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December 7, 2022

**Statement by Mr. Mizuguchi, Ms. Kashima, Mr. Naka, and Ms. Fukuda on Review of the Adequacy of the Fund's Precautionary Balances
(Preliminary)
Executive Board Meeting
December 12, 2022**

We thank staff for the comprehensive report and appreciate the timely discussion on this important topic. As the global economy has been facing shocks upon shocks, adequate financial safeguards, including precautionary balances, are even more important for the Fund to ensure sustainable and resilient support for its membership. **We broadly agree with the staff's analysis and proposals** and will provide the following comments.

The Mid-term Target and Floor for Precautionary Balances

We agree that the overall risk profile has somewhat worsened since the 2021 interim review. Credit outstanding is close to historical peaks and higher than projected last year. We welcome that staff has considered the adequacy of precautionary balances giving due consideration to the different types of facilities, the continued regional concentration of precautionary arrangements, and the elevated level of emergency financings. We found quite informative the insightful analysis in Box 4 on regional correlations.

We agree to maintain the mid-term indicative target for precautionary balances at SDR 25 billion. Given the elevated risks, sustaining the current target would help the Fund anchor financial risk management. We appreciate the staff's realistic projections on future credit development based on the desk survey and acknowledge that the target of SDR 25 billion remains consistent with the indicative range. However, in light of the high uncertainty and the significant difference between the baseline and adverse scenarios, we strongly encourage staff to keep a close eye on risk developments.

We support keeping the minimum floor unchanged at SDR 15 billion based on long-term considerations. We understand that setting the minimum floor has been useful in securing stability in precautionary balances. In the context of investment accounts, we expect

that the investment strategy enhancements, which the Board agreed in the review earlier this year, would support future returns despite the difficult market environment.

Pace of Accumulation and Surcharges

We reiterate that steady accumulation of precautionary balances toward the target without delay continues to be critical. We welcome that the precautionary balances have increased since the 2021 interim review and positively note the staff projection of a slightly faster accumulation. We share the staff view that no additional measures are needed for now to further accelerate this pace. However, it is also important to avoid actions that would slow the accumulation. We ask staff to continue close monitoring of the pace of accumulation.

We do not see a further need to discuss a temporary relief of surcharges at this stage. We consider the current role and scheme of surcharges appropriate and important. Surcharges serve an integral part of the Fund's multilayered risk management framework, effectively incentivizing countries to limit excessive borrowing and to make timely repurchases. Therefore, even if temporary, any relaxation of the policy should be considered extremely carefully. We also note that the cost of borrowing from the Fund including surcharges has remained considerably lower than market rates.

Review Cycle

We can support maintaining the normal two-year adequacy review cycle with high expectation for steady accumulation. We, however, would request an interim review if any unexpected material developments relevant to Fund lending should emerge.