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

1. This discussion about the causes of, and possible remedies to, reserve accumulation is timely, although many of the ideas advanced by staff are of a longer-term nature and will need further elaboration and vetting. The build-up in official reserve holdings over the last decade is unprecedented, and the imbalances in the global economy are proving persistent. We broadly share staff's assessment of the motives behind this large-scale accumulation of reserves and the associated costs and vulnerabilities. We see merit in seeking ways to lessen the demand for precautionary reserve holdings, and in particular in the proposed multilateral framework for managing capital flows. We are not convinced, however, by staff's proposals for addressing non-precautionary reserves, or by their suggestions to promote supra-national reserve assets.

2. We concur with the characterization of the current system and its imperfections as a constrained optimum. Which of the many suggestions to strengthen the international monetary system would improve on this relative optimum at an acceptable cost remains an open question, however. Under this predicament, the Fund is well placed to promote the well-functioning and stability of the system through monitoring, providing advice to member countries, and developing a multilateral approach to address the issue of reserve accumulation. The latter may include encouraging members to gradually adjust the currency composition of their reserves. The Fund's work in this area should build upon the outcome of the discussions on the Fund's surveillance and financing roles, and especially on an enhanced multilateral surveillance process.

**Mitigating demand**

3. We would welcome guidance by the Fund on desirable ranges of precautionary reserves, taking into account country circumstances. Such guidance could help align reserve accumulation policies and contribute to overcoming a perceived need to benchmark reserve accumulation at ever higher levels. We are looking forward to the upcoming Board seminar on reserve adequacy.

4. We support a multilateral framework for managing capital flows, which could provide members with best practices on how to dampen excessive capital flow volatility. Such a framework could include indications of the drawbacks of capital controls, the circumstances under which they may be justified, and ways to reverse them. Regarding the capital flow monitoring proposal, we emphasize that any initiatives to address potential data gaps should be coordinated with the FSB as part of the ongoing joint work on information gaps.

5. We see no merit in further pursuing staff's thoughts on addressing non-precautionary reserve accumulation. Specifically, we do not believe that a multilateral understanding on reserve policies—with or without penalties attached—would be feasible. Also, it will be difficult to reach a consensus on what part of reserves is actually non-precautionary. "Excessive" reserve accumulation is best and most effectively addressed in the regular dialogue with members as part of the Fund's bilateral surveillance mandate. This dialogue is guided by rules on evenhandedness and consistency on the part of the Fund, but also by members' obligations under Article IV.

### **Diversifying supply**

6. We are skeptical about staff's proposals for diversifying the supply of reserve assets through an SDR-based reserve system. Our reservations relate primarily to its feasibility. While such an SDR-based system could—at least in theory—yield possible benefits over the existing or a multi-polar system in terms of stability, scale, financial integration, monetary conditions, and adjustment, some challenging preconditions would have to be met for the SDR to emerge as a broadly accepted international reserve asset. Tremendous efforts would be needed to develop sufficiently liquid private SDR markets and to restructure foreign exchange markets to allow for the use of SDRs. Also, for SDRs to be widely used in private sector transactions, the demand side would need to be developed, which would come down to setting the right incentives for potential SDR investors.

7. While staff seems to sympathize with a more widespread use of the SDR, we would have welcomed the proposals to be more differentiated according to the functions that the SDR as a broadly accepted quasi currency (unit of account, means of payment, or store of value) is envisaged to fulfill. For example, more trade invoicing in SDRs as a unit of account might mitigate exchange rate risk for both parties in a trade and dampen exchange rate induced market volatility, but it is debatable whether and how this would boost the SDR's role as a reserve asset.