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EBS/84/235  
Correction 1

CONFIDENTIAL

November 21, 1984

To: Members of the Executive Board  
From: The Secretary  
Subject: Mid-Year Review of the Fund's Income Position

The following correction has been made in EBS/84/235 (11/19/84):

Page 7: line 1 was inadvertently omitted.

A corrected page is attached.

Att: (1)

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A corrected page is attached.

Page: The page is inadvertently omitted.

The following correction has been made to HHS\84\332 (11/19/84):

Subject: Mid-Year Review of the Fund's Income Position

From: The Secretary

To: Members of the Executive Board

Approved: J. S. Richardson

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HHS\84\332

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and the rate of remuneration is projected at a (weighted) average of 7.34 percent, reflecting not only the decline in the SDR interest rate but also the increase in the remuneration coefficient that will become effective February 1, 1985 if the SDR interest rate remains at the present level. 1/

(ii) Estimated use of Fund resources - It is now estimated that purchases under stand-by and extended arrangements will amount to SDR 3.15 billion for FY 1985 (SDR 1.25 billion in the first six months), down from SDR 4.5 billion estimated at the beginning of the year. 2/ As a consequence, there will be shifts in the timing of some purchases which were originally expected to be made early in FY 1985 to later in the year or in some cases drawings will be shifted to FY 1986.

Compensatory financing and buffer stock purchases are also now projected lower at SDR 1,500 million (SDR 757 million in the first six months) instead of an estimated SDR 1,780 million in May 1984.

Purchases in the unremunerated reserve tranche are estimated to amount to SDR 400 million (instead of SDR 500 million). These purchases amounted to SDR 191 million in the first six months, and projections for the year have been reduced slightly from the original estimates in line with the reduced volume of drawings so far in FY 1985. It is also to be noted that as agreed by the Executive Board, repayments of short-term EAR borrowing will be made from ordinary resources; such repayments will amount to SDR 1,065 million in FY 1985.

As a consequence of these downward revisions in the use of Fund credit, average balances subject to charges in FY 1985 are now projected at SDR 19.75 billion as compared to SDR 21.38 billion estimated in May 1984. 3/

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1/ Rule I-10 prescribes that during FY 1985-87, the remuneration coefficient shall be the higher of (i) 85 percent increased by 3.33 percentage points at the beginning of each of FY 1985, FY 1986, and FY 1987; and (ii) 85 percent increased or decreased on the first day of each quarter by 1 percentage point for each 1/6th of 1 percentage point that the SDR interest rate on the day before the beginning of the quarter is below or above the SDR interest rate in effect on April 30, 1984 (i.e., 8.91 percent), provided that the coefficient in no quarter shall be more than 2.5 percentage points above the amount of the coefficient determined under (i) for the financial year.

2/ The assumptions underlying the use of Fund credit are based on the latest review presented in "The Fund's Liquidity and Financing Needs" (EBS/84/171, 8/8/84), revised to take into account developments since August 1984.

3/ These projections of average balances assume overdue repurchases to be discharged promptly, and repurchases thereafter to be made when due. To the extent that this assumption is not met, income will be lower. See also "Overdue Financial Obligations to the Fund - Effect on Income and Treatment in Financial Statements" (EBS/84/231, 11/14/84), and also page 11 below.

(iii) Reduction in SDR holdings - The Fund's holdings of SDRs will be gradually reduced to a level of approximately SDR 4.2 billion by the end of the financial year so as to attain the target level of SDR 4.0 billion at end-May 1985 (as compared to a level of SDR 5.6 billion at mid-year). Due in part to the delays in purchases mentioned above and also owing to larger than expected inflows of SDRs, the gradual reduction in the Fund's holdings of SDRs will occur somewhat later than projected at the beginning of FY 1985, and it is now estimated that for the year as a whole, the Fund's holdings will average about SDR 5,430 million, or somewhat above the average of SDR 5,100 million projected earlier.

(iv) Administrative expenses - Administrative expenses are now estimated in the order of SDR 231 million, compared with an amount of SDR 211 million estimated at the beginning of the financial year. This new estimate takes into account not only the general salary adjustment agreed by the Executive Board in July, but also the strengthening of the U.S. dollar in terms of the SDR already mentioned, and an increase of SDR 6 million representing expenses in FY 1985 in connection with Fund computing services which will shortly be submitted to the Executive Board for its consideration and approval.

### 3. Effect of deviations from assumptions and projections

As discussed in earlier staff memoranda on the Fund's income position, the target amount of net income of 3 percent of the Fund's reserves is a very small proportion (less than 1 percent) of the Fund's operating income and expense. Net income is highly sensitive to relatively small changes in some variables from the level used in the projections, particularly to deviations--which must be expected to occur--of the market rates of interest from the projected level. An increase of 0.5 percentage point in the average SDR interest rate from the average level of 8.3 percent over the remaining six months of the financial year used in the estimates would lead to a decrease in net income of about SDR 36 million; and a decrease in the average SDR interest rate of the same order of magnitude would result in an increase in the remuneration coefficient and thus lead to an increase of a somewhat smaller amount (about SDR 28 million) to net income in the year. The net income effects resulting from changes that may occur in the use of the Fund's resources from assumed amounts are not of the same order of magnitude, but nevertheless would have a noticeable impact on net income. These effects are summarized in Table 3, and are shown in Appendix Table 3 for a wider range in the average SDR interest rate.