INTERNATIONAL MONETARY FUND

IMF POLICY PAPER

REVIEW OF THE FUND'S INCOME POSITION FOR FY 2023 AND FY 2024

June 16, 2023

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

- A **Press Release**.
- The **Staff Report** on the Review of the Fund's Income Position for FY 2023 and FY 2024, prepared by IMF staff and completed on April 7, 2023 for the Executive Board's consideration on April 27, 2023.

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

Electronic copies of IMF Policy Papers
are available to the public from
https://www.imf.org/en/publications

International Monetary Fund
Washington, D.C.

PRESS RELEASE

PR23/216

IMF Executive Board Completes Review of the Fund's Income Position for FY 2023 and FY 2024

FOR IMMEDIATE RELEASE

- Net operational income is anticipated to remain strong for FY 2023 and to continue the trend in FY 2024, reflecting the high demand for Fund support to the membership.
- The Executive Board agreed to maintain the margin for the rate of charge on IMF lending unchanged at 100 basis points for FY 2024.

Washington, DC – June 16, 2023: On April 27, 2023, the Executive Board of the International Monetary Fund (IMF) completed its annual review of the Fund's income position for the financial year (FY) ending April 30, 2023.

FY 2023 Income Position

Net operational income, of about SDR 2.0 billion (US$2.7 billion), is anticipated for FY 2023, reflecting mainly the ongoing elevated use of Fund credit. A gain of about SDR 0.3 billion (US$0.5 billion) from the actuarial remeasurement of staff retirement plan assets and liabilities has been estimated for the year.[1] Overall net income is expected to reach SDR 1.8 billion (US$2.4 billion) after subtracting the estimated investment loss in the Endowment Subaccount of SDR 0.2 billion (US$0.3 billion). Net income excluding the impact of IAS 19 gains and losses will increase the Fund's precautionary balances, which are projected to rise to SDR 22.6 billion (US$30.0 billion) at end FY- 2023.

The Executive Board also adopted several other decisions that are relevant to the Fund's finances. These included decisions to: (i) reimburse costs to the GRA for the expenses of conducting the business of the SDR Department; (ii) retain in the Investment Account the income (or loss) of the Fixed-Income Subaccount and Endowment Subaccount for FY 2023 ; (iii) place the pension-related remeasurement gain in the special reserve and the remainder of net income equally in the special and general reserves; and (iv) transfer currencies equivalent to the increase in the Fund's reserves from the General Resources Account (GRA) to the Investment Account.

Projections of the Fund's income remain subject to greater than normal uncertainties amid adverse shocks caused by Russia's ongoing war in Ukraine and inflationary pressures. Changes in key assumptions such as the discount rate used to measure the Fund's retirement plan obligations and asset returns can have a large impact on the actual outcome. The FY 2023 annual financial statements will update for the impact of changes in key assumptions made at the time of the April projections.

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

FY 2024 Income Position and Lending Rate

As noted above, operational income for FY 2024 is expected to remain strong, with projected annual net income of SDR 2.9 billion (US$3.9 billion). However, these projections are subject to a high degree of uncertainty related to the scale of new lending associated with macroeconomic developments and the varying paths to recovery; as well as the timing and amounts of disbursements under approved arrangements. Uncertainties from a more shock-prone environment, high inflation, and ongoing geopolitical tensions are expected to impact the performance of the Fund's investment and retirement plan asset portfolios. Positive projected net income should allow the Fund to continue to accumulate precautionary balances.

The IMF's basic lending rate for member countries' use of IMF credit is the SDR interest rate plus a fixed margin. In April 2022, the Executive Board set the margin for this rate of charge at 100 basis points for financial years FY 2023 and FY 2024. In the context of this year's comprehensive review of the Fund's income position at the midpoint of this two-year period, the Executive Board concluded that the margin should remain unchanged.

INTERNATIONAL MONETARY FUND

April 7, 2023

REVIEW OF THE FUND'S INCOME POSITION FOR FY 2023 AND FY 2024

EXECUTIVE SUMMARY

This paper updates the projections of the Fund's income position for FY 2023 and FY 2024 and proposes related decisions for the current financial year.

The Fund's overall net income for FY 2023 is projected at about SDR 1.8 billion. Projections of the Fund's income are subject to greater than normal uncertainties on key assumptions, amid adverse shocks caused by Russia's war in Ukraine this past year, to economies still recovering from the pandemic, and inflationary pressures raising global interest rates. For FY 2023, these uncertainties relate mainly to financial market volatility impacting the Fixed-Income and Endowment Subaccounts, the discount rate to be used to measure the Fund's retirement plan obligations at April 30, 2023, and the full year asset returns on the retirement plan. For FY 2024, a key additional uncertainty is the potential scale of new lending and program disruptions amid a more shock-prone global economic outlook.

In FY 2023, a portion of General Resources Account (GRA) net income equivalent to the projected pension-related remeasurement gain is to be placed to the special reserve and the remainder is to be placed equally to the special and general reserves, based on the allocation framework for isolating the volatile pension-related remeasurement gains and losses agreed last year. After the placement of the GRA FY 2023 net income to reserves, precautionary balances, which have been adjusted to reflect the pension funding status on an economic basis, are projected to reach SDR 22.6 billion at the end of FY 2023 (an increase of SDR 1.7 billion since the end of FY 2022). The paper further proposes to transfer currencies equivalent to the increase in the Fund's GRA reserves from the GRA to the Investment Account.

The paper also proposes that the decision to initiate the Endowment Subaccount (EA) payout under the framework approved by the Board in 2018 be delayed by another year; mainly on account of the level of EA's cushion of retained investment income which has been eroded to extremely low levels due to the market correction following the surge in inflation and continued high market volatility.

In April 2022, the margin for the rate of charge was set at 100 basis points for the two years FY 2023 and FY 2024. The margin may be adjusted before the end of the first year of this two-year period (i.e., FY 2023) but only if warranted by fundamental changes in

the underlying factors relevant for the establishment of the margin at the start of the two-year period. Staff does not propose any change in the margin.

The projections point to a net income position of about SDR 2.9 billion for FY 2024, excluding the impact of any pension-related gain or loss. Based on the current projection, the indicative medium-term target for precautionary balances of SDR 25 billion is expected to be reached by late FY 2024 or early FY 2025. These projections are subject to considerable uncertainty and are sensitive to a number of assumptions.

Approved By
Bernard Lauwers (FIN)

Prepared in the Finance Department by Alexander Attie, Marco Cobanera, Emer Fleming, Karin Glinton, Martin Gororo, Courage Gumbanjera, Diviesh Nana (lead), Amadou Ndiaye, Victoria Nichipurenko, Enosa Okosodo Odibo, Joel Chiedu Okwuokei, Diana Parra, Vidhya Rustaman, Andrew Swiston, Bolormaa Tumurbat, Charles Xie, Jesse Jinyong Yang, Jessie Yang, and Edda Zoli, under the guidance of Jeannie Khaw and Simon Bradbury (all FIN), and, in consultation with the Legal Department (Hoang The Pham and Jonathan Swanepoel), and the Office of Budget and Planning (Benjamin Fosu and Maria Albino). Administrative assistance was provided by Amara Myaing (FIN).

CONTENTS

TABLES

ANNEXES

Glossary

ACES	Analytic Costing and Estimation System
BoP	Balance of Payments
CCBR	Comprehensive Compensation and Benefits Review
CCRT	Catastrophe Containment and Relief Trust
CPI	Consumer Price Index
DBO	Defined Benefit Obligation
EA	Endowment Subaccount
EMBI	Emerging Markets Bond Index
EMBIG	Emerging Markets Bond Index Global
FCL	Flexible Credit Line
FI	Fixed-Income Subaccount
GAF	Generally Available Facilities
GED	Global External Deflator
GRA	General Resources Account
HIPC	Heavily Indebted Poor Country
IA	Investment Account
IAS 19	Accounting standard that deals with pension and other employee benefits
IFRS	International Financial Reporting Standards
IFRS 9	Accounting standard that deals with provisioning for loan impairments
NAV	Net Asset Value
NIM	New Income Model
NOI	Net Operating Income
PRGT	Poverty Reduction and Growth Trust
RSF	Resilience and Sustainability Facility
RST	Resilience and Sustainability Trust
SCA-1	First Special Contingent Account
SDA	Special Disbursement Account
UCT	Upper Credit Tranche
VTA	Voluntary Trading Arrangements

INTRODUCTION

1. **This paper reviews the Fund's income position for FY 2023 and FY 2024.** It updates the April 2022 income projections and proposes decisions for the current financial year. The paper also includes a proposed decision to maintain the margin for the rate of charge under Rule I-6(4) for financial year 2024.[1]

2. **The paper reflects feedback from recent income-related Executive Board discussions.** Specifically, the paper is informed by the recent Board discussions on the review of the adequacy of the Fund's precautionary balances on December 13, 2022 and the consolidated medium-term income and expenditure framework (in the context of the initial proposals for the FY 2024–2026 medium term budget discussion) on March 2, 2023. As indicated in *The Temporary Modifications To The Fund's Annual and Cumulative Access Limits* recently agreed by the Board, the impact of the proposed temporary increase in the GRA access limits on the demand for Fund GRA resources is difficult to determine with precision and is therefore not reflected in the income projections.[2]

3. **Against the backdrop of the ongoing war in Ukraine and inflation reaching multidecade highs, demand for Fund support is expected to remain high.** Over the past year, the war has caused adverse shocks to economies that are still recovering from the pandemic, and monetary policy tightening in response to inflation has led to a sharp rise in global interest rates. Lending projections underpinned by the desk survey scenario are expected to remain elevated reflecting the countercyclical nature of Fund financing. Other income assumptions incorporate the impact of the high interest rates that improve projections for non-lending income; however, amid ongoing geopolitical tensions, a more shock-prone environment and the recent increased volatility in the banking sector, the outturn for investment returns and pension-related gains and losses remains unpredictable.

4. **The paper is structured as follows:** The first section reviews the FY 2023 projected income position and the main changes from the April 2022 projections. The second section makes proposals on the disposition of FY 2023 net income and placement to reserves and includes a discussion on the EA payout. The third section updates the income projections for FY 2024, discusses the margin for the period, and reviews the burden sharing capacity. The fourth section considers risks and mitigating measures.

[1] *A New Rule for Setting the Margin for the Basic Rate of Charge* (11/23/11), was adopted by the Executive Board in December 2011 and was first applied in setting the margin for the rate of charge for FY 2013–14.

[2] To better support the Fund's members in a particularly challenging and uncertain economic environment, the Executive Board agreed to temporarily increase the limits on members' annual and cumulative access to Fund resources in the General Resources Account. For a period of 12 months, beginning March 6, 2023, this raises the annual limit in the GRA from 145 to 200 percent of quota and the cumulative limit from 435 to 600 percent of quota. See *Temporary Modifications To The Fund's Annual and Cumulative Access Limits* (2/17/23).

REVIEW OF THE FY 2023 INCOME POSITION

5. Net operational income of the GRA, after adjusting for an estimated pension-related gain, is now projected at about SDR 2.0 billion for FY 2023; slightly lower than the April 2022 estimate of SDR 2.1 billion, reflecting a combination of multiple changes in income and expense lines (see Table 1, Line E). Total lending income is projected to be lower than the April 2022 projections, reflecting mainly certain purchases taking place later than expected or no longer expected to take place as anticipated in April 2022, while investment income is expected to be lower given the sharp rise in bond yields during the year. Further, the pension-related remeasurement gain is estimated to make a positive contribution of about SDR 0.3 billion, although the estimate is subject to considerable uncertainty given the current volatile market conditions. The Fund's overall net income for FY 2023 is now projected at SDR 1.8 billion, after taking into account the estimated retained investment loss of the EA (Table 1). The main components of the projected FY 2023 results are outlined below (see Annex V for underlying assumptions):

Total lending income is projected to be SDR 2.6 billion, about SDR 54 million lower than the April 2022 estimate (Table 1), mostly attributable to certain purchases taking place later than expected or no longer expected to take place as anticipated in April 2022.

- *Margin income* of SDR 939 million is expected to be SDR 20 million lower than projected in April 2022, reflecting a SDR 2.0 billion lower average projected stock of credit outstanding under the desk survey scenario.

- *Service charges* are projected at SDR 112 million, (SDR 6 million lower than the April 2022 estimate).

- *Commitment fees* are projected at SDR 197 million, broadly in line with the April 2022 projection.

- *Surcharges* of SDR 1,402 million are projected to be about SDR 29 million lower than the April 2022 estimate, due mainly to average credit outstanding being lower than anticipated.

Investment Income—Fixed-Income Subaccount: Investment income from the FI is currently projected to only reach SDR 66 million compared with SDR 240 million estimated in April 2022, but could increase depending on market conditions. The lower-than-expected returns are mainly due to the low starting bond yields offering limited protection against the sharp rise in interest rates amid mounting inflationary pressures during the year. While actual returns will differ from current projections as interest rate uncertainty continues to prevail, the investment income outturn is not expected to exceed and fully offset the FY 2022-end retained loss of SDR 222 million. As such, projections for the year reflect no transfer of income from the FI to the GRA for use in meeting FY 2023 administrative expenses.[3]

[3] Under the Articles, the Executive Board has discretion over the disposition of income in the IA. Investment income can be kept in the IA and reinvested or it may be used for meeting the expenses of conducting the business of the Fund, i.e., transferred to the GRA (Article XII, Section 6 (f)(iv)).

Retained Investment Income and EA Payout—Endowment Subaccount:

- Based on updated projections for FY 2023, the EA is expected to incur a loss of US$299 million which equates to about SDR 210 million in SDR terms for the year. This compares with an overall gain equivalent to SDR 140 million estimated in April 2022. This reflects broad-based market declines on the back of sharply rising interest rates and tightening market conditions, which resulted in a negative return of 3.2 percent (or a cumulative loss of US$378 million) through end-February.[4] Since then, markets have continued to be volatile given the additional stress in the banking sector and the projected level of loss incurred by the EA is subject to high uncertainty.

- As a result, the EA cushion (i.e., the amount of retained investment income accumulated to protect the real value of the EA from adverse market shocks) has been eroded considerably to 2 percent of the portfolio value at end-February, well below the target level of 15 percent. As discussed in detail in the next section, staff therefore proposes to further delay the decision to initiate the EA payout by one year and to retain any investment loss or income for FY 2023 in the EA.

Implicit returns on interest-free resources: The updated implicit returns on interest-free resources are projected to be substantially higher at SDR 97 million, reflecting a sharp increase in the average SDR interest rate from the earlier projection of 0.8 percent to 2.1 percent for FY 2023.

Reimbursements to the GRA: In accordance with the Articles of Agreement, the GRA has to be reimbursed for: (i) the expenses for conducting the business of the SDR Department (Article XVI, Section 2); and (ii) the expenses of administration of the Special Disbursement Account (SDA) on the basis of reasonable estimates (Article V, Section 12(i)).[5] Moreover, under the Executive Board Decision No. 14093-(08/32), adopted April 7, 2008, the PRGT would need to reimburse the GRA for the expenses of administering the PRGT (i.e., all administrative expenses not only those related to SDA resources).[6]

- The expenses of conducting the business of the SDR Department in FY 2023 are estimated at SDR 8.7 million (proposed Decision 1) based on the costing approach for reimbursements.[7] The

[4] As the Fund's administrative expenditures are largely in US dollars and the EA's general objective is to contribute to covering such expenditures, the performance of the EA is measured in US dollars as the base currency but translated into SDRs for financial reporting purposes.

[5] In accordance with Article V, Section 12(f) and (g), SDA resources can be used for various purposes, as specified in the Articles of Agreement, including transfers to the GRA for immediate use in operations and transactions, transfers to the IA, or operations and transactions that are not authorized by other provisions of the Articles but are consistent with the purposes of the Fund, in particular to provide balance of payments assistance on special terms to low-income member countries. SDA resources include assets from the SDA, which have been contributed to the various trusts administered by the Fund as trustee, including the current PRG, PRG-HIPC and CCR Trusts. Since the completion of Sudan's debt relief under the HIPC initiative, there are no assets held by the SDA.

[6] The PRGT was approved by the Executive Board under Decision No. 8760-(87/176), adopted December 18, 1987.

[7] The legal framework governing reimbursements to the GRA from the PRGT, the SDR department, and starting in FY24, the Resilience and Sustainability Trust (RST), is set out in the Fund's Articles and/or Board decisions. To implement these decisions, staff undertake a costing exercise each year to determine a reasonable estimate of gross

(continued)

Table 1. Projected Income and Expenditures—FY 2023
(in millions of SDRs)

	FY2023		
	Initial Projections [1]	Current Projections	Variance
A. Operational income	**3,056**	**2,822**	**-234**
Lending income	**2,704**	**2,650**	**-54**
Margin for the rate of charge	959	939	-20
Service charges and other income	118	112	-6
Commitment fees	196	197	1
Surcharges	1,431	1,402	-29
Investment income	**305**	**66**	**-239**
Fixed-Income Subaccount (reserves)	240	66	-174
Endowment Subaccount payout [2]	65	0	-65
Interest free resources [3]	**38**	**97**	**59**
Reimbursements	**9**	**9**	**0**
SDR Department	9	9	0
PRG Trust [4]	0	0	0
RST	0	0	0
B. Expenses	**992**	**1,131**	**139**
Net administrative expenditures	918	972	54
Capital budget items expensed	15	25	10
Depreciation	59	60	1
Net periodic pension cost after funding	0	74	74
C. Net operational income before provision (A-B)	**2,064**	**1,691**	**-373**
Provision for loan impairment losses	0	0	0
D. Net operational income	**2,064**	**1,691**	-373
Pension-related remeasurement gain	0	348	348
E. Net operational income after remeasurement gain	**2,064**	**2,039**	**-25**
Endowment Subaccount - Retained income	75	-210	-285
Net income position	**2,139**	**1,829**	**-310**
Memorandum Items:			
Fund credit (average stock, SDR billions)	95.9	93.9	-2.0
SDR interest rate (average, in percent)	0.8	2.1	1.3
US$/SDR exchange rate (average)	1.41	1.33	-0.08
Precautionary balances (end of period, SDR billions) [5]	22.9	22.6	-0.3

Source: Finance Department and Office of Budget and Planning.

[1] See *Review of the Fund's Income Position for FY 2022 and FY 2023–2024* (4/12/22).
[2] Based on staff's proposal to delay the EA payout decision to FY 2024 (see Disposition Decisions – Section A).
[3] Interest free resources reduce the Fund's costs and therefore provide implicit returns. Since the Fund invests its reserves in the IA to earn a higher return, the interest free resources retained in the GRA are mainly attributable to unremunerated reserve tranche positions not represented by gold holdings and GRA income for the year not transferred to the IA. These resources reduce members' reserve tranche positions and the Fund's remuneration expense or increase interest income if reflected in SDR holdings of the GRA, resulting in implicit income for the Fund.
[4] Suspension of reimbursements of PRGT administrative expenses during FY 2022–FY 2026 per Executive Board Decision No. 17083-(21/71), July 14, 2021.
[5] Precautionary balances are adjusted to exclude the annual pension-related gains and losses included in accounting income. See Annex II, *Review of the Fund's Income Position for FY 2022 and FY 2023–2024* (04/12/22).

expenses for the relevant operations, which forms the basis for GRA reimbursement, subject to adjustments based on differences between estimates and outturn for the prior year.

projected expenses are broadly in line with the earlier estimate, as the slightly lower turnout compared to earlier projections was offset by a strengthening of the US dollar.

- Consistent with the practice in past years, staff does not propose reimbursements of administrative expenses related to SDA resources in the Catastrophe Containment and Relief (CCR) and PRG-HIPC Trusts for FY 2023. The fact that SDA assets co-finance debt relief initiatives administered by the Fund on the basis of Article V, Section 2(b) that are otherwise funded with donor contributions and do not exclusively rely on SDA resources, does not trigger any additional costs that the Fund would not already bear under its other activities.[8]

- In July 2021, the Board approved the suspension of reimbursement to the GRA of the costs of administering the PRGT for the fiscal years 2022-2026.[9] Temporary suspension is permissible under the Fund's new income model adopted in 2008 and the three-pillar framework for the self-sustained PRGT adopted in 2012.[10] The PRGT administrative expenses for FY 2023 are estimated at SDR 84.4 million, about SDR 8 million lower than earlier estimates in SDR terms, largely due to refinements to the costing approach for reimbursements.

- *Resilience and Sustainability Trust (RST).*[11] Set-up costs for the RST were included in the FY 2023 budget, including work on final design of the RST, fundraising, IT configuration, and development of policies and guidance for lending under the trust. Operational costs for FY 2023 RSF operations were absorbed through in-year reprioritization, reallocations, and overtime. Reimbursement to the GRA of operational (including overhead) costs of administering the RST are expected to commence in FY 2024.

Expenses: Total expenses of the GRA of SDR 1,131 million are estimated to be about SDR 139 million higher than the April 2022 projection.

- Net administrative expenditures of SDR 972 million are expected to be about SDR 54 million higher than the April 2022 projection, mainly due to the appreciation of the US dollar against the SDR.
- Capital budget items expensed of SDR 25 million is SDR 10 million higher than the April 2022 projection and reflects primarily the new HQ maintenance projects that are being expensed; and the depreciation charge is broadly in line with previous projections.
- Net periodic pension costs after funding are discussed below.

[8] In this regard it should be noted that the direct costs related to SDA assets in the various trusts mostly comprise investment management fees and any operational out-of-pocket expenses. These are borne by the assets as the investment managers deduct such fees/expenses from the investment returns attributed to these assets.

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

[10] See Executive Board Decision No. 14093-(08/32), adopted April 7, 2008; and *Proposal to Distribute Remaining Windfall Gold Sales Profits and Strategy to Make the Poverty Reduction and Growth Trust Sustainable* (09/17/12).

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

Pension-Related (IAS 19) Adjustment

6. The pension-related adjustment is expected to contribute about SDR 274 million overall to net income in FY 2023. IAS 19 "Employee Benefits" is the International Financial Reporting Standard (IFRS) that deals with accounting for pension and other employee benefits. The pension-related adjustment under IAS 19 comprises two elements: (i) remeasurement gains/(losses); and (ii) the net periodic pension cost, after funding.

- *Remeasurement gains and losses* result mainly from changes in the actuarially-assessed estimated future benefit obligation, and changes in the fair value of plan assets. The current year projections point to net actuarial remeasurement gains of SDR 348 million that are estimated to be largely attributable to an increase in the discount rate and offset partially by negative excess returns on plan assets (Table 2).[12,13]

    - Surging inflation benefitted corporate bond yields driving the discount rate to highs last seen more than a decade ago. This has translated to an increase in the nominal discount rate which rose from 4.18 percent at the start of the year to 5.03 percent by end-February 2023. The 85 basis points increase is expected to lower the actuarially determined remeasurement of future obligations and contribute an estimated SDR 1,298 million to remeasurement gains in FY 2023 (Table 2).[14] It is worth noting that interest rates have been very volatile since the end of February and the current estimated April-end remeasurement gain resulting from the higher discount rate is subject to high uncertainty.

    - The projected revaluation of assets for the year is based on actual and estimated portfolio performance to end-February 2023. After allowing for the expected income on plan assets (included under the pension cost accrual in the table), portfolio performance is expected to result in an actuarially-determined remeasurement loss of about SDR 882 million, mainly reflecting the significant decline in plan asset returns due to the broad-based decline across all financial markets as high inflation, supply chain issues, and ongoing geopolitical uncertainty weighed negatively on portfolio performance during the year (Table 2). The fair value of plan assets is volatile, as illustrated by recent market movements since the end of February, and therefore remains unpredictable.

- *The net periodic pension cost after funding* amounts to SDR 74 million and represents mainly the difference between: (i) accruals comprising the actuarially determined annual service cost expense (the increase in obligations under the staff retirement plan stemming mainly from an

---

[12] Under IAS 19, the discount rate is determined by reference to market yields at the end of the financial year on high quality corporate bonds. The Fund's actuary (Willis Towers Watson) derives the Fund's discount rate from the FTSE Pension Discount Curve which is widely applied.

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

[14] Yields on high quality US corporate bonds have trended higher since last May peaking at current highs around October 2022. However yields have remained volatile during the period, and based on the current level of the discount rate, a 100 basis point change can increase or decrease the value of the pension liability by 13 to 14 percent. The end-February 2023 rate is used for the year end projection.

additional year of staff service of SDR 269 million) and the net interest gain of SDR 44 million; and (ii) the funding (cash appropriation) for the year projected at SDR 151 million. Net periodic pension costs estimated for the year are broadly in line with prior year costs except for FY 2021, when the opening asset value used to calculate the net interest costs declined significantly at the onset of the pandemic in the prior year. Service costs decreased in FY 2023 as a result of the higher discount rate and changes to the pensionable gross remuneration formulas effective in the current year plan change (Table 2).

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

	FY 2020	FY 2021	FY 2022	FY 2023
	Actual for year	**Actual for year**	**Actual for year**	**Projected end-Feb 28, 2023**
Accrual vs. Funding	**-91**	**-352**	**-62**	**-74**
Pension cost accrual	-238	-504	-213	-225
Service cost - current	-310	-407	-367	-269
Service cost - prior year (plan amendment) [1]	83	-6	169	0
Interest expense on pension liability	-377	-335	-351	-441
Expected income on pension asset [2]	366	244	336	485
Pension funding	147	152	151	151
Remeasurement gains/(losses)	**-2,880**	**3,155**	**1,515**	**348**
Discount rate change	-2,173	421	2,273	1,298
'Excess return' on assets [2]	-944	2,532	-487	-882
Exchange rate translation	-5	166	-33	17
Experience adj [3]	-15	36	-238	-85
Other [4]	257	0	0	0
Total IAS 19 gains/(losses)	**-2,971**	**2,803**	**1,453**	**274**
Discount rate - at end of period (in percent)	2.73	3.02	4.18	5.03

Source: Willis Towers Watson and IMF Finance Department.
[1] FY22: Mainly due to approved changes to medical benefits covered by the RSBIA.
[2] Total income from plan assets comprises two components for financial reporting purposes: i) the expected income on plan assets calculated using the discount rate, and included in the pension cost; and ii) a gain or loss included in remeasurement losses that is in 'excess' of this expected income.
[3] FY22 and FY23: Includes impact of COLA adjustment.
[4] FY20: CCBR salary scale assumption adjustment.

- In determining the pension liability and costs, a cost of living adjustment (COLA) is applied to benefit payments, reflecting the impact of inflation. Historically, a long-term COLA assumption of 2 percent was used, in line with the long-term inflation target of the Federal Reserve and other developed countries. In the past two years, the COLA assumption was adjusted to actual inflation levels due to inflation being significantly higher than the assumption in FY 2022 and for the purposes of FY 2023 projections (8.5 percent for FY 2022 and 4 percent projected for FY 2023) (Table 2).

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

7. The actual outturn for the FY 2023 pension-related adjustment remains highly uncertain, especially in the current volatile market conditions. The pension-related adjustment for FY 2023 will only be finalized after year-end and the impact on net income will be reported in the Fund's annual financial statements scheduled for completion in June 2023. In accordance with accounting standards, the pension-related gain or loss at year-end will be calculated using the discount rate, asset returns, and other relevant inputs as of April 30, 2023.

Credit Risk

8. The Fund's framework for assessing the need to provision has been adapted to comply with IFRS 9 "Financial Instruments" and was designed to reflect the unique nature of the Fund's lending.[15] Under the framework, and considering the Fund's multilayered framework for managing credit risk, cases where the recording of a material provision for an impairment loss may need to be considered are expected to remain rare.[16] Staff is in the process of finalizing the annual IFRS 9-related country assessments that commenced in early February, and based on the analysis so far, no impact is expected for FY 2023 at this stage. Staff will update the Board on the results of the annual impairment assessment before the FY 2023 annual financial statements are finalized.

DISPOSITION DECISIONS

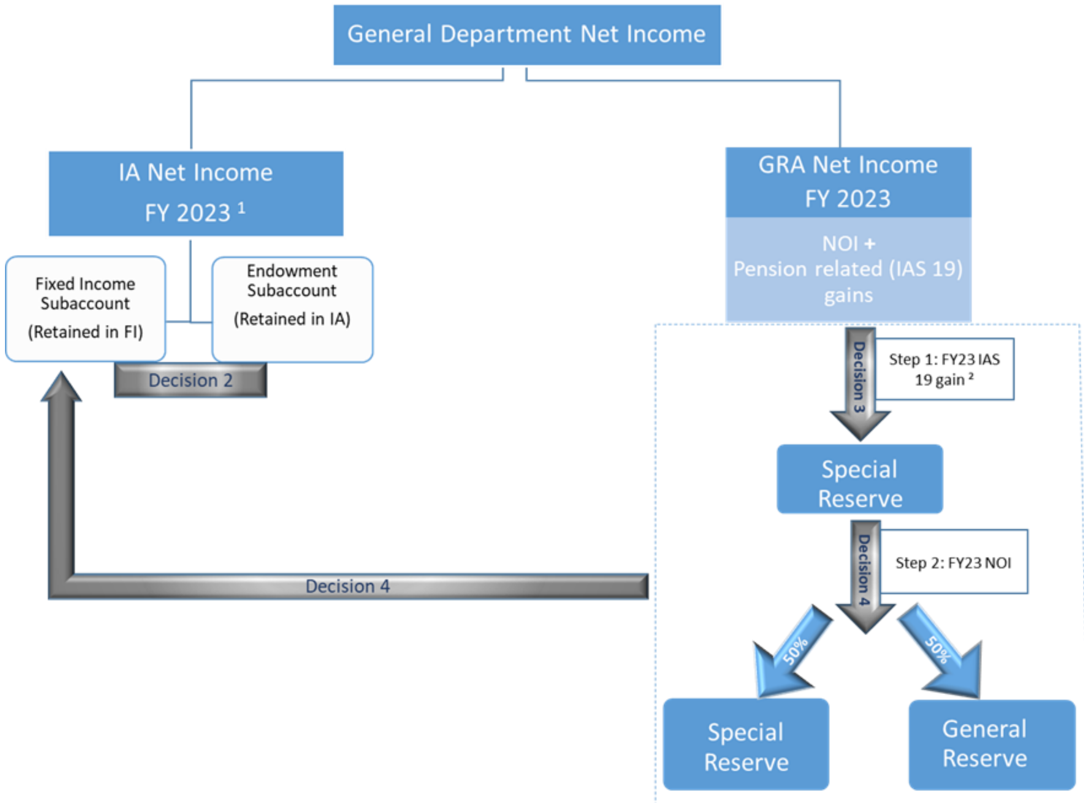
9. As in previous years, the Executive Board needs to consider certain decisions on the disposition of income for FY 2023. These cover: the use of any investment income earned in FY 2023 from the FI and EA, which impacts the determination of GRA net operational income in FY 2023; the placement of net income to reserves and the allocation between the special and general reserves;[17] and the transfer of currencies from the GRA to the IA. These disposition considerations and decisions are presented in Figure 1 and discussed in detail in the sections below.

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

[16] See Annex III, *Review of the Fund's Income Position for FY 2019 and FY 2020* (03/19/19) for a fuller discussion on the implementation of IFRS 9 in the Fund.

[17] Under Article XII, Section 6(b), the Fund may use the special reserve for any purpose for which it may use the general reserve, except that balances in the special reserve may not be used for distribution to Fund members.

Figure 1. Summary of Proposed Disposition Decisions



[1] As discussed in Section A, there will be no transfer of income from the FI and it is assumed that the payout from the EA will not begin at least until FY 2024 to allow for a buildup of an adequate cushion of retained income in the endowment.

[2] In the event of a remeasurement loss being recognized, it would be placed to the general reserve to offset the cumulative remeasurement gains from previous years.

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

10. 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.[18] Staff proposes that income in the subaccounts of the IA be used as follows:

- **Fixed-Income Subaccount:** In FY 2022, the FI incurred a loss of SDR 222 million and staff proposes that income of SDR 66 million projected for FY 2023 be offset against the retained loss until it is fully recouped.[19] As such no FI income is expected to be transferred to the GRA to be

[18] 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)).

[19] Similarly, any retained loss carried forward would first be recouped against future FI income before a transfer of income from the FI to the GRA is proposed.

used towards meeting the expenses of the Fund this year, and an amount equivalent to the projected FY 2023 income would be reflected in the IA retained earnings for the year.

- **Endowment Subaccount:** Following the recent decline in financial markets, the EA is projected to incur a loss of about US$299 million (SDR 210 million) in FY 2023. Staff therefore proposes that the net investment loss incurred in FY 2023 be retained in the subaccount and that the initiation of the EA payout be further delayed (see below). An equivalent amount would be reflected in the IA retained earnings, reducing cumulative retained earnings of the IA to about SDR 1,758 million.

11. In April 2018 the Board agreed to delay the initiation of the EA payout by three years and subsequently extended the delay in April 2021 and 2022.[20] In line with the EA payout policy framework agreed by the Board in 2018 (Annex II), the initial payout was delayed to build a target "cushion" of retained investment income that could help protect the real value of the EA corpus over time. At that time, staff suggested that the target cushion could be sized to absorb one extreme event, set at a 15 percent loss (equivalent to a two-standard deviation market shock).[21] Subsequently, in April 2021 the payout was delayed pending the outcome of the 5-yearly review of the IA investment strategy in FY 2022. It was further delayed last year in light of rapid declines in the cushion, impacted by the increase in inflation and negative market reaction to the war in Ukraine and its spillovers.

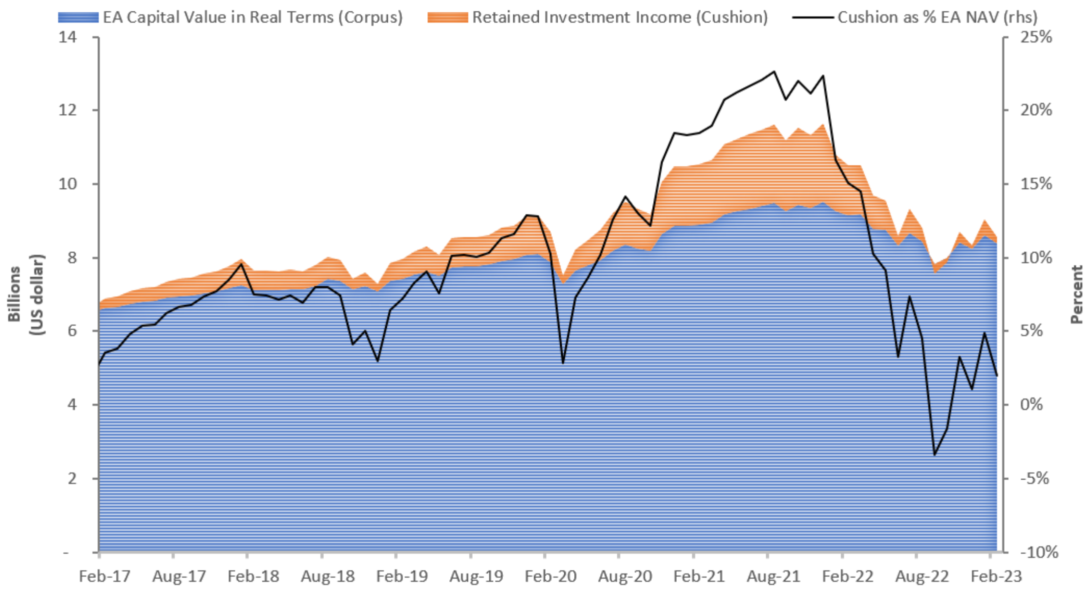
12. After reassessing the EA's cushion of retained investment income, staff proposes to delay the initial payout. An adequate cushion of retained investment income is an important component of the EA payout policy, since it helps preserve the real value of the EA. Delaying the initial payout thus far has allowed the build-up of a meaningful cushion which has absorbed the recent surge in inflation and protected the real value of the EA's corpus (Figure 2). Following recent investment losses, the EA's cushion is estimated to be around 2 percent at end-February 2023, some way below the previously indicated target level of 15 percent. If payouts were to be initiated with a limited cushion, there would be a reasonably high likelihood that they would have to be suspended in the near future, especially as market conditions remain volatile (Annex IV). Also, the Fund currently has sufficient resources to cover its administrative expenditures and the impact of a further delay of the EA payout is not significant to the overall income position.

13. While the return outlook for the EA has improved, rebuilding the cushion could take a number of years. The probability that the EA will meet its 3 percent real return target in US dollars has improved considerably compared to the recent past, largely because of the higher level of real bond yields. However, staff's projections indicate that it could take a few years for the EA's cushion

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

[21] The corpus is estimated based on principal amounts invested in the EA since inception, adjusted for the global external deflator (GED), which is based on the U.S. CPI quarterly actual and projections underlying the published WEO update.

Figure 2. EA Asset Value and Retained Investment Income Cushion[1]



[1] Source: State Street data through end-February 2023. The EA portfolio was fully vested in 2017.

to reach 15 percent under the baseline scenario. The EA's cushion would need to be reassessed again in FY 2024 in accordance with the framework for guiding future payouts from the EA agreed by the Board (Annex II).

14. The Board could decide to initiate payouts from the EA sooner and protect the real value of the EA corpus through a direct transfer. While the EA had been funded initially with a specific amount attributed to the 2010 gold sales, under the Articles and the Rules and Regulations of the IA, additional transfers to the EA are possible. Specifically, as part of the net income disposition decisions, the Board could decide to place part of the net income that has traditionally been transferred from GRA to IA, to the EA instead of the FI.[22] In addition, the Rules and Regulations for the IA also permit the transfer of assets between subaccounts upon Board approval.[23] These transfers could establish a suitable cushion or otherwise to replenish the real value of the EA's corpus if necessary. Allocating additional reserves to the EA (beyond the initial funding from the gold sales) has not been considered in the past, partly because the EA's long term strategy was in its infancy and staff's return projections have been consistently lower than the EA's return target. In light of the evolution in the EA's investment strategy and projected returns for the EA more likely to achieve the return target, the Board may wish to consider this option in the future for the EA to begin supplementing the Fund's administrative expenses. It should be noted that transfers to the EA

[22] 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.

[23] Under Article XII, Section 6(f)(ii), the Board may decide to transfer currencies held in the GRA to the EA, as a subaccount of the Investment Account. In addition, the Rules and Regulations for the Investment Account also permit the transfer of assets between subaccounts upon Board approval.

may have implications for other financial policies that would require further staff analysis and consideration by the Board.[24]

15. Against this background, staff proposes to further delay the EA payout in FY 2023 and reassess its commencement in FY 2024. Based on the agreed framework, the initiation of the payout is subject to consideration of the adequacy of the cushion, market conditions at the time and the Fund's income outlook. Given that the EA is more likely to achieve the return target and the possibilities described above, the Board could decide to implement the payout in FY 2024.

B. Allocation of Income

16. The Articles of Agreement require the Fund to determine annually how to allocate its net income. The Articles permit the net income of the GRA to be either distributed to members or placed to general and special reserves in accordance with the annual decision on the disposition of the Fund's net income. Both reserves can be used for the same purposes, except that balances in the special reserve may not be used for distribution to the Fund members.

17. In April 2022, Directors adopted a new framework for allocating the Fund's annual net income to reserves that would also isolate pension-related remeasurement gains and losses in the special reserve. This practice would avoid distorting allocations to the Fund's distributable reserves by gains and losses that may not be supported by corresponding underlying cash flows and may be reversed in future financial years.[25] At the meeting, Directors broadly agreed to place all pension-related remeasurement gains and losses to the Fund's special reserve and to allocate any remaining positive net income to the Fund's special and general reserves in equal parts.[26]

18. Against this background, staff proposes that any pension-related remeasurement gain be placed to the Fund's special reserve and any remaining positive net income be allocated equally to the general and special reserves in FY 2023; alternatively any pension-related remeasurement loss is to be placed to the Fund's general reserve to offset the cumulative remeasurement gains from previous years (proposed Decision 3). This is consistent with staff's proposal at last year's meeting that allocating any positive net income, after addressing remeasurement gains and losses, according to a 50/50 ratio over the next two years remains a simple approach that was also broadly supported by Directors in previous years. For FY 2024, the Board will have an opportunity to review the allocation of any net income that is earned after addressing remeasurement gains and losses, at next year's meeting. Based on current projections, maintaining an equal allocation of any remaining positive net income to the two reserves in FY 2023 would increase the special reserve by about SDR 1.2 billion to SDR 14.9 billion, while the general reserve would also rise by SDR 0.8 billion to SDR 13.6 billion.

---

[24] Staff would need to assess the impact on reserve allocation and precautionary balances, etc.

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

[26] Based on staff's proposal in April 2022 that was broadly accepted by the Executive Directors, since the cumulative remeasurement gain in the general reserve amounts to SDR 1,020 million at April 30, 2022, as a transitory measure, any remeasurement losses are to be allocated to the general reserve until the gain is cleared down to zero.

C. Transfer of Currencies

19. The placement of FY 2023 GRA net income to reserves provides scope for a further transfer of currencies to the FI. Article XII, Section 6(f)(ii) permits the transfer of additional GRA currencies to the IA if, at the time of the decision to make such transfer, the Fund's reserves are above the cumulative amount of previous transfers of currencies from the GRA to the IA.[27] After the above placement, the combined balance in reserves is projected to total SDR 28.5 billion. This would remain above the net cumulative amount of transfers made thus far to the IA from the GRA of about SDR 26.5 billion.[28]

20. Accordingly, staff proposes to transfer currencies equivalent to the full amount of the increase in reserves from the GRA to the IA for investment in the FI (proposed Decision 4).[29] This proposal is consistent with the assumption that the IA will over time achieve a higher return than the SDR interest rate.

21. Considering the sensitivity of the net income projections to several underlying assumptions, the final outcome for FY 2023 remains uncertain. The projections remain susceptible to the unpredictability of key underlying assumptions including projections for lending, investment returns, exchange rates, etc. In particular, the pension-related gain for FY 2023 remains unpredictable, mainly due to its sensitivity to the discount rate and other factors such as the volatility of plan asset returns.

FY 2024 INCOME OUTLOOK

22. The economic outlook remains uncertain as adverse shocks and trade disruptions caused by the war in Ukraine, along with inflation uncertainty prompting major economies to maintain a longer restrictive stance, continue to imperil the recovery from the pandemic. Higher global interest rates, tightening monetary policies, and volatility in equity markets are expected to persist in the near term, adding to the uncertainty in the Fund's income outlook. At the same time, the countercyclical nature of demand for Fund resources could result in increased income from higher lending over the medium term.

23. Based on current projections under the desk survey scenario, the income outlook for FY 2024, excluding the impact of the pension-related gain or loss, is expected to remain strong. Net income for FY 2024 is projected at about SDR 2.9 billion (Table 3). The projections

[27] 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.

[28] 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.

[29] A transfer of about SDR 2 billion is estimated for FY 2023.

assume the basic lending margin is maintained at 100 basis points (see below) and are sensitive to a number of factors as outlined below.

A. Summary of Key Risks

24. Key risks to Fund income and finances associated with recent economic and geopolitical developments include: cancellations and changes in the timing of purchases under existing and potential arrangements under the desk survey; fluctuations in the annual pension-related gain or loss; uncertainties around the global interest rate environment and US dollar/SDR exchange rate path; and credit risk that is inherent in the Fund's unique role in the international financial architecture. More specifically:

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

- It is difficult to assess precisely at this stage the financing needs arising from the spillover on other countries of the war in Ukraine, or countries impacted by rising inflationary pressures and the ongoing impact of the pandemic; which could result in new loan programs, augmentations, and rephasing of programs to help meet the costs of the current crisis.

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

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

- Regarding credit risks, staff is currently in the process of conducting IFRS 9-related impairment assessments for FY 2023.

B. Key FY 2024 Income Outlook Factors

25. Key factors that affect the FY 2024 income outlook are discussed below (see Table 3). A sensitivity analysis of the income effects of changes in some of the assumptions is presented in Table 4.

- *Lending income.* Margin and surcharge income are projected to be higher in FY 2024, reflecting mainly the potential new demand for Fund lending under the desk survey projections and continued disbursements under current arrangements. Income from commitment fees in FY 2024 of SDR 219 million reflects the expected two-year commitment fees earned on two arrangements treated as precautionary that are scheduled to expire in FY 2024. Projections of lending income excluding surcharges remain strong and are expected to exceed expenses in FY 2024.

- *Fixed-Income Subaccount.*[30] Investment income is projected to be higher in FY 2024 at about SDR 842 million reflecting a higher level of the projected SDR interest rates and the expected impact from refinements to the investment strategy.[31] However, a sharp rise in interest rates beyond current market expectations over the near term could temper gains somewhat.[32] Table 4 provides a sensitivity analysis of the returns in this portfolio to changes in the interest rate assumption.

- *Endowment Subaccount.* The EA projected investment income is about SDR 334 million in FY 2024 based on projected average returns of about 5.41 percent in nominal terms over the medium term, about 200 basis points higher than was projected in April 2022. However, return projections remain subject to considerable uncertainty given the high degree of volatility across asset classes in which the EA is invested, especially over short time periods.

    - Income projections assume an initial payout of 1.5 percent commencing in FY 2024, broadly in line with the portfolio's prevailing return outlook, and an increase in US dollar terms by the GED rate each year thereafter (Annex II). Based on these assumptions, the estimated payout in FY 2024 would be equivalent to about SDR 94 million (equivalent to about 1.5 percent of the US dollar value of the portfolio translated at the projected US dollar/SDR exchange rate for the year). Income retained in the EA and not distributed as a payout, in SDR terms, is expected to be equivalent to about SDR 240 million in FY 2024.

    - Income accumulation based on the projections is expected to help replenish the previously depleted EA cushion, of which adequate levels would be a pre-requisite for the commencement of the payout. In accordance with the framework for guiding future payouts from the EA agreed by the Board, the EA's cushion would be reassessed and the initial value of the payout, if any, would be aligned to prevailing market conditions and decided by the Board later in FY 2024 (Annex II).[33]

- *Interest-free resources and reimbursements.* Income from interest-free resources is projected to be higher reflecting the sharp rise in interest rates in FY 2023 and the higher projected SDR interest rate path over the medium term. Suspension of reimbursements from the PRG Trust from FY 2022 to FY 2026 will reduce expected GRA income by about SDR 273 million through the remaining 3-year period.

---

[30] The balance of the FI corresponds to the investment of the Fund's reserves except for the gold profits and any currencies retained in the GRA.

[31] The FI has investments equivalent to the Fund's general and special reserves except for amounts attributed to gold sales profits in the special reserve. In January 2022 the Executive Board modified the investment strategy of the FI that had been in place since 2015. The Board set the objective for the subaccount return at 50 bps over the 3-month SDR interest rate over time, established a maximum average duration of three years for the portfolio, raised the limit for Group 2 assets from 35 to 40 percent and modified the minimum credit rating for eligible assets to at least BBB- (S&P long-term rating scale) for corporate bonds and BBB+ for all other assets.

[32] Interest rates are expected to remain volatile for the remainder of FY 2023 and may impact the beginning mark-to-market value on which FY 2024 projected returns are calculated.

[33] The payout policy was agreed by the Board at the discussion of the Fund's income position in April 2018 (see *Review of the Fund's Income Position FY 2018 and FY 2019–2020* (04/05/18)).

- *RST*. The RST is expected to incur recurring costs. From FY 2024 and onwards, recurring costs will reflect: a) trust management expenses, including execution of transactions, financial reporting and audit, and periodic financial and safeguard policy reviews; and b) operational work consisting of country program design and review, including economic policy analysis and program negotiations, climate finance, collaboration with the World Bank and other agencies and operational policy reviews.

  - A management fee was approved to cover trust management costs. The fee constitutes a budget receipt, affecting the gross administrative budget, with the net administrative budget unchanged (thus not subject to reimbursement to the GRA). FY 2024 trust management cost is estimated at US$4.8 million in FY 2023 dollars (versus US$5–6 million initially estimated).

  - Operational costs for RST activities will be covered through climate-related augmentation resources and broader resourcing for program-related work through the regular budget process. As this work will draw heavily on the climate expertise being built up with augmentation resourcing, it is expected to affect the timeline for ramp-up of other climate-related workstreams, notably in-depth coverage of climate-related topics in Article IV consultations. These costs are expected to be highest in the ramp-up period that began in FY 2023, as staff gains experience with the facility and operations are expected to peak. From FY 2024 onwards, operational (including overhead) costs of administering the RST will be reimbursed to the GRA. Based on the projected scale of RST operations, the estimated cost for FY 2024 is about US$8 million in FY 2023 dollars. The cost estimates are subject to uncertainty and will be reviewed based on experience.

- *Expenditures*.

  - Net administrative expenses are consistent with those estimated in the medium-term budget paper which build on continued reprioritization to meet critical needs in traditional core areas, while allocating the second phase of the augmentation framework for FY 2023–2025 to support a greener, digital, and more inclusive global economy. It also provides resources for work on debt and governance and operationalizes budget receipts arising from a management fee, as anticipated under the RST. With travel resuming and with full utilization of structural resources now projected, the Fund will continue unwinding of exceptional one-off resourcing during FY 2024 while remaining agile amid a highly uncertain global outlook.

Table 3. Projected Income Sources and Uses—FY 2023–2024
(in millions of SDRs)

	FY2023	FY2024
A. Operational income	**2,822**	**3,825**
Lending income	**2,650**	**2,739**
Margin for the rate of charge	939	958
Service charges and other income	112	90
Commitment fees	197	219
Surcharges	1,402	1,472
Investment income	**66**	**936**
Fixed-Income subaccount (reserves)	66	842
Endowment subaccount payout [1]	0	94
Interest free resources [2]	**97**	**135**
Reimbursements [3]	**9**	**15**
SDR Department	9	9
PRG Trust	0	0
RST [4]	0	6
B. Expenses	**1,131**	**1,141**
Net administrative expenditures	972	1,045
Capital budget items expensed	25	32
Depreciation	60	64
Net periodic pension cost after funding	74	0
C. Net operational income before provision (A-B)	**1,691**	**2,684**
Provision for loan impairment losses	0	0
D. Net operational income	**1,691**	**2,684**
Pension-related remeasurement gain	348	0
E. Net operational income after remeasurement gain	**2,039**	**2,684**
Endowment subaccount investment income	-210	240
Net income position	**1,829**	**2,924**
Memorandum items:		
Fund credit (average stock, SDR billions)	93.9	95.8
SDR interest rate (average, in percent)	2.1	3.6
US$/SDR exchange rate (average)	1.33	1.35
Precautionary balances (end of period, SDR billions) [5]	22.6	25.1

Source: Finance Department and Office of Budget and Planning.

[1] Based on staff's proposal to delay the EA payout decision to FY 2024 (see Disposition Decisions - Section A).

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

[3] Suspension of reimbursements of PRGT administrative expenses during FY 2022–FY 2026 per Executive Board Decision No. 17083-(21/71), July 14, 2021. No incremental costs are projected in managing the SDA resources in the CCR and PRG-HIPC Trusts.

[4] Reimbursement of costs for RSF country operations and related Fund overhead costs (e.g., space; equipment). See *Proposal to Establish a Resilience and Sustainability Trust* (3/21/22). Cost estimates for RST reimbursement reflect initial estimates for the scale and unit costs of RST-supported operations. Decisions on annual reimbursements of costs are expected to be made by the Board in the annual income paper starting FY 2024. For FY 2023, costs are planned to be covered by the transitional resources given to departments.

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

  - Capital budget items expensed for FY 2024 are expected to be higher and reflect the resumption of facilities-related investments, including hybrid workspace and field-based needs, with continued stabilization of information technology investments.[34]

  - Periodic pension costs are not projected beyond FY 2023.

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

- *Provision for impairment losses on credit outstanding.* IFRS 9 requires entities to assess credit risk to record potential provisions based on an "expected loss" model taking into account a broad range of relevant considerations, including forward-looking information. While credit risks are increasing due to adverse shocks, including the spillover effects of the war in Ukraine and the lingering impact of the COVID-19 pandemic, the Fund has to date not needed to record a provision for impairment losses. As noted in *Changes to the Fund's Financing Assurances Policy*, concerns about a member's ultimate repayment could trigger the recording of a provision for expected credit losses under IFRS 9, which would reduce the Fund's income and (accumulation of) precautionary balances and its balance sheet position. Cases where provisioning may need to be considered in the future by the Fund still are expected to remain very rare. Accordingly, given the current circumstances and future uncertainty surrounding any expected exceptional events, the projection assumptions do not incorporate any provision for impairment losses under IFRS 9.

- *Sensitivity Analysis.* Projected income and expenses remain volatile in the near term and are particularly susceptible to changes in the underlying assumptions.

  - The effect of changes in key income assumptions is summarized in Table 4.

Table 4. Sensitivity Analysis—Effect of Changes in Selected Assumptions on FY 2024 Projected Income
(in millions of SDRs)

Increase/decrease in:	
SDR interest rate by 50 basis points	
Implicit returns [1]	19
Margin for the rate of charge by 20 basis points [2]	192
US dollar vis-à-vis SDR by five percent - Administrative expenses	50
US dollar vis-à-vis SDR by 1 US cent - Endowment Subaccount	48
Investment income margin by 50 basis points	147

[1] Implicit returns on GRA interest-free resources.
[2] Based on the estimated average credit outstanding for FY 2024.

[34] FY 2024–FY 2026 Medium-Term Budget (3/30/23).

- The pension-related gain or loss is highly unpredictable and can be significant: on the asset side, performance can be very volatile, and on the liability side, the defined benefit obligation (DBO) is highly sensitive to the underlying actuarial assumptions, in particular the discount rate.[35]

- In the unlikely event of a provision for impairment losses on credit outstanding being required under IFRS 9 Fund income would be reduced accordingly. Staff commenced IFRS 9-related impairment assessments for FY 2023 in January with the process scheduled for conclusion by June 2023.

C. Review of the Margin for the Rate of Charge

26. Under Rule I-6(4), the Executive Board sets the margin over the SDR interest rate for a period of two financial years. The margin should be set at a level adequate 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.

27. In April 2022, Directors supported maintaining the margin for the basic rate of charge at 100 basis points for the period FY 2023–2024. At the time, Directors considered the level of the margin to be broadly aligned with long-term credit market conditions. Directors acknowledged the Fund's continued reliance on its lending income to finance non-lending activities, approving use of the exceptional circumstances clause to permit the financing of a portion of the Fund's non-lending activities by income from the margin, thereby reducing its contribution to the Fund's reserve accumulation.[36]

28. While the margin is set for a two-year period, Rule I-6(4) calls for a comprehensive review of the Fund's income position before the end of the first year. The Executive Board may adjust the margin in the context of such review but, to provide for stability and predictability, only if this is warranted in view of fundamental changes in the underlying factors relevant for the establishment of the margin at the start of the two-year period.

---

[35] Sensitivity of the present value of the defined benefit obligation to changes in the discount rate at April 30, 2022 results in an increase of SDR 880 million (decrease of SDR 770 million) for a 50 basis point decrease (increase).

[36] The Executive Board has consistently set the margin under the exceptional circumstances clause since the amended Rule I-6(4) was first implemented as part of the Fund's New Income Model. The rule was designed to move away from reliance on lending income for financing the Fund's non-lending activities with the expectation that these would be covered by the Fund's non-lending income. However, investment income, the main source of the Fund's non-lending income, has remained constrained by low returns. Payouts from the gold-profits-funded endowment are also expected to provide a meaningful contribution to Fund income over the long term, but are not assumed to begin until FY 2024 to allow for a buildup of a greater cushion of retained income in the endowment against adverse return scenarios.

29. Staff does not propose any change in the level of the margin in FY 2024. As discussed below, staff is of the view that there has been no fundamental change in the underlying factors relevant for setting the margin since the last review, and therefore no change is proposed for FY 2024. Completion of the review is proposed in Decision 5.

Coverage of Intermediation Costs

30. Lending income is projected to remain substantially in excess of intermediation costs, in FY 2023.[37] Income from service charges is projected at US$149 million in FY 2023 (Table 5, row B). An unchanged margin of 100 basis points would provide margin income of about US$1,249 million. These amounts compare with estimated intermediation costs of about US$122 million in FY 2023 (Table 5, row A). Fund-wide intermediation costs related to Generally Available Facilities (GAF) cover direct personnel, travel, and other administrative expenses, as well as indirect support and governance costs. Estimated FY 2023 costs are lower than earlier projections, due to refinements in the cost estimation approach.

31. Commitment fees for non-drawing arrangements and surcharges are also projected to make substantial further contributions to the Fund's lending income and reserve accumulation (see below). Income from commitment fees and surcharges in FY 2023 is estimated at about US$262 million and US$1,865 million, respectively (Table 5, rows E and F), which are lower than prior year projections.

Reserve Accumulation

32. Reserve accumulation is projected to remain relatively strong in FY 2023 and FY 2024. Table 5 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 rise to 12.3 and 11.7 percent in FY 2023 and FY 2024, respectively. Projected actual reserve accumulation would be 10.8 percent of reserves in FY 2023 (Rows I and J). Precautionary balances are now projected to reach SDR 22.6 billion by end-FY 2023, lower than the SDR 22.9 billion estimated in April 2022, mainly driven by lower-than-anticipated lending and investment income. Table 5 further simulates reserve accumulation at alternative margins of 80 and 120 basis points, respectively.

[37] 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* (11/22/11).

Table 5. Income from the Margin and Reserve Accumulation[1]

(in millions of US dollars, unless otherwise indicated)

	Actual			Projected	
	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
A. Intermediation costs [2]	112	141	126	122	129
Less					
B. Service charges	115	163	280	149	122
C. Costs to be covered by income from margin (A-B)	-3	-21	-154	-27	8
D. Income from margin [3]					
80 basis points	...	...	...	...	1,034
100 basis points	921	1,225	1,272	1,249	1,293
120 basis points	...	...	...	...	1,551
E. Commitment fees [4]	515	99	397	262	296
E.1 FCL/PLL	488	55	392	262	296
E.2 Other	27	44	6	0	0
F. Surcharges [5]	1,038	1,316	1,734	1,865	1,987
G. Potential reserve accumulation [6] (D+E+F-C)					
80 basis points	...	...	...	...	3,309
100 basis points	2,477	2,661	3,557	3,403	3,568
120 basis points	...	...	...	...	3,826
H. Potential reserve accumulation (as a percent) [7]					
80 basis points	...	...	...	...	10.9%
100 basis points	10.2%	11.8%	12.6%	12.3%	11.7%
120 basis points	...	...	...	...	12.6%
I. Actual reserve accumulation [8]					
80 basis points	...	...	...	...	3,154
100 basis points	-2,150	5,693	4,459	2,624	3,413
120 basis points	...	...	...	...	3,671
J. Actual reserve accumulation (as a percent) [8]					
80 basis points	...	...	...	...	10.3%
100 basis points	-8.8%	25.2%	15.9%	9.5%	11.2%
120 basis points	...	...	...	...	12.0%
K. Precautionary balances at the end of FY (in SDR billions) [9]					
80 basis points	...	...	...	...	24.9
100 basis points	16.0	20.0	20.9	22.6	25.1
120 basis points	...	...	...	...	25.3
Memorandum items					
Average Fund credit outstanding (in SDR billions)	66.7	86.7	90.5	93.9	95.8
Number of active arrangements (average) [10]	18	23	27	...	...
Average exchange rate US$/SDR	1.38	1.41	1.41	1.33	1.35

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 canceled 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.

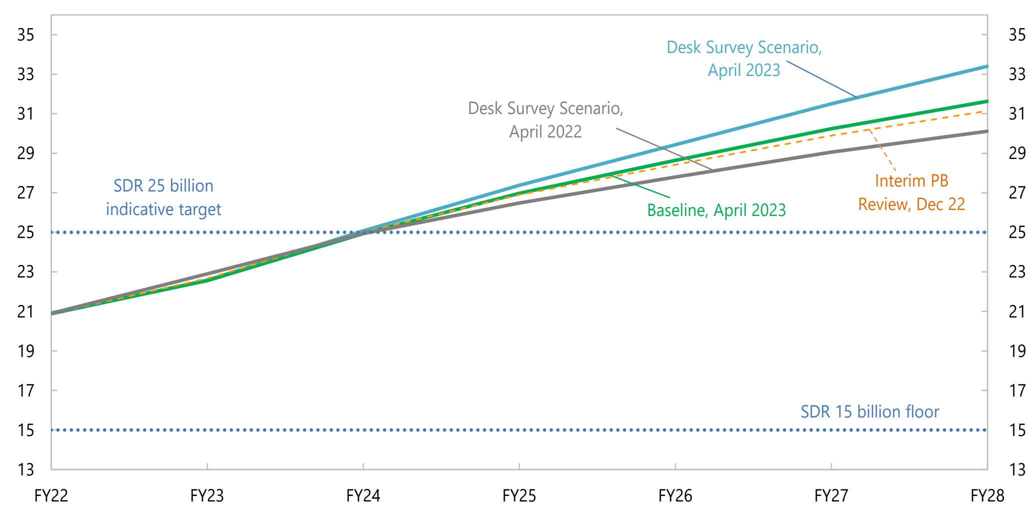
[8] Additions to or reductions in reserves based on net income or loss for the year (including actual and projected IAS 19 gains/(losses) up to FY 2023 and excludes retained EA investment income).

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

[10] Excludes FCL and PLL arrangements.

33. Updated projections of the pace of reserve accumulation are higher than those anticipated in April 2022, and broadly in line with the recent review of precautionary balances (Figure 3).[38] This reflects mainly an upward shift of the SDR interest rate path from prior low levels, positively impacting investment income, and the potential demand for Fund lending under the current desk survey being higher than previously anticipated raising the path for credit outstanding and lending income. These effects are partly offset by a higher projected expenditure path in SDR terms due to the upward revision of the deflator in FY 2024 coupled with a projected strengthening of the US dollar against the SDR over the medium term. Based on the current projection, the indicative medium-term target of SDR 25 billion is still expected to be reached by late FY 2024 or early FY 2025.

Figure 3. Projected Precautionary Balances Accumulation
(in billions of SDRs)



Source: Finance Department.

Alignment of Fund Borrowing Costs with Market Conditions

34. Rule I-6(4) requires a cross-check of the margin's alignment with long-term credit market conditions.[39] 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. Staff benchmarks based on EMBI spreads provide a useful guide for this purpose, but should not be applied mechanistically without judgment on the global financial context and future developments.[40] As in the past, 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

[38] For a fuller discussion see *Review of the Adequacy of the Fund's Precautionary Balances* (11/16/22).

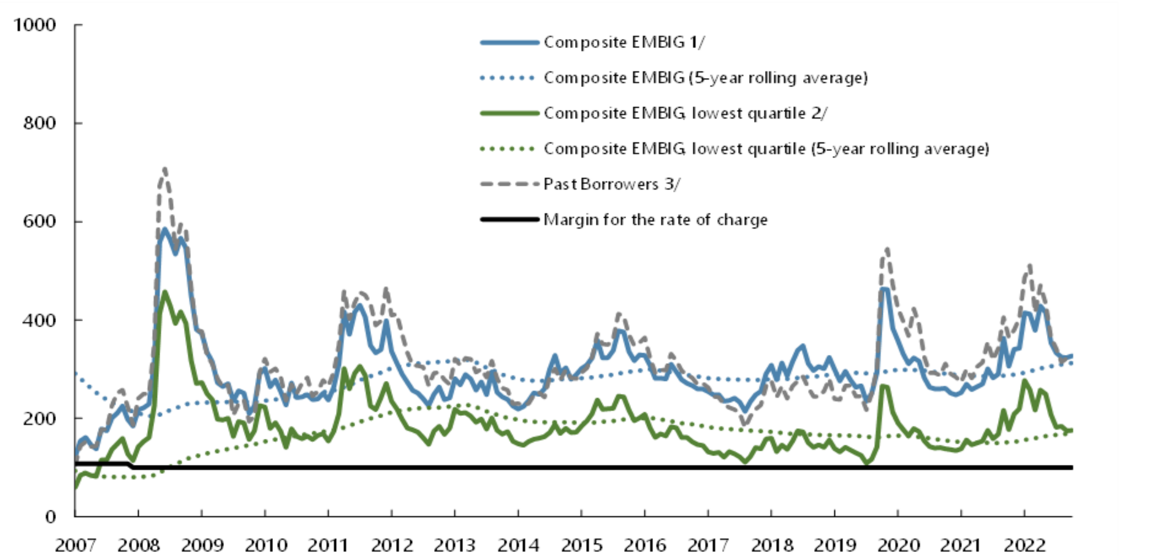
[39] See *A New Rule for Setting the Margin for the Basic Rate of Charge* (11/23/11).

[40] 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).

as a cooperative public policy institution.[41] 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, it uses a multilayered framework—including policies on access, program design, and conditionality—to support members' balance of payments adjustment—to mitigate such credit risk.

35. The cost of Fund credit at the current margin remains broadly in line with the staff benchmarks for long-term credit market conditions. As of March 2023, the composite EMBI spreads have increased by 20 basis points in the past year, while the lowest quartile of the EMBI spreads has been unchanged. From a medium-term perspective, the five-year rolling average of the spreads has increased modestly since the last review (Figure 4). The median for the lowest quartile EMBI spread stands at 56 basis points above the current margin, relative to 42 basis points at the time of the 2022 income review (Table 6). Overall, staff does not see any fundamental change in the alignment of the margin with long-term credit market conditions.

Figure 4. EMBIG Spreads: Total Composite and Bottom Quartile
(in basis points)[1]



Source: JPMorgan and Fund staff calculations.
[1] Weighted average of spreads from the JPMorgan Emerging Market Bond Index Global Sovereign Spread (US dollar) and the JPMorgan Euro EMBI Global Government Spread, using US dollar and euro weights in the SDR basket.
[2] Weighted average of the lowest quartile of country-specific US dollar EMBI spreads and the lowest quartile of country-specific euro EMBI spreads, using US dollar and euro weights in the SDR basket.
[3] Weighted average of the median of country-specific US dollar EMBI spreads and the median of country-specific euro EMBI spreads, using US dollar and euro weights in the SDR basket, considering a sample of members with Fund GRA arrangements between 2000 and 2022.

[41] In the past, staff has also adjusted estimated financing costs 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). As this estimation has been subject to a few conceptual and data limitations, and the resulting adjustments have been marginal (in the magnitude of ten basis points), the assessment of the margin in this review is based solely on credit-risk adjusted EMBI spreads, following the approach taken since 2020 (see *Review of the Fund's Income Position for FY 2020 and FY 2021–2022*, 04/13/20).

Table 6. Long-Term Credit Market and Comparator Spreads[1]
(median spread unless otherwise noted, in SDR-equivalent basis points)

	2008 - 2012	2013 - 2017	Apr 2018 - Mar 2023
Composite EMBI Global 1/			
5-year average	313	279	313
5-year median	272	277	303
Composite EMBI Global, Lowest Quartile 2/			
5-year average	221	177	169
5-year median	195	174	156
Memorandum items			
Past borrowers (5-year median) 3/	303	292	300
Margin for the rate of charge (5-year average)	101	100	100

Sources: Bloomberg, JP Morgan, and Fund staff calculations.
[1] Weighted average of spreads from the JPMorgan Emerging Market Bond Index Global Sovereign Spread (US dollar) and the JPMorgan Euro EMBI Global Government Spread, using US dollar and euro weights in the SDR basket.
[2] Weighted average of the lowest quartile of country-specific US dollar EMBI spreads and the lowest quartile of country-specific euro EMBI spreads, using US dollar and euro weights in the SDR basket.
[3] Weighted average of the median of country-specific US dollar EMBI spreads and the median of country-specific euro EMBI spreads, using US dollar and euro weights in the SDR basket, considering a sample of members with Fund GRA arrangements between 2000 and 2022

Exceptional Circumstances Clause

36. In April 2022, the margin for rate of charge FY 2023–24 was set using the exceptional circumstances clause under Rule I-6(4). Rule I-6(4), which was amended in 2011 as part of the Fund's New Income Model (NIM), 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 expected to cover intermediation costs and contribute to reserve accumulation. However, investment income, the main source of the Fund's non-lending income, was negative in FY 2022. At the time, non-lending income was projected to increase gradually from FY 2023 and to cover an average of 75 percent of the Fund's non-lending administrative expenses over the medium term. As the Fund had to continue to rely on lending income to cover a portion of non-lending operational costs, the margin was set under the exceptional circumstances clause.[42]

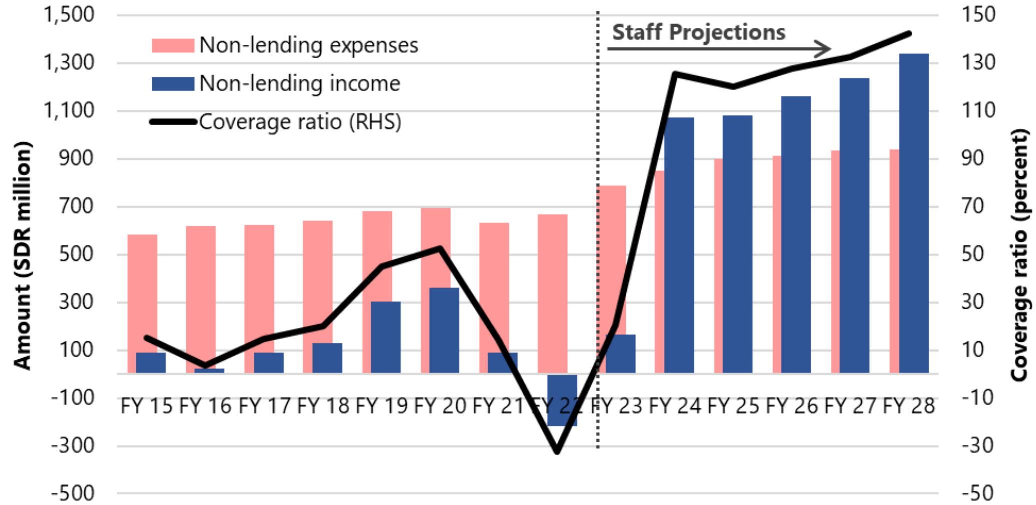
37. The recent surge in inflation has driven interest rates higher, closer to the rates assumed when the NIM was endorsed in 2008. Investment income, which mainly comprises income from the FI, is projected to rise sharply in the medium term (Figure 5), after having been subdued in the low interest rate environment that followed the GFC.[43] The rise in interest rates is expected to boost non-lending income coverage of non-lending expenses to above 100 percent in

[42] The need to cover the residual non-lending expenses reduces the margin potential contribution to the Fund's reserve accumulation and precautionary balances.

[43] From FY 2013 to FY 2022 the low SDR interest rate environment did not generate investment income that was sufficient to cover non-lending expenses, as envisaged by the NIM.

the medium term, a significant improvement from prior year projections. However, for FY 2023 the Fund will need to continue to rely on its lending income to cover a portion of its non-lending operational costs (Figure 5), given the low expected returns on the investment portfolio.

Figure 5. Projected Non-Lending Operational Income and Non-Lending Expenses[1]
(in millions of SDRs, percent)



Source: Finance Department and Office of Budget and Planning.
[1] Non-lending operational income comprises investment income and implicit income from interest free resources. Projections assume an initial 1.5 percent USD payout from the Endowment Subaccount commencing in FY 2024 (increasing by GED thereafter). Non-lending expenses do not include reimbursements, including those waived for the PRGT from FY 2021 to FY 2026.

38. **Most elements in implementing the NIM are now in place and while significant progress has been made, the margin continues to be set using the exceptional circumstances clause.** Annex III provides a status update of the implementation of the NIM in FY 2023. Under Rule I-6(4)(b), the Executive Board will set the margin over the SDR interest rate again next year, for FY 2025-2026. In that context it will have the opportunity to revisit the application of the exceptional circumstances clause for the setting of the margin.

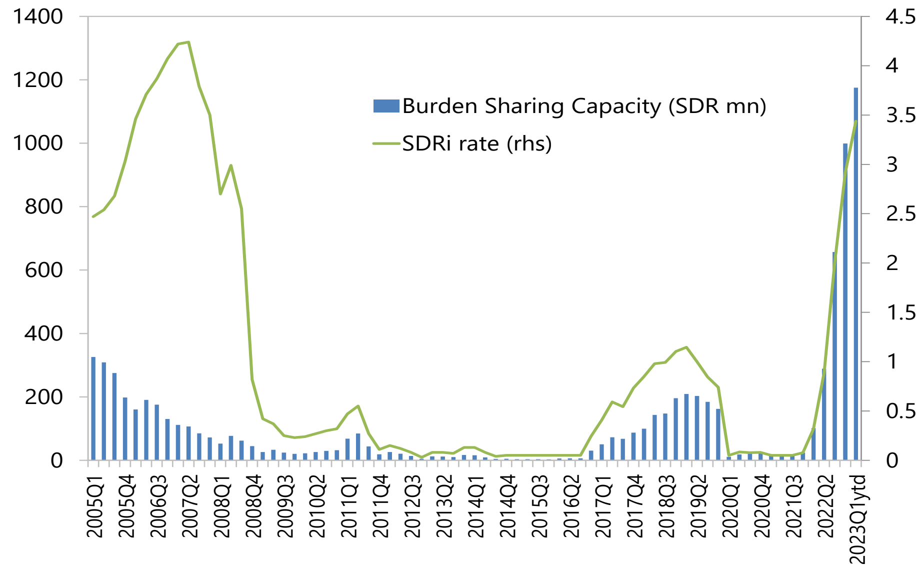
Burden Sharing Capacity

39. **The sharp increase in interest rates has had a positive effect on the Fund's burden sharing capacity recently.** Figure 6 below shows the burden sharing capacity based on the SDR interest rate and remunerated reserve tranche positions (RRTP) from FY 2005 to end-February FY 2023.[44] The sharp increase in the burden sharing capacity which reached SDR 1,175 million at end-February reflects mainly the rapid rise in the SDR interest rate from a low of 0.05 percent in FY 2021 to 3.437 percent by end-February 2023. The burden sharing rate stands at zero basis points; and there has been no burden sharing adjustment since the settlement of the last overdue GRA charges owed by Sudan in June 2021.[45]

[44] For a more detailed discussion see *Review of the Adequacy of the Fund's Precautionary Balances* (11/16/22).

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

Figure 6. Burden Sharing Capacity[1]
(in SDR million, unless otherwise stated)



Source: Finance Department.
[1] The annual burden sharing capacity estimated using the quarter-end RRTP and SDR interest rates.

ENTERPRISE RISKS

40. Income risks. Consistent with the Fund's Enterprise Risk framework, FIN staff conducted a risk self-assessment to identify and assess the most critical enterprise risks in the context of the Review of the Fund's Income Position for FY 2023 and FY 2024 (Table 7). The assessment recognizes that while risk mitigation activities are embedded in the Fund's income position review, significant residual risk related to external drivers can only be partly addressed through risk management.

Table 7. Enterprise Risk Self-Assessment for the Review of the Fund's Income Position

Document Risk Self-Assessment (DRSA)			
	Rank	**Risk Name**	**Risk Description and Mitigating Factors**
Top Risks to the Fund **WITH** this policy proposal or strategy paper in place	#1	Adequacy of Operational Income	Risk of a partial shortfall in operational income stemming from the waiver of reimbursement of PRGT costs to the GRA and from lack of the transfer of income and/or payouts from the Fixed-Income Subaccount and Endowment Subaccount, respectively. This is more than offset by the high lending income expected in FY 2023.
	#2	Adequacy of Operational Income	Income risks related to maintaining rate of charge remain unchanged as there are no fundamental changes of the underlying factors relevant for the establishment of the margin that would warrant an adjustment of the margin for setting the rate of charge set at 100 basis points. The rate for FY 2023-24 which was set in April 2022 using the exceptional circumstances clause remains sufficient to cover non lending expenses not covered by the shortfall in investment income, and to build up reserves. Risks related to the Fund's surcharges policy and impact of operational income and cash flows on accumulation of precautionary balances are covered in their respective policy papers.
	#3	Income Adjustments Due to IFRS-related Requirements	Impact of volatility from remeasurement of the Fund's defined benefit plans on its income and special and general reserves. Potential impact on income of the annual credit impairment assessments. Concerns about a member's ultimate repayment could trigger the recording of a provision for expected credit losses under IFRS 9, which would reduce the Fund's income and (accumulation of) precautionary balances and its balance sheet position. This risk exists with or without the policy.

Proposed Decisions

Decisions Pertaining to FY 2023

- 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 2023.
- Decision 2 provides for the income of the Fixed-Income and Endowment Subaccounts for FY 2023, if any, to be retained in the respective subaccounts.
- Decision 3 provides for the placement of FY 2023 GRA net income to the Fund's Special Reserve and the General Reserve. Specifically, the net income amount of the GRA up to the amount of the pension-related gain (or loss) in FY 2023 will be placed in the Fund's Special Reserve (or General Reserve), and any additional net income amount will be placed in equal parts to the Fund's Special Reserve and General Reserve.
- Decision 4 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 2023 net income.

Decisions Pertaining to FY 2024

- Decision 5 completes the review of the Fund's income position and concludes that there are no fundamental changes that warrant adjustment to the current rate of charge at 100 basis points over the SDR interest rate for FY 2024.

Decisions 1, 2, 3, and 5 each may be adopted by a majority of the votes cast. Decision 4 may be adopted by a 70 percent majority of the total voting power.

Decision 1. Assessment under Article XX, Section 4 for FY 2023

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, 2022 through April 30, 2023; 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, 2023 with an amount equal to 0.00131269 percent of their net cumulative allocations of special drawing rights. The total assessment shall be paid into the General Department.

Decision 2. Income of the Fixed-Income and Endowment Subaccounts

The income of the Fixed-Income and Endowment Subaccounts for FY 2023, if any, shall be retained in the Fixed-Income Subaccount and Endowment Subaccount, respectively, and invested according to the Rules and Regulations for the Investment Account.

Decision 3. Placement of FY 2023 Net Income of the General Resources Account to the Special Reserve and General Reserve

Net income of the General Resources Account for FY 2023 equivalent to the pension-related remeasurement gain (or loss) shall be placed to the Fund's Special Reserve (or General Reserve), and for any net income in FY 2023 that exceeds the amount of the remeasurement gain (or loss), an amount equivalent to this excess shall be placed in equal parts to the Fund's Special Reserve and General Reserve.

Decision 4. Transfer of Currencies to the Investment Account for FY 2023

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, 2023 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, 2023–January 2024. 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 5. The Rate of Charge on the Use of Fund Resources for FY 2024

Pursuant to Rule I-6(4)(a), the Fund has completed the review of the Fund's income position and concluded that for FY 2024 there are no fundamental changes to warrant any adjustment to the margin for the basic rate of charge as determined by Decision No. 17238-(22/39), adopted April 28, 2022.

Annex I. Decisions in Effect Related to the FY 2023 Income Position[1]

Decisions in Effect

The Executive Board has taken the following decisions affecting the Fund's income position for FY 2023:

Rate of Charge

The margin for calculating the basic rate of charge in FY 2022 was set in 2022 at 100 basis points for a period of two years (FY 2023–24).[1] This decision was adopted under the *exceptional circumstances* clause of Rule I-6(4), which allows the margin for calculating the basic rate of charge to be set at a level other than that which is adequate to cover the estimated intermediation expenses of the Fund and to generate an amount of net income for placement to reserves.

Burden Sharing for Deferred Charges[2]

Income losses resulting from unpaid charges are shared equally between debtor and creditor members under the burden sharing mechanism largely pursuant to decisions taken in 2000 and 2009. Unless amended by the Board, this mechanism will continue for as long as overdue obligations to the Fund persist.[3]

Special Charges[4]

For overdue repurchases, the special rate of charge is set to equal the excess, if any, of the SDR interest rate over the basic rate of charge (Paragraph 3 of Decision No. 8165-(85/189), as amended). Pursuant to Rule I-6(4), the basic rate of charge "shall be determined at the beginning of each financial year as the SDR interest rate under Rule T-1 plus a margin expressed in basis points". Since under the current system for setting the basic rate of charge, that rate is always in excess of the SDR interest rate, members are not subject to special charges on their overdue repurchases.

In FY 2019 the Board reviewed the system of special charges and adopted a decision to amend Section VI of the 1985 decision on special charges, to shift the requirement for regular review from the annual review of the Fund's income position to the five-yearly Review of the Fund's Strategy on Overdue Financial Obligations. The next review of the special charges framework is planned for FY 2025.

Suspension of PRGT reimbursement through FY 2026

In July 2021, the Board approved the suspension of reimbursement of the GRA for the costs of administering the PRGT for the fiscal years 2022-2026.[5] Temporary suspension is permissible under the Fund's new income model adopted in 2008 and the three-pillar framework for the self-sustained PRGT adopted in 2012.[6]

---

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

[2] Decision No. 12189-(00/45), adopted on April 28, 2000, as amended.

[3] See *Recent Fall in the SDR Interest Rate—Implications and Proposed Amendments to Rule T-1* (10/16/14).

[4] The requirement for an annual review of special charges was amended. See *Review of the Fund's Income Position for FY 2019 and FY 2020* (03/19/19).

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

[6] See Executive Board Decision No. 14093-(08/32), adopted April 7, 2008; and *Proposal to Distribute Remaining Windfall Gold Sales Profits and Strategy to Make the Poverty Reduction and Growth Trust Sustainable* (09/17/12).

---

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

Annex II. EA Payout Policy Framework—Key Features

In the April 2018 review of the Fund's income position, Directors endorsed the proposed implementation of payouts from the EA to the GRA based on the policy framework discussed at the review of the IA in March 2018. The framework aims at balancing the need to provide a meaningful contribution to the Fund's income, with preserving the real value of the EA corpus over time, as initially envisaged under the Fund's New Income Model. The agreed framework is expected to result in relatively stable and predictable annual payouts in US dollar terms. Key features include:

- Annual payout amounts in US dollars will be determined according to a constant real payout rule.
- The deflator for annual inflation adjustments will be the Fund's annual GED.[1]
- Annual payouts will be decided at the time of the Fund's net income disposition decisions. The initial nominal US dollar value of the payout will be aligned with the prevailing return outlook.
- The payout will be subject to a NAV-based limit which would trigger a suspension of payouts. The initial value of the payout and NAV-based limit will be decided by the Board prior to the first payout.
- Payouts will be delayed for three years (until FY 2021) to build a cushion of retained investment income.
- The retained investment income ("cushion") would be reassessed at the end of the three-year period.

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

Annex III. Implementation of the New Income Model—Status Update FY 2023

In April 2008, the Executive Board endorsed a New Income Model (NIM) aimed at diversifying the Fund's sources of income and reducing the institution's overreliance on income from lending activities to finance its diverse activities. The NIM reflected many of the measures that had been proposed in early 2007 by the Committee of Eminent Persons chaired by Andrew Crockett, and was designed to develop broader and more sustainable income sources in recognition of the public good aspects of many of the Fund's activities. Adoption of the NIM required an intensive work program for the Fund over many years. The table below summarizes the main elements of the NIM and the status of their implementation.[1]

Completed	In progress	Not started

Main Element	Implementation	Status
An amendment to the Articles of Agreement to broaden the Fund's investment authority.	The amendment to the Articles came into effect in February 2011 following ratification by three-fifths of IMF members representing 85 percent of the total voting power. The amendment aimed at providing the Fund with flexibility to enhance the expected return on its investments and adapt its investment strategy over time.	
Creation of an endowment funded with profits from the sale of 403.3 metric tons of the Fund's gold holdings.	Gold sales required an 85 percent majority vote of the Executive Board. The gold sales were completed in December 2010 and realized total profits of SDR 6.85 billion.[2] Initial sales were conducted through off-market transactions with central banks and official holders followed by on-market sales.	
Adoption of new rules and regulations for the Investment Account (IA)—a requirement for the Fund to exercise its expanded investment authority under the amended Articles.	In January 2013, the Executive Board approved new rules and regulations for the IA.	
Investment of the endowment.	The 3-year phased implementation of the endowment's investments was completed in 2018.	

[1] In addition to these elements geared to broadening the Fund's income, the NIM envisioned that in the event the Fund's precautionary balances are considered to be adequate, the Executive Board could consider making dividend payments to members. The Fund is still accumulating precautionary balances towards the current agreed target of SDR 25 billion. As such, this issue will need to be revisited at a later date.

[2] SDR 4.4 billion of the gold profits was used to fund the endowment. In accordance with two decisions adopted by the Board, the remaining profits of SDR 2.45 billion were distributed to members to help finance concessional lending to low-income countries in October 2012 and October 2013.

Main Element	Implementation	Status
	The Executive Board has since reviewed the investment strategy for the endowment in 2018 and in 2022. In 2018, the Board also approved a payout policy framework and a delay in initiating payouts until an adequate cushion of retained investment income was established. Payouts are assumed to commence in FY 2024.	
Adopting a new rule for the margin for the basic rate of charge. Previously, the margin was set to generate sufficient income for the Fund to cover all of its administrative expenses and to meet a specific net income target.	In December 2011, the Fund adopted a new rule for setting the margin on the rate of charge.[3] Under the new rule, the margin should be set to cover the Fund's intermediation (lending) costs and help build-up reserves. However, given the continuous low interest rate environment, investment income has been subdued and the continued reliance by the Fund on lending income to cover a significant portion of its non-lending operating costs, the margin has so far been set under the exceptional circumstances clause.	
Reimbursement of PRG Trust expenses.	In FY 2013, the practice of reimbursing the Fund for the expenses of conducting the business of the PRG Trust was resumed and has subsequently been suspended from FY 2021 to FY 2026. The cumulative impact of the suspension is expected to be SDR 273 million over the remaining three-year period. The temporary suspension of reimbursement, however, is one of the recognized contingency measures under the PRGT's three-pillar framework when self-sustained capacity falls short of the target envelope. The proposed suspension would retain these resources in the PRGT Reserve Account, which provides security to lenders.	
Review of the investment strategy for the Fixed-Income subaccount.	Following the Amendment to the Articles in 2011, the investment strategy for the Investment Account Fixed-Income Subaccount (FI) was reviewed and an expanded investment strategy was approved by the Board in 2015. The Board reviewed experience with the expanded FI strategy in 2022. At this review, a target margin of 50 basis points above the SDRi was added to the current investment objective to guide expectations for the FI strategy's risk and return profile. It was noted that a higher margin as	

[3] Decision No. 15044–(11/119) adopted December 9, 2011.

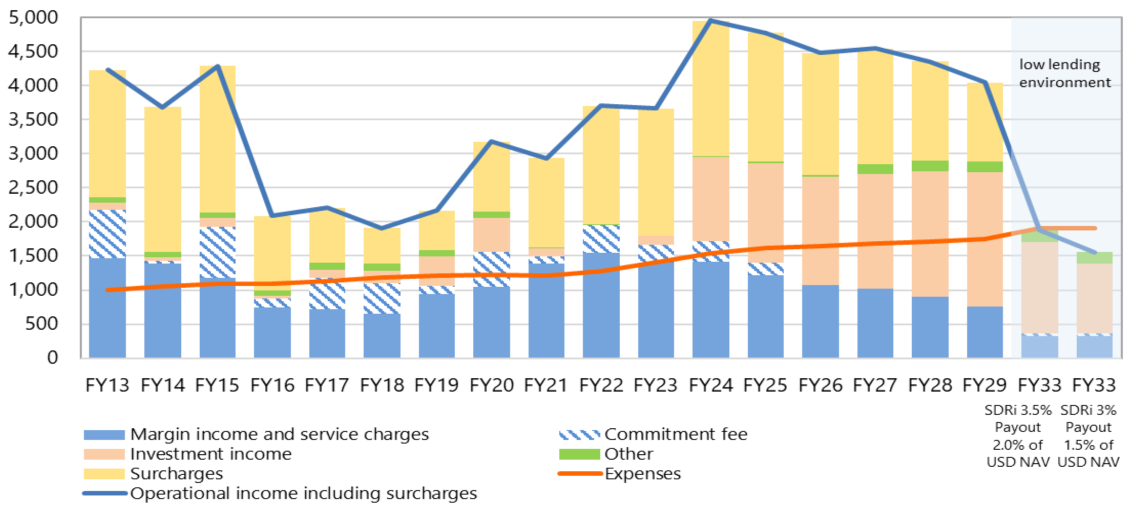
Main Element	Implementation	Status
	envisaged under the NIM could be revisited in the future if yield curves return to levels which were more normal in the past.	

Developments

Significant progress has been made in implementing the NIM with almost all elements now in place. As a result, the Fund has gradually increased the diversification in its sources of income and reduced the institution's overreliance on income from lending activities to finance its diverse activities (see Figure AIII.1). Nonetheless, the contribution of these sources of income as well as the financing requirements for the Fund's activities have varied with changes in the global economic and market environment and other related developments. Since the global financial crisis, the Fund's lending income has increased while non-lending income has been highly constrained by very low sustained global interest rates.[4] This has been the primary reason why income from investments and interest free resources has covered a much smaller percentage of expenditures (around one tenth on average) compared to initial expectations.[5] Going forward, the prospect for achieving these initial expectations could improve, as global interest rates have been rising sharply since the beginning of 2022 and may soon revert to the levels considered more normal in the past. Staff will continue to monitor developments in the global financial environment and its impact on implementation of the NIM elements.

Figure AIII.1. Actual and Projected Operational Income and Expenses—FY 2013–33[1]

(In millions of US dollars)



Source: Finance Department.

[1] Operational income and expenses excluding the pension-related gains and losses.

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

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

Annex IV. Endowment Payout—Practical Considerations

The Board endorsed a set of criteria for determining a constant real payout rule, supplemented by safeguards to help protect the value of the EA in real terms (Annex II).

- *Reassess adequacy of retained income cushion ("cushion") based on EA NAV*. The target cushion could be sized so the portfolio could absorb one extreme event equivalent to a two-standard deviation market shock. This was equivalent to around 15 percent in 2018. In practice the time required to achieve the required cushion would be uncertain and subject to market conditions. However, the Board could decide to delay payouts for a certain period with the intent of building an adequate income cushion in the EA. The EA cushion represents the difference between the EA's NAV and its corpus. The corpus is estimated based on principal amounts invested in the EA since inception, adjusted for the GED. These parameters are calculated monthly by the Fund's custodian.

- *Review return outlook/projections for EA.* The *initial value* of the payout would need to be aligned with a conservative estimate of the projected long-term EA real returns in US dollar terms. This estimate would ideally be associated with a relatively high level of confidence (or conversely a lower-than-average probability of underperformance).

- *Current USD amount of initial payout*. The constant real payout rule is used to determine future payout amounts after the initial payout is determined. Under this rule, the payout amount for any given year would be calculated as the prior year's USD payout increased by the deflator (GED). If the payout amount as a percentage of NAV exceeds the maximum limit specified, it will be suspended.

- *Maximum limit of payout to trigger future suspension of the payout*. Based on the level of the EA's cushion, a maximum limit would be set as a percentage of NAV to trigger suspension of future payouts. An adequate cushion is a prerequisite for commencing payouts and to prevent a start-stop scenario. For example, a 1.5 percent initial value of the payout and cushion size of 5 percent would imply a maximum limit of 1.6 percent. In other words, if in future years the payout amount reaches 1.6 percent of the current EA NAV, a suspension of payouts would be triggered. Following a suspension, staff will need to repeat the reassessment of the EA cushion as described above and calculate a new maximum limit, before proposing to recommence payouts.

Annex V. Assumptions Underlying the Income Projections

Assumptions Underlying the Income Projections
(in billions of SDRs, unless otherwise stated)

	Actual through Feb. 2023	FY 2023	FY 2024
Regular Facilities:			
1. Purchases (excl. reserve tranche purchases)	16.5	22.3	18.1
2. Repurchases	14.5	19.2	23.3
3. Average balances subject to charges	93.6	93.9	95.8
4. Average SDR holdings	23.8	24.0	25.5
5. Average remunerated positions	110.3	111.0	116.1
6. Average investment account assets-Fixed-Income subaccount	20.3	20.3	22.9
7. Average investment account assets-Endowment subaccount	6.4	6.4	6.5
8. Average borrowings and issued notes	2.1	2.0	0.9
		(In percent)	
Return on investments-Fixed-Income subaccount [1]	-0.02	0.33	3.75
Return on investments-Endowment subaccount [1, 2]	-3.18	-3.22	5.29
Average interest rates:			
SDR interest rate and basic rate of remuneration	2.0	2.1	3.6
Basic rate of charge	3.0	3.1	4.6
Margin on the rate of charge	1.0	1.0	1.0

[1] End-February figure is unannualized.
[2] The projected returns for the Endowment Subaccount are shown in SDR terms.

Annex VI. Consolidated Medium-Term Income and Expenses

Consolidated Income and Expenses, FY 2022–33 Desk Survey Scenario

									Low-lending environment	
									Scenario A	Scenario B
									SDRi 3.5% P/out=2%	SDRi 3% P/out=1.5%
	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY33	FY33
					(in SDR millions)					
A. Operational Income	**2,413**	**2,822**	**3,825**	**3,538**	**3,291**	**3,344**	**3,180**	**2,953**	**1,294**	**1,073**
Lending income	2,621	2,650	2,739	2,441	2,109	1,994	1,724	1,395	247	247
Margin for the rate of charge	905	939	958	860	765	732	656	548	200	200
Service charge and other income	199	112	90	39	26	15	1	0	23	23
Commitment fees	283	197	219	142	0	0	0	0	24	24
Surcharges	1,234	1,402	1,472	1,400	1,318	1,247	1,067	847	0	0
Investment income	(222)	66	936	973	1,072	1,151	1,258	1,368	841	632
Fixed-Income Subaccount 1/	(222)	66	842	875	973	1,050	1,156	1,264	675	525
Endowment Subaccount pay-out 2/	0	0	94	98	99	101	102	104	166	107
Interest-free resources 3/	6	97	135	107	92	86	84	74	88	75
Reimbursements	8	9	15	17	18	113	114	116	118	119
SDR Department	8	9	9	9	10	10	10	10	10	10
PRG Trust 4/	0	0	0	0	0	95	96	98	100	100
RST 5/	0	0	6	8	8	8	8	8	8	9
B. Expenses 6/	**976**	**1,131**	**1,141**	**1,195**	**1,208**	**1,227**	**1,240**	**1,269**	**1,309**	**1,309**
Net administrative budget	841	972	1,045	1,098	1,114	1,141	1,150	1,173	1,205	1,205
Capital budget items expensed	20	25	32	33	34	28	29	30	32	32
Depreciation	53	60	64	64	60	58	61	66	72	72
Net periodic pension cost	62	74	0	0	0	0	0	0	0	0
C. Net Operational Income (Loss) Before Provisioning (A-B)	**1,437**	**1,691**	**2,684**	**2,343**	**2,083**	**2,117**	**1,940**	**1,684**	**(15)**	**(236)**
Provision for loan impairment losses	0	0	0	0	0	0	0	0	0	0
D. Net Operational Income (Loss)	**1,437**	**1,691**	**2,684**	**2,343**	**2,083**	**2,117**	**1,940**	**1,684**	**(15)**	**(236)**
E. Pension-related remeasurement gain	1,515	348	0	0	0	0	0	0	0	0
Net Operational Income (Loss) After Remeasurement (D+E)	**2,952**	**2,039**	**2,684**	**2,343**	**2,083**	**2,117**	**1,940**	**1,684**	**(15)**	**(236)**
Endowment Subaccount - Retained Income	133	(210)	240	235	231	258	257	281	(88)	(28)
Net Income (Loss)	**3,085**	**1,829**	**2,924**	**2,578**	**2,314**	**2,375**	**2,197**	**1,966**	**(103)**	**(264)**
					(in US$ millions)					
F. Operational Income	**3,390**	**3,754**	**5,165**	**4,776**	**4,475**	**4,548**	**4,357**	**4,046**	**1,876**	**1,555**
Lending income	3,683	3,525	3,698	3,296	2,868	2,712	2,362	1,912	357	357
Investment income	(312)	88	1,264	1,313	1,458	1,566	1,724	1,874	1,220	917
Interest free resources	8	129	182	143	125	117	115	101	127	109
Reimbursements	11	12	21	24	24	153	156	159	172	172
G. Expenses	**1,369**	**1,504**	**1,541**	**1,612**	**1,642**	**1,668**	**1,698**	**1,738**	**1,899**	**1,899**
Net administrative budget	1,180	1,293	1,411	1,482	1,514	1,552	1,576	1,607	1,748	1,748
Capital budget items expensed	28	33	43	44	46	38	39	41	46	46
Depreciation	74	80	87	86	82	78	83	90	105	105
Net periodic pension cost	87	98	0	0	0	0	0	0	0	0
H. Net Operational Income (Loss) (F-G)	**2,021**	**2,250**	**3,624**	**3,164**	**2,833**	**2,880**	**2,659**	**2,308**	**(23)**	**(344)**
Memorandum Items:										
Fund credit (average stock, SDR billions)	90.5	93.9	95.8	86.0	76.5	73.2	65.6	54.8	20.0	20.0
SDR interest rate (in percent)	0.1	2.1	3.6	3.1	3.0	3.0	3.1	3.1	3.5	3.0
US$/SDR exchange rate	1.41	1.33	1.35	1.35	1.36	1.36	1.37	1.37	1.45	1.45
Precautionary balances (end of period, SDR billions) 7/	20.9	22.6	25.1	27.4	29.5	31.6	33.6	35.3	15.0	15.0

Consolidated Income and Expenses, FY 2022–33 Desk Survey Scenario (concluded)

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

[2] The projections assume a 1.5 percent payout from the EA commencing in FY 2024. The illustrative scenarios for FY 2033 show a continued payout of 1.5 percent in a low investment return environment (Scenario B); and a higher payout of 2 percent in a high investment return environment (Scenario A).

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

[4] A five-year suspension of the PRGT reimbursement of expenses for the FY 2022–26 was approved by the Board in July 2021.

[5] Reimbursement of costs for RSF country operations and related Fund overhead costs (e.g., space; equipment). See *Proposal to Establish a Resilience and Sustainability Trust* (3/21/22). Cost estimates for RST reimbursement reflect initial estimates for the scale and unit costs of RST-supported operations.

[6] Includes proposed adjustment for deflator in FY 2024 in January 2023 to 6.2 percent. Also includes budget augmentation that was approved in the context of the *FY 2023-FY 2025 Medium-Term Budget* and implemented through annual increases in the real net administrative budget averaging 2 percent each year during FY 2023 to FY 2025 (relative to FY 2022), returning to a flat real budget trajectory thereafter. See The *Budget Augmentation Framework* (11/12/21).

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