IMS has many merits

• Underpinned decades of growth in output and trade, global financial system

• Showed resilience through crisis

• Allows pursuit of domestic policy agenda

• Discretion in choosing exchange regimes and reserves policies

But…
Various problems with the IMS

Global GDP, in trillions of dollars (WEO forecast through 2015)

- Foreign exchange transactions
- Share of banknotes held overseas
- International Reserves
- Cross-border bank deposits
- Cross-border bank loans
- Debt securities 2/

Advanced Economy MSCI Assets

- AM Assets
- EM Assets

1/ Share from 200 (each transaction involves two currencies).
2/ Foreign currency debt sold outside the issuer’s home country.
What is to be done?

- EWE, Spillover Reports, WEO/GFSR Synthesis
- Interconnectedness Map
- New Lending Instruments
- IMF Resources
- Reserve Adequacy
- G20 MAP
- Multilateral Framework for Capital Flows
- Exchange Rates
- Limits of Existing Candidates
- Benefits of Greater SDR Use
Conclusions

• Bar for reform is high

• Significant reforms already accomplished or underway

• More ambitious steps are desirable to smooth transition to new steady state: capital flows framework, SDR

• Extensive consensus-building efforts required
Spillover reports bridge a gap: examine outward spillovers from policies, discuss with relevant policymakers.
Bringing out potential of WEO/GFSR

World Economic and Financial Surveys

World Economic Outlook

Rebalancing Growth

Global Financial Stability Report

Meeting New Challenges to Stability and Building a Safer System

INTERNATIONAL MONETARY FUND

INTERNATIONAL MONETARY FUND

APR 10

APR 10
Core lending reforms

- Technical cooperation
- Surveillance
- Co-financing
- Precautionary tools

- RFA: Regional Financing Arrangement
- FCL: Flexible Credit Line
- GSM: Global Stabilization Mechanism
- PCL: Precautionary Credit Line

- Unilateral offer of FCLs to qualified systemic countries to deal w/first mover problem
- Short-term Liquidity Line (SSL) to qualified countries on request

- Precautionary on request
- Qualification bar below FCL
- Light ex-post conditionality
- Capped access
- Short duration of purchases
Concerns:

- Fragmented govt. securities market
- Stability concerns
- Protracted economic slowdown
- Non-convertibility
- Financial sector
- Regional currencies?
- EM reserve-type asset?

Exorbitant burden?
Reserve Supply: Enhanced SDR Role

Benefits
- Relieves pressure on other reserve currencies, risks of debasement
- Reduced precautionary reserve accumulation (efficiency gains, lower global imbalances)
- Strengthens global liquidity provision
- Diversified basket mitigates exchange rate volatility
- Potential focal point for network externalities

Challenges
- Legal, political constraints
- Low yield, liquidity
- Little natural demand/supply
- Not real money
- No market infrastructure
- Expanding the basket—tradeoffs