SU/20/84

April 30, 2020

The Acting Chair's Summing Up
Review of the Fund's Income Position for FY 2020 and FY 2021-2022
Executive Board Meeting 20/51
April 27, 2020

Executive Directors welcomed the review of the Fund's income position and broadly supported all the proposed decisions. They recognized that the projections of the Fund's income are subject to larger-than-normal uncertainties related to the impact of the COVID-19 pandemic on key assumptions. They called for timely updates to the Board as warranted by developments.

Directors noted that the FY 2020 income from the Fund's lending and investment operations in the General Resources Account (GRA) is strongly positive and in line with the initial projections, but that a net loss is projected as a result of the revaluation of the pension-related expense under the IAS 19 accounting standard. They stressed the importance of communicating these developments clearly to the public. Directors agreed that, consistent with the relevant Board decision, the GRA net loss for FY 2020 be charged against the special reserve.

Directors observed the considerable income volatility introduced by the pension-related adjustments under the IAS 19, which blurred the picture of the Fund's income position. They recognized that the resulting gains and losses are very difficult to forecast. Many Directors encouraged staff to explore ways to manage the volatility and potential impact on the overall income position in the future.

Directors noted that the income projections for FY 2021–22 are highly sensitive to the underlying assumptions, including the level of credit outstanding. In this context, most Directors considered that the updated income projections appear too conservative given the potential impact of large-scale lending in response to the COVID-19 pandemic. They called for a close monitoring of developments and a robust discussion of adverse scenarios with potential implications for lending income in FY 2021-22. A few Directors called for a more integrated approach, considering together both the income and expenditure sides of the Fund's budget.

Most Directors supported maintaining the margin for the rate of charge at 100 basis points over the SDR interest rate for FY 2021–22 under the exceptional circumstances clause. Directors recognized the decline in the precautionary balances in FY 2020 and the uncertainties regarding the projected lending income and the pace of reserve accumulation over the medium term. They nevertheless concurred that there has been no fundamental change in the factors relevant for setting the margin since its last review in April 2019. A few Directors, however, saw scope to temporarily reduce the margin as part of the Fund's efforts to help borrowing members deal with the impact of the pandemic. In light of the implications of the projected loss for reserves, Directors looked forward to the upcoming review of the Fund's precautionary balances and an opportunity to review the margin level before the end of FY 2021. They underscored the importance of achieving the indicative medium-term target for precautionary balances.

Directors broadly agreed to reimburse the GRA for the cost of administering the PRGT. However, a few Directors would have preferred that reimbursement be suspended as part of the efforts to boost the resources available to the PRGT.