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The International Monetary Fund is an anchor of stability within the global financial system

Guest contribution by Germany's Federal Minister of Finance Christian Lindner and Bundesbank President Joachim Nagel published in the Handelsblatt

In 1944, the foundations of a new global economic order were laid at the United Nations conference in the US town of Bretton Woods. In the decades between the Great Depression and World War II, poor access to foreign currency contributed to economic turmoil in many countries. Representatives of the states gathered in Bretton Woods agreed that the world needed institutions that promote multilateralism and an international monetary system based on cooperation.

The International Monetary Fund (IMF) and the World Bank were born. These newly created organisations would, it was hoped, support economic growth through cooperation and thus ultimately promote peace in the world.

These objectives are as relevant today as they were back then: wars, geopolitical tensions and climate change are putting the international community under pressure – with significant implications for global stability and global economic growth, both core areas of the IMF's mandate.

The Federal Republic of Germany joined the IMF in 1952. Since then, Germany's IMF rights and duties are fulfilled jointly by the Federal Ministry of Finance and the Deutsche Bundesbank. The IMF now comprises no fewer than 190 member countries. Members' quotas in the IMF are closely linked to their economic strength. The quota likewise determines each country's financial contribution. Germany currently has the fourth-largest quota share.

As an international organisation with extensive experience in managing crises and financial bottlenecks, the IMF is an anchor of stability within the global financial system. At the same time, it is itself often in stormy seas and is subject to considerable pressure to change. Countries such as China, India and Brazil, which have gained in economic importance over the past few decades, are pushing to have a greater say in the organisation.

Although its fundamental governance structure has proved successful, the IMF is constantly evolving. Last year, the decision was taken to increase the IMF's own resources by 50%. Additionally, Sub-Saharan Africa is to be given an additional seat on the executive board. Further proposals for quota adjustments are to be developed by mid-2025.

According to its core competence, the IMF is intended to encourage international trade and thereby contribute to economic growth in its member countries. According to its Articles of Agreement, it is responsible for monitoring economic, monetary and exchange rate policies and financial stability. In so doing, it fulfils an important advisory function for its member countries. In addition, it provides technical assistance, for example in setting up efficient tax administrations or in combating money laundering activities.

This core IMF competence needs to be maintained and, if necessary, strengthened for it to remain an anchor for the stability of the global economy. Another core IMF task is to provide financial assistance to countries with serious balance of payments problems. This lending is conditional on mandatory reform measures to enable the countries to return to a sustainable growth path and to achieve fiscal independence as quickly as possible. The IMF only provides members with “help to help themselves”. The IMF's financial support cannot replace a long-term stability-oriented economic policy.

The IMF's role as a lender to countries in financial crisis has increasingly moved centre stage. The number of different lending programmes has risen significantly. Developing countries, in particular, often receive loans repeatedly. Annual lending commitments to this group of countries have been around five times higher in recent years than before the pandemic. As a result, however, the countries in question are increasingly dependent on the IMF for financial assistance. This cannot be the objective. Financing a development policy agenda is likewise not the IMF's primary task and should better be left to institutions such as the World Bank.

In this context, efforts to use the special drawing rights (SDRs), as they are known, for development financing should be viewed with scepticism. This could fuel expectations for the IMF to allocate SDRs more frequently for reasons other than their original function as a reserve asset.

Finally, the IMF has recently also started working to combat climate change. It can make an important contribution here if it limits itself to his core competencies. For instance, it can, in its monitoring, analyse and assess the impact of climate change on its member countries' fiscal policies. It can also support its members through the recently established Resilience and Sustainability Facility – in close coordination with the World Bank.

No matter how much the global economy has changed over the past 80 years and will continue to change – the IMF is an anchor for economic and political stability. We congratulate the institution on this with great respect. Over time, the IMF has repeatedly managed to adapt to changing global economic conditions and emerge stronger from crises. However, the external circumstances have rarely been more challenging than they are today. An IMF that focuses on its core mandate is best placed to strengthen the global economic and monetary system and to stand at the heart of functioning multilateralism.

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