

# Commentary

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BUFFIN PARTNERS INC.

ECONOMIC INVESTMENT AND ACTUARIAL RESEARCH

## International Monetary Policy Cooperation

**D**ominique Strauss-Kahn, Managing Director of the International Monetary Fund (IMF) has, in recent speeches, stressed the importance of multilateralism in securing the global economic recovery and has outlined a renewed vision for the IMF in the post-crisis world. In a February address at the annual meeting of the Bretton Woods Committee in Washington, he called for a renewed IMF mandate that would cover the full range of macroeconomic and financial sector policies that bear on global finance and that would specifically strengthen the IMF's role as the guardian of systemic financial stability. On the topic of improving the IMF's role in crisis prevention, he proposed a new multilateral surveillance procedure to assess the systemic effects of a country's policies so as to complement the Fund's country-level surveillance and the efforts of the G-20, with its Mutual Assessment Process. There is a widely-held view that the IMF needs to improve its understanding and oversight of how risk spreads through the global financial system, and in particular, to monitor the largest complex financial institutions engaged in international finance. Mr. Strauss-Kahn has identified a number of measures to improve the role of the IMF in any future system-wide financial crisis, including substantial increases in the speed, coverage and size of IMF lending, and the provision of short-term multi-country credit lines. The IMF is also engaged in research studies on how to make its Flexible Credit Line more effective and how to collaborate with regional reserve pools such as the European Union. A real challenge for the IMF will be to find a way to limit the tension arising from the high demand for precautionary reserves and the narrow supply of actual reserves where the IMF could assist by providing a source of additional liquidity.

Mr. Strauss-Kahn encourages consideration of a new globally-issued reserve asset stating: "It is intellectually healthy to explore these kinds of ideas now, with a view to what the global system might need at some time in the future." Multilateralism has played a critical role in addressing the recent global financial crisis and will be of even greater importance in the future in order to improve crisis prevention, bolster crisis response and to strengthen the international monetary system.

In a subsequent speech to the European Parliament in March, Mr. Strauss-Kahn discussed the state of the global recovery, and priorities for modernizing the global financial architecture in support of long-term economic growth. The global financial crisis has presented an historic opportunity to reshape the financial system and institutions to make them stronger, more resilient to crisis, and better able to promote growth and prosperity. The IMF now forecasts global growth of four percent this year but with significant variations in the speed of recovery among regions and countries. In advanced economies, recovery is tepid and remains dependent on policy initiatives and support. For the European Union, economic growth is forecast at a modest one percent. For most emerging economies, recovery is already relatively robust. Looking ahead, policy priorities will be to bring public debt back down to sustainable levels; in the advanced economies, public debt is projected to reach 110 percent of GDP by 2014, about 35 percentage points higher than before the crisis. Strategies for ensuring economic recovery will be required to restore fiscal sustainability but not jeopardize the recovery process by withdrawing support too soon. Containing the growth of primary spending is one essential part of these strategies, as indeed is the need for

increasing revenues. Sustaining the global recovery over the longer term will require collaboration within the G-20 to reduce global imbalances. Countries such as the United States and some European nations that have been running large and persistent current account deficits will need to focus on strategies to increase domestic saving, to identify and promote new sources of growth, and to increase exports to support demand and contribute more to economic growth. In other economies with persistent current account surpluses, such as China, Germany, and many oil-exporting countries, it will become increasingly important to manage these surpluses and implement various strategies to stimulate domestic demand. The G-20's new Mutual Assessment Program is a promising step in this direction; through this framework, the leaders of the world's largest economies are accountable to each other for the adoption of national policies that are compatible with the greater global economic good rather than pursuing policies that serve local national self-interest to the detriment of the global economy. Finally, there is an urgent need to reshape the financial sector so that it can function, as intended, to support economic growth; this will require widening the regulatory perimeter, strengthening supervision, improving the measurement and regulation of systemic risk, and expanding crisis resolution mechanisms.

The IMF is now challenged by the dictum: *may you live in interesting times.*

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