



WORLD GOLD COUNCIL

NEWS RELEASE

For IMMEDIATE release – 6 June 2001

Gold's role in the IMF

LONDON: 6 June, 2001 – The current prohibition by the International Monetary Fund against using gold as an exchange rate peg is anachronistic and potentially damaging to some developing countries, it is said in a new report from the World Gold Council (WGC).

The WGC has published an updated version of its study into the role of gold in the International Monetary Fund's activities. The study, "The IMF and Gold", was prepared by Dick Ware, a former Bank of England and IMF official, currently working for the World Gold Council.

The paper analyses the operations of the IMF and its use of gold since the Fund's creation in the immediate aftermath of the Second World War. Mr Ware traces the developments in the Fund's policies and strategies through the economic turmoil of the 1950s and 1960s and the collapse of the Bretton Woods system, which culminated in the early 1970s in a deliberate attempt to write gold out of official monetary arrangements.

However, Mr Ware says that the current prohibition in the IMF's Articles against using gold as part of a country's exchange rate arrangements is anachronistic and should be dispensed with. For a number of countries it may be sensible to incorporate gold in a currency or commodity basket anchoring the exchange rate.

"We are not talking here about a return to an all-embracing Gold Standard. But for some countries the use, or part-use, of gold in an exchange rate peg might be beneficial. For some developing countries, especially where gold forms a significant part of their exports, establishing some sort of link to its price may make more sense than tracking the dollar and creating an exposure to the effects of US economic policy," he says.

However, such an arrangement would require a change in the IMF's Articles which would be a "long and arduous process. But times have moved on and there is no longer any need to anathematize gold, especially if its partial use in this way might improve the economic lot of a small number of countries which need all the stability they can get."

The IMF continues to hold gold as it serves an important function in underpinning the Fund's financial strength. Mr Ware says this is especially important today when the Fund is able to make available to members unprecedentedly large multiples of quota. Furthermore, it has remained the majority view of the Fund's

World Gold Council, 45 Pall Mall, London SW1Y 5JG
Tel: 020 7930 5171 Fax: 020 7839 6561

members that it is better for it to retain its gold against unknown contingencies rather than to sell it and invest the proceeds elsewhere. The IMF's gold holdings have also recently been used to support the debt-relief programme for the Heavily-Indebted Poor Countries (HIPC)s and Mr Ware argues that such activities demonstrate that gold is by no means an idle asset.

Central banks are also large holders of gold and, despite some gold sales in recent years, the official sector still holds some 33,000 tonnes of gold, around 25% of the world's total above ground stocks. Of this the IMF holds 3,217 tonnes, about 10% of official sector holdings and a little more than 2% of total stocks.

Mr Ware says that one of the reasons why so much gold is still held by the official sector reflects gold's earlier role as an explicit anchor for both domestic and international monetary systems. While that role has changed in theory there is little desire on the part of many official holders to dispose of their gold. Countries such as the USA, France, Germany and Italy continue to hold significant stocks.

Gold is not a 'mere' commodity, he says. "The major economic powers continue to hold - and see value in holding - gold in their reserves. The IMF's undoubted credit-standing is also supported by the gold in its balance sheet. Gold gives a monetary authority a degree of freedom on a different plane from that obtained by holding reserves in foreign currencies."

"Since no one can foresee what the next 50 years will bring to the international monetary system, the ability of the IMF to respond is paramount," he says. "At that stage gold might once again become a factor and both the IMF and its members would be pleased to have retained it."

The "IMF and Gold" is essential reading for anyone interested in the activities of the gold market and the international financial system. It can be obtained from the World Gold Council at 45 Pall Mall, London, SW1Y 5JG. Telephone: 020 7930 5171.

- ends -

Contacts: Dick Ware, WGC

020 7930 5171

Keith Irons, Bankside Consultants

020 7220 7477 or 07885 356 639

The World Gold Council is an international association of leading gold producers which has the primary aim of increasing demand for gold world-wide. The WGC has its headquarters in London and maintains regional offices in New York, Singapore, Dubai, Tokyo and Mumbai.
