

THE ACTING CHAIR'S SUMMING UP

INTERNATIONAL RESERVES: IMF CONCERNS AND COUNTRY PERSPECTIVES

Executive Board Meeting 12/113
December 7, 2012

Executive Directors reaffirmed their appreciation for the useful role the Independent Evaluation Office (IEO) plays in the international policy debate. They generally supported its recommendations while recognizing that the Fund has already made progress in many of the areas highlighted in the report in the broader context of the workstream on the international monetary system (IMS). Directors, however, held different views on the analytical underpinnings of the report, in particular on whether the membership is adequately represented in the sample chosen by the IEO.

Directors welcomed the IEO's findings that the Fund staff's research on the adequacy of official reserves is at the forefront of the field. They noted that this research has provided a rich set of tools to inform reserve assessments at the country level. Directors also noted that Fund surveillance of systemically important countries has struck the right balance in deploying those tools, taking into account other factors that affect external conditions for these countries.

Directors noted with satisfaction the broad congruence between the IEO's recommendations and current Fund policies and practices. In particular, the latest *Triennial Surveillance Review* calls for widening the scope of external stability assessments in bilateral surveillance, and the recently launched *External Sector Report* lays out, in a multilaterally-consistent manner, the evolution of external imbalances across the largest economies, integrating advice on reserve adequacy with that on related policy areas.

Directors considered that there is a need to better understand the risks to the IMS arising from a reserves buildup beyond precautionary motives. Many Directors shared the IEO's view that excessive reserve accumulation is only a symptom of underlying distortions, and stressed the importance of other factors like developments in global liquidity and capital flows. A number of

other Directors agreed with staff that it is justified to highlight that, in addition to being a symptom, reserve accumulation can be a potential cause of instability for the IMS, given the limited availability of reserve assets. Directors agreed that Fund surveillance, particularly multilateral surveillance, is well positioned to identify such risks and propose remedial action.

A number of Directors noted that the IEO's report pointed to the need for more clarity in the Fund's view on precautionary reserve holdings. In particular, they saw room for the Fund to better explain its work on reserve adequacy and external sector risks in its external communication and in its policy dialog with country authorities.

Directors agreed on the desirability of a comprehensive assessment of reserve adequacy, including for advanced economies, and urged staff to build on their earlier work in the *Assessing Reserve Adequacy* paper. In this regard, most Directors saw room for making Fund guidance on reserve adequacy more alert to country-specific conditions, but in a consistent manner across countries with similar features. At the same time, a significant minority of the Board disagreed, noting that tailoring the reserve assessment too specifically to any particular member would undermine its usefulness.

As regards global spillovers from excessive reserve accumulation, a number of Directors supported the IEO's recommendation that the relative contribution of a country to such externality be taken into account, without prejudice to the principle that all Fund members should be treated evenhandedly. This approach is already being applied in the Fund's multilateral surveillance products, including the *Spillover Reports*.

In line with established practices, Fund management will continue its dialog with the Executive Board in following up on the implementation of the IEO recommendations.