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November 11, 1994

To: Members of the Committee on the Budget
From: The Committee Secretary
Subject: The Budgetary Outlook in the Medium Term

The attached paper on the budgetary outlook in the medium term is scheduled for discussion at a meeting scheduled for 3:00 p.m. on Tuesday, November 15, 1994 in Committee Room 12-120.

Mr. Wolfe (ext. 37502) is available to answer technical or factual questions relating to this paper prior to the discussion.

Att: (1)

Other Distribution:
Members of the Executive Board

INTERNATIONAL MONETARY FUND

The Budgetary Outlook in the Medium Term

Prepared by the Office of Budget and Planning

Approved by Lindsay Wolfe

November 11, 1994

1. Introduction

A meeting of the Committee on the Budget was held on October 27, 1994 to brief committee members on the medium-term budgetary outlook for FY 1996-FY 1998. During the discussion, several committee members suggested that a further meeting be held before the Managing Director's Statement is circulated to Executive Directors in late November. To meet this request, a meeting is scheduled for November 15, 1994. This paper provides some background information for the meeting.

2. The budgetary strategy during FY 1992-95

Administrative expenditures were generally flat during the latter half of the 1980s and the number of staff increased only marginally. Commencing about FY 1989, there was an increase in country-specific work as demands on the Fund accelerated, and this was followed by the upsurge in work on the economies in transition and on other new members. Between FY 1991 and FY 1994, the number of members rose by 15 percent and the number of program/intensive countries increased by 36 percent. To meet the additional work load, 507 staff years were authorized in a two-year period.

These additional resources made it possible to respond to the unprecedented demands of the expanded membership. At the same time, however, the increase of more than 20 percent in the number of budgeted staff years over a two-year period placed severe administrative and operational strains on the institution. Consequently, a policy of budgetary consolidation was adopted for the three-year period, FY 1995-97. In the FY 1995 Administrative Budget, the number of authorized staff remained unchanged from the previous year at 2,738 staff years, and there was a small decrease in nominal terms in budgeted expenses. Background information on staffing and administrative expenses is contained in Tables 1-4.

3. The FY 1996-98 work program and resource allocation

The overall work load facing the institution is expected to remain at about existing levels during the medium-term period under review. Some of the more important aspects of the work load include:

- There is a continuing need to enhance the effectiveness of our surveillance work, which will remain at the heart of the Fund's operations.
- The number of countries classified as program/intensive in FY 1995 is some 112-116, and this number could increase marginally in FY 1996-98.
- Over the past four years, there has been a dramatic increase in the demand for technical assistance, and this demand is expected to continue. The provision of technical assistance will continue at or slightly above current levels, but a greater share of this work may be financed by external sources.
- Policy work will continue on, inter alia, the international monetary system and other systemic issues, including capital markets, global savings, trade and exchange and payments systems, indebtedness of developing countries and aid flows from bilateral and multilateral agencies.
- A major focus of our statistical activity will be the improvement of data management within the Fund. The external relations program will continue the ongoing work of explaining the Fund to the press and nonofficial groups in member countries.
- The training program of the Institute will continue to be in strong demand and will be supplemented by a series of courses for government officials from economies in transition at the Joint Vienna Institute.
- The administrative support work load is likely to plateau, although at a somewhat higher level than that of three years ago. Work on Phase III will be intensive during this period.

Table 5 contains information on the Fund's work load.

4. Budgetary strategy and options for FY 1996-1998

The objective of keeping the institution as lean as possible while still meeting the essential demands of the membership with quality and timely work will continue to be a primary focus. This will require that new demands be screened to assess if they can be accommodated within the authorized level of resources. Several factors are relevant in this context: the number of new members is expected to be minimal; the number of program/intensive countries is expected to increase only marginally; and there is hope for some reduction in the scale of the Fund's involvement with countries in transition. At the same time, recently hired staff will become

fully trained and productive; an increase in external financing for technical assistance is anticipated; and increases in staff productivity will continue to accrue through ongoing improvements in technology and work practices.

While a case can be made for continuing the existing consolidation strategy, a slightly more ambitious target is being considered, i.e., of reducing annual administrative expenses by some 1-2 percent in real terms on a budget-to-budget basis, and reducing authorized staffing levels slightly in each of the next two years. A discussion of the likely budgetary resources needed thereafter will be postponed to a later medium-term exercise.

A more stringent budgetary option--that of keeping the administrative budget at its present level in nominal terms--was investigated, but it was determined that this option would seriously undermine the ability of the institution to meet the existing and expected work load. Adoption of this target would require absorbing all price and salary increases (as much as \$20 million per year), and would require cuts in important activities and in staffing levels that would reduce the level of service to our members in all areas. It would also prevent further progress in meeting the personnel and internal management objectives and might even entail a possible reversal.

Precise details of staffing levels and other expenditure proposals for FY 1996 will be considered during the next few months and presented in the FY 1996 budget document. This is particularly the case for staff reductions and redeployment, and for specific cuts in discretionary dollar budgets, where the views of departments will be an important factor.

With regard to future staffing levels, attention will be directed to specific activities where the need for resources could be reduced or even eliminated, and also to across-the-board productivity gains that are expected to accrue over the next year or two as a result of our ongoing investment in technology and through improved work practices. Efforts will also continue to identify further reductions in discretionary budgets and measures to yield additional income.

5. Capital budget proposals

The capital budget is a multiyear budget that includes funding proposals for building construction, major building renovations or repairs, EDP equipment, and other similar proposals. The capital project budget projections are based on rolling five-year building and equipment plans that are updated on a yearly basis. Two broad objectives underpin these plans: (i) substituting less expensive owned office space in place of more expensive commercially leased space; and (ii) encouraging departmental proposals that generate human resource reductions, cost savings, and productivity gains.

The proposed five-year capital investment plan for FY 1996-FY 2000, excluding building plans, is some \$70 million, which represents a decrease of about \$4 million (about 5 percent) from the plans approved by the Executive Board in FY 1994 and FY 1995. Table 6 summarizes the combined building and other capital project disbursements since FY 1988 when the first capital budget was approved, and Table 7 outlines the capital investment plans for FY 1995-FY 2000.

The recently approved extension to the headquarters building (Phase III) is proceeding as recently reported in BUFF/94/97 (10/17/94). Table 8 summarizes the building plans in terms of approved budgets and disbursements to date.

6. Impact of budget increases on the rate of charge

The cost of the Administrative Budget is borne by debtors and creditors alike--see the paper, "The Cost of Financing the Fund and its Distribution - Review of Burden Sharing" (EBS/94/28, 2/18/94). As Directors will recall, the effect on the rate of charge and in particular the distribution of costs among the Fund's membership is currently under review (see "Statement by Managing Director on Reforming the Financial Structure of the Fund - The Role of the Variable Uniform Norm", Buff 94/101, 11/9/94). Under the present financial structure and at current exchange and interest rates and the projected level of Fund credit, each \$10 million in expenses (whether operational, administrative, or prudential) in FY 1995 represents about 3 basis points in the rate of charge on an annualized basis. Under depreciation accounting, each \$10 million of cash outlays for the building, depreciated over a period of 30 years, adds about \$0.3 million to expenses currently accrued and represents approximately one tenth of a basis point, while an outlay for equipment of an equal amount represents approximately one half of a basis point because it is depreciated over a shorter period.

Table 1. FY 1985--FY 1994 Administrative Budget Expenses by Object of Expense Account
(In thousands of U.S. dollars)

Object of Expense 1/	Financial Year									
	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
I. PERSONNEL EXPENSES										
A--SALARIES	90,710	97,133	102,421	104,380	109,193	121,105	136,484	153,093	174,551	192,920
B--OTHER PERSONNEL EXPENSES	59,450	63,271	67,720	60,230	56,970	60,061	59,349	82,893	95,960	122,785
Total Personnel Expenses	150,160	160,404	170,141	164,609	166,163	181,167	195,833	235,987	270,511	315,705
II. TRAVEL EXPENSES										
C--BUSINESS TRAVEL	13,688	15,940	13,549	14,781	19,498	20,643	23,725	36,141	43,674	41,820
D--OTHER TRAVEL	11,319	11,671	12,085	12,155	12,787	13,784	16,592	18,209	24,493	27,099
Total Travel Expenses	25,007	27,611	25,634	26,936	32,285	34,428	40,317	54,350	68,167	68,919
III. OTHER ADMINISTRATIVE EXPENSES										
E--COMMUNICATIONS	6,752	5,995	6,343	5,779	6,246	6,460	7,557	7,462	8,954	10,303
F--BUILDING OCCUPANCY	10,297	14,550	13,284	12,925	14,321	15,781	18,760	21,819	28,362	37,613
G--BOOKS AND PRINTING 2/	1,862	2,369	2,242	1,944	2,010	1,509	5,221	5,876	5,864	7,040
H--SUPPLIES AND EQUIPMENT	4,331	6,685	4,160	5,040	5,083	3,998	4,976	6,392	8,436	8,614
I--DATA PROCESSING 2/	23,841	20,754	17,566	15,800	14,283	12,304	14,384	18,257	14,207	15,857
J--MISCELLANEOUS	5,632	5,957	7,772	8,968	2,828	4,291	4,896	4,936	6,484	8,956
Total Other Adm. Expenses	52,715	56,310	51,367	50,455	44,771	44,342	55,794	64,742	72,307	88,383
K--REIMBURSEMENTS 3/	-	-	-	-	-	-	(13,082)	(17,012)	(21,913)	(24,712)
TOTAL ADMINISTRATIVE EXPENSES	227,882	244,325	247,142	242,000	243,219	259,938	278,862	338,067	389,072	448,295

1/ Due to rounding, details may not add up to totals.

2/ Subscriptions to electronic information services were included in Data Processing until FY 1992 when it was transferred to Books and Printing.

3/ Since FY 1991, reimbursements have been listed as a separate budget category.

Table 2. Authorized and Effective Staffing, FY 1985–FY 1995 1/

(In staff years)

Financial Year	Authorized Staffing			Total Effective Staff Years
	Fund Staff Years	Externally Financed Experts	Total	
1985	1,979		1,979	1,927
1986	2,057		2,057	2,006
1987	2,082		2,082	2,036
1988	2,132		2,132	2,037
1989	2,165		2,165	2,102
1990	2,204		2,204	2,125
1991	2,231	18	2,248	2,174
1992	2,354	46	2,399	2,255
1993	2,607	69	2,676	2,478
1994	2,738	82	2,820	2,627
1995	2,738	85	2,823	

1/ Excludes Executive Directors and their staff, summer interns, and special appointees.

Table 3. Effective Staffing by Organizational Unit, FY 1990–FY 1994

	Financial Year				
	1990	1991	1992	1993	1994
	(In staff years) 1/				
Area Departments	499	519	562	646	730
Functional and Special Service Departments 2/	802	840	868	996	1,066
Information, Liaison, Support Departments and Other 3/	824	815	825	836	830
Total Effective Staffing	2,125	2,174	2,255	2,478	2,626
Offices of Executive Directors	193	197	197	206	223
	(Percent of total effective staffing) 4/				
Area Departments	23.5	23.9	24.9	26.1	27.8
Functional and Special Service Departments 2/	37.7	38.6	38.5	40.2	40.6
Information, Liaison, Support Departments and Other 3/	38.8	37.5	36.6	33.7	31.6
Total Effective Staffing	100.0	100.0	100.0	100.0	100.0

1/ Excludes summer interns and special appointees.

2/ Includes externally financed experts.

3/ Includes the Office of the Managing Director.

4/ Excludes Offices of Executive Directors.

Table 4. FY 1994 Activity Distribution by Departments

(In staff years)

Department	Country Specific Work		Policy Develop., Research	Statistics, Information, Ex. Relations	Admin. Support	External Training	General Supervision, Administration, and Training		Paid Leave	Board of Gov. and Exec. Board	Total
	All Except Technical Assistance	Technical Assistance					All Except Training and Prof. Develop.	Staff Training and Prof. Develop.			
Area Departments	450.8	10.2	34.5	3.3	11.8	1.2	75.7	19.4	122.5	0.7	730.1
FAD	35.6	91.9	19.4	0.6	12.0	1.6	12.3	2.8	22.1	0.2	198.5
INS	1.1	0.2	0.5	0.2	2.9	47.3	13.1	2.1	14.9	0.6	82.9
JVI	0.0	0.0	0.0	0.0	0.0	7.9	1.2	0.0	0.9	0.0	10.0
LEG	7.3	7.2	9.2	0.6	9.7	0.5	5.3	0.7	7.9	0.1	48.5
MAE	11.0	107.5	14.2	2.5	7.9	3.0	13.8	2.1	16.7	0.0	178.7
PDR	58.8	1.1	44.3	1.1	0.4	0.2	10.5	3.9	24.7	0.3	145.3
RES	7.2	0.6	53.1	3.0	3.6	0.1	9.3	1.3	15.1	0.1	93.4
STA	16.5	34.0	12.0	45.8	2.5	3.0	11.2	2.8	25.0	0.4	153.2
TRE	33.6	0.6	28.7	0.9	46.0	1.0	11.1	3.2	28.8	1.8	155.7
Subtotal (Functional)	171.1	243.1	181.4	54.7	85.0	64.6	87.8	19.0	156.1	3.5	1,066.2
ADM	0.4	0.0	0.3	0.2	187.5	0.2	37.3	6.1	48.0	2.5	282.5
EXR	0.7	0.1	0.1	44.9	0.1	0.1	8.5	2.3	11.4	1.0	69.2
SEC	1.3	0.1	16.1	0.1	26.4	0.0	10.3	1.8	20.9	33.6	110.6
BCS	22.1	1.7	9.4	11.6	46.7	1.6	9.5	2.1	20.3	7.3	132.3
BLS	16.9	6.0	1.6	25.9	23.3	8.1	13.4	2.4	20.7	4.6	122.9
PAR	1.2	0.1	4.2	1.6	2.4	0.0	0.9	0.2	2.2	0.1	12.9
GEN	0.4	0.0	3.9	0.3	0.7	0.0	0.5	0.2	1.1	0.0	7.1
Other 1/	7.1	2.8	6.0	1.7	39.4	0.7	8.6	3.5	22.1	0.9	92.9
Subtotal (Support)	50.1	10.8	41.6	86.3	326.5	10.7	89.0	18.6	146.7	50.0	830.3
Total	672.0	264.1	257.5	144.3	423.3	76.5	252.5	56.9	425.3	54.2	2,626.7

1/ Includes the Office of the Managing Director, and Fund-wide temporary assistance to replace staff on sick, maternity, and sabbatical leave.

Table 5. Basic Determinants of Country-Specific Work Activity; FY 1981-FY 1997

(Number of countries)

	FY1981-90 Actual (average)	FY 1991 Actual	FY 1992 Actual	FY 1993 Actual	FY 1994 Actual	FY 1995 Estimated	FY 1996 Projection	FY 1997 Projection
Total								
Fund members (end of year)	148	155	157	177	178	179	180	182
Other Article IV cases 1/	1	3	3	3	3	3	3	3
Other cases with Fund involvement 2/	1	3	17	3	4	4	4	2
Total	150	161	177	183	185	186	187	187
By type of consultation cycle:								
12 month	...	115	94	137	169	171	172	173
bicyclic	...	32	27	31	0	0	0	0
18/24 month cycle	...	11	39	12	12	11	11	12
By work intensity classification:								
Surveillance-only countries	88	81	75	78	76	70	65	68
Program/Intensive cases	62	80	102	105	109	112-116	115-122	114-119
Cases with arrangement in period	(50)	(60)	(68)	(67)	(70)	(85)	(94)	...
Other intensive cases	(12)	(20)	(34)	(38)	(39)	(31)	(28)	...

1/ Includes the nonmetropolitan territories of Aruba, Hong Kong, and the Netherlands Antilles.

2/ Includes countries in pre-membership status and other territorial entities.

Table 6. Summary of Capital Project Disbursements
FY 1988 - FY 1994

(In millions of U.S. dollars)

Capital Budget	Disbursements by Financial Year							Total	
	1988	1989	1990	1991	1992	1993	1994		
1988	8.8	5.5	1.4	0.7	0.1	0.1	-	-	7.8
1989	35.8	-	1.5	17.4	1.9	1.8	4.5	6.3	33.4
1990	8.0	-	-	0.7	3.7	1.1	0.2	-	5.8
1991	5.7	-	-	-	1.9	1.6	1.0	0.6	5.1
1992	41.3	-	-	-	-	4.3	6.2	11.3	21.8
1993	9.1	-	-	-	-	-	5.7	1.8	7.5
1994	<u>124.8</u>	-	-	-	-	-	-	6.0	6.0
Total	233.5	5.5	2.9	18.8	7.6	8.9	17.6	26.0	87.4

Table 7. Five-Year Capital Investment Plans 1/
FY 1995 - FY 2000

(In millions of U.S. dollars)

	Financial Year						Total
	1995	1996	1997	1998	1999	2000	
Current Plan <u>2/</u>	17	17	15	13	12	-	74
Proposed Plan	-	14	17	16	8	15	70

1/ Excluding building plans.

2/ EBAP/94/20, 3/28/94, pages 51-53.

Table 8. Building Plans 1/
FY 1989 - FY 1996

(In millions of U.S. dollars)

	<u>Budget Approved in Financial Years</u>			
	<u>1989-90</u>	<u>1991-92</u>	<u>1993-94</u>	<u>1995-96</u>
Current Plan	32	10	111	35-40
Of Which:				
Land Acquisition <u>2/</u>	32			
Phase III Design <u>3/</u>		10		
Phase III Construction			111	
Phase III Fit-out				35-40
Proposed plan (no change)	32	10	111	35-40
Disbursements to date <u>4/</u>	31	9	2	0

1/ Excludes Phase IV building estimates.

2/ Site acquired from Western Presbyterian Church.

3/ Including preliminary architectural and engineering design, building studies, budget studies, legal services, etc.

4/ Disbursements through October 31, 1994.