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April 24, 2023

Statement by Mr. Nicholl, Ms. Doss, and Mr. Yoo on Review of the Fund's Income Position for FY 2023 and FY 2024
(Preliminary)
Executive Board Meeting
April 27, 2023

We note that the Fund's operating income is projected to remain strong during the period of FY 2023 and FY 2024 amid multiple shocks and heightened uncertainty around Fund's lending and financial market conditions. We welcome the updated projection that precautionary balances are expected to reach the indicative medium-term target by late FY 2024 or early FY 2025, broadly in line with the projection at the recent review of precautionary balances in November 2021. **We support all the proposed decisions with the following comments for emphasis.**

We support the further delay of the Endowment Subaccount (EA) payout by another year and reassess its initiation in FY 2024. A substantial investment loss in EA during the FY 2023, on the back of sharp increase in interest rates and broad-based decline across financial markets, brought the EA's cushion down to around 2 percent at end-February 2023, well below the target of 15 percent. Given that the Fund currently has sufficient resources to cover its administrative expenses, it is appropriate to delay the commencement of the EA payout until an adequate EA cushion is restored. We do not see a compelling need to transfer net income to the EA at this stage.

While we can go along with the proposed income allocation to the special and general reserves, we reiterate the call for developing alternative rules-based allocation methodology. 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. We reaffirm last year's Board approval of the new framework for allocating pension remeasurement gains and losses 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. We look forward to the FY 2024 review that could provide thorough analysis and alternatives to allow the Board to make a reasonable judgment about the appropriate size and pace of accumulation of the special reserve.

We welcome the comprehensive review of the margin for the rate of charge and agree that there are no fundamental changes that warrant an adjustment to the current margin of 100 bps. Lending income is projected to sufficiently cover intermediation costs of Fund's financial arrangements in FY 2023. We agree that there is no fundamental change in the alignment of the margin with long-term credit market conditions, noting that as of March 2023, the lowest quartile of the composite EMBI spreads has been unchanged as of March 2023 and the comparator spreads in the medium term remain broadly comparable to previous periods. We agree that the margin continues to be set under the exceptional circumstances clause for FY 2023 as the Fund need to continue to rely on its lending income to cover a part of non-lending activities. We note the significant improvement in the Fund's burden sharing capacity thanks to the sharp increase in SDR interest rate.