IMF POLICY PAPER

REVIEW OF THE FUND'S INCOME POSITION FOR FY 2025 AND FY 2026

May 2025

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** summarizing the views of the Executive Board as expressed during its April 18 consideration of the staff report.
- The **Staff Report**, prepared by IMF staff and completed on April 2 for the Executive Board's consideration on April 18.
- A **Staff Supplement,** titled *Review of the Fund's Income Position for FY 2025 and FY 2026—Supplementary Information And Revised Proposed Decisions*, setting out the supplementary information and the revised proposed decisions.

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International Monetary Fund
Washington, D.C.

IMF Executive Board Completes Review of the Fund's Income Position for FY 2025 and FY 2026

FOR IMMEDIATE RELEASE

- The Fund's General Resources Account (GRA) net income is projected to remain strong for FY 2025, and is estimated at about US$3.0 billion (SDR 2.3 billion). The positive net income trend is expected to be maintained in FY 2026.
- The Executive Board approved the first annual distribution of net income, transferring about US$1.81 billion (SDR 1.38 billion) from the GRA into the Interim Placement Administered Account (IPAA) established in October 2024 as part of a framework to facilitate the generation of Poverty Reduction and Growth Trust (PRGT) subsidy resources.
- Precautionary balances are expected to remain above the medium-term target of SDR 25 billion and to reach SDR 25.9 billion (US$34.4 billion) by end FY 2025, after the distribution into the IPAA.

Washington, DC – May 2, 2025: On April 18, 2025, 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, 2025.

FY 2025 Income Position and Related Decisions

GRA net income, before the distribution and related transfer of about US$1.81 billion (SDR 1.38 billion) into the IPAA, is anticipated at about US$3.0 billion (SDR 2.3 billion). Total comprehensive income for FY 2025, including the estimated pension-related remeasurement gain[1] and the estimated retained income in the investment account of about US$1.3 billion (SDR 1.0 billion) in addition to GRA net income, is expected to reach US$4.5 billion (SDR 3.4 billion).

Given the strong income position, the Fund's precautionary balances, after the distribution into the IPAA, are expected to increase to US$34.4 billion (SDR 25.9 billion) at the end of FY 2025, above the medium-term target of SDR 25 billion.

The Executive Board adopted several 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 and for the operational cost of administering the Resilience and Sustainability Trust (RST); (ii) transfer a portion of the income from the Fixed-Income Subaccount and the Endowment Subaccount to the GRA for meeting FY 2025 administrative expenses; (iii) place any pension-related remeasurement gain[2] to the Special Reserve; (iv) distribute US$1.81 billion (SDR 1.38 billion) from net income to facilitate new

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

[2] In case of a remeasurement loss, such loss up to SDR 1,020 million would be charged against the General Reserve and any loss exceeding that amount would be charged against the Special Reserve.

PRGT subsidy contributions and to place the distribution amount in the IPAA; (v) place residual GRA net income to the Special Reserve; and (iv) transfer currencies equivalent to the increase in the Fund's reserves from the GRA to the Investment Account.

Projections of the Fund's income and precautionary balances remain susceptible to risks stemming from the uncertain global economic environment and financial market volatility. The FY 2025 annual financial statements will update the income position for the impact of changes in key assumptions made at the time of the April projections.

FY 2026 Income Position and Lending Rate

GRA net income for FY 2026 is expected to remain strong, with projected annual net income of about US$2.3 billion (SDR 1.7 billion), before any distribution. However, these projections remain susceptible to financial market volatility, intensifying downside risks to global growth, and uncertainties around the global interest rate environment that are expected to impact the performance of the Fund's investment and retirement plan asset portfolios. The projections are also sensitive to the timing and amounts of disbursements under approved and projected lending arrangements.

The IMF's basic lending rate for member countries' use of GRA credit is the SDR interest rate plus a fixed margin. The Executive Board agreed to keep the margin for the rate of charge at 60 basis points over the SDR interest rate, the level set by the Executive Board in October 2024 for the rest of FY 2025 and FY 2026.

INTERNATIONAL MONETARY FUND

April 2, 2025

REVIEW OF THE FUND'S INCOME POSITION FOR FY 2025 AND FY 2026

EXECUTIVE SUMMARY

This paper updates projections of the Fund's income position for FY 2025 and FY 2026 and proposes decisions as described below.

GRA net income (NI) for FY 2025 is projected at about SDR 2.3 billion (US$3.1 billion), before the proposed net income distribution decision and related transfer of SDR 1.38 billion (US$1.81 billion) from General Resources Account (GRA) resources into the Interim Placement Administered Account (IPAA) established in October 2024. Beyond NI, total comprehensive income for FY 2025, including the estimated pension-related remeasurement gain (SDR 0.1 billion) and retained income in the Investment Account (SDR 1.0 billion), is projected to reach SDR 3.4 billion. The projections remain susceptible to potential risks and uncertainties, notably financial market volatility impacting the Fixed-Income (FI) and Endowment (EA) Subaccounts, the discount rate used to measure the Fund's retirement plan obligations as of April 30, 2025, and the full year asset returns on the retirement plan.

The paper proposes a transfer of a portion of the income from the FI and an initial EA payout of US$200 million to be transferred to the GRA to meet administrative expenses. Based on staff analysis, the initial EA payout can commence in FY 2025 while preserving the real value of the EA's corpus over a medium- to long-term horizon with a relatively high level of confidence. The paper further proposes updates to the implementation parameters for the payout including specification of the deflator to align with the IA Rules. The paper also proposes reimbursements from the SDR Department and Resilience and Sustainability Trust (RST) of SDR 3 million and SDR 15 million, respectively. A decision on the proposed PRGT investment management fee to recover the increased administrative costs related to PRGT investments will be proposed separately.

Consistent with the approach adopted in 2022, the portion of FY 2025 total comprehensive income equivalent to the projected pension-related remeasurement gain is proposed to be placed to the special reserve. Residual NI after the transfer to the IPAA of about SDR 0.9 billion is recommended for allocation to the special reserve towards the SDR 20 billion precautionary balances floor. The paper further proposes to transfer currencies from the GRA to the Investment Account (IA) for investment in the FI subaccount equivalent to the increase in the Fund's reserves.

Projections for FY 2026 point to NI of about SDR 1.7 billion before the assumed placement of GRA resources into the IPAA.

Precautionary balances (PBs) are expected to reach SDR 26.3 billion by end-FY 2026 assuming that NI in excess of placement to the IPAA is allocated to reserves. Developments in PBs, credit outstanding, perceived credit risks, and capacity to repay suggest that the PB adequacy remains broadly in line with the outlook foreseen in the October 2024 Review of Charges and the Surcharge Policy, signaling a healthy financial position of the GRA, and therefore justify the transfer of net income to the IPAA.

In October 2024, the Executive Board set the lending margin for the rate of charge at 60 basis points for the remaining period of FY 2025 and for FY 2026 during the Review of Charges and the Surcharge Policy. The margin is typically set by the Board every two financial years for the upcoming two-year period. The margin may be adjusted before the end of the first year of this two-year period (i.e., now), but only if warranted by fundamental changes in the underlying factors relevant for the establishment of the margin. In staff's view, there have been no such fundamental changes since the October review, and staff thus does not propose any change in the margin.

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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
IPAA	Interim Placement Administered Account
MYDP	Multi-Year Distribution Plan
NAV	Net Asset Value
NI	Net Income
NIM	New Income Model
NOI	Net Operational Income
OCI	Other Comprehensive Income
PBs	Precautionary Balances
PRGT	Poverty Reduction and Growth Trust
RSF	Resilience and Sustainability Facility
RST	Resilience and Sustainability Trust
SDA	Special Disbursement Account
TCI	Total Comprehensive Income
UCT	Upper Credit Tranche

INTRODUCTION

1. This paper reviews the Fund's income position for FY 2025 and FY 2026 and proposes decisions for the current financial year. The annual review in April typically updates the projections from the previous financial year's Review of the Fund's Income Position. This year, in light of the recent reforms, which became effective on November 1, 2024, the paper updates the baseline projections from the Review of Charges and the Surcharge Policy-Reform Proposals (9/27/2024) discussed in October 2024. The proposed decisions cover: (i) SDR Department reimbursement; (ii) reimbursement from the RST; (iii) the use of part of the investment income earned by the FI and EA for administrative expenses in FY 2025; (iv) the allocation of net income, including the partial distribution and placement of GRA net income amounting to SDR 1.38 billion to the IPAA in accordance with the framework for the distribution of GRA Resources to generate additional PRGT subsidy resources adopted by the Executive Board in October 2024, the placement of the IAS 19 remeasurement gain to the special reserve, and the remaining GRA net income to the special reserve; (v) the transfer of currencies from the GRA to the Investment Account; and (vi) maintaining the margin for the rate of charge.

2. The paper builds on income-related Executive Board discussions taken during the financial year. Specifically, the paper is informed by the recent informal discussion of Executive Directors on the Preliminary Proposals for the FY 2026–FY 2028 Medium-Term Budget and Consolidated Medium-Term Income and Expenditure Framework on March 10, 2025, the Review of Poverty Reduction and Growth Trust Facilities and Financing on October 15, 2024, the Review of Charges and the Surcharge Policy on October 11, 2024, and the draft Medium-Term Budget FY 2026–2028 to be discussed on April 18, 2025.

3. Demand for Fund financing is expected to remain high amidst a precarious and divergent outlook. Under the baseline scenario, lending would remain elevated amid mediocre global growth and an outlook dominated by uncertainty and intensifying downside risks, along with weakened resilience due to high debt levels and eroded policy buffers. While the outturn for investment returns and pension-related gains and losses remains uncertain amidst the turbulence in financial markets, the medium-term projections for non-lending income remain robust, supported by a relatively high-interest rate environment. Also, the returns for the endowment portfolio continue to be influenced by ongoing market volatility while uncertainty surrounding the discount rate used to calculate the defined benefit obligation for retirement persists.

4. The paper is structured as follows: The first section reviews the FY 2025 projected income position and the main changes from the October 2024 projections. The second section makes proposals on the disposition of FY 2025 net income and placement to reserves, which includes the initiation of the EA payout and the annual distribution decision on the amount of net income to be transferred from the GRA and placed into the IPAA. The third section updates the income projections for FY 2026. The fourth section assesses the adequacy of the Fund's PBs. The fifth section discusses the margin for the rate of charge. The final section considers enterprise risks and mitigating measures.

REVIEW OF THE FY 2025 INCOME POSITION

5. Net operational income, before pension-related remeasurement gains and retained income in the EA, is projected to reach SDR 2.3 billion (Table 1), in line with the October 2024 estimate of SDR 2.3 billion. Projected lending income aligns broadly with the October 2024 estimates, as variances in purchases largely balance each other out and repurchases remain mostly consistent with the previous projections. Income from the IA subaccounts is anticipated to exceed October 2024 expectations and the pension-related remeasurement gain is estimated to make a modest contribution, albeit still subject to considerable uncertainty given the volatile market conditions. Total comprehensive income for FY 2025 including the estimated retained investment income after the EA payout and transfer of a portion of the FI income and the IAS 19 remeasurement gain, is projected at SDR 3.4 billion (Table 1), higher than the October projections. The main components of the projected FY 2025 results are outlined below (see Annex III for underlying assumptions):

Total lending income is projected to be SDR 2.2 billion, broadly in line with the October 2024 estimate (Table 1).

- *Margin income* of SDR 706 million is expected to be SDR 16 million lower than projected in October 2024, reflecting a SDR 2.0 billion lower average projected stock of credit outstanding mostly attributable to delays in some purchases.

- *Service charges* are projected at SDR 93 million, SDR 14 million higher than the October 2024 estimate largely due to additional purchases now expected before end-April, partially offset by certain purchases being delayed until FY 2026.

- *Commitment fees* are projected at SDR 145 million, SDR 3 million higher than the October 2024 projection.

- *Surcharges* of SDR 1,213 million are projected to be about SDR 35 million lower than the October 2024 estimate, due mainly to average credit outstanding being lower than anticipated.

Investment Income—EA payout and Transfer from FI (Table 1)

- **Cap on investment income use:** In accordance with Article XII, Section 6 (f) (iv) of the Fund's Articles of Agreement, IA investment income can be used to cover the administrative expenses of the Fund. The use of investment income for that purpose in any given year is limited to the level of expenses during the year.[1] After accounting for reimbursements of SDR 18 million, remaining GRA expenses are estimated at SDR 1,102 million. For FY 2025, total investment income of the IA is estimated at SDR 2,071 million (FI – SDR 1,240 million and EA – SDR 831 million). In light of the proposed payout of US$200 million (about SDR 150 million) from the EA, the maximum amount of FI income that can be used in FY 2025 for administrative

[1] 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.

expenses and be transferred from the FI to the GRA based on current projections is SDR 952 million.[2]

- **Endowment Subaccount:** EA investment income for FY 2025, before proposed payout, is estimated at US$1,027 million (SDR 831 million), significantly higher than the US$534 million (SDR 363 million) projected in October 2024. This reflects both strong equity portfolio performance and solid gains in fixed-income assets since the October review, which resulted in a positive nominal return of 10.22 percent (10.85 percent in SDR terms, including translation gains) through end-February.[3] Nevertheless, as previously indicated, the income projections of the EA remain subject to considerable uncertainty given the high volatility across the asset classes in which the portfolio is invested. After the proposed payout, SDR 681 million is projected to be retained in the EA. As discussed in detail in the Disposition Decisions section, staff proposes that the EA payout US$200 million be initiated in FY 2025 based on the recent improvement in the EA's return outlook and the further accumulation of investment income.

- **Fixed-Income Subaccount:** Investment income from the FI is projected to reach SDR 1,240 million (before transfer) in FY 2025, a slight increase from the SDR 1,158 million estimated in October 2024, reflecting a general decline in bond yields. Actual returns through end-February remain strong at SDR 1,089 million on a net asset value (NAV) of about SDR 24.5 billion at the beginning of the financial year. Actual returns may differ from current projections based on changes in bond yields between the preparation of this paper and financial year-end. After the proposed FI income transfer of SDR 952 million to the GRA, SDR 288 million is projected to be retained in the FI and reinvested.

- **Implicit Returns on Interest-free Resources:[4]** The updated implicit returns on interest-free resources are now projected at SDR 135 million, higher than the October 2024 estimates, mainly reflecting the timing of the transfer of currencies from the GRA to the IA in January 2025, which occurred later than anticipated in October 2024.

[2] October projections did not incorporate retention of a portion of FI income when transferring income to the GRA.

[3] 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.

[4] GRA interest-free resources comprise primarily 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 or increasing interest income if reflected in SDR holdings of the GRA.

Table 1. Projected Income and Expenditures—FY 2025
(In millions of SDRs, except where indicated)

	April 2024 Projections [1]	Oct 2024 Projections	Current Projections	Variance from Oct 2024
	(a)	(b)	(c)	(c) - (b)
A. Operational income	**3,841**	**3,563**	**3,412**	**-151**
Lending income	**2,658**	**2,191**	**2,157**	**-34**
Margin for the rate of charge	913	722	706	**-16**
Service charges	78	79	93	**14**
Commitment fees	143	142	145	**3**
Surcharges	1,524	1,248	1,213	**-35**
Investment income	**1,055**	**1,279**	**1,102**	**-177**
Fixed-Income Subaccount transfer	950	1,158	952	**-206**
Endowment Subaccount payout [2]	105	121	150	**29**
Interest free resources [3]	**116**	**81**	**135**	**54**
Reimbursements	**12**	**12**	**18**	**6**
SDR Department	5	5	3	**-2**
PRG Trust [4]	0	0	0	**0**
RST	7	7	15	**8**
B. Expenses	**1,229**	**1,229**	**1,120**	**-109**
Net administrative expenditures	1,128	1,128	1,119	**-9**
Capital budget items expensed	31	31	27	**-4**
Depreciation	70	70	69	**-1**
Net periodic pension cost after funding	0	0	-95	**-95**
C. Net operational income (GRA Net Income) (A-B)	**2,612**	**2,334**	**2,292**	**-42**
Investment Account - Retained income		242	969	**727**
D. Net Income of the General Department		**2,576**	**3,261**	**685**
Pension-related remeasurement gain	0	0	136	**136**
E. Total Comprehensive Income		**2,576**	**3,397**	**821**
GRA Net Income Distribution: Transfer to IPAA and Residual GRA Net Income				
Net operational income (GRA Net Income) - per C		**2,334**	**2,292**	**-42**
Less: Transfer to IPAA	0	-1,380	-1,380	0
Residual net operational income/ GRA Net Income		**954**	**912**	**-42**
Memorandum Items:				
Fund credit (average stock, SDR billions)	91.3	90.3	88.2	-2.1
SDR interest rate (average, in percent)	3.6	3.8	3.7	-0.1
US$/SDR exchange rate (average)	1.33	1.33	1.33	0.00
Intermediation costs (US$ millions) [5]	$169	$169	$159	-10
Precautionary balances (end of period, SDR billions) [6]	27.7	26.0	25.9	-0.1

Source: Finance Department and Office of Budget and Planning.

[1] See *Review of the Fund's Income Position for FY 2024 and FY 2025–2026* (4/15/24).

[2] Staff proposes to commence payouts with an initial value of US$200 million (about SDR 150 million), approximately 2 percent of the EA's most NAV (see Disposition Decisions – Section B).

[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.

Table 1. Projected Income and Expenditures—FY 2025 (concluded)

[4] Suspension of reimbursements of PRGT administrative expenses during FY 2022–FY 2026 per Executive Board Decision No. 17083-(21/71), July 14, 2021. A further five-year suspension for FY 2027–2031 was approved in the 2024 Review of the Poverty Reduction and Growth Trust Facilities and Financing – Reform Proposals. Also, see Annex I.
[5] Costs related to the Fund's "generally available facilities".
[6] 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).

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 SDA on the basis of reasonable estimates (Article V, Section 12(i)).[5] Moreover, under the Executive Board Decision No. 8760-(87/176), adopted December 18, 1987 in the context of the establishment of the ESAF, the predecessor of the PRGT, 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] and under the Decision No. 17231-(22/37), adopted on April 13, 2022, the RST [7] would need to reimburse the GRA for the expenses of administering the RST. A portion related to a trust management fee and covering fiduciary operations is subsequently drawn from the GRA as budget receipt.

- The expenses of conducting the business of the SDR Department in FY 2025 are estimated at SDR 3 million (proposed Decision 1), about SDR 2 million lower than earlier estimates in SDR terms, based on the costing approach for reimbursements.[8] The change in estimate is mainly to reflect a reduction in SDR policy work reported by departments.

- 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 2025. 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

[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 may include assets held by the SDA and 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. There are no assets currently held within the SDA.

[6] See Decision No. 8760-(87/176), adopted December 18, 1987.

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

[8] The legal framework governing reimbursements to the GRA from the PRGT, the SDR Department, and the 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 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.

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.[9]

- 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.[10] A further five-year suspension for FY 2027–2031 was approved in the *2024 Review of the Poverty Reduction and Growth Trust Facilities and Financing—Reform Proposals*. 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.[11] The PRGT administrative expenses for FY 2025 are estimated at SDR 108 million, about SDR 13 million higher than earlier estimates, largely due to an increase in reported full-time equivalent (FTE) hours in line with the increase in programs and the reviews of PRGT reform proposals and resource adequacy.

- The RST incurs recurring costs, which consist of: (a) trust management costs, including execution of transactions, financial reporting and audit, as well as periodic financial and safeguard policy reviews; and (b) operational costs, covering 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.

  - The trust management fee constitutes a budget receipt, impacting the gross administrative budget, while leaving the net administrative budget unaffected. Trust management costs for FY 2025 are estimated at SDR 4 million (US$5.3 million), with final amounts to be reported in the FY 2025 Budget Outturn.

  - The RST administrative costs subject to reimbursement to the GRA in FY 2025 are estimated to be SDR 15 million (US$20.6 million, proposed Decision 2), about SDR 8 million higher than earlier estimates, mainly due to a higher-than-expected number of program requests and higher intensity of pre-program work. The final amounts will be reported in the FY 2025 Budget Outturn.

Expenses: Total expenses of the GRA are estimated to be of SDR 1,120 million, largely consistent with the October 2024 projection with the exception of the periodic pension cost, which was excluded in that projection.

- The estimated net administrative budget outturn for FY 2025 of US$1,488 million (SDR 1,119 million) is slightly lower than was anticipated in October 2024.

- Capital budget items expensed of SDR 27 million are expected to be lower than the previous projections by SDR 4 million due primarily to reclassification of projects initially projected as

[9] 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.

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

[11] 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).

expenses to those that meet capitalization criteria, as well as lower than anticipated costs for some projects. Depreciation charge of SDR 69 million is broadly aligned with the previous projections.

- Net periodic pension income after funding is projected at SDR 95 million and discussed below.

Pension-Related (IAS 19) Adjustment: Total pension-related adjustment under IAS 19[12] is estimated to contribute about SDR 231 million overall to net comprehensive income in FY 2025 and comprises (i) remeasurement gains/(losses); and (ii) the net periodic pension (cost)/income, 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 indicate net actuarial remeasurement gains totaling SDR 136 million, which are attributable to higher returns on plan assets, offset partially by the impact of a lower projected discount rate (Table 2).[13,14]

- Recent market interest rate trends have led to a drop in the nominal discount rate which declined from 5.53 percent at the beginning of the year to 5.30 percent by the end of February 2025. The 23-basis points decrease is expected to increase the actuarially determined remeasurement of future obligations and decrease the remeasurement gain by an estimated SDR 309 million in FY 2025 (Table 2).[15]

- The projected revaluation of assets for the year is based on actual and estimated portfolio performance to end-February 2025. 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 gain of about SDR 425 million (Table 2). The increase in plan asset returns reflects strong positive returns to end-February across most asset classes as investor sentiment improved, amidst expected positive economic growth, continued disinflation, and the gradual easing of monetary policy measures.[16] The fair value of plan assets remains subject to potential market volatility and uncertainty.

[12] IAS 19 "Employee Benefits" is the International Financial Reporting Standard (IFRS) that deals with accounting for pension and other employee benefits.

[13] 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.

[14] 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.

[15] Yields on high quality US corporate bonds have fluctuated since last May 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 14 to 16 percent. The end-February 2025 rate is used for the year end projection.

[16] The average duration of the fixed-income plan assets is typically shorter than the duration for the discount rate applied to pension liabilities.

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

	FY 2023	FY 2024	FY 2025
	Actual	Actual	Projected end-Feb, 2025
Accrual vs. Funding	**-77**	**-36**	**95**
Pension cost accrual	-225	-189	-60
Service cost - current	-269	-237	-207
Interest expense on pension liability	-441	-480	-537
Expected income on pension asset [1]	485	528	684
Pension funding	148	153	155
Remeasurement gains/(losses)	**2**	**1,640**	**136**
Discount rate change	871	1,191	-309
'Excess return' on assets [1]	-687	602	425
Exchange rate translation	5	23	20
Experience adjustment [2]	-187	-176	0
Total IAS 19 gains/(losses)	**-75**	**1,604**	**231**
Discount rate - at end of period (in percent)	4.72	5.53	5.30

Source: Willis Towers Watson and IMF Finance Department.

[1] 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.

[2] FY23 and FY24: Includes impact of COLA and actual salary experience adjustment.

- *The net periodic pension gain after funding* amounts to SDR 95 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 current year of staff service of SDR 207 million) and the net interest gain of SDR 147 million; and (ii) the funding (cash appropriation) for the year projected at SDR 155 million (Table 2). The net interest gain primarily reflects the growth in net interest income due to an increase in the net pension asset, and the reduction in annual service costs is driven by the increase in the prior year discount rate.[17]

6. **Considering the sensitivity of net income to several underlying assumptions, the final outcome for FY 2025 may deviate from current projections.** The projections remain susceptible to the developments in key underlying assumptions including projections for lending, investment returns, exchange rates, etc. In particular, the pension-related gain (or loss) for FY 2025 remains unpredictable and 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 2025. In

[17] Service cost represents the present value of the pension benefits earned by employees for one additional year of service and are projected to decrease in FY 2025 as a result of the higher FY 2024 discount rate used to calculate the current year service cost.

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, 2025.

Credit Risk

7. **The Fund's framework for assessing the need to provision for impairment losses has been adapted to comply with IFRS 9 "Financial Instruments" and was designed to reflect the unique nature of the Fund's lending.**[18] 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.[19] 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 2025. Staff will update the Board on the results of the annual impairment assessment before the FY 2025 annual financial statements are finalized.

DISPOSITION DECISIONS

8. **As in previous years, the Executive Board needs to take decisions on the disposition of income for FY 2025.** This year these cover: the use of any IA income earned by the FI and EA in FY 2025, which impacts the determination of GRA NI in FY 2025 (subsection A); the portions of NOI to be distributed and to be placed in reserves (subsection B); the allocation of income between the special and general reserves (subsection B);[20] and the transfer of currencies from the GRA to the IA (subsection C). The various disposition considerations and decisions are presented in Figure 3 and discussed in detail below.

A. Income from the IA and Initiation of the EA Payout

9. **The use of IA investment 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.[21] Staff proposes that income in the subaccounts of the IA be used as follows:

- **EA:** Staff proposes to initiate a payout to the GRA to be used for meeting part of the administrative expenses of US$200 million (SDR 150 million) and that any residual net

[18] 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).

[19] 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.

[20] 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.

[21] 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)).

investment income earned in the EA in FY 2025 be retained in the endowment, which based on current projections for FY 2025 would be about SDR 681 million (proposed Decision 3).

- **FI:** As in the past, staff proposes that income earned by the FI during the year also be transferred to the GRA to be used towards meeting the current year expenses of the Fund. The transfer amount would be capped to the level of expenses incurred during the year, net of the reimbursements, and after taking into account the payout of US$200 million (SDR 150 million). Any surplus would be retained within the FI (proposed Decision 3).
- By so doing, the IA income will contribute to the GRA NOI, which will be distributed or placed to the Fund's reserves as illustrated in Figure 3; and cumulative retained earnings of the IA since inception would rise to about SDR 3,547 million.

Initiation of the EA Payout

10. The recent improvement in the EA's return outlook and the further accumulation of investment income support commencing the payout in FY 2025. As discussed with the Board in April 2024, the delay in implementing the payout until this point has helped to protect the real value of the EA's corpus,[22] as intended, and facilitated the accumulation of an income cushion. In recent years, the EA's projected portfolio returns have continued to improve, particularly following the Board-approved investment strategy refinements in FY 2022. These refinements are designed to increase the likelihood of achieving the return target through a balanced portfolio which is resilient in different economic and inflation regimes. Current projections indicate a reasonable probability of meeting the EA's 3 percent real return target over the long term. Furthermore, the EA's realized income cushion has also been steadily increasing (Figure 1). Under the EA payout policy framework agreed by the Board in 2018, the initial value of the payout would be aligned with the EA's return outlook and also supplemented by certain safeguards to protect the real value of the EA. These parameters are to be determined by the Board prior to commencing the initial payout and are discussed below.

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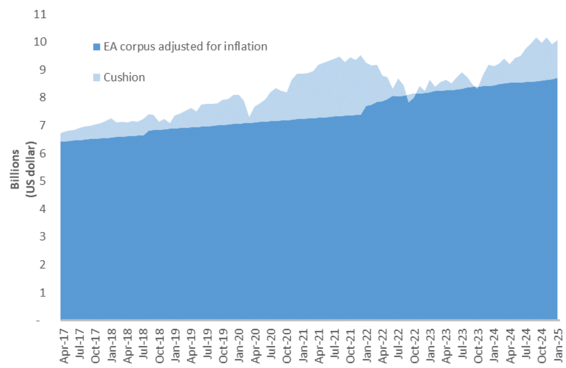
[22] The corpus is estimated based on principal amounts invested in the EA since inception, adjusted for the global external deflator (GED) through end-FY2021, and realized U.S. CPI thereafter given the modification to GED adopted under the CCBR (100 percent U.S. CPI).

Figure 1. EA Historical Net Asset Value and Forward-Looking Real Return Outlook

EA Historical Net Asset Value

(US$ billions)

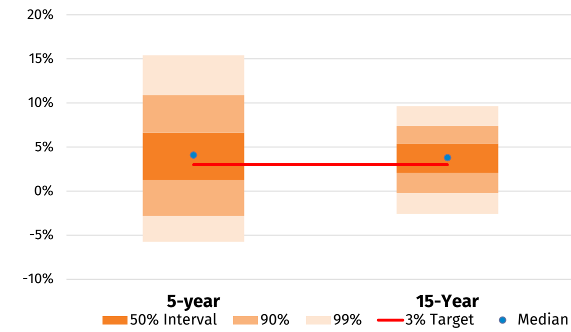
The EA's cushion has been increasing following the inflation shock during FY22–FY23.



EA Real Return Projections

(Annualized over 5-year and 15-year horizons, in real terms; in percent)

The EA has a reasonable probability of achieving its 3 percent real return target over the long term.



Sources: State Street, ORTEC, and staff analysis.

11. Staff proposes to commence payouts with an initial value of US$200 million (SDR 150 million), approximately 2 percent of the EA's most recent net asset value (NAV). Based on staff analysis, the initial payout of this size could be commenced in FY 2025 while preserving the real value of the EA's corpus over a medium to long-term horizon with a relatively high level of confidence. This is demonstrated by a projected real asset ratio (representing a range of possible outcomes at various forward-looking horizons, assuming annual real payouts) greater than 100 percent, which reflects a positive income cushion (Figure 2).[23] In line with the constant real payout rule, the dollar value of future payouts would be increased by U.S. CPI each year. This aligns the payout with the administrative expenditures that it is intended to cover and provides predictability for multi-year budget planning. As envisaged under the payout policy framework, alignment of the payout with the EA's return outlook would be reassessed periodically, as needed, in line with reviews of the investment strategy (and payout policy).[24]

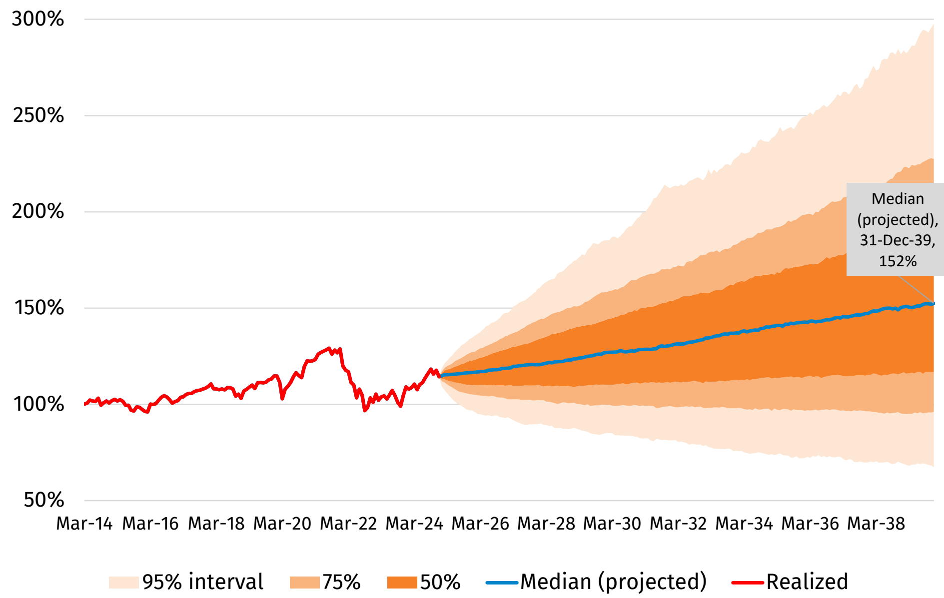
[23] The EA historical real asset ratio is the EA's market value indexed against its deflator since inception (the Fund's GED through end-FY2021 and realized U.S. CPI thereafter).

[24] The EA's investment strategy and payout policy may be reviewed by the Board at the 5-yearly reviews of the IA.

Figure 2. EA Real Asset Ratio

(Historical; and Projected based on annual real US$200 million payout)

Assuming an initial US$200 million payout that increases annually in line with the U.S. CPI, the median projected real asset ratio after 15 years is 152 percent, indicating a high level of confidence in maintaining the EA's real value (equivalent to the real ratio being at 100 percent).



Sources: State Street for historical ratio; ORTEC and staff analysis for projections, based on market conditions and assumptions as at end-December 2024.

Notes:
The projected EA real asset ratio represents a range of possible outcomes at various forward-looking horizons, assuming real payouts of US$200 million annually.

12. A safeguard would be put in place to suspend future payouts in adverse market conditions, to help protect the real value of the EA corpus. For example, a large market setback coupled with high inflation could increase the risk of the endowment corpus being eroded. The 2018 payout policy framework envisaged that a limit based on the EA's net asset value (NAV) would trigger a suspension in the payout if further payouts could erode the real value of the EA's corpus. For this purpose, a quantitative NAV-based limit could be set however, it would need to be periodically recalibrated. A simpler alternative proposed by staff to achieve the same purpose involves monitoring the EA's NAV and recommending a suspension of the annual payout if the income cushion becomes negative, indicating an erosion of the real value of the EA's corpus, and consequently, the real asset ratio falls below 100 percent. Following a suspension, the EA's return outlook and income cushion would need to be reassessed before re-initiating payouts. Proposed updates to the implementation framework and specification for the deflator to align with the Rules are shown in Box 1. (Refer to Annex II for the redline of the EA Payout Policy Framework—Key Features.)

Box 1. Endowment Subaccount (EA) Payout Policy Framework—Key Features and Proposed Updates

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.

- 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 actual U.S. CPI.[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.
- Annual payouts would be suspended if it would cause an erosion in the real value of the EA's corpus.
- The EA's return outlook and retained investment income ("cushion") would be reassessed prior to re-initiating payouts.

[1] The Rules and Regulations of the IA specify that the EA subaccount's real return shall be calculated by using the deflator that is used for purposes of the Fund's administrative budget, the Global External Deflator (GED), provided that the U.S. consumer price index (U.S. CPI) component of the GED shall be adjusted to use the actual U.S. CPI instead of the projected U.S. CPI. Prior to the CCBR review, the GED was calculated based on two components. Following that review, it was revised to align with the U.S. CPI projection published in the most recent WEO. Subsequently, the Fund's deflator calculation methodology was further revised to be based on actual U.S. CPI. For simplicity and transparency, staff recommends using the actual U.S. CPI as the deflator for the EA payout's annual inflation adjustments.

B. Disposition of FY 2025 GRA Net Income

13. 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 special and general reserves in accordance with the annual decision on the disposition of the Fund's net income.[25] GRA net income (or GRA net operational income) for the purposes of the paper is after taking into account the transfer of income and payout from the FI and EA, respectively (Box 2). The disposition of income related to the IAS 19 remeasurement gains follows the framework endorsed by the Executive Board in 2022.

[25] While both reserves serve similar purposes, distribution from the special reserve is explicitly prohibited.

Box 2. Net Income, Other Comprehensive Income, and Total Comprehensive Income

Under IFRS, for financial reporting purposes, total income of an entity comprises two distinct components: Net Income (NI) and Other Comprehensive Income (OCI). While both are important indicators of an entity's financial performance, they capture different aspects of it.

NI provides a clear picture of the entity's profitability from its *core operations* over a period of time, such as a year. When declaring dividends or distributions, entities typically base them on NI, as it directly relates to operational or earned income. The Fund's NI is primarily driven by lending and investment income (see Table 1).

OCI offers insight into potential future gains or losses, indicating broader financial health and risks associated with an entity's investments and other non-operational activities.

Together, NI and OCI form TCI, which provides a more holistic view of an entity's financial performance by including all changes in equity from non-operational activities. In the Fund's case, pension-related remeasurement gains and losses (discussed in Table 2) are the only item recorded separately under OCI. While entities may refer to TCI when discussing their overall financial performance, it is less commonly used as a basis for distributions as OCI is unrealized.

Net Income Distribution and Placement of GRA Net Income Distribution Amount into IPAA

14. In October 2024, the Executive Board approved with the support of all Fund members a distribution framework for GRA resources to facilitate the generation of additional PRGT subsidies (Box 3). The distribution framework consists of (i) a Multi-Year Distribution Plan (MYDP) for a maximum cumulative amount of SDR 6.9 billion from GRA resources (net income and/or reserves), to be achieved through annual distribution decisions by the Executive Board over FY 2025–29;[26] and (ii) the establishment of a new administered account, the IPAA, to hold placements of distribution amounts in accordance with the terms of the IPAA Instrument. At the conclusion of FY 2025, the first annual distribution decision is to be taken by the Executive Board, based on an assessment of the GRA's financial position.[27]

[26] While the starting point would be to aim for five uniform annual placements of about SDR 1.38 billion, the amounts would be adjusted up or down as needed depending on actual GRA income and adequacy of precautionary balances (PBs). Therefore, the time required for reaching the targeted level could be shorter (longer) if the Fund's net income turned out to be higher (lower) over the next five years assuming an unchanged target for PBs.

[27] It is expected that the actual transfer to the IPAA will take place in June once the FY 2025 financial statements are signed off by the Fund's external auditor.

Box 3. The Distribution Framework for GRA Resources to Facilitate Generation of Additional PRGT Subsidies

In October 2024, the Executive Board agreed on a distribution framework for GRA resources to facilitate the generation of additional PRGT subsidy resources and to support a self-sustained PRGT annual lending capacity of SDR 2.7 billion.[1] The distribution framework (the "Framework"), consists of (i) a Multi-Year Distribution Plan (MYDP) for a maximum cumulative amount of SDR 6.9 billion from GRA resources, to be achieved through annual distribution decisions by the Executive Board over FY 2025–29; and (ii) the establishment of a new administered account, the IPAA, to hold such placements.[2] Starting in FY 2025, annual amounts would be determined either as the disposition of GRA net income of the relevant financial year and/or a reduction of the Fund's general reserves.

Any annual distribution decision and placement of GRA resources to the IPAA should be justified based on the adequacy of the GRA's financial position, taking into account the level of precautionary balances (PBs) and the income outlook, both of which change over time and may be uncertain. A decision on distribution of GRA net income requires an Executive Board decision taken by a majority of the votes cast, while the distribution of the general reserves requires a 70 percent majority of the total voting power.

Under the terms of the IPAA, a member's share in the principal amount should be calculated based on its quota shares after a 90 percent threshold of assurances from members for new PRGT subsidy contributions has been achieved. Until then, the principal amounts in the IPAA would be held in the name of the Fund and administered in accordance with the IPAA instrument, with interest income transferred to the PRGT on a quarterly basis.

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[1] *2024 Review of the Poverty Reduction and Growth Trust Facilities and Financing—Reform Proposals*, October 2024.

[2] The framework is specified in *2024 Review of the Poverty Reduction and Growth Trust Facilities and Financing—Reform Proposals*.

15. Projections indicate that GRA NI (or NOI) for FY 2025–2029 would be sufficient to support the annual distribution decision under the MYDP and placement of distribution amounts into the IPAA (Annex IV). Under the baseline scenario, NOI is expected to reach SDR 2.3 billion in FY 2025 and SDR 9.5 billion over FY 2025–2029. As explained below in the section on Adequacy of Precautionary Balances, the projected income would adequately cover the annual transfer of SDR 1.38 billion to the IPAA in FY 2025 (Table 1) and would be sufficient to accommodate cumulative SDR 6.9 billion transfers over FY 2025–2029, while allowing for steady reserve accumulation and maintaining the GRA's robust financial position.

16. Staff therefore recommends proceeding with a distribution of SDR 1.38 billion from FY 2025 net income to the IPAA (proposed Decision 4). The actual cash transfer to the IPAA would take place when the FY 2025 audit is finalized (expected before end-June) to ensure that no distribution takes place before the FY 2025 net income is validated by the Fund's external auditor.[28] This approach involves placing an amount equivalent to SDR 1.38 billion from net income to the

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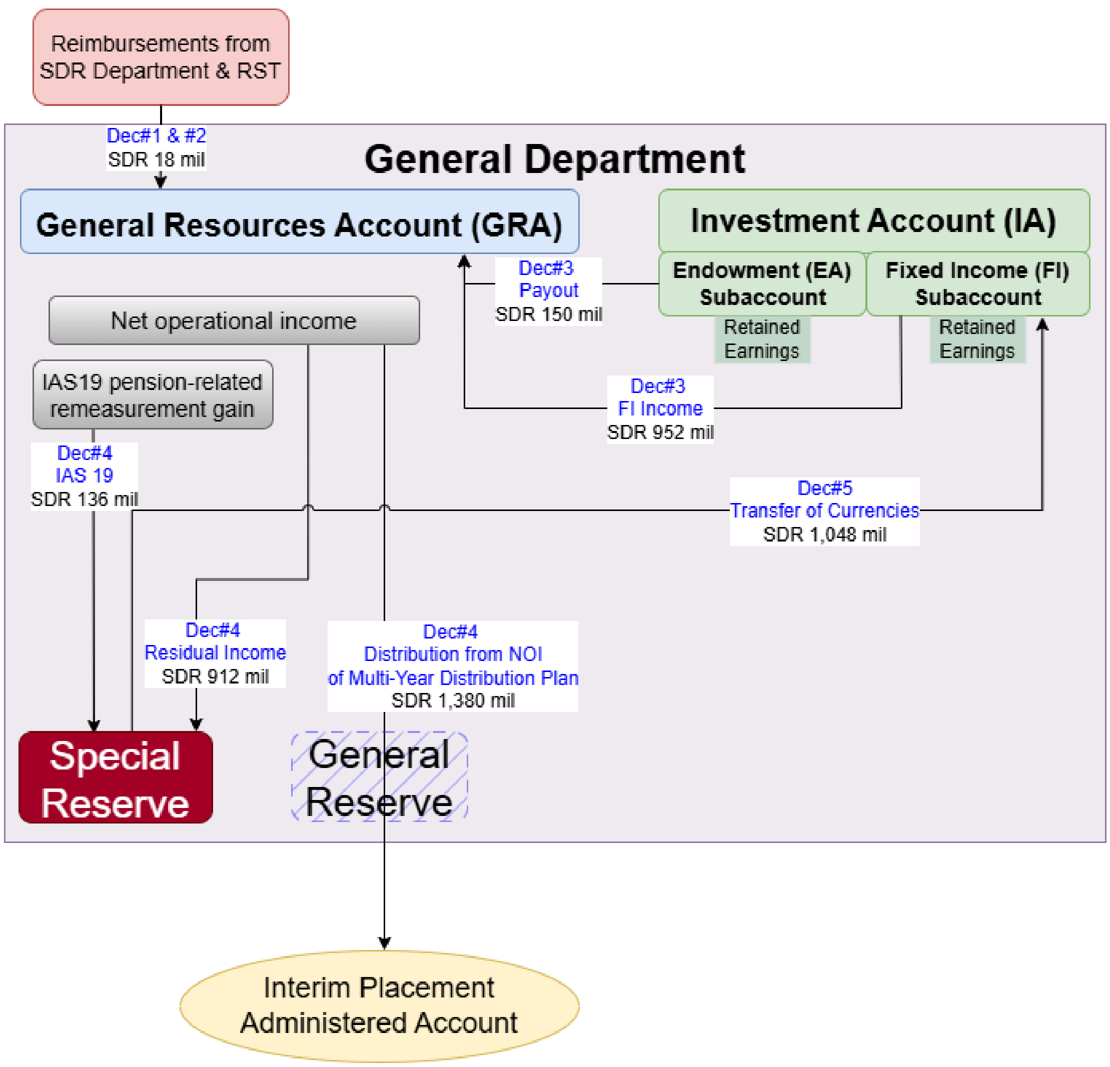
[28] For operational purposes, the transfer to the IPAA can be backdated to June 1 since it is done in official SDRs. This would allow the IPAA to maximize the interest on its SDR holdings that can be transferred to the Subsidy Reserve Account of the PRGT.

general reserve as a 'pass-through' (see Figure 3), ensuring compliance with accounting standards.[29] In the unlikely event that the NOI is not sufficient to cover the SDR 1.38 billion transfer from the GRA to the IPAA in FY 2025, staff will report back to the Board after the financial year-end.[30]

Figure 3. Illustration of Proposed Disposition Decisions

(Numbers are illustrative and are based on current projections for FY 2025 (Table 1))



Note: Transfer of currencies to the IA-FI equivalent to the increase in the Fund's reserves.

Allocation of IAS 19 Remeasurement Gain to Special Reserve

[29] As stated in Decision 4, the Articles permit the distribution to be drawn from the Fund's net income, requiring a majority of the votes cast for approval. However, in adherence to IFRS, any dividend would need to be charged against reserves and is therefore reflected as a "passthrough" within the general reserve (Figure 3).

[30] Staff will closely monitor the actual outcome typically determined about six weeks after the financial year-end.

17. For accounting purposes, pension-related remeasurement gains and losses are recorded under OCI, separate from GRA net income (see Box 2). As highlighted in greater detail in the *Review of the Fund's Income Position for FY 2022 and FY 2023–2024* (04/12/22), and supported by the Executive Board, an approach was adopted in April 2022 to shield GRA net income from the fluctuations of unrealized remeasurement gains and losses by allocating these amounts directly to the special reserve.[31] Over time, IAS 19 remeasurement gains and losses are expected to offset each other, limiting their long-term impact on the special reserve. While cumulative remeasurement losses reduce the reserve available for loss absorption, cumulative remeasurement gains would remain unavailable for future distribution to members as dividends.

18. Staff recommends allocating the projected IAS 19 remeasurement gain of SDR 136 million to the special reserve, consistent with the approach endorsed in FY 2022 (proposed Decision 4). This approach effectively isolates the volatility associated with these unrealized amounts within the special reserve, which is non-distributable, thereby ensuring a more appropriate allocation of these unrealized amounts.

Allocation of Residual GRA Net Income to Special Reserve

19. Following the placement of the net income distribution amount to the IPAA, staff proposes to place any residual net income to the special reserve to support its build-up to level of the PB floor (proposed Decision 4). This approach follows the Executive Board guidance to build up the special reserve until the PB floor of SDR 20 billion is achieved.[32] It is estimated that a residual net operational income of about SDR 0.9 billion would be available for placement to the special reserve. Placement of the IAS 19 remeasurement gain and the residual net operational income would increase the special reserve to approximately SDR 18.4 billion at end FY 2025 from SDR 17.4 billion at the end of FY 2024 (Text Table). After excluding the endowment of SDR 4.4 billion and cumulative remeasurement gains of about SDR 3.8 billion, the special reserve is anticipated to amount to SDR 10.2 billion. The general reserve is expected to remain unchanged at SDR 14.9 billion.

Income Allocation
(SDR Millions)

Income Allocation	
- Special Reserve	
Opening balance	17,382
Add: residual GRA Net income	912
Add: Remeasurement gain	136
Closing balance	**18,430**
- General Reserve	
Opening balance	14,880
Add: GRA Net income	1,380
Less: Transfer to IPAA	-1,380
Closing balance	**14,880**

[31] Currently, SDR 3.8 billion is attributed to IAS 19 remeasurement gains in the special reserve. Future remeasurement losses can be offset against the existing remeasurement gains in both the special and general reserves. Only after the remeasurement gains in these reserves are depleted would any remaining losses be charged specifically to the special reserve. Based on staff's proposal in April 2022, which was broadly accepted by the Executive Directors, as a transitory measure, remeasurement losses will be allocated to the General Reserve until the cumulative remeasurement gain of SDR 1,020 million (as of April 30, 2022) is reduced to zero.

[32] See the Summing Up of *the Review of Charges and the Surcharge Policy-Reform Proposals*, October 11, 2024.

C. Transfer of Currencies

20. The placement of the FY 2025 IAS 19 remeasurement gain and any residual GRA net income to reserves provides scope for a further transfer of currencies to the IA . 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 general and special reserves are above the cumulative amount of previous transfers of currencies from the GRA to the IA.[33] Transfers made thus far to the IA from the GRA amount to SDR 32.3 billion, equivalent to the total reserves at April 30, 2024.

21. 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 5).[34,35] This proposal is consistent with the assumption that the IA will over time achieve a higher return than the SDR interest rate, and therefore make a positive contribution to Fund income to cover administrative expenses, in particular non-lending related expenses.

FY 2026 INCOME OUTLOOK

22. Based on current projections under the baseline scenario, the NOI outlook for FY 2026, excluding the impact of the pension-related gain or loss and retained income in the EA, is expected to remain strong.[36] GRA NOI for FY 2026 is projected at about SDR 1.7 billion (Table 3). The projections assume unchanged policies, including a basic lending margin that is maintained at 60 basis points, and are sensitive to a number of factors as outlined below.

A. Key FY 2026 Income Outlook Factors

23. Key factors that affect the FY 2026 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.*[37] Margin and surcharge income are expected to remain high in FY 2026, reflecting mainly the potential new demand for Fund lending under the baseline projections and

[33] 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 FY2013–2014, following a distribution of the general reserve to the membership, as part of the strategy for the creation of a self-sustained PRGT.

[34] A transfer of about SDR 0.9 billion is estimated for FY 2025.

[35] To be preceded by the transfer of the funds to the IPAA of SDR 1.38 billion which is expected to occur by end-June. This year's flow of funds will also include the anticipated US$200 million payout from the EA to the GRA (refer to Section A above).

[36] Annex IV also provides a medium-term projection of the Fund's consolidated income and expenses.

[37] As indicated in *The Temporary Modifications to The Fund's Annual and Cumulative Access Limits* (02/17/23) and *Extension of Temporary Increase in Normal Access Limits under the General Resources Account* (02/02/24), 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. Also see IMF Executive Board Extends Temporary Increase in Access Limits Under the General Resources Account.

continued disbursements under current arrangements. Income from commitment fees in FY 2026 of SDR 144 million reflects the expiration of two Flexible Credit Line (FCL) arrangements.

- *FI.*[38] FI investment income is expected to remain elevated. Staff's most recent return projections for the portfolio indicate an average return of 3.3 percent over the medium term. Based on these projections, investment income earned translates to about SDR 847 million in FY 2026. However, on a year-to-year basis, fluctuations in market interest rates could impact actual portfolio returns, and therefore investment income, significantly.[39]

- *EA*. The EA's return projections are subject to considerable uncertainty due to the high volatility across its invested asset classes, particularly over short time horizons. Staff's latest return projections for the portfolio indicate an average return of 6.30 percent, in nominal terms in US dollars, over the long-term horizon. Based on these projections, projected investment income is about SDR 462 million in FY 2026. However, actual annual returns may vary substantially depending on market conditions.

- Income projections assume a US dollar payout equivalent to the initial FY 2025 payout of US$200 million, increased by U.S. CPI (Box 1).[40] Based on these assumptions, the estimated payout in FY 2026 would be equivalent to about US$206 million (SDR 156 million).

- *Interest-free resources and reimbursements*. Income from interest-free resources is projected to be lower in FY 2026 reflecting the lower projected SDR interest rate path over the medium term and reduction in interest free resources. Projected reimbursements are based on the FY 2026 estimates and include reimbursements for the expenses of conducting the business of the SDR Department and administering the RST. Suspension of reimbursements from the PRG Trust (except for the proposed new fee related to PRGT investments), now approved through FY 2031, will reduce expected GRA income by about SDR 103 million in FY 2026.

[38] 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.

[39] Interest rate volatility for the remainder of FY 2025 may impact the beginning mark-to-market value on which FY 2026 projected returns are calculated.

[40] 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).

Table 3. Projected Income Sources and Uses—FY 2025–2026
(In millions of SDRs, except where indicated; for medium-term projections, see Annex IV)

	FY2025	FY2026
A. Operational income	**3,412**	**3,022**
Lending income	**2,157**	**1,942**
Margin for the rate of charge	706	547
Service charges and other income	93	68
Commitment fees	145	144
Surcharges [1]	1,213	1,183
Investment income	**1,102**	**1,003**
Fixed-Income subaccount transfer	952	847
Endowment subaccount payout [2]	150	156
Interest free resources [3]	**135**	**60**
Reimbursements [4]	**18**	**17**
SDR Department	3	5
PRG Trust	0	0
RST [5]	15	12
B. Expenses	**1,120**	**1,279**
Net administrative expenditures	1,119	1,176
Capital budget items expensed	27	35
Depreciation	69	68
Net periodic pension cost after funding [6]	-95	0
C. Net operational income (GRA Net Income) (A-B)	**2,292**	**1,743**
Investment Account - Retained income	969	306
D. Net Income of the General Department	**3,261**	**2,049**
Pension-related remeasurement gain	136	0
E. Total Comprehensive Income	**3,397**	**2,049**
GRA Net Income Distribution:		
Transfer to IPAA and Residual GRA Net Income		
Net operational income (GRA Net Income) - per C	**2,292**	**1,743**
Less: Transfer to IPAA	-1,380	-1,380
Residual net operational income/ GRA Net Income	**912**	**363**
Memorandum items:		
Fund credit (average stock, SDR billions)	88.2	91.2
SDR interest rate (average, in percent)	3.7	3.0
US$/SDR exchange rate (average)	1.33	1.32
Intermediation costs (US$ millions) [7]	$159	$162
Precautionary balances (end of period, SDR billions) [8]	25.9	26.3

Sources: Finance Department and Office of Budget and Planning.

[1] Reflects the adjustments to the surcharge threshold approved in the Review of Charges and the Surcharge Policy, effective November 1, 2024. Surcharges are projected on the basis of current quotas.

[2] Based on staff's proposal (see Disposition Decisions - Section B).

[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.

Table 3. Projected Income Sources and Uses—FY 2025–2026 (concluded)

[4] Suspension of reimbursements of PRGT administrative expenses during FY 2022–FY 2026 per Executive Board Decision No. 17083-(21/71), July 14, 2021. A further five-year suspension for FY 2027–2031 was approved in the *2024 Review of the Poverty Reduction and Growth Trust Facilities and Financing—Reform Proposals*. Also, see Annex I.
[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 approved programs and advanced requests along with unit costs of various RST-supported operations.
[6] For FY 2026, net periodic pension cost and pension-related remeasurement gain/loss are not projected.
[7] Costs related to the Fund's "generally available facilities".
[8] 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).

- *Proposed fee related to the administration of PRGT investments.* It is proposed that a small amount be carved out from the suspension of reimbursement of the GRA by the PRGT to cover a new fee charged against the PRGT's Reserve Account for administering Deposit and Investment Account and Long-Term Investment Account investments. The proposed fee is estimated initially at US$2.4 million or SDR 1.8 million.[41] The fee would be paid to the GRA, and an equivalent amount would be treated as a receipt for the administrative budget and included in an increased ceiling of the gross administrative budget (i.e., the receipt would offset the related administrative expenses, leaving the net administrative budget unchanged).

- *Expenditures.*

  - Net administrative expenses are consistent with those estimated in the medium-term budget paper which is guided by the longstanding principle of budget prudence. Notwithstanding a proposed top-up to meet critical cybersecurity needs, overall net resourcing to departments will decline, given ongoing unwinding of temporary pandemic-era resources. Within these constraints, budget allocations recognize strong demand by members for support to address a rapidly changing global economic landscape, rebalancing activities to increase funding for direct country support.

- Capital budget items expensed for FY 2026 are expected to be higher than previous estimates by SDR 5 million primarily due to new capital budget projects that do not meet capitalization criteria.[42] The depreciation charge is broadly aligned with the previous projections.

  - Periodic pension costs are not projected beyond FY 2025.

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

[41] The estimated amount of the overall administrative expenses of the PRGT is currently about US$143 million for FY 2025.

[42] *FY 2026–FY 2028 Medium-Term Budget (03/28/2025)*.

- *Distribution.* See section on Distribution of GRA resources from net income for placement into IPAA and Allocation of Income.

- *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 remain elevated, the Fund has to date not needed 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.

B. Summary of Key Risks to the Outlook

24. The Fund's income and finances are subject to risks associated with ongoing global economic developments and uncertainty. These include: cancellations and changes in the timing of purchases under existing and potential arrangements under the updated baseline; 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.

- It is difficult to assess precisely at this stage the financing needs arising from the ongoing conflicts, or countries still impacted by high interest rates and lingering scars from the pandemic, which could result in new loan programs, augmentations, and rephasing of programs.

- 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.

- 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.

- As noted, 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.[43]

- In the unlikely event of a provision for impairment losses on credit outstanding being required under IFRS 9, Fund income would be reduced accordingly.

25. Sensitivity analysis illustrates the susceptibility of income and expense projections 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 2026 Projected Income
(In millions of SDRs)

Increase/decrease in:	
SDR interest rate by 50 basis points	
Implicit returns [1]	7
Margin for the rate of charge by 10 basis points [2]	91
US dollar vis-à-vis SDR by five percent - Administrative expenses	56
US dollar vis-à-vis SDR by 1 US cent - Endowment Subaccount	60
Investment income margin by 50 basis points	181

[1] Implicit returns on GRA interest-free resources.
[2] Based on the estimated average credit outstanding for FY 2026.

ADEQUACY OF PRECAUTIONARY BALANCES

26. As agreed in the context of the 2024 PRGT review, any distribution of GRA resources to the IPAA should occur in the context of a healthy GRA financial position. This section provides an updated assessment, taking into account the level and adequacy of PBs in addition to the Fund's income outlook covered previously in the paper. The assessment considers developments in and the updated outlook for total commitments and credit outstanding, buffers including PB coverage ratios, credit risks, and capacity to repay indicators. The slightly higher projected path of PBs is broadly in line with the outlook presented in the 2024 October projections at the time of the Review of Charges and the Surcharge Policy. Overall, the assessment points to a healthy GRA financial position and hence justifies the decision on a transfer of FY 2025 net income to the IPAA.

27. PBs are now above the medium-term PB target of SDR 25 billion that was confirmed by the Executive Board at the last PB review in March 2024, which also raised the floor to SDR 20 billion. At that time, PBs were close to the medium-term target, which was ultimately met as of end-FY 2024. PBs subsequently have reached SDR 27.0 billion as of end-January 2025, albeit

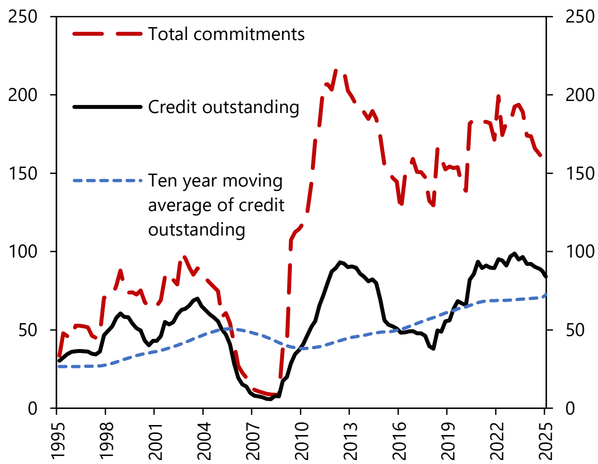
[43] The sensitivity analysis of the present value of the defined benefit obligation to fluctuations in the discount rate as of April 30, 2024 for a 50 basis point decrease (increase) results in an increase of SDR 710 million (decrease of SDR 630 million) in the underlying obligation, and corresponding reduction in remeasurement gains or increase in remeasurement losses.

this intra-year figure does not account for any potential net income distribution decision and related transfer of FY 2025 income to the IPAA.[44]

A. Developments in Credit Outstanding and Total Commitments

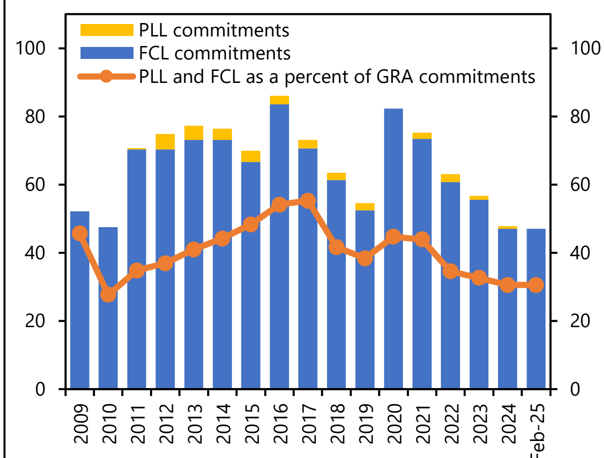
28. While Fund credit outstanding and total commitments remain high, they have partly reversed some of their post-pandemic increases since the last PB review. GRA credit outstanding declined to SDR 84.0 billion at end-February 2025, from SDR 92.1 billion at end-2023 (Figure 4). The decrease largely reflected repayment of the exceptional assistance disbursed during the pandemic under Rapid Financing Instruments (RFIs), which fell to 5.7 percent of the portfolio at end-February 2025, from 15.4 percent at end-2023, while the share of EFF credit increased to 84.5 percent, from 66.7 percent. Total commitments also declined, reaching SDR 153.7 billion at end-February 2025, down from SDR 174.0 billion at end-2023, as commitments under precautionary arrangements were reduced by almost SDR 10 billion, continuing a downward trend that began in 2021 (Figure 5).

Figure 4. Total Commitments and Credit Outstanding
(In billions of SDR)[1]



Source: IMF Finance Department.
[1] Total commitments equal GRA credit outstanding plus undrawn GRA balances.

Figure 5. Commitments Under FCL and PLL Arrangements
(In billions of SDR)



Source: IMF Finance Department.

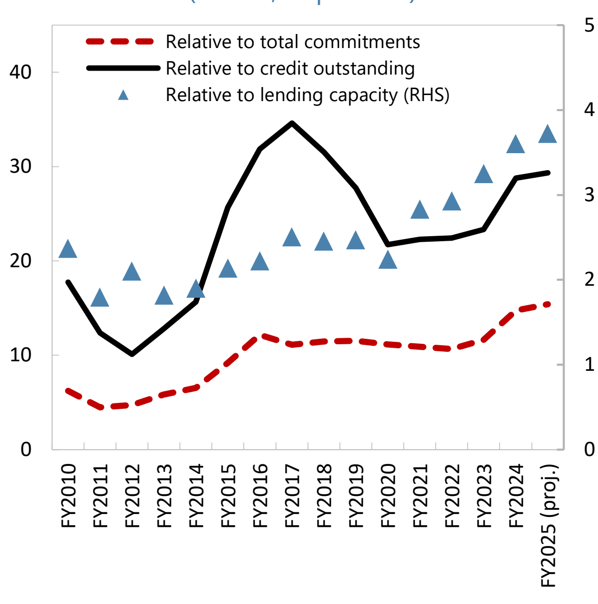
[44] As in past practice, net operational income within each financial year is reflected in PBs until its disposition at the end of the financial year.

B. Buffers: PB Coverage Ratios and Burden Sharing

29. Higher PBs and lower credit outstanding and commitments have resulted in an increase in PB coverage ratios. Assuming the proposed transfer of SDR 1.38 billion to the IPAA is made, PBs are projected to reach SDR 25.9 billion at end-April 2025, up from SDR 25.1 billion at end-April 2024. End-April 2025 PBs are projected to cover 29.3 percent of GRA credit outstanding and 15.4 percent of total commitments, compared to 26.5 percent and 14.0 percent, respectively, at the time of the last review. Coverage of lending capacity would reach 3.7 percent, up from 3.5 percent (Figure 6).

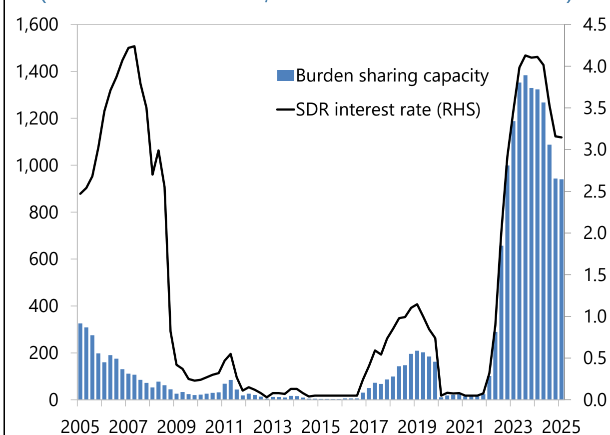
30. The Fund's burden sharing capacity declined from SDR 1,336 million at end-February 2024 to SDR 940 million at end-February 2025. The burden sharing mechanism activates to compensate the Fund for any unpaid charges by members in arrears ("deferred charges"), and in so doing, to offset the impact of deferred charges on Fund income.[45] The burden sharing capacity has declined in the past year due to lower interest rates and declining credit outstanding (Figure 7). It nevertheless amounts to over half of charges and surcharges projected for FY 2026.

Figure 6. Precautionary Balances Coverage
(Ratios, in percent)



Source: IMF Finance Department.

Figure 7. Burden Sharing Capacity
(In millions of SDR, unless otherwise stated)[1]



Source: IMF Finance Department.
[1] The annual burden sharing capacity is estimated using the quarter-end remunerated reserve tranche positions and SDR interest rates. The latest observation uses end-February 2025 data.

[45] Under burden sharing, the Fund's creditor and debtor members contribute temporary financing in equal amounts to cover the amount of unpaid charges. This is achieved through increases in the rate of charge paid by debtor members and reductions in the rate of remuneration to creditor members. See *Review of the Adequacy of the Fund's Precautionary Balances* (02/22/2024).

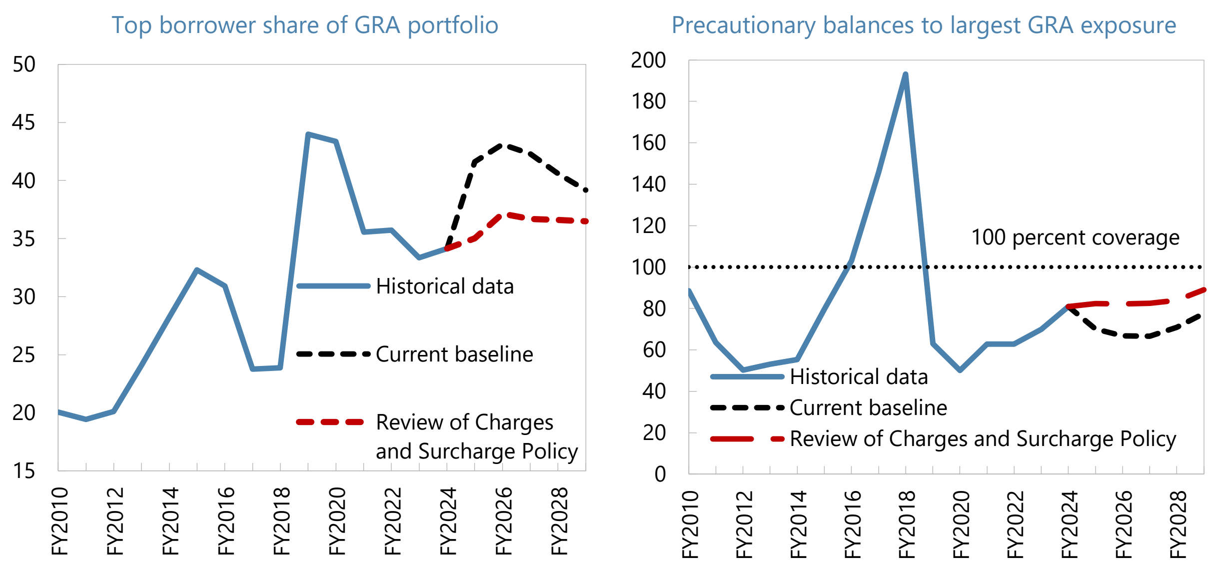
C. Credit Concentration, Credit Risks, and Capacity to Repay

31. Credit concentration has increased, driven by repayments of RFIs. The share of Argentina, the Fund's largest borrower, in the GRA portfolio increased to 37.0 percent as of February 2025, from 33.0 percent at end-2023 (Figure 8). The share of the top five borrowers increased to 75.4 percent, from 68.0 percent at end-2023. Their credit outstanding rose by SDR 0.7 billion, with the SDR 9.4 billion aggregate repayments for smaller RFI borrowers explaining a large proportion of the increase in credit concentration. The regional composition of credit outstanding and total commitments was broadly unchanged, with WHD being the largest regional exposure.

32. PB coverage of the largest exposure is projected to remain within its recent range. Coverage of the largest exposure bottomed at 50 percent in FY 2020, reached 81 percent in FY 2024, and is projected to fluctuate between 60 and 80 percent in the coming years (Figure 8).[46]

Figure 8. Ratios of Credit Concentration and Precautionary Balances Coverage

(In percent)



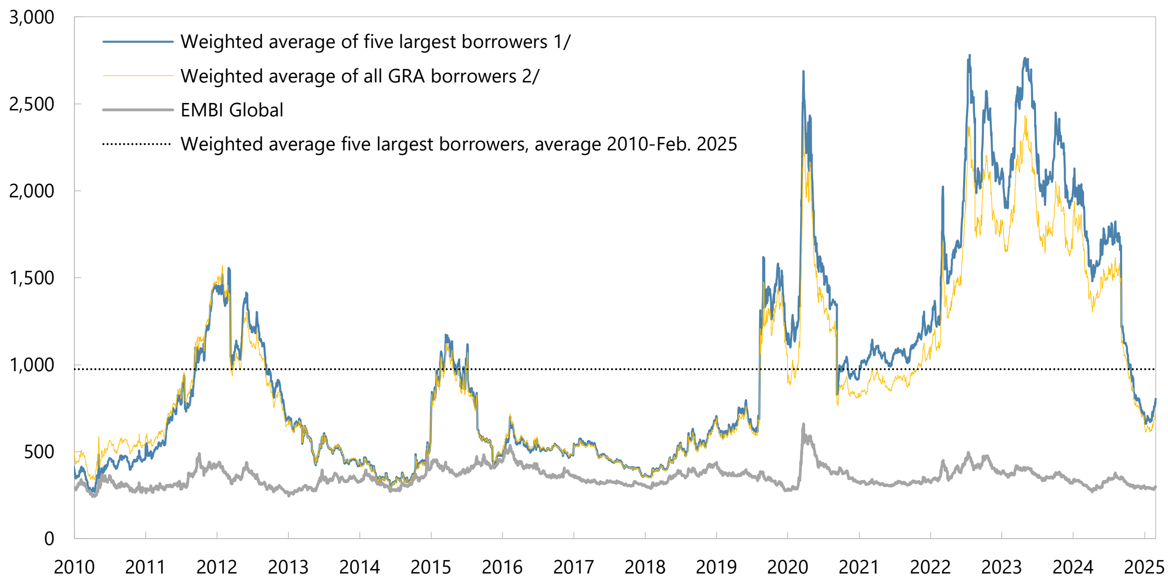
Source: IMF Finance Department.

33. Weighted average spreads of GRA borrowers has declined substantially since the last PB review, suggesting improvement in market perceptions of credit risks. The weighted average sovereign spread of GRA borrowers declined to 724 basis points at end-February 2025, from 1,669 at end-2023, returning to levels last seen before the pandemic (Figure 9). Similarly, the weighted average spread of the five largest GRA borrowers declined to 804 basis points at end-February 2025, from 1,962 basis points at end-2023, and for both groups, the decline was substantially larger than for the broader market. By contrast, the share of GRA credit accounted for

[46] PBs last exceeded the largest GRA credit exposure in FY 2016–FY 2018 when the largest exposures were below SDR 15 billion (Portugal in FY 2016–FY 2017, Greece in FY 2018).

by borrowers with ratings of CCC or lower rose to 61.4 percent at end-February 2025, from 52.9 percent at end-2023. This increase was driven by net repayments from within the group of higher-rated borrowers and increases in exposure to the group of lower-rated borrowers, as no GRA borrower was downgraded to the group of lower-rated borrowers.

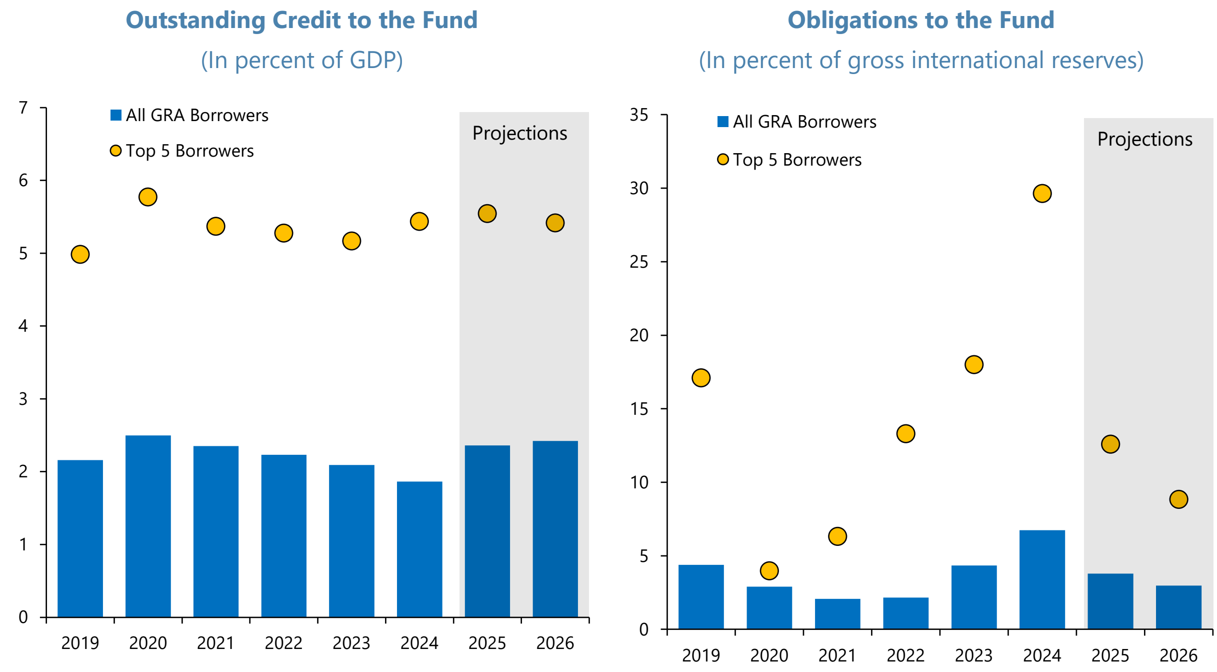
Figure 9. Sovereign Bond Spreads
(In basis points)



Sources: J.P. Morgan Markets; and IMF staff calculations.
[1] Sovereign spreads are weighted by respective shares in Fund credit to the largest five borrowers. Sovereign spreads are measured by EMBI spreads for emerging economies, and by 10-year government bond spreads over German bonds for euro area members.
[2] Sovereign spreads are weighted by respective shares in Fund credit to GRA borrowers with available data on sovereign spreads.

34. GRA borrowers' capacity to repay (CtR) the Fund appears to have improved due to higher reserves and lower Fund obligations, partly reflecting the reduction in charges and surcharges. Near-term projections indicate that the Fund exposure-to-GDP ratio remains in line with recent levels, with an uptick in 2025 for the average GRA borrower as some smaller RFI exposures are repaid (Figure 10). However, other CtR indicators suggest an improvement. Measured by the ratio of Fund obligations to gross international reserves, the average capacity to repay of GRA borrowers is projected to strengthen, reversing the trend in 2023-2024. This metric would decline to 3.8 percent in 2025 from 6.7 percent in 2023. The ratio for the top five borrowers is expected to fall to 12.6 percent from the peak of 29.6 percent in 2024, as their reserve positions have strengthened and scheduled Fund obligations are lower, partly due to the reduction of charges and surcharges payments after the Review of Charges and the Surcharge Policy.

Figure 10. GRA Borrowers: Capacity to Repay Metrics



Sources: IMF Finance Department; and IMF, *World Economic Outlook* database.

D. Scenario Analysis

35. **The forward-looking measure of GRA credit outstanding is projected under various lending scenarios to evaluate the robustness of PBs' adequacy.** The current baseline scenario includes new Fund arrangements identified in a survey of country teams ("desk survey") as having a high likelihood of materializing in FY 2025 or FY 2026, and—as in the Review of Charges and the Surcharge Policy—it assumes that for FY 2027 and onward new arrangements will cover, in aggregate, 60 percent of repurchases.[47] Additional scenarios considered here are:[48] (i) a *desk survey scenario*, which assumes no new arrangements for FY 2027 and onward; (ii) a *model-based WEO scenario*, based on the January 2025 WEO forecasts and the model utilized in previous PB reviews to project GRA lending;[49] and (iii) a *model-based shock scenario*, which utilizes the same model and

[47] This assumption reflects the expectation that some members will likely continue to require financial support in an uncertain global environment albeit at a lower scale, consistent with a gradual easing of the total demand for Fund financing. The scenarios all assume that purchases and repurchases are made as scheduled and that there are no early repurchases. All scenarios except the model-based shock scenario further assume that there are no drawings under existing precautionary arrangements (FCLs, SLLs, and PLLs).

[48] Previous PB reviews have also included a "Current Arrangements" scenario that assumed no new GRA arrangements. However, the scenario is not included in this review given its lack of realism and limited relevance (as lower credit outstanding would be more easily covered by PBs).

[49] The model uses a panel logit regression that relates the probability of entering a new Fund arrangement to financial market volatility, global financial conditions, and GDP growth, among other factors. Access is estimated using access levels relative to GDP for past arrangements, taking into account each country's existing Fund credit outstanding, if any. For further details, see Review of the Adequacy of the Fund's Precautionary Balances, Annex V.

forecasts as in (ii), along with the assumption of adverse shocks to key macroeconomic and financial variables and an assumed drawdown of precautionary arrangements.[50] Table 5 shows the resulting forward-looking measures of credit outstanding as well as the lower bound, upper bound, and mid-point of the indicative 20 to 30 percent coverage range, with a comparison of the results for FY 2025 from the previous PB review.[51] The forward-looking credit measure is projected to remain broadly around its current level in the baseline, desk survey, and model-based WEO scenarios, while increasing sharply in the model-based shock scenario—in line with previous PB reviews.

Table 5. Forward-Looking Credit Measures and Calculated Ranges for Precautionary Balances

(In billions of SDRs)[1]

	Forward-looking credit measure		Coverage of forward-looking measure						Precautionary balances
			Lower bound 20%		Upper bound 30%		Mid-point of bounds		
FY2023	91.9		18.4		27.6		23.0		22.6
FY2024	90.5		18.1		27.2		22.6		25.1
1. Current baseline scenario									
FY2025	91.3	[n.a.]	18.3	[n.a.]	27.4	[n.a.]	22.8	[n.a.]	
FY2026	93.3		18.7		28.0		23.3		26.3
2. Desk survey scenario									
FY2025	91.1	[85.6]	18.2	[17.1]	27.3	[25.7]	22.8	[21.4]	
FY2026	92.1		18.4		27.6		23.0		26.1
3. Model-based WEO scenario									
FY2025	91.7	[87.5]	18.3	[17.5]	27.5	[26.3]	22.9	[21.9]	
FY2026	94.2		18.8		28.3		23.6		26.5
4. Model-based shock scenario									
FY2025	119.3	[166.6]	23.9	[33.3]	35.8	[50.0]	29.8	[41.6]	
FY2026	158.8		31.8		47.6		39.7		26.9

Source: IMF Finance Department.

[1] Figures in square brackets are projections at the time of the 2024 *Review of the Adequacy of the Fund's Precautionary Balances* (02/22/2024).

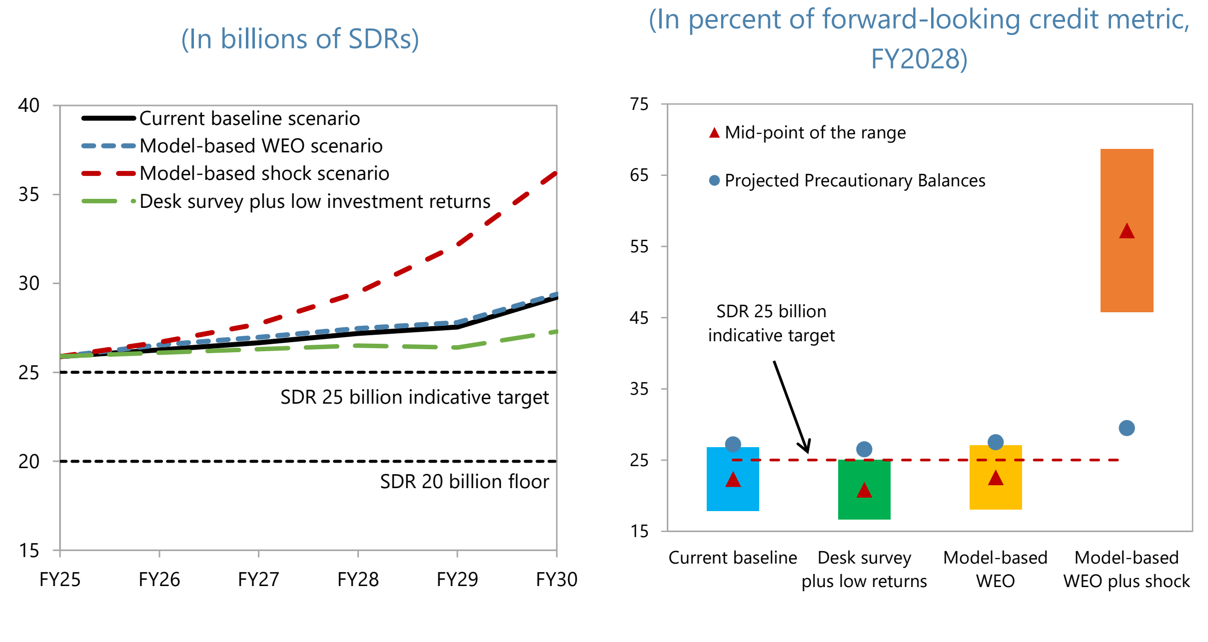
36. The level of PBs is expected to remain above the medium-term target and within the indicative range in all but the model-based WEO plus shock scenario, consistent with the results of the previous PB review (Figure 11). Figure 11 shows the path of PBs associated with each scenario, assuming that there is a uniform annual transfer of SDR 1.38 billion to the IPAA over

[50] As in the previous PB review, projected growth for the next two years is assumed to fall by ½ standard deviation of its historical values, relative to the WEO forecast. The growth shock is combined with a global financial market shock, with the VIX reaching 40. Following feedback received from Executive Board members in past PB reviews, this scenario keeps the assumption used in the latest PB review, that existing FCL and PLL arrangements are drawn only partially (i.e., 50 percent) in FY 26, instead of the full drawing (100 percent) assumed in earlier reviews.

[51] The forward-looking credit measure is calculated as the three-year average of GRA credit outstanding covering the past twelve months and projections for the next two years. The measure helps smooth year-to-year volatility of credit and is consistent with the medium-term nature of the PB target.

FY 2025–2029, and that net operational income in excess of these transfers is allocated to reserves. The level of PBs is projected to increase gradually through FY 2027 in all scenarios. In the baseline scenario PBs would reach SDR 27.5 billion in FY 2029, about SDR 0.8 billion higher than the October 2024 projection.[52] After FY 2027, PBs would rise more quickly in the model-based shock scenario because the higher level of credit outstanding would generate higher lending income. Under the baseline, desk survey, and model-based WEO scenarios, the PB target and projected PBs would remain within the indicative 20-30 percent range in FY 2026 and exceed it beginning in FY 2027. Under the model-based shock scenario, the indicative range would be higher, and PBs would only reach it in FY 2030, once credit outstanding levels off and sufficient PBs are accumulated. As an additional sensitivity check, a scenario was analyzed combining the desk survey scenario, which has the lowest projected path of credit, with a reduction in the rate of return on Fund investments to 2.5 percent. Even under these more conservative assumptions, the projected PB path would remain broadly in line with the October 2024 baseline projections and above the medium-term target.

Figure 11. Precautionary Balances Scenarios



Source: IMF Finance Department.

E. Assessment of Adequacy

37. Overall, PB adequacy remains broadly in line with the outlook foreseen at the time of the last PB review and during the October 2024 Review of Charges and the Surcharge Policy. There is no material change to the projected path of PBs relative to the October 2024 projections. As discussed above, PBs would continue to rise gradually under the most plausible projections, remaining around or above the upper end of the indicative target range. Furthermore, perceived

[52] With net operational income for FY 2025 in line with the October 2024 projections, the PB accumulation for FY 2025 would also be similar, currently projected at SDR 0.8 billion (SDR 0.95 billion in the October baseline).

credit risks and capacity to repay appear to have improved somewhat on balance, including among the largest borrowers. The projected path of PBs nevertheless remains subject to significant uncertainty and is dependent on a range of policy decisions, shifts in the global economic and financial outlook, and assumptions about potential new arrangements and the timeliness of completion of program reviews. Staff will therefore continue to closely monitor the projected path and adequacy of PBs.

REVIEW OF THE MARGIN FOR THE RATE OF CHARGE

38. The margin for the rate of charge is set by the Executive Board under Rule I-6(4). Rule I-6(4) requires the margin over the SDR interest rate to be set at a level adequate to cover the intermediation expense of the Fund, taking into account income from service charges, and generate net income for placement to reserves, considering the current level of precautionary balances, any floor or target for precautionary balances, and the expected contribution from surcharges and commitment fees. The rule further specifies that the level of the margin should ensure that the cost of Fund credit be neither too high nor too low in relation to long-term credit market conditions (the "market test"). The rule also permits, in exceptional circumstances, that the margin be set at a level other than that required to cover intermediation expenses and generate net income for placement to reserves.[53] Application of each of these criteria leaves considerable room for judgment by the Executive Board, including regarding the desirable levels of net income and reserve accumulation and the application of the market test.

39. The margin is determined every two financial years for the next two-year period, with a comprehensive review before the end of the first year. The Executive Board may adjust the margin in the context of such a 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.

40. In October 2024, the Executive Board set the margin at 60 basis points for the remaining period of FY 2025 and for FY 2026. In April 2024, the Board decided to maintain the margin of 100 basis points in effect at the time, opting to review the margin as part of a more holistic assessment of the framework for charges and surcharges, to obtain a more comprehensive view of the overall cost of borrowing from the Fund.[54] During that review of the framework in October 2024, Directors broadly supported a reduction of the margin to 60 basis points, to reduce the cost of GRA credit while retaining sufficient income-generating capacity.

41. Staff does not propose any change in the level of the margin for FY 2026. As discussed below, staff is of the view that, since the last review, there has been no fundamental change in the

[53] In previous years through FY 2024, the margin was set using the exceptional circumstances (EC) clause on the basis of non-intermediation expenses exceeding non-intermediation income. As explained in *Review of the Fund's Income Position for FY 2024 and FY 2025–2026* (04/15/2024), the EC clause no longer applies, as non-intermediation income (primarily investment income) is projected to cover non-intermediation expenses going forward.

[54] See *Review of the Fund's Income Position for FY 2024 and FY 2025–2026* (04/15/2024).

underlying factors relevant for setting the margin, and therefore no change is proposed for FY 2026. Completion of the review is proposed in Decision 6.

A. Coverage of Intermediation Costs

42. In FY 2026, lending income is projected to remain higher than intermediation expenses. An unchanged margin of 60 basis points would provide margin income of about SDR 547 million in FY 2026, and income from service charges is projected at SDR 68 million (Table 3). These amounts compare with projected GRA intermediation expenses of about SDR 123 million. In subsequent financial years, lending income is projected to remain sufficient to cover intermediation expenses. These projections are broadly in line with those at the time of the October 2024 Review of Charges and the Surcharge Policy.

B. Reserve Accumulation

43. Reserves are projected to increase, broadly in line with the path foreseen during the Review of Charges and the Surcharge Policy. As discussed above, current projections suggest that NOI would offer adequate coverage for the annual transfer of SDR 1.38 billion to the IPAA, and residual income would allow PBs to continue to grow steadily. This would hold true even under more conservative assumptions regarding future use of Fund resources and credit outstanding. This suggests that the current setting of the margin is adequate to generate positive NOI sufficient for reserve accumulation and safeguard the financial strength of the GRA.

C. Alignment of Fund Borrowing Costs with Market Conditions

44. The cross-check of the margin's alignment with long-term credit market conditions required by Rule I-6(4) aims to ensure that the cost of borrowing from the Fund is not too high or too low relative to the cost of long-term market funding.[55] In previous reviews, benchmarks based on EMBI spreads have provided a useful guide for this purpose, while leaving room for judgment.[56] As in the past, the level of the margin is compared to the lowest quartile of EMBI spreads, based on the assumption that the spreads for the more creditworthy borrowers within the sample are a good a proxy measure to account for the lower credit risk the Fund faces as a cooperative public policy institution that uses a multilayered framework—including policies on access, program design, and conditionality—to support members' balance of payments adjustment—to mitigate credit risks.[57]

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[55] See *A New Rule for Setting the Margin for the Basic Rate of Charge* (11/22/2011).

[56] 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* (04/07/2014).

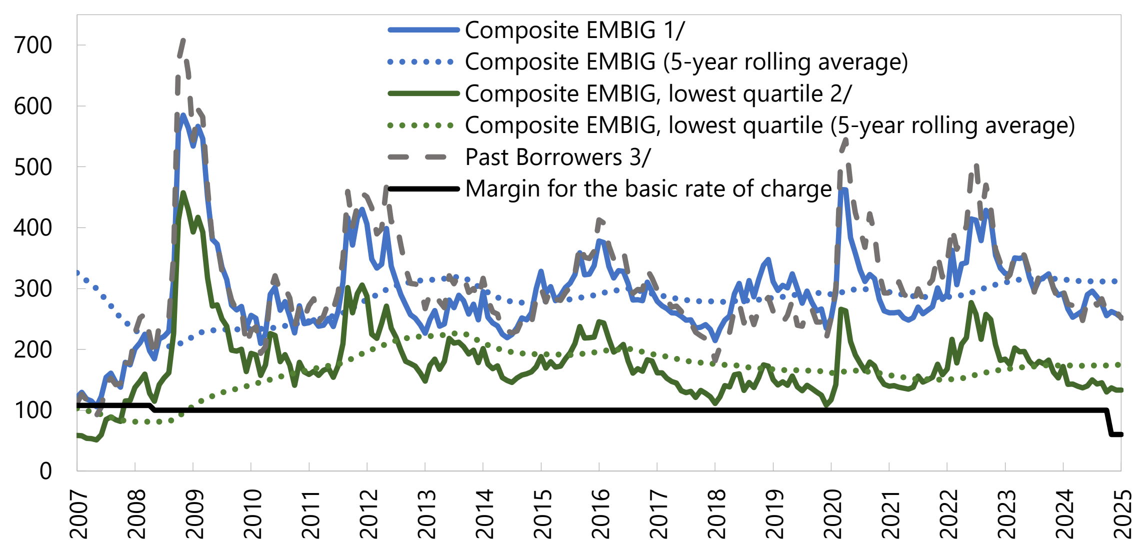
[57] In the past, staff has also adjusted estimated financing costs to account for the maturity difference between the SDR interest rate (based on a floating rate composed of three-month instruments) and the EMBI measures (based on medium-term fixed interest rate instruments). As this estimation has 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

(continued)

45. The cost of Fund credit at the current margin of 60 basis points remains competitively aligned relative to the benchmarks for long-term credit market conditions. As of February 2025, composite EMBI spreads have declined by about 35 basis points in the past year, while the EMBI spreads of the lowest quartile have declined by about 20 basis points. From a medium-term perspective, the five-year rolling average of the spreads has been broadly unchanged relative to the last review of the income position and the October 2024 Review of Charges and the Surcharge Policy (Figure 12). The median for the lowest quartile of EMBI spreads currently stands at 152 basis points, close to the five-year rolling median (Table 6). These developments suggest that the basic rate of charge with the current margin continues to be aligned competitively with respect to long-term credit market conditions, remaining moderately below the cost of financing for relatively creditworthy borrowers as in the past, and substantially below the cost of financing that has been faced by most countries that have had GRA arrangements.

Figure 12. Sovereign Bond Spreads and the Margin on GRA Lending

(In basis points)



Sources: IMF Finance Department; and J.P. Morgan Markets.

[1] Weighted average of spreads from the J.P. Morgan Emerging Market Bond Index Global Sovereign Spread (US dollar) and the J.P. Morgan 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 2025.

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*, 04/13/2020).

Table 6. Long-Term Credit Market and Comparator Spreads
(In basis points) 1/

	2010 - 2014	2015 - 2019	2020 - Feb 2025
Composite EMBI Global			
5-year average	277	292	310
5-year median	257	293	296
Composite EMBI Global, Lowest Quartile			
5-year average	192	163	173
5-year median	179	157	166
Memorandum items			
Past borrowers (5-year median)	293	276	317
Margin for the rate of charge (5-year average)	100	100	98

Sources: IMF Finance Department; and J.P. Morgan Markets.
[1] See notes on Figure 12.

ENTERPRISE RISKS

46. Significant enterprise risks remain after existing controls are applied, mainly related to income. Consistent with the Fund's Enterprise Risk Management framework, staff conducted a Document Risk Self-Assessment (DRSA) to identify and assess the most critical enterprise risks in the context of the Review of the Fund's Income Position for FY 2025 and FY 2026 (Table 7). The assessment recognizes that significant residual risks related to external drivers remain despite important risk mitigation factors.

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	Income risks related to maintaining the margin for the rate of charge remain low at present, as the current margin of 60 bps remains sufficient to cover credit intermediation costs, and to build up reserves. Such risks are further mitigated by the current interest rate environment where non-lending income is projected to fully cover non-lending expenses in the medium term. Any change to the margin setting and/or to the market interest rate may affect the risk assessment in the future.
	#2	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 the lack of the transfer of income from the Fixed-Income Subaccount. This risk is likely to be offset by still healthy lending income expected in FY 2025, along with the commencement of the EA payout.
	#3	Adequacy of Operational Income	NOI falls short of meeting the expected uniform distributions to the IPAA. Heightened risk in outer years due to policy and financial market uncertainty. Any annual distribution decision and placement of GRA resources to the IPAA should be justified based on the adequacy of the GRA's financial position, taking into account the level of precautionary balances (PBs), in particular the general reserves component available for distribution, and the income outlook, both of which change over time and may be uncertain.
	#4	Income Adjustments Due to Provisioning for Credit Impairment under IFRS 9	Impact of volatility from remeasurement of the Fund's defined benefit plans on its income and special and general reserves. Arrears cases could reduce Fund income if burden sharing capacity is not sufficient to cover deferred charges. 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 provisioning policy.
	#5	Reputation - Objectivity and Integrity Business – Member Engagement	Keeping the margin for the rate of charge at the current level or setting it at any other level may raise questions from external and internal audiences on the Fund's impartiality, e.g., perceived lack of evenhandedness, alignment with membership, perceived lack of transparency, and poor engagement with stakeholders. These risks can be mitigated through clear communication of the underlying rationale for the policy proposals and adapting to the changing needs of members.

Proposed Decisions

Decisions Pertaining to FY 2025

- 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 2025.

- Decision 2 provides for the reimbursement to the General Resources Account for the cost of administering the RST in FY 2025.

- Decision 3 provides for the use of part of the income in FY 2025 from the Fixed-Income Subaccount and the Endowment Subaccount of the Investment Account for meeting FY 2025 administrative expenses by authorizing transfer to the GRA.

- Decision 4 disposes of the Fund's income for FY 2025, including:

    - the distribution of net income under the framework for using GRA resources to facilitate new PRGT subsidy contributions adopted by the Executive Board in October 2024, including the placement of the distribution amount to the Interim Placement Administered Account;

    - the placement of income related to the IAS 19 remeasurement gains to the Special Reserve in accordance with the framework endorsed by the Executive Board in 2022; and

    - the placement of the residual GRA net income to the Special Reserve, consistent with the approach endorsed by the Executive Board at the time of the Surcharges and Charges review in October 2024.

- Decision 5 authorizes the transfer of currencies from the GRA to the Investment Account equivalent to the increase of the special reserve following the proposed placement of FY 2025 net income.

Decisions Pertaining to FY 2026

- Decision 6 completes the review of the Fund's income position and concludes that there are no fundamental changes that warrant adjustment to the current margin for the rate of charge at 60 basis points over the SDR interest rate for FY 2026.

Decisions 1, 2, 3, 4 and 6 each may be adopted by a majority of the votes cast. Decision 5 may be adopted by a 70 percent majority of the total voting power.

Decision 1. Assessment under Article XX, Section 4 for FY 2025

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, 2024 through April 30, 2025; 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, 2025 with an amount equal to 0.00046671 percent of their net cumulative allocations of special drawing rights. The total assessment shall be paid into the General Department.

Decision 2. RST Reimbursement for FY 2025

In accordance with paragraph 3(ii) of Decision No. 17231-(22/37), adopted on April 13, 2022, an amount equivalent to SDR 15.50 million, representing the cost of administering the Resilience and Sustainability Trust (RST) for FY 2025, shall be transferred from the Reserve Account of the RST to the General Resources Account.

Decision 3. Income of the Fixed-Income and Endowment Subaccounts

1. Investment income from the Endowment Subaccount of the Investment Account amounting to US$200 million shall be transferred to the General Resources Account for use in meeting the expenses of conducting the business of the Fund during FY 2025.

2. Investment income from the Fixed Income Subaccount of the Investment Account in an amount up to the total administrative expenses of the Fund in FY 2025, net of reimbursements and taking into account the US$200 million from the Endowment

Subaccount under paragraph 1 above, shall be transferred to the General Resources Account for use in meeting the expenses of conducting the business of the Fund during FY 2025.

Decision 4. Income disposition FY 2025

1. Net Income distribution and transfer of distribution amount to IPAA

Pursuant to Article XII, Section 6(c) and Decision No. 17835-(24/98), adopted October 15, 2024, the Executive Board decides to distribute SDR 1.38 billion from the net income of the Fund for FY 2025, and to place the distribution amount in the Interim Placement Administered Account (IPAA) for administration in accordance with the terms of the IPAA Instrument (10/07/24).

2. IAS 19 Remeasurement Gain

An amount equivalent to the IAS 19 remeasurement gain for FY 2025 shall be placed to the special reserve.

3. Residual GRA net income

The residual net income of the General Resources Account for FY 25 shall be placed to the Fund's Special Reserve.

Decision 5. Transfer of Currencies to the Investment Account for FY 2025

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, 2025 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 2025–January 2026. 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 6. The Rate of Charge on the Use of Fund Resources for FY 2026

Pursuant to Rule I-6(4)(a), the Fund has completed the review of the Fund's income position and concluded that for FY 2026 there are no fundamental changes to warrant any adjustment to the margin for the basic rate of charge as determined by Decision No. DEC/17823-(24/97), adopted October 18, 2024.

Annex I. Decisions in Effect Related to the FY 2025 Income Position

Box AI.1. Decisions in Effect Related to the FY 2025 Income Position

The Executive Board has taken the following decisions affecting the Fund's income position for FY 2025:

Rate of Charge

The margin for calculating the basic rate of charge was reduced from 100 basis points to 60 basis points, effective November 1, 2024, as decided in the Review of Charges and the Surcharge Policy in October 2024.[1] Prior to this, the margin of 100 basis points was kept in effect in April 2024 until the Board completed the review and set the margin for the remainder of FY 2025–2026.[2]

Surcharges

Effective November 1, 2024, the level-based surcharge threshold was increased from 187.5 percent of quota to 300 percent of quota and the time-based surcharge rate decreased from 100 basis points to 75 basis points, as decided in the Review of Charges and the Surcharge Policy in October 2024.[3]

Commitment fees

Effective November 1, 2024, commitment fee thresholds were aligned to the overall annual and cumulative access limits under the GRA, i.e., 200 and 600 percent of quota, as decided in the Review of Charges and the Surcharge Policy in October 2024.[4]

Burden Sharing for Deferred Charges[5]

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.[6]

Special Charges[7]

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 2027.

Suspension of PRGT reimbursement through FY 2031

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.[8] A further five-year suspension for FY 2027–2031 was approved in the 2024 Review of the Poverty Reduction and Growth Trust Facilities and Financing – Reform Proposals. 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.[9]

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[1] Decision No. 17823-(24/97), adopted on October 11, 2024.

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

[3] Decision No. 17824-(24/97), adopted on October 11, 2024.

Box AI.1. Decisions in Effect Related to the FY 2025 Income Position (concluded)

[4] Decision No. 17825-(24/97), adopted on October 11, 2024.

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

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

[7] 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).

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

[9] 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).

Annex II. Redline of EA Payout Policy Framework—Key Features and Proposed Updates

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.

- 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 actual U.S. CPI ~~Fund's annual GED~~.[3]
- 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.
- Annual payouts would be suspended if it would cause an erosion in the real value of the EA's corpus.
- The EA's return outlook and retained investment income ("cushion") would be reassessed prior to re-initiating payouts.
- ~~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.~~

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[1] The Rules and Regulations of the IA specify that the EA subaccount's real return shall be calculated by using the deflator that is used for purposes of the Fund's administrative budget, the Global External Deflator (GED), provided that the U.S. consumer price index (U.S. CPI) component of the GED shall be adjusted to use the actual U.S. CPI instead of the projected U.S. CPI. Prior to the CCBR review, the GED was calculated based on two components. Following that review, it was revised to align with the U.S. CPI projection published in the most recent WEO. Subsequently, the Fund's deflator calculation methodology was further revised to be based on actual U.S. CPI. For simplicity and transparency, staff recommends using the actual U.S. CPI as the deflator for the EA payout's annual inflation adjustments.

Annex III. Assumptions Underlying the Income Projections

Table AIII.1. Assumptions Underlying the Income Projections
(In billions of SDRs, unless otherwise stated)

	Actual through Feb. 2025	FY 2025	FY 2026
Regular Facilities:			
1. Purchases (excl. reserve tranche purchases)	8.9	18.5	13.5
2. Repurchases	15.7	18.9	9.8
3. Average balances subject to charges	88.5	88.2	91.1
4. Average SDR holdings	18.3	18.2	18.4
5. Average remunerated positions	102.6	102.6	106.8
6. Average investment account assets-Fixed-Income subaccount	25.9	26.0	29.8
7. Average investment account assets-Endowment subaccount	7.4	7.4	7.9
8. Average borrowings and issued notes	0.0	0.0	0.0
		(In percent)	
Return on investments-Fixed-Income subaccount [1]	4.29	4.88	2.90
Return on investments-Endowment subaccount [1, 2]	10.85	11.91	6.03
Average interest rates:			
SDR interest rate and basic rate of remuneration	3.6	3.7	3.0
Basic rate of charge	4.5	4.5	3.6
Margin on the rate of charge [3]	0.9	0.8	0.6

[1] End-February figure is unannualized.
[2] The projected returns for the Endowment Subaccount are shown in SDR terms.
[3] The average margin on the rate of charge (100 basis points through October 31, 2024 and 60 basis points effective November 1, 2024).

Annex IV. Consolidated Medium-Term Income and Expenses

Table AIV.1. Consolidated Income and Expenses, FY 2025–2030[1]

	FY25	FY26	FY27	FY28	FY29	FY30
			(in SDR millions)			
A. Operational Income	**3,412**	**3,022**	**3,099**	**3,212**	**3,102**	**3,068**
Lending income	2,157	1,942	1,956	1,977	1,801	1,645
Margin for the rate of charge	706	547	568	565	541	503
Service charge	93	68	49	35	31	18
Commitment fees	145	144	75	116	62	96
Surcharges	1,213	1,183	1,264	1,261	1,167	1,028
Investment income	1,102	1,003	1,075	1,166	1,233	1,356
Fixed-Income Subaccount transfer 2/	952	847	916	1,004	1,067	1,187
Endowment Subaccount pay-out 3/	150	156	159	162	166	169
Interest-free resources 4/	135	60	50	51	50	48
Reimbursements	18	17	18	18	18	19
SDR Department	3	5	6	6	6	6
PRG Trust 5/	0	0	0	0	0	0
RST 6/	15	12	12	12	12	13
B. Expenses 7/	**1,120**	**1,279**	**1,308**	**1,323**	**1,360**	**1,397**
Net administrative budget	1,119	1,176	1,204	1,223	1,249	1,281
Capital budget items expensed	27	35	36	32	41	41
Depreciation	69	68	68	68	70	75
Net periodic pension cost/(income)	(95)	0	0	0	0	0
C. Net Operational Income (GRA Net Income) (A-B)	**2,292**	**1,743**	**1,791**	**1,889**	**1,742**	**1,671**
Investment Account - Retained Income	969	306	336	335	368	376
D. Net Income of the General Department	**3,261**	**2,049**	**2,127**	**2,224**	**2,110**	**2,047**
Pension-related remeasurement gain	136	0	0	0	0	0
E. Total Comprehensive Income	**3,397**	**2,049**	**2,127**	**2,224**	**2,110**	**2,047**
GRA Net Income Distribution:						
Transfer to IPAA and Residual GRA Net Income						
Net Operational Income (GRA Net Income) - per C	**2,292**	**1,743**	**1,791**	**1,889**	**1,742**	**1,671**
Less: Transfer to IPAA 8/	(1,380)	(1,380)	(1,380)	(1,380)	(1,380)	0
Residual Net Operational Income/ GRA Net Income	**912**	**363**	**411**	**509**	**362**	**1,671**
			(in US$ millions)			
F. Operational Income	**4,538**	**3,988**	**4,088**	**4,239**	**4,094**	**4,050**
Lending income	2,868	2,563	2,581	2,610	2,377	2,171
Investment income	1,466	1,323	1,419	1,539	1,627	1,792
Interest free resources	179	80	65	67	66	63
Reimbursements	25	22	23	23	24	24
G. Expenses	**1,489**	**1,688**	**1,727**	**1,746**	**1,794**	**1,844**
Net administrative budget	1,488	1,552	1,589	1,614	1,648	1,691
Capital budget items expensed	36	46	48	42	54	54
Depreciation	92	90	90	90	92	99
Net periodic pension cost	(127)	0	0	0	0	0
H. Net Operational Income (GRA Net Income) (F-G)	**3,049**	**2,300**	**2,361**	**2,493**	**2,300**	**2,206**
Memorandum Items:						
Fund credit (average stock, SDR billions)	88.2	91.2	94.6	94.1	90.1	83.9
SDR interest rate (in percent)	3.7	3.0	3.0	3.2	3.3	3.5
US$/SDR exchange rate	1.33	1.32	1.32	1.32	1.32	1.32

Table AIV.1. Consolidated Income and Expenses, FY 2025–2030[1] (concluded)

[1] Reflects the changes approved by the Board in the Review of Charges and the Surcharge Policy-Reform Proposals (9/27/2024), effective November 1, 2024.

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

[3] The projections assume a payout of US$200 million from the EA commencing in FY 2025.

[4] Interest free 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.

[5] In July 2021, a five-year suspension of the PRGT reimbursement of expenses for the FY 2022–26 was approved by the Board. In October 2024, the Board agreed to extend the suspension of the reimbursement of PRGT administrative costs for five more years through FY 2031.

[6] 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.

[7] FY 2026 budget includes a US$7.6 million targeted top-up for cyber-security needs.

[8] While the effect on reserves is the same, the presentation in the Fund's audited Annual Financial Statements will show the transfer in the Statements of Changes and Reserves (per IFRS), and not from net operational income as depicted above.

April 16, 2025

REVIEW OF THE FUND'S INCOME POSITION FOR FY 2025 AND FY 2026—SUPPLEMENTARY INFORMATION AND REVISED PROPOSED DECISIONS

In the *Review of the Fund's Income Position for FY 2025 and FY 2026* (4/2/25) staff noted that the pension-related remeasurement gain is estimated to make a modest positive contribution, albeit still subject to considerable uncertainty given the volatile market conditions. As noted in the paper, 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.

With the actual outcome at the close of the financial year (April 30, 2025) remaining uncertain, this supplement revises Proposed Decision 4 to account for the increased probability of a pension-related remeasurement loss materializing. The decision is revised to reflect the IAS 19 remeasurement in accordance with the framework endorsed by the Executive Board in 2022; namely to the extent that there is a remeasurement gain, the income related to it shall be placed to the Special Reserve while any loss not exceeding SDR 1,020 million will be charged against the General Reserve and any loss in excess of SDR 1,020 million will be charged against the Special Reserve.[1] Decisions 1-3, 5, and 6 are unchanged. The summary of the decisions has been revised to reflect the changes to Decision 4, as well as well as a more accurate description of Decision 5.

[1] Remeasurement gains of SDR 1,020 million accumulated in the General Reserve from past income allocation decisions. See Note 15 on page 34 of the *Audited Financial Statements for the Financial Years Ended April 30, 2024 and 2023* (7/1/24).

Revised Proposed Decisions

Decisions Pertaining to FY 2025

- 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 2025.

- Decision 2 provides for the reimbursement to the General Resources Account for the cost of administering the RST in FY 2025.

- Decision 3 provides for the use of part of the income in FY 2025 from the Fixed-Income Subaccount and the Endowment Subaccount of the Investment Account for meeting FY 2025 administrative expenses by authorizing transfer to the GRA.

- The revised Decision 4 disposes of the Fund's income for FY 2025, including:

    - treating the IAS 19 remeasurement in accordance with the framework endorsed by the Executive Board in 2022, namely to the extent that there is a remeasurement gain, the income related to it shall be placed to the Special Reserve while any loss not exceeding SDR 1,020 million will be charged against the General Reserve and any loss in excess of SDR 1,020 million will be charged against the Special Reserve; and

    - the distribution of net income under the framework for using GRA resources to facilitate new PRGT subsidy contributions adopted by the Executive Board in October 2024, including the placement of the distribution amount to the Interim Placement Administered Account;

    - the placement of the residual GRA net income to the Special Reserve, consistent with the approach endorsed by the Executive Board at the time of the Surcharges and Charges review in October 2024.

- Decision 5 provides for the transfer from the General Resources Account to the Investment Account currencies for investment in the Fixed-Income Subaccount in any amount equivalent to the positive difference between the Fund's general and special reserves as of April 30, 2025 and the cumulative past transfers of currencies from the General Resources Account to the Investment Account.

Decisions Pertaining to FY 2026

- Decision 6 completes the review of the Fund's income position and concludes that there are no fundamental changes that warrant adjustment to the current margin for the rate of charge at 60 basis points over the SDR interest rate for FY 2026.

Decisions 1, 2, 3, 4 and 6 each may be adopted by a majority of the votes cast. Decision 5 may be adopted by a 70 percent majority of the total voting power.

Decision 1. Assessment under Article XX, Section 4 for FY 2025

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, 2024 through April 30, 2025; 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, 2025 with an amount equal to 0.00046671 percent of their net cumulative allocations of special drawing rights. The total assessment shall be paid into the General Department.

Decision 2. RST Reimbursement for FY 2025

In accordance with paragraph 3(ii) of Decision No. 17231-(22/37), adopted on April 13, 2022, an amount equivalent to SDR 15.50 million, representing the cost of administering the Resilience and Sustainability Trust (RST) for FY 2025, shall be transferred from the Reserve Account of the RST to the General Resources Account.

Decision 3. Income of the Fixed-Income and Endowment Subaccounts

1. Investment income from the Endowment Subaccount of the Investment Account amounting to US$200 million shall be transferred to the General Resources Account for use in meeting the expenses of conducting the business of the Fund during FY 2025.

2. Investment income from the Fixed Income Subaccount of the Investment Account in an amount up to the total administrative expenses of the Fund in FY 2025, net of

reimbursements and taking into account the US$200 million from the Endowment Subaccount under paragraph 1 above, shall be transferred to the General Resources Account for use in meeting the expenses of conducting the business of the Fund during FY 2025.

Decision 4. Income disposition FY 2025 and IAS 19 Remeasurement

1. IAS 19 Remeasurement

For any IAS 19 remeasurement gain for FY 2025, an equivalent amount shall be placed to the special reserve; in the event of any IAS 19 remeasurement loss for FY 2025, an amount equivalent to up to SDR 1,020 million shall be charged against the General Reserve, and any amount in excess of SDR 1,020 million shall be charged against the Special Reserve.

2. Net Income distribution and transfer of distribution amount to IPAA

Pursuant to Article XII, Section 6(c) and Decision No. 17835-(24/98), adopted October 15, 2024, the Executive Board decides to distribute SDR 1.38 billion from the net income of the Fund for FY 2025, and to place the distribution amount in the Interim Placement Administered Account (IPAA) for administration in accordance with the terms of the IPAA Instrument (10/07/24).

3. Residual GRA net income

The residual net income of the General Resources Account for FY 25 shall be placed to the Fund's Special Reserve.

Decision 5. Transfer of Currencies to the Investment Account for FY 2025

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, 2025 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 2025–January 2026. 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 6. The Rate of Charge on the Use of Fund Resources for FY 2026

Pursuant to Rule I-6(4)(a), the Fund has completed the review of the Fund's income position and concluded that for FY 2026 there are no fundamental changes to warrant any adjustment to the margin for the basic rate of charge as determined by Decision No. DEC/17823-(24/97), adopted October 18, 2024.