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**Statement by Mr. Palotai, Mr. Azal, Mr. Just, and Mr. Meizer on FY2022-FY2024
Medium-Term Budget
(Preliminary)
Executive Board Meeting
April 27, 2021**

We thank staff for the detailed paper on the medium-term budget, as well as their engagement with our office. We appreciate staff's efforts in integrating Directors' preliminary views into the revised proposal, and would like to offer the following points for emphasis.

We commend management and staff for the work that has enabled the Fund to provide unprecedented support to its membership, while maintaining the flat real envelope and budget discipline in FY 21. The flat real budget has been so far an important guiding principle for the Fund. Extensive reprioritizations and reallocations, and an agile operating model have played a key role in ensuring that the Fund meets the emerging crisis needs. Despite the projected underspend of the structural budget this year, the Fund should continue to take a cautious and prudent approach to budget planning, given that the pace and strength of economic recovery varies, while uncertainty remains elevated. The Fund should also be mindful that human capital is the organization's greatest asset; therefore, further measures might also be required to ease the pressure on staff. **We share staff's appraisal that the FY 22 budget should continue to focus on helping member countries address the pandemic's socio-economic impacts and pave the way for sustainable recovery, while providing adequate resources for both short- and long-term priorities within an unchanged resource envelope in real terms.**

In order to create a balanced budget for FY 22, we stress the need for continued reprioritization and an increase in the carry forward limit, while also calling on staff to preserve the financing of core activities, considering that extensive reallocation could have limits. While we positively note that departments actively seek opportunities to reprioritize and modernize their activities, resulting in a redirection of about 9 percent of the net administrative budget, we also underscore that much of these savings are only temporary. The Fund needs to be prepared should travel opportunities open earlier than anticipated, and

the forthcoming decision on the hybrid work model will also be significant. The postponements of Article IV (AIV) Consultations during the pandemic have been detrimental; therefore, budgetary proposals should consider the regular continuation of AIV missions. Given that the priority needs in FY 22 are not expected to be fully covered by reprioritization and savings measures, we agree with the proposed temporary increase in the carry forward ceiling to 8 percent, also in view of the possible need for additional expenditures going forward. However, considering that no decision has yet been taken on how the newly emerging activities will be funded over the medium term, the decision on the increased carry forward should be discussed in depth going forward. We share staff's appraisal that budget risks remain elevated, therefore, strengthening enterprise risk management is warranted.

We call on the Fund to advance its modernization agenda, with special attention to the Big 5 Projects and other information technology and security programs. To harness the financial and non-financial benefits of digitalization, the Fund also needs to attach importance to investments in modernization projects. We positively note that CDMAP and other key modernization programs will generate significant savings in the upcoming years; however, we note with concern that the IHR Project faces delays and implementation challenges, also requiring significant additional funding according to the revised cost-benefit analysis. *Could staff further elaborate on how they plan to increase budgetary discipline and efficiency in this area?* Significant efforts are needed to mitigate risks associated with business transformation and information security.

With regard to the FY 22 budget, we agree with the proposed decisions on the appropriations of the administrative budget, the budgetary treatments of cloud subscription costs, as well as the capital budget appropriations.

We welcome that the paper suggests postponing the decision on a possible budget augmentation, reflecting on Directors' preliminary views. However, given that the Board has just begun to discuss the Fund's engagement in emerging issues, such as climate and digitalization, the decision on the budget augmentation should be state- and not time-dependent, and based on a convincing proposal. Until there is no broad consensus on how to integrate these new areas into the Fund's activities within its mandate, we agree that the budget should provide resources for long-term priorities within the real flat budget. Nevertheless, the issue of structural augmentation will ultimately be determined by the Fund's strategies on climate, Fragile and Conflict-Affected States, digital money, as well as its work on inclusive growth. On these points, for the time being, only follow-up meetings are planned for the summer, so there is some uncertainty whether all strategies will be approved by the fall. We also emphasize that any augmentation should be carried out within the Fund's mandate and thus be of a macro-critical nature. *Against this background, could staff elaborate on the proposed timeline and the preconditions for a detailed and convincing proposal for the two-pronged strategy? It would be also helpful if staff could provide an approximate estimate for the one-off structural increase based on the current information.* We would also appreciate if staff could present different options discussing priorities between and within thematic areas to inform the subsequent decisions, as the case of budget augmentation will require close consultation with Capitals, who must be given sufficient time

to discuss the detailed proposals. In this context, any request must also evaluate alternative scenarios.

We deem it important that the Fund continues to be able to maintain budget discipline and prudence, which has served both the Fund and its membership well. The Fund's medium-term income position is expected to remain robust owing to the new lending programs, which will allow significant progress towards the precautionary balance target, but also increase room for maneuver to finance new activities related to the Fund's expertise. Beyond maintaining budget discipline and the precautionary balance target, we also stress that a one-off structural augmentation should not involve the duplication of activities, and that the Fund needs to collaborate and cooperate with other institutions and organizations.