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October 28, 2020

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

1. We welcome the review of the adequacy of the Fund's precautionary balances, which remains a key element of the Fund's multi-layered risk management framework. We consider precautionary balances as critical in cushioning the Fund's balance sheet against financial risks, particularly in the context of the unfolding COVID crisis. We also view the rules-based framework that underpin this assessment, as broadly appropriate.

2. **We support staff's proposal to raise the medium-term target to SDR25 billion to mitigate elevated risks in the wake of the COVID-19 crisis.** This will help improve the Fund's enterprise risk profile and cushion against the increased credit exposure prompted by the pandemic. Meanwhile, the Fund's exposure and related risks including, the doubling of credit outstanding, elevated precautionary arrangements, a concentrated lending portfolio, the surge in emergency financing, and the perceived deterioration in credit quality of sovereign debt among IMF borrowers, have exerted pressure on the Fund's precautionary balances. Looking ahead, the precarious global economic outlook as well as uncertainty over the evolution of the pandemic and the possibility of a second wave of infections, generates additional risks. Considering the significant downside risks to the outlook, we wonder whether the proposed increase to the medium target, is not somewhat conservative. *Staff's comments are welcome.*

3. **We note that staff does not propose a change in the pace of accumulation of precautionary balances given that the proposed target of SDR 25 billion would be reached over the medium term under all the scenarios.** Importantly, we note that higher incomes related to the increased credit exposure will surpass annual expenses in the near-term. Nevertheless, we emphasize the need to closely monitor potential risks emanating from

subdued returns on investment activities in the context of the low interest rate environment. Similarly, the pace of accumulation should be monitored given exceptional uncertainty related to the pandemic, the volatile pension-related gains/losses which negatively affected precautionary balances last year, and the impact of new programs. Equally, the accumulation of precautionary balances could be affected by weak program performance which could impact scheduled purchases and charges. We also support the staff proposal to maintain the minimum floor of the precautionary balances at SDR 15 billion, which depends on long-term considerations.

4. **Finally, we welcome efforts to improve coordination and sequencing of Board meetings as an important step in efforts to exploit synergies between various workstreams, particularly those pertaining to Fund finances**. In this context, we view the simultaneous discussion of the related paper on *Provisioning for Impairment Losses in the Context of the Fund* and complementarity with work on the *Review of Fund's Income Position* as a step in the right direction. Going forward, we urge staff to consider integrating access limits and surcharge policies to ensure adoption of a more holistic approach to the assessment of the adequacy of precautionary balances.