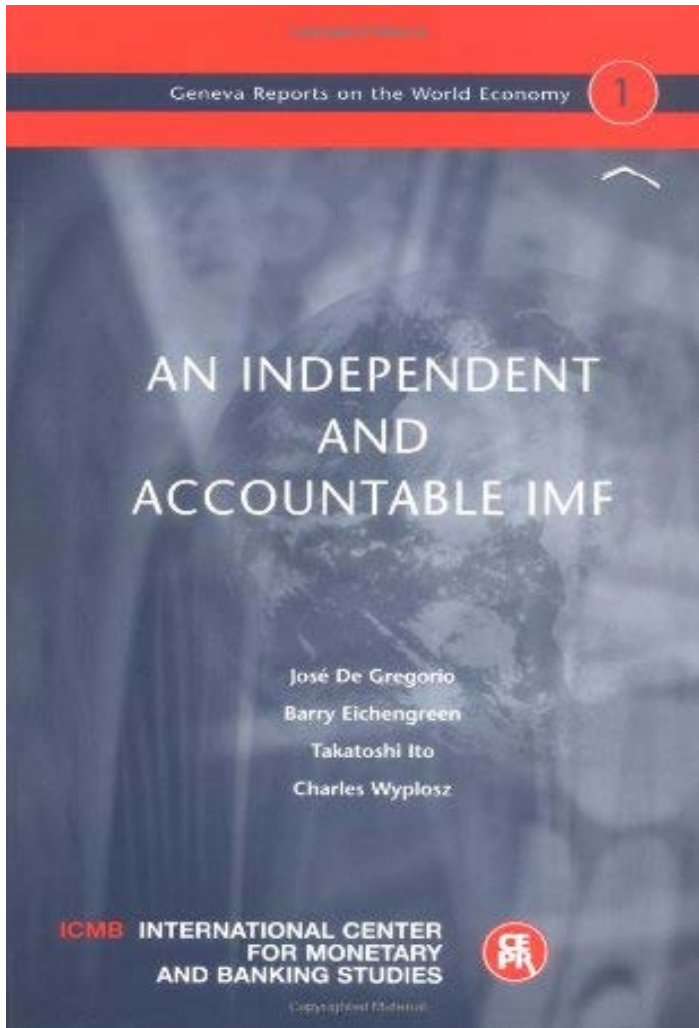


# IMF Reform: The Unfinished Agenda

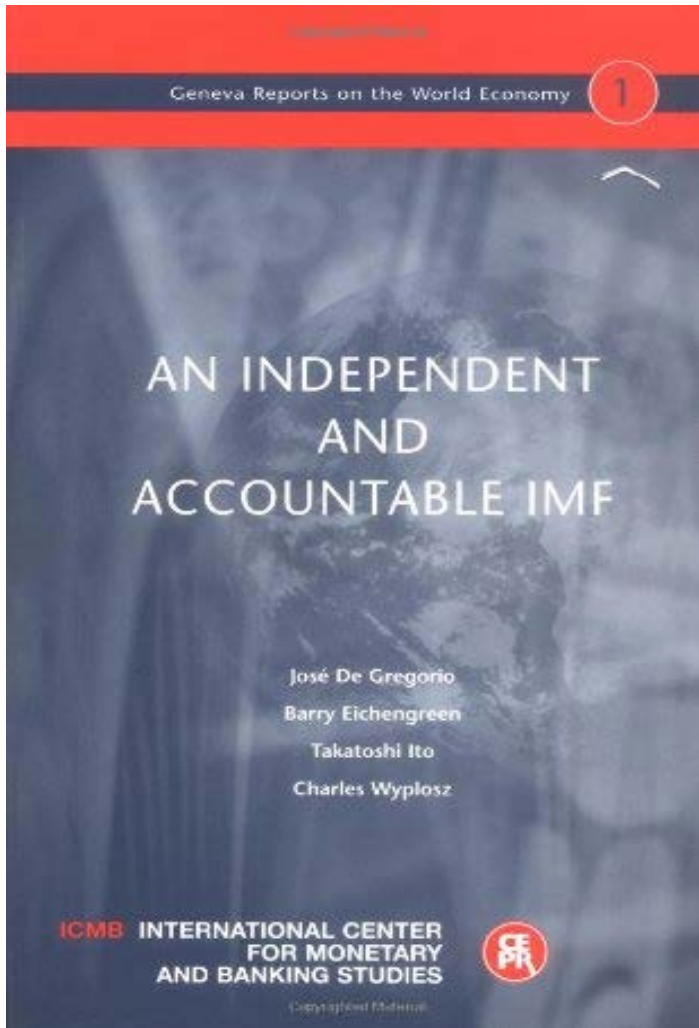
Jose De Gregorio  
Barry Eichengreen  
Takatoshi Ito  
Charles Wyplosz

March 2019

# IMF Reform



# IMF Reform



# We revisit the issue

- How the world has changed
- How the IMF has changed
- The emergence of regional funds and swap agreements
- The emergence of China
- IMF Governance

# Agenda

- How the world and IMF have changed: Policy and macro
- Other changes at the IMF: Institutional
- New challenges
  - Regional funds and swap arrangements
  - The rise of China
- Perennial issues
  - Precautionary lines and IMF resources
  - Governance

# Gross capital flows have continued to expand

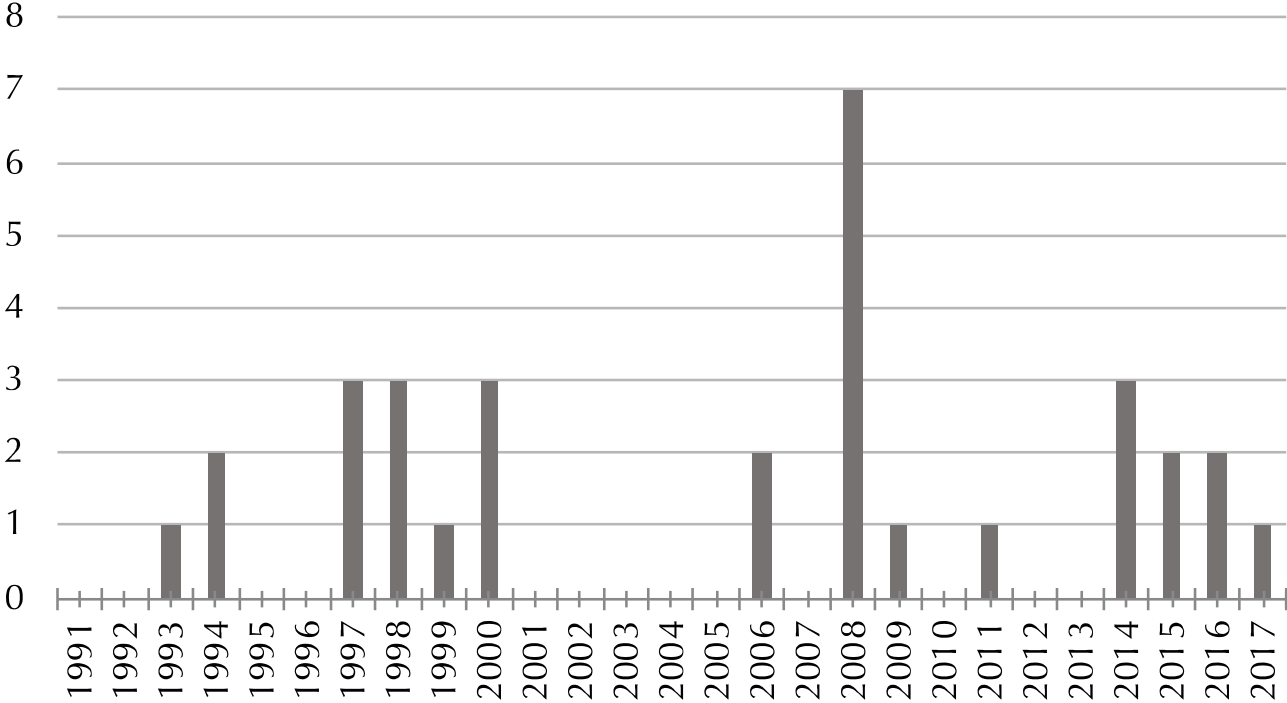
**Table 1** Magnitude and volatility of capital inflows to emerging markets, 1991-2017

		1991- 1995	1996- 2000	2001- 2005	2006- 2010	2011- 2017
FDI	Mean (quarterly average)	0.23	0.76	0.55	0.92	0.68
	Standard deviation	0.15	0.50	0.38	0.59	0.40
	Coeff. of variation	0.61	0.71	0.70	0.57	0.64
Portfolio equity	Mean (quarterly average)	0.06	0.05	0.03	0.05	0.03
	Standard deviation	0.10	0.12	0.09	0.21	0.15
	Coeff. of variation	1.35	1.56	2.21	1.99	2.86
Portfolio debt	Mean (quarterly average)	0.03	0.11	0.10	0.20	0.32
	Standard deviation	0.23	0.39	0.40	0.63	0.62
	Coeff. of variation	1.52	1.72	1.58	2.64	2.37
Other flows	Mean (quarterly average)	0.22	0.32	0.20	0.56	0.24
	Standard deviation	0.97	0.79	0.59	1.09	0.66
	Coeff. of variation	1.26	1.41	0.92	1.65	2.21

*Notes:* Mean, standard deviation and coefficient of variation are the median across all countries in the sample during respective time period. Coefficient of variation is standard deviation divided by mean. Data are quarterly from 1990 Q1 to 2017 Q4. All capital flows are expressed as % of annual trend GDP.

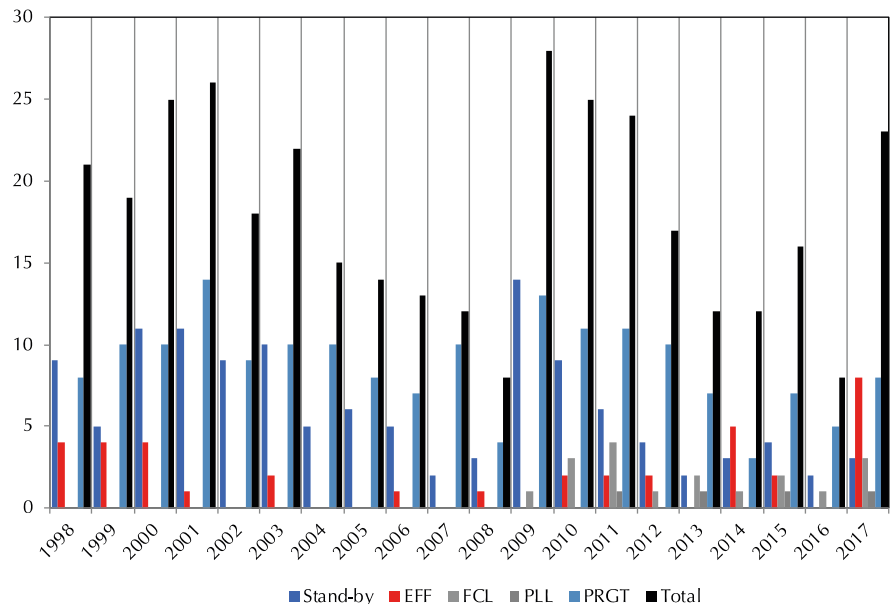
# Sudden stops remain to be a problem (measured by the magnitude of the capital account turnaround).

**Figure 1** Number of sudden stops and year of commencement

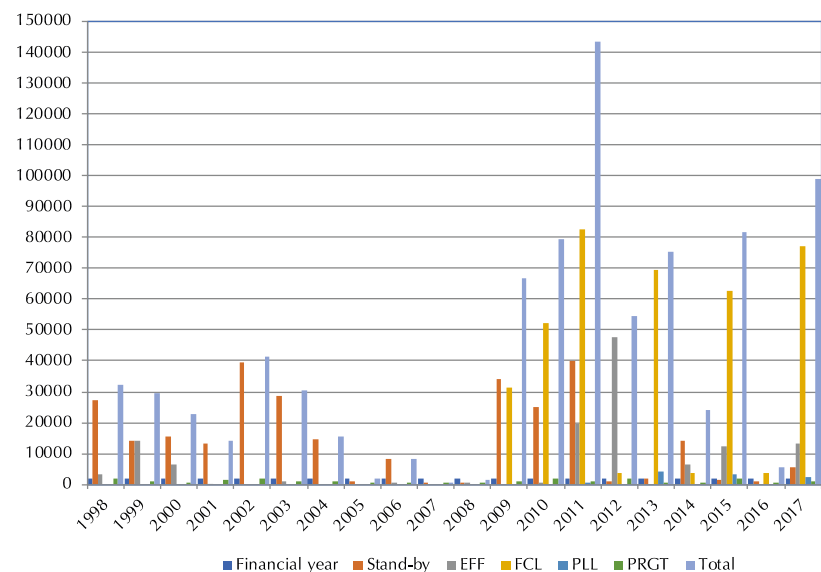


# Number of IMF programs has remained relevant, while amounts committed have increased (mostly FCL an issue we return below)

**Figure 3** Number of IMF arrangements



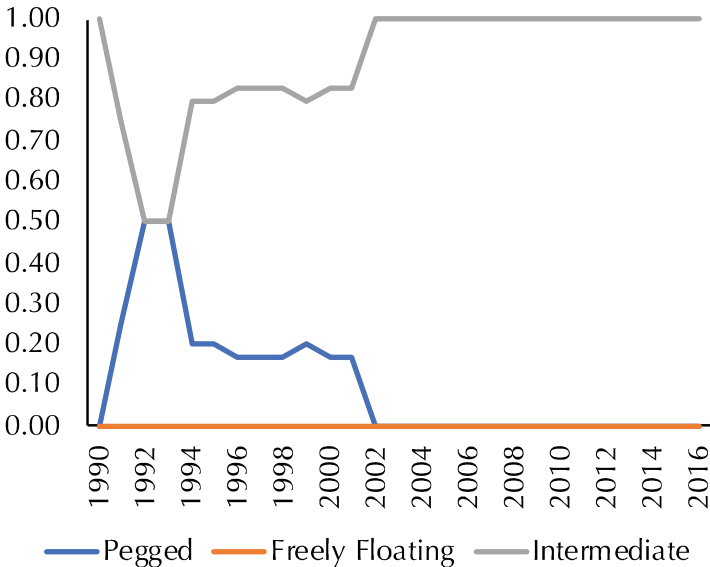
**Figure 4** Amounts committed under IMF arrangements (millions of special drawing rights)



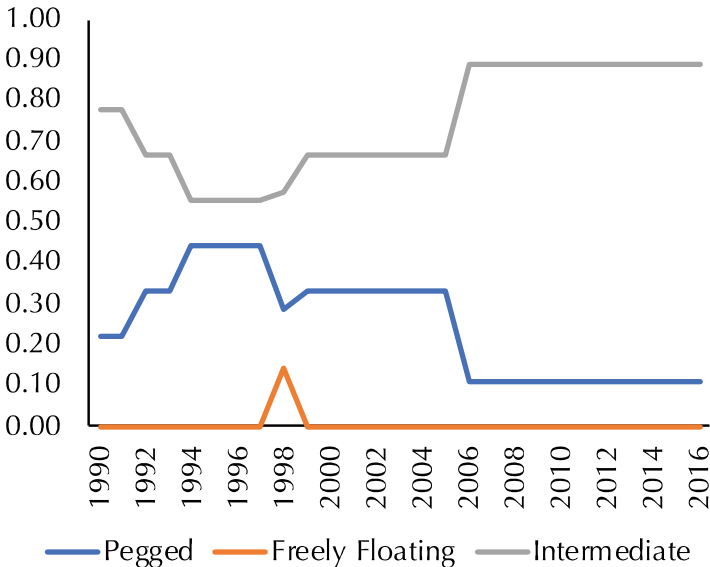


# Exchange rate regimes: within EMEs still prevalence of intermediate regimes, less pegged, and within intermediate from crawling pegs and bands to managed floating. Far from bipolar view

Latin America 6

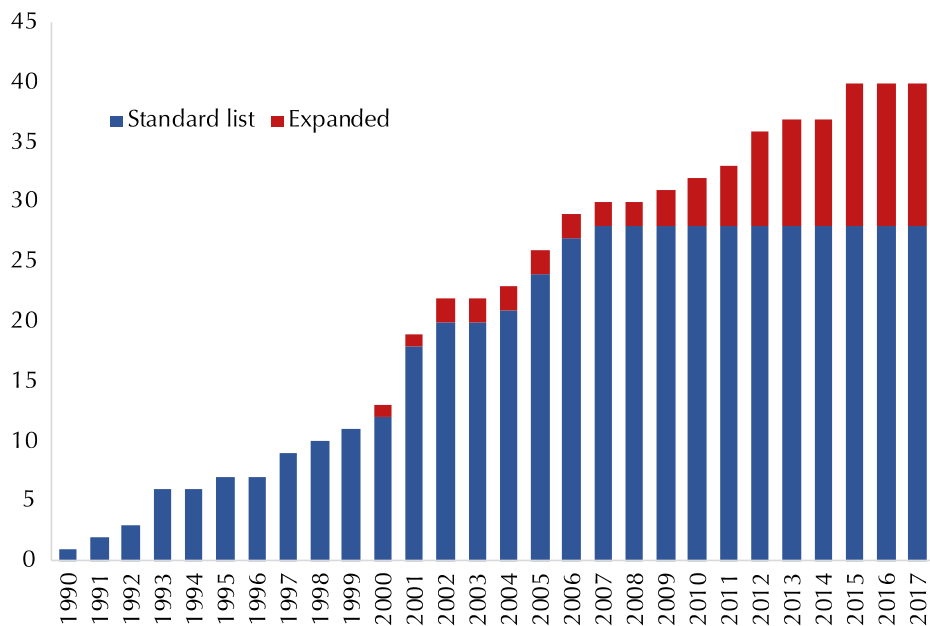


South East Asia



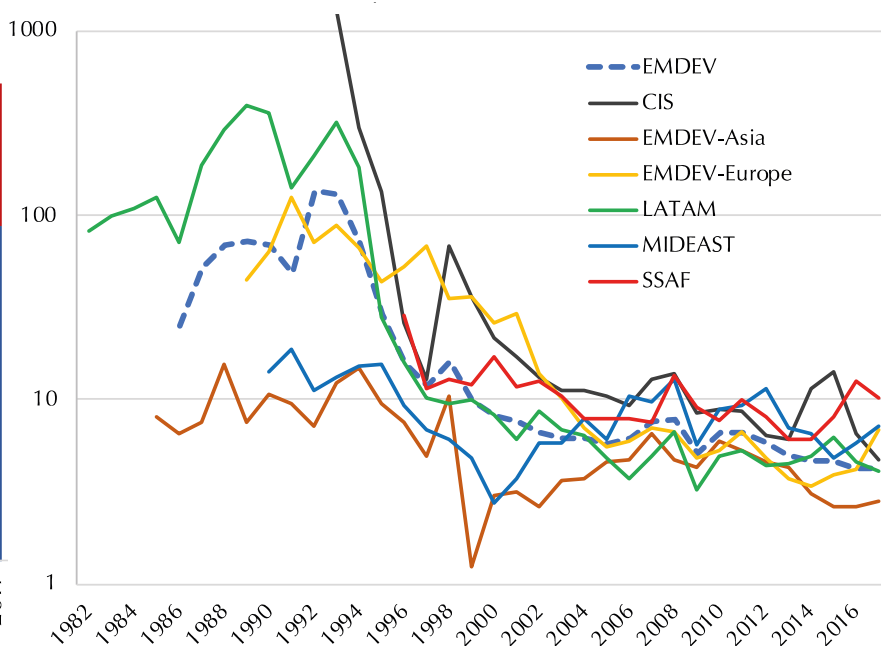
# The conquest of inflation. It took place in the late 1990s in most countries

**Figure 5** Number of countries operating inflation-targeting regimes



Source: Standard list based on Roger (2010), Hammond (2011) and Jahan (2017), as expanded by the authors.

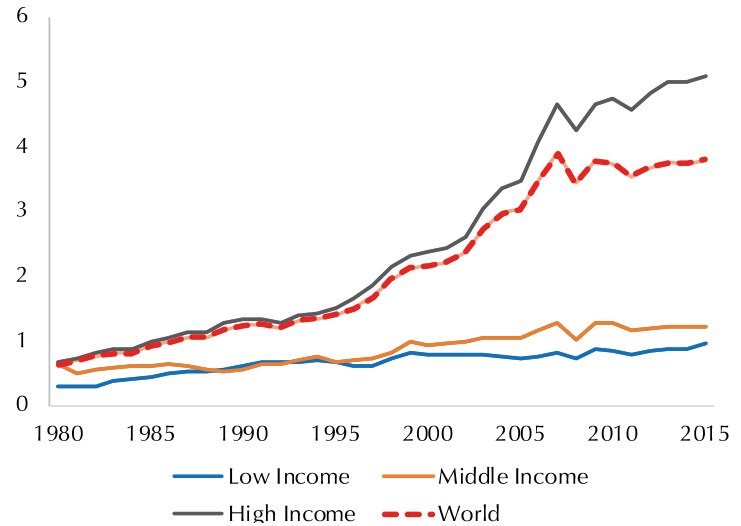
**Figure 6** Inflation rates by region (year end, percent, log-scale)



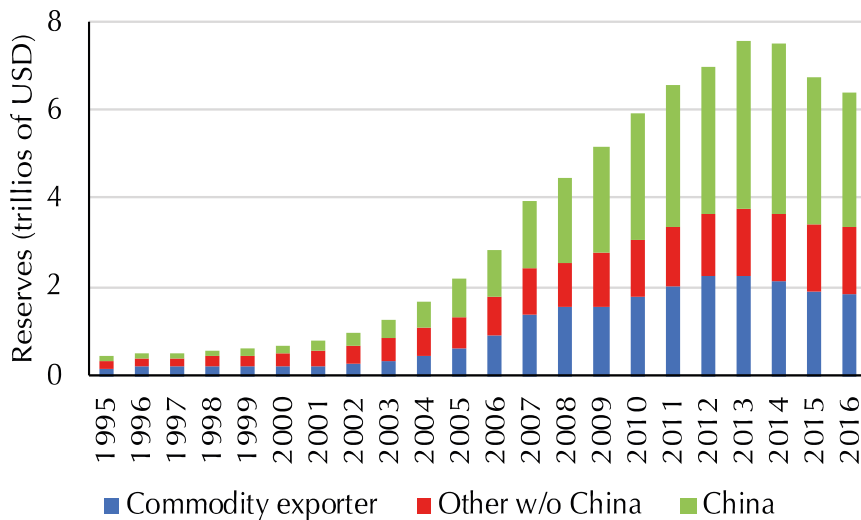
Source: IMF-WEO.

# International Reserves and Financial integration

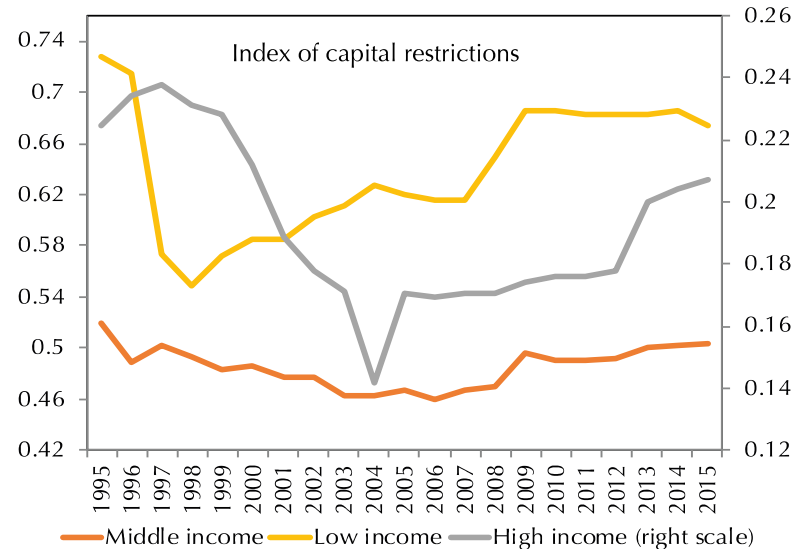
International financial integration (international assets plus liabilities over GDP)



International reserves (trillions of US dollars)



Efforts for financial liberalization were unsuccessful. But financial integration increased, mostly within advanced economies



# How the Fund has Changed

## Very significant improvements

- Improved bilateral and multilateral surveillance
- Transparency a big step forward, more to be done: research.
- Policy recommendations: exchange rate management, fiscal policy, and capital account liberalization among others. Still some loose ends: supporting exchange rate management through imposition of capital controls or reserve accumulation: is it currency manipulation?

## New challenges

- The emergence of Regional Fund Arrangements and swaps between CBs
- The rise of China

## Perennial issues

- Precautionary lines and IMF resources
- Governance

# Regional Fund Arrangements (FLAR, CMIM, ESM among many others)

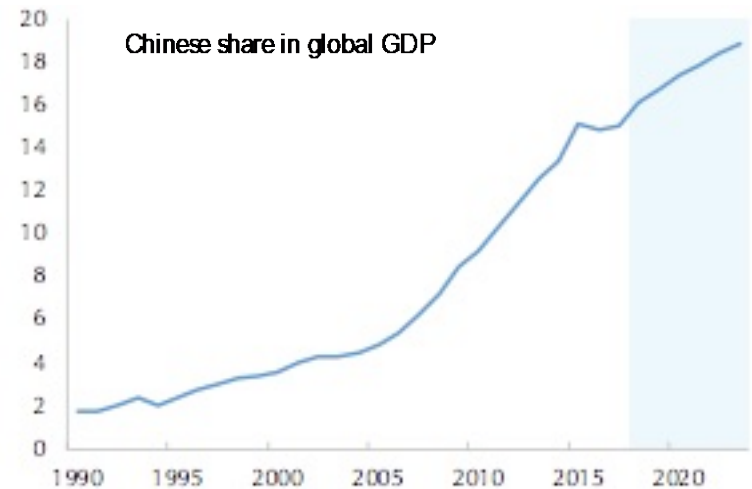
- Pooling reserves may limit the need to accumulate costly reserves (is what countries want?). But common shocks? And mercantilism?
- Political issues with the IMF and stigma. However there also political tensions within RFAs
- A way to increase availability of rescue loans. The IMF can form a “coalition of willing.” conditionality?
- IMF Response: Equal treatment, respect independence, single program framework, being the Fund the lead agent. Depends on the relative size of RFA vis-à-vis IMF.
- Main problem of working with RFAs: conditions to join forces and how to solve disagreement (Troika)

# Swap lines

- An innovation has been the development of bilateral swap agreements among the central banks of the G10 countries plus a few emerging market countries, now matched by the swap lines of the PBoC. During the crisis the Fed extended bilateral swaps to 13 cbs.
- Swap lines are very helpful, but safeguarding global stability cannot rely on them. Moreover, in a regional (not global) crisis of EMEs, there is no reason why reserve currency central banks will extend swap lines.
- It is a break break from principle of multilateralism. Their extension is unpredictable and arbitrary. And in many cases politically motivated.
- Reserve currency central banks are independent and their mandate is not to safeguard global stability, only can be done as long as it affects domestic financial stability.
- Proposals that give the authority to the IMF to decide, or just intervene, in the process of granting swaps are interesting but probably unfeasible.
- China is another case of broad extension of swap lines (36 countries and RMB 3 tr by the end of 2016). But not clear how much they can help from a global point of view given the limited role of the renminbi in the world economy.

# China and the IMF

- This of course is the big change in the global economy that will ultimately affect all aspects of the international financial architecture, including the IMF.
- Will HQ move to Beijing (and will it matter)? Management?
- What will China want from the IMF (what is the nature of the Beijing Consensus)?
- Is the real problem with China's development lending (Belt and Road Initiative, AIIB) and, by implication, relations with the World Bank?



# Precautionary Lines and Fast Qualification Line

- Precautionary lines have not been successful, only three countries joined, currently only two remain.
- The problem: where designed for countries uninterested and the interested ones do not classify. Stigma, cost, and more recently “exit,” which aggravates the stigma. Why to apply? When to exit?
- It commits large amount of funds, which is limited by IMF resources.
- **Fast qualification facility:** if a country with strong fundamentals applies, the approval should be quick. Article IV consultations could give a preliminary assessment. If no eligible it could have a regular SBA.



# Governance

- Time consistency problems and political interference. Delegate decision making to an independent and accountable board (as in CBs). Given mandate, but instrument independence.
- Many of the problems we mentioned above (arbitration with RFAs, time consistent policies, future tensions on quota, etc,) could be solved with the reform we proposed 20 years ago. The IMF would be accountable to a non-resident board (Keynes, and King, 2006).
- The IMF's mandate is multidimensional, which makes more difficult evaluation than in a CB.
- Board members would not be representative of particular constituencies, and the number should be about seven.

