

Can the International Monetary System be Reformed?



International Cooperation in Times of Global Crisis: Views from G20 Countries
New Delhi, India – September 2010

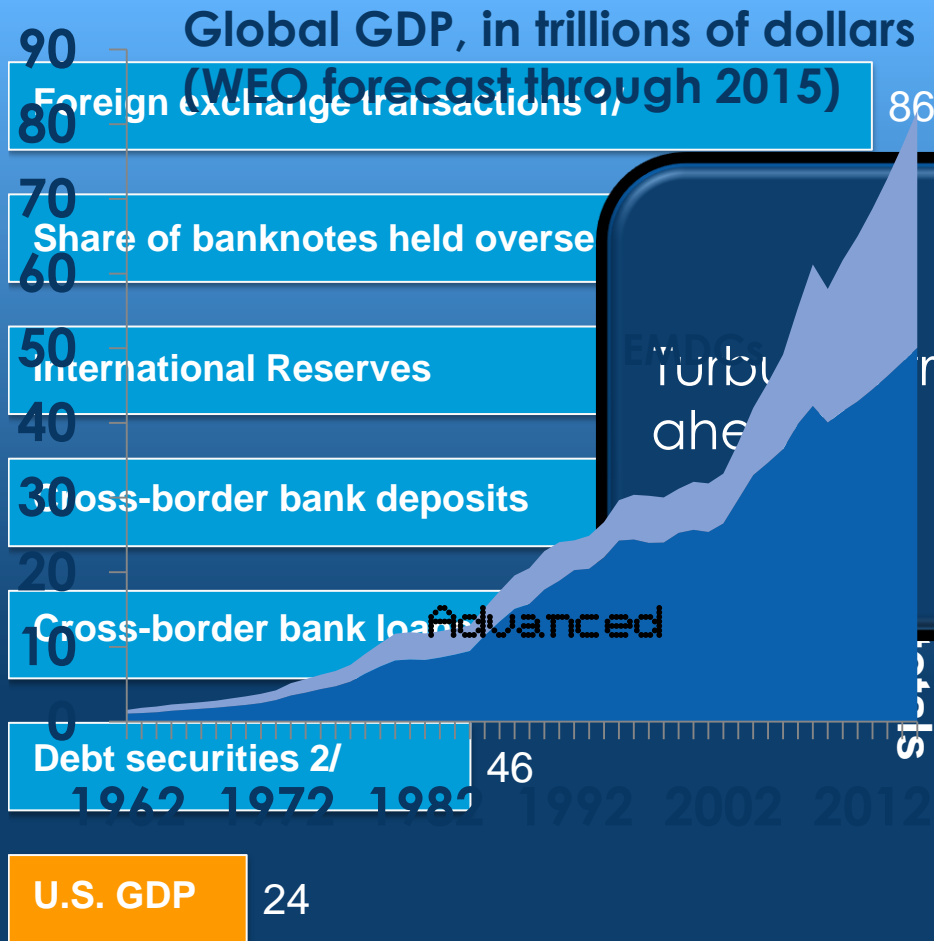


IMS has many merits

- 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

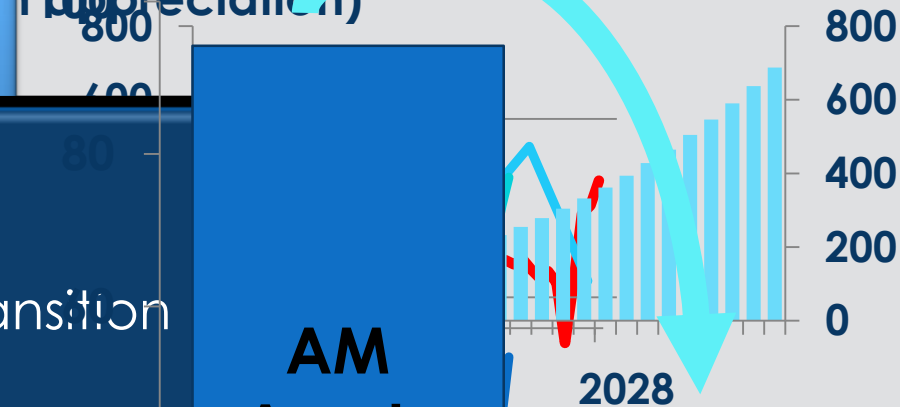
But...

Various problems with the IMS

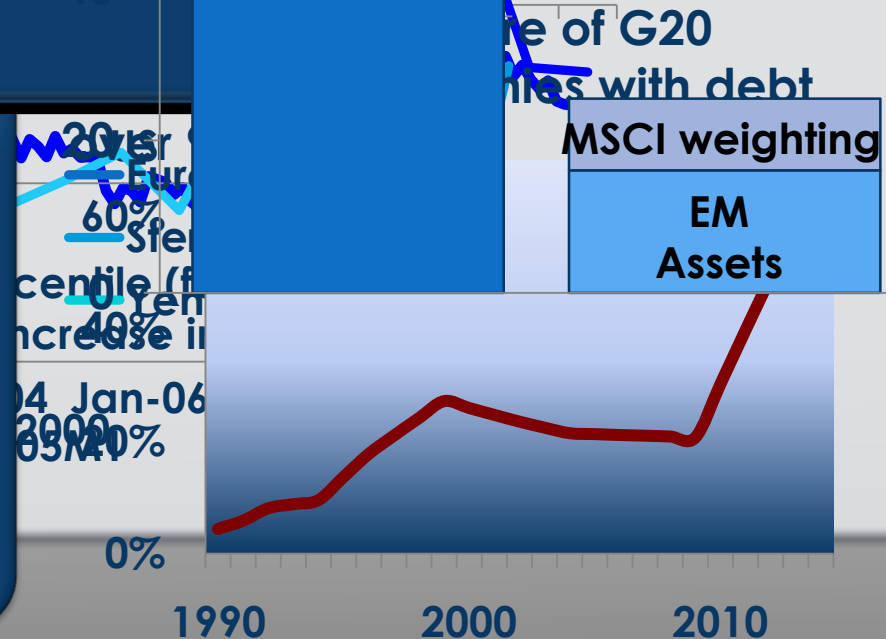


1/ Share from 200 (each transaction involves two currencies).
2/ Foreign currency debt sold outside the issuer's home country.

Extrapolation of Global Reserves (In US\$ Trillion of US dollars)
Emerging market currencies (in appreciation)



AM Assets



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



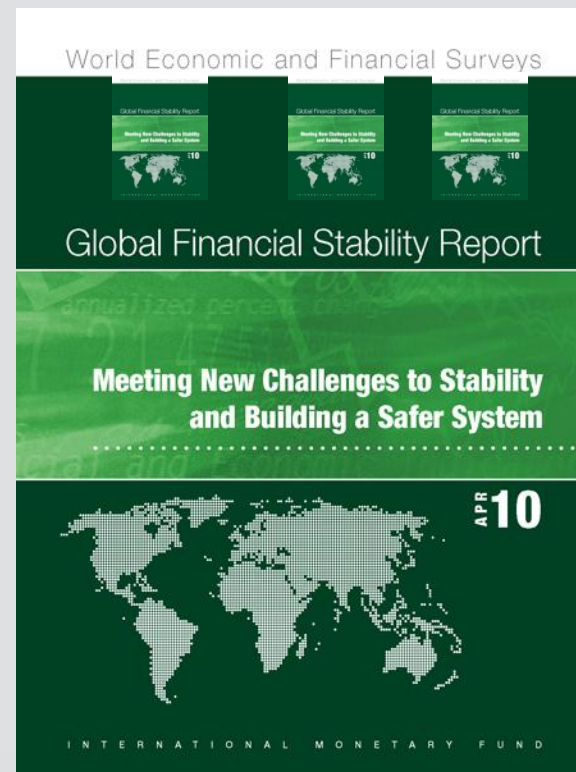
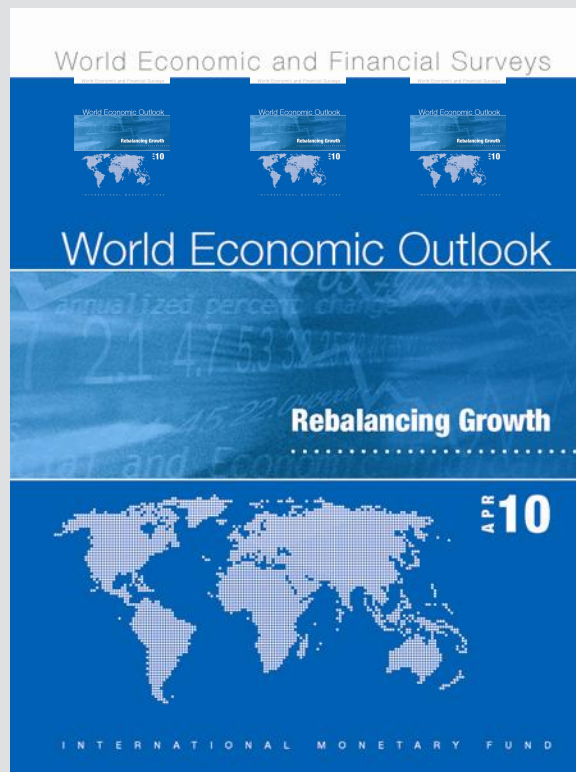
- Bar for reform is high
- Significant reforms already accomplished or underway
- More ambitious steps are desirable to smooth transition to new steady state: capital flows framework, SDR
- Extensive consensus-building efforts required



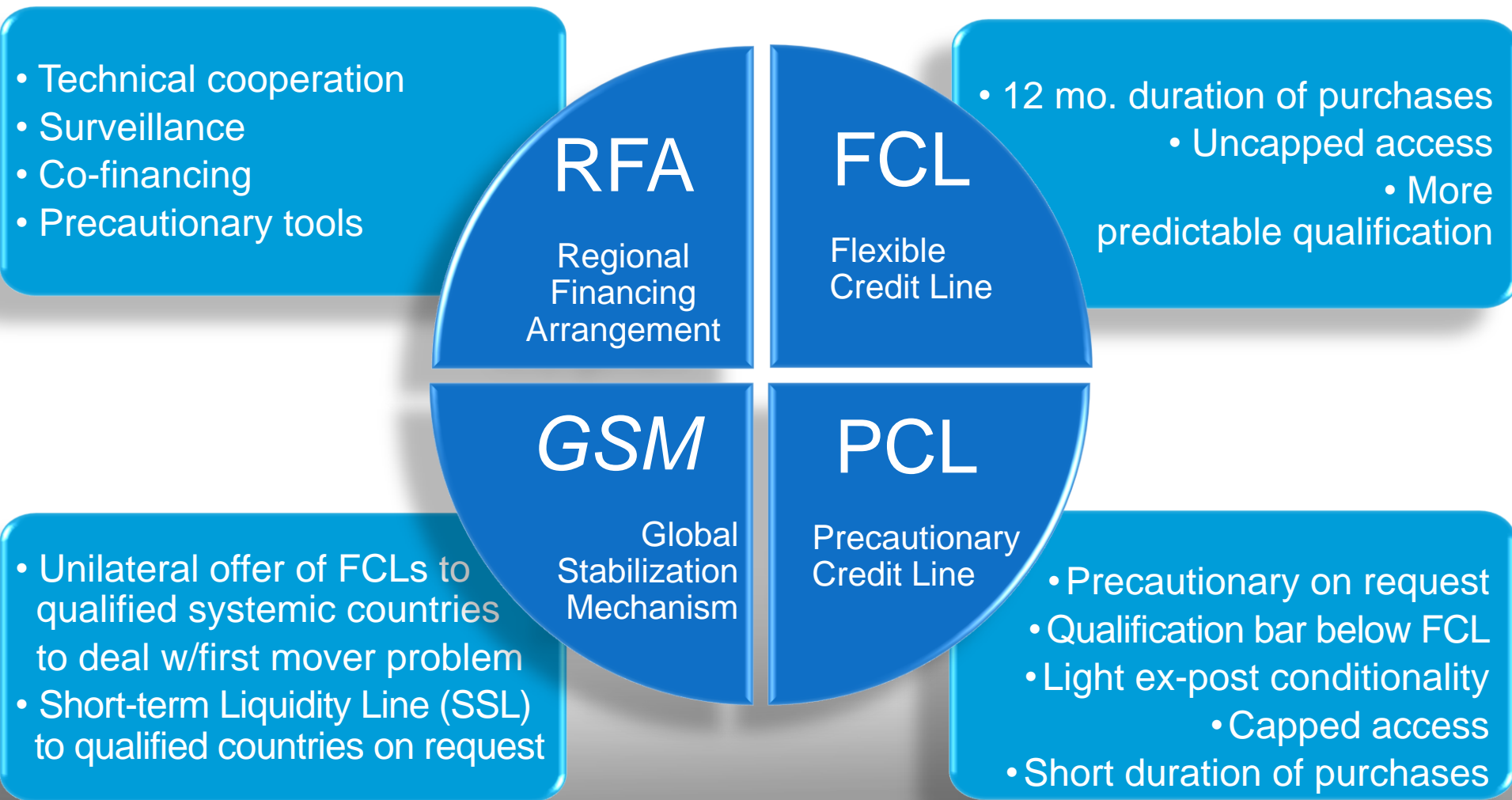
Spillover reports bridge a gap: examine outward spillovers from policies, discuss with relevant policymakers



Bringing out potential of WEO/GFSR



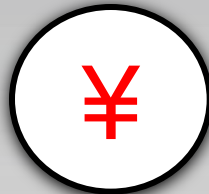
Core lending reforms



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



Supply Solutions