



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)



DC/2000-15

September 6, 2000

**UPDATE ON THE IBRD's FINANCIAL CAPACITY**

**Background Note for the Development Committee**

Attached for the information of the Members of the Development Committee is a brief Update on the IBRD's Financial Capacity. This report responds to the Committee's request in its April 17, 2000 communiqué (para. 13) that the Bank report regularly on this issue. Ministers may wish to comment on this topic in their prepared statements.

## **UPDATE ON IBRD FINANCIAL CAPACITY**

### **Background Note for the Development Committee – September 25, 2000**

The Development Committee has asked that it be informed regularly of the IBRD's financial capacity so that Ministers remain aware of the Bank's ability to respond to current and prospective demand for loans. The attached table provides an update of key financial indicators for the IBRD, utilizing the same format presented to the Committee since 1998.

Since the April meetings, IBRD Executive Directors have considered the Bank's financial capacity in light of the annual review of credit risk management and the medium term outlook for Bank lending. Their conclusion was that the Bank's risk-bearing capacity remains adequate, reflecting the improved ratio of equity capital to loans and taking into account the additions to the General Reserve out of FY2000 net income. The Executive Directors noted, however, that if an external crisis were to occur, a surge in demand for Bank lending and a deterioration in the quality of the loan portfolio could well be part of the crisis scenario. Under those circumstances, it could be difficult to continue meeting internal tests of capital adequacy without restricting future lending and/or adding to the IBRD's risk-bearing capacity.

The Equity-to-Loans ratio at the end of FY2000, at 21.2 percent, is higher than the projected value of 20.2 percent presented to the Development Committee last spring. It is also higher than 20.7 percent at the end of FY1999. The higher ratios are a result of a larger-than-projected equity level and lower-than-projected loan level. The equity increased due to a higher allocation to reserves than projected earlier (\$1,114 million vs. \$700 million). Of the \$414 million increase in the allocation to reserves, \$243 million represents an amount equal to the increase in income due to the revision in total loan loss provision in FY2000 from 3.0 percent to 2.8 percent of loans; Executive Directors decided to add this amount directly to reserves to maintain the risk-bearing capacity of the Bank. The balance of \$171 million represents an incremental allocation to reserves over the \$700 million projected earlier. The loan level was lower than projected earlier because net disbursements were lower.

IBRD Key Financial Indicators							
	<i>(expressed in millions of U.S. dollars)</i>						
	<i>FY 1994</i>	<i>FY 1995</i>	<i>FY 1996</i>	<i>FY 1997</i>	<i>FY 1998</i>	<i>FY 1999</i>	<i>FY 2000</i>
A. Allocable Net Income	1,051	1,354	1,187	1,173	1,061	1,263	1,582
B. Equity Capital <sup>1</sup>	23,135	25,896	23,532	22,891	22,482	23,782	25,067
C. Loans Outstanding (Including to IFC) of which SSALs (Excluding to Korea)	109,291	123,499	110,246	105,805	106,576	117,228 2,035	120,104 3,801
D. Loans to IFC	863	934	791	599	454	350	273
E. Present Value of Guarantees	742	1,118	1,057	1,168	1,501	1,526	1,376
F. Loans Outstanding <sup>(C)</sup> less Loans to IFC <sup>(D)</sup> plus PV of Guarantees <sup>(E)</sup>	109,170	123,683	110,512	106,374	107,623	118,403	121,207
G. Provision for Loan Losses	3,324	3,740	3,340	3,210	3,240	3,560	3,400
H. Loans Outstanding <sup>(C)</sup> plus PV of Guarantees <sup>(E)</sup> less Provision for Loan Losses <sup>(G)</sup>	106,709	120,877	107,963	103,763	104,837	115,193	118,080
I. Equity Capital <sup>(B)</sup> to Loans <sup>(H)</sup> Ratio	21.7%	21.4%	21.8%	22.1%	21.4%	20.7%	21.2%
J. Share of High Risk Countries	18.8%	39.9%	35.8%	41.7%	53.3%	66.3%	68.9%
K. Usable Equity and Aaa, Aa Callable Capital to Risk Assets Ratio	150.1%	153.1%	178.0%	188.4%	142.3%	145.1%	134.3%

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

Note: Amounts may not add due to rounding.

Note: Letter superscripts identify rows in the table ( B,C,D,E,G & H )