

GLOBAL FINANCIAL SAFETY NET: THE IMF AS FIRST PORT OF CALL

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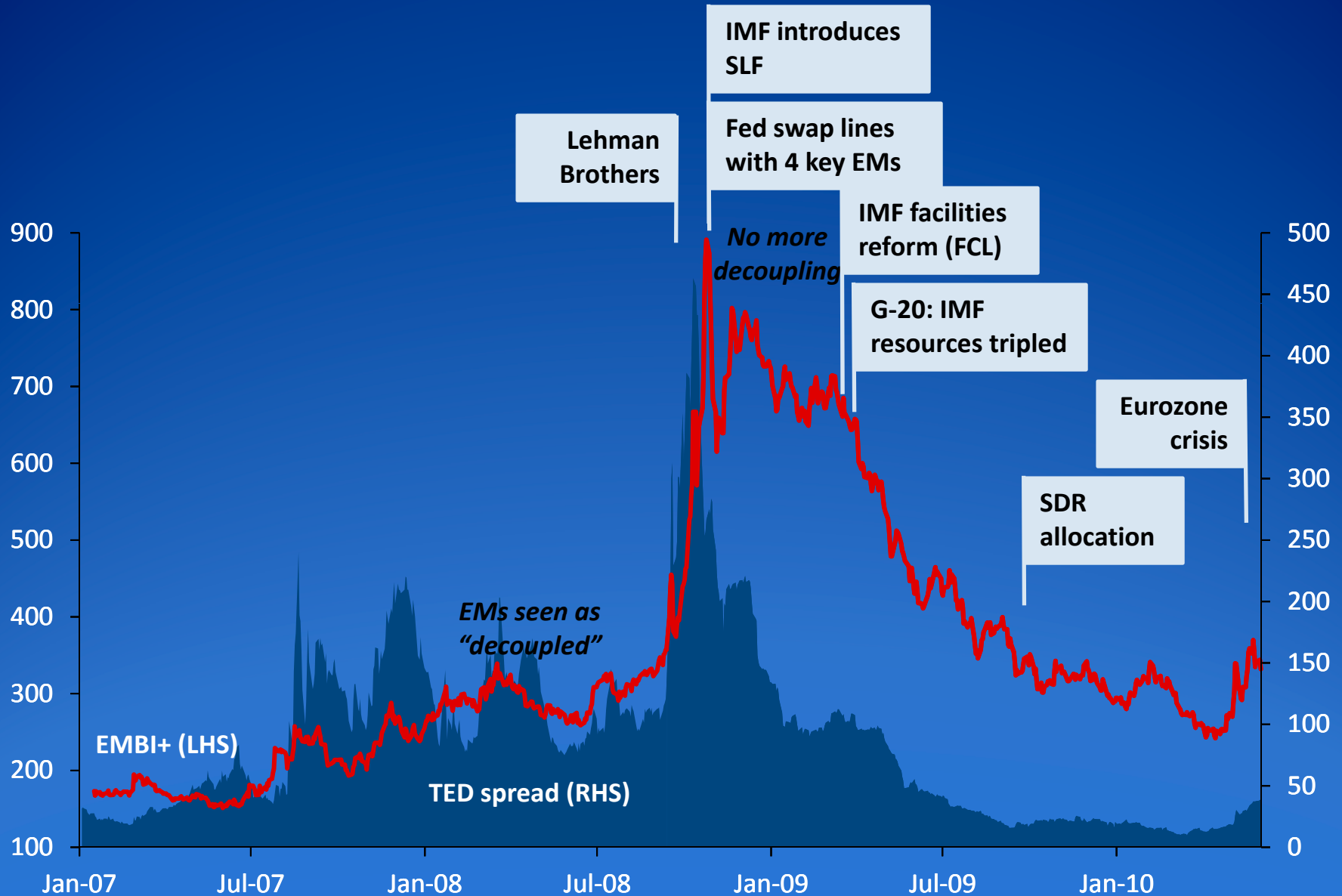
September 9, 2010



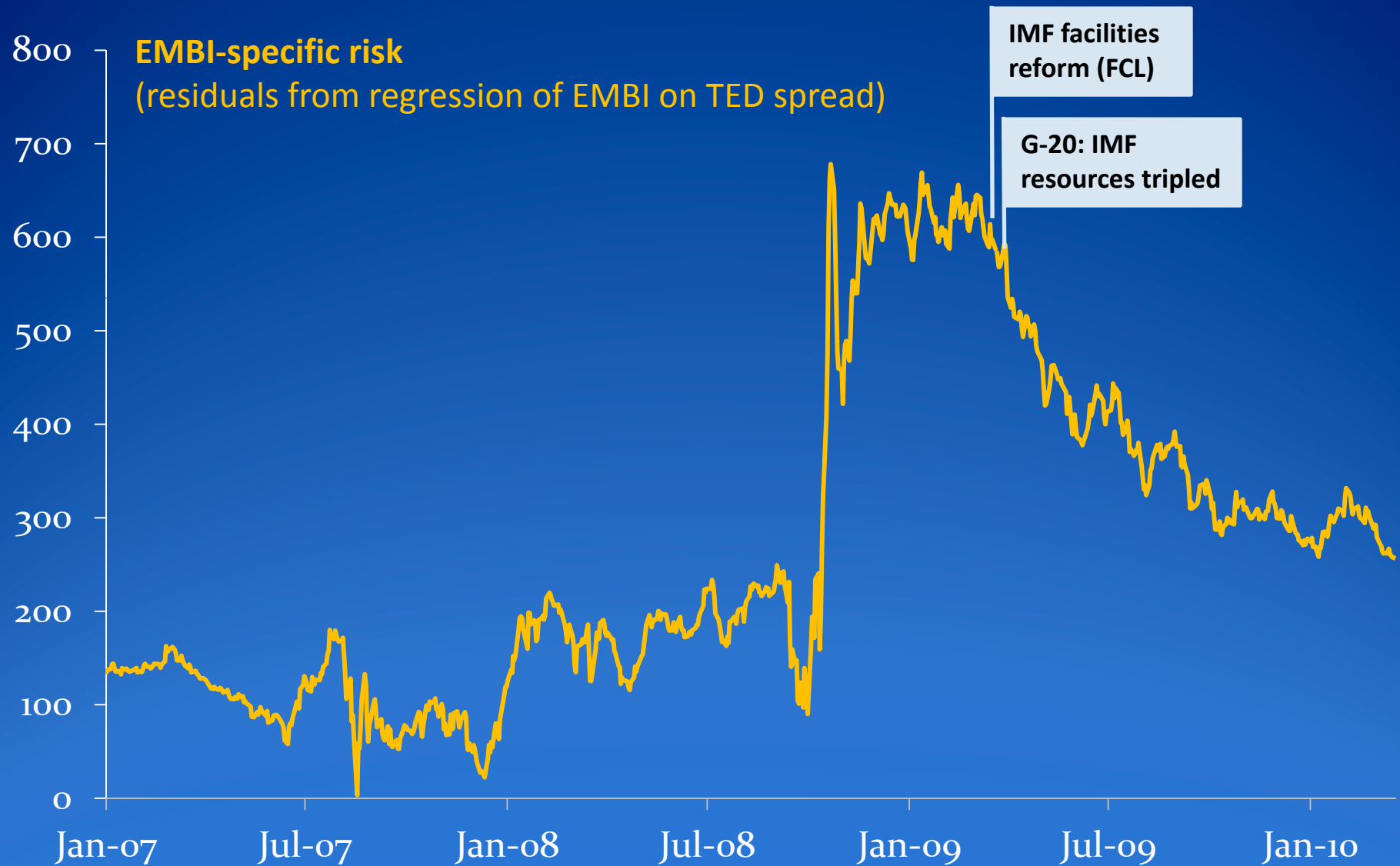
IMF response to crisis—bottom line

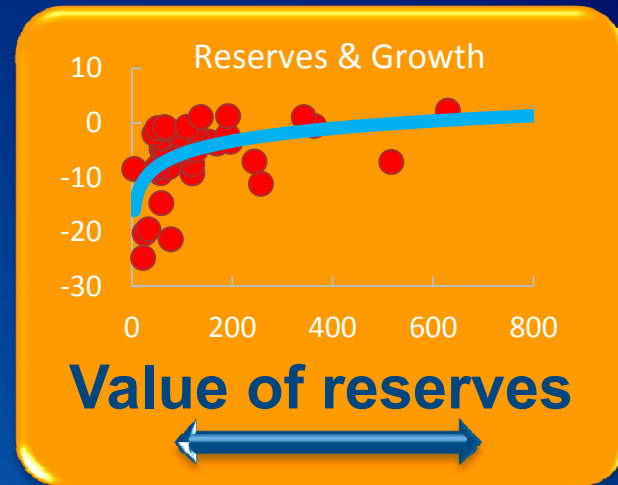
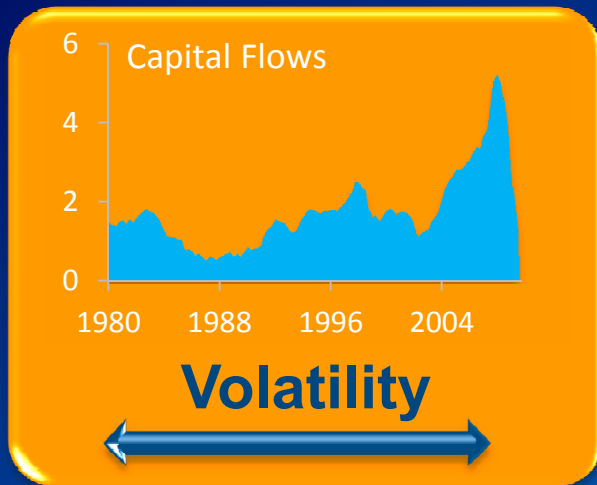
- **Reformed lending**
 - Enhanced crisis prevention toolkit (FCL, PCL)
 - Increased size of loans
- **Tripled resources**
 - Increased borrowings (\$600bn NAB)
 - 14th quota review underway
- **Deployed financial assistance**
 - 28 arrangements, \$195bn
 - Space for countercyclical policies
- **Set in train surveillance & governance reforms**

Crisis timeline & IMF response



Cooling Effect of Reformed IMF Lending





Country insurance **Framework for systemic crises** **Reserve-like instruments**

Improved Flexible Credit Line (FCL) for very strong performers

Precautionary Credit Line (PCL) with focused ex post conditionality for sound performers

Firewall to stop contagion in systemic crises: Global Stabilization Mechanism (GSM)

Enhanced cooperation with Regional Financing Arrangements (RFAs)

Reserves help, but only up to a point

Emerging Markets: Foreign Reserves and Growth in the Recent Crisis



Reform Balancing Act

Reserve-like
instruments

Risks

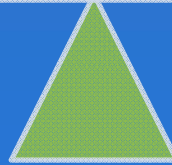
Qualification by country performance

Automaticity

Safeguards

Predictability

Moral hazard



Reformed Lending Toolkit

FCL

PCL

SBA

Qualification

Yes, very strong policies

Yes, sound policies

No

Ex-post conditionality

No

Yes, but focused

Yes

Access

Uncapped

1000% quota cap

Uncapped

Phasing

Frontloaded

500% quota upfront

Some frontloading

Duration access/
monitoring

12 months,
annual reviews

6 months,
six-monthly reviews

Usually 3 months,
quarterly reviews

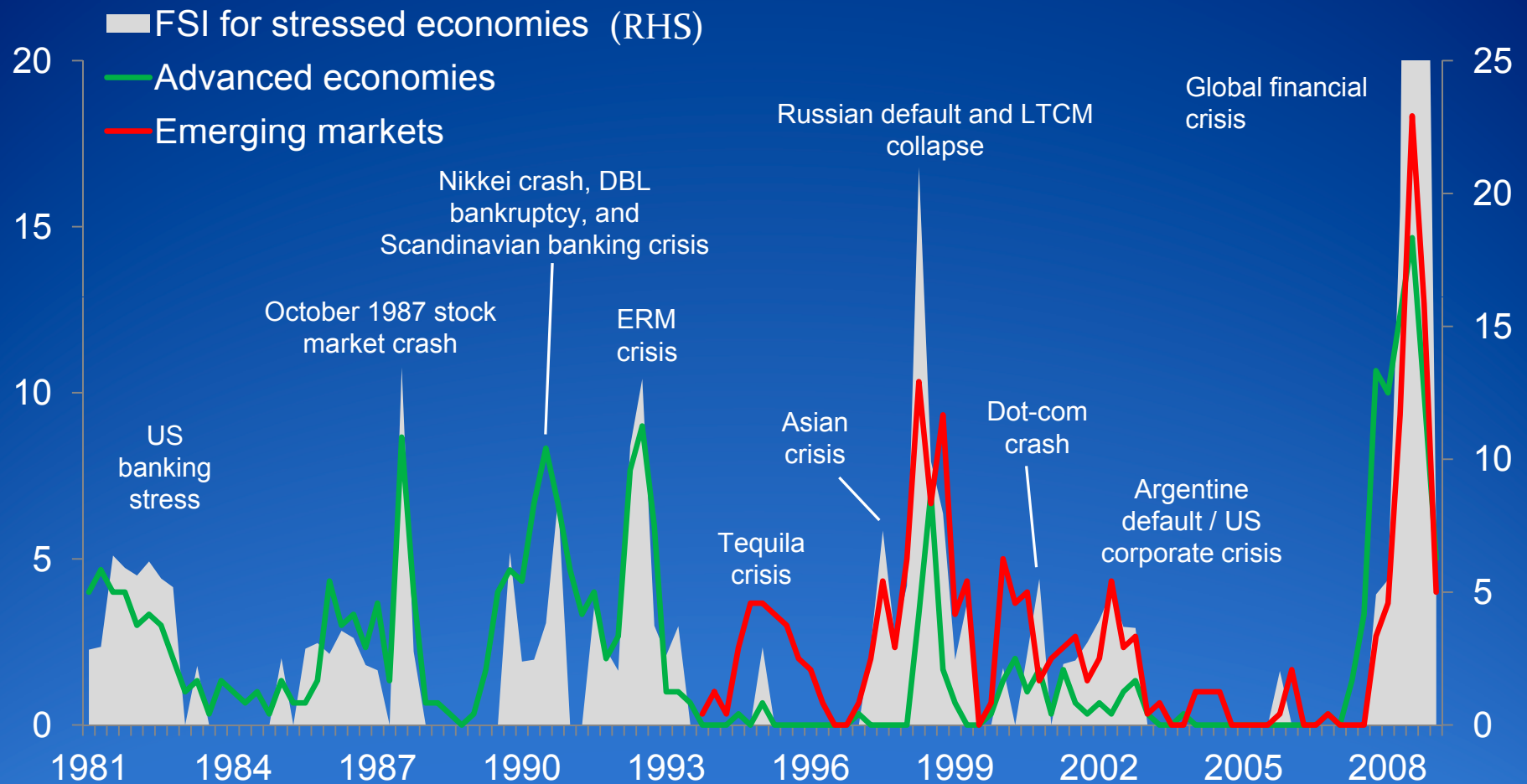
Arrangement
length

1 or 2 years,
Successor FCLs
allowed

1 to 2 years,
Successor PCLs
allowed

Up to 3 years,
Successor SBAs
allowed

Number of countries under financial stress 1/



1/ Countries under financial stress are defined as those with a financial stress index that exceeds its country-specific mean by at least one standard deviation. Financial stress indices were calculated for advanced economies and emerging markets as in WEO April 2009 except for the period 1994-1996, where the index for emerging markets is proxied using EMBI only.

Source: WEO April 2009

Systemic crises

Issue

- Rare events, involving multiple countries and markets
- Generalized liquidity runs triggered by risk aversion
- Potential for self-fulfilling solvency problems
- Amplifying effects: piecemeal response; first-mover problems

Response

- Coordinated and proactive provision of liquidity
- Rapid deployment of crisis resolution programs
- Advantage of predictability on framework for systemic crises

The Global Stabilization Mechanism (GSM)

Systemic shock

**IMF Board
activates
GSM**

Seek voluntary
**private sector
involvement** (e.g.,
rollover agreements)

Coordinate response
with Monetary Authorities
& Regional Financing
Arrangements

Review access limits
under all Fund facilities

**Double first
credit tranche**

**Offer to approve FCL
arrangements**
for multiple qualifying
systemic countries

**Recommend NAB
activation/temporary
bilateral borrowings**

**Consider general
SDR allocation**

**Approve crisis
prevention
PCLs** on
demand for
qualifiers

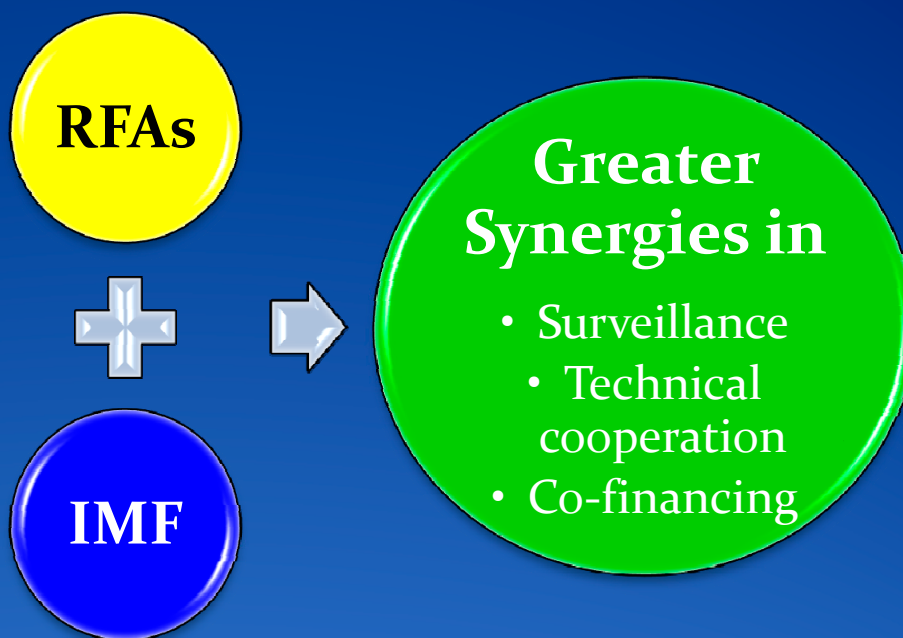
Activate SLL
on demand
for qualifiers
hit by shock

OR

**Activate
modified PCL**
on demand for
qualifiers hit by
shock

**Approve crisis
resolution
SBAs** on
demand

IMF & Regional Financing Arrangements



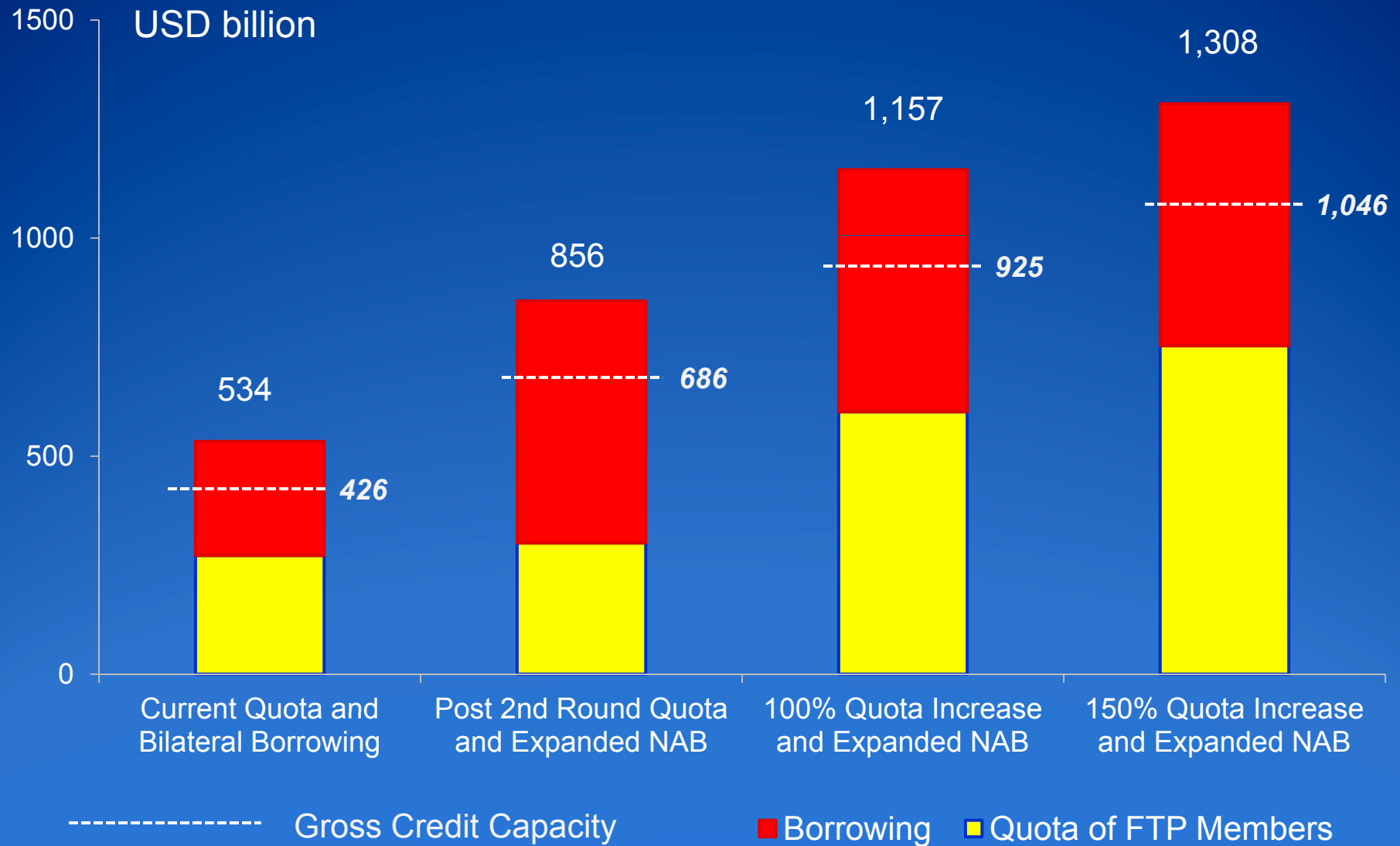
Issues:

- Formalize co-financing modalities?
- Emphasize precautionary lending?

Next steps:

- High-Level Seminar (Oct. 8)
- Bilateral consultations

Adequacy of IMF Resources



GFSN—IMF contribution

IMF as first port of call for countries navigating in stormy weather

- **Revamped lending toolkit**
 - crisis prevention
 - resolution of systemic crises
- **Synergies with RFAs**
- **Adequacy of resources**

the end