IMF POLICY PAPER

THE CONSOLIDATED MEDIUM-TERM INCOME AND EXPENDITURE FRAMEWORK

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

- The Staff Report on the Consolidated Medium-Term Income and Expenditure Framework was prepared by IMF staff and completed on April 22, 2014 for the Executive Board’s consideration on April 28, 2014. The paper was prepared as a background paper to the FY 2015–2017 medium-term budget and the review of the Fund’s income position for FY 2014 and FY 2015–2016.

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.


International Monetary Fund
Washington, D.C.
THE CONSOLIDATED MEDIUM-TERM INCOME AND EXPENDITURE FRAMEWORK

EXECUTIVE SUMMARY

The medium-term income projections have been updated since the last estimate provided to the Executive Board in April 2013. Lending income is higher compared with the earlier estimates as a result of new arrangements approved since April 2013. Non-lending income is lower primarily due to revised projections for investment income. The updated expenditure path assumes the net administrative budget remains constant in real terms at the FY 2014 level, implying a nominal medium-term path that is somewhat higher than in the April 2013 projections. Precautionary balances are projected to reach the current target of SDR 20 billion in FY 2018. The projections also illustrate a broad balance between income and expenditures even if lending were to return to pre-crisis levels.
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INTRODUCTION

1. This paper updates the consolidated income and expenditure outlook from April 2013 and the projected accumulation of precautionary balances over the medium term. The paper incorporates and extends the income and budget projection discussed in the companion papers.

2. The projections continue to point to a strong net operational income position over the medium term. Lending income is higher than the April 2013 estimates as a result of new arrangements approved since April. Non-lending income is projected to be slightly lower primarily reflecting reduced investment income from the Fixed-Income Subaccount, which faces downside risks in a rising interest rate environment. The updated expenditure path is held constant in real terms at the FY 2014 level going forward, and results in a somewhat higher medium-term path compared to the April 2013 projections. The illustrative steady state, with low lending income, remains broadly balanced.

CONSOLIDATED INCOME AND EXPENSES

A. Medium-Term Income

3. Lending income. Operational lending income (from the margin on the basic rate of charge, service charges, and commitment fees) is expected to remain high in the medium term reflecting the high level of credit outstanding. The updated projections reflect data as of end-March 2014 and thus include new arrangements approved by the Executive Board since April 2013. These new arrangements—five Extended Fund Facilities (EFF) and one Stand-By Arrangement—with a total access of about SDR 7 billion have shifted the credit path upwards and increased the projected income from the margin and service charges in the medium term. An arrangement under the Flexible Credit Line (FCL) was also renewed contributing to a marginal increase in projected commitment fees in FY 2016. The new commitments also helped projected surcharge income rise slightly above the April 2013 estimates.

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1 See the Consolidated Medium-Term Income and Expenditure Framework (, 4/30/13).
3 The projections assume full drawings under existing arrangements, which tends to overstate the income projections. However, consistent with past practice, the projections only take account of currently approved arrangements, and not possible arrangements, thus lowering projected income effects.
4 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.
4. **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**

- **Fixed-Income Subaccount.** Income from this subaccount is projected to be lower than projected in April 2013. Given the projected rise in the global interest rates, as implied by forward markets, and the current investment mandate for this portfolio, in FY 2015 the subaccount is projected to make a modest loss of SDR 41 million (40 basis points) returning to a positive income position gradually starting in FY 2016.\(^5\) This outcome reflects the current low yield environment with coupon income providing little cushion to possible capital losses from yield increases. The revised projections assume a more gradual broadening of the investment mandate starting in FY 2016 resulting in a premium of 100 basis points over the SDR interest rate by FY 2019.\(^6\) The Executive Board is scheduled to review the investment strategy for this subaccount in FY 2015, and the realism of the medium-term projections will need to be revisited in light of those discussions. To illustrate the sensitivity of the projections to the results of this review, Figure 1 also shows a lower path for operational income based on the current investment mandate. In this projection, current forward market rates would point to small losses for the next two years, and the portfolio could continue to underperform the SDR interest rate until FY 2019.

- **Endowment Subaccount.** The projections continue to reflect the three-year funding period endorsed in FY 2013 for the gold endowment. The actual funding to the subaccount started in March 2014. As before, the projections reflect the expectation that the endowment will be fully operational in FY 2018 with the illustrative assumption that 3 percent payouts will commence in that year.\(^7\) 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. Pending their investment according to the strategic allocation for the endowment, gold profits will continue to be invested in short-term deposits broadly earning the SDR interest rate.

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\(^5\) The investment objective of the Fixed-Income Subaccount is to produce returns in excess of the 3-month SDR interest rate over time, while minimizing the frequency the extent of negative returns and underperformance over a 12-month investment horizon. The Board approved Rules and Regulations also establishes that the strategy is guided by a 1–3 year government bond benchmark index, weighted to reflect the currency composition of the SDR basket. The assets of the Fixed-Income Subaccount may be invested only in marketable obligations of members (including the obligations of their central banks and official agencies) denominated in SDRs, or in currencies included in the SDR basket, as well as marketable obligations of international financial organizations, regional development banks, and the BIS denominated in SDRs or in currencies included in the SDR basket.

\(^6\) The same long-run premium of 100 basis points was included in the earlier projections; however, this was assumed to be attained in FY 2017.

\(^7\) It is expected that the Executive Board will consider the pay-out policy for the endowment toward the end of the phase-in period.
• **Interest-free resources.** The implicit returns on interest-free resources have shifted upwards mirroring the projected higher path for global interest rates.

• **Reimbursements.** The medium-term reimbursements from the SDR Department, PRG Trust, MDRI-I Trust, and the PCDR Trust are slightly lower than the earlier estimate reflecting the downward revision in the estimate of these costs in FY 2014.

![Figure 1. Projected Income and Expenses (in millions of U.S. dollars)](image)

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. The dashed line depicts operational income with the investment income of the Fixed-Income Subaccount based on its current investment mandate.

2. Assumes that the net administrative budget remains constant in real terms from FY 2014 onwards.

5. **The income projections are highly uncertain and remain sensitive to several key assumptions.** Key factors affecting the Fund’s income position include the global interest rate environment, the timing of purchases and repurchases under existing arrangements, possible new arrangements, the U.S. dollar/SDR exchange rate (Box 1 provides further details), and the annual pension expense under the amended International Accounting Standard 19 (IAS 19). The projections are also sensitive to the Board’s review of (i) the investment mandate of the Fixed-Income Subaccount scheduled for FY 2015; (ii) the level and structure of surcharges (including 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.

8 As discussed in the companion on the Fund’s Income Position for FY 2014 and FY 2015–2016 (04/07/14), the Fund will implement in FY 2014 an amended IAS 19 that is expected to introduce an additional source of volatility in the Fund’s income (see paragraphs 4–7 and Box 1).
consideration of whether and how the thresholds should be adjusted in light of the 14th General Review of Quotas, and the trigger for time-based surcharges) to be discussed in early-FY 2015 (for the purposes of this paper, the projections are based on current quotas and surcharge thresholds); and (iii) the basic margin for the rate of charge for the two-year period FY 2015–2016, which will be discussed simultaneously with this paper.

B. Medium-Term Expenditures

6. The medium-term budget and expense projections reflect a baseline assumption that the net administrative budget will remain unchanged in real terms from FY 2014 at a level of $1.03 billion in FY 2015–2017. The baseline assumes that GRA arrangements remain well above the level assumed at the time of the restructuring and that enhanced bilateral surveillance, including in vulnerable cases, is maintained at current levels. Other recent budget pressures faced by the institution, including from further strengthening the Fund’s multilateral surveillance work, the expansion of Fund-financed capacity development and the jump in costs of security are assumed to be here to stay. In the medium-term, these assumptions yield a nominal expense path that is somewhat higher than in the April 2013 projections. In the longer term, the increase in nominal expenses is mitigated slightly by the downward revision to the Global External Deflator (GED).

7. These projections are subject to some uncertainty. If crisis pressures were to definitively recede, savings due to the reduction in program work and additional streamlining could reduce spending below the medium-term baseline. By contrast, renewed global pressures, the large crisis prevention work agenda, and the need to replenish depleted contingency reserves could push spending above the baseline.

8. 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 only moderate, as the major building renovations are depreciated over the remaining useful life of the buildings.

C. The Long-Run Income-Expenditure Position

9. The steady state outlook has not changed significantly. 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 line with this objective, the steady state outlook

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10 The figures are in FY 2015 dollars. About $7 million additional is included in the projected expenditures when the Annual Meetings are scheduled to be held abroad, in FY 2016 and in FY 2019.

11 The GED is made up of a personnel component (based on the structure salary increase approved by the Board) and a non-personnel component (based on the projected US CPI reported in the WEO). For FY 2016 and beyond, both components are merely placeholders, and the resulting nominal budget envelopes are updated when actual salary increases and updated CPI projections become available. From FY 2018 onwards, the GED is assumed to revert to its longer term average. In the April 2013 projections, this longer-term average was 2.7 percent, compared to 2.2 percent in the current projections.
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. While the medium-term outlook has changed owing to the crisis and the current high demand for Fund credit, resulting in high lending income, the projected steady state has not changed significantly and continues to point to a balanced position between income and expenditures in the steady state.

10. **The illustrative steady state is assumed to be reached in FY 2024 when drawings under current arrangements have been largely repurchased.** The assumptions surrounding 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. The level of precautionary balances is also 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. 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. Investment income comprised of the assumed payout from the gold endowment and returns from the reserves portfolio 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, 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.12 While the steady state also assumes an unchanged margin on the basic rate of charge of 100 basis points, it would not be affected by any change in the structure of surcharges.

12 For example, if the assumed yield on the fixed-income investment portfolio was lowered from 100 basis points to 50 basis points over the SDR interest rate in the steady state, net operational income would be reduced by about SDR 44 million.
Table 1. Consolidated Income and Expenses, FY2014–24
(in millions of U.S. dollars, unless otherwise stated)

<table>
<thead>
<tr>
<th></th>
<th>FY 14</th>
<th>FY 15</th>
<th>FY 16</th>
<th>FY 17</th>
<th>FY 18</th>
<th>FY 19</th>
<th>FY 24</th>
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<tbody>
<tr>
<td>I. Current quotas and thresholds</td>
<td></td>
<td></td>
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<td></td>
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</tr>
<tr>
<td>Operational income</td>
<td>1,602</td>
<td>2,073</td>
<td>1,411</td>
<td>1,616</td>
<td>2,179</td>
<td>2,357</td>
<td>1,380</td>
</tr>
<tr>
<td>Lending income</td>
<td>1,464</td>
<td>2,037</td>
<td>1,237</td>
<td>1,091</td>
<td>972</td>
<td>830</td>
<td>204</td>
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<tr>
<td>Non-lending income</td>
<td>138</td>
<td>36</td>
<td>174</td>
<td>525</td>
<td>1,207</td>
<td>1,527</td>
<td>1,176</td>
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<tr>
<td>II. Administrative expenses</td>
<td>1,034</td>
<td>1,109</td>
<td>1,139</td>
<td>1,157</td>
<td>1,168</td>
<td>1,192</td>
<td>1,319</td>
</tr>
<tr>
<td>Of which: Net administrative budget</td>
<td>969</td>
<td>1,027</td>
<td>1,054</td>
<td>1,070</td>
<td>1,093</td>
<td>1,124</td>
<td>1,246</td>
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<tr>
<td>III. Net operational income (I-II)</td>
<td>568</td>
<td>964</td>
<td>272</td>
<td>459</td>
<td>1,011</td>
<td>1,165</td>
<td>61</td>
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Memorandum items:

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<tr>
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<th>FY 17</th>
<th>FY 18</th>
<th>FY 19</th>
<th>FY 24</th>
</tr>
</thead>
<tbody>
<tr>
<td>Surcharges</td>
<td>2,145</td>
<td>2,604</td>
<td>2,623</td>
<td>2,452</td>
<td>2,139</td>
<td>1,768</td>
<td>0</td>
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<tr>
<td>Fund credit (average stock, SDR billions)</td>
<td>85.4</td>
<td>80.9</td>
<td>77.1</td>
<td>72.4</td>
<td>64.8</td>
<td>55.4</td>
<td>10.0</td>
</tr>
<tr>
<td>Precautionary balances (end of period, SDR billions)</td>
<td>12.8</td>
<td>15.2</td>
<td>17.2</td>
<td>19.1</td>
<td>21.2</td>
<td>23.2</td>
<td>10.0</td>
</tr>
</tbody>
</table>

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 1.50.

PRECAUTIONARY BALANCES OUTLOOK

11. Precautionary balances are projected to reach about SDR 12.8 billion at end-FY 2014. The projected precautionary balance at end-FY 2014 has been revised to SDR 12.8 billion compared with the initial estimate of SDR 13.3 billion, primarily reflecting the effects of implementing the amended IAS 19. Net income for FY 2014 would increase precautionary balances by about 10 percent.

12. The medium-term path for precautionary balances was recently discussed in the context of the review of the adequacy of precautionary balances. In February, the Board completed a review of the adequacy of precautionary balances and agreed to maintain both 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 last review in April 2012. The projections indicate that the target would be reached in FY 2018 in the baseline projection, which assumes a margin on the rate of charge of 100 basis points (the current level) and current quotas and surcharge policies on surcharge thresholds (see Figure 2).

13. The pace of reserve accumulation continues to reflect the historically high levels of Fund credit, most of which is subject to surcharges. As discussed in the companion paper, on the Fund’s income position, the Board will need to set the margin for FY 2015–FY 2016. Figure 2

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13 The amended standard is expected to result in (i) a one-time retroactive adjustment of the Fund’s reserves of SDR 1.4 billion for unrecognized actuarial losses through FY 2013; and (ii) based on the latest estimates, IAS 19 gains of SDR 0.98 billion in FY 2014 that will to a large extent reverse the losses through FY 2013.

14 See Review of the Adequacy of the Fund’s Precautionary Balances (01/15/14).
therefore illustrates the projected precautionary balances path under alternate scenarios with the margin at 150 and 50 basis points. Increasing the margin to 150 basis points beginning in FY 2015 would add some SDR 1.9 billion to precautionary balances over the period to end-FY 2019. A decrease in the margin to 50 basis points over the same period would lower precautionary balances by about SDR 1.9 billion by end-FY 2019. The figure illustrates that increasing or lowering the margin by 50 basis points would advance by six months or delay by nine months the time needed to reach the indicative target for precautionary balances of SDR 20 billion. 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 to be discussed by the Executive Board in FY 2015.

![Figure 2. Precautionary Balances Accumulation (in billions of SDRs)](image-url)
### Table 2. Consolidated Income and Expenses, FY2014–24

#### Based on Current Quotas and Surcharge Thresholds

<table>
<thead>
<tr>
<th></th>
<th>FY14</th>
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<th>FY18</th>
<th>FY19</th>
<th>FY24</th>
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<tr>
<td><strong>A. Operational income 2/</strong></td>
<td>1,046</td>
<td>1,382</td>
<td>940</td>
<td>1,078</td>
<td>1,454</td>
<td>1,572</td>
<td>921</td>
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<tr>
<td>Lending income</td>
<td>957</td>
<td>1,358</td>
<td>824</td>
<td>727</td>
<td>648</td>
<td>554</td>
<td>136</td>
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<tr>
<td>Margin for the rate of charge</td>
<td>854</td>
<td>809</td>
<td>771</td>
<td>724</td>
<td>648</td>
<td>554</td>
<td>100</td>
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<tr>
<td>Service charge</td>
<td>74</td>
<td>57</td>
<td>41</td>
<td>3</td>
<td>0</td>
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<td>12</td>
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<tr>
<td>Commitment fees</td>
<td>29</td>
<td>492</td>
<td>12</td>
<td>0</td>
<td>0</td>
<td>0</td>
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<tr>
<td>Investment income</td>
<td>35</td>
<td>-41</td>
<td>30</td>
<td>224</td>
<td>637</td>
<td>827</td>
<td>560</td>
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<tr>
<td>Reserves</td>
<td>35</td>
<td>-41</td>
<td>30</td>
<td>224</td>
<td>493</td>
<td>680</td>
<td>396</td>
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<td>Gold endowment pay-out</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>144</td>
<td>147</td>
<td>164</td>
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<tr>
<td>Interest free resources 3/</td>
<td>5</td>
<td>14</td>
<td>34</td>
<td>73</td>
<td>114</td>
<td>135</td>
<td>163</td>
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<tr>
<td>SCA-1 and other</td>
<td>5</td>
<td>14</td>
<td>34</td>
<td>73</td>
<td>114</td>
<td>135</td>
<td>163</td>
</tr>
<tr>
<td>Reimbursements 4/</td>
<td>49</td>
<td>51</td>
<td>52</td>
<td>54</td>
<td>55</td>
<td>56</td>
<td>62</td>
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<tr>
<td>MDRI-I, PCDR Trusts, and SDR Department</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>2</td>
<td>2</td>
<td>2</td>
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<tr>
<td>PRG Trust</td>
<td>48</td>
<td>50</td>
<td>51</td>
<td>52</td>
<td>53</td>
<td>54</td>
<td>60</td>
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<tr>
<td><strong>B. Expenses</strong></td>
<td>676</td>
<td>739</td>
<td>759</td>
<td>771</td>
<td>779</td>
<td>794</td>
<td>880</td>
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<tr>
<td>Net administrative budget</td>
<td>633</td>
<td>685</td>
<td>703</td>
<td>713</td>
<td>729</td>
<td>749</td>
<td>831</td>
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<td>10</td>
<td>9</td>
<td>9</td>
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<td>Depreciation</td>
<td>33</td>
<td>38</td>
<td>41</td>
<td>40</td>
<td>36</td>
<td>40</td>
<td></td>
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<tr>
<td><strong>C. Net operational income (A-B)</strong></td>
<td>370</td>
<td>643</td>
<td>181</td>
<td>307</td>
<td>675</td>
<td>778</td>
<td>41</td>
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<tr>
<td>Surcharges</td>
<td>1,402</td>
<td>1,736</td>
<td>1,749</td>
<td>1,635</td>
<td>1,426</td>
<td>1,179</td>
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<td>IAS 19 timing adjustment</td>
<td>976</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
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<tr>
<td>Retained gold endowment income 5/</td>
<td>6</td>
<td>44</td>
<td>125</td>
<td>206</td>
<td>96</td>
<td>98</td>
<td>108</td>
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<tr>
<td><strong>Net income</strong></td>
<td>2,754</td>
<td>2,423</td>
<td>2,055</td>
<td>2,148</td>
<td>2,197</td>
<td>2,055</td>
<td>149</td>
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#### (in US$ millions)

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<tr>
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<td>830</td>
<td>204</td>
</tr>
<tr>
<td>Investment income</td>
<td>54</td>
<td>-62</td>
<td>45</td>
<td>336</td>
<td>955</td>
<td>1,241</td>
<td>840</td>
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<tr>
<td>Interest free resources</td>
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<td>21</td>
<td>50</td>
<td>109</td>
<td>170</td>
<td>202</td>
<td>244</td>
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<tr>
<td>Reimbursements</td>
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<td>77</td>
<td>79</td>
<td>80</td>
<td>82</td>
<td>84</td>
<td>92</td>
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<tr>
<td><strong>B. Expenses</strong></td>
<td>1,034</td>
<td>1,109</td>
<td>1,139</td>
<td>1,157</td>
<td>1,168</td>
<td>1,192</td>
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</tr>
<tr>
<td>Net administrative budget</td>
<td>969</td>
<td>1,027</td>
<td>1,054</td>
<td>1,070</td>
<td>1,093</td>
<td>1,124</td>
<td>1,246</td>
</tr>
<tr>
<td>Capital budget items expenses</td>
<td>15</td>
<td>25</td>
<td>23</td>
<td>26</td>
<td>15</td>
<td>14</td>
<td>13</td>
</tr>
<tr>
<td>Depreciation</td>
<td>50</td>
<td>57</td>
<td>62</td>
<td>61</td>
<td>60</td>
<td>54</td>
<td>60</td>
</tr>
<tr>
<td><strong>C. Net operational income (D-E)</strong></td>
<td>568</td>
<td>964</td>
<td>272</td>
<td>459</td>
<td>1,101</td>
<td>1,165</td>
<td>61</td>
</tr>
</tbody>
</table>

### Memorandum Items:

- Fund credit (average stock, SDR billions)
  - FY14  85.4
  - FY15  80.9
  - FY16  77.1
  - FY17  72.4
  - FY18  64.8
  - FY19  55.4
  - FY24  10.0
- SDR interest rate (in percent)
  - FY14  0.1
  - FY15  0.2
  - FY16  0.6
  - FY17  1.3
  - FY18  2.0
  - FY19  2.4
  - FY24  3.5
- US$/SDR exchange rate
  - FY14  1.53
  - FY15  1.50
  - FY16  1.50
  - FY17  1.50
  - FY18  1.50
  - FY19  1.50
  - FY24  1.50
- Surcharges (US$ millions)
  - FY14  2,145
  - FY15  2,604
  - FY16  2,623
  - FY17  2,452
  - FY18  2,139
  - FY19  1,768
  - FY24  0.0
- New income measures (US$ millions) 6/
  - FY14  78
  - FY15  106
  - FY16  164
  - FY17  250
  - FY18  511
  - FY19  549
  - FY24  542
- Precautionary balances (end of period, SDR billions)
  - FY14  12.8
  - FY15  15.2
  - FY16  17.2
  - FY17  19.1
  - FY18  21.2
  - FY19  23.2
  - FY24  10.0

1 Surcharges and commitment fees are projected on the basis of current quotas and thresholds for surcharges and commitment fees.
2 Excludes surcharges. The pay-out from the endowment funded by gold profits is assumed to begin in FY 2018, when the endowment is fully in place.
3 Interest free resources reduce the Fund’s costs and therefore provide implicit returns. Since the Fund invests its reserves in the IA to earn a higher return, the interest free resources retained in the GRA are mainly attributable to the SCA-1, unremunerated reserve tranche positions not represented by gold holdings, and GRA income for the year not transferred to the IA. These resources reduce members’ reserve tranche positions and the Fund’s remuneration expense resulting in implicit income for the Fund.
4 Reimbursement of the GRA for the costs of administering the PRG Trust was resumed in FY 2013.
5 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.
6 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

<table>
<thead>
<tr>
<th>Key Parameters</th>
<th>Key Parameters</th>
<th>Key Parameters</th>
</tr>
</thead>
<tbody>
<tr>
<td>US$/SDR exchange rate</td>
<td>1.50</td>
<td>Assumed unchanged from recent levels. A 10 percent rise (fall) in the US$/SDR exchange rate would raise (lower) annual income in FY 2019 by US$246 million.</td>
</tr>
<tr>
<td>SDR interest rate</td>
<td>Rising to 3.5 percent by FY 2023 from 0.1 percent in FY 14</td>
<td>A 10 basis point higher (lower) average SDR interest rate would raise (reduce) annual income in FY 2019 by US$44 million.</td>
</tr>
<tr>
<td>Margin for rate of charge (basis points)</td>
<td>100</td>
<td>Assumed unchanged from current level. A 50 basis point higher (lower) margin effective from FY 2015 would increase (reduce) income in FY 2015 and FY 2016 by US$608 million and US$581 million, respectively. A 50 basis point higher (lower) margin from effective FY 2015 would increase (lower) precautionary balances in the period to end-FY 2019 by some SDR 1.9 billion.</td>
</tr>
</tbody>
</table>

Operational lending income (US$204 million or SDR 136 million by FY 2024)

Fund credit is assumed to decline to an average steady state level of about SDR 10 billion by FY 2024, 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$840 million or SDR 560 million by FY 2024)

Net operational income plus surcharges are assumed to be transferred annually to the Fixed-Income Subaccount for investment in the subsequent year. Broadening of the investment mandate on the reserves portfolio is assumed to take effect in FY 2016, allowing average investment returns in this portfolio to exceed the SDR interest rate by 100 basis points by FY 2019, resulting in an annual income of about SDR 400 million in the steady state (FY 2024) 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 be phased-in gradually, starting in FY 2014 with annual pay-outs of 3 percent beginning in FY 2018. In accordance with two decisions adopted by the Board to help finance concessional lending to low-income countries, windfall gold sales profits amounting to SDR 0.7 billion and SDR 1.75 billion were distributed in October 2012 and October 2013, respectively.

Interest free resources (US$244 million or SDR 163 million by FY 2024)

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$76 million or SDR 49 million in FY 2014)

Reimbursements from the SDR Department, MDRI-I Trust, and PCDR Trust, are projected at about SDR 1 million in FY 2014 and reimbursement of the GRA for the expenses of administering the PRGT is assumed to be SDR 48 million in FY 2014. Administrative costs and the associated reimbursements are assumed to be stable in real terms in the medium term.