



FACTSHEET: IMF GOLD CAN REDUCE POVERTY

CONTEXT

The IMF currently holds about 103 million ounces of gold. This gold is valued on their balance sheet at about \$9 billion (historic cost). At current prices this gold is actually worth more than \$100 billion.

Even before the current crisis, the IMF's finances had become unsustainable because of a large decline in credit outstanding in recent years. As part of a new income source, the "Crockett Committee" proposed the creation of an endowment funded from the proceeds of gold sales in December 2007.

The Crockett Committee recommended that gold sales happen with safeguards, or "off market," to avoid disrupting the gold market¹ and be limited to 1/8 of the IMF's total gold holdings (12.97 million ounces).² At the time the proposal was made, the market price of the gold was around \$500 per ounce so the gold sale would have produced approximately \$6.5 billion in proceeds. After subtracting the original book value of approximately \$4 billion³ (which will be put back to IMF holdings), the gold sales would have yielded a profit of approximately \$2.5 billion. The Committee proposed that this amount be used to cover the administrative costs of the IMF.

At that point, no Executive Board decision to sell gold was ever taken (a decision to sell gold requires an 85 percent majority of the total voting power). However, the U.S. Treasury announced on February 25, 2008 that it will seek authority from Congress (which is required) for a limited sale of gold, consistent with the Crockett Committee's recommendation. Gold sales cannot proceed without the US support, because the U.S. holds 16.75 percent of the IMF's total voting power.

ONE's PROPOSAL

During this crisis, the IMF should provide funds to low income countries in the form of grants or highly concessional loans, so that the IMF can help these countries without putting them at longer-term risk of unsustainable debt.

With the current market price of gold significantly higher (approximately \$900 per ounce) than when the Crockett Committee originally proposed the gold sales (\$500 per ounce), ONE is proposing that the increased profits yielded by the sale go to support the world's poorest. A simple calculation suggests that this can create about \$5 billion (\$400 per ounce multiplied by 12.9 million ounces) for the world's poor.

G20 Commitment on IMF gold sales

¹ Safeguards include strictly limiting the volume of gold sales, coordinating with current and future Central Bank Gold Agreements (CBS) and phasing the sales over time. The Committee came to this recommendation after consultation with stakeholders.

² This is the amount of gold acquired since the Second Amendment of the IMF's Article of Agreement in 1978. Gold acquired prior to this is subject to a restitution, which would involve the sale of gold to a group of members at the former official price of SDR 35 per ounce, with such sales made to those members who agree to buy it in proportion to their quotas on the date of the Second Amendment. This means that the rights of these gold rest in the hands of the member governments, requiring a budget approval of member governments for the sales. Gold acquired since the Second Amendment is not subject to restitution.

³ This gold is valued on the IMF balance sheet at an average cost of SDR207 per ounce, and thus has a total book value of SDR 2,685 million.

“We have committed, consistent with the new income model, that additional resources from agreed sales of IMF gold will be used, together with surplus income, to provide \$6 billion additional concessional and flexible finance for the poorest countries over the next 2 to 3 years. We call on the IMF to come forward with concrete proposals at the Spring Meeting.” (April 2, 2009, G20 Communiqué 25,4th bullet)

This commitment was a good start, but it is now incumbent on the IMF to make sure that the volume of these additional resources is large enough to ensure a significant degree of concessionality.

Background

Gold played a central role in the international monetary system until the collapse of the Bretton Woods system of fixed exchange rates in 1973. Since then, the role of gold has been gradually reduced. However, it is still an important asset in the reserve holdings of a number of countries, and the IMF remains one of the largest official holders of gold in the world.

IMF holds gold because (according to its guiding principles):

1. As the only asset with significant unrealized value, gold provides fundamental strength to the IMF's balance sheet. It is therefore important that any mobilization of IMF gold should avoid weakening its overall financial position.
2. Holding gold provides the IMF with operational maneuverability both because it can be used as a resource and because it adds credibility to its precautionary balances (resources held for emergencies).
3. The IMF should continue to hold a relatively large amount of gold among its assets, not only for prudential reasons, but also to meet unforeseen contingencies.

PREVIOUS EXAMPLES OF OFF-MARKET GOLD SALES (1999-2000)

In December 1999, the Executive Board authorized off-market transactions in gold of up to 14 million ounces to help finance the IMF's participation in the Heavily Indebted Poor Countries (HIPC) Initiative. The gold revaluation process that was carried out through the off-market gold sale and repurchase is similar to what is being proposed today. Between December 1999 and April 2000, separate but closely linked transactions involving a total of 12.9 million ounces of gold were carried out between the IMF and two members (Brazil and Mexico) that had financial obligations falling due to the IMF. In the first step, the IMF sold gold to the member at the prevailing market price and the profits were placed in a special account invested for the benefit of the HIPC Initiative. In the second step, the IMF immediately accepted back, at the same market price, the same amount of gold from the member in settlement of that member's financial obligations. In the end, these transactions left the balance of the IMF's holdings of physical gold unchanged.