Coordinating Safety Nets: Multilateral and Regional

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**Contagion**

**Volatility**

**Capital Flows (percent of GDP)**

- Boom
- Bust

- Boom?

- Advanced countries
- Financial centers
- EMs

**Contagion**
Systemic crises
Number of countries under financial stress

- FSI for stressed economies (RHS)
- Advanced economies
- Emerging markets

**Key crises:**
- **1981-1984**: October 1987 stock market crash
- **1987-1990**: Nikkei crash, DBL bankruptcy, and Scandinavian banking crisis
- **1990-1993**: ERM crisis
- **1993-1996**: Asian crisis
- **1996-1999**: Russian default and LTCM collapse
- **1996-2002**: Dot-com crash
- **1999-2002**: Argentine default / US corporate crisis
- **2002-2005**: Global financial crisis
- **2005-2008**: Tequila crisis
- **2008-2009**: US banking stress

*Graph showing the number of countries under financial stress from 1980 to 2008.*
Gaps: Response to systemic crises

Crisis Bystanders I/

- Debt crisis
- ERM crisis
- Asian/Russian/LTCM crisis
- Global crisis

Fund Arrangements to EM “Crisis Bystanders”

- Low vulnerability
- Medium vulnerability
- High vulnerability

in percent of total crisis bystanders
Framework for Reform: A Balancing Act

Reserve-like instruments
Framework for Reform: A Balancing Act

Reserve-like instruments

Automaticity
Predictability

Safeguards
Moral hazard
Financial hazard
Framework for Reform: A Balancing Act

Qualification by country performance

- Automaticity
- Predictability

- Safeguards
- Moral hazard
Contagion:
- Value of reserves
- Volatility

Flexible Credit Line (FCL) for very strong performers
Precautionary and Liquidity Line (PLL) with focused ex post conditionality for sound performers
Enhanced cooperation with Regional Financing Arrangements
Regional Financial Arrangements

- EU: $1.1T
- ACF: $8.5B
- CMIM: $240B
- FLAR: $2.3B
- AMF: $2.7B
IMF and Co-financing

- Long history of IMF-supported, co-financed programs
- With limited formal guidance, a variety of cooperation modalities
  - Informal discussions
  - More formal coordination in program design
  - Co-financing contingent on IMF involvement
- One case of formal agreement: IMF-World Bank Concordat
Recent Co-Financing Experience in Selected IMF-Supported Programs (percent of total) 1/

Sources: Program documents, WEO, and IMF staff calculations

1/ Excludes Poland under FCL arrangements, where the Fund has provided access on its own.
Determinants of co-financing

Size of RFA relative to region's GDP 2011 (percent)

Sources: RFA Websites; IMF, and IMF staff calculations
Co-financing can yield benefits…

- Increased firepower
- Risk diversification
- Potential for:
  - Stronger program ownership and legitimacy
  - Accelerated request for assistance
  - Improved program design and enhanced information
...but costs of coordination

- Need for consistent program design among independent institutions with differing mandates, policies, governance
- Decision-making process and room for maneuver
- Need to keep confidentiality vs. broad involvement of multiple parties
- Formal engagement with country authorities and de facto engagement with RFAs/other parties
The G-20 Principles recognize this…

“… collaboration with the IMF should be tailored to each RFA in a flexible manner in order to take account of region-specific circumstances and the characteristics of RFAs.”

- Crisis resolution and crisis prevention
- Respect the roles, independence and decision-making processes of each institution
- Ongoing collaboration—flexible and voluntary
- Sharing of information; recognition of comparative advantage
- Balance between consistency and flexibility
- Preferred creditor status for IMF