INTERNATIONAL MONETARY FUND

IMF POLICY PAPER

REVIEW OF THE FUND'S INCOME POSITION FOR FY 2024 AND FY 2025-2026

May 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** summarizing the views of the Executive Board as expressed during its April 26 consideration of the staff report.
- The **Staff Report**, prepared by IMF staff and completed on April 15 for the Executive Board's consideration on April 26.
- A **Staff Supplement,** titled *Review of the Fund's Income Position for FY 2024 and FY 2025–2026— Revised Proposed Decisions*, setting out the revised proposed decisions.

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International Monetary Fund
Washington, D.C.

PRESS RELEASE

PR 24/153

IMF Executive Board Completes

Review of the Fund's Income Position for FY 2024 and FY 2025–2026

FOR IMMEDIATE RELEASE

- Net operational income, mainly comprising income from lending and investments, remained strong for FY 2024 reflecting the ongoing elevated use of Fund credit. The trend is expected to continue in FY 2025–2026 but subject to ongoing uncertainties. Precautionary balances are expected to reach the medium-term target of SDR 25 billion by end FY 2024.

- The Executive Board agreed to keep the margin for the rate of charge on IMF lending at 100 basis points until completion of the review of surcharges, but until no later than end FY 2025, at which time the Board would set the margin for the rest of FY 2025 and FY 2026.

Washington, DC – May 10, 2024: On April 26, 2024, 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, 2024.

FY 2024 Income Position

Net operational income, of about SDR 2.5 billion (US$3.3 billion), is anticipated for FY 2024, reflecting mainly the ongoing elevated use of Fund credit. A gain of about SDR 1.3 billion (US$1.8 billion) from the actuarial remeasurement of staff retirement plan assets and liabilities has been estimated for the year.[1] Overall net income is expected to reach SDR 4.4 billion (US$6.0 billion) after including the estimated investment income in the Endowment Subaccount of SDR 0.6 billion (US$0.8 billion). Projected net income, excluding the effects of IAS 19 gains and losses, is expected to bolster the Fund's precautionary balances to SDR 25.1 billion (US$33.4 billion) at the end of FY 2024, thus achieving the medium-term target of SDR 25 billion.

The Executive Board also adopted several other decisions that are relevant to the Fund's finances. These included decisions to: (i) reimburse costs to the GRA for the expenses of conducting the business of the SDR Department and for the operational cost of administering the Resilience and Sustainability Trust (RST); (ii) transfer income from the Fixed-Income Subaccount to the General Resources Account (GRA) after fully offsetting the retained loss incurred in FY 2022 and to retain the expected net income from the Endowment Subaccount for FY 2024 within the Endowment Subaccount; (iii) place the pension-related remeasurement gain in the special reserve and the remainder of net income equally in the special and general

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

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reserves; and (iv) transfer currencies equivalent to the increase in the Fund's reserves from the General Resources Account (GRA) to the Investment Account.

Projections of the Fund's income and precautionary balances remain susceptible to some potential risks and uncertainties including financial market volatility. 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 outcome. The FY 2024 annual financial statements will update for the impact of changes in key assumptions made at the time of the April projections.

FY 2025-2026 Income Position and Lending Rate

As noted above, operational income for FY 2025 and FY 2026 is expected to remain strong, with projected annual net income of SDR 2.9 billion (US$3.9 billion) for FY 2025 and SDR 2.8 billion (US$3.8 billion) for FY 2026. However, these projections are vulnerable to uncertainties stemming from financial market volatility, ongoing geopolitical tensions, and inflationary pressures that are expected to impact the performance of the Fund's investment and retirement plan asset portfolios. The projections are also sensitive to future decisions relating to the surcharge policy review and the margin for the basic rate of charge as noted below, as well as the timing and amounts of disbursements under approved arrangements. 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 Executive Board agreed to keep the margin for the rate of charge at 100 basis points over the SDR interest rate until completion of the review of surcharges, but until no later than end FY 2025, at which time the Board would set the margin for the rest of FY 2025 and FY 2026. This would provide a more holistic perspective on policies that affect the cost of Fund credit.

April 15, 2024

REVIEW OF THE FUND'S INCOME POSITION FOR FY 2024 AND FY 2025–2026

EXECUTIVE SUMMARY

This paper updates the projections of the Fund's income position for FY 2024 and FY 2025–2026 and proposes related decisions for the current financial year, including an amendment to Rule I-6(4) to allow for a more holistic consideration of the margin later in FY 2025 together with the review of surcharges, consistent with the preference expressed in the past by many Executive Directors to take a broader perspective when discussing policies that affect the cost of Fund credit.

The Fund's overall net income for FY 2024 is projected at about SDR 4.4 billion. Net operational income, which excludes estimates for pension-related remeasurement gains (SDR 1.3 billion) and retained income in the endowment account (SDR 0.6 billion), is projected to reach SDR 2.5 billion. These projections remain susceptible to some potential risks and uncertainties, including financial market volatility impacting the Fixed-Income (FI) and Endowment Subaccounts (EA), the discount rate to be used to measure the Fund's retirement plan obligations as of April 30, 2024, and the full year asset returns on the retirement plan.

For FY 2024, consistent with the approach adopted in 2022, a portion of General Resources Account (GRA) net income equivalent to the projected pension-related remeasurement gain is to be placed to the special reserve, and the paper further proposes that the remainder be placed equally to the special and general reserves. After the placement of the GRA FY 2024 net income to reserves, precautionary balances are projected to reach SDR 25.1 billion at the end of FY 2024 (an increase of SDR 2.5 billion since the end of FY 2023), surpassing for the first time the indicative medium-term target of SDR 25 billion. The paper further proposes to transfer currencies from the GRA to the Investment Account (IA) for investment in the FI equivalent to the increase in the Fund's general and special reserves.

The paper also proposes that the Endowment Subaccount payout initiation be delayed by another year. Barring unexpected developments, anticipated market conditions and the projected overall return outlook are ripe for commencing the payout in FY 2025, when staff would develop a comprehensive proposal for determining future payouts for the Board's consideration.

Looking ahead to the outlook for FY 2025–2026, projections point to an annual average net income position of about SDR 2.8 billion. Precautionary balances (PBs) are expected to reach SDR 27.7 billion by end-FY 2025 and SDR 30.2 billion by end-FY 2026

assuming continued accumulation. These projections remain susceptible to potential risks regarding the evolution of global interest rates and economic growth. A key uncertainty is the potential scale of new lending and program disruptions amid a more shock-prone global economic outlook. The projections are also sensitive to future decisions relating to the surcharge policy review and the margin for the basic rate of charge.

The paper recognizes the interlinkages of multiple income-related decisions and the risks associated with setting the margin for a two-year period at this time, as envisaged under Rule I-6(4). Given recent and prospective developments in the Fund's net income position, the current and projected levels of precautionary balances, and other relevant policy discussions scheduled for FY 2025, staff recommends that the margin for the rate of charge established for FY 2023–2024 (i.e., 100 basis points) remain in effect until the Board completes the upcoming review of surcharges and sets a margin for the rest of FY 2025–2026, provided that the Board will do so by no later than the end of FY 2025. This temporary extension would require a targeted amendment of Rule I-6(4).

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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
RSF	Resilience and Sustainability Facility
RST	Resilience and Sustainability Trust
SCA-1	First Special Contingent Account
SDA	Special Disbursement Account
UCT	Upper Credit Tranche

INTRODUCTION

1. This paper reviews the Fund's income position for FY 2024 and FY 2025–2026. It updates the April 2023 income projections and proposes decisions for the current financial year. The paper also includes a proposed decision to amend Rule I-6(4) so that the margin for the rate of charge established for FY 2023–2024 (i.e., 100 basis points) remains in effect until the Board completes the upcoming review of surcharges and sets a margin for the rest of FY 2025–2026, provided that the Board will do so by no later than the end of FY 2025.[1]

2. The paper takes into account recent income-related Executive Board discussions and will serve as background for forthcoming policy reviews. Specifically, the paper is informed by the recent Board discussions on the consolidated medium-term income and expenditure framework on March 5, 2024, the review of the adequacy of the Fund's precautionary balances on March 20, 2024, and the FY 2025–2027 medium-term budget to be discussed on April 25. The paper will also provide context for the review of surcharges planned for FY 2025.

3. Demand for Fund financing is expected to remain high, as uncertainties posed by ongoing geopolitical tensions persist and inflationary pressures moderate. Lending projections underpinned by the desk survey scenario are expected to remain elevated as high interest rates aimed at fighting inflation and a withdrawal of fiscal support amid high debt weigh on growth in the coming year. The outturn for investment returns and pension-related gains and losses remains unpredictable despite financial markets stabilizing: the medium-term projections for non-lending income have strengthened considerably on the back of the high-interest rate environment that is expected to moderate in the wake of lower global policy rates going forward; at the same time returns for the endowment portfolio remain shock-sensitive and the discount rate used to calculate the defined benefit obligation for the retirement plan continues to fluctuate.

4. The paper is structured as follows: The first section reviews the FY 2024 projected income position and the main changes from the April 2023 projections. The second section makes proposals on the disposition of FY 2024 net income and placement to reserves and includes a discussion on the EA payout. The third section updates the income projections for FY 2025–2026, discusses the margin for the rate of charge, and reviews the burden sharing capacity. The fourth section considers enterprise risks and mitigating measures.

REVIEW OF THE FY 2024 INCOME POSITION

5. Net operational income, which excludes pension-related remeasurement gains and retained income in the endowment account, is projected to reach SDR 2.5 billion, lower than the April 2023 estimate of SDR 2.7 billion, mainly on account of transfers from the IA being lower than anticipated (see Table 1, Line D). Projected lending income aligns broadly with the April 2023 estimates, as purchases and repurchases remain consistent with the previous projections.

[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 2013–2014.

Income from the IA subaccounts is anticipated to exceed April 2023 expectations and the pension-related remeasurement gain is estimated to make a significant contribution of about SDR 1.3 billion, albeit still subject to considerable uncertainty given the current volatile market conditions. The Fund's overall net income for FY 2024 is now projected at SDR 4.4 billion, after taking into account the estimated retained investment income of the EA (Table 1). The main components of the projected FY 2024 results are outlined below (see Annex V for underlying assumptions):

Total lending income is projected to be SDR 2.7 billion, about SDR 56 million lower than the April 2023 estimate (Table 1).

- *Margin income* of SDR 943 million is expected to be SDR 15 million lower than projected in April 2023, reflecting a SDR 1.5 billion lower average projected stock of credit outstanding under the desk survey scenario, mostly attributable to certain purchases taking place later than expected or no longer expected to take place as anticipated in April 2023.

- *Service charges* are projected at SDR 85 million, SDR 5 million lower than the April 2023 estimate.

- *Commitment fees* are projected at SDR 225 million, SDR 6 million higher than the April 2023 projection.

- *Surcharges* of SDR 1,430 million are projected to be about SDR 42 million lower than the April 2023 estimate, due mainly to average credit outstanding being lower than anticipated.

Investment Income—Fixed-Income Subaccount: The FI has achieved strong positive returns with actual returns of SDR 682 million through end-February on a Net Asset Value (NAV) of about SDR 22.1 billion at the beginning of the financial year. Investment income from the FI is now projected to reach SDR 803 million in FY 2024, marginally lower than the SDR 842 million estimated in April 2023. Actual returns may differ from current projections based on changes in bond yields between the preparation of this paper and financial year-end.

Retained Investment Income and EA Payout—Endowment Subaccount:

- EA investment income for FY 2024 is estimated at US$670 million (SDR 596 million), higher than the US$459 million (SDR 334 million) projected in April 2023. This reflects both strong equity portfolio performance and solid gains in fixed-income assets, which resulted in a positive nominal return of 6.83 percent (8.37 percent in SDR terms, including translation gains) through end-February.[2] As previously indicated, the income projections of the EA remain subject to considerable uncertainty given the high volatility across the asset classes in which the portfolio is invested.

[2] 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.

Table 1. Projected Income and Expenditures—FY 2024
(In millions of SDRs, except where indicated)

	FY2024		
	Initial Projections [1]	Current Projections	Variance
A. Operational income	**3,825**	**3,678**	**-147**
Lending income	**2,739**	**2,683**	**-56**
Margin for the rate of charge	958	943	-15
Service charges and other income	90	85	-5
Commitment fees	219	225	6
Surcharges	1,472	1,430	-42
Investment income	**936**	**803**	**-133**
Fixed-Income Subaccount (reserves)	842	803	-39
Endowment Subaccount payout [2]	94	0	-94
Interest free resources [3]	**135**	**181**	**46**
Reimbursements	**15**	**11**	**-4**
SDR Department	9	5	-4
PRG Trust [4]	0	0	0
RST	6	6	0
B. Expenses	**1,141**	**1,183**	**42**
Net administrative expenditures	1,045	1,052	7
Capital budget items expensed	32	25	-7
Depreciation	64	67	3
Net periodic pension cost after funding	0	39	39
C. Net operational income before provision (A-B)	**2,684**	**2,495**	**-189**
Provision for loan impairment losses	0	0	0
D. Net operational income	**2,684**	**2,495**	**-189**
Pension-related remeasurement gain	0	1,354	1,354
E. Net operational income after remeasurement gain	**2,684**	**3,849**	**1,165**
Endowment Subaccount - Retained income	240	596	356
Net income position	**2,924**	**4,445**	**1,521**
Memorandum Items:			
Fund credit (average stock, SDR billions)	95.8	94.3	-1.5
SDR interest rate (average, in percent)	3.6	4.0	0.4
US$/SDR exchange rate (average)	1.35	1.34	-0.01
Intermediation costs (US$ millions) [5]	$129	$169	40
Precautionary balances (end of period, SDR billions) [6]	25.1	25.1	0.0

Source: Finance Department and Office of Budget and Planning.

[1] See *Review of the Fund's Income Position for FY 2023 and FY 2024* (4/7/23).

[2] Based on staff's proposal to delay the EA payout decision to FY 2025 (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 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] Suspension of reimbursements of PRGT administrative expenses during FY 2022–FY 2026 per Executive Board Decision No. 17083-(21/71), July 14, 2021. See Annex I.

[5] Costs related to the Fund's "generally available facilities".

[6] Precautionary balances are adjusted to exclude the annual pension-related gains and losses included in accounting income. See Annex II, *Review of the Fund's Income Position for FY 2022 and FY 2023–2024* (04/12/22).

- The EA cushion (i.e., the amount of retained investment income accumulated to protect the real value of the EA from adverse market shocks) has recovered significantly to 8 percent of the portfolio value at end-February compared to 2 percent at end-February 2023. As discussed in detail in the next section, staff proposes to delay the decision to initiate the EA payout by one more year and to retain any investment income or loss for FY 2024 in the EA.

Implicit returns on interest-free resources: The updated implicit returns on interest-free resources are projected to be higher at SDR 181 million, mainly reflecting an increase in the average SDR interest rate from the earlier projection of 3.6 percent to 4 percent for FY 2024.

Reimbursements to the GRA: In accordance with the Articles of Agreement, the GRA has to be reimbursed for: (i) the expenses for conducting the business of the SDR Department (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)).[3] Moreover, under the Executive Board Decision No. 14093-(08/32), adopted April 7, 2008, the Poverty Reduction and Growth Trust (PRGT) would need to reimburse the GRA for the expenses of administering the PRGT (i.e., all administrative expenses, not only those related to SDA resources)[4] and under the Decision No. 17231-(22/37)[5], adopted on April 13, 2022, the Resilience and Sustainability Trust (RST)[6] would need to reimburse the GRA for the expenses of administering the RST (excluding the trust management fee covered by budget receipt).

- The expenses of conducting the business of the SDR Department in FY 2024 are estimated at SDR 5 million (proposed Decision 1), about SDR 4 million lower than earlier estimates in SDR terms, based on the costing approach for reimbursements.[7] The change in estimate is mainly to reflect the actual outcome driven by a reduction in SDR policy work reported by departments.

- 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 2024. 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

[3] 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 may include assets held by 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. There are no assets currently held within the SDA.

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

[5] Decision No. 17231-(22/37), adopted on April 13, 2022 is on page 338 of the referenced file.

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

[7] The legal framework governing reimbursements to the GRA from the PRGT, the SDR Department, and the RST, is set out in the Fund's Articles and/or Board decisions. To implement these decisions, staff undertake a costing exercise each year to determine a reasonable estimate of gross expenses for the relevant operations, which forms the basis for GRA reimbursement, subject to adjustments based on differences between estimates and outturn for the prior year.

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.[8]

- In July 2021, the Board approved the suspension of reimbursement to the GRA of the costs of administering the PRGT for the fiscal years 2022–2026.[9] 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.[10] The PRGT administrative expenses for FY 2024 are estimated at SDR 90.5 million, about SDR 2.1 million higher than earlier estimates in SDR terms, largely due to an appreciation of the US dollar.

- The RST incurs recurring costs, which consist of: a) trust management costs, including execution of transactions, financial reporting and audit, as well as periodic financial and safeguard policy reviews; and b) operational costs, covering country program design and review, including economic policy analysis and program negotiations, climate finance, collaboration with the World Bank and other agencies and operational policy reviews.

    - A management fee was approved to cover trust management costs. The fee constitutes a budget receipt, affecting the gross administrative budget, with the net administrative budget unchanged. FY 2024 trust management costs are estimated to be SDR 3.8 million (US$5.1 million), with final amounts to be included in the FY 2024 Budget Outturn report.

    - Operational (including overhead) costs of administering the RST are reimbursed to the GRA starting FY 2024. The RST administrative costs subject to reimbursement to the GRA in FY 2024 are estimated to be SDR 6.27 million (US$ 8.4 million, proposed Decision 2), with final amounts to be included in the FY 2024 Budget Outturn report.

Expenses: Total expenses of the GRA of SDR 1,183 million are estimated to be about SDR 42 million higher than the April 2023 projection.

- Net administrative expenditures of SDR 1,052 million (US$1,410 million) are expected to be about SDR 7 million higher than the April 2023 projection, due to the appreciation of the US dollar against the SDR despite a slightly lower budget outturn.[11]

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[8] 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.

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

[10] 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).

[11] Includes GAF credit intermediation costs of US$169 million. By comparison, PRGT intermediation costs are estimated at US$121 million.

- Capital budget items expensed of SDR 25 million is SDR 7 million lower than the April 2023 projection and reflects the reclassification and capitalization of field office set-up, expansion, and relocation costs, which were expensed in previous projections, and a reallocation of contingency resources to later years. The depreciation charge increased by SDR 3 million primarily due to IT related software expenditures under IT modernization projects.
- Net periodic pension costs after funding are discussed below.

Box 1. Lending Income and Intermediation Expenditures

Lending income is projected to remain substantially above credit intermediation expenditures in FY 2024. Income from service charges is projected at SDR 85 million in FY 2024 (Table 1) and margin income is projected at SDR 943 million. These amounts compare with estimated intermediation expenditures of about SDR 126 million (US$169 million) in FY 2024 (Table 1). Fund-wide intermediation expenditures related to Generally Available Facilities (GAF) cover direct personnel, travel, and other administrative expenses, as well as indirect support and governance costs. Estimated FY 2024 expenses are higher than earlier projections, due to a higher prior-year outturn and related adjustments. Commitment fees for non-drawing arrangements and surcharges (assuming application of the current policies) are projected to make substantial further contributions to the Fund's lending income and reserve accumulation.

Pension-Related (IAS 19) Adjustment: The pension-related adjustment is estimated to contribute about SDR 1,315 million overall to net income in FY 2024. 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 indicate net actuarial remeasurement gains totaling SDR 1,354 million, which are roughly equally attributable to an increase in the discount rate and the excess returns on plan assets (Table 2).[12,13]
    - Recent market interest rate trends have led to an uptick in the nominal discount rate which climbed from 4.72 percent at the beginning of the year to 5.19 percent by the end of February 2024. The 47 basis points increase is expected to lower the actuarially determined remeasurement of future obligations and contribute an estimated SDR 713 million to remeasurement gains in FY 2024 (Table 2).[14]

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[12] 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.

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

[14] Yields on high quality US corporate bonds have continued to trend higher since last May peaking at current highs around October 2023. However, yields have remained volatile during the period, 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 14 to 16 percent. The end-February 2024 rate is used for the year end projection.

- The projected revaluation of assets for the year is based on actual and estimated portfolio performance to end-February 2024. 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 gain of about SDR 626 million (Table 2). The increase in plan asset returns reflects the strong market recovery across most asset classes as inflationary pressures eased and equity markets rebounded significantly, and bond yields gradually declined during the period.[15] The fair value of plan assets remains subject to potential market volatility and uncertainty.

Table 2. Reconciliation of Pension Related Gains/(Losses)
(In millions of SDRs)

	FY 2021	FY 2022	FY 2023	FY 2024
	Actual	Actual	Actual	Projected end-Feb 29, 2024
Accrual vs. Funding	**-352**	**-62**	**-77**	**-39**
Pension cost accrual	-504	-213	-225	-189
Service cost - current	-407	-367	-269	-237
Service cost - prior year (plan amendment) [1]	-6	169	0	0
Interest expense on pension liability	-335	-351	-441	-481
Expected income on pension asset [2]	244	336	485	528
Pension funding	152	151	148	150
Remeasurement gains	**3,155**	**1,515**	**2**	**1,354**
Discount rate change	421	2,273	871	713
'Excess return' on assets [2]	2,532	-487	-687	626
Exchange rate translation	166	-33	5	15
Experience adj [3]	36	-238	-187	0
Total IAS 19 gains/(losses)	**2,803**	**1,453**	**-75**	**1,315**
Discount rate - at end of period (in percent)	3.02	4.18	4.72	5.19

Source: Willis Towers Watson and IMF Finance Department.
[1] FY22: Mainly due to approved changes to medical benefits covered by the RSBIA.
[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] FY22 and FY23: Includes impact of COLA adjustment, FY23: Includes impact of actual salary adjustment.

- *The net periodic pension cost after funding* amounts to SDR 39 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 additional year of staff service of SDR 237 million) and the net interest gain of SDR 48 million; and (ii) the funding (cash appropriation) for the year projected at SDR 150 million. Net periodic pension costs estimated for the year are slightly lower than prior year costs except for FY 2021, when the opening asset value used to calculate the net interest costs declined significantly at

[15] The average duration of the fixed-income plan assets is typically shorter than the duration for the discount rate applied to pension liabilities.

the onset of the pandemic in the prior year. Service costs are projected to decrease in FY 2024 as a result of the higher discount rate (Table 2).

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

6. **Considering the sensitivity of net income to several underlying assumptions, the final outcome for FY 2024 may deviate from current projections.** The projections remain susceptible to the developments in key underlying assumptions including projections for lending, investment returns, exchange rates, etc. In particular, the pension -related gain for FY 2024 remains unpredictable and will only be finalized after year-end and the impact on net income will be reported in the Fund's annual financial statements scheduled for completion in June 2024. 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 relevant inputs as of April 30, 2024.

Credit Risk

7. **The Fund's framework for assessing the need to provision for impairment losses has been adapted to comply with IFRS 9 "Financial Instruments" and was designed to reflect the unique nature of the Fund's lending.**[16] Under the 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.[17] Staff is in the process of finalizing the annual IFRS 9-related country assessments that commenced in early February, and based on the analysis so far, no impact is expected for FY 2024. Staff will update the Board on the results of the annual impairment assessment before the FY 2024 annual financial statements are finalized.

DISPOSITION DECISIONS

8. **As in previous years, the Executive Board needs to take decisions on the disposition of income for FY 2024.** These cover: the use of any investment income earned by the FI and EA in FY 2024, which impacts the determination of GRA net operational income in FY 2024; the placement of net income to reserves and the allocation between the special and general reserves;[18] and the

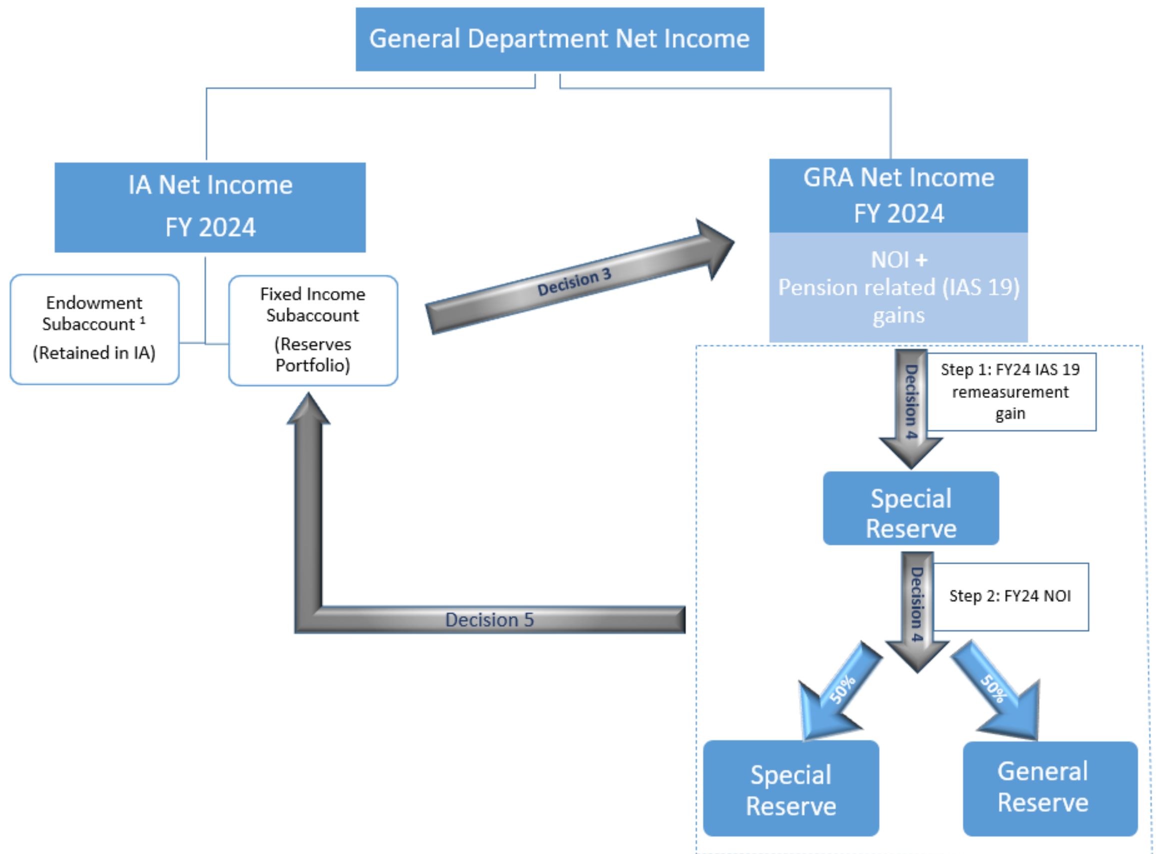
[16] IFRS 9 "Financial Instruments" became effective in FY 2019. In October 2020, Directors broadly supported the approach for addressing cases of impairment, including the use of provisioning, and incorporating Board consultation before any such provision is recorded and reported. The approach was formally endorsed by the Board in April 2021—see *Review of the Fund's Income Position for FY 2021 and FY 2022* (04/12/21).

[17] 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 IFRS 9 in the Fund.

[18] 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.

transfer of currencies from the GRA to the IA. These disposition considerations and decisions are presented in Figure 1 and discussed in detail below.

Figure 1. Summary of Proposed Disposition Decisions



[1] It is assumed that the payout from the Endowment Subaccount will not begin in FY 2024 to allow time to finalize the payout implementation parameters and operational procedures in preparation for the initiation in FY 2025.

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

9. 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.[19] Staff proposes that income in the subaccounts of the IA be used as follows:

- **Fixed-Income Subaccount:** Consistent with past practice, staff proposes that the estimated FY 2024 income be transferred to the GRA to be used towards meeting the expenses of the Fund (proposed Decision 3), after offsetting the remaining retained loss of SDR 6 million to fully

[19] 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)).

recoup the retained loss of SDR 222 million incurred in FY 2022.[20] By so doing, the IA income will contribute to the GRA net income, which will be placed to the Fund's reserves as indicated in Figure 1.

- **Endowment Subaccount:** Staff proposes that any net investment income earned in the EA in FY 2024 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 2024, this would imply that EA projected income of about SDR 596 million will be retained and reinvested according to the investment strategy of the EA. An equivalent amount would be reflected in the IA retained earnings, raising cumulative retained earnings of the IA to about SDR 2,604 million, against an initial principal amount of SDR 4.4 billion.

10. In April 2018 the Board agreed to delay the initiation of the EA payout by three years and subsequently extended the delay in April 2021, 2022, and 2023.[21] In line with the EA payout policy framework agreed by the Board in 2018 (Annex II), the initial payout was delayed to build a buffer or "cushion" of retained investment income that could help protect the real value of the EA corpus over time. This precautionary decision reflected the subdued outlook for the EA's investment returns under the prevailing market conditions at the time. Staff suggested that an estimated income cushion of 15 percent (equivalent to roughly a two-standard deviation market shock) of the EA's NAV in real terms could be sufficient for this purpose.[22] In April 2021, the commencement of payouts was delayed for a further year pending the outcome of the 5-yearly review of the IA investment strategy. It was delayed again in FY 2022 and FY 2023 in light of the reduction in the accumulated income cushion resulting mainly from a surge in U.S. inflation. Delaying the initial payout thus far has helped protect the real value of the EA's corpus as intended.

11. Staff proposes to delay the initial payout by one more year. While the EA's cushion has recovered significantly to 8 percent of the portfolio value at end-February, it remains below the 15 percent target suggested by staff in the past as a threshold for commencing payouts. Also, the Fund currently has sufficient resources to cover its administrative expenditures and a further one-year delay of the EA payout would not have a significant impact on the current overall income position.

12. However, the return outlook for the EA continues to improve, to the extent that it may be reasonable to consider commencing payouts in the future with a smaller income cushion. The combination of a more stable inflation outlook and higher real yields have improved portfolio return projections. Although a resurgence of U.S. inflation remains a risk to the EA's real returns, the Board-approved investment strategy refinements implemented in FY 2023 aim to bring projected

[20] The loss of SDR 222 million incurred by the Fixed-Income Subaccount in FY 2022 was largely offset by income of SDR 216 million earned in FY 2023, with the remaining SDR 6 million carried forward to FY 2024.

[21] See *Review of the Fund's Income Position for FY 2018 and FY 2019–20* (04/05/18), *Review of the Fund's Income Position for FY 2021 and FY 2022* (04/12/21), *Review of the Fund's Income Position for FY 2022 and FY 2023–2024* (04/12/22), and *Review of the Fund's Income Position for FY 2023 and FY 2024* (4/7/23).

[22] The corpus is estimated based on principal amounts invested in the EA since inception, adjusted for the global external deflator (GED) through end-FY2021, and realized U.S. CPI thereafter given the modification to GED adopted under the CCBR (100 percent U.S. CPI).

returns closer to the target through a balanced portfolio which is resilient in different economic and inflation regimes. With the recent improvements in both the income cushion and return outlook, staff's analysis shows that payouts of up to 2 percent of the EA's NAV could commence soon while preserving the real value of the EA's corpus over a medium to long-term horizon with a relatively high level of confidence.

13. With this improving outlook and barring any unforeseen negative developments in the markets over the next year, staff expects to propose commencing the initial payout in FY 2025. Further analysis will be undertaken in the meantime to support this recommendation. In preparation for expected payouts, staff would finalize suitable implementation parameters in line with the EA payout policy approved by the Board in 2018 (Annex II) for the Board's consideration in FY 2025.[23] Staff also plans to assess the possible transfer of resources from the FI to the EA in this context, considering among other factors that the Executive Board recently approved an increase in the floor of PBs to SDR 20 billion, which suggests that at a portion of reserves corresponding to PBs could be invested with a longer time horizon to generate higher investment returns.[24]

B. Allocation of Income

14. 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 special and general reserves in accordance with the annual decision on the disposition of the Fund's net income. Both reserves can be used for the same purposes, except that balances in the special reserve may not be used for distribution to Fund members.

15. The Fund has had a long history of allocation between the two reserves and practices have varied over the years (Annex IV). The special and general reserves were established in 1957 and 1958, respectively. The special reserve, initially funded with the proceeds of a gold investment program initiated in 1956, is the first line of defense against income losses. Income allocation practices have varied since then and Annex IV outlines the history of allocation between the two reserves. More recently, from FY 2016 onwards, the Board settled on allocating Fund income equally between the special and general reserve, except for FY 2020 when the Fund incurred a net loss.[25]

16. In April 2022, Directors adopted a new framework for allocating the Fund's annual net income to reserves that would isolate pension-related remeasurement gains and losses in the special reserve. This practice would avoid distorting allocations to the Fund's distributable reserve by including unrealized gains and losses that may not be supported by corresponding cash flows

[23] 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 before commencing payouts would reduce the prospect of a start-stop scenario. See Annex IV - Endowment Payout—Practical Considerations, *Review of the Fund's Income Position for FY 2023 and FY 2024* (4/7/23).

[24] As discussed in the *Review of the Fund's Income Position for FY 2023 and FY 2024* (4/7/23), the Rules and Regulations for the Investment Account permit the transfer of assets between subaccounts of the Investment Account, subject to Board approval.

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

and may be reversed in future financial years.[26] At the meeting, Directors broadly agreed to place all pension-related remeasurement gains and losses to the Fund's special reserve and to allocate any remaining positive net income to the Fund's special and general reserves in equal parts.[27]

17. At last April's review, Directors were again willing to go along with staff's proposal to allocate total net income to both the special and general reserve in equal proportions, after isolating pension-related remeasurement gains and losses in the special reserve.[28] However, some Directors asked that staff identify broad principles that could help guide the framework for future allocation in the course of the FY 2024 review.[29] In staff's view, the framework should: (i) maintain a role for both the special and general reserves; (ii) be consistent with the new income model (Annex III) and adequacy of precautionary balances; (iii) balance the twin-goal of safeguarding the Fund's balance sheet, while preserving future Board flexibility in the use of reserves; and (iv) retain Board flexibility to decide on future income allocations.

18. Staff proposes to maintain the 50:50 split this year, following a principle-based framework, that offers the Board ample flexibility to respond to prevailing developments (proposed Decision 4). The Executive Board reviewed the adequacy of PBs on March 20, 2024 and decided to maintain the indicative medium-term PB target at SDR 25 billion and raise the indicative floor from SDR 15 billion to SDR 20 billion. The review of the Fund's surcharge policy and the setting of the margin for the rate of charge (see further below) are scheduled for FY 2025. Amid the uncertainty surrounding projected net income and reserve accumulation in FY 2025–2026, maintaining an equal allocation would seem prudent this year. In particular, it would achieve the dual objectives of enabling the general reserve to maintain adequate resources to meet future resource needs; and, at the same time, allowing for the special reserve to grow steadily towards the increased minimum floor for PBs established by the Executive Board in the recent review.

19. Continuing the recent approach, the special and general reserves are expected to grow steadily in FY 2024 based on current income projections. Maintaining an equal allocation of any remaining positive net income to the two reserves in FY 2024, after isolating pension-related remeasurement gains and losses in the special reserve, would increase the special reserve by about SDR 2.6 billion to SDR 17.1 billion, while the general reserve would also rise by SDR 1.3 billion to SDR 14.9 billion. Staff will monitor the progress of the various streams of policy implementation and

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[26] It would also reinforce the role of the special reserve as the first line of defense against any income losses.

[27] Based on staff's proposal in April 2022 that was broadly accepted by the Executive Directors, since the cumulative remeasurement gain in the general reserve amounts to SDR 1,020 million at April 30, 2022, as a transitory measure, any remeasurement losses are to be allocated to the general reserve until the gain is cleared down to zero. The cumulative remeasurement gain in the general reserve is expected to remain unchanged as of April 30, 2024 since there was no remeasurement loss in FY 2023 and no expectation of such loss in FY 2024.

[28] At April 30, 2023, including the endowment of SDR 4.4 billion in the special reserve and the cumulative IAS 19 remeasurement gains and losses in each of the reserves, the special and general reserves stood at SDR 14.5 billion and 13.6 billion, respectively.

[29] A few Directors proposed that staff consider the appropriate size and pace of accumulation in the special and general reserves and suggested to develop a rules-based allocation methodology. A few Directors saw merit in prioritizing allocation to the special reserve.

keep the Executive Board informed through the regular annual income papers and other income policy related papers.

C. Transfer of Currencies

20. The placement of FY 2024 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 general and special reserves are above the cumulative amount of previous transfers of currencies from the GRA to the IA.[30] Transfers made thus far to the IA from the GRA amount to SDR 28.2 billion, equivalent to the total reserves at April 30, 2023.

21. 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 5).[31] This proposal is consistent with the assumption that the IA will over time achieve a higher return than the SDR interest rate, and therefore make a positive contribution to Fund income to cover administrative expenses, in particular non-lending related expenses.

FY 2025–2026 INCOME OUTLOOK

22. Based on current projections under the desk survey scenario, the income outlook for FY 2025–2026, excluding the impact of the pension-related gain or loss, is expected to remain strong.[32] Average annual GRA net income for FY 2025–2026 is projected at about SDR 2.6 billion (Table 3). The projections assume unchanged policies, including a basic lending margin that is maintained at 100 basis points, and are sensitive to a number of factors as outlined below.

A. Key FY 2025–2026 Income Outlook Factors

23. Key factors that affect the FY 2025–2026 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*.[33] Margin and surcharge income are expected to remain high in FY 2025–2026, 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

[30] 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.

[31] A transfer of about SDR 3.8 billion is estimated for FY 2024.

[32] Annex VI also provides a medium-term projection of the Fund's consolidated income and expenses.

[33] As indicated in *The Temporary Modifications to The Fund's Annual and Cumulative Access Limits* (02/17/23) and *Extension of Temporary Increase in Normal Access Limits under the General Resources Account* (02/02/24), the impact of the proposed temporary increase in the GRA access limits on the demand for Fund GRA resources is difficult to determine with precision and is therefore not reflected in the income projections. Also see IMF Executive Board Extends Temporary Increase in Access Limits Under the General Resources Account.

FY 2025 of SDR 143 million reflects the expected two-year commitment fees earned on five arrangements (Chile, Jamaica, Morocco, North Macedonia, and Peru) treated as precautionary that are scheduled to expire in FY 2025, while commitment fee income of about SDR 159 million is projected for FY 2026 upon the expiration of two Flexible Credit Line (FCL) arrangements (Colombia, Mexico).

- *Fixed-Income Subaccount.*[34] Investment income is projected to be positive in FY 2025 and FY 2026 at about SDR 950 million and SDR 983 million, respectively, reflecting the relatively higher level of projected SDR interest rates. While the portfolio remains well structured to benefit from the higher interest rate environment over the medium term, fluctuations in market interest rates can impact mark-to-market gains/losses and temper the portfolio gains in FY 2025 and FY 2026.[35] Table 4 provides a sensitivity analysis of the Subaccount's income outlook to changes in the interest rate assumption.

- *Endowment Subaccount*. The projected average investment income from the EA totals about SDR 396 million in both FY 2025 and FY 2026, respectively. This is based on projected average returns of about 5.80 percent in nominal terms in US dollars over the medium term, compared with a 5.41 percent projected in April 2023. However, return projections remain subject to considerable uncertainty given the high degree of volatility across asset classes in which the EA is invested, especially over short time periods.

    - Income projections assume an initial payout in US dollars commencing in FY 2025, of 1.5 percent, with subsequent annual increases in US dollar indexed to the GED rate (Annex II).[36] Based on these assumptions, the estimated payout in FY 2025 would be equivalent to about SDR 105 million (equivalent to about 1.5 percent of the US dollar value of the portfolio translated at the projected US dollar/SDR exchange rate for the year) and SDR 107 million in FY 2026. Income retained in the EA and not distributed as a payout is assumed to be equivalent to about SDR 291 million and SDR 289 million in FY 2025 and FY 2026, respectively. These projections are subject to assumptions and the outturn may be different based on market developments.

[34] 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.

[35] Interest rate volatility for the remainder of FY 2024 may impact the beginning mark-to-market value on which FY 2025 and FY 2026 projected returns are calculated.

[36] The payout policy was proposed in March 2018 and agreed by the Board at the subsequent 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).

Table 3. Projected Income Sources and Uses—FY 2024–2026

(In millions of SDRs, except where indicated; for medium-term projections, see Annex VI)

	FY2024	FY2025	FY2026
A. Operational income	**3,678**	**3,841**	**3,774**
Lending income	**2,683**	**2,658**	**2,595**
Margin for the rate of charge	943	913	859
Service charges and other income	85	78	43
Commitment fees	225	143	159
Surcharges [1]	1,430	1,524	1,534
Investment income	**803**	**1,055**	**1,090**
Fixed-Income subaccount (reserves)	803	950	983
Endowment subaccount payout [2]	0	105	107
Interest free resources [3]	**181**	**116**	**77**
Reimbursements [4]	**11**	**12**	**12**
SDR Department	5	5	5
PRG Trust	0	0	0
RST [5]	6	7	7
B. Expenses	**1,183**	**1,229**	**1,250**
Net administrative expenditures	1,052	1,128	1,151
Capital budget items expensed	25	31	30
Depreciation	67	70	69
Net periodic pension cost after funding	39	0	0
C. Net operational income before provision (A-B)	**2,495**	**2,612**	**2,524**
Provision for loan impairment losses	0	0	0
D. Net operational income	**2,495**	**2,612**	**2,524**
Pension-related remeasurement gain	1,354	0	0
E. Net operational income after remeasurement gain	**3,849**	**2,612**	**2,524**
Endowment subaccount investment income	596	291	289
Net income position	**4,445**	**2,903**	**2,813**
Memorandum items:			
Fund credit (average stock, SDR billions)	94.3	91.3	85.9
SDR interest rate (average, in percent)	4.0	3.6	3.2
US$/SDR exchange rate (average)	1.34	1.33	1.34
Intermediation costs (US$ millions) [6]	$169	$176	$181
Precautionary balances (end of period, SDR billions) [7]	25.1	27.7	30.2

Source: Finance Department and Office of Budget and Planning.

[1] Surcharges are projected on the basis of current quotas and surcharge thresholds.

[2] Based on staff's proposal to delay the EA payout decision to FY 2025 (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 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] 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] Reimbursement of costs for RSF country operations and related Fund overhead costs (e.g., space; equipment). See *Proposal to Establish a Resilience and Sustainability Trust* (3/21/22). Cost estimates for RST reimbursement reflect approved programs and advanced requests along with unit costs of various RST-supported operations.

[6] Costs related to the Fund's "generally available facilities".

[7] Precautionary balances are adjusted to exclude the annual pension-related gains and losses included in accounting income. See Annex II, *Review of the Fund's Income Position for FY 2022 and FY 2023–2024* (04/12/22).

- *Interest-free resources and reimbursements.* Income from interest-free resources is projected to be higher in FY 2025–2026 reflecting the higher projected SDR interest rate path over the medium term. Projected reimbursements are based on the FY 2024–2025 estimates and include reimbursements for the expenses of conducting the business of the SDR Department and administering the RST. Suspension of reimbursements from the PRG Trust from FY 2022 to FY 2026 will reduce expected GRA income by about SDR 184 million through the remaining 2-year period.

- *Expenditures.*

  - Net administrative expenses are consistent with those estimated in the medium-term budget paper which reflects several concurrent changes with a shift toward greater structural and reduced temporary funding. Structural changes include an augmentation under the FY 2023–2025 augmentation framework and an increase in Executive Board resources that support the establishment of a 25th Board Chair (a third chair for sub-Saharan Africa) and address increased needs arising from the expansion of Fund activities in recent years.

  - Capital budget items expensed for FY 2025–2026 are expected to be marginally lower than previous estimates primarily due to the change in accounting treatment of field office costs within projections in FY 2024, offset by a modest increase in expensed IT-related costs.[37] The depreciation charge is projected to increase in FY 2025–2026 and primarily reflects continued investment in IT transformation and modernization projects along with field office expansions that are now capitalized.

  - Periodic pension costs are not projected beyond FY 2024.

- *Pension remeasurement gains and losses.* Forward-looking projections about demographic and other assumptions, and returns on the asset portfolio, are not built into the income scenarios due to the volatility of these variables, which makes them unpredictable.

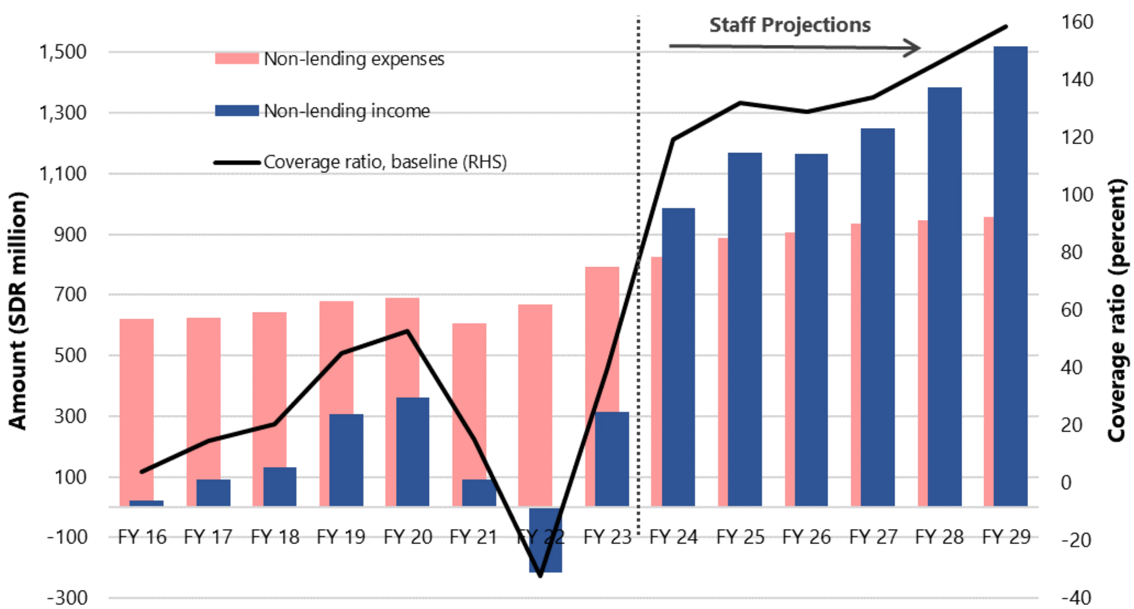
- *Provision for impairment losses on credit outstanding.* IFRS 9 requires entities to assess credit risk to record potential provisions based on an "expected loss" model taking into account a broad range of relevant considerations, including forward-looking information. While credit risks remain elevated, the Fund has to date not needed to record a provision for impairment losses. As noted in *Changes to the Fund's Financing Assurances Policy in the Context of Fund Upper Credit Tranche Financing Under Exceptionally High Uncertainty*, concerns about a member's ultimate repayment could trigger the recording of a provision for expected credit losses under IFRS 9, which would reduce the Fund's income and (accumulation of) precautionary balances and its balance sheet position. Cases where provisioning may need to be considered in the future by the Fund still are expected to remain very rare. Accordingly, given the current

[37] *FY 2025–FY 2027 Medium-Term Budget* (03/28/24).

circumstances and future uncertainty surrounding any expected exceptional events, the projection assumptions do not incorporate any provision for impairment losses under IFRS 9.

24. In FY 2025–2026, non-lending income is expected to be sufficient to cover the Fund's non-lending expenses. The desk survey scenario used to project income and expenses in this paper assumes SDR interest rates based on market projections and a flat real budget that is consistent with the assumptions in the consolidated medium-term income and expenditure framework. In this scenario, payouts from the FI and EA are expected to cover the Fund's non-lending expenses going forward (Figure 2). Such coverage would represent a marked contrast from the experience over the last decade that reflected a persistently low-interest rate environment, which only reversed in 2022 as inflationary pressures triggered higher interest rates. While there is some degree of uncertainty surrounding this projection, as investment income will continue to fluctuate depending on market

Figure 2. Projected Non-Lending Operational Income and Non-Lending Expenses[1]
(In millions of SDRs, percent)

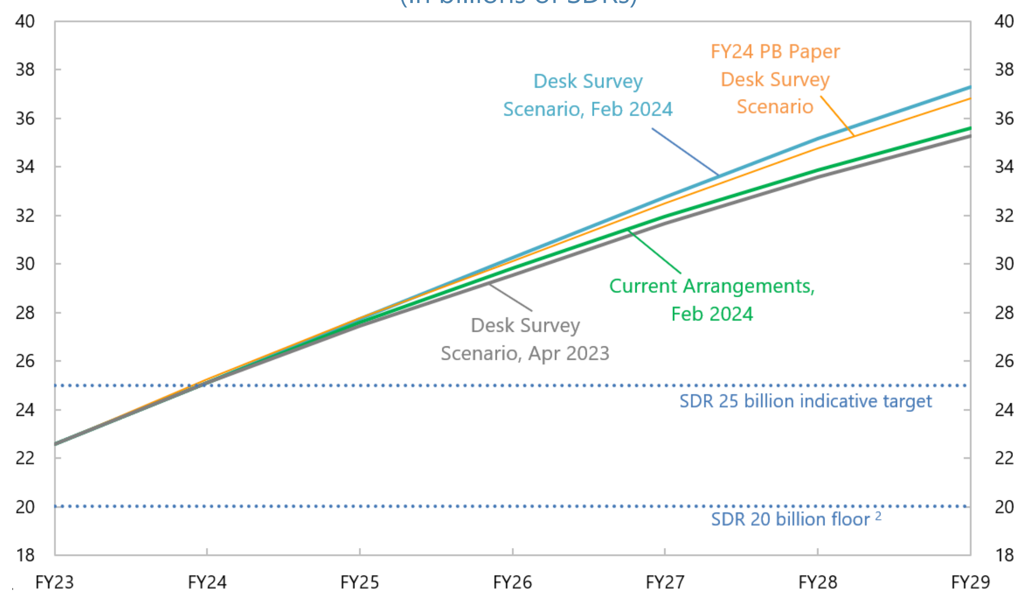


Source: Finance Department and Office of Budget and Planning.
[1] Non-lending operational income comprises investment income and implicit income from interest free resources. Projections assume an initial 1.5 percent US$ payout from the Endowment Subaccount commencing in FY 2025 (increasing by GED thereafter). Non-lending expenses do not include reimbursements, including those waived for the PRGT from FY 2021 to FY 2026.

conditions, staff's projections suggests that the previous rationale for invoking the exceptional circumstances clause in setting the margin is no longer applicable.

25. The updated income projections result in a pace of reserve accumulation higher than anticipated in April 2023 and in line with the recent review of precautionary balances (Figure 3).[38] The difference in income and reserve accumulation reflects mainly the potential demand for Fund lending under the current desk survey being higher than previously anticipated—raising the path for credit outstanding and lending income—and a slight upward shift of the SDR interest rate path from prior low levels, increasing investment income. These effects are partly offset by a higher projected expenditure path in SDR terms due to the upward revision of the deflator in FY 2025–2027 and a slight strengthening of the US dollar against the SDR over the medium term. Based on the current projection, the indicative medium-term target of SDR 25 billion is still expected to be reached by late FY 2024. Assuming unchanged policies, precautionary balances would reach SDR 30.2 billion by end-FY 2026.

Figure 3. Projected Precautionary Balances Accumulation[1]
(In billions of SDRs)



Source: Finance Department.
[1] Surcharges are projected on the basis of current quotas and surcharge thresholds.
[2] The Executive Board recently agreed to raise the Minimum Floor for Precautionary Balances to SDR 20 billion from SDR 15 billion. See *Review of the Adequacy of the Fund's Precautionary Balances (2/22/24)*.

B. Summary of Key Risks to the Outlook

26. The Fund's income and finances are subject to risks associated with ongoing economic and geopolitical developments. These 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; 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:

[38] For a fuller discussion see *Review of the Adequacy of the Fund's Precautionary Balances* (2/22/24).

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

- It is difficult to assess precisely at this stage the financing needs arising from the ongoing conflicts, or countries still impacted by high interest rates and lingering scars from the pandemic; which could result in new loan programs, augmentations, and rephasing of programs to help meet the costs of the current crisis.

- While the broadening of non-lending income sources under the Fund's income model and movement in the interest rate and returns outlook is helping to mitigate income risk, the potential for further market volatility could imply downside risks to expected contributions from investment income.

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

- As noted, the pension-related 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.[39]

- In the unlikely event of a provision for impairment losses on credit outstanding being required under IFRS 9 Fund income would be reduced accordingly.

27. Sensitivity analysis illustrates the susceptibility of income and expense projections to changes in the underlying assumptions. The effect of changes in key income assumptions is summarized in Table 4.

Table 4. Sensitivity Analysis—Effect of Changes in Selected Assumptions on FY 2025 Projected Income
(In millions of SDRs)

Increase/decrease in:	
SDR interest rate by 50 basis points	
Implicit returns [1]	20
Margin for the rate of charge by 20 basis points [2]	183
US dollar vis-à-vis SDR by five percent - Administrative expenses	54
US dollar vis-à-vis SDR by 1 US cent - Endowment Subaccount	52
Investment income margin by 50 basis points	162

[1] Implicit returns on GRA interest-free resources.
[2] Based on the estimated average credit outstanding for FY 2025.

[39] The sensitivity analysis of the present value of the defined benefit obligation to fluctuations in the discount rate as of April 30, 2023 for a 50 basis point decrease (increase) results in an increase of SDR 880 million (decrease of SDR 770 million) in the underlying obligation.

C. Setting the Margin for the Rate of Charge

28. Under Rule I-6(4), the Executive Board is to set the margin for the basic rate of charge for FY 2025–2026.[40] The margin over the SDR interest rate is determined every two financial years for the next two-year period, with a comprehensive review before the end of the first year. The current margin of 100 basis points was set by the Executive Board in April 2022 for FY 2023–2024 (Annex I). Rule I-6(4) requires the margin to be set at a level adequate to cover the intermediation expense of the Fund, taking into account income from service charges, and generate net income for placement to reserves, considering the current level of precautionary balances, any floor or target for precautionary balances, and the expected contribution from surcharges and commitment fees. The rule further specifies that the level of the margin should ensure that the cost of Fund credit be neither too high nor too low in relation to long-term credit market conditions (the "market test"). The rule also permits, in exceptional circumstances, that the margin be set at a level other than that required to cover intermediation expenses and generate net income for placement to reserves. Since the adoption of the current rule in 2011, the Board has set the margin continuously at 100 basis points based on the exceptional circumstances clause.[41] While Rule I-6(4) provides for clear criteria for the setting of the margin for the basic rate of charge, its application leaves considerable room for judgment by the Executive Board, including with regard to the desirable levels of net income and reserve accumulation, and the application of the market test.

29. Various contingent factors, however, argue in favor of delaying the margin decision this year and in the interim maintaining the current margin in effect for some time beyond the end of FY 2024. First, the forthcoming review of surcharges may result in a change of the surcharge framework that could conceivably deliver a different (and potentially lower) income flow and contribute less to total reserve accumulation. This might affect Directors' judgment about the appropriate level of margin income and contribution to reserves. Second, while a policy consideration outside the margin-setting framework, a more holistic assessment of charges (including the basic rate of charge) and surcharges would inform decision-making with a more comprehensive view of the overall cost of borrowing from the Fund. Third, projected improvements to non-intermediation income are driven by interest rates that are projected to be higher than in the recent past and by the assumption that payouts from the EA will begin in FY 2025. However, these assumptions are subject to uncertainty, as discussed above, some of which might ease as FY 2025 progresses.

[40] The basic rate of charge, which is applied to all lending under the GRA, consists of the SDR interest rate plus a margin.

[41] Invocation of the clause reflected that non-lending income has remained consistently below expenses for the Fund's non-lending activities (Figure 2). Rule I-6(4) was designed to move away from reliance on lending income for financing the Fund's non-lending activities with the expectation that these activities would instead be financed with the Fund's non-lending income. However, transfers from the FI, the main source of the Fund's non-lending income, have remained constrained by low returns. Payouts from the EA, which have been expected to contribute to Fund income over the long term, have been delayed to enable the buildup of a greater cushion of retained income against adverse return scenarios. In effect, lending income, including from the margin, has not only covered the intermediation (lending) expenses and contributed to the buildup of reserves, but also until now continued to cover some non-lending expenses. As noted, this situation is expected to change going forward.

30. Staff proposes to leave the margin established for FY 2023 and FY 2024 in effect until completion of the review of surcharges, but until no later than April 30, 2025, at which time the Board would comprehensively review all factors affecting the margin and set the margin for the rest of FY 2025 and FY 2026. This approach would deliver a more robust outcome by addressing the above-mentioned contingent factors. It would avoid the risk that any margin decision taken now for FY 2025 and FY 2026 may need to be reconsidered within a year's time when uncertainties about policy reviews and other factors have lifted. The continued effectiveness of the margin established for FY 2023 and FY 2024 would be time-bound, ensuring reconsideration by the Executive Board no later than end-FY 2025. Allowing the margin for FY 2023 and FY 2024 to remain in effect, as proposed, would require a targeted amendment to Rule I-6(4) (proposed Decision 6).

D. Other Income-Related Items

Dividend Policy

31. Going forward, consideration could also be given to adopting a dividend policy in line with the NIM, as outlined in the report to the IMFC in 2008.[42] 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, in proportion to their quotas. With the precautionary balances expected to reach the current agreed target of SDR 25 billion by end-FY 2024, staff will come back to the Executive Board in due course with possible criteria that could guide such a dividend policy.

Burden Sharing Capacity

32. The sharp rise in interest rates has had a positive effect on the Fund's burden sharing capacity recently. Figure 4 below shows the burden sharing capacity based on the SDR interest rate and remunerated reserve tranche positions (RRTP) from FY 2005 to end-February FY 2024.[43] The sharp increase in the burden sharing capacity which reached SDR 1,336 million at end-February reflects mainly the rapid rise in the SDR interest rate from a low of 0.05 percent in FY 2021 to 4.097 percent by end-February 2024. There has been no burden sharing adjustment since the settlement of the last overdue GRA charges owed by Sudan in June 2021 and staff does not propose any action for FY 2025.[44]

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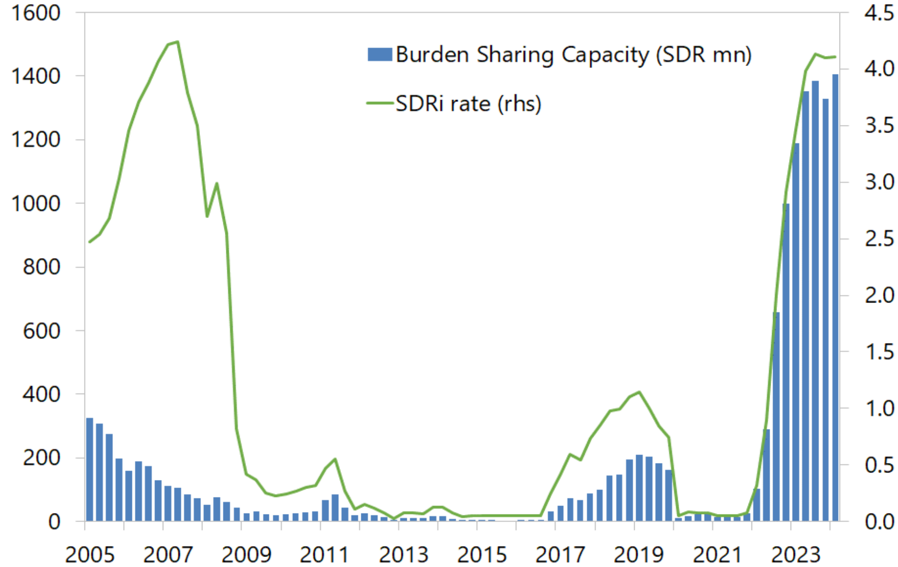
[42] *Report of the Managing Director to the International Monetary and Financial Committee on a New Income and Expenditure Framework for the International Monetary Fund* (4/9/2008).

[43] For a more detailed discussion see *Review of the Adequacy of the Fund's Precautionary Balances* (02/22/24).

[44] For a report on historical cumulative burden sharing adjustments (by member), please refer to www.imf.org/external/np/fin/tad/query.aspx.

Figure 4. Burden Sharing Capacity[1]

(In SDR million, unless otherwise stated)



Source: Finance Department.

[1] The annual burden sharing capacity is estimated using the quarter-end RRTP and SDR interest rates. The latest observation, for Q1-2024, uses data through February.

ENTERPRISE RISKS

33. Income risks. Consistent with the Fund's Enterprise Risk framework, staff conducted a risk self-assessment to identify and assess the most critical enterprise risks in the context of the Review of the Fund's Income Position for FY 2024 and FY 2025–2026 (Table 5). The assessment recognizes that while risk mitigation activities are embedded in the Fund's income position review, significant residual risk related to external drivers can only be partly addressed through risk management.

Table 5. Enterprise Risk Self-Assessment for the Review of the Fund's Income Position

Document Risk Self-Assessment (DRSA)			
	Rank	**Risk Name**	**Risk Description and Mitigating Factors**
Top Risks to the Fund **WITH** this policy proposal or strategy paper in place	#1	Adequacy of Operational Income	Risk of a partial shortfall in operational income stemming from the waiver of reimbursement of PRGT costs to the GRA and from lack of the transfer of income and/or payouts from the Fixed-Income Subaccount and Endowment Subaccount, respectively. This is likely to be offset by still high lending income expected in FY 2025.
	#2	Adequacy of Operational Income	Income risks related to setting the margin for the rate of charge remain low at present, as the current margin remains sufficient to cover credit intermediation costs, and to build up reserves. Such risks are further mitigated by the current interest rate environment where non-lending income is projected to fully cover non-lending expenses in the medium term. Any change to the margin setting and/or to the market interest rate may affect the risk assessment In the future. Risks related to the Fund's surcharge policy and impact of operational income and cash flows on accumulation of precautionary balances are covered in their respective policy papers.
	#3	Adequacy of Operational Income	Income is expected to be placed equally between the special and general reserve, after isolating any IAS 19 gain to the special reserve, with the approval of Decision 4 of this paper, and there is no proposal to distribute income at this time.
	#4	Income Adjustments Due to Provisioning for Credit Impairment under IFRS and IAS 19	Impact of volatility from remeasurement of the Fund's defined benefit plans on its income and special and general reserves. Arrears cases could reduce Fund income if burden sharing capacity is not sufficient to cover deferred charges. Potential impact on income of the annual credit impairment assessments. Concerns about a member's ultimate repayment could trigger the recording of a provision for expected credit losses under IFRS 9, which would reduce the Fund's income and (accumulation of) precautionary balances and its balance sheet position. This risk exists with or without the policy.
	#5	Reputation - Objectivity and Integrity	Keeping the margin for the rate of charge at the current level or setting it at any other level may raise questions from external and internal audiences on the Fund's impartiality, e.g., perceived lack of evenhandedness, alignment with membership, perceived lack of transparency, and poor engagement with stakeholders. These risks can be mitigated through clear communication of the underlying rationale for the policy proposals.

Proposed Decisions

Decisions Pertaining to FY 2024

- 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 2024.

- Decision 2 provides for the reimbursement to the General Resources Account for the cost of administering the RST in FY 2024.

- Decision 3 provides for the transfer of income from the Fixed-Income Subaccount of the Investment Account to the General Resources Account for use in meeting FY 2024 administrative expenses. The income of the Endowment Subaccount for FY 2024 shall be retained.

- Decision 4 provides for the placement of FY 2024 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 gain (or loss) in FY 2024 will be placed in the Fund's Special Reserve (or General Reserve), and any additional net income amount will be placed in equal parts to the Fund's Special Reserve and General Reserve.

- Decision 5 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 2024 net income.

Decisions Pertaining to FY 2025–2026

- Decision 6 amends Rule I-6(4) to keep the margin for the rate of charge set for FY 2023–2024 (i.e., 100 basis points) in effect until the Board completes the upcoming review of surcharges and sets a margin for the remainder of FY 2025–2026, provided that the Board will set a margin for the remainder of FY 2025–2026 no later than the end of FY 2025.

Decisions 1 to 4 each may be adopted by a majority of the votes cast. Decision 5 and 6 may be adopted by a 70 percent majority of the total voting power.

Decision 1. Assessment under Article XX, Section 4 for FY 2024

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, 2023 through April 30, 2024; 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, 2024 with an amount equal to 0.00076287 percent of their net cumulative allocations of special drawing rights. The total assessment shall be paid into the General Department.

Decision 2. RST Reimbursement for FY 2024

In accordance with paragraph 3(ii) of Decision No. 17231-(22/37)[45], adopted on April 13, 2022, an amount equivalent to SDR 6.27 million, representing the cost of administering the Resilience and Sustainability Trust (RST) for FY 2024, shall be transferred from the Reserve Account of the RST (through the Special Disbursement Account) to the General Resources Account.

Decision 3. Income of the Fixed-Income and Endowment Subaccounts

The income of the Fixed-Income Subaccount of the Investment Account for FY 2024, after offsetting for the remaining retained loss of SDR 6 million to fully recoup the retained loss of SDR 222 million incurred in FY 2022, shall be transferred to the General Resources Account for use in meeting the expenses of conducting the business of the Fund during FY 2024. The income of the Endowment Subaccount for FY 2024, if any, shall be retained in the Endowment Subaccount and invested according to the Rules and Regulations for the Investment Account.

[45] Decision No. 17231-(22/37), adopted on April 13, 2022 is on page 338 of the referenced file.

Decision 4. Placement of FY 2024 Net Income of the General Resources Account to the Special Reserve and General Reserve

Net income of the General Resources Account for FY 2024 equivalent to the pension-related remeasurement gain shall be placed to the Fund's Special Reserve and for any net income in FY 2024 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 5. Transfer of Currencies to the Investment Account for FY 2024

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, 2024 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 2024—January 2025. 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 6. The Rate of Charge on the Use of Fund Resources for FY 2025 and FY 2026

Rule I-6(4) shall be amended to add a new paragraph (e) as follows:

"(e) Notwithstanding paragraph (b) above, the margin of 100 basis points established for FY 2023 and FY 2024 by the Executive Board under Decision No. 17238-(22/39), adopted April 28, 2022, shall continue to remain in effect in FY 2025 until the Executive Board completes the review of surcharges scheduled for FY 2025, at which time the Executive Board should also set the margin for the rest of FY 2025 and FY 2026 in accordance with paragraph (a) above; provided that a decision on the margin for the rest of FY 2025 and FY 2026 shall be taken no later than April 30, 2025."

Annex I. Decisions in Effect Related to the FY 2024 Income Position[1]

Box A.1. Decisions in Effect

The Executive Board has taken the following decisions affecting the Fund's income position for FY 2024:

Rate of Charge

The margin for calculating the basic rate of charge in FY 2024 was set in 2022 at 100 basis points for a period of two years (FY 2023–24).[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 expected in FY 2026.

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]

[1] Decision No. 17238-(22/39), adopted on April 28, 2022.

[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).

[1] *Review of the Fund's Income Position for FY 2022 and FY 2023–2024* (4/12/22).

Annex II. EA Payout Policy Framework—Key Features

1. 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.

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

Annex III. Implementation of the New Income Model—Status Update FY 2024

1. 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. The Executive Board has since reviewed the investment strategy for the endowment in 2018 and in 2022. In 2018, the Board	

[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. With the precautionary balances expected to reach the current agreed target of SDR 25 billion by end-FY 2024, staff will come back to the Executive Board in due course with possible criteria that could guide such dividend policy; after considering the broader range of several interconnected policies under review for the 2024–2025 period.

[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.

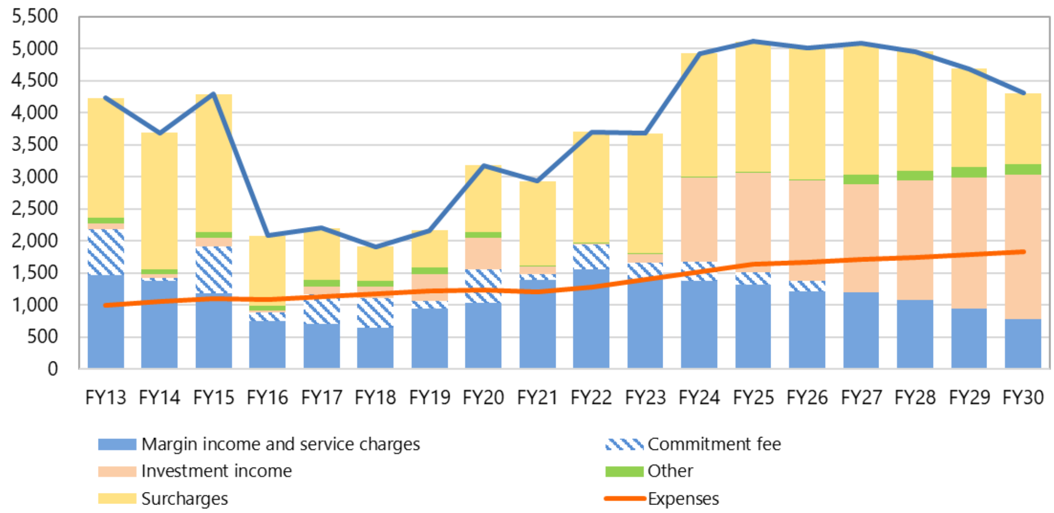
Completed	In progress	Not started

Main Element	Implementation	Status
	also approved a payout policy framework and a delay in initiating payouts until an adequate cushion of retained investment income was established. Payouts are assumed to commence in FY 2025.	
Adopting a new rule for the margin for the basic rate of charge.	In December 2011, the Fund implemented a new margin-setting rule. According to this rule, the margin should be established to cover the Fund's intermediation (lending) costs and contribute to reserve accumulation. Until FY 2023, the margin had been determined under the exceptional circumstances clause. This decision was influenced by the Fund's reliance on lending income to offset a significant portion of its non-lending operating expenses. The subdued non-lending income was a reflection of the persistently low interest rate environment which reversed in 2022. Consequently, the margin can be set under the rule without invoking the exceptional circumstances clause. It is proposed to amend the 2011 rule to extend the current period for setting the margin for the rate of charge for up to one year.	
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 184 million over the remaining two-year period. 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 profile.	

Developments

2. 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.[3] This has been the primary reason why income from investments and interest free resources has covered a much smaller percentage of expenditures (around one tenth on average) compared to initial expectations.[4] Global interest rates have risen sharply since the beginning of 2022 and remain high, improving prospects for achieving initial expectations under the 2008 income model, as rates revert to levels considered more normal in the past. Staff will continue to monitor developments in the global financial environment and its impact on implementation of the NIM elements.

Figure AIII.1. Actual and Projected Operational Income and Expenses—FY 2013–2030[1]
(In millions of US dollars)



Source: Finance Department.
[1] Operational income and expenses excluding the pension-related gains and losses. Surcharges are projected on the basis of current quotas and surcharge thresholds.

[3] As context, the average 3-month SDR interest rate was around 4 percent in 2007 when the NIM was designed. Then the rate declined dramatically and had been constrained for an extended period. It averaged mostly close to the 5 basis point floor until end-2021.

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

Annex IV. History of Income Allocations, FY 1958–2023

1. The Fund has had a long history of allocation between the two reserves and practices have varied over the years.

2. **FY 1958–72:** The special reserve was exclusively funded by proceeds from an extended gold sales investment program initially set up to address the administrative deficits incurred from the Fund's inception.[1] In this period through the termination of the investment program in 1972, all net operational income was placed to the Fund's general reserve.

3. **FY 1973–81:** Consecutive years of losses in FY 1972–77 were charged against the special reserve. As the Fund again had positive net income in FY 1978, the Board placed it to the special reserve to replenish its balances. All net income in following years continued to be placed to the special reserve.

4. **FY 1982–97:** Effective FY 1982, the Board adopted a rule for setting the margin for the rate of charge to achieve an annual net income target as a percentage of reserves. The initial target of 3 percent of reserves was increased to 5 percent in FY 1986.[2] The Board annually placed the target amount of income, when met, to the special reserve.[3]

5. **FY 1998–06:** Following the introduction of the surcharge policy in 1997, an amount of net income equivalent to surcharge income was placed to the general reserve.[4] This reflected an expectation of surcharge income being both temporary and volatile and that accounting for it in deriving the Fund's annual net income target could significantly distort the rate of charge. Net operational income generated in line with the rule for setting the margin continued to be placed to the special reserve.

6. **FY 2007–15:** Income shortfalls incurred in FY 2007–08 were charged against the special reserve. In the following years FY 2009–10, surcharge income was used to fund administrative expenses and all net income, including income from surcharges, was placed to replenish the special reserve. The prior practice of allocating income from surcharges to the general reserve was resumed in FY 2011.

[1] In the period FY 1946–57, net income and losses were accumulated in an account called Income and Expenditure. The net cumulative income losses incurred in the period were shown as a deduction from the Fund's capital in financial statements.

[2] The net income target was temporarily raised to 7.5 percent of reserves in FY 1987–88 as part of the burden sharing agreement to mitigate the impact of potential losses due to emergence of overdue obligations.

[3] The Board also took an annual decision on the disposition of any income excess of the target, which could be used to retroactively reduce the rate of charge, increase the rate of remuneration or to be placed to reserve. All retained excess income allocated to reserves was placed to the special reserve.

[4] Surcharges initially applied only to purchases under the Supplemental Reserve Facility (SRF) and all SRF income was initially placed in the general reserve. Following the introduction of surcharges on purchases in the credit tranches and under extended arrangements in 2000, all surcharge income was allocated to the general reserve, while other regular charges under the SRF were included in regular operational income.

7. FY 2016–23: The Board agreed to allocate equal portions of the Fund's overall net income to the special and general reserves. In FY 2022, Directors adopted a new framework for allocating the Fund's annual net income to reserves that would also isolate pension-related remeasurement gains and losses in the special reserve.

Annex V. Assumptions Underlying the Income Projections

Table AV.1. Assumptions Underlying the Income Projections
(In billions of SDRs, unless otherwise stated)

	Actual through Feb. 2024	FY 2024	FY 2025	FY 2026
Regular Facilities:				
1. Purchases (excl. reserve tranche purchases)	14.9	17.1	15.6	8.6
2. Repurchases	18.6	23.0	18.4	9.9
3. Average balances subject to charges	94.7	94.3	91.3	85.9
4. Average SDR holdings	21.6	21.3	20.5	21.5
5. Average remunerated positions	110.9	110.5	108.1	104.7
6. Average investment account assets-Fixed-Income subaccount	22.9	22.9	26.1	29.3
7. Average investment account assets-Endowment subaccount	6.7	6.7	7.2	7.5
8. Average borrowings and issued notes	0.8	0.6	0.0	0.0
		(In percent)		
Return on investments-Fixed-Income subaccount [1]	3.03	3.57	3.70	3.40
Return on investments-Endowment subaccount [1, 2]	8.37	9.29	5.66	5.42
Average interest rates:				
SDR interest rate and basic rate of remuneration	4.0	4.0	3.6	3.2
Basic rate of charge	5.0	5.0	4.6	4.2
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

Table AVI.1. Consolidated Income and Expenses, FY 2023–2030 Desk Survey Scenario

	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30
				(in SDR millions)				
A. Operational Income	**2,983**	**3,678**	**3,841**	**3,774**	**3,787**	**3,700**	**3,471**	**3,191**
Lending income	2,659	2,683	2,658	2,595	2,423	2,201	1,836	1,401
Margin for the rate of charge	941	943	913	859	857	801	700	581
Service charge and other income	115	85	78	43	33	9	1	0
Commitment fees	196	225	143	159	0	0	0	0
Surcharges 1/	1,407	1,430	1,524	1,534	1,533	1,391	1,135	820
Investment income	216	803	1,055	1,090	1,180	1,318	1,461	1,627
Fixed-Income Subaccount 2/	216	803	950	983	1,070	1,206	1,348	1,512
Endowment Subaccount pay-out 3/	0	0	105	107	110	112	113	115
Interest-free resources 4/	99	181	116	77	71	66	58	45
Reimbursements	9	11	12	12	113	115	116	118
SDR Department	9	5	5	5	6	6	6	6
PRG Trust 5/	0	0	0	0	99	101	102	104
RST 6/	0	6	7	7	8	8	8	8
B. Expenses 7/	**1,139**	**1,183**	**1,229**	**1,250**	**1,281**	**1,306**	**1,323**	**1,358**
Net administrative budget	979	1,052	1,128	1,151	1,184	1,202	1,217	1,247
Capital budget items expensed	24	25	31	30	32	39	37	37
Depreciation	59	67	70	69	65	65	69	74
Net periodic pension cost	77	39	0	0	0	0	0	0
C. Net Operational Income Before Provisioning (A-B)	**1,844**	**2,495**	**2,612**	**2,524**	**2,506**	**2,394**	**2,148**	**1,833**
Provision for loan impairment losses	0	0	0	0	0	0	0	0
D. Net Operational Income	**1,844**	**2,495**	**2,612**	**2,524**	**2,506**	**2,394**	**2,148**	**1,833**
E. Pension-related remeasurement gain	2	1,354	0	0	0	0	0	0
Net Operational Income After Remeasurement (D+E)	**1,846**	**3,849**	**2,612**	**2,524**	**2,506**	**2,394**	**2,148**	**1,833**
Endowment Subaccount - Retained Income	(116)	596	291	289	319	317	352	354
Net Income	**1,730**	**4,445**	**2,903**	**2,813**	**2,825**	**2,711**	**2,500**	**2,187**
				(in US$ millions)				
F. Operational Income	**3,948**	**4,930**	**5,109**	**5,058**	**5,074**	**4,959**	**4,687**	**4,310**
Lending income	3,519	3,596	3,535	3,477	3,246	2,950	2,479	1,892
Investment income	286	1,076	1,403	1,460	1,581	1,767	1,973	2,197
Interest free resources	131	243	154	104	96	88	78	61
Reimbursements	12	15	17	17	151	154	157	160
G. Expenses	**1,505**	**1,584**	**1,634**	**1,675**	**1,715**	**1,750**	**1,787**	**1,834**
Net administrative budget	1,293	1,410	1,500	1,542	1,587	1,611	1,643	1,684
Capital budget items expensed	32	33	41	40	42	52	50	50
Depreciation	78	89	93	93	86	87	94	100
Net periodic pension cost	102	52	0	0	0	0	0	0
H. Net Operational Income (F-G)	**2,443**	**3,346**	**3,475**	**3,383**	**3,359**	**3,209**	**2,900**	**2,476**
Memorandum Items:								
Fund credit (average stock, SDR billions)	94.1	94.3	91.3	85.9	85.7	80.1	70.0	58.1
SDR interest rate (in percent)	2.2	4.0	3.6	3.2	3.1	3.1	3.2	3.3
US$/SDR exchange rate	1.32	1.34	1.33	1.34	1.34	1.34	1.35	1.35
Precautionary balances (end of period, SDR billions) 8/	22.6	25.1	27.7	30.2	32.8	35.1	37.3	39.1

Table AIV.1. Consolidated Income and Expenses, FY 2023–30 Desk Survey Scenario
(concluded)

[1] Surcharges are projected on the basis of current quotas and surcharge thresholds.

[2] Includes refinements to the investment strategy of the FI which improved the prospects of achieving a 50 basis point margin on average over the SDR interest rate over the medium term.

[3] The projections assume a 1.5 percent payout from the EA commencing in FY 2025.

[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 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.

[5] A five-year suspension of the PRGT reimbursement of expenses for the FY 2022–2026 was approved by the Board in July 2021.

[6] Reimbursement of costs for RSF country operations and related Fund overhead costs (e.g., space; equipment). See *Proposal to Establish a Resilience and Sustainability Trust* (3/21/22). Cost estimates for RST reimbursement reflect approved programs and advanced requests along with unit costs of various RST-supported operations.

[7] Includes budget augmentation that was approved in the context of the FY 2023–FY 2025 Medium-Term Budget and implemented through annual increases in the real net administrative budget averaging 2 percent each year during FY 2023 to FY 2025 (relative to FY 2022), returning to a flat real budget trajectory thereafter. See *The Budget Augmentation Framework* (11/12/21).

[8] Precautionary balances are adjusted to exclude the annual pension-related gains and losses included in accounting income.

Revised Proposed Decisions

Decisions Pertaining to FY 2024

- 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 2024.

- Decision 2 provides for the reimbursement to the General Resources Account for the cost of administering the RST in FY 2024.

- Decision 3 provides for the transfer of income from the Fixed-Income Subaccount of the Investment Account to the General Resources Account for use in meeting FY 2024 administrative expenses. The income of the Endowment Subaccount for FY 2024 shall be retained.

- Decision 4 provides for the placement of FY 2024 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 gain (or loss) in FY 2024 will be placed in the Fund's Special Reserve (or General Reserve), and any additional net income amount will be placed in equal parts to the Fund's Special Reserve and General Reserve.

- Decision 5 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 2024 net income.

Decisions Pertaining to FY 2025–2026

- Decision 6 amends Rule I-6(4) to keep the margin for the rate of charge set for FY 2023–2024 (i.e., 100 basis points) in effect until the Board completes the upcoming review of surcharges and sets a margin for the remainder of FY 2025–2026, provided that the Board will set a margin for the remainder of FY 2025–2026 no later than the end of FY 2025.

Decisions 1 to 4 each may be adopted by a majority of the votes cast. Decision 5 and 6 may be adopted by a 70 percent majority of the total voting power.

Decision 1. Assessment under Article XX, Section 4 for FY 2024

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, 2023 through April 30, 2024; 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, 2024 with an amount equal to 0.00076287 percent of their net cumulative allocations of special drawing rights. The total assessment shall be paid into the General Department.

Decision 2. RST Reimbursement for FY 2024

In accordance with paragraph 3(ii) of Decision No. 17231-(22/37), adopted on April 13, 2022, an amount equivalent to SDR 6.27 million, representing the cost of administering the Resilience and Sustainability Trust (RST) for FY 2024, shall be transferred from the Reserve Account of the RST to the General Resources Account.

Decision 3. Income of the Fixed-Income and Endowment Subaccounts

The income of the Fixed-Income Subaccount of the Investment Account for FY 2024, after offsetting for the remaining retained loss of SDR 6 million to fully recoup the retained loss of SDR 222 million incurred in FY 2022, shall be transferred to the General Resources Account for use in meeting the expenses of conducting the business of the Fund during FY 2024. The income of the Endowment Subaccount for FY 2024, if any, shall be retained in the Endowment Subaccount and invested according to the Rules and Regulations for the Investment Account.

Decision 4. Placement of FY 2024 Net Income of the General Resources Account to the Special Reserve and General Reserve

Net income of the General Resources Account for FY 2024 equivalent to the pension-related remeasurement gain shall be placed to the Fund's Special Reserve and for any net income in FY 2024 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 5. Transfer of Currencies to the Investment Account for FY 2024

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, 2024 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 2024–January 2025. 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 6. The Rate of Charge on the Use of Fund Resources for FY 2025 and FY 2026

Rule I-6(4) shall be amended to add a new paragraph (e) as follows:

> "(e) Notwithstanding paragraph (b) above, the margin of 100 basis points established for FY 2023 and FY 2024 by the Executive Board under Decision No. 17238-(22/39), adopted April 28, 2022, shall continue to remain in effect in FY 2025 until the Executive Board completes the review of surcharges scheduled for FY 2025, at which time the Executive

Board should also set the margin for the rest of FY 2025 and FY 2026 in accordance with paragraph (a) above; provided that a decision on the margin for the rest of FY 2025 and FY 2026 shall be taken no later than April 30, 2025."