

SU/22/61

May 4, 2022

The Acting Chair's Summing Up
Review of the Fund's Income Position for FY 2022 and FY 2023–2024
Executive Board Meeting 22/39
April 28, 2022

Executive Directors reviewed the Fund's income position for FY 2022 and FY 2023–2024. They welcomed that, in line with the April 2021 projections, the Fund is on track to end FY 2022 with a comfortable income position. Directors noted that the Fund's net income is projected to remain at about the same level in the next two financial years, which should help achieve the medium-term target for precautionary balances in FY 2025, as originally envisaged. They emphasized, however, that these projections are subject to heightened uncertainty given the war in Ukraine, inflationary pressures, and the lingering effects of the COVID-19 pandemic. In this context, Directors called on staff to monitor closely the implications of these developments on income and reserve accumulation.

Directors agreed to reimburse the General Resources Account (GRA) for the cost of conducting the business of the SDR Department. They also supported retaining, in their respective subaccounts, the income of the Fixed-Income and Endowment Subaccounts in FY 2022, with the intent of building an adequate income cushion for one more year in the Endowment Subaccount.

Directors adopted a new framework for allocating the Fund's annual net income to reserves. They broadly agreed to place, as of FY 2022, all pension-related remeasurement gains and losses to the Fund's special reserve and to allocate any remaining positive net income to the Fund's special and general reserves in equal parts. While Directors broadly considered that this allocation framework would help isolate the impact of the pension-related gains and losses within the special reserve, some Directors would have preferred a higher allocation of any remaining positive net income to the special reserve. In contrast, a few other Directors would have preferred to allocate most or all of the additional net income to the general reserve.

Following the placement of the FY 2022 net income, Directors broadly supported the transfer of currencies from the GRA to the Investment Account in an amount equivalent to the increase in the special and general reserves.

Directors also reviewed the margin for the rate of charge and broadly supported maintaining it at 100 basis points over the SDR interest rate for FY 2023–2024 under the exceptional circumstances clause. Noting that the Fund remains highly reliant on its lending

income to finance non-lending activities, some Directors recommended undertaking a review of the 2008 income model. Some Directors also recommended assessing the role of gold sales as part of that review. While outside the scope of this review, some Directors reiterated their calls for temporarily or permanently either suspending or reducing surcharges to provide funding space to the membership in the current difficult economic environment. Some other Directors disagreed, noting that surcharges are an integral part of the Fund's multi-layered risk management framework, providing incentives for members to limit exposures to Fund credit and strengthening the Fund's balance sheet by allowing accumulation of precautionary balances when its credit exposures grow.

Directors looked forward to the findings from staff's IFRS 9-related country assessments for FY 2022 and noted that no provisioning is currently expected.