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December 8, 2021

**Statement by Mr. Huh, Ms. Johnson, and Mr. Yoo 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 report. The interim review of precautionary balances is appropriate and timely given the ongoing uncertainty and potential impacts from policy changes.

We agree to maintain the precautionary balances medium-term target at SDR25 billion and the minimum floor at SDR15 billion. The pandemic has intensified the existing credit risks, but the current target is expected to remain within the indicative range under various scenarios. While helpful, all scenarios in the paper are subject to considerable uncertainty and continued monitoring of risks will remain pertinent. We tend to downplay the regional concentration risks as the probability of drawing from precautionary instruments is low but agree that significant challenges and bunching of repurchases for Argentina, the Fund's largest borrower, warrant close monitoring. We welcome the increase in precautionary balances since the last review and, on balance, we can go along with the current pace of reserve accumulation. We call on staff to continue to monitor risks and, if warranted, come to the Board with carefully considered options to adjust the pace of the accumulation of precautionary balances.

Surcharges are an integral part of the Fund's multi-layered risk management framework and broadly remain effective in discouraging excessive borrowing and encouraging early repayment. We welcome the analysis included on surcharges but note that the cost of borrowing from the Fund for surcharge-paying countries has remained below market rates and any potential surcharge relief would delay the Fund reaching the precautionary balances medium-term target. Surcharges have significantly contributed to accumulation of precautionary balances, which is an integral part of the Fund's overall strategy for managing financial risks and ensuring balance sheet resilience. By ensuring an adequate level of precautionary balances, the Fund can truly act as the global lender of last resort. We could go along with a review of surcharges if there is a broader consensus. The rationale and purpose for any review needs to be clearly justified. The review must also be appropriately prioritized, noting the significant work agenda for the Fund already.

We see provisioning for impairment losses as the pathway forward given the difficulties in securing funding for a successor SCA account. The SCA-1 has played an important role in protecting the Fund from arrears. We could go along with consensus to keep the SCA-1 open as staff have proposed, but we are concerned that keeping the SCA-1 open confuses the potential handling of future arrears given the Board has already endorsed the provisioning policy. *We would welcome staff's view on this as well as further details on what might be the appropriate trigger point for closing or replenishing the SCA-1 down the line?*

We welcome staff's approach to transition to the new approach to address accounting volatility. This would move the measurement away from a point in time and would be more representative of the real long-term risks to the Fund arising from the pension and employee benefits on the precautionary balances. We support this process commencing in FY2022 and note the impact that this would have on the precautionary balances under various scenarios.