

# REFORMING THE INTERNATIONAL FINANCIAL ARCHITECTURE



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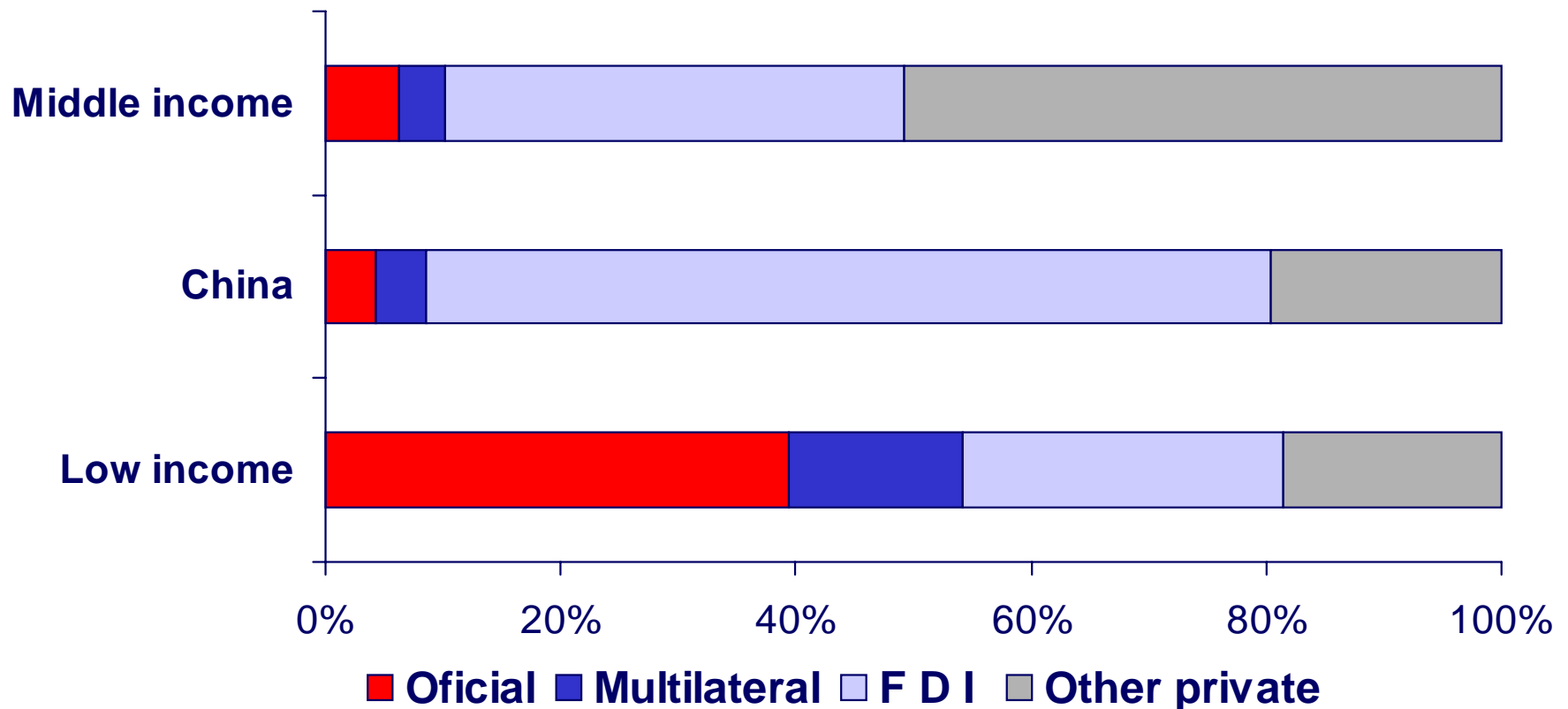
**JOSÉ ANTONIO OCAMPO**  
**EXECUTIVE SECRETARY**

# FUNDAMENTAL PROBLEMS

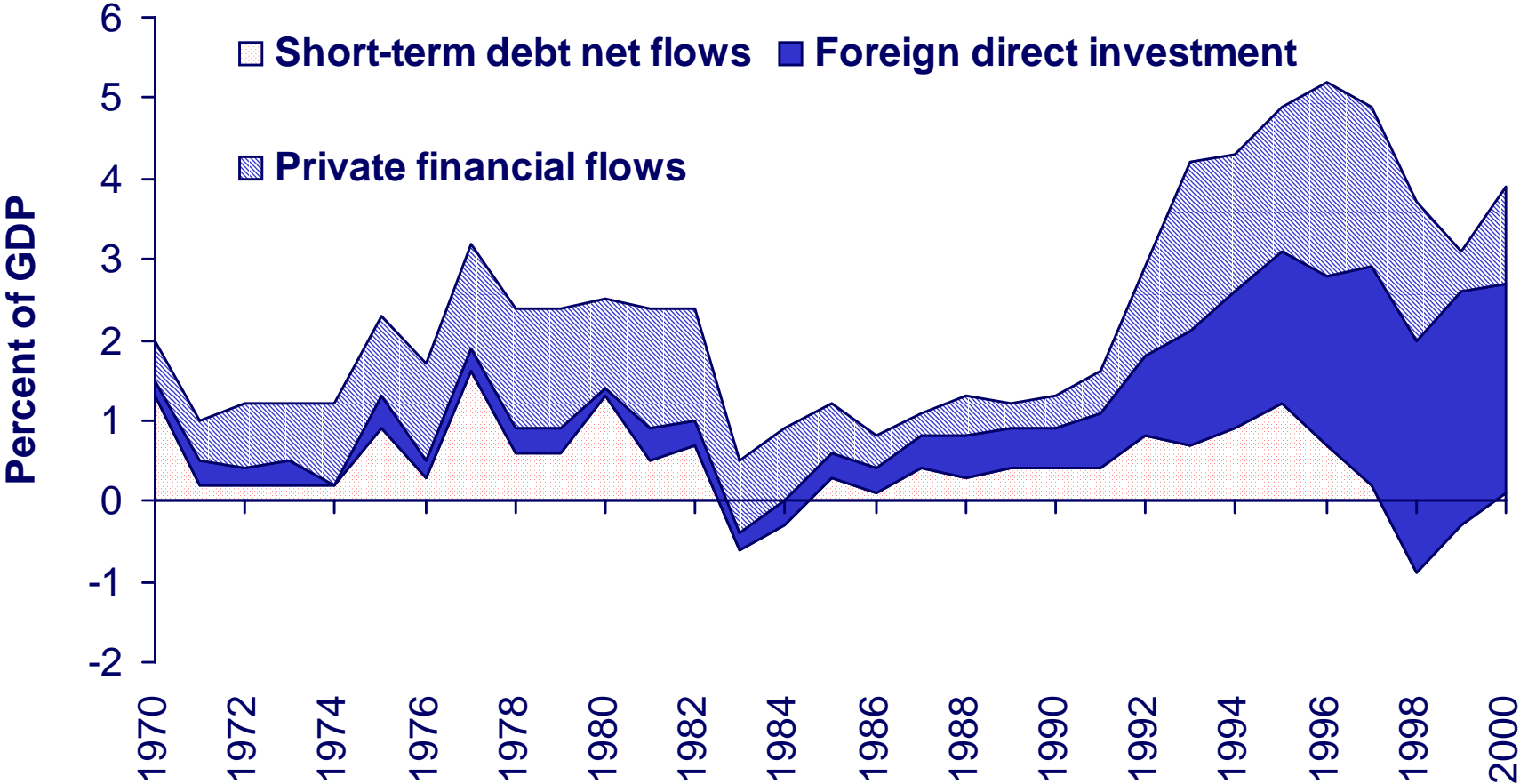
- The access to private financial markets is
  - Limited: many countries lack access
  - Unstable, for the countries that have it
  - The market does not discriminate in an adequate way between debtors (contagion)
- Developing countries have very narrow margins to manage external cycles
- This has become one of the basic asymmetries of the world economy

# THE COMPOSITION OF EXTERNAL FINANCING VARIES SIGNIFICANTLY ACCORDING TO THE INCOME LEVEL OF COUNTRIES

## COMPOSITION OF EXTERNAL FINANCING, 1992-1999

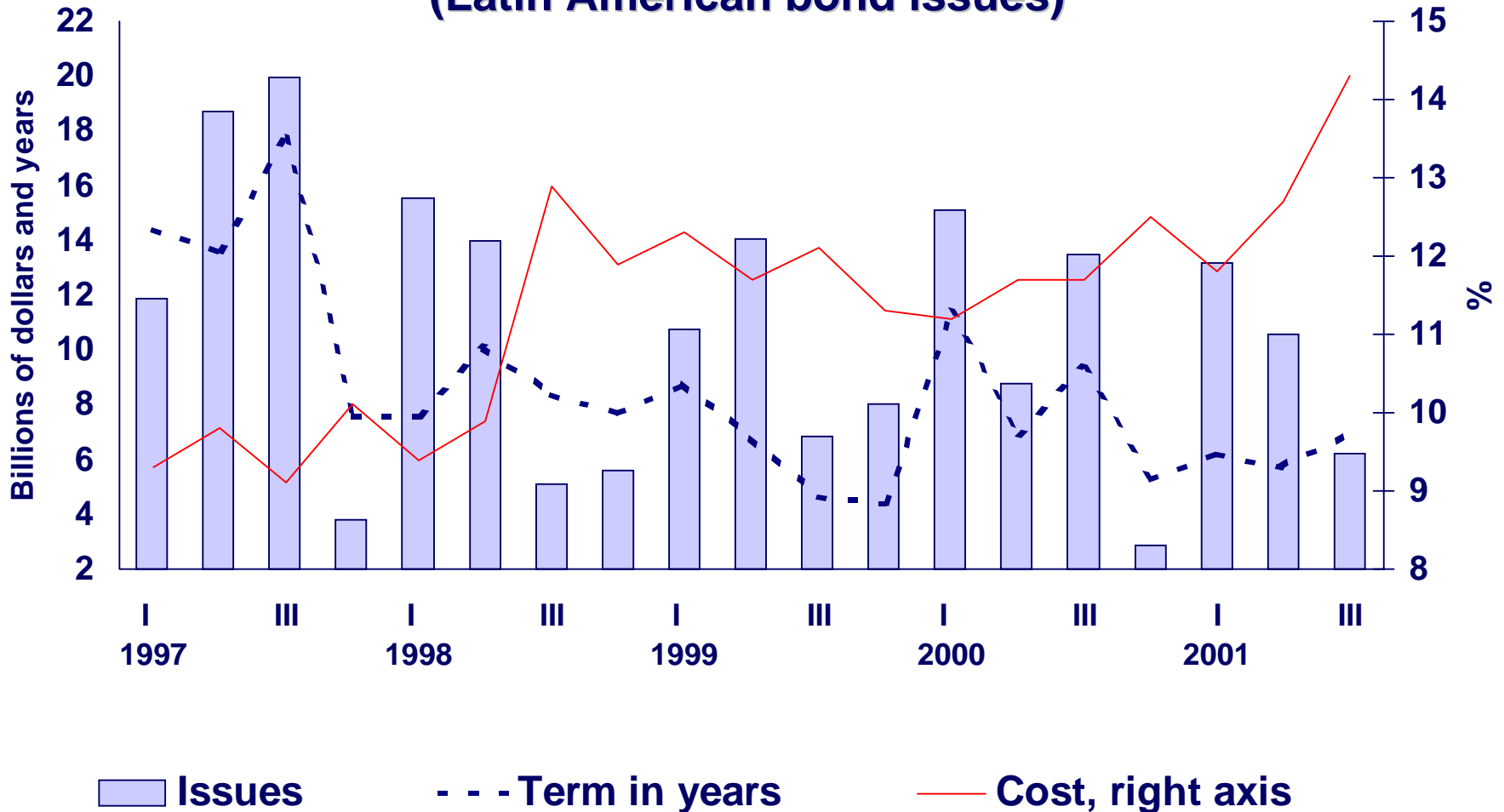


# EXCLUDING FOREIGN DIRECT INVESTMENT, PRIVATE FINANCING HAS BEEN VOLATILE



# THIS REFLECTS A CRUCIAL FACT: MARKETS NEVER NORMALIZED AFTER THE ASIAN CRISIS

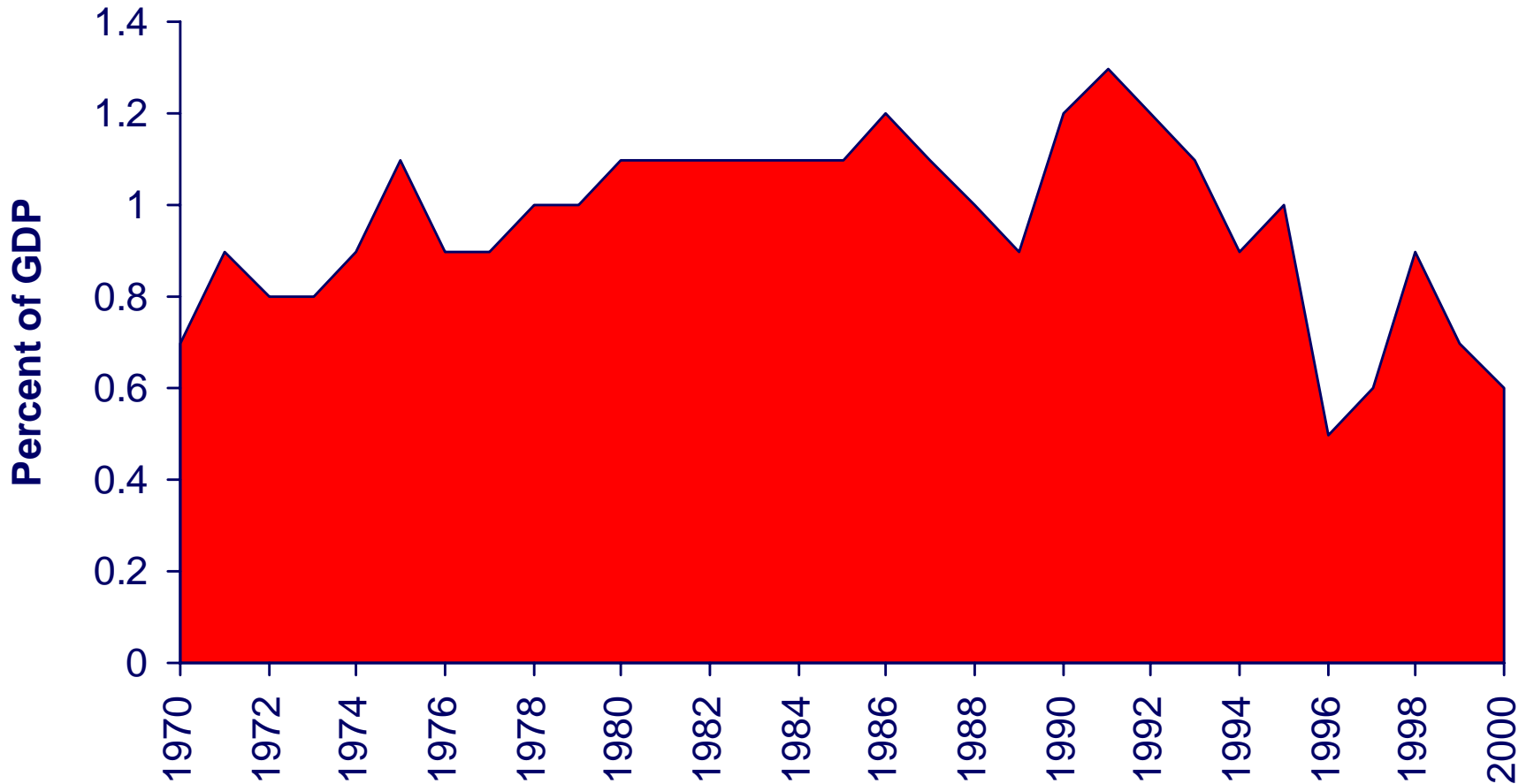
(Latin American bond issues)



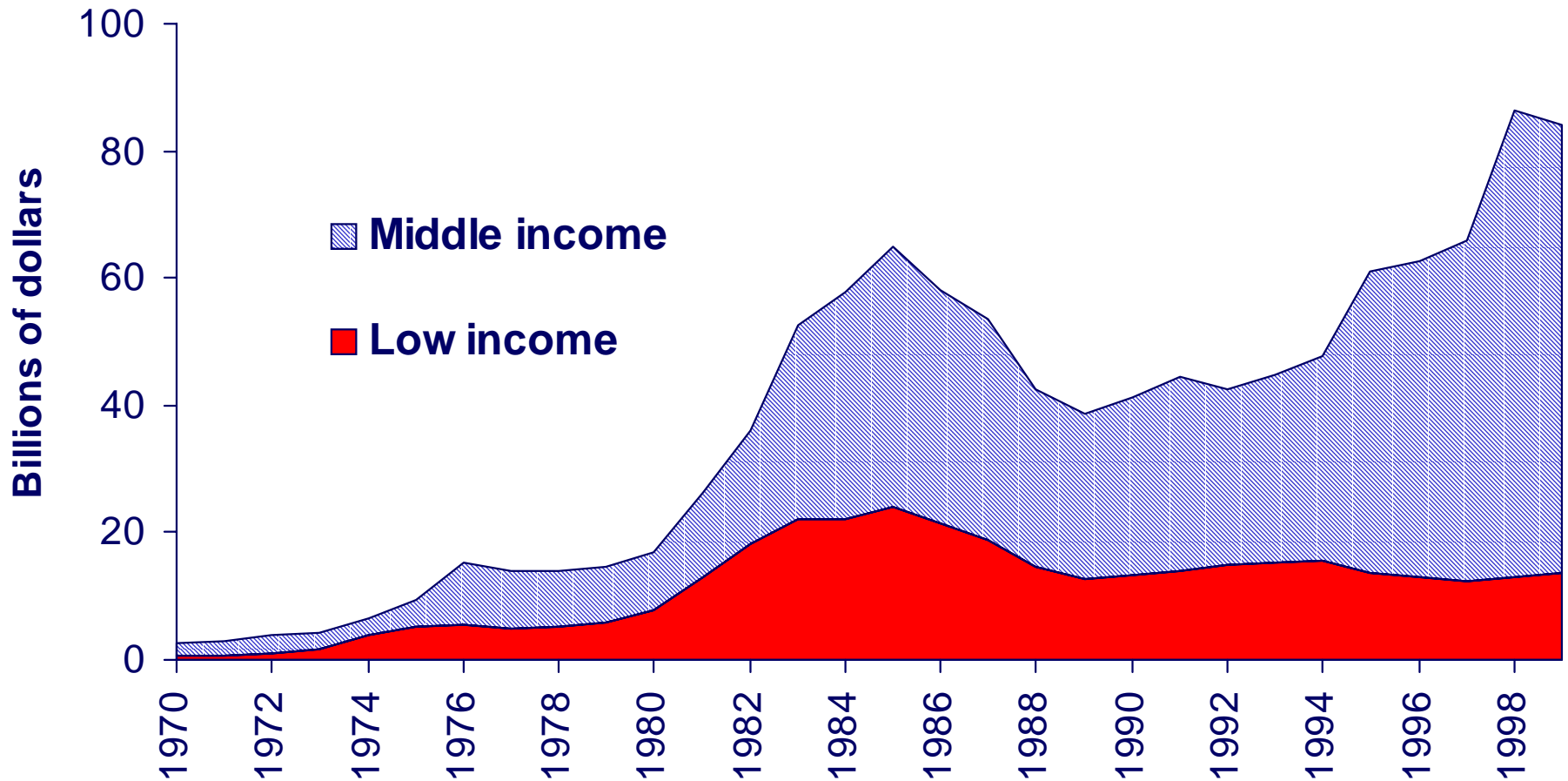
# OFFICIAL MULTILATERAL FUNDING HAS TWO BASIC FUNCTIONS

- To guarantee access to countries which lack it
- To partially compensate the cyclical behavior of private capital flows

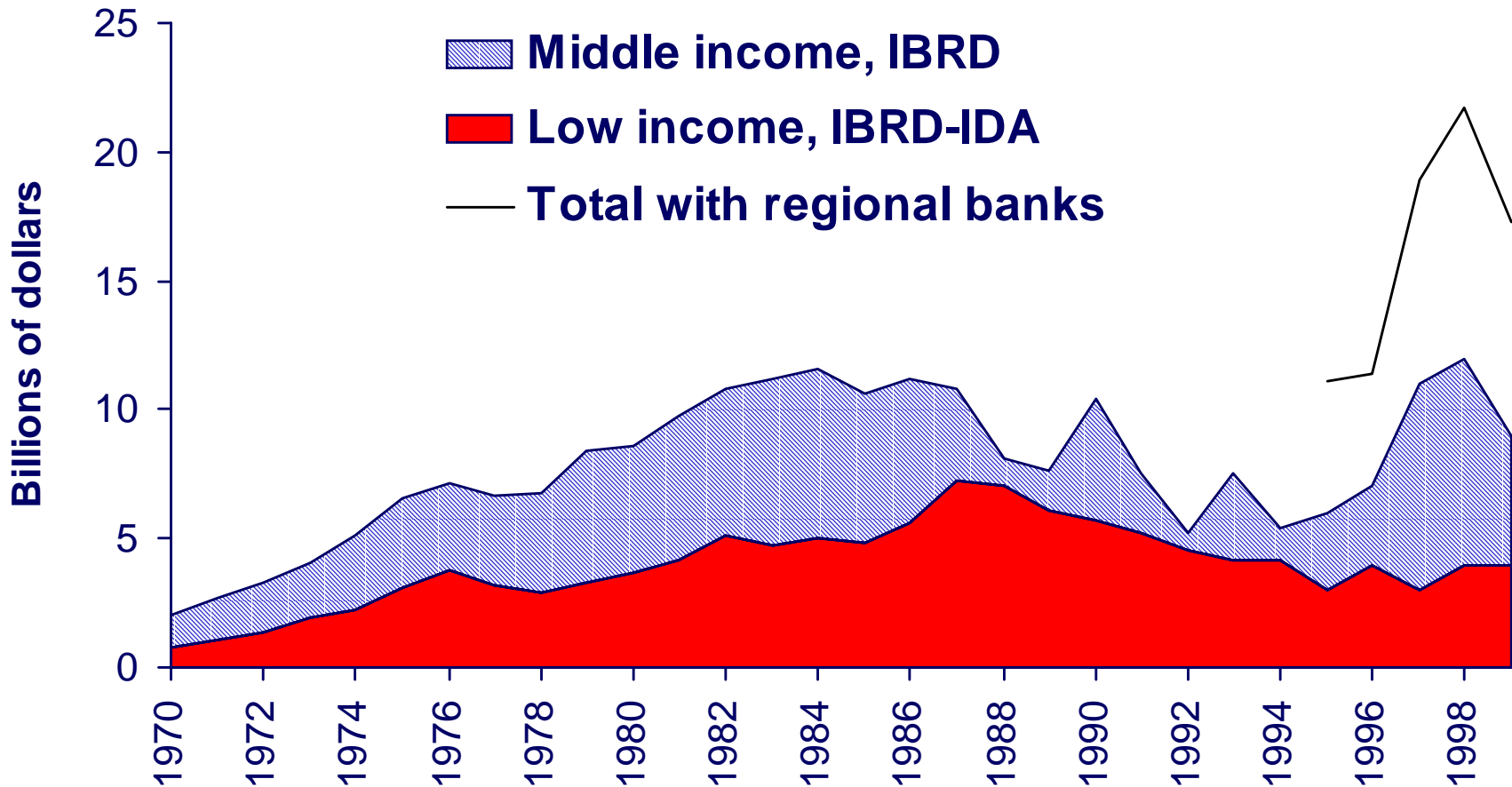
# CONTRARY TO THESE POSTULATES, OFFICIAL FINANCING HAS BEEN FALLING



# IMF FINANCING HAS AN IMPORTANT ANTICYCLICAL COMPONENT, ASSOCIATED WITH FINANCING OF MIDDLE INCOME COUNTRIES



# THE SAME IS TRUE OF FINANCING BY MULTILATERAL BANKS



# REFORMING THE INTERNATIONAL FINANCIAL ARCHITECTURE

- More participation of developing countries in multilateral financial institutions
- More macroeconomic coordination between the major economies, preferably in a multilateral framework
- To improve the regulatory framework, with an anti-cyclical (preventive) component, avoiding additional costs for developing countries. Dangers of Basle II

# REFORMING THE INTERNATIONAL FINANCIAL ARCHITECTURE

- The IMF must become gradually a (quasi) lender of last resort. This requires an active use of Special Drawing Rights
- Stable institutional framework to overcome debt overhangs
- Successful completion of the Highly Indebted Poor Countries Initiative

# REFORMING THE INTERNATIONAL FINANCIAL ARCHITECTURE

- Meeting United Nations ODA targets
- Access to multilateral banks by all developing countries
- Explicit redefinition of the role of conditionality. Clear respect of autonomy and diversity of development strategies
- Autonomy of countries to choose their exchange rate regimes and capital account regulations

# REFORMING THE INTERNATIONAL FINANCIAL ARCHITECTURE

- Central role of regional financial institutions:
  - The future IMF must be a network of regional reserve funds
  - Need to strengthen regional institutions
- United Nations role:
  - More democratic dialogue, guaranteeing consistency and filling the vacuum of global arrangements

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