



Executive Board Minutes 23/32-3

April 27, 2023–2:30 p.m.

Review of the Fund’s Income Position for FY2023 and FY2024

Documents: EBS/23/38

Staff: Khaw, Rustaman and Swiston, FIN

Length: 1 hour, 5 minutes

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APPROVAL: July 30, 2024

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 2023 and FY 2024. They noted that, in line with the April 2022 projections, the Fund is expected to end FY 2023 in a favorable income position. Directors observed that the Fund's net income is projected to increase in FY 2024, which should help achieve the medium-term target for precautionary balances by late FY 2024 or early FY 2025. They emphasized, however, that these projections are subject to heightened uncertainty amid adverse shocks caused by Russia's ongoing war in Ukraine, inflationary pressures raising global interest rates, and economies still recovering from the pandemic. Directors urged staff to continue to closely monitor income developments.

Directors agreed to reimburse the General Resources Account (GRA) for the cost of conducting the business of the SDR Department. They also supported retaining the income of the Fixed-Income Subaccount for FY 2023 to recoup the losses incurred last year; and to delay the commencement of the Endowment Subaccount payout by another year to re-build the cushion of retained investment income.

Consistent with the framework for allocating the Fund's annual net income to reserves adopted by the Board in 2022, Directors agreed to place all pension-related remeasurement gains to the Fund's Special Reserve (or any losses to the General Reserve), and to allocate any remaining positive net income to the Fund's Special and General Reserves in equal parts. A few Directors suggested developing a rules-based allocation methodology and looked forward to the FY 2024 review to consider the appropriate size and pace of accumulation in the Special and General Reserves. A few Directors saw merit in prioritizing Special Reserves. Some Directors also called for strengthening precautionary balances sustainably and reassessing the case for a higher target.

Following the placement of the FY 2023 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.

Most Directors supported maintaining the margin for the rate of charge at 100 basis points over the SDR interest rate for FY 2024. They concurred that there has been no fundamental change in the factors relevant for setting the margin since its last review in April 2022. Some other Directors, noting the projected growth in lending and non-lending income and an uptick in the pace of the Fund's reserve accumulation over the medium term, called for lowering the margin to provide funding space to the membership in the current difficult economic environment, and a few of these Directors could not support the proposal to maintain the current margin for the rate of charge. A number of Directors also called for, or supported, reviewing the surcharges policy, including a few who advocated temporarily suspending surcharges. A few other Directors expressed opposition to suspending surcharges,

noting that surcharges help preserve the strength of the Fund's balance sheet. A few Directors noted that a review of surcharges and the margin for the rate of charge should take into account their interlinkages with the other elements of the income framework.

Directors welcomed the improved outlook for Investment Account returns from FY 2024 that boosts GRA income as envisaged under the 2008 income model, with the potential for reducing its reliance on lending income to finance non-lending activities. This will provide an opportunity to revisit the application of the exceptional circumstances clause for the setting of the margin next year. A number of Directors also emphasized the need to explore the full range of options for the use of the Fund's internal resources to bolster PRGT resources and looked forward to considering staff's analysis.

Directors looked forward to the findings from staff's IFRS 9-related country assessments for FY 2023 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 2023 and FY 2024 - Assessment Under Article XX, Section 4 for FY 2023

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, 2022 through April 30, 2023; 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, 2023 with an amount equal to 0.00131269 percent of their net cumulative allocations of special drawing rights. The total assessment shall be paid into the General Department. (EBS/23/38, 04/07/23)

Decision No. 17449-(23/32), adopted
April 27, 2023

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

The income of the Fixed-Income and Endowment Subaccounts for FY 2023, 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/23/38, 04/07/23)

Decision No. 17450-(23/32), adopted
April 27, 2023

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

Net income of the General Resources Account for FY 2023 equivalent to the pension-related remeasurement gain (or loss) shall be placed to the Fund's Special Reserve (or General Reserve), and for any net income in FY 2023 that exceeds the amount of the remeasurement gain (or loss), an amount equivalent to this excess shall be placed in equal parts to the Fund's Special Reserve and General Reserve. (EBS/23/38, 04/07/23)

Decision No. 17451-(23/32), adopted
April 27, 2023

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

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, 2023 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, 2023-January 2024. 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/23/38, 04/07/23)

Decision No. 17452-(23/32), adopted
April 27, 2023

The Executive Board took the following decision, with three objections by the office of Mr. Herrera (AG), the office of Mr. Guerra (CE), and the office of Mr. Mohieldin (MI):

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

Pursuant to Rule I-6(4)(a), the Fund has completed the review of the Fund's income position and concluded that for FY 2024 there are no fundamental changes to warrant any adjustment to the margin for the basic rate of charge as determined by Decision No. 17238-(22/39), adopted April 28, 2022. (EBS/23/38, 04/07/23)

Decision No. 17453-(23/32), adopted
April 27, 2023

EXECUTIVE BOARD ATTENDANCE ²

K. Okamura, Acting Chair

Executive Directors	Alternate Executive Directors
	A. Ubisse (AE)
	M. Matungulu (AF)
L. Herrera (AG)	
R. Nicholl (AP)	
	B. Saraiva (BR)
Z. Zhang (CC)	
	J. Betancur Mora (CE)
	M. Villeneuve (CO), Temporary
	M. Mert (EC)
	V. Grossmann-Wirth (FF), Temporary
	H. Koh (GR)
	S. Hansda (IN), Temporary
	M. Massourakis (IT)
J. Mizuguchi (JA)	
	N. Akosah (MD), Temporary
	A. Alhosani (MI)
	L. Dresse (NE)
	A. Marcussen (NO)
	S. Potapov (RU)
A. BinZarah (SA)	
R. Lim (ST)	
M. Peter (SZ)	
S. Riach (UK)	
E. Shortino (US)	

S. Bhatia, Acting Secretary
 J. Morco, Summing Up Officer
 D. Al-Jarbou, Board Operations Officer
 M. Eddy, Verbatim Reporting Officer

Also Present

Asia and Pacific Department: E. Arbatli, A. Gulde. Corporate Services and Facilities: C. Calhoun. European Department: R. Blavy. Finance Department: P. Attie, S. Bradbury, S. Cauchi, E. Fleming, K. Ginton, M. Gororo, H. Hatanpaeae, L. Khaw, B. Lauwers,

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

J. Mburu, Z. Murgasova, D. Nana, A. Ndiaye, N. Pequignot, V. Rustaman, C. Sdrlevich, A. Swiston, Z. Xie, J. Yang, Y. Yang. Information Technology Department: A. Kulshrestha. Legal Department: M. de Freitas Alves, B. Steinki, J. Swanepoel. Middle East and Central Asia Department: A. Arvanitis, R. Mariduena. Office of Budget and Planning: M. Albino Orjuela. Office of Risk Management: B. Boulwood, V. Haksar, M. Rousset. Executive Director: A. Guerra (CE), P. Jennings (CO), M. Mohieldin (MI), A. Mozhin (RU), D. Palotai (EC), K. Subramanian (IN), F. Sylla (AF). Alternate Executive Director: M. Alrashed (SA), C. Amarasekara (IN), R. Anwar (ST), S. Chodos (AG), P. De Ramon-Laca Clausen (CE), C. Just (EC), M. Kashima (JA), H. Kim (AP), R. N'Sonde (AF), O. Parkyn (AP). Senior Advisors to Executive Directors: T. Cham (AE), S. Chicas Cienfuegos (CE), M. Choueiri (MI), J. Corvalan (AG), T. Doss (AP), J. Garang (AE), E. Hagara (EC), H. Karhapaa (NO), T. Krahnke (GR), L. Marek (EC), A. Medearis (US), S. Naka (JA), M. Nkusu-Mulumba (AF), C. Quaglierini (IT), J. Rojas (CE), S. Wongwaisiriwat (ST), B. Yoo (AP). Advisors to Executive Directors: Z. Abdelrahman (SA), A. Abdul Raheem (MI), F. Al-Kohlany (MI), P. Al-Riffai (MI), S. Belhaj (MD), A. Campbell (UK), G. Coccozza (IT), M. Damane (AE), C. Eijking (NE), R. Fayez (MI), F. Fuentes (BR), D. Hamzah (MI), T. Keating (US), C. Kuth (SZ), V. Lankester Campos (CE), J. Lee (ST), R. Lopes Varela (AF), R. Moral Betere (CE), A. Mostajo Soto (AG), L. Nankunda (AF), G. Ogmundsdottir (NO), Y. Qi (CC), E. Shimada (JA), S. Verhelst (NE), N. Wallin (NO), O. Zubareva (RU), F. Lopez (CE).

DISCUSSION RECORD³

The Acting Chair (Mr. Okamura):

We now meet to discuss the Annual Review of the Fund's Income Position covering this fiscal year, FY2023, and the outlook for the next year, FY2024. The Fund is on track to end FY2023 with a healthy income position and its income is expected to remain robust in FY2024 amid strong lending projections and a brighter outlook for future investment income driven mainly by higher interest rates supporting the 2008 income model.

That said, gray statements rightly noted the environment of heightened risks and uncertainties for the Fund, and its financial situation calls for a cautious approach going forward. Therefore, you have also called on staff to monitor closely the implications of these developments on income and reserve accumulation.

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

I would first like to thank Directors and their advisors for the very helpful bilateral discussions leading up to this meeting, your gray statements and your support for the proposed decisions.

I also wanted to acknowledge the few alternative views, particularly on the margin. This round, staff equally appreciate the forward-looking guidance as we clearly have some important work ahead.

I hope staff's written responses addressed the bulk of Directors' technical questions, but I would like to address two points here with a future lens—first, on the use of internal resources, and second, on the margin.

Consistent with the April 6 Board discussion on Poverty Reduction and Growth Trust (PRGT) resources and also with the International Monetary and Financial Committee statement from the Spring Meetings, staff will undertake technical work to identify the full range of options for internal resources and form preliminary views on the pros and cons. The use of internal resources may have broader implications, including on the Fund's balance sheet, which will be considered as part of the preliminary assessment. In parallel, staff will also explore options for concessional lending terms, such

³ Edited for clarity.

as the interest rate structure and blending rules, as these terms can also contribute to putting the PRGT on a sustainable footing.

Staff currently envisages reporting back to the Board on this work on both internal resource options and concessional lending terms at the briefing on the PRGT ahead of the Annual Meetings.

On the margin setting, we have taken careful note of the views of those Directors who see scope for reduction, but on balance, especially in light of the heightened uncertainties around the income projections, staff's proposal is to maintain the margin at this current level. In a year's time, staff will assess and set the margin for the subsequent two fiscal years, considering the role of the margin to cover the Fund's intermediation costs and contribute to reserve accumulation while ensuring that the cost of Fund credit remains in line with long-term credit market conditions.

In addition, the internal resources related work that I just mentioned will include options affecting the level of precautionary balances and in turn will impact future margin setting discussions.

Mr. Herrera:

Let me start by thanking staff, in the name of the Board, for their well-written papers, the engagement with our offices, and the written responses to technical questions in gray statements. The Fund income report has some good news and bad news. The good news is that non-lending income is expected to improve and exceed non-lending expenses, and precautionary balances will reach their target in FY2024 or early FY2025. However, the reason for these improvements is increasing stress in member countries and tighter global financial conditions. We issued a joint gray statement with Mr. Guerra and Mr. Mohieldin, supporting Decisions 1 through 4, while requesting a review of the rate of charge. Let me add two comments to our joint gray statement.

My first comment is about the rate of charge. We asked for a review considering the Fund's improved income position and the fact that the exceptional clause would not be required for FY2024 and beyond. Staff is cautious about reducing the rate now because investment income projections are still uncertain. This is a sensible approach, but we will need to revisit the rate of charge as income projections become clearer.

My second comment is about surcharges. According to staff's projections, income from surcharges will reach SDR 1.4 billion in the next four years, and make up 56 percent of the Fund's lending income in the same period. This means that when we talk about the Fund's income, we are mainly referring to surcharges. However, surcharges have become increasingly burdensome for members with programs because quota reviews have not kept up with global needs, global GDP and global aggregates, and members' capacity to pay.

Let me share some numbers. In 2009, when the current surcharge policy started, the average country had to pay surcharges if the program exceeded about 4.8 percent of its GDP, but now the average country must pay surcharges if the program exceeds 3 percent of GDP. The average size of Fund programs is close to 5 percent to 5.5 percent of GDP, so now almost half of the average program is subject to surcharges. This is a significant increase since 2009, when the share of programs covered by surcharges was 13 percent, and in 2016 when the surcharges thresholds were last reviewed, when the share was 30 percent. It is evident that quota-based thresholds have lagged, so Fund programs are becoming more stringent and costlier over time.

The same policy iterations led to a recent increase of quota-based access limits for General Resources Account (GRA) resources. In the same spirit, we believe that a review of quota-based surcharge thresholds is warranted. The main reasons are that updating thresholds will not affect the marginal incentives to repay and the revolving nature of Fund's resources. The Fund is expected to reach the precautionary balance target by FY2024 and continue accumulating precautionary balances at the pace of SDR 2 billion per year faster than projected a year ago, and increased projection for investment income and lending income, particularly surcharges, continue for the coming years. Therefore, we would like to resume the discussion on surcharge policies following on from last December's meeting when most Directors were open to exploring relief options and a few Directors called for a review.

Finally, we echo Ms. Riach, Mr. Bevilaqua, and others in their gray statements in calling for exploring the use of internal resources to support vulnerable members and strengthening the PRGT, and we take note of staff's comments on this matter.

Mr. Zhang:

I would like to emphasize two points. First, on the allocation between special reserve and general reserves, the current suggestion is 50/50. I agree. I suggest in the future staff take into consideration the potential risks to the Fund's financial positions and the different purpose, so we could increase the proportion to the special reserve account. When committing to a certain level, we can increase the proportion to the GRA so that we can make sure the Fund has enough buffer to face potential risk.

The second point, on the margin and also the potential surcharge review, this year staff is not supposed review the margin, say the 100 basis point margin is appropriate. I cannot agree with that, but I hope staff could start the work preparing for the review next year because you need to think about the interest rate increase, the impact to the potential on the borrowing countries—let us say that for the Fund's current income, more than 50 percent came from the bigger borrowing countries, so it may have some problems.

For the surcharge, because of the SDR rate increase, we need to think about what is the margin between the Fund lending rate and the borrowing country's market rate to make people better understand the relationship so that we can make our rate maybe countercyclical, not market rate high, then we have a higher rate. That really puts pressure on the borrowing countries.

Mr. Matungulu:

We issued a gray statement in which we broadly concur with the thrust of staff's analysis and support all related proposed decisions except for Decision 5. I would like to make just a couple of additional comments for emphasis.

First, on projected income and the accumulation of precautionary balances, we are cognizant of the uncertainties and the risks to the outlook against this difficult background. We fully appreciate the relatively sizable net income projected for FY2023 and FY2024. This should make it possible for the Fund to meet its medium-term target for precautionary balances during FY2024 and FY2025.

From this perspective, we call for strict spending discipline, as we do not support maintaining the basic lending margin at 100 basis points in FY2024, more so because, as staff admits, the targeted SDR 25 billion in precautionary balances can be achieved within the same timeframe under the

assumption of a reduction of 20 to 50 basis points in the margin for the rate of charge. In this context, we await the opportunity to review and settle in due course the pending issue of the allocation of the Fund's net income, excluding the impact of pension-related gains and losses. We would like to echo other Directors' calls for more established rules on the allocation of the Fund's residual income between the special reserve and general reserve.

Second, on the Fund's net non-lending income and the margin for the rate of charge, we positively note that the projections for non-lending income is boosted by high interest rates and would actually dramatically increase in FY2024 and would exceed non-lending expenses for FY2024 and onward.

Considering the uncertainties in running the projections, we can understand staff's reluctance to consider the development as fundamentally important and lasting to justify changing the margin for the rate of charge for FY2024. We therefore keenly look forward to the announced comprehensive review of the margin next year, together with the review of the Fund's income position at the time.

It is our hope that consideration would then more justifiably be given to eventually bring down the currently rather high margin for the rate of charge.

The Acting Chair (Mr. Okamura):

Let me clarify that you said for the margin for rate of charge, you will wait for next year's comprehensive review. Does that mean for this year's review you are supporting this unchanged 100 basis points?

Mr. Matungulu:

On what we do this year, our chair will go along with the consensus. We still hold the position that it could have been possible to reduce the margin this year, but we will go along with the consensus, and we are looking forward to the comprehensive review of the issue next year.

Mr. Betancur:

We issued a joint gray statement supporting the proposed decisions except the one on the rate of charge. While we fully agree with Mr. Herrera's comments on both charges and surcharges, we would like to further detail the rationale behind our view on charges.

The rules on establishing the rate of charge call for an assessment on the margin set for two years if warranted by fundamental changes in the underlying relevant factors. While thanking Ms. Khaw for her initial remarks today, we do not agree with staff that no structural change has taken place.

In fact, all our flagships and policy advice recognize the increase in interest rates during the last year, reflecting tighter global conditions. Therefore, we do not see a compelling argument for not recognizing this structural change in our income position. In fact, the paper reports that for FY2024 and the foreseeable future, we can expect that non-lending income will fully cover non-lending expenses, which is in itself a structural change. This should lead to revisiting and lowering the rate of charge and let me give you some further details on that.

First, the margin should be set to cover the operational costs of lending, the intermediation costs. This is the driving principle that this Board has established. In FY2024, the income from margin will cover 10 times these costs. For those that remarked on the need to accumulate precautionary reserves, even with a zero margin, there would be around SDR 2 billion of accumulation in reserves, which will bring us very close to the target.

Why should we lower the rate of charge? Because countries have seen a change of pattern in their debt burden. We just have to see the increase in the SDR interest rate in the past two years. Our membership needs the IMF's support now. It is time to act. Besides, we agree with those Directors who call for an increased contribution to the special reserve. We should analyze the rules governing the accumulation of our precautionary reserves.

Finally, the Board should consider complementing our strategy on the accumulation of reserves with a faster and timelier replenishment of the endowment account through a Board decision. In fact, this is very much related to the discussion on the best strategy to shield the IMF in the context of the IFRS-9 provisioning rules. We believe that given the IMF provisioning framework, we should give more importance to strengthening our income base. In our view, this strategy is superior compared to other strategies that only consider the accumulation of precautionary reserves. I am looking forward to having a discussion on these topics when we receive the IFRS-9 related impairment assessment for FY2023.

Ms. Lim:

We issued a comprehensive gray statement, and I would just add two comments. First, we echo the suggestion of a number of Directors to extend the waiver for the reinvestment of PRGT costs to the GRA, given the limited impact it has on the Fund's income position and the pressing need to shore up PRGT resources.

Second, we note that the precautionary balance target of SDR 25 billion is projected to be met in late FY2024 or early FY2025, albeit with some degree of uncertainty. Taking this as a baseline, we urge staff to consider additional Fund income beyond the target as a potential source of internal resource that can be redirected to bolster the PRGT. Picking up from Mr. Herrera and Mr. Zhang's intervention, we also are open to reviewing the Fund's charges and surcharges policy, including exploring options suggested as a countercyclical adjuster to be used during times of global crisis.

Ms. Riach:

As Mr. Herrera set out, we are on target to meet our medium-term target for precautionary balances. Although the reasons for that are not all good news, the fact that we are on target is good news and is very welcome.

In that context, there are some interesting things to consider today. On surcharges, we continue to feel that surcharges are an important part of the Fund's multilayered risk management framework, but the figures that Mr. Herrera set out today are interesting and thought provoking. What they tell us is that we need to seriously consider the fact that the real-world impact of our surcharges policy has changed significantly over time. In that context, I would very much support his view that a review of the quota-based thresholds for surcharges would be warranted at this time.

On the issue, which I do see as being somewhat related of the margin for the rate of charge, we were clear in our gray statement that we support Decision 5 to keep the margin for the rate of charge unchanged. But having read with interest the points that Directors made in their gray statements and the points that Mr. Herrera and Mr. Betancur have made today in the Board, we do look forward to the review next year and looking at this more comprehensively.

We were clear in our gray statement and we have been on many occasions that we would like to be looking at the use of internal resources to support the PRGT. I welcome staff's comments on that.

We do see these three issues as being related because doing something on one has an impact on how much flexibility you have on the others, and also the impact on the overall strength of the precautionary balances. It would be useful if we were able to look comprehensively at these three issues in the round.

Mr. Mert:

We issued a gray statement broadly supporting all five decisions, so I would like to add a few brief points.

We note that the special reserve is the Fund's first line of defense against administrative loss and also the most reliable component of the Fund's precautionary balances. Against this backdrop, like other Directors, we also see merit in more granular work and engaging the Board on the most appropriate size and pace of the accumulation of the special reserve. In this same vein, also on the investment income projections and outturn, we hope to shed more light on the application of the Fund's middle-income model.

Like Mr. Bijani, Mr. Buisse, and Ms. Marcussen, we welcome the staff's separate section on enterprise risks and expect staff to follow up on the income risk assessment going forward as per the Fund's enterprise risk management policy.

Mr. Nicholl:

We issued a gray statement supporting all five decisions, but there are three points that I wanted to highlight today.

First of all, we too welcome a review of income allocation and like the concept of recognizing the special reserve as a first line of defense, and I know that there is a tradeoff between fixed allocations and flexibility, but I am sure staff could come up with at least one option that had a non-committed component that could give the institution flexibility on a year-by-year basis, and maybe that is a way of calibrating the rate of accumulation of the precautionary balances.

I would also like to add my voice to support that of Ms. Riach, Mr. Jennings, Mr. Bevilaqua, Mr. Zhang, Mr. Herrera, and others on looking at options for internal allocations to the PRGT, including the idea that we would suspend reimbursements from the PRGT to the GRA for a longer period.

We have supported maintaining the margin. I understand some of the origins of some of the arguments against the margin and surcharges, but I think we need to be very careful that we are understanding all of the elements in these arguments. A fixed margin is going to have a much smaller proportional impact in a rising rate environment, and it is going to be relatively much larger in a lower rate environment. I have said before, just because we are in a rising rate environment, I do not think that necessarily drives the need for a change in margins.

While welcoming a review, we need to be very careful about how we analyze this, and I also think that the comment that Ms. Riach just made about the fact that we would be doing this in a closed system type of environment makes a lot of sense, and we need to be cognizant of that in any review that we do.

Mr. Saraiva:

I will go a little bit off script here because I pretty much agree with what Ms. Riach said in terms of taking a look at these three issues in conjunction, the issue of the margin and the surcharges, the level of precautionary balances, and the possible use of internal resources to support the PRGT.

Of course, there are tradeoffs. They need to be carefully assessed. Our understanding goes pretty much along the lines of what Mr. Herrera and Mr. Betancur have said. We are reaching our medium-term target for the precautionary balances very soon, hopefully this year. We have prospects of a very strong net income for the foreseeable future. This is related; it is a sour-sweet situation, as Ms. Riach said. The world is not doing that well, but the Fund is thriving, so I believe the Fund can do more for the membership within this context, so we have leeway, we have room to accommodate our different objectives. One of them is to have sufficiently strong precautionary balances. But on the other hand, part of what we have accumulated beyond our target can be redistributed to support Fund activity for the most vulnerable part of our membership. We can alleviate a bit the burden of coming to the Fund for financial assistance for those countries that are also facing the

current situation in a harsher condition. I guess we do have room in this respect. Our preference now would be to adjust the margin rate of charge. As we said, we can do that without compromising the process of accumulating precautionary balances, but we certainly need to start discussing these three issues in conjunction as soon as possible in order to take timely decisions. While we preserve the financial soundness of the institution, we can provide the best of our service to the membership.

Mr. Mizuguchi:

As we stated in our gray statement, we support all the proposals, and we would like to offer two general points.

First, it is reassuring to see that this fiscal year is likely to bear overall net income, while acknowledging it will be lower than the previous projections, mainly due to sluggish investment performance. We also positively note the anticipated increase of the precautionary balances this year and welcome that the target level of SDR 25 billion is in close reach.

At the same time, given the high uncertainty, we reiterate that the Fund should continue steady accumulation to achieve the target at this juncture.

Second, we note the favorable outlook of the non-lending income in the medium term on the back of the changing financial conditions. While this may imply that our anticipation for the new income model may be realizing finally, we should continue to be mindful of the elevated volatility and uncertainties and be cognizant of further market developments. We are hoping to see reliable income, especially investment returns, and we look forward to reviewing the income position next year.

Mr. Dresse:

We are pleased that the income position of the Fund remains sound, allowing for further buildup of the precautionary balance, so we have issued a gray statement supporting all of the decision. I will make three quick remarks.

First, similar to others, we heard the call from Directors to visit the margin for the basic rate of charge. Today we tend to believe that the time for such a revision is not yet right, as we face substantial uncertainty and still need to reach our precautionary balance, and also as it appears today from the discussion, that we need to understand all the possible interactions.

At a later stage, however, we are certainly willing to have a debate on the use of the Fund's net income, and a holistic debate on the topic during future Board engagements seems appropriate.

Secondly, I would like to echo a point made by Ms. Koh in our gray statement on the SCA-1 account. The SCA-1 account has proved a useful tool in the past to protect against potential losses from overdue obligation. With the high interest rates, we could consider introducing a successor to the account. Such a successor should, however, avoid the weakness of the initial SCA-1 account, namely the linkages that were present when the instrument was used, so further analysis could be welcome.

Finally, let me also reiterate that income and expenditures are two sides of the same coin, so we are pleased that the two have been discussed on the same day. It will be even better if staff could prepare an overarching document considering both sides of the coin together, so it may be an additional interaction with the holistic approach that we need to have.

Mr. Massourakis:

We have issued a gray statement supporting all five proposed decisions. I just want to raise one additional point on the PRGT, given the rising financing needs of the most vulnerable countries in the membership in an international environment that remains uncertain with rather subdued growth prospects. As other Directors have noted in their gray statements, we look forward to the staff's analysis ahead of the Annual Meetings on options for financing the PRGT and hope that past funding commitments to the PRGT will materialize.

Against this background and noting that the Fund's income is expected to remain strong in the years ahead, we ask staff to explore internal funding options for the PRGT. Like Ms. Riach and Mr. Bevilaqua, we appreciate staff's estimates on the reimbursement costs from the PRGT to the GRA after the end of the suspension in FY2026. Like other Directors, we tend to agree that the relatively simple measures to be taken would be to consider a further extension of the suspension of the reimbursement costs from the PRGT to the GRA.

Finally, we also look forward to the analysis of other possible funding options, including gold sales.

Ms. Marcussen:

As stated in our gray statement, we support all five decisions, and we do note the relatively high uncertainty surrounding the assumptions for the projected income position at this time. This does also create uncertainty about a lot of the discussions that we are starting today and have already been started at other meetings as well.

The income structure and decisions are a crucial part of the Fund's multilayered risk management framework. I think there is broad agreement on this. This includes ensuring the accumulation of adequate precautionary balances. We positively note that the medium-term target for the precautionary balances is still expected to be reached in 2024 or early 2025. As mentioned in the discussions on the precautionary balances in December, we believe that a higher minimum floor for the precautionary balances could then be warranted to consider.

I would also just like to reiterate that we believe that the current structure of surcharges should remain unchanged and we look forward to engaging in the upcoming discussions. We agree that we need to see these different discussions as interlinked, but we would be cautious about raising expectations for fundamental changes in the Fund's income model. Even small changes, which may seem non-fundamental, will have an impact on the Fund's financial soundness, precautionary balances, as well as the incentives that surcharges are meant to ensure.

Mr. Peter:

We welcome the Fund's strong income position but also recognize that projections remain highly sensitive to further changes in market conditions given the higher-than-normal level of uncertainty. We have issued a comprehensive gray statement, and I would like to add three points to what we have said there.

First, the solid accumulation of precautionary balances is welcome and should continue. Keeping the margin for the basic rate of charge unchanged at 100 basis points above the SDR interest rate will facilitate the accumulation of precautionary balances.

Second and relatedly, we reiterate our call to reassess the case for the higher target for precautionary balances in light of the Fund's increased risk exposure. As suggested by Ms. Koh in her gray statement and by Mr. Dresse

just now, this discussion should include consideration to refund the first special contingent account through the regular budget process.

Finally, like Mr. Bijani, Ms. Koh, Mr. Palotai, and Mr. Buissé, we welcome that the operational costs of administering the Resilience and Sustainability Trust will be fully reimbursed to the GRA. It is critical to ensure that GRA resources remain allocated to the Fund's core mandate.

Ms. Koh:

I would like to support comments made by my colleagues, Ms. Marcussen and Mr. Peter, and we also join the group that believes it is not a good idea to consider a reduction or to temporarily relieve surcharges, as they are an integral part of the IMF risk management framework. To be honest, I was a bit surprised to read in some of the gray statements ideas about the use of internal resources. We had an extensive comprehensive PRGT discussion weeks ago. This sends a signal that some of the chairs do not believe in the current strategy that we agreed upon, which is fundraising and see where we stand until the Annual Meetings. Some of the chairs are not buying into the strategy. I would just caution or warn against starting a discussion which could undermine the ongoing efforts.

The Acting Chair (Mr. Okamura):

On the last point you made on the PRGT funding, we have two goals towards Marrakesh. One is just filling the funding gap of the first-stage fundraising target. The second one is just coming up with ideas to put PRGT financing on a sustainable track. During the PRGT adequacy Board meeting, the Managing Director drew the conclusion of coming up with a full range of options for the use of internal resources for that purpose.

Ms. Shortino:

I can be very brief and just say I associate myself entirely with Ms. Marcussen's intervention.

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

Thank you very much, Executive Directors, for the forward-looking guidance. We are taking this homework away, and I heard that we all would like this to be done in a timely basis. We are going to come back to the Board with a briefing (on internal resources, as part of the update on PRGT and RST

financing) before the Annual Meetings. I appreciate the framing that the three matters are intertwined—the margin, which is the Fund’s main income, as well as the surcharges, and also, we will be looking at the precautionary balances and also the internal resources and how we would use that. That is why we are very careful to pull all of these matters together for discussion.

Thinking a bit more about the internal resources use, we know that it is to some extent drawing on the precautionary balances, but we also mentioned the balance sheet—especially a couple of chairs talked about the volatility and the uncertainty, and also the Managing Director mentioned a shock-prone world—and so we are very careful about the Finance Department’s (FIN) responsibilities to safeguard the Fund’s assets.

The idea is that we are going to have to think about the special reserve, and the general reserve, which is the distributable reserve, and FIN also has a responsibility around quota, and Mr. Herrera talked about surcharges as being really a quota-based instrument. Just to be a bit more straightforward, as we have been thinking about this work stream, and also doing our homework, I can make a few points on this.

The first related to the quota-based surcharges. We would take any decision on it during the Sixteenth General Review of Quotas; and so that is one way of thinking about it because it is a quota-based instrument, and that could be a good forum.

FIN has responsibility over the precautionary balances review. Many of you mentioned meeting the medium-term target. Maybe a discussion there. We may also be doing a review of the precautionary balances at the end of this calendar year, around December, depending on priorities. We can address some of these topics since, by then, we would have a few months of market developments. Hopefully we can see how good our projection is for meeting the target in FY2024 or maybe it would be FY2025. That review is around the sizing of what the precautionary balance could be.

A point I also heard is around the margin. I heard this idea of it serving a countercyclical purpose. To frame what the margin’s purpose is, I mentioned at the onset the intermediation costs, and in the paper, we make clear that it is adequately covering the intermediation costs. Its second role is the accumulation of reserves and it is doing a reasonably healthy job of that. But there is a third component, which is understanding this as a long-term market condition. We are not recognizing the market condition tightening, but the benchmark that we have been looking at is the emerging bond market

spread over a running average over a five-year period. We are starting to see that now, and we are thinking about it.

That said, with the current data we have for the lowest least risky lender spread, the margin is still about 50 plus basis points below that. But I also heard that it should be market based; can we think about something countercyclical? That is the homework that we have to do. We are going to have to work with other colleagues to think about the kind of flexibility we may have in setting this margin. But what we are proposing this year is based on not recognizing the conditions that our members are facing. Suffice to say, the guidance that we have right now is that the margin should not be too high or too low vis-a-vis long-term market conditions. That is the guidance that we have made our proposal on. For next year, which is the margin setting, we are taking that guidance from you to do our homework.

I have one last comment on the budget and income paper and how we are doing it. We are very happy that we are having back-to-back meetings on the same day with our colleagues in the Office of Budget and Planning. Just taking this year's discussion of the budget paper, which we closely follow, we also found that there are some very strategic items being discussed, especially on allocation, on our priorities, on augmentation, and I heard a lot around capacity development. You can see that the income paper is starting to be pretty forward-looking, which means the income paper alone also has a lot of discussion, not only to cover the budget of the Fund, but we are thinking a lot more strategically, especially going forward on the usage of internal resources.

Our fear is that while we collaborate very closely with our colleagues on our respective papers, we could dilute too much if we combine everything and may not be able to take some strategic decisions going forward; and also how we do that in bilateral meetings. We still appreciate working much more closely, given your previous guidance. We, ourselves have to think a bit more about whether we can go further than basically having back-to-back meetings. Again, this gives us a bit of space to take your forward-looking guidance and do a bit more analysis, and take a bit more time, especially when we engage you.

Mr. Nicholl:

I feel more comfortable and heartened by the comments I just heard by Ms. Khaw around the margin setting. Staff seem to be demonstrating a pretty clear understanding of the principles that need to be driving margin decisions

as opposed to views on either outright rate levels or spreads. They are very different considerations.

The Acting Chair (Mr. Okamura) adjourned the discussion.

ANNEX

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

**Statement by Mr. Subramanian and Mr. Hansda on Review of the Fund's Income
Position for FY 2023 and FY 2024
Executive Board Meeting 23/32
April 27, 2023**

We thank staff for the comprehensive review and analysis of the Fund's income position for FY 2023 and FY 2024. While we broadly agree with the proposals, we have the following observations:

2. The paper has updated the April 2022 projections based on data up to February 2023 for the FYs from 2023 to 2033. However, it has proposed for the Board's consideration for FY 2023 and FY 2024.

3. Undoubtedly, projections are subject to more than normal uncertainties in view of the ongoing conflict in Europe, the long recovery from the pandemic, the persisting price pressures and the rising interest rates amidst a more shock-prone global economic outlook. In this context, **staff's presentation on Table 1 brings out succinctly the variance between initial projections and current projections for FY 23. Staff are welcome to present a similar Table for FY 24.**

4. Staff have mentioned that they have not incorporated the impact of the temporary increase in GRA access limits into income projections. Staff have also not built into their projections the impact of any pension-related gain or loss. **In the absence of such incorporation, staff projections remain far from reliable. Staff are, therefore, welcome to incorporate all known unknowns and revise the projections. In this context, staff may also consider introducing fan charts for their projections, highlighting the uncertainty associated.**

5. Staff have projected the investment income under fixed-income subaccount at SDR 842 million in FY24, up from SDR 66 million in FY23. **The projected sharp hike in FY24 is attributed, among others, to 'the expected impact from refinements to the investment strategy'. However, as per FN 31, Executive Board modified the investment strategy in January 2022. Does that mean that the modification was not implemented in FY23 and will be effective in FY24?**

**Statement by Mr. Roman and Mr. Grossmann-Wirth on Review of the Fund's Income
Position for FY 2023 and FY 2024
Executive Board Meeting 23/32
April 27, 2023**

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 2023 at about SDR 2.0 billion, slightly lower than the April 2022 estimate of SDR 2.1 billion. The Fund's overall net income for FY 2023 is revised down more markedly to SDR 1.8 billion given the estimated retained investment loss of SDR 210 million of the Endowment Subaccount (EA), in a context of tightening interest rates and volatile market conditions. Finally, we note that the income outlook for FY 2024 is expected to remain strong, with an overall net income increasing to SDR 2.9 billion (though with high uncertainty surrounding the projections, especially regarding the EA projected investment income).

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 2023 and on the assessment levied on all participants, consistent with past practice.
- We support **Decision 2**, which provides for the income of the Fixed Income and Endowment Subaccounts for FY 2023, if any, to be retained in the respective subaccounts.
- 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 2023, and to place any additional net income in equal parts in the Fund's Special Reserve and General Reserve.
- 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 2023 net income.
- We support **Decision 5**, which keeps the rate of charge on the use of Fund resources for FY 2024 at 100 basis points over the SDR interest rate, in line with previous years.

In addition:

- *Could staff further explain why lending revenues remain broadly stable in its projections, despite an increase in both SDR rates and expected loan demand?*

- **In the context of the Fund's overall robust income model (all the more given the expected additional income from higher lending in the medium term), we remind the importance of exploring the full range of options for using internal resources to bolster the adequacy of PRGT resources (in particular once the indicative precautionary balances medium-term target of SDR 25 billion is reached). We look forward to the swift presentation by staff of the technical work on all options, in advance of the next Annual Meetings in Marrakech.**

**Statement by Mr. Giammusso, Mr. Massourakis, and Ms. Quaglierini on Review of the
Fund's Income Position for FY 2023 and FY 2024
Executive Board Meeting 23/32
April 27, 2023**

We thank staff for an informative paper on the Fund's income position. We concur that the Fund's income projections remain subject to considerable uncertainty in the current challenging economic environment reflecting a variety of factors including Russia's war against Ukraine and its adverse spillovers, still relatively high inflation, and tighter financial conditions globally. Overall, the Fund's income remains robust following the strong demand for Fund's resources in an uncertain environment. We support all five proposed decisions and offer the following comments.

- We appreciate staff's explanations regarding the differences in the updated Fund's income projections compared with those made in April 2022 and take note of the underlying driving factors.
- In the new interest rate environment, we note the significant pickup in the investment income that is expected to contribute in an important way to the Fund's overall income from FY24 and in the following years (Figure 5). We therefore welcome the analysis provided in Annex III on the implementation of the New Income model (NIM) adopted in 2008 with the aim of achieving a diversification of the Fund's sources of income and reducing the overreliance of the institution on lending income to finance its activities. Despite some delays, the NIM seems to bear fruits. That said, we concur with staff to continue the suspension of the payout from the endowment account for one additional year to increase the cushion of retained investment income to protect the real value of the endowment.
- We agree with staff to leave the margin unchanged at 100 basis points.
- We are pleased to note that the precautionary balances are expected to reach the indicative target of SDR 25 billion by late FY24, which is an important achievement that is now in sight. We also note the considerable rise in burden sharing capacity illustrated by Fig. 6. Regarding credit risks, we encourage staff to keep the Board timely updated on the International Financial Reporting Standards (IFRS-9)-related assessments on impairment losses for FY23 that are expected to be completed by June. We would be interested in any preliminary information that staff could share before June.

- We appreciate that the pension adjustment is separated from the Fund's core activities to make the income outcomes clearer and more transparent and encourage staff to maintain this template going forward.

**Statement by Mr. Nicholl, Ms. Doss, and Mr. Yoo on Review of the Fund's Income
Position for FY 2023 and FY 2024
Executive Board Meeting 23/32
April 27, 2023**

We note that the Fund's operating income is projected to remain strong during the period of FY 2023 and FY 2024 amid multiple shocks and heightened uncertainty around Fund's lending and financial market conditions. We welcome the updated projection that precautionary balances are expected to reach the indicative medium-term target by late FY 2024 or early FY 2025, broadly in line with the projection at the recent review of precautionary balances in November 2021. **We support all the proposed decisions with the following comments for emphasis.**

We support the further delay of the Endowment Subaccount (EA) payout by another year and reassess its initiation in FY 2024. A substantial investment loss in EA during the FY 2023, on the back of sharp increase in interest rates and broad-based decline across financial markets, brought the EA's cushion down to around 2 percent at end-February 2023, well below the target of 15 percent. Given that the Fund currently has sufficient resources to cover its administrative expenses, it is appropriate to delay the commencement of the EA payout until an adequate EA cushion is restored. We do not see a compelling need to transfer net income to the EA at this stage.

While we can go along with the proposed income allocation to the special and general reserves, we reiterate the call for developing alternative rules-based allocation methodology. 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. We reaffirm last year's Board approval of the new framework for allocating pension remeasurement gains and losses 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. We look forward to the FY 2024 review that could provide thorough analysis and alternatives to allow the Board to make a reasonable judgment about the appropriate size and pace of accumulation of the special reserve.

We welcome the comprehensive review of the margin for the rate of charge and agree that there are no fundamental changes that warrant an adjustment to the current margin of 100 bps. Lending income is projected to sufficiently cover intermediation costs of Fund's financial arrangements in FY 2023. We agree that there is no fundamental change in the alignment of the margin with long-term credit market conditions, noting that as of March 2023, the lowest quartile of the composite EMBI spreads has been unchanged as of March 2023 and the comparator spreads in the medium term remain broadly comparable to previous periods. We agree that the margin continues to be set under the exceptional circumstances clause for FY 2023 as the Fund need to continue to rely on its lending income to cover a part of non-lending activities. We note the significant improvement in the Fund's burden sharing capacity thanks to the sharp increase in SDR interest rate.

Joint Statement by Mr. Guerra, Mr. Herrera, Mr. Mohieldin, Mr. Alhosani, Mr. Betancur Mora, Mr. Chodos, Mr. Corvalan, Ms. Merhi, and Ms. Moral Betere on Review of the Fund's Income Position for FY 2023 and FY 2024
Executive Board Meeting 23/32
April 27, 2023

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

The Fund's income position has structurally improved due to the recent increase in interest rates. While non-lending income is still subject to significant financial market volatility, there has been a marked improvement in the projections for investment income in FY24 and beyond. These projections now suggest that non-lending income will exceed non-lending expenses. The staff's analysis indicates a clear improvement in the operation of the New Income Model (NIM), even under significant uncertainty regarding investment returns and pension-related gains and losses. Furthermore, lending income is expected to remain strong in FY24 due to the high demand for IMF support, and precautionary balances potentially could reach their target by the end of FY24 or early FY25. **While we support the proposed decisions 1 to 4, we urge a reduction of the IMF's rate of charge for FY24, as well as a prompt review of the charges and surcharges policy in light of the above-mentioned factors, the complex global environment and the situation of our most vulnerable members.**

- We take note that the net operational income of the GRA is now projected at about SDR 2.0 billion for FY 23; slightly lower than the April 2022 estimate of SDR 2.1 billion after adjusting for an estimated pension-related (IAS 19) gain. We are pleased to note that the pace of reserve accumulation is higher than what was anticipated last year, mainly reflecting an upward shift of the SDR interest rate path from prior low levels, and the potential demand for Fund lending being higher than previously anticipated. Based on current projections, the indicative medium-term target precautionary reserves of SDR 25 billion are expected to be reached by late FY 24 or early FY 25.
- 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, 2023, consistent with past practice. **We also continue to strongly support the suspension of reimbursement of the GRA for PRGT administrative expenses for FY 22–26.**
- Given the geopolitical uncertainties and continued high market volatility, 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 FY23 in the EA rather than being transferred to the GRA to be used for administrative expenses. **Nevertheless, we believe that consideration should be given to replenish the depleted EA cushion in a timelier way** (see next paragraphs). We look forward to reassessing its commencement in FY24 based on the adequacy of the cushion, market conditions and the Fund's income outlook.

- **We support Decision 3 and 4 related to the allocation of any remaining positive net income in equal parts between the special and general reserves**, and the transfer of currencies from the GRA to the Investment Account (IA) equivalent to the increase of the Special and General Reserves following the placement of FY 23 net income. Nevertheless, we believe that a more effective strategy could be, as the staff paper also suggest, to consider a decision to transfer resources to the EA in order to replenish the 15% cushion. Under a tail risk scenario of concerns about a member's ultimate repayment that could trigger the recording of a provision under IFRS 9 this would reduce the Fund's Income and correspondingly the accumulation of precautionary balances. It would make more sense from a risk management perspective to increase the income base by ensuring that the EA can start to contribute. *Staff comments are welcomed.*

- **We do not support Decision 5 to leave the Fund's rate of charge on the use of Fund resources for FY 23 and FY 24 unchanged**, at 100 basis points over the SDR interest rate.
 - i. **We do not concur with the staff assessment that there has not been a structural change in the market that merits revisiting the margin.** Last year's Review of the Fund's Income Position (April 2022) stated that "the margin for FY2023-24 will need to be re-established under the exceptional circumstances clause" considering that non-lending operating income was expected to remain below non-lending expenses in both FY2023 and FY2024. However, the updated projection indicates that non-lending operating income is expected to reach SDR936 million and exceed non-lending expenses in 2024 and beyond, so the exceptional clause would not apply for FY24.
 - ii. Furthermore, lending income is projected to remain substantially in excess of intermediation costs. Intermediation costs are expected to be USD122 million while margin income would be USD1,249 million. Additionally, as reported in table 3 and figure 5, non-Lending operational Income will fully cover for the first time in FY24 Non-Lending Expenses. **While the margin is set for a two-year period, Rule I-6(4) calls for a comprehensive review of the Fund's income position before the end of the first year. Given staff analysis presented we see argument to reduce the margin considering the exceptional circumstances clause would no longer apply.**
 - iii. **We call for staff to present scenarios of a meaningful reduction in the rate of charge (ie to 50 basis points) to assess the effect on the accumulation of reserves.** From staff analysis we can infer that setting the rate of charge at 50 basis points would still imply a considerable accumulation of reserves at SDR 2.4 billion in FY24.
 - iv. **A reduction in the rate of charge would have broad benefits across the membership at very uncertain times.**

- **Given the difficult global economic environment, we urge a prompt review of the IMF's rate of charge and surcharges policy.** Against the background of the lingering pandemic, geopolitical developments, and increasing global interest rates, margin and

surcharges disproportionately affect vulnerable EMDCs that require IMF financing. At a time when these countries need IMF financing the most, margins and surcharges are unfairly penalizing them. In addition, we note that the pace of reserve accumulation is projected to be faster. Therefore, we call for a prompt review of margins and a potential temporary suspension of surcharges while encouraging a more comprehensive policy review.

- We welcome the assessment made by staff of the most critical enterprise risks affecting the review of the Fund's income position for FY 23 and FY 24. We particularly appreciate the fact that there has been significant progress in implementing the NIM as elaborated in Annex III with a witnessing a gradual increase in the diversification of its sources of income.

**Joint Statement by Mr. Bijani, Mr. Ubisse, Mr. Cham, and Mr. Akosah on Review of the
Fund's Income Position for FY 2023 and FY 2024
Executive Board Meeting 23/32
April 27, 2023**

We thank staff for the well written review on the Fund's income projections for FY2023 and FY2024. We broadly welcome staff's assessment, support the proposed decisions, and would like to make the following remarks for emphasis.

We note that the Fund's net income projections for FY2023 and FY2024 continue to face high risks amid a more shock-prone global environment. In this context, we agree with staff's projections of significantly higher demand for Fund resources as members continue to grapple with the recent overlapping shocks including spillovers from the pandemic, lingering geopolitical tensions, and rising global interest rates in response to elevated inflationary pressures. On the other hand, we note with concern the significant projected shortfall in operational income for FY2023 relative to the initial April 2022 projections (Table 1), driven by lower outturns in both investment and lending incomes. While recognizing that broad-based worsening of global market conditions primarily underpins the lower projected investment incomes for FY2023, *we would welcome staff's elaboration on the reasons for the projected shortfall in lending incomes despite higher projected demand for Fund support.*

On Proposal 2, further postponement in the payouts from both the Fixed-Income (FI) and the Endowment Subaccounts (EA) is necessary to ensure sufficient cushioning of retained investment incomes. Given that the projected 2 percent erosion of EA cushion for FY2023 is well below the 15 percent target, we support the retention of EA loss in its subaccount. It is also important that no transfer is made from the FI subaccount to the GRA, considering that the projected FI outturn of SDR66 million cannot fully offset the losses incurred in FY2022. We also agree that the reimbursement to the GRA of operational cost of administering the RST should start in 2024. It is comforting to note in *paragraph #12* that the Fund has adequate buffers to cover its administrative expenditures and therefore a further delay of the FI and EA payouts would not have significant impact on the overall income position for FY2023. Relatedly, we note that the provision for loan impairment losses remain broadly unchanged given the Fund's framework on provisions and its multilayered framework for managing credit risk. That said, *could staff comment on the results of the impairment assessment of the annual IFRS 9-related country assessments?*

Regarding Proposal 3, the 2022 Board's agreed new framework specifies income allocation into the Fund's Special Reserve (SR) and General Reserve (GR). In this context, we welcome the expected significant contribution of pension-related adjustment to net income in FY 2023 coming from remeasurement gains and the lower net periodic cost after funding (Table 2). However, considering its unpredictability, we support the proposal to place the projected pension-related gain in the SR while allocating any residual positive net income equally into SR and GR. We look forward to staff's assessment of the actual outturn for the FY2023 pension-related outcome when the relevant data become available at the end of the current financial year.

On Proposed Decision 4, it is important for the Fund to fully comply with the provision in Article XII, Section 6, as stated in paragraph 19 of the paper, to strengthen its finances over time. We note that the combined balance in reserves is projected to exceed the net cumulative transfers to IA by SDR 2 billion. Although the actual outturn for FY2023 remains uncertain, we support the proposal to transfer full excess amount in reserves from the GRA to the IA for investment to help diversify the sources and increase the Fund's income.

We also welcome the favorable outlook for the Fund's incomes and expenses for FY2024, while recognizing that economic and geopolitical shocks are key downside risks. That said, we note a sizable increase in projected net income position for FY2024 relative to FY2023, and a more than 50 percent increase in EA payout. Nonetheless, the FY2024 projections face significant headwinds and uncertainty, including from cancellations or changes in the timing of purchases under existing and potential arrangements under the desk survey; fluctuations in the annual pension-related gain/loss; iSDR interest rate and US dollar/SDR exchange rate; credit risk and protracted market volatility. *We would welcome staff comments on the projected drop in service charges and other income.*

Finally, we welcome staff's self-assessment of the most critical enterprise risks of the Fund's Income Position for FY2023 and FY2024, in line with the Fund's Enterprise Risk Framework. We take note of significant residual risks, related to external drivers, which can only be partly addressed through risk management. *Could staff provide further details on these residual risks?*

**Statement by Ms. Koh and Mr. Krahnke on Review of the Fund's Income Position for FY
2023 and FY 2024
Executive Board Meeting 23/32
April 27, 2023**

We thank staff for a comprehensive and well-written report on the Fund's Income Position for FY 2023 and FY 2024 and support the proposed decisions. The environment of heightened risks and uncertainties for the Fund and its financial situation call for a cautious approach going forward. In what follows, we would like to provide some specific comments on a subset of the proposed decisions.

On decision 3, we agree with allocating the pensions-related remeasurement gains to the special reserve and can go along with the proposal for splitting the remaining income between the reserves, according to the framework decided last year. For the next year's review, however, we would favor a clear prioritization of the strengthening of the special reserve, as the special reserve is the most reliable component within the Precautionary Balances.

While we welcome the continued build up in the Precautionary Balances, we note with concern that levels are lower than initially projected at the end of last fiscal year. In addition, the Fund remains reliant on lending income for covering expenses and building up reserves, as the potential additional operational income sources are limited by the waiver of reimbursement of PRGT costs to the GRA and a challenging investment environment. As such, the Fund's lending income is susceptible to credit risks, which could - in case of a substantial negative shock combined with high and concentrated credit risks - also eventually overwhelm the accumulated precautionary balances. Beyond the decision on how to allocate available resources between the reserves' sub-components at this stage, we also encourage discussing proposals on how to strengthen the Precautionary Balances (PB) sustainably and significantly going forward. These discussions should include options to strengthen PB in a less dependent way as a residual component only of net operational income. In this context, another instrument available to the Fund to bolster the precautionary balances is the SCA-1 and re-funding this account via the regular budget process is an option that should be looked at.

Having said that, given the unique nature of the Fund's lending, we concur that no provisioning is required at this stage, but underline the need to continuously monitor credit risk developments closely, in particular in the current environment of heightened financial risks and uncertainties for the Fund. We take note that staff is currently in the process of conducting impairment assessments for FY 2023 and urge staff to address potential risks of adjustments due to IFRS-related requirements and related key risk to the Fund's income position by vigorously applying the Fund's lending and safeguards standards and a solid build-up of precautionary balances.

On decision 5, we agree to keep the basic rate of charge unchanged for the time being. We take note that the current basic rate of charge is sufficient to cover intermediation costs, and enables reserve accumulation, in line with Rule I-6(4). Given the elevated risks to the Fund, a more determined reserve accumulation should be discussed in the near future, including the setting of a risk adequate reserve floor and target. We also note that the current basic rate of charge is broadly in line with long-term market conditions, even though market spreads remain well above the margin of the rate of charge.

While the period of low-interest rates is fading out, we take note that the difficult investment environment with a lot of volatility has hampered the diversification of the Fund's income sources as investment income has remained subdued. We join staff in hoping that rising interest rates will finally boost investment income, enabling to cover non-lending expenses with investment returns in the medium-term

We stress the need to ensure cost recovery regarding costs occurred by the RST, so that the GRA resources remain deployed on the Fund's core mandate. In that sense, we think that it is unfortunate that reimbursements will only start from FY 2024 onwards, as expenses occurred already in FY 2022 through reprioritization and extensive staff overtime and operations for the RST were already rolled out in FY 2023. While we do see some overlap in RSF operations and operations within regular Fund-supported programs, we would appreciate an estimate to reimburse the Fund's income by and large. In this regard, we consider an amount of 6 million SDR of RST reimbursement in FY 2024 to possibly be an overly cautious estimation of costs occurring for the RST, as regular PRGT reimbursements estimated for the years after the current suspension (FY26) amount to about 100 million SDR.

**Statement by Mr. Bevilaqua, Mr. Saraiva, and Mr. Fuentes on Review of the Fund's
Income Position for FY 2023 and FY 2024
Executive Board Meeting 23/32
April 27, 2023**

We thank staff for the report and for the productive engagement with our office. We broadly agree with staff's projections and characterization of risks for FY2023 and FY2024. We also recognize that the war in Ukraine, persistent inflation, and tightening global financial conditions have created greater than normal uncertainty around key assumptions. Despite the uncertain outlook, the Fund's overall income position remains strong, with the pace of reserve accumulation higher than projected. However, we believe that the Fund should continue to find ways to do improve its support to members in this challenging time.

The projected revenue position for FY2023 remains in line with estimates. We note that lending income is coming marginally lower than projected one year ago, nonetheless the FY2023 net income position remains very strong at around SDR 1.8 billion. While total GRA expenses are projected to end slightly above the April 2022 projections, the pension-related adjustment is expected to contribute a total of about SDR 274 million to net income. However, we acknowledge that the actual outcome of the IAS 19 adjustment remains highly uncertain given the current volatile market conditions.

We support the proposed use of investment income earned in FY2023. The earnings in the Fixed Income (FI) subaccount in FY2022 were at a loss due to rising interest rates. Therefore, we agree with the proposal to retain the projected earnings in the Investment Account (IA) to offset the retained loss until it is fully recovered. With respect to the Endowment Subaccount (EA), we recognize the projected loss in the EA in FY2023 and continue to place a high priority on building a strong EA cushion. Therefore, we support the proposed extended delay in the initial payout to build a meaningful cushion to protect the real value of the EA corpus. In this regard, we agree with a prudent approach of not starting payouts until the risk has diminished, especially considering that the impact of further delaying the EA payout is not significant to the overall income position and that the Fund currently has sufficient resources to cover with a large surplus its administrative expenses.

Given the challenging global financial conditions, we would prefer to set a lower margin for the rate of charge. We acknowledge the Board's decision in April 2022 to maintain the margin for the base rate of charge at 100 basis points for FY2023 and FY2024, as its level is broadly consistent with long-term credit market conditions. However, given that lending income is projected to remain well above operational expenses and the pace of reserve accumulation is estimated to continue higher than anticipated, we believe that the Fund has room to set a lower margin on the rate of charge while building reserves at a satisfactory pace. In addition, the projected investment income suggests that lending income will be barely needed to cover overall expenses in FY2024, showing that there is room for accommodation. Therefore, we prefer a margin of less than 100 basis points for the rate of charge to enhance the support provided by Fund financing to those members that are facing

substantial hardships in a challenging period. In any event, we look forward to reviewing the margin rate next year to ensure that it is consistent with the Fund's mandate and the needs of the membership.

With the upcoming early accomplishment of the precautionary balances' target and the strong projected net income over the medium term—despite significant uncertainty—we should start exploring the use of internal resources to fund the PRGT. Given the countercyclical nature of demand for Fund resources, demand for IMF lending should remain strong in the foreseeable future, sustaining lending income at very high levels. The indicative precautionary balances target of SDR 25 billion is expected to be reached by late FY24 or early FY25 under the baseline scenario. With the medium-term target within reach, there is a strong case for start considering using internal resources to fund the PRGT's subsidy account. A significant part of the membership relies on the PRGT to face their balance of payments needs and support their reform efforts. While GRA finances exhibits a stellar performance, the PRGT may be forced to constrain access at an inadequate level because of lack of subsidy resources. In this context, we would like to see staff's technical work on the full range of options for using internal resources soon, so that the Board can engage in this discussion at an early stage. We also continue to view a longer-term suspension of PRGT's reimbursement to the GRA as a relatively simple measure, with negligible impact on the Fund's income position.

**Statement by Mr. Peter and Mr. Kuth on Review of the Fund's Income Position for FY
2023 and FY 2024
Executive Board Meeting 23/32
April 27, 2023**

The Fund's income and expenditure statements for FY2023 and FY2024 reflect a continued strong income position. While lending income has largely held up relative to projections over the past year, investment returns have been lower due to adverse global financial market conditions and rising inflationary pressures. We acknowledge staff's words of caution regarding the expected volatility in these numbers and their sensitivity to the underlying assumptions. We also note that the projections for FY2024 do not include provisions for impairment losses under IFRS 9.

The solid pace of accumulation of precautionary balances is welcome and should be continued. We are reassured by staff's assessment that the target of SDR 25 billion should be reached within the next 1 to 2 years. Given the heightened risk exposure of the Fund, as prominently discussed in the context of the risk management framework, we reiterate our call to reassess the case for a higher target. In addition, we caution against steps that could weigh on the accumulation of precautionary balances.

We agree with staff to leave the margin for the basic rate of charge unchanged at 100 basis points above the SDR interest rate (Decision 5). As the outlook for investment income looks much brighter in an environment with significantly higher interest rates, we look forward to revisiting the application of the exceptional circumstances clause under the Fund's New Income Model in one year's time. We note that non-lending income is expected to increase steadily, embedding the assumption of a sustained period of elevated interest rates. *Could staff comment?*

We agree to delay the initiation of an Endowment Subaccount (EA) payout (Decision 2). The cushion in the EA of the Investment Account is too low and should be replenished to its target before considering payouts. The cushion absorbed a large part of the decline in EA asset values in FY2022, illustrating its purpose. The assumptions for projected EA income based on medium-term average returns appear plausible and support reaching the EA target cushion over time.

We also support the other proposed decisions on the reimbursement of administrative costs to the GRA, the placement of income, and the transfer of currencies (Decisions 1, 3, and 4).

**Statement by Ms. Lim, Mr. Anwar, Ms. Wongwaisiriwat, and Mr. Lee on Review of the
Fund's Income Position for FY 2023 and FY 2024
Executive Board Meeting 23/32
April 27, 2023**

We thank staff for the comprehensive paper and outreach to our office. We agree with the proposed decisions and offer the following comments.

First, we urge staff to continue closely monitoring the performance of the Fund's Fixed-Income and Endowment subaccounts (FI and EA, respectively) and take necessary action if projections deviate significantly. The performances of both the FI and EA are expected to fall significantly short of projections. The projections themselves are subject to greater than normal uncertainty – on the trajectory of interest rates, concerns about financial stability and fears of slowing growth. Staff should also consider escalating further significant deterioration of the performance of the portfolios.

Second, we agree with the proposal to continue to defer pay-outs from the EA to allow for its cushion to be rebuilt from its current 2% levels. The EA's cushion has played a helpful role given the series of global shocks since the pandemic and should thus be rebuilt to the 15% level. While staff highlighted an option for transferring currencies to immediately shore up the EA cushion, the continued growth of the FI is of greater importance, especially the further bolstering of the Fund's precautionary balances. In addition, we note that staff project a significant increase in EA income in the next FY due to the higher interest rate environment, which would facilitate payouts as soon as FY2024.

Third, on responsible investing, Director's supported in January 2022 staff proposal to formalize a commitment to responsible investing in the Investment Account and Trust Assets Investment Guidelines. This aimed at improving the long-term income generation and risk mitigation of the Fund through incorporation of environmental, social, and governance considerations in the investment process. We look forward to hearing progress of how the portfolio has been rebalanced since the implementation of the guidelines in the upcoming Investment Annual Report in mid-2023.

Finally, we note the plan to use non-lending income to cover non-lending activities in the medium term. However, given the low expected returns on the investment portfolio, up until FY2023, the Fund continued to rely on its lending income to cover

a portion of its non-lending operational costs. *As the Fund continues to expand its non-lending activities, is there a plan to further discuss augmentations to the New Income Model (NIM) to further broaden non-lending income sources?* We also appreciate the coverage on enterprise risk implications. While the adequacy and volatility of non-lending income were not identified among the top risks in the DRSA, we would encourage ongoing discussion between ORM and line departments on risks to non-lending income and the effectiveness of the NIM, to act as inputs for future review.

Statement by Mr. Dresse, Ms. Eijking, and Mr. Verhelst on Review of the Fund's Income Position for FY 2023 and FY 2024
Executive Board Meeting 23/32
April 27, 2023

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

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

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

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

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

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

**Statement by Mr. Palotai, Mr. Just, Mr. Mert, and Mr. Marek on Review of the Fund's
Income Position for FY 2023 and FY 2024
Executive Board Meeting 23/32
April 27, 2023**

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

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

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

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

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

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

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

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

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

**Statement by Mr. Mizuguchi, Ms. Kashima, Mr. Naka, and Ms. Fukuda on Review of the
Fund's Income Position for FY 2023 and FY 2024
Executive Board Meeting 23/32
April 27, 2023**

We thank staff for the informative paper as well as the bilateral outreach to our office. As we broadly support the staff proposal, we would like to emphasize the following points.

It is reassuring to see that the Fund has gained adequate gross operational income to cover expenses and accumulate reserves for FY 2023, despite the depressed performance of the investment portfolio due to the challenging market environment. We note that the lending income has broadly stayed in line with the initial projections. As the pension-related adjustments are likely to have a sizable impact on the final figures, contingent on year-end market conditions, we encourage staff to continue close monitoring of income developments.

We should remain vigilant as the income outlook going forward is highly uncertain and susceptible to downside risks. While we positively note staff projections foreseeing non-lending operational income to substantially increase from FY2024 to a level exceeding non-lending expenses, we request staff to closely monitor future developments and provide timely updates to the Board should any significant deviation from the current projection arise. With regards to precautionary balances, we reiterate our call for steady accumulation toward the target of SDR 25 billion all the more in light of the elevated credit outstanding and potential demand for Fund financing in the pipeline.

We endorse all the staff proposals on the disposition of FY 2023 income. We are comfortable to find that the new framework to allocate volatile pension remeasurement gains/losses has worked well to isolate the fluctuations and to provide clear external communication in the financial statements. We agree with the continuation of this practice.

We also see a case to continue suspension of the Endowment Subaccount's (EA) payout to the GRA to protect the real value of the EA under elevated uncertainties. The negative performance of the EA this year is concerning, resulting in the erosion of the cushion of the retained investment income so far. The payout from the EA could be initiated once a future review finds that the EA cushion could be rebuilt to 15 percent of the EA's real value. Staff implied in the paper the possibility to consider changing the present framework to allow earlier initiation of the EA payout while compensating the deficiency with a direct transfer from the GRA. Acknowledging that this would lead to prioritizing growth of the EA over the Fixed-Income Subaccount, careful consideration should be given assessing both the pros and cons of such an approach prior to any changes to the framework. We note that, if the high-interest rate environment stays on track as anticipated in the staff projection, a need for early payout would become less relevant.

We support the staff assessment that there have been no fundamental changes in the underlying factors relevant for margin setting, and thus it is appropriate to maintain the lending margin at 100 bps. We note that the current margin level has remained broadly in line with long-term credit market conditions as seen in the EMBI spreads. Further, as we

unfortunately continue to see shortfalls in non-lending income to cover non-lending expenses, it could be justified to set the lending margin under the exceptional circumstances clause of Rule I-6 (4). Looking ahead, we expect to see a reliable increase of the investment returns, and we request staff's timely assessment of the performance of the latest investment strategy.

While we welcome the coverage of the DRSA in the paper, we would have preferred to see more reasonings behind the selection of risks. It is encouraging to find more papers, including this paper, being risk-informed decision oriented. That said, we feel the scope of the targeted risks is narrow. *We invite staff to comment on how the ORM has been involved in this review and whether the DRSA has received any feedback from the ORM.*

**Statement by Ms. Riach and Ms. Campbell on Review of the Fund's Income Position for
FY 2023 and FY 2024
Executive Board Meeting 23/32
April 27, 2023**

We thank staff for a well-written paper on the Fund's income position. We agree that the risks that surround the Fund's income outlook require close monitoring. The uncertain global economic outlook, with adverse shocks and trade disruptions caused by Russia's illegal war in Ukraine, makes it difficult to predict the volume of Fund lending although it is expected to remain high. Higher global interest rates, tightening monetary policy and volatility in equity markets add to the uncertainty in the Fund's income outlook. We can support all five proposed decisions. We offer the following comments.

FY2023

- **Projected income position.** We note the projected net income for FY23 and the main components of the projected results. We find it very helpful that the pension-related remeasurement gain is now a separate line in the projected income position table and it is helpful that precautionary balances are adjusted to exclude the annual pension-related gains and losses included in accounting income. This allows for a more focused review of the Fund's core business activities whilst taking a more realistic, economic long view of pension gains which smooths the effect over time.
- **Disposition decisions.** We support all the proposed disposition decisions. Considering the heightened uncertainty facing financial markets, we agree with staff that payouts from the investment account to the General Resources Account (GRA) should again be postponed. This will help build a cushion to protect against possible adverse market scenarios. We agree that the endowment account's cushion should be reassessed again in FY24 in accordance with the agreed framework.

FY2024 Income Outlook

- **Net Income projected in FY24.** Projected net income of SDR 2.9bn in FY24 is indicative of the robustness of the Fund's income model and projected adequacy of reserves, despite significant uncertainty. This is in stark contrast to the status of PRGT resources, which are inadequate, particularly on subsidies. In this context, we look forward to staff swiftly presenting the technical work to the Board on the full range of options for using internal resources to bolster the adequacy of PRGT resources. As the paper rightly asserts, given the countercyclical nature of demand for Fund resources, there is likely to be increased income from higher lending over the medium term. Based on the current projection, the indicative precautionary balances medium-term target of SDR 25 billion is expected to be reached by late FY24 or early FY25. Once the medium-term target is reached, there will be a strong case for considering how internal resources can best be utilized to support the Fund's poorest and most vulnerable members. We also note that the PRGT's reimbursement to the GRA remains suspended until FY26. We

continue to view a longer-term suspension as a relatively simple measure and these projected results show that this continues to have a negligible impact on the Fund's income position.

- **Margin for the rate of charge.** We agree with staff that the level of the margin remains broadly aligned with long-term market conditions and that the current circumstances justify maintaining unchanged the 100-basis point margin over the SDR rate for FY24.

**Statement by Mr. Sylla, Ms. Nkusu, and Mr. Lopes Varela on Review of the Fund's
Income Position for FY 2023 and FY 2024
Executive Board Meeting 23/32
April 27, 2023**

We thank staff for the informative and well-written paper on the review of the Fund's income position for FY 2023 and FY 2024. We note that the net income projected for FY 2023 is slightly below the level anticipated in April 2022, while the projection for FY 2024 is now much stronger.

Given heightened uncertainty, we welcome the discussions of risks to the projections and enterprise risks. In the current shock-prone global environment, the income projections, particularly those for FY2024, are subject to a considerable degree of uncertainty and are sensitive to several assumptions. In this context, the coverage of key risks to Fund income and finances associated with recent economic and geopolitical developments is appropriate. These developments also warrant close monitoring to better prepare for potential shortfalls and take necessary measures to ensure sufficient income for the Fund to carry out its mission. In the discussion of enterprise risks, the paper mentions the risk of a partial shortfall in operational income stemming from the waiver of reimbursement of PRGT costs to the GRA. *We would welcome staff's comment on the appropriateness of flagging this partial shortfall risk for the period under the review, considering not only the relatively limited amount of the forgone reimbursement to the GRA of the costs of administering the PRGT (it was only about SDR 65 million a year) but also the fact that the Board already approved the suspension of such reimbursement for the fiscal years 2022–2026 to generate additional subsidy resources for the PRGT.*

We broadly concur with the thrust of staff's analyses and support proposed decisions 1 through 4.

- We support Decision 1, which provides for the assessment on SDR Department participants for the reimbursement of the General Department for the expenses of conducting the business of the SDR Department in FY 2023.
- We support Decision 2, which provides for FY 2023 income from the Investment Account (IA) Subaccounts—Fixed-Income (FI) and Endowment Subaccounts—to be retained in the respective subaccounts. For the FI Subaccount, which incurred a loss in FY 2022, we see merit in staff's proposal that besides retaining the income projected for FY 2023, any retained loss carried forward would first be recouped against future FI income before a transfer of income from the FI to the GRA is proposed. For the Endowment Subaccount, which is projected to incur a loss in FY 2023, staff notes that income accumulation based on the projections is expected to

help replenish the previously depleted cushion, of which adequate levels would be a pre-requisite for the commencement of the payout. We, therefore, see merit in staff's proposal that in FY 2024, the Board reassesses the commencement of the payout to the GRA.

- We support Decision 3 to place the GRA's FY 2023 net income into the Fund's Special Reserve and General Reserve. Specifically, the net income amount of the GRA up to the amount of the pension-related gain (or loss) in FY 2023 would be placed in the Fund's Special Reserve (or General Reserve), and any additional net income amount will be placed in equal parts to the Fund's Special Reserve and General Reserve.
- We support the proposal to transfer currencies from the GRA to the IA equivalent to the full amount of the increase in the special and general reserves following the placement of FY 2023 net income (Decision 4).

Finally, on Decision 5, we do not support the proposal to maintain the rate of charge on the use of Fund resources for FY 2024 at 100 basis points over the SDR interest rate.

The current conjuncture calls for consideration of whether the current rate of charge remains appropriate, and this review is an opportunity to reevaluate it. We believe that there is ample scope to lower the margin without undermining Fund's income position. A lower rate of charge would help reduce the burden of debt facing emerging and developing countries and provide most members with more room for priority and emerging needs. Therefore, our Chair is open to considering options for revisiting the rate of charge as well as a temporary relief to the countries affected by the level of surcharges, given the exceptionally uncertain global outlook.

**Statement by Mr. BinZarah, Mr. Alrashed, and Mr. Abdel-Rahman on Review of the
Fund's Income Position for FY 2023 and FY 2024
Executive Board Meeting 23/32
April 27, 2023**

We thank staff for the informative report and the outreach to our office. We welcome the opportunity to review the Fund's income position for FY 2023 and FY 2024 concurrently with the budget proposals. We broadly share the thrust of staff's assessment and support the proposed decisions and would like to highlight the following points.

- **We welcome the assessment that the indicative medium-term target for precautionary balances is expected to be reached by late FY 2024 or early FY 2025.** We positively note that the updated projections of the pace of reserve accumulation are higher than those expected in April of last year on the back of higher SDR interest rate from previous low levels and the anticipated higher demand for Fund lending under the current desk survey raising the path for credit outstanding and lending income. In this vein, *could staff comment on why they did not utilize the same desk survey to gauge the possible impact of the temporary increase in the GRA access limits on the Fund's income instead of completely leaving it out of the income projections?* Considering the notable uncertainties around the underlying baseline assumptions for reserves accumulation, we stress the importance of maintaining vigilance and encourage staff to continue to closely monitor the pace of reserve accumulation and to engage the Board in a timely manner when warranted. On this note, we welcome the inclusion of sensitivity analysis and risk self-assessment in the report, and we highlight the importance of maintaining adequate measures to mitigate key risks, particularly those related to financial markets volatility and sharp interest rate movements and the associated impacts on investment income and the pension asset performance and obligations.
- **We agree with the proposal on the income and losses from the Investment Account (IA).** In particular, we see merit in retaining the projected income from the Fixed-Income Subaccount in the IA retained earnings as offset against the retained loss from FY 2022 until it is fully recouped. Similarly for the Endowment Subaccount (EA), we support the proposal to retain the investment loss incurred in FY 2023 in the subaccount and to further delay the initiation of the EA payout in this year and to reassess its commencement in FY 2024. Here, and in line with the agreed framework, we emphasize the importance of rebuilding the EA cushion to adequate level following recent investment losses before the commencement of the payout to protect the real value of the EA corpus against relevant risks amid volatile market conditions.

- **We note that the proposal on allocating the net GRA income is in line with the framework agreed with Board at the last year's meeting.** Here, we continue to believe that it is a sensible approach to place any pension-related remeasurement gains/losses in the Fund's special reserve considering the need to avoid distorting allocations to the Fund's distributable general reserve by gains/losses that may not be supported by corresponding underlying cash flows and may be reversed in future financial years. Consistent with this approach, and as a transitory measure, it is appropriate to place any pension-related remeasurement loss to the general reserve to offset the cumulative remeasurement gains from previous years until the gain is cleared down to zero. Regarding the allocation of the remaining positive net income beyond the pension remeasurement gains, we support the proposed equal allocation to the general and special reserves in FY 2023 in line with the consensus at the last year's meeting and note that the Board will have an opportunity to review the FY 2024 allocation at the next year's meeting.
- **We support keeping the rate of charge margin at 100 basis points above the SDR rate for the FY 2024 under the exceptional circumstances clause.** We note that maintaining the margin at its current level will help provide for stability, especially that based on staff's assessment, there are no fundamental changes in the underlying factors relevant for the establishment of the margin since the last review. In this vein, we note that the current margin remains broadly in line with the benchmarks used to gauge long-term credit market conditions. In the meantime, this also will allow for lending income to adequately supplement non-lending income in covering non-lending expenses to continue a strong reserve accumulation in the short-term while investment income picks up. In view of the notable uncertainties surrounding the outlook at this stage, we look forward to the opportunity next year to revisit the margin and the application of the exceptional circumstances clause for FY 2025-2026.
- **Finally, on credit risk and the need to provision for impaired loans, we note that staff is in the process of finalizing the annual IFRS 9-related country assessments.** We are encouraged that based on the analysis so far, no impact is expected for FY 2023 at this stage. Also, we take note that staff will update the Board on the results of the annual impairment assessment before the FY 2023 annual financial statements are finalized. In this context, we stress the importance of maintaining robust safeguards in the context of the Fund's multilayered framework for managing credit risk as well as preserving members' incentives to limit protracted and large exposures to Fund credit as the first line of defense to proactively avoid the need for provisioning for impairment losses under IFRS 9, which would negatively affect the accumulation of precautionary balances and the Fund's balance sheet position.

**Statement by Ms. Marcussen and Ms. Ogmundsdottir on Review of the Fund's Income
Position for FY 2023 and FY 2024
Executive Board Meeting 23/32
April 27, 2023**

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

We place great importance on achieving swift progress towards the precautionary balance target and note that the SDR 25 billion target for precautionary balances is still expected to be reached in late FY24 or early FY25. With risks unusually large and to the downside, and the increased credit risks in the Fund's lending portfolio, a discussion on higher precautionary balances target and minimum floor may be warranted in the future.

We agree with staff on the rationale to retain the rate of charge on the use of Fund resources for FY 2024 unchanged at 100 basis points over the SDR interest rate, as proposed in decision 5. We note that the cost of Fund credit at the current margin is broadly in line with long-term market conditions and it covers the Fund's intermediation costs, in line with Rule I-6(4). Most elements in implementing the NIM are in place, laying the ground for reducing the Fund's reliance on income from lending to finance non-lending activities. However, we note that for FY 2023 the Fund will need to continue to rely on its lending income to cover a portion of its non-lending operational costs given the low expected returns on the investment portfolio. We therefore support keeping the rate of charge unchanged for now.

We support all the disposition decisions including delaying the initial Endowment Account (EA) payout in FY 2023. We agree that an adequate cushion of retained investment income is an important component of the EA payout policy and note that build-up thus far has served its purpose by absorbing the recent surge in inflation and protected the real value of the EA's corpus. Further, we note that the Fund currently has sufficient resources to cover its administrative expenditures and that the impact of a further delay of the EA payout is not significant to the overall income position.

We welcome the addition of a special section on enterprise risks. While the section is not all-encompassing as some of the relevant risks are covered in other policy papers, Table 7 provides a very useful overview of the most critical enterprise risks in the context of the Review of the Fund's Income Position for FY2023 and FY2024.

**Statement by Mr. Potapov and Ms. Zubareva on Review of the Fund's Income Position
for FY 2023 and FY 2024
Executive Board Meeting 23/32
April 27, 2023**

1. **We thank staff for the comprehensive report on the Fund's Income Position for FY 2023 and FY 2024.** We broadly support the proposed decisions and would like to provide the following comments.
2. **The Fund's overall income position remains strong, with the pace of reserve accumulation higher than projected.** The Fund is on track to end FY 2023 with a comfortable income position, despite a lower-than-expected lending and investment income. In addition, based on the current income projections, the indicative medium-term target for precautionary balances of SDR 25 billion is expected to be reached by late FY 2024 or early FY 2025. At the same time, the Fund's income position is subject to significant uncertainty related to scarring effects of the pandemic, consequences of the geopolitical fragmentation, and tightening global financial conditions.
3. **We note that the current projections do not reflect a potential impact of the temporary increase in the GRA access limits and an effect of any pension-related gain or loss for FY 2024.** We look forward to a further discussion of these issues. We also look forward to the update on the annual impairment assessment before the FY 2023 annual financial statements are finalized.
4. **We support decision 1** on the reimbursement of the General Department for the expenses of conducting business of the SDR Department, in line with the longstanding practice.
5. **On decision 2**, we broadly agree with staff's proposals regarding the use of the Investment Account (IA) income. Considering significant losses in the Fixed-Income Subaccount (FI) in FY 2022 and projected losses in the Endowment Subaccount (EA) in FY 2023, we can support the proposal to retain FI income and to delay the initiation of the EA payout to restore the EA's reserves.
6. **On decision 3**, we understand that staff proposed to place the pension-related remeasurement gain to the Fund's special reserve, while any remaining positive net income will be allocated equally to the general and special reserves in FY 2023. At the same time, any pension-related remeasurement loss is proposed to be placed to the Fund's general reserve. *We recall that in FY 2022 the Directors broadly agreed to place*

all pension-related remeasurement gains and losses to the Fund's special reserve. This allocation framework was expected to isolate the impact of the pension-related gains and losses within the special reserve. Could staff elaborate on how the proposed approach to place any pension-related remeasurement loss to the Fund's general reserve is consistent with the FY 2022 allocation framework adopted by the Board?

7. **We support decision 4** to transfer currencies equivalent to the full amount of the increase in reserves from the GRA to the IA for investment in the FI. We also note that the income projections remain highly uncertain and sensitive to the key underlying assumptions.
8. **We can agree with decision 5** to maintain the margin for the basic rate of charge at 100 basis points for FY 2024. We note staff's view that there has been no fundamental change in the underlying factors for changing the margin.

**Statement by Mr. Jennings and Mr. Villeneuve on Review of the Fund's Income Position
for FY 2023 and FY 2024
Executive Board Meeting 23/32
April 27, 2023**

We thank staff for the helpful report. **We can support all decisions pertaining to FY 2023 and FY 2024.** We offer the following additional comments:

- **We welcome that the pace of reserve accumulation remains on track.** However, it is clear that the net income projections are subject to very significant uncertainty, given different possible scenarios for Fund lending, as well as volatility in pension valuations and investment income.
- **Stability in the margin for the rate of charge is important.** Given the importance of the margin for the Fund's reserve accumulation, and how difficult it would be to increase it again in the future if we were to lower it, the bar for changing the margin should be extremely high.
- **Discussions should start on a new reserve target.** Given that the SDR 25 billion target for the reserves could be met in a year's time, it would be useful to revisit the target. Given the significant and rising financial exposures and credit risks facing the Fund, we would see merit in increasing the target.
- **We expect to extend the suspension of PRGT administrative expense reimbursement to the GRA.** We welcome the estimate of the annual financial cost to the GRA of this measure. It will be a helpful input for the discussions on addressing the PRGT subsidy shortfall using internal resources, which will be an important backstop to the fundraising efforts.

**Statement by Ms. Shortino, Ms. Medearis, and Mr. Keating on Review of the Fund's
Income Position for FY 2023 and FY 2024
Executive Board Meeting 23/32
April 27, 2023**

We thank staff for the budget and income papers. We would like to reiterate our long-held view that the Fund's budget and income should be assessed together to allow a more holistic review. As we did last year, we are issuing one gray covering both papers. In the future, we would welcome the opportunity to approve both the budget and income position in one holistic Board discussion.

FY 2024-FY 2026 Medium-Term Budget

We support the decisions on the FY 2024 administrative budget, the revised methodology for the Fund's deflator, and the capital budget appropriations.

We appreciate that the budget proposal adheres to the longstanding principle that the Fund should maintain a flat real budget and incorporates the Board-approved budget augmentation for targeted areas on top of this budget. The flat real budget principle is a cornerstone of prudent Fund budget management, and we look forward to maintaining this approach once the third and final phase of the augmentation concludes.

We appreciate the budget's identification of debt along with governance and anti-corruption as priority areas. Debt risks persist among many low-income and some emerging market economies and continue to pose a critical constraint to the ability of the Fund to provide much-needed financing. Thus, we strongly support prioritizing resources to deepen the Fund's work both for country-level engagements and through policy work on multilateral fora such as the Global Sovereign Debt Roundtable and the Common Framework. Following the recent review of the Enhanced Framework on Governance, we also welcome the decision to prioritize resources to enhance the Fund's effectiveness in its engagement on governance issues.

More broadly, the recent financial stress episodes underscore the importance of the Fund's work on its traditional core areas and careful prioritization of emerging areas. Given the overall demands on the Fund, it will be important to continuously leverage relationships with other institutions to support implementation of the Fund's agenda on emerging issues. We welcome staff's work in response to high demand for the Resilience and Sustainability Facility (RSF) and recognize that this will warrant some reprioritization of climate resources in the near term; we look forward to discussing these tradeoffs in greater detail at the upcoming review of CMAPs. We also stress the importance of coordinating closely with international organizations and stakeholders on the execution of the RSF, for example through the World Bank's Country Climate and Development Reports.

Recognizing that inflation outturns exceeded forecasts, we support the proposed adjustments to the Fund's deflator calculation to use actual U.S. CPI. We agree that this

should enable the Fund's budget deflator to reflect actual price developments, even if with a slight lag, and avoid the need for ex-post adjustments.

While we can support the proposed decrease of the carryforward limit to 6 percent of the overall budget, we would have preferred to see a steeper reduction in the carryforward limit to step up the phased return to the pre-pandemic 3 percent level.

Here we would like to note that persistent heightened carryforwards are not a responsible budget management tool, and we expect to see the carryforward limit reduced more quickly going forward. The table on the administrative and capital budget does not present a proposed path of carryforward reductions for FY 2025 and FY 2026. *Could staff please comment on the projected path for carryforwards, and why this could not be presented in the table?*

Regarding capital budget appropriations, the proposed spending envelope is 20 percent higher than the projected amount in the FY 2023-FY 2025 budget. *We would welcome staff comments on whether the increase in building facility costs was anticipated, and whether the higher capital spending warrants more focused monitoring of project budgeting.*

The Fund's Income Position for FY 2023 and FY 2024

We welcome staff's projections that rising net income will lead to the Fund reaching its medium-term target for precautionary balances by the end of FY24 or early FY25, although we recognize the uncertainties surrounding these estimates. Against this backdrop, **we support all five proposed decisions.**

- 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 contribute towards 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 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. Consistent with last year, we continue to see this 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 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. Lending income continues to be an important safeguard for Fund credit risk, particularly in the current situation of growing demand for Fund lending and high credit concentration risk. 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. Zhang and Ms. Qi on Review of the Fund's Income Position for FY
2023 and FY 2024
Executive Board Meeting 23/32
April 27, 2023**

We thank staff for the informative report and helpful outreach with our office. We generally support the five proposed decisions and would like to offer the following comments for emphasis.

The investment income in FY2023 is under-performance due to interest rate hikes and capital market volatility. Given the Endowment Account (EA) cushion has been eroded to 2 percent of the portfolio and the Fund has sufficient resources to cover expenses, the decision on delaying the EA payout by one additional year is justified. As staff projected, it could take some time for the EA cushion to meet the 15 percent target. We encourage staff to closely monitor the portfolio performance and accommodate flexibility into investment tactics, so that the non-lending income would be able to cover non-lending activities in the medium term.

Despite of uncertainties, the medium-term target for precautionary balance of 25 billion SDR is projected to be met by late FY24 or early FY25 under the baseline scenario. We see opportunities to explore the feasibility of using internal resources, such as general reserve distribution or gold sales, to subsidize PRGT resources. Meanwhile, the surcharges account for more than half of the Fund's lending income in FY23, which is expected to continue in FY24. As the precautionary target approaches the target level to mitigate the potential lending risks, we see an open window to discuss surcharges policy in the near future.

A rule-based allocation between special reserve and general reserve would be welcomed. We can go along with the equal placement between special reserve and general reserve for FY23. However, we see merits in building adequate special reserves as the first line to cover administrative losses in the future. We would welcome staff to come up with a rule-based allocation method in FY24.

We also support the decisions on reimbursement of SDR Department costs to the GRA, the transfer of currencies, and setting the margin at 100 bps.

Review of the Fund's Income Position for FY 2023 and FY 2024

Responses to Technical Questions Posed by Executive Directors in Advance of
EBM/23/32—04/27, 2023

Staff's responses to technical questions are below. Broader policy questions in the areas of use of internal resources and surcharges will be addressed in staff's intervention at the Board meeting.¹

Margin for the Rate of Charge

1. We do not concur with the staff assessment that there has not been a structural change in the market that merits revisiting the margin. The updated projection indicates that non-lending operating income is expected to reach SDR 936 million and exceed non-lending expenses in 2024 and beyond, so the exceptional clause would not apply for FY 2024.

- The margin for the rate of charge is set for a period of two years, in this case FY 2023 and FY 2024, and may be adjusted before the end of the first year of this two-year period (i.e., FY 2023), but only if warranted by fundamental changes in the underlying factors relevant for the establishment of the margin at the start of the two-year period.
- While the contribution from non-lending income in FY 2023 is not sufficient to adequately cover non-lending expenses, the projected non-lending income for FY 2024 would cover non-lending expenses. However, these projections are dependent on market conditions over the next year, which are subject to higher-than-normal uncertainties. For that reason, it would be premature at this point to determine that there has been a fundamental change in the factors relevant for the setting of the margin.
- A comprehensive review of the margin will be undertaken as part of the review of the income position in a year's time. Staff will formulate a recommendation in the usual way based on the purposes of the margin (covering intermediation costs, accumulating reserves, and ensuring alignment with long-term market credit conditions).

2. We call for staff to present scenarios of a reduction in the rate of charge to assess the effect on the accumulation of reserves.

- A 20bps to 50bps reduction in the margin (assuming the reduction begins in FY 2024) would slow down the pace of accumulation of precautionary balances and result in a decrease in projected precautionary balances of between SDR 0.9 billion and SDR 2.2 billion, by FY 2028. In such a scenario, the SDR 25 billion precautionary balances target would be projected to be met in FY 2025.

¹ EDs have requested that staff indicate those areas for which responses will be provided during staff's oral intervention at the Board. This avoids the need for EDs to repeat their questions during the discussion. In addition, staff may want to indicate which questions they intend to address orally.

3. While we acknowledge that in the past year the Fund's borrowing costs were appropriately aligned with long-term credit market conditions, we would welcome staff's comments on the appropriateness of keeping the current rate of charge in the context of tightening in the global funding conditions going forward.

- The margin is intended to cover the Fund's intermediation costs and contribute to reserve accumulation while ensuring that the cost of Fund credit remains aligned with long-term credit market conditions. According to Rule I-6(4), the cost of borrowing from the Fund should not be too high or low relative to the cost of long-term market funding. Long-term market conditions—as measured by the 5-year rolling average of the EMBI spreads—remain broadly unchanged since the last review in 2022. The 100-basis point margin is currently 56 basis points below the median EMBI spread charged to the least risky borrowers. To the extent that funding conditions tighten, they would be taken into account in the assessment of long-term (and not cyclical) market conditions in setting the margin.

Lending Income

4. Could staff further explain why lending revenues remain broadly stable in its projections, despite an increase in both SDR rates and expected loan demand?

5. We would welcome staff's elaboration on the reasons for the projected shortfall in lending incomes despite higher projected demand for Fund support.

- An increase in the SDR rate does not have a net impact on lending income. The margin for the rate of charge is the only element that will impact lending income as any increase in income received due to an increase in the SDR rate is exactly offset by remuneration on reserve credit tranches of creditor members.
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- The MT table in Annex VI shows lending income peaking at SDR 2.7 billion in FY 2024, which directly correlates to a peak in projected average credit outstanding of SDR 95.8 billion in the same year, before slowly declining thereafter. Projections are based on the Desk Survey scenario which have a higher level of uncertainty compared to the Baseline scenario, increasing the likelihood of disbursements not materializing as initially expected. While average credit outstanding in FY 2023 is expected to be lower, compared to last year's projections, the credit path is expected to be higher over the medium term under the updated Desk Survey scenario.

6. We would welcome staff comments on the projected drop in service charges and other income.

- Service charges are recognized at the time that disbursements are expected to be made under the respective members' arrangements. For this reason, income from service charges will be weighted towards earlier years.

Non-lending income

7. The projected sharp hike in FY24 is attributed, among others, to ‘the expected impact from refinements to the investment strategy’. However, as per FN 31, Executive Board modified the investment strategy in January 2022. Does that mean that the modification was not implemented in FY23 and will be effective in FY24?

- The Executive Board approved refinements to the FI investment strategy in January 2022 and risk controls were established by the Investment Oversight Committee in April 2022 to enable the implementation of the refinements by external managers in FY 2023. The refinements approved by the Board aim to improve future potential performance without materially increasing the risk of the overall strategy (See Review of the Investment Account and Trust Assets, SM/21/206, 12/10/2021). As such the expected impact of the refinements is to increase the prospects of achieving the investment objective over time. Further details on investment performance and implementation of the investment strategy will be provided to the Executive Board as early as July through the FY 2023 Report of the Investment Account and Trust Investment Assets.
- Investment returns for the Fixed Income Subaccount (FI) are driven primarily by the level and path of interest rates in the SDR markets. The lower actual returns for the 10 months ended February 2023 were mainly due to the low starting yields providing no cushion in the face of the sharp rise in bond yields and steep decline in bond prices during the period. The sharp increase in projected investment returns for FY 2024 reflect the much higher level of interest rates compared with 12-18 months ago.

8. We believe that a more effective strategy could be to consider a decision to transfer resources to the EA in order to replenish the 15% cushion. Under a tail risk scenario a provision under IFRS 9 would reduce the Fund’s Income and correspondingly the accumulation of precautionary balances. It would make more sense from a risk management perspective to increase the income base by ensuring that the EA can start to contribute.

- The establishment of the EA was a key element of the NIM aimed to diversify the Fund’s sources of income and reduce the institution’s overreliance on income from lending activities. The EA payout would contribute to diversifying the income base and financing of non-lending activities from investment income. The EA’s cushion could be rebuilt through retained investment income over several years, or through a transfer of additional resources to the EA. Also, if there is sustained improvement in the EA’s long-term investment outlook, the adequacy of the cushion and the timing of the initial payout could be reassessed. As indicated in the paper, if the Board were to consider a transfer of resources to the EA, staff would need to assess the impact on reserves accumulation and precautionary balances.

9. We note that non-lending income was projected to increase gradually from FY23 and to cover an average of 75 percent of the Fund’s non-lending administrative expenses over the medium term. Staff’s comments on the prospect to potentially extend the coverage ratio beyond 75 percent would be welcome.

10. We look forward to revisiting the application of the exceptional circumstances clause under the Fund's New Income Model in one year's time and note that non-lending income is expected to increase steadily, embedding the assumption of a sustained period of elevated interest rates.

- Non-lending income projections have fluctuated considerably during the past four years and have been highly sensitive to the changes in market interest rates. This year, with recent developments, non-lending income is projected to fully cover non-lending expenses in FY 2024 and into the medium term under a baseline scenario. These projections remain highly susceptible to any further change in market conditions given higher-than-normal uncertainties.

11. As the Fund continues to expand its non-lending activities, is there a plan to further discuss augmentations to the New Income Model (NIM) to further broaden non-lending income sources?

- A number of measures have been taken to allow the IMF to diversify its sources of income, including the creation of an endowment, the broadening of the Fund's investment authority, and the resumption of reimbursements from the PRGT, and in this regard the objectives have been met.
- A balanced structure between lending and non-lending income would rely on lending/non-lending income coverage of lending/non-lending expenses. Such coverage, especially non-lending income coverage of non-lending expenses, would be highly sensitive to market interest rates. However, non-lending income mainly in the form of investment returns has lagged expectations, mainly as a result of the low interest rate environment that has prevailed since the model was implemented. The recent rise in interest rates is expected to make a significant impact to the non-lending coverage. If this higher rate environment persists, a balanced structure between lending and non-lending income would be achieved sooner than expected in previous years.

12. We would welcome staff's comment on the appropriateness of flagging this partial shortfall risk for the period under the review, considering not only the relatively limited amount of the forgone reimbursement to the GRA of the costs of administering the PRGT (it was only about SDR 65 million a year) but also the fact that the Board already approved the suspension of such reimbursement for the fiscal years 2022–2026 to generate additional subsidy resources for the PRGT.

- A key objective of the NIM was the diversification of the Fund's income sources away from lending income so as to place the IMF's income position on a sustainable footing for the long term. An important element of the NIM that was endorsed by the Executive Board in 2009 was the resumption of the reimbursement of the General Resources Account for the administrative expenses of the PRGT. While the NIM allows for the temporary suspension of the annual reimbursements to the GRA for PRGT expenses it also results in one of the objectives of the model not being temporarily met. By FY 2026 the cumulative waiver would amount to over SDR 500 million based on estimated reimbursements of about SDR 80-90m per year.

Enterprise Risk Management

13. We invite staff to comment on how the ORM has been involved in this review and whether the DRSA has received any feedback from the ORM.

- Staff met with ORM to understand the requirements ahead of preparing the DRSA. In addition, as part of the departmental review process, ORM together with other select departments were given an opportunity to comment on the paper, including on the DRSA.

14. We take note of significant residual risks, related to external drivers, which can only be partly addressed through risk management. Could staff provide further details on these residual risks?

- Residual risk is measured by assessing the likelihood and impact of the risk. For the first two risks covered in the DRSA table, while the impact would be critical to the Fund, the likelihood is assessed as being remote. The significant residual risk due to external drivers pertains mainly to concerns about a member's ultimate repayment that could trigger the recording of a provision for expected credit losses under IFRS 9, which would then reduce the Fund's income and (accumulation of) precautionary balances and its balance sheet position. This risk exists with or without the policy.

Projection assumptions

15. Staff's presentation on Table 1 brings out succinctly the variance between initial projections and current projections for FY 23. Staff are welcome to present a similar Table for FY 24.

- The annual review of the Fund's income position focuses mainly on the current year's variance analysis and incorporates a large part of actual income and expenses for the year as most of the decisions pertain to the current year. In addition, a broader review of the next year/s income projections is also provided mainly in the context of the margin for the rate of charge.
- Variances in the medium-term projections (including FY 2024) are covered in detail annually in the Consolidated MT income and Expenditure paper and bi-annually in the review of the adequacy of the Fund's precautionary balances.

16. Staff have not incorporated the impact of the temporary increase in GRA access limits and have also not built into their income projections the impact of any pension-related gain or loss. In the absence of such incorporation, staff projections remain far from reliable. Staff are, therefore, welcome to incorporate all known unknowns and revise the projections. In this context, staff may also consider introducing fan charts for their projections, highlighting the uncertainty associated.

17. We understand that the impact of the increase in GRA access limits is difficult to determine, yet we would appreciate more details on the possible impact during future Board engagement.

18. Could staff comment on why they did not utilize the same desk survey to gauge the possible impact of the temporary increase in the GRA access limits on the Fund's income instead of completely leaving it out of the income projections?

- The temporary increase in GRA access limits was approved in early March. At that time, staff estimated a limited impact on the demand for GRA resources. Even at this early stage, while the impact was not isolated, the current Desk Survey scenario did have a few potential program requests considering higher access. Going forward, we expect the Desk Survey scenario that has underpinned the lending income projections since FY 2021 to fully reflect the impact of any changes in demand for GRA resources from the temporary increase in access limits.
- IAS 19 gains and losses are not projected beyond end-April 2023 and were not incorporated in the past beyond the year under review. This is because it is extremely difficult to predict the future outcome of two key drivers, i.e., asset returns and the discount rate used to calculate the pension liability. Asset returns depend largely on the performance on financial markets which has been volatile. For the defined benefit obligation, a 50bps increase/decrease in the discount rate will decrease/increase the pension liability by about SDR 700-900 million. As evidence of the volatile nature of these inputs the plan experienced remeasurement losses of SDR 2.9 billion in FY 2020 which were reversed in FY 2021 by gains of about SDR 3.2 billion. While historically the gains and losses have tended to offset over time the timing and magnitude vary and cannot be predicted.
- Staff will consider ways of highlighting the uncertainties associated with key lending and non-lending income drivers, including the use of fan charts.

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

- Some transitional resources were provided in the regular budget allocation for FY 2023 to cover work on final design of the RST, fundraising, IT configuration, and development of policies and guidance for lending under the trust. Operational costs were absorbed by departments through in-year reprioritization, reallocations, and overtime.

Provision for Impairment Losses under IFRS 9

20. Could staff comment on the results of the impairment assessment of the annual IFRS 9-related country assessments?

21. Regarding credit risks, we encourage staff to keep the Board timely updated on the International Financial Reporting Standards (IFRS-9)-related assessments on impairment losses for FY23 that are expected to be completed by June. We would be interested in any preliminary information that staff could share before June.

- Under the framework approved for loss provisioning in the Fund and considering the Fund's unique multilayered framework for managing credit risk, cases where the recording of a material provision for an impairment loss may need to be considered are expected to remain rare. Accordingly, under the current circumstances and given future uncertainty surrounding any expected exceptional events, the projection assumptions do not incorporate any provision for impairment losses under IFRS 9, at this time.
- Staff is in the process of finalizing the IFRS 9-related country assessments and early indications are that at this stage no impact is expected on the FY 2023 annual financial statements. Note that staff plans to report the results of the FY 2023 assessments to the Board before the FY 2023 annual financial statements are finalized.

CONSTITUENCY CODES

OEDAE

Angola, Botswana, Burundi, Eritrea, Eswatini, Ethiopia, The Gambia, Kenya, Lesotho, Liberia, Malawi, Mozambique, Namibia, Nigeria, Sierra Leone, 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

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

OEDMI

Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Maldives, Oman, Qatar, Somalia, 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, 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