



Reforms of the International Monetary System and the Role of the IMF

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Outline

1. Mandate of the IMF
2. What's wrong with the International Monetary System (IMS)?
3. What is the IMF doing to address challenges to the IMS?
 - See www.imsreform.org for more information



1. IMF Mandate—foster economic stability

- Promote stability of international monetary system by providing a forum for consultation and collaboration.
- Facilitate the expansion of international trade.
- Promote orderly exchange rate movements.
- Facilitate establishment of a multilateral payment system without exchange restrictions.
- Provide financial assistance to members that have balance of payments difficulties.



Main Roles of the IMF

Surveillance

- Bilateral (e.g., India, for example see www.imf.org/india)
- Multilateral (global outlook, for example see www.imf.org/weo)

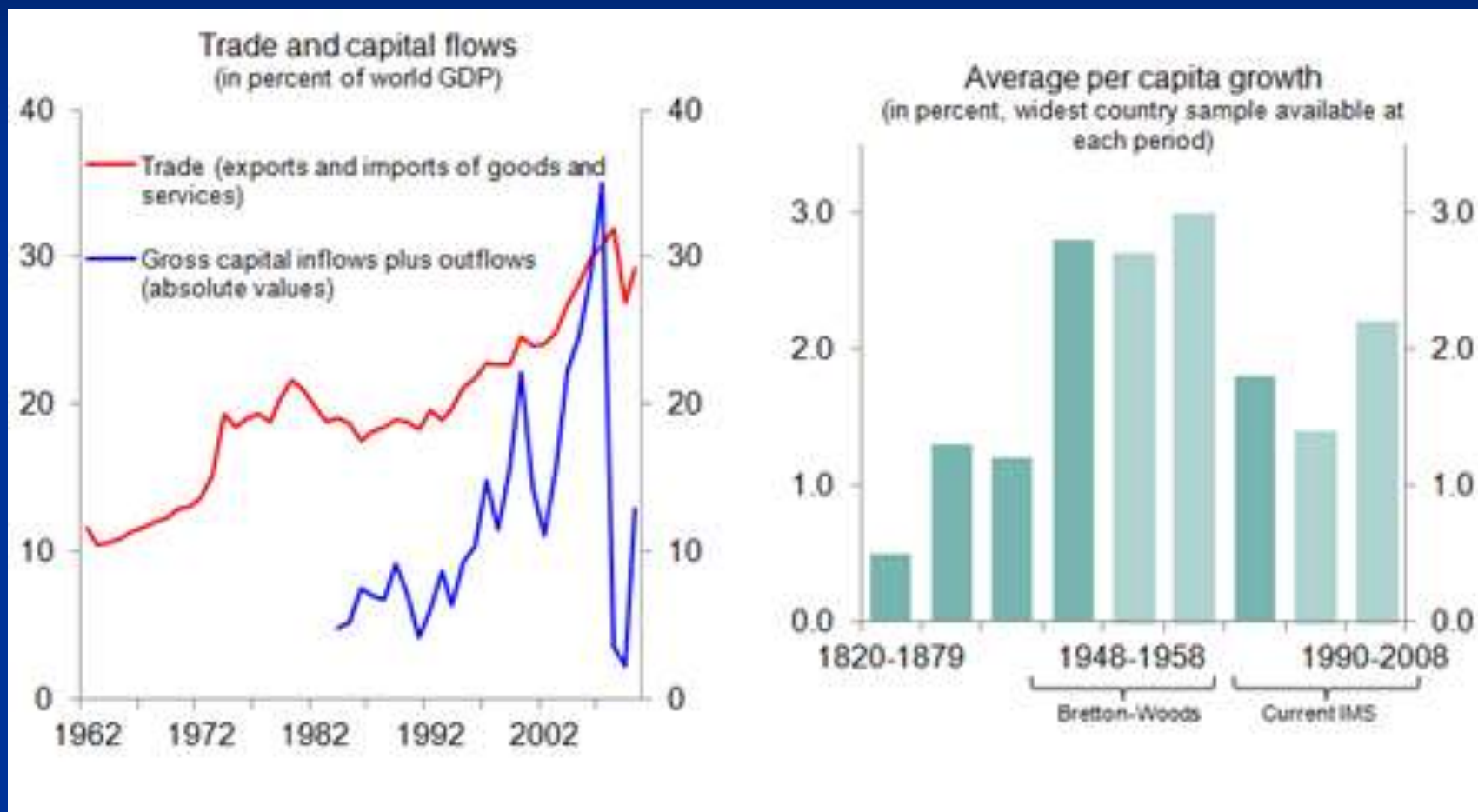
Lending

Financial assistance to mitigate adjustment costs of fixing underlying macroeconomic imbalances

Technical assistance and training

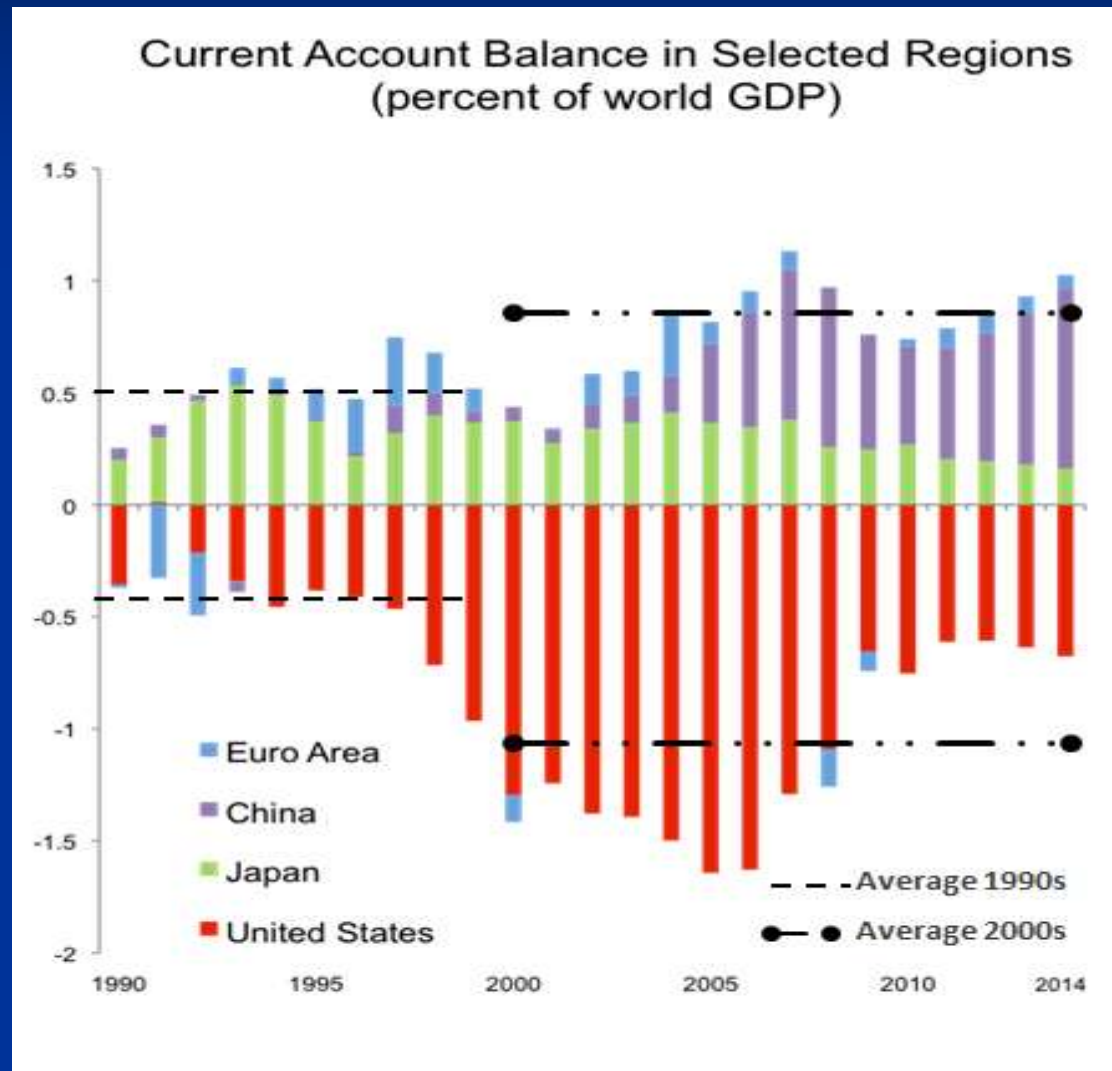
Fund is a bit like information clearinghouse for countries to learn from one another about key macroeconomic policy issues

2. What's wrong with the IMS?

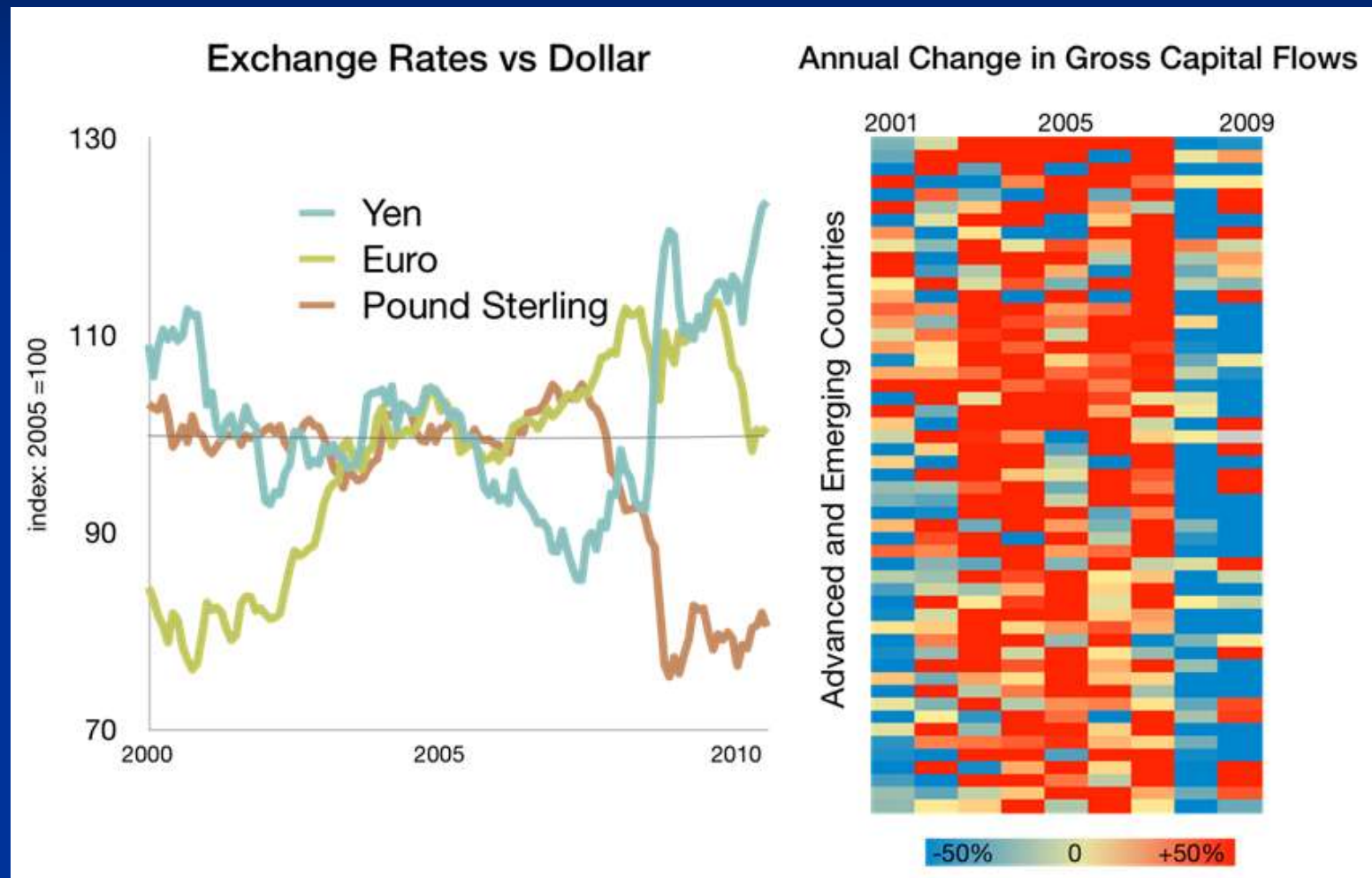


See www.imf.org/external/np/pp/eng/2011/032311.pdf

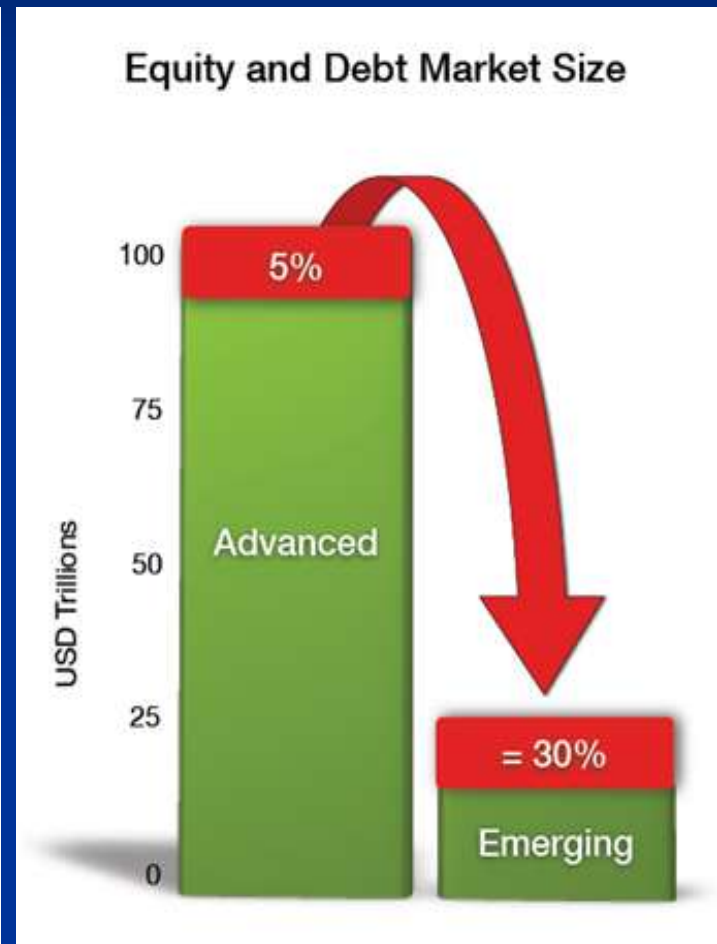
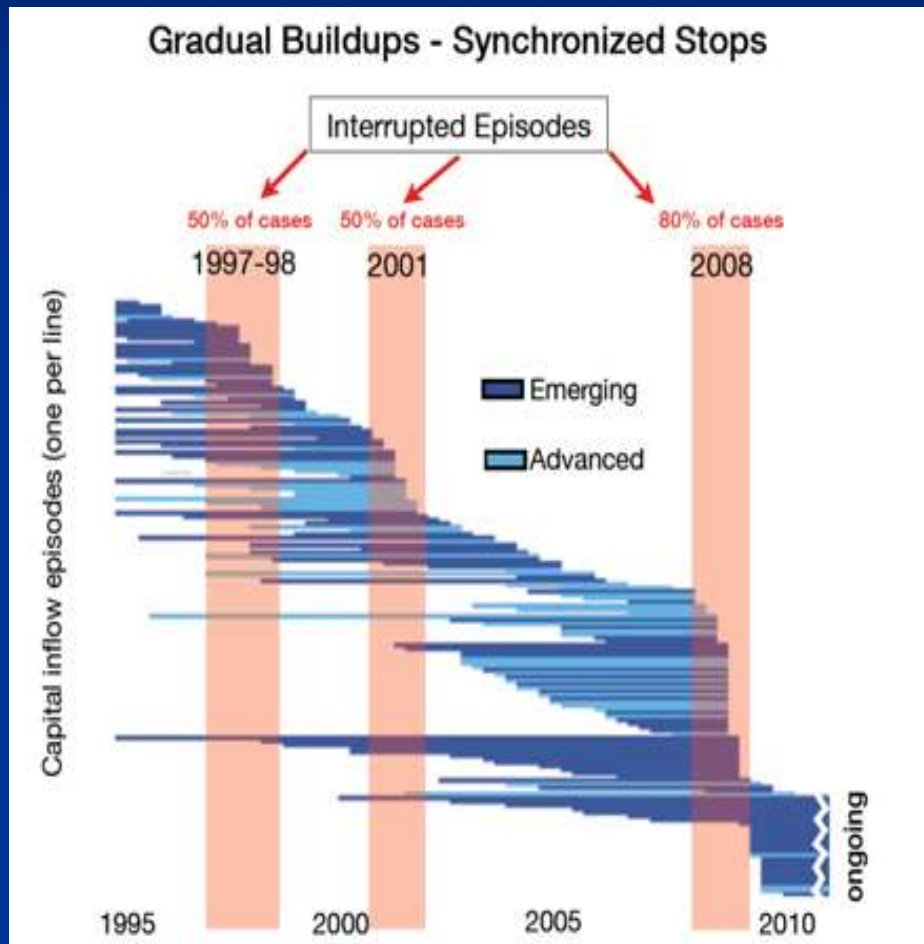
Large and persistent current account imbalances



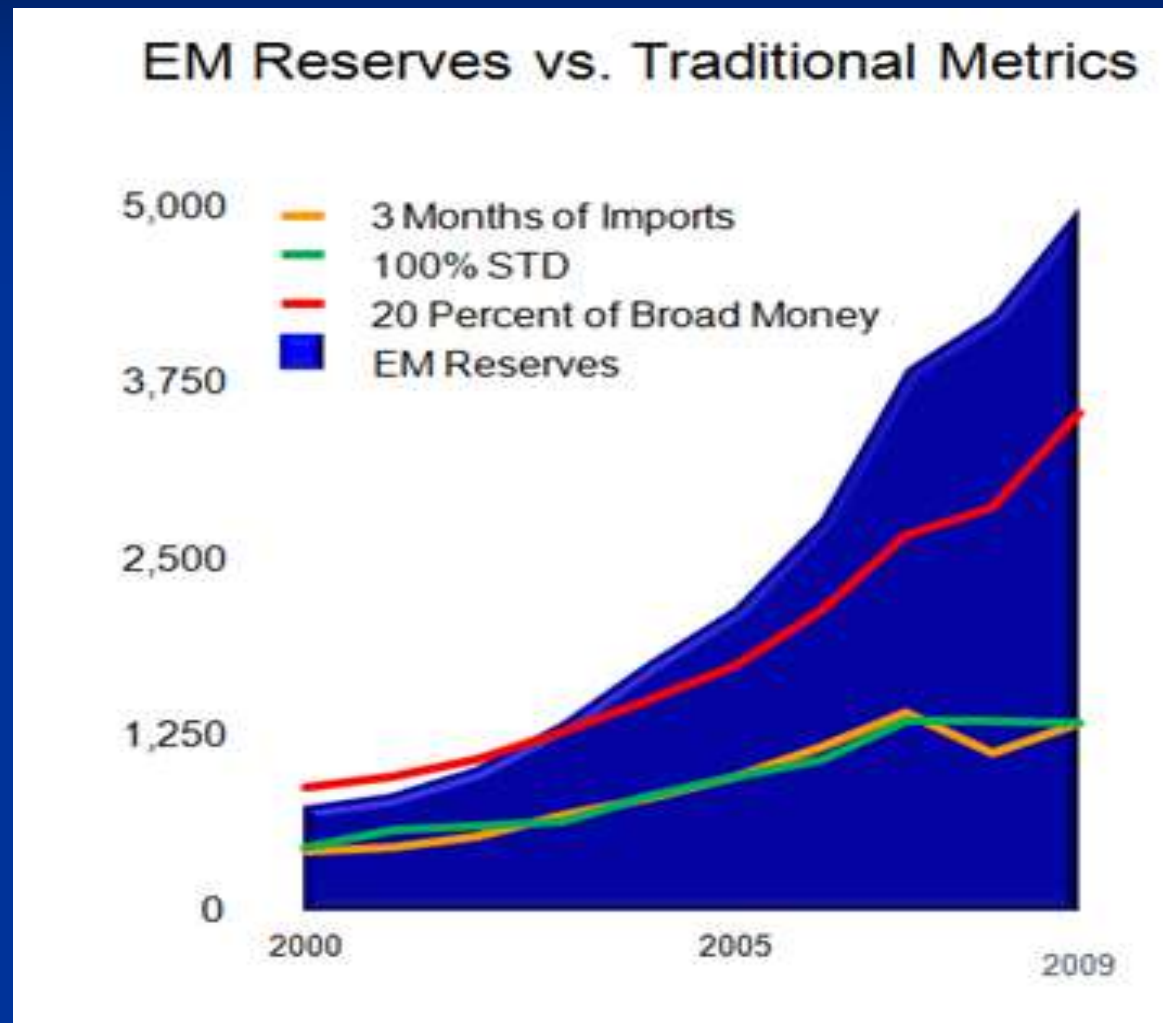
Volatile exchange rates and capital flows



Capital flows build up gradually, but subject to "sudden stops"



Leading to self-insurance through reserve accumulation by EMs



3. What has the IMF been doing to address challenges to the IMS?

- Cooperation with G-20
 - *Mutual Assessment Program (MAP)*
- Spillover reports
 - *China, Euro area, Japan, UK, US*
- Strengthening the global financial safety net
- Review of Fund surveillance practices, leading to a new IMF “Integrated Surveillance Decision”

Cooperation with G-20

■ What is the G-20?

- *19 largest economies plus EU, representing 90% of global output, 80% of world trade, 2/3 of the Earth's population (See www.g20.org.)*

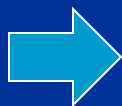
Argentina	France	Japan	South Africa
Australia	Germany	Mexico—current chair	Turkey
Brazil	<i>India</i>	Rep. of Korea	United Kingdom
Canada	Indonesia	Russia—incoming chair	United States
China	Italy	Saudi Arabia	European Union

■ Mutual Assessment Program (MAP)

- *IMF staff provide analytical input to G-20 officials, particularly through regular reports reviewing economies in a simultaneous, consistent manner.*
- *IMF reports: <http://www.imf.org/external/np/g20/map2012.htm>*

Los Cabos Action Plan:

[http://www.g20.org/images/stories/docs/g20/conclu/Los_Cabos Growth and Jobs Action Plan 2012.pdf](http://www.g20.org/images/stories/docs/g20/conclu/Los_Cabos_Growth_and_Jobs_Action_Plan_2012.pdf)



Experimental Spillover Reports

- **Cover 5 systemic economies**
 - *China, Euro area, Japan, US and UK*
- **Examines channels through which these economies affect each other and global economy.**
 - *Provide input for use in bilateral surveillance discussions with country authorities*
- **Most recent report** – focused on Euro area, concern about US fiscal policy, slowdown in China, and financial regulation reforms
 - *Available on line as of July 9, 2012 at:*
<http://www.imf.org/external/np/pp/eng/2012/070912.pdf>.



Strengthening the global financial safety net

- New IMF lending instruments to mitigate need for “self-insurance” by national authorities:
- Flexible Credit Line (FCL)
Used thus far by Poland, Mexico and Columbia
- Precautionary and Liquidity Line (PLL)
Helps crisis “by-standers”
- Standby Credit Facility (SCF)
Designed for low-income countries

- Coupled with greater lending capacity of the IMF

- *Members added \$430 billion over last year*

- <http://www.imf.org/external/np/exr/facts/pdf/fcl.pdf>,
- <http://www.imf.org/external/np/exr/facts/pdf/pll.pdf>,
- <http://www.imf.org/external/np/exr/facts/scf.htm>



Internal review of IMF surveillance

■ Regular practice every 3 years

- *Aims to help focus IMF resources on key issues*
- *Seeks input from outside experts, stakeholders*
 - *Interesting outside studies: Wolf, Stiglitz, Breugel team*

■ 2011 Triennial Surveillance Review (TSR)

See <http://www.imf.org/external/np/spr/triennial/>

Related: flexible, balanced approach to capital flow management: <http://www.imf.org/external/np/sec/pn/2012/pn1242.htm>

Key messages of the 2011 TSR

➔ *In its work, IMF needs to ensure:*

Better analysis of interconnections

- real, financial, fiscal

Sharper risk assessments

- early warning exercises (EWEs)

More effective financial sector surveillance

- FSAPs every 5 years for systemic countries

Broader assessment of external risks

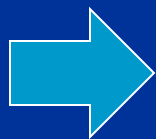
- not only exchange rates, but domestic policies

More traction with country authorities

- requires evenhandedness, and better coverage of poverty, unemployment and inequality

Financial sector surveillance has taken on new importance for everyone

- Financial sector assessments (FSAPs) need to be done at least every 5 years for systemic countries



See the IMF's new *Financial Surveillance Strategy*:
<http://www.imf.org/external/pp/longres.aspx?id=4697>

Central banks innovating:

- Includes the Reserve Bank of India—recent *Financial Stability Reports* include interesting network/interconnectedness analyses

■ See:

<http://www.rbi.org.in/scripts/FSReports.aspx>

Integrated Surveillance Decision

- This year's follow up to last year's TSR findings
 - Approved July 2012 by IMF Board*
 - Aims to better integrate bilateral and multi-lateral surveillance
 - Better links exchange rate and domestic financial and economic policies
- *Pilot External Sector Report*—aims to assess external positions of major countries in a consistent manner
 - See Managing Director Lagarde's statement on strengthening IMF surveillance: www.imf.org/external/np/sec/pr/2012/pr12262.htm

* See <http://www.imf.org/external/np/exr/facts/isd.htm>



Conclusions

- The International Monetary System (IMS) poses challenges to policy-makers
 - *Subject to worrying instability in recent decades*
- Multiple efforts undertaken to tackle problem
 - *G-20 MAP exercise*
 - *Spillover reports*
 - *Examination of IMF surveillance*
 - *Trying to be even-handed and think outside the box*
- The Fund needs feedback from smart observers such as this audience



Thank you



Want to know more?

The IMF's transparency policy ensures that most Board documents will be made public.

Material describing the IMF's work and its relationship with member countries is available on www.imf.org.

International Monetary Fund

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Home | About the IMF | What the IMF Does | Country Info | News | Data and Statistics | Publications

IMF Set to Lend Ukraine \$16.5 Billion, In Talks With Hungary

The IMF says it has reached a tentative agreement with Ukraine to lend the eastern European country \$16.5 billion to help it combat a series of economic problems tied to the international financial turmoil and announced broad agreement with Hungary on a set of policies designed to bolster near-term stability.

What's New

- The Use of Blanket Guarantees in Banking Crises**
October 28, 2008
Working Paper No. 08/250
- Kingdom of Swaziland: IMF Executive Board Concludes 2008 Article IV Consultation**
October 27, 2008
- IMF and Hungary Agree on Policies to be Supported by International Community**
October 26, 2008

IMF Data Mapper v2.0
Plot, compare, and import data from countries and regions

World Economic Outlook Data - October 2008

SDR Rates for October 28
1 USD = SDR 0.674721
SDR Interest Rate = 1.91%
More SDR Info

Key Issues

Highlights

- Statement by IMF Executive Board on Review of Managing Director's Conduct
- Strauss-Kahn Statement on Executive Board Review of his Conduct
- At a Glance: Crisis Lending and the IMF
- Regional Economic Outlooks
- World Economic Outlook, October 2008
- Global Financial Stability Report
Financial Stability Portal

Making Public Money Count

The latest post from our *Public Financial Management Blog* reviews the effectiveness of aid agencies (October 22, 2008)

World Economic Outlook Report
October 2008

Database | WEO data forum | Webcast | Transcript

Global Financial Stability Report