

## **An IMF for the 21<sup>st</sup> Century**

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*As Prepared for Delivery*

It is a special pleasure for me to be with you today. The Bretton Woods Committee has been a great friend of the Fund over the years—providing valuable inputs on how we can best serve the needs of our membership, and supporting our efforts. Today, as the global community slowly emerges from the worst financial disaster since the Great Depression, and as we work to shape the post-crisis world, it is timely that we meet to discuss the future role of the Fund.

Indeed, the world is at a turning point. The crisis has put at risk so much of what we have all worked for: less poverty; more prosperity for all; a better, safer world.

It is in that context that I would like to explore with you a renewed vision for the IMF. A vision that responds to the challenges our 186 member countries are facing in the post-crisis era. A vision that will enable the Fund to retool itself to be even more effective. And yet, a vision that remains firmly grounded in the core mandate given to the IMF by its founders. It's a new IMF, but still the IMF.

Throughout its history, as this audience knows perhaps better than anyone else, the Fund has adapted in response to the evolving needs of our members. But there has been an important continuity in our overarching aim: to promote economic stability and collaboration, with the ultimate goal of supporting peace and prosperity. This objective remains as current today as it was at the IMF's creation in 1944. That was the genius of Keynes, White and the other original visionaries.

During the crisis, the Fund proved its worth to the world. You know the story:

Responding to the deteriorating situation, we made the case for coordinated policy stimulus and put forward our concerns about the health of major banks. We supported the global policy response, led by the G-20, with our monitoring and analysis. We rapidly reformed our lending instruments and boosted our resources, making available a record amount of Fund support. In other ways too, our approach has evolved, while staying true to our purposes—our messages on tough policy issues, for instance, have become more nuanced, more tailored to the circumstances, as in staff's recent thinking on capital controls.

Now, we must build on this positive momentum: to transform the Fund into an institution even better equipped to meet the challenges of the post-crisis era.

Clarifying and updating our mandate is a critical part of this process. As underscored by our members, our mandate must cover the full range of macroeconomic and financial sector policies that bear on global stability in the modern world. And that, in many ways, is the bottom line: to strengthen the Fund's role as the guardian of systemic stability.

Let me be clear: today I do not intend to get into the technical and legal details of the IMF's more formal "mandate"—as set out in the Articles of Agreement. Rather, from a very practical standpoint, I would like to set out what the key elements of a shared vision for the Fund might include. This will help set expectations about the Fund's responsibilities, how to discharge them, and the means for holding us—the collective membership—accountable for delivering that vision.

I see three priorities.

- First, a central lesson of the crisis has been that surveillance for crisis prevention needs to be much more rigorous—with greater coverage of the financial sector and regulatory issues, and better appreciation of systemic risks.
- Second, if the Fund is to serve as a reliable provider of crisis financing, our lending for crisis response must be of a speed, coverage and size far beyond previous assumptions.
- And finally, we must do more to strengthen the long-term stability of the international monetary system—in particular by bolstering the stability of reserves.

Let me elaborate on each of these points.

## **1. Crisis prevention**

First, crisis prevention. We need to improve our oversight of systemic and financial risks.

In principle, the Fund's surveillance covers both economic policies in individual member countries, and developments relating to the global economy as a whole. But in practice, the bulk of our efforts have been at the country level. One result of this has been that we have not paid enough attention to the linkages and spillovers between economies—including those that transmit through the arteries of the global financial system.

For this reason, there may be a need for a clearer mandate to pursue risks to global economic and—I stress—*financial* stability. In particular, we are floating the idea of a new multilateral surveillance procedure. This would allow—indeed require—the Fund to assess the broader and systemic effects of country-level policies, and the associated risks, in a fundamentally different way. We need to take up these issues of systemic importance frankly, regularly, and even-handedly.

I believe the world is ready for a shift to this more "systemic" vision of IMF surveillance. A clear indication is the G-20's launch of the Mutual Assessment Process. The so-called MAP aims to reduce risks to the system by making the world's largest economies accountable—to each other—for ensuring the global consistency of their economic policies.

Of course, there is a much broader range of international policy challenges than those currently being considered by the MAP. And an enhanced multilateral approach, with increased accountability between countries, is essential for finding lasting solutions. I see a role for the IMF to help address these kinds of multilateral problems.

At the same time, we should enrich the systemic content of our bilateral or country-level surveillance. One way to do this would be to introduce thematic country reports, with staff undertaking joint policy discussions with several countries facing common issues. This type of analysis would improve our comparison across countries, our analysis of regional spillovers, and indeed the interest and traction of our surveillance in member countries.

What about financial risk?

We need to do a much better job of tracing how risk percolates through the system. Here, it will be essential to improve our ability to monitor the several dozen large complex financial institutions that make up the basic “plumbing” through which global capital flows. The task here would not be to monitor the risks to the solvency of individual institutions—that is the job of national regulators. Rather, the task is to get a handle on the nexus of common exposures, cross-exposures, and shifting patterns of maturity and locational concentration in assets and liabilities.

In short, we need to be able to construct a global risk map. We are already working with our partner, the Financial Stability Board, to find ways to improve the availability and monitoring of financial sector data. And this work will be critical in helping to better assess financial risks.

One other area where we should devote more attention is capital flows. Given the Fund's role in stepping in when capital flows suddenly stop or reverse, our surveillance of these flows must be more effective. This includes being more forthright in our policy advice on capital account liberalization.

For many years now, the Fund has advised that liberalization should be pursued cautiously—at the right time and in the right sequence. During the most recent financial crisis, we have maintained a pragmatic position. But we certainly can do more to provide guidance as to what conditions should be in place before capital liberalization is launched, and when capital controls might be an appropriate policy response to balance of payments or macroeconomic pressures. Again, you may have noted our recent contribution to the thinking on these issues.

One last point on crisis prevention. Doing an effective job requires not only that we at the Fund improve our oversight of risks, but also that our member countries strengthen their own capacity. For this reason, we intend to work closely with them to promote the development of relevant institutions, providing high-quality technical assistance where this may be helpful.

## **2. Crisis response**

Let me turn now to the second priority in sharpening our mandate—our crisis response tools.

One important fact about the crisis is that for key emerging market economies, the Fund was not, in fact, the “first responder.” Rather, some of these countries turned to the Fed, and other central banks, that provided the swap lines that were able to extinguish incipient fires. The action of these central banks—the Fed and others—was without doubt a positive move of enormous importance.

But what assurances do we have that they would be willing and able to provide such liquidity support in the future? We should not take this support for granted.

For this reason, it is critical that a multilateral institution be ready to answer the call. In this context, we are currently exploring various options—including for short-term, multi-country credit lines that the Fund might extend in a systemic crisis.

This would build on the significant revamping of our lending instruments that has already taken place over the last two years. We introduced a new insurance-type facility, the Flexible Credit Line (FCL) which provides financing to members who pre-qualify—with no further conditionality. Across all our financing, in fact, we have streamlined conditionality, so that it focuses better on what is essential for a particular country to regain macroeconomic stability.

How might we build on these innovations to tackle remaining issues? I see two avenues.

- First, the FCL could be made more attractive by increasing the flexibility of access and duration.

- Second, we might look at ways to collaborate with regional reserve pools. We certainly do not see such funds as “competitors.” Indeed, they can be a positive and stabilizing force in international financing—as exemplified by recent European Union lending in parallel with Fund programs. At its most ambitious, such collaboration could even include Fund resources serving as a backstop to regional pools.

And what about the vitally important issue of support for low-income countries? Here, we have come a long way over the past year or so:

- We revamped our lending framework for these poor countries—introducing new financing instruments and streamlining conditionality.
- A major boost in our concessional lending resources will allow us to triple our lending in low-income countries over the next year or two.
- And to ease the financial burden, we are waiving all interest due on our lending to low-income countries until 2012.

But again, I believe we could do even more. For example, we should consider whether to expand our role as a provider of insurance for low-income countries against global volatility and other shocks—including from the effects of climate change. Another challenge is how best to support countries facing fragilities and security issues.

We should look at innovative solutions to scale up financial support when windows of opportunity arise. For instance, creating a pool of highly concessional money—grants, ideally—that is readily available to top up or co-finance the IMF’s emergency lending.

I mentioned climate change. At first sight, this may seem not to fall within the IMF’s core “mandate.” But I see assisting our members to deal with the serious macroeconomic and financing consequences of climate change as very much part of our responsibility to support long-term global stability. And I believe we must work with others—including our colleagues here at the World Bank, of course—to craft creative solutions to what is perhaps the most critical issue facing the planet in the 21<sup>st</sup> century.

And so, you might ask, if the IMF is updating its crisis response in this way, does it have the necessary resources?

Over the past year, our resources were boosted to over \$850 billion—which should be sufficient to meet demand in the coming period. That said, we owe it to our membership to undertake a careful analysis of their potential financing needs over the medium term. We need to ensure that our resource base will be adequate to tackle future crises.

### **International monetary system**

Let me now turn briefly to the third area of our mandate review—namely the stability of the international monetary system.

In my view, the current system—despite episodic problems—demonstrated resilience during the crisis. And the U.S. dollar has played its role as a safe haven asset.

The challenge ahead is to find ways to limit the tension arising from the high demand for precautionary reserves on the one hand, and the narrow supply of reserves on the other.

The Fund certainly has a role to play in helping to meet that demand, through the provision of liquidity. As I have mentioned, further refinements of the FCL could play an important role here. In addition, as I have also

mentioned, we will support multilateral efforts to increase the global consistency of economic policies—and to reduce global imbalances. This should help ease the growth-related build-up of reserves.

A longer-term question is whether a new global reserve asset is needed.

Certainly, having several suppliers of reserve assets would limit the extent to which the international monetary system as a whole depends on the policies and conditions of a single, albeit dominant, country.

And one day, the Fund might even be called upon to provide a globally issued reserve asset, similar to—but in important respects different from—the SDR. That day has not yet come. But I think it is intellectually healthy to explore these kinds of ideas now—with a view to what the global system might need at some time in the future.

## **Governance**

As we address the three priority areas that I have emphasized—crisis prevention, crisis response, and strengthening of the international monetary system—we must also address one more important issue: governance reform.

Clearly, a renewed mandate for the IMF will have little legitimacy unless we tackle long-standing grievances with our governance. Our crisis prevention efforts could be hampered by concerns about even-handedness. Our crisis response efforts could lack credibility. And our commitment to address longer-term issues affecting international monetary stability may be questioned.

The good news is that the G-20 has already provided firm political backing to our governance reform efforts—agreeing an important quota shift at the Annual Meetings in Istanbul. The bad news is that translating reform commitments into reality is not always easy. For example, the 2008 quota and voice reform is still not effective. While it received overwhelming approval from nearly all of our Governors back in April 2008, so far as only 64 of our member countries representing about 70 percent of the required 85 percent voting power—have passed the necessary legislation to make the reform effective.

To achieve lasting governance reform, the Fund needs the active support of its entire membership. We also need to go beyond the issue of quota and voice to include other important elements such as the diversity of staff and management of the Fund—an area where I have sought to make progress but where I fully recognize, we can and must do more.

## **Conclusion: The World Needs More Multilateralism, Not Less**

Let me conclude by stressing that the debate over the Fund's mandate is not about "expanding" it in new directions. Rather, what we seek is a new focus and capacity to deal with *systemic* risks. A renewed and re-energized mandate can set the foundations—and the expectations—for the Fund to adapt to the changing needs of its members in the post-crisis era.

If this crisis taught us anything, it is that the world needs multilateralism even more today than it did when the Bretton Woods institutions were founded in 1944. We saw this during the crisis—when countries came together to act. In fact, I believe that when historians look back, it is this level of unprecedented international collaboration that will stand out.

And as we look forward, we will need more of this kind of collaboration, not less. More multilateralism, not less. More IMF, not less.

Make no mistake: the original mandate of the IMF has been validated. Now we need to clarify and strengthen it even more:

- to meet the global challenges ahead;
- to serve our membership even more effectively;
- to build a Fund for the 21<sup>st</sup> century.

Thank you.