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April 26, 2022

**Statement by Mr. Huh, Ms. Johnson, and Mr. Yoo 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 an insightful paper with an integrated approach with budget. We note that the Fund's operating income is projected to remain strong over the medium-term amid heightened uncertainty around Fund's lending and financial market conditions.

We note that net operational income of the GRA for FY 2022, excluding pension-related net adjustment of about SDR 340 million, will be significantly lower than the initial estimate in April 2021, mainly due to lower lending income and losses in investment subaccounts. Lower lending income is mostly due to delays in certain purchases or not realizing previously anticipated purchases. *We would like to seek further clarification as to whether the previous projection for lending demand was overestimated or whether there were implementation issues.* We also note the loss in the Fixed-income subaccount (FI) due to sharp increase in interest rates. *Could staff provide a sensitivity analysis of the FI's income to interest rates?*

We broadly support all of the proposed decisions with the following specific comments.

- **We support the further delay of the Endowment Subaccount (EA) payouts by one year and agree to make payout decisions taking into account the outcome of FY 2023 review of the investment account.** Positive income from the EA reflects the appreciation of the USD against the SDR despite investment losses. We agree with staff's evaluation that further decline in the cushion of retained investment income is estimated amid the ongoing inflation and elevated geopolitical risks. It is therefore appropriate to delay the commencement of the EA payout until an adequate EA cushion is restored.

- **On income allocation, we can go along with Option 4 for now, but we do not see the 50/50 split in the allocation of remaining income is well justified and call on staff to develop alternative rules-based allocation.** 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. Since pension remeasurement gains and losses are unrealized amounts and should not be distributed, it seems reasonable to allocate such amount 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. It is regrettable that an analysis or assessment that allows the Board to make a reasonable judgment about the appropriate size of the special reserve has not been presented properly. *We call on staff to provide an assessment of the adequate size of the special reserve and appropriate pace of its accumulation considering potential accounting losses.*
- **We agree that there are no fundamental changes that warrant an adjustment to the current margin for the rate of charge of 100 bps.** The margin will be set under the exceptional circumstances clause. Lending income is projected to sufficiently cover intermediation costs of Fund's financial arrangements in FY 2022-24. Despite recent spike in the composite EMBI spreads, the comparator spread in the medium term remains broadly unchanged and the margin stayed at the current level in the past period of higher EMBI spreads in 2012-16.