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Commentary

BUFFIN PARTNERS INC. ECONOMIC INVESTMENT AND ACTUARIAL RESEARCH

International Monetary Fund

The global financial system is influenced by three supranational institutions: The International Monetary Fund (IMF); The World Bank, also known as the International Bank for Reconstruction and Development (IBRD); and the World Trade Organization (WTO) that replaced the General Agreement on Tariffs and Trade (GATT). These three institutions are agencies of the United Nations and originated with the 1944 Bretton Woods Agreement. Together, they affect the economies and governments of many nations throughout the world. This issue of *Commentary* focuses on the IMF and its role in helping achieve a stable global financial system.

The IMF advises and assists member countries in implementing economic and financial policies that promote stability, reduce vulnerability to crisis, and encourage sustained growth and high living standards. It also promotes dialogue among member countries on the regional and international consequences of their economic and financial policies, and reviews global economic trends and developments that affect the health of the international monetary and financial system. Since greater transparency, both in economic policy and in economic and financial developments, is critical for smoothly functioning economies and a stronger international monetary system, the IMF has taken steps to provide more information about its operations and analyses and to encourage greater openness on the part of member countries.

Promoting economic stability is partly a matter of avoiding economic and financial crises. As recent experiences have shown, crises can destroy jobs, reduce incomes, and cause human suffering, both nationally and beyond a country's borders if the crisis spreads. But economic stability also means avoiding large swings in economic activity, high inflation, and excessive volatility in exchange rates and financial markets. Any of these types of instability can increase uncertainty and discourage investment, impede economic growth, and hurt living standards. A dynamic market economy necessarily involves some degree of instability, as well as gradual structural change. The challenge for policymakers is to minimize this instability without reducing the ability of the economic system to raise living standards through the increasing productivity, economic efficiency, and employment that it generates. Experience has shown that countries that follow sound macroeconomic policies regarding fiscal, monetary and exchange rate activities, have the strongest growth and employment rates, and the least economic instability. Economic stability is also fostered by robust economic and financial institutions and regulatory frameworks that support transparency of financial transactions in the government budget, central bank, and the public sector, along with strong standards and systems for accounting, auditing, and data provision. The IMF helps countries to implement these good practices through its key functions of surveillance, technical assistance, and lending, including initiatives to improve governance and the quality and availability of data and economic information. Every country that joins the IMF accepts the obligation to subject its economic and financial policies to the scrutiny of the international community. The IMF also closely monitors economic and financial developments at the regional and global levels; among the initiatives used to promote economic stability are the IMF's assessments of countries' vulnerabilities to crisis and, in collaboration with the World Bank, the IMF conducts assessments of countries' financial sectors including capital market surveillance. The IMF also develops and promotes standards and codes of good practice in economic policymaking. The IMF helps countries strengthen their capacity to design and implement sound economic policies. The IMF provides advice and training on a range of institutional and policy issues, including fiscal, monetary, and exchange rate policies, the regulation and supervision of banking and financial systems; the development of statistical systems; and of associated legal frameworks. Even the best economic policies cannot completely eradicate instability or avert crises. In the event that a member country does experience financial difficulties, the IMF can provide financial assistance to support policy programs that will correct underlying macroeconomic problems, limit disruption to the domestic and global economies, and help restore confidence, stability and growth.

Twenty-first century globalization is presenting the global community with new challenges. The IMF has an important role in fostering international cooperation and helping individual countries to meet these challenges. But to do so it must remain in step with a rapidly changing world. To this end, the IMF is offering new directions in its policy advice to the membership, including: an evolving role in emerging-market countries; more effective engagement in low-income countries; and governance of the IMF itself. The IMF is moving ahead now with the implementation of these strategies to modernize the institution's activities and governance. Proposed reforms would rebalance quotas to reflect the rise of new economic powers, while protecting the role of low-income countries. A new consultative approach has been proposed to address global problems that require collective action by many countries and the first such multilateral consultation has begun and will focus on narrowing global trade imbalances.

Source: *IMF 2006 Issue Briefs and Factsheet.*

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