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GRAY/22/3135

December 8, 2022

**Statement by Ms. Shortino, Ms. Medearis, and Mr. Westphal on Review of the Adequacy
of the Fund's Precautionary Balances
(Preliminary)
Executive Board Meeting
December 12, 2022**

We thank staff for this report. Precautionary balances are essential to the Fund's ability to manage and mitigate financial and credit risks, and they enable the Fund to play a critical role in supporting the global economy, including during times of crisis. We generally agree with staff's analysis and conclusions in the report.

We agree with staff's assessment of credit risks facing the Fund. We appreciate the insight that credit outstanding from the General Resources Account is close to historical peaks and that the desk survey shows that it will remain on a higher trajectory than they previously estimated. In addition, perceived credit risks as reflected by sovereign credit ratings and spreads of the Fund's borrowers remain elevated, increasing modestly from levels observed in the previous review. Against this backdrop, we continue to view the Fund as appropriately resourced to respond to global economic challenges, but these trends emphasize that it will be important for the Fund to have adequate precautionary balances to backstop its heightened level of lending.

We note that in 2020 the Board appropriately elected to increase the precautionary balances target to SDR 25 billion due to the COVID-19 pandemic, and we agree with the recommendation to maintain the target at that heightened level. We welcome that the pace of precautionary balance accumulation has proceeded more quickly than staff previously estimated. In this context, we agree that it does not currently appear necessary to take additional steps to accelerate the pace of precautionary balance accumulation. We also agree that retaining the minimum floor, unchanged since 2016 at SDR 15 billion, is also appropriate at this time.

We do not see merit in exploring options for providing temporary surcharge relief at this time, particularly when the Fund's precautionary balances still remain below target. We continue to consider surcharges to play an important role in incentivizing

members to repay the Fund. We also think that the current period of heightened credit risks makes it particularly important for the Fund to have robust precautionary balances. Furthermore, as staff emphasize, Fund financing terms remain quite favorable compared to market terms, even after incorporating surcharges.