INTERNATIONAL MONETARY FUND

IMF POLICY PAPER

[MONTH] [YEAR]

REVIEW OF THE FUND'S INCOME POSITION FOR FY 2022 AND FY 2023–2024

IMF staff regularly produces papers proposing new IMF policies, exploring options for reform, or reviewing existing IMF policies and operations. The following documents have been released and are included in this package:

- A **Press Release**.
- The **Staff Report** on the Review of the Fund's Income Position for FY 2022 and FY 2023–2024, prepared by IMF staff and completed on April 11, 2022 for the Executive Board's consideration on April 28, 2022.

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International Monetary Fund
Washington, D.C.

PRESS RELEASE

PR22/175

IMF Executive Board Review of the Fund's Income Position for FY 2022 and FY 2023-2024

FOR IMMEDIATE RELEASE

- Net operational income is anticipated to remain strong for FY 2022 and to continue in FY 2023 and FY 2024 but subject to greater than normal uncertainties. A projected unrealized pension-related accounting gain is expected to increase overall Fund income in FY 2022.
- The Executive Board agreed to maintain the margin for the rate of charge on IMF lending unchanged at 100 basis points for financial years FY 2023 and FY 2024.

Washington, DC – May 27, 2022: On April 28, 2022, the Executive Board of the International Monetary Fund (IMF) completed its annual review of the Fund's income position for the financial year (FY) ending April 30, 2022.

FY 2022 Income Position

Net operational income, of about SDR 1.5 billion (US$2.1 billion), is anticipated for FY 2022, reflecting mainly the ongoing elevated use of Fund credit. The actuarial remeasurement of staff retirement plan assets and liabilities is projected to make an unrealized contribution of about SDR 0.5 billion (US$0.7 billion) to the net income for the year.[1] Overall net income is expected to reach SDR 2.2 billion (US$3.1 billion) after adding estimated investment income in the Endowment Subaccount of SDR 0.2 billion (US$0.3 billion). Net income excluding the impact of IAS 19 gains and losses will increase the Fund's precautionary balances, which are projected to rise to SDR 20.9 billion (US$29.1 billion) at end-FY 2022.

The Executive Board also adopted several other decisions that are relevant to the Fund's finances. These included decisions to: (i) place the pension-related remeasurement gain in the special reserve and the remainder of net income equally in the special and general reserves; (ii) transfer currencies equivalent to the increase in the Fund's reserves from the General Resources Account (GRA) to the Investment Account; (iii) retain the income of the Fixed-Income Subaccount and Endowment Subaccount for FY 2022 in the Investment Account; and (iv) reimburse costs to the GRA for the expenses of conducting the business of the SDR Department.

Projections of the Fund's income remain subject to greater than normal uncertainties as economic pressures and the war in Ukraine continue to weigh heavily on the recovery from the pandemic. Changes in key assumptions such as the discount rate used to measure the Fund's retirement plan obligations and asset returns can have a large impact on the actual

[1] IAS 19 'Employee Benefits', requires the actuarial remeasurement of post-employment obligations.

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outcome. The FY 2022 annual financial statements will update for the impact of changes in key assumptions made at the time of the April projections.

FY 2023-2024 Income Position and Lending Rate

As noted above, operational income for FY 2023 and FY 2024 is expected to remain strong, with projected annual net income of SDR 2.1 billion (US$3.0 billion) for both years. However, these projections are subject to a high degree of uncertainty related to the scale of new lending associated with macroeconomic developments and the varying paths to recovery; as well as the timing and amounts of disbursements under approved arrangements. Prospects for recovery remain uncertain as the war in Ukraine and the lingering effects of the pandemic combine to increase inflationary pressures; and are likely to impact actuarial assumptions such as the discount rate, and the performance of the Fund's investment and retirement plan asset portfolios. Positive projected net income should allow the Fund to continue to accumulate precautionary balances.

The IMF's basic lending rate for member countries' use of IMF credit is the SDR interest rate plus a fixed margin. The Board sets the margin for a period of two financial years, in line with the principle that the margin should be stable and predictable. The Executive Board agreed to maintain the margin for the rate of charge unchanged at 100 basis points for financial years FY 2023 and FY 2024.

INTERNATIONAL MONETARY FUND

April 11, 2022

REVIEW OF THE FUND'S INCOME POSITION FOR FY 2022 AND FY 2023–2024

EXECUTIVE SUMMARY

This paper updates the projections of the Fund's income position for FY 2022 and FY 2023–2024 and proposes related decisions for the current financial year. The paper also includes a proposed decision to set the margin for the rate of charge for financial years 2023 and 2024.

The Fund's overall net income for FY 2022 is projected at about SDR 2.2 billion. Projections of the Fund's income are subject to greater than normal uncertainties amid the war in Ukraine and the lingering effects of the COVID-19 pandemic on key assumptions. For FY 2022, these uncertainties relate mainly to the discount rate to be used to measure the Fund's retirement plan obligations at April 30, 2022 and to the full year asset returns on the retirement plan and the Fixed-Income and Endowment Subaccounts. For FY 2023–2024, a key additional uncertainty is the potential scale of new lending and program disruptions associated with the war in Ukraine and the membership's uneven path to recovery from the COVID-19 pandemic.

The projections point to a net income position of about SDR 2.1 billion for both FY 2023 and FY 2024, excluding the impact of any pension-related gain or loss. Based on the current projection, the indicative medium-term target for precautionary balances of SDR 25 billion is expected to be reached in early FY 2025. These projections are subject to considerable uncertainty and are sensitive to a number of assumptions.

The paper recommends that the margin for the rate of charge for the period FY 2023–2024 be kept unchanged at 100 basis points. The margin will again be set under the exceptional circumstances clause, as non-lending income continues to be constrained by the low interest rate environment and lending income will be used to finance a portion of the Fund's non-lending activities.

The paper also proposes that the decision to initiate the Endowment Subaccount (EA) payout under the framework approved by the Board in 2018 be delayed by one year; mainly on account of the market correction following the sharp increase in inflation and war in Ukraine significantly eroding the EA cushion below the desired level. The cushion is expected to remain susceptible to significant fluctuations and elevated downside risks associated with investments in the EA.

The paper proposes an allocation framework for isolating the volatile IAS 19 pension-related remeasurement gains and losses in the special reserve. In FY 2022, a portion of

General Resources Account (GRA) net income equivalent to the remeasurement gain is to be placed to the special reserve and the remainder would be placed equally to the special and general reserves. After the placement of the GRA FY 2022 net income to reserves, the precautionary balances, which have been adjusted to reflect the pension funding status on an economic basis, are projected to reach SDR 20.9 billion at the end of FY 2022. The paper further proposes to transfer currencies equivalent to the increase in the Fund's GRA reserves from the GRA to the Investment Account.

Approved By
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TABLES

ANNEXES

Glossary

ACES	Analytic Costing and Estimation System
BoP	Balance of Payments
CCBR	Comprehensive Compensation and Benefits Review
CCRT	Catastrophe Containment and Relief Trust
CPI	Consumer Price Index
DBO	Defined Benefit Obligation
EA	Endowment Subaccount
EMBI	Emerging Markets Bond Index
EMBIG	Emerging Markets Bond Index Global
FCL	Flexible Credit Line
FI	Fixed-Income Subaccount
GAF	Generally Available Facilities
GED	Global External Deflator
GRA	General Resources Account
HIPC	Heavily Indebted Poor Country
IA	Investment Account
IAS 19	Accounting standard that deals with pension and other employee benefits
IFRS	International Financial Reporting Standards
IFRS 9	Accounting standard that deals with provisioning for loan impairments
NAV	Net Asset Value
NIM	New Income Model
NOI	Net Operating Income
PRGT	Poverty Reduction and Growth Trust
RST	Resilience and Sustainability Trust
SCA-1	First Special Contingent Account
SDA	Special Disbursement Account
UCT	Upper Credit Tranche
VTA	Voluntary Trading Arrangements

INTRODUCTION

1. This paper reviews the Fund's income position for FY 2022 and FY 2023–2024. It updates the April 2021 income projections and proposes decisions for the current financial year. The paper also includes a proposed decision to set the margin for the rate of charge under Rule I-6(4) for financial years 2023 and 2024.[1]

2. The paper reflects feedback from recent income-related Executive Board discussions. Specifically, the paper is informed by the recent Board discussions on the interim review of the adequacy of the Fund's precautionary balances on December 13, 2021, the review of the investment account and trust assets investment strategy on January 12, 2022, and the consolidated medium-term income and expenditure framework (in the context of the initial proposals for the FY 2023–2025 medium term budget discussion) on March 4, 2022.

3. Lending projections continue to be underpinned by the desk survey scenario. Uncertainty around the outlook, which was already elevated from the pandemic and recent market upheavals, has further increased as a result of the war in Ukraine. It is too early at this stage to assess the impact of the war and other market factors on potential future program requests and the scale of new lending beyond emergency financing support to Ukraine.[2] Other income assumptions include the effects of inflationary pressures as well as some of the recent turbulence in financial markets, factors which have led to: a reduction in the Fund's FY 2022 estimated investment income, prompting a review of the timing of the initial EA payout; and an increase in the discount rate used to calculate the defined benefit obligation for the retirement plan.

4. The paper is structured as follows: The first section reviews the FY 2022 income position and the main changes from the April 2021 projections. The second section makes proposals on the disposition of FY 2022 net income and placement to reserves and includes a comprehensive discussion on the initial EA payout and allocation of income. The third section discusses the margin for the rate of charge for FY 2023–24, updates the income projections for the period, and reviews the burden sharing adjustments.

REVIEW OF THE FY 2022 INCOME POSITION

5. Net operational income of the GRA, after adjusting for a pension-related (IAS 19) gain, is now projected at about SDR 2.0 billion for FY 2022; broadly in line with the initial estimate in April 2021 although reflecting a mix of multiple changes in income and expense lines (see Table 1, Line E). Total lending income is projected to be lower than the April 2021 projections, reflecting mainly fewer purchases and some rephasing of drawings. There will be no reimbursement to the GRA of the cost of administering the Poverty Reduction and Growth Trust (PRGT) and

[1] *A New Rule for Setting the Margin for the Basic Rate of Charge* (11/22/11), was adopted by the Executive Board in December 2011 and was first applied in setting the margin for the rate of charge for FY 2013–14.

[2] See https://www.imf.org/en/News/Articles/2022/03/09/pr2269-ukraine-imf-executive-board-approves-usd-billion-in-emergency-financing-support-to-ukraine.

investment income previously anticipated in April 2021 is no longer expected to materialize given the rise in interest rates in recent months. Further, the pension-related (IAS 19) remeasurement gain is estimated to make a positive contribution of about SDR 0.5 billion. The Fund's overall net income for FY 2022 is now projected at SDR 2.2 billion, after taking into account the retained investment income of the EA (Table 1). The main components of the projected FY 2022 results are outlined below (see Annex V for underlying assumptions):

Total lending income is projected to be SDR 2.6 billion, about SDR 97 million lower than the April 2021 estimate (Table 1).

- *Margin income* of SDR 904 million is expected to be SDR 86 million lower than projected in April 2021, mainly reflecting a SDR 8.6 billion lower average projected stock of credit outstanding, mostly attributable to certain purchases taking place later than expected or no longer expected to take place as anticipated in April 2021.[3]

- *Service charges and other income* are projected at SDR 199 million, of which service charges contribute SDR 71 million (SDR 33 million lower than the April 2021 estimate), mainly reflecting delayed purchases and purchases no longer expected to take place. Also included are basic charges (SDR 40 million) and special charges (SDR 88 million) from Sudan, which were previously deferred.[4]

- *Commitment fees* are projected at SDR 283 million, slightly higher than projected in April 2021, following the recognition of commitment fee income of SDR 4 million from Ukraine's cancellation of its Stand-By Arrangement in March 2022.[5]

- *Surcharges* of SDR 1,232 million are projected to be about SDR 109 million lower than the April 2021 estimate, due mainly to delays in certain large purchases and purchases no longer expected to take place as previously anticipated.

Investment Income—Fixed-Income Subaccount (FI):[6]

- While positive returns had been anticipated in April 2021, interest rates rose sharply in recent months on the back of inflationary pressures, and in the 10 months through end-February 2022

[3] In the April 2021 projection, purchases were mainly scheduled to take place in the early part of the year, resulting in higher projected average credit outstanding for FY 2022.

[4] Basic charges from Sudan, which were previously deferred but not burden shared (i.e., charges incurred before the introduction of burden sharing policy), as well as special charges, were received at the time of Sudan's arrears clearance. Projections from last April did not include the impact of Sudan's arrears clearance that took place on June 29, 2021.

[5] Commitment fee income is only recognized at the expiration or cancellation of an arrangement in accordance with accounting principles.

[6] The Articles of Agreement provide for the establishment of an Investment Account (IA) to generate income to help meet the Fund's operating costs (Article XII, Section (6)(f)(iv)). The IA was funded on June 20, 2006 following its establishment by an Executive Board decision in April 2006. The IA was funded through a transfer of currencies of SDR 5.9 billion from the General Resources Account (GRA). The Articles limit the amount that may be transferred to the IA to the equivalent of the Fund's general and special reserves at the time of the decision to make the transfer, and the June 2006 transfer was equivalent to the Fund's total reserves at that time.

the subaccount incurred a loss of SDR 56 million corresponding to a year-to-date return of about -0.29 percent on a marked-to-market basis. With yields still at relatively low levels and offering moderate income protection, an uptick in interest rates as anticipated by the markets could result in even lower (negative) returns for the year.[7]

- As such, projections for the year reflect no transfer of income from the FI to the GRA for use in meeting FY 2022 administrative expenses. Notwithstanding the loss projection for FY 2022, the likelihood of the subaccount returning a small gain for the year cannot be completely ruled out; and staff proposes that any income (or loss) be retained in the IA and added to (or deducted from) the part of income to be transferred to the GRA for meeting Fund expenses in coming years.[8]

Retained Investment Income and EA Payout—Endowment Subaccount (EA):

- Investment income from the EA for FY 2022 is estimated at SDR 202 million and exceeds earlier projections, reflecting mainly a strengthening of the USD against the SDR. The sharp increase in inflation and the market correction following recent geopolitical events has resulted in negative returns from the subaccount of US$36 million at end-February. However, the USD has strengthened considerably against the SDR since the beginning of the year when it was US$1.44 per SDR and is expected to reach about US$1.39 per SDR by end-April 2022; contributing to a large translation gain for the portfolio in SDR terms that more than offsets the negative USD yields earned year-to-date.[9]

- The war in Ukraine and other economic factors such as persistent high inflation continue to weigh heavily on the financial markets which remain volatile, and the final outcome is subject to considerable uncertainty. As discussed in detail in the next section, staff therefore proposes to further delay the decision initiating the EA payout by one year and to retain any investment income for FY 2022 in the EA rather than being transferred to the GRA to be used for administrative expenses.

Implicit returns on interest-free resources: The updated implicit returns on interest-free resources are projected to be SDR 6 million, in line with the average SDR interest rate of about 0.1 percent prevailing in FY 2022, lower than the earlier projection.

Reimbursements to the GRA: In accordance with the Articles of Agreement, the GRA has to be reimbursed in respect of: (i) the expenses for conducting the business of the SDR Department

[7] The modification of the investment strategy of the FI by the Executive Board in January 2022 is not expected to impact the return outlook for the portfolio for the remainder of this year.

[8] Under the Articles, the Executive Board has discretion over the disposition of income in the IA. Investment income can be kept in the IA and reinvested or it may be used for meeting the expenses of conducting the business of the Fund, i.e., transferred to the GRA (Article XII, Section 6 (f)(iv)). Since FY 2007 the FI has earned positive income and staff has proposed that the income of the IA-FI be transferred to the GRA for meeting the expenses of conducting the business of the Fund for the year under review.

[9] As the Fund's administrative expenditures are largely in US dollars and the EA's general objective is to contribute to covering such expenditures, the performance of the EA is measured in US dollars as the base currency but translated into SDRs for financial reporting purposes.

(Article XVI, Section 2); and (ii) the expenses of administration of the Special Disbursement Account (SDA) on the basis of reasonable estimates (Article V, Section 12(i)).[10] Moreover, under the Executive Board decision approving the PRGT, the PRGT has to reimburse the GRA for the expenses of administering the PRGT (i.e., all administrative expenses not only those related to SDA resources).[11,12]

- The expenses of conducting the business of the SDR Department in FY 2022 are estimated at SDR 8.44 million (proposed Decision 1), about SDR 4 million higher than the earlier estimate reflecting the general SDR allocation that became effective in August 2021, the expanded operations of the Voluntary Trading Arrangements (VTA) market, the ongoing review of the SDR basket, and in part the work related to SDR channeling.

- Consistent with the practice in past years, staff does not propose reimbursements of administrative expenses related to SDA resources in the Catastrophe Containment and Relief (CCR) and PRG-HIPC Trusts for FY 2022. The fact that SDA assets co-finance debt relief initiatives administered by the Fund on the basis of Article V, Section 2(b) that are otherwise funded with donor contributions and do not exclusively rely on SDA resources, does not trigger any additional costs that the Fund would not already bear under its other activities.[13]

- The Board has approved the suspension of reimbursement of the GRA for the costs of administering the PRGT for the fiscal years 2022-2026.[14] Temporary suspension is permissible under the Fund's new income model adopted in 2008 and the three-pillar framework for the self-sustained PRGT adopted in 2012.[15] The PRGT administrative expenses for FY 2022 are estimated at SDR 75.6 million, about SDR 25 million lower than earlier estimates in SDR terms, reflecting the reduction in the number of PRGT programs.

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[10] In accordance with Article V, Section 12(f) and (g), SDA resources can be used for various purposes, as specified in the Articles of Agreement, including transfers to the GRA for immediate use in operations and transactions, transfers to the IA, or operations and transactions that are not authorized by other provisions of the Articles but are consistent with the purposes of the Fund, in particular to provide balance of payments assistance on special terms to low-income member countries. SDA resources include both assets held within the SDA and assets from the SDA, which have been contributed to the various trusts administered by the Fund as trustee, including the current PRG, PRG-HIPC and CCR Trusts.

[11] See Decision No. 8760-(87/176), adopted December 18, 1987.

[12] The process of estimating SDR Department and PRGT administrative expenses relies primarily on the Fund's Analytic Costing and Estimation System (ACES) and the estimates include lagged actual data for Q4 costs.

[13] In this regard it should be noted that the direct costs related to SDA assets in the various trusts mostly comprise investment management fees and any operational out-of-pocket expenses. These are borne by the assets as the investment managers deduct such fees/expenses from the investment returns attributed to these assets. Staff has initiated a review of past SDA reimbursements practices to ensure consistency in the treatment of SDA assets in the various trusts. The finalization has been delayed in view of more pressing demands on staff and staff will present it at the next possible opportunity.

[14] Executive Board Decision No. 17083-(21/71), July 14, 2021.

[15] See Executive Board Decision No. 14093-(08/32), adopted April 7, 2008.

Table 1. Projected Income and Expenditures—FY 2022
(in millions of SDRs)

	Initial Projections [1]	Current Projections	Variance
A. Operational income	**2,956**	**2,570**	**-386**
Lending income	**2,715**	**2,618**	**-97**
Margin for the rate of charge	990	904	-86
Service charges and other income [2]	104	199	95
Commitment fees	280	283	3
Surcharges	1,341	1,232	-109
Investment income	**123**	**-62**	**-185**
Fixed-Income Subaccount (reserves)	61	-62	-123
Endowment Subaccount payout [3]	62	0	-62
Interest free resources [4]	**13**	**6**	**-7**
SCA-1 and other	13	6	-7
Reimbursements	**105**	**8**	**-97**
SDR Department	4	8	4
PRG Trust [5]	101	0	-101
RST	0	0	0
B. Expenses	**914**	**1,073**	**159**
Net administrative expenditures	843	830	-13
Capital budget items expensed	18	18	0
Depreciation	53	53	0
Net periodic pension cost after funding (IAS 19)	0	172	172
C. Net operational income before provision (A-B)	**2,042**	**1,497**	**-545**
Provision for loan impairment losses	0	0	0
D. Net operational income	**2,042**	**1,497**	-545
Pension-related (IAS 19) remeasurement gains/(losses) [1]	0	512	512
E. Net operational income after IAS 19 adjustment	**2,042**	**2,009**	**-33**
Endowment Subaccount - Retained income	153	202	49
Net income position	**2,195**	**2,211**	**16**
Memorandum Items:			
Fund credit (average stock, SDR billions)	99.0	90.4	-8.6
SDR interest rate (average, in percent)	0.2	0.1	-0.1
US$/SDR exchange rate (average)	1.44	1.42	-0.02
Precautionary balances (end of period, SDR billions) [6]	21.5	20.9	-0.6

Source: Finance Department and Office of Budget and Planning.

[1] See *Review of the Fund's Income Position for FY 2021 and FY 2022* (04/12/21).

[2] Includes special charges and accrued basic charges received from Sudan's arrears clearance. Note that income recognized in the SDA following Sudan's settlement of overdue obligations to the Fund was contributed to the PRGT in full.

[3] Based on staff's proposal to delay the decision initiating the EA payout in FY 2022 by one year (see Disposition Decisions – Section A).

[4] Interest free resources reduce the Fund's costs and therefore provide implicit returns. Since the Fund invests its reserves in the IA to earn a higher return, the interest free resources retained in the GRA are mainly attributable to unremunerated reserve tranche positions not represented by gold holdings, GRA income for the year not transferred to the IA, and the SCA-1 (until full distribution in the context of Sudan's arrears clearance). These resources reduce members' reserve tranche positions and the Fund's remuneration expense or increase interest income if reflected in SDR holdings of the GRA, resulting in implicit income for the Fund.

[5] Suspension of reimbursements of PRGT administrative expenses during FY 2022–FY 2026 per Executive Board Decision No. 17083-(21/71), July 14, 2021.

[6] Reflects a reduction in precautionary balances resulting from the full distribution of the SCA-1 (SDR 1,066 million) in the context of Sudan's arrears clearance. Precautionary balances are also adjusted for a positive one-off permanent adjustment of SDR 205 million effective May 1, 2021 to reverse the impact of the cumulative IAS 19 gains and losses previously included in the Fund's precautionary balances measurement under the accounting basis (Annex II).

- *Resilience and Sustainability Trust (RST).*[16] Setup related costs for the proposed RST have been funded in FY 2022 through reprioritization and extensive staff overtime and will be funded in FY 2023 with a combination of temporary and structural resources allocated to departments. The RST paper provides additional details and makes a proposal in respect of how to address the RST-related costs.

Expenses: Total expenses of the GRA of SDR 1,073 million are estimated to be about SDR 159 million higher than the April 2021 projection.

- Net administrative expenditures of SDR 830 million are expected to be lower by about SDR 13 million in FY 2022, mainly due to a continued slow resumption in travel and building occupancy, given ongoing COVID-related constraints.
- Capital budget items expensed, and the depreciation charge are broadly in line with previous projections.
- Net periodic pension costs after funding are discussed below.

Pension-Related (IAS 19) Adjustment:

6. The pension-related (IAS 19) adjustment is expected to contribute about SDR 340 million overall to net income in FY 2022.[17] IAS 19 "Employee Benefits" is the International Financial Reporting Standard (IFRS) that deals with accounting for pension and other employee benefits. The pension-related adjustment under IAS 19 comprises two elements: (i) remeasurement gains/(losses); and (ii) the net periodic pension cost, after funding.

- *Remeasurement gains and losses* result mainly from changes in the actuarially-assessed estimated future benefit obligation, and changes in the fair value of plan assets. The current year projections point to net actuarial remeasurement gains of SDR 512 million that are largely attributable to an increase in the discount rate and offset partly by negative excess returns on plan assets (Table 2).[18]
    - The uptick in market interest rates has translated into an increase in the nominal discount rate which rose from 3.02 percent at the start of the year to 3.30 percent by end-February 2022. The 28 basis points increase mainly reflects the rise in investment grade

[16] See *Proposal to Establish a Resilience and Sustainability Trust* (03/21/22).

[17] Under IAS 19, the discount rate is determined by reference to market yields at the end of the financial year on high quality corporate bonds. The Fund's actuary (Willis Towers Watson) derives the Fund's discount rate from the FTSE Pension Discount Curve which is widely applied.

[18] As discussed in *Review of the Fund's Income Position for FY 2021 and FY 2022* (04/12/21) - Annex II, pension-related (IAS 19) gains and losses are volatile year-on-year but have tended to offset over time.

corporate bond yields and is expected to lower the actuarially determined remeasurement of future obligations and result in a projected gain of SDR 588 million in FY 2022 (Table 2).[19]

- The projected revaluation of assets for the year is based on actual and estimated portfolio performance to end-February 2022, and the end-February discount rate is projected to the end of the year. After allowing for the expected income on plan assets (included under the pension cost accrual in the table), portfolio performance is expected to result in an actuarially-determined remeasurement loss of about SDR 78 million, mainly reflecting the sharp downturn experienced in January and February 2022 (Table 2). The fair value of plan assets is volatile, as illustrated by recent market movements, and therefore remains unpredictable.

Table 2. Reconciliation of Pension-Related (IAS 19) Gains/(Losses)
(in millions of SDRs)

	FY 2019	FY 2020	FY 2021	FY 2022
	Actual for year	Actual for year	Actual for year	Projected end-Feb 28, 2022
Net periodic pension cost after funding (Accrual vs. Funding)	**-125**	**-91**	**-352**	**-172**
Net periodic pension cost accrual	-263	-238	-504	-322
Service cost - current	-273	-310	-407	-368
Service cost - prior year (plan amendment)[1]	0	83	-6	60
Interest expense on pension liability	-355	-377	-335	-351
Expected income on pension asset[2]	365	366	244	337
Pension funding	138	147	152	150
Remeasurement gains/(losses)	**-365**	**-2,880**	**3,155**	**512**
Discount rate change	-301	-2,173	457	588
'Excess return' on assets[2]	-145	-944	2,532	-78
Exchange rate translation	9	-5	166	2
Experience adj	0	-15	0	0
Other[3]	72	257	0	0
Total IAS 19 gains/(losses)	**-490**	**-2,971**	**2,803**	**340**
Discount rate - at end of period (in percent)	3.86	2.73	3.02	3.30

Source: Willis Towers Watson and IMF Finance Department.
[1] FY22: Estimate of the impact of changes to the grossing-up formula.
[2] Total income from plan assets comprises two components for financial reporting purposes: i) the expected income on plan assets calculated using the discount rate, and included in the pension cost; and ii) a gain or loss included in remeasurement losses that is in 'excess' of this expected income.
[3] FY20: CCBR salary scale assumption adjustment. FY22: does not include the impact of MBP changes as the underlying assumptions are only expected to be finalized in April 2022.

- *The net periodic pension cost after funding* amounts to SDR 172 million and represents mainly the difference between: (i) accruals comprising the actuarially determined annual service cost expense (the increase in obligations under the staff retirement plan stemming mainly from an

[19] Yields on high quality U.S. corporate bonds have trended higher since January 2022; and based on the current level of the discount rate, a 100 basis point change can increase or decrease the value of the pension liability by 17 to 19 percent. The end-February rate is used for the year end projection.

additional year of staff service of SDR 368 million), an estimated gain from the expected changes to the grossing-up formula following completion of the experience study conducted in FY 2021 of about SDR 60 million, and the net interest cost of SDR 16 million; and (ii) the funding (cash appropriation) for the year projected at SDR 150 million. The smaller increase in estimated net periodic pension costs compared with actual prior year costs is attributable mainly to: the impact of changes to the grossing-up formulas on the defined benefit obligation of the Plan; and the higher opening asset value used to calculate the net interest costs for the current year (Table 2).[20]

- An experience study to assess the suitability of the actuarial assumptions was performed in FY 2021 in accordance with the five-year review. Certain changes were approved by the Executive Board in May 2021 and would only be incorporated in the final actuarial calculations in FY 2022 and beyond. The estimated FY 2022 pension-related adjustment includes an estimate of the effect of the expected changes to the grossing-up formula.

- Since the adoption of IAS 19 for pension and related benefits accounting, forward-looking projections about the demographic and other assumptions, and returns on the asset portfolio, have not been built into the income scenarios, due to the volatility, and hence unpredictability, of these assumptions.

7. **The actual outturn for the FY 2022 pension-related (IAS 19) adjustment remains highly uncertain.** The pension-related adjustment for FY 2022 will only be finalized after year-end and the impact on net income or loss will be reported in the Fund's annual financial statements scheduled for completion in June 2022. In accordance with accounting standards, the pension-related gain or loss at year-end will be calculated using the discount rate, asset returns, and other inputs as of April 30, 2022.

Credit Risk:

8. **IFRS 9 "Financial Instruments" became effective in FY 2019 and provisioning for impairment losses in the Fund was endorsed in principle by the Executive Board in FY 2021.[21]** The Fund's framework for assessing the need to provision has been adapted to comply with IFRS 9 and was designed to reflect the unique nature of the Fund's lending.[22] Under the new framework, and considering the Fund's multilayered framework for managing credit risk, cases where the recording of a material provision for an impairment loss may need to be considered are expected to remain rare. Staff is in the process of finalizing the IFRS 9-related country assessments and at this

[20] The grossing-up formulas are for converting participants' net salaries to pensionable gross salaries used in pension benefit calculations.

[21] In October 2020, Directors broadly supported the approach for addressing cases of impairment, including the use of provisioning, and incorporating Board consultation before any such provision is recorded and reported. The approach was formally endorsed by the Board in April 2021 – see *Review of the Fund's Income Position for FY 2021 and FY 2022* (04/12/21).

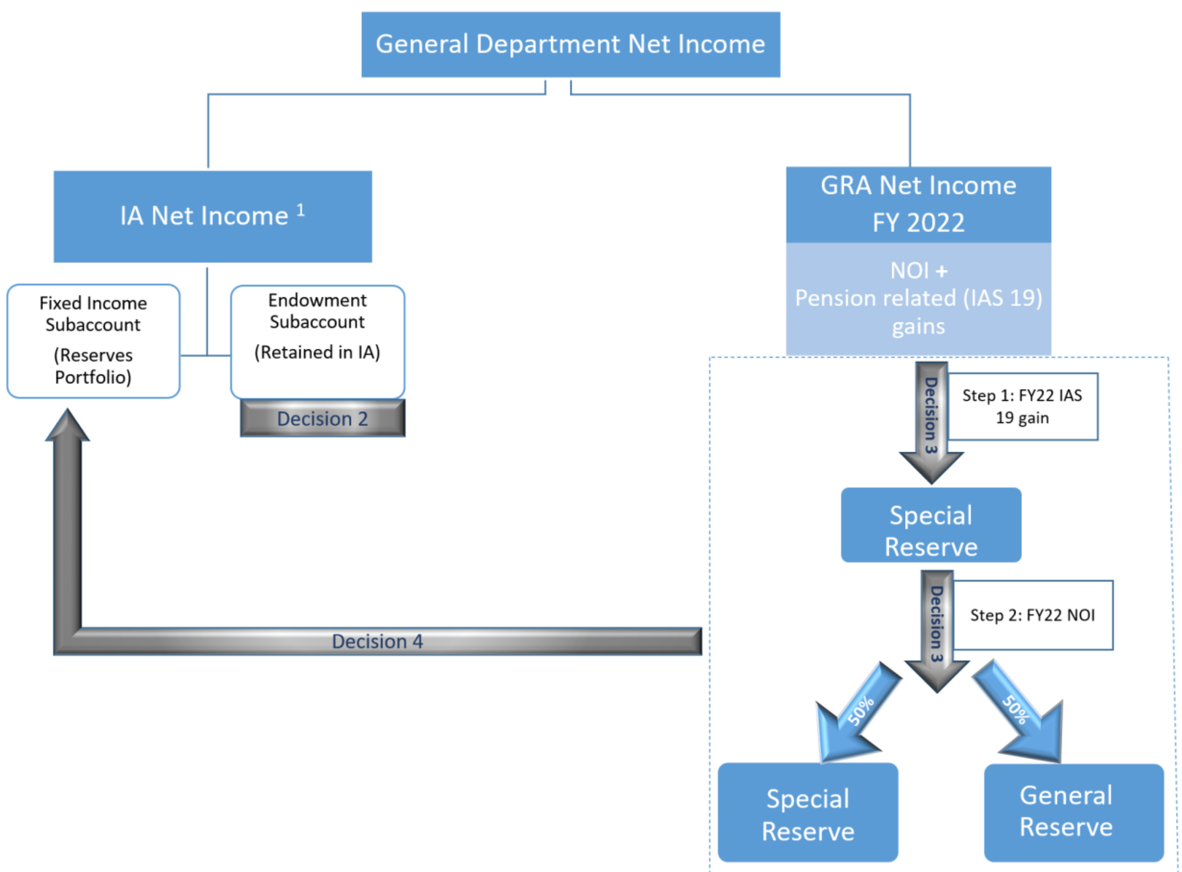
[22] See Annex III, *Review of the Fund's Income Position for FY 2019 and FY 2020* (03/19/19) for a fuller discussion on the implementation of the new standard in the Fund.

stage no impact is expected on the FY 2022 annual financial statements. Staff plans to brief the Board again before the FY 2022 annual financial statements are finalized.

DISPOSITION DECISIONS

9. As in previous years, the Executive Board needs to consider certain decisions on the disposition of income for FY 2022. These cover: the use of any investment income earned in FY 2022 from the FI and EA, which impacts the determination of GRA net operational income in FY 2022; the placement of net income to reserves and the allocation between the special and general reserves;[23] and the transfer of currencies from the GRA to the IA. These disposition considerations and decisions are presented in Figure 1 and discussed in detail in the sections below.

Figure 1. Summary of Proposed Disposition Decisions



[1] As discussed in Section A, there will be no transfer of income from the Fixed-Income Subaccount on account of the loss projected for the year and it is assumed that the payout from the EA will not begin at least until FY 2023 to allow for a buildup of a greater cushion of retained income in the Endowment against adverse return scenarios.

[23] Under Article XII, Section 6(b), the Fund may use the special reserve for any purpose for which it may use the general reserve, except that balances in the special reserve may not be used for distribution to Fund members.

A. Investment Income from the Subaccounts and Timing of Initiation of the EA Payout

10. The use of IA income is guided by the Fund's Articles. Under Article XII, section 6 (f) (iv), investment income from the IA may be invested, held in the IA, or used for meeting the expenses of conducting the business of the Fund.[24] Staff proposes that income in the subaccounts of the IA be used as follows:

- **Fixed-Income Subaccount:** Since 2006, FI income has been transferred to the GRA to be used towards meeting the expenses of the Fund, thereby contributing to the GRA net income placed to the Fund's reserves (Figure 1). In light of losses projected for the FI in FY 2022, including the actual losses for the 10 months ended February 2022, no FI income is expected to be transferred to the GRA to be used towards meeting the expenses of the Fund. An amount equivalent to the loss would be reflected in the IA retained earnings.

- **Endowment Subaccount:** Staff proposes that any net investment income earned in the EA in FY 2022 be fully retained in the endowment and not be transferred to the GRA to be used for meeting administrative expenses (see below). Based on current projections for FY 2022, this would imply that EA projected income of about SDR 202 million will be retained and reinvested according to the investment strategy for the EA. An equivalent amount would be reflected in the special account for IA retained earnings, raising cumulative retained earnings of the IA to about SDR 2,131 million.

11. During the review of the Fund's income position in April 2021, the Board agreed to delay the commencement of the EA payout to FY 2022, to allow the payout decision to be informed by the outcome of the IA review.[25] At the 5-yearly review of the IA in January 2022, the Board approved refinements to the investment strategy for the EA and FI to improve potential return prospects. Specifically for the EA, refinements to the strategic asset allocation would bring projected returns somewhat closer to the EA target (3 percent real return) while maintaining a balanced portfolio which is resilient in different economic and inflation regimes. Compared to the previous asset allocation, expected long-term real returns for the new asset allocation are higher at around 2.2 percent albeit with higher return volatility and downside risk.[26]

12. The delay in commencing payouts in FY 2021 was also intended to provide an opportunity to further build the EA's cushion of retained investment income to protect against possible adverse scenarios (Annex IV). As described in Box 1, the delay in implementation of the payout initially agreed in 2018 was to build a target "cushion" of retained investment income that could help protect the value of the EA's corpus (i.e., initial capital after inflation). At that time,

[24] Article XII, Section 6 (f)(iv). The Board could also, by a 70 percent majority of the total voting power, decide to reduce the amount of the investment in the IA (Article XII, Section 6 (f)(vi)).

[25] *Review of the Fund's Income Position for FY 2021 and FY 2022* (04/12/21).

[26] The annualized volatility of returns is now expected to be 9.8 percent compared to 7.9 percent for the previous asset allocation.

staff suggested that the target cushion could be sized to absorb one extreme event, say a 15 percent loss (equivalent to a two-standard deviation market shock). Under the payout policy framework, the cushion would be reassessed before commencing payouts. In addition, the Fund's income outlook, the EA's performance, and market conditions would also be reassessed to establish an appropriate level for the initial payout.

Box 1. EA Payout Policy Framework—Key Features

In the April 2018 review of the Fund's income position, Directors endorsed the proposed implementation of payouts from the EA to the GRA based on the policy framework discussed at the review of the IA in March 2018. The framework aims at balancing the need to provide a meaningful contribution to the Fund's income, with preserving the real value of the EA corpus over time, as initially envisaged under the Fund's New Income Model. The agreed framework is expected to result in relatively stable and predictable annual payouts in US dollar terms. Key features include:

- Annual payout amounts in US dollars will be determined according to a constant real payout rule.
- The deflator for annual inflation adjustments will be the Fund's annual GED.[1]
- Annual payouts will be decided at the time of the Fund's net income disposition decisions. The initial nominal US dollar value of the payout will be aligned with the prevailing return outlook.
- The payout will be subject to a NAV-based limit which would trigger a suspension of payouts. The initial value of the payout and NAV-based limit will be decided by the Board prior to the first payout.
- Payouts will be delayed for three years (until FY 2021) to build a cushion of retained investment income.
- The retained investment income ("cushion") would be reassessed at the end of the three-year period.

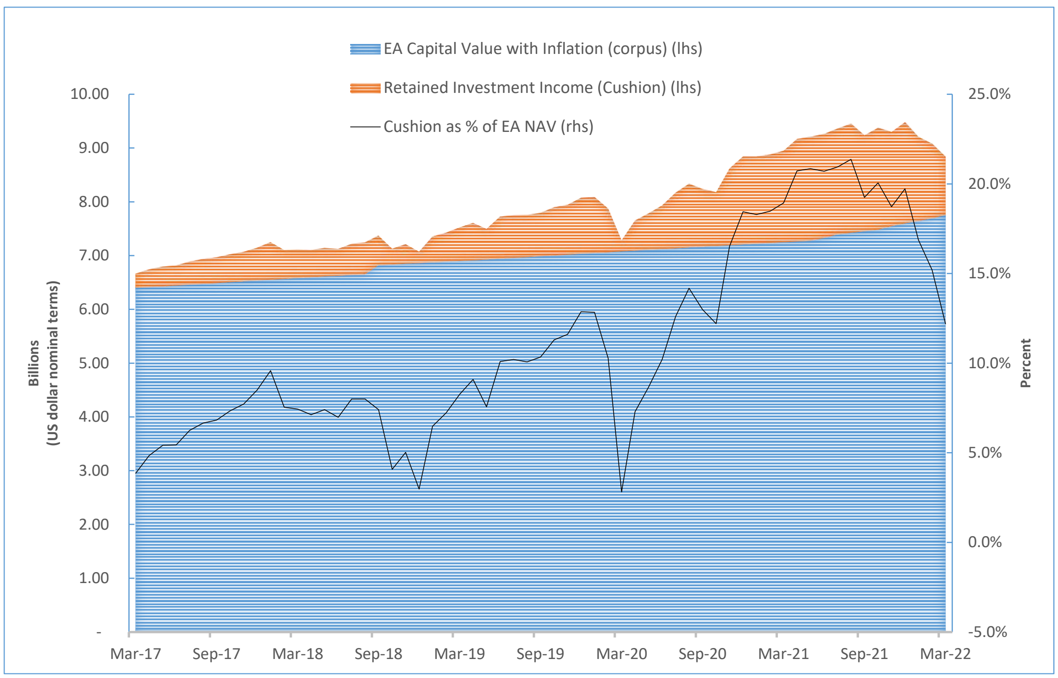
[1] The global external deflator (GED) is based on the U.S. CPI quarterly actual and projections underlying the published WEO update.

13. While the EA's cushion had grown considerably since the April 2021 review of the Fund's income position, market developments have put pressure on the cushion in recent months. The EA cushion had grown in line with strong portfolio returns and stood at around 19.7 percent at end-December 2021 (Figure 2). However, the cushion has declined rapidly in recent months to 15.2 percent at the end of February, and to an estimated 12.2 percent at mid-March. This is primarily due to the sharp increase in inflation which impacts both the EA's real return target and the value of the EA corpus. Furthermore, EA returns since December 2021 have been negative in US dollar terms, reflecting the market reaction to war in Ukraine and shifts in monetary policy. The mid-

March EA NAV is estimated to be US$8.9 billion, down significantly from the high of US$9.5 billion in December 2021.

14. Staff has evaluated several options for commencing the payout on the basis of the criteria set forth in the policy framework and developments described above.[27] The EA's cushion as of end-February was close to the target of 15 percent and has since declined to an estimated 12.2 percent by mid-March. If payouts were commenced in FY 2022, the initial amount would be set at around 0.9 percent of NAV or about US$80 million (slightly lower than the US$85 million estimated at the time of the 2018 review).[28] Given the scale of the recent decline, it is reasonable to assume that this may persist amid the ongoing impact of inflation and recent geopolitical events. The estimated decline in the cushion below the threshold level, which is an important condition for initiating the payout, suggests that it may be prudent to delay the initial payout for one year. Moreover, the likelihood that the payout could reach the maximum limit under further market declines, which would necessitate a suspension of payouts in order to protect the EA corpus, is higher.[29] The delay would provide time to rebuild the cushion and enable payouts to

Figure 2. EA Asset Value and Retained Investment Income Cushion[1]



[1] Source: State Street data through end February 2022, staff estimates for mid-March 2022. EA portfolio was fully vested in 2017.

[27] Also see Annex IV. Endowment Payout—Practical Considerations, *Review of the Fund's Income Position for FY 2021 and FY 2022* (04/12/21).

[28] This is based on staff estimates of future investment returns, and around 70 percent level of confidence or 30 percent probability of underperformance of the long-term expected return, and a mid-March NAV estimate of US$8.9 billion.

[29] The maximum limit which would suspend future payouts would be approximately 1.1 percent based on the current size of the cushion, slightly lower than prior period estimates. In other words, if in future years the annual payout amount that increases by the GED each year becomes equivalent to 1.1 percent of the underlying NAV, a suspension of payouts would be triggered (NAV-based limit).

begin with a lower likelihood of a start-stop scenario under which payouts may need to be suspended in a year or two.

15. Against this background, staff's view is that there is a strong case for further delaying the commencement of the EA payout. An adequate cushion of retained investment income is an important condition for initiating payouts and to protect the EA corpus against possible adverse market scenarios. The paper proposes that the decision to initiate the EA payout under the policy approved by Directors in 2018 be delayed by one year with the intent of building an adequate income cushion, above the threshold level of 15 percent (proposed Decision 2). In light of the Fund's income outlook, a delay of payouts for one year could be considered with very negligible impact on the Fund's ability to cover its administrative expenditures.

B. Allocation of Income

This section revisits the recent practice of allocating annual Fund income equally between the special and general reserve.[30] *Based on these considerations, the section proposes alternative rules-based allocation frameworks.*

16. The Articles of Agreement require the Fund to determine annually how to allocate its net income. The Articles permit the net income of the GRA to be either distributed to members or placed to reserves in accordance with the annual decision on the disposition of the Fund's net income. The Board has considered alternative allocation approaches on four occasions since 2015, but a clear consensus on a new longer-term allocation framework has yet to emerge.[31]

17. In accordance with the decision taken in FY 2018 by the Board to review the allocation framework on a two-yearly cycle, a review was supposed to take place in FY 2020.[32] However, as there was a net loss in that year, the review was deferred until the first subsequent year in which the Fund would have a positive net income after having replenished cumulative losses charged to the special reserve in the intervening periods. In light of the positive net income projected for FY 2022, the Fund is now in a position to review the allocation framework.

18. The special reserve has been the first line of defense against administrative losses. The special reserve was funded in 1957 by the proceeds from a gold sales investment program set up to address prior years' cumulative annual deficits suffered by the Fund from its inception. Under a policy decision taken at that time, any administrative deficit for the fiscal year would first be written off against the special reserve. Accordingly, throughout the years, all operational deficits have been

[30] See *Review of the Adequacy of the Fund's Precautionary Balances* (1/26/16), *Review of the Fund's Income Position for FY 2016 and FY 2017-2018* (4/8/16), and *Review of the Fund's Income Position for FY 2017 and FY 2018* (4/4/17).

[31] See Box 3, in *Review of the Fund's Income Position for FY 2018 and FY 2019–20* (04/05/18).

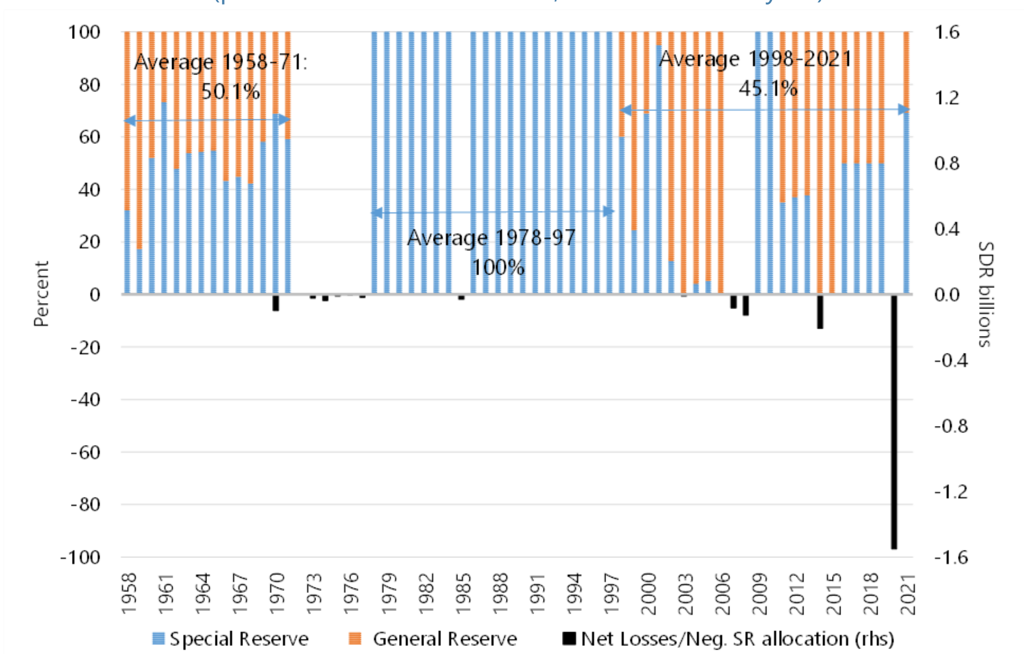
[32] *Review of the Fund's Income Position for FY 2018 and FY 2019–20* (04/05/18).

charged against the special reserve. Under the Fund's practice, the special reserve has been replenished in the years after a drawdown due to administrative losses.[33]

19. The Fund has a long-standing practice of allocating part of its net income to the special reserve, while cumulative allocations to the general reserve have been more sizeable in recent decades (Figure 3). Following a period (1978–1997) when all net income was allocated to the special reserve, starting in 1998 net income was allocated partly to general and partly to special reserves. The general reserve accumulated more rapidly than the special reserve over the past two decades, with the share of the special reserve in total reserves falling from a peak of just over 80 percent in FY 1997 to about 37 percent at end FY 2021 (Figure 4).

Figure 3. Reserve Allocation and Net Income Losses, 1958–2021 1/

(percent or millions of SDRs, end of financial year)



Source: IMF Finance Department.

[1] In FY 2014, the special reserve reflects an allocation of net income of SDR 1.2 billion and a charge of SDR 1.4 billion associated with the amended IAS 19 retroactive adjustment.

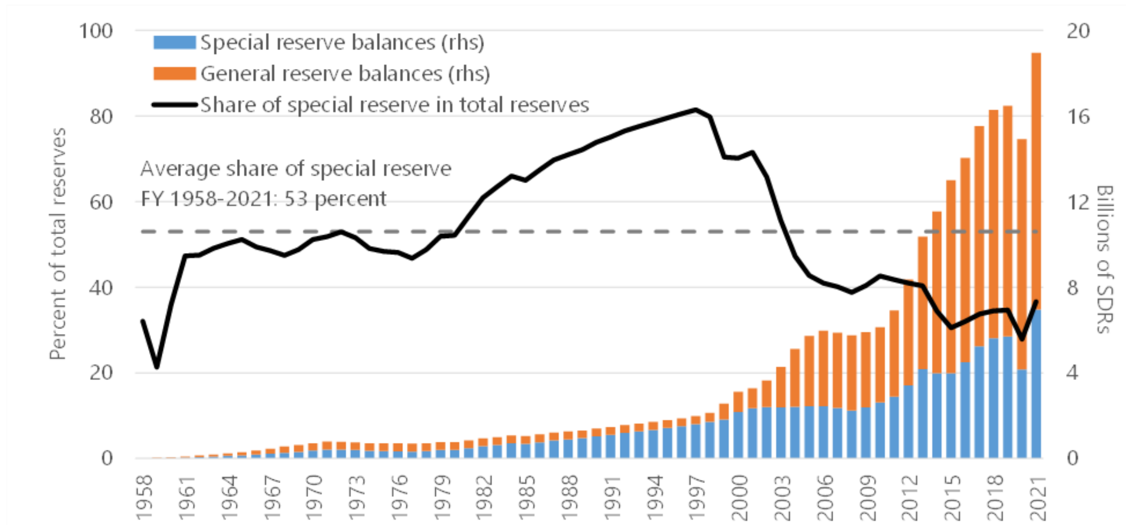
20. In April 2018, staff proposed the following principles to guide the framework for annual allocation decisions of net income between the special and general reserve.

- **Maintain a role for both the general and the special reserve.** This is consistent with the Fund's longstanding practice over the past six decades. As in the past, it does not preclude the

[33] The Fund has recorded income shortfalls that led to a drawdown of the special reserve in 1972–77, 1985, 2003, 2007–08, 2014, 2020. Following these episodes, the Fund resorted to full allocation of net income to the special reserve.

Figure 4. Reserve Composition and Special Reserve as a Percentage of Total Reserves, 1958–2021

(in billions of SDRs or percent, end of financial year)



Source: IMF Finance Department.

possibility that in certain years, all net income would be allocated to the general reserve if balances in the special reserve were considered adequate, or to the special reserve, if for example there was a need to replenish balances following a period of losses.

- **Be consistent with the new income model.** This recognizes that the distinction between surcharge and other forms of lending income is no longer meaningful under the new income model.[34]

- **Balance the goals of strengthening the Fund's balance sheet and preserving future Board flexibility in the use of reserves.** Both considerations have been stressed in Board discussions, and the allocation framework should allow scope for an appropriate balance to be struck between these two objectives.

- **Retain Board flexibility to decide on future income allocations.** Any framework should not be applied mechanistically, but rather would provide sufficient flexibility for future Board judgments in light of evolving circumstances.

21. On the basis of the above considerations, the following four options could be considered as a basis for a new allocation framework:[35]

[34] From FY 1998 to FY 2006, surcharge income was placed to the general reserve, while net operational income (excluding surcharges) continued to be placed to the special reserve. This practice continued through FY 2015, with the exception of periods of income shortfalls (FY2007-08), and the subsequent replenishment of the special reserve (FY2009–10).

[35] Under all four options the special reserve would be replenished in the years after a drawdown due to administrative losses, consistent with the Fund's past practice.

- **Option 1: Allocate net income in equal parts to the special and general reserves.** The 50/50 allocation in recent years has been a reasonable compromise, to strike a balance between diverging views within the Board. Moreover, this approach is simple to implement and communicate, as it involves a single parameter.

- **Option 2: Allocating proportionally more to the special reserve than the general reserve until they are equalized.** With the special reserve (excluding the gold sales profits in the endowment) at SDR 6.9 billion, and the general reserve at about SDR 12 billion as of end FY 2021, the balance in the special reserve represents less than 60 percent of the general reserve. The special reserve would be drawn down first in the event of any accounting losses, including those arising from IAS 19 remeasurements and the provisioning framework adopted by the Board consistent with International Financial Reporting Standards (IFRS 9). Hence, it would be important to ensure that adequate allocations to the special reserve help maintain a strong balance to enable it to continue its vital role as first line of defense against accounting losses.[36] Once the special reserve and the general reserve are broadly equal, staff would then revisit the allocation of income methodology again. In the meantime, staff would continue to report to the Board on a 2-year cycle on the status of the reserves and alert them in the intervening years if the special reserve is closer to equaling the general reserve. The equalization process could be stopped earlier if the Board feels that it is no longer warranted.

- **Option 3: An annual allocation rule linked to the minimum floor for precautionary balances.** The share of total annual net income allocated to the special reserve could be guided by the difference between the level of the special reserve and the minimum floor approved by the Board.[37] Such a rule would provide for larger relative allocations to the special reserve in years when its balances are substantially below the floor. Annual allocation shares to the special reserve would automatically diminish as its balances increase relative to the floor. Once the special reserve reaches the minimum floor, staff would then revisit the allocation of income methodology again. This option did not receive broad Board support when it was proposed by staff in 2018, but it is worth revisiting as it is a simple rule, grounded in the Fund's framework to mitigate financial risk, and would link allocation decisions to the Board's biannual review of precautionary balances.[38]

- **Option 4: Allocate all IAS 19 remeasurement gains and losses to the special reserve and allocate any remaining positive net income in equal parts between the special and general**

[36] Since the adoption of amended IAS 19, the pension-related gains and losses have been more volatile as typified by the loss and subsequent gain in FY 2020 and FY 2021, respectively.

[37] Mathematically, the percentage share allocated to the special reserve would be 100 % - level of the special reserve / level of the minimum floor. The level of the special reserve corresponds to its balances at the beginning of the financial year, taking into account the income disposition decisions made by the Board at the end of the previous financial year. Any annual deficit would be charged against the special reserve in full, as per the existing practice.

[38] Under options 2 and 3, the amount of IAS 19 remeasurement gains and losses allocated to the special reserve and the general reserve would vary year on year depending on the ratio of net income allocation between the respective reserves; compared with the equal allocation under option 1. Under all options, the amount of IAS 19 remeasurement gains and losses in the respective reserves and the movements for each year would be disclosed in the annual financial statements.

reserves. Executive Directors asked staff to explore options to isolate the income volatility arising year-on-year stemming from the unpredictability of pension-related gains and losses. At the informal session to engage the Board on the interim update on the Fund's income position for FY2021 on March 8, 2021, staff presented two alternate proposals for the treatment of IAS 19 remeasurement gains and losses, to better isolate their impact. The first proposal would be to separately identify and 'ring-fence' the IAS 19 remeasurement gains/losses in the special reserve. The second proposal would be to create an additional account outside of the special and general reserve to capture future accumulated IAS 19 remeasurement gains/losses. This would be a separate equity or retained earnings type account recognized as an additional reserve of the General Resources Account (GRA). This second proposal would have implications for income transfers to the investment account, which are limited under the Articles to the total of the general and special reserve. At the time of the March 2021 Board discussion, Directors had divergent views on the suitability of these two proposals with some suggesting to maintain the status quo.

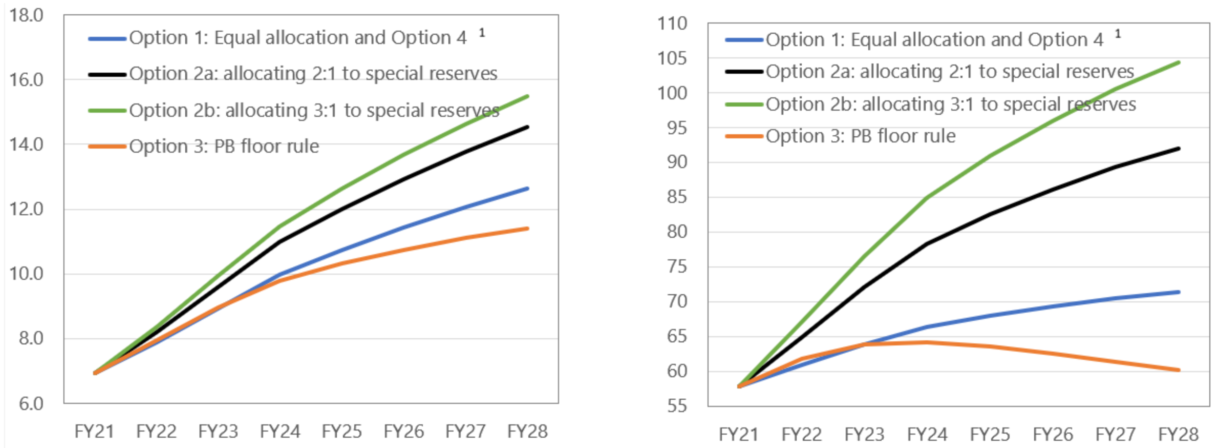
22. **In view of the potential shortcomings of the proposal to isolate the impact of the accumulated IAS 19 remeasurement gains/losses in a separate account outside of the special and general reserve, staff proposes to reconsider the alternative of ring-fencing the IAS 19 remeasurement gains/losses in the special reserve.** Specifically, staff proposes to consider allocating all IAS 19 remeasurement gains and losses to the special reserve and allocate any remaining positive net income in equal parts between the special and general reserves. Recording IAS 19 remeasurement gains or losses only within the special reserve would ring-fence the associated volatility entirely within the special reserve, which is non distributable and therefore more suitable for the allocation of unrealized amounts. Under this approach IAS 19 remeasurement gains and losses would be more clearly identified while confining the allocations to the two reserves specifically identified by the Articles. Any cumulative remeasurement losses would reduce the amount available for loss absorption while cumulative remeasurement gains would not be available for future distribution to the membership as a dividend. Since the IAS 19 remeasurement gains and losses tend to offset each other over time, in the medium-long term the impact on the special reserve is expected to be limited. Allocating any remaining positive net income to the special and general reserve would allow accumulation of both reserves.

23. **Figure 5 illustrates how the potential differences between these approaches impact reserve accumulation based on medium-term income projections under the current desk survey scenario.** The projections do not account for the income effects of either IAS 19 (pension-related gains and losses) or IFRS 9 (provisioning for impairments), as these are difficult to predict with any degree of certainty.

- **Under option 1,** by FY 2028 the special reserve would reach about 70 percent of general reserve and 84 percent of the current precautionary balances minimum floor of SDR 15 billion.
- **Under option 2,** with an allocation of 2:1 to the special reserve, the latter would reach slightly over 90 percent of the general reserve by FY 2028. With an allocation of 3:1 the special reserve would equal the general reserve in FY 2027 and exceed it the following year. Hence, based on

Figure 5. Projected Reserve Accumulation Under Different Allocation Options

Balances in the special reserve (billions of SDRs) | **Share of the special reserve in the general reserve** (percent)



Source: IMF Finance Department.
[1] The special reserve dynamics under option 4 would depend on accounting adjustments arising from IAS 19 gains and losses. However, it is expected that over the years option 4 would have a similar outcome as option 1 since cumulatively the remeasurement gains and losses offset each other and the balance tends to zero.

the medium-term income projections, staff would be expected to revisit the allocation of income approach and offer new options to the Board in FY 2027.

- **Under option 3,** the initial estimated allocation to the special reserve would be about 54 percent in FY 2022. Through FY 2028, on average about 37 percent of the Fund's projected annual income would be allocated to the special reserve, implying a cumulative increase in the special and general reserve of about SDR 4.5 billion and SDR 6.9 billion, respectively. At the end of the projection period, the special reserve would amount to about 76 percent of the minimum floor, still lower than all other options proposed.

- The special reserve dynamics **under option 4** would depend on accounting adjustments arising from IAS 19 gains and losses. However, it is expected that over the years option 4 would have a similar outcome to option 1 since cumulatively the remeasurement gains and losses offset each other and the balance tends to zero.[39]

24. Weighing all the considerations discussed above, staff proposes an allocation framework based on the rule described under option 4 that would isolate IAS 19 remeasurement gains and losses in the special reserve (proposed Decision 3). This practice would avoid distorting allocations to the Fund's distributable reserves by gains and losses that may not be supported by corresponding underlying cash flows and may be reversed in future financial years. It would also further reinforce the role of the special reserve as the first line of defense against any income losses. At the same time, allocating any positive remaining net income according to a

[39] As noted, IAS 19 projections are excluded from all 4 scenarios.

50/50 ratio over the next two years remains a simple approach and this approach was also broadly supported by Directors in previous years. Continuation of the 50/50 allocation also allows for the special reserve to grow at a modest pace, increasing the share of the special reserve in total reserves, broadly in line with option 1. In light of the balance of the cumulative remeasurement gain in the general reserve of SDR 1,020 million at April 30, 2021,[40] as a transitory measure, staff proposes that any remeasurement losses be allocated to the general reserve until the gain is cleared down to zero.[41]

C. Transfer of Currencies

25. The placement of FY 2022 GRA net income to reserves provides scope for a further transfer of currencies to the FI. Article XII, Section 6(f)(ii) permits the transfer of additional GRA currencies to the IA if, at the time of the decision to make such transfer, the Fund's reserves are above the cumulative amount of previous transfers of currencies from the GRA to the IA.[42] After the above placement, the combined balance in reserves is projected to total SDR 25.4 billion. This would remain above the net cumulative amount of transfers made thus far to the IA from the GRA of about SDR 23.4 billion.[43]

26. Accordingly, staff proposes to transfer currencies equivalent to the full amount of the increase in reserves from the GRA to the IA for investment in the FI (proposed Decision 4).[44] This proposal is consistent with the assumption that the IA will over time achieve a higher return than the SDR interest rate.

27. Considering the sensitivity of the net income projections to several underlying assumptions, the final outcome for FY 2022 remains uncertain. The projections remain susceptible to the unpredictability of key underlying assumptions including projections for lending, investment returns, exchange rates, etc. In particular, the pension-related gain for FY 2022 remains unpredictable, mainly due to its sensitivity to the discount rate and other factors such as the volatility of plan asset returns.

FY 2023–2024 INCOME OUTLOOK

28. The economic outlook over the coming years remains uncertain in the wake of the war in Ukraine, inflationary pressures, and varying degrees of recovery from the COVID-19 pandemic. Interest rate paths across major economies have trended upward and equity markets

[40] See *Audited Financial Statements for the Financial Years Ended April 30, 2021 and 2020* (07/07/21).

[41] As of April 30, 2021, the balance of the cumulative remeasurement gain in the special reserve is SDR 505 million.

[42] The cumulative amount is derived net of transfers out of the IA. In the past, windfall gold sales profits of SDR 2.45 billion had been transferred to the IA but these were subsequently transferred out during FY13–14, following a distribution of the general reserve to the membership, as part of the strategy for the creation of a self-sustained PRGT.

[43] These totals include special reserves attributed to profits from the 2009–2010 gold sales of SDR 4.4 billion, which are not treated as part of the Fund's precautionary balances, and corresponding transfers to establish the gold endowment.

[44] A transfer of about SDR 2 billion is estimated for FY 2022.

have recently experienced considerable turbulence. Financial markets remain volatile and this is expected to prevail at least in the near term, adding to the uncertainty in the Fund's income outlook. However, a further deterioration in the global economic outlook could result in moderate to high demand for Fund resources, and increase income from lending over the medium term.

29. Based on current projections under the desk survey scenario, the income outlook for FY 2023–2024, excluding the impact of the pension-related gain or loss, is expected to remain strong. Net income is projected at about SDR 2.1 billion for both FY 2023 and FY 2024 (Table 3). These projections assume the basic lending margin is maintained at 100 basis points (see below) and are sensitive to a number of factors as outlined below.

A. Summary of Key Risks

30. Key risks to Fund income and finances associated with recent economic and geopolitical developments include: cancellations and changes in the timing of purchases under existing and potential arrangements under the desk survey; fluctuations in the annual pension-related gain or loss as determined under IAS 19; uncertainties around the global interest rate environment and US dollar/SDR exchange rate path; and credit risk that is inherent in the Fund's unique role in the international financial architecture. More specifically:

- Delays, rephasing or cancellation of purchases under existing and potential arrangements or early repurchases could lead to lower Fund income, though this risk could be mitigated by members seeking new Fund arrangements.

- It is difficult to assess precisely at this stage the financing needs arising from the spillover on other countries of the war in Ukraine, or countries impacted by rising inflationary pressures and the ongoing impact of the pandemic; which could result in new loan programs, augmentations, and rephasing of programs to help meet the costs of the current crisis.

- Changes in actuarial assumptions that impact the annual pension-related gain or loss under IAS 19 can be substantial and have a significant impact on overall Fund net income.

- While the broadening of non-lending income sources under the Fund's income model is helping to mitigate income risk, the low return environment relative to initial expectations and potential for further market volatility could imply downside risks to expected contributions from investment income.

- Regarding credit risks, staff is currently in the process of conducting IFRS 9-related impairment assessments for FY 2022.

B. Key FY 2023–2024 Income Outlook Factors

31. Key factors that affect the FY 2023–2024 income outlook are discussed below (see Table 3). A sensitivity analysis of the income effects of changes in some of the assumptions is presented in Table 4.

- *Lending income*. Margin and surcharge income are projected to be higher in FY 2023–2024, reflecting mainly the potential new demand for Fund lending under the desk survey projections and continued disbursements under current arrangements. Income from commitment fees in FY 2023 of SDR 196 million reflects the expected two-year commitment fees earned on three arrangements treated as precautionary that are scheduled to expire in FY 2023, and commitment fee income of SDR 183 million is expected in FY 2024 when another FCL arrangement is scheduled to expire.

- *Surcharges* are an integral part of the Fund's multi-layered risk management framework. They are designed to provide incentives for members to limit exposures to Fund credit and encourage timely repurchases. At the same time, they also help strengthen the Fund's balance sheet by allowing accumulation of precautionary balances when its credit exposures grow. Projections of lending income excluding surcharges remain strong and are expected to exceed expenses in FY 2023–2024.

- In the context of the *Interim Review of the Adequacy of the Fund's Precautionary Balances* on December 13, 2021, the Board discussed the role of surcharges and the merits of a comprehensive review of the surcharge policy. At that time there was insufficient Board support for a review. A number of Directors did not see a need to change the design, given the overall low total cost of borrowing from the Fund and noting the critical role of surcharge income in ensuring an adequate build-up of risk buffers.

- *Fixed-Income Subaccount*.[45] FI income is projected to be positive in FY 2023 and FY 2024 at about SDR 240 million and SDR 391 million, respectively, reflecting a combination of the expected uptick of the SDR interest rate path over the medium term and higher average expected returns projected for the portfolio under the new investment strategy.[46] However, a rise in interest rates beyond current market expectations could reduce these gains.

- *Endowment Subaccount*. Total EA returns are projected to average about 3.4 percent over the medium term. However, over short time periods, income projections for the EA remain subject

[45] The balance of the FI corresponds to the investment of the Fund's reserves except for the gold profits and any currencies retained in the GRA.

[46] The FI has investments equivalent to the Fund's general and special reserves except for amounts attributed to gold sales profits in the special reserve. In January 2022 the Executive Board modified the investment strategy of the FI that had been in place since 2015. The Board set the objective for the subaccount return at 50 bps over the 3-month SDR interest rate over time, established a maximum average duration of three years for the portfolio, raised the limit for Group 2 assets from 35 to 40 percent and modified the minimum credit rating for eligible assets to at least BBB- (S&P long-term rating scale) for corporate bonds and BBB+ for all other assets.

to considerable uncertainty given the high degree of volatility across the asset classes in which the EA is invested.

- Income projections assume an initial payout commencing in FY 2023, broadly in line with the portfolio's prevailing return outlook, and an increase in US dollar terms by the GED rate each year thereafter (Box 1). For a return to conditions suitable for a payout the EA cushion which has fallen below the minimum level would need to improve from current levels, and financial markets would need to stabilize more in line with the long-term return outlook, in the coming year. As such, the initial value of the payout would be reassessed and decided by the Board later in FY 2023 in accordance with the framework for guiding future payouts from the EA agreed by the Board (Annex IV).[47]

- The initial payout in FY 2023 is estimated to be about SDR 65 million (equivalent to about 1 percent of the US dollar value of the portfolio translated at the projected US dollar/SDR exchange rate for the year), and SDR 66 million in FY 2024 based on the constant payout rule.[48]

- *Interest-free resources and reimbursements.* Income from interest-free resources is projected to be higher reflecting the sharp rise in interest rates in recent months and expected uptick of the SDR interest rate path over the medium term. Suspension of reimbursements from FY 2022 to FY 2026 will reduce expected GRA income by about SDR 452 million through the 5-year period.

- *RST*. Implementation of the RST is expected to incur recurring steady state costs in the medium-term for operations and trust management. The cost of administering the RST is expected to be based on reasonable estimates of gross incremental costs with a view to ensuring cost recovery. It is proposed that decisions on annual reimbursements of costs would be made by the Board in the annual income paper starting FY 2024, along with other reimbursable expenses. For FY 2023, costs are planned to be covered by the transitional resources given to departments.

- *Expenditures.*

    - Net administrative expenses are consistent with those estimated in the medium-term budget paper and continue to reflect the Fund's crisis response. These needs and those emerging from the war in Ukraine will be met by reprioritization and use of carryforward resources. At the same time, and after a decade of flat real budgets, the FY 2023 administrative budget will implement the first phase of the targeted budget augmentation framework for FY 2023-2025 approved by the Executive Board last December to step up the Fund's work on longer-term global challenges, returning to a flat real budget trajectory thereafter.

[47] The payout policy was agreed by the Board at the discussion of the Fund's income position in April 2018 (see *Review of the Fund's Income Position FY 2018 and FY 2019–2020* (04/05/18).

[48] In line with the EA payout policy endorsed in April 2018, estimated investment income after the payouts now assumed in FY 2023 is to be retained in the endowment for reinvestment and is therefore not included in the Fund's operational income.

Table 3. Projected Income Sources and Uses—FY 2022–2024
(in millions of SDRs)

	FY2022	FY2023	FY2024
A. Operational income	**2,570**	**3,056**	**3,082**
Lending income	**2,618**	**2,704**	**2,559**
Margin for the rate of charge	904	959	936
Service charges and other income [1]	199	118	72
Commitment fees	283	196	183
Surcharges	1,232	1,431	1,368
Investment income	**-62**	**305**	**457**
Fixed-Income subaccount (reserves)	-62	240	391
Endowment subaccount payout [2]	0	65	66
Interest free resources [3]	**6**	**38**	**57**
SCA-1 and other	6	38	57
Reimbursements [4]	**8**	**9**	**9**
SDR Department	8	9	9
PRG Trust	0	0	0
RST [5]	0	0	0
B. Expenses	**1,073**	**992**	**1,042**
Net administrative expenditures	830	918	957
Capital budget items expensed	18	15	22
Depreciation	53	59	63
Net periodic pension cost after funding (IAS 19)	172	0	0
C. Net operational income before provision (A-B)	**1,497**	**2,064**	**2,040**
Provision for loan impairment losses	0	0	0
D. Net operational income	**1,497**	**2,064**	**2,040**
Pension-related remeasurement (IAS 19) gains/(losses)	512	0	0
E. Net operational income after IAS 19 adjustment	**2,009**	**2,064**	**2,040**
Endowment subaccount investment income	202	75	105
Net income position	**2,211**	**2,139**	**2,145**
Memorandum items:			
Fund credit (average stock, SDR billions)	90.4	95.9	93.6
SDR interest rate (average, in percent)	0.1	0.8	1.2
US$/SDR exchange rate (average)	1.42	1.41	1.42
Precautionary balances (end of period, SDR billions) [6]	20.9	22.9	24.9

Source: Finance Department and Office of Budget and Planning.

[1] Includes special charges and accrued basic charges from Sudan's arrears clearance for FY 2022.
[2] Based on staff's proposal to delay the decision initiating the EA payout in FY 2022 by one year (see Disposition Decisions - Section A).
[3] Interest free resources reduce the Fund's costs and therefore provide implicit returns. Since the Fund invests its reserves in the IA to earn a higher return, the interest free resources retained in the GRA are mainly attributable to unremunerated reserve tranche positions not represented by gold holdings, GRA income for the year not transferred to the IA, and the SCA-1 (until full distribution in the context of Sudan's arrears clearance). These resources reduce members' reserve tranche positions and the Fund's remuneration expense or increase interest income if reflected in SDR holdings of the GRA, resulting in implicit income for the Fund.
[4] Suspension of reimbursements of PRGT administrative expenses during FY 2022–FY 2026 per Executive Board Decision No. 17083-(21/71), July 14, 2021. No incremental costs are projected in managing the SDA resources in the CCR and PRG-HIPC Trusts.
[5] Decisions on annual reimbursements of costs are expected to be made by the Board in the annual income paper starting FY 2024. For FY 2023, costs are planned to be covered by the transitional resources given to departments.
[6] Reflects a reduction in precautionary balances as a result of the full distribution of the SCA-1 (SDR 1,066 million), in the context of Sudan's arrears clearance and adjusted for a positive one-off permanent adjustment of SDR 205 million effective May 1, 2021 to reverse the impact of the cumulative IAS 19 gains and losses as endorsed by the Board.

- Capital budget items expensed for FY 2023 are expected to be marginally lower and reflect continued uncertainties on the facilities side pertaining to the pandemic and the "new normal", which has prompted a reconsideration of investments in buildings and related systems including scaled down investment in new IT-intensive transformation projects.[49]

- Periodic pension costs are not projected beyond FY 2022.

- *Pension remeasurement (IAS 19) gains and losses.* Forward-looking projections about the demographic and other assumptions, and returns on the asset portfolio, are not built into the income scenarios, due to the volatility, and hence unpredictability, of these assumptions.

- *Provision for impairment losses.* IFRS 9 requires entities to record provisions based on an "expected loss" model with a broad range of relevant considerations, including forward-looking information. The Fund has never recorded a provision for impairment losses and cases where provisioning may need to be considered by the Fund are expected to remain very rare. Accordingly, given the current circumstances and future uncertainty surrounding any expected exceptional events, the projection assumptions do not incorporate any provision for impairment losses under IFRS 9.

- *Sensitivity Analysis*. Projected income and expenses remain volatile in the near term and are particularly susceptible to changes in the underlying assumptions.

    - The effect of changes in key income assumptions is summarized in Table 4.

    - The pension-related (IAS 19) gain or loss is highly unpredictable and can be significant: on the asset side, performance can be very volatile, and on the liability side, the defined benefit obligation (DBO) is highly sensitive to the underlying actuarial assumptions, in particular the discount rate.[50]

Table 4. Sensitivity Analysis—Effect of Changes in Selected Assumptions on FY 2023 Projected Income
(in millions of SDRs)

Increase/decrease in:	
SDR interest rate by 50 basis points	
Implicit returns [1]	24
Margin for the rate of charge by 20 basis points [2]	192
US dollar vis-à-vis SDR by five percent - Administrative expenses	44
US dollar vis-à-vis SDR by 1 US cent - Endowment Subaccount	47
Investment income margin by 50 basis points	139

[1] Implicit returns on GRA interest-free resources.
[2] Based on the estimated average credit outstanding for FY 2023.

[49] *FY 2023–FY 2025 Medium-Term Budget* (4/1/22).

[50] Sensitivity of the present value of the defined benefit obligation to changes in the discount rate at April 30, 2021 results in an increase of SDR 1,100 million (decrease of SDR 960 million) for a 50 basis point decrease (increase).

- In the unlikely event of a provision for impairment losses on credit outstanding being required under IFRS 9 Fund income would be reduced accordingly. Staff commenced IFRS 9-related impairment assessments for FY 2022 in January with the process scheduled for conclusion by June 2022.

C. Review of the Margin for the Rate of Charge

32. The Board is to set the margin for the basic rate of charge for financial years 2023–24. The Executive Board is required to set the margin over the SDR interest rate for two years, with a mid-period review before the end of the first year. Under the Rule I-6(4), the margin should be set at a level that is adequate to cover the Fund's intermediation costs, taking into account income from service charges, and help build up the Fund's reserves, considering the existing level of precautionary balances and the expected contribution from surcharges and commitment fees. At the same time, the level of the margin should ensure that the Fund's borrowing costs remain appropriately aligned with long-term credit market conditions. The rule also permits that, in exceptional circumstances, the margin may be set at a level other than that required to cover intermediation expenses and accumulate reserves. The margin has been set at 100 basis points since May 2008.

Coverage of Intermediation Costs

33. Lending income is projected to remain substantially in excess of intermediation costs, in FY 2022.[51] Income from service charges is projected at US$101 million in FY 2022 (Table 5, row B). An unchanged margin of 100 basis points would provide margin income of about US$1,284 million. These amounts compare with estimated intermediation costs of about US$126 million in FY 2022 (Table 5, row A). Fund-wide intermediation costs related to Generally Available Facilities (GAF) are derived using the Fund's Analytic Costing and Estimation System (ACES). They cover direct personnel, travel, and other administrative expenses, as well as indirect support and governance costs. A proportion of capital spending is also added. Estimated FY 2022 costs are lower than earlier projections, reflecting the slowdown in lending operations as the financing support has been shifting from emergency financing towards UCT-quality arrangements.

34. Commitment fees for non-drawing arrangements and surcharges are also projected to make substantial further contributions to the Fund's lending income and reserve accumulation (see below). Income from commitment fees and surcharges in FY 2022 are estimated at about US$402 million and US$1,749 million, respectively (Table 5, rows E and F), which are higher than prior year projections.

[51] Commitment fees are included in the analysis as a source of income that contributes to reserve accumulation. Under this approach, the analysis in setting the margin is insulated from the unpredictability of commitment fees. See paragraphs 19–20 in *A New Rule for Setting the Margin for the Basic Rate of Charge* (11/22/11).

Table 5. Income from the Margin and Reserve Accumulation[1]

(in millions of US dollars, unless otherwise indicated)

	Actual			Projected		
	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
A. Intermediation costs [2]	92	112	141	126	163	167
Less						
B. Service charges	238	115	162	101	166	102
C. Costs to be covered by income from margin (A-B)	-146	-3	-21	25	-3	65
D. Income from margin [3]						
80 basis points	…	…	…	…	1,082	1,063
100 basis points	708	921	1,222	1,284	1,352	1,329
120 basis points	…	…	…	…	1,623	1,595
E. Commitment fees [4]	116	515	99	402	276	260
E.1 FCL/PLL	69	488	55	402	276	260
E.2 Other	47	27	44	0	0	0
F. Surcharges [5]	587	1,038	1,313	1,749	2,018	1,943
G. Potential reserve accumulation [6] (D+E+F-C)						
80 basis points	…	…	…	…	3,379	3,201
100 basis points	1,557	2,477	2,654	3,410	3,649	3,467
120 basis points	…	…	…	…	3,920	3,733
H. Potential reserve accumulation (as a percent) [7]						
80 basis points	…	…	…	…	11.5%	9.8%
100 basis points	6.4%	10.2%	11.8%	12.0%	12.4%	10.7%
120 basis points	…	…	…	…	13.3%	11.5%
I. Actual reserve accumulation [8]						
80 basis points	…	…	…	…	2,553	2,631
100 basis points	262	-2,150	5,679	2,941	2,823	2,897
120 basis points	…	…	…	…	3,094	3,163
J. Actual reserve accumulation (as a percent) [8]						
80 basis points	…	…	…	…	8.7%	8.1%
100 basis points	1.1%	-8.8%	25.2%	10.3%	9.6%	8.9%
120 basis points	…	…	…	…	10.5%	9.7%
K. Precautionary balances at the end of FY (in SDR billions) [9]						
80 basis points	…	…	…	…	22.7	24.8
100 basis points	17.7	16.0	20.0	20.9	22.9	24.9
120 basis points	…	…	…	…	23.1	25.1
Memorandum items						
Average Fund credit outstanding (in SDR billions)	50.6	66.7	86.7	90.4	95.9	93.6
Number of active arrangements (average) [10]	15	18	23	…	…	…
Average exchange rate US$/SDR	1.40	1.38	1.41	1.42	1.41	1.42

Source: Finance Department and Office of Budget and Planning.

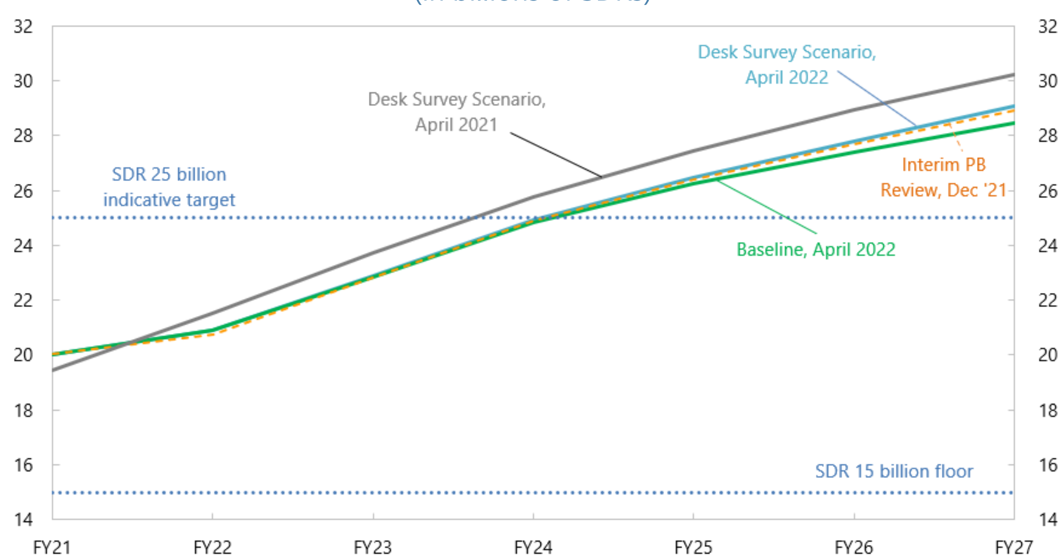
[1] For analytical purposes, surcharges and commitments fees are considered for reserve accumulation only.
[2] Costs related to the Fund's "generally available facilities".
[3] Derived by applying the margin against average Fund credit outstanding at the average US$/SDR exchange rate.
[4] Includes commitment fees for expired or canceled arrangements.
[5] Surcharges are projected on the basis of current quotas and surcharge thresholds.
[6] Potential reserve accumulation is derived by assuming other sources of income are sufficient to cover non-intermediation costs.
[7] Potential reserve accumulation as a percent of precautionary balances at the beginning of the financial year.
[8] Additions to or reductions in reserves based on net income or loss for the year (including actual and projected IAS 19 gains/(losses) up to FY 2022 and excludes retained EA investment income).
[9] Precautionary balances include the Fund's reserves less the gold endowment of SDR 4.4 billion. The SCA-1 was fully distributed in the context of Sudan's arrears clearance in June 2021. Precautionary balances are also adjusted for a positive one-off permanent adjustment of SDR 205 million effective May 1, 2021 (Annex II).
[10] Excludes FCL and PLL arrangements.

Reserve Accumulation

35. Reserve accumulation is projected to remain relatively strong in FY 2023 and FY 2024. Table 5 first illustrates the potential reserve accumulation that would result if lending income were required solely to cover intermediation costs and provide for additional reserves (Rows G and H). In this hypothetical scenario, potential reserve accumulation with a margin of 100 basis points would rise to 12.4 and 10.7 percent in FY 2023 and FY 2024, respectively. Projected actual reserve accumulation would be 10.3 percent of reserves in FY 2022 (Rows I and J). Precautionary balances are now projected to decline to SDR 20.9 billion by end-FY 2022, lower than the SDR 21.5 billion estimated in April 2021, mainly driven by the full utilization of the SCA-1 to facilitate Sudan's arrears clearance. Table 5 further simulates reserve accumulation at alternative margins of 80 and 120 basis points, respectively.

36. Updated projections of the pace of reserve accumulation are slightly lower than those anticipated in April 2021, and broadly in line with the recent review of precautionary balances (Figure 6).[52] This reflects mainly the potential demand for Fund lending under the current desk survey being lower than previously anticipated for certain projected arrangements, lowering the path for credit outstanding, and a higher projected expenditure path in SDR terms following an upward revision in the GED and the strengthening of the US dollar against the SDR; offset partly by higher investment income attributable mainly to higher projected SDR interest rates over the medium term and a higher excess return margin of 50 basis points on average over time. Further, with the broad support of Executive Directors, the measurement of precautionary balances has been adjusted to reflect the pension funding status on an economic basis, resulting in a positive one-off

Figure 6. Projected Precautionary Balances Accumulation
(in billions of SDRs)



Source: Finance Department.

[52] For a fuller discussion see *Interim Review of the Adequacy of the Fund's Precautionary Balances* (11/12/21).

permanent adjustment to reverse the impact of the cumulative IAS 19 gains and losses as of April 30, 2021 previously included in the Fund's precautionary balances under the accounting basis (Annex II).[53] Based on the current projection, the indicative medium-term target of SDR 25 billion is still expected to be reached in FY 2025.

Alignment of Fund Borrowing Costs with Market Conditions

37. Rule I-6(4) requires a cross-check of the margin's alignment with long-term credit market conditions.[54] This aims to ensure that the cost of borrowing from the Fund is not too high or low relative to the cost of long-term market funding. Staff benchmarks based on EMBI spreads provide a useful guide for this purpose, but should not be applied mechanistically without judgment on the global financial context and future developments.[55] As in the past, the level of the margin is compared to the lowest quartile of EMBI spreads (reflecting the spreads for the more creditworthy borrowers within the sample) as a proxy measure to account for the lower credit risk the Fund faces as a cooperative public policy institution.[56] Market borrowing spreads reflect a country-specific, time-varying credit risk premium. While the Fund also bears credit risk when it lends to member countries, it uses a multilayered framework—including policies on access, program design, and conditionality—to support members' balance of payments adjustment—to mitigate such credit risk.

38. The cost of Fund credit at the current margin remains broadly in line with the staff benchmarks for long-term credit market conditions. Since the last review in April 2021, the composite EMBI spreads have increased by nearly 55 basis points, and the lowest quartile of the EMBI spreads have risen by over 40 basis points. However, from a medium-term perspective, the five-year rolling average of the spreads remains broadly unchanged since the last review (Figure 7). The median for the lowest quartile EMBI spread stands at 42 basis points above the current margin (relative to 47 basis points at the time of the 2021 income review, Table 6). Staff therefore does not see any fundamental change in the alignment of the margin with long-term credit market conditions.

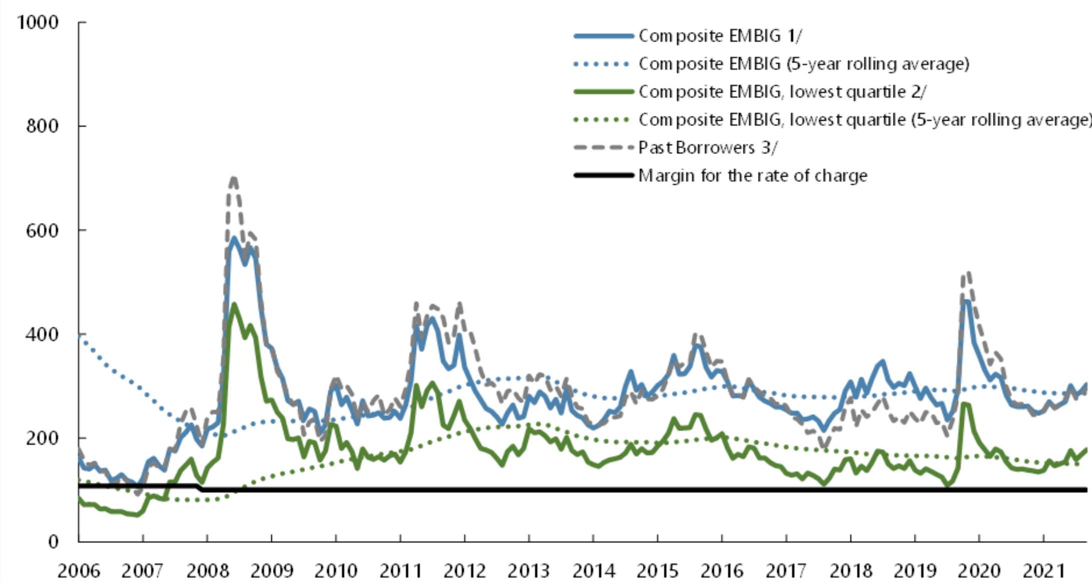
[53] Consistent with the long-term economic basis for investing and managing the Fund's plan assets, an amount equivalent to the net liability position as of May 1, 2021 of SDR 205 million was added back to the precautionary balances in FY 2022, as endorsed by the Board of Directors. Going forward, staff will monitor the economic impact for potential material underfunded positions under the long-term economic basis, in keeping with maintaining a more prudent stance on economic gains. See *Interim Review of the Adequacy of the Fund's Precautionary Balances* (11/12/21).

[54] See *A New Rule for Setting the Margin for the Basic Rate of Charge* (11/23/11).

[55] The EMBI spreads do not include advanced economies that currently have outstanding credit from the Fund. However, their share of overall outstanding credit as of end-February 2022 was less than 2 percent. Moreover, based on currently available measures, staff continues to view the EMBI-based measure as the most appropriate metric of long-term market conditions. See Annex II, *Review of the Fund's Income Position for FY 2014 and FY 2015–2016* (04/07/14).

[56] In the past, staff has also adjusted spreads to account for the maturity difference between the SDR interest rate (based on a floating rate composed of three-month instruments) and the EMBI measures (based on medium-term fixed interest rate instruments). As this estimation has been subject to a few conceptual and data limitations, and the resulting adjustments have been marginal (in the magnitude of ten basis points), the assessment of the margin in this review is based solely on credit-risk adjusted EMBI spreads.

Figure 7. EMBIG Spreads: Total Composite and Bottom Quartile
(in basis points)[1]



Source: JPMorgan and Fund staff calculations.

[1] Weighted average of spreads from the JPMorgan Emerging Market Bond Index Global Sovereign Spread (US dollar) and the JPMorgan Euro EMBI Global Government Spread, using US dollar and euro weights in the SDR basket.

[2] Weighted average of the lowest quartile of country-specific US dollar EMBI spreads and the lowest quartile of country-specific euro EMBI spreads, using US dollar and euro weights in the SDR basket.

[3] Weighted average of the median of country-specific US dollar EMBI spreads and the median of country-specific euro EMBI spreads, using US dollar and euro weights in the SDR basket, considering a sample of members with Fund GRA arrangements between 2000 and 2019.

Table 6. Long-Term Credit Market and Comparator Spreads[1]
(median spread unless otherwise noted, in SDR-equivalent basis points)

	2007 - 2011	2012 - 2016	Mar 2017 - Feb 2022
Composite EMBI Global 1/			
5-year average	278	291	286
5-year median	250	289	277
Composite EMBI Global, Lowest Quartile 2/			
5-year average	193	192	151
5-year median	171	184	142
Memorandum items			
Past borrowers (5-year median) 3/	262	299	256
Margin for the rate of charge (5-year average)	102	100	100

Sources: Bloomberg, JP Morgan, and Fund staff calculations.

[1] Weighted average of spreads from the JPMorgan Emerging Market Bond Index Global Sovereign Spread (US dollar) and the JPMorgan Euro EMBI Global Government Spread, using US dollar and euro weights in the SDR basket.

[2] Weighted average of the lowest quartile of country-specific US dollar EMBI spreads and the lowest quartile of country-specific euro EMBI spreads, using US dollar and euro weights in the SDR basket.

[3] Weighted average of the median of country-specific US dollar EMBI spreads and the median of country-specific euro EMBI spreads, using US dollar and euro weights in the SDR basket, considering a sample of members with Fund GRA arrangements between 2000 and 2019.

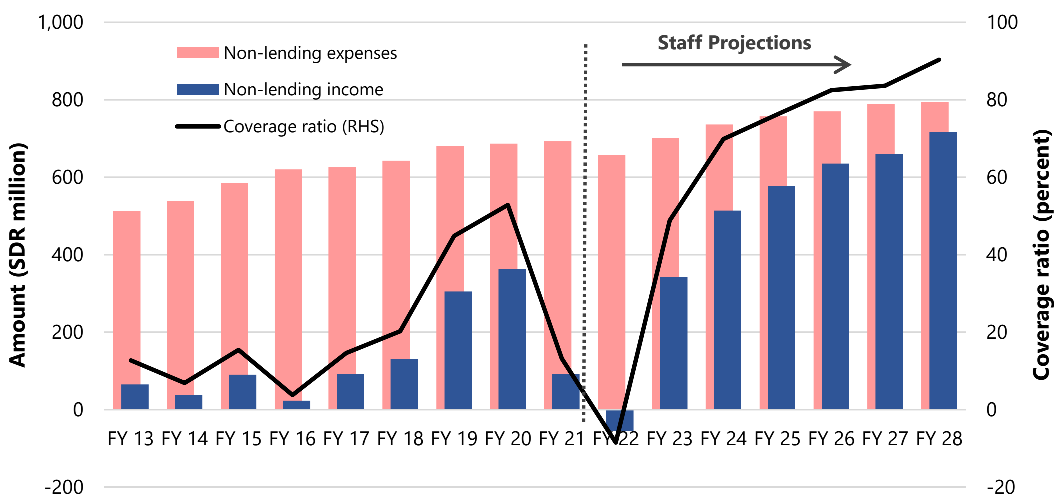
Exceptional Circumstances Clause

39. Current global interest rates are low despite an uptick in recent months, and the exceptional circumstances clause under Rule I-6(4) remains applicable for purposes of setting the margin for the rate of charge. Rule I-6(4), which was amended as part of the Fund's New Income Model, was designed to move away from reliance on lending income for financing the Fund's non-lending activities, i.e., non-lending income was expected to cover non-lending activities while lending income was expected to cover intermediation costs and contribute to reserve accumulation. However, investment income, the main source of the Fund's non-lending income, is expected to be negative based on projections for FY 2022. Therefore, for the time being, the Fund will need to continue to rely on its lending income (excluding surcharges) to cover a significant portion of its non-lending operating costs.

40. Against this background, the margin for FY 2023–24 will again need to be set under the exceptional circumstances clause. Non-lending income (consisting of investment income transferred to the GRA and implicit income from interest free resources) is projected to increase in FY 2023 and more significantly throughout the medium term, covering up to 90 percent of the Fund's non-lending administrative expenses by FY 2028. The projected coverage ratio assumes higher investment income, attributable mainly to higher projected SDR interest rates over the medium term and a higher excess return margin of 50 basis points on average over time, and the commencement of payouts from the Endowment Subaccount in FY 2023 (Figure 8). The need to cover the residual non-lending expenses by income from the margin reduces its potential contribution to the Fund's reserve accumulation and precautionary balances.

Figure 8. Projected Non-Lending Operational Income and Non-Lending Expenses[1]

(in millions of SDRs, percent)



Source: Finance Department and Office of Budget and Planning.

[1] Non-lending operational income comprises investment income and implicit income from interest free resources. Projections assume an initial 1 percent USD payout from the Endowment Subaccount commencing in FY 2023 (increasing by GED thereafter).

41. Significant progress has been made in implementing the NIM with most elements now in place. Annex III provides a status update of the implementation of the NIM in FY 2022. Initial expectations for non-lending income have been constrained and the prospect for achieving investment income under these expectations could continue to remain low, unless global interest rates revert to higher levels considered more normal in the past. As part of a broader review of the Fund's income model, staff sees merit in revisiting the assumptions underlying these initial expectations including the impact on Rule I-6(4) and setting of the margin under the exceptional circumstances clause.

42. Burden sharing adjustments reflect the current levels of overdue obligations and burden sharing amounts collected in previous quarters. The burden sharing decision allows for a "carry-forward" of excess amounts generated from a minimum adjustment to the rate of charge and the rate of remuneration.[57] If the amounts brought forward are sufficient to offset deferred charges in subsequent quarter(s), no adjustments are necessary for such quarters (see Table 7). This was the case for the first quarter of FY 2022. The burden sharing rates in the remaining quarters of FY 2022 stood at zero basis points given the settlement of the last overdue GRA charges owed by Sudan in June 2021. All accumulated burden sharing balances, including the SCA-1 balances, were distributed during Sudan's arrears clearance and the balances are now zero. For a report on historical cumulative burden sharing adjustments (by member), please refer to www.imf.org/external/np/fin/tad/query.aspx.

Table 7. Recent Burden Sharing Adjustment Rates
(in basis points, unless otherwise stated)

	FY15 [2]	FY16	FY17	FY18	FY19	FY20	FY21	FY22
Rate of Remuneration [1]								
Deferred charges	0.300	0.575	0.375	0.500	0.500	0.225	-	-
Rate of Charge [1]								
Deferred charges	-	-	0.150	0.500	0.500	0.275	-	-
Average SDR interest rate (in percent)	0.061	0.051	0.187	0.678	1.037	0.763	0.077	0.106
Average basic rate of charge (in percent)	1.061	1.051	1.187	1.678	2.037	1.763	1.077	1.106

Source: Finance Department.
[1] The average rates have been calculated using the quarterly burden sharing rates and SDR interest rates.
[2] In October 2014 (FY2015), the minimum for the quarterly burden sharing rate adjustment of 1 basis point was reduced to 0.1 basis point.

[57] See *The Fund's Income Position for FY 2010—Midyear Review* (12/08/09), paragraphs 8–10.

Proposed Decisions

Decisions Pertaining to FY 2022

- Decision 1 provides for the assessment on SDR Department participants for the reimbursement of the General Department for the expenses of conducting the business of the SDR Department in FY 2022.
- Decision 2 provides for the income of the Fixed-Income and Endowment Subaccounts for FY 2022, if any, to be retained in the respective subaccounts.
- Decision 3 provides for the placement of FY 2022 GRA net income to the Fund's Special Reserve and the General Reserve. Specifically, the net income amount of the GRA up to the amount of the pension-related (IAS 19) gain in FY 2022 will be placed in the Fund's Special Reserve, and any additional net income amount will be placed in equal parts to the Fund's Special Reserve and General Reserve.
- Decision 4 provides for the transfer of currencies from the GRA to the Investment Account equivalent to the increase of the special and general reserves following the placement of FY 2022 net income.

Decisions Pertaining to FY 2023–2024

- Decision 5 sets the rate of charge on the use of Fund resources for FY 2023–2024 at 100 basis points over the SDR interest rate.

Decisions 1, 2, and 3 each 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.

Decision 1. Assessment under Article XX, Section 4 for FY 2022

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, 2021 through April 30, 2022; 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, 2022 with an amount equal to 0.00127767 percent of their net cumulative allocations of special drawing rights. The total assessment shall be paid into the General Department.

Decision 2. Income of the Fixed-Income and Endowment Subaccounts

The income of the Fixed-Income and Endowment Subaccounts for FY 2022, if any, shall be retained in the Fixed-Income Subaccount and Endowment Subaccount, respectively, and invested according to the Rules and Regulations for the Investment Account.

Decision 3. Placement of FY 2022 Net Income of the General Resources Account to the Special Reserve and General Reserve

Net income of the General Resources Account for FY 2022 equivalent to the pension-related remeasurement gain shall be placed to the Fund's Special Reserve, and for any net income in FY 2022 that exceeds the amount of the remeasurement gain, an amount equivalent to this excess shall be placed in equal parts to the Fund's Special Reserve and General Reserve.

Decision 4. Transfer of Currencies to the Investment Account for FY 2022

Pursuant to Article XII, Section 6(f)(ii) of the Articles of Agreement, the Fund shall transfer from the General Resources Account to the Investment Account currencies in an amount equivalent to the difference between the Fund's general and special reserves as of April 30, 2022 and the cumulative amount of previous transfers of currencies from the General Resources Account to the Investment Account. This transfer of currencies to the Investment Account shall be effected in the context of the Financial Transactions Plan covering the period August, 2022–January 2023. The currencies transferred to the Investment Account pursuant to this decision shall be used for immediate investment in the Fixed-Income Subaccount in accordance with the Rules and Regulations for the Investment Account.

Decision 5. The Rate of Charge on the Use of Fund Resources for FY 2023 and FY 2024

Pursuant to Rule I-6(4)(a), last sentence of the Fund's Rules and Regulations, the rate of charge for FY 2023 and FY 2024 shall be 100 basis points over the SDR interest rates under Rule T-1 of the Fund's Rules and Regulations.

Annex I. Decisions in Effect Related to the FY 2022 Income Position[1]

Decisions in Effect

The Executive Board has taken the following decisions affecting the Fund's income position for FY 2022:

Rate of Charge

The margin for calculating the basic rate of charge in FY 2022 was set in 2020 at 100 basis points for a period of two years (FY 2021–22).[1] This decision was adopted under the *exceptional circumstances* clause of Rule I-6(4), which allows the margin for calculating the basic rate of charge to be set at a level other than that which is adequate to cover the estimated intermediation expenses of the Fund and to generate an amount of net income for placement to reserves.

Burden Sharing for Deferred Charges[2]

Income losses resulting from unpaid charges are shared equally between debtor and creditor members under the burden sharing mechanism largely pursuant to decisions taken in 2000 and 2009. Unless amended by the Board, this mechanism will continue for as long as overdue obligations to the Fund persist.[3]

Special Charges[4]

For overdue repurchases, the special rate of charge is set to equal the excess, if any, of the SDR interest rate over the basic rate of charge (Paragraph 3 of Decision No. 8165-(85/189), as amended). Pursuant to Rule I-6(4), the basic 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". Since under the current system for setting the basic rate of charge, that rate is always in excess of the SDR interest rate, members are not subject to special charges on their overdue repurchases.

In FY 2019 the Board reviewed the system of special charges and adopted a decision to amend Section VI of the 1985 decision on special charges, to shift the requirement for regular review from the annual review of the Fund's income position to the five-yearly Review of the Fund's Strategy on Overdue Financial Obligations. The next review of the special charges framework is scheduled for 2023 at the earliest.

Suspension of PRGT reimbursement through FY 2026

In July 2021, the Board approved the suspension of reimbursement of the GRA for the costs of administering the PRGT for the fiscal years 2022-2026.[5] Temporary suspension is permissible under the Fund's new income model adopted in 2008 and the three-pillar framework for the self-sustained PRGT adopted in 2012.[6]

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[1] Decision No. 16774-(20/51), adopted on April 27, 2020.

[2] Decision No. 12189-(00/45), adopted on April 28, 2000, as amended.

[3] See *Recent Fall in the SDR Interest Rate—Implications and Proposed Amendments to Rule T-1* (10/16/14).

[4] The requirement for an annual review of special charges was amended. See *Review of the Fund's Income Position for FY 2019 and FY 2020* (03/19/19).

[5] Executive Board Decision No. 17083-(21/71), July 14, 2021.

[6] See Executive Board Decision No. 14093-(08/32), adopted April 7, 2008; and *Proposal to Distribute Remaining Windfall Gold Sales Profits and Strategy to Make the Poverty Reduction and Growth Trust Sustainable* (09/17/12).

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[1] *Review of the Fund's Income Position for FY 2020 and FY 2021–2022* (04/13/20).

Annex II. Treatment of Pension-Related Revaluations for Precautionary Balances—New Approach

The Interim Review of the Adequacy of the Fund's Precautionary Balances discussed an alternative approach that would better isolate the volatility in the level of precautionary balances stemming from the pension-related (IAS 19) gains or losses, driven mainly by the periodic remeasurement of the defined benefit obligation and the revaluation of plan assets.[1] The new approach:

- reflects the role of precautionary balances as a long-term buffer for economic and financial risks;
- recognizes that income volatility stemming from the pension-related gains and losses cannot be eliminated for financial reporting under International Financial Reporting Standards;
- aims to achieve this by replacing the accounting valuation of the net pension-related assets and liabilities with a more long-term economic measure, and taking a more prudent stance on any economic gains;
- would be applied prospectively, commencing in FY 2022;
- will entail staff monitoring the economic impact for potential material underfunded positions under the long-term economic basis.

Directors broadly supported the measures proposed by staff to mitigate the volatility of precautionary balances created by the accounting treatment of pension revaluations under IAS 19.

[1] See *Interim Review of the Adequacy of the Fund's Precautionary Balances* (11/12/21).

Annex III. Implementation of the New Income Model—Status Update FY 2022

In April 2008, the Executive Board endorsed a New Income Model (NIM) aimed at diversifying the Fund's sources of income and reducing the institution's overreliance on income from lending activities to finance its diverse activities. The NIM reflected many of the measures that had been proposed in early 2007 by the Committee of Eminent Persons chaired by Andrew Crockett, and was designed to develop broader and more sustainable income sources in recognition of the public good aspects of many of the Fund's activities. Adoption of the NIM required an intensive work program for the Fund over many years. The table below summarizes the main elements of the NIM and the status of their implementation.[1]

Completed	In progress	Not started

Main Element	Implementation	Status
An amendment to the Articles of Agreement to broaden the Fund's investment authority.	The amendment to the Articles came into effect in February 2011 following ratification by three-fifths of IMF members representing 85 percent of the total voting power. The amendment aimed at providing the Fund with flexibility to enhance the expected return on its investments and adapt its investment strategy over time.	
Creation of an endowment funded with profits from the sale of 403.3 metric tons of the Fund's gold holdings.	Gold sales required an 85 percent majority vote of the Executive Board. The gold sales were completed in December 2010 and realized total profits of SDR 6.85 billion.[2] Initial sales were conducted through off-market transactions with central banks and official holders followed by on-market sales.	
Adoption of new rules and regulations for the Investment Account (IA)—a requirement for the Fund to exercise its expanded investment authority under the amended Articles.	In January 2013, the Executive Board approved new rules and regulations for the IA.	
Investment of the endowment	The 3-year phased implementation of the endowment's investments was completed in 2018.	

[1] In addition to these elements geared to broadening the Fund's income, the NIM envisioned that in the event the Fund's precautionary balances are considered to be adequate, the Executive Board could consider making dividend payments to members. The Fund is still accumulating precautionary balances towards the current agreed target of SDR 25 billion. As such, this issue will need to be revisited at a later date.

[2] SDR 4.4 billion of the gold profits was used to fund the endowment. In accordance with two decisions adopted by the Board, the remaining profits of SDR 2.45 billion were distributed to members to help finance concessional lending to low-income countries in October 2012 and October 2013.

Main Element	Implementation	Status
	The Executive Board has since reviewed the investment strategy for the endowment in 2018 and in 2022. In 2018, the Board also approved a payout policy framework and a delay in initiating payouts until an adequate cushion of retained investment income was established. Payouts are now expected to commence in FY 2023.	
Adopting a new rule for the margin for the basic rate of charge. Previously, the margin was set to generate sufficient income for the Fund to cover all of its administrative expenses and to meet a specific net income target.	In December 2011, the Fund adopted a new rule for setting the margin on the rate of charge.[3] Under the new rule, the margin should be set to cover the Fund's intermediation (lending) costs and help build-up reserves. However, given the continuous low interest rate environment, investment income has been subdued and the continued reliance by the Fund on lending income to cover a significant portion of its non-lending operating costs, the margin has so far been set under the exceptional circumstances clause.	
Reimbursement of PRG Trust expenses.	In FY 2013, the practice of reimbursing the Fund for the expenses of conducting the business of the PRG Trust was resumed and has subsequently been suspended from FY 2021 to FY 2026. The cumulative impact of the suspension is expected to be SDR 539 million over the six years. The temporary suspension of reimbursement, however, is one of the recognized contingency measures under the PRGT's three-pillar framework when self-sustained capacity falls short of the target envelope. The proposed suspension would retain these resources in the PRGT Reserve Account, which provides security to lenders.	
Review of the investment strategy for the Fixed-Income subaccount	Following the Amendment to the Articles in 2011, the investment strategy for the Investment Account Fixed-Income Subaccount (FI) was reviewed and an expanded investment strategy was approved by the Board in 2015. The Board reviewed experience with the expanded FI strategy in 2022. At this review, a target margin of 50 basis points above the SDRi was added to the current investment objective to guide expectations for the FI strategy's risk and return	

[3] Decision No. 15044–(11/119) adopted December 9, 2011.

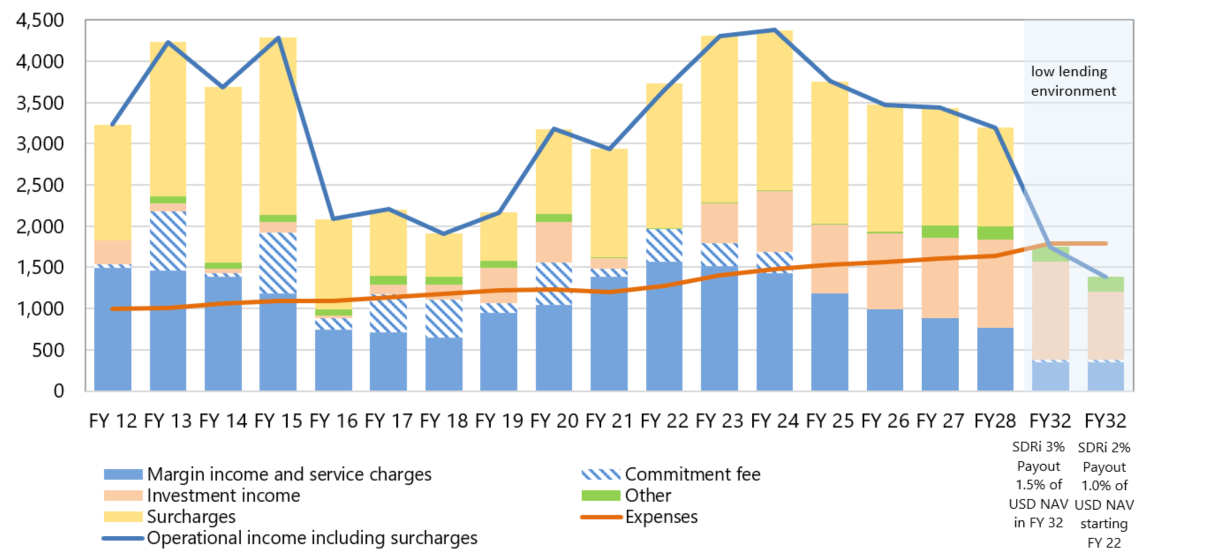
Main Element	Implementation	Status
	profile. It was noted that a higher margin as envisaged under the NIM could be revisited in the future if yield curves return to levels which were more normal in the past.	

Developments

Significant progress has been made in implementing the NIM with almost all elements now in place. As a result, the Fund has gradually increased the diversification in its sources of income and reduced the institution's overreliance on income from lending activities to finance its diverse activities (see Figure AIII.1). Nonetheless, the contribution of these sources of income as well as the financing requirements for the Fund's activities have varied with changes in the global economic and market environment and other related developments. Since the global financial crisis, the Fund's lending income has increased while non-lending income has been highly constrained by very low sustained global interest rates.[4] This has been the primary reason that income from investments and interest free resources has covered a much smaller percentage of expenditures (around one tenth) compared to initial expectations.[5] Going forward, the prospect for achieving these initial expectations could continue to remain low, unless global interest rates revert back to higher levels considered more normal in the past. This may indicate that a reassessment of these initial expectations may be warranted at a later stage.

Figure AIII.1. Actual and Projected Operational Income and Expenses—FY 2012–32[1]

(In millions of US dollars)



Source: Finance Department.

[1] Operational income and expenses excluding the pension-related (IAS 19) gains and losses.

[4] As context, the average 3-month SDR interest rate has declined dramatically, averaging close to the 5 basis point floor in 2021, compared to around 4 percent in 2007 when the NIM was designed.

[5] When the NIM was conceived the expectation was for investment income to cover most/all of the non-lending expenses.

Annex IV. Endowment Payout—Practical Considerations

The Board endorsed a set of criteria for determining a constant real payout rule, supplemented by safeguards to help protect the value of the EA in real terms (Box 1).

- *Reassess adequacy* of *retained income cushion ("cushion") based on EA NAV*. The target cushion could be sized so the portfolio could absorb one extreme event equivalent to a two-standard deviation market shock. This was equivalent to around 15 percent in 2018. In practice the time required to achieve the required cushion would be uncertain and subject to market conditions. However, the Board could decide to delay payouts for a certain period with the intent of building an adequate income cushion in the EA. The EA cushion represents the difference between the EA's NAV and its corpus. The corpus is estimated based on principal amounts invested in the EA since inception, adjusted for the GED. These parameters are calculated monthly by the Fund's custodian.

- *Review return outlook/projections for EA.* The *initial value* of the payout would need to be aligned with a conservative estimate of the projected long-term EA real returns in US dollar terms. This estimate would ideally be associated with a relatively high level of confidence (or conversely a lower-than-average probability of underperformance).

- *Current USD amount of initial payout*. The constant real payout rule is used to determine future payout amounts after the initial payout is determined. Under this rule, the payout amount for any given year would be calculated as the prior year's USD payout increased by the deflator (GED). If the payout amount as a percentage of NAV exceeds the maximum limit specified, it will be suspended.

- *Maximum limit of payout to trigger future suspension of the payout*. Based on the level of the EA's cushion, a maximum limit would be set as a percentage of NAV to trigger suspension of future payouts. An adequate cushion is a prerequisite for commencing payouts and to prevent a start-stop scenario. For example, a 1 percent initial value of the payout and cushion size of 12.2 percent would imply a maximum limit of approximately 1.1 percent. In other words, if in future years the payout amount reaches 1.1 percent of the current EA NAV, a suspension of payouts would be triggered. Following a suspension, staff will need to repeat the reassessment of the EA cushion as described above and calculate a new maximum limit, before proposing to recommence payouts.

Annex V. Assumptions Underlying the Income Projections

Assumptions Underlying the Income Projections
(in billions of SDRs, unless otherwise stated)

	Actual through Feb. 2022	FY 2022	FY 2023	FY 2024
Regular Facilities:				
1. Purchases (excl. reserve tranche purchases)	5.9	13.1	23.6	14.5
2. Repurchases	6.1	10.9	19.3	23.3
3. Average balances subject to charges	90.1	90.4	95.9	93.6
4. Average SDR holdings	23.6	23.9	25.9	26.7
5. Average remunerated positions	102.7	103.6	114.3	115.7
6. Average investment account assets-Fixed-Income subaccount	18.9	18.9	21.1	23.2
7. Average investment account assets-Endowment subaccount	6.5	6.5	6.7	6.8
8. Average borrowings and issued notes	4.6	4.5	2.7	0.9
		(In percent)		
Return on investments-Fixed-Income subaccount [1]	-0.29	-0.32	1.14	1.70
Return on investments-Endowment subaccount [1, 2]	2.55	3.16	2.12	2.56
Average interest rates:				
SDR interest rate and basic rate of remuneration	0.1	0.1	0.8	1.2
Basic rate of charge	1.1	1.1	1.8	2.2
Margin on the rate of charge	1.0	1.0	1.0	1.0

[1] End-February figure is unannualized.
[2] The projected returns for the Endowment Subaccount are shown in SDR terms.

Annex VI. Consolidated Medium-Term Income and Expenses

Consolidated Income and Expenses, FY 2022–32 Desk Survey Scenario

								Low-lending environment	
								Scenario A	Scenario B
								SDRi 3% P/out=1.5%	SDRi 2% P/out=1%
	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY32	FY32
	(in SDR millions)								
A. Operational Income	**2,570**	**3,056**	**3,082**	**2,609**	**2,395**	**2,355**	**2,160**	**1,126**	**891**
Lending income	2,618	2,704	2,559	2,023	1,750	1,586	1,333	247	247
Margin for the rate of charge	904	959	936	806	677	609	521	200	200
Service charge and other income	199	118	72	17	10	0	0	23	23
Commitment fees	283	196	183	2	0	0	0	24	24
Surcharges	1,232	1,431	1,368	1,198	1,063	977	812	0	0
Investment income	(62)	305	457	518	573	600	654	640	449
Fixed-Income Subaccount 1/	(62)	240	391	451	505	531	584	525	375
Gold endowment pay-out 2/	0	65	66	67	68	69	70	115	74
Interest free resources 3/ 6/	6	38	57	59	62	61	64	125	81
SCA-1 and other	6	38	57	59	62	61	64	125	81
Reimbursements	8	9	9	9	10	108	109	114	114
SDR Department	8	9	9	9	10	10	10	10	10
PRG Trust 4/	0	0	0	0	0	98	99	104	104
RST	0	0	0	0	0	0	0	0	0
B. Expenses 5/	**1,073**	**992**	**1,042**	**1,065**	**1,078**	**1,099**	**1,106**	**1,158**	**1,158**
Net administrative budget	830	918	957	980	997	1,020	1,027	1,082	1,082
Capital budget items expensed	18	15	22	22	22	22	23	24	24
Depreciation	53	59	63	63	59	57	56	52	52
Net periodic pension cost (IAS 19)	172	0	0	0	0	0	0	0	0
C. Net Operational Income (Loss) Before Provisioning (A-B)	**1,497**	**2,064**	**2,040**	**1,544**	**1,317**	**1,256**	**1,054**	**(32)**	**(267)**
Provision for loan impairment losses	0	0	0	0	0	0	0	0	0
D. Net Operational Income (Loss)	**1,497**	**2,064**	**2,040**	**1,544**	**1,317**	**1,256**	**1,054**	**(32)**	**(267)**
E. Pension-related remeasurement gain (IAS 19)	512	0	0	0	0	0	0	0	0
Net Operational Income (Loss) After Pension-Related (IAS 19) Adjustment (D+E)	**2,009**	**2,064**	**2,040**	**1,544**	**1,317**	**1,256**	**1,054**	**(32)**	**(267)**
Endowment (Gold Profits) Subaccount - Retained Income	202	75	105	106	116	133	195	77	112
Net Income (Loss)	**2,211**	**2,139**	**2,145**	**1,650**	**1,433**	**1,389**	**1,249**	**45**	**(155)**
	(in US$ millions)								
F. Operational Income	**3,651**	**4,309**	**4,378**	**3,756**	**3,472**	**3,438**	**3,197**	**1,746**	**1,383**
Lending income (including Surcharges)	3,718	3,813	3,634	2,912	2,537	2,316	1,974	382	382
Investment income	(88)	430	650	746	832	876	967	992	697
Interest free resources	9	53	81	84	89	89	95	194	126
Reimbursements	12	13	13	14	14	157	161	178	178
G. Expenses	**1,522**	**1,398**	**1,479**	**1,533**	**1,563**	**1,604**	**1,635**	**1,794**	**1,794**
Net administrative budget	1,178	1,295	1,359	1,411	1,446	1,489	1,519	1,677	1,677
Capital budget items expensed	25	20	31	32	31	32	33	37	37
Depreciation	75	83	89	90	86	83	83	80	80
Net periodic pension cost	244	0	0	0	0	0	0	0	0
H. Net Operational Income (Loss) (F-G)	**2,129**	**2,911**	**2,899**	**2,223**	**1,909**	**1,834**	**1,562**	**(48)**	**(411)**

Consolidated Income and Expenses, FY 2022–32 Desk Survey Scenario (concluded)

								Low-lending environment	
								Scenario A	Scenario B
								SDRi 3% P/out=1.5%	SDRi 2% P/out=1%
	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY32	FY32
Memorandum Items:									
Fund credit (average stock, SDR billions)	90.4	95.9	93.6	80.6	67.7	60.9	52.1	20.0	20.0
SDR interest rate (in percent)	0.1	0.8	1.2	1.3	1.4	1.4	1.5	3.0	2.0
US$/SDR exchange rate	1.42	1.41	1.42	1.44	1.45	1.46	1.48	1.55	1.55
Precautionary balances (end of period, SDR billions) 6/	20.9	22.9	24.9	26.5	27.8	29.0	30.1	15.0	15.0

[1] Includes recent refinements of the investment strategy of the IA-FI which improved the prospects of achieving a 50 basis point margin on average over the SDR interest rate over the medium term.
[2] The projections assume a 1 percent payout from the gold endowment commencing in FY 2023. The illustrative scenarios for FY 2032 show a continued payout of 1 percent in a low investment return environment (Scenario B); and a higher payout of 1.5 percent in a high investment return environment (Scenario A).
[3] Interest free resources reduce the Fund's costs and therefore provide implicit returns. Since the Fund invests its reserves in the IA to earn a higher return, the interest free resources retained in the GRA are mainly attributable to unremunerated reserve tranche positions not represented by gold holdings and GRA income for the year not transferred to the IA. These resources reduce members' reserve tranche positions and the Fund's remuneration expense or increase interest income if reflected in SDR holdings of the GRA, resulting in implicit income for the Fund.
[4] Updated for a five-year suspension of the PRGT reimbursement of expenses for the FY 2022–26 approved by the Board in July 2021.
[5] *The Budget Augmentation Framework* (11/12/21) proposed an augmentation to be implemented through annual increases in the real net administrative budget averaging 2 percent each year during FY 23 to FY 25 (relative to FY 22), returning to a flat real budget trajectory thereafter.
[6] Reflects a reduction in precautionary balances as a result of the full distribution of the SCA-1 (SDR 1,066 million) in the context of the clearance by Sudan of its overdue financial obligations to the Fund. Precautionary balances are also adjusted for a positive one-off permanent adjustment of SDR 205 million effective May 1, 2021 to reverse the impact of the cumulative IAS 19 gains and losses previously included in the Fund's precautionary balances under the accounting basis.