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Role of IMF Surveillance in Enhancing Financial Stability in Emerging Economics

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ABSTRACT

Surveillance by the International Monetary Fund (IMF) is so important in increasing financial stability in emerging economies. These activities offer early warning systems, track global conditions, and suggest specific policies that maintain economic stability in areas with exposure to external shocks, unpredictable currency, and ineffective economic policies. Some of the facilities of surveillance besides the technical assistance are crisis prevention mechanisms and FSAP that can assist countries with the management of risks and with striving for sustainable growth. Nonetheless, critics have been expressed over the IMF strategy mainly on its structural adjustment policy that focused on austerity measures, and trade liberalization together with loan conditions; which some people believe is a violation of the country's sovereignty and its policies may not be developmental. Corresponding recommendations are as follows: Increasing the level of openness, flexibility which assumes receival of policies considering the characteristics of the given socio-economic environment, paying attention to institutional development, including socio-economic factors, and promoting cooperation at the regional level. Realizing this potential, the IMF should change the character of its interaction with the member countries to become a more active and cooperative member of the team that supports the financial and development objectives of emerging members.

Keywords: IMF surveillance, financial stability, emerging economies, economic resilience, Financial Sector Assessment Program, conditionalities, crisis prevention, policy recommendations, institutional capacity building, socio-economic indicators

Introduction

IMF is one of the most influential institutions on the global level of financial relations, and particularly in the countries of the emergent economy the economic fluctuations and structural risks are considered to be rather hazardous. Weak institutional structures, problems with globalization, the existence of a large number of structures of capital flight, and other related issues remain the realities of the emergence of the new economy in the context of leading developing countries. It is in such contexts, therefore, that the IMF's surveillance activities are well useful here as a form of early warning mechanism for macroeconomic instability and offering country-specific technical advice on the regional peculiarities of these countries. Founded on the Articles of Agreement, the IMF's objective is to supervise and maintain the stability of the International Monetary System. The surveillance role mainly focuses on the macroeconomic conditions of member countries and the ability of the latter to adhere to the best fiscal and monetary policies to encourage economic, including financial, stability. As such, through the timely identification of potential threats to develop economies, IMF surveillance minimizes the risks of economic collapses that may be extremely harmful to the population and everyone else in the long run. [1]

Most emerging economies have assumed a higher level of openness through financial integration with the global financial markets and, hence are more susceptible to external conditions – especially as seen with the Asian, African, and Latin American economies. For example, there is the Asian financial crisis of 1997, and lessons from such occurrences reveal that capital mobility when not well monitored, more so in the provinces lacks institutional support. The Lehman Brothers crisis was rather explosive and the intervention of the IMF while considered more often as a nuisance during that period was indeed visual of the importance of surveillance and support in stabilizing the economy. In addition, as it provides real-time economic analysis coupled with policy implications, the IMF assists emerging markets to navigate new conditions. Sometimes it provided stability in uncertain periods as far as its recommendations for fiscal and monetary policies and structural changes are concerned. In this respect, IMF has progressed in its efforts to generate more inclusive and pro-growth policy suggestions, to avoid sacrificing developmental objectives for financial stability. This approach proves significant for emergent economies since growth goes together with stability.

The IMF was founded in 1944 to aid international monetary cooperation and build a stable monetary system, by offering advice, finance, and personnel development for member nations. These premises correspond to the IMF's key idea that instability in the financial system of one country can impact the whole world. Supported by bilateral and multilateral surveillance, the IMF investigates and analyses current economic processes and provides countries

[1] IFC Independent Evaluation Group, *IMF Involvement in International Trade Policy Issues* 150 (International Monetary Fund, Washington, D.C., 1st edn., 2010).

with recommendations on sound economic behavior. This surveillance is important for emerging economies so that they can be in a position to avoid the shock that might deter the growth of their economy. Besides these preventive facts, the IMF also becomes involved in funding funds during crises, for example, the involved financial aid at the onset of the Asian financial crisis in South Korea, Thailand, and Indonesia. Though there is criticism of IMF policies, still the surveillance role is crucial for the balance in the global economy and to help countries build their defense against future disturbances. [2]

IMF surveillance becomes crucial in the emerging economies most of which are prone to the shocks of financial crises. Small and emerging economies; availabilities of capital stock; deck of commodity price origins; and occasionally, volatile political climate expose these economies to fluctuations. IMF surveillance thereby operates as much more than a supervisory measure: it serves as a form of early warning to ensure that these economies continue on a course of stable growth. Through the provision of detailed economic analysis and framework for policy advice, IMF surveillance helps emerging economies prevent adverse shocks by putting in place mitigating measures. For instance, in the 2008 global financial crisis, the IMF annual and Article IV surveillance provided many emerging economies with useful guidance on macroeconomic policy adjustments. The IMF also watches external enable that may affect emerging markets like interest rates, inflation, and exchange rates. In doing so, it brings these countries a toolkit that enables them to develop shock-responsive, sustainable, and inclusive financial systems.

Understanding IMF Surveillance

Technically, the IMF surveillance mechanism implies a holistic approach to the international economic and financial system and its major aspects are most beneficial for emerging economies. Taking it in a very simple way, IMF surveillance essentially means that the IMF looks at member countries' economy and finance policies to what extent they may be threatening the stability of the IMF and global economy. Bilateral surveillance is the examination of the member country's economic policies with an evaluation of the impact these policies have on its domestic stability and that of the world economy, while multilateral surveillance involves the evaluation of the major shifts that are occurring in one country or many countries. This dual approach enables the IMF to extend timely and relevant advice to member countries on how to sustain macro stability and growth. The IMF surveillance has become broader over time including fiscal and monetary policies, structural adjustment measures, bank regulations, and concerns arising from social and environmental angles in the recent past. In the case of EMs, this sort of surveillance is critical in identifying warning signs of financial frailty as well as recommending remedies because of the vulnerabilities to external and domestic shocks. Through outlay of possible risks, and recommending policy shifts, it is aimed with the IMF surveillance mechanism to prevent financial crises that may have broad impacts on the world economy. [3]

Definition and Scope of IMF Surveillance

The IMF surveillance practices have been dynamic over the period since its establishment in the year 1944, mainly due to rising economic international interactions and global integration of national economies. The IMF was originally concerned with surveillance, in terms of exchange rates and balance of payments, under the Bretton Woods environment; of course, the world's economy changed in the 1970s and the IMF became concerned with many other issues. The Mexican debt crisis of 1982 and the Asian crisis of 1997 marked the beginning of a new realization that the existing surveillance mechanism needed more vigorous and sophisticated ways than it had ever been put into practice. After these episodes, the IMF started shifting its attention towards macrostructure problems like fiscal restraints, reduction of barriers to international business, and establishment of institutional framework to ensure emerging markets stability. Including these factors in its detection framework, the IMF aimed at the prevention of crises instead of acting only on the symptoms. After the financial crisis of 2008, IMS was again broadened to also cover the fiscal stability and other potential threats of financial systems. In this process, IMF launched the Financial Sector Assessment Program and Vulnerability Exercise for emerging markets to provide more comprehensive work on financial systems and reveal the potential sources of destabilization at an earlier stage. Such programs have helped give FNA emerging economies policy recommendations that take into account the associated risks inherent in each nation's financial systems.

Evolution of IMF Surveillance Practices

At the moment, there is considerable emphasis on the IMF's surveillance framework, which is based on several perspectives other than simple cross-seven indicators but also encompasses inequality in the distribution of income, environment, and social inclusion. This integrated approach realistically understands that providing for the needs of financial stability in emergent economies is not enough to complete only fiscal and monetary corrections, but it is necessary to meet structural and social issues. In this way, recommendations given by IMF surveillance taking into consideration these different circumstances help emerging economies to develop stable financial frameworks that would be able to face not only domestic but also global economic stress. IMF surveillance has been most useful for India, an emerging economy. It offers advisory services on the formulation of new policies, tracks the levels of external borrowings, and offers information on how the country can manage to balance its foreign exchange rates; something that may prove difficult in the current global economy. [4]

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[2] United States Government Accountability Office, *International Monetary Fund: Trade Policies of IMF* 72 (Bibliogov, Washington, D.C., 1st edn., 2011).

[3] International Monetary Fund, *Law & Financial Stability* 210 (International Monetary Fund, Washington, D.C., 1st edn., 2020).

[4] International Monetary Fund, *Current Developments in Monetary and Financial Law, Vol. 4* 340 (International Monetary Fund, Washington, D.C., 1st edn., 2008).

Financial Stability Challenges in Emerging Economies

New economy finance suffers a lot of financial stability challenges because of intertwined economic risks and external shocks that make it prone to financial fragility. These countries may experience fluctuations in their economy from one direction to another as a result of changes in the prices of a particular commodity, instabilities in government, and a network of bad institutions. These economies highly rely on export and commonly on oil, minerals as well as agricultural produce, which are relatively volatile in the world market. For example, steep drops in oil prices in the past have had consequences for countries such as Venezuela, and Nigeria which have suffered, increased fiscal deficits and inflation. The volatility from this is not only obstructive to growth but is also capable of having negative impacts on poverty and social well-being on the way to sustainable development. Furthermore, it is also seen that the young and developing economies generally, possess relatively weaker financial structures of regulation and hence the tools of adaptability to the economic turbulence are also comparatively weaker in such economies. This produces a dangerous cyclical effect in which economic upturn and crises undermine financial stability, which in turn undermines regulatory capacity as financial vulnerability is deepened.

Economic Vulnerabilities and Volatility

An emerging economy is characterized by a higher level of economic risk and a higher level of dependence on the global economy. This type of economy is normally subjected to sudden switches of investor sentiment through the outflow of capital and even the devaluation of the currency. An eminent example of this is the Asian financial crisis of 1997 which saw the economies of Thailand, Indonesia, and South Korea deteriorate to capital flight and speculative attacks on their currencies. Structural surveillance mechanisms of the IMF came in handy during this period providing these countries with needed fiscal and monetary policy changes to right their economies. The crisis revealed the usefulness of the active surveillance system that might detect threats and weaknesses in the business environment in due time. Today, new-generation emergent economies still face such problems as the recent Turkey currency crisis in 2018 resulting from a mismanaged economy and pressures of external debt. As a result of the surveillance reports, the IMF outlined some of the weaknesses within monetary policies in Turkey and offered policy recommendations that are in an attempt to strengthen the Turkish lira to avoid further economic decline. This example well illustrates how IMF surveillance is beneficial in revealing and contingence the economic challenges that exist in emergent economies to enable the development of superior robust and sustainable growth models. [5]

External Debt and Currency Risks

Foreign currency and external obligations continue to exacerbate financial stability threats in emerging economies. Most of these countries source their development funds from international loans and are therefore vulnerable to forex and international loan rates. For instance, an increase in US interest rates results in a higher debt burden, as a result of dollar appreciation among countries with dollar credits in their local currency. This was observed in the case of the Latin American debt crisis in the 1980s whereby nations such as Mexico and Brazil could not afford to meet their debts due to an unanticipated rise in the world's interest rates. These levels of debt make the economy dependent on fine conditions in the external environment, and therefore these economies are vulnerable to change in the international financial system. Currency risks: Like debt risks, currency risks can negatively impact an economy's stability since inflation, changes in import prices, and confidence in the economy are affected. There is therefore need for IMF surveillance in such circumstances as it offers emerging economies a direction on how best to contain their debts as well as stabilize their currency. Appropriate measures that comprise the recommendations of the IMF normally call for the adoption of independently floating exchange rate systems and the stockpile of foreign exchange reserves as hedge instruments. For instance, the IMF has recommended that India ease exchange rate management to minimize external vulnerability which has been implemented to reduce currency risks over the years. IMF surveillance can then regularly track such factors with specific policy recommendations allowing emergent countries to manage the intricate factors associated with external debts and currency risks that contribute to an overall more stable global financial outlook.

Role of IMF Surveillance in Enhancing Financial Stability

The IMF has a proactive role to contribute directly to the improvement of financial stability in emerging countries through a modern approach based on early detection of possible risks or vulnerabilities of the financial system, giving out advice, monitoring, and evaluation, promoting technical support, and strengthening institutions. Here is a framework intended for usage in targeting measures, which can effectively help countries protect themselves from certain kinds of risk that may cause a financial crisis. For the emerging economy, which is constantly under some form of economic pressure because of the oscillations in the global financial market, the IMF acts as a source of benchmark. For the IMF, its function in these economies has become even more important in the context of globalization and interconnected financial markets, under the effects of which the fluctuations in one country's economy can affect the world. The IMF surveillance enables countries to cope with shocks effectively, hence, the IMF's surveillance is a positive to both individual country stability and global stability. [6]

[5] Globalization: A Framework for IMF Involvement, *available at:* https://www.imf.org/external/np/exr /ib/2002/031502.htm (last visited on October 15, 2024).

[6] Christine Lagarde, The Role of Emerging Markets in a New Global Partnership for Growth, *available at:* https://www.imf.org/en/News/Articles/2015/09/28/04/53/sp020416 (last visited on October 15, 2024).

Identifying Systemic Risks and Providing Policy Advice

A key task for IMF surveillance is to assess the presence and dynamics of systemic vulnerabilities in emerging economies and then offer timely and appropriate advice on needed policy reforms. The IMF performs in-depth studies of the member's economic realities such as fiscal and monetary policies in a given country as well as market conditions to identify risks that are potentially threatening to the health of a nation's financial institutions. For instance, when the Asian financial crisis took place, the IMF realized that some of the countries boasted of a weak banking system and poor policies in their financial systems hence providing policies that fostered balanced economies. The IMF's bilateral surveillance undertaken under Article IVs also offers it the chance to offer member countries legal advice on how to mitigate systemic risks given that its review of the country's economic and financial measures is annual. This advisory function has played a key role in providing solutions for some of the issues facing the world economy today such as inflationary trends, high debt levels, and volatile exchange rates. Regarding the countries, the IMF's surveillance in the form of fiscal discipline, directions regarding sustainable debts, and flexibility of the exchange rate is helpful in the implementation of preventive measures. Recently the IMF has also expanded its perspective on social and environmental factors because they have an impact on the state of the economy in the long run. This has meant an attempt to widen the coverage of surveillance from mere economic indicators and fiscal discipline to include socio-political realities influencing the fiscal stability of transition economies.

Technical Assistance and Capacity Building

The other part of surveillance is offering technical assistance and capacity-development facilities to enhance the legislation and governing systems of the emergent market nations. These programs are useful When nations have to build capacity for good economic management and sound regulation in finance that can act to absorb shocks. These emerging economies have other issues because of limited policy reforms and poor bureaucratic structure to respond to issues affecting financial systems. The IMF fills these gaps by providing tailored training and instruction on fiscal policy management, banking regulation, and collection and analysis of economic data. For example, the IMF has worked with the RBI to strengthen Indian capacity as a regulator as well as to upgrade its risk evaluation tools. This has helped India to more effectively regulate capital flows, inflation, and exchange rates thus strengthening its ease of financial stability. It includes capacity building for enhancing the transparency and the governance structures in the financial institutions, essential for confidence building among the investors and for making the economies more investment attraction and less economically insecure to repel the flowing foreign direct investments. When delivering technical assistance, the IMF assists emerging economies in developing a strong pillar of economic stability necessary for their better buffering of shocks and supporting sustainable economic growth. [7]

Regular Assessments through the Financial Sector Assessment Program (FSAP)

The FSAP is the most comprehensive and comprehensive method used by the IMF for evaluating the financial sector of a country. The FSAP was initiated jointly with the World Bank and provides detailed accounts of the nature of the financial systems, including their virtues, vices, and any suggested reforms. It is also most valuable for emerging economy countries, which could often be incapable of sponsoring or having the necessary skills to make such assessments. That is why, using such key areas of analysis as the state of the banking sector, regulation and supervisory systems, and financial market infrastructure the FSAP offers an effective analysis of the health of the financial sector in a given country. Unlike many other assessments, it not only reveals areas of concern but also provides practical recommendations on how stability could be increased and risks decreased. For example, the assessments conducted in connection with the FSAP revealed future weaknesses of banking sectors in Latin American countries; due to these conclusions, certain countries have been able to undertake regulatory changes that have strengthened the financial systems of the region. It also makes the results of the assessment publicly available which enhances accountability and trust by countries and international investors. For developing countries particularly India, FSAP assessments coming out with the analysis of its domestic policies and its compliance with the international standard helps India and other developing countries to imbibe the best practices and enhance their financial systems. Thus, the main idea of the IMF's FSAP is to perform these numerous and intense assessments to enhance the financial stability of emerging economies. [8]

Crisis Prevention and Early Warning Systems

Surveillance of its members' economies is an important part of the IMF's work, and the concept of early warning mechanisms is part and parcel of its crusade against potential crunches. To alert it that an economy might be overheating or in danger of a financial crisis, the IMF's early warning systems use both quantitative and qualitative signals. These are well observed and when emerging threats begin to emerge the IMF makes policies that would suit the economy at hand. For example, during the European sovereign debt crisis, the IMF's early warning tools identified threats connected with high public credit in Greece as well as other involved member states and offered tailored fiscal discipline and structural change guidelines. For emerging economies, early warning systems are extremely helpful since such economies are usually more vulnerable to shocks and indicators need to be intervened before a full-blown situation arises. It also provides regular vulnerability tests for emerging markets which can assist in bringing out vulnerabilities within the global financial frameworks vulnerable to affect these economies. As with crisis prevention, the IMF is instrumental in predicting threats and giving

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[7] *Policy Challenges for Emerging and Developing Economies: Lessons from the Past Decade*, *available at:* https://documents1.worldbank.org/curated/en/249291584025972023/pdf/Policy-Challenges-for-Emerging-and-Developing-Economies-Lessons-from-the-Past-Decade.pdf (last visited on October 12, 2024).

[8] The Role of the International Monetary Fund in a Changing Global Landscape, *available at:* https://www.csis.org/analysis/role-international-monetary-fund-changing-global-landscape (last visited on October 12, 2024).

recommendations that prevent their occurrence and help keep the emerging markets' financial structure more stable. It contributes to ensuring that countries always look ahead as an approach towards economic management in an attempt to prevent the accumulation of shocks and strengthen their stability.

Comparative Analysis: IMF Surveillance and Other Financial Stability Mechanisms

These factors make IMF surveillance one of the important cornerstones for strengthening surveillance concerning the global economy and, in particular, for emerging markets economies by frequent volatile situations resulting from combined internal and external factors. However, it is to be mentioned that the IMF is not the only body involved with the issue, the regional financial stability mechanisms and other multilateral bodies are also active. To properly identify the advantages and weaknesses of the IMF approach it is possible to compare its surveillance with the regional stability frameworks, as well as to look at the experience of key multilateral institutions that share similar objectives. The comparative analysis explains where lies the added value of IMF surveillance, as well as identifies the roles that the World Bank the Bank for International Settlements (BIS), and other regional institutions and arrangements can play by providing alternative and supportive measures. This understanding is important for young savants of emerging economies such as India which requires an integrated approach towards achieving financial stability by leaning on the strengths of international as well as regional institutions. [9]

Comparing IMF Surveillance with Regional Financial Stability Mechanisms

International organizations like ESM as eurozone support and CMIM in Asia-Pacific for Asian countries surveillance are a useful comparative tool in this regard. The European Union established the ESM which acts as a credit line for the Eurozone and provides bailout support to the member states with high economic risk. However, even though the mechanism of the ESM is linked to promoting financial stability it differs from the IMF in several ways: it includes only the European countries, and practically interacts with the ECB and the European Commission. This makes it easy for the ESM to anticipate the economic characteristics of the Eurozone member countries as well as cultural differences thus enacting appropriate measures for adjustments. Likewise, the CMIM, which is a collection of bilateral swap accords among ASEAN+3 countries; including China, Japan, and South Korea is the precautionary financial safety net for members. Thus, it means that CMIM can monitor regional forces that may precipitate a financial crisis, more quickly and accurately than global funds can. However, although regional mechanisms ensure speed and regionalism, they have a limited view of the global reality compared to that of the IMF. For example, the IMF needs to be involved when a regional event has ramifications on the rest of the world such as the 1997 Asian financial crisis. Its surveillance comprises both domestic and international economic conditions and is therefore a better policy framework. As a result, although regional mechanisms are critically important within the former system, IMF surveillance is still necessary for diagnosing a multiregional threat that could be localized within the latter context or have a global flavour as in the former.[10]

Lessons from Other Multilateral Institutions

Other organizations of the global economic system and global governance like the World Bank and BIS play an important role in underpinning international financial stability, and such lessons can be examined may improve the surveillance process of IMF. The World Bank carries out its operations on the principles of development and poverty reduction; thus, unlike the IMF which mainly aims at maintaining the economic stability in the world. Of course, for the emerging economy the Structural Adjustment, Infrastructure, and Poverty Reduced measures of the World Bank paved the way for the construction of a durable and shock-resistant framework. This combination of IMF surveillance activities and World Bank developmental emphasis offers a complete strategy for financial stability that is as good for addressing temporary instabilities as for contemplating and meeting permanent developmental requirements. The BIS, on its part, is a bank for central banks, dedicated mainly to international financial standard-setting and encouraging proper operational practices in banking. For instance, BIS's Basel Accords are global guidelines in banking regulation that address system risk concerns in financial institutions. A guide to banking stability by BIS is helpful to emerging economies that struggle to sustain sound regulations obligatory for banking stability. The analysis of banking and regulatory systems by the BIS strengthens IMF surveillance because stable banking condition minimizes the threats that IMF assessment and monitoring address. The application of BIS standards to the suggestions issued by the IMF can help build up financial stability by supporting efficient banking rules in the countries in development. These institutions work together to create a broader stability framework since each institution brings its unique specialization. By combining the developmental approach of the World Bank and the regulatory approach of the BIS, IMF surveillance can improve its definition of financial stability in emerging economies, achieving immunity to both transient and structural shocks.

Challenges and Criticisms of IMF Surveillance

Nevertheless, IMF surveillance remains a very important tool in improving the financial stability of emerging economies Despite its utility arguments against IMF surveillance remain many of them being confined to policy advice and intrusive interference with the sovereignty of the recipient nations as well as the conditions placed on the receiving nations. These critiques reveal both the noble goals of the IMF to promote stability in the global economy

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[9] Dealing with Large and Volatile Capital Flows and the Role of the IMF, *available at:* https://www.ecb.europa.eu/pub/pdf/scpops/ecbop180.en.pdf (last visited on October 15, 2024).

[10] Adel Daoud, Anders Herlitz, and S.V. Subramanian, "IMF Fairness: Calibrating the Policies of the International Monetary Fund Based on Distributive Justice", 157 *World Development* 105 (2022).

and its measures' consequences concerning the sovereignty and social agendas of the countries involved. Hence developing the country's IMF policy, while managing globalized considerations of IMF remit with domestic political realities becomes a balancing act that again sees policymakers likely to engage in potential cost/benefits analysis over IMF intervention. With more EMs coming onboard the global financial system, IMF surveillance activities are again under renewed pressure, especially in terms of how the various practices are consistent with the developmental objectives and political economy of target countries.[11]

Criticism of Policy Recommendations and Sovereignty

Depending on the way it is conducted, IMF surveillance is also criticized a lot about policy advice, which seems to be a violation of the sovereignty of emerging markets. Its prescribed recipes are fairly often linked with fiscal restraint, and liberalization of trade and markets, which may be at variance with the social and economic goals of the borrowing countries. Most of the critics who criticized these measures have raised their concerns that, even though they lead to balanced GDP growth, they bring along negative social effects including; high unemployment levels, high poverty levels, and less government spending on public goods and services. One of the main criticisms related to the implementation of austerity measures is that observed in the case of Greece during the European debt crisis when austerity measures backed by IMF resulted in protests and a political crisis. While Greece cannot be described as an emerging economy, the practices used by the IMF there reflect a familiar pattern that has unfolded in emerging economies – Latin America and Sub-Saharan Africa in particular. These sovereignty concerns are not simply related to economic policy-making, since the role of IMF surveillance is sometimes seen as a way of imposing a neoliberal economic model that can ill fit the cultural and developmental aspirations of the countries concerned. This perception of ideological bias leaves wide questions over the impeachable impartiality of the IMF organization alongside their respect for national sovereignty. Many times, the IMF imposes its advice on emerging economies to get the financial help they need, which puts the governments in a difficult spot where they have to consider their national interest against the necessitated conditions of the IMF.

Concerns over Implementation and Conditionalities

Another serious criticism of IMF surveillance relates to the structural adjustment condition placed on countries seeking IMF support. These conditions include the policies that the country must follow when planning on borrowing; in most cases, such policies are that the borrowing nation has to implement specific economic policies if they are to be given the money they need; factual information that is hard on the world's emergent economies given the fact that such economies have limited fiscal space. The conditionalities often include factors like limiting budgetary emergence, raising the interest rates, and executing structural adjustments; though normally they are instituted to promote economic stability, they at some time may increase the painful conditions within the economy in the short run. Where institutional development is low, as in most LDCs, it may be difficult to meet these conditions and instead a cycle of dependence and financial stress is created.[12] For example, during the 1997 Asian financial crisis, Indonesia was forced by the IMF to change its structure and this social change had profound economic impacts. Sceptics post that these conditionalities destabilize economies because the IMF was expected to stabilize them by implementing inflexible conditions that may not suit the society and economy of the borrowing countries. Moreover, the conditionalities are more diagnosed to have the problem of policy inconsistency essentially because the IMF's decision-making process on these requirements may not be that transparent and may therefore be viewed as politically motivated action. This lack of transparency, therefore, undermines the credibility of this institution in the eyes of emerging economies and weakens the effectiveness of its surveillance function. Furthermore, conditionalities result in what certain commentators have termed policy nation-out, where governments limit their choices available in the formulation and implementation of policies that would be useful in catering to the needs of ordinary people in their societies such as poverty eradication and other social safety nets. Consequently, although the main goal of the IMF surveillance is to strengthen financial stability, the proposed measures can weaken this kind of stability by imposing an excessive burden on emergent countries.

Conclusion

All in all, according to this model and the literature review, the IMF performs a crucial role in ensuring financial stability in EMs, via a detailed surveillance system. As an international organization, the IMF helps countries to consider lessons from their global and domestic economies to receive specific guidance on how to mitigate challenges, strengthen their economy, and fix vulnerable aspects that may unsettle the economy. The approach also offered technical cooperation, a system of routine financing reviews, and measures against potential crises are most important for emerging economies that are sensitive to external perturbations, fluctuations in currency, and inefficiency in government economic policies. In particular, via the Financial Sector Assessment Program (FSAP) and early warning systems, the IMF creates an opportunity to take initiatives and sustain appropriate conditions for the further development of emerging economies.

However, despite IMF activities has its drawbacks. It is criticized for limiting sovereign freedom and its policy prescriptions, usually associated with fiscal consolidation and liberalization may not be consistent with the social and development objectives of EMs. Conditions that accompany IMF help, as necessary for restoring order, have also raised criticisms for potentially aggravating squeezes and constraining policy choices for the borrowing nations.

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[11] IMF Surveillance: An Overview, *available at:* https://www.brettonwoodsproject.org/2018/12/imf-surveillance-an-overview/ (last visited on October 12, 2024).

[12] Debt- and Reserve-Related Indicators of External Vulnerability, *available at:* https://www.imf.org/external/pubs/ft/pam/pam46/pam4604.htm (last visited on October 14, 2024).

These critiques are again reflecting the dual mandate of the IMF: on one hand, promoting and safeguarding stability in the global economy; on the other hand, to consider the sovereignty and pluralistic and structural reality of the emergent economies.

Again, in the case of countries like India and other similar countries in the region, the IMF surveillance continues to be relevant in the sense that it provides relevant information and instruments that assist in managing risks. Nevertheless, it has become essential for the IMF to further fine-tune its strategy by dealing with new challenges in the global financial architecture in terms of implementing economic stability goals on the one hand and development and social or political concerns on the other. Addressing these concerns helps the IMF to enhance its cooperation with the economies in development and make its surveillance framework help not only to avoid crises but also to promote further inclusive and sustainable development. Such an approach would assure the IMF of its continued efficiency in enhancing financial stability in an integrated and rather complex global economy.

Suggestions

To respond to the problems of surveillance faced by the emerging economies and to strengthen the impact of the work of the IMF some proposals can be made to increase the correspondence of the goals of financial stability with the developmental objectives of the states. In the further development of the IMF's architecture, the organization must be able to accommodate for further globalization of economies as well as maintain the organization's capacity to provide capacity to fund sustainable and inclusive growth aligned with the socio-economic environment of each member country.

- The IMF should strive to provide more flexible detailed policy prescriptions that take into account the actual economic, social, and political conditions within each of the emergent economies. This would facilitate the setting of policies that would enhance stability for countries without compromising developmental and social aspects.
- The IMF could add to the credibility by maintaining that standards set for lending are justified and comprehensible. Such transparency would reduce impressions of hasty decisions to the mood of the population and may create a positive atmosphere with recipient countries.
- IMF surveillance can continue enhancing the capacity of emerging economies in additional ways by increasing emphasis on building the capacity of local institutions through technical assistance. This would mean that the support would allow countries to prepare for and adapt individually and reduce the chance of needing to rely on other help for economic sustainability and economic handling.
- Additionally, the same way that socio-economic objectives are contemplated in fiscal policy and fine-tuning monetary policy, incorporating social inequality for instance employment into a surveillance framework will help the IMF to tilt towards growth while not losing sight of social considerations. The incorporation of the social factors in the policies would extend the understanding of IMF economic health as some critics have argued that IMF policies oftentimes fail to consider the social ramifications of changes envisioned for member nations.
- We are aware that conditionalities have to be set and the IMF could set these conditions without consulting the countries in question, but it is possible for the IMF to engage the countries in setting the most suitable and realistic conditions. This way the reforms would be owned and the possibility of implementation would be high.
- To that end, the IMF could strengthen cooperation in the sharing of research findings and experiences that may be useful in other member country situations. Indeed, cooperation with regional institutions could be effective regarding certain special circumstances observed on the regional level, especially if regional frameworks provide several valuable practices regarding stabilization, particularly economic and cultural factors.
- Activation and expansion of the early warning systems and the periodic revision of the vulnerability assessments of the emergent markets can further improve crisis anticipation. Such anticipatory surveillance would help the IMF to act before crises start to unfold, thus better containing the effects of the crisis on these economies.
- Drawing from such suggestions, it is possible to summarise the following, which seeks to make IMF surveillance more sensitive to the dynamic needs of EEs, not just for maintaining their balance of payments stability, but for development as well. It is the ability to have closer cooperation in the frame of a more open and effective policy that the IMF can become a more dependable partner in the world's financial system.