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April 25, 2022

**Statement by Mr. Jennings, Mr. O'Brolchain, and Mr. Rankin on Review of the Fund's
Income Position for FY2022 and FY2023-24
(Preliminary)
Executive Board Meeting
April 28, 2022**

We thank staff for the insightful paper. We note that current FY 2022 net income projections remain broadly in line with earlier projections and the FY 2023-24 outlook remains strong. Nevertheless, we stress that projections should be interpreted cautiously given greater than normal uncertainties amid Russia's invasion of Ukraine and continued uncertainty around the path of the COVID-19 pandemic.

We support the majority of proposed decisions, and in particular:

- **We support keeping the margin for the rate of charge for the period FY 2023– 2024 unchanged at 100 basis points.** Fundamentally, Fund credit must remain attractive relative to alternative sources of finance. In this respect, we note that the cost of Fund credit at the current margin remains broadly in line with the staff benchmarks for long-term credit market conditions. We look forward to regularly reviewing the margin rate of charge to ensure it is meeting the Fund's mandate and needs of the membership.
- **We support delaying the Endowment Subaccount (EA) payout for another year.** As staff highlight, the sharp increase in inflation and war in Ukraine eroded the EA cushion of retained investment income below desired levels. We agree that delaying the EA payout would build a more adequate cushion and ensure the EA is able to help diversify Fund income sources over the long-term.

We see limited value in allocating income to special reserves. While both “general” and “special” reserve accounts can be used to absorb credit losses, disbursements to the Special Reserve account limits future discretion to make distributions that advance the Fund’s mandate and interests of the membership. Recognizing that reserve allocation has been uneven since the creation of the special reserve account, we do not see a strong argument in favor of a 50:50 split between the two reserve accounts going forward, or a clear rationale why attempting to equalize account balances should be a policy goal. For these reasons, and in the interest of streamlining Fund finances, we generally see merit in directing net income allocations to the general reserve account. In the interest of consensus, we can go along with ring-fencing the IAS 19 remeasurement gains/losses in the special reserve, but do not see merit in a framework that commits future allocations to the account. We note that cumulative IAS 19 remeasurement gains and losses offset each other, and the balance tends to zero.

We regret the significant forgone income associated with the Fund’s enormous gold holdings. We recall that the Fund currently holds over 90 million ounces of gold, with a current market value well over US\$170 billion (but of book value of only \$4 billion). We note that proceeds from gold sales could be invested in high-quality interest-bearing assets that better support the Fund’s overall financial position. Optimizing the Fund’s balance sheet should be a key priority for the Finance Department going forward.

We note that the indicative medium-term target for precautionary balances of SDR 25 billion is expected to be reached in early FY 2025. Ahead of 2025, there may be merit in developing a policy that outlines the circumstances in which staff would recommend a distribution of net income to the Fund membership. *Staff comments welcome.*