INTERNATIONAL MONETARY FUND

Statement by the Managing Director to the IMFC on the IMF's Post-Crisis Role

September 30, 2009

This issues note is intended as background for discussions at the upcoming IMFC meeting.

Progress since April. The world and the Fund have come a long way since our last meeting. The exceptional policies implemented in the largest economies have pulled the global economy from the abyss, and the Fund has spared no effort to help the membership weather the storm. We have facilitated global policy coordination with cross-country assessments on short and medium-term policy challenges, deployed financial resources in unprecedented amounts to support a broad array of countries (so far avoiding the problems that dogged many earlier crisis programs), and injected liquidity into the global economy with a $283 billion allocation of SDRs. With the generous support pledged by many members, we have multiplied our potential resources and concessional lending capacity, removing earlier doubts about the Fund's ability to meet financing needs. All this is welcome, but still uncertainties remain over the outlook and it would be premature to declare victory.

Challenges ahead. The global economy faces many challenges on the path to recovery. Foremost among these are the thorny issues of timing and coordination of exit from exceptional policy support, risks of anemic global demand in the years ahead if the policy choices of major economies are not mutually supportive, and the still unfinished work of repairing a global architecture that allowed the crisis to break out.

Global financial stability. Two things have been made abundantly clear by the crisis. First, that the global financial system, for all its sophistication, is fragile and unstable. Second, that financial instability in one country can echo around the world, halting economic growth, wreaking havoc in national financial systems, and destabilizing the currencies of members far removed from the initial shock. While macro-financial stability has been receiving increasing emphasis in our work, the emphasis of the IMF's formal surveillance mandate on promoting a stable system of exchange rates clearly is too narrow a reflection of what the Fund actually does and the new directions in which it is striving to move. I therefore see merit in working to articulate a common vision of the Fund's role in the post-crisis global architecture, one that makes explicit that macro-financial stability is an integral part of the Fund's mandate.

Surveillance in the post-crisis world. We have taken important steps to strengthen our surveillance, including developing an Early Warning Exercise in collaboration with the FSB, and modernizing the financial sector assessment program to facilitate closer integration with our regular surveillance. We have just updated our Surveillance Priorities, which have been circulated to you, to help focus our work. Beyond this, I believe the Fund can do more to assess the consistency of member policies and the overall implications for the stability and health of the system, and to provide advice that directly supports policy action and coordination. We should also discuss how the Fund's process of peer review might obtain greater traction, including by leveraging our ability to offer cross-country perspectives, new forms of engagement, and faster consideration and publication of Article IV reports.

Insurance against shocks. The crisis has highlighted the need for very large liquidity buffers in dealing with fast and hard-hitting capital market shocks. However, it is costly, both globally and nationally, for each country to build huge buffers. The Fund must ensure that it offers credible alternatives. Our lending policies have already progressed significantly in this direction, notably with the Flexible Credit Line and High Access Precautionary Arrangements. We should consider whether and how we can offer more, building on these new approaches to contingent financing. Of course, our traditional programs will retain a critical role whenever significant adjustment is needed. To be credible, this effort must be backed up by adequate resources. The resources made available and pledged to us by many members have been extremely helpful in stabilizing markets at the peak of the crisis. But they are temporary or contingent—indeed we have yet to reach closure on expanding the New Arrangements to Borrow (NAB). And while these resources have proved sufficient so far in this crisis, they may not be enough to reassure members and markets that this would necessarily be the case in future, thereby providing a credible alternative to national oversized buffers. We should thus have an open-minded discussion of the right size of the Fund's resource base and its composition.

Engagement with low-income countries. The global financial crisis has hit hard our low-income country members, in spite of their limited integration with the global financial system. This highlights the importance for the Fund to remain engaged at their side, providing policy and technical advice and, where needed, financing to help these countries face the consequences of global instability. Our new concessional lending instruments and more than doubled concessional lending capacity will allow us to do precisely that, with due regard for debt sustainability. Timely additional support in loan and subsidy resources from members is crucial to ensure full funding of these efforts.

Governance. The Fund cannot succeed in the efforts outlined above unless all its members regard it as *their* institution, furthering *their* common interest and *their* strategic goals. This requires in particular rebalancing the representation of members—an issue that goes beyond quotas—and strengthening the channels by which the Fund's Governors give strategic direction to the institution, and hold it accountable for following them. Work is underway in these areas, and we must all hope it comes to fruition soon, or the Fund's relevance will soon be questioned again.