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April 22, 2021

**Statement by Mr. Bhalla and Mr. Natarajan on Review of the Fund's Income Position for
FY 2021 and FY 2022
(Preliminary)
Executive Board Meeting
April 27, 2021**

1. We thank the staff for the detailed paper on the income position and projections for FY 21 and FY 22. A financially strong IMF is critical for providing sound and resilient support to the membership. In the context of rapid changes in the Fund's lending activities and the performance of the financial markets, the higher income projections need to be treated with great caution and the gains need to be used to enhance Fund's resilience by strengthening the reserves. While broadly agreeing with the proposals, we emphasize deeper analysis and stronger cushioning for the downside risks of income from lending and investment activities.
2. The persistent uncertainties due to the pandemic has substantial impact on the income from lending operations as well as investments. The proposed allocation of new SDRs and mechanism to enhance voluntary use of existing SDRs could cause lowering of Fund's income and reserve accumulation. However, the staff paper observes that there was no significant use of SDRs in early repurchase or repayment of Fund credit following the last general reallocation in 2009. *Could the staff provide an estimate of impact on the lending operations and income due to the proposed new allocation of SDRs as well as voluntary recycling of existing SDRs?*
3. It is encouraging to note the strong investment income in FY21 from both fixed-income and endowment subaccounts (EA). Agreeing with the postponing of the commencement of EA payout by an additional year, we expect an early completion of the investment account review in FY 22. We agree that the one-year suspension of reimbursement of administrative expenses for FY 21 can boost PRGT reserve coverage. However, a multi-year waiver of such reimbursements requires more detailed analysis of projected lending portfolio in terms of quantum and share of lending from GRA and PRGT accounts and the cost of operations of the Fund. We welcome a detailed staff review on the topic. *Staff may comment.*

4. We agree with the proposal to first allocate net income to the special reserve equivalent to the FY 2020 loss, and then distribute the balance equally between general and special reserves. The wide variation in remeasurement gains or losses results in huge pension-related adjustments arise due to changes in actuarial estimates and fair value of assets. We recognize these extreme uncertainties arising due to unpredictable market movements affecting discount rates and look forward to mechanisms to enhance the robustness of the framework.