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April 22, 2021

**Statement by Mr. von Kleist and Mr. Sattler 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 the good and detailed report, and we appreciate that feedback from Directors with respect to recent income-related papers was incorporated.

On the proposed decisions:

**We support the proposed decisions 1 and 3-6. We can go along with proposed decision 2.**

On Decision 1: **We agree with the proposed assessment on expenses for conducting the business of the SDR Department in FY 2021 and the respective reimbursement to the GRA.**

On Decision 2: **We go along with the proposal to suspend the reimbursement of PRGT administrative expenses to the GRA for one year.** We would like to stress that not only is the GRA income reduced by the suspended amount of reimbursement (this year: ~87 million SDR), but that the speed of the built-up of the precautionary balances is also directly reduced. **Accordingly, when considering potential future waivers of GRA reimbursement, an assessment of the effects on the path of the built-up of precautionary balances and the then prevailing risks to the Fund must be taken into account.** If potential future waivers will be discussed as part of the concessional financing review, this also has to be considered.

On Decision 3: **We agree with the proposal to transfer the income generated by the Fixed-Income Subaccount to the GRA. We also agree to postpone the decision on the first payout from the Endowment Subaccount for one year,** as the effect on income in the current fiscal year is moderate (~60 million SDR) and the benefit of constant and predictable future payouts prevails.

On Decision 4: **We support the proposal to transfer an amount equivalent to the net income loss incurred in FY 2021 (1.5 billion SDR) to the Special Reserve to compensate for its reduction in the previous fiscal year. We also agree to allocate the remaining net income (2 billion SDR) equally to the Special and the General Reserve.**

On Decision 5: **We support the transferal of the increase in reserves in currencies to the Fixed-Income Subaccount to generate investment returns.** *Could staff please elaborate on the slight quantitative divergence between the increase in reserves (2 billion SDR, see Decision 4, para. 16) and the transfer to the FI Subaccount (1.9 billion SDR, fn. 32), as it is described that “the full amount of the increase in reserves” should be transferred?*

On Decision 6: **We agree with the completion of the review of the Fund’s income position, and with maintaining the margin for the basic rate of charge.**

Further remarks on the Fund’s income position:

**We take note of the possible effect on FY 2022 lending income stemming from early repurchases in response to the possible SDR allocation.** This possible effect of a (still potential) SDR allocation could well be included in the estimate, at least for “informational purposes”. Given the envisaged significant size of the potential SDR allocation, we acknowledge a possibly significant positive effect on the revolving character of Fund resources due to early repurchases. However, it would be unfortunate if members would postpone necessary adjustment efforts, supported by catalytic Fund lending if appropriate, due to the significant size of the potential SDR allocation. *We would be interested in how staff assesses (also quantitatively) these two effects and how they might influence expected lending income.*

**We agree with staff’s assessment on the unchanged relevant conditions for setting the margin of the rate of charge.** Taking into account market conditions and the level of precautionary balances (exceeding the minimum level), **we support the proposal to keep the margin unchanged at 100 basis points.** However, also in this regard, **we caution against over-estimating the increase in Fund lending and the respective lending income,** as the reserve accumulation pace is highly sensitive on the assumptions on Fund lending income.

On IAS-19 remeasurement gains/losses:

**We appreciate the new structure of the income and expenditure table, as the pension-related IAS-19 adjustments can be grasped more intuitively.** We are looking forward to the announced further analysis of the options on how to deal with the IAS-19 remeasurement gains/losses. **We would like to reiterate our position that it is essential to increase transparency on the level of precautionary balances without volatile distortions due to actuarial assumptions.** Currently, the pension-related gains and losses are included in assessing whether the agreed targets on the level of precautionary balances are achieved. Due to the volatility of the IAS-19-related remeasurement gains/losses, this might be misleading. For example, when excluding pension-related gains and losses in FY 21, the precautionary balances would increase only by about 1 billion SDR (net operational income), instead of by 3.5 billion SDR (net operational income after IAS 19 adjustment). Nevertheless, **the envisaged future solution should allow to fall back on IAS-19 remeasurement gains as a second level of support for precautionary balances in a worst-case scenario.**

On provisioning:

**We can go along with the proposal to endorse formally the Fund’s approach to provisioning in the Summing Up of the Board discussion of this paper.** However, we are sceptical towards

**already closing the discussion and decision-making on such a central topic for the Fund at this stage without further information and updates on potentially increasing risks that could eventually give rise to a need for provisioning, and pending decisions on a possible follow-up to the SCA-1 account.** *In this context, could staff please clarify what is meant by “conducting IFRS-9 related impairment assessments for FY 2021” for credit risk (para. 21)? We would appreciate more information on this analysis.*

Generally, we understand that the Fund’s risk management framework and the Fund’s unique lending framework is currently seen as sufficient to avoid cases of provisioning. As discussed in the Board meeting in October 2020 as well during the Board discussion on the role of the SCA-1, **it is essential for the Fund to continue to safely not require provisions at all** for several reasons, e.g. reputational risks to the Fund, and detrimental signalling effects of provisions for a member state in a balance of payments crisis. Therefore, **we call for further efforts to avoid provisioning by strengthening the Fund’s financial risk management capacity to deal with credit risks. We underscore the prominent and central role of appropriately catalytic lending envelopes, commensurate conditionality (i.e. adequate safeguards for the temporary use of Fund resources) and, last but not least, sufficient precautionary balances in this regard. We are open to explore options to ensure a timely attainment of the targeted level of precautionary balances,** which seems to be endangered in staff’s baseline.