

Foreword

Global international reserves grew rapidly over the last decade. In some countries reserves were accumulated for precautionary reasons to insure against shocks, including those from volatile international capital flows, and to preserve financial stability. In other countries, reserves grew as a by-product of the pursuit of policy objectives related to the exchange rate and competitiveness, or from the desire to save the windfall from rising commodity prices and to foster intergenerational equity.

In 2009–10, IMF Management advanced the argument that excessive reserve accumulation was jeopardizing the stability of the international monetary system. This evaluation traces the evolution of this thinking, in particular how it relates to the Fund’s longer-standing concern about the risks from global imbalances, and discusses reasons for the shift towards stressing the risks posed by excessive reserve accumulation. It assesses the conceptual framework behind this approach, presents views of country authorities and academics, and discusses why the Fund’s arguments have not resonated with much of the IMF’s membership. The evaluation also assesses the conceptual underpinnings and quality of the advice on reserve adequacy in the context of bilateral surveillance.

The report argues that the IMF’s emphasis 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 thus led to a loss of clarity in discussing options to reduce such risks. The report also notes that a new reserve adequacy metric that was introduced in 2011 and that defines upper and lower bounds for precautionary reserves was received with skepticism by country officials, who worried that it could become a rigid benchmark to limit reserve accumulation at a time of heightened uncertainty in the global economy.

With respect to the IMF’s assessment and advice on reserve adequacy in the context of bilateral surveillance, the evaluation argues that no single indicator or model can capture the complex set of factors that determine the adequacy of reserves in an individual country, and that reserve adequacy indicators should be applied flexibly and take into account the multiple trade-offs involved in decisions on reserve accumulation and reserve adequacy. Prior to the recent global financial crisis, assessments and advice on reserve adequacy focused almost exclusively on emerging markets. Going forward, advice should also, when necessary, take into account the concerns in advanced economies that have arisen since the financial crisis.

We hope that the analysis presented in this report will contribute to a better understanding of how international reserves fit into bilateral and multilateral surveillance by the IMF.

Moises J. Schwartz
Director
Independent Evaluation Office