THE G-20 AND IMF: THEIR FUTURE ROLES IN THE INTERNATIONAL MONETARY SYSTEM

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FRAMING THE ISSUE

The G-20 Summit in Pittsburgh provides prime opportunity for President Obama and other global leaders to put their weight behind the International Monetary Fund Managing Director's efforts by chartering a time-bound, concrete roadmap for IMF reform based on the recommendations formulated through recent discussions in the governance bodies of the IMF, previous G-20 summits and by leading experts and global civil society.

POLICY CONSIDERATIONS

In the midst of a deepening global crisis that was increasingly threatening the stability of the world economy, and just days before the London G-20 Summit, the IMF announced a significant overhaul to its lending framework. Its heightened stature in the global economy has resulted in a rapid increase in Fund financing—from admittedly historically low levels. Leaders at the London Summit subsequently agreed upon a rapid and substantial increase in the Fund's lending capacity. The mobilization of unprecedented resources has aimed to ensure that the IMF can comfortably meet potential demand from member countries while bolstering public confidence in that international spillovers can be adequately managed. Recognizing that a general quota increase may require time, Fund resources have been supplemented by official borrowing: direct bilateral lines of credit, issuance of notes, or the expansion of existing credit arrangements within the so-called New Arrangements to Borrow (NAB).

The Fund established the new Flexible Credit Line, providing for uncapped resources to countries with a sound track in policy implementation. In an unprecedented move, three countries—Mexico, Poland and Colombia—requested IMF precautionary assistance under the FCL terms. Access limits to Fund resources under the other facilities have been doubled and unused facilities have been dropped while conditionality has been simplified by scrapping structural performance criteria in favor of greater reliance on program reviews and ex ante policy measures.

Further, the Fund has stepped up its concessional lending framework for low-income countries. Besides doubling concessional lending access limits, the Fund capacity has been increased to up to $17 billion through 2014, including up to $8 billion over the next two years, from an annual concessional lending capacity of roughly 6 billion in 2008. This exceeds the call made by the G-20 in London to double concessional lending. Thanks to the mobilization of additional resources, including those from sales of IMF gold, the Fund will grant interest relief, with zero payments on outstanding concessional loans through end-2011, to sustain low-income countries while they cope with the crisis. Moreover, interest rates will regularly be reviewed so as to preserve the concessionality of the resources loaned to poor countries. Finally, facilities for low-income countries have been overhauled with the aim of better meeting their needs and alleviating their challenges.

These measures aimed at greater institutional effectiveness have not been followed up by any substantial governance reform. Several internal reviews have been conducted inside the IMF, the G-20 (where IMF reform has been the focus of a dedicated working group), and through other initiatives fostered by independent institutions, NGOs and experts. Moreover, the final report to the IMF Managing Director on the consultations that the IMF has held with the "fourth pillar" (academia, think-tanks and other civil society organizations) on its governance reform process was recently finalized. While these initiatives have produced a wealth of analyses and reflections, there is a unanimous feeling that action is now critical.

How should the G-20 and IMF shape their relationship? For the first time in history, heads of states and of governments have discussed IMF governance and initiatives—a task they traditionally mandated to their respective finance ministers. What this means in the long run for the role of the IMF is unclear. Two scenarios can be envisaged.

First, member countries could use this opportunity to address the greatest challenge that the IMF has faced since the end of the Bretton Woods era in the 1970s—when its member countries withdrew political capital from the institution, making it ineffective as a forum for multilateral discussions. That shift in authority away from the Fund and back to member countries was a defining feature of the new IMF role that emerged after the demise of the Bretton Woods system, whereby national policymakers claimed for themselves absolute discretion in formulating their economic policies.

To counteract this shift and its effect on the Fund, member countries would have to be willing to delegate some sovereignty over their economic policies to the institution, to make the Fund a true solution-finding forum. So far, however, the IMF's own ministerial committee—the IMFC—has played a marginal role in the current reform process. This has renewed calls from officials, analysts, and civil society organizations for the activation of Schedule D in the IMF's Articles of Agreement: establishing a decision-making ministerial Council. While this would give greater political impetus to the IMF's decision-making, its role—under this scenario—cannot be merely subordinate to that of the G-20.

Ideally, the G-20 Finance Ministers could be dissolved into the IMF's ministerial Council. But historically, member countries want to retain flexibility by having their own inter-ministerial forums in which to discuss economic issues of common concern, in addition to multilateral forums. As a result, the relationship between the new ministerial council and the G-20 may be one of co-existence, the contours of which will have to be defined as experience is gathered.

In the second scenario, the G-20 would indeed become the global steering committee, with the IMF serving as an executive arm (despite the existence of a ministerial council), as it is highly regarded for its fast, competent implementation capacity; its political capital, however, would still be provided by entities outside the institution. This alternative, and perhaps more realistic, scenario is more in line with recent history.

What are the implications for the future role of the IMF? Both scenarios do hinge on the IMF as the international agency for overseeing the international monetary system. The former does so by providing the institution with greater political capital and legitimacy; the latter by assigning it to be more of a "implementing agency."

ACTION ITEMS FOR THE G-20 SUMMIT

Consistent with both interpretations is the renewed interest in the IMF shown by the G-20 countries, who significantly stepped up the Fund's lending capacity in order to build confidence that the financial crisis would not spill over, unchecked, into emerging-market and other developing countries.

Under the first scenario, such enhanced lending capacity would be geared toward underpinning the institution's main role of provider of "the machinery for consultation and collaboration on international monetary problems," as stated by Article I of the IMF's Articles of Agreement. Under the second scenario, more simply, the lending capacity would underpin IMF support for medium- and small-sized members when hit by a crisis, upon their request.

The scope and nature of the next institutional reforms will determine what role the membership intends to attribute to the IMF. The Pittsburgh G-20 Summit may outline what that role is going to look like.