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October 28, 2020

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

We thank staff for the informative report on the Review of the Adequacy of the Fund's Precautionary Balances and welcome the thorough analysis of the impact of the pandemic on the IMF's financial risks.

We continue to support the transparent and rules-based framework to assess the adequacy of precautionary balances that also leaves room for informed judgement. The combination of rules, including the establishment of an indicative range for the ratio of precautionary balances to credit outstanding, and judgement, notably by taking into consideration the concentration of risks, results in an indicative medium-term target and a minimum floor for precautionary balances that help hedge the Fund against financial risks.

We share the staff's assessment that the financial risks facing the Fund have increased substantially since the last review two years ago, due largely to the impact of the pandemic on member countries. We underscore, in particular, the elevated credit outstanding and greater concentration of the Fund's lending portfolio towards the IMF's largest borrower and the Western Hemisphere region. Among the elements of judgment used by staff, we note the rising sovereign spreads of the Fund's five largest borrowers indicating a deterioration of their perceived credit risk. All these should be regarded in light of deteriorating fundamentals.

Against this backdrop, we support the proposal to increase the medium-term target for precautionary balances to SDR 25 billion and emphasize the need to monitor it closely given the high uncertainty due to the pandemic. An increase in the target is needed to maintain the ratio of precautionary balances to credit outstanding within the indicative range of 30-40 percent which ensures that the Fund has adequate buffers to mitigate potential losses from financial risks. However, considering the developments in credit outstanding, the concentrated exposure, as well as the increased uncertainty facing the global economy, we stress the importance of keeping developments that could affect the target under close review and to stand ready to further revisit the target ahead of the regular two-year cycle.

We have noted that despite the recommendation to raise the medium-term target for precautionary balances, staff do not propose changes to accelerate the pace of reserve accumulation. The significant increase in Fund lending during the pandemic is expected to boost the IMF's income over the medium-term which, in turn, should help accelerate the pace of reserve accumulation. However, we would like to caution that the different scenarios estimating the projected accumulation of reserves discussed in the report do not take into account the potentially large pension-related expenses (IAS 19) which could severely reduce the Fund's net income over the medium-term and undermine the pace of reserve accumulation, as experienced in FY2020. *We seek the staff's further elaboration on the risk that large IAS 19 losses over the medium-term resulting from the current low global interest rates environment would reduce the pace of reserve accumulation despite the projected increase in the Fund's lending income.* In any case, we underscore the necessity to closely monitor the pace of reserve accumulation going forward.

Finally, we support the proposal to maintain the minimum floor for precautionary balances at the current SDR 15 billion level. In our view, this amount still offers an appropriate minimum buffer in face of expected trends in Fund credit.