

Road to Seoul

Which results can we expect from the Seoul Summit?

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I

Why the Global FSN?

II

Policy Options for Seoul

I . Why the Global FSN?

(1) change in views

Traditional view

- Crises happens only when countries fail to sustain sound policies
- All the problems are endogenous
- Conditionalities are necessary



- Financial safety nets?
- Social Safety nets?
- Moral hazard concern

2008
crisis

Renewed view

- Crises can also happen when the countries with non-reserve currencies experience external shock
- Conditionalities might hinder early access to liquidity and exacerbate crisis contagion



- liquidity providing system
 - to level playing field
 - prevent crisis contagion

I . Why the Global FSN?

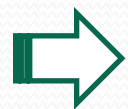
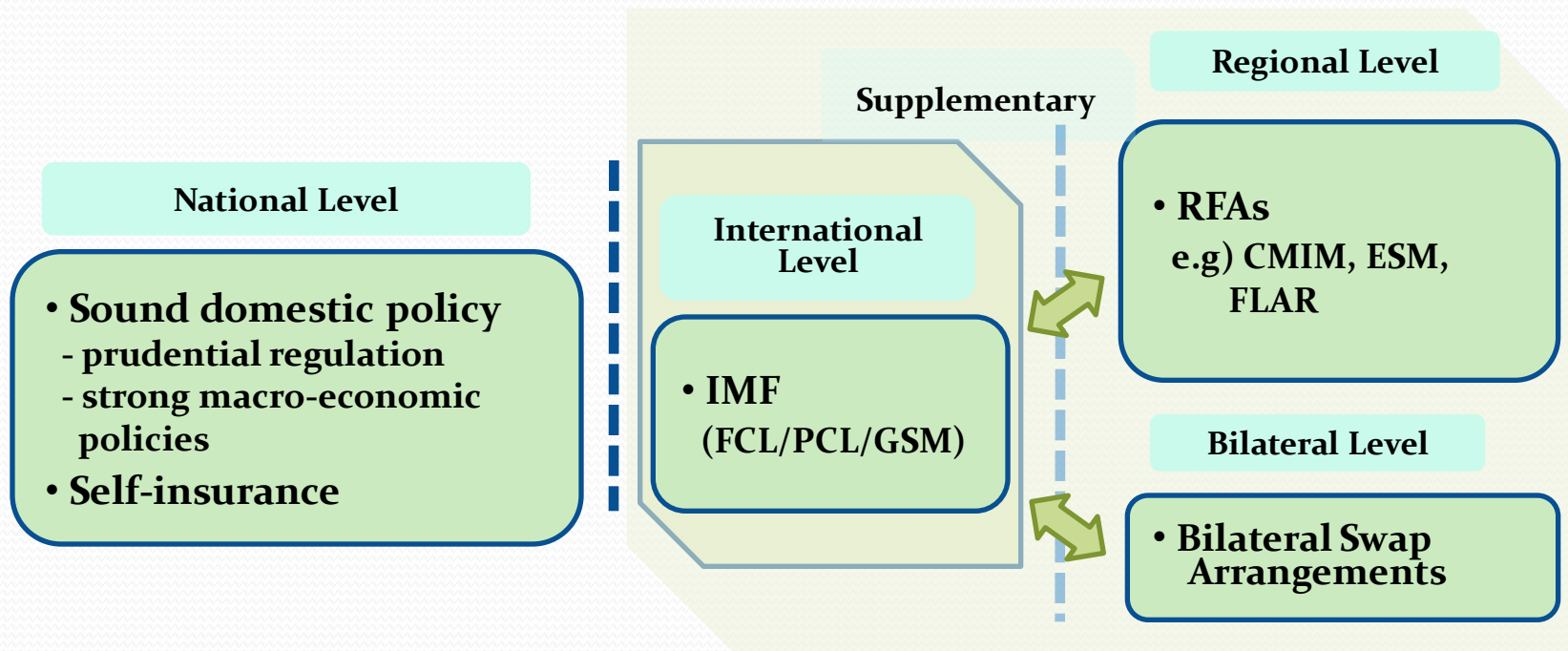
(2) Leaders Communiqué in Toronto

- We acknowledge the need for national, regional and international efforts to deal with capital flow volatility, financial fragility, and prevent crisis contagion.
- We task our Finance Ministers and Central Bank Governors to prepare policy options, based on sound incentives, to strengthen global financial safety nets for our consideration at the Seoul Summit.
- In line with these efforts, we also call on the IMF to make rapid progress in reviewing its lending instruments, with a view to further reforming them as appropriate.
- Our goal is to build a more stable and resilient international monetary system.

II . Policy options for Seoul

(1) Global financial safety nets system

- Korean proposal to the G20 Experts Group



G20 and the IMF took the first step (FCL/PCL. August 30)

II . Policy options for Seoul

(2) Remained issues to address

1. Variety of Options

- Need to have more options so that countries can choose the options that best fits their unique circumstances

2. First Mover Problem

- Current financial safety nets are still on-demand basis that accompanies first mover problem
- Countries are reluctant to access the IMF in fear of giving a negative signal to market which is likely to over react

3. Systemic response to systemic shock

- When the global economies are hit by “systemic shock”, more preemptive and organized action is necessary

II . Policy options for Seoul

(3)-1. Group Credit Line (GCL)

- GSM is a framework that enables the IMF to proactively channel liquidity to members affected by contagion in a systemic event
- Including various options, the core idea is providing liquidity on “simultaneous” and “unilateral” basis, only when there is systemic shock
 - * main treats of the Fed swap to four emerging countries during crisis

➤ **Simultaneous offer**

➤ **Unilateral offer**
* in a consensual manner

➤ **available only at systemic shock**



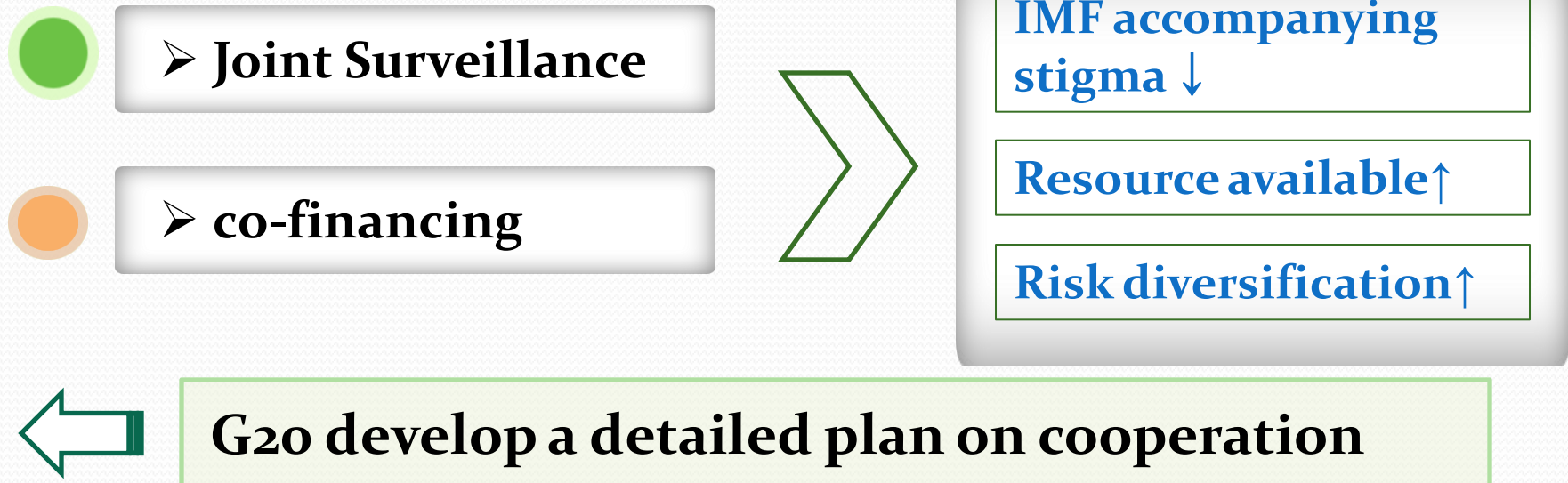
**first mover
problem ↓**

**Prevention of
crisis contagion ↑**

II . Policy options for Seoul

(2)-2. Collaboration of the IMF and RFAs

- Regional financing arrangements were recently found to be useful in ring-fencing crisis contagion
- Can provide further protection from external shocks by strengthening collaboration with the IMF creating synergies
 - ※ IMF RFA seminar (10.8)



II . Policy options for Seoul

(3) Issues after Seoul : Two-folded approach

- Cannot achieve all possible options at once
- options mentioned above are considered as “deliverables” for Seoul Summit
- To truly solve the problem, further international efforts are necessary, even if it takes time and costs a great deal



➤ *Options for Seoul*

- Options that we can implement in the nearest future to assuage imminent concerns of EMEs whose capital-inflow is increasing



➤ *Options for post Seoul*

- Options that require further considerations but are valuable in addressing the problems in the longer term
- Other options in the GSM Framework
- Collaboration among regional financing arrangements
- Reform of international monetary system in the longer term



Thank you !!!