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Pros and cons of economic integration within the IMF framework: plugging loopholes in prevention of rising economic inequality and financial fragility

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Acknowledgements

Abstract

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Introduction

Chapter 1

IMF being a universal platform for global financial governance

1. History

The upheavals of the early 20th century - World War I, the Great Depression, and then the Second World War in many ways predetermined the structure and functions of the IMF.

Already after the First World War, the question about the need for multilateral interstate regulation of international economic relations was raised. So in 1921 and 1922 respectively, the Brussels and Genoa conferences were convened, which accepted the need to create a specific body that would promote economic cooperation between states. Nonetheless, their activities did not bring the expected results.

During the 1930s, several international meetings were held to address the problem of world currencies and international economic relations, but they were also unsuccessful. The Great Depression dealt a crushing blow to the world economy - between 1929 and 1932. In order to protect themselves, countries tried to restrict imports, impose a restriction on the currency, but all their attempts were unsuccessful. Instead of raising their own economies, countries have sought to undermine and weaken another`s, which is an extremely unproductive measure to combat the recession. As a result, prices for goods throughout the world fell by 48%, while world trade fell by 63%. However, the optimistic result of the Great Depression was the realising of the inextricable correlation between political protection and economic prosperity, as well as the fact that the vulnerability of national economies grows with the expansion of foreign economic relations under the power of external factors. It became clear that there is no longer any politics in isolationism, trade and currency wars, and there will be no winners.

The Second World War only strengthened the already complicated situation in the world . As a result, at the international conference in Bretton Woods, which took place from July 1 to 29, 1944, it was decided to establish the International Monetary Fund. The official date for the creation of the IMF is December 27, 1944, when 29 countries signed the final version of the agreement. The IMF was found as the agency charged overseeing Bretton Woods system in addition to promoting postwar economic growth.

Besides its oversight and global coordination role , IMF also function as an international lender: all member countries that have balance of payments problems can apply for money that would help them to cover some debt on time. It also seeks to prevent crises in this system, encouraging the adoption by states of a justified policy. So, the International Monetary Fund is a special financial institution for international monetary and economic cooperation, that is a part of the United Nations, headquartered in Washington, USA. It consist of 189 sovereign states today.

2. Mandate

The International Monetary Fund is an international financial institution , which mainly related to the BOP, the exchange rate and the global money problems. Since the mid 1970`s a lot of poorest countries benefited from the IMF`s concessional loan programs, that offers more appropriate financing terms than what private market can offer. After the oil crisis, countries had to borow from commercial banks, which led to growth in interest rates and global debt crisis as a result. By the late 1990`s IMF was particularly focused on 3 different issues related to the wold economy. First one was management of crisis especially in East Asia and Latin America. Second role was transition, while third role was development in war-torn parts of the world and low income countries (Africa) to alleviate poverty.

IMF have brought more attention due to International financial crises occuring in recent years. IMF restores market confidence in crisis countries and rebuild reserves by providing the big loan packages. By using combination of monetary and fiscal policies, structural reforms and large loans IMF try to close fastly shortfall position of some developing states in the world. This financial institution can be considered as a pool of reserves and currencies that funding member states under certain conditions.

The main goals of IMF according to Article I are:

1. Promotion of international cooperation in the monetary and financial sphere, providing a mechanism for consultations and joint work on international monetary and financial issues;
2. To promote the expansion and balanced growth of international trade and, accordingly, the growth of employment and real income, the improvement of the economic conditions of the member countries;
3. To promote the stability of currencies, maintain an orderly currency regime among member states and avoid devaluation of currencies in order to gain an advantage in competition;
4. Assist in the establishment of a multilateral settlement system for current transactions between Member States, as well as in eliminating foreign exchange restrictions that impede the growth of world trade;
5. Reduction in the duration and decrease in the degree of imbalance in the international balance of payments of member countries;
6. To make a conditions for expansion of Capital Investment;
7. To help in emergency situations

3. Functions

IMF has 3 main functions:

-Surviallance; monitoring of the global economy.

-Capacity development; giving advice to low and middle-income members.

-Lending; financial support for low-income members with low interest rate.

1. Surveillace. Article IV is the main article describing the Fund`s and member state`s duties in surveillance. Surveillance take place at each the regional and international levels and for individual states, allowing IMF find out risks and

weaknesses that can lead to financial instability in a country and replace them with the price stability and economic growth by recommending required policy actions.
3 types of surveillance:

a. *Bilateal surveillance.* Country surveillance is carried out in the form of regular (usually annual) comprehensive consultations with the individual member states on their economic policy with the implementation, if necessary, of intermediate discussions. During of this consultation IMF team members visit country in order to estimate financial and economic situation in a country, discuss financial policies by government and other governmental agencies (Central Bank). Moreover, IMF staff meet with other stakeholders to exchange views about current economic situation in a country and possible vulnerabilities. At the end, IMF team members report findings to Executive Board for discussion, which represents all the IMF`s member countries. Results of discussions transmitted to the country`s government and posted on IMF`s web site as a report prepared by the staff.

b. *Regional surveillance*. Regional surveillance is oversight during which the IMFconsiders the policy pursued within the framework of the agreements, includes, for example, discussion of Council of the situation in the European Union, the euro area, West African Economic and Monetary Union, Central African Economic and Monetary the Community and the Eastern Caribbean Currency Union. Management and staff of the IMF are also involved in supervision issues conducted by such groups of countries, as the Group of Seven (the largest industrialized countries) and the Council of Asia-Pacific Economic Cooperation (APEC).

c. *Multilateral surveillance.* Global surveillance consider review of global economic trends and developments. Each multilateral surveillance focus on specific global issue and try to facilitate a policy dialogue among countries. World Economic Outlook, Global Financial Stability Report, and Fiscal Monitor are key instruments of global surveillance publicated twice a year.

The Executive Board of IMF took significant steps modernizing policy work that have an aim of better integrating IMF controling of the global economy. Directors agreed that the integration of individual and global surveillance would help fill necessary gaps in general surveillance level.

Example. In its annual review of the Japanese economy, for 2003, the IMF Executive Board called Japan to adopt a comprehensive approach to revitalize corporate and financial sectors, to overcome deflation and eliminate imbalance of the budget.

2. Lending. According to the Article I any member country whether rich or poor, can turn to IMF for financing if it has problems related to the stability of financial system. IMF loans help member countries to combat with problems of balance of payments, stabilize economy and achieve sustainable economic growth. Financing of the IMF gives the members of the organization the necessary respite to overcome the problems with the balance of payments. The country's authorities are developing economic policy programs supported by IMF financing, in close cooperation with the IMF, while continued financial support is due to the effective implementation of the program. After reacting to the global economic crisis of 2008, the IMF strengthened its credit capacity and in April 2009 approved a significant revision of its financial assistance mechanisms, and in 2010 and 2011 adopted further reforms. IMF lending instruments have been improved to provide flexible crisis prevention tools for Member States with strong core economic indicators, sound economic policies and sound institutional frameworks for such policies. The IMF also doubled the access to loans and increased lending to the world's poorest countries. The purpose of IMF lending is to helping member country avoid desruptive economic adjustment or sovereign default, prevent crisis and unlock external financing. International Monetaty Fund
provide concessional lending to low- income states under the Poverty Reduction and Growth Facility (PRGF) and the Exogenous Shocks Facility (ESF).

3 types of lending were created to help low-income countries to solve their financial problems:

-the Extended Credit Facility (for countries with protracted balance of payment issues)

-the Rapid Credit Facility (for countries with urgent balance of payments need)

-the Standby Credit Facility (for countries with short-term balance of payments needs).

The programs of IMF can be divided into 2 parts:

a. Programs on non-concessional terms with interaste rate (the SBA, EFF and FCL)

b. Programs on non-concessional terms with zero interaste rate (the ECF, SAF and ESF)

	SBA	EFF	FCL	SAF	ECF	ESF
Length **Repayment**	1-2 years 3 - 5 years	Up to 3 years 4 - 10 years	1-2 years 3 - 5 years	Up to 3 years 5,5 - 10 years	3-5 years 5-10 years	1-2 years 5-10 years
Designed for	Middle to high income countries	Middle to high income countries	Conditions on sound institutions	Low-income countries	Low-income countries	Low-income countries
Disbursements	Quarterly	Quarterly	Single disbursement	Annual	Semi-annual or quarterly	Phased
Time period	Short-term	Medium-term	Short-term	Medium- to long term	Medium term	Short-term
Interest rate	Non-concessional	Non-concessional	Non-concessional	Concessional	Concessional	Concessional

(IMF 2012, IMF 2013h, IMF 2001)

Example. During the Asian financial crisis in 1997-1998, the IMF took decisive measures, designed to help Korea strengthen its reserves. It was obliged to provide $ 21 billion for its assistance in reforming the economy, restructuring of financial and corporate sectors and overcoming the economic downturn. For four years, Korea has achieved enough growth in the economy to return these loans and at the same time restore its reserves.

3. Capacity development. Capacity management is one of three crucial functions of IMF. IMF helps its member countries to develop the design and implementation of appropriate economic policies, including tax policy, expenditure anagement, monetary policy and others, by providing technical assistance and training. Technical assistance focuses on the implementation of policies, required to correct problems identified during surveillance and financing.So, we can say that tecnical assistance enhances the effectiveness of IMF`s surveillanve and financing. By using technical assistance and training, IMF try to consolidate human and institutional capacity of country. The largest technical assistance programs are concentrated on areas as agricultural production, health services, education and others. IMF gives advice for strengthening institutions such as Central Bank and finance ministriers. Nearly 80 percent of IMF`s technical assistance goes to low and middle income states, especially countries in Africa, Latin America and Asia.

The IMF provides technical assistance mostly in 4 following areas:
a. Monetary and financial policies
b. fiscal policy and management
c. advising legislation related to economy and finance.
d. management and improvement of statistical data (4).
Additionally, the International Monetary Fund organizes training courses for government officials, governmental institutions and central banks of the member-states at their headquarters in Washington and educational centers in Brazil, Vienna, Singapore and Tunisia.

Example. After the collapse of the Soviet Union, the IMF assisted in the Baltic States, Russia and other states of the former USSR to create treasury systems of central banks within the framework of transition from central planning to market economic systems.

Being the only international institution, which has an active dialogue practically with all countries on issues of economic policies, the IMF serves as the main forum for discussion not only economic policies of countries in a global context, but also issues that are important for the stability of the international monetary and financial system. These include:

-choice countries of exchange rate mechanisms,

-prevention of destabilizing international capital flows and

-the development of international standards and codes for policies and institutions in the relevant fields.

Acting in the interests of strengthening international financial system and accelerate the process of poverty reduction, and also supporting all Member States in economic policy, the IMF helps to use the results of globalization for the benefit of all.

4. Governance, membership and decision making.

The management of Fund consist of following bodies:

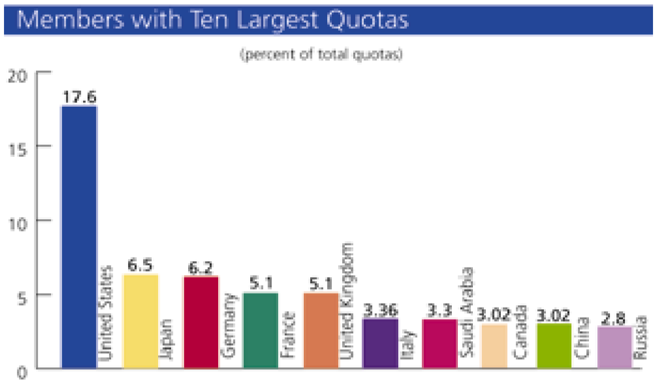
1. The Board of Governors
2. The Board of Directors
3. The Managing Director

a. *The Board of Governance*. The supreme governing body of the IMF is the Board of Governors, in which each member country is represented by the manager and his deputy. Usually they are finance ministers or heads of central banks. The Council is responsible for resolving key issues of the Fund's activities, such as amending the Articles of Agreement, accepting and excluding member countries, determining and revising the value of their stakes in capital, and electing executive directors. The IMF has a "weighted" number of votes, which implies that the ability of member countries to influence the operation of the Fund through voting is determined by their share in the capital of the IMF. Each member state has 250 "base" votes, regardless of the size of its contribution to the capital, and additionally one vote for every 100 thousand SDRs. However, this does not mean that a country can buy as many votes in the Fund as it needs to increase its influence on the decisions made in the organization. The country can buy additional votes only within its quota, which is calculated on the basis of the country's contribution to the world economy.

This procedure ensures a decisive majority of votes to the largest states. The US and the EU, can veto key decisions of the Fund, the adoption of which requires a maximum majority (85%). This causes discontent and concern for developing countries and countries with economies in transition.

The governors fulfill their primary roles during the yearly meetings which are held together with those of the governors of the World Bank. The yearly meetings provide an formal forum for statements by the Chairman and the Managing Director ; and by governors on economic improvement in their own state, the economic problems facing the international economy, and Fund policies. The meetings also specify a framework within which the governors manage their formal business (including the selection of a new chairman) and a framework for contacts with the global economic and financial community.
The main work of Board of Governors is:
- approve quota increases
-special drawing right allocations
-the acceptance of a new country as a member
-compulsary withdrawal of member countries
-correction of Articles of Agreement
-elects and appoints Executive Directors

b. *The Executive Boar*. The International Monetary Fund has 189 members now. All members are assigned a “quota” connected to the scale of its economy and other related parameters. The quota is the main determinant of the number of votes that the member state has in the institution, and it influences the scale of the country’s financial subscription to the imf and other features of the country’s financial relations with the fund. The weight of individual members’ shares in total voting power broaden widely: for instance, the largest contribution is made by the USA, about 17.5% of the total number of contributions and at the other hand, many smaller states have small voting percentage.



The Board of Governors delegated much of its authority to the Executive Board, who is responsible for managing the IMF's affairs, covering a wide range of political, operational and administrative matters, in particular lending to member countries and overseeing their policies on exchange rates. The Executive Board works on a permanent basis at the Fund's headquarters in Washington and usually meets three times a week.They are obligated for directing the business concern of the IMF.

5. Poverty reduction in low-income countries

Due to importance of well-being of society, elimination of poverty in the developing countries has become main aim to most governments and international organizations worlwide. Despite of globalization and technological progress most developing countries still face challanges in fighting poverty. Additionally, child

and maternal mortality, education and gender inequality are serious problems in most developing countries that should be solved.
More than 1 billion people all over the world live in extreme poverty. Unfortunately, the difference between the five richest and five poorest country is very big. Despite the increase in average income in the world there is still people living under $ 1.25 a day. So, reducing poverty and eliminating income inequaluty are international priority. In order to eradicate poverty and achieve significant economic growth governments established IMF.

The IMF is a currency organization, not a development organization, but it is called upon to play an important role in reducing poverty in their member states. A sound macroeconomic policy is needed for a sustainable economy, which is necessary for poverty reduction and it refers to the basic authority of the IMF. Economic growth and sustainable development have been considered as the main tools in the reduction of poverty index. For achieving poverty reduction, many developing countries worlwide accepted structural adjustment reforms offered by Bretton Woods institutions (IMF and World Bank) in the 80`s. These structural reforms included admission of flexible exachange rate policies and being open to the international trade. Through these policies, foreign investment was attracred and economic growth was promoted.

In 2000`s governments were encouraged to develop their own programs. Thus, Poverty Reduction and Growth Facility (PRGF) became central to IMF providing economic and financial policies to low-income countries. PRGF is preferential mechanism of the IMF loan facility for low-income countries. Programs, funded by the PRGF, are based on the country's own poverty reduction strategies. In September 1999, the IMF established the PRGF in order to make priorities on poverty reduction for lending operations in their poorest members. Programs financed from the PRGF are formed on the basis of their own comprehensive Poverty Reduction Strategy Papers (PRSPs) of each country.

Main features of PRGF:

First, the principle of broad public participation and greater feeling country responsibility are important to the PRGF. In this respect, discussions on the policy underlying the programs funded by the PRGF, are more open, as they are based on national PRSPs. With more high responsibility of the country, the PRGF conditions are more scant, focused on the main areas of competence of the IMF, and limited activities that have a direct and decisive impact on the macroeconomic tasks of the program.

Second, programs funded from the PRGF clearly reflect the priorities of each countries in poverty reduction and economic growth. Key policy measures and structural reforms aimed at poverty reduction and economic growth, are identified and prioritized in the process of developing the PRSP, and if they are are justified, their budgetary expenses are estimated. The budgets of countries in programs, funded by the PRGF, reflect this analysis. In addition, fiscal targets in programs funded from the PRGF, respond flexibly to the changes in the country and priorities of policies aimed at the poor layers, at the same time, providing the possibility of financing the strategy for stable and non-inflative basis.

Third, programs funded from the PRGF focus on strengthening management in order to assist the countries`s efforts in developing a focused and well-prioritized spending. Particular importance is acquired by activities to improve the management of public funds, transparency and reporting. Programs funded from the PRGF also pay attention to the impact on poverty and social issues of key macroeconomic policies.

6. Collaboration with other organizations.

Simultaneously with the IMF, the International Bank for Reconstruction and Development (IBRD) was formed, more commonly known as the World bank, to promote long-term economic development, in particular through the financing of infrastructure projects, such as road construction and the improvement of the system water supply. . IMF sometimes confused with World Bank, but unlike the other development agencies and World Bank, IMF does not financing countries for special development projects. IMF provides loans to low-income countries in order to eradicate poverty.

The IMF actively cooperates with the World Bank, regional development banks, the World Trade Organization, institutions of the the United Nations and other international organizations. Each of these institutions has its own specialization and its specific contribution in the world economy.

The IMF also participates in the Financial Stability Forum, where the national authorities of countries get together, responsible for financial stability in important international financial centers, international bodies regulating the and supervision, committees of experts of central banks and international financial institutions.

Chapter 2

IMF efforts to resolve economic vulnerabilities: encompassing inequality and fragility risks

Encompassing inequality

The great recession of the beginning of the 21st century, caused by the escalation of the global financial and economic crisis, exacerbated a number of problems of monetary and financial social and economic development of individual countries and regions, humanity as a whole. Adopted during the urgent phase of the 2008-2009 crisis anti-crisis financial and fiscal measures subsequently provoked a debt crisis in most developed countries, led to a reduction of global demand and the volume of world trade; reduction and redistribution of investment flows, a decline in the the production of goods and services, a significant increase in the level of unemployment, reduction of incomes of the population and further stratification of the world income level. UN experts in their reviews in identifying sustainable development, note that "income inequality between countries and within countries has increased and reached an extremely high level, which leads to tensions and social conflicts ". They distinguish three main mega-trends, under the influence of which global problems of sustainable development, in particular: "changing demographic profiles, changes in economic and social dynamics, technological chievements and tendencies to deterioration of the natural environment ".
Inequality of economic growth rates in certain regions and groups the level of development, the accelerated growth of some economies with market in each region contribute to the income inequalities, changing demographic profiles of countries and regions. Processes of urbanization in emerging markets, increasing income encourage growth of the population, while in developed the proportion of the aging population is increasing. These problems actualize the growth of the burden on public budgets, systems social security, health and education in all countries.

The following trends can serve justification of the above provisions on the importance of solving problems of income inequality in the context of sustained global economy:

1. At the global level, the data of the World Bank on the estimated level of gross national income (GNI) per capita, can be used for inequality analysis, updated annually on July 1.

As of July 1, 2013 grouping of countries by level GNI per capita is defined as follows :

Low-income countries: US $ 1,035 and below (36 countries: only two countries in the region of Europe and Central Asia - Kyrgyz Republic and Tajikistan) »

Countries with incomes below the average: $ 1,036 - $ 4,085 (48 countries, incl. Armenia, Georgia, Moldova, Uzbekistan and Ukraine);

Countries with incomes above the average level: 4 086 - 12 615 USD (66 countries, including Azerbaijan, Belarus, Bulgaria, Hungary, Kazakhstan, China, Macedonia, Romania, Serbia, Turkey, Turkmenistan, Montenegro);

High-income countries: USD 12,616 and higher (75 countries).

The richest countries in the world in this indicator are: Monaco (almost 187 thousand dollars), Liechtenstein (137 thousand dollars), Bermuda (107 thousand dollars), Norway (99 thousand dollars), Switzerland (83 thousand dollars). Total share of these five countries in the world output is less than 1%.

The poorest countries are Congo, where the annual income per capita does not exceed $ 230. United States, Burundi ($ 240), Li- Beria ($ 370), Ethiopia ($ 380) and Niger ($ 390).

The difference in the income of the richest and poorest countries is over 800 times.

2. Inequality of countries in terms of GDP according to the World Bank is also determined by rating estimates. Surely, leader is the USA. Thus, 75 high-income countries produce almost 70% of the world's GDP and 103 middle-income countries - slightly more than 30%. In the group of low- and middle-income countries, more than half of the produced goods is concentrated in the Asia region

(32 East Asian countries & Oceania and South Asia), and the smallest contribution to world GDP is made by 47 countries in sub-Saharan Africa and 21 in Europe and Central Asia.

3. Income inequality within countries. The IMF estimates that seven out of ten people in the world live in countries where over the last three decades inequality increased. "According to Oxfam, the 85 richest people in the world have such the same amount of wealth as half the world's population with the lowest income ". In the USA, "1 percent of the richest received 95 percent of the increase income from 2009, while 90 percent of the population with lower income became poorer. In India, the net total value of assets of billionaires for 15 years increased by 12 times, this amount is twice the amount of funds, necessary for the elimination of absolute poverty in the country ".

Inequality of changes in demographic profiles. As noted K. Lagarde, in the next 30 years, the population on the planet will increase by two billion people, of whom more than 750 million are older than 65 years. In the regional aspect, the number of youth in the regions of Africa and South Asia, and the population of Europe, China and Japan will grow old and shrink. It is predicted that in the coming decades, India will surpass China by the number of population, and Nigeria surpass the United States. At the same time, the population of India will grow old. It can create problems for both young and graying countries.

Realizing the importance of the problem, the staff of the IMF published a new a report on fiscal policy and income inequality, development of effective measures of fiscal policy on the redistribution of fostering economic growth, as well as a number of public on this issue. The authors of the report note the variety of policy measures for redistribution of income in solving the problem of inequality. For example, in countries with developed economy "have been able to reduce inequality by third with a combination of social transfers (for example, benefits on social security and pensions) and redistributive taxes (for example, progressive taxes on income). " Among the additional measures - benefits and public spending on health, education and league

In developing countries, fiscal policy plays a more modest role. The amount of tax revenue and expenses for distribution in developing countries is much less, except for countries of Europe with an emerging market. Traditional for these countries taxes for consumption are less effective when redistributed than for tax revenues. Similarly, in the expenditure part of these countries, lower than in advanced economies, especially social protection.

In addition, the authors of the report found that "a large proportion of social expenditure in developing countries is beneficial to populations with higher incomes. With the exception of the countries of Europe with emerging market, the poorest 40 percent of the population receive less than 20 percent benefit from social protection costs ". In the sphere of education expenditures, health in many developing countries to the poorest 40 percent of the population has less than 40 percent of the total benefits from these expenses ". The poor often do not have access to these services, that causes inequality of opportunity and low mobility between generations.

Criticism of IMF

In Africa, voices of protest against blindly following the recommendations of the IMF and the World Bank are increasingly heard. So, the well-known Nigerian scholar and public figure K. Ake directly stated that it is necessary to completely abandon structural adjustment programs. According to the economist from Sierra Leone G. Lardner, structural adjustment leads the continent from one crisis to another, from poverty to impoverishment.

American economist Joseph Stiglitz also voices a lot of criticism about IMF policies in developing countries. In particular, he cites the example of Ethiopia, where the IMF policy failed to bring the country to a new level of development, it still remains one of the poorest countries in Africa.

Analyzing the policy of MFIs in different parts of the world, one can not also fail to recall the Asian crisis of 1997. It, like the Mexican crisis, was the result of a deficit in the balance of payments. The Asian financial crisis has become a vivid example of the financial policy fiasco of the IMF, an organization that was created precisely to overcome such crises, but was unable to stabilize the situation, and even vice versa - has become one of the factors of deepening the crisis. "It would not be an exaggeration to say," stressed M. Friedman, "that if there had not been an IMF, there would not have been an East Asian crisis either." Some economists even began to call for an end to the activities of the IMF in general, in the form in which it exists now.

If the Asian and Latin American crises were caused by similar factors, the Russian crisis of 1998 had a slightly different basis. After the collapse of the Soviet Union, the country took the road of transition from an administrative to a market economy and it required significant funds for the implementation of reforms. Russia began actively to attract international financial resources, as a result of which the external debt began to grow rapidly. Due to the fact that the Russian government failed to implement the structural reform program developed with the IMF and unilaterally restructured domestic debt, the IMF stepped aside and suspended payments, but promised to restore financing if the Russian government returns to economic reform recommendations of the fund.

According to Joseph Stiglitz, a decade of transition showed the failure of not only those who advised Russia, but also the neoclassical model of the economy. According to Stiglitz, the set of necessary tools and development goals is much broader than that proposed by the Washington Consensus. The goals of development are the improvement of living standards, including the improvement of health and education systems, the preservation of natural resources and the environment, the development of democracy and participation in the decision-making process. Thus, the monetarist strategy imposed on Russia by the IMF actually led to the collapse of the national economy. In the public consciousness, the idea was introduced that the slightest step in the emission line is fraught with hyperinflation. It is only natural that in a country that experienced hyperinflation such "recommendations" fell on fertile ground. As a result, the economy collapsed from lack of money, imports flooded the trade and economic space. Hence the logical question arises: did the IMF in relation to Russia and other developing countries have been so impartial as it is supposed to be by status? J. Stiglitz said something like this: "Frankly, the IMF takes too much care of the interests of Wall Street."

In some countries, for example, in Latin American countries (also far from all in all), the programs of market transformation of the economy have yielded the appropriate results, in others, as in most countries in Africa, there are very few positive changes in the direction of the civilized market, IMF policy and the World Bank, aimed at stimulating economic growth and combating poverty, did not bring the expected results.

If we try to analyze why a number of programs of the IMF and other MFIs did not achieve their goal, and sometimes even worsened the situation in the regions that suffered from the crisis, there are several reasons.

First, the policies of these organizations are mainly determined by developed countries. Secondly, economists who work in MFIs, although they have a very good education and are familiar with the problems of developing countries, do not know the underlying nature of the problem, and therefore it is very difficult for them to develop an effective plan of action and determine policies for a specific country. Thirdly, very often the conditions for obtaining financial resources became the IMF's requirements for the rapid implementation of privatization and liberalization in countries that are on the path to transition to a market economy. Fourthly, attracting foreign investment quite often became one of the main goals when implementing the stabilization programs of MFIs. Fifthly, the activities of MFIs often lack transparency in the development of their programs and strategies, the decision is often taken behind closed doors, although the IMF and other organizations are not private entities.

Theoretically, the IMF method is almost flawless, but its practical value does not always manifest itself. Vulnerable modernization place in the IMF - huge social costs: property stratification of society, deindustrialization and unemployment, a decrease in the standard of living of the population, an increase in domestic and external public debts. This "shock therapy" practically does not envisage spending on the social sphere.

From the above, it can be concluded that the time has come when it is necessary to reform international financial organizations whose ultimate goal should be that MFIs can effectively use their resources to resolve crisis phenomena in the global economy and combat the negative consequences of globalization.

All this in a complex, as well as measures to reform the international financial organizations themselves, of course, require a long period of time. At the same time, it is very important to be open to this process, to carry out complex studies on this topic and to discuss the results of such studies so that all possible negative consequences of their implementation can be identified and minimized.
Sharp criticism of the IMF led to the fact that in recent years the reputation of the foundation has seriously suffered. Therefore, since 2000, there has been a tendency to reduce its interference in the internal affairs of countries. The IMF is trying to determine its place in the modern system of international economic relations and is focusing its efforts on preventing the global financial crisis, the threat of which is becoming increasingly clear against the backdrop of rising world energy prices.

Chapter 3

Accompanying stable financial recovery from macroeconomic contagions with microeconomic roots

Future of IMF.

In the IMF there is something like funk. IMF warnings are rarely taken into account. Voting aboard the IMF no longer reflects the current economic influence of countries, casting doubt on its legitimacy as a judge of global problems. There is a growing need for regional institutions to address regional financial problems. The IMF's key source of influence in the 1990s and the early years of this decade - its ability to allocate a reserve to countries in need of assistance seems less relevant to a world in which many emerging market countries have too many reserves, not too few, and spend too little, not too much. Barry Eichengreen took the IMF's present ailment well when he called the IMF "a steering boat floating in a sea of liquidity." There is no doubt that the IMF should develop together with the world economy. There should also be no doubt that the global economy needs a strong IMF. The choice of the policy of each country, acting independently or the actions of individual market participants, the search for their own direct interests, can jeopardize international monetary and financial stability. A global institution, such as the IMF, is necessary for:

• At an early stage, identify potentially dangerous imbalances in the global economy and encourage countries to take action to reduce these imbalances. If the imbalance reaches a dangerous level, the IMF can help ensure a coordinated global response to large disparities, since effective policy responses may require adjustments in both debtor countries (now in the US) and creditor countries.

• Serve as a referee for exchange rate disputes. The IMF must assure that countries do not use their exchange rate policies to prevent the necessary adjustments in the global current account; A likely alternative to a global judge is unilateralism and growing protectionism.

• Coordinate the provision of crisis liquidity - due to the necessary policy adjustments - when uncoordinated actions of market participants lead to liquidity escape, which can lead to costly crises. Crisis situations in developing countries with a developing economy can affect the whole world, not just a single country and its creditors. In addition, lending, when others can not and thus help shape the policy adopted by the debtor in the event of default, the IMF can help in coordinating the restructuring of sovereign debt.

While the IMF shareholders, management and staff do not shy away from solving the main problems of the world economy, the IMF will remain at the center of joint efforts to solve global financial problems.

Most key players in the global economy are likely to conclude that a reformed global institution capable of providing global solutions is preferable to regional solutions. Financial protection of countries is not checked when global growth is strong, global interest rates are unusually low, and private capital flows to emerging markets, but when growth slows, interest rates rise and private capital flows. The IMF should take advantage of this period of tranquility to update its credit policy. And addressing global imbalances requires more, no less, IMF oversight.

Regionalism is an unattractive substitute for reformed global institutions.

Asia threatens to create the Asian Monetary Fund; The US seems to be disappointed in multilateral institutions, often preferring a one-sided approach; Europe turns inward, preoccupied with its problems. A world in which Asian economies work together to take care of financial problems in Asia, Western Europe protects candidate countries in Eastern Europe, and the United States unilaterally reacts to problems in Latin America, and it is impossible to imagine a strategically important Middle East.

This is a world where global institutions, such as the IMF, will be marginalized. Its competence, in practice, if not in theory, will be limited to countries that go beyond the orbit of the regional "financial" hegemon. The IMF has established a framework for macroeconomic policies for African countries dependent on flows of concessional assistance from the G-7 and other rich countries, but does little. The activities of the IMF and the World Bank will become harder and harder to distinguish from each other.

This vision has serious problems. Its "architecture" leaves truly global problems without attention, at a time when a truly global problem is piling up across the world economy - the so-called global imbalance. Surpluses that finance the unprecedented external deficit of the United States are found all over the world - in Asia, in places with a lot of oil and even in some European countries. A coordinated global effort to stimulate demand in all surplus regions will facilitate the reduction of the US deficit - provided, of course, that the US is also prepared to take steps to reduce the need for external financing.

Moreover, relying on regional hegemons and institutions to solve regional financial problems is not without difficulties. The first impulse of the United States, faced with a crisis in the backyard - in Mexico, was to take care of the problem on its own. But the plan of the Clinton administration that the US government guarantees a large Mexican bond faced problems on the Capitol Hill. The Clinton administration came to the conclusion that it is better to share the burden of the credit crisis around the world - and worked hard to create the IMF lending capacity, rather than the bilateral credit potential of the United States. Oddly enough, the Bush administration, as a rule, does not have a friend of multilateral institutions or permanent alliances, with its actions, if not its rhetoric, recognized the wisdom of a multilateral approach. Look at the large IMF loans provided to Argentina, Brazil, Uruguay and Turkey. The EU's own institutions for regional cooperation are well developed, but its institutions for granting rescue loans are not. Neither the Commission nor the ECB are created in such a way as to facilitate the financial "salvation" of current and future candidate countries.

The Asian regional response to financial problems in a major Asian economy poses even greater challenges. The potential financial hegemons of Asia-Japan and China-are themselves strategic rivals. Their ability to act together remains

unchecked. Asia likes to complain about the conditions of the IMF, but it is unclear that either Japan or China - as traditionally stingy creditors on a bilateral basis - will be willing to provide $ 20 billion to an Asian country in distress, without stringent conditions; However, concerns about regional
solidarity can create serious harsh conditions for one Asian country to another. Continuing to attract external crisis conditions to global institutions remains the best alternative to the development of effective regional institutions, since the world needs institutions that can reach agreement on complex issues.

IMF Governance Reform.

All three key regions in the world economy have reason to prefer an effective global financial struggle with purely regional solutions. And, fortunately, the reforms needed to resume the global legitimacy of the IMF are relatively simple - at least in comparison with the reforms needed in other key post-war international institutions. The necessary reforms do not require a change in the Fundamental Principle of IMF management, which is one dollar (one SDR) per vote, not one vote per country or per person. They simply require a transfer of the distribution of the "chairmen" of the IMF and "shares", so that they reflect the current economic influence of countries, and not their economic influence in 1950, 1970 or even 1990. Currently, Europe is clearly overrepresented, and Asia is clearly represented. 2 The main contours of the solution are well known: the weight of the voice in Asia needs to be increased; and it is necessary to reduce both the weight of voting in Europe and the number of chairs occupied by European countries. Even if the Eurozone does not want to consolidate its representation into a single chair, there is no reason, for example, why the Benelux countries should have two chairmen on the board of directors.

The US is not overly represented, but the revival of the IMF will be much easier if both the US and Europe show some flexibility. Europe needs to recognize that it will not maximize its real power if it retains a redundant position in an institution that plays a smaller and smaller global role. And the US should recognize that changing the way to divide an existing pie is politically much more difficult than growing a growing pie a little differently. If the resources of the IMF are allowed to grow in accordance with the growing global economy, it will be much easier to redistribute the relative share of quotas from Europe to Asia.

The IMF must remain prepared for a more volatile world.

The case against the larger IMF is simple: the IMF currently has the same amount of money as it needs. However, this sight is short-sighted. Capital will not flow from the relatively poor emerging markets in the US forever. With a high degree of economy, Asia can finance its own development, although traditionally fast-growing Asian economies also did not finance the United States. But low savings regions, such as Latin America and Africa, are unlikely to be able to sustain the investments needed for rapid growth without using global savings. Private flows to emerging markets have already returned to pre-crisis levels, although right now, that the private flow finances extraordinary levels of accumulation of reserves in emerging markets, rather than a large current account deficit. But even today, not all emerging markets are in excellent shape. Some emerging market countries - most notably China - clearly have more reserves than they need. But others - Brazil, Turkey, the Philippines and Indonesia, for example - do not. All these countries have large reserves of domestic debt and relatively small reserves, and one of the lessons of recent crises is that if nationals lose confidence in their government's ability to fulfill its financial obligations, the crisis soon follows.

We must not forget that IMF lending reached its peak in 2003 - not in 1998, but in mid-2005 the IMF had a large reserve of outstanding loans than in mid-2000. The forecasts that the IMF should no longer be ready to lend to countries that temporarily do not have currencies are premature. The IMF should use the current lull to learn from this experience and develop policies that clarify when needed and when it should not. Neither large loans granted to countries (temporarily, they hope) can not be repaid in foreign currency or major restructuring of public debt.

But without the momentum of a real crisis, the pressure to develop a more realistic IMF lending policy has disappeared. The IMF's major shareholders (the G-7 countries) are theoretically committed to trying to return the IMF's traditional credit limits - limits that have not been met in the face of major crises since Mexico. The irony is clear: Group 7 wants to reduce the ability of emerging economies to borrow reserves from the IMF at a time when emerging economies have concluded that they need far more reserves to navigate the turbulence caused by volatile international capital flows.

The lack of greater readiness for an honest dialogue on the role of IMF lending is unsuccessful. There are many important problems to solve. Not only is there a big gap between the amounts that the IMF believes it will provide and the much larger amounts that it actually provided in recent crises, but it is also clear that the IMF, in times of crisis, has done much more than simply provide reserves to meet short-term financing needs, the classic role of the lender of the final resort. In some cases, the IMF looked more like a long-term financier in extreme cases to strategically important countries. Turkey is a prime example - the IMF financed a long-term program of fiscal consolidation so that Turkey grew out of the debt problem. Turkey looks successful, but it is still not clear to us that the IMF should engage in long-term financing for middle-income countries.

Application G-7 (without much confidence) that the IMF should never again issue large sums. Emerging economies often say that the IMF should always provide large amounts to help avoid debt restructuring (or changing its exchange rate regime). None of them is right: a reasonable compromise will raise the IMF lending limits to reflect the country's need to increase the amount of borrowed reserves, but also expressed the hope that the IMF funds will be provided only for short-term needs.

The IMF, structured to issue large sums, but which provided only large amounts for really short-term needs, could not provide each developing market with a credit line necessary to prevent debt restructuring. The key lesson of Argentina is that if a country starts with a high level of debt (especially when combined with a revalued exchange rate), IMF funds should be used to "mitigate the impact" of restructuring, and not to fund a futile attempt to avoid any restructuring - and, in the case of Argentina, support an overvalued exchange rate. After Argentina defaulted, the IMF - in part because it lacked the support of the US Treasury - largely abandoned its role as a crisis manager and did not work to create an economic framework that could affect the debt restructuring Argentina. The United States wanted to leave economic policy negotiations with Argentina and its private creditors; in practice, this policy of "hands-off" meant that Argentina unilaterally decided how much it wants to adjust, and how much it can pay. The IMF still needs an analysis of debt sustainability and helps the debtor in default (or needs debt restructuring) to set out an economic adjustment program that provides the basis for rapid reconciliation of debt restructuring and rapid economic and financial recovery.

The absence of a greater willingness to engage in an honest dialogue about the IMF's lending role is unfortunate. There are plenty of important issues to resolve. Not only is there a large gap between the amounts the IMF in theory says it will lend and the far larger amounts that it has actually lent in recent crises, but it is also clear that the IMF – in times of crisis – has been pushed to do far more than just lend out reserves to meet short-terms financing needs, the classic role of a lender of final resort. It some cases, the IMF has acted more like a long-term financier of last resort to strategically important countries. Turkey is a prime example – IMF financed a long-term program of fiscal consolidation to let Turkey grow out of a debt problem. Turkey looks to be a success, but it is still not clear to us that the IMF should be in the business of long-term financing for middle-income countries. The G-7 claim (without much credibility) that IMF should never lend out large sums again. Emerging economies often say the IMF should always lend out large sums to help avoid debt restructuring (or change in its exchange rate regime). Neither is right: a sensible compromise would raise the IMF's lending limits to reflect country's need for more borrowed reserves, but also set out stronger expectation that IMF funds would be lent out only for short-term needs.

An IMF structured to lend out large sums, but that only lent those large sums for truly short-term needs would not be in a position to give every emerging market the credit line needed to avoid any debt restructuring. A key lesson from Argentina is that if country starts out with high levels of debt (particularly in conjunction with an overvalued exchange rate), IMF funds should be used to “soften the blow” from the restructuring, not to finance a futile attempt to avoid any restructuring – and in Argentina’s case, maintain an overvalued exchange rate. After Argentina defaulted, the IMF – in part because it lacked support from the U.S. treasury -- largely abdicated its role as crisis manager, and did not work to set out an economic framework that would guide Argentina’s debt restructuring. The United States wanted to leave economic policy negotiations to Argentina and its private creditors; in practice, this “hands-off” policy meant that Argentina unilaterally decided how much it wanted to adjust, and how much it could pay. The IMF remains needed to perform a debt sustainability analysis and help a debtor in default (or needing a debt restructuring) set out an economic adjustment program that creates the basis for rapid agreement on a debt restructuring and quick economic and financial recovery

Management of the international monetary system.

Now the most pressing problems facing the Fund do not focus on lending to the Fund, but rather on the Fund's ability to encourage countries to take the steps necessary to prevent the growth of financial vulnerability to a level that could become a serious crisis. And even more unusual, the biggest risk of the crisis is not in the developing world, but rather from the largest shareholder of the Fund - the United States.

In recent years, innovation in IMF surveillance has largely been driven by the need for more effective work to identify potential vulnerabilities in emerging market economies. The Fund pays more attention to the health of the country's banking systems - as is necessary if its lending is often used so that the national central bank can act as a lender of last resort in dollars (or euros) in its local banking system. The Fund specified an analysis of debt sustainability - as it should if it wants to differentiate temporary liquidity problems that can be financed by short-term money and deeper solvency problems that can not be financed. And this is more like the so-called balance vulnerabilities, such as currency mismatches that remain widespread in many emerging economies.

Now it's hardly time to stop worrying about these vulnerabilities. One of the advantages of the global institution is that it can learn from the problems of a wide range of countries and help countries in one part of the globe avoid making the same mistakes as countries in another region. Many emerging market countries remain far from a truly clean financial account. Large external deficits and growing external debt burden are clearly less dangerous than in the past. But the level of domestic debt remains high - and in a globalized world, if citizens lose confidence in the government or local banks, they will quickly transfer their funds abroad. If global growth slows or interest rates in the US suddenly rise, some of these hidden vulnerabilities can come to the fore. However, while overseeing the Fund should do more than just seek to identify financial vulnerabilities in emerging markets early enough that they could be remedied without a crisis. The Fund also needs to define a national policy that acts as an obstacle to the global adjustments necessary for an orderly rebalancing of the world economy. The Fund, without hesitation, urged the United States to implement a more ambitious fiscal adjustment program aimed at eliminating the budget deficit. Unfortunately, the United States has so far decided not to listen to the Fund's advice. Until now, the Fund has been less willing to identify policy changes needed in excess countries. Observation of the IMF was somewhat asymmetric. IMF, correctly, argued that the US fiscal adjustment program is not ambitious enough, but she said nothing like a reassessment of China (a tiny) yuan

The Fund faces two problems in monitoring excess countries. One of them, at least in part, consists of his own decisions: it is inconvenient for the Fund to act as a referee who refers to improper pegs of the exchange rate and, ironically, given his mandate, is usually much less convenient when exhibiting policy advice exchange rate of the country, rather than the country's fiscal policy. This is true when a country such as Argentina actively intervened in maintaining an overvalued exchange rate, and this remains true when countries such as China, Malaysia, Russia and Saudi Arabia are actively intervening to prevent the recognition of their currencies. The constant protection of Argentina by its exchange rate has jeopardized its own financial health. China's continued support of the US dollar did not directly put its own financial health at risk, but its current effective peg to the dollar is an obstacle to global adjustment. Secondly, monitoring the Fund for individual countries tends to focus exclusively on that country, rather than integrating into a wider program to encourage global adjustment. The Fund's research department publishes periodic assessments of the likely impact of various possible policy steps, but this analysis is still separated from the Fund's ongoing dialogue with member countries.

However, large deficit countries, such as the United States, can reduce their deficits only if surplus countries also reduce their surplus. The current account surplus of China is currently growing rapidly, despite a significant increase in the oil import bill. There are two big problems here. First, many surplus countries - China and Saudi Arabia - tightly tied their currency to the currency of the world's largest deficit country. Secondly, many of these countries maintain pegs to the exchange rate, which leave their currency undervalued against the dollar - and against all currencies that have been valued against the dollar since 2002.

The Fund's reluctance to go beyond fuzzy calls for greater flexibility and to identify countries with undervalued currencies reflects its desire not to become a club that beats Asia, especially at a time when Asia is underrepresented within the Fund. But the alternative for the IMF to act as an arbiter, which determines when the exchange rate policy of countries acts as an obstacle to global adjustment, is not a continuation of the status quo. The tension is growing. If the IMF does not act, the US will eventually take the law into its own hands and accuse China of manipulating the currency and acting as a plaintiff, judge and jury in the process.

Such a one-sided approach would not be a good result for the international financial system.
Observation of the IMF exchange rate was too weak. But the IMF still has to act cautiously. The IMF should focus on all exchange rates that hinder global adjustment, and not just those that are most politically important in the US. If oil prices remain high, as futures markets predict, dollar pegs of oil exporters are likely to be as much a barrier to global adjustment as China's peg. He must constantly remind the United States that if countries with excess percentages adjust, the US will also have to adjust. And the IMF should know that an appeal to the China's exchange rate regime is hampering a global adjustment may have more influence than calling the US budget deficit an obstacle to global adjustment. In fact, the major creditors of the United States - right now, China, India, Russia and Saudi Arabia - have not reduced their funding to the US after the US said it plans to ignore the IMF's financial recommendations. But the US could well have started a process that would have led to significantly higher tariffs on Chinese goods if China ignores the IMF's explicit signal that it is tied to the dollar at a too low level. The renewed focus of IMF surveillance on exchange rates, exchange rate regimes and the global balance of payments is not just a necessary response to global currency imbalances. Looking ahead, it is reasonable to expect big changes in the world's currency and exchange rates over the next few years. Hong Kong is unlikely to unite a de facto monetary union with the US and a political alliance with China forever. Asia as a whole is likely to find another way to maintain the stability of intra-Asian exchange rates, except by linking its currencies, formally or unofficially, with the US dollar. Oil exporters are better served by linking to the Canadian dollar or other "commodity" currency than to the US dollar. Probably there are too many currencies in Africa. New monetary unions may form. Some smaller countries can dollarize or europeanize. As the mechanisms of the exchange rate develop, the IMF should work to ensure that national elections are consistent with the global interests of financial stability, and countries do not solve national problems, increasing their costs to the rest of the world.

Conclusion.

Global financial integration, the growth of EMDC and the emergence of the euro area create serious problems for the IMF. The Fund responded by revising its supervision, adjusting its credit policy, increasing available resources and (with some delay) the work to remedy the underrepresentation of EMDC. Nevertheless, the reform process is incomplete, and the remaining steps are rather steep. They require the political participation of members and influence the fundamental role of the institution. Large-scale consensual reforms have been implemented, such as re-observation or adjustment of types of credit instruments. If the IMF really has to transform itself to meet the needs of the world economy, it must achieve more and strive for fundamental reforms in the field of lending and management. The reforms discussed in this paper are aimed at addressing the problems facing the Fund with respect to its authority, resources and legitimacy. These fundamental reforms are designed to strengthen the analytical independence of the IMF and the effectiveness of its lending and to promote the fair and effective representation of members. Our proposals complement each other, creating an agreed framework that will allow the IMF to fulfill its mandate to maintain the stability and effectiveness of the international financial system. An important objective of these proposals is to increase the analytical independence of the Fund and a clearer division of analysis with the decision-making process, thereby enhancing its objectivity and credibility. Fundamental changes are needed in the structures of accountability and decision-making of the Fund, so that the Fund can obtain the objectivity necessary to restore trust, both EMDC and AE, and encourage them to interact constructively with the advice of the IMF. Such reforms are necessary if the Fund should strengthen its attitude towards the policies of members in the world, where its resources are limited, but the systemic vulnerability has increased dramatically.

The main component of increasing trust is a clear understanding of the economic and political and economic conditions of members. It is noteworthy that, if the Fund receives traction and trust in the members of the eurozone, it must ensure that its supervision and program development are properly oriented towards monetary unions. It must take into account the region as a whole, using bilateral supervision, to introduce and improve surveillance of the euro area, rather than analyzing country analyzes of euro zone policies, as is currently the case.

These proposals are also aimed at ensuring that the Fund receives more of its limited resources in the world, where the demand for its loans could become very acute in the event of a systemic crisis. Stronger credit conditions are one way to restrain the behavior of creditors and debtors with respect to moral hazard, minimize the possibility of judging and political pressure, and help coordinate the actions of creditors and debtors in the event of debt restructuring. Clarifying the role of the IMF in joint lending programs will help the Fund to maintain its integrity before large shareholders or in programs in which it is a secondary lender. Finally, these proposals are aimed at increasing the legitimacy of the IMF through accelerated quota reform and better alignment of country responsibilities with the IMF mission. In particular, both the IMF and the euro area could benefit from better policy co-ordination with the right to vote in the Fund. Moreover, only thanks to the honest representation of EMDC and the dedicated efforts to counter the perception of lack of indifference, the Fund will be able to effectively fulfill its global role.

The proposals proposed in this document are not easy to implement, in part because there is unlikely to be a consensus on their desirability. Nevertheless, they represent a single basis for the creation of a stronger, more effective Fund. Bold changes and determined commitments by members are needed to keep the IMF, and with it, broad multilateralism, at the center of the global economic and financial system, rather than being diluted by the growth of alternative mechanisms.

Recommendations for the IMF are focused on broad governance issues that, in the opinion of the IEO, are the basis for the problems identified in this evaluation.

Recommendation 1: **The Executive Board and Management should develop procedures to minimize the possibility of political interference in the technical analysis of the IMF.**

While there is a number of views on the role of policy decisions that should play in the IMF's decision-making, there is a broad consensus that if political judgment is to be implemented at all, it should be implemented at the Executive Board level in a transparent manner. Trust in the IMF is due to the technical competence and independence of its staff, and the Managing Director must ensure that his technical work is protected from political influence.

Such procedures may include several elements. For example, staff can be encouraged to conduct a thorough analysis based on realistic program assumptions and be transparent in explaining how it came to a specific conclusion. When analytical concepts (for example, the risk of adverse systemic effects) are at the center of decisions, there must be a presumption that they are supported by a clear analytical basis for evaluation. If high-risk programs are submitted for approval, alternatives and trade-offs can be provided to the Executive Board or an explanation of why the proposed solution was preferable to other alternatives. Similarly, when the IMF cooperates with another conditional lender, the Council may be informed of whether there are areas of disagreement and, if so, how the differences (or proposed) are resolved.

Recommendation 2: **The Executive Board and management should strengthen existing processes to ensure compliance with agreed policies and not modify them without careful discussion.**

The Council should strengthen existing processes to ensure compliance with agreed policies so that this policy does not change without full and formal discussion and that any necessary corrective actions are taken in a timely manner. Management, for its part, should consult with the Council before when policy changes are needed, and should not wait until formal review is planned to discuss the necessary changes. The reformed exclusive access system adopted in January

2016 leaves room for discretion in circumstances where the debt burden is assessed as sustainable but not with high probability, taking into account a number of options that could meet the prescribed requirements. This puts the Council in great responsibility to ensure that all future requests for exclusive access, especially in cases where debt obligations have not been assessed as sustainable with a high probability, have been duly justified and that financial commitments from other sources can be reliably justified

In this regard, the Executive Board should learn from the implementation of the policy of exclusive access during the crisis in the euro area, especially with regard to the volume and timeliness of the information provided and policy issues presented at informal sessions. The Council should consider why and how the information gap has arisen, and whether any asymmetry between the Executive Directors will be of concern if similar mistakes are made in the future.

Recommendation 3: **The IMF should clarify how the programming guidelines are applied to members of the monetary union.**

The IMF has long recognized that for countries that are members of monetary unions, the design of the program and the conditions should differ from that for countries with a flexible exchange rate and an independent monetary policy (see IMF, 1994a). The policy commitments in the monetary union are shared between national and trade union bodies. The implications of this split for Article IV consultations are clearly addressed in various IMF monitoring decisions and related guidance to staff. But the 2002 Guidelines (IMF, 2002b) and the revised note on operational guidance for IMF staff (IMF, 2014) do not explain how the programs supported by the IMF will approach dividing the policy responsibilities in the monetary union from the point of view of developing programs and conditionality.

The IMF should conduct a comprehensive review and formal discussion of its approaches to lending members of monetary unions. Issues that need to be clarified include: (i) Who should / should / should the IMF bear the primary responsibility for crediting a member of the monetary union - only the borrowing country, the union as a whole or the global financial system? (ii) How should the IMF balance the objectives of lending in the best interest of the member and avoid measures that are detrimental to systemic stability? (iii) Is it possible to lend directly to the currency union without amending the Articles of Agreement? (iv) What would be the circumstances and conditions for setting the conditions for the institutions of the Union level? (v) What is the appropriate role of the regional central bank or other Union-level institutions in the discussion of programs with the member country? (vi) What options are available for the IMF to make changes to the trade union policies that might be required for the success of the member program?

The introduction of a clear approach to the issues arising in the countries of the monetary union will lead to the fact that the existing rules of conventionality will be consistent with the policy and practice of surveillance, and will promote more impartial treatment of members in different monetary unions.

Recommendation 4: **The IMF should develop a policy of cooperation with regional financial mechanisms.**

It can be expected that such a policy will protect the technical judgments of the IMF from political influence. As for his participation in the euro area, in the 2012 Treaty establishing the European Stability Mechanism (ESM), ESM proposes "very close cooperation" with the IMF in providing support to a member of the eurozone74. The written principles of joint lending operations coordinated by the IMF Head with the head of the ESM and approved by the relevant councils, will provide clarity to all parties and increase the legitimacy of the IMF and ESM cooperation.

Areas in which clarity can be achieved include: (i) the exchange of confidential information; (ii) procedures for eliminating differences in views at the mission level and above; (iii) avoidance of cross-conditioning and uncoordinated conditions, especially in overlapping policy areas such as fiscal policy, financial sector restructuring and structural reforms, and in the event that one agency decides to act without others, a common understanding for such actions, including the scope of the informal communication before the adoption of a formal decision; (iv) efforts to reduce the burden placed on country authorities by large teams and duplication of information requests; (v) the implications for the actions of another institution of delinquent liabilities or debts to one institution by the borrowing country, 75 and (vi) the conditions for requests to the IMF to provide technical assistance, for example in the case of Spain, and the conditions to be used by the IMF.

Similar agreed cooperative principles, adapted to the circumstances of each regional financial mechanism (RFA), will also prove useful for the possible participation of the IMF in such agreements. The IMFC called for the development of such principles in the spring of 2011 (IMFC, 2011) and the G20 approved six irreversible broad principles of cooperation in the autumn of the same year, but no formal discussion was held in the Executive Council.76 In October 2014, Discussion of the IEO's assessment of the IMF's response to the financial and economic crisis (DOE, 2014c) "generally supported the recommendation of the [DOE] to develop guidelines for better structuring commitments with other organizations and clarifying the IMF's role accountability, in order to further protect the independence of the IMF and to help ensure uniform treatment of all Member States ", while noting the need to be" flexible and pragmatic adaptation to specific circumstances "(IMF, 2014c). As the staff (IMF, 2015c) notes, for the Executive Board this is a convenient time for a formal discussion of the G20 principles for cooperation between the IMF and the RFA and the development of principles adapted to each RFA. Any agreed principles for cooperation will be beneficially supplemented by operational guidelines for IMF staff to facilitate their consistent application.

Recommendation 5**: The Executive Board and management should reaffirm their commitment to accountability and transparency and the role of independent evaluation in promoting good governance.**

Management, staff and the Council should avoid actions that can be seen as hindering evaluation efforts; this can lead to a lack of valuable training opportunities, as well as potential damage to the IMF's trust. Ex post assessments in accordance with the Fund's exclusive access policy should continue to be prepared in accordance with the guidelines and on time. In addition, the Council should establish or confirm clear guidelines: (i) how to keep a record of the process through which important decisions are taken on staff and management programs; (ii) the preparation and preservation of the records of informal meetings of the Council; iii) access of DOEs to confidential documents in the presence of constant sensitivity and with what time delay such documents should be available; (iv) the way in which the DOE-IMF staff interact; and (v) how the IEO can help the IMF learn timely lessons by providing greater clarity as to its terms of reference regarding what it can or can not assess. In this regard, the IEO is already working with staff to address some of the problems that it faced in carrying out this assessment. The DOE welcomes staff initiatives to develop a clear protocol for its interaction with IMF staff in future assessments.

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