INTERNATIONAL MONETARY FUND

Review of the Fund's Income Position for FY 2005 and FY 2006

Prepared by the Finance Department

In consultation with the Legal Department

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KEY POINTS

This paper provides the basis for the Executive Board's annual review of the Fund's income position, the burden sharing mechanism, and the system of special charges, and makes proposals for the net income target and rate of charge for FY 2006.

The proposals in this paper have been developed in the context of the ongoing review of Fund finances and financial structure, specifically the recent discussions at the Board Seminar on March 9. In this regard, there was broad agreement that FY 2006 would be treated as a transition year, except where the necessary broad support for changes already exists. On this basis, the paper makes the following key points:

- **In accordance with existing decisions, surplus income in FY 2005 will be refunded through a retroactive reduction in the rate of charge for the first half year.** Regular net income (i.e., income other than that derived from surcharges) for FY 2005 is estimated to be in the order of SDR 228 million, exceeding the net income target by about SDR 37 million, owing mainly to higher income resulting from the increase in the SDR interest rate during the year.
- **Other income for FY 2005, derived from SRF and level-based surcharges, is estimated at about SDR 422 million and is to be placed to reserves.**
- **The net income target and charge coefficient for FY 2006, calculated in accordance with existing decisions, are estimated at SDR 188 million and 144 percent, respectively.** At the current SDR interest rate of 2.45 percent, the charge coefficient translates into a margin of 108 basis points over the SDR interest rate.
- **Sufficient support appears to exist at this stage for two changes to the current system: (i) the adoption of a margin for the rate of charge in place of the coefficient, and (ii) the establishment of an investment account.** A decision is proposed to change Rule I-6(4) in order to replace the charge coefficient with a margin over the SDR rate. It will take some time to make the investment account operational and it is proposed, therefore, that possible income from this source in FY 2006 be taken into account once the investment account has been established and income has been earned.
- **Decisions are also proposed for** (i) the placement to the Special Reserve of FY 2005 income, (ii) setting the FY 2006 net income target of SDR 188 million and the margin for the rate of charge of 108 basis points, (iii) the renewal of burden-sharing to generate SDR 94 million under the mechanism for placement to the SCA-1 for FY 2006, (iv) waiving the reimbursement to the GRA of the PRGF administrative expenses for FY 2006, (v) placing net surcharge income in FY 2006 to the General Reserve, and (vi) reviewing the system of special charges.

I. INTRODUCTION

1. **This paper has been prepared as a basis for the year-end review of the Fund's income position;** it also serves as background for the discussion of the Fund's administrative and capital budgets.[1] This paper provides the preliminary results of the Fund's income position for FY 2005 and projections for FY 2006; the actual outcome will be provided to the Executive Board after completion of the external audit. The paper also provides an update of the burden-sharing mechanism, and reviews the framework for special charges.

2. **The Fund has begun a review of its finances and financial structure**.[2] In follow-up to an informal seminar last November, the Board recently conducted a seminar discussion on the Fund finances and financial structure review and agreed on a number of the key issues to be considered.[3] The review has inter-linkages with other financial policy issues, including financial risk assessment and the overall structure of the Fund's charges. The review is also taking place in a wider context of the Fund's medium-term strategy review, the ongoing budget reforms, and discussions on possible further debt relief and its financing.[4]

3. **Pending the outcome of the review of Fund finances and financial structure, there was broad agreement that FY 2006 could be treated as a transition year, similar to the approach taken with the budget**. This means that possible changes to the Fund's financial structure coming out of the review would not be considered at this stage, though Directors asked that consideration be given to making immediate changes in areas where broad support for change already exists. This paper first sets out projections for the FY 2006 net income target and charge coefficient on a purely transitional basis, i.e., assuming no changes from the decisions applied in FY 2005 (Box 1 describes the existing decisions). Thereafter, the paper examines areas where broad support for possible change was apparent at the recent seminar on Fund finances.

4. **This paper is organized as follows:** Section II provides an updated outlook for FY 2005. Section III provides an update of the burden sharing mechanism and precautionary balances. Section IV discusses the net income target and rate of charge for FY 2006,

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[1] *The FY 2006 Budget and the Medium-Term Budgetary Framework* (EBAP/05/39, 4/1/05).

[2] See *Review of the Fund's Finances* (SM/04/380, 11/8/04) and *Review of Fund Finances and Financial Structure—Preliminary Considerations* (SM/05/59, 2/16/05).

[3] See *The Acting Chair's Concluding Remarks* (BUFF/05/49, 3/17/05).

[4] See *The Fund's Medium-Term Strategy—Framework and Initial reflections* (SM/05/78, 3/4/05), *Financing Further Debt Relief for Low-Income Countries—Preliminary Considerations* (SM/05/101, 3/11/05) and *Further Debt Relief for Low-Income Countries—Key Issues and Preliminary Considerations* (SM/05/98, 3/11/05).

assuming no changes in the existing rules and decisions. Section V discusses possible changes involving the use of a margin for the rate of charge and the establishment of an investment account. Section VI reviews the system of special charges as is required by a decision that calls for an annual review. Finally, proposed decisions, including changes in Rule I-6(4) are set out in Section VII.

Box 1. The Fund's Rule on the Rate of Charge (Rule I-6(4))

Purpose

The Fund adopted Rule I-6(4) to provide guidance for determining the rate of charge on the use of Fund resources and an appropriate margin to protect the Fund's income position against the adverse effect of unforeseen circumstances during the financial year. The provisions of Rule I-6(4) address the following issues:

The Rate of Charge

The rate of charge is determined at the beginning of each financial year on the basis of (i) estimated income and expenses for the coming year and (ii) the net income target. The rate of charge is set as a proportion of the SDR interest rate. The rate of charge is adjusted weekly in line with the weekly changes in the SDR interest rate.

The Net Income Target

The rule specifies a net income target equal to 5 percent of the Fund's reserves at the beginning of the financial year, or such other percentage as the Executive Board may determine.

Review of the Fund's Income Position

The Fund reviews its income position at midyear and at the end of the financial year. The purpose of the midyear review is to determine if any corrective measures, such as an adjustment to the rate of charge, need to be taken in order to achieve the net income target. At year-end, the Fund decides on the disposition of net income for the current financial year and the net income target and the rate of charge for the next financial year.

Safeguard Clause

If the actual net income for the first half of the financial year falls short of a threshold amount (equal to or greater than two percent of Fund's reserves at the beginning of the year), then the Executive Board must decide by December 15 what actions need to be taken to achieve the net income target. Otherwise, the rate of charge would be increased automatically as of November 1 to the level necessary to reach such target.

II. The Fund's Income Position in FY 2005[5]

5. **Current estimates indicate that regular net income[6] for FY 2005 will be in the order of SDR 228 million, exceeding the target by about SDR 37 million**. This excess reflects a number of factors as presented in Table 1 below:

Table 1. Projected Regular Income – FY 2005
(In SDR millions)

Regular net income as projected at beginning of the year	191
Variance due to:	
Higher SDR interest rate	+63
Lower charges because of lower credit balances	-19
Higher GRA administrative expenses net of reimbursement 1/	-7
Regular net income: updated projection	228

1/ Total administrative expenses (i.e., GRA and PRGF) were about SDR 5 million less than projected; the PRGF component of those expenses is estimated at about SDR 12 million less than projected, while the balance (GRA net of reimbursement) is about SDR 7 million more than projected (Annex VI).

- *Higher SDR interest rate*: the income projections and the determination of the coefficient for the rate of charge at the start of the year were based on an SDR interest rate of 1.62 percent prevailing at the time. The average interest rate over the period has been close to 2.10 percent, or about 45 basis points higher. With the coefficients in place (154 percent in the first half year, reduced to 136 percent for the second half year), the increase in the SDR interest rate resulted in an increase in the margin, in absolute terms, between the rate of charge and the SDR interest rate. Over the course of FY 2005, the margin has averaged about six basis points more than projected, generating net income of about SDR 32 million. The increase in the SDR interest rate also has a positive impact on the Fund's income as a result of the Fund's interest-free resources, which is projected at

[5] See also *Review of the Fund's Income Position for FY 2004 and FY 2005* (EBS/04/55, 4/14/04) and *The Fund's Income Position for FY 2004—Midyear Review* (EBS/04/171, 12/6/04).

[6] Regular income consists of income that is taken into account in the determination of the net income target and the rate of charge. For this purpose, the Executive Board has decided to exclude the income from surcharges, the expenses of administering the PRGF Trust, and the pension adjustment determined under IAS 19 (see Box 2).

over SDR 30 million. Overall, the effect of a higher average SDR interest rate is estimated at about SDR 63 million for FY 2005 as a whole.

- The impact of the higher margin helped to offset the effect of lower-than-projected use of Fund credit, which resulted in lower-than-projected income from charges. Average Fund credit outstanding for FY 2005 is estimated at about SDR 57 billion, or around SDR 2 billion less than projected at the start of FY 2005. This decrease reflects lower-than-projected purchases (mainly by Argentina) and advance repurchases (by Russia and Uruguay). The impact of reduced periodic charges was partly offset by relatively high income from commitment fees.[7]

- Total administrative expenses in SDR terms were somewhat lower than projected, reflecting primarily the depreciation of the U.S. dollar vis-à-vis the SDR and the revised estimated budget outturn for the financial year.[8] However, the cost of administering the PRGF Trust is excluded from the determination of regular income, and the estimate of that cost indicates that a lower proportion than expected of the Fund's total administrative expenses related to PRGF activities during FY 2005. GRA administrative expenses net of reimbursements, therefore, were slightly higher than projected.

6. **The projected surplus income, if realized, is to be refunded.** In accordance with the decision already adopted at the beginning of the financial year, as amended by the midyear decision to reduce the charge coefficient, the refund mechanism will operate as follows:[9]

- **First**, to reduce retroactively the charge coefficient of 154 percent applied in the first half of FY 2005, to the extent possible, but not below 136 percent.

- **Second**, if excess income remains available, to reduce retroactively the charge coefficient of 136 percent for the entire FY 2005.

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[7] In addition to periodic charges on the outstanding use of Fund credit, the Fund also levies a commitment fee of 0.25 percent on amounts committed under arrangements (0.10 percent on amounts above 100 percent of quota) and a service charge of 0.5 percent on each purchase. The commitment fee is refundable as purchases are made. Any nonrefunded portion accrues to the Fund's income upon cancellation or expiration of the arrangement.

[8] See Annex VI. Also, EBAP/05/39 outlines the factors resulting in a budget outturn slightly lower than the approved budget for FY 2005.

[9] Decision No. 13236-(04/42), adopted April 30, 2004, as amended by Decision No. 13398-(04/113), adopted December 13, 2004.

Box 2. Executive Board Decisions in Effect Related to the Fund's Income Position in FY 2005[1]

The Executive Board has taken the following decisions affecting the Fund's income position for FY 2005:

Net Income Target

The net income target based on Rule I-6(4) was SDR 285 million, calculated at five percent of reserves at the beginning of the period, plus the projected income shortfall in FY 2004 of SDR 40 million. Since FY 2001, the Executive Board has decided to reduce this net income target by SDR 94 million to take account of the effects of the off-market gold transactions completed in FY 2000. The target was therefore set at SDR 191 million. To offset the impact of the reduction in the net income target on the Fund's precautionary balances, the Board decided to raise SDR 94 million under burden sharing and place this to the SCA-1.

Rate of charge on the Use of Fund Resources

The rate of charge was initially set at 154 percent of the SDR interest rate for FY 2005. Following the mid-year review of the Fund's income position, the rate of charge was set at 136 percent of the SDR interest rate with effect from November 1, 2004.

Disposition of Excess Income and Recovery of Income Shortfall

If actual net income for the financial year were to exceed the target of SDR 191 million, the excess will be returned to members paying charges through a retroactive reduction in the rate of charge after the end of the financial year. Any net income shortfall will be recovered by increasing the net income target for the next financial year.

Income from Surcharges, Pension Expense

For purposes of determining the net income target and the rate of charge, income from surcharges on holdings arising from purchases under the SRF and the level-based surcharges on holdings arising from purchases in the credit tranches and under the Extended Fund Facility will be excluded, as will be the pension adjustment determined under IAS 19. The income from surcharges, after meeting the cost of administering the PRGF Trust, will be placed to the General Reserve after the end of the financial year.

PRGF Trust Expenses

The GRA will forgo the reimbursements from the SDA for expenses incurred in conducting the business of the PRGF Trust.

Burden Sharing:

For Placement to the SCA-1

The reduction in the net income target of SDR 94 million, to take account of the effects of the off-market gold transactions, will be generated instead by equal contribution by debtor and creditor members under burden sharing.

For Deferred Charges

Income losses resulting from unpaid charges are shared equally between the debtor and creditor members under the burden sharing mechanism by a decision taken in 2000. This mechanism will continue for as long as arrears persist.

[1] See *Review of the Fund's Income Position for FY 2004 and 2005* (EBS/04/55, 4/14/04) and *The Fund's Income Position for FY 2005—Midyear Review* (EBS/04/171, 12/6/04). See also Decision No. 12065-(99/130), adopted on December 8, 1999, Decision No. 12189-(00/45), adopted on April 28, 2000, and Decision No. 13236-(04/42), adopted April 30, 2004, as amended by Decision No. 13398-(04/113), adopted December 13, 2004.

7. **Based on current projections, excess regular income would be fully utilized by retroactively reducing the charge coefficient for the first half of FY 2005**. The effect on the charge coefficient in the first half of FY 2005 of the current projection of excess income would be a reduction in the charge coefficient from 154 percent to around 147 percent.[10]

8. **Other income, which comprises surcharge income less the cost of administering the PRGF Trust and the cost of pension and other post-retirement benefits determined under International Accounting Standard 19–Employee Benefits (IAS 19), is projected to be SDR 422 million (see Table 2)**. Income derived from SRF and level-based surcharges amounts to SDR 636 million.[11] The cost of administering the PRGF Trust is estimated at SDR 54 million. The surcharge income, net of the PRGF Trust expenses, of SDR 582 million is to be placed to the Fund's General Reserve in accordance with the decision taken by the Executive Board at the beginning of the financial year.

Table 2. Projected Other Income – FY 2005
(In SDR millions)

Surcharge Income	636
Less: Cost of administering the PRGF Trust	-54
Net Surcharge Income (to be transferred to the General Reserve)	582
Less: IAS 19 post-retirement expenses (to be charged against the "earmarked" portion of the Special Reserve)	-160
Other Income	422

9. **Under IAS 19, the costs of pension and post-retirement benefits are measured actuarially on an accrual rather than on a pay-as-you-go basis**.[12] IAS 19 also requires the recognition of a net asset on the balance sheet if pension assets exceed pension liabilities. The adoption of IAS 19 by the Fund in FY 2000 resulted in such an asset of SDR 268 million, which was placed on the Fund's balance sheet. Since this windfall gain

[10] Final adjustments to the charge coefficient will be known once the external audit of the Fund's financial statements has been completed, at which time the Executive Board will be informed of the final outcome.

[11] Member countries that paid surcharges during FY 2005 comprised Argentina (SDR 77 million), Brazil (SDR 306 million), Turkey (SDR 233 million) and Uruguay (SDR 20 million).

[12] See *International Accounting Standard 19—Accounting for Pension Benefits in the Fund* (EBS/00/62, 4/21/99).

was of an accounting nature and not generated from the Fund's operations, it was decided to exclude the gain from the net income target and to place it in an "earmarked" portion of the Special Reserve, against which the annual adjustment for implementing IAS 19 is tracked.

10. **Since FY 2000, therefore, the annual IAS 19 adjustment has been excluded from the determination of the rate of charge and staff proposes the continuation of this practice for FY 2006.** Following the recognition in FY 2000 of the windfall gain, the Board has decided that the annual IAS 19 adjustment, which is usually an expense, but can be windfall income,[13] would be recorded separately in the financial records of the Fund. In this way, the annual adjustment has been either placed to, or charged against, the "earmarked" balance in the Special Reserve.[14] The Fund's future treatment of this expense will be taken up as part of the ongoing review of Fund finances and financial structure.[15]

III. PRECAUTIONARY BALANCES AND BURDEN SHARING IN FY 2005

11. **The Fund's precautionary balances consist of reserves, which in turn are made up of the General and Special Reserves, and the Special Contingent Account (SCA-1)**—see Box 3. The Fund's precautionary balances are expected to reach SDR 7.2 billion by the end of this financial year (Annex III). The increase of SDR 0.8 billion in precautionary balances reflects the placement of regular and other income to reserves, and SDR 94 million to the SCA-1, from contributions by both debtors and creditors of the Fund.[16]

[13] For example, in FY 2001 the IAS 19 adjustment amounted to income of SDR 118 million.

[14] The Fund has also continued to make contributions to the Fund's retirement funds, which have the effect of increasing the IAS 19-related asset on the Fund's balance sheet (see Annex II).

[15] The remaining "earmarked" balance is estimated at about SDR 80 million by end-FY 2005 (Annex II), while the estimated IAS 19 adjustment for FY 2006 has not yet been determined by the Fund's actuaries.

[16] In accordance with the agreement in FY 2000 to exclude the IAS 19 windfall gain from regular income, the "earmarked" IAS 19 balance in the Special Reserve is not considered a component of precautionary balances.

Box 3. The Fund's Precautionary Balances

The Fund's precautionary balances consist of its Reserves and the Special Contingent Account (SCA-1). The Reserves comprise the General Reserve and the Special Reserve and have three main functions: (i) to protect the Fund's financial position against credit risk and risk of operational losses; (ii) to demonstrate, through the achievement and retention of net income, the soundness and prudence of the institution's financial management; and (iii) to augment the Fund's liquidity.

General Reserve

The General Reserve was established in 1958 to meet losses of a capital character or administrative deficits. Additions to the General Reserve have been made since FY 1998 from income derived from surcharges under the Supplemental Reserve Facility, in the credit tranches and under the Extended Fund Facility.

Special Reserve

The Special Reserve was established in 1957 with the proceeds from a gold investment program to provide safeguards against deficits in the Fund's operations. Deficits were subsequently charged against the Special Reserve. Additions to the Special Reserve have been financed out of net income (other than income derived from surcharges). The Fund may use the Special Reserve for any purpose for which it may use the General Reserve, except distribution.

SCA-1

The Fund set up the Special Contingent Account (SCA-1) in 1987 to protect it against the risk of loss arising from the ultimate failure of members to settle their overdue principal obligations in the GRA.

- **Allocation to the Account**: The SCA-1 was initially funded with a modest amount of income in excess of the target the Fund realized in FY 1987. Subsequently, and until FY 2001, the Fund placed to the SCA-1 annually an amount equal to 5 percent of its reserves. Since then, the addition to the SCA-1 has been set at SDR 94 million, the amount representing the income effect on the Fund of the acceptance of gold, instead of currencies, in connection with the Fund's support of the HIPC Initiative.
- **Financing Mechanism:** With the exception of the initial placement in FY 1987, placements to the SCA-1 are made under the burden sharing mechanism. Under this mechanism, debtor members pay higher charges and creditor members receive lower remuneration.
- **Uses of SCA resources:** Should the Fund realize a loss resulting from the ultimate failure of a member to repay its overdue principal in the GRA, the loss would first be charged against the SCA-1. All contributors would bear the burden of the loss in proportion to their cumulative contributions to the SCA-1.
- **Dissolution and Refunds:** The SCA-1 would be dissolved and the resources would be distributed to all members in proportion to their cumulative contributions when there are no overdue GRA charges on principal balances. The Fund could also decide to make an early distribution.

12. Precautionary balances are of critical importance in safeguarding the Fund's financial base, as underlined in previous Executive Board discussions on financial risk.[17] The current framework for mitigating financial risk at the Fund rests on the

[17] See *The Acting Chair's Summing Up – Financial Risk in the Fund and the Level of Precautionary Balances* (BUFF/04/35, 3/2/04).

implementation of a multi-layered structure that includes the Fund's arrears strategy and burden sharing mechanism, along with an adequate level and pace of accumulation of precautionary balances. Precautionary balances are viewed as an essential buffer to help protect the value of reserve assets that members place with the Fund and to safeguard the Fund's unique financing structure, which is based on exchange of reserve assets. Precautionary balances also add to the Fund's interest-free resources, thereby reducing its remuneration costs.[18]

13. **In February 2004, Directors reconfirmed as broadly appropriate the decision taken in 2002 for a target level of precautionary balances of some SDR 10 billion and the system for accumulating precautionary balances**. The G-10, in endorsing the report of the G-10 Deputies on the Fund's financial position, emphasized that setting an appropriate target for precautionary balances is important especially given that these provide additional resources to protect the Fund's financial position.[19] The agreed system of accumulation consists of placing income from surcharges directly to the Fund's General Reserve and regular net income to the Special Reserve.[20]

14. **The Executive Board will have further opportunities during 2005 to discuss Fund policies affecting the level and pace of accumulation of precautionary balances.** Existing decisions on surcharges recognize the higher risks associated with very large access to Fund resources and the need for price incentives to reinforce the revolving character of Fund resources. In this regard, the Board has recently concluded a review of access policy that reaffirmed the existing exceptional access framework.[21] A review of Fund charges and maturities, which is planned for after the Spring Meetings, will consider policies related to surcharges and the incentives for early repayment and for members to avoid maintaining

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[18] See *Review of Fund Finances and Financial Structure—Summary Description of the Financial Structure* (SM/05/59 Sup. 1, 3/4/05) for a description of the role of the Fund's interest-free resources.

[19] See the *Communiqué of the Ministers and Governors of the Group of Ten, October 3, 2004*, which is available at http://www.imf.org/external/np/cm/2004/100304e.htm and the G10 Deputies Working Group report on *The Financial Position of the IMF*, which was made available to Executive Directors in October 2004.

[20] The use of the proceeds of surcharges has been discussed a number of times by the Executive Board. See, for example, *Charges on the Supplemental Reserve Facility* (EBS/97/234, 12/12/97) and *Review of the Fund's Income Position, Precautionary Balances, Burden Sharing and Special Charges for FY 1999 and FY 2000* (EBS/99/53, 4/6/99).

[21] See *Review of Access Policy in the Credit Tranches, the Extended Fund Facility and the Poverty and Reduction and Growth Facility, and Exceptional Access Policy* (EBS/05/42, 3/14/05).

large Fund exposure after regaining access to capital markets. Furthermore, staff plans to revisit the issue of the Fund's financial risk framework later in the year, including the adequacy of precautionary balances.

15. **The Fund's burden-sharing mechanism is designed to share the financial consequences of protracted arrears between creditors and debtors.** The burden-sharing mechanism is implemented through increases in periodic charges paid by debtor members and remuneration withheld from creditors.[22] The current contributors to burden-sharing comprise 89 members with remunerated reserve positions in the Fund and 41 members with GRA credit outstanding. These members and their relevant creditor and debtor positions as of end-February 2005 are listed in Annex IV. The level and distribution of GRA credit changes over time, of course, as the result of purchases and repurchases. The changes in the level of GRA credit, in turn, determine the level of remunerated reserve tranche positions in the Fund, but the distribution of remunerated reserve tranche positions remains largely stable because it is determined by the relative quotas of the 46 members that participate in the Financial Transactions Plan.

16. **The overall capacity of the burden-sharing mechanism is determined by the limit on the rate of remuneration and remunerated positions.** Current policy decisions limit the downward adjustment of the rate of remuneration to no less than 85 percent of the SDR interest rate, whereas Article V, Section 9 prescribes a limit of 80 percent.[23] The lower limit under the Articles of Agreement provides the Fund with additional means, and flexibility, to protect its financial position under unusual circumstances, such as when a large debtor member fails to settle its financial obligations to the Fund for a protracted period of time. The maximum burden-sharing capacity on an annual basis would be about SDR 335 million with the rate of remuneration at 85 percent of the SDR interest rate, using the current SDR interest rate of 2.45 percent and the current GRA positions as shown in Annex IV. A further reduction in the rate of remuneration to the limit set in the Articles of Agreement would raise the capacity to almost SDR 450 million. This would imply a decrease in the rate of remuneration of about 49 basis points and an increase in the basic rate of charge of some 43 basis points.

17. **During FY 2005, the Fund is generating some SDR 116 million through the burden-sharing mechanism for two related but distinct purposes**:

- SDR 94 million is to be placed to SCA-1 for the effects of the 1999-2000 off-market gold transactions, as explained in Box 2 above. The decision on the placement to

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[22] The burden sharing decision applies in the General Resources Account only. PRGF Trust loans are not subject to burden sharing.

[23] Executive Board Decisions No. 12189-(00/45), adopted on April 28, 2000 and 13237-(04/42), adopted April 30, 2004.

SCA-1 is taken on an annual basis by the Executive Board and requires a 70 percent majority of the total voting power. Contributions to SCA-1 are refundable when there are no outstanding overdue charges or repurchases, or at such earlier time as the Fund may decide.

- Compensation for the loss of income resulting from deferred charges is estimated at some SDR 22 million.[24] The decision on burden sharing for deferred charges is permanent and operates as long as arrears persist or arise.[25]

18. **On average, the burden-sharing adjustments amounted to 11 basis points in the rate of remuneration and 10 basis points in the rate of charge for FY 2005.[26]** Annex V provides the cumulative adjustments to charges and remuneration for deferred charges and contributions to the SCA-1.

IV. FY 2006 Net Income Target and Rate of Charge Under the Existing Framework

19. This section computes the Fund's net income target and the charge coefficient for FY 2006 under the existing framework; i.e., using the same rules and procedures that have been applied in prior years.

20. **The net income target for FY 2006, calculated in accordance with Rule I-6(4) at 5 percent of reserves at the beginning of the period, would be SDR 282 million**. As in previous years, the net income target would be reduced by SDR 94 million to mitigate the effects of the 1999-2000 off-market gold transactions; an equivalent amount is to be accumulated in SCA-1 through burden sharing. The overall net income target for FY 2006 would thus be SDR 188 million. As in prior years, income from surcharges in FY 2006 would be placed in the General Reserve, and no reimbursement would be made to the GRA for the cost of administering the PRGF Trust.[27]

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[24] The members in protracted arrears and the amounts of overdue GRA charges subject to burden sharing as of end-February 2005 are Liberia (SDR 204 million), Somalia (SDR 91 million), Sudan (SDR 536 million) and Zimbabwe (SDR 14 million). See also *Review of the Fund's Strategy on Overdue Financial Obligations* (EBS/03/118, 8/14/03) and *Overdue Financial Obligations – Statistical Update*, to be issued shortly.

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

[26] The SDR interest rate, rates of remuneration and charge, and burden sharing adjustments are updated weekly and are available on the Fund's external web site.

[27] As explained in Section VI of *The Fund's Support of Low-Income Member Countries—Considerations on Instruments and Financing* (SM/04/53, 2/24/04), once resources are used in lending operations, the GRA will need to be reimbursed for the associated administrative

(continued)

21. **The rate of charge is set at a level that generates sufficient income to meet the Fund's expenses (remuneration and administrative expenses) and the net income target**.[28] As shown in Annex VI, remuneration is projected to exceed SDR 900 million, while the Fund's administrative expenses are projected at SDR 551 million. The latter amount integrates both the administrative and capital budgets by incorporating depreciation adjustments and the expensing of certain items in the capital budget.[29] It also reflects other decisions affecting the rate of charge, e.g., external financing of technical assistance (receipts), the treatment of post-retirement benefits in accordance with IAS 19, and the reimbursement of SDR Department's expenses (Annex VII). Of the projected administrative expenses of SDR 551 million, SDR 56 million is the expected cost of administering the PRGF Trust. As in prior years, this cost would be charged to surcharge income.

22. **On the basis of these assumptions, a charge coefficient of 144 percent would be needed for FY 2006** (see Table 3). The determination of a charge coefficient for FY 2006 is based on a number of assumptions, including projections regarding the use of Fund credit (Annex VIII). Preliminary projections indicate that average Fund credit outstanding subject to charges will be lower than in FY 2005 (at some SDR 44 billion). Lower outstanding use of credit is the main reason for the need to increase the coefficient of the rate of charge in order to cover the Fund's operating expenses.[30]

23. **The projections are sensitive to changes in the underlying assumptions, in particular the level of the SDR interest rate.** It has been the Fund's practice not to forecast interest rates in projecting its income. Instead it is assumed that the SDR interest rate prevailing at the time of the projections would remain constant for the projection period. For illustrative purposes, the Fund's income would increase/decrease by about SDR 27 million for every 10 basis points increase/decrease in the SDR interest rate (Annex IX). Under existing rules, the Executive Board would again review the Fund's income position at

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expenses. Staff will come back to the Board with a methodology for the apportionment of the PRGF administrative expenses before the use of these resources in self-sustained PRGF lending operations. See, also, the *Review of PRGF-HIPC Financing, the Adequacy of the Reserve Account of the PRGF Trust, and Subsidization of Emergency Assistance* (EBS/05/48, 3/23/05).

[28] The Fund's other income sources (primarily interest on SDR holdings and service and stand-by charges) are also taken into account when setting the rate of charge.

[29] See Section V of EBAP/05/39 for an explanation of the integration of the administrative and capital budgets and the resultant impact on the Fund's total expenses.

[30] As explained in *The FY 2006 Outlook for the Fund's Income Position and the Rate of Charge* (EB/CB/05/3 Sup. 1, 2/23/05), the impact of the increase in the Fund's administrative budget is relatively small compared with the impact of reduced credit levels.

midyear. Should interest rate developments at that time justify a reduction in the rate of charge, and depending on progress with the Fund finances review, the Executive Board could reduce the coefficient at midyear, as was decided in FY 2005.

Table 3. Rate of Charge
(In percent)

	FY 2005			FY 2006
	Beginning of year	Midyear Review	Average[1]	(proposed)
SDR Interest Rate	1.62	2.17	2.07	2.45
Rate of Charge	2.49	2.95	3.00	3.53
Margin between Rate of Charge and Remuneration	0.87	0.78	0.93	1.08
Coefficient of the Rate of Charge	154	136	145	144

[1]Average through end-March 2005.

V. Considerations for Possible Changes in the Existing Framework for FY 2006

24. **In supporting the treatment of FY 2006 as a transitional year, similar to the process with the Fund's budgets, Directors asked that consideration be given to making immediate changes to the existing rules and procedures for setting the net income target and the rate of charge**. At the seminar on March 9, Directors considered several options for possible reform under the review of Fund finances and financial structure. Many of the options under consideration involve potential trade-offs between the rate of charge and reserve accumulation. For this reason, several Directors stressed that reform decisions should be taken on a package of options and not in a piecemeal fashion. Nevertheless, Directors called on staff to examine whether it would be feasible to implement immediate changes in those areas where there appeared to be broad support in the Executive Board for reform.

25. **Directors' views on several of the reform options discussed at the seminar have not converged sufficiently to form the basis for proposals that would command wide support at this stage.** Notably, views were divided on fundamental changes involving a possible reduction in the rate of remuneration or a reformulation of the net income target.[31]

[31] Directors also commented on the potential implications for the rate of charge in a low-interest rate and low-credit environment, and expressed interest in looking further into these issues, particularly options that would be available in the event that the Fund is unable to

(continued)

Options for simplifying and modernizing the current system, such as reimbursing the GRA for PRGF administrative expenses,[32] discontinuing the mitigation of the financial effect of the 1999-2000 off-market gold transactions, and the use of forecast SDR rates in setting the rate of charge, also did not receive sufficiently broad support among Directors to proceed with a change at this time. Thus, the staff has not proposed incorporating these options in the transitional FY 2006 income review, but will come back to the issues in the next stage of the Fund finances review.

26. **On options for simplifying the current system, however, many Directors saw merit in moving from the charge coefficient to a margin for the rate of charge**. As shown in Section IV above, current projections suggest a margin of 108 basis points is necessary to meet the net income target. The FY 2006 interest rate outlook suggests that rates will continue to rise. This would point towards the potential for another year in which the use of a coefficient gives rise to net income in excess of the target. In this regard, a margin would largely eliminate the impact of rising interest rates and avoid the need for possible retroactive adjustments to the charge coefficient for this reason, either at the time of the midyear review or at the end of the financial year.

27. **The adoption of a margin in place of the charge coefficient would remove a potential safeguard against income shortfalls, given the current outlook for interest rates**. Changes in other variables that impact the Fund's income position, e.g., unexpected falls in the level of Fund credit, could result in an income shortfall.[33] In a time of rising interest rates, the charge coefficient provides a cushion against this eventuality (as illustrated in Annex IX).

28. **However, other safeguards are in place for income shortfalls**. In line with past decisions, the rate of charge can be adjusted at the midyear review in the event of a projected income shortfall, while income shortfalls at year-end can be recovered in the following financial year (as was the case for the FY 2004 income shortfall). In staff's view, therefore, it would be feasible to make a change from a coefficient to a margin within the framework of

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cover its operating expenses without putting excessive pressure on the rate of charge, but noted that it is too early to regard this as the central scenario.

[32] Because the PRGF administrative expenses are charged to surcharge income, the charge coefficient is unaffected by a decision not to reimburse the GRA for PRGF administrative expenses, provided sufficient surcharge income is available, which will likely be the case in FY 2006. The non-reimbursement of these expenses to the GRA does slow the pace of accumulation of precautionary balances.

[33] By way of example, a scenario of no purchases in FY 2006 would reduce net income by about SDR 50 million, or about 25 percent of the net income target. Under such a scenario, a margin of about 120 basis points would be needed to achieve the net income target.

treating FY 2006 as a transition year. A decision to this effect requires a change in Rule I-6(4), which can be adopted by a majority of the votes cast.

29. **Directors also expressed widespread support for the establishment of an investment account**. Directors supported the need to expand the Fund's income base through the establishment of an investment account, but also noted the need to adopt a prudent investment approach based on carefully-developed risk guidelines.

30. **Staff has reviewed the steps necessary to establish the investment account**. Establishing the modalities for the investment account would require several important steps, including (i) agreement on the use of the investment income, (ii) the preparation of investment guidelines for approval by the Board, (iii) agreement in principle from those members whose currencies would be invested, and (iv) agreement with external managers and custodians on investment and reporting procedures, and safekeeping arrangements. A decision to establish the account would require a majority of the votes cast; however, a decision to transfer currencies from the GRA to the investment account will require a seventy percent majority of the total voting power.

31. **Staff proposes to come back to the Board with a separate paper on the proposed modalities for establishing an investment account.** Once the steps outlined above have been completed, which will likely take some time, staff will make specific proposals regarding the investment account for Executive Board consideration. At this stage, the timing and amount of possible investments in an investment account are uncertain, and it would be difficult to make reasonable estimates of what the return in excess of the SDR interest rate would be.[34] Therefore, it would seem prudent to await a discussion of the modalities of the investment account before taking into account possible income from this source in the current income projections for FY 2006.

32. **In the event that the Board approved the establishment of an investment account during FY 2006, a separate decision would need to be taken on the disposition of income in the investment account**. The income projections for the remainder of FY 2006 could be taken into account at the time of making such a decision. Depending on the timing, the decision could be incorporated in the midyear income review, or as part of the considerations for the year-end review, which may include a possible retroactive adjustment in the rate of charge.

33. **In sum, staff proposes that the current income mechanism remains in effect for FY 2006 by adopting similar decisions to those adopted for FY 2005, except for a**

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[34] As explained in Section III.A of SM/05/59, a net benefit to the Fund from the investment of currencies transferred from the GRA to an investment account arises only to the extent that the investment returns exceed the SDR interest rate.

change in the rules to allow for a margin in place of the charge coefficient. Decisions to this effect are set out in Section VII below.

34. **In accordance with Rule I-6(4), the rate of charge and the net income target should be determined at the beginning of each financial year**. It would be highly desirable that the relevant decisions be taken by the Executive Board before the start of the new financial year. In the event that the Executive Board were unable to come to an agreement on a net income target and on the rate of charge for FY 2006, the current decisions would continue, with the following implications:

- The current coefficient of the rate of charge, at 136.0 percent of the SDR interest rate, would remain in effect. The reduction in net income as compared with the staff proposal for a margin of 108 basis points is projected at about SDR 88 million, or 47 percent of the FY 2006 net income target.

- The current decision on additions to the SCA-1 would lapse and there would be no further accumulation of precautionary balances through burden sharing, equal to SDR 94 million.

- The reimbursement to the GRA of the estimated SDR 56 million in PRGF administrative expenses would take place, thereby reducing resources available for concessional financing purposes by an equivalent amount. The reimbursement of these expenses would not affect the Fund's regular income, rather surcharge income would be higher than with the non-reimbursement.

VI. Review of Special Charges

35. The decision on special charges on overdue financial obligations in the General Resources Account and the Trust Fund calls for an annual review.[35] 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 expressed 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. No special charges have been collected during the financial year. Decision No. 7, which can be adopted by a majority of the votes cast, is intended to complete this annual review.

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

VII. DRAFT DECISIONS

The following decisions are proposed:

Decision pertaining to FY 2005:

- Decision No. 1 would place actual net income (other than surcharge income) in FY 2005, after the refund of excess income through a retroactive adjustment to the rate of charge, to the Fund's Special Reserve, and the cost arising from the implementation of IAS 19 in FY 2005 will be charged against the "earmarked" portion of the Special Reserve.

Decisions pertaining to FY 2006:

- Decision No. 2 changes Rule I-6(4) to determine the rate of charge as a margin over the SDR interest rate in place of the existing system which expresses the rate of charge as a percent of the SDR interest rate.

- Decision No. 3 sets the rate of charge on the use of Fund resources for FY 2006 at 108 basis points over the SDR interest rate and the net income target at SDR 188 million. Net income in excess of the net income target is to be refunded through a retroactive reduction in the rate of charge, and any income shortfalls would be recovered the following year.

- Decision No. 4 would renew the implementation of the burden sharing mechanism and place SDR 94 million to the SCA-1.

- Decision No. 5 would forego the reimbursement to the GRA of the cost of administering the PRGF Trust for FY 2006.

- Decision No. 6 would place the income from surcharges, after meeting the cost of administering the PRGF Trust, to the General Reserve at the end of the financial year.

- Decision No. 7 reviews the system of special charges.

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

Decision No. 1

Disposition of Net Income for FY 2005

1. The Fund's net income for FY 2005 derived from the application of paragraph 2 of Decision No. 13236-(04/42), adopted April 30, 2004, and paragraph 2 of Decision No. 13398-(04/113) adopted December 13, 2004, shall be placed to the Fund's Special Reserve after the end of the financial year.

2. The expenses derived from the implementation of International Accounting Standard 19 - Employee Benefits during FY 2005 shall be charged against the Fund's Special Reserve and shall be recorded separately in the financial records of the Fund.

Decision No. 2

Change in Rule I-6(4)

With effect from FY 2006, subparagraphs (a) and (b) of paragraph (4) of Rule I-6 of the Fund's Rules and Regulations shall be amended to express the rate of charge as a margin in terms of basis points above the SDR interest rate. Accordingly,

(i) the first sentence of subparagraph (a) shall read as follows:

"(a) The rate of charge shall be determined at the beginning of each financial year as the SDR interest rate under Rule T-1 plus a margin expressed in basis points.";

(ii) the third sentence of subparagraph (b) shall read as follows:

"(b)...If by December 15 no agreement has been reached as a result of this consideration, the margin of the SDR interest rate under Rule T-1 determined under (a) at the beginning of the year shall be increased as of November 1 to the level necessary to reach the target amount of net income for the year."

In all other respects, subparagraphs (a) and (b) of paragraph (4) of Rule I-6 shall remain unchanged.

Decision No. 3

The Rate of Charge on the Use of Fund Resources for FY 2006

1. Pursuant to Rule I-6(4)(a), effective May 1, 2005, the rate of charge shall be 108 basis points over the SDR interest rate under Rule T-1.

2. The net income target for FY 2006 shall be SDR 188 million. Any net income for FY 2006 in excess of SDR 188 million shall be used to reduce retroactively the margin over the SDR interest rate for FY 2006 determined in paragraph 1 of this decision. If net income for FY 2006 is below SDR 188 million, the amount of projected net income for FY 2007 shall be increased by the equivalent of the shortfall. For the purpose of this provision, net income shall be calculated without taking into account net operational income generated by surcharges on holdings arising from purchases under the Supplemental Reserve Facility (SRF), the level based surcharges on holdings arising from 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. 4

Implementation of Burden Sharing in FY 2006

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 2006 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, 2005, August 1, 2005, November 1, 2005 and February 1, 2006; 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. 5

Cost of Administering the PRGF Trust

For FY 2006, no reimbursement shall be made to the General Resources Account from the Reserve Account of the PRGF Trust (through the Special Disbursement Account, SDA) for the cost of Administering the PRGF Trust.

Decision No. 6

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

For FY 2006, after meeting the cost of administering the PRGF Trust, any remaining net operational income generated by the surcharges on holdings arising from purchases under the Supplemental Reserve Facility and the level based surcharges on holdings arising from 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. 7

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.

HISTORY OF CHARGES

The IMF derives nearly all of its operational income from the charges it levies on use of Fund credit. The system of charges has evolved over time, along with the Fund's various credit arrangements.

Inception–1974

- The system of charges was a complex graduated method, based on both length of time and level of credit outstanding. The structure encouraged members' temporary use of Fund resources, and longer time and higher level increments resulted in higher rates.

- Repurchase schedules did not exist and repayments were not linked to specific obligations. The system was designed so that lower priced credit was paid off first, and members had no incentive to repay early.

1974–1981

- A separate charges structure was developed for credit financed with *ordinary* resources and credit financed with *borrowed* resources.

    - For credit financed with ordinary resources, members were charged quarterly at a fixed "basic" rate with a surcharge that increased over time.

    - For credit financed with *borrowed* resources members were charged semi-annually at a premium rate, linked to market rates or the cost of the borrowing. A time-based surcharge was also levied on borrowed resources.

1981–present

- In 1982, the concept of annual income target was introduced, and the rate of charge was set annually to reach that target. The mechanism provided for a mid-year review. Separate rates existed for credit financed with borrowed resources.

- Repurchase "schedules", introduced by the Second Amendment of 1978, were in effect for all stand-by and other Fund credit.

- In 1989, the basic rate of charge for ordinary resources was linked directly to the weekly SDR interest rate by a coefficient to link the Fund's revenues to its principal cost, i.e., remuneration on reserve tranche position.

- In 1993, a *consolidated rate of charge* for all Fund credit was introduced. The distinction between credit financed by ordinary and borrowed resources was eliminated and members were billed quarterly.

- In December 1997, when the SRF was established, a *time-based surcharge* was introduced to encourage prompt or early repayment.

- In November 2000, when the Board completed the review of facilities, a *level-based surcharge* was introduced. It applies to outstanding credit under stand-by and extended arrangements exceeding 200 percent of quota, to discourage arrangements with high access levels.

IAS 19 ACCOUNTING

The objective of IAS 19 is to ensure that the cost of retirement benefits are recognized as an expense as services are rendered by the employee, and that the net asset (or liability) associated with the obligation to provide future benefits is properly reflected in the employer's balance sheet. Previously, the annual expense was recorded on a pay-as-you-go basis and the net pension asset (or liability) was off-balance sheet. The net asset (or liability) under IAS 19 represents the difference between the current value of the assets in the retirement plans and the present value of the expected future payments required to settle the obligation resulting from employee service in the current and prior periods (the "defined benefit obligation"). The net asset (or liability) is adjusted for actuarial gains and losses that may arise (e.g., from changes in actuarial assumptions), which are spread, for accounting purposes, over several years.

The annual change in the net asset (or liability), after taking account of employer contributions, determines the amount of the IAS 19 accounting adjustment. Major components of the IAS 19 adjustment are the so-called current service cost and interest cost. The current service cost is the increase in the defined benefit obligation because of one year's additional earned service by participants. The interest cost is the increase in the liability in net present value terms because participants are one year closer to retirement age. Therefore, the IAS 19 adjustment in most years is an expense. However, other components of the IAS 19 adjustment (e.g., investment performance, the discount rate used for the calculation of defined benefit obligation, and actuarial gains or losses) can offset the current service and interest costs, resulting in the IAS adjustment being a net gain.

The Fund first applied IAS 19 in FY 2000 upon adoption of International Financial Reporting Standards (IFRS).[36] The implementation of IAS 19 resulted in the recognition of a net asset of SDR 212 million on May 1, 1999, which reflected the difference between the value of the assets in the Fund's retirement plans and the defined benefit obligation of all pension and post-retirement benefits. At that time the Fund also had an existing liability of SDR 56 million on its balance sheet, representing an accrual for post-retirement medical and separation benefits that were not yet separately funded. The net windfall gain resulting from the implementation of IAS 19 (the difference between the net pension asset and the liability for post-retirement and separation benefits) amounted to SDR 268 million (Table 4). In accordance with Board decisions, this gain is separately accounted for in the Special Reserve.

[36] Previously known as International Accounting Standards (IAS).

Table 4. IAS 19 Accounting in the General Resources Account (GRA)

		SDR millions	
		GRA Asset	Special Reserve ("earmark")
Recognition of windfall gain upon implementation of IAS 19 on May 1, 1999		268	268
Existing accrued liability on the GRA balance sheet for unfunded post-retirement benefits		-56	--
IAS 19-related balances at May 1, 1999		212	268
FY 2000-2004 administrative budget funding		+257	--
FY 2000-2004 IAS 19 adjustments		-26	-26
IAS 19-related balances at April 30, 2004		443	242
FY 2005 administrative budget funding		+73	--
FY 2005 IAS 19 adjustment 1/		-160	-160
IAS 19-related balances at April 30, 2005 (projected)		356	82
Memorandum items:			
FY 2006 administrative budget funding	76		
FY 2006 IAS 19 adjustment 2/	TBD		

1/ The large increase in the FY 2005 IAS 19 adjustment relative to prior years resulted from a decrease in the discount rate used for the valuation (required by IAS 19) and changes in actuarial assumptions to better align the IAS 19 actuarial valuation with the assumptions underpinning the actuarial valuation used for funding purposes.
2/ An estimate of the FY 2006 IAS 19 adjustment is not yet available.

The net IAS 19 asset is adjusted annually using IAS 19 criteria; at end-FY 2005, the asset is projected to be in the order of SDR 350 million. The increase in the net asset since FY 2000 represents the cumulative contributions by the Fund to the staff retirement plans, less the cumulative IAS 19 adjustments. The annual IAS 19 adjustment has been recognized in the GRA income statement as an expense (or income), but in accordance with Board decisions, it has been excluded from the computation of the rate of charge. The annual adjustment is also tracked against the "earmarked" portion of the Special Reserve; to ensure consistency in application, the amount charged (or placed to) the Special Reserve excludes *ad hoc* changes to IAS 19 since FY 2000 that are unrelated to the initial recognition of the windfall gain.[37]

[37] For example, since FY 2004 home leave expenses are required to be disclosed as an IAS 19 expense in the Fund's financial statements; these expenses have been excluded from the IAS 19 adjustment for purposes of the separate accounting of the "earmarked" portion of the Special Reserve.

Table 5. The Fund's Precautionary Balances in the GRA, 2000-2005

	2000	2001	2002	2003	2004	2005 1/
	(In Billions of SDRs)					
Precautionary balances	4.0	4.2	4.6	5.4	6.4	7.2
Reserves	2.9	2.9	3.3	4.0	4.9	5.6
General	0.9	0.9	1.2	1.9	2.7	3.3
Special 2/	1.9	2.0	2.1	2.1	2.2	2.4
SCA-1	1.1	1.2	1.3	1.4	1.5	1.6
SCA-2	--	--	--	--	--	
Free reserves 3/	3.0	3.3	3.7	4.7	5.6	6.5
Memorandum items:						
Credit Capacity 4/	120.6	122.3	123.7	130.4	131.3	136.1
Credit Outstanding	44.0	42.2	52.1	66.0	62.2	52.0
Credit in good standing	43.0	41.4	51.2	65.2	61.4	51.2
Arrears	1.9	1.9	1.9	1.7	1.8	1.8
Principal	1.0	0.9	0.9	0.7	0.7	0.7
Charges	1.0	1.0	1.0	1.0	1.0	1.0
	(In percent)					
Ratios of:						
Precautionary balances to credit capacity	3.3	3.4	3.7	4.2	4.9	5.3
Precautionary balances to credit outstanding	9.0	9.8	8.9	8.2	10.3	13.9
Free reserves to credit capacity	2.5	2.7	3.0	3.6	4.3	4.8
Free reserve to credit in good standing	7.0	8.0	7.3	7.2	9.2	12.7

1/ Projected as at end-April 2005.
2/ After adjusting for IAS 19 related accounting gains.
3/ Precautionary balances (excluding SCA-2) in excess of arrears on principal.
4/ Quotas of members in the FTP, excluding prudential level of uncommitted usable resources (i.e., 20 percent of FTP member quotas).

Table 6. GRA Credit Outstanding and Remunerated Positions as at February 28, 2005
(In millions of SDRs and in percent)

	Outstanding Credit		Remunerated Position	
Member	Amount	Percentage of total	Amount	Percentage of total
Afghanistan	-	-	-	-
Albania	-	-	1.3	0.00
Algeria	392.9	0.76	52.6	0.12
Angola	-	-	-	-
Antigua and Barbuda	-	-	-	-
Argentina	8,786.4	16.91	-	-
Armenia	1.4	0.00	-	-
Australia	-	-	902.5	1.98
Austria	-	-	523.1	1.15
Azerbaijan	36.6	0.07	-	-
Bahamas, The	-	-	1.3	0.00
Bahrain	-	-	68.7	0.15
Bangladesh	-	-	-	-
Barbados	-	-	1.9	0.00
Belarus	-	-	-	-
Belgium	-	-	1,285.9	2.83
Belize	-	-	3.4	0.01
Benin	-	-	-	-
Bhutan	-	-	0.8	0.00
Bolivia	101.8	0.20	-	-
Bosnia	65.8	0.13	-	-
Botswana	-	-	18.7	0.04
Brazil	16,116.7	31.02	-	-
Brunei	-	-	50.0	0.11
Bulgaria	747.1	1.44	7.2	0.02
Burkina Faso	-	-	4.1	0.01
Burundi	-	-	-	-
Cambodia	-	-	-	-
Cameroon	-	-	-	-
Canada	-	-	1,819.0	4.00
Cape Verde	-	-	-	-
Central African Rep.	5.6	0.01	-	-
Chad	-	-	-	-
Chile	-	-	234.7	0.52
China	-	-	1,910.7	4.20
Colombia	-	-	246.6	0.54
Comoros	-	-	0.1	0.00
Congo, Dem.Rep.of	-	-	-	-
Congo, Rep. of	4.0	0.01	-	-
Costa Rica	-	-	12.0	0.03

Table 6 (continued). GRA Credit Outstanding and Remunerated Positions as at February 28, 2005
(In millions of SDRs and in percent)

	Outstanding Credit		Remunerated Position	
Member	Amount	Percentage of total	Amount	Percentage of total
Cote d'Ivoire	-	-	-	-
Croatia	-	-	-	-
Cyprus	-	-	38.6	0.08
Czech Republic	-	-	230.0	0.51
Denmark	-	-	465.3	1.02
Djibouti	-	-	0.4	0.00
Dominica	3.0	0.01	-	-
Dominican Republic	183.9	0.35	-	-
Ecuador	153.7	0.30	8.9	0.02
Egypt	-	-	-	-
El Salvador	-	-	-	-
Equatorial Guinea	-	-	-	-
Eritrea	-	-	-	-
Estonia	-	-	-	-
Ethiopia	-	-	0.4	0.00
Fiji	-	-	12.0	0.03
Finland	-	-	350.2	0.77
France	-	-	2,990.0	6.57
Gabon	62.7	0.12	-	-
Gambia, The	-	-	-	-
Georgia	2.3	0.00	-	-
Germany	-	-	3,908.7	8.59
Ghana	-	-	-	-
Greece	-	-	236.1	0.52
Grenada	5.9	0.01	-	-
Guatemala	-	-	-	-
Guinea	-	-	-	-
Guinea-Bissau	-	-	-	-
Guyana	-	-	-	-
Haiti	10.2	0.02	-	-
Honduras	-	-	2.4	0.01
Hungary	-	-	287.2	0.63
Iceland	-	-	12.8	0.03
India	-	-	693.3	1.52
Indonesia	6,126.1	11.79	80.5	0.18

Table 6 (continued). GRA Credit Outstanding and Remunerated Positions as at February 28, 2005
(In millions of SDRs and in percent)

	Outstanding Credit		Remunerated Position	
Member	Amount	Percentage of total	Amount	Percentage of total
Iran, I.R. of	-	-	-	-
Iraq	297.1	0.57	143.9	0.32
Ireland	-	-	239.0	0.53
Israel	-	-	265.8	0.58
Italy	-	-	2,019.8	4.44
Jamaica	0.6	0.00	-	-
Japan	-	-	3,983.2	8.75
Jordan	203.4	0.39	-	-
Kazakhstan	-	-	-	-
Kenya	-	-	0.7	0.00
Kiribati	-	-	-	-
Korea	-	-	497.7	1.09
Kuwait	-	-	437.7	0.96
Kyrgyz Republic	-	-	-	-
Lao P.D.R.	-	-	-	-
Latvia	-	-	-	-
Lebanon	-	-	16.6	0.04
Lesotho	-	-	2.3	0.01
Liberia	200.8	0.39	-	-
Libya	-	-	389.5	0.86
Lithuania	-	-	-	-
Luxembourg	-	-	84.7	0.19
Macedonia, FYR	22.2	0.04	-	-
Madagascar	-	-	-	-
Malawi	17.4	0.03	-	-
Malaysia	-	-	432.6	0.95
Maldives	-	-	1.4	0.00
Mali	-	-	3.5	0.01
Malta	-	-	36.3	0.08
Marshall Islands	-	-	-	-
Mauritania	-	-	-	-
Mauritius	-	-	16.4	0.04
Mexico	-	-	512.8	1.13
Micronesia	-	-	-	-
Moldova	48.2	0.09	-	-
Mongolia	-	-	-	-
Morocco	-	-	42.2	0.09
Mozambique	-	-	-	-
Myanmar	-	-	-	-
Namibia	-	-	-	-

Table 6 (continued). GRA Credit Outstanding and Remunerated Positions as at February 28, 2005
(In millions of SDRs and in percent)

	Outstanding Credit		Remunerated Position	
Member	Amount	Percentage of total	Amount	Percentage of total
Nepal	-	-	-	-
Netherlands	-	-	1,450.9	3.19
New Zealand	-	-	237.5	0.52
Nicaragua	-	-	-	-
Niger	-	-	5.3	0.01
Nigeria	-	-	-	-
Norway	-	-	489.2	1.08
Oman	-	-	59.7	0.13
Pakistan	149.8	0.29	-	-
Palau	-	-	-	-
Panama	23.3	0.04	2.9	0.01
Papua New Guinea	29.6	0.06	-	-
Paraguay	-	-	16.7	0.04
Peru	53.5	0.10	-	-
Philippines	414.8	0.80	48.7	0.11
Poland	-	-	385.1	0.85
Portugal	-	-	254.1	0.56
Qatar	-	-	79.8	0.18
Romania	278.9	0.54	-	-
Russia	-	-	-	-
Rwanda	-	-	-	-
Samoa	-	-	-	-
St. Kitts	-	-	-	-
St. Lucia	-	-	0.2	0.00
St. Vincent	-	-	0.2	0.00
San Marino	-	-	3.6	0.01
Sao Tome	-	-	-	-
Saudi Arabia		-	2,200.5	4.84
Senegal	-	-	-	-
Seychelles	-	-	-	-
Serbia & Montenegro	608.5	1.17	-	-
Sierra Leone	-	-	-	-
Singapore	-	-	266.6	0.59
Slovakia	-	-	-	-
Slovenia	-	-	66.3	0.15
Solomon Islands	-	-	0.2	0.00
Somalia	96.7	0.19	-	-
South Africa	-	-	-	-
Spain	-	-	859.3	1.89
Sri Lanka	138.0	0.27	23.4	0.05

Table 6 (concluded). GRA Credit Outstanding and Remunerated Positions as at February 28, 2005
(In millions of SDRs and in percent)

	Outstanding Credit		Remunerated Position	
Member	Amount	Percentage of total	Amount	Percentage of total
Sudan	319.2	0.61	-	-
Suriname	-	-	0.4	0.00
Swaziland	-	-	4.6	0.01
Sweden	-	-	718.2	1.58
Switzerland	-	-	974.4	2.14
Syria	-	-	-	-
Tajikistan	-	-	-	-
Tanzania	-	-	-	-
Thailand	-	-	73.1	0.16
Timor-Leste	-	-	-	-
Togo	-	-	-	-
Tonga	-	-	1.4	0.00
Trinidad and Tobago	-	-	92.4	0.20
Tunisia	-	-	8.2	0.02
Turkey	13,415.2	25.82	75.0	0.16
Turkmenistan	-	-	-	-
Uganda	-	-	-	-
Ukraine	1,026.5	1.98	-	-
United Arab Emirates	-	-	192.5	0.42
United Kingdom	-	-	2,742.6	6.03
United States	-	-	8,335.8	18.32
Uruguay	1,662.2	3.20	-	-
Uzbekistan	8.3	0.02	-	-
Vanuatu	-	-	1.7	0.00
Venezuela	-	-	239.4	0.53
Vietnam	-	-	-	-
Yemen, Republic of	32.7	0.06	-	-
Zambia	-	-	-	-
Zimbabwe	110.7	0.21	-	-
	51,963.5	**100.00**	**45,497.1**	**100.0**

Values of 0.0 represent balances of less than SDR 0.1 million; "-" denotes zero balance.

Table 7. Cumulative Burden Sharing Adjustments 1/
As of January 31, 2005
(In millions of SDRs and in percent)

	Adjustments for Deferred Charges 2/				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	9.4	0.4	9.8	1.20	19.1	0.6	19.7	1.22
Angola	-	0.0	0.0	0.00	-	0.0	0.0	0.00
Argentina	38.9	-	38.9	4.81	87.2	-	87.2	5.40
Armenia, Republic of	0.1	0.0	0.1	0.01	0.3	0.0	0.3	0.02
Australia	-	3.3	3.3	0.41	-	9.1	9.1	0.56
Austria	-	5.4	5.4	0.67	-	10.7	10.7	0.66
Azerbaijan	0.4	-	0.4	0.05	1.3	-	1.3	0.08
Bahamas, The	-	0.1	0.1	0.01	-	0.1	0.1	0.00
Bahrain, Kingdom of	-	0.6	0.6	0.07	-	1.1	1.1	0.07
Bangladesh	3.8	-	3.8	0.47	4.3	-	4.3	0.27
Barbados	0.2	0.0	0.2	0.02	0.3	0.0	0.3	0.02
Belarus, Republic of	0.6	-	0.6	0.07	1.5	-	1.5	0.09
Belgium	-	7.0	7.0	0.86	-	16.4	16.4	1.02
Belize	0.0	0.0	0.1	0.01	0.1	0.1	0.1	0.01
Bhutan	-	0.0	0.0	0.00	-	0.0	0.0	0.00
Bolivia	1.1	-	1.1	0.13	1.2	-	1.2	0.07
Bosnia and Herzegovina	0.6	-	0.6	0.08	1.1	-	1.1	0.07
Botswana	-	0.3	0.3	0.04	-	0.5	0.5	0.03
Brazil	29.4	-	29.4	3.63	71.2	-	71.2	4.41
Brunei Darussalam	-	0.1	0.1	0.01	-	0.3	0.3	0.02
Bulgaria	4.4	0.0	4.4	0.54	10.9	0.1	11.0	0.68
Burkina Faso	-	0.1	0.1	0.01	-	0.1	0.1	0.01
Burundi	0.0	0.1	0.1	0.01	0.0	0.1	0.1	0.00
Cambodia	0.0	-	0.0	0.00	0.1	-	0.1	0.00
Cameroon	0.9	-	0.9	0.11	1.1	-	1.1	0.07
Canada	-	6.8	6.8	0.84	-	18.7	18.7	1.16
Cape Verde	-	0.0	0.0	0.00	-	0.0	0.0	0.0
Central African Republic	0.1	-	0.1	0.02	0.2	-	0.2	0.01
Chad	0.1	-	0.1	0.01	0.1	-	0.1	0.01
Chile	7.3	0.6	7.9	0.97	8.5	2.0	10.6	0.65
China	5.1	7.9	13.0	1.61	5.2	21.0	26.2	1.62
Colombia	-	0.8	0.8	0.10	-	2.6	2.6	0.16
Comoros	-	0.0	0.0	0.00	-	0.0	0.0	0.00
Congo, Democratic Republic of	4.3	-	4.3	0.53	5.8	-	5.8	0.36

Table 7 (continued). Cumulative Burden Sharing Adjustments 1/
As of January 31, 2005
(In millions of SDRs and in percent)

	Adjustments for Deferred Charges 2/				Adjustments for SCA-1			
Member	Charges	Remuneration	Total	Percentage of total	Charges	Remuneration	Total	Percentage of total
Congo, Republic of	0.2	-	0.2	0.02	0.3	-	0.3	0.02
Costa Rica	0.6	0.0	0.6	0.07	0.8	0.1	0.8	0.05
Cote d'Ivoire	3.0	-	3.0	0.37	3.5	-	3.5	0.22
Croatia, Republic of	1.4	-	1.4	0.17	2.3	-	2.3	0.14
Cyprus	-	0.2	0.2	0.03	-	0.5	0.5	0.03
Czech Republic	2.7	0.1	2.8	0.35	4.1	0.5	4.6	0.29
Denmark	-	4.1	4.1	0.51	-	8.6	8.6	0.53
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	1.7	-	1.7	0.21	2.5	-	2.5	0.15
Ecuador	2.5	0.1	2.6	0.32	3.7	0.1	3.8	0.24
Egypt	1.8	0.1	1.9	0.23	2.2	0.3	2.5	0.16
El Salvador	0.1	-	0.1	0.01	0.1	-	0.1	0.00
Equatorial Guinea	0.0	-	0.0	0.00	0.0	-	0.0	0.00
Eritrea	0.0	13.2	13.2	1.63	-	23.1	23.1	1.43
Ethiopia	0.3	0.0	0.3	0.03	0.3	0.0	0.3	0.02
Fiji	0.0	0.1	0.1	0.02	0.0	0.2	0.2	0.01
Finland	-	3.1	3.1	0.38	-	6.3	6.3	0.39
France	-	21.9	21.9	2.70	-	45.8	45.8	2.83
Gabon	0.7	-	0.7	0.09	1.3	-	1.3	0.08
Gambia, The	0.1	-	0.1	0.01	0.1	-	0.1	0.01
Georgia	0.2	-	0.2	0.02	0.6	-	0.6	0.04
Germany	-	45.6	45.6	5.62	-	83.0	83.0	5.14
Ghana	2.2	0.0	2.2	0.27	2.7	0.0	2.7	0.17
Greece	-	1.3	1.3	0.16	-	2.8	2.8	0.18
Grenada	0.0	-	0.0	0.00	0.0	-	0.0	0.00
Guatemala	0.5	0.0	0.5	0.06	0.5	0.0	0.5	0.03
Guinea	0.2	-	0.2	0.02	0.2	-	0.2	0.01
Guinea-Bissau	0.0	-	0.0	0.00	0.0	-	0.0	0.00
Guyana	0.5	-	0.5	0.07	0.7	-	0.7	0.04
Haiti	0.3	-	0.3	0.03	0.4	-	0.4	0.03
Honduras	0.6	0.0	0.6	0.07	0.9	0.0	1.0	0.06
Hungary	7.2	0.4	7.6	0.93	10.2	1.5	11.8	0.73
Iceland	0.0	0.0	0.1	0.01	0.0	0.1	0.1	0.01
India	30.0	2.5	32.5	4.00	42.4	3.9	46.3	2.86

Table 7 (continued). Cumulative Burden Sharing Adjustments 1/
As of January 31, 2005
(In millions of SDRs and in percent)

	Adjustments for Deferred Charges 2/				Adjustments for SCA-1			
Member	Charges	Remuneration	Total	Percentage of total	Charges	Remuneration	Total	Percentage of total
Indonesia	16.7	0.9	17.6	2.17	49.5	2.0	51.5	3.19
Iran, Islamic Republic of	-	0.1	0.1	0.01	-	0.1	0.1	0.00
Iraq	0.0	0.0	0.0	0.00	0.1	0.0	0.1	0.01
Ireland	0.0	2.3	2.3	0.29	-	4.6	4.6	0.28
Israel	0.7	0.2	0.9	0.11	1.3	0.9	2.2	0.13
Italy	0.0	20.9	20.9	2.57	-	39.2	39.2	2.42
Jamaica	3.2	0.0	3.2	0.40	4.4	-	4.4	0.27
Japan	0.0	47.0	47.0	5.80	-	90.1	90.1	5.58
Jordan	1.9	0.0	1.9	0.23	4.2	0.0	4.2	0.26
Kazakhstan, Republic of	0.9	0.0	0.9	0.12	2.5	-	2.5	0.16
Kenya	1.5	0.0	1.5	0.18	1.6	0.0	1.6	0.1
Kiribati	0.0	0.0	0.0	0.00	-	0.0	0.0	0.00
Korea	10.3	3.4	13.7	1.69	28.5	6.6	35.2	2.18
Kuwait	0.0	3.1	3.1	0.38	-	5.7	5.7	0.35
Kyrgyz Republic	0.2	-	0.2	0.02	0.4	-	0.4	0.0
Lao People's Democratic Republic	0.0	-	0.0	0.00	0.0	-	0.0	0.00
Latvia, Republic of	0.3	0.0	0.3	0.04	0.8	-	0.8	0.05
Lebanon	-	0.3	0.3	0.04	-	0.5	0.5	0.03
Lesotho	0.0	0.0	0.0	0.00	-	0.0	0.0	0.00
Liberia	2.1	0.0	2.1	0.26	4.0	-	4.0	0.24
Libya	0.0	5.0	5.0	0.62	-	8.5	8.5	0.53
Lithuania, Republic of	0.7	0.0	0.7	0.08	1.8	-	1.8	0.11
Luxembourg	0.0	0.3	0.3	0.04	-	0.7	0.7	0.04
Macedonia, former Yugoslav Republic of	0.3	-	0.3	0.04	0.6	-	0.6	0.04
Madagascar	0.6	-	0.6	0.07	0.6	-	0.6	0.04
Malawi	0.4	0.0	0.4	0.05	0.5	-	0.5	0.03
Malaysia	-	3.7	3.7	0.46	-	8.0	8.0	0.49
Maldives	0.0	0.0	0.0	0.00	-	0.0	0.0	0.00
Mali	0.2	0.1	0.3	0.04	0.3	0.1	0.4	0.02
Malta	0.0	0.4	0.4	0.05	-	0.7	0.7	0.04
Mauritania	0.3	0.0	0.3	0.03	0.3	-	0.3	0.02
Mauritius	0.2	0.0	0.2	0.03	0.2	0.1	0.3	0.02
Mexico	47.9	0.1	48.1	5.93	84.3	0.7	85.0	5.26
Micronesia, Federated States of	0.0	0.0	0.0	0.00	-	0.0	0.0	0.00
Moldova, Republic of	0.6	-	0.6	0.07	1.5	-	1.5	0.10

Table 7 (continued). Cumulative Burden Sharing Adjustments 1/
As of January 31, 2005
(In millions of SDRs and in percent)

Member	Adjustments for Deferred Charges 2/				Adjustments for SCA-1			
	Charges	Remuneration	Total	Percentage of total	Charges	Remuneration	Total	Percentage of total
Mongolia	0.1	0.0	0.1	0.01	0.1	-	0.1	0.01
Morocco	3.5	0.1	3.6	0.44	4.1	0.3	4.4	0.27
Myanmar	0.1	0.0	0.1	0.01	0.1	-	0.1	0.01
Namibia	0.0	0.0	0.0	0.00	-	0.0	0.0	0.00
Nepal	0.1	0.0	0.2	0.02	0.1	0.1	0.2	0.01
Netherlands	-	11.3	11.3	1.39	-	24.2	24.2	1.50
New Zealand	0.0	0.7	0.7	0.09	-	2.4	2.4	0.15
Nicaragua	0.1	0.0	0.1	0.01	0.1	-	0.1	0.01
Niger	0.2	0.1	0.3	0.04	0.3	0.2	0.4	0.03
Norway	-	7.8	7.8	0.96	-	13.3	13.3	0.82
Oman	0.0	0.6	0.6	0.07	-	1.0	1.0	0.06
Pakistan	7.9	0.0	7.9	0.97	13.6	-	13.6	0.84
Palau	0.4	0.0	0.4	0.05	0.8	0.0	0.8	0.05
Panama	1.4	0.0	1.5	0.18	2.2	0.0	2.3	0.14
Paraguay	0.0	0.2	0.2	0.02	-	0.3	0.3	0.02
Peru	8.9	0.0	8.9	1.10	13.9	-	13.9	0.86
Philippines	11.6	0.3	11.9	1.47	20.5	0.8	21.3	1.32
Poland, Republic of	4.2	0.5	4.7	0.58	6.1	1.8	7.9	0.49
Portugal	1.0	2.4	3.4	0.42	1.2	5.2	6.3	0.39
Qatar	0.0	0.4	0.4	0.05	-	0.9	0.9	0.05
Romania	5.4	-	5.4	0.66	10.4	-	10.4	0.65
Russian Federation	31.2	0.0	31.2	3.85	90.4	-	90.4	5.60
Rwanda	0.0	0.0	0.1	0.01	0.1	0.1	0.2	0.01
Samoa	0.0	0.0	0.0	0.00	0.0	0.0	0.0	0.00
San Marino, Republic of	-	0.0	0.0	0.00	-	0.0	0.0	0.00
Saudi Arabia	0.0	11.4	11.4	1.41	-	22.1	22.1	1.37
Senegal	0.7	-	0.7	0.08	0.8	-	0.8	0.05
Serbia and Montenegro	1.6	0.0	1.6	0.20	3.1	-	3.1	0.19
Seychelles	0.0	0.0	0.0	0.00	-	0.0	0.0	0.00
Sierra Leone	0.6	0.0	0.6	0.08	0.8	-	0.8	0.05
Singapore	0.0	2.0	2.0	0.25	-	4.4	4.4	0.27
Slovak Republic	2.0	0.0	2.0	0.25	3.7	0.0	3.7	0.23
Slovenia, Republic of	0.5	0.1	0.7	0.08	0.6	0.5	1.0	0.06
Solomon Islands	0.0	0.0	0.0	0.00	0.0	0.0	0.0	0.00
Somalia	1.1	-	1.1	0.13	2.0	-	2.0	0.12

Table 7 (concluded). Cumulative Burden Sharing Adjustments 1/
As of January 31, 2005
(In millions of SDRs and in percent)

	Adjustments for Deferred Charges 2/				Adjustments for SCA-1			
Member	Charges	Remuneration	Total	Percentage of total	Charges	Remuneration	Total	Percentage of total
South Africa	2.1	0.0	2.1	0.26	4.3	-	4.3	0.27
Spain	0.2	0.0	0.2	0.02	0.4	-	0.4	0.03
Sri Lanka	2.1	0.0	2.1	0.27	2.7	0.1	2.8	0.17
St. Kitts and Nevis	0.0	0.0	0.0	0.00	0.0	-	0.0	0.00
St. Vincent and the Grenadines	0.0	0.0	0.0	0.00	-	0.0	0.0	0.00
Sudan	6.7	0.0	6.7	0.83	11.4	-	11.4	0.71
Suriname	0.0	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	0.1	0.00
Sweden	-	5.3	5.3	0.65	-	11.1	11.1	0.69
Switzerland	0.0	5.0	5.0	0.62	-	14.5	14.5	0.90
Tajikistan, Republic of	0.0	-	0.0	0.01	0.1	-	0.1	0.01
Tanzania	0.4	0.0	0.4	0.05	0.4	-	0.4	0.02
Thailand	5.5	1.3	6.8	0.84	13.1	2.7	15.8	0.98
Togo	0.2	0.0	0.2	0.03	0.2	-	0.2	0.01
Tonga	0.0	0.0	0.0	0.00	-	0.0	0.0	0.00
Trinidad and Tobago	1.9	0.2	2.0	0.25	2.2	0.3	2.5	0.16
Tunisia	3.0	0.0	3.0	0.38	4.2	0.0	4.2	0.26
Turkey	11.3	0.1	11.4	1.41	48.1	0.4	48.5	3.00
Uganda	0.5	-	0.5	0.06	0.5	-	0.5	0.03
Ukraine	5.0	0.0	5.0	0.61	15.6	-	15.6	0.97
United Arab Emirates	-	2.7	2.7	0.33	-	4.6	4.6	0.29
United Kingdom	-	16.0	16.0	1.98	-	35.2	35.2	2.18
United States	0.0	121.5	121.5	14.99	-	223.5	223.5	13.83
Uruguay	1.8	0.0	1.8	0.23	4.8	0.1	4.8	0.30
Uzbekistan, Republic of	0.4	0.0	0.4	0.05	1.1	-	1.1	0.07
Vanuatu	0.0	0.0	0.0	0.00	-	0.0	0.0	0.00
Venezuela	19.1	1.9	20.9	2.58	29.5	3.1	32.6	2.02
Vietnam	0.7	0.0	0.7	0.09	1.3	-	1.3	0.08
Yemen, Republic of	0.3	0.0	0.3	0.04	0.9	0.0	0.9	0.06
Zambia	6.5	-	6.5	0.80	8.2	-	8.2	0.51
Zimbabwe	1.1	0.0	1.1	0.13	2.3	0.0	2.3	0.14
	404.1	**406.3**	**810.3**	**100.00**	**813.5**	**802.3**	**1615.8**	**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 ended January 31, 2005.

2/ Adjustments for deferred charges, which are shown net of refunds, compensate for the loss of income resulting from deferred charges related to arrears cases.

Table 8. Projected Income and Expense
Financial Year 2005 and 2006

(In millions of SDRs)

	FY 2005			
	Initial projections 1/	Actual Ten Months ended Feb. 28, 2005	Revised projections	FY 2006 Preliminary Projections 2/
Regular Income				
1. Operational Income				
a. Periodic charges, including burden sharing	1,482	1,417	1,687	1,558
b. Interest on SDR holdings	13	13	16	22
c. Service and stand-by charges:	25	12	33	23
Total operational income	1,520	1,442	1,736	1,603
2. Operational Expense				
Remuneration, adjusted for burden sharing	861	865	1,034	920
3. Net operational income	659	577	702	683
4. Administrative expense	533	438	528	551
Less: estimated cost of administering the PRGF Trust	(66)	(45)	(54)	(56)
	467	393	474	495
5. Regular net income	191	184	228	188
Other Income				
6. Surcharges	672	538	636	402
Less: estimated cost of administering the PRGF Trust	(66)	(45)	(54)	(56)
	606	493	582	346
7. Other - IAS 19 3/	(169)	(133)	(160)	--
8. Total other income	437	360	422	--
9. Total net income	628	544	650	--

1/ Initial projections based on assumptions set out in "Review of the Fund's Income Position for FY 2004 and FY 2005 (EBS/04/55, 4/16/04)".
2/ Based on the assumptions and projections set out in Section IV of the paper, a coefficient of 144.0 percent or a margin of 108 basis points is necessary to achieve the net income target of SDR 188 million.
3/ The estimate of the IAS 19 adjustment for FY 2006 is not yet available.

Table 9. Reconciliation of Administrative Budget and Capital Budgets and Administrative Expenses

(In millions of U.S. Dollars and SDRs)

	FY 2006	
	U.S. $	SDR 1/
Administrative Budget 2/	876.1	580.2
Less: Approved budget for IAS 19-related employee benefits	(114.3)	(75.7)
Reimbursements for administering the SDR Department	(2.3)	(1.5)
Administrative Budget Expense	759.5	503.0
Capital Budget expenditures not capitalized	43.9	29.1
Depreciation expense	28.3	18.7
Total Administrative expenses	831.7	550.8

1/ Based on current exchange rate.
2/ Total budgetary expenses net of recovery and reimbursements of expenses, as presented in *The FY2006 Budget and the Medium-Term Budgetary Framework* (EBAP/05/39, 4/1/05).

Table 10. Assumptions Underlying the Income Projections

(In billions of SDRs and in percent)

	FY 2005		FY 2006
	Initial Projections	Revised projections	Preliminary Projections
		(In billions of SDRs)	
Regular Facilities:			
1. Purchases (excl. reserve tranche purchases)	5.0	1.6	4.5
2. Repurchases	11.4	13.9	15.5
3. Average balances subject to charges	59.3	56.6	44.2
4. Average SDR holdings	0.8	0.7	0.9
5. Average remunerated positions	53.2	50.4	37.6
		(In percent)	
Average interest rates:			
1. SDR interest rate and Basic rate of remuneration	1.62	2.07	2.45
2. Basic rate of charge	2.49	3.00	3.53
3. Charge Coefficient	1.54	1.45	1.44
4. Margin between the rate of charge and SDR interest rate	0.87	0.93	1.08

Table 11. Effect on Projections of Changes in Selected Assumptions
(In millions of SDRs and in percent)

	Average SDR Interest Rate (in percent)					
	2.35	2.45	2.55	2.65	2.75	2.85
1. Regular net income with a fixed proportion of 144.0 percent	160.7	188.0	215.3	242.6	269.9	297.2
2. Increase in regular net income due to purchases in the credit tranches higher by SDR 1 billion						
a. In the first half of the year	12.8	13.1	13.4	13.8	14.1	14.4
b. In the second half of the year	7.6	7.7	7.8	7.9	8.0	8.1
Memo:						
Margin (in percentage points) over the SDR interest rate needed to achieve net income target of SDR 188 million	1.10	1.08	1.06	1.05	1.03	1.01
Charge coefficient (in percent) needed to achieve net income target of SDR 188 million	147	144	142	139	137	135