

Executive Summary

This evaluation focuses on two aspects of the IMF's concerns and advice related to international reserves. First, it examines the origin, rationale, and robustness of the IMF's concerns about the effects of excessive reserve accumulation on the stability of the international monetary system. Second, it assesses the conceptual underpinnings and quality of the advice on reserve adequacy in the context of bilateral surveillance.

In 2009, IMF Management and some senior staff began to emphasize the potential for large reserve accumulation to threaten the stability of the international monetary system. The evaluation argues that the focus on reserve accumulation as a risk for the international monetary system was not helpful in that it stressed the symptom of problems rather than the underlying causes, and it did not appear to be different from the longer-standing concerns about risks from global imbalances. Many country officials also felt that the IMF should have placed greater emphasis on other developments relating to the evolution and stability of the international monetary system—in particular the causes and consequences of fluctuations of global liquidity and international capital flows—that they considered to be of more pressing concern than reserves.

The evaluation found a broadly held view that Management's emphasis on excessive reserve accumulation was a response to frustration among some member countries with the IMF's inability to achieve exchange rate adjustments in Asian countries with persistently large current account surpluses.

In parallel with the aforementioned concerns about excessive reserve accumulation, IMF staff developed a new indicator to assess reserve adequacy in emerging market economies. The new indicator defined upper and lower bounds for precautionary reserves. A number of country officials became worried that its use would engender pressures on countries to reduce their reserves at a time of heightened uncertainty in the global economy.

With respect to reserve adequacy assessments in the context of bilateral surveillance, the evaluation centered on a sample of 43 economies that had accumulated the bulk of global reserves during the 2000–11 period. The country sample reflects the evaluation's focus on the possible implications of excess reserves. The evaluation concludes that the IMF's assessments and discussions of international reserves were often pro forma, emphasizing a few traditional indicators and insufficiently incorporating country-specific circumstances. It also identifies cases where the Fund's analysis and advice could have been improved, notably by embedding the assessment of reserve adequacy in a broader analysis of countries' internal and external stability.

The evaluation recommends that:

- Policy initiatives should target distortions and their causes rather than symptoms such as excessive reserves;
- Discussion of reserve accumulation in the multilateral context should be embedded in a comprehensive treatment of threats to global financial stability, one that is informed by developments in global liquidity and financial markets;
- Policy initiatives that are meant to deal with systemic externalities must take into account the relative size of countries' contributions to the externality;
- Reserve adequacy indicators should be applied flexibly and reflect country-specific circumstances; and
- The multiple trade-offs involved in decisions on reserve accumulation and reserve adequacy at the country level need to be recognized, and advice on reserves should be integrated with advice in related policy areas. Advice should not be directed only to emerging markets but, when necessary, take into account the concerns in advanced economies that have arisen since the financial crisis.