DEVELOPMENT COMMITTEE
(Joint Ministerial Committee
of the
Boards of Governors of the Bank and the Fund
On the
Transfer of Real Resources to Developing Countries)

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April 10, 2000

UPDATE ON THE IBRD's FINANCIAL CAPACITY

Report to the Development Committee

Attached for consideration by the Development Committee (Item 2.C of the Provisional Agenda) is an Update on the IBRD's Financial Capacity. This report responds to the Committee's request in its September 27, 1999 communiqué (para. 11) that the Bank report regularly on this issue. Ministers may wish to comment on this topic in their prepared statements. (The only change in this revised version is the addition of the attached table.)

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Update on the IBRD's Financial Capacity:
Report to the Development Committee

1. Last fall, the Development Committee discussed a summary report on IBRD's financial capacity and concluded that while the capital structure of the Bank remains sound, the relative inflexibility of the structure placed limits on the Bank's ability to respond to potential future demands for lending and other development support. They also recognized that enhancing capacity through a balanced package including, among other things, an increase in capital and/or loan charges, would require a lead-time of a few years. The Development Committee requested that it be regularly updated on progress made on this issue.

2. IBRD's long-term financial capacity has not changed materially since last fall. At that time, the Development Committee recognized that the Bank's risk-bearing capacity cushion had been largely depleted by a surge in disbursements of long-term loans and an increase in portfolio risk. It is worth noting that on the one hand the outlook for the global economy and the ability of developing countries to access private capital markets have both improved. On the other hand, the prospect of a downside global shock, although less likely than in September 1999, continues to be a risk that needs to be managed. Many IBRD borrowers remain vulnerable also to localized shocks that could lead to a rapid deterioration in their creditworthiness. In this environment, IBRD's present risk-bearing capacity and financial flexibility could constrain its ability to respond.

3. IBRD's financial capacity remains a cause for concern for reasons that go beyond the global shock scenario. For example, IBRD's risk-bearing capacity is not sufficient to support an increase in the single borrower exposure limit. Thus, new lending to many large borrowers which are home to most of the global poor may be constrained. The basic conclusion of the September 1999 paper remains unchanged, namely that increasing capital resources will be important for the Bank to realize its mission going forward. However, there is some additional flexibility now in terms of timing this increase.

4. While a number of shareholders have agreed on the need for enhancing IBRD's financial capacity, there is as yet no consensus on the timing for initiating formal discussions on options that involve contribution of capital resources by shareholders or borrowers. Many members believe that this issue needs to be considered in the context of the institution's evolving role, and that it is contingent on whether the recent decline in loan commitments represents a cyclical or a secular trend. In any event, the strategy of delaying a decision on enhancing the capital resources of the IBRD is not without risk, especially if the global environment were to suddenly deteriorate. Of the options that envisage better use of existing capital resources by the Bank, increasing the usability of paid-in capital is the most promising. Management will endeavor to stretch existing capital resources by initiating action on all feasible options, although they are unlikely to have a major impact on the risk-bearing capacity of the Bank. In this environment, the Bank will continue to need to manage carefully its short- and long-term commitments and to exercise strategic selectivity in allocating resources to achieve the highest development returns.

as of 3/31/00

IBRD Key Financial Indicators

(expressed in millions of U.S. dollars)

		Actual						*Projected* [2]		
		FY 1994	*FY 1995*	*FY 1996*	*FY 1997*	*FY 1998*	*FY 1999*	*FY 2000*	*FY 2001*	*FY 2002*
A.	Allocable Net Income	1,051	1,354	1,187	1,173	1,061	1,263	1,370	1,595	1,695
B.	Equity Capital [1]	23,135	25,896	23,532	22,891	22,482	23,782	25,016	25,748	26,479
C.	Loans Outstanding (Including to IFC)	109,291	123,499	110,246	105,805	106,576	117,228	125,912	132,757	136,121
	of which SSALs (Excluding to Korea)						*2,035*	*4,290*	*4,790*	*4,095*
D.	Loans to IFC	863	934	791	599	454	350	277	215	168
E.	Present Value of Guarantees	742	1,118	1,057	1,168	1,501	1,526	1,788	2,121	1,875
F.	Loans Outstanding (C) less Loans to IFC (D) plus PV of Guarantees (E)	109,170	123,683	110,512	106,374	107,623	118,403	127,423	134,663	137,828
G.	Provision for Loan Losses	3,324	3,740	3,340	3,210	3,240	3,560	3,854	4,064	4,152
H.	Loans Outstanding (C) plus PV of Guarantees (E) less Provision for Loan Losses (G)	106,709	120,877	107,963	103,763	104,837	115,193	123,846	130,814	133,844
I.	Equity Capital (B) to Loans (H) Ratio	21.7%	21.4%	21.8%	22.1%	21.4%	20.7%	20.2%	19.7%	19.8%
J.	Share of High Risk Countries	18.8%	39.9%	35.8%	41.7%	53.3%	66.3%	68.5%	68.3%	67.8%
K.	Usable Equity and Aaa, Aa Callable Capital to Risk Assets Ratio	150.1%	153.1%	178.0%	188.4%	142.3%	145.1%	127.3%	121.0%	118.9%

/1 *Includes usable paid-in capital, general reserve, special reserve and cumulative translation adjustment.*

/2 *This table is based on lending projections as of February 28, 2000, which are subject to revision.*

Note: Amounts may not add due to rounding