

When the finance ministers and central bank governors of the world meet at the International Monetary Fund's (IMF) 2009 Annual Meeting in Istanbul on 3-4 October, one important subject for discussion is how the Fund can strengthen its role as guardian of the global financial markets.

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Future role of the IMF in focus at the 2009 Annual Meeting in Istanbul

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Finance ministers and central bank governors from all over the world will be attending the International Monetary Fund (IMF) 2009 Annual Meeting in Istanbul this weekend, where one of the topics for discussion is how the IMF can strengthen its role as supervisor of the global financial markets. It is very important, and not just to emerging economies, but also to small countries like Sweden, that the IMF should not merely put out fires, but should actively prevent them.

The financial crisis has reinforced the role of the IMF as the international financial system's leading fire fighter. The most acute phase of the financial crisis is now thought to be behind us, and the focus of the IMF should thus be transferred from crisis management to crisis prevention measures. At the G20 summit in Pittsburgh last week the summit leaders discussed different ways of reinforcing the IMF's future role as guardian of stable financial markets. This is a very important issue. It is essential that all countries – small and large, rich and poor – are included in the discussions on the shaping of the international financial system. The IMF therefore has an important role to play as it is a truly global organisation – a "G186". Another important issue is that financial commitments should lead to greater influence. The member states have contributed substantial capital to the IMF over the past year. The Swedish contributions alone, which are made through the Riksbank with the approval of the Riksdag (the Swedish parliament), increased from just over SEK 30 billion to almost SEK 100 billion in 2009.

Why the meeting in Istanbul is important


At the Annual Meeting in Istanbul the finance ministers and central bank governors will discuss the future funding of the IMF as well as the role of the institution and the member countries' representation.

One issue that will be discussed is the future size of the IMF's resources. The promises of increased funding made by the G20 countries at the summit meeting in London last spring are now being implemented. The IMF's funds for lending to countries hit hard by economic crisis are being tripled from US 250 billion to USD 750 billion. The IMF has also made an allocation of its Special Drawing Rights (SDRs) of USD 250 billion to increase the liquidity in the international financial system – extraordinary circumstances require extraordinary measures. However, as the world economy gradually improves, the demand for loans from the IMF is expected to decline. It will therefore be important to determine the size of the IMF funding over an economic cycle.

There are now demands, not least from the G20 countries, for the IMF to change its focus from crisis management to crisis prevention. However, to do this effectively the IMF needs to add some new tools to its toolbox:

- It is of central importance to the Fund to be able to provide advance warnings of risks in the financial system that could lead to problems in the long term. The IMF cooperates with other organisations in carrying out this task, such as the recently-formed Financial Stability Board¹ (FSB). This cooperation will be important in the future.

¹ The Financial Stability Board (FSB), previously the FSF (Financial Stability Forum), has the task of addressing vulnerabilities and developing and implementing strong regulatory, supervisory and other policies in the interest of financial stability. The FSB includes the G20 countries.

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- The IMF must also become better at linking the surveillance of the member countries' economic development with events in the financial markets. This means that the Financial Sector Assessment Programs (FSAPs) need to be developed further, which affects the IMF's work on financial sector surveillance and ensuring that the member countries observe the agreed rules.
 - The IMF's mandate may need to be extended to cover capital flows and capital liberalization. At present the mandate is limited to promoting funding of foreign trade. The rapid growth in the international financial markets is one good reason for giving the IMF a more prominent role in this field.
 - Moreover, the IMF should continue to have a prominent role in the surveillance of world economic developments. One important task for the IMF here is to strengthen its role as a forum for large nations to discuss economic policy measures and future challenges. The purpose should be to reduce the risk of global imbalances that may hamper long-term stable growth in all countries.

However, regardless of the size of the funds, changes in mandate and grandiose ambitions, the IMF will not be able to continue strengthening its role if it is not perceived as relevant for all of its member countries. This is particularly important for the emerging economies and poor countries. It is striking that the IMF was conspicuous by its absence in Asia and Latin America during this crisis – the demand for IMF programmes has primarily come from countries in Eastern Europe. Parallel to the IMF now entering a phase that is more focussed on crisis prevention activities, a discussion has therefore begun on changing the influence and representation in the institution – work that should be completed by early 2011.

Strengthening the role of the IMF is also of central importance to small countries like Sweden. We contribute substantial resources but do not have the corresponding influence over how these are used. We may not always be able to sit at the meeting table, but at the IMF we are represented by the Nordic-Baltic constituency. It is therefore important that the IMF's role as discussion forum, a "G186" is reinforced. And the discussions at the 2009 Annual Meeting in Istanbul are therefore highly important.