The role of international financial institutions in economic crisis

Only a decade ago international financial institutions were being squeezed out of global financial flows and out of hearts and minds of political and business leaders. In their plans, the role of IFIs was being reduced to administering concessional aid and providing routine balance of payments and similar financial support. Everything else was supposed to be taken over either by the galloping private capital flows and omnipotent leading governments, or by private charities and NGOs, and by key bilateral aid agencies. As the IMF and other IFIs completed their scaling down plans and exit strategies, global financial and economic crisis shook the world and changed all of that. Within two months from the collapse of Lehman Brothers, IFIs provided critical input into shaping a coherent G-20 response to the crisis. Strauss-Kahn’s early call for a combination of fiscal stimulus and monetary expansion to fend off deflation and prevent the march of the destructive financial and economic crisis marked a water-shed in policy thinking. It provided IFIs and the economic teams in leading governments with confidence to follow a pragmatic approach to policy interventions. Within a year, IFIs have contributed substantial analytical support to G-20 deliberations as well as record levels of resources to help most vulnerable countries respond to the crisis, revive economic activities, and restore trade flows. By April 2009 IFIs have been allocated more than one trillion US Dollars of additional resources to fund anti-crisis activities and provide support to global economy. More importantly, the crisis has revealed serious weaknesses in the global financial sector, especially in the regulatory and supervisory frameworks, as well as problem policy areas that required serious reform effort lead by seasoned international experts. The emerging role of IFIs includes both fixing the problem and discharging the new functions. More specifically, in the post-crisis world IFIs will be expected to: (1) conduct enhanced bilateral and multilateral surveillance, and facilitate a global policy coordination framework; (2) improve the design and performance of the global financial sector focusing on four reform pillars - the global and national regulatory framework including micro-prudential and macro-prudential regulation, financial supervision, cross border resolutions, and financial sector assessments; (3) establish and implement a global financial safety net system; (4) improve the management of international reserves and reduce the level of global imbalances; and (5) implement global governance reform of the IMF, World Bank and other IFIs.
Reference

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