

DOCUMENT OF INTERNATIONAL MONETARY FUND
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**IMMEDIATE
ATTENTION**

EBS/88/81
Supplement 2

CONFIDENTIAL

June 10, 1988

To: Members of the Executive Board

From: The Secretary

Subject: Review of the Fund's Income Position - Disposal of Net Income
for FY 1988, and Rate of Charge on the Use of Ordinary Resources
for FY 1989

As requested at Executive Board Meeting 88/90 (6/8/88), the attached paper provides an explanation of the difference between the general reserve and the special reserve of the Fund, as well as a proposed decision on the disposal of the Fund's net income for FY 1988. Unless an Executive Director requests that the matter be placed on the agenda before the close of business on Tuesday, June 14, 1988, the decision will be deemed approved and it will be so recorded in the minutes of the next meeting thereafter.

Also attached, for the records of Executive Directors is the Secretary's understanding of the decision on the rate of charge on the use of ordinary resources adopted at Executive Board Meeting 88/90, June 8, 1988.

Mr. Keuppens (ext. 7823) is available to answer technical questions relating to this paper.

Att: (1)

INTERNATIONAL MONETARY FUND

Disposal of Net Income for Financial Year 1988

Prepared by the Treasurer's Department

(In Consultation with the Legal Department)

Approved by David Williams

June 9, 1988

At Executive Board Meeting No. 88/90 (6/8/88), the staff was requested, in connection with the proposal to allocate net income for FY 1988 to the Fund's special reserves, to explain the difference between the general reserve and the special reserve. The present memorandum provides such an explanation and proposes for adoption, on a lapse-of-time basis, a decision on the disposal of net income for FY 1988.

1. The Articles of Agreement, as amended, distinguish two types of reserves: the general reserve and the special reserve, and prescribe that the special reserve may be used for any purpose for which the Fund may use the general reserve, except distribution. 1/
2. The special reserve initially derived from a program, begun in 1956, under which the Fund sold gold to the United States, with the right of repurchase, and invested the proceeds in U.S. securities in order to correct persistent administrative deficits, to build reserves to meet future deficits and, more generally, to strengthen the Fund's financial position. During the period of gold investment, income from the investment was placed to the special reserve, while other operational net income was added to the general reserve. Since the discontinuation of the program in 1972, each year's net income has been added, and deficits charged, to the special reserve. 2/ At present--i.e., before allocation to reserves of the net income of FY 1988--the general reserve stands at its 1972 level of SDR 365.58 million, and the special reserve at SDR 842.55 million.
3. The Fund must determine annually what part of its net income shall be placed to general reserves or to special reserves, and what part, if

1/ "The Fund may use the special reserve for any purpose for which it may use the general reserve, except distribution." (Article XII, Section 6(b)).

2/ See "The Fund's Reserves" in "Review of the Fund's Income Position for the Financial Years 1983 and 1984" (EBS/83/75, 4/18/1983), Appendix II.

any, shall be distributed. 1/ The Articles prescribe that a distribution of net income (or from the general reserve) is to be made to all members in proportion to their quotas. 2/

4. An addition to the Fund's reserve is intended to strengthen the Fund' financial position in view of prevailing uncertainties. As mentioned, any operational or administrative deficit would first be charged to the Fund's special reserve. Furthermore, it is not intended to propose a distribution from the general reserve to all members in proportion to quotas. The staff, therefore, recommends that the Fund continue its long-standing practice of placing all net income to the special reserve and proposes that net income for FY 1988 be added to the special reserve.

5. The following decision on the allocation of FY 1988 net income to reserves is proposed for adoption by the Executive Board:

Disposition of Net Income for FY 1988

The Fund's net income for financial year 1988 of
SDR 49,108,645 shall be placed to the Special Reserve.

1/ "The Fund shall determine annually what part of its net income shall be placed to general reserve or special reserve, and what part, if any, shall be distributed." (Article XII, Section 6 (a)).

2/ "If any distribution is made of net income of any year, it shall be made to all members in proportion to their quotas" (Article XII, Section 6(c)) and "The Fund, by a 70 percent majority of the total voting power, may decide at any time to distribute any part of the general reserve. Any such distribution shall be made to all members in proportion to their quotas." (Article XII, Section 6(d)).

Secretary's Understanding of
Executive Board Decision adopted June 8, 1988

The Rate of Charge on the Use of Ordinary Resources for FY 1989

Effective May 1, 1988, the rate of charge referred to in Rule I.6(4), determined in accordance with the provisions of Section II.1(a) and (b) of Decision No. 8861-(88/67), adopted April 27, 1988, as amended, shall be 5.5 percent.