

## The Halifax Summit Review of the International Financial Institutions

### 1. Introduction

At the Naples Summit, G-7 Leaders agreed that the Halifax Summit should focus on how to "assure that the global economy of the 21st century will provide sustainable development with good prosperity and well-being of the peoples of our nations and the world" by identifying the framework of institutions required to meet these challenges.

This paper examines the need for changes to the architecture of the international financial institutions -- i.e. International Monetary Fund, the World Bank Group, and the regional development banks.

Broadly speaking, the international financial institutions have demonstrated an exceptional degree of flexibility in adapting to changing demands. Nevertheless, there remain a number of areas where improvements are both possible and desirable.

### 2. The Principal Challenges

Today's world is very different from the one in which the Bretton Woods institutions were created.

- The global economy is more integrated and, as a result, all countries have a much greater stake in developments outside their borders.
- World trade has grown steadily, and direct and portfolio investment flows have increased sharply in recent years.
- Capital market liberalization, technological change, and financial innovation have transformed the global financial landscape -- with great benefits, but also new risks.
- There is a much greater consensus on the role of the market, economic incentives, and open policies, and much less faith in *dirigiste* solutions to economic problems.
- A variety of new global challenges have emerged in areas such as environmental stewardship and the importance of good governance.