

**EXECUTIVE  
BOARD  
MEETING**

SM/21/195  
Supplement 1

December 9, 2021

To: Members of the Executive Board

From: The Secretary

Subject: **Interim Review of the Adequacy of the Fund's Precautionary Balances—  
Draft Press Release**

Board Action:	Executive Directors' <b>consideration</b> (Formal)
Tentative Board Date:	<b>Monday, December 13, 2021</b>
Publication:	Proposed, with main paper
Questions	Mr. Unteroberdoerster, FIN (ext. 35448) Ms. Zoli, FIN (ext. 37116)





## IMF Executive Board Discusses the Adequacy of the Fund's Precautionary Balances

FOR IMMEDIATE RELEASE

**WASHINGTON, DC – December 13, 2021** The Executive Board of the International Monetary Fund (IMF) concluded the *Interim Review of the Adequacy of the Fund's Precautionary Balances*.<sup>1</sup>

Precautionary balances currently comprise the Fund's general and special reserves.<sup>2</sup> They are a key element of the IMF's multi-layered framework for managing financial risks. Precautionary balances provide a buffer to protect the Fund against potential losses, resulting from credit, income, and other financial risks. For this reason, they also help protect the value of reserve assets represented by member countries' positions in the Fund and underpin the exchange of assets through which the Fund provides financial assistance to countries with balance of payments needs.

This interim review of the adequacy of the Fund's precautionary balances took place ahead of the standard two-year cycle, given the need for close monitoring due to the heightened uncertainty in the global economy, linked to the pandemic and the path and timing of the recovery.<sup>3</sup>

In conducting the interim review, the Executive Board applied the rules-based framework agreed in 2010. The framework uses an indicative range for precautionary balances, linked to a forward-looking measure of total IMF credit, to guide decisions on adjusting the target for precautionary balances over time. The framework also allows for judgement in setting the target, considering a broad range of factors that affect the adequacy of precautionary balances.

In the context of this interim review, the Board also took the opportunity to further discuss other issues that affect the level and accumulation of reserves, namely the First Special Contingent Account (SCA-1), after its full distribution; IFRS 9 credit impairment provisioning; the income volatility created by accounting for pensions revaluations under IAS 19. The Board also discussed the role of surcharges as part of the Fund's risk management framework and the merits of a review of the surcharge policy at this stage.

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<sup>1</sup> This press release summarizes the views of the Executive Board as expressed during the December 13, 2021 Executive Board discussion based on the paper entitled "Interim Review of the Adequacy of the Fund's Precautionary Balances."

<sup>2</sup> Except the portion of the Special Reserve attributed to gold sales profits. Prior to its full disbursement in the context of the Sudan arrears clearance operation, balances in the First Special Contingent Account (SCA-1) were also included in precautionary balances.

<sup>3</sup> Reviews of the adequacy of precautionary balances have been on a two-year cycle since 2002 but can be brought forward by the Executive Board if needed.

## Executive Board Assessment<sup>4</sup>

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<sup>4</sup> At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in Summings Up can be found here: <http://www.IMF.org/external/np/sec/misc/qualifiers.htm>.