



INTERNATIONAL MONETARY FUND  
WASHINGTON, D.C. 20431

DEPUTY MANAGING DIRECTOR

CABLE ADDRESS  
INTERFUND

To: Members of the Staff

**2004 Review of Staff Compensation**

I would like to inform you of management's proposal to the Executive Board regarding the 2004 Review of Staff Compensation. Management has put forward a proposal to increase the Fund's salary structure by 4.4 percent. This proposal has been developed within the framework of the staff compensation system that has been in place since 1989.

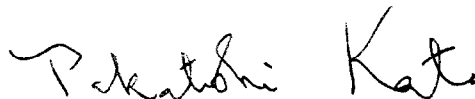
Under the Fund's rules-based compensation system, the annual adjustment of the salary structure is normally based on the U.S. market, which is considered its primary comparator. The rules of the system also stipulate that the level of the Fund's salary structure, after incorporating the adjustment indicated by the U.S. market, should be tested against the combined French and German comparator market to ensure that it yields sufficient margin of international competitiveness to allow the Fund to compete for high-caliber staff on a wide geographical basis.

The 2004 survey shows that a 5.6 percent increase in the Fund's salary structure would be required to fully align it with the U.S. comparator market. This figure includes a catch-up of 0.4 percent, reflecting the shortfall in the Fund's salary structure from the U.S. market last year. Such an adjustment would, however, place the Fund's salary structure about 22½ percent above the combined French/German market, based on the standard conversion rate. Because the proposed structure is positioned outside the prescribed 10–20 percent testing range over the French/German market, the compensation system allows management to exercise judgment about the appropriate degree of international competitiveness, and to recommend a salary adjustment different from that indicated by the U.S. market.

Management has carefully considered all factors pertinent to exercising such judgment. These include recent recruitment and retention experience, which does not point, on balance, to significant difficulties in the Fund's ability to attract and retain high-quality staff, and the fact that a modest downward adjustment of the 5.6 percent figure would still position Fund salaries at a relatively high level against the French/German market. Based on these considerations, it is management's view that the present circumstances warrant a structural increase in 2004 somewhat less than that indicated by the U.S. market.

The Executive Board will consider this proposal on Monday, March 22, and the decision will be announced to you as soon as possible thereafter. At that time, HRD will also issue the merit pay matrix and the guidelines for the individual salary increases. As provided by the compensation system, the merit pay matrix and the merit pay allocation will include

the structural increase as well as a comparative adjustment of 1.5 percent. The comparative adjustment allows average salaries to maintain competitiveness with the market.

A handwritten signature in black ink, reading "Takatoshi Kato". The signature is written in a cursive, flowing style.

Takatoshi Kato

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