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GRAY/21/1090

April 23, 2021

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

We thank staff for the well-written report and their insightful engagement with us. We take note on the updated projected net income for FY2021 and FY2022. We broadly agree with the staff analysis and note that the projections of the Fund's income are subject to larger than normal uncertainties in relation to the assumptions on the impact of the COVID-10 pandemic as well as the scale of the new lending associated to the economic fallout moving forward. **We support all proposed decisions and we would like to offer the following comments.**

On Decision 2, the suspension of reimbursement to the GRA for PRGT administrative expenses for FY 2021 is appropriate given the unprecedented level of PRGT lending since the COVID-19 crisis. This suspension would provide addition support to the PRGT reserve for the self-sustained PRGT as discussed during the Review of Concessional Financing and Policies. As the reimbursement is only temporary, we strongly support and reiterate the urgency to come up with a more durable, comprehensive, and longer-term solution to ensure a sustainable PRGT framework

Consistent with past practice, we support the proposed Decision 3 on the Transfer of Investment Income. The income transfer from the IA subaccounts to GRA will contribute to the GRA net income, which will also help build the Fund's reserves and increase the Fund's precautionary balance. We also agree for the postponement of the EA payout as previously discussed, and for the net investment income earned in the EA to be fully retained in the endowment. We note that this will only have a modest impact to Fund's net income and precautionary balance for FY2021.

With positive net income projected for FY2021, the Fund could replenish losses incurred in FY2020 that was affected by the treatment of IAS losses. We therefore

agree with Decision 4 on the placement of FY 2021 GRA net income to the Fund's Special Reserve and the General Reserve. Specifically, the net income amount of the GRA up to the amount of the GRA's net loss in FY 2020 that will be placed in the Fund's Special Reserve, would recover the reduction in the special reserve in FY 2020, that was mainly due to the treatment of IAS-19 losses. In this regard, we recognize and support the proposal on new table of income and expenditure to better reflect the remeasurement gains and losses of pension account. We take note on the variety of views expressed by the Board on options to better isolate the volatility from the treatment of IAS gains and losses, and agree with staff proposal to postpone the allocation framework by another year to further review the options. We underscore the importance of further analysis and recommendation that could address the volatility to the precautionary balance.

Accordingly, we support Decision 5 which transfers currencies from the GRA to the IA, equivalent to the increase of the special and general reserves following the placement of FY 2021 net income, enabling IA to have a higher return than the SDR rate overtime. *Relatedly, can staff comment on the general direction for the review of the IA with a view to separate realized and unrealized gains and losses on investments and include medium-term strategy?*

On Decision 6, we agree to maintain the basic rate of charge at 100 basis points for the period FY 2021–2022, given fundamentally unchanged factors and for greater stability and predictability of the Fund's income position. *Staff may however, explain the historical development of Fund's borrowing cost and how judgment and mechanistic methods are applied overtime against the seemed pegged margin at 100 bps?*