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April 26, 2022

**Statement by Mr. Peter and Mr. Gindrat on Review of the Fund's Income Position for
FY 2022 and FY 2023-2024
(Preliminary)
Executive Board Meeting
April 28, 2022**

We support the five proposed decisions. Specifically:

- **We agree with fully retaining any net investment income earned in the Fixed-Income Subaccount (FI) and in the Endowment Subaccount (EA) in FY2022.** We concur that there is a strong case for delaying the initiation of the EA payout by another year. Providing more time to build an adequate cushion is prudent and lowers the risk of an undesirable start-stop scenario under which payments would need to be suspended at a later stage.
- **On the allocation of income, we can go along with the proposed option 4, yet would prefer a greater share of remaining income being allocated to the special reserve.** We support the proposal to “ring-fence” IAS 19 remeasurement gains/losses in the special reserve, which, being non-distributable, seems better suited for the allocation of unrealized amounts. In addition, we can go along with the proposed equal apportionment of any remaining positive net income to the special and general reserve. This approach preserves future Board flexibility and appears to reflect a compromise of differing views. However, given that the share of the special reserve in total reserves is much lower than in the long-term average, we would see merit in tilting the balance in favor of the special reserve, with a higher allocation of, e.g., 60 percent of remaining income. We would also concur with the transfer of currencies equivalent to the full amount of the increase in reserves from the GRA to the IA to be used for investment in the FI.
- **We support keeping the rate of charge at 100 bp over the SDR rate for FY2023–2024,** consistent with the exceptional circumstances clause. With the proposed margin, the costs of Fund credit stay broadly in line with long-term credit market conditions. Moreover, while lending income is expected to remain substantially in excess of the

Fund's intermediation costs, the Fund continues to rely heavily on its lending income to cover part of its non-lending activities. This, in turn, reduces the margin's contribution to the Fund's reserve accumulation.

In addition to these specific comments, we would like to make three more general points:

- **The outlook for the Fund's income position is subject to exceptional uncertainty related, in particular, to market fluctuations and the future demand for Fund resources.** Currently, the outlook appears fairly bright. For FY2022, net operational income (after IAS 19 adjustment) is expected at SDR 2.2 billion, broadly in line with what was projected a year ago. However, this is only due to pension-related remeasurement gains of more than SDR 500 million. Pension-related adjustments are highly sensitive to changes in the discount rate and to the performance of retirement plan assets: The final outcome could therefore change significantly. For FY2023–2024, risks remain elevated, including because of uncertainty about program requests, disbursements, and drawings. We ask staff to monitor developments closely and to keep the Board well-informed.
- **A further build-up of precautionary balances appears warranted.** Financial risks to the Fund are substantial, notably due to very high credit outstanding, a high concentration of credit exposures, and a remarkable share of emergency lending with no ex-post conditionality. Meanwhile, precautionary balances remain below the target of SDR 25 billion and are expected to reach this target by FY2025 only. Aside from a continued—and ideally accelerated—accumulation of precautionary balances, we continue to advocate raising the minimum floor for precautionary balances.
- **We urge caution against any steps on the income side that could weigh on the accumulation of precautionary balances.** In particular, we continue to see no need for a review of surcharges and no merit in exploring a temporary surcharge relief. We consider the existing system of level- and time-based surcharges and the corresponding thresholds broadly appropriate.