FOR AGENDA

EBS/85/258

CONFIDENTIAL

November 20, 1985

To: Members of the Executive Board

From: The Secretary

Subject: Review of the Fund's Income Position

Attached for consideration by the Executive Directors is a paper on the midyear review of the Fund's income position for the financial year ending April 30, 1986.

Mr. Wittich (ext. 8307) or Mr. Keuppens (ext. 7823) is available to answer technical or factual questions relating to this paper prior to the Board discussion, which is scheduled for Wednesday, December 11, 1985.

Att: (1)

CONFIDENTIAL

INTERNATIONAL MONETARY FUND

# Review of the Fund's Income Position

Prepared by the Treasurer's Department

Approved by W. O. Habermeier

November 20, 1985

## I. Introduction

A midyear review of the Fund's income position, to be held shortly after October 31 of each year, is required under the provisions of Rule I-6(4). This paper provides the basis for consideration by the Executive Board of the Fund's income position at midyear and includes projections for the second half of the financial year ending April 30, 1986 (FY 1986). The revised projections for the year as a whole take into account (i) the most recent review of the Fund's liquidity and financing needs, adjusted where necessary for developments subsequent to that review; (ii) developments since the beginning of the year in the SDR rate of interest and its effects on the rate of remuneration and on the remuneration coefficient; and (iii) the increase in members' overdue obligations to the Fund and the rise in charges that are reported as deferred income rather than current income.

Section II of this paper summarizes the actual outcome of the first half of FY 1986. Revised estimates for FY 1986 as a whole, together with a discussion of the reasons for differences between the estimates for FY 1986 presented in May 1985 and the revised estimates, are set out in Section III. A concluding section considers alternative courses of action for the remainder of the year.

The last review of the Fund's income position was held in June 1985 and included a review of the remuneration coefficient, and the rate of interest on holdings of SDRs. 1/ It will be recalled that the Fund experienced a deficit of SDR 30 million for the year ended April 30, 1985. In March 1985, the Fund had decided that unpaid charges on the use of Fund resources from members that are overdue in meeting financial

1/ See "Review of the Fund's Income Position for the Financial Years 1985 and 1986" (EBS/85/104, 4/25/85 and EBS/85/104, Supplement 1, 5/28/85). The discussion of the Fund's income position in June 1985 also covered various issues relating to the Fund's financial position, such as the adequacy of Fund reserves, burden sharing, and members' overdue obligations. See "Factors Bearing on the Adequacy of Fund Reserves" (EBS/85/125, 5/14/85), "Factors Relating to Burden Sharing in the Fund" (EBS/85/126, 5/14/85), "Statement by the Managing Director on the Fund's Income Position and Related Issues" (Buff 85/87, 5/31/85). See also EBM/85/89 and EBM/85/90 (6/5/85).

obligations to the Fund for six months or more would no longer be included in accrued income unless the member had remained current in settling charges as they fell due. 1/ Charges not included in accrued income are reported as deferred income, and this change in accounting policy led to a reduction in accrued income of SDR 56 million in FY 1985 and the placing of an equivalent amount to deferred income.

At the June 1985 review, net income for FY 1986 was estimated in the order of SDR 55 million or about 5.3 percent of reserves, on the basis of the then prevailing SDR interest rate, projections of the use of Fund resources, and a rate of charge of 7 percent. In the light of these developments, the Executive Board decided: (i) to increase the target amount of net income for each financial year from 3 percent to 5 percent of the Fund's reserves at the beginning of the financial year, which implied a net income target of SDR 52 million for FY 1986; (ii) to continue the rate of charge on the use of ordinary resources at 7 percent per annum; and (iii) to keep the SDR interest rate unchanged at 100 percent of the combined market rate. 2/ Executive Directors also favored the addition to reserves in FY 1986 of net income exceeding the target amount, so as to achieve reserve growth of 7 or 8 percent, but agreed to decide this matter after the midyear or year-end income review. 3/

## II. Results for the Six Months Ended October 31, 1985

For the first half of FY 1986, the Fund has incurred a deficit of SDR 20 million (see Table 1). The projections made in June 1985 indicated a net income for FY 1986 in the order of SDR 55 million, which would have implied a net income of SDR 30 million for the first six months of the year. The principal factors which explain the differences between the actual outcome for the Fund's income position at midyear and what might have been expected on the basis of the projections made in June 1985 may be summarized as follows:

(i) Deferred income - The most important factor in the shortfall of income from projections is that the amount placed to deferred income was larger by SDR 48 million than had been calculated in June 1985. The amount of deferred income for FY 1986 was projected on the basis of an indicator that reflected the ratio of net deferred charges to total charges during the preceding twelve months and which was applied to projected charges for the coming period. Because of the increased number and amount of overdue obligations and the lengthening of the

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1/ See "Accounting for Charges from Members with Overdue Obligations", Executive Board Decision No. 7930-(85/41) adopted March 13, 1985.

2/ Executive Board Decisions No. 7997-(85/90) and No. 7998-(85/90), adopted June 5, 1985. These decisions required a qualified majority of 70 percent of the voting power.

3/ A decision to add income to the Fund's reserves requires a simple majority.

Table 1. Projected Income and Expense
Financial Year 1986
(In Millions of SDRs)

| | Preliminary Projections 1/ First Half FY 1986 | FY 1986 | Actual First Half FY 1986 | Projected vs Actual Difference First Half | Revised Projections FY 1986 |
|---|---|---|---|---|---|
| 1. Operational Income | | | | | |
| a. Periodic charges: | | | | | |
| Regular facilities | 711 | 1,428 | 694 | | 1,400 |
| SFF | 344 | 650 | 311 | | 584 |
| Enlarged Access | 531 | 1,169 | 451 | | 933 |
| | 1,586 | 3,247 | 1,456 | -130 | 2,917 |
| Deduct: Charges deferred | 29 | 58 | 77 | 48 | 139 |
| Net periodic charges | 1,557 | 3,189 | 1,379 | | 2,778 |
| b. Interest on SDRs | 158 | 273 | 153 | -5 | 269 |
| c. Other income: | | | | | |
| Regular facilities | 8 | 19 | 6 | | 21 |
| Enlarged Access | 12 | 23 | 5 | | 12 |
| Total other income | 20 | 42 | 11 | -9 | 33 |
| Total operational income | 1,735 | 3,504 | 1,543 | | 3,080 |
| 2. Operational Expense | | | | | |
| a. Remuneration | 788 | 1,551 | 760 | -28 | 1,509 |
| b. Interest expense: | | | | | |
| SFF | 333 | 627 | 298 | | 559 |
| Enlarged Access 2/ | 454 | 1,010 | 386 | | 805 |
| Total interest expense | 787 | 1,637 | 684 | -103 | 1,364 |
| Total operational expense | 1,575 | 3,188 | 1,444 | | 2,873 |
| 3. Net operational income | 160 | 316 | 99 | | 207 |
| 4. Administrative expense | 130 | 261 | 119 | -11 | 239 |
| 5. Net income (deficit) | 30 | 55 | (20) | -50 | (32) |

1/ Preliminary estimates underlying the Managing Director's statement of June 5, 1985 (Buff 85/97). These estimates were based on the latest projections available at the beginning of June 1985 and therefore are different from the data in "Review of the Fund's Income Position for the Financial Years 1985 and 1986", (EBS/85/104, 4/25/85).

2/ Taking into account net income from temporary investments held in the Borrowed Resources Suspense Account.

time period they have been outstanding, the actual amount of income deferred over the first six months amounted to SDR 77 million--SDR 48 million more than implied by the projections in June 1985 for the first half of FY 1986, and which reduced actual income by the same amount.

(ii) Use of Fund resources - Members' use of Fund resources fell short of projections made at the beginning of the year, which led to a shortfall in income of SDR 26 million. These shortfalls reflected both delays in finalizing arrangements and fewer purchases than had been scheduled under existing arrangements and affected the balances subject to periodic charges and the balances financing the use of Fund credit, as well as receipts from service charges. The effect of a lower use of the Fund's ordinary resources resulted in a shortfall of periodic charges on use of ordinary resources of approximately SDR 17 million and of about SDR 2 million of service charges foregone due to these lower than estimated purchases; the lower than estimated purchases of amounts financed from borrowed resources resulted in an additional shortfall of service charges on these purchases of SDR 7 million.

(iii) Lower interest rates - Over the first six months of the financial year, the SDR interest rate averaged 7.56 percent, compared with a rate of 7.75 percent used in preparing the estimates made at the beginning of the year which had a net effect of raising income by SDR 13 million above projections. The lower SDR interest rate resulted in an average rate of remuneration of 6.96 percent, compared with an average rate of 7.10 percent assumed in June 1985, despite an increase in the remuneration coefficient from 91.66 percent to 93 percent since August 1985. Over the six-month period as a whole, remuneration expense was below the amount projected earlier by SDR 28 million partly offset by a reduction of interest income on the Fund's holdings of SDRs, which amounted to approximately SDR 5 million. The rate of periodic charges on purchases financed with borrowed resources is linked to the Fund's cost of borrowing. Lower than estimated costs of borrowing (SFF and EAR) together with a lesser use of these resources combined to reduce periodic charges on these balances by about SDR 113 million. However, the decline in interest rates also lowered the net financing costs by about SDR 103 million, so that the net effect on income was about SDR 10 million below the amount estimated earlier.

(iv) Weakening of the U.S. dollar in terms of SDRs - The Fund's administrative expenses are budgeted and authorized in terms of the U.S. dollar. For the purpose of projecting the Fund's income position the U.S. dollar estimates are converted into SDRs at the exchange rate at the time the income projections are made. The actual expenses are valued at the SDR value of the currencies used (mainly the U.S. dollar) at the time of payment. The impact of a somewhat lower SDR rate per U.S. dollar since the beginning of the financial year has reduced administrative expenses by approximately SDR 11 million for the first half of the year.

Effect of deficit on the rate of charge

Rule I-6(4)(b) prescribes that the Executive Board shall consider how to deal with a situation in which net income for the first six months of a financial year, on an annual basis, is below the target amount for the year by an amount equal to or greater than 2 percent of the Fund's reserves at the beginning of the year. 1/ That Rule also prescribes that, if on December 15 no agreement has been reached on a course of action--requiring a majority of 70 percent of the voting power--the rate of charge for the use of the Fund's ordinary resources shall be increased as of November 1 to the level necessary to reach the target amount of net income for the year.

The Fund has incurred a deficit of SDR 20 million during that period and has failed to meet its income target for the first half of FY 1986 by more than the amount that brings the safeguard clause of Rule I-6(4)(b) into effect:

| | Full Year | Half Year |
|---|---|---|
| Target income of 5 percent of reserves at the beginning of the year | 52.2 | 26.1 |
| Shortfall that would activate safeguard mechanism (2 percent of reserves at the beginning of the year) | 20.8 | 10.4 |
| Net income for the first half below which safeguard would be activated | | 15.7 |

Various alternative approaches to deal with the deficit are considered in Section IV below in the light of the revised estimates for the Fund's income position for FY 1986 as a whole, which are discussed in the following section.

## III. Revised Estimates for FY 1986

### 1. *Estimated income for FY 1986 and target income for the year*

Based on the results for the first half of the financial year and the underlying assumptions for the remainder of the year, which are detailed below, the Fund's operational income is now projected at SDR 3,080 million, and operational and administrative expenditures at SDR 3,112 million. It is thus projected that the Fund will incur a deficit in the order of SDR 32 million or SDR 84 million below the net income target for the year of SDR 52 million.

1/ Rule I-6(4) is reproduced in Appendix I.

2. Assumptions underlying the revised estimates

The differences between the estimates prepared at the beginning of the financial year and the revised estimates for the year as a whole reflect the changes that have occurred over the first six months of the financial year. The revisions are quantified in Table 2. The estimated average daily balances subject to periodic charges and the projected rates of periodic charge, SDR interest rate, and rate of remuneration are indicated in Appendix Table 1. Appendix Table 2 sets out a reconciliation of the revised estimates for the year as a whole with those estimated at the beginning of FY 1986.

The most significant changes in the assumptions, and hence in projected income relate to (i) the projected SDR interest rate and the rate of remuneration; (ii) projected use of Fund resources; (iii) projected SDR holdings; and most important of all, (iv) projected income deferral. These are discussed below.

(i) SDR interest rate and the rate of remuneration - For the purpose of estimating the Fund's income position for the year as a whole, it is customary to project that the existing SDR interest rate, rounded to the nearest tenth of one percent, will obtain for the balance of the year. On this basis, the SDR interest rate is projected at 7.6 percent for the remainder of the year, resulting in an annual weighted average rate of 7.57 percent for the year, or 0.16 percentage point below the projections made in June 1985. This implies an average weighted rate of remuneration of 7 percent for the year, compared to 7.08 percent employed in the June projections. The change in the projected average rate of remuneration reflects not only the decline in the SDR interest rate but also the increase in the remuneration coefficient from 91.66 percent of the SDR interest rate on May 1, 1985 and further to 93 percent with effect from August 1, 1985. 1/

(ii) Use of Fund resources - Estimates on the use of Fund resources are based on the projections of the use of Fund credit set out in the latest review of the Fund's financing needs, adjusted for some delays in the timing of purchases under existing and projected arrangements since that review. 2/ These revised projections suggest that purchases under stand-by and extended arrangements will amount to SDR 5.7 billion in FY 1986, of which SDR 1.7 billion was drawn in the first six months of the year. The reduction in projected purchases--they had been estimated at SDR 7.5 billion in May 1985--reflects the cancellation of some arrangements since that time as well as shifts in the timing of purchases into FY 1987. The delay in purchases and the shift to new

1/ The maximum level of the coefficient that could obtain in FY 1986 is 94.16 percent, which would be reached if the SDR interest rate fell below 7.24 percent at end-January 1986. See "The Remuneration Coefficient for the Financial Quarter Beginning November 1, 1985" (SM/85/297, 11/5/85).

2/ See "Review of the Fund's Liquidity--Financing Needs and Financial Considerations for Access Policy in 1986" (EBS/85/186, 8/7/85).

Table 2. Assumptions Underlying the Projections
Financial Year 1986
(In millions of SDRs)

| | Preliminary Projections 1/ First Half FY 1986 | Preliminary Projections 1/ FY 1986 | Actual First Half FY 1986 | Revised Projections FY 1986 |
|---|---|---|---|---|
| **Ordinary Resources** | | | | |
| 1. Purchases | | | | |
| Unremunerated reserve tranche | 200 | 400 | 59 | 400 |
| Credit tranches | 1,285 | 2,870 | 782 | 3,380 |
| Compensatory financing and Buffer Stock | 382 | 840 | 444 | 704 |
| Total | 1,867 | 4,110 | 1,285 | 4,484 |
| 2. Repurchases | 1,216 | 2,720 | 1,235 | 2,918 |
| 3. Average SDR holdings | 4,039 | 3,531 | 4,020 | 3,552 |
| **Borrowed Resources** | | | | |
| 1. SFF | | | | |
| Repayments of borrowing | 539 | 1,200 | 551 | 1,214 |
| Repurchases | 540 | 1,160 | 471 | 1,170 |
| 2. Enlarged Access | | | | |
| Purchases | 2,391 | 4,655 | 907 | 2,318 |
| Repayments of borrowing | 304 | 430 | 269 | 394 |
| Repurchases | 139 | 305 | 110 | 305 |
| **Interest Rates** | | | | |
| 1. Average SDR interest rate (percent) | 7.75 | 7.73 | 7.56 | 7.57 |
| 2. Average rate of remuneration (percent) | 7.10 | 7.08 | 6.96 | 7.00 |
| 3. Average rate of charge (percent) | 7.00 | 7.00 | 7.00 | |
| 4. Average SFF interest rate (percent) | 11.12 | 11.12 | 9.95 | 9.92 |
| 5. Average net cost of borrowing under enlarged access policy (percent) | 10.18 | 10.18 | 9.39 | 9.35 |
| Income Deferred | 29 | 58 | 77 | 139 |

1/ Preliminary estimates underlying the Managing Director's statement of June 5, 1985 (Buff 85/97). These estimates were based on the latest projections available at the beginning of June 1985 and therefore are different from the data in "Review of the Fund's Income Position for the Financial Years 1985 and 1986", (EBS/85/104, 4/25/85).

arrangements results in comparatively larger use of the Fund's ordinary resources as members' access within the credit tranches is reestablished through the completion of scheduled repurchases.

Compensatory financing and buffer stock purchases are now estimated at SDR 705 million (compared with earlier estimates of SDR 840 million) of which SDR 444 million was purchased in the first half of the year. Estimates of purchases in the unremunerated reserve tranche remain unchanged at SDR 400 million. The changes in the estimated use of Fund resources resulted in a modest reduction in the average balance of holdings subject to charges to SDR 20 billion compared to SDR 20.4 billion first estimated, and a reduction in operating income of SDR 40 million reflecting both reduced proceeds from service charges and from periodic charges.

(iii) Holdings of SDRs by the Fund - SDR holdings totaled SDR 3.5 billion at end-October 1985 and averaged SDR 4 billion over the first six months. While the absolute holdings and average holdings thus far are somewhat higher than estimated at the beginning of the year--which reflect in part the shifts in timing of members' purchases discussed earlier and the greater use by members of SDRs in effecting repurchases than assumed earlier--it is expected that these holdings will be reduced over the remainder of the year in order to attain the target level of SDR holdings of SDR 2.5 billion by end-May 1986 and that average holdings will closely approximate the original estimate.

(iv) Overdue obligations of members - Overdue financial obligations to the Fund have increased from a level of SDR 224 million at end-April to about SDR 478 million at end-October and SDR 529 million by mid-November. As already mentioned, the increase in the incidence and the period of overdue payments has a marked effect on current income of the Fund as charges accrued from members that are six months or more overdue in their financial obligations to the Fund are recognized as income only when they are actually received unless such members are current in their payment of charges. The projection of net income to be deferred for FY 1986 as a whole is a critical element in the projection of the Fund's net income for the financial year. In making such a projection, an assumption needs to be made regarding the present amount of deferred income that might be paid during the remainder of the year as well as regarding further amounts of income that might need to be deferred in the remaining six months of the year. Various methods that could be employed for making such projections were discussed in the last staff paper reviewing the Fund's income position. 1/ These included an assumption that all income deferred during the year would be received before the end of the financial year, and no further deferrals would become necessary, or that the outstanding amount of deferred income would not change. Under either of these assumptions, net income projections would not be affected by the adoption of nonaccrual accounting.

1/ See "Review of the Fund's Income Position for the Financial Years 1985 and 1986" (EBS/85/104, 4/25/85), pp. 9-11.

Another approach that was discussed was based on the assumption that there would be no change in the accounting status of members from that pertaining at the beginning of the financial year or at the midyear review of the Fund's income position. This assumption would be analogous to the assumption that the SDR interest rate obtaining at the time the projections are made would continue unchanged for the remainder of the year. On that assumption, all charges to be accrued over the next six months from the eight members presently overdue for six months or more in meeting financial obligations to the Fund would also be deferred. These charges are projected at SDR 70 million for the period November 1985-April 1986, and the total of deferred charges for FY 1986 would be SDR 147 million (see Appendix Table 4).

The approaches noted above suffer from the disadvantage that they necessarily carry implications as to the payments to be made or not made by particular member countries in the remainder of the financial year. In order to avoid these implications, the staff proposed another approach, namely to develop an indicator of the amount of accrued income to be deferred that would be based on past experience in the Fund. The proposed indicator would be determined as a ratio of net deferred charges to total charges during the preceding twelve months (the "net deferral coefficient") and would be applied to projected charges for the coming period. In order to avoid undue weight being given to short-term coincidental factors that might influence the net deferral coefficient, the total income actually deferred during the preceding twelve months was also taken into account. On the basis of the higher of these two calculations, the amount of accrued income projected for FY 1986 in the absence of deferrals was reduced by SDR 58 million. 1/

At the time of the last review of the Fund's income position, the staff indicated that the same approach for determining projected deferred income would be used for the midyear income review. Calculation of the net deferral coefficients for the second half of FY 1986 are summarized in Table 3. They indicate a sharp rise in the coefficient to 4.26 percent, reflecting the marked increase in deferred income over the last six months. Application of the coefficient to the amount of projected periodic charges for the remainder of FY 1986 of SDR 1,461 million would indicate a potential addition to deferred income in the second half of the financial year of SDR 62 million. Taking into account the amount of income deferred during the first half of FY 1986, deferred total accrued income in FY 1986 as a whole would be SDR 139 million, and that figure has been used in the projections of the Fund's income position noted earlier (see Table 2, page 7). 2/

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1/ See "Review of the Fund's Income Position for the Financial Years 1985 and 1986" (EBS/85/104, 4/25/85), page 11. Discharge of overdue obligations after the issue of this paper reduced deferrals in FY 1985 to SDR 56 million.

2/ The effect on income of deviations from the projections is discussed in the next section.

Table 3. Deferred Charges 1/

(In millions of SDRs)

| Quarter ended | Charges deferred | Payments received | Net deferred during quarter | Total charges | Net deferred as percent of total charges |
|---|---|---|---|---|---|
| January 1985 | 55.56 | 3.16 | 52.40 | 758.59 | 6.91 |
| April 1985 | 15.33 | 18.78 | -3.25 | 740.80 | -0.44 |
| July 1985 | 37.73 | 18.77 | 18.96 | 730.89 | 2.59 |
| October 1985 | 68.61 | 10.83 | 57.78 | 725.39 | 7.97 |
| Year ended October 31, 1985 | 177.23 | 51.54 | 125.89 | 2,955.67 | 4.26 |

1/ Amounts of deferred charges shown for the quarters ended January 1985 and April 1985 on the assumption that the nonaccrual policy (which was adopted in March 1985) had been in effect at the time.

(v) Special charges and provisions - These are two matters presently under consideration which could affect the Fund's income in FY 1986. The sharp increase of overdue financial obligations has led to consideration whether the Fund should impose special charges in overdue obligations, and the Executive Board will shortly resume its consideration of this issue. 1/ The staff is also examining the question, raised by the External Auditors, whether a loss through the failure to complete repurchases is probable, which would necessitate consideration of establishing contingency provisions against loan loss.

Pending consideration of these matters in the Executive Board, the possible effect on the Fund's income has not been taken into account in the projections in the present paper.

## 3. Effects of deviations from assumptions and projections

As has been discussed in previous reviews, the Fund's income is highly sensitive to relatively minor changes in some of the variables on which the projections are based. In the recent past, which has been characterized by historically high and volatile changes in interest rates, the SDR rate of interest has been the most important variable in this regard; comparatively small variations in market interest rates have in the past led to marked deviations of income from the projections.

1/ See "Special Charges to Recover Costs and Losses Arising from Members' Overdue Financial Obligations to the Fund" (EBS/85/242, 10/29/85).

The impact of changes in the SDR interest rate, and hence on the rate of remuneration and possibly the remuneration coefficient have become somewhat less significant on the level of the Fund's income as market interest rates in the major financial centers declined and short-term fluctuations became less marked. With the sharp rise in overdue payments, changes in the level of the Fund's accrued income resulting from the amounts placed to deferred income have come to exert the most significant influence on the projections of the Fund's income position in any given financial year.

The effect on the Fund's income of increases or decreases in the SDR interest rate are presented in Appendix Table 3, together with the effects of variation in the demand for Fund credit. As can be seen from the table, at the projected level of use of Fund resources and a rate of charge of 7 percent, an increase or decline in the SDR interest rate of 10 basis points from the present level of about 7.6 percent--that is, to 7.7 percent or 7.5 percent--will increase or decrease the Fund's deficit by about SDR 8 million and about SDR 3 million, respectively.

Appendix Table 3 also shows the impact of changes in the projected levels of the use of the Fund's resources on its income position. Purchases in the unremunerated reserve tranche--which have the sharpest impact on the Fund's income as they normally increase the Fund's remuneration expense but do not affect its income from charges--which are higher or lower than projected by SDR 100 million would result in an increase or decrease in the deficit by SDR 2 million. Additional purchases (or shortfalls) in the credit tranche purchases of SDR 500 million would lead to a decrease (or increase) of the deficit of about SDR 2 million.

These variations in the SDR interest rate, and associated rates, and in the use of Fund resources are likely to be small in relation to the possible variations in the amount of accrued income placed to a deferred status.

As discussed above, income deferred during the first half of FY 1986 amounted to SDR 77 million, which exceeded the projection for deferred income of SDR 29 million by SDR 48 million. The increase in the amount of deferred income for the first half of FY 1986 was almost as much as the net income target for the whole year. The allowance for income deferrals for the second half of the year--an additional SDR 62 million--is subject to a substantial margin of error because recent past experience as regards the discharge of overdue obligations may not be a good guidance for the future. Indeed, the discharge of presently outstanding obligations is governed by the action of a few countries in special and very difficult economic and financial circumstances.

While it is not possible to indicate the amount of deferred charges for FY 1986 with any degree of accuracy or confidence, the outer bounds of the amounts concerned and the impact on the Fund's income position can be reasonably estimated. Deferred income at present amounts to SDR 139.5 million. 1/ If the total amount were settled forthwith and all members remained current in paying charges thereafter, the Fund would record a net income of SDR 170 million in FY 1986 rather than the deficit of SDR 32 million indicated in the projections presented above. Conversely, if members presently on a nonaccrual basis and also other members with overdue payments at October 31, 1985 were overdue for six months or more by the end of the financial year and charges due from them were accounted for as deferred rather than current income, income deferred in FY 1986 would amount to about SDR 255 million rather than the projected SDR 139 million--the deficit would be SDR 148 million. 2/

## IV. The Rate of Charge for the Remainder of FY 1986

### 1. Safeguard provisions of Rule I-6(4)(b)

During the first six months of FY 1986 the Fund has experienced a deficit of SDR 20 million, compared with an implied target amount of net income of SDR 26 million for the same period, or SDR 52 million for the whole of FY 1986. As mentioned earlier, the annualized shortfall in the Fund's net income position exceeds 2 percent of reserves at the beginning of the financial year and the safeguard provisions of Rule I-6(4)(b) are thereby activated. These provisions prescribe that the Executive Board shall consider how to deal with the situation. If no agreement--which requires a majority of 70 percent of the voting power--has been reached as a result of this consideration by December 15, the rate of charge on the use of the Fund's ordinary resources shall be increased, as of November 1, to the level necessary to reach the target amount of income for the year. As discussed above, the income projections made on the basis of assumptions determined as in the past and including an allowance for potential deferral of income during the next six months show a deficit of SDR 32 million for FY 1986 as a whole. The rate of charge necessary to generate additional income of SDR 84 million required to reach the net income target of SDR 52 million would be 7.87 percent.

### 2. Other possible courses of action

In their consideration of other possible courses of action to deal with the deficit, the Executive Directors might find it helpful if the staff outlined some alternative approaches and discussed implications of these alternatives for the Fund's income position for FY 1986.

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1/ SDR 62.8 million at April 30, 1985, plus SDR 76.7 million deferred so far in FY 1986.

2/ Actual deferred income by member at October 31, 1985, are shown in Appendix Table 4, as well as projected charges accruing during the second half from members that are presently overdue to the Fund.

a. General principles

Over recent years, the Executive Directors have discussed a number of general principles that might guide them in their consideration of the Fund's income position and of the factors most directly affecting it, such as the rate of charge, the rate of remuneration, and the adequacy of the Fund's reserves. The Executive Board has achieved a wide consensus on the following:

(i) to achieve a moderate net income each year, both to allow some growth in the Fund's reserves and as a sign of a prudently managed international financial institution. In the light of the uncertainties facing the Fund, and particularly the sharp rise in overdue financial obligations and the corresponding exposure to financial risks, the net income target earlier this year was increased from 3 percent to 5 percent of reserves;

(ii) to maintain a relatively close relation among the return on Fund-related assets, particularly as between the SDR rate of interest and the rate of remuneration, and the intent that that relation should be relatively stable and predictable. 1/ It was also generally regarded as desirable that these rates of return on Fund-related assets should bear a reasonably close relationship to short-term market rates of interest; and

(iii) the rate of charge on the use of ordinary resources should continue to include an element of concessionality, and the rate should be as stable as possible.

These principles to some extent point in conflicting directions; for example, it may not be possible to maintain the rate of charge below market rates and at the same time achieve a stable rate of charge which would also ensure that the Fund met its net income target. Nevertheless, the Executive Board could take these principles into account when considering action either solely or in some combination with respect to (i) the rate of charge on the use of the Fund's ordinary resources; (ii) the rate of remuneration; and (iii) the Fund's income target and the level of reserves. Some illustrative courses of action are discussed below for the consideration of the Executive Board.

b. Increasing the rate of charge

As discussed above, the source of the Fund's deficit can be attributed to the impact of the rising volume of arrears on the level of the Fund's accrued income, and in the absence of other action by the Executive Board, the rate of charge on the use of ordinary resources would increase to an extent that gives reasonable assurance that the net income target is reached. The increase in the rate of charge that would be triggered

1/ "The Rate of Remuneration and the Fund's Income Position" (EBS/83/237, 11/2/83), pp. 6-7, 16-17.

by the application of Rule I-6(4)(b) from 7 percent to 7.87 percent per annum on the basis of the staff's estimates presented in this paper might be regarded as inconsistent with maintaining an appropriate element of concessionality on Fund charges, given recent trends in interest rates in the major financial centers and that such a rate of charge would at present exceed the SDR interest rate. Furthermore, a relatively sharp increase in the rate of charge would also add to the burden of member countries facing difficult problems of balance of payments adjustment. Consideration might, therefore, be given to lessen the immediate impact of the cost of protecting the Fund's financial position in present circumstances. Two types of action which would lead to a provisional setting of a charge might be considered in this regard:

(i) Retroactive increase in rate of charge - Because the discharge of deferred income could very materially affect the Fund's income position, and notwithstanding the uncertainties regarding the timing of the discharge of deferred income, consideration could be given to continue provisionally the current rate of charge, but to agree to increase it further if events would bear out the negative prognosis on arrears and the Fund's deficit unless the Executive Board decided otherwise with a qualified majority. For example, a retroactive adjustment in the rate of charge could take place on the basis of a further review of the Fund's income position in, say, three months time, by which time the level of deferred charges could be smaller than now exists or smaller than the amount presently calculated and the extent, if any, of the increase in the rate of charge needed to achieve the Fund's net income target might be lower than would the case now. Against this course of action, however, is the possibility that the level of deferred income might be larger than now projected and any subsequent adjustment in the rate of charge would be larger than now called for. The retroactive adjustment of the rate of charge would also increase uncertainty as regards the cost of using Fund credit to the debtor countries.

(ii) Retroactive distribution of excess net income - An alternative course of action would be to take the measures necessary to protect the Fund's financial position now with an understanding that a subsequent increase in the Fund's income in excess of the amount needed to achieve its net income target and which arose from the discharge of currently overdue charges, would be returned on a retroactive basis and in an agreed manner to those members that were affected by the measures taken to protect the Fund's financial position. A retroactive use of net income received from the discharge of overdue charges may be a more appropriate course to follow than a retroactive increase in the rate of charge.

c. Limiting the increase in the rate of charge

As noted above, an increase in the rate of charge on ordinary resources to the level necessary to meet the net income target (7.87

percent per annum) would bring that rate above the present SDR interest rate of 7.6 percent. In accordance with Rule I-10(d) 1/ this would call for a review of the remuneration coefficient and, in particular, the Executive Board will consider whether the remuneration coefficient should be set, within the range permitted by the Articles, 2/ at a level to permit the rate of charge to be set equal to the SDR interest rate and still meet the target amount of income for the financial year. A decision to change the remuneration coefficient would need to be adopted with 70 percent of the voting power. In these circumstances, the Executive Directors might wish to consider limiting the increase in the rate of charge so as to equal the SDR interest rate and most probably consider some action with respect to the remuneration coefficient, as described below.

(i) Equalizing the rate of charge and SDR interest rate - If the rate of charge were to be set equal to the SDR interest rate, and if the SDR interest rate stayed at the present level (of about 7.6 percent), net income for the year would be SDR 22 million, i.e., SDR 30 million below the net income target. Under this approach, the Fund would have a positive (average) margin of operational income above the cost of resources and net income would be the higher the more the SDR interest rate increased, and the lower the more the SDR interest rate declined in the coming months from the present level. (The income target would be reached with the presently estimated remuneration coefficient only if the rate of charge and the SDR interest rate were to average about 9 percent over the second half of the financial year, which would not appear probable at this stage.)

The equilization of the rate of charge and the SDR interest rate would result in the need to adjust the rate of charge on a weekly basis as is the case with the SDR interest rate. An important element of stability in the rate of charge would thus be lost, as would the certainty of what the rate of charge would be for a six-month period ahead. However, a weekly calculation of the rate of charge to keep it in line with the SDR interest rate would result in a closer approximation to market trends of that rate, which in the past has neither risen nor fallen as sharply or as quickly as market interest rates.

(ii) Adjustment of the remuneration coefficient - If Executive Directors wished to achieve the net income target without the rate of charge exceeding the SDR interest rate, the remuneration coefficient would have to be reduced with effect from November 1, 1985 to 89.30 percent (from 93 percent at present) for the remainder of the financial year if the SDR interest rate remained at the present level of about 7.6 percent, and all the other assumptions on which the income projection is based turned out to be correct. A reduction in the remuneration

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1/ Rule I-10 is reproduced in Appendix II.

2/ In accordance with Article V, Section 9(a), the rate of remuneration shall be not more than, and not less than four fifths of, the SDR interest rate.

coefficient to this extent could again raise the issues discussed in 1983 of the impact of a relatively low rate of remuneration on the readiness of creditor members to enlarge their reserve tranche positions, and thereby help maintain the Fund's liquidity position. As noted in 1983, the rate of remuneration also has an effect on members' attitudes as regards increasing quotas in the Fund.

The Executive Directors will recall that Rule I-10 provides (i) that the rate of remuneration shall be increased by 3.33 percentage points on May 1, 1984, 1985, and 1986, and (ii) that the remuneration coefficient could move inversely with the level of the SDR interest rate, but not below the base level achieved at the beginning of the financial year (91.66 percent of the SDR rate on May 1, 1985). If Executive Directors felt it necessary to reduce the remuneration coefficient in present circumstances, it is for consideration whether the extent of the reduction should be to a level equal to 91.66 percent of the SDR rate as determined by Rule I-10(b)(1) as of May 1, 1985. A reduction in the coefficient to 91.66 percent for the remainder of FY 1986 would effectively suspend that part of the Rule whereby the remuneration coefficient moves inversely with the level of the SDR interest rate but not below the base level determined at the beginning of the financial year. However, if the rate of charge were set equal to the SDR interest rate, and if the SDR interest rate remained at its present level of 7.6 percent, and the remuneration coefficient were set at 91.66 percent of the SDR interest rate, the Fund would earn a net income of SDR 33 million for FY 1986, or 3 percent of the Fund's reserves, and which is SDR 19 million below the net income target.

(iii) Use of Fund reserves - The question may also be raised whether in present circumstances the Fund itself should not carry some of the risk of overdue charges by earning lesser income or even incurring a deficit which would lead to a reduction in its reserves. As mentioned above, a major uncertainty for the Fund concerns the timing of the discharge of deferred charges and the rate at which new overdue obligations are incurred with the consequential swings in the Fund's income position that result from changes in the level of deferred income. In these circumstances, it might be argued that some of the effects of overdue payments and the impact on the Fund's income could temporarily be borne by reserves that have been accumulated for this purpose, as long as the reverse would also be the case, that is, there would be a somewhat faster accumulation when overdue obligations are discharged and deferred income realized. However, as the paper notes, the risk of a substantial rise in deferred income beyond the estimates presented by the staff cannot be precluded. In fact, the total of deferred income could become a significant proportion of the Fund's reserves. Furthermore, a temporary fall in net income, perhaps to the point of accepting another reduction in its reserves, would not seem consistent with the recent measures taken by the Fund to strengthen the Fund's financial position in view of the financial exposure the Fund is currently facing because of rising overdue obligations. Indeed, it would seem to reverse a policy that was instituted to meet difficulties arising from overdue obligations at a time when those difficulties are becoming more acute.

(iv) Combination of actions - As indicated earlier, it would be possible to combine some of the courses of action outlined in the preceding paragraphs. One way in which they could be considered while keeping intact the net income target would be to raise the rate of charge on the use of ordinary resources to the level of the SDR interest rate with effect from November 1, 1985. The remuneration coefficient could be lowered to 89.3 percent also with effect from November 1, 1985 for the balance of FY 1986. It would be understood that income in excess of the projection and which resulted from the subsequent discharge of overdue obligations would be the occasion first to return amounts that would permit an increase in the rate of remuneration, to the extent it would have taken place in the absence of the temporary suspension, and then to permit a reduction in the rate of charge to the level that would otherwise have obtained during the second half of FY 1986 (i.e., 7 percent).

Rule I-6(4):

(4) The rate of charge on holdings acquired as a result of a purchase (i) in the credit tranches, or (ii) under the Extended Fund Facility (Executive Board Decision No. 4377-(74/114), as amended), or (iii) under the Facility for the Compensatory Financing of Export Fluctuations (Executive Board Decision No. 4912-(75/207), as amended), or (iv) under the Facility for the Problem of Stabilization of Prices of Primary Products (Executive Board Decision No. 2772-(69/47), as amended), or (v) under the Facility for Compensatory Financing of Fluctuations in the Cost of Cereal Imports (Executive Board Decision No. 6860-(81/81)), shall be determined in accordance with (a), (b), and (c) below.

(a) The rate of charge shall be determined at the beginning of each financial year on the basis of the estimated income and expense of the Fund during the year and the target amount of net income for the year. The latter shall be 3 percent of the Fund's reserves at the beginning of the year or such other percentage as the Executive Board may determine particularly in the light of the results in the previous financial year.

(b) A mid-year review of the Fund's income position shall be held shortly after October 31 of each year. If actual net income for the first six months of the financial year, on an annual basis, is below the target amount for the year by an amount equal to, or greater than, two percent of the Fund's reserves at the beginning of the financial year, the Executive Board will consider how to deal with the situation. If on December 15 no agreement has been reached as a result of this consideration, the rate determined under (a) at the beginning of the year shall be increased as of November 1 to the level necessary to reach the target amount of net income for the year.

(c) A review of the Fund's income position shall be held shortly after the end of each financial year. If the net income for the year just ended is in excess of the target amount for the year, the Executive Board will consider whether the whole or a part of the excess should be used to reduce the rate of charge, or increase the rate of remuneration to not more than the rate of interest of the SDR, retroactively for the year just ended, or both, or to place all or part of the excess to reserve.

(d) If the Fund's net income for a financial year is in excess of the target amount for that year, the Executive Board may for the purposes of the determinations and estimates referred to in (a) and (b) above in respect of the immediately subsequent financial year, decide to deem any part of the excess over the target amount that has been placed to reserve as income for that subsequent financial year.

Rule I-10:

(a) The rate of remuneration shall be equal to 85 percent of the rate of interest on holdings of SDRs under Rule T-1 (hereafter referred to as the "SDR interest rate"). The relationship of the rate of remuneration to the SDR interest rate will be referred to as the "remuneration coefficient".

(b) Beginning April 30, 1984, the remuneration coefficient during each quarter shall be at the level determined under (1), (2), (3), and (4) below, but no higher than permitted by Article V, Section 9(a):

(1) During the period May 1, 1984 to April 30, 1987, the remuneration coefficient shall be the higher of (i) or (ii) below:

(i) The remuneration coefficient in effect on January 1, 1984 increased by 3.33 percentage points in each of the three financial years beginning May 1, 1984, May 1, 1985, and May 1, 1986;

(ii) The remuneration coefficient in effect on January 1, 1984, increased or decreased on the first day of each quarter by one percentage point for each 1/6 of one percentage point that the SDR interest rate on the day before the beginning of the quarter is below or above the SDR interest rate in effect on April 30, 1984, provided that the remuneration coefficient in any quarter in each of these three financial years shall not be more than 2.5 percentage points above the amount of the coefficient for that year as determined under (i) above.

(2) Following the adjustment in the remuneration coefficient on May 1, 1986, the rate of remuneration shall be reviewed before May 1, 1987. This review shall be conducted in the light of all the relevant considerations, including, in particular, the SDR interest rate and the rate of charge.

(3) Beginning May 1, 1987, the remuneration coefficient shall be the higher of (i) or (ii) below:

(i) The remuneration coefficient existing at the end of the preceding financial year;

(ii) A remuneration coefficient of 95 percent, increased or decreased on the first day of each quarter by one percentage point for each 1/6 of one percentage point that the SDR interest rate on the day before the beginning of a quarter is below or above the

SDR interest rate on April 30, 1987, provided that the remuneration coefficient in any quarter of a financial year shall not be more than 2.5 percentage points above the level at the end of the preceding year.

(4) The rate of remuneration, while less than 100 percent of the SDR interest rate, shall be rounded to the nearest two decimal places.

(c) The operation of (b) above shall be reviewed on the occasion of the reviews of the rate of charge under Rule I-6(4) and the SDR interest rate under Rule T-1(d).

(d) If the rate of charge on holdings specified in Rule I-6(4) should exceed the SDR interest rate, the Executive Board shall review the remuneration coefficient, and, in particular, will consider whether the remuneration coefficient should be set, within the range in Article V, Section 9(a), at such a level as would permit the rate of charge to be set under Rule I-6(4)(a) or (b) at the same level as the SDR interest rate referred to above and still meet the target amount of net income for the financial year.

Table 1. Average Daily Balances and Rates of Perodic Charges,
SDR Interest, Remuneration, and Interest on Borrowing 1/
Financial Year 1986
(In Millions of SDRs)

| | Preliminary Projections 2/ First Half FY 1986 | Preliminary Projections 2/ FY 1986 | Actual First Half FY 1986 | Revised Projections FY 1986 |
|---|---|---|---|---|
| Ordinary Resources | | | | |
| 1. Balances subject to periodic charges | 20,132 | 20,400 | 19,672 | 20,002 |
| Average rate of charge | 7.00 | 7.00 | 7.00 | |
| 2. Holdings of SDR in General Resources Account | 4,039 | 3,530 | 4,020 | 3,552 |
| Average rate | 7.75 | 7.73 | 7.56 | 7.57 |
| 3. Revenue-producing balances | 24,171 | 23,930 | 23,692 | 23,555 |
| Weighted average rate of revenue | 7.13 | 7.11 | 7.09 | |
| 4. Remunerated positions | 22,023 | 21,906 | 21,637 | 21,571 |
| Average rate of remuneration | 7.10 | 7.08 | 6.96 | 7.00 |
| 5. Pro memoria | | | | |
| Margin between rate of charge and the average rate of remuneration | -0.10 | -0.08 | 0.04 | |
| Borrowed Resources | | | | |
| 1. Balances subject to periodic charges | | | | |
| SFF | 5,995 | 5,710 | 6,044 | 5,735 |
| Enlarged Access | 10,146 | 11,260 | 9,316 | 9,772 |
| Total | 16,141 | 16,970 | 15,360 | 15.507 |
| Average rate of charge | | | | |
| SFF | 11.39 | 11.39 | 10.21 | 10.18 |
| Enlarged Access | 10.38 | 10.38 | 9.61 | 9.55 |
| Combined | 10.72 | 10.72 | 9.84 | 9.78 |
| 2. Borrowings: | | | | |
| SFF | 5,934 | 5,635 | 5,933 | 5,632 |
| Enlarged Access | 8,862 | 9,955 | 8,175 | 8,607 |
| Total | 14,796 | 15,590 | 14,108 | 14,239 |
| Average rate of interest | | | | |
| SFF | 11.12 | 11.12 | 9.95 | 9.92 |
| Enlarged Access | 10.18 | 10.18 | 9.39 | 9.35 |
| Combined | 10.52 | 10.52 | 9.63 | 9.58 |

1/ Based on the assumptions discussed above.

2/ Preliminary estimates underlying the Managing Director's statement of June 5, 1985 (Buff 85/97). These estimates were based on the latest projections available at the beginning of June 1985 and therefore are different from the data in "Review of the Fund's Income Position for the Financial Years 1985 and 1986", (EBS/85/104, 4/25/85).

Table 2. Effects on Net Income for 1986
of Differences between Original and Revised Estimates

(In millions of SDRs)

| | Original Estimates April 1985 | Revised Estimates | Difference | Explanation of Differences between Original and Revised Estimates: Less than Estimated Use of Resources | Lower than Estimated Average: Interest Rates | Lower than Estimated Average: Rate of Remuneration | Higher than Estimated SDR Holdings | Other |
|---|---|---|---|---|---|---|---|---|
| 1. Operational income | | | | | | | | |
| a. Periodic charges | 1,428 | 1,400 | -28 | -28 | -- | -- | -- | -- |
| b. Interest on SDR holdings | 273 | 269 | -4 | -- | -6 | -- | +2 | -- |
| c. Charges from borrowed resources net of interest expense | 182 | 153 | -29 | -3 | -- | -- | -- | -26 1/ |
| c. Service charges | 42 | 33 | -9 | -9 | -- | -- | -- | -- |
| | 1,925 | 1,855 | -70 | -40 | -6 | -- | +2 | -26 1/ |
| d. Deduct: charges deferred | 58 | 139 | -81 | -- | -- | -- | -- | -81 |
| Total | 1,867 | 1,716 | -151 | -40 | -6 | -- | +2 | -107 |
| 2. Operational expense | | | | | | | | |
| Remuneration | 1,551 | 1,509 | -42 | -25 | -- | -17 2/ | -- | -- |
| 3. Net operational income | 316 | 207 | -109 | -15 | -6 | +17 | +2 | -107 |
| 4. Administrative expense | 261 | 239 | -22 | -- | -- | -- | -- | -22 |
| 5. Net income (deficit) | 55 | (32) | -87 | -15 | -6 | +17 | +2 | -85 |

1/ Lower income resulting from (a) a decrease in rates used to impute the cost of the use of ordinary resources to finance purchases of borrowed resources and (b) lower than estimated use of ordinary resources to finance purchases of borrowed resources under the enlarged access facility, the effect of which is offset in part by lower remuneration expense of approximately SDR 9 million.

2/ The reduction of SDR 17 million is the result of a drop in the average rate of remuneration of 8 basis points, from an original estimate of 7.08 percent. The change in the remuneration coefficient, however, from 91.66 percent to 93 percent on August 1, 1985 through January 31, 1986 and to 92 percent from February 1, 1986 through April 30, 1986 will result in an increase in remuneration expense of SDR 12 million.

Table 3. Effect on Income of Variances from the Assumption on the Fund's Income Position and the Rate of Charge Financial Year 1986

(In millions of SDRs)

| | Average SDR Rate of Interest for the Second Half of FY 1986 (percent) | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Remuneration Coefficient 1/ | 7.20 | 7.30 | 7.40 | 7.50 | 7.60 | 7.70 | 7.80 | 7.90 | 8.00 |
| February 1 - April 30, 1986 | 94.16 | 94 | 94 | 93 | 92 | 92 | 91.66 | 91.66 | 91.66 |
| Purchases in the unremunerated reserve tranche and in the credit tranches during the second half of 1986 (including special facilities) | | | | | | | | | |
| 1. As projected in Table 2 | | | | | | | | | |
| Net income 2/ | -10 | -17 | -24 | -29 | -32 | -40 | -47 | -54 | -62 |
| Rate of charge (percent) 3/ | 7.64 | 7.71 | 7.78 | 7.82 | 7.87 | 7.94 | 8.01 | 8.09 | 8.18 |
| 2. Purchases in the unremunerated reserve tranche, higher by SDR 100 million | | | | | | | | | |
| Net income 2/ | -12 | -19 | -26 | -31 | -34 | -41 | -48 | -55 | -64 |
| Rate of charge (percent) 3/ | 7.66 | 7.73 | 7.80 | 7.84 | 7.89 | 7.96 | 8.03 | 8.11 | 8.20 |
| 3. Purchases in the unremunerated reserve tranche, lower by SDR 100 million | | | | | | | | | |
| Net income 2/ | -8 | -15 | -22 | -27 | -30 | -37 | -44 | -51 | -60 |
| Rate of charge (percent) 3/ | 7.62 | 7.69 | 7.76 | 7.80 | 7.85 | 7.92 | 7.99 | 8.07 | 8.16 |
| 4. Credit tranche purchases, higher by SDR 500 million | | | | | | | | | |
| Net income 2/ | -8 | -15 | -22 | -27 | -30 | -37 | -44 | -51 | -60 |
| Rate of charge (percent) 3/ | 7.62 | 7.69 | 7.76 | 7.80 | 7.85 | 7.92 | 7.99 | 8.07 | 8.16 |
| 5. Credit tranche purchases, lower by SDR 500 million | | | | | | | | | |
| Net income 2/ | -12 | -19 | -26 | -31 | -34 | -41 | -48 | -55 | -64 |
| Rate of charge (percent) 3/ | 7.66 | 7.73 | 7.80 | 7.84 | 7.89 | 7.96 | 8.03 | 8.11 | 8.20 |

1/ The remuneration coefficient in effect from May 1, 1985 to July 31, 1985 was 91.66 percent, and became 93 percent from August 1, 1985 through January 31, 1986.

2/ Net income for the year at the present rate of charge of 7.00 percent.

3/ Rate of charge in second half of year necessary to produce the annual target income of SDR 52 million

Table 4. Deferred Charges, Actual and Estimated, of Members Overdue in Payments to the Fund at October 31, 1985

(In millions of SDRs)

| | Balance Apr. 30, 1985 | Actual First Half FY 1986 | Estimated Second Half FY 1986 | Total FY 1986 | Balance Apr. 30, 1986 |
|---|---|---|---|---|---|
| Overdue for six months or more: | | | | | |
| Guyana | 2.61 | 2.30 | 2.95 | 5.25 | 7.86 |
| Kampuchea, Democratic | 7.13 | 0.38 | 0.43 | 0.81 | 7.94 |
| Liberia | -- | 12.85 | 8.76 | 21.61 | 21.61 |
| Sierra Leone | -- | 4.61 | 2.80 | 7.41 | 7.41 |
| Sudan | 50.14 | 7.95 | 25.19 | 33.14 | 83.28 |
| Tanzania | -- | 1.56 | 0.92 | 2.48 | 2.48 |
| Viet Nam | 2.92 | 1.00 | 0.99 | 1.99 | 4.91 |
| Zambia | -- | 46.08 | 28.04 | 74.12 | 74.12 |
| Subtotal | 62.80 | 76.74 | 70.08 | 146.82 | 209.62 |
| Overdue 30 days - six months: | | | | | |
| Gambia, The 1/ | | | 2.39 | 2.39 | 2.39 |
| Peru 1/ | | | 37.35 | 37.35 | 37.35 |
| Somalia 1/ | | | 13.35 | 13.35 | 13.35 |
| Subtotal | | | 53.09 | 53.09 | 53.09 |
| Overdue less than 30 days 1/ | | | 55.54 | 55.54 | 55.54 |
| Total - All members overdue | 62.80 | 76.74 | 178.71 | 255.45 | 318.25 |

1/ Amount shown is income that would have to be deferred if member did not discharge payments overdue at October 31, 1985.

Table 5. Factors Explaining the Difference Between the Rate of Remuneration and the Rate of Charge Under Rule I-6(4) FY 1986

| | Preliminary Estimates | Revised Estimates |
|---|---|---|
| 1. Rate of remuneration | 7.08 | 7.00 |
| 2. Rate of charge under Rule I-6(4): | 7.00 | 7.00 |
| 3. Difference | 0.08 | -- |
| Explained by: | | |
| Rate of remuneration x $\frac{\text{Interest-free resources}}{\text{Use of Fund credit}}$ | 1.18 | 1.14 |
| Difference between SDR interest rate and rate of remuneration x $\frac{\text{SDR holdings}}{\text{Use of Fund credit}}$ | 0.11 | 0.10 |
| $\frac{\text{Income from service charges}}{\text{Use of Fund credit}}$ x 100 | 0.21 | 0.16 |
| $\frac{\text{Income from margins on SFF and Enlarged Access}}{\text{Use of Fund credit}}$ 1/ x 100 | 0.41 | 0.32 |
| $\frac{\text{Deficit}}{\text{Use of Fund credit}}$ x 100 | -- | 0.16 |
| Less: | | |
| $\frac{\text{Charges deferred}}{\text{Use of Fund credit}}$ x 100 | -0.28 | -0.69 |
| $\frac{\text{Administrative expense}}{\text{Use of Fund credit}}$ x 100 | -1.28 | -1.19 |
| $\frac{\text{Target income}}{\text{Use of Fund credit}}$ x 100 | -0.27 | -- |
| | 0.08 | - |

1/ Income from margins, net of remuneration expense resulting from the substitution of ordinary for borrowed resources.