THE WALL STREET JOURNAL.
WSJ.com

WORLD NEWS | APRIL 16, 2011, 5:56 P.M. ET

IMF to Expand Surveillance to Ward Off Future Crises

By IAN TALLEY and MICHAEL R. CRITTENDEN

WASHINGTON -- The International Monetary Fund's policy committee said Saturday it would expand and deepen its surveillance of the global economy to help ward off future crises.

The policy committee, the International Monetary and Finance Committee, said the IMF will produce a new report that investigates how financial policy decisions in countries around the globe affect others. The report will dovetail with a decision by the Group of 20 largest nations on Friday to proceed with a plan to measure whether some of the largest economies in the world are creating economic excesses that could pose risks to the global economy.

"We need to strengthen the linkage between surveillance of the financial and macro-economic dimensions of the world economy." said Tharman Shanmugaratnam, Singapore's finance minister and chairman of the panel, which meets twice a year.

Eswar Prasad, a Princeton University professor and former senior IMF official said the G-20's process "is deja vu all over again, but now with a formal G-20 mandate backing up the IMF's quantitative monitoring."

"It remains to be seen whether the major economies will pay any more heed to this process than they have to the IMF's annual bilateral surveillance or the multilateral surveillance exercise undertaken in 2006-07," Prasad said.

The IMF steering committee also said authorities need to implement existing international agreements to better regulate the global financial system and cautioned that excessive risks remain in place more than two years after the financial crisis.

It said in a statement that the global economic recovery "remains vulnerable" despite showing some signs of sustained momentum. But it warned that some international banks continue to pose system risks to the international economy.

The IMF board also said officials should push forward with a new framework for dealing with capital flows, an issue that has grown in significance as a number of emerging nations have seen surges in investments fueled by high growth rates. A "comprehensive and balanced approach" to deal with capital flows is needed, the group said.

The G-20 has asked the IMF to help it develop a "code of conduct" on the best way to manage the hundreds of billions of cash flooding into and out of emerging economies.

Capital has flooded into developing economies as emerging-market growth blossomed and advanced countries stagnated. Those surges accelerated during the financial crisis, when rich economies contracted, interest rates plummeted and emerging nations were whiplashed by the massive movements of cash in and out of their countries.

While the cash was certainly a welcome necessity to fuel growth, the "hot money" also threatens to overwhelm some economies, risking overheating and asset bubbles. As a result some emerging nations have instituted higher taxes for foreigners buying government bonds, restrictions on foreign capital investment in real estate and limits on currency operations.

Emerging markets, in particular Brazil, complained that the IMF's recent proposal for how countries should manage investment flows into their countries was too restrictive, and didn't adequately address the sources of surges in international capital.

The IMF steering committee adopted a position reflecting emerging market concerns.

The committee separately said the IMF will begin on drafting a "criteria-based path" to include other currencies in the basket that makes up the IMF's lending unit, the special drawing right. Some members of the G-20 want to consider including the Chinese yuan earlier than the IMF normally would as a way to encourage Beijing to liberalize their currency policy.

Domenico Lombardi, a senior fellow at the Brookings Institution and a former representative to the fund for Italy, said the U.S. is open to consideration of the yuan in the IMF's lending unit in exchange for greater flexibility in China's exchange rate. Beijing keeps a tight lid on the yuan, which analysts say benefits the country's exporters.

Write to Ian Talley at ian.talley@dowjones.com and Michael R. Crittenden at michael.crittenden@dowjones.com