Global financial safety nets
A menu of options

Stephen Pickford
Associate Fellow, Chatham House

Global cooperation for sustainable growth and development
New Delhi, 13-14 September, 2011
The experience of the crisis

• Financial crisis propagation
• Cross-country contagion
• Central bank swap lines
• IMF programs
• EU mechanisms (BOP facility)
• New forms of IMF program (FCL and PCL)
Systemic crisis index and countries under stress*

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.

Source: IMF (2011a)
Why global financial safety nets?

• Global transmission of liquidity problems
• ‘Innocent bystanders’
• Problems of self-insurance:
  ➢ Cost
  ➢ Capital controls
  ➢ Contribution to imbalances
Characteristics of GFSNs

- Fast-disbursing liquidity
- Large scale
- Attractive alternative to self-insurance
- Reduce need for capital controls
- Reduce global imbalances
Problems with existing mechanisms

• Size
• Speed
The size problem

• Tripling of IMF resources in 2009
• Creation of EFSF/ESM
• Multilateralisation of Chiang Mai
• Still only 2-3% of world GDP
• Shrinking proportion of financial flows
• Reserves highly concentrated
GFSNs in percent of World GDP

Source: IMF (2011a)
Speed limits

• Precautionary programs
• Prequalification
• Ex ante cooperation mechanisms
• Swap networks
Front Loading and Access

Source: IMF (2011b)
Moral hazard

• In theory a more comprehensive ‘bail-out’ framework could lead to greater risk-taking by private sector and governments
• In practice the lack of this framework did not prevent excessive private risk-taking in advance of the crisis
• Precautionary facilities suffer from too little use, not too much
A menu of options on safety nets

- IMF borrowing from markets
- Ex ante global swap network
- Formalise links between IMF and RFAs
- Prequalification for precautionary facilities through Article IVs
- Ex ante rules for access
- Systemic trigger
Conclusions

• Existing mechanisms are insufficient to deal with another global crisis
• Countries are now starting from a much weaker position
• Use a number of solutions, both on quantum and on facilities