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1 November 2006

International Monetary Stability - Can The IMF Make a Difference?

At the GAM Gilbert de Botton Award Lecture in London today, Rachel Lomax – Deputy Governor responsible for Monetary Policy – discusses the role that a refocused International Monetary Fund (IMF) should be playing in promoting international monetary stability. She outlines some steps to build on the agreements reached in September at the Fund's Annual meetings in Singapore.

In her lecture, Rachel Lomax discusses the transformation of the world economy and international monetary system over the past 30 years. Linkages between economies are greater than ever before. The interpretation of economic developments has become more challenging. And the emergence of new economic superpowers is creating a new generation of policy issues. She says, "In a more closely integrated world economy, there is a greater shared interest in identifying the risks to international monetary stability and in discussing the policy responses that might help to mitigate them".

While she sees a central role for the IMF as the permanent institution set up to promote international monetary cooperation, she argues that the Fund's current surveillance activities need to be redesigned to focus on external stability. The IMF needs to devote more time to overseeing the system as a whole. It needs to focus on the big global issues and put more emphasis on the surveillance of those countries with the most potential to create waves in the international monetary system.

She calls on member countries to agree a new framework for IMF surveillance and set an annual remit against which the Fund's Managing Director can be held accountable for its performance – an idea that was endorsed by the International Monetary and Financial Committee (IMFC) in April. "This matters because the Fund can only be effective in encouraging countries to fulfil their obligations if there is a clear and shared view of what those commitments are, and a coherent and transparent operational framework for assessing compliance. There also needs to be greater clarity about the Fund's obligations, and how it is to be held to account for fulfilling them." She outlines how the Fund could ground its surveillance in a more structured analysis of the policy frameworks that countries themselves choose to adopt, and makes some proposals about how an annual remit could be set.

Recognising that the 'traction' of surveillance depends critically on the Fund's ability to influence the policies that countries choose to pursue, she asks "... is it realistic to suppose that the Fund can have any real

influence over the countries whose policies matter most?” Part of the answer lies in “excellent analysis ... [which] can shape and inform the public debate ...that leads to action”. As Keynes is said to have remarked, “Ideas shape the course of history”. But the Fund’s influence is intimately bound up with its legitimacy. “This is why the governance agenda is so important and why there is a close link between the surveillance agenda and the second stage of quota reform.”

Rachel Lomax concludes that the current reform agenda is on the right lines. “But the Fund’s effectiveness in promoting international monetary stability will depend critically on the organisation’s stature as a trusted and respected source of dispassionate analysis and impartial advice. And it will rest above all on the willingness of its members – large as well as small – to use it as their instrument to improve the quality of their own policy making.”

<http://www.bankofengland.co.uk/archive/Documents/historicpubs/speeches/2006/speech289.pdf>