of 132.0 percent | 6.0 | 34.2 | 62.5 | 107.8 | 119.2 | 147.5 | 175.9 |
| 2. Increase (decrease) in net income resulting from a SDR 1 billion shortfall in non-SRF purchases: | | | | | | | |
| a. in the first half of the financial year | -8.4 | -8.7 | -8.9 | -9.3 | -9.4 | -9.6 | -9.9 |
| b. in the second half of the financial year | -6.1 | -6.2 | -6.3 | -6.4 | -6.5 | -6.5 | -6.6 |
| 3. Charges coefficient necessary to achieve net income target of SDR 107.8 million | 142.0 | 138.7 | 135.8 | 131.8 | 130.9 | 128.8 | 127.0 |

Table 4. Reconciliation of Administrative and Capital Budgets
and Administrative Expenses: FY 2003

(in millions of U.S. dollars and SDRs)

| | U.S. $ | SDR 1/ |
|---|---|---|
| Administrative budget 2/ | 735 | 550 |
| Less: Approved budget for employee benefits in excess of IAS 19 cost | (57) | (43) |
| Reimbursements for administering the SDR Department | (2) | (1) |
| Administrative budget expense | 676 | 506 |
| | | |
| Capital Budget expenditures not capitalized | 27 | 20 |
| Depreciation expense | 21 | 16 |
| Total administrative expenses | 724 | 542 |

1/ Based on the actual expenditures in SDR terms for the first ten months of FY 2003 and projected expenditures for the remainder of the year at the current exchange rate.

2/ Total budgetary expenses net of recovery and reimbursements of expenses, as presented in the FY 2004 Budget and the Medium-Term Framework (EBAP/03/41, 4/1/03).