

The contents of this document are preliminary and subject to change.

GRAY/10/1915

May 27, 2010

**Statement by Mr. Itam on Seminar--Reserve Accumulation and International Monetary
Stability
(Preliminary)
Executive Board Seminar 10/2
May 28, 2010**

We thank staff for the comprehensive paper outlining the reasons for the recent rapid accumulation of reserves, possible implications for international monetary stability, and potential remedies. While we appreciate the various reform avenues outlined in the paper, we do agree with staff that many of the options outlined may not be easily practicable. In this regard we would have liked to see more direct and realistic policy recommendations.

We see the motive for self-insurance against possible effects of crisis and capital flow reversals as the central issue behind reserve accumulation, especially in emerging market economies. Indeed, evidence has indicated that the countries that started with sufficient cushions of reserves were able to weather the recent global crisis well. The need for countries to insure themselves also points to the deficiency in the ability of the Fund to assist them in times of crisis. The absence of such reserves in the face of the sudden shock during the past emerging market crisis and the devastating consequences have imparted a lasting lesson with respect to self-insurance. In this regard, we see the starting point to addressing this issue as that of continuing to improve the Fund's toolkit for crisis prevention. It is only when members are assured or at least have the perception, that there is adequate capacity in terms of resources and timeliness, and non-onerous conditionalities to assist should the need arise, that they may become less inclined to hold large amounts of reserves. Moreover, as long as the benefits of holding high levels of reserves are perceived to be higher than the costs, it would be almost impossible to persuade these countries to scale down their reserve holdings.

We agree that, in encouraging countries not to hold excessive amounts of reserves, the Fund should provide guidance on the desirable ranges of *precautionary* reserve accumulation, taking into account the diverse country circumstances and vulnerabilities. In this regard, we look forward to the upcoming staff paper on assessing reserve adequacy.

While we support multilateral collaboration in general, we see it only in the context of a global adjustment mechanism. It may be desirable to limit the volatility of capital flows, but the implementation of the multilateral framework for managing these flows could prove to be

very challenging given the vast domestic economy considerations and various factors that could trigger sudden changes in these flows. With regard to diversification of national reserve assets, staff has indicated that this already exists to some degree and here again there may not be much scope for collaboration. Countries' reserves are already diversified and the benefit of further diversification may not be readily evident. It may not seem sensible for a country that has already invested its reserves on the basis of its trade and financial flows, as well as profitability, to diversify further.