



# International Monetary System: Strengthening Key Fault Lines

*Emil Stavrev*  
*IMF Research Department*

*ICRIER's G-20 Conference*  
*New Delhi, October 7-9*

# Overview

## What is the IMS?

- A brief description

## Issues with the current IMS

- Symptoms of instability
- Root causes of instability

## Avenues for reform

- Strengthen policy collaboration
- Monitoring and management of global capital flows
- Creation of global safety nets

## Conclusions

- Current IMS underpinned strong growth but prone to instability
- Several efforts are underway to address the problems

# What is the IMS?

## The International Monetary System (IMS)

- This is the rules and institutions guiding the international payments and foreign exchange systems

## There have been various systems historically

- Several forms of the gold standard
- Bretton Woods arrangements (after World War II)
- Current floating and fixed but adjustable rates (since 1971 when the gold standard was abandoned)

## Key feature of the current IMS

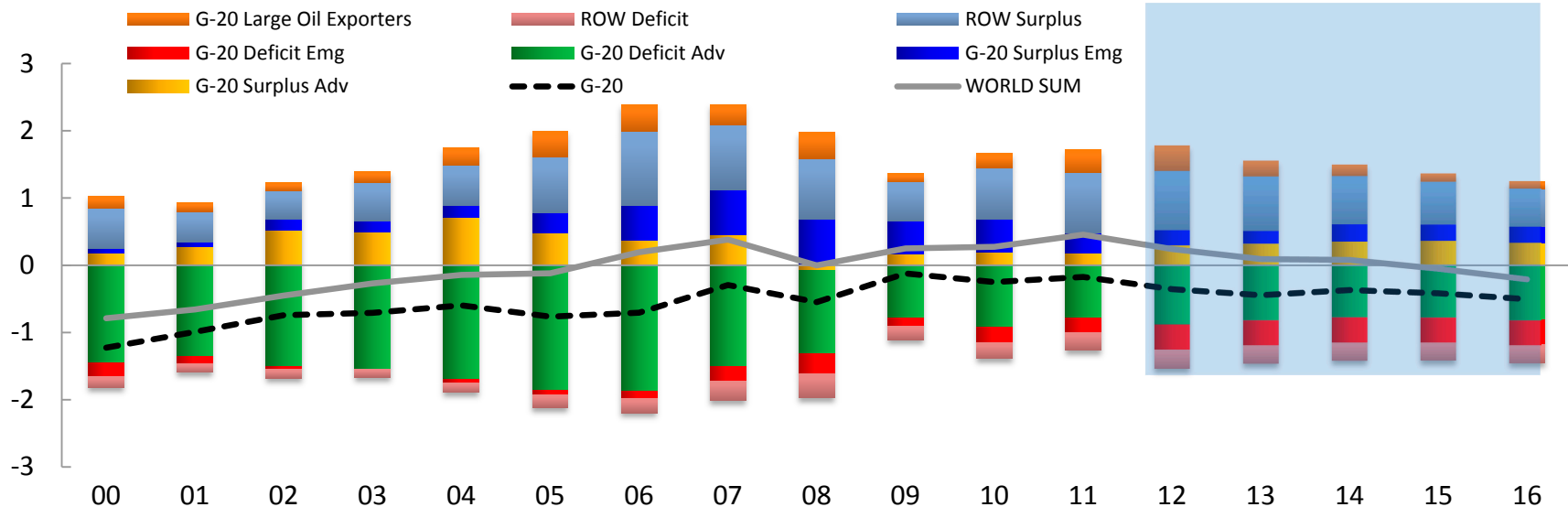
- It needs a liquid international asset of stable value (i.e., a reserve asset, which since the demise of gold standard, has been the U.S. dollar)

# Symptoms of Instability (1)

Crisis a recurrent event in the post-Bretton Woods period

Persistent current account imbalances

**Current Account Balance 1/**  
(percent of world GDP)

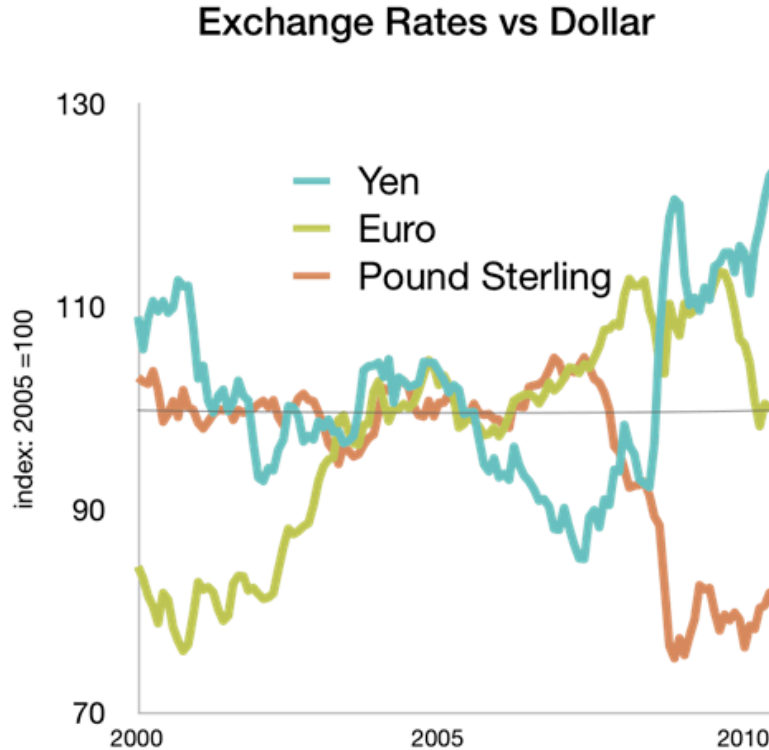


Sources: G-20 authorities and IMF staff estimates.

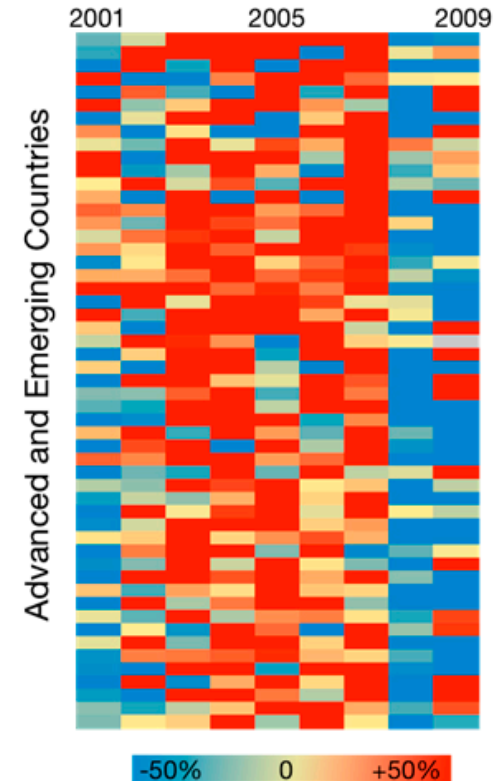
1/ 2000-2010 reflects WEO data; 2011-2016 reflects MAP estimates and projections for G-20 countries and WEO projections for ROW.

# Symptoms of Instability (2)

## Volatile capital flows and currencies

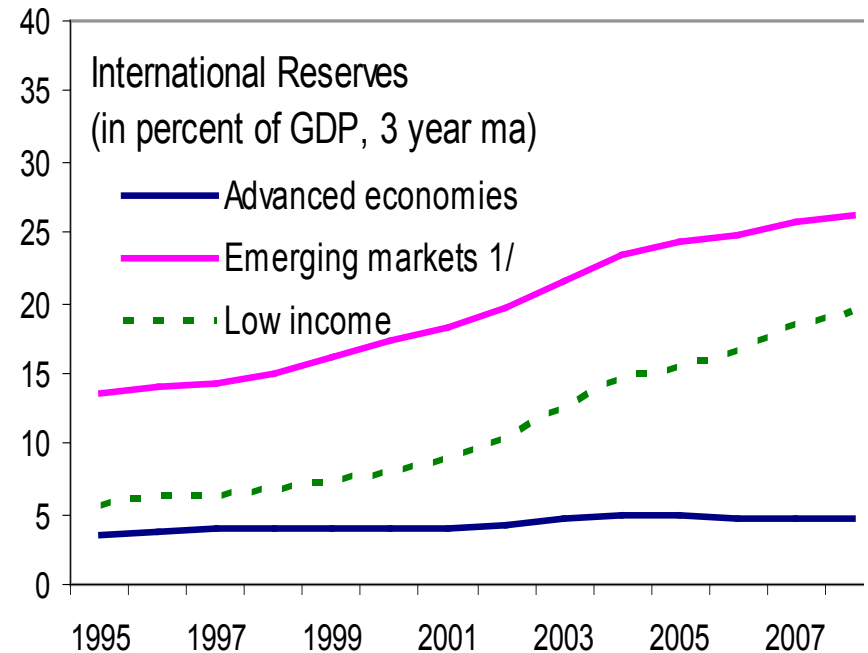
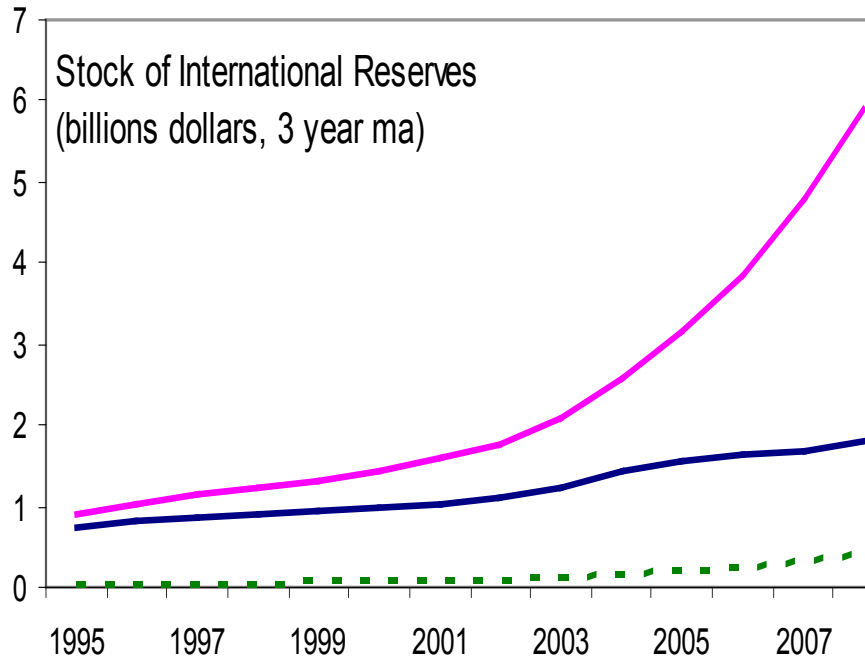


Annual Change in Gross Capital Flows



# Symptoms of Instability (3)

## Sizable build-up of international reserves in key emerging economies



# Root Causes of Instability (1)

## Inadequate global adjustment mechanisms

- No mechanisms for burden sharing across countries
- The system is prone to inconsistencies and externalities

## No global oversight framework for cross-border capital flows

- Complex interdependencies due to higher volume of cross-border capital flows
- However, universal framework that addresses cross-border capital flows is lacking

# Root Causes of Instability (2)

## No systemic liquidity provision mechanism

- Inadequate size of collective safety net
- Lack of mechanism to provide liquidity at the global level

## Structural challenges

- Concerns about a dominant national currency based reserve currency system
  - ✓ Exorbitant privilege to reserve currency issuer
  - ✓ The world's dependence on center's policies
  - ✓ Asymmetric adjustment to imbalances
- Need to accommodate the changing core
- Need to generate the necessary supply of safe assets



# Avenues for Reform

## Strengthen policy collaboration

- G-20 MAP
- Spillover reports
- Review of the IMF surveillance policies and Integrated Surveillance Decision

## Monitoring and management of global capital flows

- IMF work on dealing with large inflows recently considered by the Board
- Further work will need to focus on macroprudential and capital flow management measures

## Creation of global safety net

# Conclusions

**Current IMS underpinned strong growth and increasing integration but has shown symptoms of instability**

**Several efforts are underway to address the problem**

- Stronger policies in the core and periphery (G-20 MAP)
- Strengthening IMF surveillance
- Strengthening global safety nets

**Important to ensure orderly and gradual transmission to stronger system**