

SU/22/60

CONFIDENTIAL

May 2, 2022

**The Acting Chair's Summing Up  
FY2023-FY2025 Medium-Term Budget  
Executive Board Meeting 22/39  
April 28, 2022**

Executive Directors approved the FY2023 budget proposal. They praised staff's sustained response to the multiple crises facing the membership. Directors recognized the increased uncertainty—including as a result of the war in Ukraine and inflation dynamics, stressing the need for budget execution to remain agile to support members' rapidly evolving needs. Directors also highlighted the growing imperative for the Fund to expand its support to members to address longer term challenges to the global economy linked to climate change, digitalization, inequality, and fragility, working in close cooperation with partners and focusing on issues within its mandate.

Directors recognized the Fund's strong tradition of budget discipline, which has allowed expansion in priority areas over the past decade within a flat real budget envelope. At the same time, while recognizing varying views, they recalled the December 2021 Board agreement on a framework for targeted structural augmentation by an average of 2 percent a year over the next three years, beginning in FY23, before reversion to a real flat budget path thereafter. Directors reiterated the critical importance of ongoing strong reprioritization, reallocation, and streamlining efforts.

For FY23, Directors appreciated the link between augmentation resources and the Board-endorsed issue-specific strategies on climate, digital money, macrofinancial surveillance and work on fragile and conflict affected states (to be followed soon on gender). They recognized FY23 would be a foundational year, with investment in ramping up staffing and building out the policy and analytic base for this work. Directors stressed the need for strong and close cooperation with partners and focusing on the areas in the Fund's mandate, along with regular implementation reports to the Board. They encouraged using this opportunity to make progress toward the Fund's diversity objectives.

Directors noted that the FY23 budget also continues to channel sizable resources for Fund lending and capacity development, with the recent agreement on the new RST expected to drive further lending operations. They also welcomed the budget's emphasis on the Fund's work on debt and governance.

While recognizing the still high crisis-related needs and significant uncertainties, Directors welcomed the initial prudent unwinding of exceptional temporary crisis resourcing introduced in FY21. In this context, they approved a decrease in the carryforward limit from 8 to 7 percent, as a first step toward returning the carryforward limit back to pre-crisis norms.

In terms of the Fund's own operations, Directors welcomed the increased investment in risk related activities. They agreed with the framework for setting budgets for funding personnel related competitiveness measures, as agreed under the 2019 Comprehensive Compensation and Benefits Review. They took note of the plans to establish a management fee related to administration of the RST, which will be formalized in the FY24-26 budget process.

Regarding the Fund's externally funded CD operations, Directors approved an increase in the overall spending limit, tied to a step up in delivery of CD linked to members' structural transformation needs. They also approved the establishment of a carryforward mechanism for externally funded spending, which will support increased flexibility in the management of CD resources. Some Directors preferred that a larger share of CD should be financed through the Fund's own budget.

Directors approved the proposed capital budget. They reiterated concerns about the implementation challenges at the project level, particularly IHR. Directors concurred with the moderation on the capital spending which will allow critical investments while providing time to incorporate lessons from the remote environment and recent modernization experience. They stressed the need to further strengthen the governance framework for IT-intensive capital projects and welcomed the recent establishment of the Office of Transformation Management to oversee and coordinate these efforts. Regular reporting to the Board on progress in these areas is essential.

Directors acknowledged that risks to the budget remain elevated amidst large global uncertainties. In particular, the impact of the pandemic, the war in Ukraine, and inflation developments could bring an increase in programs and capacity development demands. Cyber security risks also remain elevated. A number of Directors expressed concern about the risks from reliance on externally-funded CD, fundraising shortfalls, and donor fatigue. Directors recognized the potential challenges in acquiring skillsets needed for the timely implementation of the structural transformation strategies and called for close monitoring of progress. For the budget, they also noted that in a period of inflation uncertainty, unexpected surges on underlying prices related to core expenditure categories need to be carefully managed.