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**Statement by Mr. O'Brolchain, Mr. Villeneuve, and Mr. Rankin 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 and clear paper on the Interim Review of the Adequacy of the Fund's Precautionary Balances.

An adequate pace of reserve accumulation is important to safeguard the membership's resources, and a key part of the Fund's multilayered risk management framework to mitigate financial risks. Financial risks remain elevated and the projected path of precautionary balances is subject to significant uncertainty, including through the assumptions about potential new programs and outstanding credit. We appreciated the multiple scenarios for the path of outstanding credit, and view the desk survey scenario as the most likely.

We support staff proposal of maintaining the indicative medium-term target at SDR 25 billion and the minimum floor at SDR 15 billion. Based on the current conjuncture, the existing targets continue to seem appropriate. While some risks have subsided, others have increased, including credit risks related to the Fund's largest creditor.

We do not see a need to take additional steps at this stage for accelerating the pace of precautionary balance accumulation, under which the indicative medium-term target is projected to be reached in FY 2025. However, it will be important to avoid actions that would slow this accumulation.

We do not see merit in considering changes to surcharges. Surcharges have a key role in the Fund's financing model, and are effective in encouraging timely repurchases.

We would prefer to close the SCA-1. The Fund has an opportunity to modernize its approach to credit impairment, including to make it more transparent and efficient. We do

not think the SCA-1 has a place in an efficient capital structure, nor that it should be replenished in the future.

We support the proposal to move to an economic basis for pension-related assets and liabilities in the computation of precautionary balances. This approach will helpfully reduce what has been significant volatility in the precautionary balances related to pension obligation revaluation.