

PAPER XII
ESTABLISHMENT OF AN INFLATION FACILITY

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actual fact from the Reserve Account where the Inflation Facility monies are) to the General Account (see Paper V for a description of the financial accounts).

Each Agency may have its own specific procedure to effect resources transfers among its regular programmes and eventually down the line to regional accounts or to the particular budget of each programme manager. It is proposed however that all Agencies use the same standard procedure for effecting transfers from the Inflation Facility to the General Account and for determining the maximum amount that can be so transferred.

The procedure would be as follows:

- on a quarterly or a bi-annual basis, the Agency would factor-in the actual average rate of inflation which occurred in each of the countries of expenditure during the preceding three (or six) months period (again, what the average rates of inflation are can be determined centrally);
- the Agency would then calculate the additional programme cost caused by that inflation (by applying the rate of inflation to the programme costs estimates that were prepared prior to the biennium);
- the Director-General would effect a transfer from the Inflation Facility to the General Account equivalent to the additional programme cost.

To avoid any possibility of a lag that might compromise the implementation of the programme, it could be made possible for Directors General to effect the first such transfer on the first day of the biennium (the amount being calculated on the basis of the inflation that actually took place during the preceding three or six months).

Two points must be underlined. First, whereas during the budget preparation phase estimates of future inflation were used to set the funding level of the Inflation Facility, after the start of the biennium Agencies would use the actual rate of inflation in the previous three (or six) months to calculate the amounts to be transferred. The assumption is that the actual inflation of the preceding period is the best proxy variable for the inflation rate likely to be encountered in the immediate future.