



Global Governance, Global Imbalances: an IMF Perspective

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Bert van Selm

Strategy, Policy and Review Department
International Monetary Fund

Roadmap

- The financial and economic crisis of 2008-09
- The IMF's response to the crisis
- The post-crisis world
 - Macroeconomic policies during the recovery
 - (further) IMF reform
 - IMF and G-20 governance
 - Reform of the International Monetary System

Once-in-a-lifetime Event?

- This crisis:
 - started in the advanced economies
 - was synchronized
 - was deep
 - was global

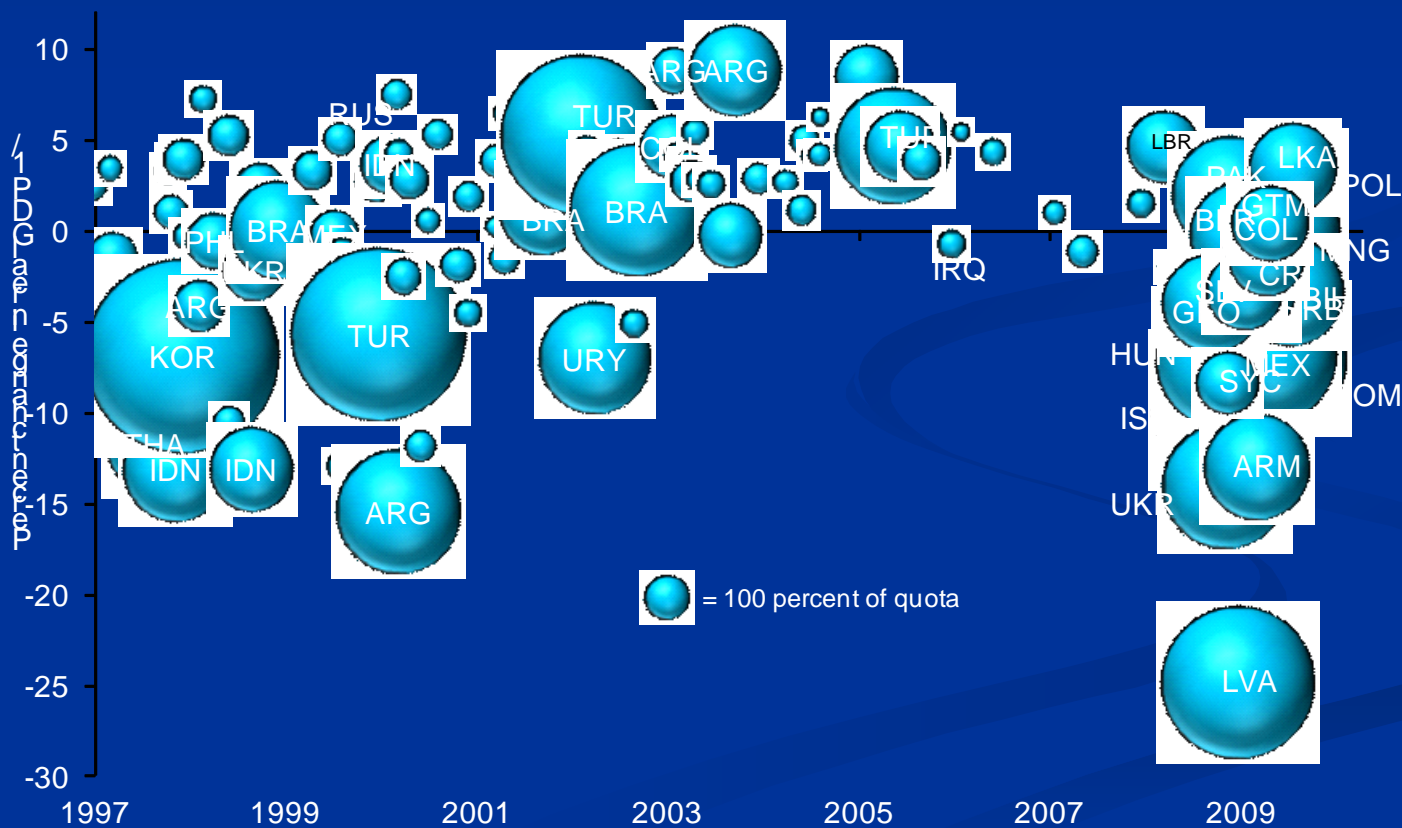
IMF Response

- Financial and Liquidity Support
 - Reform of IMF lending
 - Boosting the resource base
- Surveillance and Policy Dialogue
 - Making IMF surveillance more effective

IMF lending: Unprecedented Demand

- Committed about \$170 billion (including insurance through precautionary credit lines)

Access levels and growth declines in Fund arrangements



Sources: WEO and staff calculations.

1/ Maximum cumulative decline in three years from program inception; projected changes for current programs.

Financing Instruments Reformed

For all countries:

- Lending modalities streamlined
 - Conditionality focused on protecting the vulnerable
- New crisis prevention instruments:
 - Contingent financing: the Flexible Credit Line
- Providing significant unconditional resources by allocating over US\$280 billion in Special Drawing Rights (SDRs)

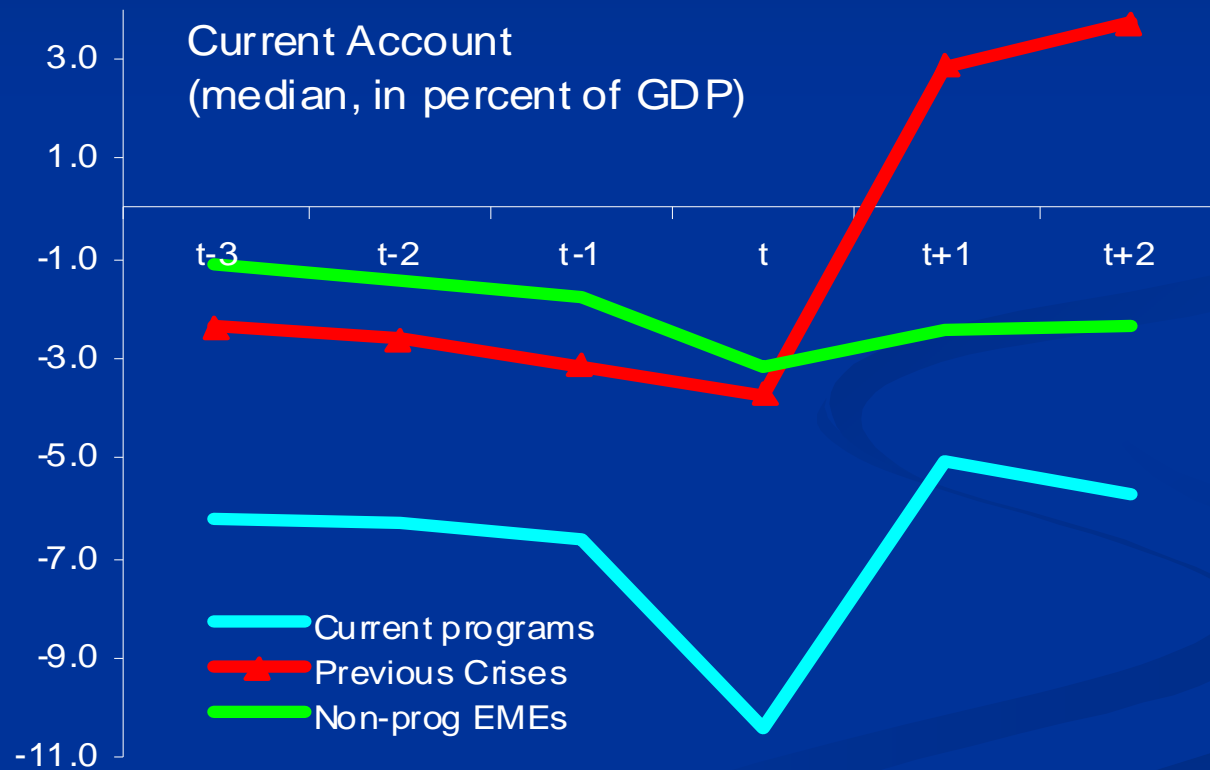
■ For low-income countries:

- Lending to LICs rose to US\$4 billion in 2009 (historical average US\$1 billion)
- Zero interest rate until 2012

Backed up by larger resource base

- Lending capacity boosted after April 2009 G-20 Summit
 - Tripled to US\$750 billion
 - Support from advanced economies, and BRICs and other emerging markets
- Resources for concessional lending increased
 - Partly funded by sales of IMF gold

Result: Less Extreme External Adjustment In Recent Fund Programs



Making IMF Surveillance More Effective

Building on what the IMF does

- Regular bilateral dialogue with member countries
- Long-standing focus on multilateral assessments
 - Publications: World and Regional Economic Outlooks, Global Financial Stability Report
- Vulnerability assessments
 - Emerging market vulnerability assessed regularly
 - Debt sustainability analysis part of standard toolkit

Lessons

Clearer Surveillance Priorities

- Focus on early warnings, including for advanced economies:
 - Emphasis on spillovers and multilateral implications
 - Early Warning Exercise (jointly with Financial Stability Board)
- Sharper financial sector analysis
- Continued attention to global imbalances

Policies in the Recovery

- 4 percent global growth projected for 2010
- In most advanced economies, recovery remains dependent on policy support
 - Withdrawing support too soon risks derailing recovery
- Government debt to rise due to the crisis
- Balancing risks: restoring fiscal sustainability without jeopardizing the recovery

Reducing Global Imbalances

- Reduction in 2009:
 - oil price decline
 - asset price busts leading to lower domestic demand in many countries
- 2010: G-20 Mutual Assessment Process
- On country level:
 - Domestic saving must increase in countries with persistent current account deficits (including US)
 - Domestic demand must increase in countries with persistent current account surpluses (including China and Germany)

The IMF After the Crisis

- The IMF's Mandate: a more systemic perspective, to promote global financial stability
 - Surveillance: multilateral policy dialogue
 - Lending: A multi-country credit line?
 - International Monetary System
- Governance Reform
 - Quota review and other reforms

IMF governance reform

- G-20 Pittsburgh: a shift of at least 5 percent of quota share to dynamic emerging markets and developing countries from over-to under-represented countries.
- Other IMF governance reforms:
 - management selection
 - staff diversity
 - reform of the IMFC (more interactive)
 - all-elected Executive Board (to facilitate effective constituency formation).

Global Governance Reform: the G-20

- G-20 strengths:
 - Very effective leadership during the crisis
 - Heads of state meetings (Washington 2008, London 2009, Pittsburgh 2009, Toronto and Seoul 2010) allow for decisive action and commitment
- G-20 weaknesses:
 - Poor representation of low-income countries
 - Ad hoc group, not treaty-based
- Of the 19 members (the EU is the 20th), 16 are currently IMFC members
 - Joint sessions?
 - Merger?

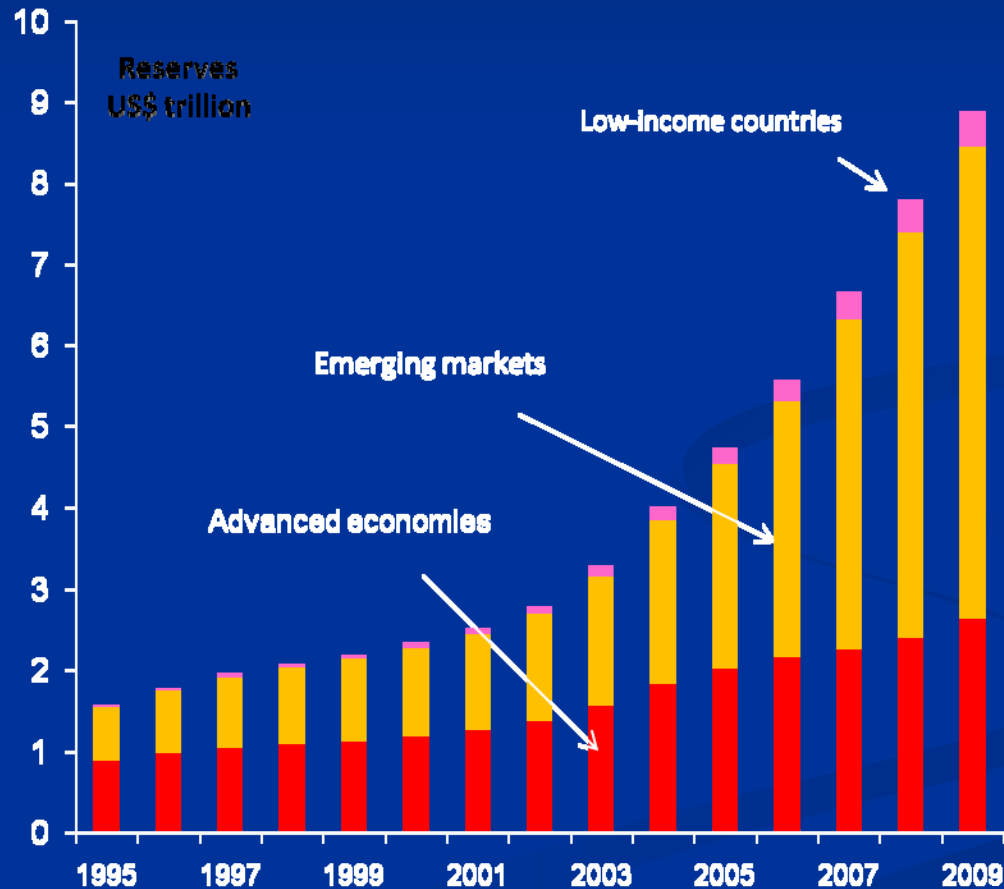
The International Monetary System

- 'rules of the game' relating to the balance of payments: exchange rate regimes, capital mobility
- Strength: resilient in crisis
- Challenge: limit the tension arising from high demand for reserves, and narrow supply

Flaws in the System

- Uncertainty about international liquidity in times of crisis
- Uneven capital account liberalization
- Absence of automatic adjustment of current account imbalances
- Preeminence of one national currency as global anchor for asset and price stability

Result: Reserve Accumulation



Improving the System

- Providing alternatives to self-insurance (including the FCL)
- Tackling sources of volatility through systemic surveillance of global capital flows (speed bumps?)
- Reducing imbalances via peer pressure
- Promoting the use of new reserve currencies (including the SDR)

Questions?

