INTERNATIONAL MONETARY FUND

Review of the Fund's Income Position for FY 2006 and FY 2007

Prepared by the Finance Department

In consultation with the Legal Department and other departments

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I. INTRODUCTION

1. This paper provides the basis for the Executive Board's annual review of the Fund's income position, the burden-sharing mechanism, and the system of special charges, and makes proposals for the rate of charge in FY07, as required under Rule I-6(4). The paper complements the recent budget paper.

2. The proposals in the paper have been developed in the context of the Board's recent discussion of the Fund's medium-term income outlook. On March 6 Executive Directors had a wide-ranging discussion on the Fund's income outlook, which has changed significantly following the recent sharp decline in credit outstanding.[1] Directors agreed that the Fund needs to ensure a stable and durable income base in order to continue to pursue its mandate. In response to the major change in the Fund's outlook presented in the staff's paper, Directors supported the view that a two-pronged strategy was needed. This would include immediate steps to address the projected income shortfall in FY07 under current policies and within the framework of the FY07 budget, and a broader work plan on the options for placing the Fund's income position on a more sustainable footing. The focus of this paper is on the former. As proposed in the Managing Director's Medium-Term Strategy (MTS) report, the longer-term issues will be addressed with the assistance of an external committee.[2]

3. The paper is structured as follows: Section II reviews the Fund's income position in the current fiscal year (i.e., FY06). Section III updates the income outlook presented in *The Fund's Medium-Term Income—Outlook and Options* in light of the March Board discussion, and after taking into account the latest medium-term budget proposals, as well as the latest estimates for credit outstanding and global interest rates. This section makes specific proposals for the rate of charge and the burden-sharing mechanism in FY07. Section IV provides the required annual review of the system of special charges. Finally, proposed decisions, including changes in Rule I-6(4) are set out in Section V.

II. REVIEW OF THE FY06 INCOME POSITION

4. This section analyzes the expected outturn for income in FY06, building on the assessments provided in the midyear review, and the update in January following the early repayments by Brazil and Argentina.[3] Regular net income for FY06 is now projected at SDR 115 million, some SDR 75 million below the net income target of SDR 188 million (Annex I). The net income shortfall against target stems from lower-than-expected use of

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[1] See *The Fund's Medium-Term Income—Outlook and Option*s.

[2] See *The Managing Director's Report on Implementing the Fund's Medium-Term Strategy*.

[3] See *The Fund's Income Position for FY 2006—Midyear Review* and *The Fund's Income Position for FY 2006—Update to the Midyear Review*.

Fund credit and higher administrative expenses (in SDR terms) that were partially offset by higher interest rates (Table 1).

Table 1. Projected Regular Income—FY06
(in millions of SDRs)

Regular net income as projected at beginning of the year	188
Variance due to:	
Lower use of Fund resources	-82
Higher SDR interest rate	27
Higher GRA administrative expenses net of reimbursement (in SDR terms) 1/	-18
Regular net income: updated projection	115

1/ Total administrative expenses (i.e., GRA and PRGF-ESF) were about SDR 13 million more than projected; the PRGF-ESF component of those expenses is estimated at about SDR 5 million less than projected, while the balance (GRA net of reimbursement) is about SDR 18 million more than projected (Annex I).

- The lower-than-projected income from the use of Fund resources largely reflects (i) the advance repayment of all credit outstanding by Argentina and Brazil;[4] and (ii) lower than expected purchases. As a result, average use of Fund credit has decreased from a projected SDR 44.2 billion to a realized amount of some SDR 35.6 billion.

- The SDR interest rate used in the initial projections was 2.45 percent, the rate prevailing at that time. The actual average interest rate for the year is projected at around 2.81 percent, or about 36 basis points higher than originally assumed. The higher SDR interest rate increases the implicit earnings from the Fund's interest-free resources and this favorably impacts the Fund's income position.

- *Total* administrative expenses in SDR terms were higher than projected by SDR 13 million, largely reflecting the appreciation of the U.S. dollar vis-à-vis the SDR (SDR 21 million), offset by a small underutilization of the administrative and capital budgets (SDR 8 million). Since the beginning of FY06, the U.S. dollar has appreciated by about 4 percent against the SDR. However, the cost of administering the PRGF-ESF Trust is excluded from the determination of regular income, and the estimate of that cost indicates that a lower amount (SDR 5 million) than expected of

[4] Advance repurchases by Algeria, Bulgaria, and Uruguay were also a factor, although the impact on income was much smaller.

the Fund's total administrative expenses related to PRGF-ESF activities during FY06. GRA administrative expenses net of reimbursements, therefore, were higher than projected by SDR 18 million.

5. **Other Income.** Other income—now projected at about SDR 107 million—comprises income from surcharges, net of the cost of administering the PRGF-ESF Trust and the costs associated with post-retirement benefits under implementation of International Accounting Standard 19 (Table 2). Surcharge income is projected to be lower than anticipated by some SDR 108 million primarily because of advance repurchases by Argentina and Brazil.

Table 2. Projected Other Income—FY06
(in millions of SDRs)

Surcharge Income	294
Less: Cost of administering the PRGF-ESF Trust	-51
Net Surcharge Income (to be transferred to the General Reserve)	243
Less: IAS 19 post-retirement expenses (to be charged against the "earmarked portion" of the Special Reserve)	-136
Other income: updated projection	107

6. **Reserve Accumulation**. Overall, on current projections, the Fund's reserves will grow by over SDR 220 million to around SDR 5.9 billion in this financial year. The Board has already taken a decision (at the beginning of FY06) to place the surcharge income for FY06, net of the cost of administering the PRGF-ESF Trust, to the General Reserve. This paper proposes, in line with decisions in previous years, to place actual regular income to the Special Reserve after the close of the financial year (Decision No. 1 in Section V).[5] The Fund will also, by the financial year-end, have accumulated a further SDR 94 million in the SCA-1, bringing total precautionary balances to SDR 7.6 billion (see Annex III).

[5] Also in line with previous years, Decision No. 1 will charge the IAS 19 adjustment against the earmarked balance in the Special Reserve, and Decision No. 2 will provide for the assessment in the SDR Department in order to reimburse the General Department for the expenses of conducting the business of the SDR Department.

Box 1. Executive Board Decisions in Effect Related to the Fund's Income Position in FY06[1]

The Executive Board has taken the following decisions affecting the Fund's income position for FY06:

Net Income Target
The net income target based on Rule I-6(4) was SDR 282 million, calculated at five percent of reserves at the beginning of the period. Since FY01, the Executive Board has decided to reduce this net income target by SDR 94 million to take account of the effects of the off-market gold transactions completed in FY00. The target was therefore set at SDR 188 million. To offset the impact of the reduction in the net income target on the Fund's precautionary balances, the Board decided to raise SDR 94 million under burden sharing and place this to the SCA-1.

Rate of Charge on the Use of Fund Resources
The margin for the rate of charge was set at 108 basis points above the SDR interest rate for FY06.

Disposition of Excess Income
If actual net income for the financial year were to exceed the target of SDR 188 million, the excess will be returned to members paying charges through a retroactive reduction in the rate of charge after the end of the financial year.

Income from Surcharges, IAS 19 Expense
For purposes of determining the net income target and the rate of charge, income from surcharges on holdings arising from purchases under the SRF and the level-based surcharges on holdings arising from purchases in the credit tranches and under the Extended Fund Facility will be excluded, as will be the pension adjustment determined under IAS 19. The income from surcharges, after meeting the cost of administering the PRGF-ESF Trust, will be placed to the General Reserve after the end of the financial year.

PRGF-ESF Trust Expenses
The GRA will forgo the reimbursements from the SDA for expenses incurred in conducting the business of the PRGF-ESF Trust.

Burden Sharing:

For Placement to the SCA-1
The reduction in the net income target of SDR 94 million, to take account of the effects of the off-market gold transactions, will be generated instead by equal contribution by debtor and creditor members under burden sharing.

For Deferred Charges
Income losses resulting from unpaid charges are shared equally between the debtor and creditor members under the burden sharing mechanism by a decision taken in 2000. This mechanism will continue for as long as arrears persist.

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[1] See *Review of the Fund's Income Position for FY 2005 and 2006, The Fund's Income Position for FY 2006—Midyear Review,* and *The Fund's Income Position for FY 2006—Update to the Midyear Review*. See also Decision No. 12065-(99/130), adopted on December 8, 1999, Decision No. 12189-(00/45), adopted on April 28, 2000, and Decision No. 13484-(05/37), adopted April 22, 2005.

III. The Income Outlook

7. At the March Board meeting on the Fund's income outlook, Directors agreed that a pause in the agreed strategy for accumulating reserves appeared appropriate in FY07. This would allow time to develop measures to broaden the Fund's income base on a sustainable long term basis. Directors asked for specific proposals for FY07 that would treat it as a transitional year. In this context, Directors indicated that they could support as temporary measures: (i) suspension of the net income target, and (ii) use of surcharge income—after paying for the expenses of administering the PRGF-ESF Trust—to help defray GRA administrative expenses. Directors noted that, even after taking these steps, the Fund could still face a financing gap in FY07 under the central scenario for credit outstanding.

8. Directors also discussed options for closing the projected FY07 income gap. There was general agreement that further increases in the margin for the rate of charge could be counter-productive, particularly in the current environment of relatively low cost financing available from private market sources. Accordingly, the projections that follow are based on a constant margin for the rate of charge of 108 basis points and a decision to this effect (Decision No. 4) is proposed in Section V. There was also unanimous support for the establishment and funding of the Investment Account.[6] However, Directors expressed mixed views on the other staff proposals for closing the projected FY07 income gap, notably the suspension of SCA-1 contributions with offsetting adjustments in the rate of remuneration and rate of charge.

9. Staff has updated its projections for the Fund's medium-term income position (Table 3).[7] These projections are presented using the analytical framework presented in *The Fund's Medium-Term Income—Outlook and Options*, which examines the income contributions from various sources, after taking into account the underlying cost of financing (i.e., remuneration). To strengthen integration with the expenditure side, this presentation also measures administrative expenses on a basis that mirrors to the extent possible the financial impact of the *net* administrative and capital budgets. It is important to note that the Fund's actual administrative expenses reflected in the financial statements on the basis of International Financial Reporting Standards (IFRS) would likely differ from this analytical presentation on a year-to-year basis. These differences relate to timing and classification issues that are not economically substantive. For example, while the accounting expense for the Fund's post-retirement benefits and the budgetary funding of these benefits would be the same over the long-term, in individual financial years, a timing difference arises between the accounting expense and the budgetary funding—see Annex II. In future, the continued evolution in international accounting standards points towards possible changes in the accounting classification of items such as external financing (receipts) from an offset against

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[6] See companion Investment Account paper (forthcoming).

[7] Annex IX summarizes the changes from previous estimates.

expenses to income. In line with existing practice, staff will continue to provide a reconciliation with the audited financial statements.

Table 3. Projected Income Sources and Uses (FY06–09)
(In millions of SDRs, except where indicated)

		FY06	FY07	FY08	FY09
A.	**Income sources** 1/	**761**	**625**	**581**	**512**
	Margin for the rate of charge 2/	410	206	157	117
	Investment income: implicit return on reserves	166	205	242	248
	additional income from IA	--	30	30	30
	Surcharges 3/	51	118	79	49
	Other 4/	134	66	73	68
B.	**Administrative and capital expenses 5/**	**646**	**684**	**685**	**701**
	Administrative budget	602	633	645	662
	Capital budget not capitalized	25	30	17	15
	Depreciation expense	19	21	23	24
C.	**Income surplus/shortfall (A-B)**	**115**	**-59**	**-104**	**-189**
	Memorandum Items:				
	Fund credit outstanding (average)	35,600	17,300	13,500	10,700
	SDR interest rate path (in percent) 6/	2.8	3.5	4.1	4.2

1/ Annex VI details the assumptions underlying these projections.
2/ Includes income from service charge of 50 basis points on purchases and commitment fees.
3/ In FY06, surcharges were placed directly to the General Reserve, except for that portion (SDR 51 million) used to pay for PRGF-ESF expenses.
4/ Comprises the implicit return on the GRA's interest-free resources (primarily the SCA-1) and the reimbursement of the administrative expenses of the SDR Department; for FY06 also includes the payment for SRP funding (SDR 82 million).
5/ As per Table 7 of the budget paper; converted at an USD/SDR rate of 1.45 for FY06 and 1.44 for FY07–FY09.
6/ FY07 based on the current SDR interest rate; FY08–09 based on a projected gradual increase in global interest rates, as assumed in the most recent published WEO.

10. In light of the March Board discussion, the income projections reflect the establishment of the Investment Account, and the use of surcharge income to pay for GRA administrative expenses. The projections are based on a central scenario for credit outstanding whereby current users of Fund resources continue to repay the Fund as scheduled and remaining scheduled disbursements take place under existing arrangements, other than

those which are precautionary.[8] The Fund's total FY07 income (after paying remuneration) is currently estimated at around SDR 625 million, reflecting four broad categories of income sources:[9]

- **Income from Charges**. Income generated through the rate of charge is estimated at around SDR 187 million at the current margin of 108 basis points and the central scenario for GRA credit outstanding. In addition, service charges (50 basis points on purchases) are projected to generate about SDR 19 million.

- **Investment Income.** Around SDR 235 million in gross investment income is currently projected for FY07, comprising the implicit return already earned on reserves (SDR 205 million), plus around SDR 30 million in additional income from holding reserves in the Investment Account. On current projections for the Fund's reserves at April 30, 2006, SDR 5.9 billion could be placed in the Investment Account.[10] These resources are currently held in the GRA and earn an implicit return equivalent to the three month SDR interest rate. The return on assets in the Investment Account is expected over time to exceed the three month SDR interest, although some volatility in annual income flows is inevitable. At this point, staff has retained its estimate of a return on assets in the Investment Account of 50 basis points over the SDR interest rate. While some Directors thought this estimate too conservative at the March Board discussion, others considered it possibly overly ambitious. As shown in the companion paper, it is certainly true that 50 basis points is less than what historical investment returns would indicate, but given current market conditions and the potential timing of initiating investments, it would seem a prudent indicative projection for FY07.

- **Income from Surcharges**. At current surcharge levels and the central scenario for GRA credit outstanding, income from this source is estimated at SDR 118 million in FY07.[11]

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[8] The projections for credit outstanding take account of the recent advance repurchase by Uruguay of SDR 0.4 billion.

[9] Annex VIII outlines the income sensitivity from changes in the underlying variables.

[10] The maximum amount that can be placed in the Investment Account is limited under the Articles to the balances of the Fund's General and Special Reserves.

[11] Surcharges of 100 and 200 basis points apply on credit outstanding in the credit tranches and the Extended Fund Facility (EFF) above 200 and 300 percent of quota, respectively. The Supplemental Reserve Facility (SRF) carries a different schedule of surcharges, but there is currently no SRF credit outstanding.

- **Other Income**. Other income, currently projected at SDR 66 million for FY07, comprises primarily the implicit return on the GRA's remaining net interest-free resources (i.e., after the funding of the Investment Account). The bulk of these interest-free resources is the balance held in the SCA-1 of SDR 1.7 billion.[12]

11. On the expenditure side, the projections incorporate the most recent budget proposals. As outlined in that paper, the Fund's main expenses reflect the combined impact of the *net* administrative budget and the accounting expense for the capital budget, which are estimated at SDR 684 million for FY07.

12. Over the medium-term, the income shortfall is projected to widen, even after taking account of the latest medium-term budgetary proposals, which incorporate cuts of one percentage point in real terms in the administrative budget in FY08 and FY09. These widening deficits reinforce the need to develop a more durable and stable income base for the Fund. As noted above, this work will be carried forward with the assistance of an external committee.

13. **Financing the FY07 Income Shortfall**. The preceding outlook for income and expenses would suggest a projected income shortfall on the order of SDR 60 million for FY07. Staff had proposed closing this income gap by a package approach involving the substitution of further SCA-1 accumulations through the burden-sharing mechanism with offsetting adjustments in the rate of remuneration and an increase in the margin. However, while most Directors could support the suspension of SCA-1 accumulations for gold mitigation, a clear majority in the Board at the March 6 discussion did not favor the staff's package proposal. In particular, while some Directors saw scope for reducing the rate of remuneration to improve the Fund's income position, many others could not support such a step at this time.

14. In principle, and as proposed by some Directors, the reintroduction of the reimbursement from the PRGF-ESF Trust of the expenses of administering that Trust would largely cover the projected FY07 income shortfall.[13] In the absence of a decision to forego the reimbursement, which may be taken by a majority of the votes cast, the reimbursement would be made out of the resources of the Reserve Account of the PRGF-ESF Trust. However, most Directors continue to support the use of surcharge income to pay these expenses as a means to maximize the availability of resources for low-income countries. Staff proposes, therefore, that the Board decide again not to seek reimbursement of these expenses (Decision No. 6).

[12] The reimbursement of the costs of administering the SDR department (SDR 1.3 million) is also included in other income.

[13] The cost of administering the PRGF-ESF Trust in FY07 is estimated at SDR 58 million.

15. In the absence of additional sources of income, the projected FY07 income shortfall would lead to a drawdown of the Fund's reserves. As proposed during the March 6 discussion, the burden-sharing mechanism could be used to accumulate an equivalent amount in the SCA-1, thereby keeping the overall level of the Fund's precautionary balances unchanged from the staff's original proposal. This approach has the advantage of continuing with existing arrangements to the extent possible and is in keeping with the treatment of FY07 as a transitional year. It would avoid, therefore, creating precedents while possible structural changes in the Fund's finances, including consideration of a permanent solution to gold mitigation, are under examination. A decision to accumulate further balances in the SCA-1 requires a seventy percent majority of the total voting power.

16. A target for SCA-1 accumulation would need to be set for FY07. Accumulations in the SCA-1 are obtained through burden-sharing contributions by adjustments to the rate of charge and the rate of remuneration. Since FY01, an annual amount of SDR 94 million has been contributed, shared equally between users of Fund resources and creditor member countries. In light of the Board's view that significant increases in the effective rate of charge could be counter-productive, staff proposes that SDR 60 million be collected in the SCA-1 in FY07, which would also be consistent with the transitional approach for FY07. Current projections indicate that collecting this amount would require average adjustments to the rate of charge of around 17 basis points in FY07, compared with average adjustments of about 15 basis points for FY06 as a whole.[14] While this implies an average increase of two basis points in the burden-sharing adjustment, these payments are refundable to contributors in line with the provisions governing the dissolution of the SCA-1.[15] [16]

17. **Income Disposition Decisions**. In previous years, the Board has taken an ex ante decision at the start of the year that surcharge income, after the payment of the PRGF-ESF expenses, would be placed to the General Reserve, while the decision to place regular net income to the Special Reserve has been taken at the end of the financial year. Since surcharge income after the payment of PRGF-ESF expenses is expected to be fully used in FY07 to help defray GRA administrative expenses, no ex ante decision is proposed this year. However, decisions for FY07 will be needed for the disposition of (i) the earnings of the

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[14] Burden-sharing adjustments are calculated and collected at quarter-end, based on average balances for that quarter.

[15] The SCA-1 would be dissolved and the resources distributed to all members in proportion to their cumulative contributions when there are no overdue GRA charges or principal balances, or at such earlier time as the Fund may decide; Annex V summarizes cumulative contributions to date.

[16] Foregoing the two basis points increase in burden-sharing adjustments would result in an SCA-1 accumulation of about SDR 52 million, less than the current FY07 projection for the income shortfall.

Investment Account, once established,[17] and (ii) the actual income (shortfall) realized by end-FY07 in the GRA, which can either be placed (charged) to the Special Reserve or the General Reserve. Staff proposes that both of these decisions be taken on an ex post basis once the actual amounts realized are known.

18. **Change in Rule I-6(4)**. The existing Rule I-6(4) (see Box 2) prescribes that the rate of charge be set each year as the SDR interest rate plus a margin expressed in basis points, and that this margin be determined on the basis of (i) estimated income and expenses of the Fund during the year, and (ii) a net income target for the year (the latter of which must be determined as a percentage of the Fund's reserves). Under the proposals outlined above for FY07, which assume an unchanged margin, the rate of charge would not be determined on the basis of income and expenses and a net income target,[18] suggesting that a further amendment of Rule I-6(4) is necessary—the rule was changed for the current financial year in the context of moving from a coefficient to a margin for calculating the rate of charge. A decision to change the rule can be adopted by a majority of the votes cast.

19. In considering how best to amend Rule I-6(4), it is important to note that, while a arithmetical linkage could be drawn between the margin for the rate of charge and the amount of the projected income shortfall for FY07, this would not reflect the views expressed by Directors during the earlier discussions on closing the projected FY07 income gap. In other words, the proposed margin for the rate of charge has not been calculated on the basis of a targeted income shortfall, but simply with a view to keeping the margin constant with that which was in place in FY06. In keeping with the transitional nature of FY07, staff proposes that clause (a) of Rule I-6(4) be amended to introduce the possibility that in *exceptional circumstances* the margin for the rate of charge may be set on a basis other than estimated income and expenses and a net income target (Decision No. 3). Such a revision would allow flexibility to temporarily set the rate of charge without reference to the projected income shortfall while measures are being put in place to put the Fund's income position on a sound and durable basis.

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[17] Under the Articles, investment income can either be retained in the Investment Account or used to meet the expenses of conducting the business of the Fund.

[18] In this context, an aspect of one of last year's decisions (Decision No. 13483-(05/37), adopted 4/22/05) calling for the carry over of an income shortfall (against target) to projected net income for FY07, cannot be given effect at this time, as no net income is currently being projected for FY07.

Box 2. Rule I-6(4)

The rate of charge on holdings (i) acquired as a result of a purchase under a policy that has been the subject of an exclusion under Article XXX(c), or (ii) that exceed the amount of the member's quota after excluding any balances referred to in (i), 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 as the SDR interest rate under Rule T-1 plus a margin expressed in basis points. The margin shall be determined 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 5 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 by December 15 no agreement has been reached as a result of this consideration, the margin of the SDR interest rate under Rule T-1 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 retroactively for the year just ended, 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.

20. Separately, the existing Rule I-6(4) also contains specific clauses ((b) through (d)) for the treatment of shortfall or excess income (against target) at midyear and at the end of the financial year. In considering whether these clauses require amendment for the current circumstances, relevant issues include the following:

- A premise of the existing Rule I-6(4) is that the margin for the rate of charge should generally bear the consequences for income variations. This is achieved through (i) a default safeguard clause providing for automatic increases in the margin at mid-year where actual income is less than targeted, unless the Board decides otherwise (clause (b)), or (ii) clauses providing for the possibility of retroactive reductions in the rate of charge at year-end (clause (c)), or for adjustments to the following year’s net income target (clause (d)), in cases where actua income is in excess of the target amount.

- In the exceptional circumstances where the margin would be set on a basis other than estimated income and expenses and a net income target, the presumption that the impact of variations in income should be borne by adjusting the margin would not necessarily hold. It would seem, therefore, that there is no need to replicate clauses (b) through (d) in these exceptional circumstances, even though this would create an asymmetrical treatment of conditions in which net income is less than targeted, versus circumstances where net losses are greater than projected.

- The absence particularly of a safeguard clause along the lines of that in clause (b) could be interpreted as imprudent since the income outlook could deteriorate further (e.g., the actual income shortfall at mid-year could significantly exceed the shortfall projected at the beginning of the year). In this context, it is worth noting that the maximum potential income shortfall, assuming that all credit outstanding was repaid on May 1, 2006, would be in the order of SDR 380 million, or around 6 percent of reserves.

21. Staff proposes, therefore, that clause (b) of Rule I-6(4) be amended to indicate that in the exceptional circumstances when the margin for the rate of charge is set on a basis other than income and expenses and a net income target, the Board will decide at the time of the midyear review whether a change in the level of the margin is warranted, based on income developments. This proposal is reflected in Decision No. 3.

IV. REVIEW OF SPECIAL CHARGES

22. The decision on special charges on overdue financial obligations in the General Resources Account and the Trust Fund calls for an annual review.[19] The system of special charges was established to provide members with incentives to settle their financial obligations to the Fund in a timely manner. No new considerations have arisen during the current financial year and no changes are proposed to the system currently in place, i.e., special charges are levied on overdue repurchases and charges that are in arrears for less than six months. No special charges have been collected during the financial year. Decision No. 7, which can be adopted by a majority of the votes cast, is intended to complete this annual review.

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[19] Decision No. 8165-(85/189) G/TR, adopted December 30, 1985, effective February 1, 1986, as amended. A similar annual review has also been conducted of special charges under the Structural Adjustment Facility, whose special charges are subject to certain of the rules governing special charges on overdue financial obligations in the General Resources Account and to the Trust Fund. (See Decision No. 8240-(86/56) SAF, March 26, 1986, as amended.)

V. Draft Decisions

The following decisions are proposed for adoption by the Executive Board.

Decision pertaining to FY 06:

- Decision No. 1 would place actual net income (other than surcharge income) in FY06 to the Fund's Special Reserve, and the cost arising from the application of IAS 19 in FY06 (SDR 136 million) will be charged against the "earmarked" portion of the Special Reserve.

- Decision No. 2 provides for the assessment in the SDR Department in order to reimburse the General Department for the expenses of conducting the business of the SDR Department.

Decisions pertaining to FY07:

- Decision No. 3 changes Rule I-6(4) to allow, in exceptional circumstances, for flexibility in setting the rate of charge in an environment of projected income shortfalls.

- Decision No. 4 sets the rate of charge on the use of Fund resources for FY07 at 108 basis points over the SDR interest rate.

- Decision No. 5 would renew the implementation of the burden sharing mechanism and place SDR 60 million to the SCA-1.

- Decision No. 6 would waive the reimbursement to the GRA of the cost of administering the PRGF-ESF Trust for FY07.

- Decision No. 7 reviews the system of special charges.

Decisions 1, 2, 3, 6, and 7 may be adopted by a majority of the votes cast. Decisions 4 and 5 may be adopted by a 70 percent majority of the total voting power.

Proposed Decisions

Decision No. 1

Disposition of Net Income for FY 2006

1. The Fund's net income for FY 2006 derived from the application of paragraph 2 of Decision No. 13483-(05/37), adopted April 22, 2005, shall be placed to the Fund's Special Reserve after the end of the financial year.

2. The expenses derived from the implementation of International Accounting Standard 19 - Employee Benefits during FY 2006 shall be charged against the Fund's Special Reserve and shall be recorded separately in the financial records of the Fund.

Decision No. 2

Assessment under Article XX, Section 4 for Financial Year 2006

Pursuant to Article XVI, Section 2, and Article XX, Section 4, of the Articles of Agreement and Rule T-2 of the Fund's Rules and Regulations, it is decided that:

(i) The General Department shall be reimbursed for the expenses of conducting the business of the SDR Department for the period of May 1 2005 through April 30, 2006; and

(ii) An assessment shall be levied on all participants in the SDR Department. The special drawing right holdings accounts of participants shall be debited on April 30, 2006 with an amount equal to 0.00559876 of their net cumulative allocations of special drawing rights. The total assessment shall be paid into the General Department.

Decision No. 3

Amendment of Rule I-6(4)

With effect from FY 2007, Rule I-6(4) of the Fund's Rules and Regulations shall be amended to read as follows:

"The rate of charge on holdings (i) acquired as a result of a purchase under a policy that has been the subject of an exclusion under Article XXX(c), or (ii) that exceed the amount of the member's quota after excluding any balances referred to in (i), 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 as the SDR interest rate under Rule T-1 plus a margin expressed in basis points. The margin shall be determined 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 5 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. Notwithstanding the second sentence of this paragraph (a), in exceptional circumstances, the margin may be determined on a basis other than the estimated income and expense of the Fund during the year and a target amount of net income for the year.

(b) A mid-year review of the Fund's income position shall be held shortly after October 31 of each year.

(i) If the margin has been determined on the basis of the estimated income and expense of the Fund during the year and a target amount of net income for the year and 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 by December 15 no agreement has been reached as a result of this consideration, the margin over the SDR interest rate under Rule T-1 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.

(ii) If the margin has been determined on a basis other than the estimated income and expense of the Fund during the year and a target amount of net income for the year, the Executive Board will review any change in the exceptional circumstances and decide by December 15 whether the margin over the SDR interest rate under Rule T-1 determined under (a) at the beginning of the year shall be changed as of November 1 in light of the actual income position for the first six months of the financial year, on an annual basis.

(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 any 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 retroactively for the year just ended, 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 any 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."

Decision No. 4

The Rate of Charge on the Use of Fund Resources for FY 2007

Pursuant to the last sentence of Rule I-6(4)(a), as amended by Decision No. 13705-(06/40) [Decision 3 above], effective May 1, 2006, the rate of charge shall be the SDR interest rate under Rule T-1 plus a margin of 108 basis points.

Decision No. 5

Implementation of Burden Sharing in FY 2007

Section I. Principles of Burden Sharing

1. The financial consequences for the Fund that stem from the existence of overdue financial obligations shall be shared between debtor and creditor member countries.

2. The sharing shall be applied in a simultaneous and symmetrical fashion.

Section II. Determination of the Rate of Charge

The rate of charge referred to in Rule I-6(4) shall be adjusted in accordance with the provisions of Section IV of this decision and Section IV of Executive Board Decision No. 12189-(00/45), adopted April 28, 2000.

Section III. Adjustment for Deferred Charges

Notwithstanding paragraph 1(a) of Section IV of Executive Board Decision No. 12189-(00/45), adopted April 28, 2000, the rate of charge and the rate of remuneration determined under that Section shall be rounded to two decimal places.

Section IV. Amount for Special Contingent Account-1

1. An amount of SDR 60 million shall be generated during financial year 2007 in accordance with the provisions of this Section and shall be placed to the Special Contingent Account-1 referred to in Decision No. 9471-(90/98), adopted June 20, 1990.

2. (a) In order to generate the amount to be placed to the Special Contingent Account-1 in accordance with paragraph 1 of this Section, notwithstanding

Rule I-6(4)(a) and (b) and Rule I-10, the rate of charge referred to in Rule I-6(4) and, subject to the limitation in (b), the rate of remuneration prescribed in Rule I-10 shall be adjusted in accordance with the provisions of this paragraph.

(b) Notwithstanding paragraph 1 above, adjustments to the rate of charge and the rate of remuneration under this paragraph shall be rounded to two decimal places. No adjustment in the rate of remuneration under this paragraph shall be carried to the point where the average remuneration coefficient would be reduced below 85 percent for an adjustment period.

(c) The adjustments under this paragraph shall be made as of May 1, 2006, August 1, 2006, November 1, 2006 and February 1, 2007; shortly after July 31 for the period May 1 to July 31; shortly after October 31 for the period from August 1 to October 31; shortly after January 31 for the period from November 1 to January 31; shortly after April 30 for the period from February 1 to April 30.

3. (a) Subject to paragraph 3 of Decision No. 8780-(88/12), adopted January 29, 1988, the balances held in the Special Contingent Account-1 shall be distributed in accordance with the provisions of this paragraph to members that have paid additional charges or have received reduced remuneration as a result of the adjustment when there are no outstanding overdue charges and repurchases, or at such earlier time as the Fund may decide.

(b) Distributions under (a) shall be made in proportion to the amounts that have been paid or have not been received by each member because of the respective adjustments.

(c) If a member that is entitled to a payment under this paragraph has any overdue obligation to the Fund in the General Department at the time of payment, the member's claim under this paragraph shall be set off against the Fund's claim in accordance with Decision No. 8271-(86/74), adopted April 30, 1986, or any subsequent decision of the Fund.

(d) Subject to paragraph 4 of Decision No. 8780-(88/12), adopted January 29, 1988, if any loss is charged against the Special Contingent Account-1, it shall be recorded in accordance with the principles of proportionality set forth in (b).

Section V. Review

The operation of this decision shall be reviewed when the adjustment in the rate of remuneration reduces the remuneration coefficient to the limit set forth in paragraph 2(b) of Section IV of this decision and Section IV of Executive Board Decision No. 12189-(00/45), adopted April 28, 2000.

Decision No. 6

Cost of Administering the PRGF Trust

For FY 2007, no reimbursement shall be made to the General Resources Account from the Reserve Account of the PRGF-ESF Trust (through the Special Disbursement Account, SDA) for the cost of Administering the PRGF-ESF Trust.

Decision No. 7

Review of the System of Special Charges

The Fund has reviewed the system of special charges applicable to overdue obligations to the General Resources Account, the Structural Adjustment Facility, and the Trust Fund.

Projected Income and Expense
Financial Year 2006
(in millions of SDRs)

	FY 2006		
	Initial Projections 1/	Midyear Projections 2/	Updated Projections
Regular Income			
1. Operational Income			
a. Periodic charges, including burden sharing	1,558	1,363	1,379
b. Interest on SDR holdings	22	25	58
c. Service and stand-by charges	23	21	22
Total operational income	1,603	1,409	1,459
2. Operational Expense			
Remuneration, including burden sharing	920	789	831
3. Net operational income	683	620	629
4. Administrative expense	551	570	564
Less: estimated cost of administering the PRGF Trust	(56)	(58)	(51)
	495	512	513
5. Regular net income	188	108	115
Other Income			
6. Surcharges	402	296	294
Less: estimated cost of administering the PRGF Trust	(56)	(58)	(51)
	346	238	243
7. Other - IAS 19 3/	--	136	136
8. Total other income	--	102	107
9. Total net income	--	210	222

1/ Initial projections based on assumptions set out in *Review of the Fund's Income Position for FY 2005 and FY 2006* .
2/ Updated projections based on assumptions set out in *The Fund's Income Position for FY 2006-Update to the Midyear Review*.
3/ Fund's pension and employee benefits expense determined under IAS 19 for FY 2006, which is actuarially determined ex post, was not available when the initial projections were prepared.

IAS 19 Accounting

The Fund first applied IAS 19 in FY00 upon adoption of International Financial Reporting Standards (IFRS). The objective of IAS 19 is to ensure that the net asset (or liability) associated with the obligation to provide future benefits is properly reflected in the employer's balance sheet, with the resultant periodic adjustments to the net asset (or liability) being reflected as an expense or income. The annual change in the net asset (or liability), after taking account of employer contributions, determines the amount of the annual IAS 19 accounting adjustment. Though the IAS 19 adjustment in any given year is generally an expense (reflecting the fact that the pension obligation grows in line with increased service by employees), it fluctuates (and can also be a net gain), depending on investment performance, the discount rate used for the calculation of defined benefit obligation, and actuarial gains or losses.

The requirements of IAS 19 apply to the method of measuring the balances in the Fund's financial statements (i.e., the *accounting* requirement) and not to the actuarial method used to determine the Fund's annual contribution for the pension plans (i.e., the *funding* requirement). Therefore, accounting for pension benefits differs between the Fund's financial statements and its administrative budget in that the financial statements are prepared under the *accrual estimates of pension obligations* as required under IFRS, and the administrative budget is largely prepared on the *cash basis* (i.e., only the annual cash contribution is included). Over the life of the pension plan, the accounting adjustments must by definition equal the amount funded in the administrative budget. However, in individual periods, the different methodologies result in timing differences between the recognition of accounting adjustments and the funding provided to the pension plan. While the timing differences would net to zero over time, there would in any given period be a difference between the budgetary funding and the IAS 19 adjustment recognized in the Fund's income statement. As indicated in the table, the IAS 19 adjustment has been quite volatile in recent years in comparison to the funding, thereby giving rise to such timing differences.

The annual IAS 19 adjustment is recognized in the GRA income statement as an expense (or income), but in accordance with Board decisions, it has been excluded from the computation of the rate of charge. Instead, it has been offset against an "earmarked" portion of the Special Reserve.[20] In addition, the budgetary funding for the post retirement plans has been excluded from the definition of administrative expenses used for the computation of the rate of charge. The earmarked portion of the special reserve has, however, been fully utilized in FY06 and, going forward, either the IAS 19 adjustment or the budgetary funding needs to be covered by the Fund's income. The IAS 19 adjustments are determined ex post on the basis of a specific actuarial valuation and for projection purposes, therefore, the budgetary funding has been

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[20] The implementation of IAS 19 in FY 2000 resulted in a net windfall gain of SDR 268 million, which in accordance with Board decisions was placed in the Special Reserve. The windfall gain was the difference between the net pension asset and the liability for post-retirement and separation benefits at that time.

used. The consequence will be a timing difference between the Fund's actual net income on an IFRS basis and the Fund's net income using the budgetary funding as the basis for this expense. The overall upshot is that the timing difference will be a reconciling difference between the analytical framework for reviewing the Fund's income position and the Fund's IFRS income statement.

IAS 19 Expense and Funding Summary FY00–FY06

(in millions of SDRs)

		FY00	FY01		FY02	FY03	FY04	FY05	FY06
Beginning IAS 19 net (liability)/asset		(56)	223		431	470	435	443	353
IAS 19 transitional gain recognized in income statement		268	-		-	-	-	-	-
IAS 19 (expense)/income recognized in income statement 1/	A	(21)	90		(5)	(79)	(39)	(160)	(136)
Current year funding	B	32	20		44	44	47	70	82
Funding from accrued budgetary expenditures		-	104	2/	-	-	-	-	-
Actuarial adjustment		-	(6)		-	-	-	-	-
Ending IAS 19 net asset		223	431		470	435	443	353	299
IAS 19 timing difference	A+B	11	110		39	(35)	8	(90)	(54)
Cumulative timing difference		11	121		160	125	133	43	(11)

1/ Excludes home leave.

2/ In March 2001, the Executive Board approved an amendment to the RSBIA that expanded the range of benefits funded through this account. As a result, a special allocation of $128 million was made to cover part of the past-service liability associated with the newly covered benefits, which was primarily funded through previously accrued budgetary expenditures.

The Fund's Precautionary Balances in the GRA, 2000–2006

	2000	2001	2002	2003	2004	2005	2006 1/
	(in billions of SDRs)						
Precautionary balances	4.0	4.2	4.6	5.4	6.4	7.2	7.6
Reserves	2.9	2.9	3.3	4.0	4.9	5.6	5.9
General	0.9	0.9	1.2	1.9	2.7	3.3	3.5
Special 2/	1.9	2.0	2.1	2.1	2.2	2.4	2.4
SCA-1	1.1	1.2	1.3	1.4	1.5	1.6	1.7
Free reserves 3/	3.0	3.3	3.7	4.7	5.6	6.5	7.0
Memorandum items:							
Credit Capacity 4/	120.6	122.3	123.7	130.4	131.3	136.1	136.4
Credit Outstanding	44.0	42.2	52.1	66.0	62.2	52.0	19.8
Credit in good standing	43.0	41.4	51.2	65.2	61.4	51.2	19.2
Arrears	1.9	1.9	1.9	1.7	1.8	1.8	1.6
Principal	1.0	0.9	0.9	0.7	0.7	0.7	0.6
Charges	1.0	1.0	1.0	1.0	1.0	1.0	1.0
	(in percent)						
Ratios of:							
Precautionary balances to credit capacity	3.3	3.4	3.7	4.2	4.9	5.3	5.6
Precautionary balances to credit outstanding	9.0	9.8	8.9	8.2	10.3	13.9	38.5
Free reserves to credit capacity	2.5	2.7	3.0	3.6	4.3	4.8	5.2
Free reserve to credit in good standing	7.0	8.0	7.3	7.2	9.2	12.7	36.6

1/ Projected as at end-April 2006.

2/ After adjusting for IAS 19 related accounting gains.

3/ Precautionary balances (excluding SCA-2) in excess of arrears on principal.

4/ Quotas of members in the FTP , excluding prudential level of uncommitted usable resources (i.e., 20 percent of FTP member quotas).

GRA Credit Outstanding and Remunerated Positions as of February 28, 2006
(in millions of SDRs and in percent)

	Outstanding Credit		Remunerated Position	
Member	Amount	Percentage of total	Amount	Percentage of total
Afghanistan	-	-	-	-
Albania	1.2	0.01	1.3	0.01
Algeria	-	-	52.6	0.33
Angola	-	-	-	-
Antigua and Barbuda	-	-	-	-
Argentina	-	-	-	-
Armenia	-	-	-	-
Australia	-	-	236.9	1.47
Austria	-	-	112.3	0.69
Azerbaijan	20.4	0.10	-	-
Bahamas, The	-	-	1.3	0.01
Bahrain	-	-	68.7	0.43
Bangladesh	-	-	-	-
Barbados	-	-	2.1	0.01
Belarus	-	-	-	-
Belgium	-	-	406.4	2.52
Belize	-	-	3.4	0.02
Benin	-	-	-	-
Bhutan	-	-	0.8	0.01
Bolivia	9.7	0.05	-	-
Bosnia	40.9	0.20	-	-
Botswana	-	-	5.9	0.04
Brazil	-	-	-	-
Brunei	-	-	18.3	0.11
Bulgaria	313.7	1.55	7.4	0.05
Burkina Faso	-	-	4.1	0.03
Burundi	-	-	-	-
Cambodia	-	-	-	-
Cameroon	-	-	-	-
Canada	-	-	445.7	2.76

GRA Credit Outstanding and Remunerated Positions as of February 28, 2006 (cont.)

	Outstanding Credit		Remunerated Position	
Member	Amount	Percentage of total	Amount	Percentage of total
Cape Verde	-	-	-	-
Central African Rep.	12.5	0.06	-	-
Chad	-	-	-	-
Chile	-	-	65.9	0.41
China	-	-	716.5	4.44
Colombia	-	-	246.6	1.53
Comoros	-	-	0.1	0.00
Congo, Dem.Rep.of	-	-	-	-
Congo, Rep. of	-	-	-	-
Costa Rica	-	-	12.0	0.07
Cote d'Ivoire	-	-	-	-
Croatia	-	-	-	-
Cyprus	-	-	10.5	0.07
Czech Republic	-	-	61.1	0.38
Denmark	-	-	64.6	0.40
Djibouti	-	-	0.4	0.00
Dominica	2.7	0.01	-	-
Dominican Republic	280.2	1.39	-	-
Ecuador	41.5	0.21	8.9	0.06
Egypt	-	-	-	-
El Salvador	-	-	-	-
Equatorial Guinea	-	-	-	-
Eritrea	-	-	-	-
Estonia	-	-	-	-
Ethiopia	-	-	0.5	0.00
Fiji	-	-	12.1	0.07
Finland	-	-	74.4	0.46
France	-	-	598.1	3.70
Gabon	47.6	0.24	-	-
Gambia, The	-	-	-	-

GRA Credit Outstanding and Remunerated Positions as of February 28, 2006 (cont.)

Member	Outstanding Credit Amount	Outstanding Credit Percentage of total	Remunerated Position Amount	Remunerated Position Percentage of total
Georgia	-	-	-	-
Germany	-	-	1,427.7	8.84
Ghana	-	-	-	-
Greece	-	-	42.6	0.26
Grenada	5.9	0.03	-	-
Guatemala	-	-	-	-
Guinea	-	-	-	-
Guinea-Bissau	-	-	-	-
Guyana	-	-	-	-
Haiti	20.5	0.10	-	-
Honduras	-	-	2.4	0.01
Hungary	-	-	82.7	0.51
Iceland	-	-	12.8	0.08
India	-	-	281.0	1.74
Indonesia	5,351.3	26.49	80.5	0.50
Iran, I.R. of	-	-	-	-
Iraq	297.1	1.47	143.9	0.89
Ireland	-	-	43.9	0.27
Israel	-	-	83.7	0.52
Italy	-	-	689.6	4.27
Jamaica	-	-	-	-
Japan	-	-	1,232.5	7.63
Jordan	154.8	0.77	-	-
Kazakhstan	-	-	-	-
Kenya	-	-	0.7	0.00
Kiribati	-	-	-	-
Korea	-	-	182.0	1.13
Kuwait	-	-	154.6	0.96
Kyrgyz Republic	-	-	-	-
Lao P.D.R.	-	-	-	-

GRA Credit Outstanding and Remunerated Positions as of February 28, 2006 (cont.)

Member	Outstanding Credit Amount	Outstanding Credit Percentage of total	Remunerated Position Amount	Remunerated Position Percentage of total
Latvia	-	-	-	-
Lebanon	-	-	16.6	0.10
Lesotho	-	-	2.4	0.01
Liberia	200.7	0.99	-	-
Libya	-	-	389.5	2.41
Lithuania	-	-	-	-
Luxembourg	-	-	21.8	0.13
Macedonia, FYR	30.9	0.15	-	-
Madagascar	-	-	-	-
Malawi	15.2	0.08	-	-
Malaysia	-	-	152.9	0.95
Maldives	4.1	0.02	1.4	0.01
Mali	-	-	3.7	0.02
Malta	-	-	36.3	0.22
Marshall Islands	-	-	-	-
Mauritania	-	-	-	-
Mauritius	-	-	7.3	0.04
Mexico	-	-	230.3	1.43
Micronesia	-	-	-	-
Moldova	33.6	0.17	-	-
Mongolia	-	-	-	-
Morocco	-	-	42.2	0.26
Mozambique	-	-	-	-
Myanmar	-	-	-	-
Namibia	-	-	-	-
Nepal	-	-	-	-
Netherlands	-	-	473.6	2.93
New Zealand	-	-	59.8	0.37
Nicaragua	-	-	-	-
Niger	-	-	5.4	0.03

GRA Credit Outstanding and Remunerated Positions as of February 28, 2006 (cont.)

	Outstanding Credit		Remunerated Position	
Member	Amount	Percentage of total	Amount	Percentage of total
Nigeria	-	-	-	-
Norway	-	-	57.6	0.36
Oman	-	-	15.3	0.09
Pakistan	52.1	0.26	-	-
Palau	-	-	-	-
Panama	16.7	0.08	2.9	0.02
Papua New Guinea	-	-	-	-
Paraguay	-	-	16.7	0.10
Peru	26.8	0.13	-	-
Philippines	229.7	1.14	48.7	0.30
Poland	-	-	54.4	0.34
Portugal	-	-	52.0	0.32
Qatar	-	-	27.4	0.17
Romania	161.9	0.80	-	-
Russia	-	-	-	-
Rwanda	-	-	-	-
Samoa	-	-	0.2	0.00
St. Kitts	-	-	-	-
St. Lucia	-	-	-	-
St. Vincent	-	-	0.2	0.00
San Marino	-	-	3.6	0.02
Sao Tome	-	-	-	-
Saudi Arabia	-	-	1,159.8	7.18
Senegal	-	-	-	-
Seychelles	-	-	-	-
Serbia & Montenegro	656.3	3.25	-	-
Sierra Leone	-	-	-	-
Singapore	-	-	97.9	0.61
Slovakia	-	-	-	-
Slovenia	-	-	19.9	0.12

GRA Credit Outstanding and Remunerated Positions as of February 28, 2006 (cont.)

	Outstanding Credit		Remunerated Position	
Member	Amount	Percentage of total	Amount	Percentage of total
Solomon Islands	-	-	0.2	0.00
Somalia	96.7	0.48	-	-
South Africa	-	-	-	-
Spain	-	-	263.0	1.63
Sri Lanka	203.4	1.01	23.4	0.14
Sudan	299.9	1.48	-	-
Suriname	-	-	0.4	0.00
Swaziland	-	-	4.6	0.03
Sweden	-	-	216.1	1.34
Switzerland	-	-	249.5	1.54
Syria	-	-	-	-
Tajikistan	-	-	-	-
Tanzania	-	-	-	-
Thailand	-	-	98.1	0.61
Timor-Leste	-	-	-	-
Togo	-	-	-	-
Tonga	-	-	1.4	0.01
Trinidad and Tobago	-	-	25.7	0.16
Tunisia	-	-	8.2	0.05
Turkey	9,114.6	45.12	75.0	0.46
Turkmenistan	-	-	-	-
Uganda	-	-	-	-
Ukraine	823.7	4.08	-	-
United Arab Emirates	-	-	72.5	0.45
United Kingdom	-	-	531.0	3.29
United States	-	-	3,647.8	22.58
Uruguay	1,609.3	7.97	-	-
Uzbekistan	-	-	-	-
Vanuatu	-	-	1.7	0.01
Venezuela	-	-	239.4	1.48

GRA Credit Outstanding and Remunerated Positions as of February 28, 2006 (concl.)

Member	Outstanding Credit Amount	Outstanding Credit Percentage of total	Remunerated Position Amount	Remunerated Position Percentage of total
Vietnam	-	-	-	-
Yemen, Republic of	25.0	0.12	-	-
Zambia	-	-	-	-
Zimbabwe	-	-	-	-
	20,200.5	100.00	16,156.6	100.0

Values of 0.0 represent balances of less than SDR 0.1 million; "-" denotes zero balance.

Cumulative Burden Sharing Adjustments 1/
as of January 31, 2006
(in millions of SDRs and in percent)

	Adjustments for Deferred Charges 2/				Adjustments for SCA-1			
Member	Charges	Remuneration	Total	Percentage of total	Charges	Remuneration	Total	Percentage of total
Albania	0.1	0.0	0.1	0.01	0.1	0.0	0.1	0.01
Algeria	9.4	0.4	9.8	1.18	19.4	0.6	20.0	1.18
Angola	-	0.0	0.0	0.00	-	0.0	0.0	0.00
Argentina	40.9	-	40.9	4.90	95.0	-	95.0	5.61
Armenia, Republic of	0.1	0.0	0.1	0.01	0.3	0.0	0.3	0.02
Australia	-	3.5	3.5	0.42	-	9.9	9.9	0.58
Austria	-	5.6	5.6	0.67	-	11.0	11.0	0.65
Azerbaijan	0.4	0.0	0.4	0.05	1.3	0.0	1.4	0.08
Bahamas, The	-	0.1	0.1	0.01	-	0.1	0.1	0.00
Bahrain, Kingdom of	-	0.6	0.6	0.08	-	1.2	1.2	0.07
Bangladesh	3.8	-	3.8	0.46	4.3	-	4.3	0.25
Barbados	0.2	0.0	0.2	0.02	0.3	0.0	0.3	0.02
Belarus, Republic of	0.6	-	0.6	0.07	1.5	-	1.5	0.09
Belgium	-	7.3	7.3	0.88	-	17.4	17.4	1.02
Belize	0.0	0.0	0.1	0.01	0.1	0.1	0.1	0.01
Bhutan	-	0.0	0.0	0.00	-	0.0	0.0	0.00
Bolivia	1.1	-	1.1	0.13	1.3	-	1.3	0.08
Bosnia and Herzegovina	0.6	-	0.6	0.08	1.2	-	1.2	0.07
Botswana	-	0.3	0.3	0.04	-	0.5	0.5	0.03
Brazil	32.6	-	32.6	3.91	83.9	-	83.9	4.95
Brunei Darussalam	-	0.1	0.1	0.01	-	0.4	0.4	0.02
Bulgaria	4.5	0.0	4.6	0.55	11.6	0.1	11.7	0.69
Burkina Faso	-	0.1	0.1	0.01	-	0.1	0.1	0.01
Burundi	0.0	0.1	0.1	0.01	0.0	0.1	0.1	0.00
Cambodia	0.0	-	0.0	0.00	0.1	-	0.1	0.00
Cameroon	0.9	-	0.9	0.11	1.1	-	1.1	0.07
Canada	-	7.3	7.3	0.87	-	20.1	20.1	1.19
Cape Verde	-	0.0	0.0	0.00	-	-	0.0	0.00
Central African Republic	0.1	-	0.1	0.02	0.2	-	0.2	0.01
Chad	0.1	-	0.1	0.01	0.1	-	0.1	0.01

Cumulative Burden Sharing Adjustments (cont.)

Member	Adjustments for Deferred Charges 2/				Adjustments for SCA-1			
	Charges	Remuneration	Total	Percentage of total	Charges	Remuneration	Total	Percentage of total
Chile	7.3	0.6	8.0	0.95	8.5	2.2	10.8	0.64
China	5.1	8.4	13.5	1.62	5.2	22.6	27.8	1.64
Colombia	-	0.9	0.9	0.11	-	2.9	2.9	0.17
Comoros	-	0.0	0.0	0.00	-	0.0	0.0	0.00
Congo, Democratic Republic of	4.3	-	4.3	0.52	5.8	-	5.8	0.34
Congo, Republic of	0.2	-	0.2	0.02	0.3	-	0.3	0.01
Costa Rica	0.6	0.0	0.6	0.07	0.8	0.1	0.8	0.05
Cote d'Ivoire	3.0	-	3.0	0.36	3.5	-	3.5	0.21
Croatia, Republic of	1.4	-	1.4	0.17	2.3	-	2.3	0.14
Cyprus	-	0.2	0.2	0.03	-	0.5	0.5	0.03
Czech Republic	2.7	0.2	2.9	0.35	4.1	0.8	4.9	0.29
Denmark	-	4.3	4.3	0.51	-	9.0	9.0	0.53
Djibouti	0.0	0.0	0.0	0.00	0.0	0.0	0.0	0.00
Dominica	0.0	-	0.0	0.00	0.0	-	0.0	0.00
Dominican Republic	1.8	-	1.8	0.22	2.7	-	2.7	0.16
Ecuador	2.5	0.1	2.6	0.31	3.8	0.2	3.9	0.23
Egypt	1.8	0.1	1.9	0.23	2.2	0.3	2.5	0.15
El Salvador	0.1	-	0.1	0.01	0.1	-	0.1	0.00
Equatorial Guinea	0.0	-	0.0	0.00	0.0	-	0.0	0.00
Estonia	0.2	-	0.2	0.02	0.4	-	0.4	0.03
Ethiopia	0.3	0.0	0.3	0.03	0.3	0.0	0.3	0.02
Fiji	0.0	0.1	0.1	0.02	0.0	0.2	0.2	0.01
Finland	-	3.2	3.2	0.38	-	6.5	6.5	0.39
France	-	22.7	22.7	2.72	-	47.9	47.9	2.83
Gabon	0.7	-	0.7	0.09	1.4	-	1.4	0.08
Gambia, The	0.1	-	0.1	0.01	0.1	-	0.1	0.01
Georgia	0.2	-	0.2	0.02	0.6	-	0.6	0.03
Germany	-	46.6	46.6	5.58	-	84.8	84.8	5.01
Ghana	2.2	0.0	2.2	0.26	2.7	0.0	2.7	0.16
Greece	-	1.3	1.3	0.16	-	3.0	3.0	0.18

Cumulative Burden Sharing Adjustments (cont.)

Member	Adjustments for Deferred Charges 2/				Adjustments for SCA-1			
	Charges	Remuneration	Total	Percentage of total	Charges	Remuneration	Total	Percentage of total
Grenada	0.0	-	0.0	0.00	0.0	-	0.0	0.00
Guatemala	0.5	0.0	0.5	0.06	0.5	0.0	0.5	0.03
Guinea	0.2	-	0.2	0.02	0.2	-	0.2	0.01
Guinea-Bissau	0.0	-	0.0	0.00	0.0	-	0.0	0.00
Guyana	0.5	-	0.5	0.06	0.7	-	0.7	0.04
Haiti	0.3	-	0.3	0.03	0.4	-	0.4	0.03
Honduras	0.6	0.0	0.6	0.07	0.9	0.0	1.0	0.06
Hungary	7.2	0.5	7.6	0.92	10.2	1.8	12.0	0.71
Iceland	0.0	0.0	0.1	0.01	0.0	0.1	0.2	0.01
India	30.0	2.7	32.7	3.92	42.4	4.6	46.9	2.77
Indonesia	18.4	0.9	19.3	2.31	56.0	2.1	58.1	3.43
Iran, Islamic Republic of	-	0.1	0.1	0.01	-	0.1	0.1	0.00
Iraq	0.1	0.1	0.2	0.02	0.4	0.2	0.7	0.04
Ireland	-	2.4	2.4	0.29	-	4.8	4.8	0.28
Israel	0.7	0.3	1.0	0.12	1.3	1.1	2.4	0.14
Italy	-	21.4	21.4	2.56	-	40.4	40.4	2.39
Jamaica	3.2	-	3.2	0.39	4.4	-	4.4	0.26
Japan	-	48.0	48.0	5.75	-	92.8	92.8	5.48
Jordan	1.9	0.0	1.9	0.23	4.4	0.0	4.4	0.26
Kazakhstan, Republic of	0.9	-	0.9	0.11	2.5	-	2.5	0.15
Kenya	1.5	0.0	1.5	0.18	1.6	0.0	1.6	0.09
Kiribati	-	0.0	0.0	0.00	-	-	0.0	0.00
Korea	10.3	3.5	13.8	1.66	28.5	7.1	35.7	2.11
Kuwait	-	3.2	3.2	0.39	-	5.9	5.9	0.35
Kyrgyz Republic	0.2	-	0.2	0.02	0.4	-	0.4	0.02
Lao People's Democratic Republic	0.0	-	0.0	0.00	0.0	-	0.0	0.00
Latvia, Republic of	0.3	-	0.3	0.04	0.8	-	0.8	0.05
Lebanon	-	0.3	0.3	0.04	-	0.5	0.5	0.03
Lesotho	-	0.0	0.0	0.00	-	0.0	0.0	0.00
Liberia	2.1	-	2.1	0.26	4.2	-	4.2	0.25

Cumulative Burden Sharing Adjustments (cont.)

Member	Adjustments for Deferred Charges 2/				Adjustments for SCA-1			
	Charges	Remuneration	Total	Percentage of total	Charges	Remuneration	Total	Percentage of total
Libya	-	5.1	5.1	0.61	-	8.8	8.8	0.52
Lithuania, Republic of	0.7	-	0.7	0.08	1.8	-	1.8	0.11
Luxembourg	-	0.3	0.3	0.04	-	0.8	0.8	0.05
Macedonia, former Yugoslav Republic of	0.3	-	0.3	0.04	0.6	-	0.6	0.04
Madagascar	0.6	-	0.6	0.07	0.6	-	0.6	0.04
Malawi	0.4	-	0.4	0.05	0.5	-	0.5	0.03
Malaysia	-	3.9	3.9	0.46	-	8.3	8.3	0.49
Maldives	0.0	0.0	0.0	0.00	0.0	0.0	0.0	0.00
Mali	0.2	0.1	0.3	0.04	0.3	0.1	0.4	0.02
Malta	-	0.4	0.4	0.05	-	0.7	0.7	0.04
Mauritania	0.3	-	0.3	0.03	0.3	-	0.3	0.02
Mauritius	0.2	0.0	0.2	0.03	0.2	0.1	0.3	0.02
Mexico	47.9	0.3	48.3	5.78	84.3	1.4	85.7	5.06
Micronesia, Federated States of	-	0.0	0.0	0.00	-	0.0	0.0	0.00
Moldova, Republic of	0.6	-	0.6	0.07	1.6	-	1.6	0.09
Mongolia	0.1	-	0.1	0.01	0.1	-	0.1	0.01
Morocco	3.5	0.1	3.6	0.43	4.1	0.3	4.5	0.26
Myanmar	0.1	-	0.1	0.01	0.1	-	0.1	0.01
Namibia	-	0.0	0.0	0.00	-	0.0	0.0	0.00
Nepal	0.1	0.0	0.2	0.02	0.1	0.1	0.2	0.01
Netherlands	-	11.7	11.7	1.40	-	25.2	25.2	1.49
New Zealand	-	0.8	0.8	0.10	-	2.6	2.6	0.15
Nicaragua	0.1	-	0.1	0.01	0.1	-	0.1	0.01
Niger	0.2	0.1	0.3	0.04	0.3	0.2	0.5	0.03
Norway	-	7.9	7.9	0.95	-	13.4	13.4	0.79
Oman	-	0.6	0.6	0.07	-	1.1	1.1	0.06
Pakistan	7.9	-	7.9	0.95	13.7	-	13.7	0.81
Panama	1.4	0.0	1.5	0.18	2.2	0.0	2.3	0.14
Papua New Guinea	0.4	0.0	0.4	0.05	0.8	0.0	0.8	0.05
Paraguay	-	0.2	0.2	0.02	-	0.3	0.3	0.02

Cumulative Burden Sharing Adjustments (cont.)

Member	Adjustments for Deferred Charges 2/				Adjustments for SCA-1			
	Charges	Remuneration	Total	Percentage of total	Charges	Remuneration	Total	Percentage of total
Peru	9.0	-	9.0	1.07	14.0	-	14.0	0.82
Philippines	11.7	0.3	12.0	1.44	20.9	0.8	21.7	1.28
Poland, Republic of	4.2	0.6	4.8	0.57	6.1	2.2	8.2	0.49
Portugal	1.0	2.4	3.4	0.41	1.2	5.4	6.6	0.39
Qatar	-	0.4	0.4	0.05	-	0.9	0.9	0.05
Romania	5.4	-	5.4	0.65	10.7	-	10.7	0.63
Russian Federation	31.2	-	31.2	3.73	90.4	-	90.4	5.34
Rwanda	0.0	0.0	0.1	0.01	0.1	0.1	0.2	0.01
Samoa	0.0	0.0	0.0	0.00	0.0	0.0	0.0	0.00
San Marino, Republic of	-	0.0	0.0	0.00	-	0.0	0.0	0.00
Saudi Arabia	-	12.0	12.0	1.44	-	23.4	23.4	1.38
Senegal	0.7	-	0.7	0.08	0.8	-	0.8	0.05
Serbia and Montenegro	1.8	-	1.8	0.22	3.8	-	3.8	0.23
Seychelles	-	0.0	0.0	0.00	-	0.0	0.0	0.00
Sierra Leone	0.6	-	0.6	0.07	0.8	-	0.8	0.04
Singapore	-	2.1	2.1	0.25	-	4.6	4.6	0.27
Slovak Republic	2.0	0.0	2.0	0.24	3.7	0.0	3.7	0.22
Slovenia, Republic of	0.5	0.2	0.7	0.08	0.6	0.5	1.1	0.07
Solomon Islands	0.0	0.0	0.0	0.00	0.0	0.0	0.0	0.00
Somalia	1.1	-	1.1	0.13	2.1	-	2.1	0.12
South Africa	2.1	-	2.1	0.26	4.3	-	4.3	0.25
Spain	-	13.5	13.5	1.61	-	23.7	23.7	1.40
Sri Lanka	2.2	0.0	2.2	0.27	2.9	0.2	3.1	0.18
St. Kitts and Nevis	0.0	-	0.0	0.00	0.0	-	0.0	0.00
St. Vincent and the Grenadines	-	0.0	0.0	0.00	-	0.0	0.0	0.00
Sudan	6.8	-	6.8	0.82	11.7	-	11.7	0.69
Suriname	-	0.0	0.0	0.00	-	0.0	0.0	0.00
Swaziland	0.0	0.0	0.0	0.00	0.0	0.0	0.1	0.00
Sweden	-	5.5	5.5	0.66	-	11.6	11.6	0.69
Switzerland	-	5.2	5.2	0.63	-	15.4	15.4	0.91

Cumulative Burden Sharing Adjustments (concl.)

Member	Adjustments for Deferred Charges 2/				Adjustments for SCA-1			
	Charges	Remuneration	Total	Percentage of total	Charges	Remuneration	Total	Percentage of total
Tajikistan, Republic of	0.0	-	0.0	0.01	0.1	-	0.1	0.01
Tanzania	0.4	-	0.4	0.05	0.4	-	0.4	0.02
Thailand	5.5	1.4	6.8	0.82	13.1	2.8	15.9	0.94
Togo	0.2	-	0.2	0.03	0.2	-	0.2	0.01
Tonga	-	0.0	0.0	0.00	-	0.0	0.0	0.00
Trinidad and Tobago	1.9	0.2	2.1	0.25	2.2	0.3	2.6	0.15
Tunisia	3.0	0.0	3.0	0.36	4.2	0.1	4.2	0.25
Turkey	14.6	0.2	14.8	1.77	60.9	0.5	61.4	3.63
Uganda	0.5	-	0.5	0.06	0.5	-	0.5	0.03
Ukraine	5.2	-	5.2	0.63	16.6	-	16.6	0.98
United Arab Emirates	-	2.7	2.7	0.33	-	4.7	4.7	0.28
United Kingdom	-	16.7	16.7	2.00	-	36.9	36.9	2.18
United States	-	124.0	124.0	14.85	-	227.2	227.2	13.42
Uruguay	2.3	0.0	2.3	0.28	6.6	0.1	6.7	0.40
Uzbekistan, Republic of	0.4	-	0.4	0.05	1.1	-	1.1	0.07
Vanuatu	-	0.0	0.0	0.00	-	0.0	0.0	0.00
Venezuela	19.1	1.9	21.0	2.52	29.5	3.1	32.6	1.93
Vietnam	0.7	-	0.7	0.09	1.3	-	1.3	0.08
Yemen, Republic of	0.3	0.0	0.3	0.04	0.9	0.0	0.9	0.05
Zambia	6.5	-	6.5	0.78	8.2	-	8.2	0.49
Zimbabwe	1.1	-	1.1	0.13	2.4	-	2.4	0.14
	416.3	418.7	835.0	100.00	861.0	832.3	1,693.3	100.00

Values of 0.0 represent amounts of less than SDR 0.1 million; "-" denotes no adjustments.
1/ Adjustments to charges and remuneration are billed quarterly; the most recent billing was for the quarter ending January 31, 2006.
2/ Adjustments for deferred charges, which are shown net of refunds, compensate for the loss of income resulting from deferred charges related to arrears cases.

Assumptions Underlying the Projections
FY 2006 to FY 2009

	FY2006		FY2007	FY2008	FY2009
	Initial Projections 1/	Revised Projections	Preliminary Projections		
	(in billions of SDRs)				
Regular Facilities:					
1. Purchases (excl. reserve tranche purchases)	4.5	2.2	3.8	2.2	0.1
2. Repurchases	15.5	32.8	8.0	4.8	3.4
3. Average balances subject to charges	44.2	35.6	17.3	13.5	10.7
4. Average SDR holdings	0.9	1.7	2.7	1.6	1.6
5. Average remunerated positions	37.6	29.7	18.1	13.3	10.7
6. Average investment account assets	--	--	5.9	5.9	5.9
	(In percent)				
Average interest rates:					
1. SDR interest rate and basic rate of remuneration	2.45	2.81	3.46	4.08	4.17
2. Basic rate of charge	3.53	3.89	4.54	5.16	5.25
3. Margin of the rate of charge	1.08	1.08	1.08	1.08	1.08
4. Return on investments	--	--	3.96	4.58	4.67

1/ Initial projections based on assumptions set out in *Review of the Fund's Income Position for FY 2005 and FY 2006.*

Reconciliation of Administrative Expenses
(in millions of U.S. dollars and SDRs as indicated)

	FY 2007	FY 2008	FY 2009
Administrative Budget 1/	911.9	929.6	952.8
Capital Budget expenditures not capitalized	42.9	24.3	21.5
Depreciation expense	30.2	32.5	34.7
Total Administrative expense 2/	985.0	986.4	1,009.0
Total Administrative expense in SDRs 3/	684.0	685.0	700.7

1/ Total budgetary expenses net of recovery and reimbursements of expenses.
2/ Before IAS 19 timing differences.
3/ Based on exchange rate of 1 SDR = $1.44.

Effect on Projected Income for FY 2007 of Changes in Selected Assumptions
(in millions of SDRs)

Change in:	
SDR interest rate by 10 basis points	7.8
Credit tranche purchases/repurchases by SDR 1 billion 1/	5.4
U.S. Dollar vis-à-vis SDR by 1 percent	6.6
Investment income margin by 10 basis points	6.0

1/ Excludes commitment fees and service charges.

Updated Medium-Term Projections 1/
(In millions of SDRs)

		FY 2007	FY 2008	FY 2009
A.	Income sources: previous projection 2/	616	548	502
	Change due to:			
	Higher projected SDR interest rate 3/	18	36	18
	Changes in projected Fund credit outstanding 4/	-2	-2	7
	Lower projected surcharge income 4/	-7	-1	-15
A.1	Income sources: updated projection	625	581	512
B.	Administrative and capital expenses: previous projection 5/	673	690	708
	Change due to:			
	Updated estimates of the administrative budget 6/	8	5	6
	Updated estimates of capital expenses 7/	3	-10	-13
B.1	Administrative and capital expenses: updated projection	684	685	701
C.	Income shortfall: previous projection (A-B)	-57	-142	-206
C.1	Income shortfall: updated projection (A.1-B.1)	-59	-104	-189

1/ This table explains the changes in the medium-term income and expense projections from the previous estimates presented in *The Managing Director's Report on Implementing the Fund's Medium-Term Strategy*.
2/ As estimated in *The Fund's Medium-Term Income—Outlook and Options* and in *The Managing Director's Report on Implementing the Fund's Medium-Term Strategy* (paragraph 47), and also reflected in US dollars (US$ 888 million) in the budget paper (Table 8).
3/ Updated for latest WEO-based projections.
4/ Updated using monthly projected purchase and repurchase data (previously annual).
5/ As estimated in the medium-term strategy report (paragraph 47).
6/ Updated for additional costs of the Annual Meetings and the FY06 budget base (previously the FY06 outturn base).
7/ Updated for HQ2 depreciation expense and revised projections of medium-term capital expenditures from TGS.