# PRESS RELEASE

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## A South Centre report suggests the reforms needed in the global financial and monetary system

**This is based on the South Centre report on "Why the IMF and the International Monetary System Need More than Cosmetic Reform"**

The current turmoil in the world economy has demonstrated once again that the international arrangements lack mechanisms to prevent financial crises with global repercussions.

Not only are effective rules and regulations absent to bring inherently unstable international financial market and capital flows under control, but there is no multilateral discipline over misguided monetary, financial and exchange rate policies in systemically important countries despite their disproportionately large adverse international spillovers.

Both national and international policy makers are preoccupied primarily with resolving crises by opening the faucets and spigots to support those who are at the origin of predicaments, rather than introducing institutional arrangements to reduce the likelihood of their recurrence. Through such interventions, they are creating more problems than they are solving, and indeed sowing the seeds for future difficulties.

For the first time in the post-war era, widespread economic difficulties are seriously threatening to disrupt whatever order the international economic system may have, by giving rise to beggar-my-neighbour policies in major economies, largely because of absence of multilateral disciplines over exchange rate policies and orderly and equitable adjustment to global trade imbalances.

The international monetary and financial arrangements need a fundamental reform. The primary objective should be to deliver "the global public good of financial stability." The missing components should now be evident after persistent instability and recurrent crises in emerging and mature economies.

There is need to establish credible and effective surveillance over national monetary and financial policies with global repercussions. This very much depends on introducing enforceable commitments and obligations regarding exchange rates of major currencies and adjustment to imbalances by deficit and surplus countries.

The world economy should move away from the current reserves system centred on a single national currency, the US dollar. This is essential not only for reducing global trade imbalances and greater international monetary stability, but also for the scarce resources of poorer countries to be put into a better use for investment and growth, rather than being transferred to the reserve issuer enjoying the exorbitant privilege of being able to live beyond its means without encountering serious costs and impediments.

There should be a serious rethinking of the approach to international capital flows. The international community should firmly establish that controls over capital flows are legitimate tools in the arsenal of policy measures needed for macroeconomic and financial stability and they should be effectively used as such.

Crisis intervention should not undermine market discipline and distort the balance between debtors and creditors. Private creditors and investors should be involved in the resolution of payments crises through both voluntary and mandatory mechanisms. With mounting sovereign debt with international dimensions in several emerging and mature economies, it is no longer possible to deny or ignore the need for impartial sovereign insolvency procedures.

These issues are discussed above and some specific solutions are proposed. However, the objective pursued here is not to provide blueprints, but to draw attention to the causes of international monetary and financial instability and how they relate to shortcomings in multilateral arrangements in money and finance.

Genuine reforms in these areas no doubt require considerable reflection and debate in the international community in search of viable and effective solutions. This presupposes recognition of problems and shortcomings in the first place. However, the agendas of the IMF and the G20 still miss some of the most important issues that need attention.

Developing countries have a particular stake in this endeavour given their vulnerability to adverse spillovers from Advanced Economies (AEs) and limited capacity to respond.

If major countries do not support the establishment of an orderly and equitable international monetary and financial system, Developing and Emerging Economies (DEEs) should find ways and means of protecting themselves and looking after their interests through regional cooperation.

These include arrangements regarding regional currencies and exchange rate mechanisms, intra-regional provision of international liquidity, policy surveillance and regulation of financial markets and capital flows. There can be little doubt that in many of these areas, regional arrangements are generally inferior to those that could be established at the global level. But they definitely are better than a "non-system" pulled and pushed around by major economic powers.

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