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October 28, 2020

Statement by Mr. Jin and Ms. Liu on Review of the Adequacy of the Fund's Precautionary Balances
(Preliminary)
Executive Board Meeting
October 30, 2020

We welcome staff's comprehensive review on the adequacy of the Fund's precautionary balances. We broadly support staff's assessment and would like to make a few additional points for emphasis.

The COVID-19 pandemic has severely impacted member countries and led to an unprecedented demand for Fund financing, especially emergency financing. The members' capacity to repay the Fund could be affected and therefore the Fund's credit risks may have increased significantly. In this context, we emphasize the importance of the precautionary balances in strengthening the Fund's balance sheet to ensure that member's reserve positions in the Fund are safe and liquid. We welcome the incorporation of the impact of COVID-19 in the assessment of the appropriate adequacy level of the Fund's precautionary balances.

We can go along with staff's proposal to raise the medium-term target for precautionary balances to SDR 25 billion at this stage, but high uncertainties related to the COVID-19 pandemic and elevated concentration risks warrant a close monitoring of evolving developments. The Fund's credit risk and credit outstanding have increased significantly since the last review. In response to the sharp increase in the Fund's credit and commitments, we see a need to strengthen the precautionary balances to increase buffer against rising credit risks. Nevertheless, we would like to stress that the Fund gives priority to strengthening program design and conditionality, lending policies, and safeguard assessment, which are important elements in managing and mitigating risks. In the context of highly uncertain path of the current crisis, we encourage staff to monitor the developments closely and update the Board in a timely manner.

We attach great importance to properly investing precautionary balances to earn fair return and provide stable flows of income across lending cycles. We share staff's view to keep the minimum floor at SDR 15 billion to maintain an adequate reserves buffer to protect against an unexpected increase in credit risks. In terms of pace of accumulation, we are somewhat concerned about the significant uncertainty of the projected path of precautionary balances, particularly taking into account the impact of the COVID-19 pandemic.

The burden-sharing mechanism plays an important role in protecting the Fund's position in the face of unpaid charges by members in arrears. Given that the burden-sharing capacity depends on quota payments and outstanding credit and borrowing by the Fund, and the burden-sharing adjustment is made only to quota resources rather than borrowed resources, we emphasize the essential role of quotas rather than temporary funding arrangements in the proper functioning and risk resilience of the Fund. COVID-19 has once again shown the importance of a quota increase. We stress the need to boost the Fund's resources and improve its structure through a quota increase.