# Statement by the Managing Director on the Independent Evaluation Office Report on International Reserves: IMF Concerns and Country Perspectives

**Executive Board Meeting**
**December 7, 2012**

I would like to thank the IEO for this report and acknowledge the substantial effort that has gone into its preparation. As recognized by the IEO team, research by Fund staff on reserve accumulation and related issues has been at the forefront of the academic debate and, despite the complexities involved, good progress has been made by staff in developing the theoretical framework and concrete methodologies to ascertain reserve adequacy. This work has certainly been successful in influencing the policy debate. I also take comfort from the report's praise of the Fund's bilateral surveillance of the largest reserve holders.

Nonetheless, I believe the evaluation errs when it considers the rationale of the Fund and its membership, through the Board and IMFC, in undertaking work on reserves. This work was cast in the broader workstream on the international monetary system (IMS), and the approach to reserve issues was broad and multipronged, with emphasis placed on the development of a strong global safety net, the articulation of adequate policies to manage volatile capital flows, and the integration of the discussion of reserves with other external sector policies. Within the IMS, the demand for reserve assets matters in the context of their limited supply. Hence, the motivation was to make progress in assessing the right level of reserves for *precautionary* purposes given the need to balance their insurance benefits (demonstrated in this and past crises) with the fact that holding excessive reserves is subject to diminishing returns and can be costly both to the domestic and global economy.

With regard to the methodology employed, the report's findings may not be representative of the views of the Fund's entire membership considering the highly selective sample of country views employed by the IEO.

The specifics of these, as well as some additional, reservations are detailed in the staff response.

Nevertheless, I find myself in agreement with most of the IEO's formal recommendations, which are remarkably congruent with a number of recent Fund policy positions and new surveillance initiatives.

I look forward to the Board discussion.