Bretton Woods and the IMS in a Multipolar World

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The IMF was formed in 1945 in response to global crises and the recognition that the International Monetary System (IMS) would benefit from rules-based global financial cooperation. While almost 70 years later this underlying mandate remains unchanged and relevant as ever, the IMF as an institution has been far from a static and grown into many new directions, adapting to an ever changing world economy. Global trends such as the dramatic increase in economic and financial interconnectedness, which is leading to more intense policy spillovers; the ongoing transition to a more multi-polar global economy; and the evolving multilayered global financial safety net are some of the challenges to which the IMF is responding today to stay relevant for the future.

Indeed, rising interconnectedness and spillovers have already triggered changes to the IMF's surveillance and lending facilities. New tools such as cluster analysis and large scale global econometric models are now routinely used in surveillance to better understand global trade and financial flows, and to assess the magnitude and direction of spillovers. In 2012, the IMF also adopted a new surveillance framework that integrates bilateral and multilateral surveillance. This allows for a more informed and deeper coverage of spillovers and defines a framework for better policy coordination. Furthermore, the IMF has revamped its lending facilities to provide more flexibility to countries with sound policies that have been adversely impacted by external spillovers.

The global financial safety net is, however, broader than just the IMF. Even though recent IMF commitments have been unprecedented in size, they could easily be dwarfed by the borrowing needs of just one large emerging market country. Indeed, today's safety net has emerged into a multilayered system. Central bank swap lines constitute one layer. Although, very effective during the crisis, these swap lines are not available to all countries. Regional Financial Arrangements (RFAs) provide another layer that can help increase the size of available resources and bring regional expertise and greater program ownership on the table. However, RFAs have a range of different institutional and operational set-ups and can only offer limited risk pooling to its members. Hence, stability of the IMS still necessitates a strong IMF at the center.

For the IMF to play an effective role in the IMS it is important that the institution maintains its credibility both in terms of governance and financial resources. This is why the approval of the 2010 governance reforms is key. These reforms will not only ensure that the Fund maintains sufficient “firepower”, including by making permanent the resources that members made available to the IMF on a temporary basis during the crisis, but also ensure that IMF governance structure keep pace with ongoing shifts in global economic power.

Going forward, the IMF must continue to adjust to a changing world, including by continuing to develop its surveillance toolkit and following through with the implementation of the integrated surveillance framework. The IMF must also continue to adapt to its governance to the evolving environment, while carrying on with its efforts to strengthen cooperation with RFAs and promoting policy coordination more broadly.