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April 24, 2023

**Statement by Mr. Palotai, Mr. Just, Mr. Mert, and Mr. Marek on Review of the Fund's  
Income Position for FY 2023 and FY 2024  
(Preliminary)  
Executive Board Meeting  
April 27, 2023**

We thank staff for the detailed report. **We broadly support all decisions pertaining to FY 2023 and FY 2024.** While projections for the Fund's income are subject to greater than normal uncertainty on key assumptions, we positively note that the Fund's income position is expected to remain strong, and the pace of reserve accumulation has been on track. Additionally, we continue to support ringfencing the pension-related adjustment in the Fund's special reserve to mitigate volatility in the Fund's income position. On the five individual decisions and additional issues covered in the staff paper we provide the following comments.

**We agree with the proposed Decision 1** that the General Department will be reimbursed for the expenses of conducting the business of the SDR Department for the period of May 1, 2022 through April 30, 2023.

**We support the proposed Decision 2** that the initiation of the Endowment Subaccount (EA) payout be further delayed by an additional year, to allow more time to build the EA retained investment income cushion, as the current level of 2 percent stands substantially below the target level of 15 percent. While we note that the impact of a further delay of the EA payout is not significant to the Fund's overall income position, we expect the buildup of the EA cushion to proceed faster and meet the envisaged 3 percent real return target. The erosion of the EA's retained earning cushion requires vigilance going forward.

In order to continue isolating the impact of the pension-related adjustment on the Fund's income position, **we agree with the proposed Decision 3** to place any pension-related remeasurement gain to the Fund's special reserve and allocate any remaining positive net income equally to the general and special reserves in FY 23. We note staff's caution that the actual outturn for the FY 2023 pension-related adjustment remains highly uncertain in the context of the current volatile market conditions. Against this backdrop, we encourage staff

to duly report the final pension-related adjustment in the Fund's annual financial statements scheduled for completion in June 2023.

**We agree with the proposed Decision 4** to transfer currencies equivalent to the full amount of the increase in reserves from the General Resource Account (GRA) to the Investment Account's (IA) Fixed Income Subaccount. We note staff's assumption that the IA will over time achieve a higher return than the SDR rate.

**We agree with the proposed Decision 5** to keep the current rate of charge at 100 basis points over the SDR rate for FY 2024. *While we acknowledge that in the past year the Fund's borrowing costs were appropriately aligned with long-term credit market conditions, we would welcome staff's comments on the appropriateness of keeping the current rate of charge in the context of tightening in the global funding conditions going forward.*

**We positively note that both the Fund's income outlook and reserve accumulation for FY 2024 are projected to remain strong.** We also welcome that the indicative medium-term target for the Fund's precautionary balances of SDR 25 billion is still expected to be reached by late FY 2024 or early FY 2025. In view of the more favorable market conditions for enhancing the Fund's investment income, we see scope for extending the coverage of the Fund's non-lending administrative expenses by non-lending income, which would allow using a greater share of the lending income for reserve accumulation. *We note that non-lending income was projected to increase gradually from FY23 and to cover an average of 75 percent of the Fund's non-lending administrative expenses over the medium term. Staff's comments on the prospect to potentially extend the coverage ratio beyond 75 percent would be welcome.*

We welcome that operational costs of administering the Resilience and Sustainability Trust (RST) will be reimbursed to the GRA from FY 2024 onwards to ensure that GRA's resources are used for activities within the Fund's core mandate. *Staff's additional information on the RST setup costs and sources of funding would be appreciated.*

We look forward to the conclusion of the IFRS 9-related impairment assessment for FY 2023 scheduled for June 2023, and expect staff to inform the Executive Board accordingly.