INTERNATIONAL MONETARY FUND

IMF POLICY PAPER

June 14, 2018

REVIEW OF THE FUND'S INCOME POSITION FOR FY 2018 AND FY 2019–20

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

- A Press Release.
- The **Staff Report** on the Review of the Fund's Income Position for FY 2018 and FY 2019–20 was prepared by IMF staff and completed on April 5, 2018 for the Executive Board's consideration on April 25, 2018.

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International Monetary Fund
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International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Reviews the Fund's Income Position for Financial Years 2018 and 2019–20

On April 25, 2018, the Executive Board of the International Monetary Fund (IMF) completed its annual review of the Fund's income position for the financial year ending April 30, 2018 (FY 2018) and set the margin for the lending rate for IMF credit for FY 2019 and FY 2020.

FY 2018 Income Position and Allocation

Total FY 2018 net income is estimated at SDR 0.7 billion (US$1 billion), and is broadly in line with the April 2017 estimate. Net income of SDR 0.7 billion, which excludes the retained earnings of the gold endowment, will be added to the IMF's precautionary balances, which are projected to reach SDR 17.4 billion (US$25 billion) at end-FY 2018.

The annual review of the Fund's income position discussed the allocation of the Fund's income to the special and general reserve. The Executive Board adopted a decision to place FY 2018 GRA net income estimated at SDR 0.7 billion equally to the special and general reserve, based on staff's proposal. Staff will monitor the allocation framework closely and will revisit it again in two years' time in alignment with the two-year cycles for reviewing the adequacy of precautionary balances and for setting the margin for the rate of charge.

FY 2019–20 Lending Rate and Income Position

The IMF charges member countries a basic rate of charge on the use of IMF credit, which is determined as the SDR interest rate plus a margin expressed in basis points. The margin is set for a period of two financial years, in line with the Board-endorsed principle that the margin should be stable and predictable. In April 2018 the Executive Board agreed to maintain the margin for the rate of charge unchanged at 100 basis points for financial years FY 2019 and FY 2020.

Projections for FY 2019 and FY 2020 point to annual net income of SDR 0.4 billion (US$0.6 billion) and SDR 1 billion (US$1.5 billion), respectively. The projections are subject to a high degree of uncertainty and are sensitive to the timing and amounts of disbursements under approved arrangements included in the projections, possible new arrangements, and the performance of the Fund's investment portfolio. The projected net income will allow the IMF to continue to accumulate precautionary balances.

The Executive Board also adopted a number of other decisions that have a bearing on the Fund's finances. These included decisions to transfer income from the Fixed-Income Subaccount of the Fund's Investment Account (IA) to the General Resources Account (GRA); to transfer currencies from the GRA to the IA of amounts attributable to FY 2018 net operational income including surcharges; to reimburse costs to the GRA; and to continue special charges on certain overdue obligations.

INTERNATIONAL MONETARY FUND

April 5, 2018

REVIEW OF THE FUND'S INCOME POSITION FOR FY 2018 AND FY 2019–20

EXECUTIVE SUMMARY

The Fund's total net income for FY 2018 is projected at about SDR 0.7 billion, broadly in line with the April 2017 estimate. The projections for total lending income are broadly unchanged. Most sources of lending income are lower, reflecting a lower level of credit outstanding as a result of advance repurchases and delayed disbursements. However, projected commitment fee income is higher following the early cancellation of a large FCL arrangement in November 2017.

The paper recommends that GRA net income of SDR 0.7 billion for FY 2018 (excluding projected income of the gold sales profits-funded Endowment Subaccount) be placed to the special and general reserve. After the placement of GRA FY 2018 net income to reserves, precautionary balances are projected to reach SDR 17.4 billion at the end of FY 2018. The paper further proposes to transfer currencies equivalent to the increase in the Fund's reserves from the GRA to the Investment Account. The paper also revisits options for the allocation of net income between the special and general reserve, and proposes that net income be allocated equally between the special and general reserve.

In line with the recent Board discussion of a framework for guiding future payouts from the Endowment Subaccount, the paper presents a detailed proposal, which includes delaying payouts for three years to protect the real value of the Endowment.

The paper also recommends that the margin for the rate of charge for the period FY 2019–2020 be kept unchanged at 100 basis points. The margin will again be set under the exceptional circumstances clause, as non-lending income continues to be constrained by the low interest rate environment and lending income will be used to finance a portion of the Fund's non-lending activities.

The projections for FY 2019 and FY 2020 point to a net income position of SDR 0.4 billion and SDR 1 billion, respectively. These projections are subject to considerable uncertainty and are sensitive to a number of assumptions.

Approved By
Andrew Tweedie

Prepared by the Finance Department in consultation with the Legal Department and the Office of Budget and Planning

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ANNEXES

INTRODUCTION[1]

1. This paper reviews the Fund's income position for FY 2018 and FY 2019–20. The paper updates projections provided in April 2017, and proposes decisions for the current year. The paper also includes a proposed decision to set the margin for the rate of charge under Rule I-6(4) for financial years 2019 and 2020.

2. The paper reflects feedback from recent income-related Executive Board discussions. Specifically, the paper is informed by the recent Board discussion on the Review of the Adequacy of the Fund's Precautionary Balances.[2]

3. The paper is structured as follows: The first section reviews the FY 2018 income position and the main changes from the previous projections. The second section reviews the allocation of net income between the special and general reserve and makes proposals on the disposition of FY 2018 net income and the placement to reserves. The third section discusses the margin for the rate of charge for FY 2019–2020, updates the income projections for that period, and reviews the projected burden sharing adjustments. The last section reviews special charges.

REVIEW OF THE FY 2018 INCOME POSITION

4. FY 2018 net income is now projected at SDR 0.7 billion, broadly in line with the initial estimate in April 2017 (see Table 1).[3] The projections for total lending income are broadly unchanged, as the impact of advance repayments and lower credit outstanding is offset by higher income from commitment fees. Investment income and net administrative expenditures are projected to be moderately lower in SDR terms, while the IAS 19 adjustment (relating to reporting of employee benefits) is expected to be moderately positive. Further details are provided below.

Total operational lending income including surcharges is projected to be SDR 1.15 billion, in line with the earlier estimate. This reflects several offsetting factors:

- *Margin income* is expected to be SDR 98 million lower than initially projected, reflecting a fall in average credit outstanding of about SDR 10 billion. The latter is mainly attributable to advance repurchases by Cyprus, Ireland, and Portugal totaling SDR 11.6 billion. Delays in disbursements under existing non-precautionary arrangements also contributed to the lower projected average credit outstanding;

[1] Prepared by a team comprising Alexander Attie, Joseph Hanna, Mohammad Hasnain, Heikki Hatanpaa, Janne Akseli Hukka, Joao Jatene, Farhan Khawaja, Kenji Kitano, Diviesh Nana (lead), Amadou Ndiaye, Breno Oliveira, Ezgi Ozgul Ozturk, Sergio Rodriguez-Apolinar, Vidhya Rustaman, Yan Sun-Wang, Charles Xie, and Vera Zolotarskaya, under the guidance of Simon Bradbury (all FIN).

[2] See Review of the Adequacy of the Fund's Precautionary Balances (12/27/17).

[3] See Review of the Fund's Income Position for FY 2017 and FY 2018 (04/04/17).

- *Service charges* are projected at SDR 21 million, less than half the initial estimate, mainly reflecting delayed disbursements under existing large GRA arrangements;

- *Commitment fees* are projected to be higher by about SDR 320 million following the early cancellation by Mexico of its FCL arrangement in November 2017 (originally scheduled for expiry in FY 2019). During FY 2018, Poland cancelled its FCL arrangement which also increased commitment fee income for FY 2018.[4]

- *Surcharge income* is almost SDR 200 million lower, with about two-thirds arising from the advance repurchases made during the year, and the remainder attributable to delays in new large disbursements.

Investment income is projected to be SDR 101 million compared with SDR 351 million projected in April 2017, mainly reflecting the impact on the Endowment Subaccount of the weaker US dollar against the SDR:

- *The Fixed-Income Subaccount (FI):* Full year returns from the subaccount are now projected at about SDR 89 million. This is slightly lower than the SDR 98 million projected a year ago, reflecting a higher-than-expected increase in bond yields over the last year;

- *The Endowment Subaccount (EA)*: Investment income in SDR terms is expected to be only modestly positive in FY 2018. While performance in US dollar terms has been relatively strong (5.4 percent through end-February), this has been largely offset by the impact of the weaker US dollar against the SDR (in SDR terms, the portfolio recorded a small loss of 0.16 percent through end-February).[5] As discussed further below, staff proposes no use of EA income for administrative purposes for FY 2018, in line with the recent Board discussion of the EA payout framework in March 2018 (Box 1).

Interest free resources: Implicit earnings on the Fund's interest free resources are modestly higher than previously estimated, reflecting a slightly higher average SDR interest rate.

Reimbursements to the General Resources Account (GRA): The GRA is reimbursed annually for the expenses of conducting the business of the SDR Department, and of administering the PRG Trust.

- The expenses of conducting the business of the SDR Department in FY 2018 are estimated at SDR 3.383 million (proposed Decision 1).[6]

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

[5] In prior year income papers, the EA, a US$ denominated portfolio, was measured and expressed in SDR terms only. This practice implied that the U.S. dollar/SDR exchange rate is held constant over the medium term. Beginning FY 2018 the EA portfolio is revalued annually using the forward exchange rates projected over the medium term. If the US dollar/SDR forward exchange rates are downward (upward) sloping this will result in a corresponding translation gain (loss).

[6] Consistent with paragraph 5(b) of Schedule M to the Articles of Agreement, the SDRs taken into account for purposes of calculating the assessment do not include SDR 20 million that, due to the overdue financial obligations of certain members, are being held in an escrow account pursuant to paragraph 5(a) of Schedule M.

- The estimated PRGT administrative expenses for FY 2018 are SDR 63.58 million (proposed Decision 2), slightly below earlier estimates. Following the identification of an underestimate of the cost of administering the PRGT in FY 2016, as reported in last year's income paper, the methodology for estimating the costs incurred in administering concessional lending activities and the SDR department has been strengthened as follows: (i) the number of data sources has been streamlined; (ii) the process now relies primarily on the Fund's Analytic Costing and Estimation System (ACES); and (iii) estimates now use lagged actual data as opposed to forecasting Q4 costs. In addition, a formal four-eyes principle has been introduced and any year-on-year deviation of more than 5 percent will trigger further review.

- In addition to reviewing the process for establishing the reimbursement for PRGT administrative expenses, staff has also looked more generally into the reimbursement practices regarding SDA resources in trusts, specifically the Catastrophe Containment and Relief Trust (CCR Trust), and proposes no reimbursement for the CCR Trust for FY 2018 as there is no incremental cost in managing the SDA resources in the CCR Trust. The Board decision establishing the CCR Trust requires that the GRA be reimbursed "in respect of the expenses of administering SDA resources in the CCR Trust, other than expenses already attributed to other accounts or trusts administered by the Fund, or the General Resources Account".[7] In FY 2018, expenses incurred by the GRA for the CCR Trust were limited to staff's time relating to the investment and book-keeping of the CCR Trust's resources. Given the very limited staff time needed for these activities, staff is of the view that the SDA assets in the CCR Trust did not generate incremental cost (i.e., costs beyond those that would have otherwise been incurred by the GRA in managing and investing the GRA resources and resources in the PRGT).[8] This would align the CCR Trust with the PRG-HIPC Trust, where no reimbursement is also made for expenses attributed to SDA assets in the trust.[9]

Total expenses are estimated to be about SDR 40 million lower than projected in April 2017. This is largely attributed to lower-than-projected spending in the net administrative budget of about SDR 6 million, and movements in the US dollar/SDR exchange rate, which reduced costs in SDR terms by a further SDR 29 million. Capital expenses and the depreciation charge are also lower than previously projected by about SDR 5 million.

[7] Decision No. 14649-(10/64) adopted 06/25/10, as amended.

[8] Article V, Section 12(i) requires the GRA to be reimbursed from time to time in respect of the expenses of administration of the SDA paid from the GRA by transfers from the SDA on the basis of a reasonable estimate of such expenses. No reimbursement, however, would need to be made if the administration of SDA-related resources only incurs non-incremental costs, i.e., where the SDA related expenses pertain to activities that are already being carried out and paid for by the Fund from the GRA. This position was clarified in the context of the Multilateral Debt Relief Initiative and Exogenous Shocks Facility (11/16/05).

[9] In past years the CCR Trust has reimbursed the GRA for small amounts (between FY 2015 and FY 2017, the CCR Trust reimbursed a cumulative SDR 0.5 million to the GRA, representing less than 0.5 percent of the Trust's total assets).

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

	FY2018	
	Initial Projections[1]	Current Projections
A. Operational income including surcharges	**1,357**	**1,342**
Lending income	**1,158**	**1,149**
Margin for the rate of charge	532	434
Service charges	54	21
Commitment fees	4	323
Surcharges	568	371
Investment income	**98**	**89**
Fixed-Income subaccount (reserves)	98	89
Endowment subaccount payout[2]	0	0
Interest free resources[3]	**32**	**37**
SCA-1 and other	32	37
Reimbursements	**69**	**67**
SDR Department	4	3
PRG Trust	65	64
B. Expenses	**873**	**833**
Net administrative expenditures	806	771
Capital budget items expensed	30	27
Depreciation	37	35
C. Net operational income including surcharges (A-B)	**484**	**509**
IAS 19 gains/(losses)	0	162
D. Net operational income after IAS 19 gains/(losses)	**484**	**671**
Endowment subaccount investment income[2]	253	12
Net income position	**737**	**683**
Memorandum items:		
Fund credit (average stock, SDR billions)	53.2	43.4
SDR interest rate (average, in percent)	0.6	0.7
US$/SDR exchange rate (average)	1.37	1.42
Precautionary balances (end of period, SDR billions)	16.9	17.4

Source: Finance Department and Office of Budget and Planning

[1] Review of the Fund's Income Position for FY 2017 and FY 2018 (04/04/17).

[2] In line with the recent Executive Board discussion on a framework for payouts from the EA, the initiation of payouts is assumed to be delayed for three years (until FY 2021).

[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 the SCA-1, 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 resulting in implicit income for the Fund.

The IAS 19 adjustment is expected to contribute about SDR 162 million to net income in FY 2018. IAS 19 "Employee Benefits" is the International Financial Reporting Standard (IFRS) that deals with accounting for pension and other employee benefits.[10] In line with the requirements of the standard to reflect the latest available information, the accounting valuation in FY 2018 has been updated to incorporate the latest 2017 UN mortality table.[11] The expected gain for the IAS 19 adjustment comprises two elements:

- Net actuarial remeasurement gains projected at SDR 300 million are immediately recognized in income. Gains in the fair value of plan assets exceed the expected return amount by about SDR 670 million and reflect the strong performance across most asset classes in the portfolio for the 10 months ended February. More than half the asset gains were offset by an increase in the defined benefit obligation of about SDR 350 million. The latter reflects the inclusion of updated demographic assumptions based on the recently released UN mortality table, which indicates a general increase in the lifespan of pension plan participants compared with the previous mortality table assumptions. The discount rate started the year at about 3.97 percent, and despite some fluctuations in the interim, reverted back to the same level by end-February, and had no impact on the defined benefit obligation.

Text Table. Reconciliation of IAS 19 Gains/(Losses)

(in millions of SDRs)

		FY 2018
		Projected
A	**Accounting vs. Funding**	**-138**
	Pension cost (accrual basis)	-273
	Pension funding (cash basis)	135
B	**Remeasurement gains**	**300**
C	**Total IAS 19 gains/(losses) (A+B)**	**162**

- This gain is partly offset by an adjustment of SDR 138 million representing the difference between (i) the actuarially determined annual IAS 19 expense (the increase in obligations under the staff retirement plan stemming from an additional year of staff service) of SDR 273 million; and (ii) the funding (cash appropriation) for the year projected at SDR 135 million.

DISPOSITION DECISIONS

5. As in previous years, the Executive Board needs to consider several decisions on the disposition of income for FY 2018. These cover the use of IA investment income earned in FY 2018, which impacts the determination of GRA net operational income (including surcharges) in FY 2018; the placement of net income to reserves and the allocation between the special and

[10] See Annex III in Review of the Fund's Income Position for FY 2017 and FY 2018 (04/04/17).

[11] Under IFRS, the actuarial assumptions are expected to be reviewed independently for their appropriateness each year. This year's review has highlighted that the actuarial assumptions should be updated to incorporate the revised UN mortality tables issued in 2017.

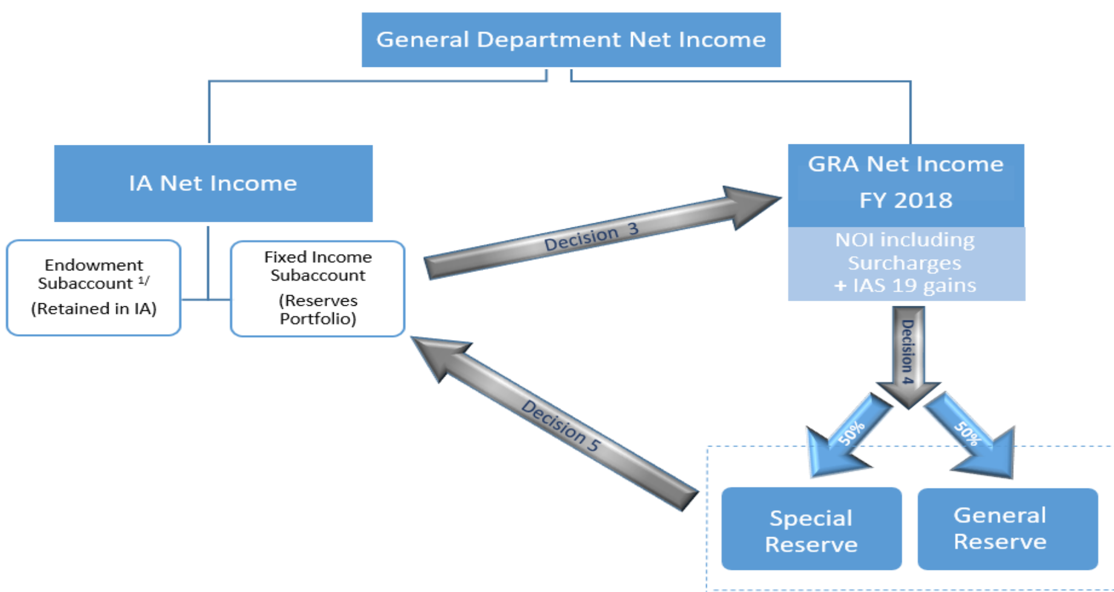
general reserve; and the transfer of currencies from the GRA. These elements are discussed below, and presented in Figure 1, beginning with the disposition of IA investment income.

6. 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.[12] 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 2018 income of SDR 89 million be transferred to the GRA to be used towards meeting the expenses of the Fund (proposed Decision 3). 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; and

- **Endowment Subaccount:** In their recent discussion of a framework for guiding future payouts from the EA noted earlier, most Directors supported delaying payouts for three years to protect the real value of the Endowment (Box 1). Accordingly, staff proposes that investment income earned in the EA in FY 2018 be fully retained in the endowment and not be transferred to the GRA to be used for administrative expenses. More specifically, the projected income of SDR 12 million for FY 2018 will be retained and reinvested according to the investment strategy for the Endowment Subaccount. An equivalent amount will be reflected in the special account for IA retained earnings, slightly raising cumulative retained earnings of the IA (all attributed to the EA) to about SDR 649 million (proposed Decision 3).

Figure 1. Summary of Proposed Disposition Decisions



[1] Payouts from the gold-funded endowment are expected to provide meaningful contribution to Fund income, but are not proposed to begin at least until FY 2021 to allow for a buildup of a greater cushion of retained income in the Endowment against adverse return scenarios.

[12] 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)).

7. **The Articles permit the Fund's net income of the GRA to be either distributed to members or placed in reserves.** At the recent review of the Fund's precautionary balances, Directors stressed the importance of maintaining an adequate level of precautionary balances and supported retaining the current indicative medium-term target of SDR 20 billion.[13] As discussed below, under staff's baseline medium-term projection and assuming an unchanged margin for the rate of charge of 100 basis points, this target would be reached in FY 2024. Accordingly, staff proposes placing all FY 2018 GRA net income to reserves (the proposed allocation between the general and special reserve is discussed below). This would increase precautionary balances by SDR 0.7 billion to SDR 17.4 billion at the end of FY 2018.

Box 1. EA Payout Policy Proposal

The review of the IA in March 2018 discussed a possible framework for guiding payouts from the EA to the GRA. Directors generally agreed with the proposed framework, which aims at balancing the need to provide a meaningful contribution to the Fund's income, with preserving the real value of the EA over time, as initially envisaged under the Fund's New Income Model. In light of this earlier discussion, staff proposes the following key features of the payout policy:

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

8. **The placement of FY 2018 GRA net income to reserves provides scope for further transfer of currencies to the Fixed-Income Subaccount.** Article XII, Section 6(f)(ii) permits the transfer of additional GRA currencies to the IA if, at the time of the decision to make such transfer, the Fund's reserves are above the cumulative amount of previous transfers of currencies from the GRA to the IA.[14] After the above placement, the combined balance in reserves would total SDR 20.6 billion. This would remain above the net cumulative amount of transfers made thus far to the IA from the GRA of SDR 19.9 billion.[15]

9. **Accordingly, staff proposes to transfer currencies equivalent to the increase in reserves of SDR 0.7 billion from the GRA to the IA for investment in the Fixed-Income Subaccount (proposed Decision 5).** This amount comprises currencies equivalent to net income of

[13] See the Review of the Adequacy of the Fund's Precautionary Balances (12/27/17).

[14] 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.

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

SDR 0.7 billion for FY 2018, the maximum amount permitted under the Articles. While risks of under-performance remain under the current rising interest rate environment (see Annex III), this proposal is consistent with the assumption of the new income model that the IA will over time achieve a higher return than the SDR interest rate.

A. Allocation of Income Between the Special and General Reserve

This section revisits the allocation of income between the special and general reserve. After taking stock of past practices and Directors' views in recent discussions on the issue, it discusses principles that could help guide future allocations and assesses alternative options against those principles.

10. The Articles require the Board to take an annual decision on the disposition of the Fund's net income between the special and general reserve. Under the Articles, the Fund is required to determine annually how to place income between the general and special reserves and whether to distribute any income to its members. Both reserves can be used for the same purposes.

11. The special reserve was originally established to create a reserve devoted to the single purpose of covering administrative deficits. It was initially funded with the proceeds of an investment program initiated in 1956 involving the investment of part of the Fund's gold holdings in US Treasury bills to raise income to cover the Fund's administrative deficits. Given this purpose, it was decided that the income from the investment program should be placed to a special reserve that would not be available for other purposes, including distribution to the membership. Relatedly, it was also decided that administrative losses should be written off first against the special reserve. This decision has been applied whenever the Fund has suffered an income loss (FY 1972–77, FY 1985, and FY 2007–08).

12. While the investment program ceased in 1972, the Fund has since maintained a long-standing practice of allocating at least part of its net income to the special reserve (Box 2). The precise modalities for determining how much should be allocated to the special reserve have varied over the years. From FY 1982–2006, the margin for the rate of charge was set at a level required to achieve an annual target growth in the Fund's reserves (5 percent from FY 1986 onwards) that was placed annually to the special reserve. Initially, all retained net income was placed to the special reserve, with no additions to the general reserve. Following the introduction of the surcharge policy in FY 1998, an amount equivalent to surcharge income was placed to the general reserve and net operational income (excluding surcharges) continued to be placed to the special reserve.

13. This practice ensured that balances in the special reserve continued to grow over time (Figures 2 and 3). During FY 1982–2015, the average annual increase in the special reserve was about 6 percent.[16] On average, about 67 percent of net income was allocated to the special reserve

[16] The average annual increase in the special reserve accounts for the portion of retained annual net income that exceeded the target for the financial year and was also placed to the special reserve. It excludes income attributable to the proceeds of the 2009–10 gold sales of SDR 4.4 billion, corresponding to transfers to establish the endowment.

during this period. Between FY 1978–97, all net income was allocated to the special reserve, while the average was about 50 percent between FY 1958–1972. Between FY 1998–2015, the average was about 36 percent, reflecting the relatively larger share of surcharge income in the overall GRA net income within this period. In the past two years, half the net income has been added to the special reserve.

Box 2. History of Income Allocations, FY 1958–FY 2017

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.

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.

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]

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.

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.

FY 2016–17: The Board agreed to allocate equal portions of the Fund's overall net income to the special and general reserves, pending further work on the allocation framework.

[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.

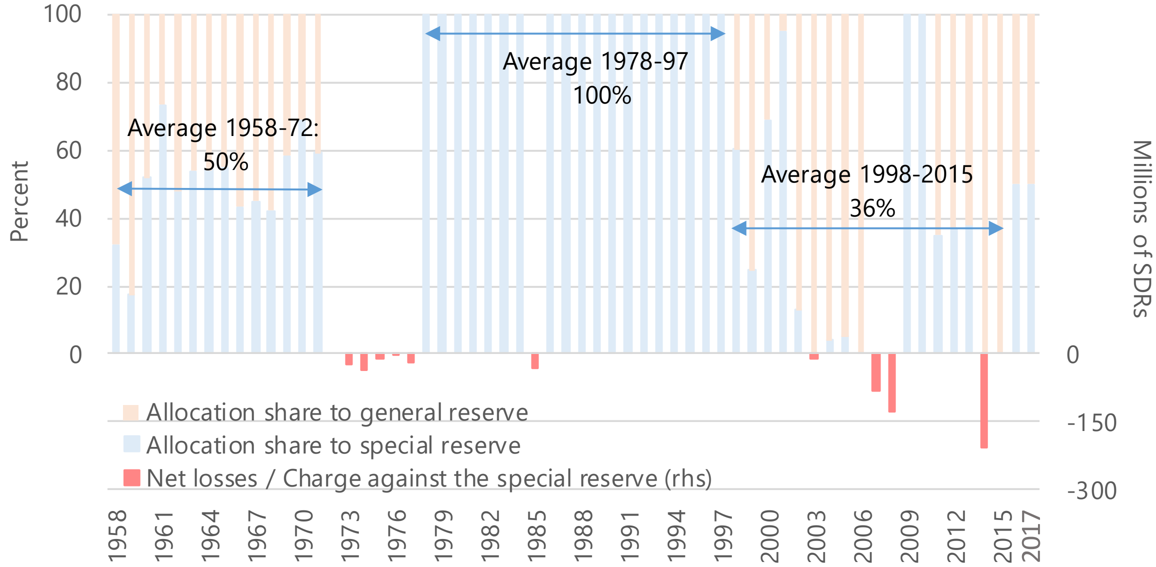
[2] The net income target was temporarily raised to 7.5 percent of reserves in FY 1987–88 as part of the burden sharing agreement to mitigate the impact of potential losses due to emergence of overdue obligations.

[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.

Figure 2. Reserve Allocation and Net Income Losses, 1958–2017 [1]

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

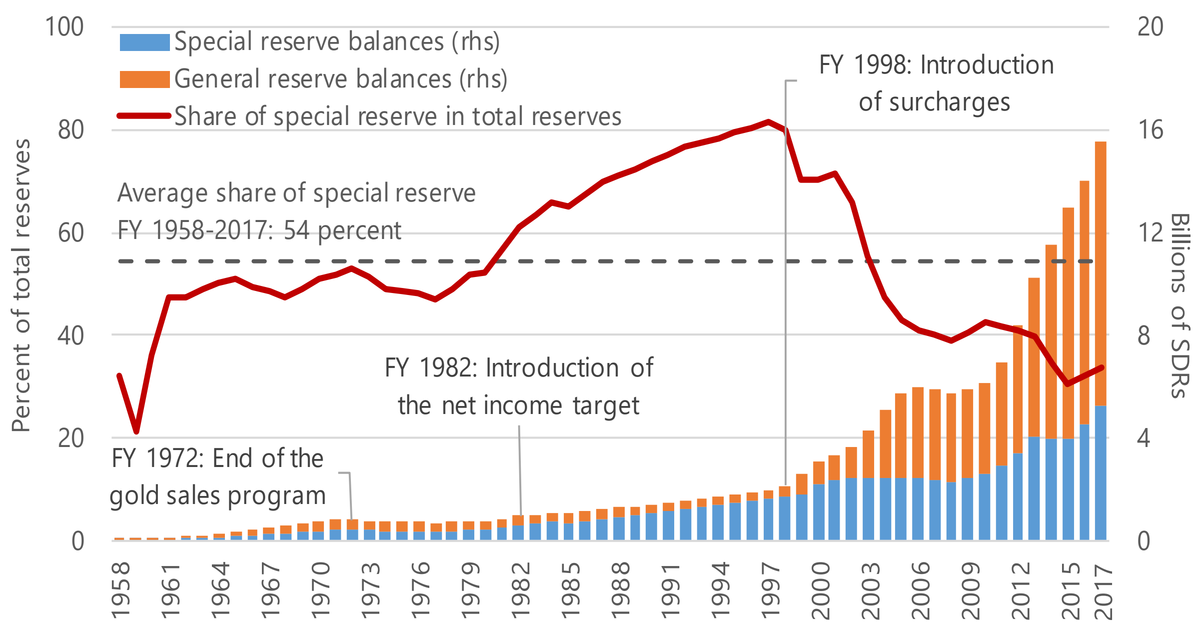


Source: IMF Finance Department

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

Figure 3. Annual Reserve Allocations and Special Reserve as a Percentage of Precautionary Balances, 1958–2017

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



Source: IMF Finance Department

14. Staff continues to see merit in allocations to both reserves. Maintaining adequate holdings in the special reserve recognizes its role as the first line of defense against income losses. It also provides fundamental strength to the balance sheet as these resources are assured to be available if needed to absorb future losses. This is in line with prudent international regulatory practices for financial institutions, where capital adequacy requirements limit the portion of equity that an entity may distribute as shareholder dividends.[17] The general reserve also provides important strength to the balance sheet and is available to absorb future losses, while also preserving flexibility for the Board to consider alternative uses of the resources in the event that reserves are viewed as more than adequate to cover potential risks of financial losses.

15. Staff initially proposed revisiting the methodology for allocating net income between the special and general reserves in FY 2015. The staff paper for the review of the Fund's income position in FY 2015 and FY 2016 noted that the rationale for the past practice of distinguishing between net operational income and surcharge income in placement to reserves was no longer relevant under the new rule for setting the margin for the rate of charge. Under the new rule, the margin is set to cover the Fund's intermediation costs and contribute to the Fund's reserves, where the assessment of the adequacy of reserve accumulation takes account of income from all sources, including surcharges.[18] In contrast, under the previous rule, the margin was set each year to achieve a specific target for net income, and the inclusion of surcharge income in that calculation would have potentially led to large fluctuations in the rate of charge from year to year.[19]

16. Recent discussions on this topic are summarized in Box 3. The Board has considered alternative allocation approaches on four occasions since 2015, but a clear consensus on a new longer-term allocation framework has yet to emerge (Box 3). In FY 2016 and FY 2017, Directors were willing to go along with staff's proposal to allocate total net income to both the special and general reserve in equal proportions. However, some Directors called for further work and staff proposed to revisit possible options in the context of the FY 2018 income discussion.

17. Against this background, and taking account of Directors' views, staff has sought to identify possible principles that could help guide the framework for future allocation decisions. It is recognized that views differ among Directors and the goal is to achieve the broadest possible consensus. Specifically, it is proposed that such a framework should:

- **Maintain a role for both the general and special reserve.** This would be consistent with the Fund's longstanding practice over the past six decades. As in the past, it would not preclude the possibility that in certain years, all net income would be allocated to the general reserve if balances in the special reserve were considered adequate, or to the special reserve, if for example there was a need to replenish balances following a period of losses.
- **Be consistent with the new income model and periodic Board assessments of the adequacy of precautionary balances.** This would recognize that the distinction between

[17] Usable equity of multilateral developments banks (MDBs) also include loss-absorbing reserves that are not available for distribution to members.

[18] See Rule I-6(4) and A New Rule for Setting the Margin for the Basic Rate of Charge (11/23/11).

[19] Including income from surcharges in the determination of the regular rate of charge would have also defeated the surcharges' purpose to set a higher overall rate of charge as a disincentive to large use of Fund credit.

surcharge and other forms of lending income is no longer meaningful under the new income model. It would also suggest that it would not be appropriate to accumulate special reserves above the agreed floor for precautionary balances.

- **Balance the goals of strengthening the Fund's balance sheet and preserving future Board flexibility in the use of reserves.** Both considerations have been stressed in previous Board discussions, and the allocation framework should allow scope for an appropriate balance to be struck between these two objectives. Where that balance is struck could be expected to vary over time.
- **Retain Board flexibility to decide on future income allocations.** Any framework should not be applied mechanistically, but rather would provide sufficient flexibility for future Board judgments in light of evolving circumstances.

Box 3. Recent Board Discussions on Income Allocation

Directors have discussed the allocation of income between the special and general reserve on several recent occasions.[1]

2015 Income Review: Staff proposed placing all GRA net income, including surcharges, to the special reserve for a period to help bring the special reserve closer to the floor for precautionary balances. While some Directors agreed with this proposal, others noted that more time was needed to consider this issue. It was agreed to continue the previous allocation practice and revisit the issue in the context of the 2016 review of precautionary balances.

2016 Precautionary Balances Review: Staff proposed that a share of future net income be allocated to both the special and general reserve. While the precise ratio could be revised periodically, staff saw merit in an initial placement of one-half to two-thirds of net income to the special reserve. Many Directors saw merit in this approach, while some remained open and could go along with the consensus. A number of Directors did not see a strong rationale for moving away from the previous approach.

2016 Income Review: In light of this discussion, staff proposed to apportion net income equally between the special and general reserve. This was at the lower end of the range discussed at the review of precautionary balances. Directors supported this approach for FY 2016, with many seeing it as a reasonable compromise. Others would have preferred a higher or lower allocation to the special reserve, or were not convinced about the need for a new approach and called for further work.

2017 Income Review: Staff again proposed to allocate FY 2017 net income equally between the two reserves, noting that the previous practice of allocating net operational income to the special reserve and surcharge income to the general reserve would have resulted in a very similar outcome. Staff further proposed that the allocation approach be revisited again at the next annual income review. On this basis, the proposal was approved.

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[1] See Review of the Fund's Income Position for FY 2015 and FY 2016 (04/06/15), Review of the Fund's Income Position for FY 2016 and FY 2017-2018 (04/08/16), Review of the Fund's Income Position for FY 2017 and FY 2018 (04/04/17) and Review of the Adequacy of the Fund's Precautionary Balances (01/26/16).

18. Staff has considered a number of options in light of these principles:

- **Option 1: Continue the approach of allocating a share of total net income to both the special and general reserve.** Instead of being based on a distinction between "regular" and surcharge income, this approach would allow for Board discretion to set the share of total net income placed to the special and general reserve based on prevailing developments. It would be consistent with the new income model and preserve future Board flexibility. In current circumstances, staff would propose maintaining the recent 50/50 split, recognizing that in recent discussions there has been support for both higher and lower allocations to the special reserve.
- **Option 2: Target a specific annual rate of increase of the special reserve.** This approach would specify a desired rate of accumulation in the special reserve, with the residual added to the general reserve. This would be similar to the approach followed in the period FY 1986–06, where the Board set the margin for the rate of charge each year to achieve a net income target that would allow for an equivalent annual rate of increase in the Fund's reserves.[20] This would provide more predictability in the pace of accumulation of the special reserve, though placements to the general reserve would become less predictable. Also, the scope for achieving the desired growth in the special reserve would depend on the overall income position.
- **Option 3: An annual allocation rule linked to the minimum floor for precautionary balances.** For example, the share of total annual net income allocated to the special reserve could be guided by the difference between the level of the special reserve and the minimum floor approved by the Board, as a ratio to the level of the minimum floor.[21] Such a rule would provide for larger relative allocations to the special reserve at times when its balances are substantially below the floor, and annual allocation shares to the special reserve would automatically diminish as its balances increase relative to the floor. Such an approach would link allocation decisions to the Board's biannual review of precautionary balances, though as noted in Box 3, a previous suggestion for such a linkage did not receive sufficiently broad support.
- **Option 4: Revert to the previous practice of allocating net operational income to the special reserve and surcharge income to the general reserve.** As noted, this approach relies on a distinction in terms of income sources that is no longer relevant under the new income model. It would result in allocations between the two reserves that are the arbitrary result of the particular mix of lending income between surcharges and other sources in any given year. It could also result in zero additions to the special reserve during periods when the Fund's overall net income position is still significantly positive.

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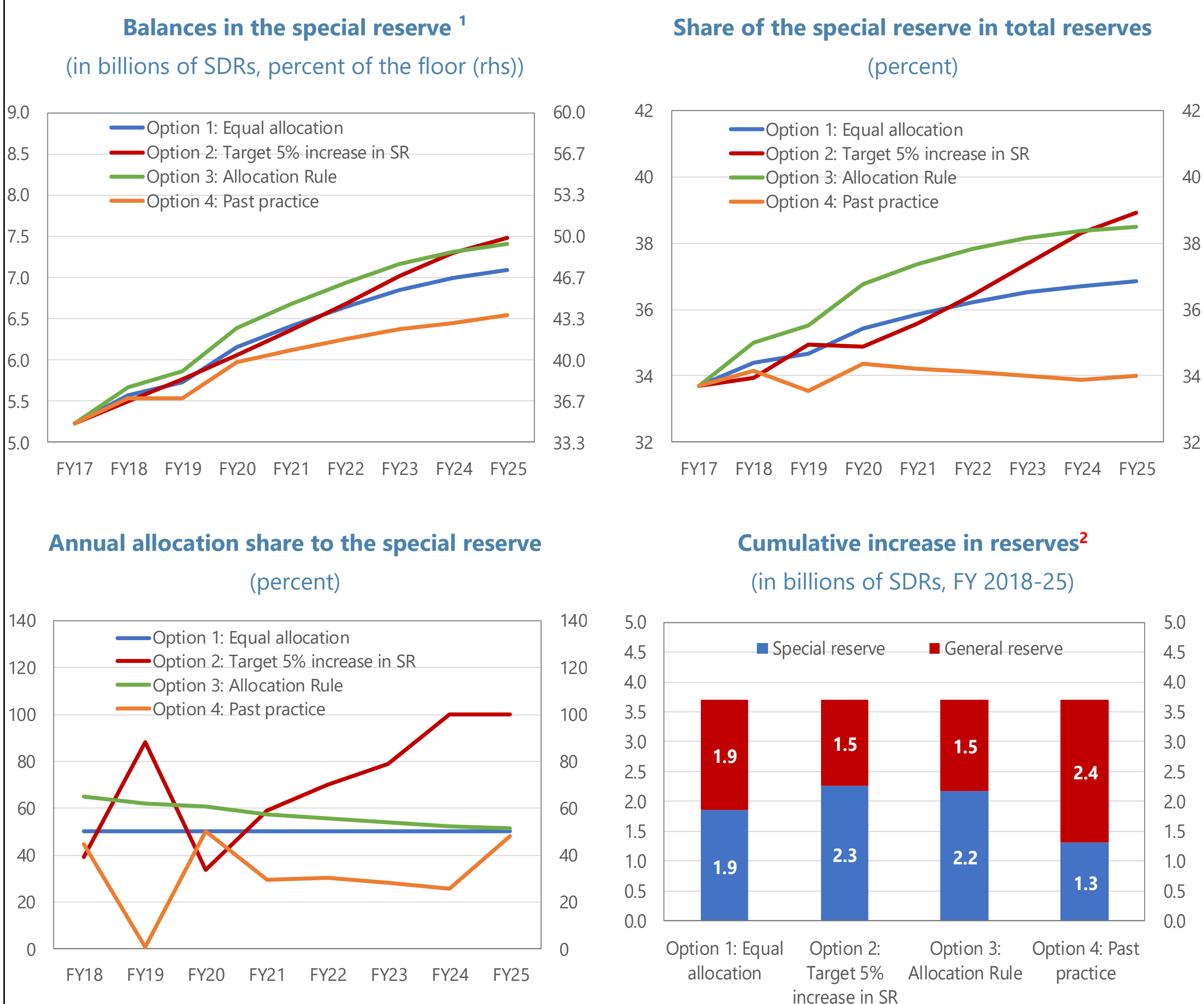
[20] In contrast to this past practice, such an allocation mechanism would not influence decisions on the margin under the current Rule I-6(4), but rather guide the reserve allocation of the Fund's overall net income (including surcharge income) and be calculated on basis of the starting balance of only the special reserve (as opposed to total reserves) for the financial year.

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

19. Figure 4 illustrates the potential differences between these approaches based on current income projections. For Option 2, a 5 percent target is shown for annual additions to the special reserve, close to the average increase from FY 1982–15, though other targets could be considered. It should be stressed that the scenarios are based on the current baseline income projections, and thus do not incorporate the effects of any potential new lending.

Figure 4. Projected Reserve Accumulation Under Different Allocation Options



Source: IMF Finance Department

[1] The level of the minimum floor is assumed to remain unchanged at SDR 15 billion over the projection period through FY 2025.
[2] The cumulative projected increase in overall reserves through FY 2025 is SDR 3.7 billion. The numbers in the chart may not add up due to rounding.

20. On balance, staff sees merit in continuing the recent approach of allocating net income equally between the special and general reserve (Option 1 and proposed Decision 4). This option is consistent with the principles considered above, and would seem to strike a reasonable middle ground between the different views that have been expressed on this issue in recent discussions. If Directors support such an approach, staff would also propose to monitor the framework closely, and to revisit it again in two years' time in alignment with the two-year cycles for reviewing the adequacy of precautionary balances and for setting the margin for the rate of charge.

FY 2019–2020 INCOME OUTLOOK

21. The income outlook for FY 2019–2020 remains positive. Net income is projected at about SDR 0.4 billion and SDR 1 billion for FY 2019 and FY 2020, respectively (Table 2). These projections assume the margin is maintained at 100 basis points (see below) and are sensitive to a number of factors including global interest rates; the timing of purchases and repurchases under existing arrangements; possible new arrangements; the US dollar/SDR exchange rate; and annual pension expense as determined under IAS 19.

A. Review of the Margin for the Rate of Charge

22. The Board is to set the margin for the basic rate of charge for financial years 2019–20. The Executive Board is required to set the margin over the SDR interest rate for two years, with a mid-period review before the end of the first year. Under the Rule I-6(4), the margin should be set to cover the Fund's intermediation costs, taking into account income from service charges, and help build up the Fund's reserves, considering the existing level of precautionary balances and the expected contribution from surcharges and commitment fees. At the same time, the level of the margin should ensure that the Fund's borrowing costs remain appropriately aligned with long-term credit market conditions. The rule also permits that, in exceptional circumstances, the margin may be set at a level other than that required to cover intermediation expenses and accumulate reserves.

Coverage of Intermediation Costs

23. Lending income is expected to remain substantially in excess of intermediation costs in FY 2019–2020.[22, 23] Income from service charges is projected at US$91 million and US$29 million in FY 2019 and FY 2020, respectively (Table 3, row B). An unchanged margin of 100 basis points would provide further income of about US$611 million and US$685 million, respectively. These amounts compare with estimated intermediation costs of about US$90 million in FY 2018 (Table 3, Row A). Fund-wide intermediation costs related to generally available facilities (GAF) are derived in consultation with departments using the Fund's Analytic Costing and Estimation System (ACES). They cover direct personnel, travel and other administrative expenses, as well as indirect support and governance costs. Estimated FY 2018 costs are slightly lower than FY 2017 estimates, reflecting reduced spending due to a slight decline in the number of financial programs as well as policy-related GAF work.

[22] Consistent with past practice, the projections only take account of arrangements approved through end-March 2018 and not possible new arrangements.

[23] Commitment fees are included in the analysis as a source of income that contributes to reserve accumulation. Under this approach, the analysis in setting the margin is insulated from the unpredictability of commitment fees. See paragraphs 19–20 in A New Rule for Setting the Margin for the Basic Rate of Charge (11/23/11).

Table 2. Projected Income Sources and Uses—FY 2018–2020
(in millions of SDRs)

	FY2018	FY2019	FY2020
A. Operational income including surcharges	**1,342**	**1,153**	**1,703**
Lending income	**1,149**	**843**	**1,320**
Margin for the rate of charge	434	419	463
Service charges	21	62	20
Commitment fees	323	53	410
Surcharges	371	309	427
Investment income	**89**	**190**	**243**
Fixed-Income subaccount (reserves)	89	190	243
Endowment subaccount payout	0	0	0
Interest free resources[1]	**37**	**56**	**75**
SCA-1 and other	37	56	75
Reimbursements[2]	**67**	**64**	**65**
SDR Department	3	3	3
PRG Trust	64	61	62
B. Expenses	**833**	**841**	**844**
Net administrative expenditures	771	777	780
Capital budget items expensed	27	24	18
Depreciation	35	40	46
C. Net operational income including surcharges (A-B)	**509**	**312**	**859**
IAS 19 gains/(losses)[3]	162	0	0
D. Net operational income after IAS 19 gains/(losses)	**671**	**312**	**859**
Endowment subaccount investment income[4]	12	131	135
Net income position	**683**	**443**	**994**
Memorandum items:			
Fund credit (average stock, SDR billions)	43.4	41.9	46.3
SDR interest rate (average, in percent)	0.7	1.1	1.4
US$/SDR exchange rate (average)	1.42	1.46	1.48
Precautionary balances (end of period, SDR billions)	17.4	17.7	18.6

Source: Finance Department and Office of Budget and Planning

[1] 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 transferred to the IA. These resources reduce members' reserve tranche positions and the Fund's remuneration expense resulting in implicit income for the Fund.

[2] No incremental costs are projected in managing the SDA resources in the CCR Trust.

[3] The IAS 19 timing adjustment is actuarially determined and is finalized shortly after the end of the financial year. An estimate is only provided for the current year under review (FY 2018).

[4] Following the Executive Board discussion on the EA payout policy, it is assumed that payouts will be delayed for three years (until FY 2021).

Table 3. Income from the Margin and Reserve Accumulation[1]
(in millions of US Dollars, unless otherwise indicated)

	Actual			Projected		
	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
A. Intermediation costs[2]	96	97	92	90	90	92
Less						
B. Service charges	88	32	42	30	91	29
C. Costs to be covered by income from margin (A-B)	7	65	50	60	-1	63
D. Income from margin[3]						
80 basis points	…	…	…	…	489	548
100 basis points	1,091	716	671	617	611	685
120 basis points	…	…	…	…	733	822
E. Commitment fees[4]	742	133	459	459	77	607
FCL/PLL	726	25	459	454	73	607
Other	16	108	0	5	3	0
F. Surcharges[5]	2,151	1,094	805	527	451	632
G. Potential reserve accumulation (D+E+F-C)[6]						
80 basis points	…	…	…	…	1,018	1,724
100 basis points	3,977	1,878	1,885	1,543	1,140	1,861
120 basis points	…	…	…	…	1,262	1,998
H. Potential reserve accumulation (as a percent)[7]						
80 basis points	…	…	…	…	4.0%	6.6%
100 basis points	21.3%	9.5%	9.0%	6.5%	4.5%	7.1%
120 basis points	…	…	…	…	5.0%	7.6%
I. Actual reserve accumulation[8]						
80 basis points	…	…	…	…	334	1,134
100 basis points	2,142	1,440	2,056	953	456	1,271
120 basis points	…	…	…	…	578	1,408
J. Actual reserve accumulation (as a percent)[8]						
80 basis points	…	…	…	…	1.3%	4.3%
100 basis points	11.5%	7.3%	9.8%	4.0%	1.8%	4.9%
120 basis points	…	…	…	…	2.3%	5.4%
K. Precautionary balances (end of period, SDR billions)[9]						
80 basis points	…	…	…	…	17.6	18.5
100 basis points	14.2	15.2	16.7	17.4	17.7	18.6
120 basis points	…	…	…	…	17.8	18.6
Memorandum items						
Average Fund credit outstanding (in SDR billions)	74.2	51.5	48.6	43.4	41.9	46.3
Number of active arrangements (average)[10]	13	15	17	16	…	…
Average exchange rate US$/SDR	1.47	1.39	1.38	1.42	1.46	1.48

Source: Finance Department and Office of Budget and Planning
[1] For analytical purposes, surcharges and commitments fees are considered for reserve accumulation only.
[2] Costs related to the Fund's "generally available facilities."
[3] Derived by applying the margin against average Fund credit outstanding at the average US$/SDR exchange rate.
[4] Includes commitment fees for expired or cancelled arrangements.
[5] Surcharges are projected on the basis of current quotas and surcharge thresholds.
[6] Potential reserve accumulation is derived by assuming other sources of income are sufficient to cover non-intermediation costs.
[7] Potential reserve accumulation as a percent of precautionary balances at the beginning of the financial year.
[8] Additions to reserves based on net income for the year (including actual and projected IAS 19 gains/(losses) up to FY 2018, and excludes retained Endowment Subaccount investment income).
[9] Precautionary balances include the Fund's reserves and SCA-1 balance less the gold endowment of SDR 4.4 billion.
[10] Excludes FCL and PLL arrangements.

24. Commitment fees for non-drawing arrangements and surcharges are also expected to make substantial further contributions to the Fund's lending income. Income from commitment fees is estimated at about US$77 million and US$607 million in FY 2019 and FY 2020, respectively (Table 3, row E). Commitment fees are refundable in the event of drawings and thus income from these fees is only recognized at the expiration or cancelation of arrangements. Surcharge income is projected at about US$451 million in FY 2019 and US$632 million in FY 2020 (Table 3, row F).

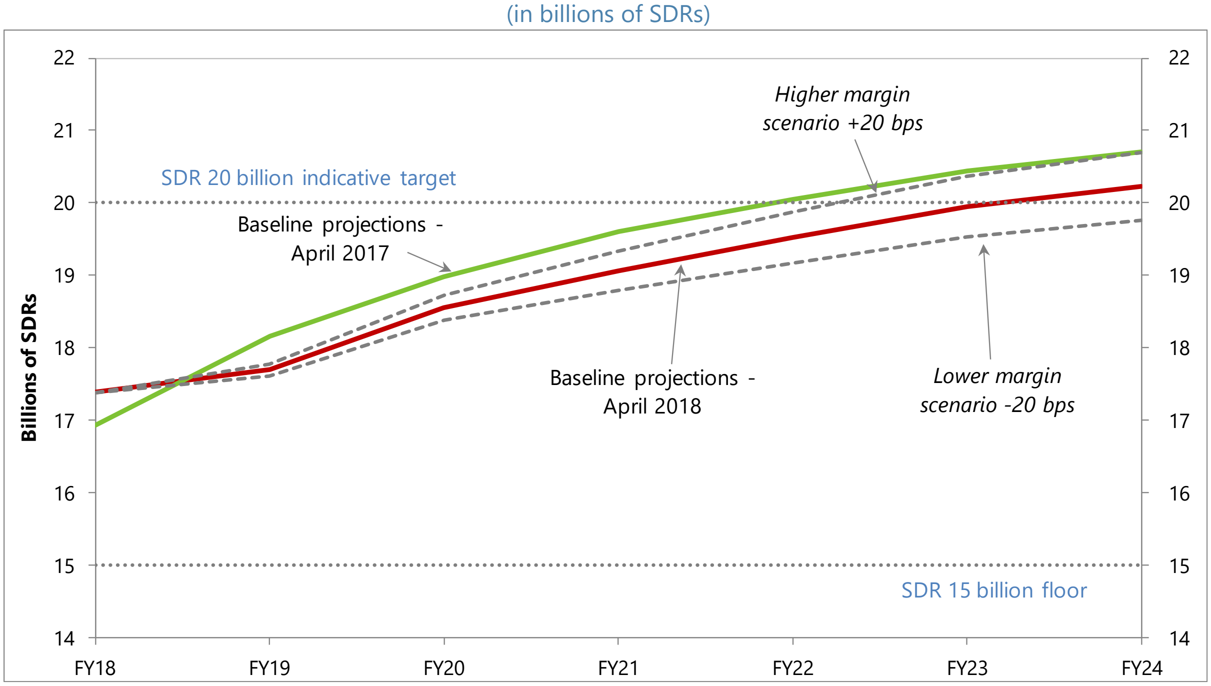
Reserve Accumulation

25. Reserve accumulation is projected to remain relatively strong in FY 2019 and FY 2020, though lower than estimated in April 2017. Table 3 first illustrates the potential reserve accumulation that would result if lending income were required solely to cover intermediation costs and provide for additional reserves (Rows G and H). In this hypothetical scenario, potential reserve accumulation with a margin of 100 basis points would fall to 6.5 percent in FY 2018. Projected actual reserve accumulation (after taking into account the need to cover non-lending expenditures while investment income is constrained by low interest rates) would be 4 percent of reserves in FY 2018 (Rows I and J). Precautionary balances are projected to reach SDR 17.4 billion by end-FY 2018, slightly higher than estimated previously. Table 3 further simulates reserve accumulation at alternative margins of 80 and 120 basis points, respectively.

26. The medium-term outlook for Fund income and reserve accumulation is below that projected in April 2017 but continues to show a positive trend (Figure 5 and Annex V). The latest projections suggest that precautionary balances could reach the current indicative target of SDR 20 billion during FY 2024, based on an unchanged margin of 100 basis points. At the time of the

Figure 5. Projected Precautionary Balances Accumulation

(in billions of SDRs)



Source: Finance Department

April 2017 income review, precautionary balances were expected to reach the indicative target by FY 2022.[24] The slower pace of reserve accumulation is mainly attributed to the lower projected path for credit outstanding and a downward revision of estimated payouts from the EA.

Alignment of Fund Borrowing Costs with Market Conditions

27. Rule I-6(4) requires a cross-check of the alignment of the margin with long-term credit market conditions.[25] This aims to ensure that the cost of borrowing from the Fund is not too high or low relative to the cost of long-term market funding. Benchmarks developed by staff for this purpose provide a useful guide but should not be applied mechanistically without judgment on the global financial context and future developments. As in the past, staff employs EMBI spreads as the main basis for the comparison with market borrowing rates.[26] In addition, two specific factors are accounted for in deriving the benchmark:

- **Proxy for risk premium:** The level of the margin is compared to the lowest quartile of EMBI spreads (reflecting the spreads for the more creditworthy borrowers within the sample) as a proxy measure to account for the lower credit risk the Fund faces as a cooperative public policy institution. Market borrowing spreads reflect a country-specific, time-varying credit risk premium. While the Fund also bears credit risk when it lends to member countries, such risk is reduced by its lending policies and its de facto preferred creditor status.
- **Proxy for term premium:** The comparator spreads are adjusted to account for the maturity difference between the SDR interest rate (based on a floating rate composed of three-month instruments) and the EMBI measures (based on medium-term fixed interest rate instruments).

28. The cost of Fund credit at the current margin remains broadly in line with the updated staff benchmarks for long-term credit market conditions. The EMBI spreads have been declining since early 2016, which is also reflected with a slight decline in the five-year rolling average of the spreads since the last review (Figure 6). However, in the most recent five-year period ending in February 2018, the median for the lowest quartile EMBI spread adjusted for the term premium remained about 57 basis points above the current margin, close to the levels seen since the global financial crisis (Table 4). At the same time, the outlook for longer-term market conditions remains uncertain. The April GFSR notes that although the emerging markets have benefited from an extended window of benign external financial conditions, they could be vulnerable to a sudden tightening of global financial conditions or spillovers from the monetary policy normalization

[24] See Review of the Fund's Income Position for FY 2017 and FY 2018 (04/04/17). The projected pace of accumulation has slightly increased since the Review of the Adequacy of the Fund's Precautionary Balances (12/27/17) discussed in January 2018, due to higher investment income following a rise in the projected average SDR interest rates as well as the positive IAS 19 gains projected.

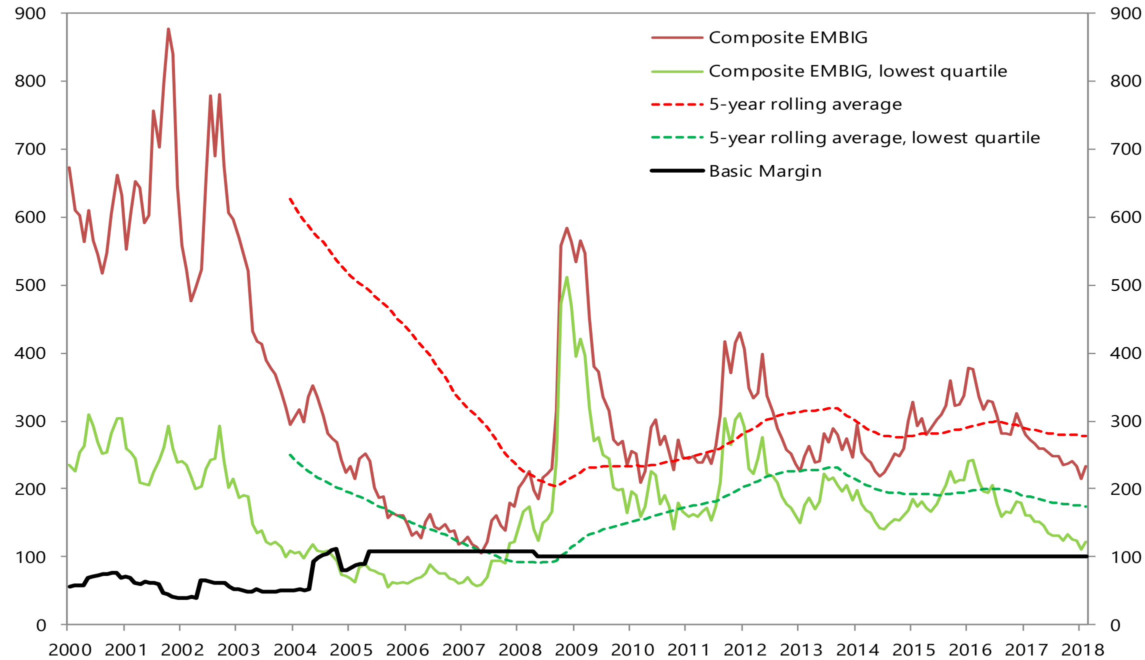
[25] See A New Rule for Setting the Margin for the Basic Rate of Charge (11/23/11).

[26] The index for EMBI spreads includes 66 countries, which are mostly emerging markets. While the index does not include advanced economies that currently have outstanding credit from the Fund, their share of overall outstanding credit has fallen to 35 percent from 55 percent in April 2017. Moreover, based on currently available measures, staff continues to view the EMBI-based measure as the most appropriate metric of long-term market conditions. See Annex II, Review of the Fund's Income Position for FY 2014 and FY 2015-2016 (04/07/14).

process in advanced economies. Staff therefore does not see a basis to conclude that the cost of Fund credit has at this juncture become too high or too low relative to long-term market conditions.

Figure 6. EMBIG Spreads: Total Composite and Bottom Quartile

(in basis points)[1]



Source: Bloomberg and Staff calculations.

[1] SDR-equivalent rates are calculated using the currency weights in the SDR basket.

Table 4. Long-Term Credit Market and Comparator Spreads [1]

(median spread unless otherwise noted, in SDR-equivalent basis points)

	2006 - 2010	2011 - 2015	Mar 2013 - Feb 2018
Country risk spread-EMBI-based measures			
Composite EMBI 2/	219	277	276
Lowest quartile 3/	158	182	173
Term premium 4/	10	12	16
Term-premium adjusted country risk spread			
Composite EMBI	210	265	260
Lowest quartile	148	170	157
Memorandum item			
Past Borrowers 5/	237	300	285
Margin on the basic rate of charge 6/	104	100	100

Sources: Bloomberg, JP Morgan and Fund staff calculations.

[1] SDR-equivalent rates are calculated using the currency weights in the SDR basket.

[2] A linear combination of spreads from the JPMorgan Emerging Market Bond Index Global Sovereign Spread (US dollar) and the JPMorgan Euro EMBI Global Government Spread, rebased using US dollar and euro weights in the SDR basket.

[3] The lowest quartiles for all dollar and euro denominated spreads (consisting of 66 and 22 countries included in EMBI indices), weighted by the rebased SDR basket weights.

[4] Difference in yields between a medium-term fixed-rate SDR bond and the medium-term average 3-month SDR interest rate as implied in futures market contracts, adjusted for the higher risk premium of instruments in future markets. Starting October 2016, these calculations account for the Chinese renminbi inclusion in the SDR basket.

[5] Median level of the SDR weighted US dollar and euro EMBI spreads for the members with Fund GRA arrangements between 2000 and 2018.

[6] Margin reduced to 100 bps from 108 bps in May 2008. The margin is defined in absolute basis points over the SDR interest rate.

Exceptional Circumstances Clause

29. The Executive Board has consistently relied on the exceptional circumstances clause under Rule I-6(4) in setting the margin for the rate of charge. The new Rule I-6(4), which was amended as part of the Fund's New Income Model, was designed to move away from reliance on lending income for financing the Fund's non-lending activities, i.e., non-lending income was expected to cover non-lending activities while lending income was to cover intermediation costs and contribute to reserve accumulation.[27] However, investment income, the main source of the Fund's non-lending income, remains constrained by low global interest rates. Payouts from the gold-profits-funded endowment are also expected to provide a meaningful contribution to Fund income over the long term but, as noted above, such payouts are assumed not to begin until FY 2021 to allow for a buildup of a greater cushion of retained income in the endowment against adverse return scenarios. Therefore, for the time being, the Fund will need to continue to rely on its lending income to cover a significant portion of its non-lending operating costs.

30. Against this background, the margin for FY 2019–2020 will again need to be set under the exceptional circumstances clause. Although non-lending income is projected to rise moderately, it is expected on average to cover only about 60 percent of the Fund's non-lending administrative expenses over the medium-term. A significant part of these costs would therefore need to be covered by income from the margin, reducing the margin's contribution to the Fund's reserve accumulation.

31. Based on the above assessment, staff proposes that the margin for the rate of charge be maintained at 100 basis points for FY 2019–20 (proposed Decision 6). Such a decision would be in line with the conclusion of the recent review of the adequacy of the Fund's precautionary balances, where Directors did not see a compelling case at that time for taking additional steps to reach the indicative SDR 20 billion medium-term target.[28] The current level of the margin also appears broadly aligned with long-term credit market conditions. In line with Rule I-6(4), Directors will have an opportunity to review the level of the margin before the end of FY 2019.

B. Key FY 2019–2020 Income Outlook Factors

32. Key factors that affect the FY 2019–2020 income outlook are discussed below (see Table 2). A sensitivity analysis on the income effects of changes in some of the assumptions is presented in Table 5.

Lending income. Income from margin is projected to be stable and average just under SDR 450 million in FY 2019 and FY 2020. Income from commitment fees in FY 2019 of SDR 53 million reflects the expected two-year commitment fees earned on two smaller precautionary arrangements that are scheduled to expire in FY 2019, while commitment fee income of SDR 410 million is expected for FY 2020 when a large FCL arrangement is scheduled to expire.

[27] The status of the New Income Model (NIM) remains unchanged from last year. See Annex II, Review of the Fund's Income Position for FY 2017 and FY 2018 (04/04/17).

[28] See Review of the Adequacy of the Fund's Precautionary Balances (12/27/17).

Surcharge income is projected to decrease in FY 2019 compared to FY 2018, reflecting the impact of the advance repurchases made in FY 2018, but edges up again in FY 2020 as large disbursements scheduled under several large current arrangements are projected to materialize.

IA Investment Income:

- **Fixed-Income Subaccount:** [29] Under the gradual implementation of the broadened investment mandate and a rising interest rate environment, as implied by forward markets, total returns are expected to be higher than previous years. The subaccount is projected to yield about 117 basis points and 147 basis points in FY 2019 and FY 2020, respectively, under this scenario. This translates into gains of about SDR 190 million and SDR 243 million in FY 2019 and FY 2020, respectively. However, a rise in interest rates beyond current market expectations could reduce these gains. Annex III provides further discussion on the sensitivity of the returns in this portfolio to changes in global interest rates.

- **Endowment Subaccount:** [30] The projected average returns from the endowment total about SDR 131 million in FY 2019 and SDR 135 million in FY 2020, lower than prior year estimates mainly reflecting the revaluation of the EA portfolio in SDR terms and lower assumed earnings of the EA of 2 percent in real terms in US dollars, compared with a 3 percent real return in SDR terms assumed in previous income papers. This reflects the conservative return outlook discussed with Directors in the recent review of the IA (see Annex III). Estimated income earned in the EA in FY 2019 and FY 2020 is assumed to be retained in the endowment and therefore not included in the Fund's operating income, and held in the EA for reinvestment.

Interest-free resources and reimbursements. Income from interest-free resources is projected to grow steadily higher reflecting an expected rise in global interest rates. Projected reimbursements are based on the FY 2018 estimates.

Expenditures. Net administrative and capital expenditures are consistent with those set in the medium-term budget paper.[31]

Impairments under IFRS 9. Staff is assessing the impact of IFRS 9 "*Financial Instruments*" which would become effective for the Fund in FY 2019. Under the standard, entities are required to assess financial instruments for impairment using an "expected loss" methodology considering a broad range of relevant factors, including forward-looking information. The Fund's net income would be reduced at an earlier point than under the current standard even if protracted arrears have yet to materialize. Accordingly, the implementation of IFRS 9 may heighten uncertainty around the

[29] The balance of the Fixed-Income Subaccount corresponds to the investment of the Fund's reserves except for the gold profits and any currencies retained in the GRA.

[30] Since April 2017, there has been no further funding of the endowment. It is 98 percent invested, with the remaining gold sales profits temporarily held in USD denominated short-term fixed deposits. The endowment is expected to be fully invested once the funding of the actively managed portion of the endowment is completed by end-April 2018.

[31] See FY2019–FY2021 Medium-Term Budget (03/29/18).

volatility of income. Annex II contains a fuller discussion on the implementation of the new standard in the Fund.

Sensitivity. Projected income and expenses remain susceptible to changes in the underlying assumptions. The effect of changes in key assumptions is summarized in Table 5.

Table 5. Sensitivity Analysis-
Effect of Changes in Selected Assumptions on FY 2019 Projected Income
(in millions of SDRs)

Increase/decrease in:	
SDR interest rate by 50 basis points	
Implicit returns [1]	27
Credit tranche purchases (non-FCL) by SDR 10 billion [2]	275
US dollar vis-à-vis SDR by five percent - Administrative expenses	39
US dollar vis-à-vis SDR by 1 US cent - Endowment Subaccount	35
Investment income margin by 50 basis points	106

[1] Implicit returns on GRA interest-free resources.
[2] Assumes May 1 transaction with full drawing of SDR 10 billion and access of 500 percent of quotas. Includes service charges, margin on the basic rate of charge and level based surcharges (commitment fees are excluded).

33. In October 2014, Rule T-1 and the burden sharing mechanism were amended as the SDR interest rate fell below the minimum required for the mechanism to operate.[32] Notably, a 5 basis point floor on the SDR interest rate was set, the rounding rules on the SDR interest rate and the burden sharing adjustment were changed, and the 1 basis point minimum of the burden sharing adjustment, introduced in FY 2010, was reduced to 0.1 basis point. These measures aim to preserve a minimal capacity of equal burden sharing for protecting the Fund's balance sheet, while limiting potential departures of the SDR interest rate from market interest rates.

34. Given current levels of overdue obligations and lending, and the moderate rise in interest rates, burden sharing adjustments remain at low levels. The burden sharing decision allows for a "carry-forward" of excess amounts generated from a minimum adjustment to the rate of charge and the rate of remuneration.[33] If the amounts brought forward are sufficient to offset deferred charges in subsequent quarter(s), no adjustments are necessary for such quarters. This was the case for adjustments to the rate of charge in FY 2015 and FY 2016, and the first two quarters in FY 2017 (see Table 6).

[32] Under the burden sharing mechanism, where creditors and debtors as a group generate equal amounts to cover deferred charges, a minimum positive SDR interest rate is required for the mechanism to operate. During FY 2015 the SDR interest rate hit historical lows, falling below that minimum level, affecting the functioning of the burden sharing mechanism for deferred charges. See Recent fall in the SDR Interest Rate – Implications and Proposed Amendments to Rule T-1 (10/16/14).

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

Table 6. Recent Burden Sharing Adjustment Rates
(in basis points, unless otherwise stated)

	FY11	FY12	FY13	FY14	FY15[3]	FY16	FY17	FY18 Projected
Rate of Remuneration [1]								
Deferred charges	–[2]	–[2]	–[2]	–[2]	0.300	0.575	0.375	0.500
Rate of Charge [1]								
Deferred charges	–[2]	–[2]	–[2]	–[2]	–	–	0.150	0.500
Average SDR interest rate (in percent)	0.35	0.30	0.09	0.09	0.061	0.051	0.187	0.679
Average basic rate of charge (in percent)	1.35	1.30	1.09	1.09	1.061	1.051	1.187	1.679

[1] The average rates have been calculated using the quarterly burden sharing rates and SDR interest rates.
[2] Annual average rate less than 0.5 basis points. Based on minimum burden sharing adjustment rate of 1 basis point.
[3] In October 2014, the minimum for the quarterly burden sharing rate adjustment of 1 basis point was reduced to 0.1 basis point.

REVIEW OF SPECIAL CHARGES

35. **The decision on special charges on overdue financial obligations in the GRA and the Trust Fund calls for an annual review.**[34] Under the decision, special charges equal to the SDR interest rate apply to charges that are in arrears for more than 10 days but not beyond six months.[35] While the decision also includes a regime for special charges on overdue repurchase obligations, such charges can only arise in circumstances where the basic rate of charge is below the SDR interest rate. 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.[36] At this stage, no changes are proposed to the current system (proposed Decision 7), but staff could revisit this issue at a later date if warranted by developments.

[34] Decision No. 8165-(85/189) G/TR, adopted December 30, 1985, effective February 1, 1986 as amended.

[35] Decision No. 10000-(92/58) G/TR, adopted April 17, 1992. Special charges were established to provide members with an incentive to settle their financial obligations to the Fund in a timely manner. It was also recognized that these charges may complicate the efforts of a member in protracted arrears and those of its donors and creditors to resolve its arrears problem, by increasing the financing needs and making it more difficult for the member to make payments to the Fund equivalent to obligations falling due.

[36] 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". As such, the basic rate of charge would always be in excess of, or at least equal to, the SDR interest rate. Hence, members with overdue obligations are currently not subject to an additional special charge on their overdue repurchases.

Proposed Decisions

Decisions Pertaining to FY 2018

- 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 2018.
- Decision 2 provides for the reimbursement to the General Resources Account for a total amount of the cost of administering the PRGT in FY 2018.
- 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 2018 administrative expenses. The income of the Endowment Subaccount for FY 2018 shall be retained.
- Decision 4 provides for the placement of FY 2018 General Resources Account net income to the Fund's Special Reserve and the 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 2018 net income.

Decisions Pertaining to FY 2019–20

- Decision 6 sets the rate of charge on the use of Fund resources for FY 2019–20 at 100 basis points over the SDR interest rate.
- Decision 7 reviews the system of special charges.

Decisions 1, 2, 3, 4, and 7 may be adopted by a majority of the votes cast. Decisions 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 2018

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, 2017 through April 30, 2018; 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, 2018 with an amount equal to 0.00165695 percent of their net cumulative allocations of special drawing rights. The total assessment shall be paid into the General Department.

Decision 2. PRG Trust Reimbursement for FY 2018

In accordance with paragraph 3 of Decision No. 8760-(87/176), adopted on December 18, 1987, an amount equivalent to SDR 63.58 million, representing the cost of administering the Poverty Reduction and Growth Trust (PRGT) for FY 2018, shall be transferred from the Reserve Account of the PRGT (through the Special Disbursement Account) to the General Resources Account.

Decision 3. Transfer of Investment Income for FY 2018 to General Resources Account

The income of the Fixed-Income Subaccount of the Investment Account for FY 2018 shall be transferred to the General Resources Account for use in meeting the expenses of conducting the business of the Fund during FY 2018. The income of the Endowment Subaccount for FY 2018 shall be retained in the Endowment Subaccount and invested according to the Rules and Regulations for the Investment Account.

Decision 4. Placement of FY 2018 Net Income of the General Resources Account to the Special Reserve and General Reserve

The net income of the General Resources Account for FY 2018 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 2018

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, 2018 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- October 2018. 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 2019 and FY 2020

Pursuant to Rule I-6(4)(a), last sentence of the Fund's Rules and Regulations, the rate of charge for FY 2019 and FY 2020 shall be 100 basis points over the SDR interest rates under Rule T-1 of the Fund's Rules and Regulations.

Decision 7. Review of the System of Special Charges

The Fund has reviewed Decision No. 8165-(85/189) G/TR, adopted December 30, 1985, effective February 1, 1986, as amended, on Special Charges on Overdue Financial Obligations to the Fund.

Annex I. Decisions in Effect Related to the FY 2018 Income Position[1]

Decisions in Effect

The Executive Board has taken the following decisions affecting the Fund's income position for FY 2018:

Rate of Charge

The margin for calculating the basic rate of charge in FY 2018 was set in 2016 at 100 basis points for a period of two years (FY 2017–18).[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

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.

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[1] Decision No. 15980-(16/33), adopted on April 22, 2016.

[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).

[1] See Review of the Fund's Income Position for FY 2017 and FY 2018 (04/04/17).

Annex II. Implementation of IFRS 9—Financial Instruments in the Fund

Staff is assessing the impact of the new standard: IFRS 9, "Financial Instruments", which would become effective for the Fund in FY 2019. IFRS 9 replaces the current accounting standard for financial instruments, IAS 39, *"Financial Instruments, Recognition and Measurement*". The new standard was introduced in response to the 2008 financial crisis on the grounds that accounting rules had failed to adequately signal the crisis, due to the *ex post* methodology for the recognition of credit losses. IFRS 9 requires assessing the credit portfolio for impairment and determining the potential losses based primarily on forward-looking information.[1] Under IAS 39, an impairment loss is recognized when, and only if, there is objective evidence that a credit event has occurred (which in the Fund's context would mean a case of protracted arrears). Under IFRS 9, it is no longer necessary for a credit event to occur before a credit loss is recognized. Instead, an entity is required to estimate an "expected loss" considering all relevant information, including forward looking information. Accordingly, in the event of significant expected arrears, IFRS 9 is likely to lead to an earlier recognition of an impairment loss than under IAS 39, even though the underlying assessment of credit risk by the Fund has not changed.

Historically, the Fund has never recognized any loan loss provisions due to the impairment of its assets. In the 1980s, against the background of an increased incidence and lengthened duration of overdue financial obligations, the concept of provisioning came under close scrutiny. At the time, the Fund did not adhere to any particular national or international accounting standards, so provisioning for loan losses was not mandatory for the Fund.[2] In 1987, the Executive Board discussed the concept of provisioning in the Fund and did not endorse it at the time. Instead, a number of other measures to mitigate the risk of overdue obligations were adopted by the Fund (including the burden sharing mechanism and the establishment of the SCA-1), which have since strengthened the Fund's financial safeguards and supported the arguments for non-recognition of loan loss provisions.

In 2000, the Fund adopted International Financial Reporting Standards that included specific requirements for accounting and reporting of impairment losses.[3] As required under IAS 39, the annual financial statements disclose the Fund's accounting policy for provisioning.[4] Despite the

[1] Other changes introduced by IFRS 9 include new rules for classification and measurement of financial instruments (these mostly affect the Fund's investment portfolio, but do not have a significant impact, since investments continue to be marked to market) and hedge accounting (not applicable to the Fund).

[2] The Fund's financial statements were prepared in accordance with "generally accepted accounting principles", which meant that accounting policies were adopted based on benchmarking against selected national or international accounting frameworks, while considering the Fund's unique financial and operational structure. The audit opinions, issued at that time by the External Audit Committee, confirmed adherence to the "generally accepted accounting principles" as selected by the Fund.

[3] At the time, the set of standards was called International Accounting Standards (IAS). It was renamed to International Financial Reporting Standards (IFRS) in 2001.

[4] See, for example, disclosure note 3.5 in the 2017 financial statements of the General Department: "An impairment loss under IFRS would be recognized if there were objective evidence of impairment as a result of a loss event that

existence of relatively small amounts of overdue obligations, the Fund has not recorded a provision for loan losses since the adoption of IFRS because there has been only one new case of protracted arrears (which has since been resolved), and the mitigation measures in place (including burden sharing and the SCA-1) have been adequate to avoid recognition of an impairment loss in other circumstances. This assessment was confirmed by the external auditors, who now sign the audit opinions.[5] Under IFRS, if the Fund suffered a significant impairment loss but did not record a loss allowance in the financial statements, the external auditors would in all likelihood have to issue a modified audit opinion.[6]

The application of IFRS 9 impairment requirements to the Fund needs to be considered in the context of the nature of the Fund's lending and factor in its unique circumstances. Financial sector practice is primarily quantitative in nature and focuses on building statistical models, regressing historical data of losses against relevant variables, and projecting the probabilities of default and losses given default. This approach could not be followed by the Fund since its credit portfolio consists of a relatively small number of borrowers, each with its own unique characteristics (in contrast to commercial financial institutions' homogenous credit portfolios, that are more suited to the statistical approach). In addition, past occurrences of defaults are extremely scarce, making a regression-type approach difficult to implement. Further, the Fund's assessment of credit risk could not rely on general country indicators, e.g., credit risk ratings, since the Fund's unique relationship with its members, together with its de facto preferred creditor status, significantly reduce the likelihood of incurring credit losses.

If an expectation of a case of significant arrears was to arise under the forward-looking expected credit loss approach of IFRS 9, the Fund may need to consider the recognition of impairment losses. Currently, there are no protracted arrears in the credit portfolio, except for Somalia and Sudan. However, the risk of future cases cannot be ruled out. And although there are various unique aspects of the Fund's lending, and associated safeguards, they could be insufficient in case of large protracted arrears. This situation could arise, for example, if the burden sharing mechanism and the balance in the SCA-1 are insufficient to absorb expected credit losses. Therefore, the Fund needs to undertake the portfolio analysis called for by IFRS 9.

Staff has made considerable progress in developing a framework for implementing the new standard. This framework has been developed in close collaboration with area and other relevant departments. It is envisaged that the proposed framework will draw heavily on existing staff analysis

occurred after initial recognition, and would be determined as the difference between the outstanding credit's carrying value and the present value of the estimated future cash flows."

[5] Provisioning was discussed in 2015 in the context of short-term arrears by one country. However the Fund, in consultation with the external auditors, concluded that no impairment needed to be recognized under IAS 39.

[6] A modification to the audit opinion would most likely mean that the audit opinion confirms adherence to IFRS, except for certain significant aspects that are not in conformity with IFRS.

and reports.[7] Staff has also maintained close contact with the external auditor (PwC) and the External Audit Committee (EAC) in the course of undertaking this work. Key elements of the implementation approach include:

- **Staging analysis.** IFRS 9 requires estimating impairment based on the expected credit loss (ECL). As a first step, entities are required to measure loss allowances based on an approach which is intended to reflect the deterioration in credit quality. The proposed framework envisages that loans would be classified based on a 3-stage approach: Stage 1 for loans on which credit risk has not increased since initial recognition; Stage 2 for loans on which credit risk has increased significantly; and Stage 3 for loans in default (protracted arrears in the Fund's context).[8] Staff is in the process of performing a pilot staging analysis for the end-April 2017 loan portfolio.[9] The approach evaluates Fund credit on a member-by-member basis applying the same criteria for all members. The framework relies on readily available qualitative and quantitative data, including forward-looking factors focusing on the member's capacity and willingness to repay the Fund. Where such information is not available without undue cost or effort, staff will rely on the professional judgment of country teams and considering the member's past due information, as provided under the standard.

- **ECL calculation.** For Stages 2 and 3, ECLs need to be calculated on a probability-weighted basis as the difference between (i) the cash flows that are due to the Fund in accordance with the contractual terms and (ii) the discounted cash flows that the Fund expects to receive in different scenarios. For loans classified under Stage 1, the calculations are similar, but are limited to cases where default (protracted arrears) occurs within twelve months from the reporting date (12-months ECLs). Staff is still in the process of developing the ECL calculation methodology.

Staff is discussing with the external auditor (PwC) and the External Audit Committee the modalities under IFRS 9 for loss measurement and recognition and will brief the Board on IFRS 9 implementation in early June 2018.[10] This briefing is expected to cover (i) the key elements of the framework, including the criteria for assessing credit risk in staging analyses and ECL

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[7] These include country staff reports for existing and new arrangements, post program monitoring reports, staff monitored program reports, Article IV reports, and other official documents of the Fund discussing member's debt sustainability and capacity to repay the Fund.

[8] There are no purely quantitative metrics for measuring credit risk in the Fund's context. Instead, a holistic approach based on both qualitative and quantitative factors will be performed to evaluate if the risk of a member getting into protracted arrears to the Fund has increased significantly since initial recognition of the credit. Events that might suggest that the risk has increased significantly include, but are not limited to, emergence of short term arrears, official statements or other signals from the member indicating lack of willingness to repay, and force majeure events, such as coup d'état or civil war.

[9] Upon adoption, the Fund is required to apply this standard retrospectively as if the new accounting policy had always been applied. Accordingly, part of the preparatory work involves an impairment assessment (under the new IFRS 9 rules) of the loan portfolio as of April 30, 2017 and 2018, for the purpose of FY 2019 comparative reporting.

[10] As noted above, the issue of loss recognition and provisioning was last considered by the Executive Board more than 25 years ago, when it rejected provisioning as a tool for protecting the Fund's financial position against the risk from overdue financial obligations. The Executive Board would have to revisit the issue of loss recognition and provisioning in the event of significant arrears. No impairment losses would be recognized without prior endorsement of provisioning by the Executive Board.

calculation methodology; (ii) the results of the pilot assessments as of end-April 2017 and end-April 2018; and (iii) the impact on disclosures for the FY 2018 financial statements.

Annex III. Investment Account (IA) Performance Scenarios

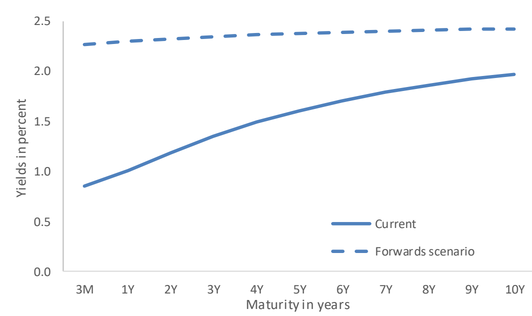
This annex highlights the possible range of investment returns for the IA based on different market scenarios.[1] The two IA subaccounts have distinct investment objectives and pursue different strategies accordingly. Their medium-term return and risk outlook is discussed below.

Fixed-Income Subaccount (FI)

The FI investment strategy adopted in August 2015 aims to achieve returns in excess of the 3-month SDR interest rate over a three- to four-year horizon. The new strategy expands the eligible fixed-income universe and divides the portfolio into two distinct tranches to diversify risks and improve resilience against transitions in interest rate regimes. Tranche 1 includes an expanded set of high-quality fixed-income assets beyond government bonds managed actively by external managers, broadly guided by a 0 to 3 year government index. Tranche 2 includes passively managed longer-duration investments based on a 0-5 year government bond benchmark and phased-in over a 5-year horizon.[2]

Simulated returns for the FI are based on different yield curve paths over a five-year horizon (Text Figure 1). Two main yield curve scenarios are used, namely: (i) yields remain unchanged from current levels; and (ii) yields increase in line with market implied forward rates. Staff's analysis assumes Tranche 1 maintains a fixed duration equivalent to the 0-3 year benchmark index and 30 percent allocation to US corporates rated A and above as a proxy for expanded assets permitted under the revised Rules. However, in practice, the duration and asset mix for Tranche 1 will vary somewhat based on the strategies employed by active managers.[3]

Text Figure 1. Illustrative Yield Curve Scenarios over a 5-year Horizon



Source: Staff calculations based market conditions as of February 28, 2018.

Based on these assumptions and market conditions as at the end of February 2018, average FI returns are projected to be positive under each scenario over a 5-year horizon (Text Figure 2a). The expected average returns are higher compared with previous years as government bond yields in SDR have increased by approximately 60 bps in the past year, which is expected to translate into higher coupon income going forward and improved protection for the FI against rising yields.

[1] A stochastic simulation model is used to derive a distribution of expected return projections from which the ex ante risk statistics are measured. Results present a range of possible risk and return outcomes for the FI over the next 5 years, which vary depending on assumptions made regarding the future evolution of yields.

[2] So far about one-fifth of Tranche 2 has been invested in this new strategy with the balance placed in short-duration fixed-income instruments.

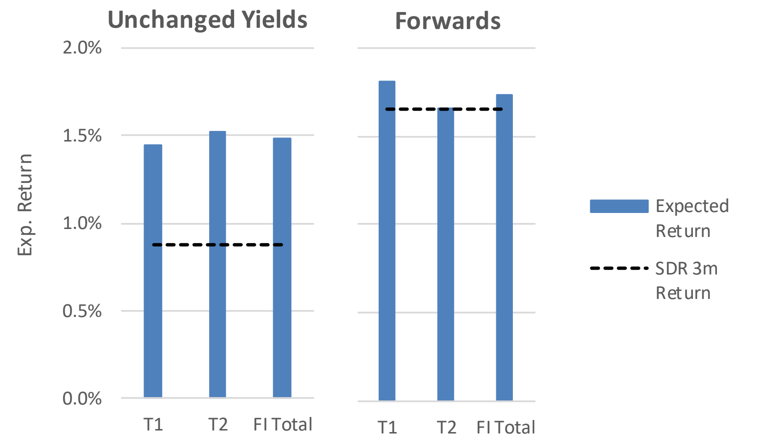
[3] The duration for Tranche 1 is permitted to fluctuate between 0 to 2 years.

Under the unchanged yield curve scenario, excess returns relative to the 3-month SDR rate would be about 50 bps. If rates rise in line with forwards, or more rapidly, the absolute level of returns would eventually be higher over a 5-year period although overall excess returns over the SDR rate would be almost negligible.

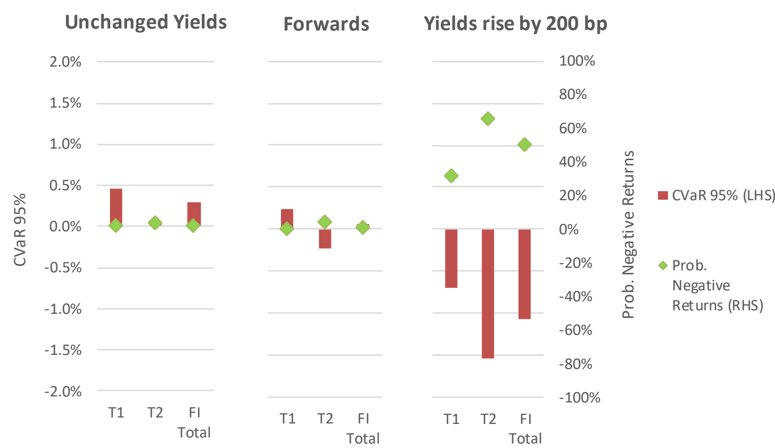
Over a one-year horizon, returns are expected to be positive on average but with higher tail risk especially if yields rise sharply. At this point in the 5-year phase-in of Tranche 2, both tranches have similar risk profiles and the duration of the FI overall is relatively short (less than 1 year). At a confidence interval of between 75 percent and 25 percent, annual investment income from the FI is expected to fall within the range of SDR 125 million to SDR 324 million. This assumes a portfolio size of SDR 15 billion. Under the adverse scenario that yields rise sharply by 200 bps from the current levels over 1-year, the expected return would be zero and if yields rise beyond that level the FI is likely to record a negative return (Text Figure 2b). The worst-case loss would be about -1 percent as proxied by 95 percent conditional value at risk (CVaR) (Text Figure 2b).

Simulated 5-Year Average Annual Return and 1-Year Risk Statistics for the FI

Text Figure 2a. Simulated 5-Year Average Annual Return



Text Figure 2b. 1-Year Risk Statistics



Source: Staff calculations based on market conditions at the end of February 2018.
Note: FI estimated performance includes the gradual phase-in of longer duration Tranche 2.

Endowment Subaccount (EA)

The investment objective of the EA is to generate a long-term real rate of return of 3 percent in US dollar terms. At least 90 percent of the EA is invested passively following a Strategic Asset Allocation (SAA) with a diversified 60/40 percent split between global fixed-income and equity (Text

Figure 3a).[4] The broad range of assets in the SAA increases the probability of meeting the EA's return target over the long run at the expense of higher volatility of short-term returns, especially compared to the FI. The duration of the fixed-income assets in the EA is approximately 6 years (compared to the FI which is around 1 to 2 years), and the SAA includes allocations to global equities, Real Estate Investment Trusts, emerging market and corporate bonds which carry additional market and credit risks. In addition, approximately 25 percent of the EA SAA is unhedged to the US dollar base currency which is an additional source of short-term return volatility.[5]

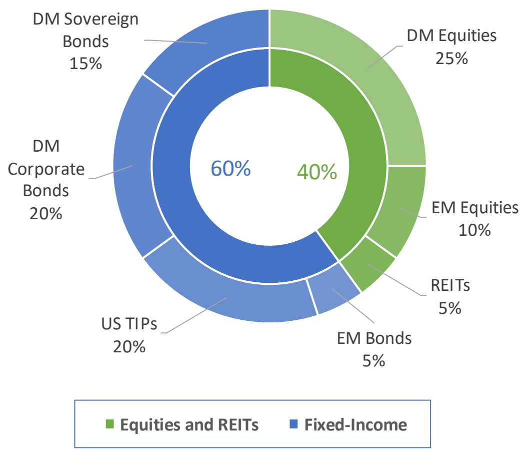
As noted in the recent Board review of the EA, meeting the 3 percent return target in US dollar terms will be very challenging in the medium term. Staff updated forward-looking simulations for the EA's new SAA over the medium- and long-term horizons. The central market scenario used is consistent with assumptions in the recent IA Review and close to the forward scenario used for the FI.[6] Expected returns improve slightly from those presented in the recent Board review as yields in developed markets are at a higher level compared to October 2017, benefitting the EA's forward looking expected returns. However, real yields are still at historical lows and current asset valuations are elevated. As such, forward looking simulations indicate a high probability for the EA to underperform its 3 percent real return target in US dollars (Figure Text 3b). Average expected returns based on the central market scenario range between 4.2 percent and 5.2 percent in nominal terms in US dollars (approximately 2 and 3 percent in real terms in US dollars) over a 5- and 15-year horizon respectively. In addition, the estimated worst case annual loss (based on CVaR) is around 12 percent. This would be equivalent to a loss in SDR terms of about SDR 600 million.

[4] Implementation of the new investment strategy is expected to commence in early FY2019. The EA also has an actively managed portion which is initially only 5 percent and is managed in the same asset classes as for the passive, but with wide deviation bands.

[5] Only non-US dollar developed-market currency fixed-income assets are required and allowed to be hedged.

[6] Assumptions in the central market scenario include i) DM yields rise gradually over a long-term horizon, passing through WEO forecast at 5-year mark, and stabilize at past 10-year average pre-financial crisis; ii) EM local yields fluctuate around their historical average and spreads for EM external debt adjusted downwards to account for the limited universe of eligible issuers in the EA; ii) Corporate spreads vary around long-term historical average while equity returns were assumed to be modestly lower than historical averages given the current elevated valuation.

Text Figure 3a. - EA Strategic Asset Allocation (SAA)



Text Figure 3b. - Simulated Average Annual Return and Risk for the EA (in US dollar terms)

Horizon		Medium-term (5-year)	Long-term (15-year)
Avg. Expected Nominal Return		**4.2%**	**5.2%**
Standard Deviation		8.6%	8.6%
Reward-to-risk Ratio		0.49	0.60
VaR Return (95%)		-9.2%	-8.3%
CVaR Return (95%)		-12.3%	-11.3%
Probability of Underperforming Real Return Target	3% Real	63.2%	60.8%
	2% Real	55.0%	39.2%
	0% Real	36.0%	11.0%
Memo. Item	US Inflation	2.2%	2.2%

Source: Staff calculations based on market conditions as of end-February 2018.

Annex IV. Assumptions Underlying the Income Projections

Assumptions Underlying the Income Projections

(in billions of SDRs, unless otherwise stated)

	Actual through Feb. 2018	Projected FY 2018	FY 2019	FY 2020
Regular Facilities:				
1. Purchases (excl. reserve tranche purchases)	4.0	4.2	12.5	3.9
2. Repurchases	14.1	14.6	4.4	4.9
3. Average balances subject to charges	44.5	43.4	41.9	46.3
4. Average SDR holdings	27.2	27.0	24.5	21.4
5. Average remunerated positions	40.7	40.4	40.1	40.8
6. Average Fixed-Income subaccount balance	15.1	15.2	16.3	16.5
7. Average Endowment subaccount balance	5.1	5.1	5.2	5.3
8. Average borrowings and issued notes	25.2	24.3	20.6	20.1
		(In percent)		
Return on investments-Fixed-Income subaccount[1]	0.47	0.58	1.17	1.47
Return on investments-Endowment subaccount[1,2]	-0.16	0.23	2.59	2.61
Average interest rates:				
SDR interest rate and basic rate of remuneration	0.64	0.70	1.10	1.40
Basic rate of charge	1.64	1.70	2.10	2.40
Margin on the rate of charge	1.00	1.00	1.00	1.00

[1] End-February figure is unannualized.

[2] The projected returns for the gold endowment reflect the phase in of investments under the strategic asset allocation and the earnings from the short-term deposits held in the interim. Return on the portfolio is shown in SDR terms.

Annex V. Consolidated Medium-Term Income and Expenses

Consolidated Income and Expenses, FY 2018–28 Baseline Scenario[1]

								Scenario A	Scenario B	Scenario C
								SDRi 2.5%	SDRi 3%	SDRi 3%
	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY28	FY28	FY28
	(in SDR millions)									
A. Operational income including surcharges	**1,342**	**1,153**	**1,703**	**1,360**	**1,314**	**1,286**	**1,155**	**908**	**1,063**	**1,121**
Lending income	1,149	843	1,320	790	686	597	431	242	242	242
Margin for the rate of charge	434	419	463	428	369	294	219	200	200	200
Service charge	21	62	20	0	0	0	0	18	18	18
Commitment fees	323	53	410	0	0	0	0	24	24	24
Surcharges	371	309	427	362	317	303	212	0	0	0
Investment income	89	190	243	415	463	513	550	471	599	656
Fixed-Income Subaccount 2/	89	190	243	309	356	405	441	414	484	484
Gold endowment pay-out 3/	0	0	0	106	107	108	109	57	115	172
Interest free resources 4/	37	56	75	89	99	109	107	124	151	152
SCA-1 and other	37	56	75	89	99	109	107	124	151	152
Reimbursements	67	64	65	66	66	67	67	71	71	71
CCR Trust and SDR Department	3	3	3	3	3	3	3	3	3	3
PRG Trust	64	61	62	63	63	64	64	68	68	68
B. Expenses	**833**	**841**	**844**	**846**	**859**	**864**	**870**	**920**	**920**	**920**
Net administrative budget	771	777	780	787	802	804	810	861	861	861
Capital budget items expensed	27	24	18	9	5	5	5	5	5	5
Depreciation	35	40	46	50	52	55	55	54	54	54
C. Net operational income including surcharges (A-B)	**509**	**312**	**859**	**514**	**455**	**422**	**285**	**-12**	**143**	**201**
IAS 19 gains/(losses)	162	0	0	0	0	0	0	0	0	0
D. Net operational income after IAS 19 gains/(losses)	**671**	**312**	**859**	**514**	**455**	**422**	**285**	**-12**	**143**	**201**
Endowment (Gold Profits) Subaccount	12	131	135	35	71	36	37	112	113	114
Net income	**683**	**443**	**994**	**549**	**526**	**458**	**322**	**101**	**256**	**315**
	(in US$ millions)									
E. Operational income including surcharges	**1,907**	**1,683**	**2,521**	**2,039**	**1,984**	**1,967**	**1,790**	**1,444**	**1,689**	**1,780**
Lending income (including Surcharges)	1,633	1,230	1,954	1,186	1,036	914	668	384	384	384
Investment income	126	277	359	622	699	785	852	749	952	1,042
Interest free resources	53	82	112	133	149	166	166	198	240	241
Reimbursements	95	94	96	98	100	102	104	113	113	113
F. Expenses	**1,182**	**1,228**	**1,249**	**1,268**	**1,298**	**1,320**	**1,348**	**1,462**	**1,462**	**1,462**
Net administrative budget	1,095	1,135	1,155	1,180	1,211	1,229	1,255	1,369	1,369	1,369
Capital budget items expensed	38	35	26	13	8	8	8	8	8	8
Depreciation	49	58	68	75	79	83	85	85	85	85
G. Net operational income including surcharges (E-F)	**725**	**455**	**1,272**	**771**	**686**	**647**	**442**	**-18**	**227**	**319**
Memorandum Items:										
Fund credit (average stock, SDR billions)	43.4	41.9	46.3	42.8	36.9	29.4	21.9	20.0	20.0	20.0
SDR interest rate (in percent)	0.7	1.1	1.4	1.7	1.9	2.1	2.1	2.5	3.0	3.0
US$/SDR exchange rate	1.42	1.46	1.48	1.50	1.51	1.53	1.55	1.59	1.59	1.59
Surcharges (US$ millions)	527	451	632	544	479	464	329	-	-	0
Precautionary balances (end of period, SDR billions)	17.4	17.7	18.6	19.1	19.5	19.9	20.2	15.0	15.0	15.0

[1] The baseline assumes an initial payout of 2 percent of the US dollar value of the EA following a 3 year delay, adjusted for the GED annually thereafter.

[2] The current medium-term projections are conservative and assume that a premium of 50 basis points over the SDR rate is attained in the longer run.

[3] The baseline projections assume a 2 percent payout from the gold endowment commencing in FY 2021. The scenarios for FY 2028 show a reduced payout of 1 percent in a low return environment (Scenario A); a continued payout of 2 percent (Scenario B); and an increased payout of 3 percent (Scenario C).

[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 the SCA-1, 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 resulting in implicit income for the Fund.

Annex VI. Comparison of IFIs' Lending Terms

While not required under Rule I-6(4), some Directors have asked how the cost of Fund support compares with that of other IFIs. This annex provides a simple comparison of the cost of Fund borrowing relative to other International Financial Institutions (IFIs) that have lending facilities for sovereign borrowers.

Comparing the Fund's financing terms with other International Financial Institutions (IFIs) is not straightforward as the institutions have substantially different financial models and risk management frameworks. In contrast to the Fund, other IFIs raise funds from the markets and leverage their capital base. Their lending rates are set based on the private market rates in a currency of the loan (e.g. US dollar 6-month LIBOR), while the Fund's lending is SDR denominated and uses the shorter maturity 3-month interest rate based on the SDR basket, which comprises representative government debt instruments. At the same time, the balance of payments assistance provided by the Fund is typically at shorter maturities (maximum of ten years for the EFF) than offered by other IFIs' (maximum of around or above twenty years). The Fund allows for large access under the exceptional access policy, while employing policy and price incentives to encourage members to repay once their balance of payment positions improve. In contrast, most other IFIs use individual country exposure limits to manage their credit risk, and, in the case of the IBRD, additional charges apply to early repayment.

Despite these caveats, a simple comparison of lending terms would suggest that the cost of Fund credit is not out of line with the cost of lending by other IFIs. At the current market rates, the basic rate of charge for normal access to Fund credit, based on the SDR interest rate and the margin of 100 basis points, stands below the lending rates charged by other IFIs on the bulk of their outstanding credit denominated in US dollars, typically consisting of a floating 6-month interbank market rate plus a spread depending on the maturity and currency denomination (see below). However, such simple comparison of loan rates denominated in different currencies does not take into account possible future developments in exchange rates that affect effective borrowing costs on loans. Moreover, the overall cost of lending for any individual member would also depend on other associated fees and charges, the applicability of which depends on the credit-specific circumstances.

Table A1. Comparison of IFI's financing terms[1]

(in percent, market rates as of end-February, 2018)

Institution (Lending facilities for sovereign borrowers)	Reference Rate		Spread/Margin [2]		Total	Other charges [3]
IMF (SBA/EFF)	SDR interest rate [4] 0.82%	+	1.00%	=	**1.82%**	Service Charge (0.50%) Surcharge (2.00-3.00%) Commitment Fee (0.15-0.60%)
IBRD						
(Development Policy Loan (DPL))	6-month USD LIBOR 2.22%	+	0.46% Spread (0.50) + Funding Cost Margin (-0.04)	=	**2.68%**	Front end fee (0.25%) Commitment Fee (0.25%)
(Special DPL)[5]	6-month USD LIBOR 2.22%	+	2.00%	=	**4.22%**	Front end fee (1.00%) Commitment Fee (0.25%)
ADB (LIBOR-based Loans)	6-month USD LIBOR 2.22%	+	0.48% Spread (0.50) + Funding Cost Margin (-0.02)	=	**2.70%**	Commitment Fee (0.15%)
AfDB (Fully Flexible Loan)	6-month USD LIBOR [6] 1.97%	+	0.78% Spread (0.80) + Funding Cost Margin (-0.02)	=	**2.75%**	Front end fee (0.25%) Commitment Fee (0.25%)
IDB (Flexible Financing Facility)	3-month USD LIBOR [6] 1.72%	+	0.93% Spread (0.80) + Funding Cost Margin (0.13)	=	**2.65%**	Credit Comission Fee (0.50%)

Source: The IFI's websites and published documents, IMF staff calculations

[1] This comparison takes US dollar denominated loans as an example due to their predominance in currently outstanding loans (79% (IBRD), 97% (ADB), 52% (AfDB) and 97% (IDB), based on the latest available financial statements). The loans in other currencies could offer lower lending terms depending on developments on their market-based reference rates.

[2] The table comparison is made for the shortest maturity loans offered by the IFIs (up to 8-13 years of average maturity weighted by remaining loan amounts outstanding for IBRD, ADB, and AfDB). Longer maturity loans (except for IDB) would be subject to an additional maturity premium. The funding cost margin for AfDB is as of end-January 2018.

[3] The Fund charges a one-time service charge of 50 basis points on each drawing as well as level-based and time-based surcharges. The other IFIs normally do not charge surcharges, but the IBRD and AfDB charge a front-end fee calculated on the committed amount. The IMF also charges a refundable commitment fee of 15-60 basis points on amounts available for drawing during each relevant (typically annual) period. Other IFIs levy a non-refundable commitment fee on undisbursed balances. Other IFIs may also charge a transaction fee if a borrower converts the original currency of a loan to another currency during the life of the loan. In contrast, the Fund's loans are denominated in SDR and the Fund allows a borrower, without any additional fee, to repay in a currency that is different from one the borrower initially received.

[4] The SDR interest rate is the weighted average of representative interest rates on short-term debt instruments in the money markets of the five SDR basket currencies. The representative rate for US dollar (3-month Treasury bills) is 1.64% as of end-February.

[5] Special DPL (Special Development Policy Loan) – the IBRD's crisis response facility for countries with urgent and extraordinary financing needs – allows lending beyond the individual country exposure limits under the condition that a disbursing IMF-supported program is already in place.

[6] AfDB and IDB apply constant reference rates reset based on the floating rates in semi-annual and quarterly intervals respectively (last set on February 1, 2018 and January 15, 2018 respectively).

Annex VII. Cumulative Burden Sharing Adjustments at end–January 2018

Cumulative Burden Sharing Adjustments at end–January 2018
(in millions of SDRs)

	Adjustments for Deferred Charges				Adjustments for SCA-1			
Member	Charges	Remuneration	Total	Percentage of total	Charges	Remuneration	Total	Percentage of total
Albania	0.1	0.0	0.1	0.0	0.1	0.0	0.1	0.0
Algeria	7.4	0.5	7.9	1.1	13.2	0.5	13.6	1.1
Angola	0.1	0.0	0.1	0.0	-	0.0	0.0	0.0
Antigua and Barbuda	0.0	-	0.0	0.0	-	-	-	-
Argentina	31.0	0.0	31.0	4.3	64.7	-	64.7	5.4
Armenia	0.2	0.0	0.2	0.0	0.2	0.0	0.2	0.0
Australia	-	3.0	3.0	0.4	-	7.0	7.0	0.6
Austria	-	4.7	4.7	0.6	-	7.6	7.6	0.6
Azerbaijan	0.3	0.0	0.3	0.0	0.9	-	0.9	0.1
Bahamas, The	-	0.0	0.0	0.0	-	0.0	0.0	0.0
Bahrain	-	0.7	0.7	0.1	-	0.9	0.9	0.1
Bangladesh	3.1	0.0	3.1	0.4	2.9	-	2.9	0.2
Barbados	0.1	0.0	0.2	0.0	0.2	0.0	0.2	0.0
Belarus	0.8	-	0.8	0.1	1.0	-	1.0	0.1
Belgium	-	6.3	6.3	0.9	-	12.3	12.3	1.0
Belize	0.0	0.0	0.1	0.0	0.0	0.0	0.1	0.0
Benin	-	0.0	0.0	0.0	-	-	-	-
Bhutan	-	0.0	0.0	0.0	-	0.0	0.0	0.0
Bolivia	0.9	0.0	0.9	0.1	0.9	-	0.9	0.1
Bosnia and Herzegovina	0.6	-	0.6	0.1	0.8	-	0.8	0.1
Botswana	-	0.2	0.2	0.0	-	0.3	0.3	0.0
Brazil	23.8	0.2	24.0	3.3	57.4	-	57.4	4.8
Brunei Darussalam	-	0.1	0.1	0.0	-	0.3	0.3	0.0
Bulgaria	3.7	0.1	3.8	0.5	8.2	0.1	8.3	0.7
Burkina Faso	-	0.1	0.1	0.0	-	0.1	0.1	0.0
Burundi	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cabo Verde	-	0.0	0.0	0.0	-	-	-	-
Cambodia	0.0	0.0	0.0	0.0	0.0	-	0.0	0.0
Cameroon	0.7	-	0.7	0.1	0.8	-	0.8	0.1
Canada	-	6.4	6.4	0.9	-	14.3	14.3	1.2
Central African Republic	0.1	-	0.1	0.0	0.1	-	0.1	0.0
Chad	0.1	-	0.1	0.0	0.1	-	0.1	0.0
Chile	5.8	0.5	6.4	0.9	5.7	1.6	7.3	0.6
China	4.0	8.2	12.3	1.7	3.5	16.2	19.7	1.7
Colombia	-	1.4	1.4	0.2	-	2.3	2.3	0.2
Comoros	0.0	0.0	0.0	0.0	-	0.0	0.0	0.0
Congo, D.R.	3.4	-	3.4	0.5	3.9	-	3.9	0.3
Congo, Rep.	0.1	0.0	0.1	0.0	0.2	-	0.2	0.0
Costa Rica	0.4	0.1	0.5	0.1	0.5	0.1	0.6	0.0
Côte d'Ivoire	2.5	0.0	2.5	0.3	2.4	-	2.4	0.2

Cumulative Burden Sharing Adjustments at end–January 2018 (continued)
(in millions of SDRs)

Member	Adjustments for Deferred Charges: Charges	Remuneration	Total	Percentage of total	Adjustments for SCA-1: Charges	Remuneration	Total	Percentage of total
Croatia	1.1	-	1.1	0.2	1.6	-	1.6	0.1
Cyprus	0.0	0.2	0.2	0.0	-	0.4	0.4	0.0
Czech Republic	2.2	0.3	2.5	0.3	2.7	0.6	3.3	0.3
Denmark	-	3.6	3.6	0.5	-	6.2	6.2	0.5
Djibouti	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Dominica	0.0	-	0.0	0.0	0.0	-	0.0	0.0
Dominican Republic	2.5	0.0	2.5	0.3	2.2	-	2.2	0.2
Ecuador	2.0	0.1	2.1	0.3	2.6	0.1	2.7	0.2
Egypt	1.6	0.1	1.7	0.2	1.5	0.2	1.7	0.1
El Salvador	0.0	-	0.0	0.0	0.0	-	0.0	0.0
Equatorial Guinea	0.0	0.0	0.0	0.0	0.0	-	0.0	0.0
Estonia	0.1	0.0	0.1	0.0	0.3	-	0.3	0.0
Ethiopia	0.2	0.0	0.2	0.0	0.2	0.0	0.2	0.0
Fiji	0.0	0.1	0.1	0.0	0.0	0.2	0.2	0.0
Finland	-	2.7	2.7	0.4	-	4.6	4.6	0.4
France	-	19.2	19.2	2.7	-	33.5	33.5	2.8
Gabon	0.7	0.0	0.7	0.1	1.0	-	1.0	0.1
Gambia, The	0.1	0.0	0.1	0.0	0.1	-	0.1	0.0
Georgia	0.3	-	0.3	0.0	0.4	-	0.4	0.0
Germany	-	38.9	38.9	5.4	-	59.1	59.1	5.0
Ghana	1.7	0.0	1.7	0.2	1.8	0.0	1.8	0.2
Greece	2.5	1.2	3.7	0.5	-	2.1	2.1	0.2
Grenada	0.0	0.0	0.0	0.0	0.0	-	0.0	0.0
Guatemala	0.4	0.0	0.4	0.1	0.3	0.0	0.3	0.0
Guinea	0.1	0.0	0.1	0.0	0.1	-	0.1	0.0
Guinea-Bissau	0.0	0.0	0.0	0.0	0.0	-	0.0	0.0
Guyana	0.4	-	0.4	0.1	0.4	-	0.4	0.0
Haiti	0.2	0.0	0.2	0.0	0.3	-	0.3	0.0
Honduras	0.4	0.0	0.5	0.1	0.6	0.0	0.7	0.1
Hungary	7.3	0.4	7.7	1.1	6.9	1.3	8.2	0.7
Iceland	0.2	0.1	0.3	0.0	0.0	0.1	0.1	0.0
India	24.0	2.7	26.7	3.7	28.4	3.4	31.9	2.7
Indonesia	14.7	1.0	15.7	2.2	42.5	1.6	44.0	3.7
Iran, I. Rep. of	-	0.1	0.1	0.0	-	0.0	0.0	0.0
Iraq	0.8	0.5	1.3	0.2	0.6	0.3	0.9	0.1
Ireland	1.5	2.1	3.6	0.5	-	3.3	3.3	0.3
Israel	0.6	0.4	0.9	0.1	0.9	0.9	1.7	0.1
Italy	-	17.9	17.9	2.5	-	28.2	28.2	2.4
Jamaica	2.6	0.0	2.6	0.4	2.9	-	2.9	0.2
Japan	-	40.2	40.2	5.6	-	64.5	64.5	5.4
Jordan	1.8	0.0	1.8	0.2	3.1	0.0	3.1	0.3
Kazakhstan	0.8	0.0	0.8	0.1	1.7	-	1.7	0.1
Kenya	1.2	0.0	1.2	0.2	1.1	0.0	1.1	0.1
Kiribati	-	0.0	0.0	0.0	-	-	-	-
Korea	7.8	3.5	11.3	1.6	19.6	5.0	24.6	2.1

Cumulative Burden Sharing Adjustments at end–January 2018 (continued)
(in millions of SDRs)

	Adjustments for Deferred Charges				Adjustments for SCA-1			
Member	Charges	Remuneration	Total	Percentage of total	Charges	Remuneration	Total	Percentage of total
Kosovo	0.0	0.0	0.0	0.0	-	-	-	-
Kuwait	-	2.8	2.8	0.4	-	4.2	4.2	0.4
Kyrgyz Republic	0.1	-	0.1	0.0	0.3	-	0.3	0.0
Lao P.D.R	0.0	0.0	0.0	0.0	0.0	-	0.0	0.0
Latvia	0.4	-	0.4	0.1	0.5	-	0.5	0.0
Lebanon	0.1	0.3	0.4	0.1	-	0.3	0.3	0.0
Lesotho	-	0.0	0.0	0.0	-	0.0	0.0	0.0
Liberia	2.4	0.0	2.4	0.3	3.1	-	3.1	0.3
Libya	-	5.1	5.1	0.7	-	6.4	6.4	0.5
Lithuania	0.5	-	0.5	0.1	1.2	-	1.2	0.1
Luxembourg	-	0.3	0.3	0.0	-	0.6	0.6	0.0
Macedonia, F.Y.R.	0.3	-	0.3	0.0	0.5	-	0.5	0.0
Madagascar	0.4	0.0	0.4	0.1	0.4	-	0.4	0.0
Malawi	0.3	-	0.3	0.0	0.3	-	0.3	0.0
Malaysia	-	3.3	3.3	0.5	-	5.8	5.8	0.5
Maldives	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Mali	0.2	0.1	0.2	0.0	0.2	0.1	0.2	0.0
Malta	-	0.4	0.4	0.1	-	0.5	0.5	0.0
Mauritania	0.2	0.0	0.2	0.0	0.2	-	0.2	0.0
Mauritius	0.2	0.0	0.2	0.0	0.1	0.1	0.2	0.0
Mexico	38.3	0.9	39.2	5.4	57.0	1.2	58.2	4.9
Micronesia	-	0.0	0.0	0.0	-	0.0	0.0	0.0
Moldova	0.5	-	0.5	0.1	1.1	-	1.1	0.1
Mongolia	0.1	0.0	0.1	0.0	0.1	-	0.1	0.0
Montenegro	-	0.0	0.0	0.0	-	-	-	-
Morocco	2.8	0.2	3.0	0.4	2.8	0.3	3.0	0.3
Mozambique	-	0.0	0.0	0.0	-	-	-	-
Myanmar	0.1	-	0.1	0.0	0.1	-	0.1	0.0
Namibia	-	0.0	0.0	0.0	-	0.0	0.0	0.0
Nauru	-	0.0	0.0	0.0	-	-	-	-
Nepal	0.1	0.0	0.2	0.0	0.1	0.0	0.1	0.0
Netherlands	-	9.9	9.9	1.4	-	17.7	17.7	1.5
New Zealand	-	0.7	0.7	0.1	-	1.8	1.8	0.2
Nicaragua	0.1	0.0	0.1	0.0	0.1	-	0.1	0.0
Niger	0.2	0.1	0.3	0.0	0.2	0.1	0.3	0.0
Nigeria	-	0.0	0.0	0.0	-	-	-	-
Norway	-	6.4	6.4	0.9	-	9.2	9.2	0.8
Oman	-	0.5	0.5	0.1	-	0.7	0.7	0.1
Pakistan	7.4	-	7.4	1.0	9.4	-	9.4	0.8
Panama	1.2	0.0	1.2	0.2	1.5	0.0	1.6	0.1
Papua New Guinea	0.3	0.0	0.3	0.0	0.6	0.0	0.6	0.0
Paraguay	-	0.2	0.2	0.0	-	0.2	0.2	0.0
Peru	7.1	0.0	7.2	1.0	9.4	-	9.4	0.8
Philippines	9.2	0.4	9.6	1.3	14.4	0.6	15.0	1.3
Poland	3.4	0.6	4.0	0.6	4.1	1.5	5.6	0.5

Cumulative Burden Sharing Adjustments at end–January 2018 (continued)

(in millions of SDRs)

Member	Adjustments for Deferred Charges: Charges	Remuneration	Total	Percentage of total	Adjustments for SCA-1: Charges	Remuneration	Total	Percentage of total
Portugal	2.6	2.1	4.7	0.7	0.8	3.8	4.6	0.4
Qatar	-	0.4	0.4	0.1	-	0.7	0.7	0.1
Romania	5.9	-	5.9	0.8	7.4	-	7.4	0.6
Russian Federation	23.7	0.5	24.2	3.4	61.9	-	61.9	5.2
Rwanda	0.0	0.0	0.1	0.0	0.1	0.0	0.1	0.0
Samoa	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
San Marino	-	0.0	0.0	0.0	-	0.0	0.0	0.0
São Tomé and Príncipe	-	0.0	0.0	0.0	-	-	-	-
Saudi Arabia	-	11.0	11.0	1.5	-	17.1	17.1	1.4
Senegal	0.5	0.0	0.5	0.1	0.6	-	0.6	0.0
Serbia	1.9	0.0	1.9	0.3	3.2	-	3.2	0.3
Seychelles	0.0	0.0	0.0	0.0	-	0.0	0.0	0.0
Sierra Leone	0.5	-	0.5	0.1	0.5	-	0.5	0.0
Singapore	-	1.9	1.9	0.3	-	3.2	3.2	0.3
Slovak Republic	1.6	0.0	1.7	0.2	2.5	0.0	2.5	0.2
Slovenia	0.4	0.2	0.6	0.1	0.4	0.4	0.8	0.1
Solomon Islands	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Somalia	1.1	-	1.1	0.2	1.5	-	1.5	0.1
South Africa	1.7	0.0	1.7	0.2	2.9	-	2.9	0.2
South Sudan	-	0.0	0.0	0.0	-	-	-	-
Spain	-	11.2	11.2	1.6	-	16.3	16.3	1.4
Sri Lanka	2.2	0.1	2.3	0.3	2.1	0.1	2.3	0.2
St. Kitts and Nevis	0.0	0.0	0.0	0.0	0.0	-	0.0	0.0
St. Lucia	0.0	0.0	0.0	0.0	-	-	-	-
St. Vincent and the Grenadines	0.0	0.0	0.0	0.0	-	0.0	0.0	0.0
Sudan	6.1	-	6.1	0.9	8.3	-	8.3	0.7
Suriname	0.0	0.0	0.0	0.0	-	0.0	0.0	0.0
Swaziland	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Sweden	-	4.6	4.6	0.6	-	8.2	8.2	0.7
Switzerland	-	4.4	4.4	0.6	-	10.8	10.8	0.9
Tajikistan	0.0	-	0.0	0.0	0.1	-	0.1	0.0
Tanzania	0.3	0.0	0.3	0.0	0.3	-	0.3	0.0
Thailand	4.1	1.4	5.5	0.8	9.0	2.0	11.0	0.9
Timor-Leste	-	0.0	0.0	0.0	-	-	-	-
Togo	0.2	0.0	0.2	0.0	0.2	-	0.2	0.0
Tonga	-	0.0	0.0	0.0	-	0.0	0.0	0.0
Trinidad and Tobago	1.5	0.2	1.7	0.2	1.5	0.3	1.7	0.1
Tunisia	2.5	0.1	2.5	0.4	2.8	0.1	2.8	0.2
Turkey	26.3	0.3	26.6	3.7	50.9	0.5	51.4	4.3
Turkmenistan	-	0.0	0.0	0.0	-	-	-	-
Tuvalu	-	0.0	0.0	0.0	-	-	-	-
Uganda	0.4	-	0.4	0.1	0.3	-	0.3	0.0
Ukraine	7.0	-	7.0	1.0	12.2	-	12.2	1.0
United Arab Emirates	-	2.3	2.3	0.3	-	3.3	3.3	0.3
United Kingdom	-	13.7	13.7	1.9	-	25.8	25.8	2.2

Cumulative Burden Sharing Adjustments at end–January 2018 (concluded)

(in millions of SDRs)

	Adjustments for Deferred Charges				Adjustments for SCA-1			
Member	Charges	Remuneration	Total	Percentage of total	Charges	Remuneration	Total	Percentage of total
United States	-	103.1	103.1	14.3	-	157.9	157.9	13.3
Uruguay	2.2	0.0	2.2	0.3	5.8	0.0	5.9	0.5
Uzbekistan	0.3	0.0	0.3	0.0	0.8	-	0.8	0.1
Vanuatu	0.0	0.0	0.0	0.0	-	0.0	0.0	0.0
Venezuela, R. B. de	15.4	2.2	17.5	2.4	19.8	2.4	22.2	1.9
Vietnam	0.6	-	0.6	0.1	0.9	-	0.9	0.1
Yemen, Rep. of	0.3	0.0	0.3	0.0	0.7	0.0	0.7	0.1
Zambia	5.2	0.0	5.2	0.7	5.5	-	5.5	0.5
Zimbabwe	0.8	-	0.8	0.1	1.6	-	1.6	0.1
	360.5	360.4	720.9	100.0	603.8	583.9	1,187.7	100.0