

- ESTABLISHMENT OF AN EXCHANGE RATES FLUCTUATIONS FACILITY -

T-----L

The implementation of the proposal to establish a Exchange Rates Fluctuations Facility would lead to the following budgetary procedures which are parallel to those used for the Inflation Facility (described in Paper XII).

COST ESTIMATES.

As proposed in Paper XII, Agencies would follow these steps when they prepare cost estimates:

- programme or activity costs are estimated exclusively on the basis of current market prices or known prices (the latter include all known or statutory increases in salaries, utilities, leases, rentals, etc...);

- proposed expenditures are totalled by programme country, using exchange rates prevailing at one moment in time (to be called Valuation Day), in relation to the convertible currency used by the Agency either to pay directly such expenditures or to acquire local currency. (All calculations are made from current market rates or, in the case of inconvertible currencies, from current proxy variables)

Having completed this procedure, Agencies would have estimated their expenditures in a basket of convertible currencies. Using the Valuation Day exchange rates, it is then possible to estimate the total cost of the Work-Programme in the Agencies' currency or currencies of account. In the model, the total cost of the Work-Programme calculated on the basis of the exchange rates valid on Valuation Day is equivalent to the funding level required for the Main Financial Envelope (minus the Working Capital Fund).

ESTIMATING THE CURRENCY FLUCTUATIONS FACTOR.

The task of predicting the future evolution of exchange rates is a daunting one. Guessing the wrong way has, in the past, led Agencies to be substantially uncovered at times, and overly funded at other times. In the model, the main purpose of advanced estimates of future currency fluctuations is to obtain, well before the beginning of the biennium, a "ball-park" figure of the level of funding that will be required in the Exchange Rates Fluctuations Facility. Thus, Member States will be given every opportunity to prepare for it. Another and major purpose is for the Agency and the Member States to be able to make programme adjustments, if they so desire, in order to reduce