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April 24, 2023

**Statement by Mr. Dresse, Ms. Eijking, and Mr. Verhelst on Review of the Fund's Income
Position for FY 2023 and FY 2024
(Preliminary)
Executive Board Meeting
April 27, 2023**

*We welcome staff's analysis and proposals regarding the Fund's income position. A strong income position is essential for coping with the high-risk environment in which the Fund will have to operate in the coming years. **We support the proposed decisions and provide the comments below for emphasis.***

We plead for prudence in policy decisions affecting the Fund's income. We note the high uncertainty and volatility associated with the Fund's income projections, including the 15 percent increase in FY23 costs mainly due to factors outside the control of the Fund. The Fund should remain agile to be able to respond to future shocks. This requires a solid long-term financial position, based on the prudent, long-term planning of both income and expenses. *We understand that the impact of the increase in GRA access limits is difficult to determine, yet we would appreciate more details on the possible impact during future Board engagement.*

The large downward revision in projected investment income in FY23 underlines the need for a multi-year approach. Building up a strong investment portfolio is important for the adequate application of the Fund's New Income Model. Given the need to create an adequate cushion of retained investment income, we agree with the staff proposal to delay the initial payout. The weak performance of the investment portfolio calls for a long-term view of the Fund's income position, especially if the Fund is to rely more on investment income rather than lending income.

We call for timely Board engagement in light of possibly moving to a new stage in the Fund's income model in future fiscal years. We support maintaining the rate of charge at 100 basis points for FY24. We also welcome staff's indication that a more comprehensive application of the Fund's New Income Model is within reach, largely driven by the higher interest-rate environment. Such a more comprehensive application of the New Income Model would imply a major shift in the Fund's financing model, with more reliance on investment income rather than lending income. Given the

importance of this shift, timely Board engagement is important, preferably well before a formal Board meeting on income-related decisions.

We can agree to the proposed placement of the FY23 net income while looking forward to a review of the net income allocation for FY24. We see merit in a comprehensive review of income placement, discussing the pros and cons of placing income in the general or the special account. Such a review should allow for a more structural framework for the placement of net income.

We call for sustained efforts to reach the precautionary balances' target level. It is encouraging that precautionary balances are expected to reach the SDR 25 billion goals by late FY24 or early FY25. These projections are, however, subject to considerable uncertainty and are sensitive to assumptions. In addition, the target might have to be revised upwards in the current context of uncertainty and heightened risks. Sustaining the build-up of precautionary balances is therefore warranted.