



The New Global Financial Order

**Conference on Policies for Growth and Financial Stability Beyond
the Crisis – The Scope for Global Cooperation**

**Mumbai,
October 2010**

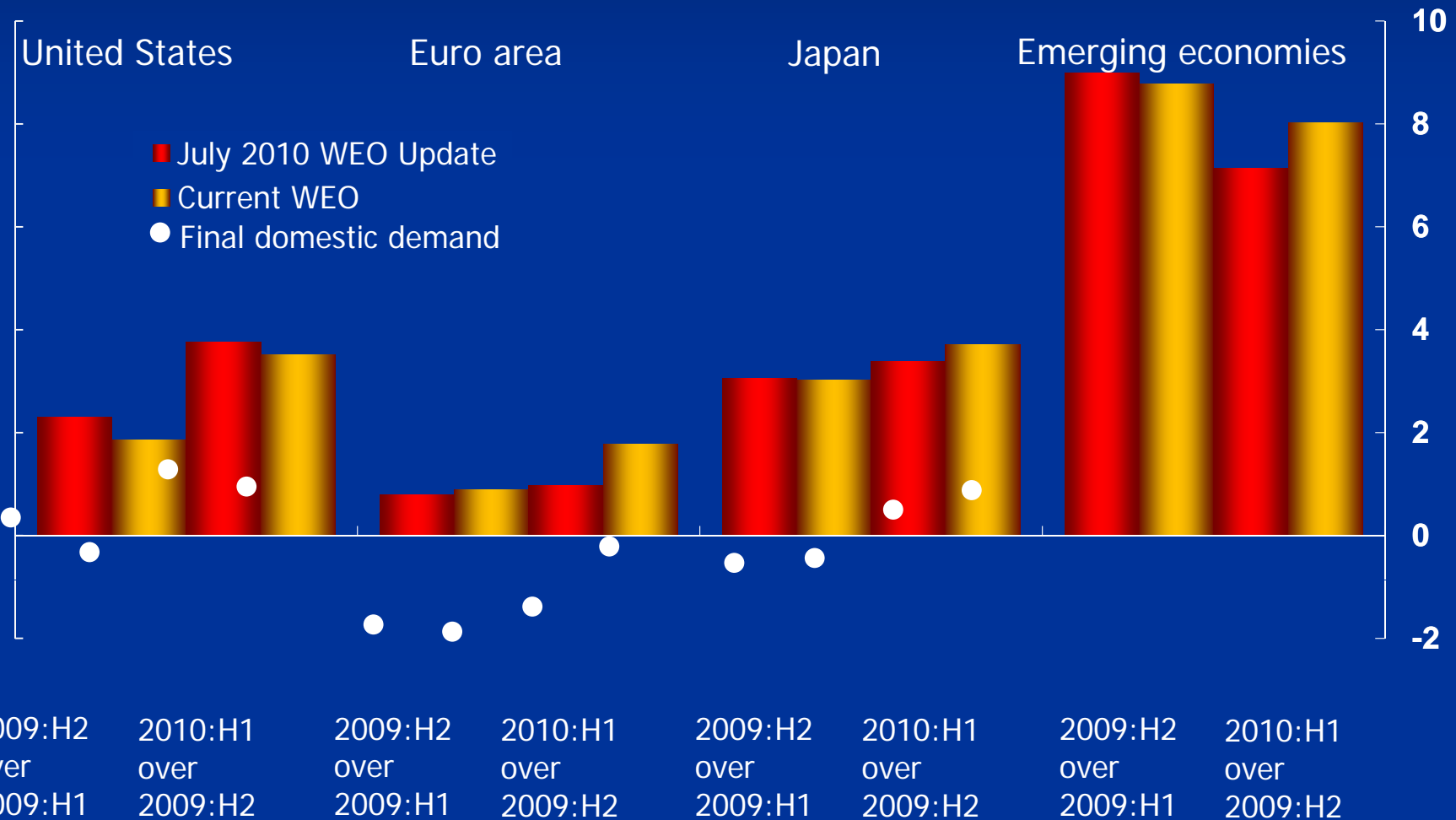
**Sanjaya Panth
IMF Senior Resident Representative, India**

Caveat

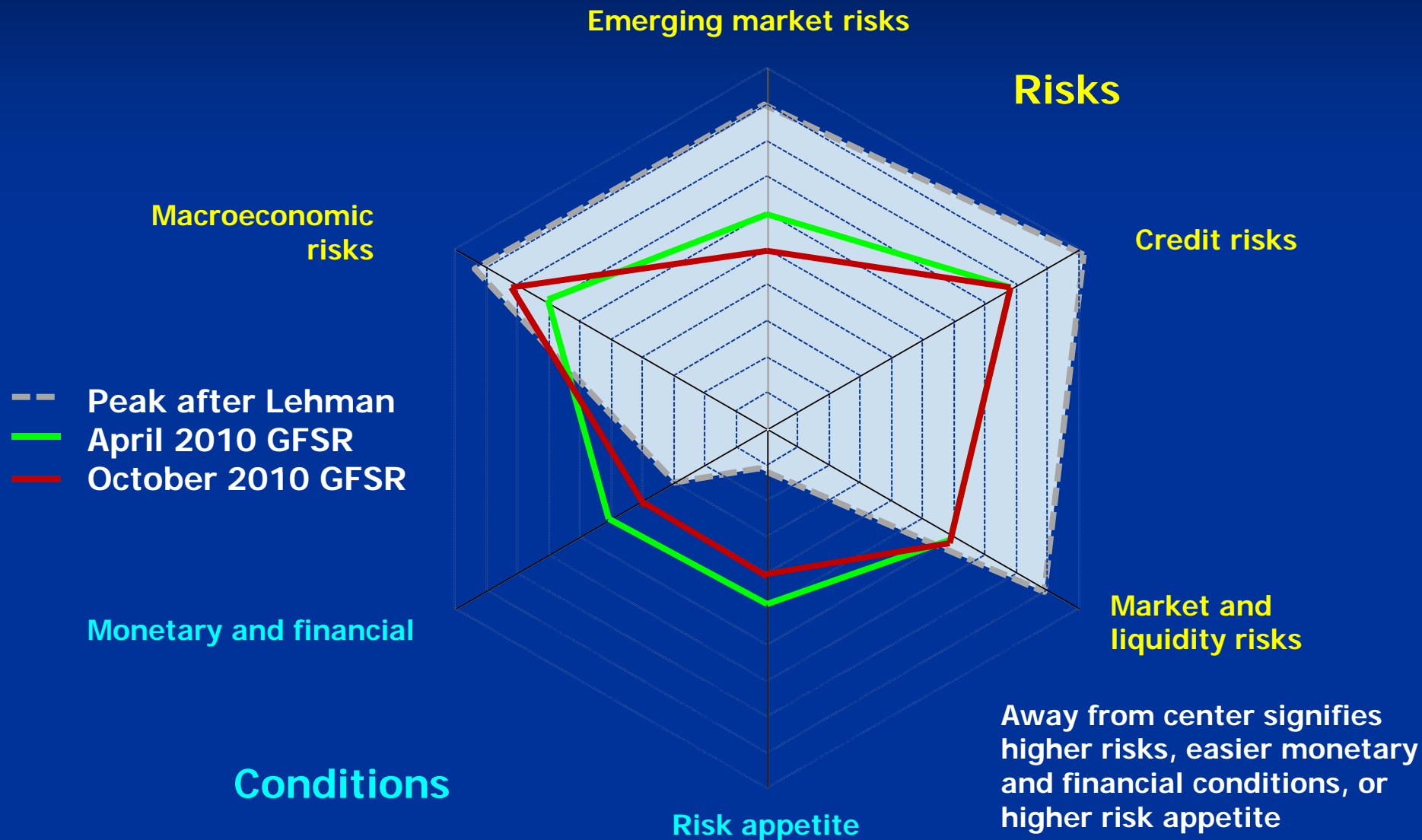
- The views expressed are personal and are not necessarily those of the IMF, its Executive Board, or its Management.

The recovery is here

Real GDP Growth (percent)



Despite a recent setback in global financial stability

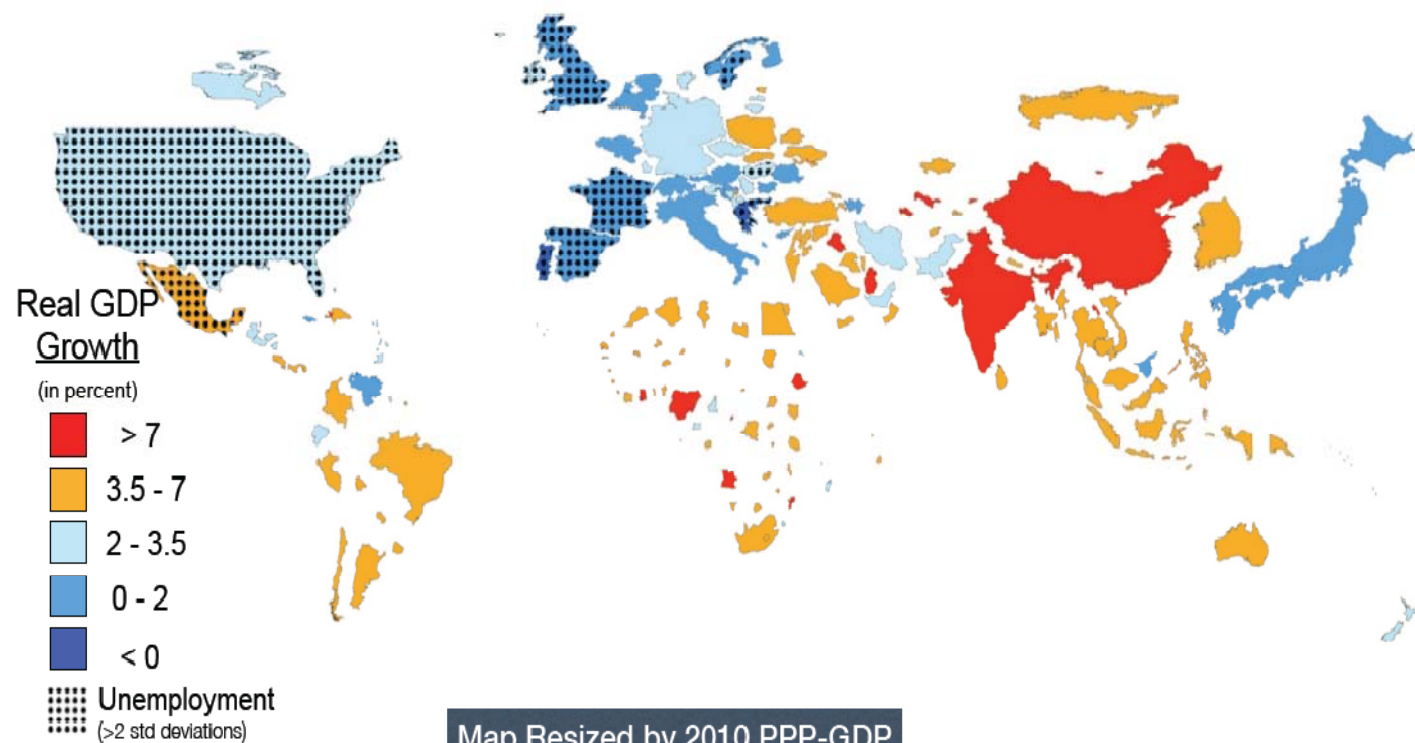


But it is fragile and uneven: a sustained and healthy recovery rests on two rebalancing acts: external and internal



Too much of the world is only limping along and has high unemployment. Moreover, the cross-country divergence is stark.

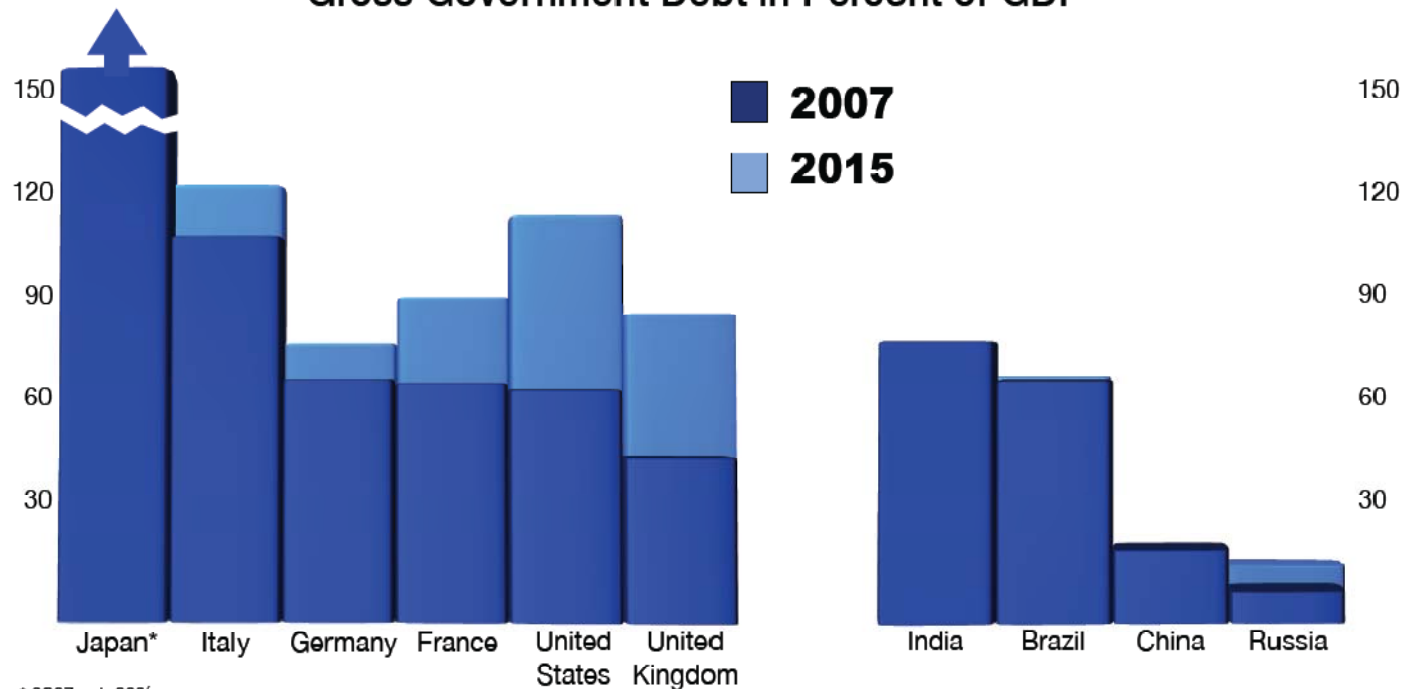
2011 Growth Outlook: World



The scope for reaction is greatly diminished by rising public debt in advanced countries

Debt Burden

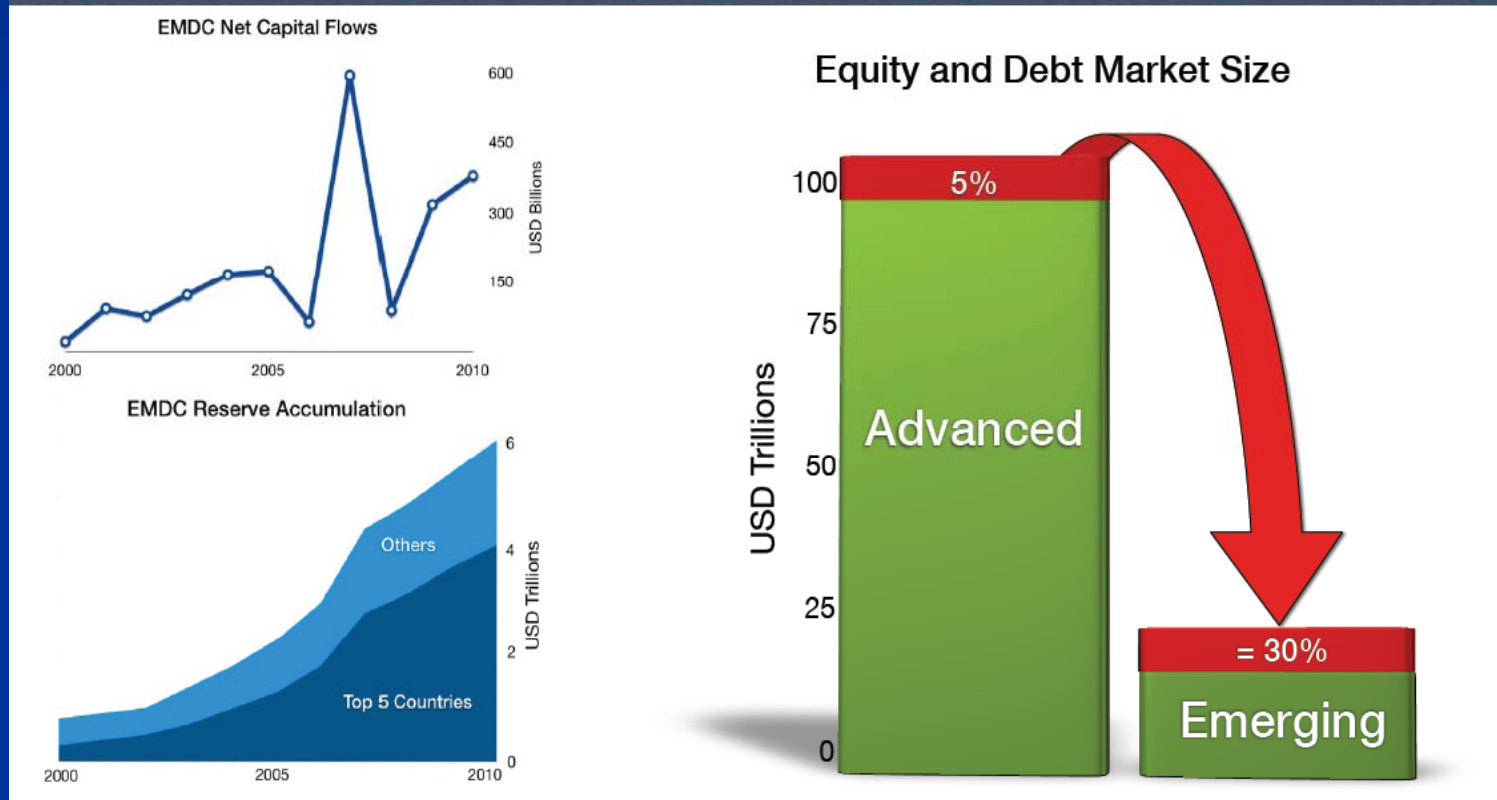
Gross Government Debt in Percent of GDP



* 2007 net: 80%

Capital flows to emerging markets are creating significant pressures and frictions

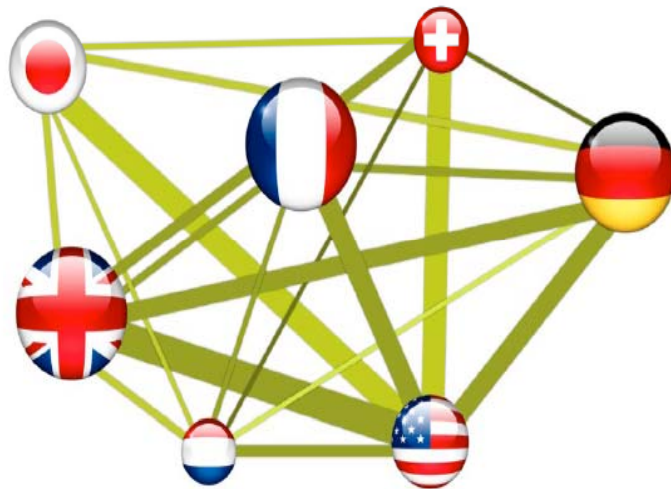
Capital Flows



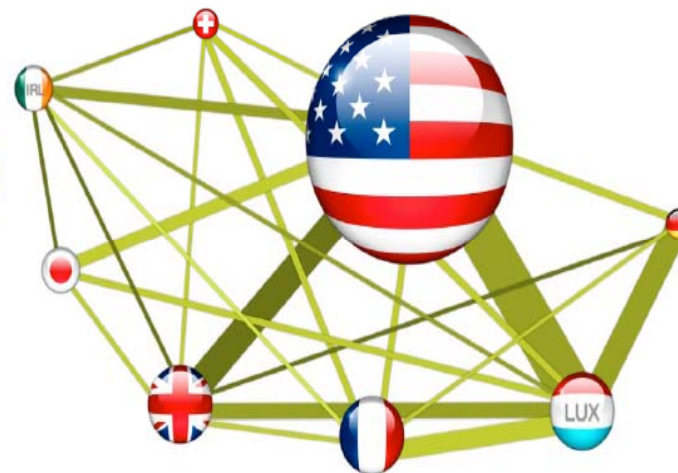
Many of the Necessary Financial Sector Reforms Remain Pending

Financial Interconnections

Banking System
(cross-border bank claims = \$30 Trillion)



“Shadow” Banking System
(total claims = \$25 Trillion)



Collaboration to Address A Changed Future

Collaborative policies that support internal and external demand rebalancing and address cross-border macro-financial vulnerabilities are crucial to a sustained, healthy global recovery from the crisis and beyond into the next decades.

The growth model of the future will not be the same as the one before the crisis.

There are no domestic solutions to global problems.

Sustaining the spirit of international cooperation is key

Americans Sour on Trade

We're in the midst of an international currency war

Irish Bank Funding Boosts Budget Deficit To 32%

Japan Plans Intervention to Stem Rise in the Yen

"...the economic outlook remains unusually uncertain."



The IMF proved its relevance during the crisis. To continue to help tackle the issues ahead, reforms must continue.

Mandate Reforms

Status

Implemented

Mandatory financial stability assessments
Cross-cutting themes
Lending framework
LIC facilities
Resources/NAB/SDR
FCL 2.0
PCL

In Pipeline

Spillover Analysis

Financial Interconnectedness

Potential

Surveillance Decision

Global Stability Mechanism

International Monetary Stability (reserve assets, capital flows)

IMF: Some Actions and Initiatives

- Changes to the International Monetary System by creating the flexible credit line and the precautionary credit line to help countries avoid building up reserves and, by this process, creating more imbalances.
- New kinds of analyses: spillover reports to analyze better the consequences of a policy taken in one country on the rest of the world.
- Working with the G-20's Mutual Assessment Program to show that working together is a win-win process. We show that with the correct policies, everybody can be better off → 2½ percent more global growth over five years; Thirty million additional jobs; more than 30 million people lifted out of poverty.

IMF: Some Actions and Initiatives (contd.)

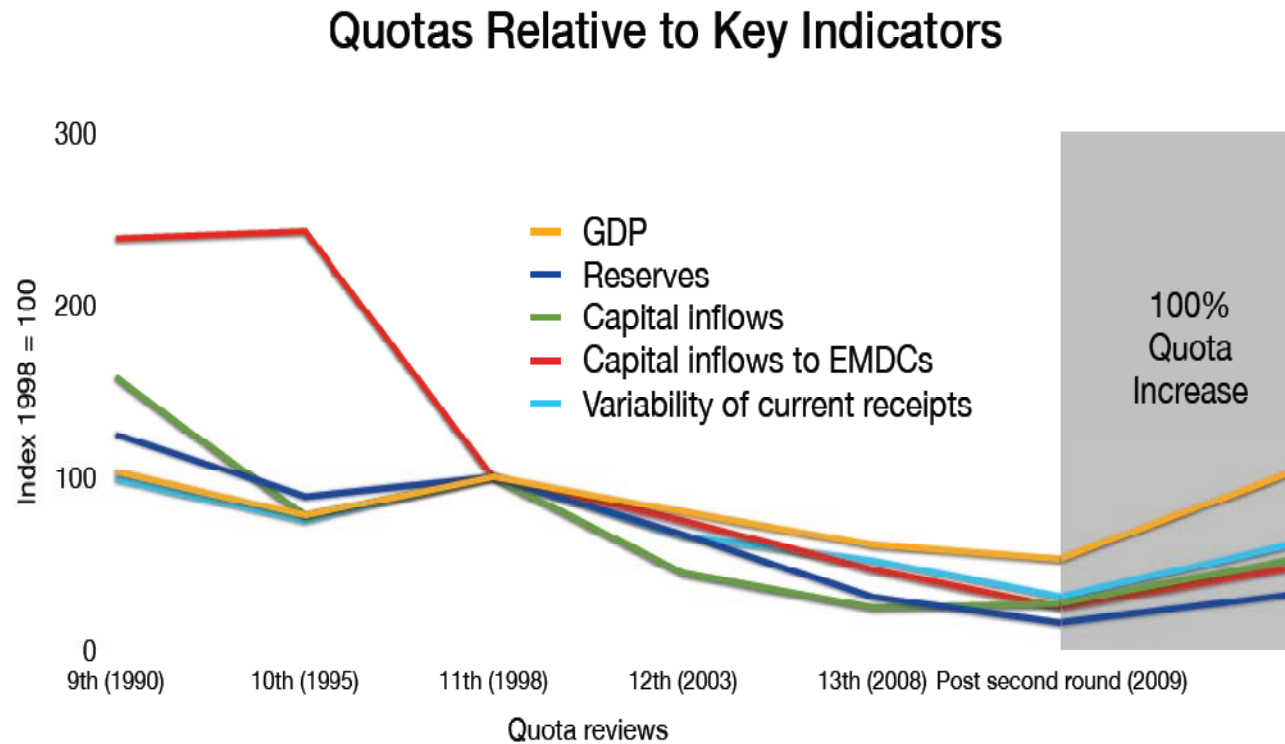
- Working to further strengthen the global financial safety net: ready to work with regional partners – regional arrangements, such as the Chiang Mai initiative can play an important role.
- The G-20 agenda for financial sector reform gives both the IMF and the FSB a key role: Fund actively involved in (for example)
 - research on framework for macro-prudential policy;
 - helping identify and address risks posed by complex, systemically important financial institutions;
 - developing resolution frameworks to effectively deal with failed financial institutions (not only banks) on a domestic *and* cross border basis.

Quota and Governance Reforms are Critical

- If multilateral institutions like the IMF are to remain relevant, they need to be legitimate, and to remain legitimate they have to reflect the shifting balance of power within the world.
- Rights come with responsibilities: if you have a bigger stake and a bigger say, then at the same time you have to make choices that take into account not just your own economy but the whole global economy. The more you are at the center, the more responsible you are for the whole.
- The Fund needs to have the resources for an effective global financial safety net: IMF quotas have severely lagged behind various measures of adequacy (world income, trade, and capital flows).

Even a doubling only partially restores quota adequacy

Quota and Governance: Quota Size



Thank You