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April 22, 2021

**Statement by Mr. Chodos, Mr. Hendrick, and Mr. Lischinsky on Review of the Fund's
Income Position for FY 2021 and FY 2022
(Preliminary)
Executive Board Meeting
April 27, 2021**

We thank staff for a well-written report and for the helpful outreach to our office.

We support all the proposed decisions. These reflect the views expressed by Directors during our informal session to engage last March 8, including the timing of initiating the payout from the Endowment Subaccount (EA), the presentation of pension-related gains and losses, and more recently on April 1, the suspension of the reimbursement of PRGT administrative expenses for one year. We broadly agree with the assessment of the Fund's income position and we have a few comments and questions for further elaboration from staff.

The updated information reveals that the overall projected net income for FY 2021 is higher than both the interim estimate and the April 2000 estimate. Despite the uncertainty related to the assumptions, at this point in time, given the number of Fund programs in place, and expected market conditions affecting the full year asset returns on the retirement plan and the EA, as well as the discount rate to be used to measure the Fund's retirement plan obligation, it is reasonable to expect that the final outcome will be close to the estimated SDR 4.1 billion.

In this context, we would like to highlight that Middle-Income Countries (MICs) are the main contributors to the Fund's lending income. Lending operational income represents the bulk of Fund revenues, as shown in Table 1, and it is almost four times the yearly budget of the Fund. MICs with programs pay lending income, i.e., the margin for the rate of charge, service charge, commitment fees, and surcharges. These payments exceed the current budget fourfold. We believe that serious consideration should be given to suspend or reduce surcharges during the pandemic and the recovery, while discussing their permanent reduction or elimination. *We would appreciate staff's views on the viability to reduce at least on a temporary basis the rate of surcharges, given the expected strong growth on precautionary balances in the medium-term projections.*

The strategic income position should be reviewed. Thus, we ask to include in the agenda for this semester a Board Meeting to review Access Limits and Surcharges Policies. The last review was in 2016 and these reviews should take place every five years. *Could staff indicate what the expected tentative date for this review is?*

We take positive note that the income outlook for FY 2022, excluding the impact of the pension-related gain or loss, is expected to be strong. This outcome is explained, as shown in Table 3, for a substantial 36.2 percent increase in lending income, particularly those coming from surcharges and commitment fees, again mostly from MICs, including those with precautionary arrangements. At the same time, net administrative expenditure and capital budget items increase only by 5.5 percent. This suggests, other things equal, that there is some reasonable room for reduction or temporary elimination of the rate of surcharges.

Finally, as discussed in the interim update, we would like to underscore that the indicative medium-term target, which was raised from SDR 20 billion to SDR 25 billion during the review of the adequacy of precautionary balances in October, is expected to be reached in FY 2024, one year earlier than projected in the interim paper. Figure 3 is very illustrative to understand the different scenarios.