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THE FUND'S INCOME POSITION FOR FY 2022 – ACTUAL OUTCOME

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- The **Staff Report** prepared by IMF staff and completed on July 28, 2022, for the information of the Executive Board. The paper was prepared following completion of the IMF's FY 2022 external audit.

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THE FUND'S INCOME POSITION FOR FY 2022—ACTUAL OUTCOME

EXECUTIVE SUMMARY

This paper reports on the Fund's income position for FY 2022 following the closing of the Fund's accounts for the financial year and completion of the external audit. Overall FY 2022 net income (in the General Department) amounted to SDR 3.1 billion, SDR 0.9 billion higher than estimated in April, mainly reflecting a substantial increase in the remeasurement gain reported under IAS 19 (the accounting standard for employee benefits), offset partly by lower-than-anticipated returns from the investment subaccounts compared with earlier projections.

The GRA net income increases the Fund's reserves and, in accordance with decisions taken in April 2022, a net transfer of currencies of SDR 3.2 billion will be made from the GRA to the Investment Account during FY 2023. The Fund's precautionary balances reached SDR 20.9 billion at the end of FY 2022 following the placement of net income to the Fund's reserves, after excluding the IAS 19 gain for the year under the new approach for calculating precautionary balances.

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REVIEW OF THE INCOME POSITION FOR FY 2022

1. This paper presents the Fund's net income position for FY 2022. The actual outcome reported in this paper follows the closing of the Fund's accounts for the financial year and completion of the FY 2022 external audit.¹

2. The overall FY 2022 net income of SDR 3,085 million was SDR 874 million higher than the April projection (Table 1).² The main contributor to the increase was the remeasurement gain reported under IAS 19 (about SDR 1 billion higher than anticipated). By contrast, operational income was SDR 157 million lower due mainly to the higher-than-anticipated losses from the Fixed-Income Subaccount. The results are highlighted in Figure 1 and discussed below:

- **Lending income.** Lending income, comprising margin income, service charges, commitment fees, and surcharges, totaled SDR 2,621 million for the year, broadly in line with the April estimates.
- **Income (Loss) of the Investment Account.** The investment loss from the Fixed-Income Subaccount was SDR 222 million for the year, higher than the SDR 62 million loss anticipated in April, reflecting a significant spike in SDR yields that contributed to higher negative returns in the final two months of FY 2022. The Endowment Subaccount returns of SDR 133 million were lower than the SDR 202 million projected in April. The subaccount's fixed-income assets and equities recorded losses during the final two months of the year, while the appreciation of the US dollar against the SDR had a positive translation effect on the portfolio.^{3,4}

Expenses. Total expenses of SDR 976 million were SDR 97 million lower than projected in April due mainly to a lower than anticipated net periodic pension cost (by SDR 110 million), reflecting an amendment to the Medical Benefits Plan (MBP) (Table 2). This was offset partly by net administrative expenditures and capital expenditures being higher by SDR 11 million and SDR 2 million, respectively. The higher administrative expenditures mainly reflect an appreciation of the average USD/SDR exchange rate as the USD strengthened further against the SDR during the final two months of FY 2022, and a slightly higher outturn of net administrative expenditures compared to the April projections.⁵

¹ See [Audited Financial Statements for the Financial Years Ended April 30, 2022 and 2021](#).

² See [Review of the Fund's Income Position for FY 2022 and FY 2023-2024](#).

³ The assets of the Endowment Subaccount (EA) are invested in a globally diversified portfolio between global fixed-income and equity instruments. In the *Review of the Investment Account and Trust Assets Investment Strategy* in January 2022, the Board approved a new Strategic Asset Allocation (SAA) for the EA consisting of a 45/55 percent split between global fixed-income and equity instruments. The EA portfolio is being transitioned to its new SAA, which is expected to be completed during Q1 FY 2023.

⁴ The performance of the Endowment Subaccount is measured in US dollars as the base currency and translated into SDRs for financial reporting.

⁵ See [FY2022—Output Cost Estimates and Budget Outturn](#), which provides a factual overview of budget developments in FY 2022.

Table 3 provides a reconciliation between the net administrative budget outturn and the administrative expenses reported in the FY 2022 audited financial statements.⁶

- **IAS 19 remeasurement gain** (Table 2). The remeasurement gains increased by SDR 1,003 million due mainly to the increase in the discount rate from the 3.30 percent projected in the April estimate to the actual year-end rate of 4.18 percent, which contributed SDR 1,686 million to the higher remeasurement gains.⁷ This was offset partly by lower than anticipated returns on plan assets, which underperformed the April estimate by about SDR 409 million amid rising market interest rates and deteriorating equity market performance. The remeasurement gains were further offset by other net losses of about SDR 274 million mainly from an 8.5 percent Cost-of-Living Adjustment (COLA) in the current year and higher exchange rate translation losses, partly offset by gains from changes in MBP assumptions.
- 3. Precautionary balances.**⁸ Precautionary balances amounted to SDR 20.9 billion at year end, in line with the earlier projection in April. The increase in the IAS 19 remeasurement gains was excluded from the calculation of the precautionary balances per the new approach endorsed by Directors in December 2021.⁹
- 4. No decisions are required at this time.** The Executive Board took all necessary decisions in April 2022 during the review of the Fund's income position for FY 2022 and FY 2023-2024.¹⁰ The loss of SDR 222 million incurred by the Fixed-Income Subaccount and income from the EA of SDR 133 million are retained in the respective subaccounts.¹¹ A portion of the FY 2022 GRA net income equivalent to the pension-related remeasurement gain was placed to the Fund's special reserve, and the remainder was allocated equally between the Fund's general reserve and special reserve.¹² A

⁶ The administrative expenses reported in the audited financial statements include non-operational costs, i.e., the pension cost accrual.

⁷ See page 31 of [Audited Financial Statements for the Financial Years Ended April 30, 2022 and 2021](#).

⁸ As of April 30, 2022, the GRA's precautionary balances consist of its reserves (excluding SDR 4.4 billion currently held in the special reserve, attributable to the profits from the limited gold sales) Precautionary balances were 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.

⁹ At the Interim Review of Adequacy of the Fund's Precautionary Balances Board meeting in December 2021, 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. The new approach for determining precautionary balances replaces the accounting valuation of the net pension-related assets and liabilities under IAS 19 with a more long-term economic measure. The new approach is effective from FY 2022, and the precautionary balances calculation excludes the impact of past and current IAS 19 gains and losses.

¹⁰ Decisions No. 1 through No. 5, see [Review of the Fund's Income Position for FY 2022 and FY 2023-2024](#).

¹¹ Decision No. 2, [Review of the Fund's Income Position for FY 2022 and FY 2023-2024](#), states that the income of the Fixed-Income Subaccounts and Endowment Subaccounts, if any, shall be retained in the Fixed-Income Subaccount and Endowment Subaccount, respectively.

¹² See page 35 of [Audited Financial Statements for the Financial Years Ended April 30, 2022 and 2021](#). See also Decision No. 3, [Review of the Fund's Income Position for FY 2022 and FY 2023-2024](#).

transfer of currencies of SDR 3,174 million, equivalent to the GRA net income for FY 2022, is scheduled to be made from the GRA to the Fixed-Income Subaccount during FY 2023 (see Table 4).

Table 1. Income and Expenditures for FY 2022
(in SDR millions)

	April Projections ¹ (a)	Actual Outcome (b)	Difference (c=b-a)
A. Operational income	2,570	2,413	-157
Lending income	2,618	2,621	3
Margin for the rate of charge	904	905	1
Service charges and other income ²	199	199	0
Commitment fees	283	283	0
Surcharges	1,232	1,234	2
Investment income	-62	-222	-160
Fixed-Income Subaccount investment income	-62	-222	-160
Endowment subaccount payout ³	0	0	0
Interest free resources ⁴	6	6	0
SCA-1 and other	6	6	0
Reimbursements	8	8	0
SDR Department	8	8	0
PRG Trust	0	0	0
B. Expenses ⁵	1,073	976	-97
Net administrative expenditures	830	841	11
Capital budget items expensed	18	20	2
Depreciation	53	53	0
Net periodic pension cost after funding (IAS19)	172	62	-110
C. Net operational income (A-B)	1,497	1,437	-60
Pension-related (IAS19) rereasurement gains ⁶	512	1,515	1,003
D. Net operational income after IAS 19 gains	2,009	2,952	943
Endowment Subaccount investment income	202	133	-69
Net income position ⁷	2,211	3,085	874
<u>Memorandum items:</u>			
Fund credit (average stock, SDR billions)	90.4	90.5	
SDR interest rate (average, in percent)	0.1	0.1	
US\$/SDR exchange rate (average)	1.42	1.41	
Precautionary balances (end of period, SDR billions)	20.9	20.9	

Source: Finance Department and Office of Budget and Planning.

¹ See [Review of the Fund's Income Position for FY 2022 and FY 2023-2024](#).

² Includes special charges and accrued basic charges received from Sudan's arrears clearance. Note that income recognized in the Special Disbursement Account (SDA) following Sudan's settlement of overdue obligations 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.

⁴ Interest free resources reduce the Fund's costs and therefore provide implicit returns. Since the Fund invests its reserves in the Investment Account 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 yet transferred to the Investment Account, 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 See Table 3 for a reconciliation to the administrative expenses reported in the financial statements for FY 2022.

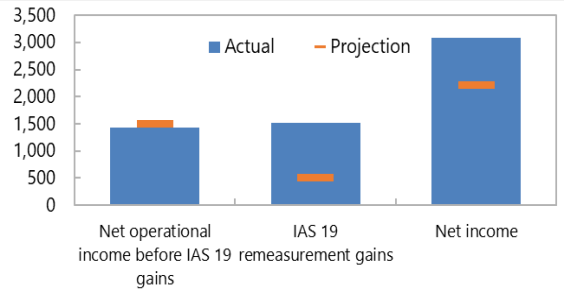
⁶ IAS 19 is the accounting standard that prescribes the accounting treatment of pensions and employee benefit expenses and involves actuarial valuations (see Table 2).

⁷ See "Total comprehensive income" reported in [Audited Financial Statements for the Financial Years Ended April 30, 2022 and 2021](#).

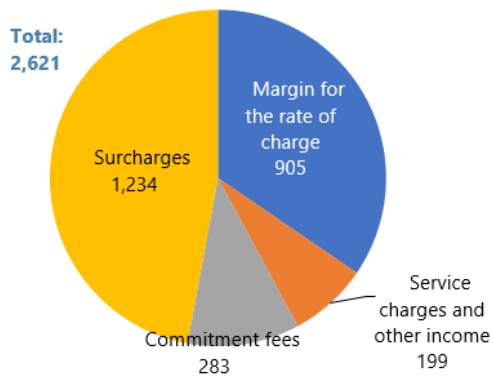
Figure 1. FY 2022 Highlights

Actual vs. April Projections (in SDR millions)

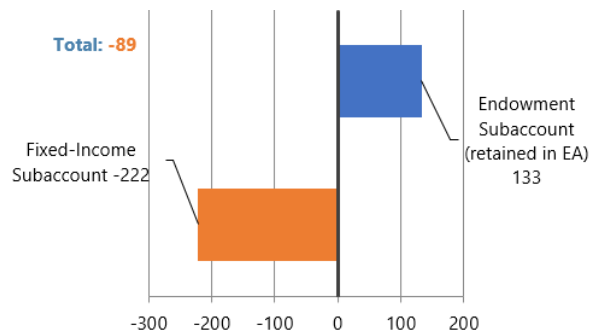
	Actual	Projection	% Chg.
Lending income	2,621	2,618	0%
Investment income/(loss) (FI)	(222)	(62)	258%
Investment income (EA)	133	202	-34%
Interest free resources	6	6	0%
Reimbursements	8	8	0%
Expenses	976	1,073	-9%
Net operational income before IAS 19 remeasurement gains	1,437	1,497	-4%
IAS 19 remeasurement gains	1,515	512	196%
Net income	3,085	2,211	40%



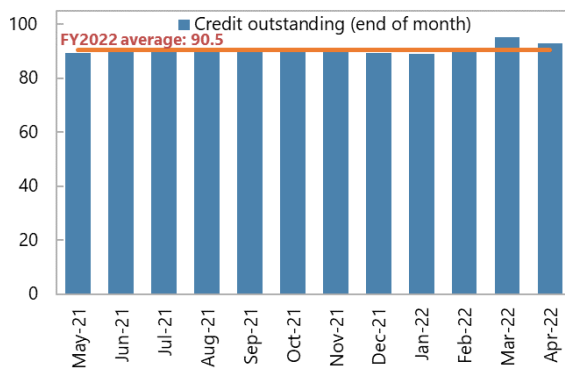
Lending Income (in SDR millions)



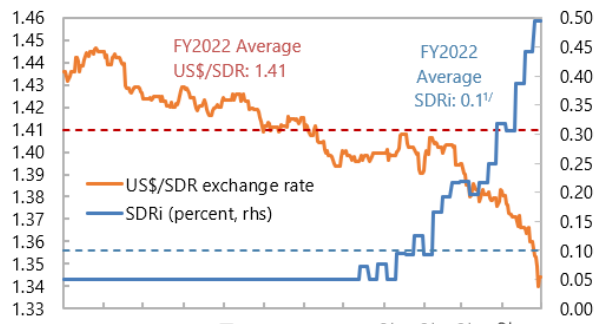
Investment Income (in SDR millions)



Average Credit Outstanding (in SDR billions)



SDR Interest Rate and Exchange Rate



^{1/} Actual average is 0.11 percent rounded down to 0.10 percent

Table 2. Reconciliation of IAS 19 Gains—FY 2022
(in SDR millions)

	April Projections ¹	Actual Outcome
Net periodic pension cost	-172	-62
Pension cost accrual ²	-322	-213
Pension funding	150	151
Remeasurement (Actuarial) gains	512	1,515
Discount rate change	588	2,274
Excess return on assets	-78	-487
Other ³	2	-272
Total IAS 19 gains	340	1,453
Discount rate at end of year (in percent)	3.30	4.18

Source: Willis Towers Watson and IMF Finance Department

Totals may not add up due to rounding differences.

¹ See [Review of the Fund's Income Position for FY 2022 and FY 2023-2024](#).

² The gain is driven by the change in MBP premium amounts to be paid by current and future retirees, resulting in a cost shift as plan participants pay higher contributions in the future.

³ Due to (i) 8.5 percent COLA adjustment in current year and (ii) changes to demographic data, offset partly by (iii) changes in MBP claims assumptions.

Table 3. Reconciliation of Administrative Expenses—FY 2022
(in U.S. dollars millions, unless otherwise stated)

Net administrative budget outturn¹	1,180
Capital budget items expensed	28
Depreciation	75
Net periodic pension cost (SDR millions) ²	88
Total expenses in U.S. dollars millions	1,371
Total expenses in SDR millions (per Table 1)³	976
Reimbursements from PRG Trust and SDR Department (SDR millions)	-8
Total administrative expenses per the audited financial statements (SDR millions)	968

Source: Finance Department and Office of Budget and Planning.

Totals may not add up due to rounding differences.

¹ See [FY2022—Output Cost Estimates and Budget Outturn Paper](#).

² Reflects the difference between the IAS 19 expense and the actual funding in FY 2022 (see Table 2, which shows the net periodic pension cost of SDR 62 million, equivalent to US\$88 million).

³ Based on the weighted average FY 2022 U.S. dollar/SDR exchange rate of 1.41 (rounded) for all expenses; the effective average exchange rate for individual expenditure components may differ due to the timing of exchange rate movements during the year.

**Table 4. Transfer of Currencies from the GRA to the Fixed-Income Subaccount
for FY 2022**
(in SDR millions)

Transfer of currencies (GRA to Fixed-Income Subaccount) ¹	
GRA reserves at April 30, 2022	26,524
Less: GRA reserves at April 30, 2021	<u>23,350</u>
	3,174

Source: Finance Department

Totals may not add up due to rounding differences.

¹ Decision No. 4, [Review of the Fund's Income Position for FY 2022 and FY 2023-2024](#), 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. The amount is equivalent to GRA net income and excludes the current year investment losses retained in the Fixed-Income Subaccount.