

DOCUMENT OF INTERNATIONAL MONETARY FUND  
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FOR  
AGENDA

EBS/85/32

CONFIDENTIAL

February 5, 1985

To: Members of the Executive Board

From: The Secretary

Subject: Overdue Financial Obligations to the Fund - Supplementary  
Notes to EBS/84/211 and EBS/84/231

The attached paper on overdue financial obligations to the Fund has been tentatively scheduled for discussion on Friday, March 8, 1985.

If Executive Directors have technical or factual questions relating to this paper prior to the Board discussion, they should contact Mr. Leddy (ext. 8332) on the reporting by the Fund of overdue obligations, Mr. McLenaghan (ext. 7902) on the treatment of overdue obligations in statistical publications, or Mr. Wittich (ext. 8307) on the effect of overdue obligations on Fund income and reserves.

Att: (1)

INTERNATIONAL MONETARY FUND

Overdue Financial Obligations to the Fund--Supplementary  
Notes to EBS/84/211 and EBS/84/231

Prepared by the the Treasurer's Department and  
the Bureau of Statistics

(In consultation with the External Relations  
Department and the Legal Department)

Approved by W.O. Habermeier and W. Dannemann

February 4, 1985

At the Executive Board meeting on December 17, 1984 (EBM/84/185-186), Executive Directors requested additional information on the reporting by the Fund in published documents of overdue financial obligations to the Fund, with particular reference to the question of identification of members in arrears to the Fund, and on the effects of overdue payments on the Fund's income and reserves. Section I of this paper discusses reporting on members' arrears to the Fund in the Annual Report; the identification of members in arrears to the Fund in the Fund's financial statements, including a summary of the practices of other institutions; and the presentation of arrears to the Fund in other Fund statistics. Section II discusses certain questions relating to the effects of overdue payments on the Fund's income and reserves. The issue of publicity upon a declaration of ineligibility is discussed in EBS/85/12, dated January 9, 1985. The question of "corrective" charges on overdue payments, designed to compensate the Fund for costs arising from overdue obligations, will be discussed in a separate paper on penalty charges presently under preparation.

I. Reporting by the Fund of Overdue Financial  
Obligations to the Fund

With the increasing amount of overdue obligations to the Fund, the issuance of complaints by management, and decisions by the Executive Board in a number of cases, questions have arisen about the appropriate extent and form of reporting by the Fund on these matters in documents that are made available to the general public. In the first six-monthly report on overdue financial obligations to the Fund, 1/ it was proposed that information on decisions by the Executive Board on complaints by the Managing Director should be reported in the Fund's Annual Reports; and that information on members' arrears to the Fund should be reported in the Fund's yearbook issue of Balance of Payments Statistics, provided that the member had been overdue in payments to the Fund for six months

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1/ EBS/84/211 (10/11/84).

or more, and, without identification of the members involved, reflected in monthly issues of Balance of Payments Statistics and International Financial Statistics. In a subsequent paper on the effects of overdue obligations on the Fund's income and their treatment in the financial statements, 1/ it was proposed that the notes to the Fund's financial statements should report, in aggregate and by member, all overdue obligations of members that are late by six months or more in making payments to the Fund.

In general, the suggestions relating to the reporting of information on overdue payments in published documents were based on the considerations that the Fund's position as an institution of high standards in general, and that it be so regarded, make it desirable that information provided to the public in such documents present a fair and accurate statement of the Fund's position and its financial relations with members; and that generally accepted accounting principles prescribe that the financial statements include information that is considered material to the financial position of an organization. The suggestion that information that would permit identification of individual members in arrears not be reported by the Fund in any of these publications until a member had been in arrears for six months or more was guided principally by the following considerations: that reporting of relatively short-term arrears would not appear to be required by these standards; that premature reporting of arrears could unnecessarily complicate the balance of payments problems of the members concerned; and that, within a period of six months following the emergence of arrears, the Executive Board would, as a minimum, normally have received a complaint from the Managing Director relating to the member's overdue obligations. 2/ The following sections discuss the Annual Report, the financial statements, and other Fund statistical publications in turn.

#### 1. Annual Report

As noted, the staff has proposed that all decisions by the Executive Board on complaints by the Managing Director be reported in the Annual Report for the year concerned. Appropriate references would be made to these decisions, if still pertinent, in subsequent Annual Reports; and the termination of any decisions would also be reported. This recommendation was based on the consideration that the Annual Report is the most comprehensive publication of the Fund and the vehicle through

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1/ EBS/84/231 (11/14/84).

2/ It was agreed in the discussion of EBS/84/211 that complaints would normally be circulated to the Executive Board three months after an obligation became overdue; and that, even if no individual obligation had been overdue as long as three months, a complaint would be circulated if a member were in arrears for a continuous period of six months. Therefore, six months would be the outside limit for circulation of a complaint to the Executive Board. See EBM/84/167 (11/19/84) and the Managing Director's summing up of the discussion in Buff Statement 84/188 (12/3/84).

which important decisions by the Fund are routinely communicated. The existence of a member's overdue financial obligations to the Fund, the issuance of complaints by the Managing Director on such obligations, and subsequent decisions by the Executive Board on the complaints are all matters of substantial importance not only to the bilateral relationship between the Fund and the member concerned but also to the institution itself and the membership at large. Accordingly, the emergence of such problems should be reported in the Annual Report at an appropriate point. In light of the considerations relating to short-term arrears noted above and the Fund's procedures in dealing with overdue financial obligations, it was suggested that this could be the point at which the Executive Board had formally taken decisions pursuant to complaints vis-a-vis a member. Such reporting in the Annual Report would be consistent with the practice in the past in the very few cases in which members have been subject to formal actions by the Fund on account of failures to fulfill financial or other obligations to the Fund. 1/

The staff remains of the view that appropriate references to Executive Board decisions on complaints with respect to members' overdue financial obligations to the Fund should be included in the Annual Reports. It is suggested that the precise form and content of such references could best be determined in the course of preparing the 1985 Annual Report, when the relevant facts relating to several members now subject to various decisions by the Board will be better known. The staff would plan to present drafts for consideration by the Board which would in each case describe the decisions taken and the basic facts on the amount and duration of the member's overdue obligations to the Fund.

2. Identification of members in arrears to the Fund in the Fund's financial statements

At the discussion of EBS/84/231 (EBM/84/185-186), Executive Directors were generally agreed that the notes to the Fund's published quarterly financial statements should contain information on overdue obligations to the Fund on an aggregated basis, but there was less convergence of view on whether the individual members and amounts involved should be identified in the notes. The staff was asked to report to the Board on the practices of central banks, commercial banks, and other international financial institutions in this regard as background for the Board's further consideration of the issue.

In order to obtain a reasonably wide sample yet keep the survey to manageable proportions, the assistance of Executive Directors representing the twenty member countries having the largest quotas in the Fund was requested in obtaining the relevant information with respect to the central banks and commercial banks of these countries. The staffs of the International Bank for Reconstruction and Development (IBRD), the Inter-American Development Bank (IDB), and the Bank for International

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1/ See EBS/84/211, p. 14 and EBS/85/12, pp. 1-2.

Settlements (BIS) were also asked to provide similar information with respect to these institutions. Information was requested on the institutions' practices with respect to the identification in financial or other published statements of individual borrowers in arrears, considerations that may have led to the adoption of the practices, and, if possible, circumstances that could lead to such identification if it were not the normal practice. In no case was it reported that such identification is a standard practice, for reasons ranging from the absence of any significant experience with arrears (and therefore any need to consider the matter) to legal and regulatory prohibitions on disclosure of customer information. The results of the survey are summarized below.

a. Central banks (and BIS)

Most explained that their operations generally did not involve assets of a kind that could give rise to significant problems of arrears (e.g., because the assets are fully secured or marketable) or that for other reasons their experience had not given rise to a need to consider reporting publicly on arrears in any way. In most cases, therefore, the questions posed had not been relevant to the institutions' operations and had not been specifically considered. Some noted that if a significant problem of overdue obligations were to arise, it might well be in circumstances requiring confidentiality and discretion with respect to the borrower concerned; others indicated that the question of any reporting would need to be considered in light of the materiality of any problem that might arise; and two reported that any bad debts would be consolidated on an aggregate basis with "miscellaneous" or "other" assets. 1/

b. Commercial banks

In none of the countries surveyed do banks generally publish information that would permit identification of borrowers in arrears. Considerations of two general types appear to guide commercial practice. One is the protection of the confidentiality of customer relationships, which is a legal or regulatory requirement in some cases. The second is that in many systems there are general provisions or standards for the reporting in aggregated form of information relevant to risk evaluation and on steps taken (e.g., establishment of loan loss provisions) to cover risk of nonpayment. In general, the reporting of such information

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1/ In addition to explaining the relevant practice of the Federal Reserve System, the response from the United States indicated that information on the debts of foreign obligors to U.S. Government agencies (not including debts to the Federal Reserve) that are due and unpaid 90 days or more is published in the Annual Reports of the National Advisory Council on International Monetary and Financial Policies. The figures do not identify individual obligors but do identify the country of the borrower; in most cases, the credits are to public borrowers in the countries shown.

in aggregated form appears to be considered sufficient for assessment of banks' financial positions, although some respondents indicated that a bank might report information on an individual borrower in an exceptional situation (e.g., a major bankruptcy) or if a borrower's overdue obligations to the bank were considered especially significant in relation to the bank's portfolio.

Reporting requirements for banks in the United States may, however, require identification of foreign debtor countries under certain circumstances. Commercial banks in the United States are required under Guide 3 of the Securities and Exchange Commission to disclose information on the amount and status of loans to individual foreign countries where such outstandings exceed one percent of total assets, and to report any material amount of such outstandings that are past due, in non-accrual status, and/or involve troubled debt restructurings. The Guide also provides that where current conditions in a foreign country (in which a bank's exposure exceeds one percent of total assets) give rise to liquidity problems which are expected to have a material impact on timely payment of interest or principal on that country's private or public sector debt, disclosure of the nature and impact of such developments should be made.

c. IBRD and IDB

Neither institution currently publishes information, in the financial statements or elsewhere, on the identity of borrowers in arrears. <sup>1/</sup> Both institutions rely for funding on borrowing in the private financial markets and, in determining the extent of their reporting on arrears, are guided generally by the importance of such information to investors in evaluating the financial positions of the institutions. The reporting of information on the identity of borrowers in arrears is not con-

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<sup>1/</sup> The IBRD indicated that such information was provided in one instance in a prospectus issued in 1976, but such reporting was subsequently discontinued. As explained in EBS/84/231, the IBRD publishes in notes to its financial statements the aggregate amount of interest payments that are overdue by more than 90 days, together with the aggregate principal amount outstanding on such loans. This note is accompanied by a statement that it is not anticipated that these delays will result in any loss to the Bank. In addition, the IBRD will have, for the first time, non-accruing loans in fiscal year 1985. The aggregate amount of such loans will be disclosed without reference to the member(s) involved. The IDB reported that it has experienced delays in payments exceeding 60 days only rarely; in general, these have been of relatively modest size, both in the aggregate and with respect to overdue obligations on the part of an individual member. The IDB's financial statements contain the following reference to delays in payments: "No losses on loan receivables are anticipated; accordingly, no provision for such losses has been established. Although there have been some delays in the payment of loan service, these delays are not considered significant."

sidered to be warranted in present circumstances. If, however, a situation arose in which the identification of a member were considered information that might be important to an investor in evaluating the position of the institutions, the reporting of such information would need to be considered.

It was noted in EBS/84/231 that it might be sufficient to include in the notes to the financial statements only aggregated information on overdue obligations to the Fund. In suggesting identification of members in arrears in the financial statements, the staff mentioned two main considerations. The first was that information on the category of payment and debtor might be thought relevant to readers in assessing the Fund's financial position. The second was that the provision of such information would prevent a situation in which inferences could incorrectly be drawn about members that are in fact current in their financial obligations to the Fund.

With respect to these considerations, neither would appear to be of particular relevance to central banks or the BIS. By and large, these institutions do not hold assets of a kind that give rise to problems of arrears or have not experienced significant problems in this respect, and have not needed to consider the question of identifying borrowers in their financial statements. The practices of commercial banks on the matter are generally guided by the confidentiality of customer relationships and include in many cases disclosure of aggregate information on risk and on steps (such as loss provisions) taken to cover risk. The second consideration noted above, protection of the interests of borrowers that are not in arrears, would not appear to be relevant in the case of commercial banks. The World Bank and the IDB both noted that such identification is not made as it is not in present circumstances considered to be information that would be of importance to investors in evaluating the financial positions of the banks. Neither institution appears to have considered whether the reporting of such information would be called for in order to avoid mistaken inferences about members that are not in arrears.

A further point relating to information to be reported in the notes to the financial statements was mentioned in the staff paper on publicity upon a declaration of ineligibility (EBS/85/12). That is the question of including in the notes references to decisions by the Executive Board on complaints by the Managing Director. As noted in EBS/85/12 and earlier papers, the Executive Board's decisions taken in late 1978 to limit Democratic Kampuchea's use of the Fund's general resources and to suspend the member's use of SDRs have been referred to regularly in the notes to the financial statements of the SDR Department beginning in 1979. At the time, the longest outstanding obligation was overdue for about four years. As explained in EBS/84/231, the unique presentation in the financial statements regarding Democratic Kampuchea, including both the non-accrual of charges from the member and the explanatory notes on the Executive Board's decisions, reflects the fact that it has not been possible to communicate with the member

for many years. It was proposed in EBS/84/131 not to change this presentation regarding Democratic Kampuchea, which has been associated in the notes to the financial statements of the General Department with the non-accrual of charges from the member.

EBS/85/12 pointed out that one consideration in favor of issuing press releases upon or soon after a declaration of ineligibility is that exclusive reliance on the Annual Report for the reporting of such decisions might raise questions as to the uniformity of treatment of members, as the timing of such reporting in relation to the timing of the decisions could vary substantially. One way to ameliorate this possible timing difficulty would be to report such decisions in the notes to the quarterly financial statements. The issue of timing of reporting could, of course, arise in relation to decisions to limit members' use of the Fund's resources and to suspend members' use of SDRs. If it were desired to include references to decisions on ineligibility in the notes to the financial statements, the question would arise whether similar references should be made to these decisions as well.

### 3. Treatment of overdue financial obligations in Fund statistical publications

Consideration also needs to be given to the questions whether and how overdue obligations to the Fund should be reported in other relevant statistical publications of the Fund. This section discusses the recording of overdue obligations in the balance of payments statistics published in Balance of Payments Statistics and International Financial Statistics. It also discusses the question of presentation of such information in the Monetary Accounts and Fund Accounts reported in IFS.

#### a. Balance of payments statistics

In the detailed presentations that are published in the monthly and annual issues of Balance of Payments Statistics, a contractual obligation of any sort (for example, for the payment of interest or the repayment of principal on a loan) that is not actually settled when it falls due, i.e., an overdue obligation, is nonetheless shown in the period when it falls due. In a case of this kind, a new obligation is shown as having been created to take the place of the old obligation that was not settled. This practice is followed partly because the two obligations have different characteristics (sector of domestic creditor or original maturity, for example) that will result in their being classified in different items of that detailed presentation as well as in the aggregated presentations that are published in the monthly and annual issues of Balance of Payments Statistics. This practice, which is in line with the compilation requirements of the fourth edition of the Balance of Payments Manual, would result in the identification of arrears to the Fund for an individual country without regard to the length of time an obligation had been overdue. It would not result in such identification in the highly aggregated presentations of balance of payments data in IFS, unless it were decided to add a line for which data would be derived from Fund records.



In light of the concerns over the question of public reporting of information on arrears to the Fund, the practice described in the previous paragraph is not currently being implemented in terms of overdue obligations to the Fund (including the Trust Fund). It was suggested in EBS/84/211, in the context of the general question of reporting in published documents on arrears to the Fund, that the practice described above should be implemented, subject to the qualification that the arrears of members not having obligations outstanding for more than six months would not be reported in these documents. At EBM/84/155-156, the Executive Board asked for additional information, including illustrations of the way in which the information could be reported.

Three approaches could be considered in addressing the question of the publication of overdue obligations in balance of payments statistics by the Fund. Obligations to the Fund that have become overdue could be: (a) included in balance of payments statistics published by the Fund with such statistics for an individual country revealing any overdue obligations to the Fund, as would be consistent with the compilation requirements of the Balance of Payments Manual; (b) included in the balance of payments statistics published by the Fund, but in such a way that statistics for an individual country would not reveal any overdue obligations to the Fund; or (c) excluded altogether. In the interests of reporting comprehensive balance of payments statistics, it is assumed that alternative (c) is not a desirable approach. The aggregated and detailed presentations in Attachment I therefore reflect options (a) and (b), respectively. Specifically, that attachment shows two pairs of columns, one pair referring to the option under which the presentations would identify a country's overdue obligations to the Fund and another pair referring to the option under which the presentations would not identify the overdue obligations to the Fund. In each pair, one column indicates the recording of the transactions in the period in which payment becomes due but is not made, and another column indicates the recording of the transactions in the period in which payment is actually made. The notes to the attachment describe these recording procedures in more detail for each of four specific types of obligations, i.e., overdue repurchases obligations, overdue Trust Fund repayments, overdue charges to the Fund, and overdue interest payments to the Trust Fund.

Two considerations may be noted. First, obligations to the Fund that are settled within a period (month, quarter, half year, or year) in which they are due but not paid will not show up as having become overdue in a balance of payments statement for that period. In this connection, the Fund publishes monthly balance of payments data for only a few countries, quarterly data for slightly more than fifty countries, and semiannual or annual data for the rest of the countries for which data are available. Second, a few countries report balance of payments data approximately three months after the end of the reporting period. The bulk of the countries, however, report balance of payments data more than six months after the end of the reporting period. It has also been observed that lags in reporting data for publication tend to be longer for countries that experience balance of payments difficulties.

In view of these factors, and as most overdue obligations to the Fund are settled quickly, in only a relatively few instances would the fact that an obligation to the Fund becomes overdue appear in balance of payments statistics published by the Fund and, when they do arise, they would be published at least three months after the end of the reporting period. Nonetheless, the Executive Board may wish to consider whether a decision to publish data on overdue obligations to the Fund in the balance of payments statistics should be consistent with decisions with respect to other publications, in particular the financial statements. If it were decided that the notes to the financial statements should identify members having overdue obligations to the Fund for six months or more, the same information could be presented in the balance of payments statistics--i.e., option (a), subject to the criterion that the presentation of such information would be confined to members having obligations to the Fund outstanding for six months or more. If it were decided that identification should not be made in the financial statements, then option (b) could be selected. If this option were chosen, it would not appear necessary to apply any exclusion with respect to the period for which the member had been in arrears to the Fund.

b. Data in Monetary and Fund Accounts in International Financial Statistics

Similar questions arise in connection with the presentation of data on overdue obligations to the Fund in the Monetary Accounts and Fund Accounts in IFS. Such overdue obligations are reflected only in part in these accounts, and without identification of the obligations as arrears. That is, overdue repurchase obligations are included in "foreign liabilities" of the monetary authorities in the Monetary Accounts and in "use of Fund credit" in the Fund Accounts. Likewise, overdue Trust Fund repayments are included in "foreign liabilities" of the monetary authorities in the Monetary Accounts and in "Trust Fund Loan Outstanding" in the Fund Accounts. However, charges and Trust Fund interest overdue are not presently included in "foreign liabilities" or in the Fund Accounts.

It would be possible to modify the presentations to include charges and interest overdue to the Fund without identification of amounts in arrears to the Fund in the Monetary Accounts, but not in the Fund Accounts; or to modify them in both the Monetary and Fund Accounts more substantially so as to identify separately all amounts overdue to the Fund, i.e., Fund charges and repurchases, Trust Fund interest and repayments. The two alternative presentations are described in greater detail in Attachment II. If the latter course is chosen, the staff would suggest that the presentation be made consistent with the decisions taken with respect to publications discussed elsewhere in this paper, i.e., that only the overdue obligations of members in arrears for six months or more would be included, if that were the standard agreed for other publications.

The staff had not suggested in the earlier papers and discussions relating to overdue payments that the presentations of data on Monetary Accounts and Fund Accounts in IFS should be modified to report data on arrears to the Fund through this vehicle, and there would appear to be no special reasons for doing so. Although it could be argued that consistency would call for such reporting, depending on decisions taken on other elements of the reporting issue, the Fund would be under no compulsion to publish information on arrears through every possible vehicle. The frequency, short publication lags, and wide circulation of IFS might be thought to give undue prominence to the issue.

If it were decided that the IFS presentations on Monetary and Fund Accounts were not to be modified so as to identify members' overdue obligations to the Fund, the staff would nonetheless assure that charges and Trust Fund interest overdue would be properly included in the aggregated data on foreign liabilities of the monetary authorities.

#### 4. Summary

The issues discussed in this section of the paper are summarized briefly below.

a. The staff remains of the view that decisions by the Executive Board on complaints with respect to members' overdue financial obligations to the Fund should be reported in the Annual Report.

b. At the Board's discussion of December 17, 1984, Executive Directors were generally agreed that the notes to the Fund's published quarterly financial statements should contain information on overdue obligations to the Fund on an aggregated basis.

(i) With respect to the staff's proposal that the individual members and amounts involved should also be identified in the notes, provided the members had been in arrears to the Fund for six months or more, the paper provides information requested by Executive Directors on the practices of other institutions in this matter. These practices do not go in the direction of individualized reporting.

(ii) The paper also discusses the further question of inclusion in the notes to the financial statements of references to declarations of ineligibility and also decisions to limit members' use of the Fund's general resources and to suspend their use of SDRs.

c. The staff had suggested earlier that members' overdue obligations to the Fund be identified in the Fund's publication Balance of Payments Statistics, consistent with the compilation requirements of the Balance of Payments Manual, subject to the qualification that the arrears of members not having obligations outstanding for more than six months would not be reported.

(i) Executive Directors requested additional background and illustration of the format of such publication. The paper provides further information and two illustrations. The illustrations in both cases include overdue obligations to the Fund in the balance of payments statistics but, alternatively, do and do not identify members' overdue obligations to the Fund.

(ii) It is suggested that the choice between these alternatives be made consistent with the Board's decision on identification of members in arrears to the Fund in the notes to the financial statements.

d. The paper also discusses the question of the reporting of overdue obligations to the Fund in the Monetary and Fund Accounts of IFS and provides illustrations of presentations that, alternatively, do and do not identify members' overdue obligations to the Fund. The staff does not propose that the presentation in IFS be modified so as to identify members' overdue obligations to the Fund.

## II. Effect of Overdue Payments on Fund Income and Reserves

In the staff paper "Overdue Financial Obligations to the Fund: Effect on Income and Treatment in the Financial Statements" (EBS/84/231, 11/14/84) the view was expressed that the increasing importance of overdue payments might be taken into account when determining the net income target and the rate of charge on the use of the Fund's ordinary resources. <sup>1/</sup> The staff put forward for consideration three alternative approaches:

(i) each year the reserve target would be increased above 3 percent to the extent judged necessary in the light of the importance of overdue payments at the time the decision was made;

(ii) the adoption of a formula to relate overdue payments to the Fund's financial position in a way that would result in an automatic increase in the reserve target beyond the stipulated rate of growth of reserves unless the Executive Board decided otherwise;

(iii) a third approach was also suggested by which the Executive Board would decide, after taking due consideration of all the relevant circumstances as well as the results of the formula approach outlined in (ii) above, to adjust the reserve target and the rate of charge by some appropriate amount.

In EBS/84/231, the staff also presented some quantification of the application of these formulas on the reserves target and charges.

At EBM/84/185, the Executive Board wished to review further the problem of overdue charges and repurchases which it was felt had grown to the point where it was desirable, if not necessary, to take account of their financial effects at least in the target rate of growth and reserves. The staff was asked further to explore a number of suggestions made by Executive Directors, in particular (1) to explain the rationale underlying the various formulas advanced by the staff; (2) to analyze the formulas further in respect to whether they would have erratic effects on income growth (reserve target) and possibly on the rate of charge; (3) to consider whether an addition to the net income target could consistently be based on the Fund's experience in collecting overdue obligations and in the light of the staff's assessment of the likelihood of collecting overdue obligations in the future; (4) to examine the circumstances under which it would be necessary to take overdue charges out of accrued net income and whether the nonaccrual of overdue charges would also lead to a consequential change in the rate of accumulation of reserves which might have been increased previously in response to the level of overdue obligations; and (5) to consider the current income target of 3 percent in the light of the expansion

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<sup>1/</sup> Overdue financial obligations to the Fund at the end of each month since January 1981 of members with at least one payment overdue for six months or more are shown in Attachment III, Table 1.

of the Fund's financial activity and the growing incidence of overdue obligations and to consider doubling the income target.

These matters are discussed in the following paragraphs.

1. Rationale of the formulas

The purpose of the formulas suggested in EBS/84/231 is to provide a reasonable quantification of the uncertainties that arise from the existence of overdue obligations to the Fund in the determination of the net income target and the rate of charge on the use of the Fund's ordinary resources. In general it was felt that a formula to be used, directly or indirectly, to adjust the reserve income target and possibly the rate of charge, should capture factors such as (i) the income actually foregone because of delays in payments beyond the due date, 1/ (ii) the impact on the Fund's standing, including its creditworthiness in the eyes of its creditors, as the central institution in the international monetary system; and (iii) the likelihood that some obligations might ultimately turn out uncollectible. These factors would also be among those that would need to be considered in an ad hoc approach that did not rely on a strictly quantitative approach based on the formulas.

Any attempt at quantifying a relation between the income target and overdue obligations for the purpose of increasing the target contains a considerable element of judgment relating both to the variables included and to the weight given to them. Each of the formulas suggested in EBS/84/231 included, as addition to the income target, the shortfall of income for the Fund that resulted from members' failure to pay obligations on time. In addition, the first formula took into account the total income from charges as a reflection both of the general income risk and the credit risk exposure of the Fund. The second formula more narrowly focused on the Fund's exposure to countries late by more than six months in payments to the Fund and based the addition to the target on the total of Fund credit outstanding to these members. The third formula, in turn, related the increase in the income target specifically to the overdue repurchases. 2/

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1/ As already mentioned, it was also suggested that the income foregone due to overdues should be recaptured by a special levy or separate rate of charge on overdue payments themselves. This proposal is discussed in a separate memorandum under preparation.

2/ More specifically, the addition to the net income target was calculated as follows: Formula I: estimated income shortfall plus 1 percent of total periodic charges during the preceding period; Formula II: estimated income shortfall plus charges overdue from members late six months or more in meeting one or more obligations to the Fund plus 20 percent of use of Fund credit during the preceding period by these members; and Formula III: estimated income shortfall plus charges overdue from members late six months or more in meeting one or more obligations to the Fund plus one third of repurchases overdue from these members. See EBS/84/231, p. 15.

Each of these formulas has advantages and disadvantages. The first formula, which reflects both the level of charges on ordinary and on borrowed resources and the total of credit outstanding from the Fund, combines the impact of overdue payments on the Fund's income and a measure of the overall lending risk. This formula would not capture an increase in overdue payments that occurred while outstanding credit contracts or the rate of charge declines. (The effects of an alternative formula that would measure only credit risk by linking an addition to the reserve target to the outstanding amount of Fund credit are shown in Attachment III, Table 2 under Formula V.)

The second formula is more narrowly concerned with the Fund's exposure in terms of credit extended to member countries that are currently overdue to the Fund for extended periods.

The third formula is concerned only with present overdue obligations; it does not extend to future obligations of members that are presently overdue in meeting payments to the Fund because it assumes that these members will discharge on the due dates payments that have not yet fallen due.

The addition to the reserve target which is proposed for consideration is aimed at a general strengthening of the Fund's reserves in view of the uncertainties surrounding the timing of the discharge of overdue obligations. The proposal was not intended to reflect doubt regarding the ultimate collectibility of the overdue obligations. In other words, Formulas II and III were based on the level of Fund credit to members with protracted overdue payments and the level of overdue obligations. This approach raises the issue whether the income target should be reduced pro tanto with any decline in overdue obligations, unless an increase in reserves were considered desirable for more general reasons and independently of the level and changes in the level of overdue obligations.

It would be possible to devise a formula that would be based on changes in outstanding overdue obligations, or in the amount of credit outstanding to members with protracted payment delays. Under such a formula, the income target would be reduced below 3 percent specified in Rule I-6(4)(a) when credit to members with protracted overdue obligations (or the outstanding amount of protracted overdue obligations) declines, but not to an extent that would risk incurring a deficit. Furthermore, consideration would need to be given to whether the impact of overdue obligations on income should be treated separately and independently from other factors affecting the Fund's income position.

In their consideration of the various formulas, Executive Directors generally appeared to favor a flexible approach, rather than a strict formula approach that would allow for an appropriate addition to the income target only after taking into account all relevant factors. In these circumstances, the choice of a formula that would provide general

guidance should essentially reflect the extent to which the Executive Board deems it appropriate to link an addition to the income target to amounts presently overdue, or whether the formula should reflect more broadly the Fund's exposure to members that are finding it difficult to meet payment obligations to the Fund on time, or whether the formula should aim to cover the Fund's general credit risk as reflected in the total amount of credit outstanding to member countries.

## 2. Erratic fluctuations

The impact on the Fund's net income and on the rate of charge as a result of the Executive Board deciding to follow an agreed formula or guideline would depend on (i) the extent of fluctuations or changes in the level of overdue payments, and (ii) the relation between the level or changes in the level of overdue payments and the income target specified by the formula or guideline.

The greater the variability of overdue payments from the end of one financial year to the next, the greater the variability of the net income target if changes in the income target are closely linked to the level or changes in the level of overdue payments. Conversely, erratic influences on the income target or on the rate of charge would be small or absent if overdue payments were comparatively stable or if the addition to the income target would be linked to an aggregate that would not reflect the level of or changes in the amount of overdue payments but would be linked to a measure of the Fund's financial exposure, which changes more slowly over time such as the total of Fund credit outstanding. In this regard, Formula III, and particularly the variant suggested by an Executive Director at EBM/84/186, would be the most unstable of the formulas considered because of the close link between the size of the addition to the reserve target and the amount of overdue payments. Formula III would provide for an addition to the income target by the full amount of overdue charges and part (or, in the variant, the total) of overdue repurchase obligations of members with protracted arrears, which may be expected to fluctuate more markedly from one year-end to the next than the variables in the other formulas (i.e., the total of credit extended to members overdue in payments to the Fund by six months or more or total Fund charges). The addition to the net income target would vary least from year to year under Formula I which links the size of the increase in the income target to income from charges (or, alternatively, to credit outstanding at the end of a financial year).

Protracted overdue payments to the Fund are a relatively recent phenomenon, and the amount of such arrears has increased steadily and markedly. There thus has not been a history of strong fluctuations (as contrasted to increases) in overdue payments between year-end dates that would have resulted in erratic fluctuations in the size of an addition to net income which would be called for by the formulas. The calculations presented in EBS/84/231 therefore showed an increase but no sharp period-to-period fluctuation in the size of the addition to



the income target. <sup>1/</sup> However, erratic variations could not be precluded for the future if the level of overdue payments fluctuated sharply.

In order to attempt to simulate a somewhat more extensive data series, calculations have been made of the hypothetical addition to target income and the effect on the rate of charge under the three formulas (plus variants) based on quarterly data beginning in 1981. The results of these simulations are summarized in Attachment III, Table 2; they again reflect the steady increase in overdue obligations, and show a rather steady increase in the addition to the reserve target rather than any erratic fluctuations.

The results of the calculations are also affected by the coefficient that would be associated with the variables. The size to be given to these coefficients is, to a considerable extent, a matter of judgment, particularly for the more broadly conceived variables such as the total of outstanding Fund credit. An addition to the income target of the total of charges overdue from members late for six months or more in their payments to the Fund would appear appropriate when these overdue charges represent a relatively large part of the Fund's net income (or even exceed the Fund's net income during the year). However, it would not seem appropriate to increase the net income target by an amount equal to the total, or some large proportion of overdue repurchases, unless the income target would be reduced pro tanto as and when overdue repurchases are discharged. The link between the income target and total purchases outstanding from members with overdue payments (as used in Formula II), or with the total of outstanding Fund credit (Formula I) is more judgmental as the formulas reflect the Fund's exposure to risks rather than overdue obligations per se. In these cases, the coefficients for the variables would be fixed in a manner that would reflect the addition to reserves that was considered appropriate.

### 3. Discharge of overdue obligations during the financial year

At EBM/84/185, an Executive Director suggested that the addition to the income target might be linked to the outstanding amount of overdue obligations that might not be collected during the financial year. The amount likely to remain outstanding could be estimated either on the basis of all available information, or on past experience of countries that have not quickly discharged their overdue payments. The Fund's experience with overdue payments is a relatively recent one, and experience may not be a good guide for the future. Furthermore, there are no time series that would allow the calculation of the proportion of outstanding overdues that typically are discharged during a year ("collection ratios") on the basis of financial years. To generate some further data, a simulation has been constructed on the basis of rolling 12-month periods from January 1981 to December 1983, and declining

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<sup>1/</sup> See "Overdue Financial Obligations to the Fund: Effect on Income and Treatment in the Financial Statements" (EBS/84/231, 11/14/84), p. 15.

periods to the end of the year for each of the months in 1984. The results of the simulation are shown in Attachment III, Table 3. Until late 1983, the simulated collection ratio remained at zero, reflecting the absence of protracted overdue obligations other than those from Democratic Kampuchea, which remain unsettled. For the 11 months in 1984 for which a calculation was made, the collection ratio for total obligations, albeit incomplete because it was calculated on periods of less than 12 months, fluctuated between 2 percent and 23 percent. To avoid extreme variations that may reflect mainly the paucity of observations, an average of the collection ratio over the preceding 12 months was used to calculate the addition to the income target under this method (Column 8 of Attachment III, Table 2).

4. Nonaccrual accounting for overdue charges and provisioning for overdue repurchases

Some Directors raised the question whether inclusion of uncollected charges in the Fund's income did not overstate the income actually earned by the Fund. Under generally accepted accounting principles, the issue which arises is whether charges, which remain unpaid for a specified period of time, should be excluded from net income, and placed to a deferred income account. A similar issue arises as regards the treatment of overdue repurchases, i.e., whether protracted overdue repurchases should lead to the establishment of provisions, to be taken out of current income, to cover against overdue repurchases and the extent of such provisioning.

In presenting its financial accounts and reports, including its income and expense position, the Fund follows generally accepted accounting practices and principles, and aims to ensure that the Fund's accounts give a true and fair view of the Fund's financial position. Some countries specifically provide through legislation for the taking of steps to put overdue interest on a nonaccrual basis and to make provision for other overdue obligations. In other countries and some international institutions, such action is a matter of judgment, in particular as regards the degree of risk attached to the overdue assets and the chance of ultimate collectibility of the assets. The Fund has had only limited experience in the time it takes to collect overdue payments; therefore the judgment as regards collectibility may be more difficult to reach.

At EBM/84/185 most Directors appeared not to favor or to have doubts about nonaccrual for a number of reasons, including concern that the Fund might be perceived as having taken a view on the collectibility of the obligations owed by a member. Nevertheless, if undischarged obligations remain outstanding for protracted periods of time, without any perceived improvement in the collectibility of the assets, the Fund will need to consider whether or not the outstanding obligations of some members should be put on a nonaccrual or cash basis and overdue charges placed to deferred income, and whether to make specific provision out of net income for overdue repurchases. While the time period for which obligations have been overdue may be the most important criterion,

other factors may also need to be considered, such as the imminent collection of overdue obligations from a member.

In the light of the above, one possibility would be to create a presumption that an asset which remains overdue should be taken out of net income and a provisioning account be established, as the case may be, unless circumstances at the time would argue cogently for a different course of action. Action on nonaccrual and provisioning would lower projected income, and would call, possibly not later than the half yearly reviews of the Fund's income, for the necessary adjustments in the rate of charge to ensure that the income target would be reached. As in the discussion of the effects of using formulas for taking into account overdue charges and repurchases when setting the net income target, accounting for charges on a cash basis and provisioning from net income raise an issue regarding the treatment, in the determination of the net income, of unanticipated income arising from the settlement of overdue charges and repurchases. Nonaccrual may also result in somewhat greater volatility in the rate of charge than would be the case than some other approaches, such as increasing the reserve target by a standard percentage as long as overdue obligations remain.

5. Increase in the desired level of reserve accretion

As another approach to that of adjusting the income target by a formula, it was suggested at EBM/84/185, that the income target should be adjusted because of the existence and increase in overdue payments to the Fund. It was pointed out that the level of overdue charges alone approached and could soon exceed the target income which suggested that the adequacy of the target itself should be reconsidered. At the time of the adoption in 1981 of an income target of 3 percent of reserves, the Fund had not, with very few exceptions, experienced either a failure to collect charges on time, or any substantial level of prolonged overdue repurchases. The increased uncertainties that are created by overdue payments did not bear on the considerations taken into account by the Executive Board when it adopted the net income target of 3 percent.

Since 1981, when the present reserve target was adopted, Fund borrowing and the outstanding use of Fund credit have more than tripled. Fund quotas have risen from SDR 59.6 billion to SDR 89.2 billion. As a consequence, reserves which in an absolute amount have increased by 27 percent, have declined relatively in terms of all these aggregates. Furthermore, total overdue payments have increased from about 3 percent of reserves at the end of FY 1981 to almost 15 percent in mid-January 1985, and Fund credit to members late in meeting payments to the Fund by six months or more has risen from less than 2 percent of reserves to 68 percent (Attachment III, Table 4).

In these circumstances, one Executive Director emphasized that an increase in the net income target from 3 percent of reserves, say, to 6 percent would seem appropriate. A doubling of the income target would have the advantage of simplicity and it would avoid the necessity

to decide on an ad hoc basis the size of the addition to the income target which would purport to reflect overdue payments and, possibly, changes in the level of overdue payments. The addition to the target would not be dissimilar in magnitude from that resulting from some of the formulas illustrated in EBS/84/231. Such an increase might also meet the concern of some Executive Directors who consider an income target of 3 percent of reserves comparatively low in the light of the Fund's present financial activity, independently of the level of overdue obligations.

An increase in the net income target could take several forms. The target incorporated in Rule I-6(4)(a) could be set at, say, 6 percent as long as there are obligations overdue for six months or more and at 3 percent in the absence of such overdue obligations. Such an approach, however, would not recognize the size of overdue payments outstanding, and it would be possible, if that was considered preferable, to graduate the size of an addition to the reserve target in the light of the amount of overdue payments and perhaps the time for which they have been overdue. Alternatively, and which would be consistent with the ad hoc approach, some notionally higher net income target, such as a 6 percent target, could serve as a guideline in the annual reviews of the Fund's income position and would be adjusted in the light of all the circumstances, including, for example, the changes in the volume and duration of overdue payments.

## 6. Conclusion

There are a number of different procedures that could be used to determine an addition to the income target in the light of the increasing incidence and level of protracted overdue payments. Three main approaches have been elaborated above: (i) adjustment of accrued income and provisioning; (ii) increase of the net income target by a formula approach; and (iii) increase of the net income target by some agreed amount. Each approach has its advantages and disadvantages, though each approach has the aim of protecting the Fund's financial position.

It is a matter of judgment under what circumstances (e.g., length for which an item has been overdue, volume of such overdue obligations, experience with collection) adjustments should be made in the income statement of the Fund and in its balance sheet by shifting to nonaccrual accounting and by making a special provision, and to what extent, for overdue repurchases. The Fund has had only limited experience of the time it takes to collect overdue payments; therefore the judgment as regards collectibility may be more difficult to reach.

Alternatively, consideration might be given to one of the possible methods of taking overdue obligations into account when determining the Fund's income target. In this connection, Executive Directors might wish to consider whether to make an addition to the income target at the time of each annual review of the Fund's income position in the light of the existing overdue obligations and all other relevant

circumstances, or whether to adopt a more direct approach, such as a doubling of the income target incorporated in Rule I-6(4)(a) while protracted overdue obligations remain undischarged. These approaches could be combined in a number of ways. It would be possible, e.g., under the first approach, to give particular weight to one or the other of the formulas in the determination of any addition to the income target. Alternatively, an increase incorporated in Rule I-6(4)(a) could be adjusted at the time of the annual income review in the light of circumstances, and in particular if the incidence and the duration of overdue obligations should decline. Any change in the net income target and in the rate of charge as a result of the annual review would, of course, require a qualified majority as at present.

Table 1. AGGREGATED PRESENTATION 1/

(In billions of SDRs)

	Overdue Obligations Identified Period		Overdue Obligations Not Identified Period	
	Payment Due	Payment Made	Payment Due	Payment
A. Current Account, excl. Group F .....				
Merchandise: exports f.o.b. ....				
Merchandise: imports f.o.b. ....				
Trade balance.....				
Other goods, services, and income: credit..				
Other goods, services, and income: debit...	-x		-x	
Total: goods, services, and income.....				
Private unrequited transfers.....				
Total, excl. official unrequited transfers				
Official unrequited transfers.....				
B. Direct Investment and Other Long-Term				
Capital, excl. Groups F through H.....				
Direct investment.....				
Portfolio investment.....				
Other long-term capital				
Resident official sector.....				
Repayments on Trust Fund loans.....	-x			-x
Other transactions .....			-x	
Deposit money banks.....				
Other sectors.....				
Total, Groups A plus B.....				
C. Other Short-Term Capital, excl. Groups F				
through H.....				
Resident official sector.....		-x		-x
Deposit money banks.....				
Other sectors.....				
D. Net Errors and Omissions.....				
Total, Groups A through D.....				
E. Counterpart Items.....				
Monetization/demonetization of gold.....				
Allocation/cancellation of SDRs.....				
Valuation changes in reserves.....				
Total, Groups A through E.....				
F. Exceptional Financing.....				
Repayment arrears .....			x	
Investment income arrears.....			x	
Overdue obligations to Trust Fund.....	x			
Overdue obligations to the Fund .....	x			
Total, Groups A through F.....				
G. Liabilities Constituting Foreign Authorities'				
Reserves.....				
Total, Groups A through G.....				
H. Total Change in Reserves.....				
Monetary gold.....				
SDRs.....				
Reserve position in the Fund.....				
Foreign exchange assets.....		x		x
Other claims.....				
Use of Fund credit.....				-x
Balances arising from overdue repayments...	x			
Other transactions.....	-x	-x		
Conversion rates: .....				

1/ Negative entries are debits; positive entries are credits.

Table 2. DETAILED PRESENTATION 1/

(In billions of SDRs)

	Overdue Obligations Identified Period		Overdue Obligations Not Identified Period	
	Payment Due	Payment Made	Payment Due	Payment Made
CURRENT ACCOUNT.....				
GOODS, SERVICES, AND INCOME.....				
1. Merchandise: exports f.o.b.....				
2. Merchandise: imports f.o.b.....				
3. Shipment: credit.....				
4. Shipment: debit.....				
5. Passenger services: credit.....				
6. Passenger services: debit.....				
7. Other transportation: credit.....				
8. Other transportation: debit.....				
9. Travel: credit.....				
10. Travel: debit.....				
11. Reinvested earnings on direct investment abroad.....				
12. Reinvested earnings on direct investment in the reporting country.....				
13. Other direct investment income: credit.....				
14. Other direct investment income: debit.....				
15. Other investment income of resident official incl. interofficial: credit.....				
16. Other investment income of resident official incl. interofficial: debit.....				
17. Other investment income of foreign official excl. interofficial: credit.....	-x		-x	
18. Other investment income of foreign official excl. interofficial: debit.....				
19. Other investment income: credit.....				
20. Other investment income: debit.....				
21. Interofficial, n.i.e.: credit.....				
22. Interofficial, n.i.e.: debit.....				
23. Other resident official, n.i.e.: credit....				
24. Other resident official, n.i.e.: debit.....				
25. Other foreign official, n.i.e.: credit.....				
26. Other foreign official, n.i.e.: debit.....				
27. Labor income, n.i.e.: credit.....				
28. Labor income, n.i.e.: credit.....				
29. Property income, n.i.e.: debit.....				
30. Property income, n.i.e.: debit.....				
31. Other goods, services, and income: credit..				
32. Other goods, services, and income: debit...				
UNREQUITED TRANSFERS.....				
Total Credit .....				
Total Debit .....				
33. Migrants' transfers: credit.....				
34. Migrants' transfers: debit.....				
35. Workers' remittances: credit.....				
36. Workers' remittances: debit.....				
37. Other private transfers: credit.....				
38. Other private transfers: debit.....				
39. Interofficial transfers: credit.....				
40. Interofficial transfers: debit.....				
41. Other transfers of resident official: credit..				
42. Other transfers of resident official: debit..				
43. Other transfers of foreign official: credit..				
44. Other transfers of foreign official: debit...				
CAPITAL ACCOUNT.....				
CAPITAL, EXCLUDING RESERVES.....				
Direct investment abroad.....				
45. Equity capital.....				
46. Reinvestment of earnings.....				
47. Other long-term capital.....				
48. Short-term capital.....				
Direct investment in the reporting country.....				
49. Equity capital.....				
50. Reinvestment of earnings.....				
51. Other long-term capital.....				
52. Short-term capital.....				

1/ Negative entries are debits; positive entries are credits.

Table 2 (Continued). DETAILED PRESENTATION 1/

(In billions of SDRs)

	Overdue Obligations Identified Period		Overdue Obligations Not Identified Period	
	Payment Due	Payment Made	Payment Due	Payment Made
Portfolio investment.....				
Public Sector Bonds.....				
53. Assets.....				
54. Liabilities constituting foreign authorities' reserves.....				
55. Other liabilities.....				
Other Bonds.....				
56. Assets.....				
57. Liabilities constituting foreign authorities' reserves.....				
58. Other liabilities.....				
Corporate Equities.....				
59. Assets.....				
60. Liabilities constituting foreign authorities' reserves.....				
61. Other liabilities.....				
Other long-term capital of resident official sector.....				
62. Drawings on loans extended.....				
63. Repayments on loans extended.....				
64. Other assets.....				
65. Liabilities constituting foreign authorities' reserves .....				
66. Drawings on other loans received.....				
67. Repayments on other loans received..... Trust Fund loans.....	-x		-x	-x
68. Other liabilities.....				
Other long-term capital of deposit money banks....				
69. Drawings on loans extended.....				
70. Repayments on loans extended.....				
71. Other assets.....				
72. Liabilities constituting foreign authorities' reserves denominated in national currency...				
73. Liabilities constituting foreign authorities' reserves denominated in foreign currency....				
74. Drawings on other loans received.....				
75. Repayments on other loans received.....				
76. Other liabilities.....				
Other long-term capital of other sectors.....				
77. Drawings on loans extended.....				
78. Repayments on loans extended.....				
79. Other assets.....				
80. Liabilities constituting foreign authorities' reserves.....				
81. Drawings on other loans received .....				
82. Repayments on other loans received.....				
83. Other liabilities.....				
Other short-term capital of resident official sector.....				
84. Loans extended.....				
85. Other assets.....				
86. Liabilities constituting foreign authorities' reserves.....				
87. Other loans received.....				
88. Other liabilities.....				
Repayment arrears.....			x	
Investment income arrears.....			x	
Overdue obligations to Trust Fund.....	x			
Overdue obligations to the Fund.....	x			
Other transactions.....		-x		-x

1/ Negative entries are debits; positive entries are credits.



Table 2 (Concluded). DETAILED PRESENTATION 1/

(In billions of SDRs)

	Overdue Obligations Period		Overdue Obligations Period	
	Payment Due	Payment Made	Payment Due	Payment Made
Other short-term capital of deposit money banks...				
89. Assets.....				
90. Liabilities' constituting foreign authorities' reserves denominated in national currency....				
91. Liabilities constituting foreign authorities' reserves denominated in foreign currency.....				
92. Other liabilities.....				
Other short-term capital of other sectors.....				
93. Loans extended.....				
94. Other assets.....				
95. Liabilities constituting foreign authorities' reserves.....				
96. Other loans received.....				
97. Other liabilities.....				
RESERVES.....				
Monetary gold.....				
98. Total change in holdings.....				
99. Counterpart to monetization/demonetization...				
100. Counterpart to valuation changes.....				
Special drawing rights (items 101-103).....				
101. Total change in holdings.....				
102. Counterpart to allocation/cancellation.....				
Reserve position in the Fund (items 104 and 105).....				
Foreign exchange assets.....				
106. Total change in holdings.....		x		x
107. Counterpart to valuation changes.....				
Other claims.....				
108. Total change in holdings .....				
109. Counterpart to valuation changes .....				
Use of Fund credit (items 110 and 111).....				-x
Balances arising from overdue repayments.....	x			
Other transactions.....	-x	-x		
NET ERRORS AND OMISSIONS (item 112).....				

1/ Negative entries are debits; positive entries are credits.

Notes to Tables

I. Presentation in Fund statistical publications with separate identification of overdue obligations:

(a) Overdue repurchase obligations. Repurchases should be shown when due for payment. To the extent such repurchases are not made when due the subitem for "Other transactions" of the item for Use of Fund credit (items 110 and 111) should be debited and a contra-entry (credit) should be recorded in a subitem for "Balances arising from overdue repayments." When the repurchase is made the subitem for "Other transactions" of the category for Use of Fund credit should be debited, and a contra-entry (credit) should be recorded in the appropriate reserve item.

(b) Overdue Trust Fund repayments. Repayments should be shown when due for payment. To the extent such repayments are not made when due the subitem for "Trust Fund loans" of the category for repayments on other loans received by the resident official sector (item 67) should be debited and a contra-entry (credit) should be recorded in a subitem entitled "Overdue obligations to the Trust Fund" of the category for other short-term liabilities of the resident official sector (item 88). When payment is made the subitem for other transactions of the same category should be debited, and a contra-entry (credit) should be recorded in the appropriate reserve item.

(c) Overdue charges to the Fund. Charges should be shown when due for payment as a debit in other investment income of the resident official sector, including interofficial (item 16). To the extent such payments are not made when due a contra-entry (credit) should be recorded in the category for other short-term capital of the resident official sector, other liabilities (item 88). Within this item the amount should be allocated to a subitem entitled "Overdue obligations to the Fund." When payment is made, the subitem for other transactions of the same category should be debited, and a contra-entry (credit) should be recorded in the appropriate reserve item.

(d) Overdue Trust Fund interest. Interest payments should be shown when due for payment as a debit entry in the category for other investment income of the resident official sector, including interofficial (item 16). To the extent such payments are not made when due a contra-entry (credit) should be shown in the subitem for overdue obligations to the Trust Fund of the category for other short-term liabilities of the resident official sector (item 88). When payment is made, the subitem for other transactions of the same category should be debited, and a contra-entry (credit) should be recorded in the appropriate reserve item.

II. Presentation in Fund statistical publications without separate identification of overdue obligations

(a) Overdue repurchase obligations. Repurchases should be shown when due for payment. To the extent such repayments are not made when due the category for other long-term capital of the resident official sector, other liabilities (item 68) should be debited and a contra-entry (credit) should be recorded in the category for other short-term capital of the resident official sector, other liabilities (item 88). Within this item the amount should be allocated to a subitem entitled "Repayment arrears." When payment is made, the category for the Use of Fund Credit (items 110 and 111), should be debited and a credit contra-entry recorded in the appropriate reserve item.

(b) Overdue Trust Fund repayments. Repayments should be shown when due for payment. To the extent such repayments are not made when due the category for other long-term capital of the resident official sector, other liabilities (item 68) should be debited and a contra-entry (credit) should be recorded in the category for other short-term capital of the resident official sector, other liabilities (item 88). Within this item the amount should be allocated to a subitem entitled "Repayment arrears." When payment is made, the category for other long-term capital of the resident official sector, repayments on other loans received (item 67), subitem for Trust Fund loans, should be debited and a credit contra-entry recorded in the appropriate reserve item.

(c) Overdue charges to the Fund. Charges should be shown when due for payment as a debit entry in the category for other investment income of the resident official sector, including interofficial (item 16). To the extent such payments are not made when due a contra-entry (credit) should be recorded in the category for other short-term capital of the resident official sector, other liabilities (item 88). Within this item the amount should be allocated to a subitem entitled "Investment income arrears." When payment is made, the subitem for other transactions of that account should be debited, and a credit contra-entry recorded in the appropriate reserve item.

(d) Overdue Trust Fund interest. Interest payments should be shown when due for payment as a debit entry in the category for other investment income of the resident official sector, including interofficial (item 16). To the extent such payments are not made when due a contra-entry (credit) should be recorded in the category for other short-term capital of the resident official sector, other liabilities (item 88). Within this item the amount should be allocated to a subitem entitled "Investment income arrears." When payment is made, the subitem for other transactions of that account should be debited, and a credit contra-entry recorded in the appropriate reserve item.

The recordings suggested above, both for when overdue obligations are identified and when they are not identified, are reflected in Table 2. In Table 1, showing the aggregated presentation of the balance of payments,

the credit entries for the category for other short-term capital of the resident official sector, other liabilities (item 88) are shown in the Exceptional Financing category. It should be noted that arrears that do not extend beyond the period in which they arise, are not recorded in the Fund's published balance of payments statements.

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Overdue Financial Obligations to the Fund

1. Presentation in International Financial Statistics with separate identification of overdue obligations:

Monetary Accounts

The data of the monetary authority could, conceptually, be shown in IFS as follows:

Foreign liabilities (IFS line 16c)

Of which: External arrears

Of which: Arrears to the Fund

In practice, data on total external arrears are in most cases not separately reported by national sources. However, all transactions with the Fund are obtained from Fund records, rather than from national sources, so that the sub-item "Arrears to the Fund" is always available. Arrears to the Fund would include overdue repurchase obligations, overdue Trust Fund repayments, overdue charges to the Fund, and overdue Trust Fund interest.

Fund Accounts

The data could be shown in IFS as follows:

Use of Fund Credit (IFS line 2e.s)

Of which: Overdue repurchase obligations

Overdue charges

Trust Fund loans outstanding (IFS line 2ets)

Of which: Overdue repayments

Overdue Trust Fund interest

2. Presentation of International Financial Statistics without separate identification of overdue obligations:

Monetary Accounts

Overdue repurchase obligations and overdue Trust Fund repayments are included in "Foreign liabilities" of the monetary authority (IFS line 16c). Charges and Trust Fund interest overdue should also be included in "Foreign liabilities" of the monetary authority (IFS line 16c).

Fund Accounts

Overdue repurchase obligations and overdue Trust Fund repayments are included in "Use of Fund credit" (IFS line 2e.s) and "Trust Fund loans outstanding" (IFS line 2ets), respectively.

Table 1. Overdue Obligations of Members Being Late by Six Months or More  
in Meeting Obligations to the General Resources Account <sup>1/</sup>

(In millions of SDRs)

End of Month	Charges		Repurchases		Total	
	Amount	No. of members	Amount	No. of members	Amount	No. of members
Jan 81	3.8	1	18.7	1	22.5	1
Feb 81	3.8	1	18.7	1	22.5	1
Mar 81	3.9	1	18.7	1	22.7	1
Apr 81	3.9	1	18.7	1	22.7	1
May 81	4.1	1	18.7	1	22.9	1
Jun 81	4.1	1	18.7	1	22.9	1
Jul 81	4.1	1	18.7	1	22.9	1
Aug 81	4.3	1	18.7	1	23.1	1
Sep 81	4.3	1	18.7	1	23.1	1
Oct 81	4.3	1	18.7	1	23.1	1
Nov 81	4.5	1	18.7	1	23.3	1
Dec 81	4.5	1	18.7	1	23.3	1
Jan 82	4.5	1	18.7	1	23.3	1
Feb 82	4.5	1	18.7	1	23.3	1
Mar 82	4.7	1	18.7	1	23.4	1
Apr 82	4.7	1	18.7	1	23.4	1
May 82	4.9	1	18.7	1	23.6	1
Jun 82	4.9	1	18.7	1	23.6	1
Jul 82	5.4	2	19.1	2	24.5	2
Aug 82	5.1	1	18.7	1	23.8	1
Sep 82	5.1	1	18.7	1	23.8	1
Oct 82	5.1	1	18.7	1	23.8	1
Nov 82	5.3	1	18.7	1	24.0	1
Dec 82	5.3	1	18.7	1	24.0	1
Jan 83	5.3	1	18.7	1	24.0	1
Feb 83	5.4	1	18.7	1	24.2	1
Mar 83	5.4	1	18.7	1	24.2	1
Apr 83	5.4	1	18.7	1	24.2	1
May 83	5.6	1	18.7	1	24.4	1
Jun 83	5.6	1	18.7	1	24.4	1
Jul 83	5.6	1	18.7	1	24.4	1
Aug 83	5.8	1	18.7	1	24.6	1
Sep 83	5.8	1	18.7	1	24.6	1
Oct 83	8.1	2	25.3	2	33.4	2
Nov 83	6.2	2	25.7	2	31.9	2
Dec 83	9.2	3	32.7	3	41.9	3
Jan 84	11.0	3	33.4	3	44.4	3
Feb 84	12.1	3	37.3	3	49.5	3
Mar 84	12.1	3	37.3	3	49.5	3
Apr 84	11.7	2	38.1	3	49.8	3
May 84	12.3	3	42.4	3	54.7	3
Jun 84	12.1	2	40.3	3	52.4	3
Jul 84	14.0	2	41.0	3	55.0	3
Aug 84	14.3	5	50.6	5	64.9	5
Sep 84	11.2	4	49.6	5	60.8	5
Oct 84	10.6	4	54.8	5	65.4	5
Nov 84	8.9	3	53.2	4	62.0	4
Dec 84	8.7	2	53.2	4	61.9	4
Jan 11, 1985	36.3	3	110.8	5	147.1	5

<sup>1/</sup> The amount of overdue charges and repurchases differs from that in Appendix Table 1 of EBS/84/231 due to the addition of obligations overdue from Democratic Kampuchea.

Table 2. Addition to Net Income Target and to the Rate of Charge under Various Formulas

Quarter ended	Net income target (1)	Estimated shortfall of income (2)	Addition to net income target						Increase in rate of charge necessary to achieve addition to net income target of						
			Formula I	Formula II	Formula III	Formula IV	Formula V	Formula VI	Income shortfall	Formula I	Formula II	Formula III	Formula IV	Formula V	Formula VI
			(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)
			(In millions of SDRs)						(In per cent)						
Jan 1981	--	1.1	7.3	7.4	11.1	23.6	9.4	22.5	0.02	0.15	0.15	0.22	0.47	0.19	0.45
Apr 1981		1.3	7.8	7.7	11.4	23.9	10.8	22.7	0.02	0.13	0.13	0.19	0.40	0.18	0.38
Jul 1981		1.4	10.4	8.0	11.7	24.2	12.6	22.9	0.02	0.15	0.12	0.17	0.35	0.18	0.33
Oct 1981		2.3	12.9	9.1	12.8	25.3	14.2	23.1	0.03	0.17	0.12	0.17	0.34	0.19	0.31
Jan 1982	28	3.8	15.5	10.8	14.5	27.0	17.5	23.3	0.05	0.19	0.13	0.17	0.32	0.21	0.28
Apr 1982		1.7	14.1	8.9	12.6	25.1	16.5	23.4	0.02	0.16	0.10	0.14	0.28	0.18	0.26
Jul 1982		2.8	17.1	16.7	14.6	27.3	18.9	24.4	0.03	0.17	0.17	0.15	0.28	0.19	0.25
Oct 1982		3.9	18.6	11.5	15.2	27.7	20.6	23.7	0.04	0.18	0.11	0.15	0.27	0.20	0.23
Jan 1983	30	1.1	16.4	8.9	12.6	25.1	22.0	23.9	0.01	0.12	0.07	0.09	0.19	0.16	0.18
Apr 1983		0.8	18.2	8.7	12.4	24.9	24.4	24.1	0.01	0.12	0.06	0.08	0.16	0.16	0.16
Jul 1983		1.1	21.6	9.2	12.9	25.4	26.4	24.4	0.01	0.14	0.06	0.08	0.16	0.17	0.16
Oct 1983		1.1	23.8	26.6	17.6	34.5	28.9	33.1	0.01	0.14	0.16	0.10	0.20	0.17	0.20
Jan 1984	32	2.6	27.6	33.5	24.7	47.0	32.9	42.0	0.01	0.15	0.19	0.14	0.26	0.18	0.23
Apr 1984		2.5	28.8	34.1	26.9	52.3	34.2	44.3	0.01	0.16	0.18	0.15	0.28	0.19	0.24
Jul 1984		3.1	33.3	36.4	30.8	58.1	36.3	46.5	0.02	0.17	0.19	0.16	0.30	0.19	0.24
Oct 1984		5.0	35.8	41.8	33.9	70.4	39.0	53.8	0.03	0.18	0.21	0.17	0.36	0.20	0.28
Jan 11, 1985		3.4	34.2	186.2	76.7	150.5	38.5		0.02	0.17	0.92	0.38	0.75	0.19	

Notes: All data are annualized, and include obligations overdue from Democratic Kampuchea. These obligations were inadvertently omitted in the calculations in EBS/84/231, and the results therefore are not strictly comparable.

Column (1): Three percent of reserves at the beginning of the period except for the financial year ending April 1982 when the target was zero (i.e., balance between income and expense).

Column (2): Represent the shortfall of income during the previous period.

Column (3): Formula I - estimated income shortfall plus 1 percent of total periodic charges during the preceding period.

Column (4): Formula II - estimated income shortfall plus charges overdue from members late six months or more in meeting one or more obligations to the Fund plus 20 percent of use of Fund credit during the preceding period by these members.

Column (5): Formula III - estimated income shortfall plus charges overdue from members late six months or more in meeting one or more obligations to the Fund plus one third of repurchases overdue from these members.

Column (6): Formula IV - estimated income shortfall plus charges overdue from members late six months or more in meeting one or more obligations to the Fund plus all repurchases overdue from these members.

Column (7): Formula V - estimated income shortfall plus 0.1 percent of total Fund credit outstanding.

Column (8): Formula VI - average collection ratio of previous year applied to obligations overdue from members late six months or more in meeting one or more obligations to the Fund. See Table 3.

Table 3. Discharge of Overdue Obligations of Members Being Late by Six Months or More in Meeting Obligations to the General Resources Account— Collection Ratios

(in millions of SDRs)

End of month	Charges			Repurchases			Total			Average		
	Charges overdue from members late by six months or more in meeting obligations to GRA	Of which still outstanding N months later	Collection ratio (1) - (3)	Repurchases overdue from members late by six months or more in meeting obligations to GRA	Of which still outstanding N months later	Collection ratio (5) - (7)	Total amount overdue from members late by six months or more in meeting obligations to GRA	Of which still outstanding N months later	Collection ratio (9) - (11)	12-month rolling average of collection ratios	non-collection ratio x total overdue amount (100 - (13)) x (9)	100 (14)
	(1)	(2) (3)	(4)	(5)	(6) (7)	(8)	(9)	(10) (11)	(12)	(13)		
Jan-81	3.8	12 3.8	0.0	18.7	12 18.7	0.0	22.5	12 22.5	0.0	0.0	22.5	
Feb-81	3.8	12 3.8	0.0	18.7	12 18.7	0.0	22.5	12 22.5	0.0	0.0	22.5	
Mar-81	3.9	12 3.9	0.0	18.7	12 18.7	0.0	22.7	12 22.7	0.0	0.0	22.7	
Apr-81	3.9	12 3.9	0.0	18.7	12 18.7	0.0	22.7	12 22.7	0.0	0.0	22.7	
May-81	4.1	12 4.1	0.0	18.7	12 18.7	0.0	22.9	12 22.9	0.0	0.0	22.9	
Jun-81	4.1	12 4.1	0.0	18.7	12 18.7	0.0	22.9	12 22.9	0.0	0.0	22.9	
Jul-81	4.1	12 4.1	0.0	18.7	12 18.7	0.0	22.9	12 22.9	0.0	0.0	22.9	
Aug-81	4.3	12 4.3	0.0	18.7	12 18.7	0.0	23.1	12 23.1	0.0	0.0	23.1	
Sep-81	4.3	12 4.3	0.0	18.7	12 18.7	0.0	23.1	12 23.1	0.0	0.0	23.1	
Oct-81	4.3	12 4.3	0.0	18.7	12 18.7	0.0	23.1	12 23.1	0.0	0.0	23.1	
Nov-81	4.5	12 4.5	0.0	18.7	12 18.7	0.0	23.3	12 23.3	0.0	0.0	23.3	
Dec-81	4.5	12 4.5	0.0	18.7	12 18.7	0.0	23.3	12 23.3	0.0	0.0	23.3	
Jan-82	4.5	12 4.5	0.0	18.7	12 18.7	0.0	23.3	12 23.3	0.0	0.0	23.3	
Feb-82	4.5	12 4.5	0.0	18.7	12 18.7	0.0	23.3	12 23.3	0.0	0.0	23.3	
Mar-82	4.7	12 4.7	0.0	18.7	12 18.7	0.0	23.4	12 23.4	0.0	0.0	23.4	
Apr-82	4.7	12 4.7	0.0	18.7	12 18.7	0.0	23.4	12 23.4	0.0	0.0	23.4	
May-82	4.9	12 4.9	0.0	18.7	12 18.7	0.0	23.6	12 23.6	0.0	0.0	23.6	
Jun-82	4.9	12 4.9	0.0	18.7	12 18.7	0.0	23.6	12 23.6	0.0	0.0	23.6	
Jul-82	5.4	12 4.9	9.2	19.1	12 18.7	1.9	24.5	12 23.6	3.5	0.3	24.4	
Aug-82	5.1	12 5.1	0.0	18.7	12 18.7	0.0	23.8	12 23.8	0.0	0.3	23.7	
Sep-82	5.1	12 5.1	0.0	18.7	12 18.7	0.0	23.8	12 23.8	0.0	0.3	23.7	
Oct-82	5.1	12 5.1	0.0	18.7	12 18.7	0.0	23.8	12 23.8	0.0	0.3	23.7	
Nov-82	5.3	12 5.3	0.0	18.7	12 18.7	0.0	24.0	12 24.0	0.0	0.3	23.9	
Dec-82	5.3	12 5.3	0.0	18.7	12 18.7	0.0	24.0	12 24.0	0.0	0.3	23.9	
Jan-83	5.3	12 5.3	0.0	18.7	12 18.7	0.0	24.0	12 24.0	0.0	0.3	23.9	
Feb-83	5.4	12 5.4	0.0	18.7	12 18.7	0.0	24.2	12 24.2	0.0	0.3	24.1	
Mar-83	5.4	12 5.4	0.0	18.7	12 18.7	0.0	24.2	12 24.2	0.0	0.3	24.1	
Apr-83	5.4	12 5.4	0.0	18.7	12 18.7	0.0	24.2	12 24.2	0.0	0.3	24.1	
May-83	5.6	12 5.6	0.0	18.7	12 18.7	0.0	24.4	12 24.4	0.0	0.3	24.3	
Jun-83	5.6	12 5.6	0.0	18.7	12 18.7	0.0	24.4	12 24.4	0.0	0.3	24.3	
Jul-83	5.6	12 5.6	0.0	18.7	12 18.7	0.0	24.4	12 24.4	0.0	0.0	24.4	
Aug-83	5.8	12 5.8	0.0	18.7	12 18.7	0.0	24.6	12 24.6	0.0	0.0	24.6	
Sep-83	5.8	12 5.8	0.0	18.7	12 18.7	0.0	24.6	12 24.6	0.0	0.0	24.6	
Oct-83	8.1	12 5.8	28.1	25.3	12 24.7	2.4	33.4	12 30.5	8.6	0.7	33.1	
Nov-83	6.2	12 6.0	3.5	25.7	12 21.4	16.6	31.9	12 27.4	14.0	1.9	31.3	
Dec-83	9.2	12 6.0	34.9	32.7	12 27.4	16.1	41.9	12 33.4	20.2	3.6	40.4	
Jan-84	11.0	11 6.0	45.4	33.4	11 28.2	15.7	44.4	11 34.2	23.0	5.5	42.0	
Feb-84	12.1	10 6.2	48.9	37.3	10 32.1	14.1	49.5	10 38.3	22.6	7.4	45.8	
Mar-84	12.1	9 6.2	48.9	37.3	9 32.1	14.1	49.5	9 38.3	22.6	9.3	44.9	
Apr-84	11.7	8 6.2	47.0	38.1	8 32.9	13.8	49.8	8 39.1	21.6	11.1	44.3	
May-84	12.3	7 6.4	48.1	42.4	7 37.1	12.4	54.7	7 43.5	20.4	12.8	47.7	
Jun-84	12.1	6 6.4	47.2	40.3	6 38.2	5.1	52.4	6 44.6	14.9	14.0	45.0	
Jul-84	14.0	5 6.4	54.3	41.0	5 39.0	5.0	55.0	5 45.4	17.5	15.5	46.5	
Aug-84	14.3	4 8.0	44.0	50.6	4 46.8	7.6	64.9	4 54.8	15.6	16.8	54.0	
Sep-84	11.2	3 8.0	28.8	49.6	3 46.8	5.6	60.8	3 54.8	9.9	17.6	50.1	
Oct-84	10.6	2 8.0	24.5	54.8	2 51.1	6.7	65.4	2 59.1	9.5	17.7	53.8	
Nov-84	8.9	1 8.7	2.3	53.2	1 52.2	1.9	62.0	1 60.9	1.9	16.7	51.7	
Dec-84	8.7			53.3			61.9					



Table 4. The Fund's Reserves and Other Financial Variables 1974-85

(In millions of SDRs)

Year ending April 30	Net income (Deficit)	Opera- tional income	Total reserves	Percent increase (decrease) over pre- vious year	Total reserves as a percentage of					Total overdue payments Percentage of reserves	Fund credit to members late by 6 months or more
					Quotas	Out- standing purchases	Opera- tional income	Outstanding borrowing	Assets		
1974	(37.2)	38.5	717.3	(4.9)	2.5	20.7	1,863.1	--	2.4	--	--
1975	(9.7)	166.5	707.6	(1.4)	2.4	10.7	425.0	28.3	2.2	--	--
1976	(2.9)	455.9	704.7	(0.4)	2.4	5.8	154.6	10.9	1.9	1.5	1.8
1977	(18.2)	774.6	686.5	(2.6)	2.3	4.3	88.6	8.9	1.8	2.0	1.8
1978	27.5	839.6	714.0	4.0	2.2	5.1	85.0	8.9	1.5	2.0	1.8
1979	46.1	753.3	760.1	6.5	1.9	7.4	100.8	15.1	1.7	2.0	1.6
1980	3.1	614.2	763.2	0.4	2.0	8.6	124.3	20.3	1.7	2.1	1.6
1981	80.1	882.3	843.3	10.5	1.4	8.6	95.6	19.3	1.3	2.8	1.5
1982	92.0	1,788.9	935.3	10.9	1.4	6.2	52.3	13.8	1.3	3.5	1.3
1983	65.4	2,045.0	1,000.7	7.0	1.6	4.2	48.9	9.1	1.3	3.6	1.2
1984	73.1	2,792.0	1,073.8	7.3	1.2	3.4	38.5	7.8	1.0	6.3	9.3
1/11/85	--	--	1,073.8	--	1.2	3.0	--	7.7	1.0	14.8	68.2