INTERNATIONAL MONETARY FUND

The Fund's Income Position for FY 2012—Actual Outcome

Prepared by the Finance Department

In consultation with the Legal Department and the Office of Budget and Planning

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1. **This paper presents the Fund's net income for FY 2012**. The actual outcome reported in this paper follows the closing of the Fund's accounts for the financial year and completion of the FY 2012 external audit conducted by Deloitte & Touche, the Fund's external auditor.

2. **Actual FY 2012 net operational income was SDR 535 million, slightly above the earlier estimate of SDR 527 million (Table 1)**.[1] Operational income was broadly unchanged from the earlier projection of SDR 1,180 million. Expenditures were some SDR 9 million lower than estimated earlier, at SDR 644 million; while the actual budget outturn was US$21 million (SDR 14 million) lower, this was partially offset by a rise in the weighted average value of the dollar against the SDR. The changes from projected amounts are shown in Table 2.

3. **Investment income for FY 2012 amounted to SDR 169 million, broadly in line with the April estimate of SDR 171 million.** The Investment Account (IA) gold profits portfolio contributed SDR 31 million and the non-gold portfolio earned SDR 138 million.[2] The IA net returns were about 126 basis points, or 96 basis points above the SDR interest rate, boosted by investors' flight to the safety of highly rated government bonds in response to concerns about the sovereign debt crisis in some euro area countries and global growth prospects.

4. **The overall FY 2012 net income was about SDR 1.5 billion, consistent with the April projections (Table 1)**. The overall net income position includes the following below-

[1] See *Review of the Fund's Income Position for FY 2012 and FY 2013–14* (4/12/12).

[2] Following the transfer of gold profits to the IA in March 2011, the IA has two tranches: a new portfolio funded by the gold profits of SDR 6.85 billion and the initial (non-gold) portfolio funded by transfers of currencies from the General Resources Account (GRA) in amounts equivalent to the Fund's reserves in June 2006, plus subsequent transfers of GRA net income excluding gold profits.

the-line items, which are not considered part of net operational income: (i) FY 2012 surcharges amounting to SDR 907 million, broadly in line with projections of SDR 905 million; (ii) a gain of SDR 13 million on the sale of assets (the Bond building, formerly a part of the Concordia property); and (iii) an IAS 19 timing difference of SDR 18 million.[3]

5. **The restructuring provision amounted to SDR 2 million at end-FY 2012, reflecting the winding-down phase.** The decrease from the end-FY 2011 provision of SDR 8 million reflects costs of SDR 4 million charged against the provision during FY 2012 and a reversal of SDR 2 million to reflect a reduction in estimated costs. Total restructuring costs from April 2008 to end-April 2012 amount to SDR 122 million (equivalent to about US$188 million).

6. **No decisions are required at this time.** The Executive Board took all necessary decisions in April 2012 during the review of the Fund's income position for FY 2012 and FY 2013–14. In accordance with those decisions, income from the IA gold profits portfolio (SDR 31 million) was retained in the IA, and FY 2012 GRA net income (SDR 1.4 billion)[4] has been placed in the Fund's general and special reserves. Also in accordance with the April decisions, currencies amounting to SDR 1.3 billion were transferred from the GRA to the IA on August 24, 2012.[5]

[3] The Fund's pension and employee benefit expense is determined by the provisions of IAS 19, under International Financial Reporting Standards (IFRS). A timing difference arises between the actuarially determined expense related to benefits earned by employees during the financial year and the amount actually funded from the administrative budget. The actuarially determined IAS 19 expense for FY 2012 amounted to SDR 100 million. Funding to the pension plan and other long-term employee benefits for FY 2012 amounted to SDR 118 million, giving rise to a timing difference of SDR 18 million that increased net income.

[4] GRA net income of SDR 1.4 billion after deducting SDR 31 million (IA gold profits portfolio income) from the net income of SDR 1,473 million (see Table 1).

[5] Decision No. 7 in *Review of the Fund's Income Position for FY 2012 and FY 2013-14* (4/12/12) provides for the transfer of GRA net income (SDR 1.4 billion) to the IA; and Decision No. 5 provides for the transfer to the GRA of IA income that is not attributable to earnings from the gold profits held in the IA (SDR 138 million). Consistent with past practice, and for operational expediency, this income is retained in the IA and netted off the gross amount for the GRA net income transfer to the IA, resulting in a net transfer of SDR 1.3 billion.

Table 1. Income and Expenditures for FY 2012
(In millions of SDRs)

	Projections 1/	Actual outcome
A. Operational income	**1,180**	**1,179**
Lending income	**992**	**992**
Margin for the rate of charge	805	806
Service charges	163	161
Commitment fees	24	25
Investment income	**171**	**169**
Non-gold portfolio	140	138
Gold profits portfolio	31	31
Interest free resources 2/	**14**	**15**
SCA-1 and other	6	7
Gold book value	8	8
Reimbursements	**3**	**3**
MDRI-I, PCDR Trusts, and SDR Department	3	3
B. Expenses 3/	**653**	**644**
Net administrative expenses	617	610
Capital budget items expensed	3	3
Depreciation	33	31
C. Net operational income position (A-B)	**527**	**535**
Surcharges	905	907
Gain on sale of assets	13	13
IAS 19 timing difference	7	18
Net income position	**1,452**	**1,473**
Memorandum Items:		
Fund credit (average stock, SDR billions)	80.5	80.5
SDR interest rate (in percent)	0.3	0.3
Average US$/SDR exchange rate 4/	1.57	1.55
Precautionary balances (end of period, SDR billions)	9.5	9.5

1/ See *Review of the Fund's Income Position for FY 2012 and FY 2013–14* (4/12/12).
2/ Interest free resources include income from the currency holdings in the GRA equivalent to the book value of gold sold under the limited 2009–10 gold sales (SDR 2.7 billion) and SCA-1 balances (SDR 1.2 billion).
3/ See Table 3 for a reconciliation to the administrative expenses reported in the FY 2012 financial statements.
4/ Actual weighted average exchange rate for expenditures was 1.55, compared with the projected simple average of 1.57.

Table 2. Operational Income Variances/Changes[1]

(In millions of SDRs)

A.	Income sources: previous projection	1,180
	Changes due to:	
	Investment income	(2)
	Interest free resources	1
A.1	Income sources: actual outcome	1,179
B.	Administrative and capital expenses: previous projection	653
	Changes due to:	
	Actual budget outturn 2/	(14)
	US$/SDR exchange rate 3/	7
	Depreciation	(2)
B.1	Administrative and capital expenses: actual outcome	644
C.	Net operational income: actual outcome (A.1 – B.1)	535

Totals may not add due to rounding differences.
1/ This table explains the changes from the previous estimates presented in *Review of the Fund's Income Position for FY 2012 and FY 2013–14* (4/12/12).
2/ The actual budget outturn of US$947 million was some US$21 million lower than earlier projections.
3/ Actual weighted average exchange rate for expenditures was 1.55, compared with the projected simple average of 1.57.

Table 3. Reconciliation of Administrative Expenses

(In millions of U.S. dollars unless otherwise indicated)

Net administrative budget outturn	**947**
Capital budget items expensed	7
Depreciation	46
Total expenses	1,000
Total expenses in SDR millions (per Table 1) 1/	**644**
IAS 19 timing difference (SDR millions) 2/	-18
Reimbursements from PCDR Trust and SDR Department (SDR millions) 3/	-2
Gain on sale of fixed assets (SDR millions)	-13
Total administrative expenses per the audited financial statements (SDR millions)	**613**

Totals may not add due to rounding differences.
1/ Based on the effective weighted average FY 2012 U.S. dollar/SDR exchange rate of 1.55 for expenditures.
2/ Reflects the difference between FY 2012 pension and other employee benefit funding (SDR 118 million) and the IAS 19 actuarial expense (SDR 100 million). The actuarial valuation was completed in June 2012.
3/ For financial reporting purposes, the reimbursements are either netted off against expenditures, or eliminated as part of the consolidation process (MDRI-I Trust amount).