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THE FUND'S INCOME POSITION FOR FY 2021 — ACTUAL OUTCOME

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- The **Staff Report** prepared by IMF staff and completed on September 7, 2021 for the information of the Executive Board. The paper was prepared following completion of the IMF's FY 2021 external audit.

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THE FUND'S INCOME POSITION FOR FY 2021—ACTUAL OUTCOME

EXECUTIVE SUMMARY

This paper reports on the Fund's income position for FY 2021 following the closing of the Fund's accounts for the financial year and completion of the external audit. Overall FY 2021 net income amounted to SDR 4.8 billion or SDR 0.7 billion higher than estimated in April, mainly reflecting a larger than anticipated gain reported under IAS 19 (the accounting standard for employee benefits) and endowment returns exceeding earlier projections.

The GRA net income of about SDR 4 billion increases the Fund's reserves. In accordance with decisions taken in April 2021, a net transfer of currencies from the GRA to the Investment Account amounting to SDR 2.4 billion will be made in the second quarter of FY 2022. The placement of the net income to the Fund's reserves has strengthened the Fund's precautionary balances which reached SDR 20 billion at the end of FY 2021.

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REVIEW OF THE INCOME POSITION FOR FY 2021

1. This paper presents the Fund's net income position for FY 2021. The actual outcome reported in this paper follows the closing of the Fund's accounts for the financial year and completion of the FY 2021 external audit conducted by PricewaterhouseCoopers, the Fund's external auditor.¹

2. The overall FY 2021 net income of SDR 4,812 million was SDR 734 million higher than the April projection (Table 1).² The main contributors to the increase were the remeasurement gain reported under IAS 19 (SDR 658 million larger than anticipated) and the Endowment Subaccount (EA) returns (SDR 177 million higher than the April estimate). By contrast, operational income was SDR 25 million lower and expenses were SDR 76 million higher than the respective April estimates. The results are highlighted in Figure 1 and discussed below:

- **Lending income.** Lending income amounted to SDR 1,983 million, SDR 9 million below the April estimate. Robust income from lending reflects the ongoing elevated use of GRA credit due partly to the Fund's support to members to help address the COVID-19 pandemic. Income from the margin, commitment fees, and surcharge income were in line with earlier projections; however, service charges were lower due to delays in certain projected purchases.
- **Income of the Investment Account.** Investment income from the Fixed-Income Subaccount amounted to SDR 86 million, lower than the SDR 102 million anticipated in April, reflecting mainly the increase in U.S. Treasury bond yields during March amid rising inflation in the U.S. The EA returns of SDR 783 million were higher than the SDR 606 million projected in April. The equity market outperformance in March and April bolstered the EA's returns in the last two months of FY 2021.³
- **Expenses.** Total expenses of SDR 1,203 million were SDR 76 million higher than projected in April reflecting a larger than anticipated net periodic pension cost (SDR 90 million) offset partly by net administrative expenditures being lower by SDR 12 million. The deviation in administrative expenditures mainly reflects the exceptional uncertainty in FY 2021. The largest deviations related to facilities, IT costs, and staffing.⁴ Capital budget items expensed and depreciation expenses were each SDR 1 million lower than earlier projected.

The net periodic pension cost mainly comprises the difference between: (a) the actuarially determined annual IAS 19 expense that measures, on an accrual basis, the increase in obligations under the staff benefit plans stemming from an additional year of staff service; and

¹ See [Audited Financial Statements for the Financial Years Ended April 30, 2021 and 2020](#) (7/7/2021).

² See [Review of the Fund's Income Position for FY 2021 and FY 2022](#) (4/12/2021).

³ The assets of the Endowment Subaccount are invested in a globally diversified portfolio consisting of a 60/40 percent split between global fixed-income and equity instruments.

⁴ See [FY2021—Output Cost Estimates and Budget Outturn](#), which provides a factual overview of budget developments in FY 2021 (9/8/2021).

(b) the funding (cash appropriation) for the year. The net periodic pension cost for FY 2021 amounted to SDR 352 million compared to the projected cost of SDR 262 million. The difference of SDR 90 million reflects mainly the delay in implementation of certain plan amendments as part of the Comprehensive Compensation and Benefits Review (CCBR) approved by the Executive Board in December 2019,⁵ and the expected benefit not being recognized in FY 2021 as had been earlier anticipated.

Table 3 provides a reconciliation between the net administrative budget outturn and the administrative expenses reported in the FY 2021 audited financial statements.⁶

- **IAS 19 remeasurement gain** (Table 2). The remeasurement (or actuarial) gains increased by SDR 658 million due mainly to the higher-than-anticipated plan assets returns. Equity markets outperformed in March and April with returns exceeding the April estimate by about SDR 530 million. The change in the discount rate, from the 2.92 percent projected in the April estimate to the actual year-end rate of 3.02 percent, further contributed SDR 167 million to the remeasurement gains.⁷ This was offset partly by other net gains being lower by about SDR 39 million; as the higher exchange gains recognized were mostly negated by higher costs stemming from the actuarial experience adjustments and revised financial and demographic assumptions.

3. Precautionary balances.⁸ Precautionary balances of SDR 20 billion at year end were above the SDR 19.5 billion projected in April. As noted above, the unrealized pension-related accounting adjustment in FY 2021 exceeded earlier projections by about SDR 658 million, offset partly by net operational income being lower than earlier estimates by about SDR 101 million (Table 1). Subsequent to April 30, 2021, the remaining balance in the SCA-1 of SDR 1,066 million was distributed in connection with Sudan's arrears clearance,⁹ reducing precautionary balances by the same amount.

4. No decisions are required at this time. The Executive Board took all necessary decisions in April 2021 during the review of the Fund's income position for FY 2021 and FY 2022.¹⁰ Income from the EA of SDR 783 million is retained in the subaccount, while income from the Fixed-Income Subaccount of SDR 86 million has been transferred to the GRA and used for meeting the

⁵ The Board approved the adjustment of the SRP's grossing-up formulas after year end, on June 3, 2021 (effective May 1, 2022). The grossing-up formulas are for converting participants' net salaries to pensionable gross salaries used in pension benefit calculations. The changes in the grossing-up formulas is expected to decrease the defined benefit obligation of the Plan.

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

⁷ See page 31 of [Audited Financial Statements for the Financial Years Ended April 30, 2021 and 2020](#) (7/7/2021).

⁸ As of April 30, 2021, the GRA's precautionary balances consist of its reserves (excluding SDR 4.4 billion currently held in the Special Reserve, attributable to the profits from the limited gold sales) and the balance in the SCA-1.

⁹ See note 22 of [Audited Financial Statements for the Financial Years Ended April 30, 2021 and 2020](#) (7/7/2021).

¹⁰ Decisions No. 1 through No. 6, see [Review of the Fund's Income Position for FY 2021 and FY 2022](#) (4/12/2021).

administrative expenses of the Fund.¹¹ A portion of the FY 2021 GRA net income of SDR 4 billion was used to replenish the FY 2020 net loss of about SDR 1.5 billion that had been charged to the special reserve, and the remainder was allocated equally between the Fund's general reserve and special reserve.¹² Currencies equivalent to Fixed-Income Subaccount income of SDR 86 million are to be transferred from the Fixed-Income Subaccount to the GRA. At the same time, a transfer of currencies of SDR 2,479 million, equivalent to the GRA net income for FY 2021 offset by the GRA net loss for FY 2020, is to be made from the GRA to the Fixed-Income Subaccount. Consistent with past practice, and for operational expediency, the two aforementioned transfers of currencies between the GRA and Fixed-Income Subaccount will be netted off, and a net transfer of SDR 2,393 million is scheduled to be made from the GRA to the Fixed-Income Subaccount in the second quarter of FY 2022 (see Table 4).

¹¹ Decision No. 3, [Review of the Fund's Income Position for FY 2021 and FY 2022](#) (4/12/2021), provides for the transfer to the GRA of the income of the Fixed-Income Subaccount for meeting the Fund's FY 2021 administrative expenses. The income of the Endowment Subaccount for FY 2021 is retained in the Endowment Subaccount and invested according to the Rules and Regulations for the Investment Account.

¹² See page 34 of [Audited Financial Statements for the Financial Years Ended April 30, 2021 and 2020](#) (7/7/2021). See also Decision No. 4, [Review of the Fund's Income Position for FY 2021 and FY 2022](#) (4/12/2021).

Table 1. Income and Expenditures for FY 2021
(in SDR millions)

	April Projections ¹	Actual Outcome	Difference
	(a)	(b)	(c=b-a)
A. Operational income	2,102	2,077	-25
Lending income	1,992	1,983	-9
Margin for the rate of charge	868	867	-1
Service and other charges	123	115	-8
Commitment fees	70	70	0
Surcharges	931	931	0
Investment income	102	86	-16
Fixed-Income Subaccount investment income	102	86	-16
Endowment subaccount payout	0	0	0
Interest free resources ²	5	5	0
SCA-1 and other	5	5	0
Reimbursements	3	3	0
SDR Department	3	3	0
PRG Trust	0	0	0
B. Expenses ³	1,127	1,203	76
Net administrative expenditures	808	796	-12
Capital budget items expensed	8	7	-1
Depreciation	49	48	-1
Net periodic pension cost after funding (IAS19)	262	352	90
C. Net operational income (A-B)	975	874	-101
Pension-related (IAS19) remeasurement gains ⁴	2,497	3,155	658
D. Net operational income after IAS 19 gains	3,472	4,029	557
Endowment Subaccount investment income	606	783	177
Net income position ⁵	4,078	4,812	734
<u>Memorandum items:</u>			
Fund credit (average stock, SDR billions)	86.8	86.7	
SDR interest rate (average, in percent)	0.1	0.1	
US\$/SDR exchange rate (average)	1.42	1.41	
Precautionary balances (end of period, SDR billions)	19.5	20.0	

Source: Finance Department and Office of Budget and Planning.

¹ See [Review of the Fund's Income Position for FY 2021 and FY 2022](#) (4/12/2021).

² Interest free resources reduce the Fund's costs and therefore provide implicit returns. Since the Fund invests its reserves in the Investment Account to earn a higher return, the interest free resources retained in the GRA are mainly attributable to the SCA-1, unremunerated reserve tranche positions not represented by gold holdings, and GRA income for the year not yet transferred to the Investment Account. These resources reduce members' reserve tranche positions and the Fund's remuneration expense or increase interest income if reflected in SDR holdings of the GRA, resulting in implicit income for the Fund.

³ See Table 3 for a reconciliation to the administrative expenses reported in the financial statements for FY 2021.

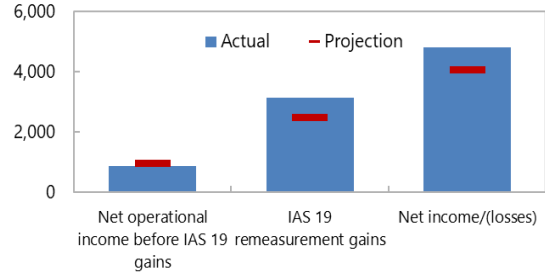
⁴ IAS 19 is the accounting standard that prescribes the accounting treatment of pensions and employee benefit expenses and involves actuarial valuations (see Table 2).

⁵ See "Total comprehensive income" reported in [Audited Financial Statements for the Financial Years Ended April 30, 2021 and 2020](#) (7/7/2021).

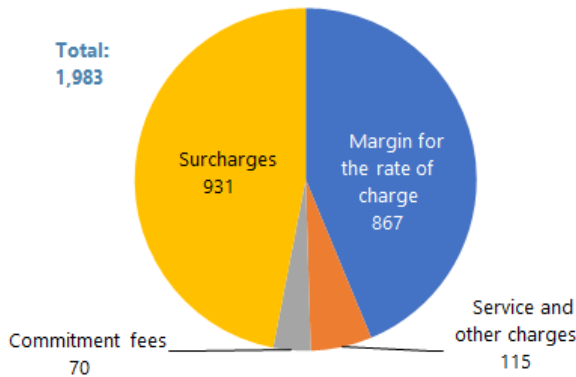
Figure 1. FY 2021 Highlights

Actual vs. April Projections (in SDR millions)

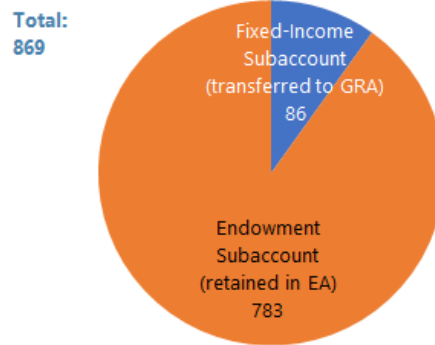
	Actual	Projection	% Change
Lending income	1,983	1,992	0%
Investment income (FI)	86	102	-16%
Investment income (EA)	783	606	29%
Interest free resources	5	5	0%
Reimbursements	3	3	0%
Expenses	1,203	1,127	7%
Net operational income before IAS 19			
remeasurement gains	874	975	-10%
IAS 19 remeasurement gains	3,155	2,497	26%
Net income	4,812	4,078	18%



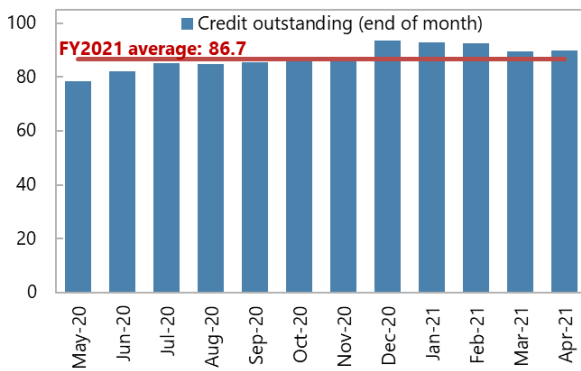
Lending Income (in SDR millions)



Investment Income (in SDR millions)



Average Credit Outstanding (in SDR billions)



SDR Interest Rate and Exchange Rate

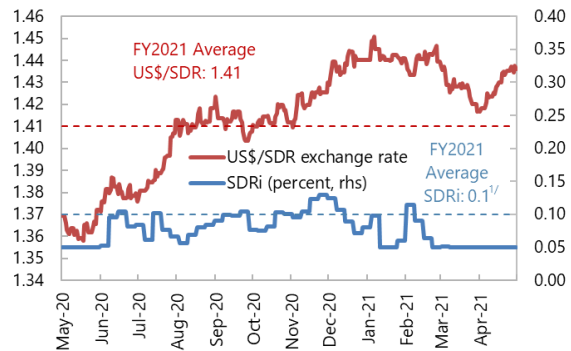


Table 2. Reconciliation of IAS 19 Gains—FY 2021
(in SDR millions)

	April Projections ¹	Actual Outcome
Net periodic pension cost	-262	-352
Pension cost accrual	-419	-504
Pension funding	157	152
Remeasurement (Actuarial) gains	2,497	3,155
Discount rate change	450	617
Excess return on assets	2,002	2,532
Other	45	6
Total IAS 19 gains	2,235	2,803
Discount rate at end of year (in percent)	2.92	3.02

Source: Finance Department

Totals may not add up due to rounding differences.

¹ See [Review of the Fund's Income Position for FY 2021 and FY 2022](#) (4/12/2021).

Table 3. Reconciliation of Administrative Expenses—FY 2021
(in U.S. dollars millions, unless otherwise stated)

Net administrative budget outturn¹	1,126
Net periodic pension cost after funding - timing difference (IAS 19) ²	496
Depreciation	68
Capital budget items expensed	10
Reimbursement from SDR Department	-4
Total administrative expenses per the audited financial statements (USD millions)	1,696
Total administrative expenses per the audited financial statements (SDR millions)³	1,199

Source: Finance Department and Office of Budget and Planning.

Totals may not add up due to rounding differences.

¹ See [FY2021—Output Cost Estimates and Budget Outturn Paper](#) (9/8/2021).

² Reflects the difference between the IAS 19 expense and the actual funding in FY 2021 (see Table 2, which shows the net periodic pension cost of SDR 352 million, equivalent to US\$496 million).

³ Based on the weighted average FY 2021 U.S. dollar/SDR exchange rate of 1.41 (rounded) for all expenses; the effective average exchange rate for individual expenditure components may differ due to the timing of exchange rate movements during the year.

Table 4. Net Transfer of Currencies from the GRA to the Fixed-Income Subaccount for FY 2021

(in SDR millions)

Transfer of currencies (GRA to Fixed-Income Subaccount) ¹	
GRA reserves at April 30, 2021	23,350
Less: GRA reserves at April 30, 2019 ²	-20,871
	2,479
<i>of which:</i>	
- FY 2021 GRA net income	4,029
- FY 2020 GRA net loss ²	-1,550
Less: Transfer of currencies (Fixed-Income Subaccount to GRA) ³	
FY 2021 income of the Fixed Income Subaccount	-86
Net transfer from GRA to Fixed-Income Subaccount	2,393

Source: Finance Department

Totals may not add up due to rounding differences.

¹ Decision No. 5, [Review of the Fund's Income Position for FY 2021 and FY 2022](#) (4/12/2021), 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 2021 net income.

² No transfer of currencies was made from the GRA to the Fixed-Income subaccount in FY 2020.

³ Decision No. 3, [Review of the Fund's Income Position for FY 2021 and FY 2022](#) (4/12/2021), provides for the transfer to the GRA of the income of the Fixed-Income Subaccount for meeting the Fund's FY 2021 administrative expenses.