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WILL THE CRISIS TRIGGER A REVIVAL OF THE IMF?

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As recently as a few weeks ago, a widely held view was that the IMF had lost its relevance in a world of increasingly free capital mobility where the financing needs of more and more developing countries were covered by capital markets. At the same time its legitimacy was at stake as a 0 Td (o-)32 0 Td (discussions)Tj /C2_0 1 Tf8e2t77pao05

The IMF has the best **expertise on financial and banking crises**. No other institution in the world has first-hand experience of the variety and the common characteristics of the problems encountered in financial crises. No other institution has accumulated similar expertise on the resolution of such crises[2].

The current financial crisis has triggered an unprecedented call for **coordination at global level**, as illustrated by the remarkable degree and speed of convergence of the G7 countries (and soon afterwards of the International Monetary and Financial Committee) on the response to the crisis. Governments had started to be pulled apart by national politics, but markets have forced them to hang together and converge on a common template in spite of political and institutional differences. Having been much despised in recent years, international policy coordination is experiencing a revival.

Last but not least, the IMF has (re)gained **intellectual credibility**. The Global Financial Stability Report (GFSR) of April 2007

Second, many countries in the world are better self-insured than they were. Over the last ten years, the median reserve ratio has grown from 10% of GDP to 20% of GDP – essentially because reserve ratios have been rising in the developing and emerging world.

Figure 1: Annual number

exactly the Fund told the US government about credit risks and policy responses, and this is going to diminish its ability to exercise surveillance in the years to come[3]. This did not escape the Chinese authority, as indicated by Deputy Governor Yi Gang's statement at the International Monetary and Financial Committee[4].

The same can be said of exchange-rate surveillance. In 2007, at US insistence, the IMF revised its principles for exchange-rate surveillance, which dated back to 1977. The purpose of the revision was to give it the possibility to slate countries whose exchange policies contributed to 'external instability'. But the only significant result a of s able to define, promote and monitor a coordinated response to a series economic diplomacy', and this telling image indicates how much the world has changed since the days of Bretton Woods. The existing G's and other ad-hoc groupings are likely to remain and new ones are about to be created such as the G14 or the 'Steering

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