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April 26, 2022

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

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

Decisions pertaining to FY 2022:

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

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

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

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

Decisions pertaining to FY 2023 – 2024:

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

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

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