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Concluding Remarks by the Chairman
Gold in the Fund
Executive Board Meeting 95/54
June 2, 1995

This is the first comprehensive discussion on the Fund's gold that this Board has held for many years, and it has been quite interesting. Indeed, I heard that the staff paper was somewhat difficult to comment on, and certainly difficult to write, but I think that it was clearly worth the effort.

In our discussion I have noted among most--and I would even say all--of you, the common themes of caution on the subject of gold sales and the overriding need to maintain and, where possible, to strengthen the Fund's capital base and financial strength. Given the very high majority needed to permit the Fund to sell gold, we clearly have some way to go before concluding this debate. Having carefully listened to your interventions, I believe most Directors could agree with the following basic principles that should be uppermost in our minds when formulating a policy as regards the Fund's gold.

First, gold is the only undervalued asset held by the Fund, and it provides a fundamental strength to the Fund's balance sheet. Thus, any mobilization of the Fund's gold should be carefully thought out in order to avoid any weakening of the Fund's overall financial position.

Second, the Fund's gold holdings provide the Fund with operational maneuverability both as regards its policies on the use of its resources and through adding credibility to the level of the Fund's precautionary balances. In these respects, the benefits of the Fund's gold holdings are passed on to the membership at large, to both creditors and debtors.

Third, the Fund should continue to hold a relatively large amount of gold among its assets, not only for prudential reasons, but also to meet unforeseen contingencies--for example, in the event the General Resources Account would need to borrow from members. In this regard, Directors recalled the Fund's gold pledge to sell up to 3 million ounces to safeguard resources used for the encashment of rights, which thereby protects creditors' interests in the ESAF.

Fourth, the Fund is the second largest official holder of gold in the world, with about 10 percent of total official gold stocks of member countries. We must take great care to avoid causing disruptions that would adversely impact on all gold holders and gold producers, as well as on the functioning of the gold markets. In this regard, the Fund has truly a systemic responsibility.

Fifth, a sale of gold by the Fund must not weaken its financial position, and if possible it should strengthen it. This means in practice that the capital profits of any sale of gold should be retained and that only the income deriving from the investment of such capital profits could be used for any current operations that might be agreed. In other words, any mobilization of the Fund's gold should result in a change in the composition of its assets rather than in an effective reduction.

These are, I think, the basic principles all of us can support.

A number of Directors have argued that there is no compelling need for the Fund to consider selling gold at this time, and that it should not do so. These Directors stressed the importance of gold as the Fund's basic reserve. The Fund can sell gold, but it cannot buy gold, it was observed, and gold constituted a uniquely valuable, ultimate asset in exceptional circumstances. These Directors also expressed concern that small sales of Fund gold could be seen as a prelude to continued sales; once begun, it might prove difficult to stop what could be considered by members a costless way of financing worthwhile purposes. They also recalled that the Executive Board, in its 1980 discussion, concluded that gold sales should be considered only to achieve essential goals of the Fund, should command the broadest possible consensus among the membership, and should not risk causing disturbances in the gold markets. In coming to this position, many of these Directors stressed that they are strongly supportive of a continuation of ESAF operations, but that gold sales should not make up for declining flows of official development assistance. The Fund should first garner donor support for further bilateral assistance as and when such assistance would be needed to bridge the gap before the ESAF itself can begin to be self-sustaining around 2004. I am encouraged by such indications of support to maintain and subsidize ESAF operations after the existing ESAF resources have been fully committed.

Most other Directors are of the view that a sale of a modest portion of the Fund's gold would be justified, both on grounds of the cost of holding gold and in view of the need to secure the maintenance of an interim ESAF until the ESAF can become self-sustaining and, more generally, to assist in providing appropriate financial support to heavily-indebted low-income developing countries undertaking adjustment programs. These Directors also take into account that the Fund's gold holdings are relatively large and, in their view, exceed the Fund's needs of holding such an amount of gold for precautionary and prudential reasons. These Directors would therefore welcome further staff work to develop a more flexible approach that would involve a cautious and prudent gold sales program that could support the continuation of operations under the ESAF after all existing ESAF resources have been committed and would enhance the Fund's financial position.

As I have already indicated, I do not believe that any Director wishes the Fund to consider a gold sales program that would commit the Fund to sell a substantial part of its gold holdings. The matter calls for very careful judgment on how the Fund's gold can best service the Fund's purposes, both in the long run and in the short run. Several of you have emphasized the critical need for the broadest possible consensus in this area.

A sale of gold cannot substitute for an increase in the Fund's financial resources through an increase in quotas which, in my view, will be needed within the next two years. It is, therefore, appropriate that Directors have today tended to focus their attention on considering a possible sale of only a modest amount of gold to help finance ESAF operations during the transition period until it becomes self-financing.

Obviously, we need to consider this issue further within the context of the financing of ESAF operations while keeping in mind the message of caution to which all of you adhere. As indicated in my statement on the work program, the Executive Board will examine the options for continued financing and adapting of the ESAF in late August or early September. In that context, the staff could prepare a short paper outlining illustratively and in more detail than could be considered today the modalities of a program for a sale of a modest part of the Fund's gold stock. I stress that such a paper would be illustrative. At the same time, and equally important, the staff should examine how such a modest gold sale program could be compatible with the need to safeguard and strengthen the Fund's capital base, as well as to ensure that it would not become a prelude to continued sales, and with the need to obtain the broadest possible support for action.

I still believe that it will be a challenging task to reconcile the two objectives of a very careful, considered approach of the issue and the calendar for consideration of ESAF financing issues before the next Interim Committee meeting. But I think that this discussion has given us clear guidance and will certainly help the staff to calibrate its suggestions and its illustrative calculations in a way that could facilitate the Board's deliberations.