

IMF Executive Board Approves the Distribution of Remaining Windfall Gold Sales Profits as part of a Strategy to Make the Poverty Reduction and Growth Trust Sustainable over the Longer Term

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On September 28, 2012, the Executive Board of the International Monetary Fund (IMF) approved the distribution of the SDR 1.75 billion (US\$2.7 billion) in remaining windfall profits from the IMF's recent gold sales. This is part of a strategy to make the Poverty Reduction and Growth Trust (PRGT), which finances the IMF's concessional lending to low-income countries (LICs), sustainable over the longer term.

Background

IMF gold sales conducted during 2009–10 resulted in total profits of SDR 6.85 billion (about US\$10.6 billion). Consistent with the purposes and originally assumed size of the gold endowment under the IMF's new income model, the IMF Executive Board decided to place a total of SDR 4.4 billion (US\$6.8 billion) of the gold sales profits in the special reserve, while the remaining amount of SDR 2.45 billion (US\$3.8 billion), corresponding to windfall profits from the gold sales were placed in the IMF general reserve pending further discussions on their ultimate disposition. The windfall

profits placed in the general reserve represented profits above the price of US\$850 per ounce that was assumed when the key elements of the new income model were endorsed by the Executive Board in 2008.

As part of the 2009–14 low-income countries financing package, the IMF Executive Board approved in February 2012 the distribution to IMF members of SDR 0.7 billion (about US\$1.1 billion) of the IMF's general reserve attributed to a part of the windfall gold sales profits. This distribution will become effective only after members have provided satisfactory assurances that new amounts equivalent to at least 90 percent of the amount distributed—i.e., SDR 630 million (about US\$978 million)—will be transferred, or otherwise provided, to the PRGT. As of October 1, 2012, some 130 members, representing 87.80 percent of the approved distribution, have confirmed their intention to contribute their share, or an equivalent amount, as subsidy resources to the PRGT.

Staff projections indicate that longer term demand for the IMF's concessional lending could on average be in the range of SDR 1.2–1.9 billion annually in the two decades after 2014, and SDR 1.0–1.7 billion in the first decade, thus exceeding the self-sustained lending capacity of the PRGT (SDR 0.7 billion) by a wide margin.

The IMF Executive Board has discussed the use of the remaining windfall gold sales profits of SDR 1.75 billion on several occasions in 2011. During these discussions, the IMF Executive Board considered three main options for the use of the remaining windfall gold sales profits: facilitating contributions to increase the concessional lending capacity for LICs; boosting the IMF's precautionary balances; and adding to the gold endowment.

At the September 6, 2012 Executive Board review of LIC facilities, most Directors supported, or were open to, using resources linked to the remaining windfall profits from gold sales as part of a strategy to make the PRGT sustainable. In light of that discussion, the IMF Executive Board discussed the staff's proposals for a strategy to establish a sustainable PRGT which aims to ensure that the IMF has sufficient resources to meet projected demand for IMF concessional lending over the longer term. This strategy would rest on the following pillars:

- A base envelope of about SDR 1¼ billion in annual average lending capacity that is expected to cover concessional financing needs over normal periods
- Contingent measures, including bilateral fundraising and temporary suspension of reimbursement of the General Resources Account (GRA) for PRGT administrative expenses, that can be implemented when average financing needs exceed the base envelope by a substantial margin for an extended period
- A principle of self-sustainability under which any future modifications to LIC facilities would be expected to ensure that

the demand for IMF concessional lending can be met with resources available under the first two pillars under a plausible range of scenarios.

Executive Board Assessment

Executive Directors welcomed the opportunity to consider a strategy to place the Fund's concessional lending through the Poverty Reduction and Growth Trust (PRGT) on a sustainable footing. They agreed that it would be important to preserve the Fund's ability to provide financial support to low-income countries (LICs), given that demand for the Fund's concessional lending is projected to significantly exceed the PRGT's self-sustained lending capacity after 2014.

Against this background, Directors approved the proposed distribution of SDR 1.75 billion from the general reserve attributable to the remaining windfall gold sales profits as part of a strategy to generate subsidy resources to ensure the longer-term sustainability of the PRGT. They broadly supported the proposed strategy as described in paragraph 11 of "Proposal to Distribute Remaining Windfall Gold Sales Profits and Strategy to Make the Poverty Reduction and Growth Trust Sustainable", which is based on a three-pillar framework: (i) a base envelope of about SDR 1¼ billion in annual average concessional lending capacity, derived from the annual returns of the aggregate balances in the subsidy accounts and reserve account of the Trust; (ii) contingent measures that can be activated when average financing needs exceed the base envelope by a substantial margin for an extended period; and (iii) the expectation that future modifications to LIC facilities would be designed in a manner that is consistent with maintaining self sustainability. Some Directors, concerned that implementing the framework could reduce access and/or restrict eligibility to LIC facilities, underscored that any decisions on these aspects should be undertaken with due regard to the financing needs of LICs. A number of Directors emphasized that strengthened fundraising from a broad spectrum of donors would further help to ensure long-term PRGT sustainability.

Directors agreed that it would be important to have ex-ante assurances from the membership that the distribution will facilitate significant resources becoming available to the PRGT. In this context, they concurred that the decision on the distribution will become effective only when the Managing Director has given notice that satisfactory assurances exist regarding the availability of at least SDR 1.575 billion in new subsidy contributions to the PRGT, as set out in the decision. Many Directors noted that, in some countries, these assurances would be subject to legal requirements and/or domestic approval processes.

Directors noted that the agreed distribution, while not affecting the current level of precautionary balances, would reduce the Fund's general reserve and therefore the Fund's buffers against financial losses. In this regard, Directors underscored that building up precautionary balances remains an important priority.

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