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IMF must stick to its core competencies

OFF COURSE. The IMF must pull back from areas like climate finance where it lacks expertise, and focus on resolving the ever-growing debt bubble

Business as usual by international organisations in the hope of not upsetting the apple cart defined by the power structures may invite redundancy. They need to quickly revamp themselves by actions but restrict themselves to their core-competencies.

The July 2026 IMF World Economic Outlook (WEO) update made only minor adjustments to global growth but included a surprisingly large upward revisions to inflation forecasts (0.3 percentage point (ppt) for 2026, 0.2 ppt for 2027). These were driven by expected higher energy and food prices. But the IMF's optimism that this won't spill over into core inflation contradicts its own growth projections, which lack the demand destruction needed to keep core inflation steady.

The sharp revision in inflation forecasts came from a 8.6 per cent jump in its oil price forecast after it took into account the oil future curve of June 10 in place of March 10. However, the forecasts are distorted by giving equal weight to WTI, Brent and Dubai Fateh even though Brent sets the price for roughly two-thirds of globally traded physical crudes.

This past week, oil futures for some tenors surged by about 15 per cent, making the IMF's macroeconomic forecasts questionable. Whenever there are spikes in energy prices, the IMF's macroeconomic forecasts have a structural disconnect with macroeconomic realities. The cascading impacts do not sufficiently get captured in their models. Crude oil futures are not an optimal predictor of their future spot prices. Given high volatilities, why does the IMF rely on a single day's futures curve for energy prices, rather than modelling country-level energy supply and demand dynamics?

The IMF devotes disproportionately large resources to climate issues in relation to energy issues. It is trying to fix the big gaps in the International Financial Architecture (IFA) with several global common (supranational) issues coming to fore. Climate change, pandemics, cyber risks, maritime blockages and seabed resource exploitations, all carry large negative externalities.

They need to be dealt with. But the IMF was conceived for none of these when the Harry Dexter White's Commission laid its blueprint.

Yet, the IMF has happily extended its mandate to cover the IFA gaps as there had been no traction in the G20 for alternative structures. Even the Eminent Persons Group chaired by Tharman Shanmugaratnam under the German Presidency focussed only on fine-tuning and fell well short of recommending an alternative architecture. The G20 Expert Group, Co-Chaired by Larry Summers and NK Singh under the Indian Presidency, had a much narrower mandate confined to Multilateral Development Banks (MDBs).

Though tasked to deal with trans-boundary challenges such as climate change and health, it got bogged down by seeking consensus on resource augmentations for the existing MDBs than conceiving a blueprint for a structural change of the IFA.

As gaps persisted, the IMF, which neither had expertise in climate, nor in energy, integrated climate finance in its Article IV consultations on the grounds of macro-criticality.

But mitigation, adaptation and green transition are big issues that can best be addressed by creating a separate multilateral institution. The IMF's Resilience and Sustainability Facility is grossly insufficient to meet the climate finance goals. Instead, it diverts scarce IMF resources from providing global financial safety net.

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There is some justification behind the US Treasury Secretary, Scott Bessent's criticism of the "mission creep" that has knocked the IMF and World Bank off course from their mandate. It is a different matter that the US Administration's commitment to multilateralism is itself questionable and is the cause of these intuitions going downhill.

IMMEDIATE ACTION AGENDA

While the geopolitical conflicts have accentuated, the fiscal and monetary space looks enervated. The IMF must reconsider its ability to handle financial crashes. It must get into action to increase its core crisis-handling firepower and re-look how it uses it. Three immediate actions that the IMF need to take are:

The 16th General Review of Quotas (GRQ) along with the NAB (New Arrangements to Borrow) rollback approved by the Board of Governors in 2023 is as good as dead. Despite four extensions, the US, with its 16.5 per cent vote share, will block it from getting requisite consent from 85 per cent vote share. So, the IMF must move to raise supplementary resources from NAB and BBA (Bilateral Borrowing Agreements) and get them weight in the quota formula in the 17th GRQ.

The IMF taking leadership to resolve the ever-growing debt bubble with global public debt to GDP ratio expected to touch 100 per cent by 2029. The Brady Plan launched in 1989 in similar circumstances had chinks of moral hazard. So, the new plan should focus on mitigating various risks attached to emerging market economies' bond issuances.

The IMF's 2026 Comprehensive Surveillance Review need to pull back from further mission creep and completely abstain from looking at poly-crisis interlinking crises on which the IMF does not have expertise — environment, social unrests, cyber-risks, pandemic, gender, etc.

Instead, it should develop more even-handedness in its policies that has taken a dent with exceptional financing. It hasn't even explained why the FSAP (Financial Sector Assessment Programme) of the most systemically important jurisdiction — the US — has still not been completed or released? Also, why have there been repeated failures of its borrowing programmes, evident in Pakistan borrowing 24 times and Argentina 23 times.

It is time that the IMF comes transparent on its constraints, as sitting out till 2029 will not solve anything, especially if another global financial crisis strikes earlier.

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