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December 7, 2022

**Statement by Mr. Sylla, Mr. Matungulu, and Mr. Lopes Varela on Review of the Adequacy of the Fund's Precautionary Balances (Preliminary) Executive Board Meeting December 12, 2022**

We thank Staff for the informative report and welcome the review of the adequacy of the Fund's precautionary balances. Despite heightened global uncertainty and risks from a historically high level of credit outstanding, we consider the current precautionary framework to be broadly appropriate.

**We support maintaining the indicative medium-term target and the minimum floor for precautionary balances unchanged for the time being.** While we note that precautionary balances have rebounded and coverage metrics have strengthened, we share the staff's assessment that overall risks have increased since the last interim review in December 2021. At the same time, they remain elevated due to the historical peaks in credit outstanding and the continued high concentration of Fund's lending. Maintaining an adequate level of precautionary balances remains crucial for the Fund's strategy to mitigate financial risks and ensure the strength of its balance sheets amid elevated uncertainty. In this regard, given the fact that the SDR 25 billion target remains reachable over the medium-term in all scenarios under consideration and assessed to remain within the 20 to 30 percent of a forward-looking measure of credit outstanding, we support the proposal to keep the current indicative medium-term target at SDR 25 billion. We can also go along with staff proposal to maintain the minimum floor at SDR 15 billion. We also agree to keep the normal two-year adequacy review cycle. However, we stress the importance of closely monitoring these targets, given the extremely challenging global environment. The Board should be informed swiftly if adverse changes in global economic prospects warrant an interim review within the two-year cycle.

**Like staff, we see no need for additional steps to accelerate the pace of accumulation of precautionary balances.** It is encouraging to note that under the baseline scenario, the medium-term target for precautionary balances will be reached more rapidly than previously anticipated. Therefore, in our view, there is no need to take additional steps to further

accelerate this pace. Nevertheless, the pace of reserve accumulation should be closely monitored, given that the global outlook remains very uncertain.

**We see merit in exploring options for providing temporary surcharge relief.** We welcome the technical background and illustrative example of temporary surcharge relief outlined in Box 5. While noting the contribution of surcharges to the Fund's net operating income and mindful of the resulting negative impact the temporary surcharge relief would have on it, as well as the delay in reaching the reserves accumulation objectives, our Chair considers that the benefits outweigh the costs. Therefore, we are ready to support a temporary change in the current surcharge policy, along the lines described in Box 5, to provide relief to the affected countries given the current very challenging global environment. *However, we emphasize the need for a more in-depth analysis of the proposal and would appreciate Staff's elaboration on the time and resources implications. Can related policy options be developed and presented to the Board before or together with the next full review of precautionary balances? We would also have appreciated further temporary surcharge relief analysis for each country or its incidence on each borrower.*