INTERNATIONAL MONETARY FUND

The Fund's Income Position for FY 2013—Midyear Update

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I. INTRODUCTION

1. **This paper presents updated projections on the Fund's FY 2013 income position**. The projected net income is now SDR 2.1 billion, slightly lower than the earlier projection of SDR 2.3 billion at the beginning of the year.[1] The changes reflect lower projected disbursements under approved arrangements owing to delays in scheduled drawings and arrangements expected to expire with substantial undrawn balances, the expectation that funding of the gold endowment will not begin until FY 2014, and lower implicit returns on the Fund's interest-free resources due to the prevailing interest rate environment.

2. **This paper is for information only.** In accordance with the new Rule I-6(4) the Executive Board set in April 2012 the margin for the basic rate of charge for FY 2013–14 at 100 basis points.[2] The income projections remain subject to uncertainty about developments in the global economy, which could affect the timing and amounts of disbursements under current and potential new arrangements and the performance of the Investment Account (IA). Assumptions underlying the projections are summarized in Annex II.

II. UPDATED FY 2013 INCOME POSITION

3. **Net income position for FY 2013 is now projected at about SDR 2.1 billion, compared with SDR 2.3 billion at the beginning of the financial year** (see Table 1). Key factors that affect the updated projections are:

- **Lending income**. Projected lending income (excluding surcharges) is lower by about SDR 125 million, reflecting a SDR 7 billion decline in projected purchases. The updated projections reflect rephasing of drawings under existing arrangements and projected expirations of arrangements with undrawn balances. Average credit outstanding for FY 2013 is now projected at SDR 93.3 billion compared with an earlier projection of SDR 100.6 billion. Projected commitment fees are also lower following the cancellation of a Flexible Credit Line (FCL) arrangement prior to the expiration date.[3]

- **Investment income.** Investment income from the two IA portfolios is now projected to be about SDR 73 million compared with the initial estimate of SDR 130 million.[4]

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[1] *Review of the Fund's Income Position for FY 2012 and FY 2013-14* (4/12/12).

[2] Under the new rule adopted by the Executive Board in December 2011, the margin is set for a period of two financial years. The midyear review of the Fund's income position that was required by the old Rule I-6(4) is no longer necessary, and instead an update paper for information of the Board is prepared. See *A New Rule for Setting the Margin for the Basic Rate of Charge* (11/23/11). Annex I summarizes the decisions in effect for FY 2013.

[3] Commitment fee income is only recognized at the expiration or cancellation of an arrangement. The fees for the two-year FCL arrangements are included in income at the end of the two-year period. An earlier cancellation results in a refund to the member and hence a reduction in the commitment fee recognized as income.

[4] The IA has two portfolios: (i) a portfolio funded by the gold profits and invested in short-term deposits as an interim measure pending further Board discussions to implement a broadened investment mandate; and (ii) the

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The gold profits portfolio is now projected to earn about SDR 6 million compared with an initial estimate of SDR 65 million, reflecting a revised timeline for the implementation of the gold endowment.[5] The updated projections assume the gold profits portfolio will continue to be invested in short-term deposits for the remainder of FY 2013.The projected earnings for the non-gold portfolio are broadly unchanged at SDR 67 million despite lower SDR interest rates, having benefited in the first half of the year from falling yields on some government bonds amid weak global growth prospects.[6]

Table 1. Projected Income Position—FY 2013 1/
(*In millions of SDRs*)

1.	**Net income position projected (EBS/12/51)**	**2,322**
2.	Income variances (A+B+C+D)	**-253**
	Changes due to:	
	A. Lending income	-125
	Service charges	-35
	Margin	-73
	Commitment fees	-17
	B. Investment Account returns	-57
	C. Income from interest-free resources	-10
	D. Surcharges	-61
3.	**Net income position now projected (1+2)**	**2,069**

1/The projections for net administrative expenditures are based on the FY 2013 budget. In recent years actual expenditures have been somewhat lower than the budgeted expenditures.

- **Implicit returns on interest-free resources**.[7] The implicit returns on interest-free resources are projected to be lower by some SDR 10 million as a result of the current low

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original portfolio funded by transfer of currencies from the GRA in amounts equivalent to the Fund's total reserves in June 2006, plus subsequent transfers of GRA net income not associated with gold profits.

[5] The April projections assumed that the gold endowment would be established in the second half of FY 2013, whereas the revised projections assume that implementation of the proposed investment strategy for the endowment will be phased-in gradually, starting in FY 2014.

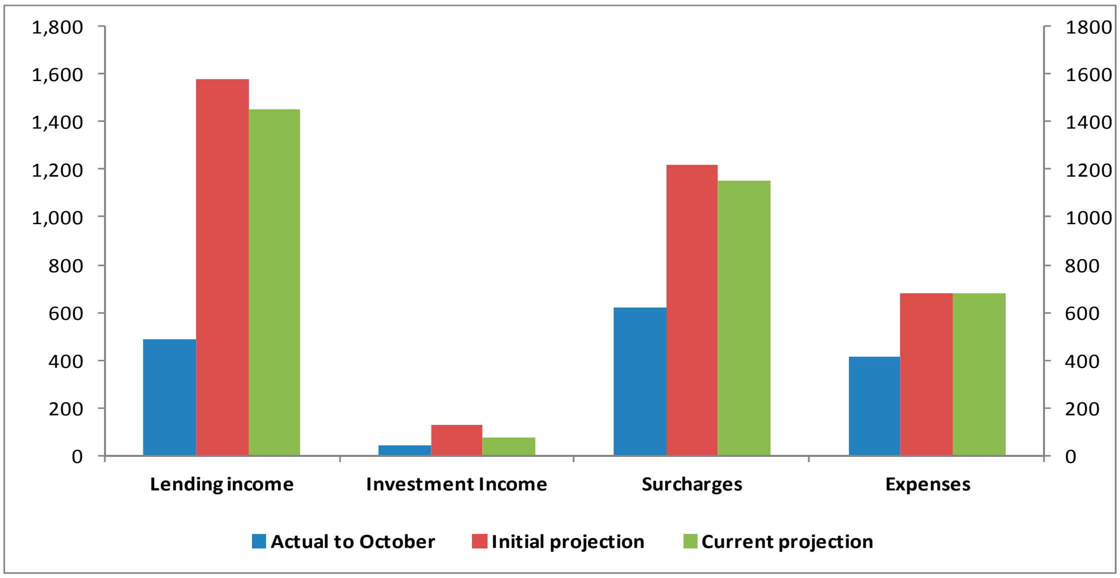
[6] Consistent with past practice, the updated projection of SDR 65 million takes account of actual performance in the first half of the financial year and assumes that the non-gold portfolio earns 50 basis points over the SDR interest rate during the second half. The assumed added value of 50 basis points is based on historical performance over the medium term, but actual performance will vary year to year based on market conditions.

[7] GRA interest-free resources comprise primarily the SCA-1 and sale proceeds equivalent to the book value of gold sold in 2009-10, which were retained in the GRA, thereby reducing members' reserve tranche positions and the Fund's remuneration expense, which is based on the SDR interest rate.

interest rate environment. The average SDR interest rate for FY 2013 is now projected at 0.10 percent (previously 0.30 percent).[8]

- **Surcharges.** Projections are lower by about SDR 61 million (see Figure 1) compared with initial projections in April. The decrease is attributable to lower projected disbursements under approved arrangements. In August 2012, time-based surcharges were levied for the first time following the 2009 lending reforms.[9] These surcharges amounted to SDR 36 million to end-October 2012 for members that have had credit outstanding in excess of 300 percent of quota for more than three years.

Figure 1. Income Position (FY 2013)
(*In millions of SDRs*)



4. **Precautionary balances are now projected to reach SDR 11.6 billion at the end of FY 2013.** The estimated FY 2013 net income of SDR 2.1 billion will contribute to the accumulation of precautionary balances and, as previously projected, the floor of SDR 10 billion will be reached during the year.[10] Updated projections with respect to the medium-term target of SDR 20 billion will be provided in the background materials for the next Committee of the Budget meeting in February 2013.

5. **Table 2 provides updated projections for FY 2013 and the outturn for the first half of the year**. The projections do not include potential purchases under (i) arrangements not yet approved since the timing and amounts involved for these are uncertain or

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[8] The projection of the SDR interest rate is based on market forward rates for the underlying three-month financial instruments in the SDR basket.

[9] See *GRA Lending Toolkit and Conditionality—Reform Proposals* (03/13/09).

[10] For purely illustrative purposes, the projections continue to assume conservatively that the existing surcharge thresholds remain unchanged when the quota increases under the 14th General Quota Review come into effect, implying that surcharge income would decline for a given level of credit outstanding.

(ii) precautionary arrangements.[11] Repurchases of outstanding Fund credit, and disbursements under arrangements already approved, are assumed to take place as scheduled (see Annex II).

Table 2. Projected Income and Expenditures
(*In millions of SDRs*)

	FY 2013		
	Actual to end-Oct 2012 1/	Initial Projections 2/	Current Projections
A. Operational income	**540**	**1,789**	**1,597**
Lending income	**490**	**1,577**	**1,452**
Margin for the rate of charge	468	1,006	933
Service charges	19	106	71
Commitment fees	3	465	448
Investment income	**45**	**130**	**73**
Non-gold portfolio	42	65	67
Gold profits portfolio	3	65	6
Interest free resources 3/	**3**	**15**	**5**
SCA-1 and other	1	7	2
Gold book value	2	8	3
Reimbursements	**2**	**67**	**67**
MDRI-I, PCDR Trusts, and SDR Department	2	3	3
PRG Trust	-	64	64
B. Expenses	**416**	**683**	**683**
Net administrative expenditures	400	643	643
Capital budget items expensed	2	7	7
Depreciation	14	33	33
C. Net operational income position (A-B)	**124**	**1,106**	**914**
Surcharges	621	1,216	1,155
Net income position	**745**	**2,322**	**2,069**
Memorandum Items:			
Fund credit (average stock, SDR billions)	92.7	100.6	93.3
SDR interest rate (in percent)	0.1	0.3	0.1
US$/SDR exchange rate	1.52	1.55	1.55
Precautionary balances (end of period, SDR billions)	10.2	11.8	11.6

1/ Actual expenses to end-October reflect the accrual basis used for financial reporting, including the estimated IAS 19 expense timing adjustment of SDR 73 million as at midyear. See *Review of the Fund's Income Position for FY 2012 and FY 2013-14* (4/12/12) for discussion of IAS 19 expense.

2/ See *Review of the Fund's Income Position for FY 2012 and FY 2013–14* (4/12/12).

3/ Interest free resources include income from the currency holdings in the GRA equivalent to the book value of gold sold under the limited 2009–10 gold sales (SDR 2.7 billion) and SCA-1 balances (SDR 1.2 billion).

[11] The projections include income from commitment fees for the precautionary Flexible Credit Line (FCL) arrangements at their expiration.

Annex I. Decisions in Effect Related to the FY 2013 Income Position [12]

The Executive Board has taken the following decisions affecting the Fund's income position for FY 2013: [13]

Rate of Charge

The margin for calculating the basic rate of charge in FY 2013 was set at 100 basis points for a period of two years (FY2013–14). This decision was adopted under the *exceptional circumstances* clause of Rule I-6(4), which, in exceptional circumstances, 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

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

[12] See *Review of the Fund's Income Position for FY 2012 and FY 2013–14* (4/12/12).

[13] The waiver for the reimbursement to the General Resources Account from the Reserve Account of the PRGT for the expenses of conducting the business of the PRGT expired at the end of FY 2012. A decision regarding the reimbursement for FY 2013 is yet to be taken.

Annex II. Assumptions Underlying the FY 2013 Projections

	Actual through end-October 2012		FY 2013 Initial Projections		FY 2013 Current Projections	
			(In billions of SDRs)			
Regular Facilities:						
1. Purchases (excl. reserve tranche purchases)	3.8		21.1		14.1	
2. Repurchases	6.2		13.7		14.1	
3. Average balances subject to charges	92.7		100.6		93.3	
4. Average SDR holdings	11.3		10.5		11.1	
5. Average remunerated positions	55.7		54.6		54.7	
6. Average investment account assets - reserves 1/	7.8		8.3		8.3	
7. Average investment account assets - gold profits	6.8		5.6	/2	6.5	/3
8. Average borrowings and issued notes	41.1		49.8		43.5	
			(In percent)			
Return on investments - non gold portfolio	0.58	/5	0.8		0.8	
Return on investments - gold profits portfolio	0.05	/5	1.2	/4	0.10	
Average interest rates:						
SDR interest rate and basic rate of remuneration	0.10		0.30		0.10	
Basic rate of charge	1.10		1.30		1.10	
Margin on the rate of charge	1.00		1.00		1.00	

1/ The figures are based on a general assumption that investment income is transferred annually to the GRA.
2/ Assumed all windfall gold sale profits were distributed in the second half of FY 13.
3/ Average balance takes into account the initial distribution of SDR 0.7 billion of the windfall gold sale profits.
4/ Initial projections assumed the gold endowment to be established in the second half of FY 13.
5/ End-October figure is unannualized.