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THE FUND'S INCOME POSITION FOR FY 2018— ACTUAL OUTCOME

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- The **Staff Report** prepared by IMF staff and completed on August 30, 2018 for the information of the Executive Board. The paper was prepared following completion of the IMF's FY 2018 external audit.

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International Monetary Fund
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THE FUND'S INCOME POSITION FOR FY 2018—ACTUAL OUTCOME

EXECUTIVE SUMMARY

This paper reports the Fund's income position for FY 2018 following the closing of the Fund's accounts for the financial year and completion of the external audit. Total FY 2018 net income, including income from surcharges, amounted to SDR 0.78 billion or SDR 94 million higher than estimated in April, reflecting mainly a larger than anticipated gain reported under IAS 19 (the accounting standard for employee benefits).

GRA net income for FY 2018 was about SDR 0.76 billion and has been placed to the Fund's reserves. In accordance with decisions taken in April 2018, a net transfer of currencies amounting to SDR 0.67 billion was made in early August 2018 from the GRA to the Investment Account. The placement of the net income to the Fund's reserves has further strengthened the Fund's precautionary balances, which reached SDR 17.5 billion at the end of FY 2018.

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REVIEW OF THE INCOME POSITION FOR FY 2018

1. **This paper presents the Fund's net income for FY 2018.** The actual outcome reported in this paper follows the closing of the Fund's accounts for the financial year and completion of the FY 2018 external audit conducted by PricewaterhouseCoopers, the Fund's external auditor.¹
2. **The overall FY 2018 net income of SDR 777 million was SDR 94 million higher than the April projection (Table 1).**² The increase mainly reflects a larger than anticipated gain reported under IAS 19 (SDR 79 million); with lending income mirroring the April projections, and investment income contributing slightly to the increase. The results are highlighted in Figure 1 and discussed below:
 - **Lending income.** Lending income amounted to SDR 1,149 million and its components—income from the margin, service charges, commitment fees, and surcharge income—matched previous projections.
 - **Income of the Investment Account.** Investment income from the Fixed-Income Subaccount amounted to SDR 91 million, slightly higher than the earlier estimate of SDR 89 million. The Endowment Subaccount returns of SDR 21 million were higher than the April estimate of SDR 12 million, reflecting mainly the slight weakening of the SDR against the USD at end-April, offset partly by EA portfolio returns in USD terms being lower than previously estimated.³
 - **IAS 19 gains/(losses).** The total IAS 19 gain for FY 2018 amounted to SDR 241 million compared to the April estimate of SDR 162 million (Table 2).⁴

The increase of SDR 79 million can be attributed to the sum of two factors:

- (i) The IAS 19 expense for FY 2018 amounted to SDR 274 million compared to the actual funding of SDR 133 million giving rise to a timing difference (loss) of about SDR 140 million, or SDR 2 million higher than the April estimate.⁵

¹ See [Audited Financial Statements for the Financial Years Ended April 30, 2018, and 2017](#).

² See [Review of the Fund's Income Position for FY 2018 and FY 2019–2020](#).

³ For the April projection, the US dollar denominated EA portfolio is revalued using an estimated US dollar/SDR exchange rate. A lower (higher) US dollar/SDR exchange rate will result in a corresponding translation gain (loss).

⁴ The Fund's pension and employee benefit expense is determined by the provisions of IAS 19, under International Financial Reporting Standards (IFRS). See IAS 19 Accounting for Employee Benefits in the [Review of the Fund's Income Position for FY 2017 and FY 2018](#) for further background.

⁵ The annual IAS 19 expense measures the increase in obligations under the staff retirement plan stemming from an additional year of staff service, on an accrual basis.

(ii) The FY 2018 actuarial gains of SDR 381 million exceeded the April estimate by about SDR 81 million, attributed largely to (a) an increase in the discount rate, which reduced the net present value of plan obligations; offset partly by (b) lower than anticipated returns on plan assets as a consequence of market performance being slightly lower than was projected in April.⁶

- **Expenses.** Total expenses of SDR 831 million were SDR 2 million lower than projected in April. Capital budget items expensed and depreciation expenses were each SDR 2 million lower than earlier projected. This was partly offset by net administrative expenditures being SDR 2 million higher than projected, reflecting a higher outturn compared with the April projections. Table 3 provides a reconciliation between the net administrative budget outturn and the administrative expenses in the FY 2018 audited financial statements.⁷

3. Precautionary balances. Precautionary balances amounted to SDR 17.5 billion at year end, higher than the earlier projection of SDR 17.4 billion. The increase is mainly attributable to the overall IAS 19 gain being higher than estimated.

4. No decisions are required at this time. The Executive Board took all necessary decisions in April 2018 during the review of the Fund's income position for FY 2018 and FY 2019–2020. Income from the Endowment Subaccount of SDR 21 million is retained in the subaccount, while income from the Fixed-Income Subaccount of SDR 91 million has been transferred to the GRA and used for meeting the administrative expenses of the Fund.⁸ FY 2018 GRA net income (SDR 0.76 billion) has been placed in equal parts to the Fund's general reserve and special reserve.^{9,10} Currencies amounting to SDR 0.67 billion were transferred from the GRA to the IA in early August 2018.¹¹

⁶ The end-April 2018 discount rate rose by 8 basis point compared with the April projection. The projection was based on the February 2018 discount rate, which was the same as the rate at end-FY2017.

⁷ The administrative expenses reported in the audited financial statements include non-operational costs, i.e., the pension cost accrual.

⁸ The income of the Endowment Subaccount for FY 2018 is retained in the Endowment Subaccount and invested according to the Rules and Regulations for the Investment Account.

⁹ GRA net income (including SDR 91 million transferred from the Fixed-Income Subaccount) is SDR 756 million. This comprises total net income of SDR 777 million less the gain from the endowment of SDR 21 million, which was retained in the IA (see Table 1).

¹⁰ See page 6 of [Audited Financial Statements for the Financial Years Ended April 30, 2018, and 2017](#).

¹¹ Decision No. 5 in [Review of the Fund's Income Position for FY 2018 and FY 2019–2020](#) provides for the transfer of currencies equivalent to the GRA net income of FY 2018 (SDR 756 million) to the IA; and Decision No. 3 in [Review of the Fund's Income Position for FY 2018 and FY 2019–2020](#) provides for the transfer to the GRA of the income of the Fixed-Income Subaccount of the IA (SDR 91 million) for meeting FY 2018 administrative expenses. Consistent with past practice, and for operational expediency, the two transfers are netted, resulting in a net transfer of SDR 0.67 billion, which took place in early August 2018.

Table 1. Income and Expenditures for FY 2018
(in millions of SDRs)

	April Projections ¹	Actual Outcome	Difference
	(a)	(b)	(b) - (a)
A. Operational income including surcharges	1,342	1,346	4
Lending income	1,149	1,149	0
Margin for the rate of charge	434	434	0
Service charges	21	21	0
Commitment fees	323	323	0
Surcharges	371	371	0
Investment income	89	91	2
Fixed-Income subaccount (reserves)	89	91	2
Interest free resources ²	37	39	2
SCA-1 and other	37	39	2
Reimbursements	67	67	0
SDR Department	3	3	0
PRG Trust	64	64	0
B. Expenses³	833	831	-2
Net administrative expenditures	771	773	2
Capital budget items expensed	27	25	-2
Depreciation	35	33	-2
C. Net operational income including surcharges (A-B)	509	515	6
IAS 19 gains ⁴	162	241	79
D. Net operational income after IAS 19 gains	671	756	85
Endowment subaccount investment income	12	21	9
Net income position⁵	683	777	94
<u>Memorandum items:</u>			
Fund credit (average stock, SDR billions)	43.4	43.4	0
SDR interest rate (average, in percent)	0.7	0.7	0.0
US\$/SDR exchange rate (average)	1.42	1.42	0.00
Precautionary balances (end of period, SDR billions)	17.4	17.5	0.1

Source: Finance Department and Office of Budget and Planning

¹ See [Review of the Fund's Income Position for FY 2018 and FY 2019-2020](#).

² 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 the SCA-1, unremunerated reserve tranche positions not represented by gold holdings, and GRA income for the year not yet transferred to the IA. These resources reduce members' reserve tranche positions and the Fund's remuneration expense resulting in implicit income for the Fund.

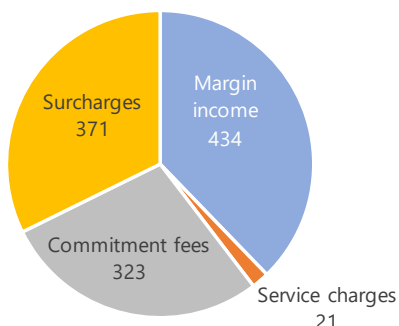
³ See Table 3 for a reconciliation to the administrative expenses reported in the financial statements for FY 2018.

⁴ IAS 19 is the accounting standard that prescribes the accounting treatment of pensions and employee benefit expenses, and involves actuarial valuations (see Table 2).

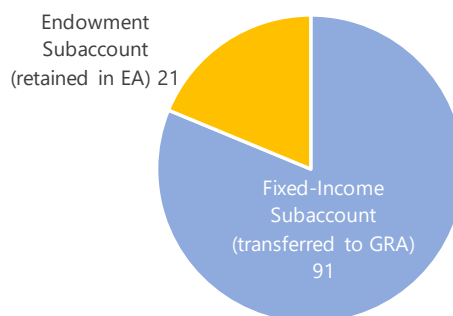
⁵ See "Total comprehensive income" reported in [Audited Financial Statements for the Financial Years Ended April 30, 2018, and 2017](#).

Figure 1. FY 2018 Highlights

Lending Income (SDR 1,149 million)

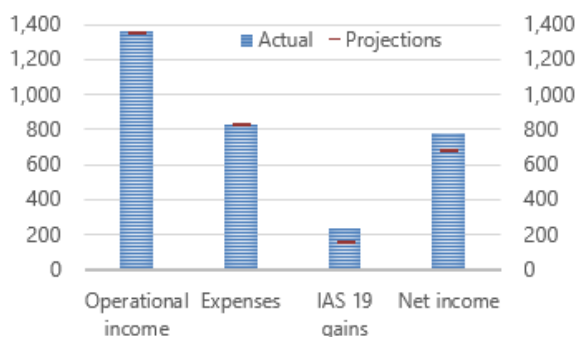


Investment Income (SDR 112 million)

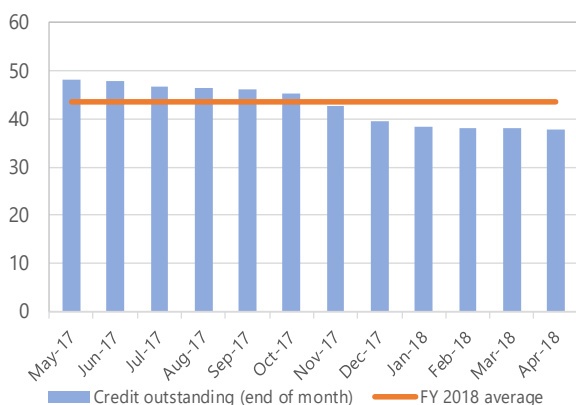


Actual vs. April Projections
(In SDR millions)

	Actual	Projected	% Change
Lending income	1,149	1,149	0%
Investment income (FI)	91	89	2%
Investment income (EA)	21	12	75%
Interest free resources	39	37	5%
Reimbursements	67	67	0%
Expenses	(831)	(833)	0%
IAS 19 gains	241	162	49%
Net income	777	683	14%



Average Credit Outstanding
(SDR 43.4 billion)



SDR Interest Rate and Exchange Rate

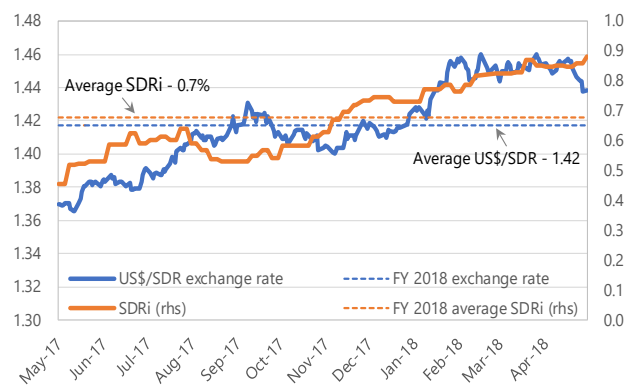


Table 2. Reconciliation of IAS 19 Gains/(Losses)—FY 2018
(in millions of SDRs)

	FY 2018	
	April Projections ¹	Actual Outcome
Accrual vs. Funding	-138	-140
Pension cost accrual	-273	-274
Pension funding	135	133
Actuarial gains	300	381
Total IAS 19 gains	162	241

Source: Finance Department

Totals may not add due to rounding differences.

¹ See [Review of the Fund's Income Position for FY 2018 and FY 2019-2020](#).

Table 3. Reconciliation of Administrative Expenses—FY 2018
(in millions of U.S. dollars, unless otherwise stated)

Net administrative budget outturn ¹	1,099
Capital budget items expensed	35
Depreciation	47
Total expenses in U.S. dollars millions	1,181
Total expenses in SDR millions (per Table 1) ²	831
IAS 19 (accrual vs. funding) timing difference (SDR millions) ³	140
Reimbursements from PRG Trust and SDR Department (SDR millions)	-67
Total administrative expenses per the audited financial statements (SDR millions)	904

Source: Finance Department and Office of Budget and Planning

Totals may not add due to rounding differences.

¹ See [FY2018—Output Cost Estimates and Budget Outturn](#).

² Based on the effective weighted average FY 2018 U.S. dollar/SDR exchange rate of 1.42 for all expenses; the effective average exchange rate for individual expenditure components may differ due to the timing of exchange rate movements during the year.

³ Reflects the difference between the IAS 19 expense and the actual funding in FY 2018 (see Table 2).