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December 7, 2022

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

We thank staff for an insightful paper on the review of the precautionary balances. We support retaining both the minimum floor and the medium-term indicative target for the precautionary balances unchanged at respectively SDR 15 and 25 billion. We concur that the projected pace of accumulation of precautionary balances remains adequate (and no additional steps are needed). On surcharges, our chair is open to discuss the issue and appreciates staff's technical inputs provided in the paper. All in all, we consider that the case for a reduction in surcharges is unsettled as yet but we remain available to explore alternative plausible options. We offer the following specific comments.

- **Timeline of the next adequacy review.** We share staff's assessment to maintain the review of the precautionary balances on the standard two-year cycle and to hold an interim review in case material changes compared to current projections should arise in credit and financial risks or lending developments.
- **Recent developments in precautionary balances and credit risks.** We welcome the strengthening in the level of the precautionary balances (to SDR 21.6 billion) and the improvements in key precautionary balance coverage metrics. We share staff's assessment of the credit risks that the Fund faces. We note that credit outstanding is close to historical peaks – though still below – with limited variations in the concentration of lending among the large borrowers or at regional level. Regarding the precautionary instruments, we look

forward to the upcoming review of these instruments scheduled for 2023 as we believe they represent an important component of the Global Financial Safety Net (GFSN).

- **Lending projections.** We appreciate staff’s detailed analyses on the demand for Fund’s resources. We think that the intermediate “desk scenario” has specific value, reflecting the granular assessments made by country experts and considering the developments we have recently seen in the requests for new programs. The latter seem to be on the rise following the weakening in the global economic conditions and the tightening in financial conditions to contrast widespread high inflation.
- **Box 2 and the IAS-19 pension-related gains and losses.** We welcome staff’s continued elaborations on the steps that have been undertaken to better isolate the volatility of the IAS-19 pension adjustments on the precautionary balances commencing in FY2022, with the aim of improving the presentation of the outcomes on the Fund’s balance sheet from core activities.
- **Surcharges.** Surcharges remain an important component of the Fund’s income and risk management policy. We appreciate staff’s illustrative scenario in Box 5, which shows the magnitude of a possible temporary relief, as well as the high concentration of surcharges among debtors. At this stage, however, we believe that the case for reducing surcharges is unsettled. Nevertheless, we remain open to consider possible alternative options within a surcharge review.