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**FOR
AGENDA**

EBS/83/94

CONFIDENTIAL

May 13, 1983

To: Members of the Executive Board
From: The Secretary
Subject: Final Review of the Oil Facility Subsidy Account

Attached for consideration by the Executive Directors is a paper on the final review of the Oil Facility Subsidy Account. A draft decision appears on pages 4 and 5.

It is proposed to bring this subject to the agenda for discussion on Wednesday, June 8, 1983.

If Executive Directors have technical or factual questions relating to this paper prior to the Board discussion, they should contact Mr. Robert Dunn, ext. 73234.

Att: (1)

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Department Heads

INTERNATIONAL MONETARY FUND

Final Review of the Oil Facility Subsidy Account

Prepared by the Treasurer's Department

(In consultation with the Legal Department)

Approved by W. O. Habermeier

May 12, 1983

Introduction

1. The Subsidy Account was established in August 1975 to assist Fund members most seriously affected by oil price increases by reducing the cost of using the resources of the 1975 Oil Facility. 1/ This memorandum is the final annual review of the Oil Facility Subsidy Account and covers the period since May 1, 1982. It is recommended that subsidy payments, at the usual rate of five per cent, be made for the period May 1, 1982 to May 11, 1983 to those original and additional beneficiaries with outstanding balances. 2/ Further, in order to wind up the financial business of the Subsidy Account, it is proposed to distribute the remaining resources as an additional subsidy on a retroactive basis to all original and additional beneficiaries over the entire period, that is, from July 1975 through May 11, 1983. This will result in an average subsidy which is slightly higher than the rate of five per cent which has been paid on the occasion of each review. A decision reflecting these proposals is submitted for the consideration of the Executive Board.

Eligible Beneficiaries

2. Originally, the list of eligible beneficiaries was limited to the Fund members that were included in the United Nations' list of countries most seriously affected by the increased price of oil. The United Nations' list included 39 Fund members, but only 18 of those members had made purchases under the 1975 Oil Facility, and these are the original beneficiaries of the Subsidy Account. 3/

1/ Executive Board Decision No. 4773-(75/136), adopted August 1, 1975.

2/ Very small balances are projected to be outstanding for the first two weeks of financial year 1984 as a result of purchases under the 1975 Oil Facility in the period May 1-12, 1976.

3/ The 18 original beneficiaries are Bangladesh, Cameroon, Central African Republic, Egypt, Haiti, India, Ivory Coast, Kenya, Mali, Mauritania, Pakistan, Senegal, Sierra Leone, Sri Lanka, Sudan, Tanzania, Western Samoa and People's Democratic Republic of Yemen.

3. The Subsidy Account decision was amended in November 1978 ^{1/} to permit any surplus, after provision had been made to pay the original beneficiaries at the rate of 5 per cent per annum, to be used to make subsidy payments to seven additional beneficiaries--Grenada, Malawi, Morocco, Papua New Guinea, Philippines, Zaire and Zambia--at a rate not exceeding that paid to the original beneficiaries. With the addition of these members, the list of beneficiaries included all members eligible to receive assistance from the Trust Fund that had used the 1975 Oil Facility. As Zambia became eligible for assistance from the Trust Fund only in the Trust's second period which began on July 1, 1978, payments to Zambia were to be made from that date in respect of the average daily balances of its currency subject to charges.

4. Two of the original beneficiaries--India and Ivory Coast--ceased receiving subsidy payments after the financial year ended April 30, 1979 as they no longer had purchases outstanding under the 1975 Oil Facility from that date. This year, one of the additional beneficiaries--Papua New Guinea--will not be receiving any subsidy payment for the same reason.

Calculation of Amounts of Subsidy Payments

5. Subsidy payments to beneficiaries are calculated as a percentage per annum of the average daily balances subject to charges of the Fund's holdings of eligible members' currency outstanding under the 1975 Oil Facility (Executive Board Decision No. 4634-(75/47)). ^{2/} On the occasion of each of the previous seven annual reviews, the Executive Board approved subsidy payments at the rate of 5 per cent per annum to the original beneficiaries that had made purchases under the 1975 Oil Facility. In the review for the financial year ended April 30, 1980, the Executive Board approved subsidy payments for the first time to the additional beneficiaries at the rate of 5 per cent for the financial years ended April 30, 1976-1977; in April 1981, subsidy payments to the additional beneficiaries were approved at the same rate for financial years ended April 30, 1978-1981; and on the occasion of the last annual review, the Executive Board approved subsidy payments at the five per cent rate for both the original and the additional beneficiaries for the financial year ended April 30, 1982. Since the average cost of using the 1975 Oil Facility is 7.875 per cent per annum for financial year

^{1/} See page 2 of EBS/78/640 and Executive Board Decision No. 5971-(78/188), adopted November 30, 1978.

^{2/} Only holdings outstanding under Decision No. 4634 consistent with the repurchase provisions of that Decision have been taken into the calculation that determines the amount of the subsidy payment in order to prevent the reduction in the rate of the subsidy for members that make repurchases in accordance with the repurchase provisions of that Decision. These balances are referred to as 'eligible holdings' or 'eligible balances'.

ended April 30, 1983 and will be the same through May 11, 1983, a subsidy at the rate of 5 per cent per annum effectively reduces the cost of using the facility to about 2.875 per cent for these beneficiaries.

6. Contributions to date to the Subsidy Account have amounted to SDR 160.3 million and a total of SDR 25.7 million has been earned in net income (i.e., investment income and net valuation adjustments). Payments to date from the Subsidy Account have totaled SDR 172.5 million, leaving a balance of some SDR 13.5 million available for final subsidy payments. In the remaining period from May 1, 1982, it is estimated that the cost of a subsidy at the rate of 5 per cent to sixteen of the eighteen original beneficiaries and six of the seven additional beneficiaries will amount to only SDR 2.5 million. 1/

7. Thus, taking into account investment income earned during the next two months, it is estimated that there will be unused resources of some SDR 11.1 million after allowance is made for the provision of current subsidies at the usual rate. Paragraph 3(b) of the Subsidy Account decision states that "to the extent that it proves financially possible, the Fund will equalize the percentages payable to all recipients..." Consistent with this principle, it is proposed to distribute these resources in the form of a retroactive payment equivalent to about 0.32 per cent per annum to all original and additional beneficiaries in proportion to their average balances that were eligible for subsidy during the lifetime of the Subsidy Account.

8. This proposal reflects the original discussions on the objective of the Subsidy Account in 1975. Based on early indications of the potential resources of the Subsidy Account, it was suggested at that time to aim at reducing the effective rate of charges by about 5 per cent per annum. 2/ Further, it was mentioned on the occasion of the first annual review in 1976 that, if resources were to reach a higher level, an overall subsidy rate of about 6 per cent could be envisaged. 3/ However, given the uncertainties that still existed in 1976 as to the amount of final contributions, the staff proposed that the rate be set at five per cent per annum as a higher rate "might prove to be unreconcilable to the aim of the decision to equalize percentages payable to all recipients" during the lifetime of the account. In this final review, it is now possible to raise retroactively percentages from 5 to about 5.32 per cent.

1/ Six of the original beneficiaries and four of the additional beneficiaries have repurchases under the 1975 Oil Facility which are scheduled for early May 1983, and unless some of these repurchases are made early, the total subsidy payments at the 5 per cent rate to these beneficiaries for financial year 1984 will amount to no more than SDR 0.01 million.

2/ See SM/75/40, "A Subsidy Account for Most Seriously Affected Countries Drawing Under the 1975 Oil Facility," February 10, 1975.

3/ See EBS/76/271, "Subsidy Account," June 10, 1976.

Payments Procedures

9. As in past years, it is proposed to make subsidy payments at the five per cent rate, for the final period from May 1, 1982, following the maturity of the U.S. dollar-denominated investments of the Subsidy Account (see Schedule 2 of the Appendix). The U.S. dollar amounts of these payments will be determined on the basis of the SDR/US dollar exchange rate on June 10, 1983, for value three business days later on June 15, 1983. The rounded amounts, expressed in SDRs, of proposed subsidy payments at five per cent are shown in column (1) of Table 2 and could change slightly if final repurchases are made earlier than scheduled; the Executive Board will be advised of the precise SDR amounts as soon as possible.

10. Since the resources of the Subsidy Account are denominated in terms of the U.S. dollar, the prevailing SDR/US dollar rate on June 10, 1983 will determine the exact amount of remaining resources at that time; these resources, which would continue to earn investment income, would be distributed to beneficiaries in proportion to their balances eligible for subsidy during the lifetime of the Subsidy Account. It is proposed to make these final payments as soon as practicable after all charges due at the end of July 1983 in connection with the 1975 Oil Facility have been paid, and thereby terminate the Subsidy Account promptly after the payment of all charges arising from purchases under the 1975 Oil Facility. These subsidy payments will reflect adjustments of earlier subsidy payments made on balances of members' currencies held as a result of their failure to repurchase on schedule. The Executive Board will be informed of final disbursements at the time the Subsidy Account is terminated.

Recommended Decision

11. The following decision is proposed therefore for adoption by the Executive Board in connection with the Eighth and Final Annual Review of the Subsidy Account (Executive Board Decision No. 4773-(75/136), adopted August 1, 1975, as amended):

1. Subsidy payments shall be made to the beneficiaries listed in Table 2 of EBS/83/94, on the average daily balances of the Fund's holdings of each member's currency subject to charges that were outstanding under the 1975 Oil Facility (Executive Board Decision No. 4634-(75/47), as amended), and eligible for subsidy as follows:

- (i) for the period from May 1, 1982 to May 11, 1983, at the rate of 5 per cent per annum, and
- (ii) for the entire period from May 1, 1975 to May 11, 1983, at a rate (approximately 0.32 per cent per annum) that will fully utilize the remaining resources.

2. The payments with respect to Paragraph 1(i) above shall be made in U.S. dollars on June 15, 1983, to the beneficiaries that have paid the charges due as of the end of April 1983, in connection with the 1975 Oil Facility.

3. The payments with respect to Paragraph 1(ii) above shall be made in U.S. dollars as soon as practicable after all charges due at the end of July 1983 in connection with the 1975 Oil Facility have been paid, in proportion to balances eligible for subsidy during the lifetime of the Subsidy Account.

4. No charge shall be levied for the services rendered by the Fund in the administration, operation, and termination of the Subsidy Account.

5. After disbursement of subsidy payments under Paragraphs 2 and 3 above, the Subsidy Account shall be considered terminated.

Attachment and Appendix

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Table 1. Calculation of Subsidy Payments

(In millions of SDRs)

	Financial Years ending April 30								Total
	1976	1977	1978	1979	1980	1981	1982	1983/84	
I. Average daily balances ^{1/}									
(a) Original beneficiaries	276	550	499	382	275	191	106	27	2,306
(b) Additional beneficiaries	<u>60</u>	<u>219</u>	<u>220</u>	<u>238</u>	<u>208</u>	<u>144</u>	<u>80</u>	<u>25</u>	<u>1,194</u>
Total	336	769	719	620	483	335	186	52	3,500
II. Cost of Subsidy at 5 per cent per annum									
(a) Original beneficiaries	13.8	27.5	25.0	19.1	13.8	9.5	5.3	1.4	115.4
(b) Additional beneficiaries	<u>3.0</u>	<u>11.0</u>	<u>11.0</u>	<u>11.9</u>	<u>10.4</u>	<u>7.2</u>	<u>4.0</u>	<u>1.2</u>	<u>59.7</u>
Total	16.8	38.5	36.0	31.0	24.2	16.7	9.3	2.6	175.1
III. Cost of Retroactive Subsidy at 0.32 percent per annum									
(a) Original beneficiaries	0.9	1.7	1.6	1.2	0.9	0.6	0.3	0.1	7.3
(b) Additional beneficiaries	<u>0.2</u>	<u>0.7</u>	<u>0.7</u>	<u>0.8</u>	<u>0.6</u>	<u>0.5</u>	<u>0.3</u>	<u>0.1</u>	<u>3.8</u>
Total	1.1	2.4	2.3	2.0	1.5	1.1	0.6	0.2	11.1

^{1/} Balances for 1976 through 1982 are actual balances and therefore are subject to adjustment to the extent that repurchases were not made on schedule. Calculations of projected balances are based on agreed schedules of repurchases. As a result of purchases under the 1975 Oil Facility in the period May 1-12, 1976, a very small average daily balance is outstanding in the financial year ending April 30, 1984.

Table 2. Proposed Subsidy Payments

(In millions of SDRs)

1. Original Beneficiaries:	For Financial Years Ending April 30, 1983/84	For Financial Years 1976/1984	
Bangladesh	0.181 <u>1/</u>	0.657	
Cameroon	0.061 <u>1/</u>	0.191	
Central African Rep.	0.010	0.043	
Egypt	0.211 <u>1/</u>	0.514	
Haiti	0.019	0.067	
India	-- <u>2/</u>	1.708	
Ivory Coast	-- <u>2/</u>	0.090	
Kenya	0.076 <u>1/</u>	0.453	
Mali	0.028	0.061	
Mauritania	0.030 <u>1/</u>	0.086	
Pakistan	0.352	1.801	
Senegal	0.017	0.161	
Sierra Leone	0.033	0.081	
Sri Lanka	0.156	0.554	
Sudan	0.066	0.301	
Tanzania	0.028	0.335	
Western Samoa	0.002	0.007	
Yemen, People's Dem. Rep. of	<u>0.062</u> <u>1/</u>	<u>1.332</u>	<u>7.305</u>
2. Additional Beneficiaries:			
Grenada	0.002	0.008	
Malawi	0.018	0.008	
Morocco	0.146 <u>1/</u>	0.292	
Papua New Guinea	-- <u>2/</u>	0.174	
Philippines	0.617 <u>1/</u>	2.467	
Zaire	0.267 <u>1/</u>	0.530	
Zambia	<u>0.153</u> <u>1/</u>	<u>1.203</u>	<u>3.792</u>
Total <u>3/</u>		<u>2.535</u>	<u>11.097</u>

1/ As a result of purchases made under the 1975 Oil Facility during the period May 1-12, 1976, member is entitled to a small subsidy for this period which is included in figures.

2/ The drawing under the 1975 Oil Facility by this member has been fully repurchased prior to the current financial year.

3/ Details may not add to total due to rounding.

Table 3. Contributions to the Subsidy Account

(In millions of SDRs)

	Promised	Received for 1976-1982	Financial Year ended April 30, 1983
Australia	5.70	5.70	--
Austria	2.30	2.30	--
Belgium	5.60	5.60	--
Brazil	1.85	1.85	--
Canada	9.50	9.50	--
Denmark	2.20	2.20	--
Finland	1.60	1.60	--
France	12.90	12.678	0.222 <u>1/</u>
Germany	13.70	13.72	--
Greece	0.60	0.60	--
Iran	6.00	6.00	--
Italy	8.60	8.60	--
Japan	10.30	10.30	--
Luxembourg	0.11	0.11	--
Netherlands	6.00	6.00	--
New Zealand	1.70	1.70	--
Norway	2.10	2.10	--
Saudi Arabia	40.00	40.00	--
South Africa	1.35	1.35	--
Spain	3.40	3.40	--
Sweden	2.80	2.80	--
Switzerland	3.285	3.285	--
United Kingdom	12.05	12.005	0.045 <u>1/</u>
Venezuela	6.00	6.00	--
Yugoslavia	0.90	0.90	--
Total <u>2/</u>	160.545	160.294	0.267

1/ Small balance represents an exchange adjustment. It is not proposed to ask for payment of the small balance in view of surplus in account.

2/ Details may not add to totals due to rounding.

SUBSIDY ACCOUNT

(Note 1)

STATEMENT OF FINANCIAL POSITION

as at March 31, 1983

Amounts expressed in special drawing rights

(Note 2)

		May 1, 1982 to March 31, 1983	Cumulative from August 1, 1975 to March 31, 1983
Balance at beginning of period		20,329,194	
Contributions received (Note 2)	380,613		160,293,647
Interest earned on investments	1,587,377		23,566,469
Valuation gain	<u>497,464</u>		<u>2,132,828</u>
Additions		2,465,454	185,992,944
Less: Subsidy payments (Note 3)		<u>9,340,063</u>	<u>172,538,359</u>
Balance at end of period		<u>13,454,585</u>	<u>13,454,585</u>
Balance represented by:			
Currency on deposit			41,157
Investments in United States			
Government obligations, at cost			
(market value SDR 12,819,902)		12,753,744	
Accrued interest receivable (of which			
SDR 398 represents accrued interest			
purchased on United States Treasury notes)		<u>659,684</u>	
Total Assets		<u>13,454,585</u>	

The accompanying notes are an integral part of the financial statements.

SUBSIDY ACCOUNT

NOTES TO THE FINANCIAL STATEMENT

1. Purpose

The Subsidy Account, which is administered by the Fund, was established to assist the most seriously affected members to meet the interest cost of using resources made available through the Fund's oil facility for 1975. The assets of the Subsidy Account are separate from the assets of all other accounts of the Fund and are not used to discharge liabilities or to meet losses incurred in the administration of other accounts.

2. Accounting Practices

Unit of Account

The accounts of the Subsidy Account are expressed in terms of the SDR, the currency value of which is determined by the Fund.

Contributions

Contributions to the Subsidy Account are made in currencies which are valued in terms of SDRs on the basis of exchange rates against the SDR at the time of receipt.

Income

The accounts are maintained on an accrual basis and, accordingly, income is recognized as it is earned.

It is the practice of the Fund to make all calculations on the basis of the exact number of days in the calendar year.

3. Subsidy Payments

The rate of subsidy for the financial years ended April 30, 1976 through 1982 was set by the Fund at five per cent per annum of the average daily balances in each year of the Fund's holdings of recipient members' currencies subject to the schedule of charges applicable to the 1975 oil facility. Subsidy payments are made after the end of each financial year in U.S. dollars at the SDR/US\$ rate determined for the date of payment.

SUBSIDY ACCOUNT

CONTRIBUTIONS RECEIVED

as at March 31, 1983

Amounts expressed in special drawing rights

Donors	Amounts Received		Total
	To April 30, 1982	May 1, 1982 to March 31, 1983	
Australia	5,700,000		5,700,000
Austria	2,300,000		2,300,000
Belgium	5,599,750	256	5,600,006
Brazil	1,850,000		1,850,000
Canada	9,500,000		9,500,000
Denmark	1,885,503	314,497	2,200,000
Finland	1,600,000		1,600,000
France	12,678,016		12,678,016
Germany	13,719,843		13,719,843
Greece	597,049		597,049
Iran	6,000,000		6,000,000
Italy	8,600,000		8,600,000
Japan	10,300,000		10,300,000
Luxembourg	108,150		108,150
Netherlands	6,000,000		6,000,000
New Zealand	1,634,925	65,860	1,700,785
Norway	2,100,000		2,100,000
Saudi Arabia	40,000,000		40,000,000
South Africa	1,350,000		1,350,000
Spain	3,400,000		3,400,000
Sweden	2,800,000		2,800,000
Switzerland	3,285,250		3,285,250
United Kingdom	12,004,548		12,004,548
Venezuela	6,000,000		6,000,000
Yugoslavia	900,000		900,000
Totals	159,913,034	380,613	160,293,647

SUBSIDY ACCOUNT
SCHEDULE OF INVESTMENTS
as at March 31, 1983

	Effective Yield (Per Cent)	Maturity	Face Value	Book Value	
				Currency	SDR Equivalent <u>1/</u>
United States					
Treasury notes	12.987	May 31, 1983	US\$13,700,000	US\$13,757,075	12,753,744

1/ Converted to SDR values at SDR 0.927068 per U.S. dollar, the rate applicable on March 31, 1983.

SUBSIDY ACCOUNT

SUBSIDY PAYMENTS

As at March 31, 1983

Amounts expressed in special drawing rights

Member	Amounts Paid		Total
	To April 30, 1982	June 1, 1982	
Bangladesh	9,523,614	664,330	10,187,944
Cameroon	2,754,890	205,887	2,960,777
Central African Rep.	632,853	40,467	673,320
Egypt	7,298,875	605,718	7,904,593
Grenada	115,998	7,666	123,664
Haiti	976,726	65,753	1,042,479
India	26,945,421	--	26,945,421
Ivory Coast	1,418,673	--	1,418,673
Kenya	6,678,445	399,398	7,077,843
Malawi	873,398	63,319	936,717
Mali	915,260	78,775	994,035
Mauritania	1,239,324	95,461	1,334,785
Morocco	4,096,797	369,247	4,466,044
Pakistan	26,467,207	1,602,110	28,069,317
Papua New Guinea	2,728,361	18,449	2,746,810
Philippines	35,929,403	2,375,331	38,304,734
Senegal	2,395,451	126,421	2,521,872
Sierra Leone	1,149,632	94,395	1,244,027
Sri Lanka	8,011,010	572,954	8,583,964
Sudan	4,357,017	313,165	4,670,182
Tanzania	5,000,808	248,802	5,249,610
Western Samoa	98,131	7,070	105,201
Yemen, Peo. Dem. Rep.	2,817,500	200,213	3,017,713
Zaire	7,401,331	670,375	8,071,706
Zambia	3,372,171	514,757	3,886,928
Totals	163,198,296	9,340,063	172,538,359