How the IMF Promotes Global Economic Stability

The IMF advises member countries on economic and financial policies that promote stability, reduce vulnerability to crises, and encourage sustained growth and high living standards. It also monitors global economic trends and developments that affect the health of the international monetary and financial system and promotes dialogue among member countries on the regional and global consequences of their policies. In addition to these surveillance activities, the IMF provides technical assistance to help strengthen members’ institutional capacity and makes resources available to them to facilitate adjustment in the event of a balance of payments crisis.

Why is global economic stability important?

Promoting economic stability is partly a matter of avoiding economic and financial crises, large swings in economic activity, high inflation, and excessive volatility in foreign exchange and financial markets. Instability can increase uncertainty, discourage investment, impede economic growth, and hurt living standards. A dynamic market economy necessarily involves some degree of volatility, as well as gradual structural change. The challenge for policymakers is to minimize instability in their own country and abroad without reducing the economy’s ability to improve living standards through rising productivity, employment, and sustainable growth.

Economic and financial stability is both a national and a multilateral concern. As recent financial crises have shown, economies have become more interconnected. Vulnerabilities can spread more easily across sectors and national borders.

How does the IMF help?

The IMF helps countries implement sound and appropriate policies through its key functions of surveillance, technical assistance, and lending.

**Surveillance**: Every country that joins the IMF accepts the obligation to subject its economic and financial policies to the scrutiny of the international community. The IMF’s mandate is to oversee the international monetary system and monitor economic and financial developments in and the policies of its 189 member countries. This process, known as surveillance, takes place at the global level and in individual countries and regions. The IMF assesses whether domestic policies promote countries’ own stability by examining risks they might pose to domestic and balance of payments stability and advises on needed policy adjustments. It also proposes alternatives when countries’ policies promote domestic stability but could adversely affect global stability.

**A- Consulting with member states**

The IMF monitors members’ economies through regular—usually annual—consultations with each member country. During these consultations, IMF staff discusses economic and financial developments and policies with national policymakers, and often with representatives of the private sector, labor and trade unions, academia, and civil society. Staff assesses risks and vulnerabilities, and considers the impact of fiscal, monetary, financial, and exchange rate policies on the member’s domestic and balance of payments.
stability and assesses implications for global stability. The IMF offers advice on policies to promote each country’s macroeconomic, financial, and balance of payments stability, drawing on experience from across its membership.

The framework for these consultations is set forth in the IMF Articles of Agreement and, more recently, in the Integrated Surveillance Decision. The consultations are also informed by membership-wide initiatives, including

- work to systematically assess countries' vulnerabilities to crises;
- the Financial Sector Assessment Program, which assesses countries' financial sectors and helps formulate policy responses to risks and vulnerabilities; and
- the Standards and Codes Initiative in which the IMF, along with the World Bank and other bodies, assesses countries' observance of internationally recognized standards and codes of good practice in a dozen policy areas.

B- Overseeing the bigger picture

The IMF also closely monitors global and regional trends. The IMF’s periodic reports, the World Economic Outlook, its regional overviews, the Fiscal Monitor, and the Global Financial Stability Report, analyze global and regional macroeconomic and financial developments. The IMF’s broad membership makes it uniquely well suited to facilitate multilateral discussions on issues of common concern to groups of member countries, and to advance a shared understanding of policies needed to promote stability. In this context, the Fund has been working with the Group of 20 advanced and emerging economies to assess the consistency of those countries’ policy frameworks with balanced and sustained growth for the global economy.

The Fund has reviewed its surveillance mandate in light of the global crisis. It has introduced a number of reforms to improve financial sector surveillance within member countries and across borders, to enhance understanding of interlinkages between macroeconomic and financial developments (e.g. through a Spillover Report), and promote debate on these matters.

Data: In response to the financial crisis, the IMF is working with members, the Financial Stability Board, and other organizations to fill data gaps important for global stability.

Technical assistance: The IMF helps countries strengthen their capacity to design and implement sound economic policies. It provides advice and training in areas of core expertise—including fiscal, monetary, and exchange rate policies; the regulation and supervision of financial systems; statistics; and legal frameworks.

Lending: Even the best economic policies cannot completely eradicate instability or avert crises. If a member country faces a balance of payment crisis, the IMF can provide financial assistance to support policy programs that will correct underlying macroeconomic problems, limit disruption to both the domestic and the global economy, and help restore confidence, stability, and growth. The IMF also offers precautionary credit lines for countries with sound economic fundamentals for crisis prevention.