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IMF POLICY PAPER

THE CONSOLIDATED MEDIUM–TERM INCOME AND EXPENDITURE FRAMEWORK

July 24, 2015

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- The **Staff Report** on the Consolidated Medium-Term Income and Expenditure Framework was prepared by IMF staff and completed on April 10, 2015 as a background paper to the FY 2016–FY 2018 Medium-Term Budget and Review of the Fund's Income Position for FY 2015 and FY 2016. The paper was prepared for the Executive Board's consideration on April 23 and April 27, 2015, respectively.

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THE CONSOLIDATED MEDIUM-TERM INCOME AND EXPENDITURE FRAMEWORK

April 10, 2015

EXECUTIVE SUMMARY

The medium-term income projections have been updated since the last estimate provided to the Executive Board in April 2014. The main changes to the outlook stem from a lower path for credit outstanding and expectations for a more gradual rise in interest rates.

The revised projections show lower levels of net operational income over the coming years. Lending income is lower compared with earlier estimates as a result of lower credit levels, including the advance repurchases by Ireland and Portugal. Non-lending income is also projected to be lower reflecting a further downward shift in SDR interest rates and, thus, returns on investments and interest-free resources. The updated expenditure path assumes the net administrative budget remains constant in real terms at the FY 2012 level. The long-run projections indicate a broad balance between income and expenditures, assuming that interest rates rise to 3.5 percent and with lending returning to pre-crisis levels.

The pace of reserve accumulation is expected to slow, reflecting the decline in Fund credit, and precautionary balances are now projected to remain slightly below the projected target of SDR 20 billion over the medium term compared with the earlier estimates.

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INTRODUCTION

1. This paper updates the consolidated income and expenditure outlook from April 2014 and the projected accumulation of precautionary balances over the medium term.[1,2] The paper incorporates and extends the income and budget projections in the companion papers.[3]

2. The paper is organized as follows. The first part of the paper presents the updated outlook for the Fund's consolidated income and expenditure through FY 2021. It begins with a review of the outlook for the Fund's medium-term income from lending[4] and non-lending income sources, highlighting key changes since the last update in April 2014. The paper then describes the medium-term expenditure outlook. The discussion of consolidated income and expenditures concludes with an update of the long-run income-expenditure position which, as in the past, provides an illustration of the steady state income position when lending income has returned to the low levels assumed when the Fund's New Income Model was developed. The second part of the paper provides an update on the pace of accumulation of precautionary balances over the medium term.[5]

CONSOLIDATED INCOME AND EXPENSES

A. Medium-Term Income

3. The main changes to the medium-term income outlook stem from a lower projected path for credit outstanding and expectations for a more gradual rise in interest rates. As a result of these changes operational income is expected to provide a smaller margin over expenditures in the coming years than projected earlier, while surcharge income will also be lower over the medium term.

4. Operational lending income is projected to decrease more rapidly over the medium term than projected in April 2014. Two Stand-By Arrangements (SBA), one of which was cancelled,

[1] See The Consolidated Medium-Term Income and Expenditure Framework (04/22/14).

[2] An earlier version of this paper (02/19/2015) was prepared as background for the Committee on the Budget discussion on February 26, 2015. The outlook discussed in this paper is largely unchanged from the earlier unpublished paper, except that the baseline projection now reflects early repurchases by Portugal that are now underway and also includes the projected IAS 19 adjustment in FY 2015.

[3] See Review of the Fund's Income Position for FY 2015 and FY 2016 (04/06/15) and FY 2016-2018 Medium-Term Budget (03/30/15).

[4] Lending income comprises i) operational lending income earned from the basic rate of charge, service charges, and commitment fees; and ii) income from surcharges which is not included in operational income.

[5] Precautionary balances comprise the general and special reserves (except for an amount of the special reserve attributed to gold sales profits), and the Special Contingent Account (SCA-1). An adequate level of precautionary balances is an essential element in the strategy to mitigate credit risk and thereby protect the value of reserve assets that members place with the Fund.

and two Extended Fund Facilities (EFF), have been approved by the Executive Board since April 2014.[6] Total access provided by the new arrangements is about SDR 12.5 billion. The revised projections now reflect actual and expected advance repurchases by Ireland and Portugal[7]; and do not at this point incorporate further purchases under the current arrangement with Greece. In aggregate, these changes have lowered the projected credit path by an average of SDR 17.4 billion a year over the period FY 2015-19, thus decreasing projected annual average income from the margin and service charges by about SDR 170 million a year over the medium term. However, this decline in margin income over the medium term is partly offset by an increase in projected commitment fees in FY 2017 from the recent renewal of two arrangements under the Flexible Credit Line (FCL) and approval of a smaller arrangement under the Precautionary and Liquidity Line (PLL).[8]

5. Non-lending income. Non-lending income comprises investment income, the implicit returns on the Fund's interest-free resources, and reimbursements to the General Resources Account (GRA).

Investment Income

- **The Fixed-Income Subaccount is expected to generate lower income over the medium term than projected in April 2014.**[9] In FY 2015, income from this subaccount is expected to be higher than projected in April 2014 because interest rates have fallen further rather than increasing. Thus, the negative returns that were anticipated in FY 2015 from valuation losses as yields rose have so far not eventuated. However, if yields rise as implied by forward markets and the current investment mandate for this portfolio remains, then the subaccount is projected to make a slight loss in FY 2016 of SDR 24 million. Over the medium term, income from the subaccount is expected to rise more gradually than projected earlier mainly as a result of a considerable downward shift in the forward curve of the SDR interest rate, which implies a rate of only 1.2 percent in FY 2019 compared with 2.4 percent estimated in April 2014. The projections also embody more conservative assumptions on the gains to be made from a possible broadening of the investment mandate for this portfolio.[10] The risk of negative

[6] Excludes arrangements treated as precautionary by the authorities upon approval of the program.

[7] Ireland made early repurchases of SDR 7.6 billion and SDR 8.1 billion in December 2014 and February-March 2015, respectively; reducing its credit outstanding to below the 300 percent of quota threshold at which surcharges are assessed. Portugal's advance repurchases in March 2015 amounted to SDR 5.1 billion and further early repayments of SDR 6.4 billion are assumed to take place later in the year.

[8] Commitment fee income is only recognized at the expiration or cancellation of an arrangement. The fees for the two-year FCL and Precautionary and Liquidity Line (PLL) arrangements are included in income at the end of the two-year period.

[9] The Fixed-Income Subaccount has investments equivalent to the Fund's general and special reserves except for (i) amounts attributed to gold sales profits in the special reserve and (ii) amounts of the general and special reserve attributed to net income for which no currency transfer have been made from the GRA to the IA pending the review of the Fixed-Income Subaccount.

[10] The current projections assume that a premium of 50 basis points over the SDR rate is only attained in FY 2019, rising to 100 basis points by FY 2021, some two years later than assumed in the April projections.

performance remains elevated, especially if yields rise rapidly. The Executive Board has held an initial informal discussion on the review of the investment strategy for this subaccount and a follow-up discussion is planned for mid-2015. The reasonableness of the medium-term projections will need to be revisited in light of the outcome of that review. While the downward revision in projected investment income of over SDR 300 million in FY 2019 compared with the April 2014 projection mainly reflects lower expected returns, a decrease in average reserves over the medium term, due mainly to the decline in projected surcharge income (see below), also contributes to the lower investment income.

- **Projected income for the Endowment Subaccount over the medium term is unchanged.** The three-year funding period of the passively-managed portion of the gold endowment began in March 2014; the projections continue to reflect the expectation that the endowment will be phased-in quarterly and thus be fully operational during FY 2018 with the illustrative assumption of 3 percent payouts commencing in that year.[11] Pending their investment in accordance with the strategic asset allocation benchmark for the endowment, gold profits will continue to be invested in SDR denominated short-term fixed deposits broadly earning the SDR interest rate.[12] During the funding period, investment income earned from the subaccount is assumed to be retained in the endowment in accordance with the Rules and Regulations of the Investment Account (IA) and is therefore not included in the Fund's operating income.

- **Projected income from interest-free resources has been lowered in line with expected interest rate developments.**[13] The implicit returns on interest-free resources follow the downward shift in the projected path for the SDR interest rates thereby lowering projected annual interest-free income by some SDR 70 million in FY 2019.

6. The combination of a steeper decline in lending income and a slower rise in investment income described above has lowered projected operational income. In FY 2016, the estimated expenses are expected to marginally exceed income (before surcharges) and result in a small operational loss for the period. In FY 2017 new commitment fees from the recent renewal of two precautionary arrangements will bring a sharp rise in operational income, and through FY 2021 rising investment income is expected to contribute to maintaining positive net operational income (Figure 1).

7. Surcharge income is projected to be significantly lower than the April 2014 estimates. Advance repurchases by Ireland in FY 2015 have reduced its credit outstanding to below the 300

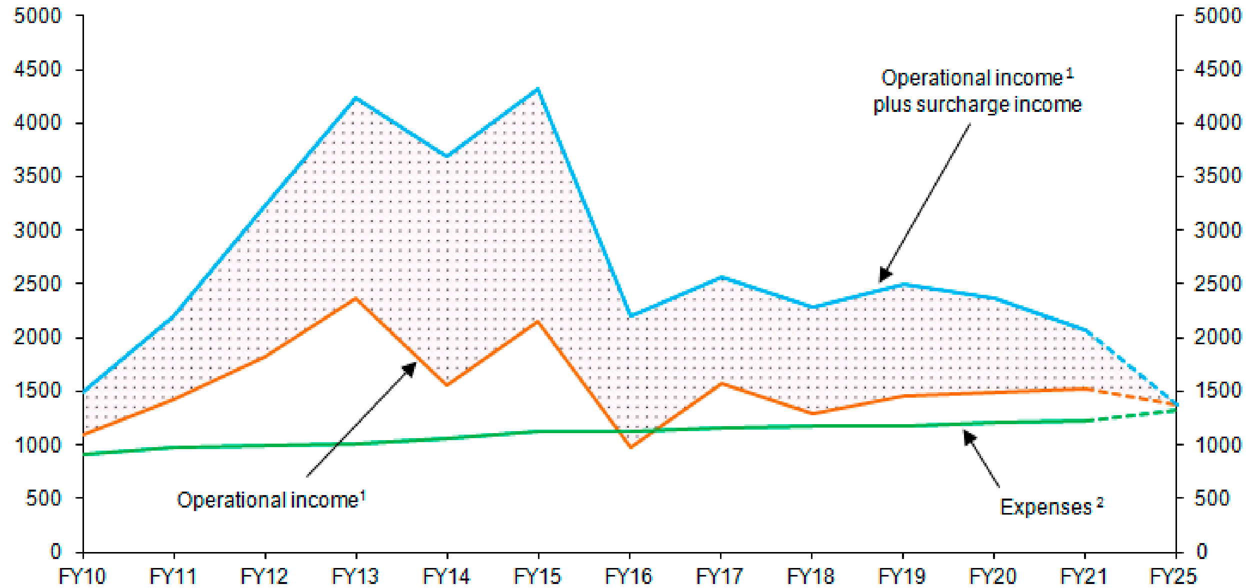
[11] It is expected that the Executive Board will consider the payout policy for the endowment toward the end of the phase-in period.

[12] Given the recently agreed floor on the SDR rate, actual returns on short-term deposits could fall short of the SDR rate in the near-term.

[13] GRA interest-free resources comprise primarily the SCA-1, unremunerated reserve tranche positions not represented by gold holdings, and GRA net income not transferred to the IA. These resources generate implicit income for the Fund by reducing members' reserve tranche positions and the remuneration expense thereon.

percent of quota threshold at which surcharges are assessed. Together with Portugal's advance repurchases of SDR 5.1 billion in March 2015 and the other assumptions noted above, annual surcharge income is projected to be lowered by an average of about SDR 0.7 billion over the medium term. Cumulative surcharge income over the period FY 2015-19 is now projected at SDR 4.3 billion compared with SDR 7.7 billion projected in April 2014.[14]

Figure 1. Actual and Projected Income and Expenses
(in millions of U.S. dollars)



[1] Operational income excludes surcharges, but includes investment income from the Fixed-Income Subaccount and an assumed payout of 3 percent from the gold endowment starting in FY 2018.
[2] Assumes that the net administrative budget remains constant in real terms at the FY 2012 level.

8. The income projections outlined above remain highly uncertain and are particularly susceptible to the timing of purchases and repurchases under existing arrangements, advance repurchases, and possible new arrangements. Other key factors affecting the Fund's income position include fluctuations in global interest rates and the U.S. dollar/SDR exchange rate (Box 1 provides further details), the 14th General Review of Quotas, and the annual pension expense under the amended International Accounting Standard 19 (IAS 19).[15]

[14] As Fund credit outstanding in the GRA has reached historical highs in recent years, a large share of this credit outstanding has been subject to surcharges. A level-based surcharge of 200 basis points applies to credit outstanding of over 300 percent of the member's quota, with a further time-based surcharge of 100 basis points applicable when credit of more than 300 percent of quota has been outstanding for more than three years. These level and time-based surcharges are intended to help mitigate credit risk by providing members with incentives to limit their demand for Fund assistance and encourage timely repayments while at the same time allowing the Fund to accumulate precautionary balances.

[15] IAS 19 (amended) is the International Financial Reporting Standard that deals with accounting for pension and other employee benefits, including the timing adjustment. The actuarially determined timing adjustment in FY 2015 results in a projected loss of about SDR 847 million, mainly attributable to a lowering of the discount rate. As

(continued)

B. Medium-Term Expenditures

9. The medium-term budget and expense projections reflect the baseline assumption of a flat net administrative budget in real terms. Against the backdrop of a solid income position, this baseline assumption is primarily guided by considerations of prudence and credibility. Through stronger internal prioritization processes together with cross-cutting streamlining measures, the medium-term budget accommodates new resource needs, including implementation of the recommendations of the Triennial Surveillance Review. Expenses related to strengthened physical and IT security will also continue to exert pressures on the budget. In the medium term, these assumptions yield a nominal expense path that is in line with the projections of last year.[16] In the longer term, a slight decline in nominal expenses relative to those projected in April 2014 is due to a downward revision to the projected Global External Deflator (GED).[17]

10. These projections are subject to some uncertainty. Considerable downside risks can arise from further volatility in global financial markets and commodity prices, geo-political developments, and stagnation in a number of major economies. Should the demand for Fund financing rise above current levels, savings that can potentially be achieved through further reprioritization might not be sufficient to contain spending within the baseline.

11. Capital expenditures are temporarily elevated due to the ongoing HQ1 renovation. However, the increase in capital expenses reflected in the Fund's income statement is projected to be moderate, as the major building renovations are depreciated over the remaining useful life of the building.

C. The Long-Run Income-Expenditure Position

12. The steady state outlook has not changed significantly but could be subject to downside risks in a prolonged low interest rate environment. In 2008, when the Board endorsed the New Income Model (NIM), a long-term goal was to broaden income sources to provide sustainable financing for the institution. In the current environment of very low interest rates, the Fund remains reliant on high income from lending. Against this background, the steady state outlook presented here is a hypothetical scenario developed as a cross-check on the consistency of the projected budgetary envelope with Fund income when lending income is again at low levels. As such, the scenario takes into account the progress that has been made in implementing the NIM; all

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discussed in the Review of the Fund's Income Position for FY 2015 and FY 2016 (04/06/15), the new standard was expected to introduce an additional source of volatility in the Fund's income over the medium-term; following the elimination of the corridor method, gains or losses arising from changes in actuarial assumptions are to be recognized in the year incurred.

[16] The GED is made up of a personnel component (based on the structural salary increase approved by the Board) and a non-personnel component (based on the projected U.S. CPI, reported in the WEO). For specific details, see FY 16-18 Medium-Term Budget (3/30/15).

[17] Calculated as a five-year backward looking average of the GED. In the April 2014 projections, this longer-term average was 2.2 percent, compared to 1.9 percent for current projections.

elements of the NIM are now in place or in progress, but the global economic and market environment is very different from that assumed when the NIM was agreed. While the medium-term outlook now reflects a lower path for credit outstanding and a slower recovery in interest rates, the projected steady state continues to point to a balanced position between income and expenditures.

13. The illustrative steady state is assumed to be reached in FY 2025 when drawings under current arrangements have been largely repurchased. The assumptions underlying the steady state are intended to illustrate a possible floor level of income providing an indication of the Fund's ability to generate a net positive income position even when credit is low. Commitments under contingent lending facilities are also assumed to decline from current levels to SDR 10 billion (see Box 1). Consequently, lending would contribute only modestly to total income. The level of precautionary balances is conservatively assumed to be at the current floor endorsed by the Board of SDR 10 billion. In this scenario, credit outstanding is assumed to stabilize at SDR 10 billion (close to the historic low) with none of this amount subject to surcharges. Investment income comprised of the assumed payout from the Endowment Subaccount (gold profits portfolio) and returns from the Fixed-Income Subaccount of the investment account, would cover the bulk of expenses, which in the long term are assumed to remain constant in real terms (see Table 1). On this basis, assuming a SDR interest rate of 3.5 percent and investment returns on the Fund's Fixed-Income Subaccount of an additional 100 basis points, the steady state projection yields a positive income-expenditure position and, as also envisaged under the NIM, the Fund would not be relying on lending income to finance its non-lending activities. The steady state remains sensitive to the assumptions on projected credit outstanding, changes in global interest rates, the U.S. dollar/SDR exchange rate movements, and returns on the Fund's investments. The steady state also assumes an unchanged margin on the basic rate of charge of 100 basis points.

14. An alternative scenario illustrates the impact of lower interest rates and investment returns in the steady state (Table 2, last column). At a SDR interest rate of 2.5 percent, the equivalent of only 0.5 percent in real terms, and investment returns on the Fund's Fixed-Income Subaccount that generate an additional 50 basis points, investment income and income from interest free resources would be reduced by about SDR 200 million from the baseline scenario. As a result, total operational income would cover only some 85 percent of expenditures. In this illustrative scenario, the shortfall in income equates to the income that could be generated by the retention of precautionary balances of SDR 15-16 billion rather than the SDR 10 billion assumed in the baseline. The next Review of the Adequacy of Precautionary Balances, which will take place early in 2016 on the standard two-year cycle, will provide an opportunity for the Executive Board to assess the adequacy of the current floor for precautionary balances of SDR 10 billion, as well as the current target for precautionary balances of SDR 20 billion.

Table 1. Consolidated Income and Expenses, FY2015–25
(in millions of U.S. dollars, unless otherwise stated)

	FY 15	FY 16	FY 17	FY 18	FY 19	FY 20	FY 21	FY 25
Current quotas and thresholds 1/								
I. Operational income	2,154	976	1,572	1,289	1,449	1,485	1,522	1,377
Lending income	1,938	904	1,341	704	662	579	462	201
Non-lending income	216	72	231	585	787	906	1,060	1,176
II. Administrative expenses	1,114	1,126	1,148	1,172	1,177	1,200	1,225	1,319
Of which: Net administrative budget	1,019	1,052	1,070	1,095	1,116	1,137	1,159	1,249
III. Net operational income (I-II)	1,040	-150	424	117	272	285	297	58
Memorandum items:								
Surcharges	2,167	1,228	983	991	1,052	879	549	0
Fund credit (average stock, SDR billions)	74.3	52.1	46.8	46.3	44.1	39.1	31.2	10.0
Precautionary balances (end of period, SDR billions) 2/	14.0	14.8	15.7	16.5	17.4	18.1	18.7	10.0

1/ The projections are based on the assumption that quotas and Fund policies on surcharges and commitment fees remain unchanged in the medium term.
2/ Annual net operational income and surcharges add to the level of precautionary balances each year. The assumed U.S. dollar/SDR exchange rate is 1.48.

PRECAUTIONARY BALANCES OUTLOOK

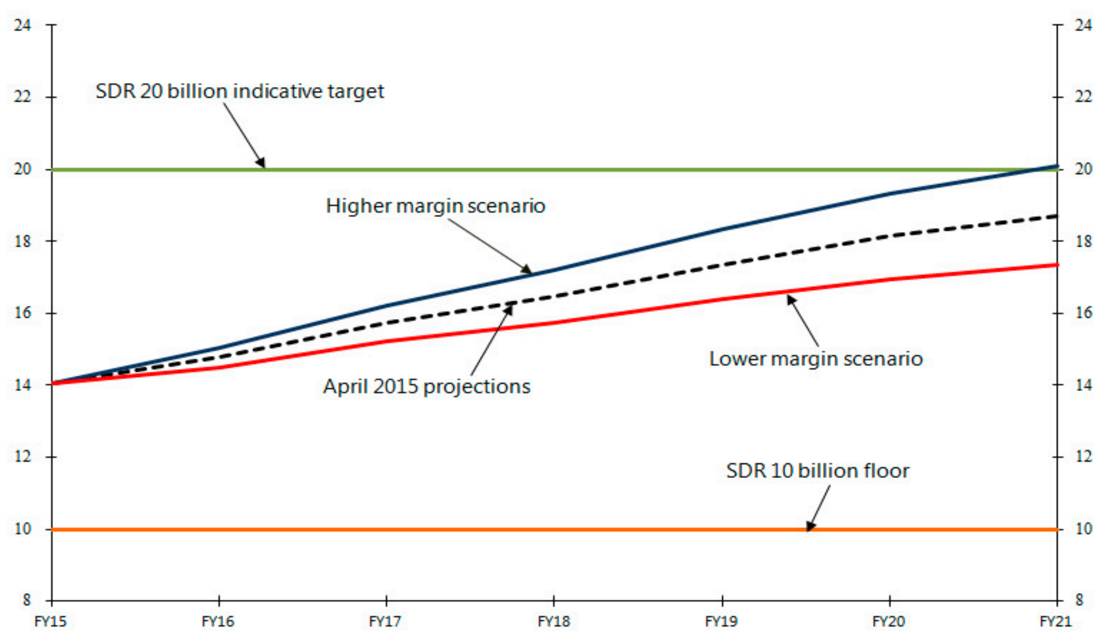
15. The global financial crisis has had a significant impact on the Fund's medium-term finances. Net income, including surcharges continues to contribute significantly to the accumulation of precautionary balances and is projected at about SDR 1.3 billion in FY 2015 (see Table 2). When placed to reserves, this would increase precautionary balances to reach about SDR 14 billion by end-FY 2015, compared with the April 2014 estimate of SDR 15.2 billion, mainly as a result of a projected loss arising from the IAS 19 adjustment for the year and lending and surcharges income being slightly lower than anticipated.

16. The slower pace of reserve accumulation now projected largely reflects a sharper decline in Fund credit. The path of investment income has also been adjusted downwards in light of the lower expected path for interest rates over the medium term. Against this backdrop, the income projections have been lowered from the April 2014 estimates slowing down the pace of reserve accumulation substantially. At the reduced level of reserve accumulation now projected, precautionary balances are expected to reach SDR 19 billion in FY 2022 and peak at around SDR 19.4 billion in FY 2024, remaining beneath the indicative medium-term target of SDR 20 billion that was reaffirmed at the last review of the adequacy of precautionary balances in February 2014. The pace of reserve accumulation is also sensitive to possible changes in the Fund's structure and thresholds of surcharges and commitment fees following the effectiveness of the 14th General

Review of Quotas. The IAS 19 timing adjustment is expected to remain volatile and affect the pace of reserve accumulation over the medium term.[18]

17. The medium-term path for precautionary balances was discussed in February 2014 in the context of the last review of the adequacy of precautionary balances.[19] At that review, the Board agreed to maintain the indicative medium-term target at SDR 20 billion and the minimum floor of SDR 10 billion, both of which were set at the time of the previous review in April 2012. Recent surpluses underscored by high levels of Fund credit have provided an opportunity to considerably boost the Fund's reserve position. The April 2014 baseline projections, which assumed a margin on the rate of charge of 100 basis points (the current level) and current quotas and surcharge policies on surcharge thresholds, had indicated that the precautionary balances target of SDR 20 billion was expected to be reached in FY 2018. The updated baseline projections now indicate that precautionary balances are expected to remain somewhat below the target reaching about SDR 19.4 billion in FY 2024; only under the higher margin scenario where the margin is increased to 150 basis points is the target projected to be reached in FY 2021 (see Figure 2).

Figure 2. Precautionary Balances Accumulation
(in billions of SDRs)



[18] Since the IAS 19 timing adjustment is extremely sensitive to changes in the discount rate and therefore its effect highly unpredictable over the medium term, no projections are made beyond the current financial year-end (FY 2015).

[19] See Review of the Adequacy of the Fund's Precautionary Balances (01/15/14).

Table 2. Consolidated Income and Expenses, FY2015–25
Based on Current Quotas and Surcharge Thresholds[1]

	FY15	FY16	FY17	FY18	FY19	FY20	FY21	SDRi - 3.5% FY25	SDRi - 2.5% FY25
	(in SDR millions)								
A. Operational income 2/	**1,455**	**660**	**1,063**	**871**	**980**	**1,003**	**1,028**	**930**	**749**
Lending income	1,310	611	906	476	448	391	312	136	136
Margin for the rate of charge	743	521	468	463	441	391	312	100	100
Service charge	62	32	12	9	7	0	0	12	12
Commitment fees	505	58	426	4	0	0	0	24	24
Investment income	82	-24	69	291	411	486	580	565	433
Fixed-Income Subaccount 3/	82	-24	69	143	260	332	423	395	263
Gold endowment pay-out	0	0	0	148	151	154	157	170	170
Interest free resources 4/	6	15	31	45	61	65	74	163	114
SCA-1 and other	6	15	31	45	61	65	74	163	114
Reimbursements 5/	57	58	57	59	60	61	62	66	66
MDRI-I Trust, CCR Trust and SDR Department	4	4	2	2	2	2	2	2	2
PRG Trust	53	54	55	57	58	59	60	64	64
B. Expenses	**754**	**761**	**777**	**792**	**795**	**811**	**828**	**891**	**891**
Net administrative budget	689	711	723	740	754	768	783	844	844
Capital budget items expensed	33	18	19	16	5	6	6	6	6
Depreciation	32	32	35	36	36	37	39	41	41
C. Net operational income (A-B)	**701**	**-101**	**286**	**79**	**185**	**192**	**200**	**39**	**-142**
Surcharges	1,464	830	664	670	711	594	371	0	0
IAS 19 timing adjustment	-847	0	0	0	0	0	0	0	0
Endowment (Gold Profits) Subaccount 6/	174	123	209	99	101	103	105	114	114
Net income	**1,492**	**852**	**1,159**	**848**	**997**	**889**	**676**	**153**	**-28**
	(in US$ millions)								
D. Operational income 2/	**2,154**	**976**	**1,572**	**1,289**	**1,449**	**1,485**	**1,522**	**1,377**	**1,110**
Lending income	1,938	904	1,341	704	662	579	462	201	201
Investment income	122	-35	102	432	609	720	860	837	642
Interest free resources	10	22	45	67	90	97	109	241	169
Reimbursements	84	85	84	86	88	89	91	98	98
E. Expenses	**1,114**	**1,126**	**1,148**	**1,172**	**1,177**	**1,200**	**1,225**	**1,319**	**1,319**
Net administrative budget	1,019	1,052	1,070	1,095	1,116	1,137	1,159	1,249	1,249
Capital budget items expensed	48	27	27	24	7	8	8	9	9
Depreciation	47	47	51	53	54	55	58	61	61
F. Net operational income (D-E)	**1,040**	**-150**	**424**	**117**	**272**	**285**	**297**	**58**	**-209**
Memorandum Items:									
Fund credit (average stock, SDR billions)	74.3	52.1	46.8	46.3	44.1	39.1	31.2	10.0	10.0
SDR interest rate (in percent)	0.1	0.2	0.6	0.9	1.2	1.3	1.5	3.5	2.5
US$/SDR exchange rate	1.48	1.48	1.48	1.48	1.48	1.48	1.48	1.48	1.48
Surcharges (US$ millions)	2,167	1,228	983	991	1,052	879	549	0	0
New income measures (US$ millions) 7/	82	88	106	339	357	427	506	552	447
Precautionary balances (end of period, SDR billions)	14.0	14.8	15.7	16.5	17.4	18.1	18.7	10.0	10.0

[1] Surcharges and commitment fees projections reflect current quotas and thresholds for surcharges and commitment fees.
[2] Excludes surcharges. The payout from the endowment funded by gold profits is assumed to begin in FY 2018, when the endowment is fully in place.
[3] The current projections assume that a premium of 50 basis points over the SDR rate is attained in FY 2019 rising to 100 basis points by FY 2021. Under the 2.5 percent steady state scenario the premium is assumed to level out at 50 basis points.
[4] Interest free resources reduce the Fund's costs and therefore provide implicit returns. Since the Fund invests its reserves in the IA to earn a higher return, the interest free resources retained in the GRA are mainly attributable to the SCA-1, unremunerated reserve tranche positions not represented by gold holdings, and GRA income for the year not transferred to the IA. These resources reduce members' reserve tranche positions and the Fund's remuneration expense resulting in implicit income for the Fund.
[5] Reimbursement of the GRA for the costs of administering the PRG Trust was resumed in FY 2013.
[6] For the period to FY 2017 all the investment income from the gold endowment is retained in the IA. From FY 2018, the endowment is assumed to make an annual payout to the GRA and a portion of the income retained to preserve the real value of the endowment.
[7] The effect on operational income of broadening investments, creating an endowment funded by profits from gold sales, the reduction in remuneration from proceeds equal to the book value of gold, and reimbursement of PRGT expenses.

Box 1. Income Projections

Key Parameters	Key Parameters	Key Parameters
US$/SDR exchange rate	1.48	Assumed unchanged from recent levels. A 10 percent rise (fall) in the US$/SDR exchange rate would raise (lower) annual income in FY 2021 by US$161 million.
SDR interest rate	Rising to 3.5 percent by FY 2025 from 0.1 percent in FY 15	A 10 basis point higher (lower) average SDR interest rate would raise (reduce) annual income in FY 2021 by US$36 million.
Margin for rate of charge (basis points)	100	Assumed unchanged from current level. A 50 basis point higher (lower) margin effective from FY 2016 would increase (reduce) income in FY 2016 and FY 2017 by US$386 million and US$349 million, respectively. A 50 basis point higher (lower) margin effective from FY 2016 would increase (lower) precautionary balances in the period to end-FY 2021 by some SDR 1.4 billion.

Operational lending income (US$201 million or SDR 136 million by FY 2025)

Fund credit is assumed to decline to an average steady state level of about SDR 10 billion by FY 2025, upon which a margin of 100 basis points would generate income of about SDR 100 million. Commitments under contingent lending facilities are assumed to also decline to an average of SDR 10 billion in the steady state, yielding some SDR 24 million in annual commitment fees. Average annual disbursements of about SDR 2.5 billion from FY 2023 generate about SDR 12 million in annual service charges (at 50 basis points).

Investment income (US$837 million or SDR 565 million by FY 2025)

Net operational income plus surcharges are assumed to be transferred annually to the Fixed-Income Subaccount for investment in the subsequent year (except for FY 2014 and FY 2015 which are deferred). Broadening of the investment mandate on the reserves portfolio is assumed to take effect in FY 2017, allowing average investment returns in this portfolio to exceed the SDR interest rate by 100 basis points by FY 2021, resulting in an annual income of about SDR 400 million in the steady state (FY 2025) when precautionary balances are assumed to be at the floor of SDR 10 billion.

The updated projections assume that implementation of the proposed investment strategy for the endowment (SDR 4.4 billion, equivalent to an average gold price of US$850 per ounce, plus earnings during the interim period) will continue to be phased-in gradually with annual payouts of 3 percent beginning in FY 2018.

Interest free resources (US$241 million or SDR 163 million by FY 2025)

The interest free resources retained in the GRA are mainly attributable to the SCA-1, unremunerated reserve tranche positions not represented by gold holdings, and GRA net income not transferred to the Investment Account. These resources reduce members' reserve tranche positions and the Fund's remuneration expense resulting in implicit income for the Fund.

Reimbursements (US$84 million or SDR 57 million in FY 2015)

Reimbursements from the SDR Department, MDRI-I Trust (which has now been liquidated), and CCR (formerly PCDR) Trust, are projected at about SDR 4 million in FY 2015 and reimbursement of the GRA for the expenses of administering the PRGT is assumed to be SDR 53 million in FY 2015. Administrative costs and the associated reimbursements are assumed to be stable in real terms in the medium term.