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EBS/83/248
Correction 1

CONFIDENTIAL

December 12, 1983

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

The following correction has been made in EBS/83/248 (11/21/83):

Page 5, footnote 1, lines 3 and 4: for "in an estimated deficit in 1984
of about SDR 15 million, or about"
read "in estimated net income in 1984
of about SDR 19 million or a deficit
of about"

A corrected page is attached.

Att: (1)

(i) Administrative expenses have been revised upward from SDR 182 million to SDR 195 million, an increase of SDR 13 million, reflecting the budget increase for the May 1983 salary adjustments, the shift into 1984 of some building costs originally estimated to fall in 1983 and the effects that changes in the US\$/SDR rate have on these expenses.

(ii) The SDR interest rate and the rate of remuneration are now assumed to remain unchanged from their average level of the first half of the year, i.e., at 8.66 percent and 7.36 percent, respectively, compared with rates of 8.52 percent and 7.24 percent estimated at the beginning of the year. The slight increase in the SDR rate and the rate of remuneration from the levels at the beginning of the year translate into a reduction of estimated net income for the whole year in the order of SDR 18 million, if interest rates remain unchanged at these levels for the balance of the year. ^{1/} (It is noteworthy that a change in the average SDR interest rate over the remainder of the year by 0.5 percentage point will change the outcome for net income by SDR 32 million for that period.)

(iii) On the assumption that the quota increases will have been paid by the end of 1983, it is estimated that use of the Fund's resources in 1984 will be below the level assumed at the beginning of the financial year by approximately SDR 2 billion on average. This will result in a reduction in estimated income from service charges of SDR 12 million and of approximately SDR 1 million in the margin of income over the costs of borrowing; the estimated reduction in income from periodic charges will be partly offset by an improvement in income from interest on SDR holdings and a net reduction of remuneration expense of SDR 4 million. The negative margin between the weighted average rates of income and expense is estimated to widen from the earlier estimate of 0.26 percentage point to 0.31 percentage point (Table 3).

(iv) As noted earlier, the estimates of net income for the remainder of the year are based on the assumption that substantially all of the quota increases authorized under the Eighth Review will be in effect by end-1983, and that access to the Fund's resources is not made contingent on the availability of resources. For example, if 10 percent of the total amount of quota increases would be delayed until the end of the financial year, the expected income would be lower by about SDR 3 million, reflecting a fall in earnings on lower SDR holdings and a partially offsetting decrease in remuneration expense.

^{1/} Based on the present assumptions, all other things being equal, an increase of the rate of remuneration say from January 1, 1984 to 90 percent of the SDR interest rate would result in estimated net income in 1984 of about SDR 19 million or a deficit of about SDR 50 million if the two rates were to be equalized.

Table 3. Estimates of Average Daily Balances
and Rates of SDR Interest, Remuneration, and Interest
(excluding SFF and Enlarged Access)
Financial Year 1984

(In millions of SDRs)

	Actual Six Months October 31, 1983	Preliminary Estimates April 1983 ^{1/}	Revised Estimates ^{2/}
1. Balances subject to periodic charges	15,990	19,645	17,485
Average rate of charge	6.6	6.6	6.6
2. Holdings of SDRs in the General Resources Account	3,173	4,000	3,945
Average rate of interest	8.66	8.52	8.66
3. Income-earning balances	19,163	23,645	21,430
Weighted average rate of income	6.94	6.92	6.98
4. Remunerated positions	15,318	20,085	18,030
Average rate of remuneration	7.36	7.24	7.36
5. Borrowings under the GAB ^{3/}	775	390	390
Average rate of interest	4.00	4.00	4.00
6. Interest-costing balances	16,093	20,475	18,420
Weighted average rate of expense	7.20	7.18	7.29
7. Net income-earning balances	3,070	3,170	3,010
Margin between weighted average rates of income and expense	-0.26	-0.26	-0.31
8. Pro memoria			
Margin between rate of charge and the average rate of remuneration	-0.76	-0.64	-0.76
Margin between average SDR rate and average rate of remuneration	1.30	1.28	1.30

^{1/} See EBS/83/75 (4/18/83).

^{2/} Assumes quota increases in effect by end-December 1983.

^{3/} Holdings subject to charges and amounts of borrowing under the SFF and EAR are excluded from this table because the rates of interest and of charges for the SFF and EAR are determined only at the end of six month periods ending June 30 and December 31. The rate of charge on supplementary financing provides the Fund with a basic constant margin of net income equal to 0.20 percentage point over the rate of interest, which progresses to 0.325 percentage point 3-1/2 years after the date of purchase. The rate of charge under the policy of enlarged access provides the Fund with a constant margin of net income equal to 0.20 percentage point over the average cost of borrowing.