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December 8, 2021

Statement by Mr. Binzarah, Mr. Alhomaly, and Mr. Saeed on Interim Review of the Adequacy of the Fund's Precautionary Balances
(Preliminary)
Executive Board Meeting
December 13, 2021

We thank staff for the comprehensive paper on the interim review of the adequacy of the Fund's precautionary balances. We broadly concur with staff's assessment and would like to make the following specific comments:

1. **We agree that maintaining an adequate level of precautionary balances is a key part of the Fund's multilayered risk management framework to mitigate financial risks.** To that end, we welcome the overarching analysis of the relevant policy and financial issues for informed decision making. We note that while the precautionary balances have improved, the financial risks have changed only modestly since the 2020 review but remain elevated and subject to concentration risks.

2. **Against this background, we support staff proposal of maintaining the indicative medium-term target at SDR 25 billion and the minimum floor at SDR 15 billion.** We find these thresholds appropriate for now considering the desk survey scenario remains the most plausible one. Yet, we see a strong case for continued monitoring and close Board engagement on the issue, given the protracted pandemic and the worsened vulnerabilities, which could imply higher demand for the Fund's resources. We see merit in revisiting the floor after the next review of the Investment Account and look forward to future updates in this regard.

3. **We concur that additional steps are not necessary at this stage for accelerating the pace of precautionary balance accumulation, but this matter too should be kept under close review.** We take positive note that the indicative target of SDR 25 billion would

be accomplished or exceeded by 2025 under the desk survey, the WEO model-based, and the adverse scenarios that allow for new demand for Fund programs beyond current arrangements. However, reaching the target would be delayed by two years assuming a hypothetical 2-year suspension of surcharges as inquired by several Executive Directors.

4. **As for surcharges, we recognize the dual benefit of incentivizing members to limit exposures to the Fund credit and encourage timely repurchases, as well as strengthening the Fund's financial position and income as credit exposures grow.** Nevertheless, we see merit in further reflecting on the most effective implementation of the surcharges in the pandemic context and the high concentration risk taking into consideration the importance of safeguarding the Fund's financial position. We welcome staff's analysis on the cost of Fund borrowing and positively note that it has remained well below market rates for most users of GRA. We encourage staff to continue monitoring it closely and include it in the regular Board updates.

5. **On SCA-1 account, we see merit in maintaining it with a zero balance for the time being.** It could reduce the need to provision for credit impairment in case of new arrears if they arise in the future.

6. **On treatment of pensions net asset or liability under IAS 19, we see merit in replacing the accounting valuation with a long-term economic measure.** Notwithstanding the financial reporting suitability of the accounting measure, we note that the actuarial assumptions under IAS 19 contribute to frequent income volatility. On the contrary, the long-term economic measure would allow smoothing out any fluctuations in the defined benefit obligation. We find it appropriate to explore an adjustment for a potential underfunded position of the pension Fund that would reflect the long-term economic risk of the plan.