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December 8, 2021

**Statement by Ms. Shortino, Ms. Senich, and Mr. Westphal on Interim Review of the Adequacy of the Fund's Precautionary Balances
(Preliminary)
Executive Board Meeting
December 13, 2021**

We thank staff for this report. Precautionary balances are essential to the Fund's ability to manage and mitigate financial and credit risks while still playing a critical role in supporting the global economy, including during times of crisis. We understand the uncertainty of the outlook going forward and appreciate the scenarios spelled out in this paper. We found staff's coverage of potential credit risks to the Fund to be thorough and convincing. **We generally agree with staff's analysis, recommendations, and proposals, including the recommendation to keep the indicative target and minimum floor at current levels of SDR 25 billion and SDR 15 billion respectively.** We are open to staff's proposal to explore adjusting the minimum floor at the next review of the investment account.

We believe that the existing design of the surcharge policy continues to be appropriate. We do not support a surcharges review at this time, particularly in light of the heavy work program and the need to advance other pressing policy reviews. Staff's report reconfirms the important role surcharges play in the Fund's risk management framework and in appropriately incentivizing countries to repay the Fund. With the elevated credit risks facing the Fund, the recent disbursement of the SCA-1, and the limited capacity of the burden sharing mechanism to absorb potential losses, we would not support a temporary suspension of surcharges. A temporary suspension would delay reaching the indicative target for precautionary balances until 2027 at a time when risks to the Fund remain high. Furthermore, Fund financing terms remain quite favorable compared to market terms, even after incorporating surcharges.

We are comfortable with staff's proposal to leave the SCA-1 account open and unfunded, with plans to revisit potential accumulation in the future. We appreciate staff's discussion of the role of SCA-1 to mitigate the need for the Fund to provision for

losses. We expect any future discussions about potentially funding the SCA-1 to incorporate an assessment of all relevant tradeoffs.

We support staff's proposal to modify the treatment of the pension plan in the calculation of precautionary balances. We note the sizeable impact that IAS 19 actuarial revisions to the pension plan continue to have on precautionary balances. We appreciate staff's efforts to propose an alternative treatment that would better reflect the way in which plan assets are managed and invested that would smooth accumulation of reserves from year to year.