



Executive Board Minutes 22/39-2

April 28, 2022–3:45 p.m.

Review of the Fund’s Income Position for FY 2022 and FY 2023-2024

Documents: EBS/22/26

Staff: Khaw, Zoli, and Nana, FIN

Length: 53 minutes

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CEDA OGADA
Secretary

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¹ Minutes are the official record of a formal Board meeting in which the Board may adopt decisions and reach understandings related to the business of the Fund. Staff background documents issued before the meeting are the principal basis for the meeting. Preliminary “gray” or “buff” statements by Executive Directors and staff’s responses to Directors’ technical questions are circulated prior to the meeting. Adopted decisions and/or summings up—the Chair’s “sense of the meeting” or policy conclusions/recommendations—are issued after the meeting. The minutes include all these elements, as well as the discussion record (a verbatim transcript of the discussion lightly edited for clarity). Minutes are made public consistent with the IMF’s Open Archives Policy.

THE ACTING CHAIR'S SUMMING UP

Executive Directors reviewed the Fund's income position for FY 2022 and FY 2023–2024. They welcomed that, in line with the April 2021 projections, the Fund is on track to end FY 2022 with a comfortable income position. Directors noted that the Fund's net income is projected to remain at about the same level in the next two financial years, which should help achieve the medium-term target for precautionary balances in FY 2025, as originally envisaged. They emphasized, however, that these projections are subject to heightened uncertainty given the war in Ukraine, inflationary pressures, and the lingering effects of the COVID-19 pandemic. In this context, Directors called on staff to monitor closely the implications of these developments on income and reserve accumulation.

Directors agreed to reimburse the General Resources Account (GRA) for the cost of conducting the business of the SDR Department. They also supported retaining, in their respective subaccounts, the income of the Fixed-Income and Endowment Subaccounts in FY 2022, with the intent of building an adequate income cushion for one more year in the Endowment Subaccount.

Directors adopted a new framework for allocating the Fund's annual net income to reserves. They broadly agreed to place, as of FY 2022, all pension-related remeasurement gains and losses to the Fund's special reserve and to allocate any remaining positive net income to the Fund's special and general reserves in equal parts. While Directors broadly considered that this allocation framework would help isolate the impact of the pension-related gains and losses within the special reserve, some Directors would have preferred a higher allocation of any remaining positive net income to the special reserve. In contrast, a few other Directors would have preferred to allocate most or all of the additional net income to the general reserve.

Following the placement of the FY 2022 net income, Directors broadly supported the transfer of currencies from the GRA to the Investment Account in an amount equivalent to the increase in the special and general reserves.

Directors also reviewed the margin for the rate of charge and broadly supported maintaining it at 100 basis points over the SDR interest rate for FY 2023–2024 under the exceptional circumstances clause. Noting that the Fund remains highly reliant on its lending income to finance non-lending activities, some Directors recommended undertaking a review of the 2008 income model. Some Directors also recommended assessing the role of gold sales as part of that review. While outside the scope of this review, some Directors reiterated their calls for temporarily or permanently either suspending or reducing surcharges to provide funding space to the membership in the current difficult economic environment. Some other Directors disagreed, noting that surcharges are an integral part of the Fund's multi-layered risk management framework, providing incentives for members to limit

exposures to Fund credit and strengthening the Fund's balance sheet by allowing accumulation of precautionary balances when its credit exposures grow.

Directors looked forward to the findings from staff's IFRS 9-related country assessments for FY 2022 and noted that no provisioning is currently expected.

EXECUTIVE BOARD DECISIONS

The Executive Board took the following decisions:

Review of the Fund's Income Position for FY 2022 and FY 2023-2024—Assessment Under Article XX, Section 4 for FY 2022

Pursuant to Article XVI, Section 2 and Article XX, Section 4 of the Articles of Agreement and Rule T-2 of the Fund's Rules and Regulations, it is decided that:

- (i) The General Department shall be reimbursed for the expenses of conducting the business of the SDR Department for the period of May 1, 2021 through April 30, 2022; and
- (ii) An assessment shall be levied on all participants in the SDR Department. The special drawing right holdings accounts of participants shall be debited on April 30, 2022 with an amount equal to 0.00127767 percent of their net cumulative allocations of special drawing rights. The total assessment shall be paid into the General Department.
(EBS/22/26, 04/12/22)

Decision No. 17234-(22/39), adopted
April 28, 2022

Review of the Fund's Income Position for FY 2022 and FY 2023-2024—Income of the Fixed-Income and Endowment Subaccounts

The income of the Fixed-Income and Endowment Subaccounts for FY 2022, if any, shall be retained in the Fixed-Income Subaccount and Endowment Subaccount, respectively, and invested according to the Rules and Regulations for the Investment Account. (EBS/22/26, 04/12/22)

Decision No. 17235-(22/39), adopted
April 28, 2022

Review of the Fund's Income Position for FY 2022 and FY 2023-2024—Placement of FY 2022 Net Income of the General Resources Account to the Special Reserve and General Reserve

Net income of the General Resources Account for FY 2022 equivalent to the pension-related remeasurement gain shall be placed to the Fund's Special Reserve, and for any net income in FY 2022 that exceeds the amount of the remeasurement gain, an amount equivalent to this excess shall be placed in equal parts to the Fund's Special Reserve and General Reserve. (EBS/22/26, 04/12/22)

Decision No. 17236-(22/39), adopted
April 28, 2022

Review of the Fund's Income Position for FY 2022 and FY 2023-2024—Transfer of Currencies to the Investment Account for FY 2022

Pursuant to Article XII, Section 6(f)(ii) of the Articles of Agreement, the Fund shall transfer from the General Resources Account to the Investment Account currencies in an amount equivalent to the difference between the Fund's general and special reserves as of April 30, 2022 and the cumulative amount of previous transfers of currencies from the General Resources Account to the Investment Account. This transfer of currencies to the Investment Account shall be effected in the context of the Financial Transactions Plan covering the period August, 2022-January 2023. The currencies transferred to the Investment Account pursuant to this decision shall be used for immediate investment in the Fixed-Income Subaccount in accordance with the Rules and Regulations for the Investment Account. (EBS/22/26, 04/12/22)

Decision No. 17237-(22/39), adopted
April 28, 2022

Review of the Fund's Income Position for FY 2022 and FY 2023-2024—The Rate of Charge on the Use of Fund Resources for FY 2023 and FY 2024

Pursuant to Rule I-6(4)(a), last sentence of the Fund's Rules and Regulations, the rate of charge for FY 2023 and FY 2024 shall be 100 basis points over the SDR interest rates under Rule T-1 of the Fund's Rules and Regulations. (EBS/22/26, 04/12/22)

Decision No. 17238-(22/39), adopted
April 28, 2022

EXECUTIVE BOARD ATTENDANCE²

K. Okamura, Acting Chair

Executive Directors	Alternate Executive Directors
	W. Nakunyada (AE)
	R. Lopes Varela (AF), Temporary
	L. Herrera (AG)
C. Huh (AP)	
	B. Saraiva (BR)
	Z. Zhang (CC)
	A. Guerra (CE)
P. Jennings (CO)	
D. Palotai (EC)	
	C. Roman (FF)
J. Stephan (GR)	
S. Bhalla (IN)	
	M. Massourakis (IT)
T. Tanaka (JA)	
	K. Osei-Yeboah (MD), Temporary
M. Mahmoud (MI)	
P. Hilbers (NE)	
	A. Ekelund (NO), Temporary
A. Mozhin (RU)	
	M. Alrashed (SA)
R. Lim (ST)	
	M. Peter (SZ)
S. Riach (UK)	
	A. Medearis (US), Temporary

S. Bhatia, Acting Secretary
R. Dall'Orto, Summing Up Officer
R. Smith Yee, Board Operations Officer
M. McKenzie, Verbatim Reporting Officer

Also Present

African Department: M. Mlachila, O. Williams. Communications Department: N. Ismail, I. Yackovlev Perez-Vilches. European Department: D. Iakova. Finance Department: P. Attie, W. Bauer Stampfli, C. Beaumont, S. Bradbury, M. Gororo, H. Hatanpaeae, L. Khaw,

² For countries in each constituency, please see the Constituency Codes in the annex.

B. Lauwers, Z. Murgasova, D. Nana, A. Ndiaye, B. Oliveira, Z. Xie, J. Yang, Y. Yang, E. Zoli. Information Technology Department: H. Wei. Legal Department: M. Saliba, B. Steinki, J. Swanepoel. Middle East and Central Asia Department: A. Arvanitis, C. Baker, R. Mariduena. Office of Budget and Planning: M. Albino Orjuela, B. Fosu. Office of Risk Management: B. Boulwood. Executive Directors: A. Andrianarivelo (AF), A. BinZarah (SA), S. Chodos (AG), H. Hosseini (MD), I. Mannathoko (AE), P. Moreno (CE), M. Poso (NO), E. Shortino (US). Alternate Executive Directors: A. Alhosani (MI), C. Amarasekara (IN), H. Azal (EC), M. El Qorchi (MD), A. Grant (AP), C. Just (EC), M. Kashima (JA), A. Marcussen (NO), F. Mochtar (ST), R. N'Sonde (AF), F. O'Brolchain (CO), O. Parkyn (AP), J. Romero (CE), F. Sylla (AF), V. Vumendlini (AE). Senior Advisors to Executive Directors: A. Abdullahi (AE), E. Cartagena (CE), M. Choueiri (MI), Patterson C. Ekeocha (AE), J. Garang (AE), R. Gindrat (SZ), V. Grossmann-Wirth (FF), L. Johnson (AP), H. Koh (GR), B. Lischinsky (AG), L. Marek (EC), S. Naka (JA), D. Ong (ST), C. Quagliarini (IT), B. Rankin (CO), J. Rojas (CE), C. Sassanpour (MD), M. Scholer (NE), N. Thiruvankadam (IN), A. Tolstikov (RU), M. Villeneuve (CO), S. Wongwaisiriwat (ST), B. Yoo (AP). Advisors to Executive Directors: N. Abu Bakar (ST), F. Al-Kohlany (MI), P. Al-Riffai (MI), A. Arevalo Arroyo (CE), Dennis Bautista (ST), S. Belhaj (MD), M. Boehme (GR), Campbell (UK), K. Carvalho da Silveira (AF), T. Cham (AE), J. Corvalan (AG), C. Eijking (NE), D. Hamzah (MI), A. Korinthios (IT), C. Kuth (SZ), V. Lankester Campos (CE), G. Meizer (EC), M. Merhi (MI), R. Moral Betere (CE), L. Nankunda (AF), G. Ogmundsdottir (NO), Y. Qi (CC), F. Rawah (SA), E. Shimada (JA), B. Singh (IN), S. Verhelst (NE), C. Westphal (US), F. Lopez (CE).

DISCUSSION RECORD³

The Acting Chair (Mr. Okamura):

Further to our earlier discussion on the Fund's budget, we now meet to discuss the annual review of the Fund's income position covering this fiscal year, FY 2022, and the outlook for FY 2023 to '24.

As we consider the Fund's income position today, we continue to face areas of increasing uncertainty. The Fund is on track to end FY 2022, this fiscal year, with a comfortable income position, and that trend is projected to continue in FY 2023-2024 mainly due to the higher pandemic-driven lending projections under the desk survey scenario; but looking beyond the pandemic response and the fragile path to recovery, there is much greater uncertainty over how much the Fund will ultimately be called upon to lend and, therefore, over the future path of lending income as the war in Ukraine continues and inflationary pressures mount.

Many Directors have commented on this aspect in their gray statements and have called on staff to monitor closely the implications of these developments on income and reserve accumulation. A more modest annual pension gain is projected for FY 2022, compared with that experienced last year, which reflected a recovery from the substantial losses incurred in FY 2020; however, the actual outcome remains subject to considerable uncertainty in light of the rising bond yields and ongoing financial market volatility.

The staff representative from the Finance Department (Ms. Khaw):

First, I would like to thank Directors and their advisors for the very helpful bilateral discussions last and this week, their gray statements, and their support for the proposed decisions. I hope that the staff's written responses addressed the bulk of Directors' technical questions, but I would like to share a few observations.

Second, allocation of reserves. There appears to be broad agreement with the proposal to isolate the volatility from pension remeasurement gains or losses in the special reserve, and staff appreciates the support from Directors. While some diverse views remain on the allocation of income between reserves, staff continues to focus on the accumulation of total

³ Edited for clarity.

reserves toward the medium-term target but are mindful of the balance across both reserves. The Board retains the flexibility to decide on a future income allocation.

One point, on the actual remeasurement gains and losses at year end. The projected retirement plan remeasurement gains of SDR 0.5 billion is an estimate based on the discount rate and other assumptions, including return on assets, as of February. As the outcome is sensitive to the assumptions, staff will report back when the final remeasurement is ready after year end.

On IFRS 9, the staff analysis will continue into May to ascertain the credit situation as of end-April, and we are grateful for the insights from country teams. The standard takes a long view of ultimate loss for a need to provision. On this basis, while short-term overdue obligations are considered, other factors, such as duration, track record, and engagement, play a critical role under the standard and the Fund's unique mandate. To date, staff is not projecting provision to net income for fiscal year '22.

Finally, on the New Income Model (NIM) review, staff fully agrees with Directors to initiate a review of the New Income Model, which staff can add to the work program for fiscal year '23 or into early fiscal year '24, depending on other institutional priorities. The model approved in 2008 aimed to diversify the sources of income and is supported by many enabling elements, including the lending margin, reimbursement of Poverty Reduction and Growth Trust (PRGT) expenses to the General Resources Account (GRA), investment vehicles and strategies. In its implementation, the lending margin, Fund's reserves, and gold all play a role. A policy for a systematic distribution of reserves was also discussed back in 2007 but was superseded by the clear need to accumulate precautionary balances. Staff, as guided by Directors, will continue to monitor the accumulation of precautionary balances, particularly at the time of greater-than-normal uncertainties.

Mr. Saraiva:

We have issued a comprehensive gray statement, and I want to focus on three issues this afternoon. My first point regards the distribution of net operational income, so excluding the pension-related remeasurement gains. Here, I am very much aligned with Mr. Jennings, Mr. O'Brolchain, and Mr. Rankin, and see limited value in allocating income to special reserves. The points made in their gray statement are very sensible. Specifically, that both reserve accounts can be used to absorb credit and administrative losses, while disbursements to the special reserves provide less flexibility for a future

Board decision. Hence, they point to the lack of rationality for trying to have similar balances in the special and general reserves. Therefore, we feel that the case for allocating net income beyond the pension-related remeasurement gains to the special reserves is less than compelling.

Indeed, this links to another point, made by Mr. Jennings and colleagues, that we also support, related to better using the Fund's balance sheet potential to support its overall financial position, which will be beneficial to the membership as a whole. We agree that a judicious use of the Fund's gold holdings could create room for effective support from the IMF balance sheets to actions that help the membership. Therefore, we agree with Mr. Jennings, that the Finance Department (FIN) should prioritize optimizing the Fund's balance sheet going forward.

My last point regards the margin for the rate of charge. I am aware that there is already an overwhelming support for keeping it at 100 bps. I do not want to insist on reducing the margin now, but I think we should be open to discussing this issue more at length at the mid-period review. It is clear that borrowers are paying for overall IMF expenditures, including service that benefits all the membership, including advanced economies, as well as for the Fund's steep reserve-building effort. Of course, by providing financial assistance, the IMF is supporting these countries' efforts, but this is the very objective of the cooperative, after all, to provide a global public good in the form of stability, prosperity, and the further integration of our economies. After all, we believe in multilateralism, in the understanding that we are better off if all the members improve, and no member is left behind.

The projections show clearly that there is room for a smaller margin, which would certainly be appreciated by those members that had to resort to the IMF and are in a financially constrained position. And that can be made without compromising the soundness of IMF finances and balance sheet. Hence, it is very important that we fully evaluate the desired implementation of the New Income Model, as Ms. Khaw just mentioned in her opening remarks, to see if it is fulfilling its purposes and if adjustments will have to be made, a point also eloquently made by Mr. Herrera in our previous meeting on the budget.

Also, I would like to request that the mid-period review does not take place in the period squeezed between the Spring Meetings and the end of the fiscal year so that we have sufficient time to discuss the issue more thoroughly.

That said, I am ready to approve the decisions on the table, even though we would prefer allocating the net operational income to the general reserve and would prefer a lower margin for the rate of charge. I hope we can return to these issues when we evaluate the implementation of the New Income Model and undertake the mid-period review one year from now.

Mr. Guerra:

In our gray statement, we supported the proposed general strategy and the proposed decisions. Let me highlight two points that we also made in our gray, reacting also to the staff's responses to our questions and to our colleagues' gray statements.

First, we welcome the fact that there has been significant progress in the implementation of the New Income Model. Nevertheless, after 15 years, we believe—as the staff does—that it is time to review the IMF's overall income model to ensure that the income model's objectives are met in a timely manner and are updated to the global economic context of high uncertainty. In this regard, we see merit in conducting a broad review of the NIM in fiscal year 2023. This will provide the Executive Board with the opportunity to discuss the New Income Model with a longer-term perspective, including on the expected income from the investment accounts.

Second, and supporting what Mr. Saraiva has stated, we must realize that the expected increase of the SDR interest rate of more than 100 bps in the next years will have a nearly neutral effect on Fund finances. We underscore that for a large part of our membership, this will not be the case.

The increase in the SDR interest rate, while marginal for the IMF's income, will be reflected in an additional burden for member countries at a very challenging context. Therefore, the risk of having an even higher increment in the SDR rate cannot be overlooked. This issue, along with the fact that the precautionary reserves target will be reached relatively soon, points to the need to also revisit our charges and surcharges policies, which could be conducted during a comprehensive review of the overall income model so as to ensure sufficient financing to our activities under a flat real budget in the years to come.

Mr. Massourakis:

We issued a joint gray statement with Ms. Riach, supporting the proposed decisions; therefore, I will focus on just a couple of issues today.

First, as many Directors emphasized, I would like to underscore once again the high degree of uncertainty that affects income projections, possibly the future demand for Fund resources. We understand that the staff has managed to strike a balance in evaluating the impact of several factors that move in opposite directions and, hence, the income projections reflect the best forecast at this stage. We thank staff for the good work. And given the significant uncertainty of the income position outlook, we encourage them to closely monitor the situation and to keep the Board timely informed if relevant changes take place and at least for as long as high levels of uncertainty persist, as suggested by Mr. Hilbers.

Second, regarding gold sales, as Mr. Jennings and Mr. Buissé, in their gray statements, we also see merit in the staff's elaboration as possible gold sales—as the topic has been raised in several recent discussions.

Mr. Herrera:

We published a gray, supporting Decisions 1, 2, 4, and 5; and with respect to Decision 3, we can go along with placing the pension-related gains in the Fund's special reserve but would prefer to allocate most or all the additional net income to the general reserve. We echo the comments by Mr. Saraiva, Mr. Jennings, and Mr. Hilbers, on the relevance of maintaining flexibility in the allocation of these reserves, adding also that the distribution of reserves to members, the only difference between the two accounts is an extremely rare event.

Second, as Mr. Saraiva and Mr. Guerra previously, we support a broad and comprehensive review of the Fund's income model in FY '23. The 2008 review proposed an income model relying on multiple sources of income, reflecting the Fund's multiplicity of functions. The update on the implementation of the New Income Model in Annex III highlights that the Fund still relies primarily on non-revenues, mainly surcharges, to finance all of its activities; and, over time, the investment account has not grown as originally expected due to falling global real interest rates. However, it is still true that the stability of income sources and their sustainability over time requires limiting excessive reliance on lending income and cross-subsidies to nonlending activity. We also echo the comments by Mr. Saraiva and Mr. Guerra on taking a fresh look at the determination of the interest rate margin.

Mr. Palotai:

We broadly support all five decisions, as proposed in the staff report. Like Mr. Peter, we know that the Fund's lending income projections are substantially impacted by the uncertainty surrounding program requests, disbursements, and potential augmentations, while prolonged market volatility will likely continue to weigh on the Fund's expected investment income. Against this backdrop, we also agree with Mr. Stephan's point, that costs related to the setup and operation of the Resilience and Sustainability Trust (RST) should be recovered to ensure that the General Resources Account's resources are used for the activities within the Fund's core mandate.

Given the Fund's high credit exposure, it is critical to be vigilant of the Fund's precautionary balances accumulation, as other Directors emphasized. In this context, we also welcome the staff's work on credit provisioning and look forward to the envisaged Executive Board update to keep Directors informed about the current state of the Fund's financial risk management framework.

Ms. Riach:

As Mr. Massourakis has said, we issued a joint gray with Mr. Fanizza, in which we supported all the proposed decisions, while noting that high and rising uncertainties make it particularly difficult to predict the volume of Fund lending in the months and years ahead of us. So, there are just a couple of additional points that I wanted to pick up from other Directors' gray statements; and, in fact, both of them were points raised by Mr. Saraiva and some others this afternoon.

Firstly, like Mr. Jennings, in his gray statement, and Mr. Saraiva, in his comments, we see limited value in allocating income to special reserves, given that special reserves provide less flexibility for future Board decisions in support of the interests of the membership. So, we, therefore, see merit in directing net income allocations to the General Reserves Account.

Secondly, like Mr. Jennings and Mr. Roman, in their gray statements, we do see value in work to explore options for gold sales, particularly, as Mr. Roman said, in the context of expected PRGT and RST operations. We would also welcome work from FIN to consider how the proceeds of such gold sales could be invested in high-quality, interest-bearing assets that would better support the Fund's overall financial position.

Mr. Hilbers:

As staff rightly pointed out, the income of the Fund is subject to high uncertainty. This underlines a need for prudence in setting the Fund's income policies.

I already commented on some elements linked to the Fund's income in our earlier session today. I would like to limit my comments here to three points, in line with the gray statement we issued.

First, we can agree on the proposed decision No. 3, on the placement of net income for financial year 2022. Nonetheless, as Mr. Huh and Mr. Jennings also noted in their gray statements, I would have preferred a more comprehensive review of the reserve placements to determine the best way forward. And I encourage staff to present such a review in the future that would allow a longer-term approach to income placement.

Second, I very much welcome the update on the implementation of a New Income Model. The Fund has so far, unfortunately, not been able to diversify its income as much as was planned under the New Income Model. And I agree with staff that a reassessment may be warranted in the coming years, also considering a possible change in the interest rate environment. Comments by staff on when such a reassessment could take place would be appreciated.

Third, and lastly, a comment on establishing a more integrated approach to the Fund's budget. We are now talking about income, after an earlier discussion today on the expenditure side of the budget. Would it not make more sense to discuss these together and align the horizons for medium-term income projections and budget planning, for example, both on a three-year rolling basis? This would also allow for a more informed decision on contingencies.

As I mentioned during the budget discussion, and as stated by Ms. Shortino in her integrated gray statement, and Mr. Fanizza and Ms. Riach in their joint gray statement, as a last point, income and expenditure could be dealt with in a more holistic manner, preferably based on a staff paper covering both elements. Any further progress in this field would be much appreciated.

Mr. Tanaka:

As we broadly agree with the staff's assessment and proposal, we would like to offer the following comments for emphasis.

First, while we positively note the projection that the Fund's net income would be sufficient to cover the expenses, the Fund needs to be vigilant about the final figures for this year and outlook. Income positions are subject to further growing uncertainty, given the recent volatility of the global financial markets, which also puts the investment income in further difficulties to project. We request frequent updates to the Board on this point, just like this year. Meanwhile, financial operation policies should be flexible, as needed, while accountable, in order to respond to possible adverse conditions.

Second, we support the staff proposal in Decision 3, to absorb the fluctuation of pension remeasurement gains and losses in the special reserve. This option is well-balanced between, first, the clarity of the remeasurement and, second, the prioritization of the special reserve accumulation. Since the remeasurement income depends on those options and, accordingly, tends to be tricky for understanding the entire net income, we expect the Fund to continue enhancing communication through the financial statement under the appropriate guidance of the External Audit Committee (EAC).

Thirdly, we see it appropriate to delay initiating payouts from the endowment subaccount (EA). It is reasonable to wait to restore the cushion of 15 percent against the EA's real value. We could come back to discuss this issue next year, depending on the investment income situation and inflation developments. In this regard, we request the staff to vigilantly monitor the performance of the new investment strategy.

Lastly, as we request a PRGT review meeting, we further request to steadily implement the consideration process of gold sales going forward, with a visible scheduling of process.

Mr. Peter:

As noted in our gray, we support the five decisions.

First, we want to stress the need for ensuring transparency about how costs related to the RST will be covered. We agree with Mr. Stephan and Mr. Palotai on the importance of ensuring the recovery of costs incurred

during the setup of the RST so that the GRA resources remain to be deployed on the Fund's core mandate. We support, there, the suggestion to include the costs of the RST in a transparent manner in the next review of the Fund's income position.

Second, like others, we point to the significant financial risks currently faced by the Fund. In this context, we caution against any step that could weigh on the accumulation of precautionary balances. Surcharges, in our view, play an important role in the Fund's multilayered risk management framework, especially in times of high credit outstanding, high credit concentration, and high risks. As such, we continue to see no need for a review of surcharges and no merit in exploring a temporary surcharge relief.

Mr. Zhang:

We issued a gray, supporting all the proposals by the staff.

First, against the backdrop of a likely tightening of financial conditions and rising inflation pressure, we think the margin rate of 100 bps is appropriate at this stage. We emphasize the importance for the Fund to maintain an appropriate margin rate to ensure the soundness of the Fund's income position.

Second, we see merit in a rules-based allocation of income between the special reserve and general reserve. We echo some Executive Directors and call on the staff to provide an assessment of the adequate size and accumulation pace of special reserve.

Ms. Ekelund:

We have issued a gray statement, wherein we broadly support all the proposed decisions, and I will only touch upon a few points for emphasis.

First, given the high uncertainty around the outlook, most notably due to the war in Ukraine, we encourage staff to update the Board, as needed, on possible deviations to the projections of Fund income. In this context, we support the point by Mr. Hilbers, in his gray statement, that it would be helpful if future updates do not only focus on the mid-point projections but also include other plausible scenarios and the actions required in these scenarios.

Second, we note with some concern the slightly slower pace of reserve accumulation, compared to what was anticipated in April last year. We believe that close continued monitoring of developments in reserve accumulation is of the essence, not least given the high sensitivity to the underlying assumptions and the significant credit risk in the Fund's lending portfolio. We were happy to hear staff's assurances about this in the opening remarks today.

Related to this, and also like Mr. Peter, Ms. Shortino, and Mr. Stephan, in their gray statements, we believe that the current structure of the surcharges should remain unchanged. As staff also notes in the paper, surcharges are a crucial part of the Fund's multilayered risk management framework, including to ensure an adequate accumulation of precautionary balances, as also mentioned by Mr. Peter just before me.

Mr. Osei Yeboah:

We have issued a gray, broadly supporting the proposals.

We welcome the pace of the implementation of the New Income Model, with most elements now in place. We note that this has enabled the Fund to gradually diversify its income sources, while reducing overreliance on lending income to finance its operations. That said, we would encourage a broader review of the Fund's income model and recommend revisiting the underlying assumptions, particularly the application of Rule I-6 (4) and the setting of margins under the exceptional circumstances clause.

We note that the pension-related adjustments under IAS 19 continue to generate considerable income volatility, potentially obscuring the Fund's income position. We think that reporting the changes which separate IAS 19 remeasurement gains or losses from income and ring-fencing pension-related gains or losses in special reserves will help to minimize distortions in assessing the financial performance and the distributable reserves.

Absent of fundamental changes to the Fund's operations, we concur that the IMF's longstanding practice of no provisioning for impairment losses under IFRS 9 should continue. That said, and considering the prevailing high uncertainty in financial markets and sensitivity around Fund provisioning for impairment losses, regular Board briefings would be desired.

I will end by reiterating a point raised in our statement; that is, amid the difficult external circumstances, the Fund should seriously consider revising surcharges downward to offer funding space to the membership.

The staff representative from the Finance Department (Ms. Khaw):

Let me take up the first issue. There is some guidance around the timely reporting and monitoring. Certainly, we will do that, especially in this period of greater-than-normal uncertainties. But immediately, we will have the opportunity to report back to the Board when we conclude the IFRS 9 work, and then, secondly, in a month or so, we will have the opportunity to report back to the Board on the annual financial statements as we continue on to the audit work, and so forth. In the next quarter or so, we will have several opportunities to look at the year-end conditions but also to have the opportunity to engage with the Board.

As indicated in the gray statements, there is a spectrum of views around many of these items, including the allocation to the reserves. In staff's mind, we see this as a very careful balancing act, a calibration around the New Income Model which, again, has sensitivities to the current economic environment but also to interest rates, discount rates, returns on assets, and so forth.

Then on the other side is this multilayered risk management framework that is equally and if not increasingly important in the current IMF mandate, especially on the lending arm as well.

And then finally, also, this guidance around the credit risk and the role of the precautionary balance accumulation toward the medium-term target.

Staff hears the Board's guidance. In our review that we have committed to next year or so, we will need to take a very careful look around all of this. I would say it is not singularly a lending or income issue, but it is equally a risk management issue, and the reserves that underpin the strength of the financial statement issue as well.

A point on the New Income Model. I will just reiterate my opening remarks, that gold has a role in it. We will also take a close look at that. So that is sort of, in some way, a second theme that I heard.

On reimbursement as a source of income. I had mentioned that it was designed with a reimbursement of the PRGT costs, but we also have good

reasons that the Board approved the suspension for a few years. But now we also have the RST. Ms. Shannon's intervention had mentioned the setup of the management fee in the RST. We will begin to look at it from a reimbursement basis, starting from FY '23. We will work with OBP on this closely, in terms of the idea of reimbursement as well.

On a call for working together with Budget, we are happy to work more closely with the Office of Budget and Planning (OBP) on combining the budget and income conversations, as well as the timing of the mid-year review with the Secretary's Department. Staff will acknowledge, from my end, we looked at the work program; and, at the moment, in FY '23, we have already a very full work program. I acknowledge that we will have to work closely with the Secretary's Department to find the right prioritization and insertion within the program.

To conclude, on the New Income Model review: as we now embark on this, it is clear in staff's mind that it is a very broad work program and has a multi-angle dimension to it. We have to walk a very careful line. I would not try to hurry the work program in terms of committing to an outcome, but we are certainly fully committed to commencing the work so that we begin to engage the Board, and to get further guidance from management as well.

Mr. Lopes⁴:

We would like to associate ourselves with Mr. Hilbers and other Directors on the need for staff to continue to explore ways to better integrate the budget and income discussions into a unified document.

We also share the views of Mr. Saraiva and Mr. Guerra on the importance of reviewing the Fund's surcharges, and we support a review of the income model.

Mr. Saraiva:

I appreciate the comments made by Ms. Khaw, which were very, very clear.

I just wanted to know about the timing of the mid-period review for the margin, for the rate of charge. Because I see that this discussion of the review of the Fund's income position is squeezed, as I mentioned, between the

⁴ These comments were made in the videoconference chat window.

Spring Meetings and the end of the fiscal year. It is not the best timing for a thorough evaluation of some issues on which one needs to take a diversity of angles. I do not know if there would be an opportunity to make this mid-period review not exactly together or not exactly squeezed in that busy week, after a tiresome week.

*Mr. Guerra*⁵:

I agree with Mr. Saraiva's request.

The staff representative from the Finance Department (Ms. Khaw):

I would say that it is well-taken, and we will have to go back to take a look and work with the Secretary's Department because we also realize that, between this period and the next Annual Meetings, one of the main focus obviously is standing up the RST. At the moment, it is difficult to commit to a specific time-frame, but I hear the Board very clearly and we will try to delink some of the peak workload so that there is sufficient time to consider and engage.

The Acting Chair (Mr. Okamura):

We will explore the possibility of improvement. As many of Directors have requested, staff will continue to monitor closely the implications of the ongoing developments related to the war in Ukraine, inflationary pressures, and the lingering effects of the COVID-19 pandemic on income and reserve accumulation.

The Acting Chair (Okamura) adjourned the discussion.

⁵ These comments were made in the videoconference chat window.

ANNEX

- Gray Statements
- Staff's Responses to Executive Directors' Technical Questions
- Constituency Codes

**Statement by Mr. Palotai, Mr. Azal, Mr. Just, and Mr. Marek on Review of the Fund's
Income Position for FY 2022 and FY 2023-2024
Executive Board Meeting 22/39
April 28, 2022**

We thank staff for the detailed report. **We support all proposed decisions pertaining to FY 2022 and FY 2023-2024.** The Fund's income position continues to be subject to high uncertainty in the context of the COVID-19 pandemic, and the war in Ukraine, which weigh on the lending income projections. While the pace of precautionary balances (PB) accumulation has slowed down compared to previous projections, we welcome that the target level of SDR 25 billion is expected to be reached by FY 2025, as originally envisaged. We agree with staff's proposal to ringfence the pension-related remeasurement in the Fund's special reserve, as this option isolates the respective pension-related volatility from the Fund's income position. On the five individual proposed 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 shall be reimbursed for the expenses of conducting the business of the SDR Department for the period of May 1, 2021 through April 30, 2022.

We **support the proposed Decision 2**, as we share staff's view that it is preferable to delay the payout from the endowment sub-account (EA) to the general resources account (GRA) for an additional one year to enhance the EA's retained investment income cushion. Based on the refinements to the investment strategy for the EA and fixed-income subaccount (FI) approved in January 2022 as part of the 5-yearly review, we expect that the adjustment in the EAs' strategic asset allocation will facilitate reaching the EA's real return target of 3 percent, while keeping the portfolio resilient to volatility.

In order to isolate the income volatility stemming from the pension-related gains and losses in the Fund's financial statements, we **support option 4 under the proposed Decision 3** to allocate all IAS 19 remeasurement gains and losses to the special reserve and allocate any remaining positive net income in equal parts between the special and general reserves. *While we consider the proposed ringfencing of pension-related volatility appropriate to shield the Fund's income position, we would like to ask staff to comment on the potential risks related to market reaction, should the level of the Fund's precautionary balances substantially fluctuate from one year to another as a result of absorbing any pension-related losses.*

We **agree with the proposed Decision 4** to transfer currencies equivalent to the full amount of the increase in reserves from the GRA to the investment account for investment in the FI. We note staff's objective to potentially achieve higher returns above the SDR rate in the GRA through investment in the FI.

We **note staff's proposal under Decision 5** to leave the Fund's rate of charge on the use of Fund resources for FY 2023 and FY 2024 unchanged, at 100 basis points over the SDR interest rate. The objective of this consideration is to align the Fund's borrowing costs with market conditions. While we note that for the Fund borrowers the cost of the Fund credit at the current rate remains broadly in line with staff's benchmarks for long-term credit

conditions, the comparator spreads have widened quite substantially since the last review. *Against the backdrop of a likely tightening in financial conditions amid rising inflationary pressures, we would welcome staff's comments on how they expect the medium-term conditions to change, and whether they consider that the current rate of charge will continue to be appropriate in the following fiscal years.*

We note that the path of PB accumulation is projected to decline to SDR 20.9 billion by end-FY 2022, below the estimate of April 2021. Although this slowdown in the PB accumulation is mainly explained by the full distribution of the First Special Contingent Account for Sudan's arrears clearance and debt relief, we encourage staff to closely monitor the following projections based on the desk survey, to ensure that the SDR 25 billion target is met in FY 2025.

**Statement by Mr. Jennings, Mr. O'Brolchain, and Mr. Rankin on Review of the Fund's
Income Position for FY 2022 and FY 2023-2024
Executive Board Meeting 22/39
April 28, 2022**

We thank staff for the insightful paper. We note that current FY 2022 net income projections remain broadly in line with earlier projections and the FY 2023-24 outlook remains strong. Nevertheless, we stress that projections should be interpreted cautiously given greater than normal uncertainties amid Russia's invasion of Ukraine and continued uncertainty around the path of the COVID-19 pandemic.

We support the majority of proposed decisions, and in particular:

- **We support keeping the margin for the rate of charge for the period FY 2023– 2024 unchanged at 100 basis points.** Fundamentally, Fund credit must remain attractive relative to alternative sources of finance. In this respect, we note that the cost of Fund credit at the current margin remains broadly in line with the staff benchmarks for long-term credit market conditions. We look forward to regularly reviewing the margin rate of charge to ensure it is meeting the Fund's mandate and needs of the membership.

- **We support delaying the Endowment Subaccount (EA) payout for another year.** As staff highlight, the sharp increase in inflation and war in Ukraine eroded the EA cushion of retained investment income below desired levels. We agree that delaying the EA payout would build a more adequate cushion and ensure the EA is able to help diversify Fund income sources over the long-term.

We see limited value in allocating income to special reserves. While both "general" and "special" reserve accounts can be used to absorb credit losses, disbursements to the Special Reserve account limits future discretion to make distributions that advance the Fund's mandate and interests of the membership. Recognizing that reserve allocation has been uneven since the creation of the special reserve account, we do not see a strong argument in favor of a 50:50 split between the two reserve accounts going forward, or a clear rationale why attempting to equalize account balances should be a policy goal. For these reasons, and in the interest of streamlining Fund finances, we generally see merit in directing net income allocations to the general reserve account. In the interest of consensus, we can go along with ring-fencing the IAS 19 remeasurement gains/losses in the special reserve, but do not see

merit in a framework that commits future allocations to the account. We note that cumulative IAS 19 remeasurement gains and losses offset each other, and the balance tends to zero.

We regret the significant forgone income associated with the Fund's enormous gold holdings. We recall that the Fund currently holds over 90 million ounces of gold, with a current market value well over US\$170 billion (but of book value of only \$4 billion). We note that proceeds from gold sales could be invested in high-quality interest-bearing assets that better support the Fund's overall financial position. Optimizing the Fund's balance sheet should be a key priority for the Finance Department going forward.

We note that the indicative medium-term target for precautionary balances of SDR 25 billion is expected to be reached in early FY 2025. Ahead of 2025, there may be merit in developing a policy that outlines the circumstances in which staff would recommend a distribution of net income to the Fund membership. *Staff comments welcome.*

**Statement by Ms. Shortino, Ms. Medearis, and Mr. Westphal on Review of the Fund's
Income Position for FY 2022 and FY 2023-2024
Executive Board Meeting 22/39
April 28, 2022**

We thank staff for the Medium-Term Budget proposal and the Income Position paper. We have long indicated that future budgets should be assessed in conjunction with Fund income so as to provide a more holistic review of the Fund's operations. To that end, we have opted to issue one gray covering both papers. **We welcome that the Fund maintains robust income which is sufficient to support a flat real budget along with a structural augmentation to ramp up work in key priority areas.** We look forward to discussing both items in back-to-back sessions and encourage staff to consider combining these two papers into one Board discussion in the future.

Medium-Term Budget

We thank staff for this Medium-Term Budget paper. **We support the decisions on the administrative budget, the capital budget appropriations, the carryforward mechanism, and the funding of competitiveness measures in line with the Comprehensive Compensation and Benefits Review.**

We welcome that this budget proposal is in line with the flat real budget principle and the budget augmentation for targeted areas that the Board approved in December. We reiterate our support for maintaining a flat real budget, which should remain the underlying principle in future budget discussions, and welcome that we will return to this approach following the implementation of the augmentation.

We welcome the additional detail on the deliverables from the structural augmentation. Implementing the augmentation will require careful phasing and flexible execution, and staffing needs may need to be adjusted in response to hiring and evolution of needs by member countries. We look forward to regular Board updates on the implementation of the different strategies, including details on how the Fund is leveraging other institutions such as the World Bank to achieve outcomes within its budget envelope. We also welcome the discussion of budget costs associated with the RST and can support a proposed management fee to cover costs of managing the trust.

We can support the proposal to decrease the carryforward limit from 8 percent to 7 percent of the overall budget. We would have preferred a faster decrease in the carryforward limit to the pre-pandemic level of 3 percent, particularly in light of consistent budget surpluses and the recently approved budget augmentation. We also would have appreciated greater clarity on the plan to bring carryforward levels back to 3 percent in a

timely manner. We can go along with this proposal, however, given the potential for additional surge support to address spillovers from Russia's war against Ukraine.

We continue to think that the forward-looking budget projections would benefit from greater specificity, along with clearer comparisons between backward-looking actual numbers and forward-looking projections. We understand that staff use different computer programs for the backward-looking actual numbers and the forward-looking projections. However, Table 5 provides a very limited breakdown of the gross administrative budget for FY23 and the tables provided at the end of the staff paper are entirely backward-looking, making it difficult to do a full assessment of the proposal. *Can staff provide further details on the constraints to breaking out FY23 budget proposals into more detail?* We would request that staff provide this additional detail in the Medium-Term Budget paper for FY24.

Income Position Review

We also thank staff for the report on the Fund's income position. Net income remains comfortable at SDR 2.2 billion this fiscal year and is projected to remain about the same for the next two fiscal years. This in turn will help maintain progress to achieve the precautionary balances target by FY25. At the same time, staff rightly note the potential for high uncertainty surrounding future income, and we urge staff to monitor developments closely. **We support all five proposed decisions**, namely:

- We support Decision 1 to assess SDR Department participants for the reimbursement of the General Department for the expenses of conducting the business of the SDR Department in FY 2022, consistent with past practice. We also continue to strongly support the suspension of reimbursement of the GRA for PRGT administrative expenses for FY 2022–2026 to boost PRGT reserve coverage, generate additional subsidy resources, and ultimately support a self-sustained PRGT.
- We support Decision 2, which provides for the income of the Fixed Income and Endowment Subaccounts for FY 2022, if any, to be retained in the respective subaccounts.
- We welcome staff's exploration of different options for a framework to allocate net income to the Special and General Reserve accounts. We support Decision 3 to place the net income of the GRA in the Fund's Special Reserve, up to the amount of the pension-related gain in FY 2022, and to place any additional net income in equal parts in the Fund's Special Reserve and General Reserve. We appreciate that staff developed this proposal in response to the Board request to ringfence the income volatility arising from unpredictable pension-related gains and losses, and we see this proposal as a reasonable approach.

- We support Decision 4 to transfer currencies from the GRA to the Investment Account (IA) equivalent to the increase of the Special and General Reserves following the placement of FY 2022 net income. We agree with the underlying rationale that returns to the IA are likely to be higher than SDR interest rate over the medium term.
- We support Decision 5, which sets the rate of charge on the use of Fund resources for FY 2023–2024 at 100 basis points over the SDR interest rate. We agree that there are no fundamental changes that warrant an adjustment to the current rate of charge of 100 bps.

Finally, we continue to oppose any suspension of surcharges. We agree with staff that surcharges are an integral part of the Fund’s multi-layered risk management framework. We note that surcharges help to strengthen the Fund’s balance sheet by allowing accumulation of precautionary balances when the Fund’s credit exposures grow or become more concentrated.

**Statement by Mr. Andrianarivelo and Mr. Carvalho da Silveira on Review of the Fund's
Income Position for FY 2022 and FY 2023-2024
Executive Board Meeting 22/39
April 28, 2022**

We thank staff for the well-written report on the review of the Fund's income position for FY 2022 and FY 2023-2024, which along with the paper on the FY2023-2025 Medium-Term Budget, gives a holistic view of the Fund's finances for the period ahead.

We welcome the indication that the Fund's overall net income position for FY 2022 and FY 2023-2024 is expected to remain solid despite greater global uncertainty. Although several factors have affected the Fund's finances, notably pension-related gains, unexpected losses in the Fixed-Income Subaccount as well as reimbursements to the GRA for the cost of administering the Poverty Reduction and Growth Trust (PRGT), it is reassuring to note that the Fund's net income for the current fiscal year is estimated at SDR 2.2 billion, in line with last year's projections. Similarly, the net income outlook for FY2023 and FY 2024 is also elevated, with a projection of about SDR 2.1 billion and a strong potential for reserve accumulation, but also subject to significant uncertainty and downside risks. Here, we emphasize the importance of the Fund to remain adequately resourced to effectively fulfill its mandate and respond to the needs of its members during these uncertain times. That said, *could staff elaborate more on the substantial positive change in the return projections for the Fixed-Income Subaccount under the new investment strategy even in an environment of rising interest rates?*

We support the proposed decisions as outlined in the report and would like to provide emphasis on only a couple of points:

We agree with **Decision 1** regarding the reimbursement of the General Department for the expenses of conducting the business of the SDR Department in FY 2022. On **Decision 2**, we agree with the proposal to retain and reinvest the EA investment income earned in FY 22 to help build a cushion against potential shocks close to the target of 15 percent amid high volatility in the financial markets instead of transferring to the GRA to be used for administrative expenses. We are reassured that this delay in payout is also expected to have a minor impact on the Fund's ability to cover these expenditures. Moreover, we note that no transfer is also likely to the GRA, given the losses incurred by FI in FY 22.

We are pleased to note that the positive net income projected for FY 22, now finally, allows the fund to review its allocation framework after the deferral in FY20. In this connection, we support the income allocation framework under **Decision 3**, option 4, which assigns all the net income amount of the GRA up to the amount of the pension-related (IAS 19) gain in FY 2022 to the Special Reserve, and any remaining positive net income in equal parts to the Special and General reserves. In our view, this option seems broadly adequate in addressing concerns over the impact of IAS 19 remeasurement gains and losses while also the special reserve to grow at a modest pace.

We concur with the proposal to transfer currencies from the GRA to the Investment Account equivalent to the increase of the special and general reserves following the placement of FY 2022 net income as presented under **Decision 4**. We also support maintaining the margin for the basic rate of charge for FY 2023–2024 at 100 basis points over the SDR interest rate (**Decision 5**).

**Statement by Mr. Zhang and Ms. Qi on Review of the Fund's Income Position for FY
2022 and FY 2023-2024
Executive Board Meeting 22/39
April 28, 2022**

We thank the staff for the informative report and helpful outreach with our Office. We broadly support the staff's proposal and would like to limit ourselves to the following points.

On Decision 1, we agree with the assessment on SDR Department participants for the reimbursement of the General Department. We take note that the estimated expenses of conducting the business of SDR Department would be SDR 8.44 million, almost doubled the earlier projection. We understand that this is inevitable due to the general SDR allocation, expanded operations of VTA market, and the ongoing review of SDR basket.

On Decision 2 and 4, we agree with retaining the EA payouts and the currencies transfer to the Investment Account. We take positive note that the investment income from the EA is estimated at SDR 202 million and exceeds the initial projection. We agree that the delayed EA payouts would help to provide an opportunity to build the cushion towards 15 percent, which would protect the value of EA's corpus against adverse scenarios.

On Decision 3, we can go along with equal placement between the Special Reserve and General Reserve, while we would prefer faster accumulation of Special Reserve. As shown in the report, the balance of Special Reserve represents about 60 percent of General Reserve. We appreciate staff's scenario analysis of the four options for allocating the net income between the Special and General Reserve. Considering the elevated downside risks, it is desirable to build adequate special reserves as the first line to cover administrative losses. However, we can go along with the equal placement on the basis that the Special Reserve would accumulate at a steady pace. We support isolating IAS 19 remeasurement gains and losses in the Special Reserve, so that the large volatility associated with the IAS 19 adjustment would not distort the distributable reserves.

On Decision 5, we support that the margin rate of charge remains at 100 bps for FY23-24 and look forward to the periodical review. We concur with the necessity of covering the residual non-lending expenses by income from the margin under exceptional circumstances. We understand that maintaining the margin rate at 100 bp is an appropriate choice after taking into consideration a bunch of factors including the coverage of intermediation costs, reserve accumulation, and alignment of Fund's borrowing costs with market conditions. We look forward to reviewing the margin of the rate of charge periodically.

**Statement by Ms. Marcussen, Ms. Ekelund, and Mrs. Ogmundsdottir on Review of the
Fund's Income Position for FY 2022 and FY 2023-2024
Executive Board Meeting 22/39
April 28, 2022**

We thank staff for the informative paper on the Review of the Fund's Income Position for FY 2022 and FY 2023-2024. **We support all five proposed decisions concerning FY 2022 and FY 2023-2024** and would like to provide the following comments for emphasis.

We note with some concern the slightly slower pace of reserve accumulation than was anticipated in the recent Interim Review of the Adequacy of the Fund's Precautionary Balances. Close continued monitoring of developments in reserve accumulation is of the essence, not least given the high sensitivity to underlying assumptions and the significant credit risks in the Fund's lending portfolio.

We note the current repurchase schedule is heavily concentrated in the FY2023-2025 window which constitutes an additional risk. In this respect, we reiterate our view that the current structure of surcharges should remain unchanged as they constitute a crucial part of the Fund's multilayered risk management framework including to ensure an adequate accumulation of precautionary balances. We agree with staff on the rationale to retain the rate of charge on the use of Fund resources for FY 2023–2024 unchanged at 100 basis points over the SDR interest rate, as proposed in decision 5.

We agree with the proposed income allocation decision that would isolate IAS 19 remeasurement gains and losses in the special reserve, and the continuation of the even allocation of net positive income to the special and general reserve as proposed in decision 3. We continue to support the principles that have guided the framework for income allocation to the special and general reserves, and the Board's flexibility to decide on future income allocation.

We see merit in delaying the Endowment Account (EA) payout for an additional year, as proposed in decision 2, to build an adequate income cushion, in particular as it would reduce the risk of a start-stop decision.

**Statement by Mr. Nakunyada and Mr. Garang on Review of the Fund's Income Position
for FY 2022 and FY 2023-2024
Executive Board Meeting 22/39
April 28, 2022**

1. We thank staff for the comprehensive report and welcome the review of the Fund's income position for FY2022 and FY2023- 2024. This review comes against the backdrop of uncertainty compounded by the lingering effects of the COVID-19 pandemic and the ongoing war in Ukraine, which could impact Fund operations and finances. We commend staff for integrating the important feedback provided by Executive Directors during recent income-related engagements. **We broadly support the proposed decisions and provide the following remarks for emphasis.**
2. **We positively note the strong income position estimated for FY2022, despite considerable risks that dominate the outlook.** Specifically, we note the projected Fund's overall net income for FY2022 is estimated at SDR 2.2 billion, including the positive effects of pension related (IAS 19) remeasurement gains and retained investment income and in line with April 2021 estimate. Further, we note that total operational lending income is projected to be SDR 2.6 billion, about SDR 97 million lower than the April 2021 estimate due to fewer purchases and some rephasing of drawings. We are, however, reassured that reserve accumulation remains strong and that the target could be reached by early FY2025.
3. **We note the uncertainties related to the impact of the COVID-19 pandemic and the war in Ukraine on key assumptions and income projections for FY2023-2024.** Consequently, the FY2023-2024 income is conditioned by additional uncertainty emanating from the potential scale of new lending and program disruptions occasioned by the war in Ukraine, as well as global divergent recovery from the COVID-19 shock. Against this background of exceptional uncertainties, the Fund's net overall income position is estimated to modestly decline to SDR 2.1 billion for both FY2023 and FY2024 without considering pension related losses and gains.
4. **We support the one-year extension of the Endowment Subaccount (EA) payouts considering increased pressure recently exerted on the income cushion.** In this context, we agree that keeping EA payouts unchanged will allow staff to monitor market developments and help ensure that pay-off decisions are aligned with the need to meet return objectives. We, therefore, view the proposed one-year extension under **Decision 2**, as warranted, particularly in the context of significant market correction following the sharp increase in inflation amplified by the war in Ukraine. That said, we note with concern staff's conclusion that the cushion remains susceptible to significant fluctuations and elevated downside risks associated with investments in the EA. *Could staff comment on the expected impact of the delayed payouts on the Fund's net operational budget for FY2023?*

5. **We support the proposal to ring-fence pension re-measurement gains/losses to minimize their volatility on the Fund's income position.** We, therefore, agree with the proposal to place a portion of General Resources Account (GRA) net income equivalent to the remeasurement gain to special reserve and the balance to the special and general reserves consistent with **Decision 3**. That said, we see merit in ensuring a faster pace of accumulation in the special reserves as first line of defense against losses. Relatedly, we support staff's proposal for the transfer of currencies equivalent to the increase in the Fund's GRA reserves from the GRA to the Investment Account as proposed under **Decision 4**.

6. **Finally, ensuring the Fund's compliance with IFRS 9 requirement and Board-endorsed presentational enhancements remain key** While the Fund's framework for assessing the need to provision has been adapted to comply with IFRS 9, we positively note that it continues to reflect the unique nature of the Fund's lending function, underpinned by robust risk management framework. This robust framework benefits from the preferred creditor status and burden sharing mechanism, which have served the Fund well over many years. We look forward to findings that would emerge from staff's conduct of IFRS 9-related impairment assessments for FY2022. We also agree that the current charge of 100 basis points over the SDR rate for FY2023 should be maintained in line with **Decision 5**, considering that there are no fundamental changes that would warrant any adjustments.

**Statement by Mr. Bhalla and Mr. Natarajan on Review of the Fund's Income Position for
FY 2022 and FY 2023-2024
Executive Board Meeting 22/39
April 28, 2022**

1. We thank the staff for the comprehensive paper on the Review of the Fund's Income Position for FY 2022 and FY 2023-24. The income estimates are subject to the elevated uncertainties arising from the rapid developments in the global economy, volatile and divergent economic recoveries, inflationary pressures, and turbulence in financial markets. Though lending operations are expected to increase, its extent is subject to wide variation. A financially strong IMF is important for ensuring robust and reliable support to the members. Broadly agreeing with the proposals, we urge the Fund to closely monitor the income situation and take measures to mitigate the risks.

2. We note that the net operational income is estimated to be broadly in line with the initial estimate in April 2021 although there are significant changes in the underlying factors and variations in different elements of income and expenses. The lending income is expected to be lower than the estimates due to fewer purchases and the phasing of drawings. Given lending operations are the core of the Fund's support to the members, it is important to evaluate the reasons and dynamics behind this situation. *Staff may comment.*

3. Investment income from the Fixed Income Subaccount (FI) remains subdued due to relatively low yields and the uptick in interest rates. Investment income from the Endowment Subaccount (EA) is likely to be stronger than the projections due to the strengthening of USD against SDR, offsetting the impact due to negative yields. Though the EA cushion has grown considerably, we concur with the staff proposal to retain the income earned in EA as this can help maintain a balanced portfolio that is resilient in different economic and inflation scenarios. We take note of the remeasurement gains in pension-related adjustments due to the increase in the discount rate during the year.

4. We agree on the need to calibrate the allocation of income to special and general reserves. Since the special reserve is the first-line of defense against administrative losses including remeasurement losses, we concur on the proposed option to allocate all IAS 19 remeasurement losses and gains to the special reserve and allocate the remaining positive net income in equal parts between the special and general reserve. The sensitivity analysis shows that the income and expenses are expected to remain volatile in the near term, particularly to changes in margin for the rate of charge and investment income margin. Taking into account the need for coverage of intermediation costs and reserve accumulation, we go along with the proposal to keep the margin unchanged at 100 basis points.

**Statement by Mr. Moreno, Mr. Guerra, and Ms. Arevalo Arroyo on Review of the
Fund's Income Position for FY 2022 and FY 2023-2024
Executive Board Meeting 22/39
April 28, 2022**

We thank staff for the comprehensive and detailed analysis of the review of the IMF's income position. Staff's analysis points to the net income of the Fund potentially facing a riskier context in the short and medium-term, in particular from asset returns and pension fund obligations. Income for FY 2022 has broadly been in line with initial estimates. Nevertheless, it is also clear that, given the high demand for IMF support due to the recurrent shocks to the global economy, income will remain strong in the medium-term. Under the baseline, the projections point to the indicative medium-term target for precautionary balances being reached in early FY2025. **We support the proposed general strategy and decisions, but we also call for a revision of the IMF's overall income model to ensure that the NIM objectives are met in a timely manner and are updated to the current global economic context of higher uncertainty.**

- **We support the decision to retain the possible income from the Fixed-Income and Endowment Subaccounts for FY2022 in the respective subaccounts.** In particular, we concur that there is a strong case for further delaying the commencement of the EA payout. The current context of high market volatility calls for a prudent stance in order to protect the EA from additional shocks.
- **The decision to maintain the margin for the rate of charge and surcharges will coincide with an increase of more than 100 bp in the SDR rate in the next two years.** As presented by staff, lending income is projected to remain substantially higher than intermediation costs in the next few years.
- **Staff's proposal for the placement of FY 2022 GRA net income into the Fund's Special Reserve and General Accounts is a balanced and timely solution.** In particular, the placement of the pension-related gains and losses into the Fund's Special Account will serve as a buffer to the Fund's income from the current volatile market conditions and changes to pension actuarial assumptions. We also concur with staff that the Reserve Account is better suited for the allocation of unrealized amounts and that IAS 19 remeasurement gains and losses would be more clearly identified.

The high uncertainty and accumulation of shocks could be reflected in delays, rephasing, or cancellation of purchases. We agree with staff in the overall assessment of risks. In particular, the ongoing and hard to predict market volatility can be reflected in the foreseeable future in downside risks to expected contributions from investment income. We also agree with staff that changes to the actuarial assumptions, in particular the rate of discount, can add to the volatility in the pension-related gain or loss under IAS-19. *Can staff comment if there is any current discussion on the IAS-19 general framework that could also have implications for the IMF?*

We particularly welcome the fact that there has been significant progress in implementing the NIM. Nevertheless, we see merit in a broad review of the NIM in FY23. This will provide the Executive Board the opportunity to discuss the NIM with a more long-term perspective, including on expected income from investment accounts. *Can staff comment on what they think could be the main general topics covered by a review?*

**Statement by Mr. Binzarah and Mr. Rawah on Review of the Fund's Income Position for
FY 2022 and FY 2023-2024
Executive Board Meeting 22/39
April 28, 2022**

We thank staff for the well-focused report and welcome the opportunity to review the Fund's Income Position for FY 2022 and FY 2023-2024. We take note that the net income position for FY 2022 is largely in line with the April 2021 projections and that strong performance is expected to continue for FY 2023-2024. Nonetheless, FY 2022 estimates comprise notable component-wise updates mainly with respect to lending and investment operations as well as the pension-related (IAS 19) adjustment. The short-term net income position outlook, more generally, is also subject to substantial risks amid the ongoing conflict in Ukraine, persistent inflationary pressures, and the lingering effects of COVID-19. We commend staff for their good work during these challenging circumstances and encourage them to come to the Board with timely updates as needed. We broadly support the proposed decisions and would like to raise the following points.

1. **We support the proposal to retain the investment income of both FI and EA, if any, in the respective subaccounts for FY2022.** Suspending the transfer of income from the IA subaccounts to the GRA is appropriate in our view given the projected losses for the FI this year, and to allow the EA cushion to increase towards its target to strengthen resilience against adverse shocks. We expect staff's initial consideration to commence the EA payouts in FY 2023 to be reassessed prior to the expected Board discussion next year to ensure suitability in accordance with the existing framework.
2. **On possible treatments of IAS 19 remeasurement gains and losses, we view option 4 as a sensible approach, but we can go along with consensus.** Here, we welcome staff's further efforts to explore possible options as requested by the Board. Regarding the first three options, we don't see that these options address the unpredictability of the pension-related remeasurement gains and losses as the primary focus is on considering the pace of which the special reserve is built over time. Option 4, on the other hand, offers a practical solution by isolating the remeasurement gains and losses in the special reserve, which is better suited for the accumulation of unrealized gains and losses given its non-distributional feature. This option, however, has its own shortcoming as it still doesn't protect the precautionary balances from remeasurement-related volatility.
3. **We broadly support the decision to transfer additional GRA currencies to the IA for investment in the FI for FY 2022.** *However, we wonder if staff also considered a more aggressive investment approach of transferring part, or all, of the transferrable amount to the EA. Staff comments would be welcome.*
4. **We agree with keeping the margin for the rate of charge for the period FY 2023-2024 unchanged at 100 bps under the exceptional circumstances clause.** This would

allow for maintaining strong reserve accumulation over the short-term, albeit at a slightly slower pace than initially anticipated, is broadly consistent with the long-term credit market conditions, and is necessary to cover non-lending expenses in light of the projected path for the non-lending income performance going forward. Against the backdrop of greater than normal uncertainty, we look forward to discussing the appropriate level of the rate of charge margin in the mid-period review by the end of next year.

**Joint Statement by Mr. Fanizza and Ms. Riach on Review of the Fund's Income Position
for FY 2022 and FY 2023-2024
Executive Board Meeting 22/39
April 28, 2022**

We thank staff for a well-written paper on the Fund's income position. We agree that the main risks that surround the income projections require close monitoring. We note the high uncertainty that characterizes the global economic outlook at the current juncture makes it difficult to predict the volume of Fund lending in light of the evolution of the pandemic, rising inflation, and the war in Ukraine. We can support all the proposed decisions. We offer the following comments.

- **Endowment Account.** Considering the heightened uncertainty facing financial markets, we agree with staff on postponing by one year the start of payouts from the investment account to the General Resources Account (GRA). This postponement will help build a cushion to protect against possible adverse market scenarios.
- **IAS19 pension-related measurements.** We appreciate staff's work on possible ways to address the unpredictable impact of pension-related measurements on Fund's income and reserves. We understand that it is not possible to effectively isolate the core business from pension measurements requirements in the International Financial Reporting Standards (IFRS9); thus, we can go along with the proposed approach (in Option 4) to allocate all IAS 19 remeasurement gains and losses to the special reserve and share any remaining net income in equal parts between the special and the general reserve. We strongly encourage maintaining all the presentational adjustments to allow an as clear as possible representation of the Fund's financial results from core activities.
- **Margin.** We concur with staff that the current difficult economic juncture justifies maintaining unchanged the 100-basis point margin over the SDR rate for FY23 and FY24 because of exceptional circumstances
- **Provisioning for impairment losses.** We welcome staff's work on provisioning in the direction towards adopting more transparent accounting practices on which the Board should be regularly briefed.

- **Integrated approach.** We welcome staff's improvements towards a better integration of the budget and income discussions at the Board and encourage staff to pursue additional efforts to explore ways to bring the two topics together in a unified document to the attention of the Board.

**Statement by Mr. Huh, Ms. Johnson, and Mr. Yoo on Review of the Fund's Income
Position for FY 2022 and FY 2023-2024
Executive Board Meeting 22/39
April 28, 2022**

We thank staff for an insightful paper with an integrated approach with budget. We note that the Fund's operating income is projected to remain strong over the medium-term amid heightened uncertainty around Fund's lending and financial market conditions.

We note that net operational income of the GRA for FY 2022, excluding pension-related net adjustment of about SDR 340 million, will be significantly lower than the initial estimate in April 2021, mainly due to lower lending income and losses in investment subaccounts. Lower lending income is mostly due to delays in certain purchases or not realizing previously anticipated purchases. *We would like to seek further clarification as to whether the previous projection for lending demand was overestimated or whether there were implementation issues.* We also note the loss in the Fixed-income subaccount (FI) due to sharp increase in interest rates. *Could staff provide a sensitivity analysis of the FI's income to interest rates?*

We broadly support all of the proposed decisions with the following specific comments.

- **We support the further delay of the Endowment Subaccount (EA) payouts by one year and agree to make payout decisions taking into account the outcome of FY 2023 review of the investment account.** Positive income from the EA reflects the appreciation of the USD against the SDR despite investment losses. We agree with staff's evaluation that further decline in the cushion of retained investment income is estimated amid the ongoing inflation and elevated geopolitical risks. It is therefore appropriate to delay the commencement of the EA payout until an adequate EA cushion is restored.
- **On income allocation, we can go along with Option 4 for now, but we do not see the 50/50 split in the allocation of remaining income is well justified and call on staff to develop alternative rules-based allocation.** We believe the principles proposed in 2018 to guide the framework for annual allocation decisions of net income remain relevant. In particular, we emphasize sufficient flexibility of the Board for the judgement on income allocations. Since pension remeasurement gains and losses are unrealized amounts and should not be distributed, it seems reasonable to allocate such amount entirely to the special reserve. We see merit in sufficient accumulation in the special reserve given that it is the first line of defense against accounting losses, including those arising from pension remeasurements and the provisioning framework. It is regrettable that an analysis or

assessment that allows the Board to make a reasonable judgment about the appropriate size of the special reserve has not been presented properly. *We call on staff to provide an assessment of the adequate size of the special reserve and appropriate pace of its accumulation considering potential accounting losses.*

- **We agree that there are no fundamental changes that warrant an adjustment to the current margin for the rate of charge of 100 bps.** The margin will be set under the exceptional circumstances clause. Lending income is projected to sufficiently cover intermediation costs of Fund's financial arrangements in FY 2022-24. Despite recent spike in the composite EMBI spreads, the comparator spread in the medium term remains broadly unchanged and the margin stayed at the current level in the past period of higher EMBI spreads in 2012-16.

**Statement by Mr. Tanaka, Ms. Kashima, Mr. Naka, and Ms. Fukuda on Review of the
Fund's Income Position for FY 2022 and FY 2023-2024
Executive Board Meeting 22/39
April 28, 2022**

We thank staff for the informative paper on the review of the Fund's Income Position for FY 2022 and FY 2023-2024, as well as the bilateral outreach to our office. As we broadly support the staff proposal, we would like to emphasize the following points.

Given the significant uncertainty of the income position outlook, it is crucial to vigilantly monitor the income development and to preserve financial flexibility. We note the FY2022 actual income position may deviate from the latest projection in the paper depending on market movements in the coming few days and the outlook for FY 2023 and 2024 is even more uncertain. We encourage staff to continue close monitoring and to provide frequent updates to the Board just as done during this fiscal year. Meanwhile, financial operation policies should be flexible as needed, while accountable, in order to respond to possible adverse conditions. As to the precautionary balances (PBs), given the historic high credit risk exposure, steady accumulation toward the target of SDR 25 billion without delay is strongly warranted. Adequate financial buffers are also important for the Fund to continue supporting countries in need, which is a primary goal of the Fund. We also look forward to the finalized IFRS-related country assessments, positively noting that no provisioning is expected at present.

It is appropriate to retain the investment income in the Endowment Subaccount (EA), further delaying initiation of payout. As we discussed at the Board meeting on the Investment Account Review in January, the Fund's investment strategy has been confronted with a low interest rate environment. Now high inflation is eroding the real value of the investment asset and the recent adverse market reaction is pressuring the EA's return, which adds to the difficulties and uncertainties. Against this background, we agree with staff that the EA needs to rebuild the cushion above the target level of 15 percent with retained income to protect the EA's corpus before commencing annual payout. Whether the payout could be initiated in FY 2023 should depend on the progress of the cushion building, thus we request staff to continuously monitor and assess the performance of the new investment strategy, which was adopted in the review earlier this year.

We can support the proposed allocation framework (Option 4) to absorb changes of IAS 19 remeasurement gains and losses in the special reserve. We welcome that staff have deepened analysis on pros and cons of possible options after the last year's income review. How the Fund treats the volatile pension-related remeasurement gains and losses is

important for clear-cut communication through financial statements. To this end, we consider Option 4 appropriate as it rightly isolates remeasurement fluctuations within the special reserve while allowing the special reserve to sufficiently grow. The paper also reminded us that the measurement of the precautionary balances' accumulation has been already renewed in the Interim Review of the PBs last December. Option 4, along with the economic basis measurement adopted in the PB review, would enhance the quality of the Fund's communication.

We concur with the staff proposal to maintain the lending margin at 100 bps. We note that the medium-term trend of EMBI spreads has been stable. While the lending income would be sufficient to cover lending expenses and to accumulate reserves, we are mindful that the investment income, which is unfortunately expected to be negative in FY 2022, cannot cover the non-lending expenses as presumed under the new income model. In this regard, we support setting the lending margin for FY 2023-24 under the exceptional circumstances clause of Rule I-6 (4). As the investment environment is likely to experience changes in coming months and years, we reiterate the importance of vigilant monitoring of the non-lending income.

**Statement by Mr. Hosseini and Mr. Osei Yeboah on Review of the Fund's Income
Position for FY 2022 and FY 2023-2024
Executive Board Meeting 22/39
April 28, 2022**

1. We thank staff for the coherent analysis and insightful report of the review of the Fund's income position for FY22 and projections for FY23-24. With the review coming against the backdrop of continued pandemic uncertainty and the on-going war in Europe, and their broader impact on financial markets, the financial performance warrants a good degree of cautious optimism. That said, the projections points to solid performance for FY22-24, though staff exclude the impact of any pension-related gains or losses for 2023 and 2024 due to high volatility.
2. **We share the staff's assessment and support the proposed decision to reimburse the general department for the expenses of conducting the business of the SDR department for FY22.**
3. **We think it is prudent to further postpone the EA payout for another year,** considering the macroeconomic factors weighing heavily on the performance of the Fund's investments accounts. While the Fund's projected overall net income for FY2022 is broadly in line with interim estimates and the April 2021 projections, the investment income is expected to notably decline. With preliminary estimates predicting that the fixed income subaccount (FI) will incur a loss, while the endowment subaccount (EA) posts a positive return, the corresponding loss and income should be reflected in retained earnings of the respective accounts. Similarly, given the sharp decline in the built-up of the EA cushion, as against the desired level for the period end-December 2021 to March 2022, it would be prudent to further delay payout and boost the retained investment income cushion to enhance shock absorbing buffers.
4. **We support option 4,** which proposes an allocation framework that would isolate IAS 19 remeasurement gains or losses in the special reserve and would split in equal parts any remaining net positive income between the special and general reserves. We agree that such a treatment will ring-fence the associated volatility within the special reserves and allow for a complete replenishment and strengthening of the special reserve as the first line of defense in the event of losses. We underscore the relevance of a transitional arrangement to temporarily allocate any remeasurement losses to the general reserves, considering the cumulative gains from April 30, 2021, until the gain is cleared to zero.
5. **We can go along with the proposal to transfer currencies** equivalent to the full amount of the increase in reserve from the GRA to IA for investments in the FI. Like

staff, we are of the view that over time the IA will achieve higher returns than SDRi, though this is subject to considerable uncertainty.

6. **While we can support a margin of 100 basis points for the rate of charge** we are concerned about the high accumulation of reserves - on average 10 percent for FY22-24—that may not have a good reflection on the Fund amidst the global crisis and the hardship many members are facing in servicing their debt. Setting an example for burden sharing with membership in such a critical period would warrant a modest income growth, but still sufficient to cover intermediation costs while sustaining reserve accumulation. Triggering the exceptional circumstances clause will offer ample income buffers to absorb non-lending losses under the new income model. We think under the difficult external circumstances, the Fund should seriously consider revising surcharges downward to offer funding space to membership. We positively note that the cost of Fund’s credit at current margin is broadly in line with long-term market rates.

**Statement by Mr. Chodos, Mr. Herrera, Mr. Lischinsky, and Mr. Corvalan Mendoza on
Review of the Fund's Income Position for FY 2022 and FY 2023-2024
Executive Board Meeting 22/39
April 28, 2022**

We thank staff for the Review of the Fund's Income Position for FY2022 and FY 2023-24 report with updates on its projections, and proposed decisions for consideration. At the outset, we support decisions 1, 2 4 and 5. With respect to decision 3, we can go along with placing the pension-related gains in the Fund's Special Reserve but would prefer to allocate most or all the additional net income to the General Reserve.

SDR 2.0 billion net operational income of the General Resources Account (GRA) for FY 2022 was broadly in line with last year's exercise forecasts. Some variations in income and expense lines were expected around this figure. The lending income was lower than originally envisaged and the size of investment income would be difficult to materialize, given the rise of interest rates that weights on the nominal discount rate that puts a drag on future cash flows of the Fixed-Income Subaccount (FI). But all in all, and after the retainment of the investment income of the Endowment Subaccount (EA), the FY 2022 is now projected at SDR 2.2 billion, mainly explained by the strengthening of the USD against the SDR, which translated to gains for the portfolio. *We would appreciate further clarification from staff on credit risk and its measurement using the IFRS 9 methodology for FY 2022 and beyond. The provision for impairment loss would require close monitoring from management and staff due to uncertainties of global recovery after the COVID-19 pandemic, the Ukrainian/Russian conflict, and the surge of inflation.*

After almost 15 years, it is time to revisit the Fund's income model. We welcome the update on the implementation of the New Income Model (NIM). As presented in Annex III of the report, the status update for FY 2022 shows that our institution is still not able to diversify its income sources away from lending activities, as it was envisaged in 2008. The downward trend in global real interest rates has undermined the achievement of its objectives. However, these goals remain valid. The stability of income sources and its sustainability over time requires to limit the overreliance on lending income and cross-subsidies going forward. The Fund, as an important provider of public goods to the membership, might require a recalibration of its NIM. After almost a decade and a half since the adoption of NIM and considering the experience accumulated since then, it is time to take a fresh look at it. *We would like to learn from staff how the Fund's unique composition of net income affects its Enterprise Risk Management profile (ERM).*

We highlight that middle and several low-income countries are the main contributors to the Fund's lending income. Lending income represents the bulk of Fund revenues, as shown in Table 1, and it is more than 2.4 times the yearly budget of the Fund for FY 2022 and as mentioned in the report, margin and surcharge income are projected to be higher in FY 2023–2024. During the board discussion on December 13, 2021, on the role of surcharges and the merits of a comprehensive review of the surcharge policy, even though there was broad support in the Board to continue the discussion

on surcharges, several Directors did not give their support. Thus, at that time, there was insufficient Board votes for a review.

However, we believe that after analyzing Annex III of the report, where the income model shows its weaknesses and inefficiencies, and to reduce the reputational risks to the IMF, by financing with lending income, non-lending expenditures, such as public goods as AIV and FSAP of AEs, further consideration should be given to the composition of the income position. In this regard, surcharges during the pandemic and the recovery should be suspended or reduced, while discussing their permanent realignment or elimination considering the strong growth on precautionary balances in the medium-term projections.

**Statement by Mr. Hilbers and Mr. Verhelst on Review of the Fund's Income Position for
FY 2022 and FY 2023-2024
Executive Board Meeting 22/39
April 28, 2022**

We thank staff for the review of the Fund's income position. The war in Ukraine has regrettably come in addition to remaining COVID-19-related risks. The high uncertainty of income levels at this juncture is reflected in the sizable negative adjustment to projected net operational income for FY 2022, which is now projected to be more than one quarter lower than it was under the previous projections (SDR 1,497 million instead of SDR 2,042 million). This lower operational income is counterbalanced by the sizable upward pension-related adjustments (SDR 512 million). This volatility should serve as a tale of caution and underlines the need for prudence in setting the Fund' income policies. In light of the above, **we can broadly support the proposed decisions and offer the following remarks for emphasis.**

Regarding decision 3, we can go along with the proposed option by staff for the placement of FY 2022's net income if this option gathers broad Board support. We agree with staff that the mechanism for allocating net income to the general and special reserves should be kept simple. Even though we can agree with the current decision, we continue to believe that a review of reserve placement would be helpful to determine the best way forward for the placement of net income on a more structural basis.

We appreciate the update on the status of the Fund's New Income Model (NIM) and can support setting the rate of charge on the use of Fund resources for FY 2023–2024 at 100 basis points over the SDR interest rate. Given the high uncertainty surrounding the outlook and interest rate path, it may be useful to reconsider the rate of charge in one year's time rather than two years. In future iterations of updates on the NIM, we suggest more focus on whether the underlying goals of the Model are met. We note that the Fund has had only limited success in diversifying income sources and remains highly reliant on its lending income to finance non-lending activities, in contrast to the objective of the NIM. We agree with staff that a reassessment of expectations about the NIM may be warranted in the coming years, also depending on the future path of interest rates. *Could staff provide more details as to when a reassessment would take place?*

Given the uncertainty regarding future Fund income, we see merit in more regular updates to the Board, at least for as long as high levels of uncertainty persist. We furthermore call on staff to systematically consider and communicate any meaningful impact of policy decisions on the pace of reserve accumulation, given that precautionary balances serve as a prime tool for the Fund to cope with risks to its income position. Finally, future updates to the Fund's income position should preferably not only focus on the mid-point of projections but also consider different, yet plausible scenarios and the actions required in these scenarios. The above would be instrumental to the Executive Board in ensuring the soundness of the Fund's finances throughout these highly volatile times.

**Statement by Mr. Mohieldin, Mr. Alhosani, and Ms. Merhi on Review of the Fund's
Income Position for FY 2022 and FY 2023-2024
Executive Board Meeting 22/39
April 28, 2022**

We thank staff for the comprehensive report and welcome this timely analysis of the Fund's Income Position for FY 2022 and FY 2023-2024.

We are pleased to note that the net operational income of the GRA is now projected at about SDR 2.0 billion for FY 2022; broadly in line with the initial estimate in April 2021, and after adjusting for a pension-related (IAS 19) gain. However, the Fund's income position continues to be subject to high uncertainty in the context of the COVID-19 pandemic, inflationary pressures as well as the war in Ukraine, which could weigh on the lending income projections. We take note of staff views that it is too early at this stage to assess the impact of the war and other market factors on potential future program requests and the scale of new lending beyond emergency financing support to Ukraine. Nevertheless, the paper points to key risks of the Fund's income position from asset returns and pension fund obligations, given recent economic and geopolitical developments. We therefore urge staff to continue to monitor developments very closely.

In the medium-term, the income outlook is expected to remain strong - excluding the impact of the pension-related gain or loss - given the expected high demand for IMF support due to the high volatile and uncertain global environment. We are pleased to note that the indicative medium-term target of SDR 25 billion for precautionary balances is still expected to be reached in FY 2025, despite the slowdown in the pace of accumulation relative to previous projections.

We agree with the proposed **Decision 1** that the General Department shall be reimbursed for the expenses of conducting the business of the SDR Department through April 30, 2022, consistent with past practice. We also continue to strongly support the suspension of reimbursement of the GRA for PRGT administrative expenses for FY 2022–2026.

Given the geopolitical uncertainties and the persistent high inflation which continue to weigh heavily on the financial markets, we support the **proposed Decision 2** to further delay the decision initiating the EA payout by one year and to retain any investment income for FY 2022 in the EA rather than being transferred to the GRA to be used for administrative expenses.

We can support **option 4 under the proposed Decision 3** in order to isolate the income volatility stemming from the pension-related gains and losses in the Fund's financial statements. We see merit in allocating all IAS 19 remeasurement gains and losses to the special reserve and allocating any remaining positive net income in equal parts between the special and general reserves. This would further reinforce the role of the special reserve as the first line of defense against any income losses. At the same time, allocating any positive

remaining net income according to a 50/50 ratio between the special and the general reserves will allow for the special reserves to grow at a modest pace.

We support **Decision 4** to transfer currencies from the GRA to the Investment Account (IA) equivalent to the increase of the Special and General Reserves following the placement of FY 2022 net income. We note that this is consistent with the assumption that returns to the IA are likely to be higher than SDR interest rate over the medium term.

We **support Decision 5** to leave the Fund's rate of charge on the use of Fund resources for FY 2023 and FY 2024 unchanged, at 100 basis points over the SDR interest rate. Given the high global uncertainty, we look forward to discussing the appropriate level for the rate of charge margin in the mid-period review.

**Statement by Mr. Stephan and Mr. Boehme on Review of the Fund's Income Position for
FY 2022 and FY 2023-2024
Executive Board Meeting 22/39
April 28, 2022**

We thank staff for the paper on the Review of the Fund's Income Position for FY 2022 and FY 2023-2024. We support all proposed decisions and would like to offer the following comments for emphasis.

The special reserve is the component of the Precautionary Balances which represents an important safeguard for Fund's balance sheet. We can support Decision 3 to proceed in accordance with Option 4 for FY 2022 and to allocate the remeasurement gains to the special reserve, while splitting the remaining income between the reserves. However, under different circumstances our preferred option would have been Option 2 as it represents a stronger prioritization of the special reserve.

Given the unique nature of the Fund's lending, we concur that no provisioning for impairments is required at this stage. But, we would like to stress the need to continuously monitor credit risk developments closely. We take note that staff is currently in the process of conducting impairment assessments for FY 2022, and we are looking forward to the briefing by staff on this assessment before the financial statements are finalized. *Is there any indication of a possible need for provisioning foreseeable in the medium-term? Staff comments are welcome.*

We take note that the current basic rate of charge is sufficient to cover intermediation costs and contributes to an – albeit rather slow – reserve accumulation. We therefore agree to keep the basic rate of charge unchanged for the time being. However, given the elevated risks to the Fund, a more determined reserve accumulation should be discussed in the near future. We also note that the current basic rate of charge is broadly in line with long-term market conditions, even though we observe an uptick in spreads recently. This development should be closely monitored and re-considered in the next review of the margin of the rate of charge.

While we understand that non-lending income cannot yet cover all non-lending administrative expenses, we see merit in the reforms of the New Income Model and expect the full effect to unfold in the near future, whenever the low-interest rate episode fades out. The expected coverage of about 90% of non-lending expenses in FY 2028 by non-lending income as laid out in the paper is quite significant in our view.

We take note that the SCA-1 balances, as well as the burden sharing rates currently stand at zero as there are no overdue GRA repurchases and charges. However, given the elevated risks to the Fund's exposure, we strongly encourage staff to continue to monitor the need for further SCA-1 funding and assess the viability of different funding options.

We stress the need to ensure the recovery of costs incurred during the setup of the RST, so that the GRA resources remain to be deployed on the Fund's core mandate. To ensure cost recovery for the GRA, we suggest including the setup-costs of the RST in a transparent manner in the next review of the Fund's income position.

With a view to key FY 2023-2024 income outlook factors, we reiterate that we see no merit in a comprehensive review of the Fund's surcharge policy. Overall, the cost of borrowing from the Fund is low, surcharges are important incentives for a temporary and limited use of Fund resources in line with its mandate, and the surcharge income plays a critical role for an adequate built-up of buffers for credit risks not least pertaining to large programs.

**Statement by Mr. Roman and Mr. Grossmann-Wirth on Review of the Fund's Income
Position for FY 2022 and FY 2023-2024
Executive Board Meeting 22/39
April 28, 2022**

We thank staff for a very clear report on the Fund's income position. We note that net income is projected to remain comfortable for FY 2022 at about SDR 2.2 billion, broadly in line with April 2021 estimates despite important changes in income and expense lines. We also note the considerable uncertainty surrounding future incomes projections, which requires close monitoring.

We can support all five proposed decisions:

- We support Decision 1 on the reimbursement of the General Department for the expenses of conducting the business of the SDR Department in FY 2022 and on the assessment levied on all participants, consistent with past practice. We also support the suspension of reimbursement of the GRA for PRGT administrative expenses for FY 2022–2026 to increase PRGT reserve coverage and generate additional subsidy resources.
- We support Decision 2, which provides for the income of the Fixed Income and Endowment Subaccounts for FY 2022, if any, to be retained in the respective subaccounts. Given the heightened uncertainty about market scenarios, we indeed agree with staff on postponing by one year the start of payouts from the investment account to the General Resources Account (GRA).
- We support Decision 3 to place the net income of the GRA in the Fund's Special Reserve, up to the amount of the pension-related gain in FY 2022, and to place any additional net income in equal parts in the Fund's Special Reserve and General Reserve. We welcome staff's work on finding ways to address the very volatile impact of pension-related measurements on Fund's income and reserves. While it is not possible to fully isolate core business from pension measurements in the International Financial Reporting Standards (IFRS9), we support the proposed approach to allocate all IAS 19 remeasurement gains and losses to the special reserve and share any remaining net income in equal parts between the special and the general reserve (Option 4).
- We support Decision 4 to transfer currencies from the GRA to the Investment Account (IA) equivalent to the increase of the Special and General Reserves following the placement of FY 2022 net income. We agree with the underlying rationale that

returns on the IA are likely to be higher than the SDR interest rate over the medium term.

- We support Decision 5, which sets the rate of charge on the use of Fund resources for FY 2023–2024 at 100 basis points over the SDR interest rate, in line with previous years.

Finally, we support Mr. Jennings, Mr. O'Brolchain, and Mr. Rankin call to consider gold sales, especially in the context of renewed need to accumulate reserves (given PRGT and RST expected operations in particular); we also agree that the Finance Department should look at how the proceeds of such gold sales could be invested in high-quality interest-bearing assets that better support the Fund's overall financial position.

**Statement by Mr. Peter and Mr. Gindrat on Review of the Fund's Income Position for
FY 2022 and FY 2023-2024
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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.

**Statement by Mr. Mozhin and Mr. Tolstikov on Review of the Fund's Income Position
for FY 2022 and FY 2023-2024
Executive Board Meeting 22/39
April 28, 2022**

We thank staff for the informative Income Position report. Overall, the Fund is on track to end FY 2022 with a comfortable income position. *Net operational income*, without IAS-19 adjustment, is projected at around SDR 1.5 billion. Over the next two years, net operational income is projected to be around SDR 2.0 billion, making the precautionary balance target of SDR 25 billion achievable by FY25. As always, pension-related IAS-19 gain or loss is highly unpredictable and can influence substantially the presentation of the Fund's income position. Therefore, to ensure proper communication of the Fund's operational soundness, this highly volatile component should be separated in the income position reports.

We note substantial uncertainty in the Fund's income projections, reflecting the elevated risks in the global economy from the geopolitical conflicts, the COVID-19 pandemic, inflation, and policy tightening in the major economies. However, we expect the impact of these risks on the Fund's income position to be mostly on the upside, as the potential increase in lending income may offset the risks to investment income.

We support **Decision 1** on the reimbursement of the General Department for the expenses of conducting business of the SDR Department, in accordance with the past practice. We note that these expenses have increased substantially due to the general SDR allocation and the following rise in SDR transactions, which is justified and acceptable.

We also support **Decision 2** that incomes of the Fixed-Income and Endowment Subaccounts (if any) to be retained in the respective subaccounts. We, therefore, support the staff proposal to postpone the initiation of Endowment Subaccount payouts for one year, to allow for the replenishment of retained investment income cushion.

We welcome staff efforts to formalize allocation of operational income between the Special and General Reserve. We see merit in Option 4, with allocation of all IAS-19 gains and losses to the special reserves and allocation of any remaining positive net income in equal parts between Special and General Reserves. We, therefore, support **Decision 3**, which is based on the Option 4 proposal. Accordingly, we can support **Decision 4**, which provides for a transfer of FY2022 Special and General Reserves increases from the GRA to the Investment Account for investment in the Fixed-Income Subaccount.

Finally, we can agree with the proposal to maintain the *margin for the rate of charge* at 100 basis points for FY 2023 and FY 2024 (**Decision 5**).

**Statement by Ms. Lim, Ms. Wongwaisiriwat, and Mr. Bautista on Review of the Fund's
Income Position for FY 2022 and FY 2023-2024
Executive Board Meeting 22/39
April 28, 2022**

We thank staff for the informative report. We broadly agree with staff's assessment and projections of the Fund's income position and would like to offer the following comments.

Decisions pertaining to FY 2022:

Given the heightened uncertainty in the global economy, the disposition of income should take a precautionary approach to ensure adequate cushion for possible adverse events. In this regard, we agree with proposed Decision 2.

- For the EA (Endowment Account), we positively note the higher-than-expected investment income for FY 2022. However, the cushion has reduced markedly by mid-March in the face of market volatilities. We therefore agree that the considerable uncertainty – pertaining to the war in Ukraine, the persistence of inflation, and exchange rate volatility – warrants a conservative approach and we concur with staff to further delay the EA payout by one year and to retain any investment income for FY 2022 in the EA.
- For FI (Fixed Income), we note staff's projected loss in FY 2022 and are concerned that returns could be even more negative given a recent sharp rise in interest rates on the back of inflationary pressures. Nevertheless, staff did not rule out the likelihood of the subaccount returning a small gain for the year; and we would like to seek clarification on scenario(s) under which such a gain would materialize.

On income allocation, we support staff's proposal in Decision 3, which would ring-fence the volatility associated with IAS 19 remeasurement gains and losses entirely in the special reserve, while allocating any remaining positive net income in equal parts between the special and general reserves.

- While the special reserve is non-distributable and therefore more suitable for the allocation of unrealized amounts, we note the fact that any cumulative remeasurement losses would reduce the amount available for loss absorption. In this regard, *could staff elaborate how option 4 (Decision 3) would still ensure the vital role of the special reserve as the first line of defense? Could the proposed transitory measure to allocate any remeasurement losses to the general reserve be seen as a mitigating measure, and would this be sufficient?*

Decisions pertaining to FY 2023 – 2024:

We understand that staff's lending projections are mainly based on desk surveys. However, from the Board meeting on the Interim Review of the Adequacy of the Fund's Precautionary

Balances on December 13, 2021, we understand that staff employed both bottom-up and top-down approaches in their assessment of the adequacy of precautionary balance (PB). To ensure consistency and robustness, we think that lending income projection for FY 2023-2024 should adopt the same dual approach where a top-down methodology could complement the desk survey projections. We would also welcome information on the extent to which the desk survey projection has incorporated the impact of the war in Ukraine and related scarring effects. *Could staff also share the operational procedures in handling commitment fees for countries under conflict and relate this with how the SDR4 million fees from Ukraine's cancellation of its SBA in March 2022 was managed?*

We note the difficulty in assessing precisely at this stage the financing needs arising from the spillovers of the war. *In light of the latest developments, could staff provide details on the reasons for the delays and why some purchases are no longer expected to happen for both margin income and surcharges?*

We support a 100 basis points (bps) margin for the rate of charge for FY2023-2024 given the need to finance non-lending activities under the current exceptional circumstances and in consideration of its alignment with long-term credit market conditions. However, should current conditions persist much longer, this margin could again be extended. In this regard and in relation to projection on the new income model in Annex III, *could staff describe the path of interest margin in its long-term projection of operational income and expenses, and provide a view on the implications of 100 bps margin being carried out over longer horizon, say for the next two years.*

**Statement by Mr. Bevilaqua, Mr. Saraiva, and Ms. Hennings on Review of the Fund's
Income Position for FY 2022 and FY 2023-2024
Executive Board Meeting 22/39
April 28, 2022**

We thank staff for the report. We broadly agree with staff projections and acknowledge the significant uncertainty surrounding the assumptions. The war in Ukraine, unpredictable waves of COVID-19, increasing inflationary pressures, tightening financial conditions and higher volatility in financial markets compound the usual uncertainty and elevate risks considerably.

We broadly agree with the key underlying assumptions and risks considered in the projections for the income position in FY 2022 and FY 2023-2024. We take note that lower margin income, service charges and surcharges, and higher commitment fees in total lending income projection impacted the FY 2022 income position, which remained nonetheless very strong. Concerning the projection for the income position for FY 2023-2024, we agree that a further deterioration in the global economic outlook could lead to an even larger increase in the demand for Fund's resources, raising operational income further over the medium term. *We would appreciate if the staff could elaborate on the impact of a protracted war in Ukraine on the income projections.*

We support staff proposals regarding the use of the investment income earned in FY 2022. We acknowledge that the return on the Fixed-Income Subaccount (FI) will suffer with a rise in interest rates and possibly be negative in FY 2022. Therefore, we agree with the proposal to retain any possible gains in the Investment Account (IA) and proceed with the adjustment in the coming years. Concerning the Endowment Subaccount (EA), we continue to attach great importance to building a strong EA cushion and agree that the decline seen in recent months—reducing the cushion to below the 15 percent target—favors yet another delay in commencing the payout to the GRA. Hence, we support keeping the investment income in the EA until the threshold level is reached, not before the next Board decision date. We take note that staff proposes the delay in payout for one year. As it is sensible to assume that the decline in the cushion would persist if the factors behind it were to persist, we would favor a more cautious approach in which payouts start only when the risk of backtracking is significantly diminished. *Could staff elaborate on the impact of a rise in inflation and of exchange rate effects on the EA investment results?* We agree with the proposal to transfer the full amount of the increase in reserves from the GRA to the IA, which would be invested in the FI, considering that the IA over time will present higher returns than the SDR interest rate. *However, we would appreciate if staff could explain what would happen if the FY 2022 net income was not transferred in full to the IA. Given the prospective rise in the SDR interest rate, did staff explore alternative scenarios in which the transfer to the IA would be delayed? Could a mixed strategy be superior for a period of rising interest rates and slowing growth?*

We see merits in setting a rules-based framework that would devise a clearer path to rebalancing net income allocation toward the general reserve over time. We take note of the proposed options for a rules-based framework. While in principle we would favor using a separate account for the allocation of all IAS 19 remeasurement gains and losses, we can agree with the proposal to allocate them to the special reserve, separately identified and “ring-fenced.” This alternative has the merit of isolating pension-related gains/losses and allowing their clear identification without the need to create another account. Pension-related liabilities and assets’ remeasurements are particularly volatile and impact significantly the Fund’s income position, and we see value in having at least a presentational separation. However, splitting the allocation of net operational income equally between special and general reserves should continue only until the special reserve reaches the Board defined minimum floor for precautionary balances. After that point, net income should be preferentially allocated to the general reserve, except for the years after a drawdown in the special reserve due to administrative losses, consistent with past practice. Alternatively, income generated by surcharges could be directed by default to the general reserve, with pension-related remeasurement gains/losses being directed to the special reserve, and the net operational income excluding surcharges being allocated equally between the special and general reserves.

We prefer a lower margin of charge than the proposed 100 basis points (bps) for the period FY 2023-2024. Under the exceptional circumstances clause, the margin should be set in a way that generates sufficient income to cover for the difference between non-lending operating costs and the investment income, on top of its usual purposes (namely, to cover intermediation costs and help build reserves), while keeping the borrowing costs at the lower end of the long-term market funding range. However, with the prospective income being generated by an expanding lending activity, the Fund has room to determine a lower margin for the rate of charge while building reserves at a satisfactory pace. Moreover, the projected investment income to be generated in the next period indicates that the Fund will need less contributions from lending income to cover for non-lending activities. Therefore, we prefer a lower than 100-bps margin for the rate of charge. Otherwise, we call on staff to present next year, in the mid-period review, an updated assessment considering the impacts of the implementation of the NIM and higher global interest rates on the need to continue relying on lending income to cover for non-lending costs.

Review of the Fund's Income Position for FY 2022 and FY 2023-24

Responses to Technical Questions Posed by Executive Directors in Advance of
EBM/22/39—April 28, 2022

Staff's responses to technical questions are below. Broader policy questions will be addressed in staff's intervention at the Board meeting.

Allocation of Income and IAS 19

- 1. While we consider the proposed ringfencing of pension-related volatility appropriate to shield the Fund's income position, we would like to ask staff to comment on the potential risks related to market reaction, should the level of the Fund's precautionary balances substantially fluctuate from one year to another as a result of absorbing any pension-related losses.**
- 2. Can staff comment if there is any current discussion on the IAS-19 general framework that could also have implications for the IMF?**
 - At the Interim Review of Adequacy of the Fund's Precautionary Balances Board meeting in December 2021, Directors broadly supported the measures proposed by staff to mitigate the volatility of precautionary balances created by the accounting treatment of pension revaluations under IAS 19. The new approach for determining precautionary balances seeks to reflect their role as a long-term buffer for economic and financial risks. It achieves this by replacing the accounting valuation of the net pension-related assets and liabilities under IAS 19 with a more long-term economic measure and taking a more prudent stance on any economic gains. The transition to the new approach will be effective from FY 2022; and the precautionary balances projections in the paper exclude the impact of past and current IAS 19 gains and losses and result in a more gradual and less volatile path of accumulation of precautionary balances.
 - There are no current discussions on the impact of IAS 19 beyond those included in paper. Past discussions that informed the discussion in the current paper include the Interim Review of the Adequacy of the Fund's Precautionary Balances (SM/21/195, 11/12/21) discussed in December 2021 and the Fund's Income Position for FY 2021—Interim Update (FO/DIS/21/27, 02/23/21) in March 2021. In terms of the IAS 19 accounting standard itself, there are no changes or amendments envisaged that would have any implications for the Fund.
- 3. We call on staff to provide an assessment of the adequate size of the special reserve and appropriate pace of its accumulation considering potential accounting losses.**
- 4. While the special reserve is non-distributable and therefore more suitable for the allocation of unrealized amounts, we note the fact that any cumulative remeasurement losses would reduce the amount available for loss absorption. In this regard, could staff**

elaborate how option 4 (Decision 3) would still ensure the vital role of the special reserve as the first line of defense? Could the proposed transitory measure to allocate any remeasurement losses to the general reserve be seen as a mitigating measure, and would this be sufficient?

- Under the Fund's current framework there is no separate assessment of the adequacy of the special and general reserve. Rather, the adequacy of precautionary balances and their accumulation, as a whole, is subject to periodic reviews by the Executive Board, in accordance with the rules-based framework adopted in 2010. The latest interim Review was conducted in December 2021. Staff does not conduct a separate assessment of the adequate size of the special reserve.
- At the beginning of the year, the special reserve (excluding the gold sales profits in the endowment) held SDR 6.9 billion. Directors will continue to retain discretion over disposition decisions of the Fund's net income, including the apportionment of net operating income between the special and general reserves under the proposed framework, in the context of the annual reviews of the Fund's income position. It is proposed that the allocation between reserves be reviewed in two-year cycles in alignment with the review of the precautionary balances and for setting the margin for the rate of charge; and the adequacy of the reserves in the context of potential accounting losses be considered at that time.
- The balance of cumulative IAS 19 remeasurement gains in the general reserve stands at about SDR 1 billion, and any remeasurement losses incurred in the coming years would first be absorbed by the general reserve until the balance is written down to zero. Overall, the IAS 19 remeasurement gains and losses are expected to fluctuate but have tended to offset over time, although the timing and magnitude would vary.

Margin for the Rate of Charge

5. **Against the backdrop of a likely tightening in financial conditions amid rising inflationary pressures, we would welcome staff's comments on how they expect the medium-term conditions to change, and whether they consider that the current rate of charge will continue to be appropriate in the following fiscal years.**
 - This year, the Executive Board is required to set the margin over the SDR interest rate for two years, with a mid-period review next year. Under normal circumstances, the Board will have an opportunity to revisit the margin setting next year, as part of the Review of the Fund's Income paper for FY 2023 and FY 2024. If we agree to initiate a broader review of the New Income Model, the margin setting will be reviewed together with other elements. At that point, long-term market conditions, including spreads, will be reassessed, and the adequacy of the margin will be reevaluated accordingly.
6. **In this regard and in relation to projection on the new income model in Annex III, could staff describe the path of interest margin in its long-term projection of operational income**

and expenses, and provide a view on the implications of 100 bps margin being carried out over longer horizon, say for the next two years.

- The margin income projections in the paper for FY 2023-2024 (Table 3), and the projections over the medium term (Annex VI) are all calculated based on a margin for the rate of charge of 100 basis points.

Lending Income

- 7. The lending income is expected to be lower than the estimates due to fewer purchases and the phasing of drawings. Given lending operations are the core of the Fund's support to the members, it is important to evaluate the reasons and dynamics behind this situation. Staff may comment.**
 - 8. We would like to seek further clarification as to whether the previous projection for lending demand was overestimated or whether there were implementation issues.**
 - 9. In light of the latest developments, could staff provide details on the reasons for the delays and why some purchases are no longer expected to happen for both margin income and surcharges?**
 - 10. We would appreciate if the staff could elaborate on the impact of a protracted war in Ukraine on the income projections.**
- Lending projections are now based on the desk survey. The desk survey of potential demand for Fund lending reflects desk assessments of the likelihood of a program request based on knowledge of member countries' economic outlook, financing needs, and the political landscape. The current desk survey projections in the paper were based on end-February 2022 data and included current approved arrangements/RFIs and potential new GRA programs. By contrast the projections in April 2021 were based on approved arrangements and projections at that time. The lower FY 2022 lending income projections can be attributed mainly to projected purchases for FY22 being lower by about SDR 8 billion. The lower purchases reflect mainly delays and cancellations in both new and existing programs.
 - The actual lending path remains uncertain and difficult to predict and delays, rephasing or cancellation of purchases under existing and potential arrangements, advance repurchases and the expiration of arrangements with undrawn balances could lead to lower Fund income, though this could be offset by members seeking new Fund arrangements in the future. In particular, the financing needs arising from the war in Ukraine, countries impacted by rising inflationary pressures, and the ongoing impact of the pandemic could result in new loan programs, augmentations, and rephasing of programs to help meet the costs of the crisis.

11. Could staff also share the operational procedures in handling commitment fees for countries under conflict and relate this with how the SDR 4 million fees from Ukraine’s cancellation of its SBA in March 2022 was managed?

- Resources committed under IMF GRA arrangements are subject to a commitment fee levied at the beginning of each 12-month period on amounts that could be drawn in the period and at each anniversary date of the Arrangement. The commitment fee is payable in SDRs and most member countries have provided a standing authorization to the Fund to debit their IMF SDR holding account when the fees are due. Members receive refunds of the commitment fee as they make purchases under the arrangement or upon cancellation.
- Consistent with the operational procedures, commitment fees related to Ukraine’s arrangement were executed through its SDR holding account.

Investment Income

12. Could staff elaborate more on the substantial positive change in the return projections for the Fixed-Income Subaccount under the new investment strategy even in an environment of rising interest rates?

13. We also note the loss in the Fixed-income subaccount (FI) due to sharp increase in interest rates. Could staff provide a sensitivity analysis of the FI’s income to interest rates?

- Staff assesses portfolio risk and return according to the relevant investment horizon for each portfolio, e.g., 3-4 years for the Fixed-Income Subaccount (FI). The baseline projections indicate that the FI is expected to achieve a positive margin over SDRi over a 3-year horizon, in part due to the refinements to the FI investment strategy approved by the Executive Board in January and the broadened authorities delegated to the IOC, such as benchmark selection. However, as noted in Review of the Investment Account and Trust Assets Investment Strategy (SM/21/206), there is greater uncertainty in the short- to medium-term return projections, in part due to the potential impact of policy normalization and inflationary pressures. Staff therefore also supplemented its baseline projections with a few more adverse scenarios (see SM/21/206). For example, in a case of sharply rising interest rates, as illustrated in the “highest yields” scenarios, the FI’s total return as well as return margin over SDRi would be negative (Figure VI.5a). That said, over time as the proceeds of maturing bonds are reinvested at higher yield levels, the FI is expected to ultimately recover and generate a positive return and margin over the SDRi. Staff will provide an update on the IA return outlook and risks in the upcoming Annual Report of the IA and TA for FY 2022.

14. For FI (Fixed Income), we note staff’s projected loss in FY 2022 and are concerned that returns could be even more negative given a recent sharp rise in interest rates on the back of inflationary pressures. Nevertheless, staff did not rule out the likelihood of the

subaccount returning a small gain for the year; and we would like to seek clarification on scenario(s) under which such a gain would materialize.

- The FI recorded a small loss of 0.29 percent for the fiscal year through end-February 2022 based on the latest actual data available at the time of preparing the Income Paper. Yields were relatively low at the time and as noted in the paper further increases in interest rates were anticipated by the market where the FI could record even lower returns by end-April 2022; however the markets remained volatile. Since end-February, yields in SDR terms have indeed continued to rise significantly amid heightened volatility in the fixed-income markets. Given the developments since the paper was prepared, staff's estimate on portfolio returns suggests that it is now very unlikely for the FI to record a gain in FY 2022. That said, while US short-duration fixed-income recorded its worst performance in over 30 years in Q1 CY 2022, and European fixed-income markets also experienced a very significant correction, the FI demonstrated resilience and performed better than a typical short-duration strategy for reserve assets (e.g., 1-3 year). This is due to the diversified strategy and the flexibility that the Board has approved for the management of the assets in the FI.

15. We would appreciate if staff could explain what would happen if the FY 2022 net income was not transferred in full to the IA. Given the prospective rise in the SDR interest rate, did staff explore alternative scenarios in which the transfer to the IA would be delayed? Could a mixed strategy be superior for a period of rising interest rates and slowing growth?

- In the event that the currencies are not transferred to the FI for investment they would be retained within the General Resources Account (GRA) and implicitly earn a rate of return equivalent to the SDR interest rate.

The expanded FI investment strategy approved by the Board in 2015 has been implemented effectively and has performed well in meeting its investment objective over its investment horizon of 3-4 years. In the recent review of the IA investment strategy, the Board approved incremental refinements to the FI strategy to improve potential performance without materially altering the FI's risk profile. It is expected that the FI investment returns in SDR terms will continue to exceed the SDR interest rate over time.

16. Could staff elaborate on the impact of a rise in inflation and of exchange rate effects on the EA investment results?

- The sharp and persistent increase in US CPI poses significant challenges for the EA to achieve its real return target of 3 percent in US dollar terms in the short to medium term. In practice, this implies that the EA's cushion is being eroded by rising inflation. Since the framework for the EA payout is guided by real return expectations and conditional on building a target cushion, it would be reasonable to assume that payouts would be delayed until inflation pressures recede and the EA cushion is replenished.

- It is against the backdrop of rising inflation expectations and monetary policy tightening that the Board brought forward its review of the investment strategy for the IA by one year. The Board approved several refinements to the EA investment strategy in January 2022 specifically to better adjust its strategy to this new environment. The refinements are aimed at improving the EA's real return potential while maintaining long-term resilience. Refinements include a reduction to its allocation to low yielding fixed-income assets and a diversification and modest increase to its allocation to real assets in the form of REITs and infrastructure equities. As noted in SM/21/206 Review of the Investment Account and Trust Assets Investment Strategy, these real assets are particularly suitable for long-term portfolios with a real return objective such as the EA and are expected to improve overall expected return while maintaining long-term resilience against inflation. As discussed in SM/21/206, stagflation would be the most adverse scenario for the EA. It would correspond to an environment of high inflation, rising interest rates, lower equity returns and wider corporate spreads over a medium-term horizon of 5 years. Based on staff's simulations, under such an adverse scenario, the EA would likely record negative real returns over the medium term, but over the long-term, the EA would be expected to demonstrate resilience (see SM/21/206, Figure VI.3).
- The currency exposure of all EA's fixed-income allocation is hedged back to the US dollar, its base currency, therefore exchange rate effects would be limited. The EA's equity exposure is subject to exchange rate risk.

17. We wonder if staff also considered a more aggressive investment approach of transferring part, or all, of the transferrable amount to the EA (Endowment Subaccount). Staff comments would be welcome.

- Historically the GRA transfer to the IA has always been made to the IA's Fixed-Income Subaccount (FI) given the different purposes of the IA's two subaccounts. Staff find it prudent to continue the current practice at least until the medium-term target of SDR 25 billion is reached for precautionary balances, as agreed by the Executive Board.
 - *Sources of the FI and EA assets.* The FI is funded with currencies transferred from the GRA equivalent to the Fund's general and special reserves; the EA was funded with the profits of limited gold sales in 2008 – 2010.
 - *Purpose of the two subaccounts.* The EA's purpose is to provide a meaningful income contribution to cover the Fund's administrative expenditures while preserving the long-term real value of the Subaccount's resources. Its investment objective is to achieve a long-term real return of 3 percent in USD terms, as the Fund's expenditures are predominantly invoiced in US dollars. The FI's assets constitute the bulk of the Fund's precautionary balances, and its purpose is to generate income while protecting the Fund's balance sheet. The investment objective of the FI is to achieve investment returns in SDR terms that exceed the 3-month SDR interest rate by a margin of 50 basis points over time, while minimizing the frequency

and extent of negative returns and underperformance over an investment horizon of three to four years.

18. Could staff comment on the expected impact of the delayed payouts on the Fund's net operational budget for FY 2023?

- A one-year delay in initiating EA payouts would have only a modest impact on the Fund's net operational income and precautionary balances in FY 2023. Based on the agreed framework, current estimates suggest that the EA payout in FY 2023 could be equivalent to around SDR 65 million (US\$90 million). This compares with projected net operational income after covering net administrative expenditures of SDR 2 billion. As such the impact on overall net income and the Fund's total reserve position in FY 2023 is expected to be minimal and could be slightly higher in FY 2023 assuming higher returns from funds retained in the EA compared with the FI.

Provision for Impairment Losses under IFRS 9

19. Is there any indication of a possible need for provisioning foreseeable in the medium-term? Staff comments are welcome

20. We would appreciate further clarification from staff on credit risk and its measurement using the IFRS 9 methodology for FY 2022 and beyond. The provision for impairment loss would require close monitoring from management and staff due to uncertainties of global recovery after the COVID-19 pandemic, the Ukrainian/Russian conflict, and the surge of inflation.

- Staff is in the process of conducting the impairment assessment for FY 2022. The assessment will be finalized in early June 2022 and staff will brief the Executive Board on the outcome. The IFRS 9 assessment estimates expected credit losses at a point in time (year-end). Staff cannot estimate a future need for provision as expected losses in the future would depend on future developments that are not yet known. However, given the Fund's unique impairment framework cases where provisioning may need to be considered by the Fund are expected to remain very rare.
- Throughout the financial year, staff conducts monitoring of credit portfolios for any evidence of impairment. If the developments throughout the year make it likely that a provision for impairment might be required at year-end, staff would engage the Executive Board in a timely manner.

CONSTITUENCY CODES

OEDAE

Angola, Botswana, Burundi, Eritrea, Eswatini, Ethiopia, The Gambia, Kenya, Lesotho, Liberia, Malawi, Mozambique, Namibia, Nigeria, Sierra Leone, Somalia, South Africa, South Sudan, Sudan, Tanzania, Uganda, Zambia, and Zimbabwe

OEDAF

Benin, Burkina Faso, Cameroon, Central African Republic, Chad, Comoros, Democratic Republic of Congo, Republic of Congo, Côte d'Ivoire, Djibouti, Equatorial Guinea, Gabon, Guinea, Guinea Bissau, Madagascar, Mali, Mauritania, Mauritius, Niger, Rwanda, São Tomé & Príncipe, Senegal, Togo

OEDAG

Argentina, Bolivia, Chile, Paraguay, Peru, and Uruguay

OEDAP

Australia, Kiribati, Korea, Marshall Islands, Federated States of Micronesia, Mongolia, Nauru, New Zealand, Palau, Papua New Guinea, Samoa, Seychelles, Solomon Islands, Tuvalu, and Vanuatu

OEDBR

Brazil, Cabo Verde, Dominican Republic, Ecuador, Guyana, Haiti, Nicaragua, Panama, Suriname, Timor-Leste, and Trinidad and Tobago

OEDCC

China

OEDCE

Colombia, Costa Rica, El Salvador, Guatemala, Honduras, Mexico, and Spain

OEDCO

Antigua and Barbuda, The Bahamas, Barbados, Belize, Canada, Dominica, Grenada, Ireland, Jamaica, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines

OEDEC

Austria, Belarus, Czech Republic, Hungary, Kosovo, Slovak Republic, Slovenia, and Turkey

OEDFF

France

OEDGR

Germany

OEDIN

Bangladesh, Bhutan, India, and Sri Lanka

OEDIT

Albania, Greece, Italy, Malta, Portugal, and San Marino

OEDJA

Japan

OEDMD

Afghanistan, Algeria, Ghana, Islamic Republic of Iran, Libya, Morocco, Pakistan, and Tunisia

OEDMI

Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Maldives, Oman, Qatar, United Arab Emirates, and Yemen

OEDNE

Andorra, Armenia, Belgium, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Georgia, Israel, Luxembourg, Moldova, Montenegro, Netherlands, Republic of North Macedonia, Romania, and Ukraine

OEDNO

Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Norway, and Sweden

OEDRU

Russian Federation and Syrian Arab Republic

OEDSA

Saudi Arabia

OEDST

Brunei Darussalam, Cambodia, Fiji, Indonesia, Lao People's Democratic Republic, Malaysia, Myanmar, Nepal, Philippines, Singapore, Thailand, Tonga, and Vietnam

OEDSZ

Azerbaijan, Kazakhstan, Kyrgyz Republic, Poland, Serbia, Switzerland, Tajikistan, Turkmenistan, and Uzbekistan

OEDUK

United Kingdom

OEDUS

United States