IMF's Crisis Response and Challenges

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International Monetary Fund

Joint IMF/WB Parliamentary Workshop
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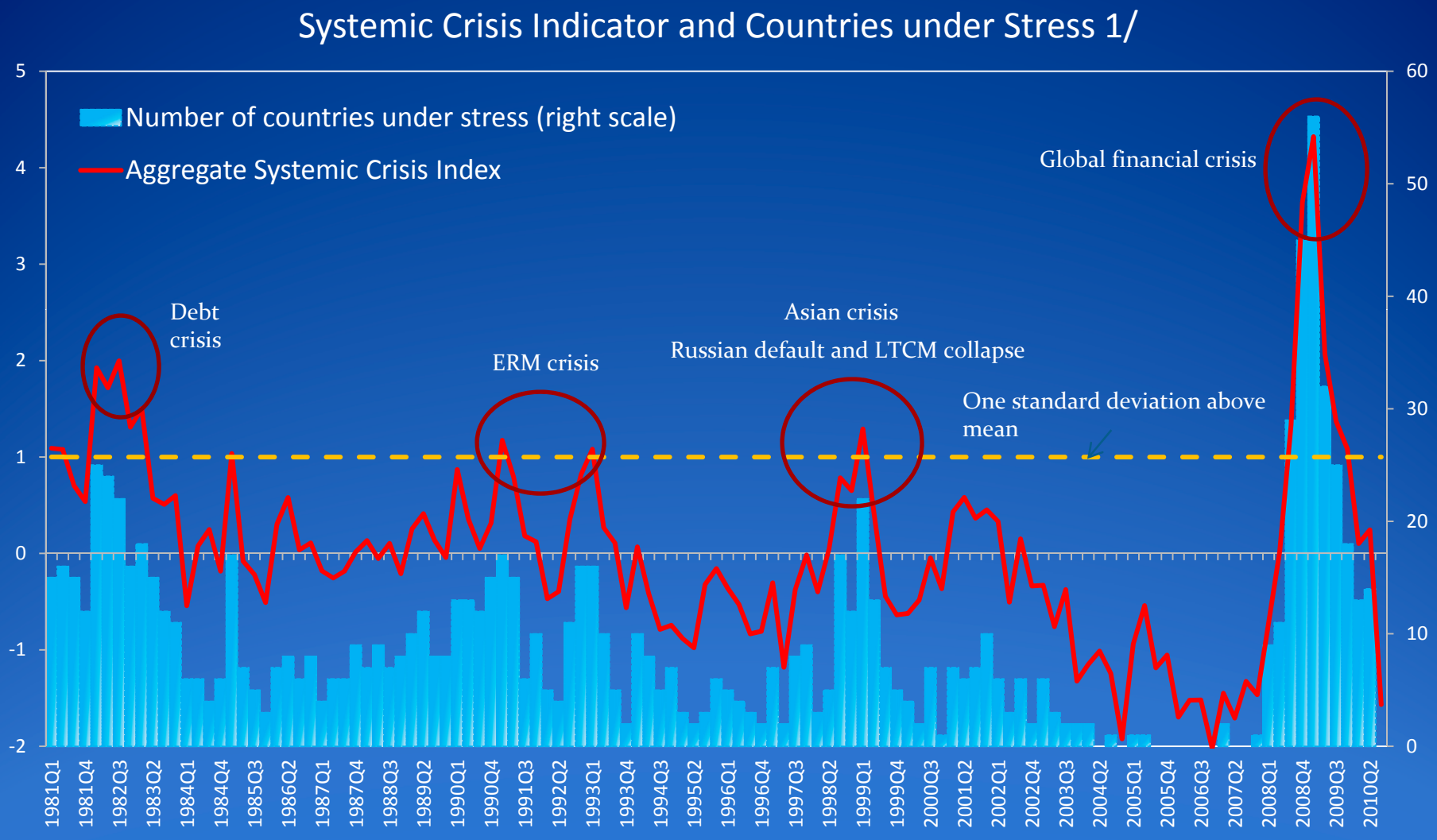
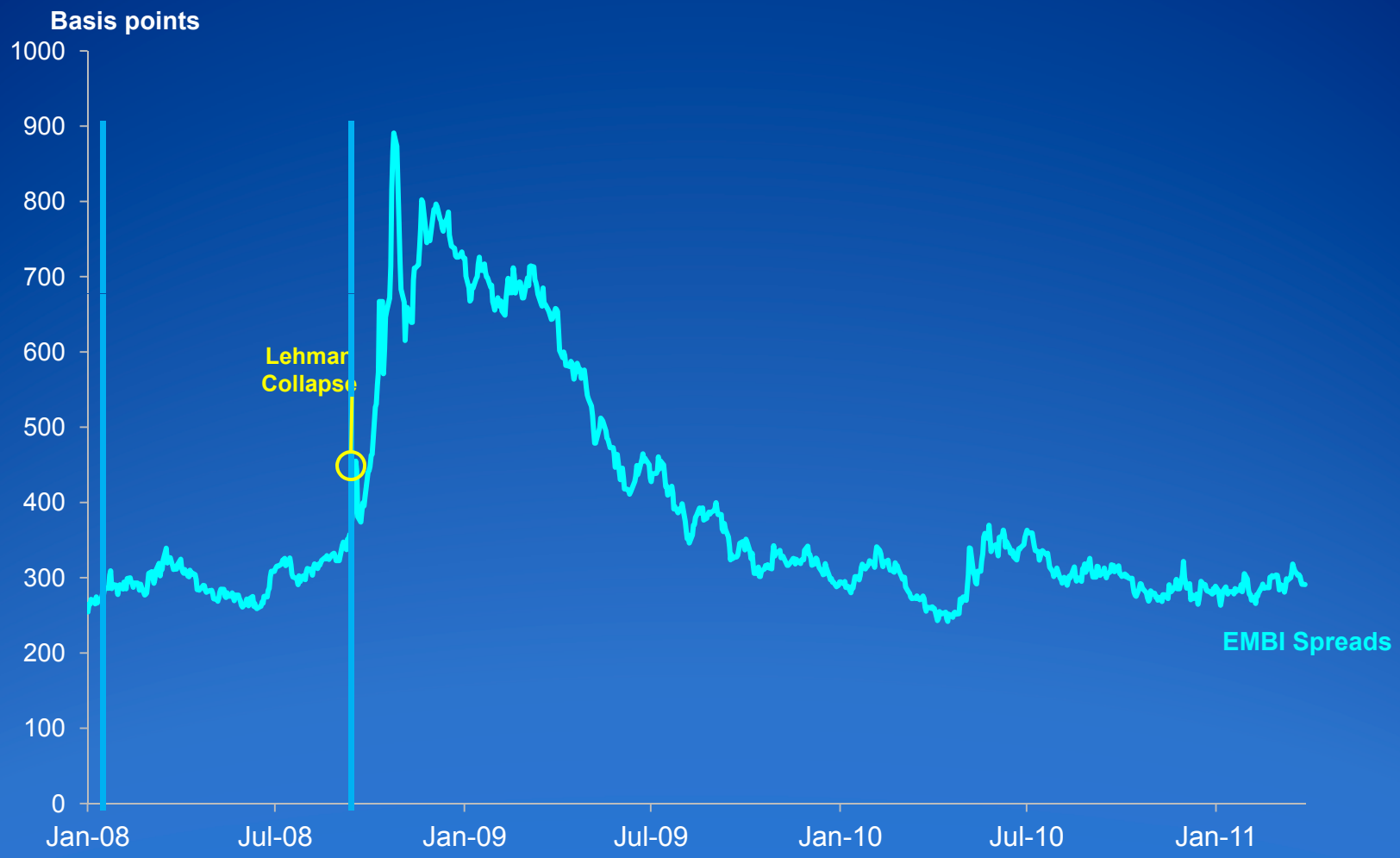
Global crisis: historical perspective



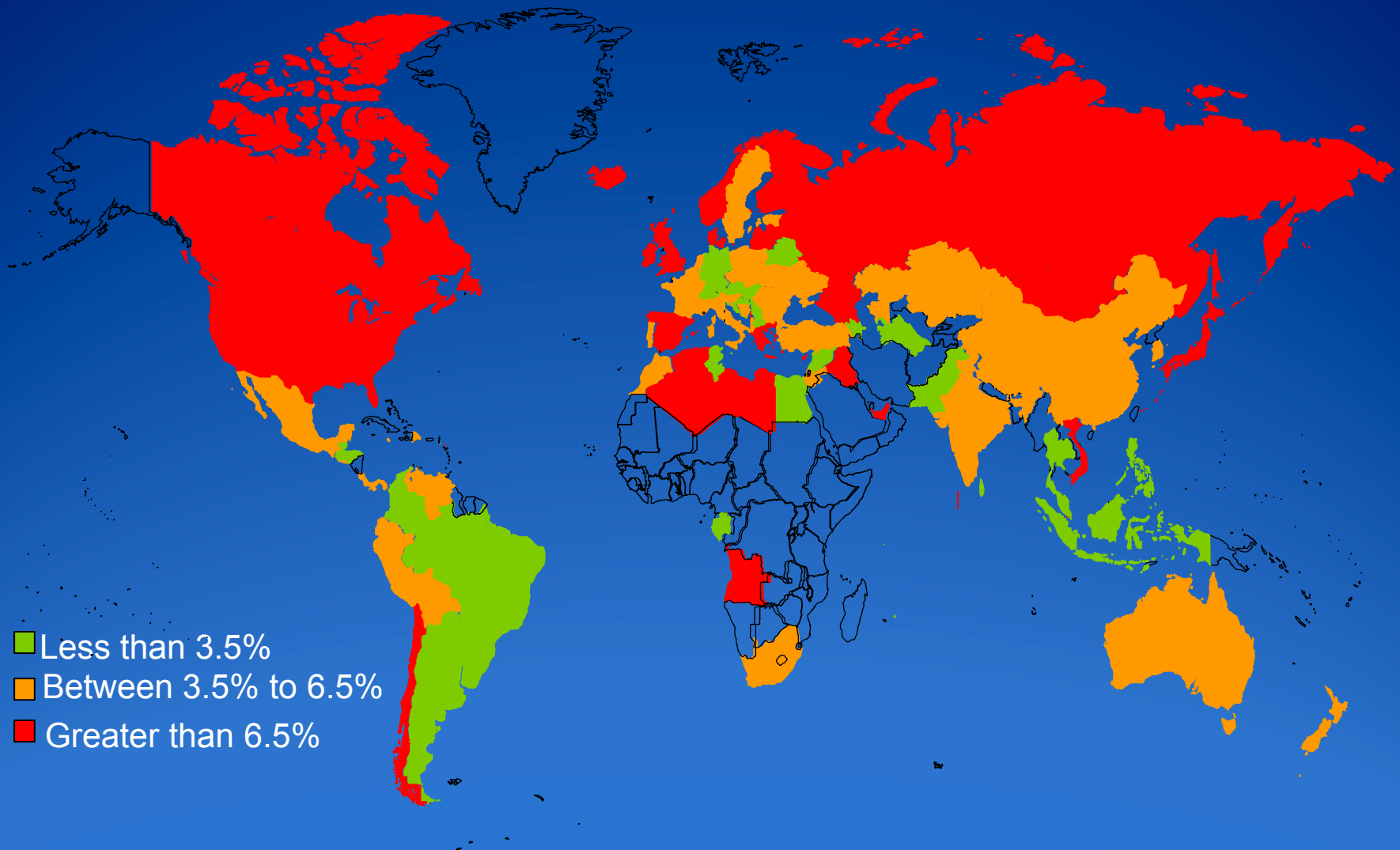
1/ The aggregate systemic crisis index is a simple average of each country's (normalized) systemic crisis index, defined as the simple average of normalized quarterly FSI (for advanced economies) or EMP (for emerging markets) and normalized quarterly real GDP growth (yoy). A country is under stress if its systemic crisis index is above one standard deviation from its mean.

How has the IMF responded to the global crisis?

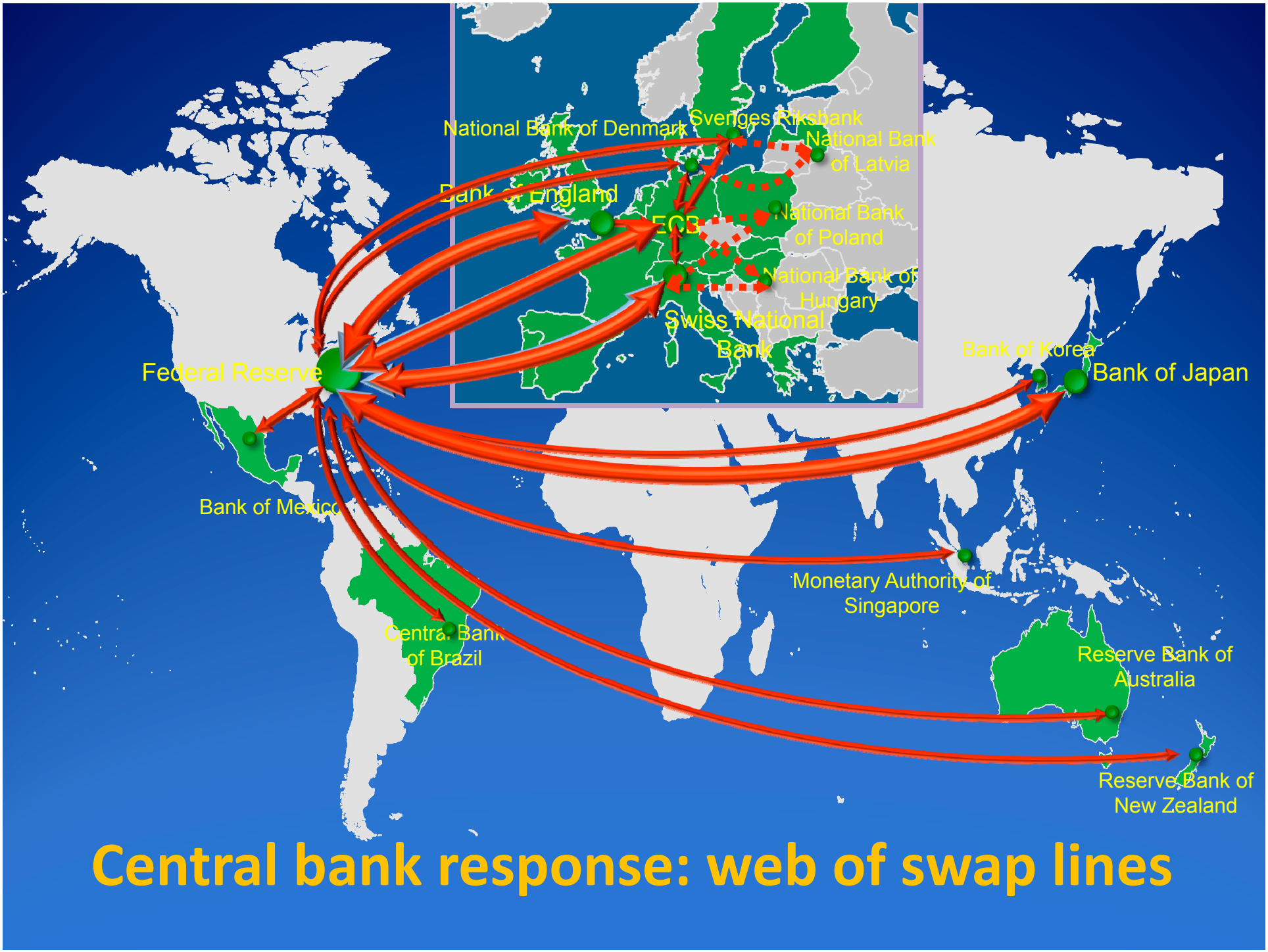
Global crisis timeline



IMF call for coordinated fiscal stimulus



Note: Increase in the fiscal deficit in percent of GDP, 2007 -2009.



Central bank response: web of swap lines

Global crisis timeline

IMF Financing Role Overhauled

- **Reformed lending instruments**
  - Enhanced crisis prevention (FCL, PCL) and LIC instruments

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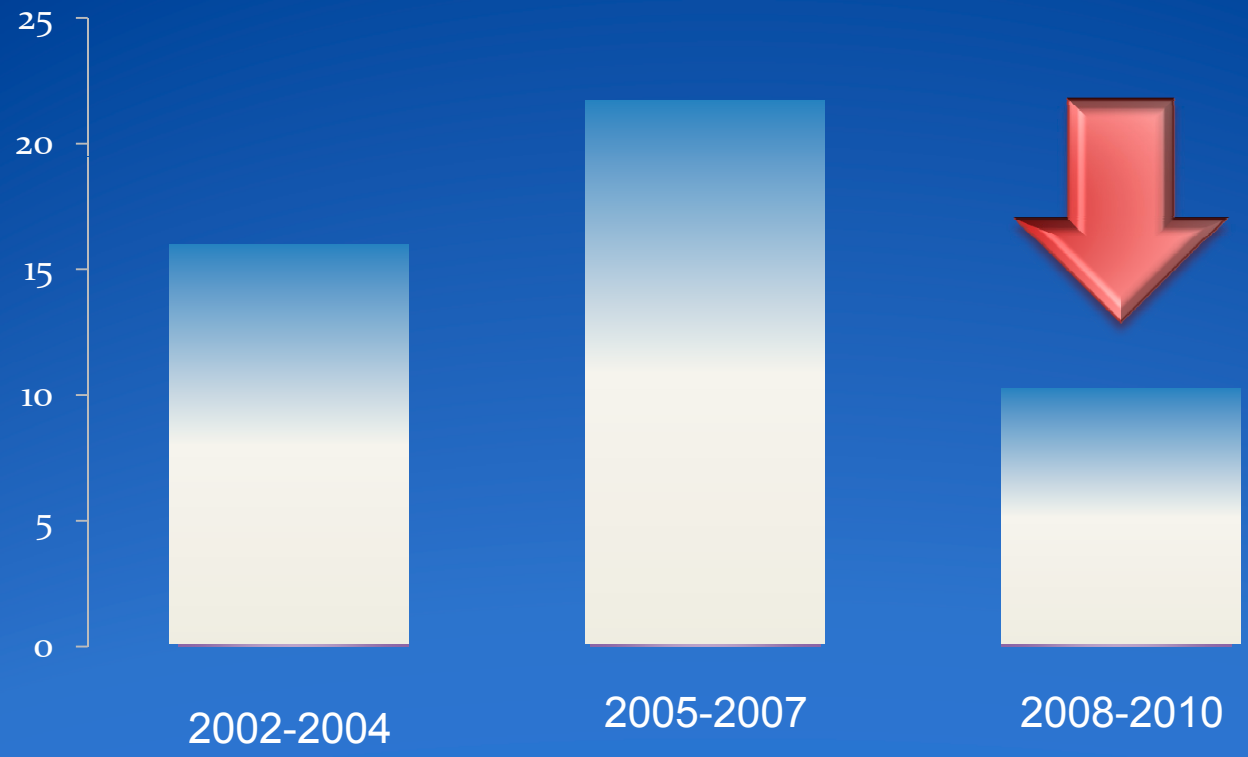
Policy conditionality streamlined and focused

Number of structural conditions assessed per program (GRA) year



IMF Financing Role Overhauled

- **Reformed lending instruments**
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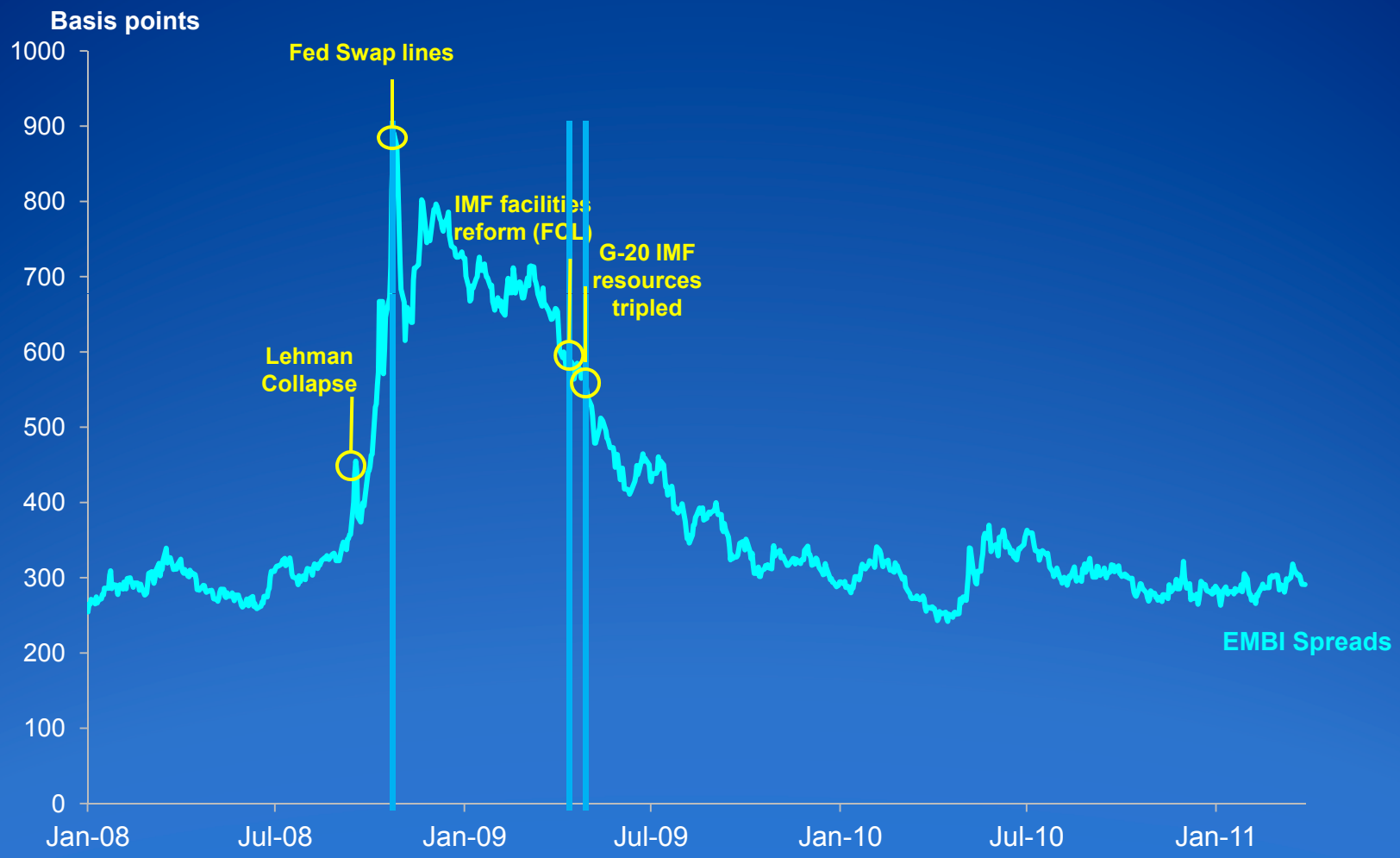
- **Increased lending resources**
  - Increased borrowings
  - Doubled quota and activated NAB

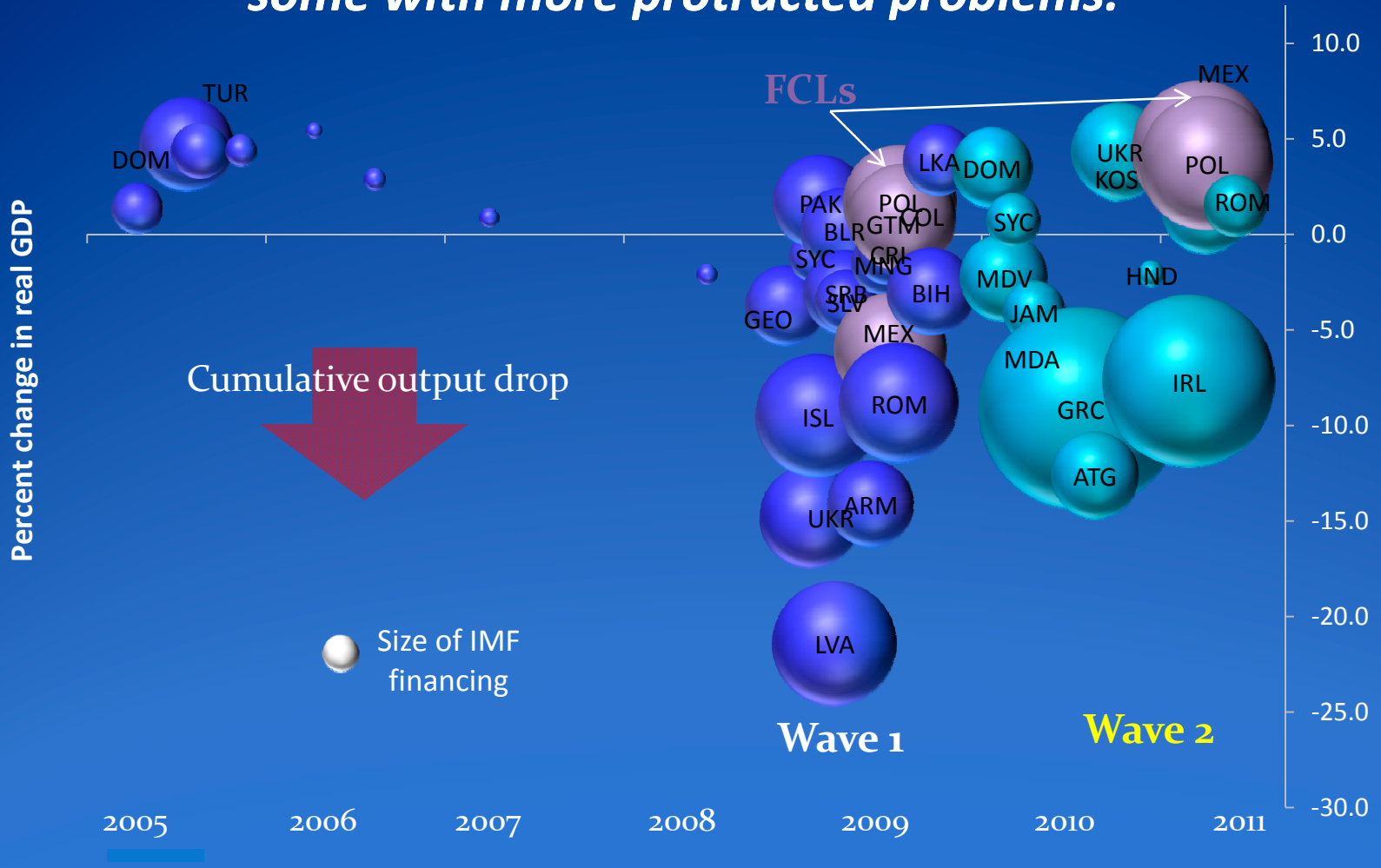
Global crisis timeline



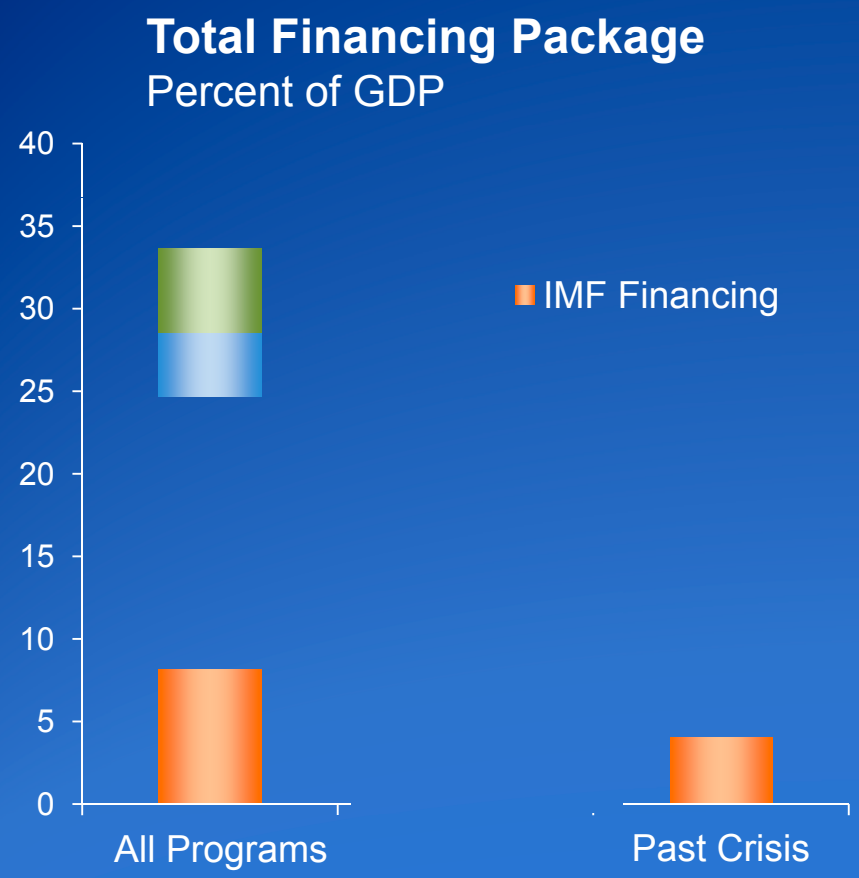
IMF Financing Role Overhauled

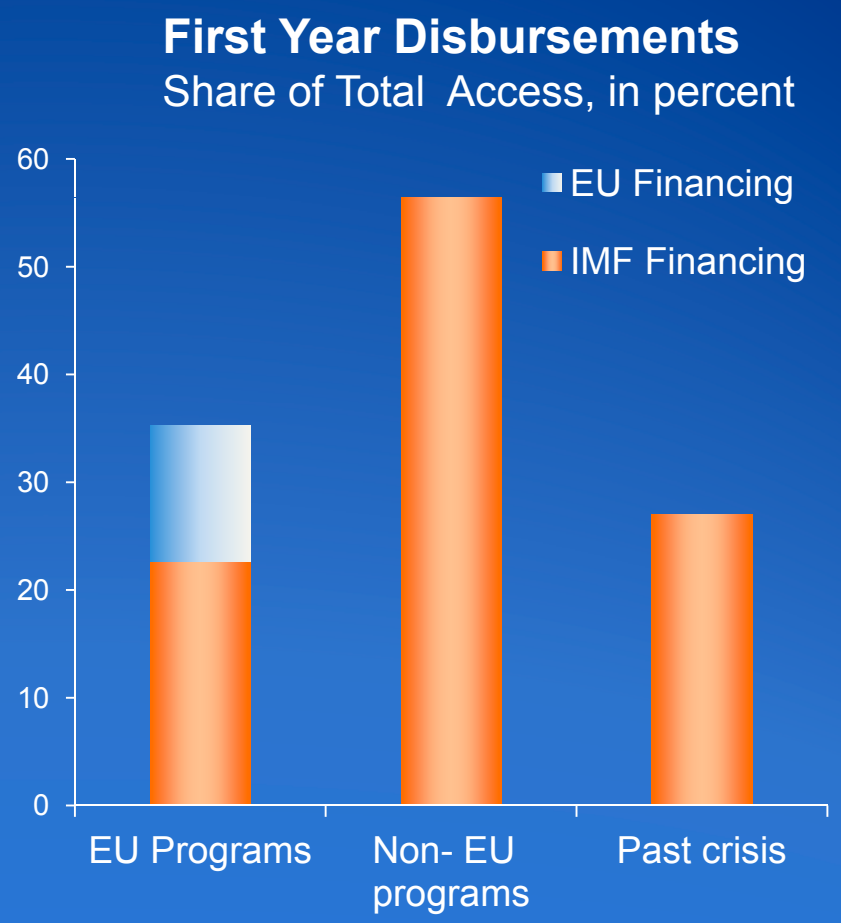
- **Reformed lending instruments**
  - Enhanced crisis prevention (FCL, PCL) and LIC instruments
  - Increased size of loans and modernized conditionality
- **Increased lending resources**
  - Tripled resources by increasing borrowings
  - Later, doubled quota and activated NAB
- **Deployed financial assistance**
  - Increased countries reserves by allocating $250 bn in SDRs
  - Approved 32 arrangements, made $273 bn in commitments

Very few programs in run-up to crisis…
…many large programs in heat of crisis (Wave 1) mainly for liquidity needs.
Subsequent programs in wake of crisis (Wave 2) some with more protracted problems.



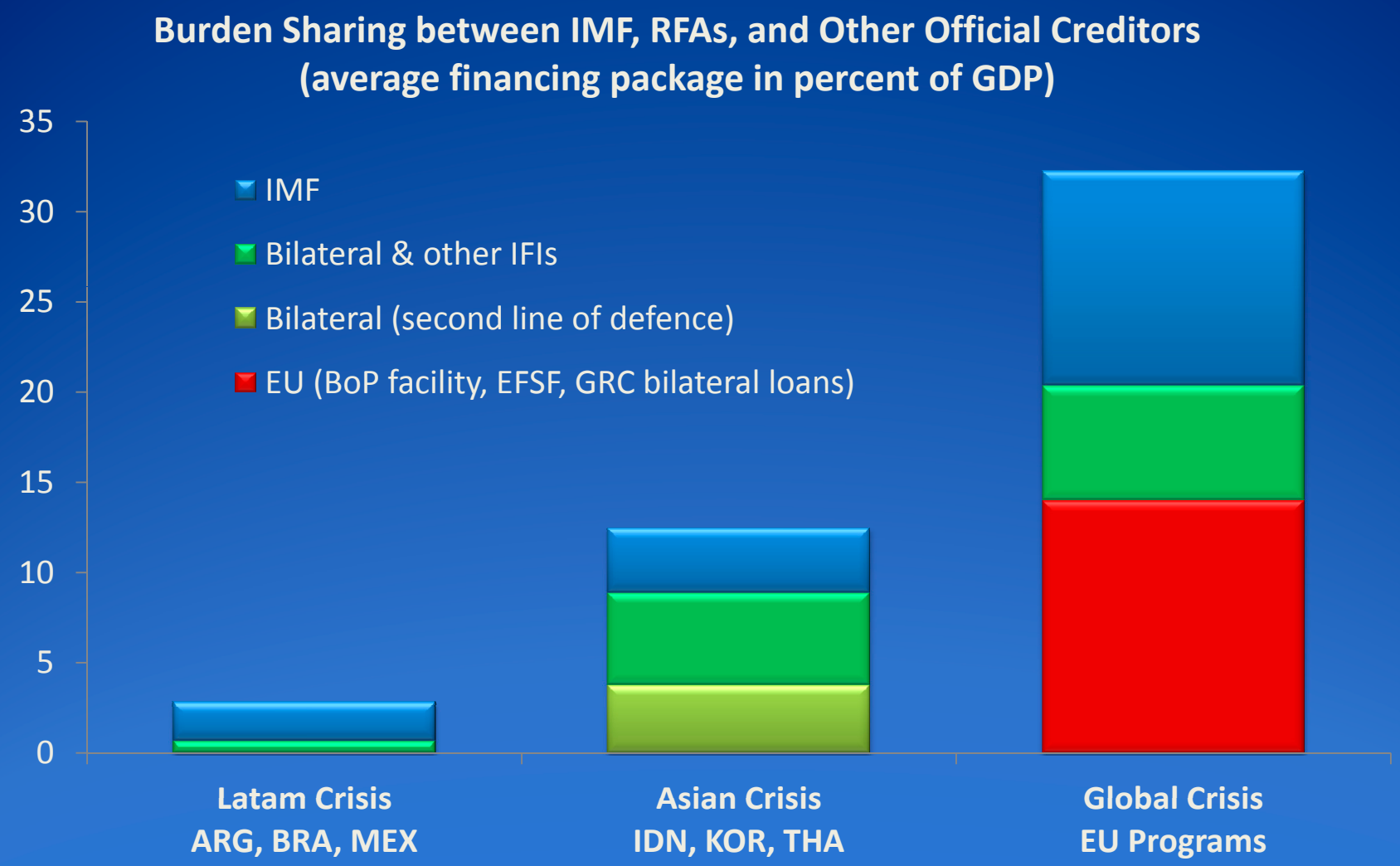
More flexible financing has helped avoid excessive adjustment





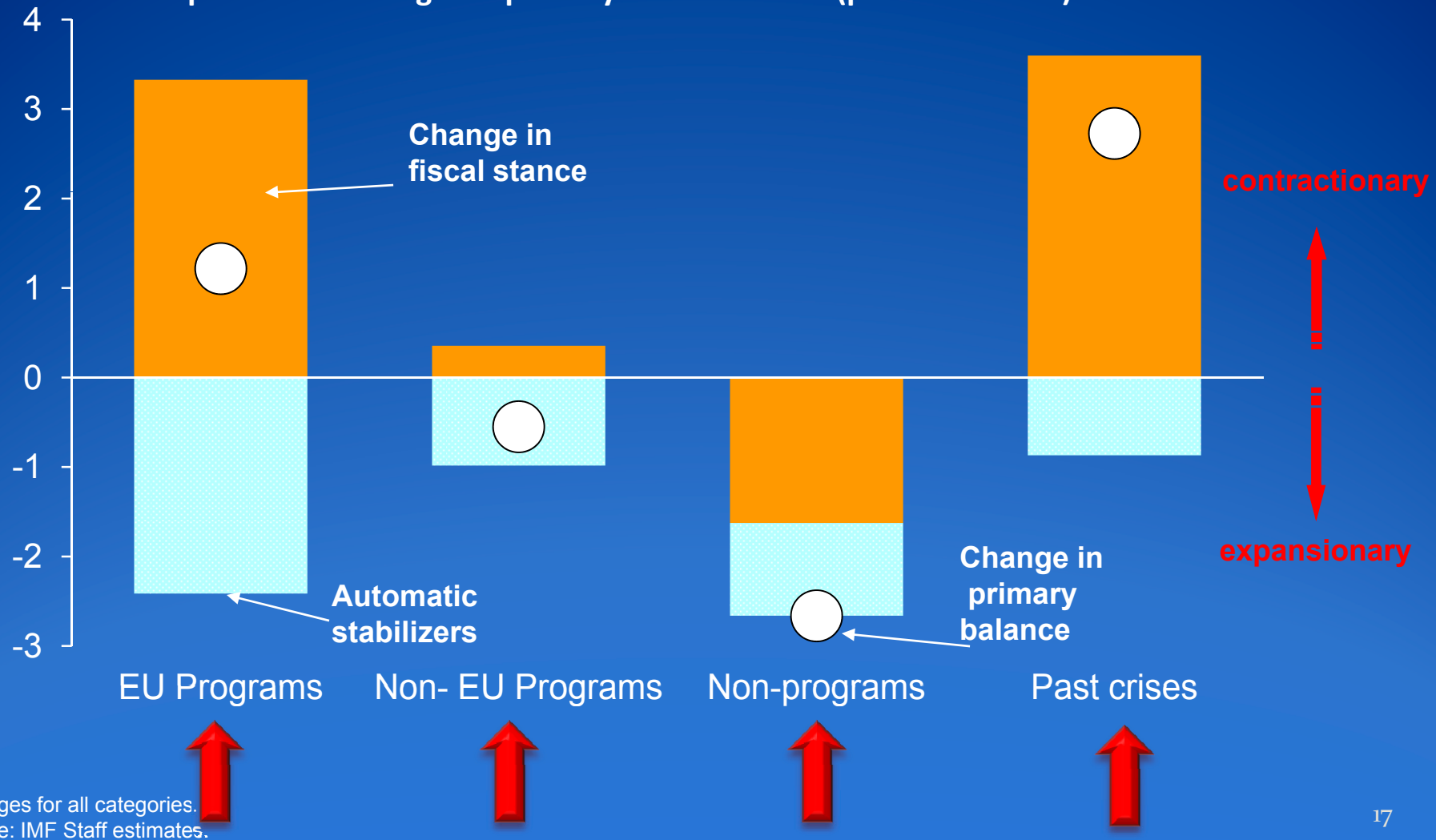
EU programs: share of entire financing package;
Non-EU programs: share of total IMF access

More official sector burden sharing this time



Fiscal accommodation where feasible

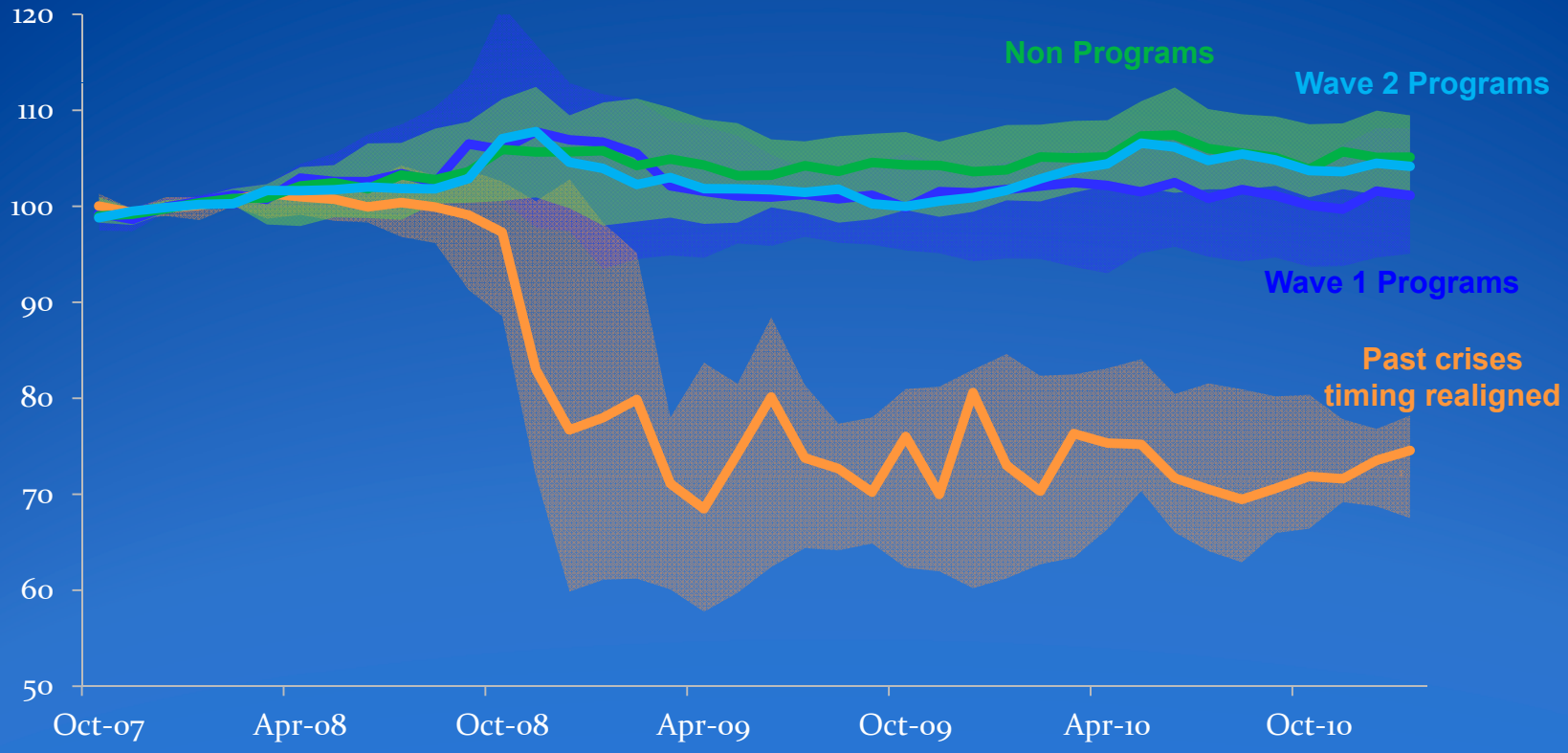
Cumulative: Period T and T+1:
Automatic stabilizers and change in fiscal stance
Decomposition of changes in primary fiscal balances (percent of GDP)



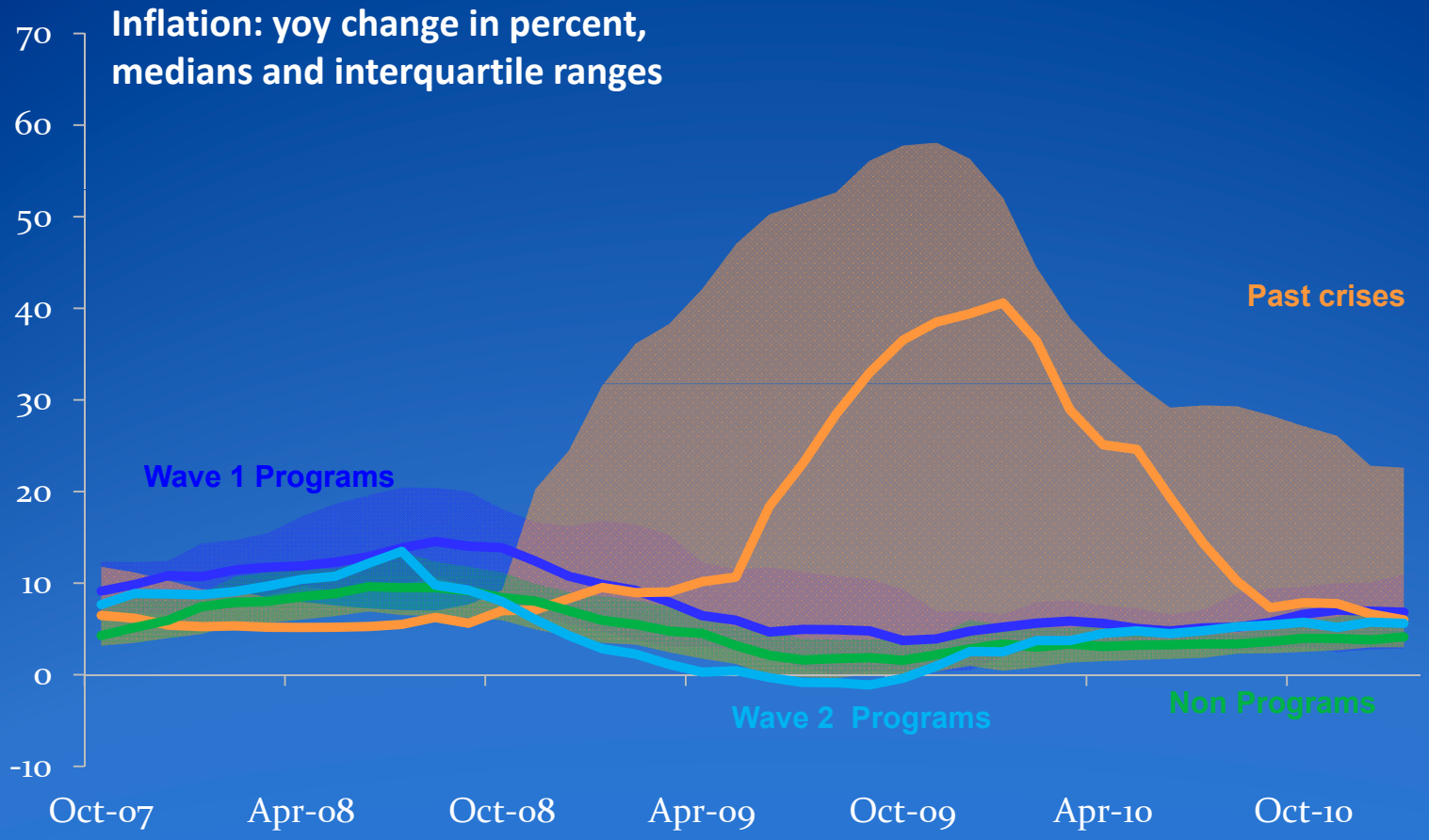
Averages for all categories.
Source: IMF Staff estimates.

Large depreciations have generally been avoided in program cases, helping limit disruptive effects on balance sheets

Real Effective Exchange Rates: Median and interquartile ranges, average of t-12 to t-7 = 100, monthly

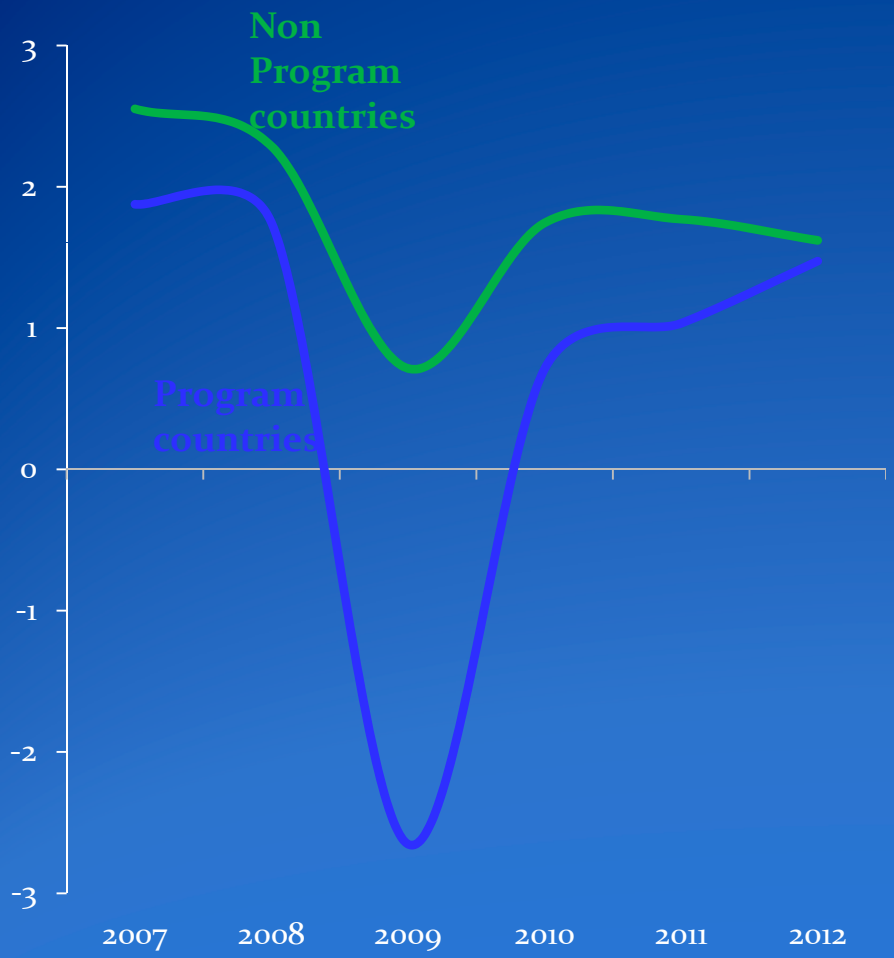


Limited exchange rate movements and the unwinding of the pre-crisis commodity price boom kept inflation low in start of crisis.

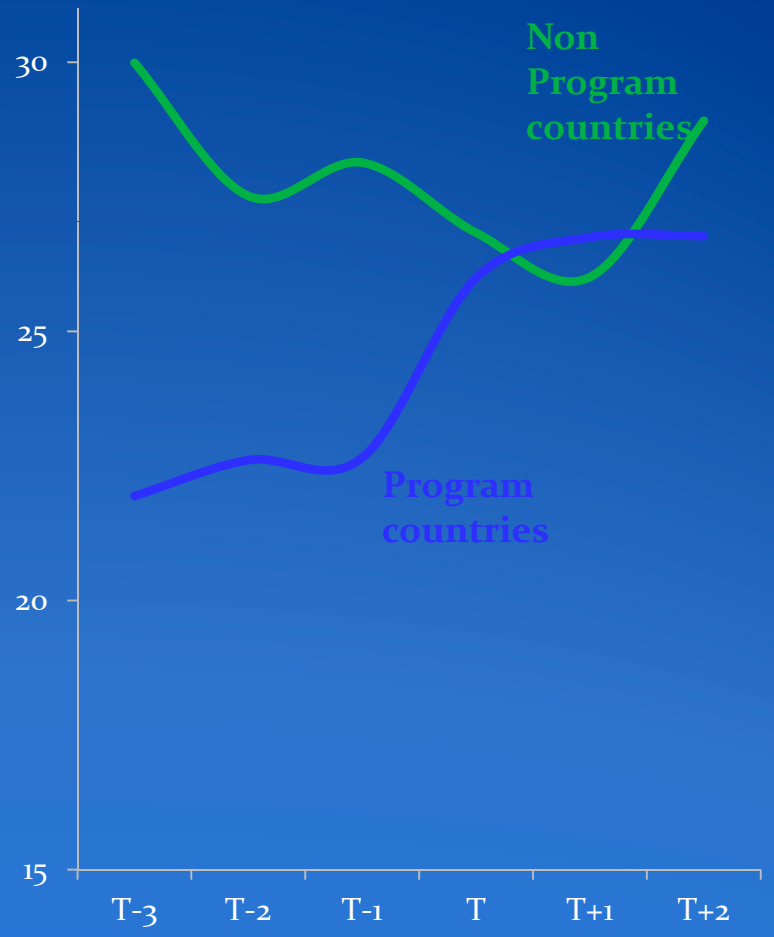


Social spending was protracted in program countries.

Employment growth, in percent

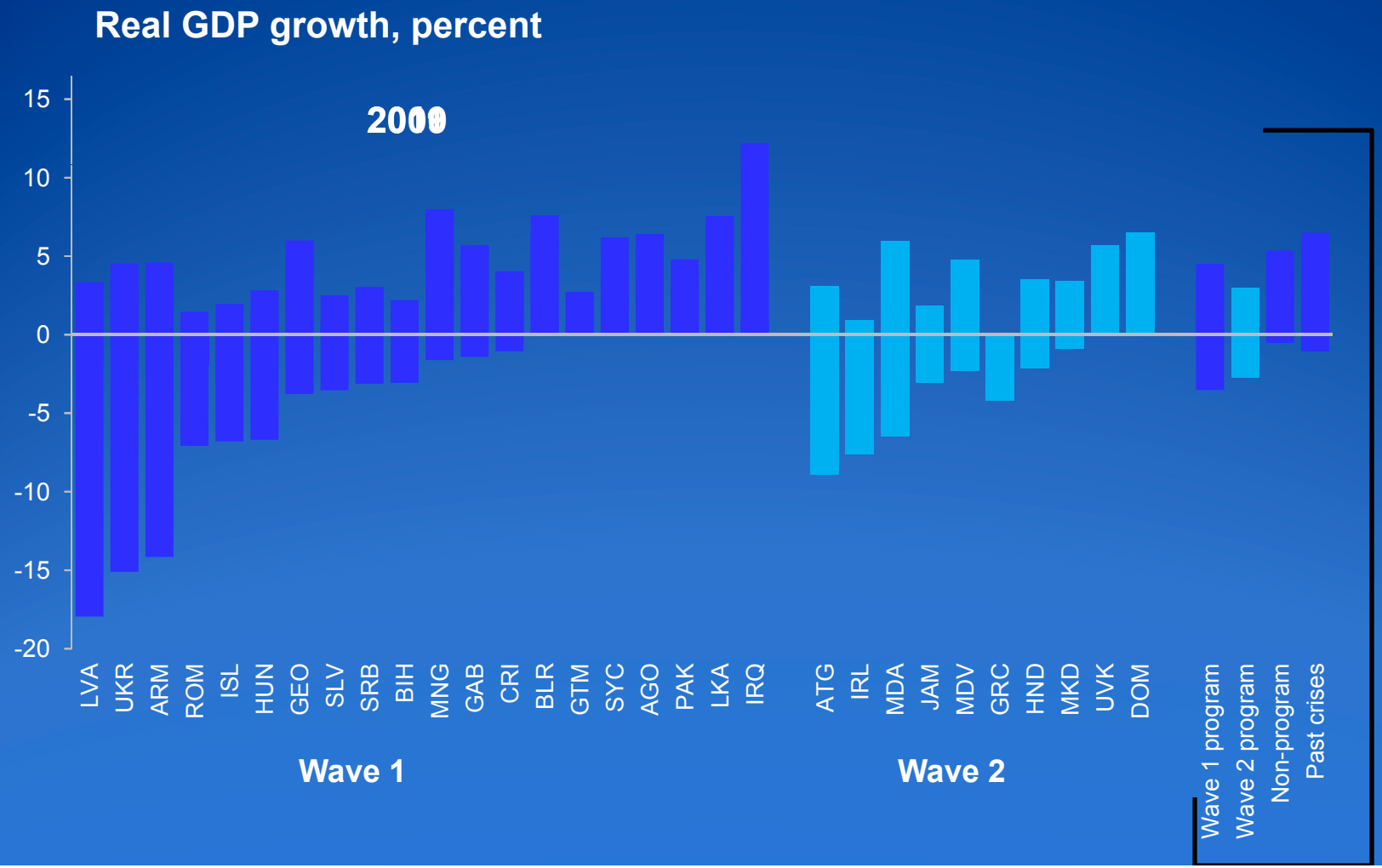


Social spending, percent of total spending



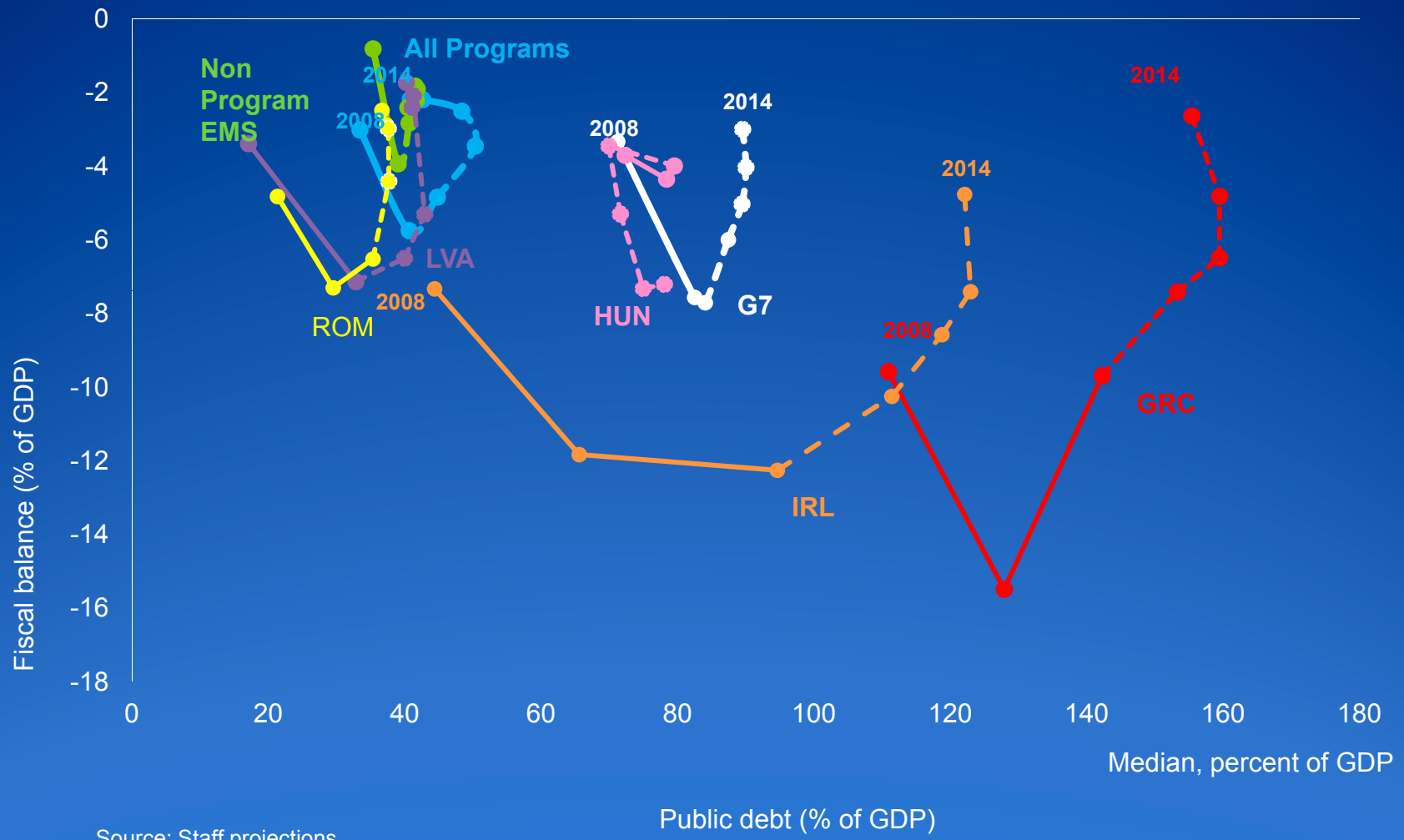
Median across countries

Many countries had large output drops in 2009…
…. but most rebounded in 2010
…and almost all are now recovering.



Global crisis timeline

Fiscal map: debt sustainability challenge



Source: Staff projections.

IMF push to modernize surveillance

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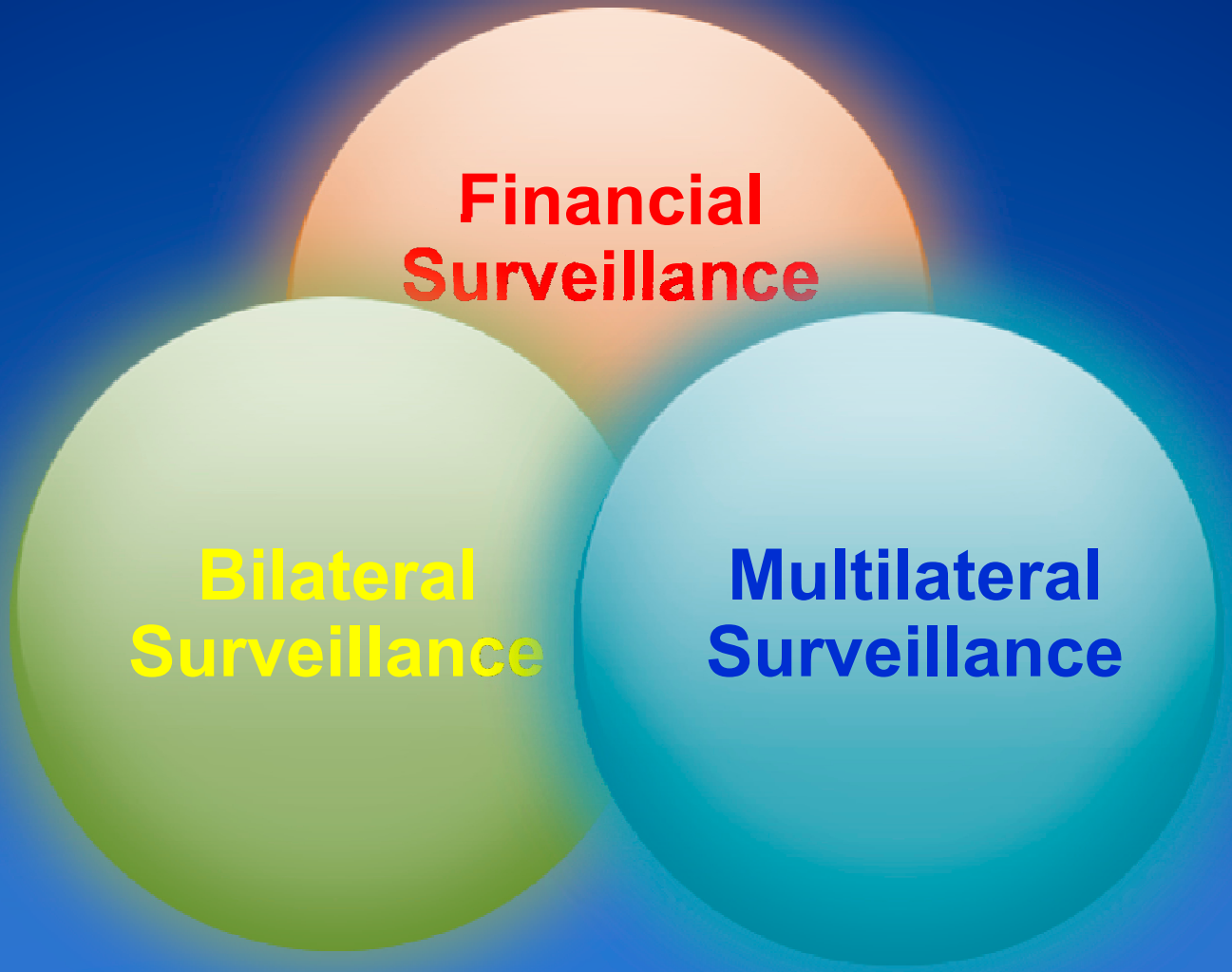


Spillover reports bridge a gap

INTERNATIONAL MONETARY FUND

UNITED STATES

Staff Report on

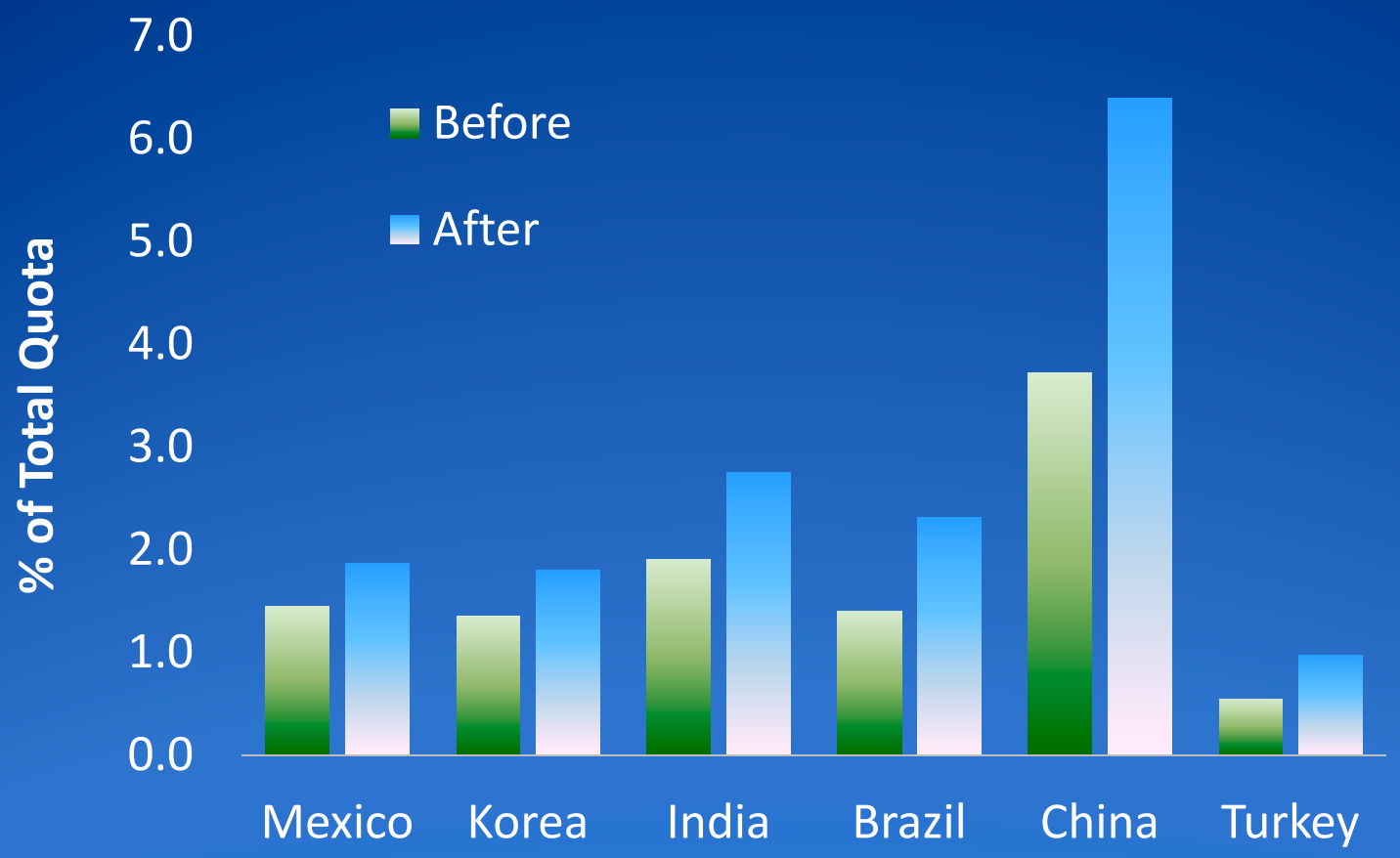
U.S. Spillovers

IMF reformed its governance framework

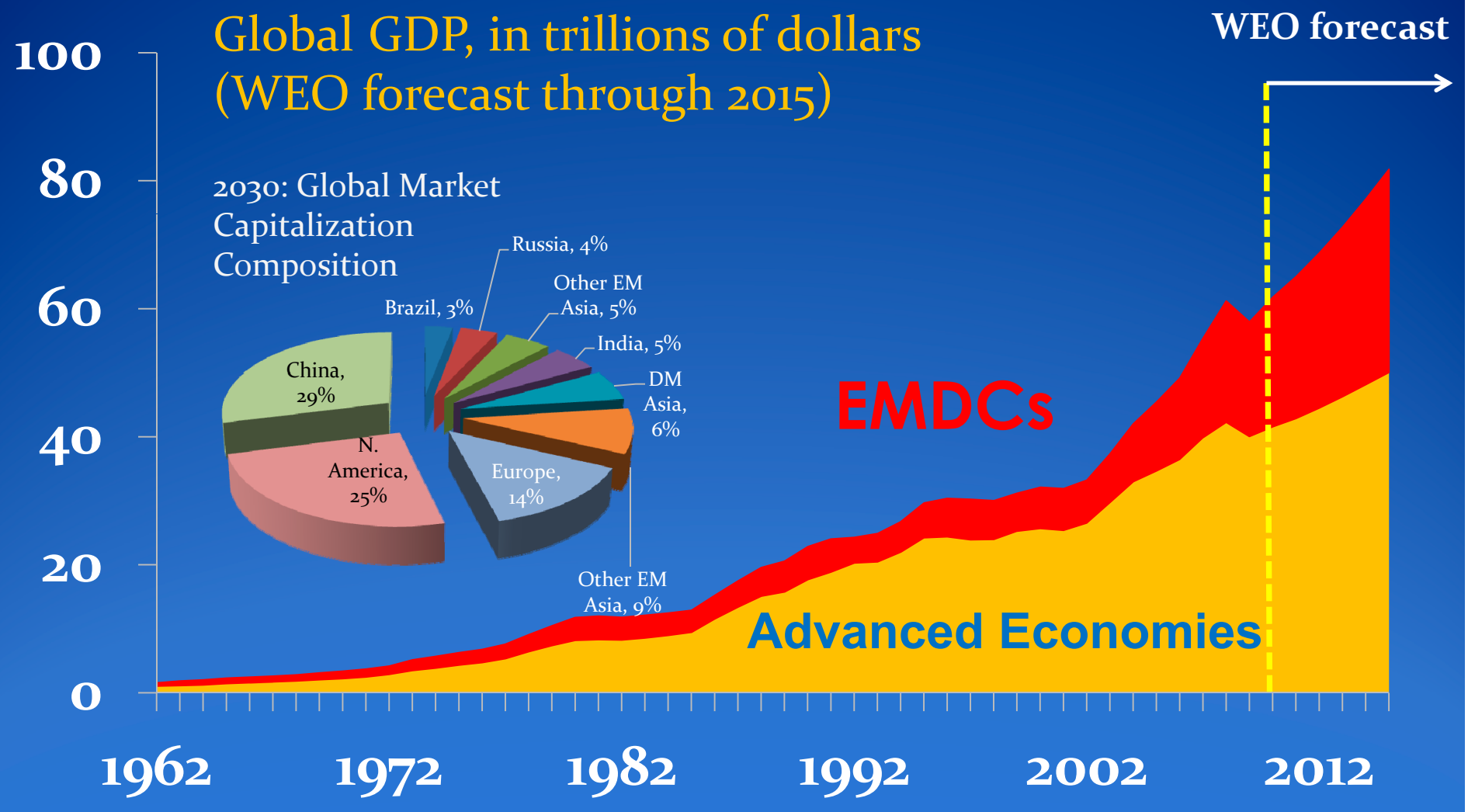
Who gain the most in the quota reform?

- Turkey 291%
- China 277%
- Brazil 264%
- India 215%
- Korea 193%
- Mexico 183%

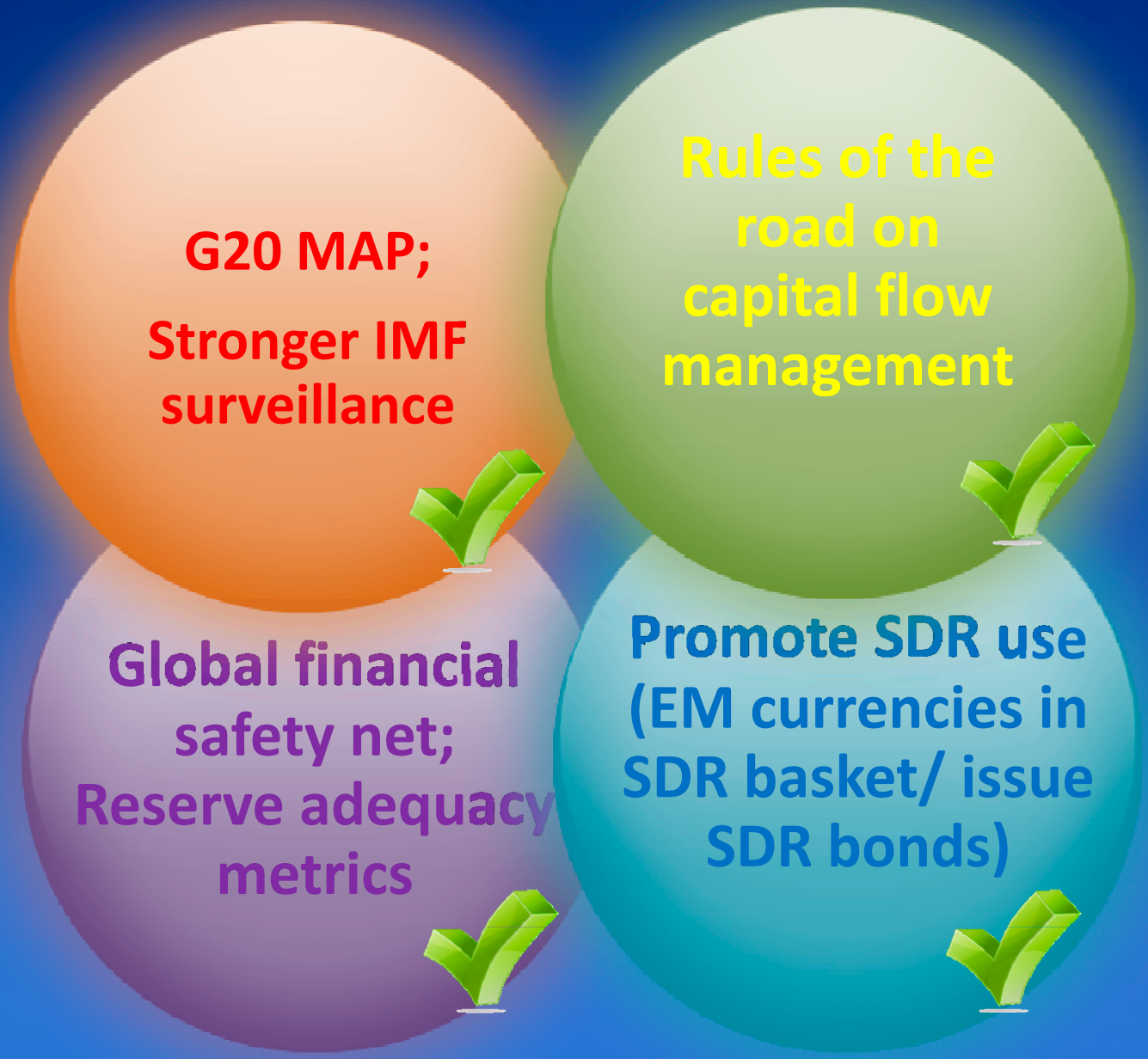
Quota Shares of Largest Gainers



EMs share of output is rising



Future of the international monetary system?



Q&A