THE ROLE OF THE INTERNATIONAL MONETARY FUND IN RESOLVING THE GLOBAL FINANCIAL CRISIS

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Abstract
In 2008-2009, the global economy experienced the worst financial crisis since the Great Depression in the 1930s, as it has been characterized. We consider that the current global financial crisis is a major challenge for the International Monetary Fund („IMF" or the „Fund"). The IMF has emerged as a powerful institutional force and has provided recomendations and analyses that have served as the basis of official action on several fronts. This paper discusses the potential roles the Fund may have in resolving the current global financial crisis.

Keywords: *International Monetary Fund, global, crisis, financial, economy.*

Introduction

When the subprime crisis struck in the US and especially when it spread to other advanced economies and pushed the global economy into recession, designing an effective policy response to the crisis became the number one priority for policymakers around the world.

The causes of economic and financial crises are varied and complex. Key factors can include weak domestic financial systems; large and persistent external or domestic imbalances (including current account deficits or fiscal deficits, or both); high levels of external and/or public debt; exchange rates fixed at inappropriate levels; spillovers of economic and financial crises from other countries; natural disasters; armed conflicts or large swings in the price of key commodities, such as food and fuel. Exogenous shocks**,** ranging from natural disasters to terms of trade or foreign demand shocks are common causes of economic distress. This is especially true in low-income countries, which have limited capacity to invest in disaster prevention, and are dependent on a narrow range of exports of mostly primary goods.

In the doctrine it was underlined that the current global financial crisis is testing the ability of the IMF in its role as the *central international institution for oversight of the global monetary system*[1]. However, the current financial crisis represents a great challenge for the IMF because it is wholly unequipped to provide by itself the necessary liquidity to the US and affected industrialized countries.

The International Monetary Fund is an organization of 187 member countries, working *to foster* global monetary cooperation, *secure* financial stability, *facilitate* international trade, *promote* high employment and sustainable economic growth, and *reduce* poverty around the world.

The IMF promotes international monetary cooperation and exchange rate stability, facilitates the balanced growth of international trade, and provides resources to help members in balance of payments difficulties or to assist with poverty reduction. The IMF works with other international organizations to promote growth and poverty reduction. It also interacts with think tanks, civil society, and the media on a daily basis.

It is a specialized agency of the United Nations but has its own charter, governing structure, and finances. Crucial aspect of the IMF's governance: nearly all decisions are made by consensus. Its members are represented through a quota system broadly based on their relative size in the global

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[1] Martin A. Weiss, *The Global Financial Crisis: The Role of the International Monetary Fund (IMF)*, CRS Report for Congress, Updated October 30, 2008, available at http://fpc.state.gov/documents/organization/112052.pdf;

economy. Upon joining, each member of the IMF is assigned a quota[2], based broadly on its relative size in the world economy. The IMF's membership agreed in May 2008 on a rebalancing of its quota system in order to reflect the changing global economic realities, especially the increased weight of major emerging markets in the global economy. A member's quota delineates basic aspects of its financial and organizational relationship with the IMF, including:

• ***subscriptions.*** A member's quota subscription determines the maximum amount of financial resources the member is obliged to provide to the IMF. A member must pay its subscription in full upon joining the IMF: up to 25 percent must be paid in the IMF's own currency, called Special Drawing Rights ("SDRs") or widely accepted currencies (such as the dollar, the euro, the yen, or pound sterling), while the rest is paid in the member's own currency.

• ***voting power.*** The quota largely determines a member's voting power in IMF decisions. Each IMF member has 250 basic votes plus one additional vote for each SDR 100,000 of quota. Accordingly, the US has 371,743 votes (16.77 percent of the total), and Palau has 281 votes (0.01 percent of the total). The newly agreed quota and voice reform will result in a significant shift in the representation of dynamic economies, many of which are emerging market countries, through a quota increase for 54 member countries. A tripling of the number of basic votes is also envisaged as a means to give poorer countries a greater say in running the institution.

• ***access to financing.*** The amount of financing a member can obtain from the IMF is based on its quota. Under Stand-By and Extended Arrangements, which are types of loans, a member can borrow up to 200 percent of its quota annually and 600 percent cumulatively. However, access may be higher in exceptional circumstances.

• ***SDR allocations.*** Allocations of SDRs, the IMF's unit of account, is used as an international reserve asset. A member's share of general SDR allocations is established in proportion to its quota. The most recent general allocation of SDRs took place in 2009.

This paper focuses on the the potential roles the Fund may have in resolving the current global financial crisis. My own work has been to critically examine the actions of IMF during the current crisis and the results obtained.

I have attempted to examine how the IMF reacted this past years and how it had adapted its policy.

Paper content

It is worth mentionning from the beginning that the role of the IMF has changed significantly since its founding in 1944, and as the global financial system has evolved over the decades, so has the IMF.

From 1946 to 1973, its main purpose was to manage the fixed system of international exchange rates agreed on at Bretton Woods, New Hampshire. The IMF monitored the macroeconomic and exchange rate policies of member countries and helped them overcome the balance of payments crises with short-term loans that helped bring currencies back in line with their determined value. This system ended in 1973 when the US floated its currency and introduced the modern system of floating exchange rates.

Nowadays, the IMF responsabilities and operations can be grouped into three areas:

a) *surveillance* – involves monitoring economic and financial developments and providing policy advice to member countries;

b) *lending* – entails the provision of financial resources under specified conditions to assist a country experiencing balance of payments difficulties; and

c) *technical assistance* – includes help on designing or improving the quality and effectiveness of domestic policy-making.

[2] Information available at http://www.imf.org/external/np/exr/facts/quotas.htm;

Through its economic surveillance, the IMF keeps track of the economic health of its member countries, alerting them to risks on the horizon and providing policy advice. It also lends to countries in difficulty, and provides technical assistance and training to help countries improve economic management. This work is backed by IMF research and statistics. Marked by massive movements of capital and abrupt shifts in comparative advantage, globalization affects countries' policy choices in many areas, including labor, trade, and tax policies. Helping a country benefit from globalization while avoiding potential downsides is an important task for the IMF. The global economic crisis has highlighted just how interconnected countries have become in today's world economy.

As mentioned before, the IMF has evolved along with the global economy throughout its 65-year history, allowing the organization to retain its central role within the international financial architecture. As the world economy struggles to restore growth and jobs after the worst crisis since the Great Depression, the IMF has emerged as a very different institution. During the crisis, it mobilized on many fronts to support its member countries. It increased its lending, used its cross-country experience to advice on policy solutions, supported global policy coordination, and reformed the way it makes decisions. The result is an institution that is more in tune with the needs of its 187 member countries[3]:

- **stepping up crisis lending.** The IMF responded quickly to the global economic crisis, with lending commitments reaching a record level of more than US$250 billion in 2010. This figure includes a sharp increase in concessional lending (that's to say, subsidized lending at rates below those being charged by the market) to the world's poorest nations;
- **greater lending flexibility.** The IMF has overhauled its lending framework to make it better suited to countries' individual needs. It is also working with other regional institutions to create a broader financial safety net, which could help prevent new crises;
- **providing analysis and advice.** The IMF's monitoring, forecasts, and policy advice, informed by a global perspective and by experience from previous crises, have been in high demand and have been used by the G-20[4].
- **drawing lessons from the crisis.** The IMF is contributing to the ongoing effort to draw lessons from the crisis for policy, regulation, and reform of the global financial architecture.
- **historic reform of governance.** The IMF's member countries also agreed to a significant increase in the voice of dynamic emerging and developing economies in the decision making of the institution, while preserving the voice of the low-income members.

As regards the IMF's new lending framework, as part of moves to support countries during the global economic crisis, the IMF is beefing up its lending capacity and has approved a major overhaul of how it lends money by offering higher amounts and tailoring loan terms to countries' varying strengths and circumstances. More recently, further reforms have been approved to improve the IMF's capacity to prevent crises. Mainly:

- doubling of member countries' access to IMF resources;
- streamlined approach aims to reduce stigma of borrowing
- new Flexible Credit Line (FCL) for countries *with robust policy frameworks and a strong track record in economic performance*[5]*;*

[3] Information available at http://www.imf.org/external/np/exr/facts/changing.htm;

[4] The G-20 represents about 90 percent of global gross national product, 80 percent of world trade (including trade within the European Union) as well as two-thirds of the world's population. The G-20 comprises Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Mexico, Russia, Saudi Arabia, South Africa, South Korea, Turkey, the United Kingdom, and the United States of America, plus the European Union, represented by the rotating Council presidency and the European Central Bank. The Managing Director of the International Monetary Fund and the President of the World Bank, plus the chairs of the International Monetary and Financial Committee and Development Committee of the IMF and World Bank, also participate in G-20 meetings;

• new Precautionary Credit Line (PCL)for countries that have *sound economic policies and fundamentals,* but are still facing vulnerabilities[6];

• reform does away with "hard" structural conditionality; starting May 1, 2009, structural performance criteria have been discontinued for all IMF loans, including for programs with low-income countries. Structural reforms will continue to be part of IMF-supported programs, but have become more focused on areas critical to a country's recovery. And the monitoring of these policies will be done in a way that reduces stigma, because countries will no longer need formal waivers if they fail to implement an agreed measure by a specific date.

• new focus on objectives rather than specific actions;

• increased focus on social spending and more concessional terms for low-income countries.

As regards **the flexibility and the decrease of the number of conditions**, we underline that the IMF-supported programs have been tailored to individual country circumstances and focus on the most immediate issues to resolve the crisis. Conditionality is now more tightly focused on core objectives. The number of structural conditions has decreased in many programs, and has been increasingly limited to the most critical measures. Hence, we mention that:

The May 2010 IMF-supported program in **Greece** is the largest financing package assembled for one country and represents a new level of coordination with international partners (the European Commission), is broad-based (addressing fiscal, financial and structural constraints), and represents a flexible application of IMF lending policies to mitigate systemic risk.

The September 2008 IMF-supported program in **Costa Rica** used expansionary fiscal policy to mitigate the adverse effects of the drop in private demand during 2009, including increases in the wage bill and infrastructure spending.

The April 2008 IMF-supported program in **Guatemala** sought a moderate fiscal stimulus to support domestic demand, financed with substantial external resources from multilateral institutions. Social spending was slated to increase by 0.6 percent of GDP, to help offset the effect of the crisis on the poorest people in society.

In **Pakistan**, the IMF and the authorities have worked to create fiscal space in the program for increased social safety net and security spending. Recently, in response to the devastating floods in July-August 2010, the IMF provided $451 million of Emergency Assistance (ENDA) to help the government provide food, shelter and health services for those affected by the disaster. This additional funding was disbursed quickly, and was not linked to any program-based conditionality or review. The program's macroeconomic framework will be adjusted to take into account the impact of the floods on growth, the balance of payments, and the budget deficit;

On May 4, 2009, the IMF Executive Board approved **Romania**'s request to conclude a standby arrangement for a period of two years, amounting to SDR 11.4 billion (approximately EUR 12.9 billion) and the release of the first tranche worth SDR 4.37 billion (approximately EUR 4.9 billion). From this arrangement were drawn 7 of the 8 installments provided, DST totaling 10.57 billion (about 11.9 billion euros). Regarding the 8th installment, it was considered, at the request of the Romanian authorities, to be preventive, and in the favorable macroeconomic context, it was not drawn. At its meeting on March 25, 2011, the IMF Executive Board approved the earlier termination of the previous agreement and has approved a new preventive Stand-By Arrangement with Romania, for a period of 24 months, amounting to SDR 3090.6 million (about 3.5 billion euros), representing 300% of Romania's IMF quota. The date of entry into force of this Act is March 31, 2011. At

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[5] The FCL is a crisis prevention tool that offers disbursements that are not phased. There are no conditions to be met once a country has been approved for the facility. The FCL was further enhanced in August 2010 to make it more predictable and flexible. Colombia, Mexico, and Poland have been provided access over $100 billion;

[6] The PCL is also a new crisis-prevention tool that combines an initial disbursement once the country has been approved for the PCL without conditions, with further disbursements subject to focused conditions. In January 2011, Macedonia became the first country to access the PCL;

December 19, 2011, the IMF Executive Board completed the third review meeting of performance criteria assumed by Romania within that agreement, providing our country the fourth tranche of SDR 430 million. On August 7, 2009, the IMF approved the resolution on a new general allocation of SDRs totaling SDR 250 billion. Currently, the amount of cumulative SDR allocations related to Romania is SDR 984.8 million[7].

The IMF also emphasized on social protection:

• The IMF emphasizes protection of social and other priority spending, in line with countries' priorities as set out in their poverty reduction strategies. In the context of the IMF's new architecture for LIC lending facilities, increased emphasis is given to strengthening safeguards on social and other priority spending, including through explicit program targets where possible.

• **Social spending is being preserved or increased wherever possible.** For instance, under the IMF-supported program in **Tajikistan**, the authorities aim to raise social- and poverty-related spending from 7.3 percent of GDP in 2008 to 8.7 percent of GDP in 2009, and further to 10 percent of GDP by 2012. All IMF-supported programs in low-income countries are expected to include **floors on social and other priority spending**. **In Latvia, t**he IMF has been working with the authorities, the European Commission, and the World Bank to refine cost-cutting measures so they deliver the necessary adjustment while protecting the most vulnerable groups. These efforts have resulted in a comprehensive strategy to improve the social safety net at a cost expected to reach 0.6 percent of GDP in 2010. **In Jamaica,** spending on well-targeted social assistance programs will be increased by at least 25 percent in FY2010–11. This increase will benefit the school feeding program and the Program of Advancement through Health and Education (PATH), which provides conditional cash transfers to the poorest. **Structural reforms are designed in a way to protect the most vulnerable**. For instance, in **El Salvador**, the authorities eliminated the non-residential electricity subsidy, thereby creating fiscal space (of up to 0.3 percent of GDP) to increase social spending in 2009.

• The IMF is working closely with the World Bank and donors to **identify additional external financing for social protection** and to help countries promote social safety net reform.

The IMF is also helping the world's poorest and it has overhauled its concessional financing facilities to make them more flexible and address the diverse needs of low-income countries, as many are being hard hit by the global crisis. The reform allows the Fund to provide more effective short-term and emergency financial assistance. The new framework includes increased resources, a doubling of borrowing limits, zero interest rates until the end of 2011, and a new interest rate structure thereafter to ensure increased concessionality.

In response to the global financial crisis, the IMF undertook an unprecedented reform of its policies toward low-income countries. The IMF response was built around a sharp increase in its concessional lending to these countries - to around US $4 billion in 2009, an increase of about four times historical levels. In 2009 and 2010, the IMF committed new concessional lending to sub-Saharan Africa totaling about US $4 billion, compared to US $1.1 billion in 2008 and only about US $0.2 billion in 2007.

Additional resources—including from the sale of IMF gold—are expected to boost the Fund's concessional lending up to $17 billion through 2014. As a result of the reforms, IMF programs are

[7] In the analysis published on March 27, 2012 on its website, the IMF experts recognized that, the tough austerity measures adopted in 2010 could have been implemented gradually, taking into account Romania's low public debt. In the report it is emphasised that the austerity measures have delayed the recovery of Romania and that these measures have resulted in more pronounced pro-cyclical evolution, which has delayed the economic recovery. Looking back, it could be argued that adjustment could have been gradual, especially given the low public debt. For more informations regarding the errors of the IMF made in Romania, please visit http://www.imf.org/external/pubs/ft/scr/2012/cr1264.pdf;

now more flexible and tailored to the individual needs of LICs, with streamlined conditionality, higher concessionality and more emphasis on safeguarding social spending.

Stronger pre-crisis macroeconomic positions and a robust countercyclical policy response facilitated a rapid recovery in many low-income countries. This was also made possible by the sharply higher IMF financial support and increased flexibility on fiscal policy in IMF programs.

Partly because of the crisis, the IMF has generally factored in higher deficits and spending in 2008 and 2009, and has made financial assistance programs more flexible. For example, on average for all sub-Saharan Africa, fiscal deficits widened by about 2 percent of GDP in 2009.

The e*stablishment of* Post-Catastrophe Debt Relief (PCDR) Trust *allows the IMF to join international debt relief efforts for very poor countries that are hit by the most catastrophic of natural disasters. PCDR-financed debt relief amounted to SDR 178 million ($268 million) in 2010.*

Furthermore, at the April 2, 2009 Summit in London, leaders of the G-20 agreed to triple the IMF's lending capacity to $750 billion and enable it to inject extra liquidity into the world economy via a $250 billion allocation of SDRs.

But, the IMF has also an *important role in shaping post-crisis financial architecture*. In this regard:

• the IMF is closely working with governments and other international institutions to try and prevent future crises;

• steps are being taken to improve risk analysis, including by taking a cross-country perspective. Linkages between the real economy, the financial sector, and external stability, in the focus of an early-warning exercise carried out jointly with the Financial Stability Board. Work is also underway looking at financial interconnectedness across borders, and how financial and economic policies in one country can affect others;

• more attention to the effectiveness of the IMF's country surveillance is also key, requiring more even-handedness, clarity, and candor;

• the IMF has also provided advice on how to rethink global regulation and supervision of markets.

The IMF is working on several fronts to help its members combat the worldwide economic and financial crisis. The Fund is tracking economic and financial developments worldwide so that it can help policymakers with the latest forecasts and analysis of developments in financial markets. It is giving policy advice to countries and regions, and money to assist emerging market and low-income economies that have been hit by the crisis. And it is assisting the Group of 20 industrialized and emerging economies with recommendations to reshape the system of international regulation and governance.

The IMF's roles in the global financial crisis

1. Firefighter: providing financial assistance to countries that need it.

2. Coach and advisor: providing advice on how to get individual countries and the global financial system back to health.

3. Architect: providing recommendations on how to overhaul the global financial system.

IMF is considered to be **firefighter** for emerging economies because:

the IMF has provided loans and credit lines worth $174 billion to 23 emerging market countries: Ukraine, Hungary, Pakistan, Iceland, Latvia, Belarus, Mexico, Romania, Poland, Colombia, Serbia, Angola.

The Flexible Credit Line (FCL)[8] was designed to meet the increased demand for crisis-prevention and crisis-mitigation lending from countries with robust policy frameworks and very

[8]Information available at http://www.imf.org/external/np/exr/facts/fcl.htm;

strong track records in economic performance. To date, three countries, Poland, Mexico and Colombia, have accessed the FCL: due in part to the favorable market reaction, all three countries have so far not drawn FCL resources.

A key objective of the lending reform is to reduce the perceived stigma of borrowing from the IMF, and to encourage countries to ask for assistance before they face a full blown crisis; in addition, countries with very strong track records can apply for the FCL when faced with actual balance of payments pressures. The FCL works as a **renewable credit line**, which at the country's discretion could initially be for either one- or two-years with a review of eligibility after the first year. If a country decided to draw on the credit line, repayment should take place over a 3¼ to 5 year period.

There is **no cap on access to IMF resources**, and the need for resources will be assessed on a case-by-case basis.

The cost of borrowing under the FCL is the same as that under the Fund's traditional Stand-By Arrangement (SBA). If accessing Fund resources on a precautionary basis, countries pay a commitment fee that is refunded if they opt to draw on those resources. The commitment fee increases with the level of access available over a twelve month period, effectively ranging between 24 and 27 basis points for access between 500 and 1000 percent of quota, and higher above 1000 percent of quota.

As with other non-concessional IMF facilities, the cost of drawing under the FCL varies with the scale and duration of lending. The lending rate is tied to the IMF's market-related interest rate, known as the basic rate of charge, which is itself linked to the Special Drawing Rights (SDR) interest rate. Large loans, with credit outstanding above 300 percent of quota, carry a surcharge of 200 basis points. If credit outstanding remains above 300 percent of quota after three years, the surcharge rises to 300 basis points. The escalation of the surcharge is designed to discourage large and prolonged use of IMF resources. Currently, the effective interest rate under the FCL (or an SBA) for access between 500 and 1000 percent of quota—ranges between 2.2–2.8 percent, rising to about 2.6–3.5 percent after 3 years, and higher above 1000 percent of quota.[1] These interest rates exclude a flat 50 bps service charge, which is applied to all Fund disbursements.

The qualification criteria are the core of the FCL and serve to show the IMF's confidence in the qualifying member country's policies and ability to take corrective measures when needed. At the heart of the qualification process is an assessment that the member country:

- has very strong economic fundamentals and institutional policy frameworks;
- is implementing—and has a sustained track record of implementing—very strong policies;
- remains committed to maintaining such policies in the future.

The criteria used to assess a country's qualification for an FCL arrangement are:

- a sustainable external position;
- a capital account position dominated by private flows;
- a track record of access to international capital markets at favorable terms;
- a reserve position that is relatively comfortable when the FCL is requested on a precautionary basis;
- sound public finances, including a sustainable public debt position;
- low and stable inflation, in the context of a sound monetary and exchange rate policy framework;
- no bank solvency problems that pose systemic threats to banking system stability;
- effective financial sector supervision;
- data integrity and transparency.

the IMF has provided loans and credit lines to 29 low-income countries (LICs)[9]: Liberia, Kyrgyz Republic, Moldova, Haiti, Malawi, Nicaragua, Madagascar, Zambia, Afghanistan, Cote d'Ivoire, Ghana.

The global financial crisis is having a severe impact on LICs, with many facing a significant deterioration in their external positions. Loan demand in 2009 was strong—new lending reached SDR 2.5 billion (US$3.8 billion), compared to SDR 0.8 billion (US$1.2 billion) for 2008. In 2010, demand for IMF concessional financing remained elevated at SDR 1.2 billion (US$1.8 billion), as many LICs continued to face a difficult environment even as global demand began to recover.

Total projected demand for PRGT loans over the period 2009–2014 remains broadly consistent with the earlier estimates of SDR 11.3 billion (about US$17 billion). Latest projections point to demand of about SDR 2 billion for 2011. While the global outlook remains highly uncertain, demand over the medium term is likely to remain elevated at about SDR 1.5–2.0 billion annually. On this basis, the overall financing capacity needs for 2009–14 would remain at about SDR 11.3 billion, in line with the projections made at the time of the reform of the LIC facilities (Table 1). These projections take into account the doubling of access limits approved by the Executive Board in April 2009, and the implications of the new facilities architecture.

Table 1. Projections of Concessional Lending to LICs through 2014 1/

Commitments	Actual annual average 2000–08 2/	Actual 2009	Actual 2010	2011	2012–14	**Total 2009–14**
In billions of SDR	0.7	2.5	1.2	1.4	6.3	**11.3**
In billions of US$ 3/	1.0	3.7	1.8	2.1	9.4	**17.0**
Memorandum item: Projections in July 2009						
In billions of SDR	0.7	2.7	2.7	1.5	4.5	**11.3**
In billions of US$ 3/	1.0	4.0	4.0	2.3	6.8	**17.0**

1/ May not add up due to rounding.
2/ Excluding the very high level of lending committed to Pakistan in the aftermath of 9/11, and to Liberia in 2008 following arrears clearance.
3/ Assuming exchange rate of US$1.5 per SDR.

[9] Information available at http://www.imf.org/external/np/exr/facts/concesslending.htm;

Table 2. PRGT Loan Resources Mobilization
(In billions of SDRs; as of end-February, 2011)

Target for loan resource mobilization	**10.8**
of which: initial target	9.0
liquidity buffer needed	1.8
Loan Resources Secured 1/	**7.7**
Additional resources required	**3.1**
Memorandum items:	
Loan resources pledged but not yet available	**2.2**

1/ Secured through Loan Agreements with Canada, Denmark, France, Korea, the Netherlands, Norway and Spain and through Note Purchase Agreements with China, Japan and the U.K.

Loan resources of about SDR 10.8 billion (US$16 billion) will need to be mobilized to meet projected demand over the medium term. As of end-August 2011, SDR 9.5 billion of loan resources had been secured. Given demand projections, it is urgent that additional loan resources be secured expeditiously.

Resources needed to fully subsidize the projected concessional lending are estimated at SDR 2.5 billion in end-2008 NPV terms, or US$4.7 billion in cash terms (Table 3).

Table 3. Subsidy Needs and Availability

	In billions of SDRs (end-2008 NPV terms)	In billions of US$ (cash terms) 1/
Estimated subsidy needs	**2.5**	**4.7**
Minus: available resources	1.0	1.9
Remaining needs	**1.5**	**2.8**

1/ Assuming an exchange rate of US$1.5 per SDR.

This would cover the projected lending of SDR 11.3 billion over the medium term, as well as the estimated cost of temporary interest relief being provided through end-2011, and reducing the concessional interest rates charged thereafter according to the new structure of interest rates. Taking into account the resources available in the PRGF ESF Trust, additional subsidy resources of about SDR 1.5 billion (US$2.8 billion in cash terms) will need to be mobilized.

On July 23, 2009, the Executive Board endorsed a financing package to ensure the necessary financing of the new LIC facilities architecture, involving the following elements (Table 4):

Table 4. Subsidy Needs and Possible Sources of Financing
(In billions of SDRs; end-2008 NPV terms)

Subsidy requirements	**2.5**
Minus: available resources	1.0
Remaining needs	**1.5**
Possible sources	
Transfer from PRGF-ESF Reserve Account	0.62
New bilateral contributions	0.2-0.4
Delaying PRGF-ESF reimbursement (for 3 years)	0.15-0.2
Gold sales resources 1/	0.5-0.6

1/ After assumed leakage of 10 percent of the distribution of gold sales.

In light of the critical role that bilateral subsidy contributions have played in past fund-raising exercises, the Executive Board agreed that such contributions should remain an important part of the new financing package. Recognizing the budget constraints facing many countries, the Board agreed to target additional bilateral subsidy contributions of SDR 0.2–0.4 billion (end-2008 NPV terms). As of the end of August 2011, SDR 155 million of subsidy resources had been secured.

To help meet the projected subsidy needs, it was agreed that for a period of three years starting in FY 2010, an amount equivalent to the expenses of operating the PRGF-ESF Trust would be transferred from the PRGF-ESF Trust Reserve Account to the new General Subsidy Account under the PRGT (see below). Based on current projections, this could generate subsidy resources of about SDR 0.15–0.2 billion.

There was broad support for using resources from the PRGF-ESF Reserve Account as part of the financing package. Staff's analysis indicated that it is feasible to make an allocation of Reserve Account resources of about SDR 0.62 billion (in end-2008 NPV terms) to help meet LIC subsidy needs and still leave sufficient resources in the Reserve Account to ensure its annual self-sustained subsidization capacity of about SDR 0.7 billion after 2014–15.

The Executive Board agreed that resources of SDR 0.5-0.6 billion (end-2008 NPV terms) linked to gold sales would be used for LIC subsidy financing. In this context, it was also agreed that the strategy would involve the use of windfall profits arising from gold sales at an average price in excess of US$850 per ounce in the first instance. This strategy would allow the corpus of the gold sales proceeds, and thus the Fund's ability to implement the new income model, to be preserved.

The Board noted that the strategy regarding the use of the resources linked to gold sales for financing subsidy needs will guide future Board decisions to be taken after the completion of the gold sales. These decisions will provide for the transfer of such resources from the Investment Account to the General Resources Account, to be followed by the distribution of an equivalent amount to members in proportion to quotas. Members would then be expected to allocate this distribution, or broadly equivalent amounts, as subsidy contributions to the PRGT.

The new financing framework that is consistent with the new architecture for LIC facilities was also approved. The framework increases flexibility of use of loan and subsidy resources, while preserving the scope for donors to earmark contributions for specific facilities. The key elements of the framework include: (i) consolidating all concessional financing instruments in the PRGT; (ii) establishing a General Loan Account (GLA) for all PRGT facilities, three Special Loan Accounts for specific facilities, and a single Reserve Account to provide security to lenders for all outstanding loans of the Trust; and (iii) establishing a General Subsidy Account (GSA) within the Trust to

receive and provide resources for the subsidization of loans under all facilities of the PRGT, and four special subsidy accounts for specific facilities. To achieve its purposes, the PRGT will provide loans under the new facilities as well as under any new lending facilities that may be established under the PRGT in the future. The new lending facilities are:

• the **Extended Credit Facility (ECF)** succeeds the Poverty Reduction and Growth Facility (PRGF) as the Fund's main tool for providing flexible medium-term support to low-income members with protracted balance of payments problems;

• the **Standby Credit Facility (SCF)** addresses short-term and precautionary balance of payments needs, similar to the Stand-By Arrangement (SBA); and

• the **Rapid Credit Facility (RCF)** provides rapid low-access with limited conditionality to meet urgent balance of payments needs.

IMF is considered to be **coach and advisor** because of its 3 level surveillance role:

• **Global**: World Economic Outlook and Global Financial Stability Report;

• **Regional**: Regional Economic Outlooks;

• **Bilateral**: regular checkups of countries, known as Article IV consultations (*country surveillance*).

Global surveillance entails reviews by the IMF's Executive Board of global economic trends and developments. The main reviews are based on the *World Economic Outlook* reports and the *Global Financial Stability Report*, which covers developments, prospects, and policy issues in international financial markets. Both reports are published twice a year, with updates being provided on a quarterly basis. In addition, the Executive Board holds more frequent informal discussions on world economic and market developments.

The IMF also has the option of holding multilateral consultations, involving smaller groups of countries , to foster debate and develop policy actions designed to address problems of global or regional importance. In 2006, multilateral consultations brought together China, euro area countries, Japan, Saudi Arabia, and the United States to discuss global economic imbalances.

When a country joins the IMF, it agrees to subject its economic and financial policies to the scrutiny of the international community. It also makes a commitment to pursue policies that are conducive to orderly economic growth and reasonable price stability, to avoid manipulating exchange rates for unfair competitive advantage, and to provide the IMF with data about its economy. The IMF's regular monitoring of economies and associated provision of policy advice is intended to identify weaknesses that are causing or could lead to financial or economic instability. This process is known as surveillance.

Regional surveillance involves examination by the IMF of policies pursued under currency unions—including the euro area, the West African Economic and Monetary Union, the Central African Economic and Monetary Community, and the Eastern Caribbean Currency Union. Regional economic outlook reports are also prepared to discuss economic developments and key policy issues in Asia Pacific, Europe, Middle East and Central Asia, Sub-Saharan Africa, and the Western Hemisphere.

Country surveillance is an ongoing process that culminates in regular (usually annual) comprehensive consultations with individual member countries, with discussions in between as needed. The consultations are known as "Article IV consultations" because they are required by Article IV of the IMF's Articles of Agreement. During an Article IV consultation, an IMF team of economists visits a country to assess economic and financial developments and discuss the country's economic and financial policies with government and central bank officials. IMF staff missions also often meet with parliamentarians and representatives of business, labor unions, and civil society.

The team reports its findings to IMF management and then presents them for discussion to the Executive Board, which represents all of the IMF's member countries. A summary of the Board's

views is subsequently transmitted to the country's government. In this way, the views of the global community and the lessons of international experience are brought to bear on national policies. Summaries of most discussions are released in Public Information Notices and are posted on the IMF's web site, as are most of the country reports prepared by the staff.

In June 2007 the IMF's Executive Board adopted a comprehensive policy statement on surveillance. The 2007 Decision on Bilateral Surveillance over Member's Policies, complements Article IV of the IMF's Articles of Agreement and introduces the concept of external stability as an organizing principle for bilateral surveillance. This means that the main focus of the discussions between the IMF and country officials is whether there are risks to the economy's domestic and external stability that would call for adjustments to that country's economic or financial policies.

IMF is considered to be an **architect** because:

- it improves surveillance of global economic developments and policies;
- it strebghtens economic policy coordination;
- it improves regulation and supervision of internationallya ctive financial institutions;
- it enhances financing arrangements.

In this difficult environment, the IMF is helping governments to protect and even increase social spending, including social assistance. In particular, the IMF is promoting measures to increase spending on, and improve the targeting of, social safety net programs that can mitigate the impact of the crisis on the most vulnerable in society. Below are some examples of how recent IMF-supported programs seek to protect social spending in a way that is both fiscally sustainable and cost-effective[10].

Armenia	**Protecting and better targeting social spending.** The program has aimed at mitigating the impact of the crisis on the poor. To this end, social spending rose from 5.8 percent of GDP in 2008 to 6.9 percent of GDP in 2010. Looking ahead, the program aims to protect social spending while at the same time improving the targeting of social safety nets. So as to allow the expansion of benefits to more eligible families.
Belarus	**Strengthening the social safety net.** To protect the most vulnerable people against the effects of economic shocks, the authorities increased in 2009 allowances for housing assistance for families with 3 or more children, noncash housing subsidies for low-income families, and unemployment assistance. The 2010 budget doubled targeted social assistance (TSA), as the authorities reformed this program to widen its scope and increase the average assistance for poor households. The government plans with technical assistance from the IMF to reform TSA in order to improve its effectiveness in view of restructuring and possible privatization of state-owned enterprises.
Bosnia and Herzegovina	**Protecting social spending.** The program aims to cushion the aftershocks of the global economic crisis and of the fiscal adjustment on vulnerable groups by avoiding cuts to pensions and reforming the social safety net. The rights-based benefits system is being overhauled with help from the World Bank to improve targeting and prevent abuses of eligibility criteria. Entity governments have adopted laws mandating means-testing and auditing of most civilian and war-related benefits, but implementation has been slow and the savings so far have been insufficient to allow increased support of the most vulnerable. Ongoing reform of the pension systems in both Entities aim at

[10] Information available at http://www.imf.org/external/np/exr/facts/protect.htm.

	putting them on a sustainable footing through parametric reform and proper screening of recipients of pensions given under special conditions.
Burundi	**Strengthening the social safety net.** Fiscal and monetary policy was eased in 2009 to help the economy adjust to the shocks from the global financial crisis. To offset the impact of this crisis on the poor, the IMF-supported program accommodated emergency spending on targeted social safety nets (approximately 1.5 percent of GDP). Such spending, financed by donor grants, was programmed for food security and school feeding programs and to assist the most vulnerable segments of the population and farmers. Notwithstanding a difficult budgetary situation, social spending increased from 15.1 percent of GDP in 2008 to 16.8 percent of GDP in 2009.
Costa Rica	**Higher social spending.** Fiscal policy under the IMF-supported program, which expired in July 2010, aimed at mitigating the adverse effects of the drop in private demand. The authorities used available fiscal space to increase spending in education, health and social protection. As a result, social spending increased by over 3 percentage points of GDP in 2009 and 2010, despite a substantial decline in fiscal revenues.
Dominican Republic	**Strengthening the social safety net.** Despite record high growth in the period 2003–08, poverty indicators are still weaker than before the financial crisis of 2003. As the global crisis unfolded, the poverty situation deteriorated further. An important element of the Stand-By Arrangement approved by the Executive Board in November 2009 is to strengthen the social safety net. The IMF-supported program made it possible to increase the conditional cash transfer program (Solidaridad) by 70,000 families in the last quarter of 2009, which is over 10 percent of the population living in conditions of extreme poverty, and increase the coverage of the program to about 85 percent of the poor. In addition, the program aims at achieving by end-2011 an increase in the coverage of poor families under the targeted electricity subsidy program BONOLUZ, from 50,000 in December 2010 to 250,000, and a further extension of the conditional cash transfer program by 60,000 additional families to 590,000. In addition, the authorities committed to increase social spending (mostly education and health) by 0.75 percent of GDP a year during 2010–12 (something that has proven a challenge in 2010 and 2011 because of the fiscal consequences of the oil shock).
El Salvador	**Better targeting and higher social spending.** The government's IMF-supported program seeks to place debt on a firm downward path while making space for priority social spending. Subsidies (transportation, water, electricity, and liquefied propane gas) have been targeted to low-income households, with the savings (0.4 percent of GDP) used to broaden health services in low-income areas, provide uniforms and meals to school children, and expand conditional cash transfers. To strengthen the social safety net, the minimum pension has been raised to equal the minimum wage.
Guatemala	**Higher social spending.** Social spending increased by 1.3 percent of GDP (from 4.4 percent of GDP in 2008 to 5.7 percent in 2010). The authorities' social protection policy focused on enhancing existing programs to offset the effect of the crisis on the poorest segments of the population. To address extreme poverty, emphasis was placed on four flagship government programs. A key conditional cash transfer program that was initiated in 2008 ("Mi familia progresa") was expanded to reach 0.3 percent of GDP in 2010 (from less than 0.1 percent of GDP in 2008).
Hungary	**Better targeting.** TThe fiscal strategy under the IMF-supported program, which expired in October 2010, aimed at protecting the poor and low-income earners from the impact of the global crisis. Measures included preserving the purchasing power of

	low-income civil servants despite the nominal freeze of the public sector wage bill, replacing a universal housing subsidy by a targeted scheme to help the needy have access to adequate housing, and canceling increases in disability pensions while increasing benefits for the poorest disabled, and temporarily guaranteeing mortgage payments for unemployed people. Active labor market policies have been used to maintain employment.
Iceland	**Higher social spending.** Automatic stabilizers were allowed to operate with few limits in 2009, which means Iceland's extensive social safety net helped to cushion the blow for the most vulnerable groups. The fiscal consolidation currently underway aims to ensure a gradual and orderly return to sustainable levels of borrowing while preserving Iceland's social welfare model. To this end, the 2010 and 2011 budgets—while entailing expenditure cuts in some areas—have also added new programs to deal with specific issues (for example, youth unemployment and overly indebted households). Engagement with social partners and consensus building have facilitated agreements on key budget issues, including a framework for household debt workouts and the recently concluded tripartite stability pact, which entailed a substantial increase in social benefits.
Jamaica	**Higher social spending.** Despite the overall need for fiscal consolidation, the IMF-supported Stand-By Arrangement has been designed to help mitigate the impact of economic adjustment on the most vulnerable through meaningful increases in social spending for targeted programs. Spending on well-targeted social assistance programs has been increased to around 40 percent in FY2010–11 (0.3 percent of GDP). This increase will benefit the school feeding program, which provides breakfast as well as lunches to children, and the Programme of Advancement through Health and Education (PATH), which provides conditional cash transfers to five categories within the poorest income groups. The government will also be pursuing efforts to expand the social safety net to assist people below the poverty line who do not qualify for PATH assistance.
Latvia	**Strengthening the social safety net.** The IMF has been working with the authorities as well as with the European Commission and the World Bank to refine cost-cutting measures to make sure they can deliver the necessary adjustment while protecting the most vulnerable groups. These efforts have resulted in a comprehensive strategy to improve the social safety net at a cost expected to reach 0.5 percent of GDP in 2011. Measures include an increase in the guaranteed minimum income by 8 percent for adults and 22 percent for children, the full coverage of health copayments for poor and needy people, the protection of schooling for 5 and 6-year-olds, and the support of unemployed people through an active labor market program (co-financed from the European Social Fund) with over 180,000 envisaged participants.
Mongolia	**Protect the poor from the burden of adjustment.** As the global economic crisis unfolded, the Mongolian economy was hit hard (especially by the sharp decline in copper prices). By early 2009, growth was stalling, international reserves were being rapidly depleted, and there was insufficient financing to meet the needs of the government. An 18-month Stand-by Arrangement was approved in April 2009 and successfully completed in October 2010. The main goal was to ensure that the economy quickly returned to a path of strong, sustained, and equitable growth, which it has—GDP growth was 6.4 percent in 2010. A key pillar of the program was to shield the poor from the impact of the 2009 recession. Despite significant budget cuts, social transfers were protected in 2009 and actually increased last year. The authorities submitted a social transfer reform law to parliament in 2010, which, however, has not yet been passed. The law would introduce a targeted poverty benefit that would

	strengthen the social safety net and increase the resources available to protect the poorest.
Pakistan	**Higher social spending and better targeting.** Strengthening the social safety net is a key priority under the program. The government is collaborating with the World Bank to develop specific measures to strengthen the social safety net and improve targeting to the poor. Cash transfers to poor households were targeted to increase from 0.2 percent of GDP in 2008–09 to 0.6 percent in 2009–10, but due to administrative capacity constraints, social spending in 2009–10 was lower than budgeted, at 0.4 percent of GDP, though still significantly higher than in 2008–09. The 2010–11 budget assumed zero nominal growth in cash transfers compared to the 2009–10 outcome, which would imply a decline from 0.4 percent of GDP to 0.3 percent of GDP. However, the authorities also provided a one-off cash transfer to each household affected by the July 2010 floods in an amount totaling 0.2 percent of GDP at the federal and provincial levels. In September 2010, the IMF provided $451 million (0.2 percent of GDP) in emergency assistance, to be directed to the country's budget, which helped finance urgent spending to help the population affected by the floods, especially the poor and the vulnerable groups in need of food, shelter, and medical assistance. Preliminary data suggest that actual cash transfers, excluding flood relief, fell somewhat short of the budgeted amount. The 2011/12 budget targets a 15 percent nominal increase in cash transfers, which would imply a small reduction as a percent of GDP, to 0.25 percent. Although no specific provision for flood relief has been made in the 2011/12 budget, under their commitment with donor agencies, the authorities plan to provide $100 million through re-allocation within the budget as part of the overall Citizen's Damage Compensation Program. An additional $480 million being provided by donors would bring total cash transfers in FY2011/12 to about 0.5 percent of GDP.
Romania	**Higher social spending and better targeting.** The IMF-supported program provides room for additional spending of RON 250 million (amounting to 0.05 percent of GDP) in 2009 and RON 500 million (0.1 percent of GDP) in 2010 to alleviate the immediate impact of the current crisis on the most vulnerable households. Overall social assistance has increased by RON 9.8 billion (1.9 percent of GDP) in 2009 and RON 4.7 billion in 2010 (about 1 percent of GDP). The government has recently taken steps to consolidate certain social benefits and fight fraudulent claims, and is initiating work on a comprehensive reform to develop a more streamlined and transparent, means-tested social assistance system. Recently, the government is also making efforts to limit gas price increases for households and set up mechanisms to minimize the impact of heating price increases on vulnerable households.
Serbia	**Protecting and better targeting social spending.** Social spending remained protected from budget cuts. Serbia has a well-developed social protection system with an increasing share of well-targeted social programs, and the 2011 budget provides for an increase in the allocation for those benefits.
Seychelles	**Better targeting.** The Stand-By Arrangement of late 2008 introduced a cash transfer program, aimed at protecting the most vulnerable segments of the population, replacing untargeted universal product subsidies. The targeted social assistance program has worked well and was a key element to the rapid macroeconomic stabilization, which reduced consumer price inflation to near zero since early 2009.
Tajikistan	**Higher social spending.** Under the IMF-supported program, the authorities raised social- and poverty-related spending from 7.3 percent of GDP in 2008 to 9.0 percent of GDP in 2010, and intend to further increase it to 9.1 percent of GDP in 2011. In 2009–10, the increase fell partly on transfers to households to help them deal with the

	decline in disposable income on account of a 31 percent decline in remittances inflows during the global crisis, but also on strengthening Tajikistan's health and education systems. The authorities have also committed to reforming the agriculture sector with a view to creating employment opportunities and raising farmers' income potential.
Ukraine	**Seeking more effective social protection.** Under the current IMF-supported program, existing social assistance programs in Ukraine are being expanded to protect the poorest households. Beginning 2011, the threshold for maximum utility costs as a percent of income for working families was lowered from 20 to 15 percent (and from 15 to 10 percent for pensioners). Amounts above this are covered by the state budget. This is expected to protect some 800,000 households (about 5 percent of total). The authorities are also undertaking a review of all existing programs, in consultation with the World Bank, with a view to improve their targeting and effectiveness (it is estimated that currently, only about 25 percent of overall social assistance is received by poor families).

Conclusions

As discussed before, the IMF's roles in the global financial crisis are **firefighter**, **coach and advisor**, **architect**.

But, the key role of the IMF is to identify contingent risks that threaten global economic and financial stability and to develop policy responses. With its mandate to promote economic and financial stability and its global membership, the IMF is uniquely placed to provide a forum for discussions on international economic issues and to help reach consensus on policy responses. For the Fund to be effective in this role, member countries must feel they have a stake and a voice. The transfer of at least 5 percent of voting power to underrepresented members by 2011, as agreed at the 2009 IMF annual meeting, is essential in this respect. Consideration should also be given to expanding the Fund's mandate to cover the capital account. But first, the Fund needs to distill the lessons of the crisis for its exchange rate advice.

Unfortunately, IMF is not the panaceum for the financial crisis. We withnesed the errors made by this institution in Romania, but we shouldn't forget also the errors made by the IMF in Argentina or in the Asian financial crisis. Moreover, the failure of the IMF strategy in Romania represents the topic of a future research.

However, the present activity of the IMF and the process of adapting this institution for the current crisis suggest that there is much to be talked about in the future.

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