FOR AGENDA

EBAP/08/27

CONFIDENTIAL

April 3, 2008

To: Members of the Executive Board

From: The Secretary

Subject: **Supplementary Material to (i) the FY2009–FY2011 Medium-Term Administrative, Restructuring, and Capital Budgets and (ii) Developing a New Income Model for the Fund—Proposed Decisions**

The attached paper provides additional information to (i) the proposed FY2009–FY2011 medium-term administrative, restructuring, and capital budgets (EBAP/08/20, 3/20/08) and (ii) developing a new income model for the Fund—proposed decisions (SM/08/80, Revision 1, 4/2/08), which are tentatively scheduled for discussion on **Monday, April 7, 2008**.

Questions may be referred to Mr. Green (ext. 34797) in OBP and Mr. Beaumont (ext. 37411) in FIN.

This document will shortly be posted on the extranet, a secure website for Executive Directors and member country authorities.

Att: (1)

Other Distribution:
Department Heads

CONFIDENTIAL

INTERNATIONAL MONETARY FUND

Supplementary Material to

(i) The FY 09–11 Medium-Term Administrative, Restructuring, and Capital Budgets and (ii) Developing a New Income Model for the Fund—Proposed Decisions

Prepared by the Finance Department and the Office of Budget and Planning

Approved by Michael G. Kuhn and Siddharth Tiwari

April 3, 2008

Contents Page

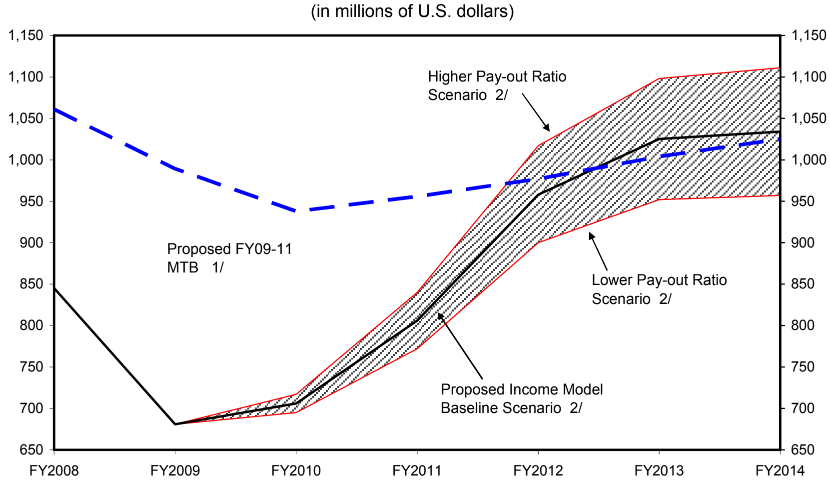
During the March 28 informal Executive Board meeting on Developing a New Income Model for the Fund—Proposed Decisions and the FY 09–11 Medium-Term Administrative, Restructuring, and Capital Budgets, Executive Directors asked for clarification on several issues. These are discussed below.

I. Consolidated Income and Expenses

1. Directors asked for additional information on the Fund's medium-term income and expenses. The figure below and Tables 1–3 show three scenarios of the Fund's projected operational income and administrative expenses, including those flowing from the capital budget and the restructuring budget, over the six-year period FY 09–14. The scenarios update the SDR interest rate assumption, shift the assumed start of gold sales to FY 10, and provide sensitivity analysis to alternative paths for investment returns and pay-out ratios. The tables also give additional detail in U.S. dollar terms (e.g., profits from gold sales and restructuring expenses), which were originally presented in SDRs.[1]

2. The Fund's income from lending has fallen sharply in recent years and is projected to continue to fall over the medium-term. Thus, lending income is assumed to decline from 35 percent of total income in FY 08 to 10 percent in five years, with investment income mostly balancing this decline.

Proposed Income Model and Medium-Term Budget
(in millions of U.S. dollars)



1/ Includes restructuring expenses, capital budget items expensed, and depreciation.
2/ The scenarios are provided in Tables 1 to 3.

---

[1] A corresponding update of Annex II of "Developing a New Income Model for the Fund—Proposed Decisions" (SM/08/80 Rev. 1, 4/2/08) is presented in Appendix II.

Table 1. Consolidated Income and Expenses, FY08–14

Baseline Scenario

(In millions of U.S. dollars)

	Estimated	MTB Timeframe			Projected 1/		
	FY 08	FY 09	FY 10	FY 11	FY 12	FY 13	FY 14
A. Operational income 2/	845	681	706	806	958	1,025	1,034
1. Lending income	307	239	140	101	102	104	107
2. Investment income 3/	432	320	426	517	610	646	650
3. Interest free resources 4/	100	46	64	111	168	194	195
4. Reimbursements 5/	6	76	76	76	78	80	82
B. Administrative expenses	1,061	989	938	955	977	1,004	1,025
1. Net administrative budget	886	868	880	895	917	946	964
2. Capital budget items expensed	20	18	16	15	13	12	14
3. Depreciation expense	35	38	42	46	47	46	47
4. Restructuring expenses 6/	120	65	0	0	0	0	0
C. Balance (A-B) 7/	-216	-309	-232	-150	-19	21	9
Memorandum items:							
Operational income from new income model 8/	0	71	175	292	418	482	488
Profits from gold sales 2/	0	0	2,197	2,197	2,197	0	0
U.S. dollar/SDR exchange rate 9/	1.57	1.65	1.65	1.65	1.65	1.65	1.65
SDR interest rate 10/	3.73	2.75	3.00	3.25	3.50	3.50	3.50
Fund credit (average stock, SDR billions)	7.3	7.2	5.0	5.0	5.1	5.3	5.4
Capital expenditures (budget definition)	46	59	52	44	44	44	44
Capital-related expenses 11/	55	56	58	61	60	58	61

Sources: Finance Department and Office of Budget and Planning.

Note: Figures may not add to totals due to rounding.

1/ Assumes annual growth of 2.5 percent in the net administrative budget, reimbursements, and credit outstanding from FY 12 onwards. Estimated expenses for external Annual Meetings of $6 million are included in FY 13 ($5.4 million was included in FY 10).
2/ Gold sales are assumed to be phased over 3 years beginning in FY 10, at an average price of $850 per ounce.
3/ Incorporates the effect of a broader investment mandate from FY 10 and a 3 percent pay-out from the endowment.
4/ Incorporates the reduction in remuneration expenses from SCA-1 resources and from retaining proceeds equal to the book value of gold in the GRA, and the increase in remuneration from net income shortfalls.
5/ Reimbursement of the GRA for the administrative expenses of the PRGF-ESF Trust is assumed from FY 09.
6/ This profile is broadly consistent with the phasing of staff separations described in EBAP/08/20, page 12, Table 6.
7/ Corresponds to net operational income in Appendix II, with a deduction for restructuring expenses in FY 08 and FY 09.
8/ Increase in operational income from broadening investments, the endowment funded by profits from gold sales, the remuneration reduction from the book value portion of gold sales, and reimbursement for PRGF-ESF Trust expenses.
9/ The US$/SDR exchange rate is assumed to be unchanged from recent levels.
10/ The SDR interest rate is assumed to rise from current levels in FY 09 to 3.5 percent in the medium term, which reflects the historical average level of the SDR interest rate in the past 15 years.
11/ The sum of capital budget items expensed and depreciation expense.

Table 2. Consolidated Income and Expenses, FY08–14

Lower Pay-out Ratio Scenario

(In millions of U.S. dollars)

	Estimated	MTB Timeframe			Projected 1/		
	FY 08	FY 09	FY 10	FY 11	FY 12	FY 13	FY 14
A. Operational income 2/	845	681	695	772	900	952	957
1. Lending income	307	239	140	101	102	104	107
2. Investment income 3/	432	320	415	484	554	578	581
3. Interest free resources 4/	100	46	64	110	166	189	187
4. Reimbursements 5/	6	76	76	76	78	80	82
B. Administrative expenses	1,061	989	938	955	977	1,004	1,025
1. Net administrative budget	886	868	880	895	917	946	964
2. Capital budget items expensed	20	18	16	15	13	12	14
3. Depreciation expense	35	38	42	46	47	46	47
4. Restructuring expenses 6/	120	65	0	0	0	0	0
C. Balance (A-B) 7/	-216	-309	-243	-184	-77	-52	-67
Memorandum items:							
Operational income from new income model 8/	0	71	164	258	363	415	419
Profits from gold sales 2/	0	0	2,197	2,197	2,197	0	0
U.S. dollar/SDR exchange rate 9/	1.57	1.65	1.65	1.65	1.65	1.65	1.65
SDR interest rate 10/	3.73	2.75	3.00	3.25	3.50	3.50	3.50
Fund credit (average stock, SDR billions)	7.3	7.2	5.0	5.0	5.1	5.3	5.4
Capital expenditures (budget definition)	46	59	52	44	44	44	44
Capital-related expenses 11/	55	56	58	61	60	58	61

Sources: Finance Department and Office of Budget and Planning.

Note: Figures may not add to totals due to rounding.

1/ Assumes annual growth of 2.5 percent in the net administrative budget, reimbursements, and credit outstanding from FY 12 onwards. Estimated expenses for external Annual Meetings of $6 million are included in FY 13 ($5.4 million was included in FY 10).
2/ Gold sales are assumed to be phased over 3 years beginning in FY 10, at an average price of $850 per ounce.
3/ Incorporates the effect of a broader investment mandate from FY 10 and a 2 percent pay-out from the endowment.
4/ Incorporates the reduction in remuneration expenses from SCA-1 resources and from retaining proceeds equal to the book value of gold in the GRA, and the increase in remuneration from net income shortfalls.
5/ Reimbursement of the GRA for the administrative expenses of the PRGF-ESF Trust is assumed from FY 09.
6/ This profile is broadly consistent with the phasing of staff separations described in EBAP/08/20, page 12, Table 6.
7/ Corresponds to net operational income in Appendix II, with a deduction for restructuring expenses in FY 08 and FY 09.
8/ Increase in operational income from broadening investments, the endowment funded by profits from gold sales, the remuneration reduction from the book value portion of gold sales, and reimbursement for PRGF-ESF Trust expenses.
9/ The US$/SDR exchange rate is assumed to be unchanged from recent levels.
10/ The SDR interest rate is assumed to rise from current levels in FY 09 to 3.5 percent in the medium term, which reflects the historical average level of the SDR interest rate in the past 15 years.
11/ The sum of capital budget items expensed and depreciation expense.

Table 3. Consolidated Income and Expenses, FY08–14

Higher Pay-out Ratio Scenario

(In millions of U.S. dollars)

	Estimated	MTB Timeframe			Projected 1/		
	FY 08	FY 09	FY 10	FY 11	FY 12	FY 13	FY 14
A. Operational income 2/	845	681	717	840	1,017	1,098	1,111
1. Lending income	307	239	140	101	102	104	107
2. Investment income 3/	432	320	437	551	666	714	720
3. Interest free resources 4/	100	46	64	112	171	199	202
4. Reimbursements 5/	6	76	76	76	78	80	82
B. Administrative expenses	1,061	989	938	955	977	1,004	1,025
1. Net administrative budget	886	868	880	895	917	946	964
2. Capital budget items expensed	20	18	16	15	13	12	14
3. Depreciation expense	35	38	42	46	47	46	47
4. Restructuring expenses 6/	120	65	0	0	0	0	0
C. Balance (A-B) 7/	-216	-309	-221	-116	39	94	86
Memorandum items:							
Operational income from new income model 8/	0	71	186	325	474	550	558
Profits from gold sales 2/	0	0	2,197	2,197	2,197	0	0
U.S. dollar/SDR exchange rate 9/	1.57	1.65	1.65	1.65	1.65	1.65	1.65
SDR interest rate 10/	3.73	2.75	3.00	3.25	3.50	3.50	3.50
Fund credit (average stock, SDR billions)	7.3	7.2	5.0	5.0	5.1	5.3	5.4
Capital expenditures (budget definition)	46	59	52	44	44	44	44
Capital-related expenses 11/	55	56	58	61	60	58	61

Sources: Finance Department and Office of Budget and Planning.

Note: Figures may not add to totals due to rounding.

1/ Assumes annual growth of 2.5 percent in the net administrative budget, reimbursements, and credit outstanding from FY 12 onwards. Estimated expenses for external Annual Meetings of $6 million are included in FY 13 ($5.4 million was included in FY 10).
2/ Gold sales are assumed to be phased over 3 years beginning in FY 10, at an average price of $850 per ounce.
3/ Incorporates the effect of a broader investment mandate from FY 10 and a 4 percent pay-out from the endowment.
4/ Incorporates the reduction in remuneration expenses from SCA-1 resources and from retaining proceeds equal to the book value of gold in the GRA, and the increase in remuneration from net income shortfalls.
5/ Reimbursement of the GRA for the administrative expenses of the PRGF-ESF Trust is assumed from FY 09.
6/ This profile is broadly consistent with the phasing of staff separations described in EBAP/08/20, page 12, Table 6.
7/ Corresponds to net operational income in Appendix II, with a deduction for restructuring expenses in FY 08 and FY 09.
8/ Increase in operational income from broadening investments, the endowment funded by profits from gold sales, the remuneration reduction from the book value portion of gold sales, and reimbursement for PRGF-ESF Trust expenses.
9/ The US$/SDR exchange rate is assumed to be unchanged from recent levels.
10/ The SDR interest rate is assumed to rise from current levels in FY 09 to 3.5 percent in the medium term, which reflects the historical average level of the SDR interest rate in the past 15 years.
11/ The sum of capital budget items expensed and depreciation expense.

3. The pace at which investment income replaces lending income will depend on interest rate developments and the timing of gold sales and the broadening of the investment mandate. All scenarios now assume that gold sales begin in FY 10, rather than in FY 09 as in the original projections. This shift reflects allowance for a more conservative assumption that gold sales may not begin until the first half of FY 10. To take into account the recent drop in short-term interest rates, all scenarios now assume that the SDR interest rate averages 2.75 percent in FY 09 (compared with 3.73 percent in FY 08), rising back to 3.50 percent in the medium term.

4. These revisions slow the pace of income replacement and would delay a net operating surplus into FY 13 in the baseline scenario, but would not materially change the level of sustainable income in the medium term. A lowering of the assumed SDR interest rate path has a large impact on income, with a 25 basis point reduction cutting income by about $40 million a year. Shifting gold sales back by one year would reduce annual income by approximately $90 million on average in FY 09–12, enough to shift achievement of a projected surplus by one year. In the baseline, the Fund's operating income would remain below FY 08 levels in constant price terms until FY 13 when gold sales would have been completed (full year effect).

5. Income will also depend on the pay-out ratio for investment income. The baseline scenario assumes that the target return on investment is 5 percent of assets, with 3 percent used to cover the Fund's administrative expenses (the pay-out ratio) and 2 percent retained to preserve the real value of the profits from gold sales. Alternative scenarios show the impact of lower and higher return and pay-out assumptions to bracket the base case. The baseline assumption reflects a relatively conservative investment strategy, as evidenced by higher returns earned by longer-term investment funds such as the SRP.

6. The assumed path for expenses is taken from the proposed medium-term budget (MTB). The administrative budget is extended to 2014 assuming 1 percent a year efficiency gains in the outer years. Restructuring expenses add to spending in FY 08–09, but have no direct medium-term impact.

7. The scenarios illustrate the imperatives of the new income model on the one hand and spending restraint on the other. Without rapid implementation of the income model, the transformation in the composition of Fund income would take longer and realization of an operating surplus would be delayed. A higher investment pay-out ratio would add to longer-term sustainability. Equally, expenditure restraint is critical. The MTB sets out policies to achieve a 13½ percent reduction in real spending, but measures to strengthen ongoing budget reforms will be critical for sustained restraint in the longer term.

II. BUDGET REFORMS

8. The 2001 review of the Fund's internal budgetary practices recommended an overhaul of the budgetary process.[2] The envisaged reforms were to lead to an output-oriented approach—i.e., starting with a defined mission for the Fund, the budget would focus on the total resource costs of delivering outputs and activities that support the Fund's mission. Responsibility for resource allocation and output delivery would be devolved to departments. Performance relative to plan would be monitored.

9. Over the last six financial years, significant progress has been made in reaching these goals (see Appendix). But more reforms are needed before the Fund can claim to have reached best practice standards. Efforts over the near term will focus on:

- *Providing greater information on the link between strategic priorities and objectives and the allocation of budgetary resources.* "The Fund's Medium-Term Strategy"[3] and the Managing Director's Statement on "Strategic Directions in the Medium-Term Budget"[4] have provided strategic anchors for the allocation of budgetary resources. In the future, business plans articulating this link will be prepared earlier in the regular budget process.

- *A deepening of the work on output and performance measurement.* The performance indicator framework will be further developed and integrated into budget reporting, as per the recommendations of the two task forces on performance indicators.[5] Over the medium-term, other budgetary reforms will also be implemented, including further devolution of budgetary responsibility/accountability to departments and exploring the use of internal charge-backs for support activities.

- *A move towards activity-based costing (ABC) will be initiated, with the aim of establishing a more direct link between individual outputs and the cost of their delivery*. Staff will consult with outside experts and Fund departments on the best way to improve costing and then will discuss the merits and feasibility of ABC with the Committee on the Budget (COB) after the summer. In this context, the staff will also look closely at budgeting for personnel on the basis of much greater granularity in standard costs, or even actual costs for salaries. Any such change could be operational beginning in FY 10.

---

[2] "Report on the IMF's Internal Budgetary Practices" (EBAP/01/43, 5/23/01).

[3] "The Managing Director's Report on the Fund's Medium-Term Strategy" (CSM/05/332 Rev.1, 9/7/05).

[4] "Statement by the Managing Director on Strategic Directions in the Medium-Term Budget" (BUFF/08/27, 3/25/08).

[5] See "Report of the Task Force on Performance Indicators" (EB/CB/04/3, 7/27/04) and "Report of the Second Task Force on Performance Indicators" (EB/CB/06/7, 11/1/06).

- *Further improvements in the formulation and monitoring of the budget.* In FY 09, quarterly monitoring of the budget will be strengthened. Further development of a common management information infrastructure will be essential.

- *Carryover*. The projected underspend in FY 08 is largely the result of budget discipline by many departments in anticipation of the Fund's restructuring. Still, unused budget authority can create the incentive for end-year spending, possibly in nonpriority areas. After the summer, staff will present proposals to the COB regarding the carry-forward of spending authority that may otherwise lapse at the end of the financial year.

III. Resident Representative and Overseas Offices Staffing, FY 08–11

10. The refocusing strategy maintains resident representative offices in program and near program countries and in some emerging markets. The MTB envisages a 30 percent reduction in resident representative positions (from 81 in FY 08 to 57 by end-FY 11). Staff positions in Fund offices in New York, Europe, and Tokyo will be halved. In all cases, the Fund will seek host country contributions toward in-country operating costs of posts and offices, for example by providing office space.

Table 4. Resident Representative and Overseas Office Staffing, FY 08–11

	FY 08	FY 11
Resident Representatives	**81**	**57**
Program countries 1/	34	29
Near Program 1/	24	16
Emerging Markets	21	11
Other	2	1
New York, Tokyo and Office in Europe	**22**	**10**

Source: Office of Budget and Planning

1/ As of December 31, 2007.

IV. Country Classification for Budgetary Purposes

11. As noted in EBAP/08/20, the allocation of economists to area departments was determined by each country's relationship with the Fund as of January 2008. More economists were assigned to program and intensive surveillance cases relative to other countries. In the formulation of the FY 09–11 budget, four different country classifications were used:

(i) program countries: PDR maintains a list of program countries which is updated monthly. It is available on the intranet; see: http://www–int.imf.org/depts/pdr/PDR–Databases/Access–Fund–Arrangements

(ii) countries included in the Fund's vulnerability exercise: these are listed in "Assessing Underlying Vulnerabilities and Crises Risks in Emerging Market Countries—A New Approach" (SM/07/328, 9/17/07, Annex 1, page 25 and Table 3, page 26).

(iii) systemic countries: the Working Group on Surveillance used the G-20 countries plus an additional nine countries (Belgium, Colombia, Greece, I.R. of Iran, Philippines, Poland, Netherlands, Spain, and Thailand).

(iv) all other countries.

BUDGET REFORMS TO DATE

Most of the recommendations made in the 2001 Report on the IMF's Internal Budgetary Practices have been implemented. Key reforms include:

- the introduction of a medium-term budget (MTB), underpinned by medium-term strategic objectives and articulated in departmental business plans;
- the shift from an input- to an output-oriented budget framework, through the allocation of administrative expenditures to the IMF's outputs and activities;
- the devolution of responsibility and accountability for outputs and expenditures to departments;
- the introduction of performance indicators to improve budget monitoring and analysis;
- the strengthening of systems for reporting on budget preparation, monitoring, and execution, and their integration with other administrative systems—principally through the introduction of the integrated Budgeting and Business Intelligence System (iBBIS); and
- the introduction of zero-based reviews of departments, activities, and functions.

A detailed summary of the review's recommendations and the steps taken to implement them follows:

Recommendation	Implementation
Establish an overall budget strategy for the Fund's outputs, set within a medium-term framework, and approve the total dollar expenditures to deliver those outputs	• the FY 07–09 Medium-Term Strategy (MTS) and the Managing Director's strategy paper have underpinned the last three medium-term budgets (MTBs); the MTB is rolled over on an annual basis • the MTB sets a top-down constraint on the overall size of the net administrative budget • there is an annual net budget appropriation and presumptive limits on the size of the overall budget for the outer two budget years
Shift from an input- to an output-oriented budget framework.	• an output structure has been developed for the activities that deliver the Fund's strategic objectives, as per the recommendations of two task forces;[6] the costs of four key output areas and 12 outputs, plus activities, are set out in the medium-term budget • key output areas and outputs are costed with respect to

[6] See footnote 4 in the main text.

Recommendation	Implementation
	their component staff and travel costs (supported by improved time reporting (TRS) and travel management (TIMS) systems); proxies are used to allocate buildings and other costs, including support and governance costs • the Executive Board is provided with the full costs of new policy initiatives and their sources of financing
Better align the responsibility and accountability for outputs and expenditures within departments.	• departments prepare rolling three-year business plans that link input/resource use to the delivery of their outputs • introduction of full fungibility of financial resources across all inputs at the departmental level (temporarily suspended)
Develop, over time, performance indicators for outputs and activities.	• two task forces examined the appropriateness and feasibility of introducing performance indicators at the Fund • introduction of (quantity) performance indicators began in FY 07 • timeliness and outcome indicators are being studied for introduction at a later stage
Report annually on departmental outturn performance against business plans, and report to the Executive Board on the overall outturn against the budget strategy	• monthly reports to management on resource use flag any emerging budgetary pressures • quarterly reports to the Executive Board assess resource use and output performance relative to budget and plan • annual reports by departments assess the delivery of their business plans
Undertake zero-based reviews of administrative and organizational policies	• the employment and compensation frameworks were reviewed in the Employment, Compensation, and Benefits Review (ECBR); six working groups followed up on the human resource issues raised in this review • policies for resident representative offices have been reviewed • travel policy has been reviewed • the Medical Benefits Plan (MBP), Staff Retirement Plan (SRP), and Retired Staff Benefits Investment Account (RSBIA) have been reviewed • eight TGS support services have been reviewed, including language services, information services, and security services • eight departments have had zero-based reviews

Income Projections—FY 09–FY 14

(This appendix extends to FY 14 and updates the projections in Annex II of SM/08/80 Rev. 1, 4/2/08)

Key Parameters	Value	Remarks
US$/SDR exchange rate	1.65	Assume unchanged from recent level. A 10 percent rise (fall) in the US$/SDR exchange rate would raise (lower) annual income in FY14 by US$76 million.
SDR interest rate	2.75% in FY09 rising to 3.5% by FY12	A 50 basis point higher (lower) average SDR interest rate would raise (reduce) annual income in FY14 by US$84 million.
Gold price ($US/oz.) Gold sales are assumed to be phased equally over three years, FY10 to FY12.	850	The average price assumed is below recent record highs, but above the two-year average of US$680 per ounce. A US$100 per ounce higher (lower) average gold price would raise (reduce) annual income in FY14 by US$45 million.
Margin for rate of charge (basis points)	108	Assume unchanged from current level. A 25 basis point higher (lower) margin would raise (reduce) income in FY14 by US$27 million.

Lending income (US$107 million or SDR 65 million by FY14 in baseline scenario, Table II.1)

Fund credit is assumed to decline modestly to an average level of about SDR 5 billion in the medium term, upon which a margin of 108 basis points generates income of SDR 54 million in FY11. Average annual disbursements of about SDR 1.25 billion, with service charges of 50 basis points, generate SDR 6 million in income. From FY12, credit grows at the same rate as the net administrative budget.

Investment income (US$650 million or SDR 394 million by FY14 in baseline scenario, Table II.1)

Returns on Investment Account assets which currently equal reserves at the time of transfer (SDR 5.96 billion transferred in June 2006) are assumed to exceed the SDR interest rate by an average of 50 basis points. A broadening of the investment mandate is assumed to take effect in FY10, allowing average investment returns to exceed the SDR interest rate by 100 basis points, lifting average annual income on reserves over the medium term by SDR 30 million to SDR 268 million. At an average price of $850 per ounce, proceeds from the sale of 403.3 tons (12.966 million ounces) of gold are US$11.0 billion, with profits of US$6.6 billion (SDR 4.0 billion). In the baseline scenario (Table II.1), the endowment funded by gold profits is assumed to generate an average real return of 3 percent, and a 3 percent pay-out ratio provides income of SDR 126 million to finance expenditure by FY14. Sensitivity analysis to lower and higher pay-out ratios is provided in Tables II.2 and II.3.

Interest free resources (US$195 million or SDR 118 million by FY14 in baseline scenario, Table II.1)

The reduction in remuneration expenses that the Fund obtains from interest free resources declines in FY09 following the partial distribution of SCA-1 resources to provide debt relief to Liberia. Net operating losses in FY09 to FY12 further increase remuneration. However, gold sales increase GRA currency holdings by the book value of gold (SDR 2,685 million), reducing reserve tranche positions and thereby cutting remuneration expenses by SDR 94 million at an SDR interest rate of 3.5 percent.

Reimbursements (US$82 million or SDR 50 million by FY14 in baseline scenario, Table II.1)

Reimbursements currently received from the SDR Department and the MDRI-I Trust are projected at SDR 3 million in FY09. Reimbursement for the expenses of administering the PRGF-ESF Trust is assumed to resume in FY09, with these expenses currently projected to be SDR 43 million. During FY 09-11, these administrative costs and the associated reimbursements are assumed to be stable in nominal terms. From FY12 reimbursements grow at the same rate as the net administrative budget.

Table II.1. Medium-Term Income and Expenditures (FY 07–14): Baseline Scenario

	Actual FY07	Estimate FY08 1/	Projected FY09	FY10	FY11	FY12	FY13	FY14
				(In SDR millions)				
A. Operational income 2/	**529**	**538**	**413**	**428**	**488**	**581**	**621**	**627**
Lending income	242	196	145	85	61	62	63	65
Margin for the rate of charge	134	79	78	54	54	55	57	58
Service charge	16	18	12	9	6	6	7	7
Surcharges 3/	92	99	56	22	1	0	0	0
Investment income	180	275	194	258	314	370	392	394
Reserves	180	275	194	238	253	268	268	268
Gold endowment pay-out (3 percent)	0	0	0	20	60	101	123	126
Interest free resources 4/	104	64	28	39	67	102	118	118
SCA-1 and other	104	64	28	25	24	24	24	24
Gold book value	0	0	0	13	44	78	94	94
Reimbursements 5/	3	4	46	46	46	47	49	50
MDRI-I Trust and SDR Department	3	4	3	3	3	3	3	3
PRGF-ESF Trust	0	0	43	43	43	44	45	46
B. Expenses	**640**	**599**	**560**	**568**	**579**	**592**	**609**	**621**
Net administrative budget 5/	602	564	526	533	542	556	573	584
Capital budget items expensed	16	13	11	10	9	8	7	8
Depreciation	22	22	23	26	28	28	28	28
C. Net operational income (A-B)	**-111**	**-61**	**-148**	**-140**	**-91**	**-12**	**13**	**6**
Gold profits	0	0	0	1331	1331	1331	0	0
Restructuring charge	0	-76	-39	0	0	0	0	0
IAS 19 timing adjustment	28	45	0	0	0	0	0	0
Retained endowment income 6/	0	0	0	13	40	68	82	84
Net income 7/	**-83**	**-92**	**-187**	**1204**	**1281**	**1387**	**95**	**90**
				(In US$ millions)				
D. Operational income 2/	**789**	**845**	**681**	**706**	**806**	**958**	**1025**	**1034**
Lending income	361	307	239	140	101	102	104	107
Investment income	268	432	320	426	517	610	646	650
Interest free resources 4/	155	100	46	64	111	168	194	195
Reimbursements	5	6	76	76	76	78	80	82
E. Expenses	**954**	**941**	**924**	**938**	**955**	**977**	**1004**	**1025**
Net administrative budget 5/	897	886	868	880	895	917	946	964
Capital budget items expensed	24	20	18	16	15	13	12	14
Depreciation	33	35	38	42	46	47	46	47
F. Net operational income (D-E)	**-165**	**-96**	**-244**	**-232**	**-150**	**-19**	**21**	**9**
Net income 7/	-124	-145	-309	1987	2113	2289	157	148
Memorandum Items:								
Fund credit (average stock, SDR billions) 5/	12.3	7.3	7.2	5.0	5.0	5.1	5.3	5.4
SDR interest rate (in percent)	4.00	3.73	2.75	3.00	3.25	3.50	3.50	3.50
US$/SDR exchange rate	1.49	1.57	1.65	1.65	1.65	1.65	1.65	1.65
New income measures (US$ millions) 8/	…	…	71	175	292	418	482	488

1/ Operational income for FY08 is from the mid-year review of the Fund's income position (EBS/07/143). Updated projections will be provided in the annual review of the Fund's income position to be circulated in mid-April.

2/ Excludes profits from gold sales and income retained to preserve the real value of the endowment.

3/ Includes settlement of overdue charges of SDR 51 million in FY08.

4/ Interest free resources reduce the Fund's remuneration expenses as they reflect Fund credit and SDR holdings on which the Fund has no corresponding remunerated reserve tranche positions. SCA-1 contributions are currently the main source of these resources. Gold sales would increase these resources because proceeds equal to the book value of gold would be retained in the GRA, reducing reserve tranche positions.

5/ The net administrative budget, reimbursements, and credit outstanding are assumed to increase by 2.5 percent annually from FY12.

6/ Estimate of gold endowment income retained in the Investment Account to preserve the real value of the endowment.

7/ Net income on the basis presented in the Fund's annual financial statements.

8/ The effect on operational income of broadening investments, creating an endowment funded by profits from gold sales, the reduction in remuneration from gold sale proceeds equal to the book value of gold, and reimbursement of PRGF-ESF Trust expenses.

Table II.2. Medium-Term Income and Expenditures (FY 07–14): Lower Pay-out Ratio Scenario

	Actual	Estimate	Projected					
	FY07	FY08 1/	FY09	FY10	FY11	FY12	FY13	FY14
				(In SDR millions)				
A. Operational income 2/	**529**	**538**	**413**	**421**	**468**	**545**	**577**	**580**
Lending income	242	196	145	85	61	62	63	65
Margin for the rate of charge	134	79	78	54	54	55	57	58
Service charge	16	18	12	9	6	6	7	7
Surcharges 3/	92	99	56	22	1	0	0	0
Investment income	180	275	194	252	293	336	350	352
Reserves	180	275	194	238	253	268	268	268
Gold endowment pay-out (2 percent)	0	0	0	13	40	68	82	84
Interest free resources 4/	104	64	28	39	67	100	115	113
SCA-1 and other	104	64	28	25	23	22	21	19
Gold book value	0	0	0	13	44	78	94	94
Reimbursements 5/	3	4	46	46	46	47	49	50
MDRI-I Trust and SDR Department	3	4	3	3	3	3	3	3
PRGF-ESF Trust	0	0	43	43	43	44	45	46
B. Expenses	**640**	**599**	**560**	**568**	**579**	**592**	**609**	**621**
Net administrative budget 5/	602	564	526	533	542	556	573	584
Capital budget items expensed	16	13	11	10	9	8	7	8
Depreciation	22	22	23	26	28	28	28	28
C. Net operational income (A-B)	**-111**	**-61**	**-148**	**-147**	**-111**	**-47**	**-32**	**-41**
Gold profits	0	0	0	1331	1331	1331	0	0
Restructuring charge	0	-76	-39	0	0	0	0	0
IAS 19 timing adjustment	28	45	0	0	0	0	0	0
Retained endowment income 6/	0	0	0	13	40	68	82	84
Net income 7/	**-83**	**-92**	**-187**	**1197**	**1260**	**1352**	**51**	**43**
				(In US$ millions)				
D. Operational income 2/	**789**	**845**	**681**	**695**	**772**	**900**	**952**	**957**
Lending income	361	307	239	140	101	102	104	107
Investment income	268	432	320	415	484	554	578	581
Interest free resources 4/	155	100	46	64	110	166	189	187
Reimbursements	5	6	76	76	76	78	80	82
E. Expenses	**954**	**941**	**924**	**938**	**955**	**977**	**1004**	**1025**
Net administrative budget 5/	897	886	868	880	895	917	946	964
Capital budget items expensed	24	20	18	16	15	13	12	14
Depreciation	33	35	38	42	46	47	46	47
F. Net operational income (D-E)	**-165**	**-96**	**-244**	**-243**	**-184**	**-77**	**-52**	**-67**
Net income 7/	-124	-145	-309	1976	2079	2231	84	71
Memorandum Items:								
Fund credit (average stock, SDR billions) 5/	12.3	7.3	7.2	5.0	5.0	5.1	5.3	5.4
SDR interest rate (in percent)	4.00	3.73	2.75	3.00	3.25	3.50	3.50	3.50
US$/SDR exchange rate	1.49	1.57	1.65	1.65	1.65	1.65	1.65	1.65
New income measures (US$ millions) 8/	…	…	71	164	258	363	415	419

1/ Operational income for FY08 is from the mid-year review of the Fund's income position (EBS/07/143). Updated projections will be provided in the annual review of the Fund's income position to be circulated in mid-April.

2/ Excludes profits from gold sales and income retained to preserve the real value of the endowment.

3/ Includes settlement of overdue charges of SDR 51 million in FY08.

4/ Interest free resources reduce the Fund's remuneration expenses as they reflect Fund credit and SDR holdings on which the Fund has no corresponding remunerated reserve tranche positions. SCA-1 contributions are currently the main source of these resources. Gold sales would increase these resources because proceeds equal to the book value of gold would be retained in the GRA, reducing reserve tranche positions.

5/ The net administrative budget, reimbursements, and credit outstanding are assumed to increase by 2.5 percent annually from FY12.

6/ Estimate of gold endowment income retained in the Investment Account to preserve the real value of the endowment.

7/ Net income on the basis presented in the Fund's annual financial statements.

8/ The effect on operational income of broadening investments, creating an endowment funded by profits from gold sales, the reduction in remuneration from gold sale proceeds equal to the book value of gold, and reimbursement of PRGF-ESF Trust expenses.

Table II.3. Medium-Term Income and Expenditures (FY 07–14): Higher Pay-out Ratio Scenario

	Actual FY07	Estimate FY08 1/	Projected FY09	FY10	FY11	FY12	FY13	FY14
				(In SDR millions)				
A. Operational income 2/	**529**	**538**	**413**	**435**	**509**	**616**	**665**	**673**
Lending income	242	196	145	85	61	62	63	65
Margin for the rate of charge	134	79	78	54	54	55	57	58
Service charge	16	18	12	9	6	6	7	7
Surcharges 3/	92	99	56	22	1	0	0	0
Investment income	180	275	194	265	334	403	433	436
Reserves	180	275	194	238	253	268	268	268
Gold endowment pay-out (4 percent)	0	0	0	27	80	135	165	168
Interest free resources 4/	104	64	28	39	68	104	121	123
SCA-1 and other	104	64	28	25	24	25	27	29
Gold book value	0	0	0	13	44	78	94	94
Reimbursements 5/	3	4	46	46	46	47	49	50
MDRI-I Trust and SDR Department	3	4	3	3	3	3	3	3
PRGF-ESF Trust	0	0	43	43	43	44	45	46
B. Expenses	**640**	**599**	**560**	**568**	**579**	**592**	**609**	**621**
Net administrative budget 5/	602	564	526	533	542	556	573	584
Capital budget items expensed	16	13	11	10	9	8	7	8
Depreciation	22	22	23	26	28	28	28	28
C. Net operational income (A-B)	**-111**	**-61**	**-148**	**-134**	**-70**	**24**	**57**	**52**
Gold profits	0	0	0	1331	1331	1331	0	0
Restructuring charge	0	-76	-39	0	0	0	0	0
IAS 19 timing adjustment	28	45	0	0	0	0	0	0
Retained endowment income 6/	0	0	0	13	40	68	82	84
Net income 7/	**-83**	**-92**	**-187**	**1211**	**1302**	**1423**	**139**	**136**
				(In US$ millions)				
D. Operational income 2/	**789**	**845**	**681**	**717**	**840**	**1017**	**1098**	**1111**
Lending income	361	307	239	140	101	102	104	107
Investment income	268	432	320	437	551	666	714	720
Interest free resources 4/	155	100	46	64	112	171	199	202
Reimbursements	5	6	76	76	76	78	80	82
E. Expenses	**954**	**941**	**924**	**938**	**955**	**977**	**1004**	**1025**
Net administrative budget 5/	897	886	868	880	895	917	946	964
Capital budget items expensed	24	20	18	16	15	13	12	14
Depreciation	33	35	38	42	46	47	46	47
F. Net operational income (D-E)	**-165**	**-96**	**-244**	**-221**	**-116**	**39**	**94**	**86**
Net income 7/	-124	-145	-309	1998	2148	2348	229	225
Memorandum Items:								
Fund credit (average stock, SDR billions) 5/	12.3	7.3	7.2	5.0	5.0	5.1	5.3	5.4
SDR interest rate (in percent)	4.00	3.73	2.75	3.00	3.25	3.50	3.50	3.50
US$/SDR exchange rate	1.49	1.57	1.65	1.65	1.65	1.65	1.65	1.65
New income measures (US$ millions) 8/	…	…	71	186	325	474	550	558

1/ Operational income for FY08 is from the mid-year review of the Fund's income position (EBS/07/143). Updated projections will be provided in the annual review of the Fund's income position to be circulated in mid-April.

2/ Excludes profits from gold sales and income retained to preserve the real value of the endowment.

3/ Includes settlement of overdue charges of SDR 51 million in FY08.

4/ Interest free resources reduce the Fund's remuneration expenses as they reflect Fund credit and SDR holdings on which the Fund has no corresponding remunerated reserve tranche positions. SCA-1 contributions are currently the main source of these resources. Gold sales would increase these resources because proceeds equal to the book value of gold would be retained in the GRA, reducing reserve tranche positions.

5/ The net administrative budget, reimbursements, and credit outstanding are assumed to increase by 2.5 percent annually from FY12.

6/ Estimate of gold endowment income retained in the Investment Account to preserve the real value of the endowment.

7/ Net income on the basis presented in the Fund's annual financial statements.

8/ The effect on operational income of broadening investments, creating an endowment funded by profits from gold sales, the reduction in remuneration from gold sale proceeds equal to the book value of gold, and reimbursement of PRGF-ESF Trust expenses.