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April 22, 2021

**Statement by Mr. Mozhin and Mr. Potapov on FY2022-FY2024 Medium-Term Budget
(Preliminary)
Executive Board Meeting
April 27, 2021**

- 1. We thank the Office of Budget and Planning (OBP) for the comprehensive report on the FY 2022-24 medium-term budget.** The report rightly reflects the growing budget pressures preventing the Fund from delivering on its core mandate and addressing emerging issues in an agile and timely manner. We broadly welcome the two-pronged budget strategy for FY 2022-24 that should help the Fund to mitigate the adverse impact of the real flat budget constraints that has been accumulated over the recent decade. We can support the administrative and capital budgets for FY 2022 and look forward to the OBP's final proposal for a structural budget augmentation. We also support a temporary increase in the carry forward limit from 5 to 8 percent to allow full capture of the projected underspend in FY 2021.
- 2. The Fund's medium-term income position remains strong.** We take positive note that the FY 2022-24 medium-term budget framework, including the material structural augmentation, is consistent with the projected surplus in the Fund's medium-term income position and with continued progress towards the precautionary balance target.
- 3. The Fund has faced the global pandemic crisis with diminished buffers, rising budget pressures, and unsustainable demands on staff.** Given the artificially imposed budget constraints, budget space to address emerging issues in a comprehensive and sustained manner, while continuing to deliver on the existing mandates, has been exhausted well before the global pandemic. The crisis response required a substantial reallocation of resources and a temporary suspension of the Fund's critical work, including surveillance activities, analytical work, and the key policy reviews. The immediate impact was a large spike in staff's overtime and contraction in leave usage.
- 4. The Fund needs to move from the immediate crisis response to a more structured approach to helping members to address crisis legacies and longer-term policy challenges.** The use of the carry forward and savings stemming from the moratorium

on travel is an unsustainable way to finance the increase in staff positions, including newly created 128 staff positions in FY 2021, to meet crisis demands and support the Fund's medium-term work agenda.

FY 22 administrative budget

5. **Addressing the evolving crisis needs through the massive reallocations and reprioritizations can become unsustainable and damaging for the Fund.** Given the lack of resources, the crisis response in FY 22 continues to be financed by significant reprioritization across the Fund's activities (9 percent of the net administrative budget). These measures include a limited focus of surveillance on crisis-related issues, prolongation of Article IV consultations' cycles, as well as further suspension of lower priority policy and analytical work. We note that travel budgets will be limited to half of the FY 20 budget level and events-related spending to 30 percent.

6. **Budget pressures are expected to significantly increase in FY 2022-24.** Program engagement and crisis-related work will remain intense in the coming years. The Fund is facing a pipeline of 53 new arrangements. Programs are expected to become more complicated, as many emergency financing operations are followed with upper credit tranche (UCT) quality programs, in many cases characterized by complex debt issues. We note that the pipeline compares to 27 arrangements during the Global Financial Crisis and a peak of 22 during the Ebola crisis. Meanwhile, the Fund strives to embark on the new priorities, including climate change, digitalization, and inequality.

7. **While unprecedented reprioritization remains troubling, we take a positive note that important policy and analytical issues are expected to be explored under the FY 22 budget.** We welcome the focus in FY 22 on debt issues, macro-financial issues, the lending toolkit, the CSR, the FSAP review, and the IPF. We also welcome the plans to continue the work on the 16th General Review of Quotas. At the same time, we understand that resource implications related to the CSR and the FSAP review will be discussed by the Board at the time of their completion, with some elements of these reforms to be embedded in the proposed budget augmentation and others to be financed through further reprioritization efforts.

Reprioritization, streamlining, and savings

8. **Spending reallocations and reprioritizations without adverse implications for the quality of the Fund's work could have reached their limits well before the COVID-19 crisis.** Box 1 of the report reminds the Board of a broad set of streamlining and reprogramming initiatives that have been implemented over the recent years to seek further savings and efficiencies. We agree that some of these initiatives have helped the Fund maintain budget discipline and fiscal prudence. These efforts also helped the Fund expand its work program, albeit in a piecemeal way, to new emerging issues that are increasingly becoming macro-critical for many member countries. At the same time, these efforts have led to the relative decline in the role of the Fund's core functions against the background of the ventures in non-core areas. The streamlining exercises in the surveillance, policy, and analytical areas, including the narrowing focus of the flagship reports, reduction of analytical

and research work, the limited scope in Article IV reports, the change in the regular Article IV cycles, the phasing out of Selected Issues Papers, and the prolonged delays in the policy reviews, could have adverse implications on the quality of the Fund's work and policy advice. The hard budget constraints have prevented the Fund from embarking on important work streams and expanding the use of the Fund's great internal products for a broader part of its membership. The IEO's recent evaluations confirmed these troubling conclusions.

9. **A full-pledged assessment of the unintended consequences of the streamlining and reprioritization measures is needed to better inform the Board's decisions on the Fund's budget envelope.** We encourage staff to explore these possible negative implications. We also believe that the Board should be informed about the current stance of the Fund's key and regular policy reviews, including by updating Table 4 presented in the 2015 report on Selected Streamlining Proposals Under the FY16-FY18 Medium-Term Budget—Implementation Issues (SM/15/81). A list of other policy issues and guidance notes that have been delayed for a prolonged time should also be presented to the Board.

Structural budget augmentation

10. **The scale, design, and pace of the structural augmentation should allow the Fund to address significant budget pressures, deliver on its mandate in the key areas of expertise, and support the rising workload on the new priorities.** The augmentation should address the highly problematic delays in the key policy reviews, increase the availability of the Fund's key products, and ensure that the Fund remains a global center of excellence in fiscal, monetary, and financial policy issues. The augmentation should help the Fund improve its analysis of the key macro-financial implications related to climate change and digitalization. The Fund is facing a record number of prospective arrangements in the pipeline. A broader resumption of bilateral surveillance and FSAP delivery would also require additional resources. The CSR and the FSAP reviews will have additional budget implications. The demand for capacity development will also increase against the backdrop of the rising number of UCT-quality programs.

11. **A faster pace of the structural augmentation would benefit the Fund and its budget process.** In the report it is proposed to prolong budget adjustment over two to three years, with a return to a real flat path at the new, higher level thereafter. In our view, swift implementation of the structural budget increase in FY 2023 could better serve the Fund, allowing to strengthen the key work priorities without unduly delays.

New Ways of Working (NWOW)

12. The optimal design of the Fund's business model (headquarters & overseas; office & WFH; in-person dialog and contacts & virtual engagement) is a complex topic with far-reaching strategic and operational ramifications. We agree with the OBP that various possible components of the NWOW will have significant tradeoffs, benefits, and costs that should be explored in a comprehensive way with close engagement with all interested parties. The NWOW is a strategic issue and the Board should play a central role in the process going forward. *Could staff elaborate on how virtual engagement is expected to substitute travel on a structural basis going forward?*

Capital budget and cloud subscription costs

13. **The modernization projects remain critical to facilitating integration of core business processes, supporting availability of comprehensive and consistent data, and promoting effective knowledge management to better support monitoring and decision-making.** These projects can generate significant productivity gains and provide additional savings. At the same time, the complexity of these projects highlights the need for very careful preparation. In this context, the recent cost overruns under the 1HR project are worrisome, pointing to some important gaps in planning, management, and procurement procedures. These gaps should be addressed.

14. We support the proposed change in budgetary treatment for cloud subscription costs.