

ICRIER-INWENT-DIE Conference
**Policies for Growth and financial Stability beyond the Crisis-The scope for
Global Cooperation**

Sessions 3: Macroeconomic Management and Exit Strategies

*Comments on:
Reinforcing economic governance in EMU: the
case for a European Monetary Fund
by Ansgar Belke*

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Mumbai October 27-28, 2010

Outline:



- The EMF
- The 'original sinner': Banks vs. Governments
- Crisis management versus crisis prevention
- EMF versus Sovereign Debt Restructuring Mechanism (European SDRM?)

EMF (I)

- Idea: Accept that a government can default
 - Two cases in 2008: Ecuador and Seychelles missed interest payments on their global bonds
- While few cared about these two events, within the EA issue of sovereign insolvency is far more complex
 - Risk of contagion: costly for the EA
 - Disruptive for the country
- ..This is exactly the reason for having a orderly default

EMF (II)



- Over-indebtedness can generate zombie-country
 - restructuring under certain conditions could be beneficial to the country
- Need for market discipline within the EA
- EMF is not only about bad crisis resolution but also crisis management (first stage)
- EMF is not a competitor of the IMF

The original sinner (I)



- Does it matter who the 'original sinner' is?
 - Banks excessive exposure can put government on the edge of the default (IRE), profligate governments can close access to credit to domestic banks (GRE)
 - Problem is the same, insolvency, in both cases because "*global banks are global in life, but national in death*" (M.K.)
 - ..but banks and governments are not quite the same
 - EFSF just for governments, same EMF, should banks be able to ask for support to the EMF (or another appropriate body) or default directly, rather than dragging governments into default?

The original sinner (II)



- EMF financing should work as insurance, IRE (but also Spain) would not ever paid before the crisis
 - Where is the risk, private or public sector?
 - EMF & ECB: Existence of EMF could have avoided ECB from buying government bonds
 - ECB purchase of government bond mkt is small, core of its action is providing funds to banks cut out liquidity mkt
 - This is the real extraordinary measure, how do we exit?
 - It may engender a double-dip if it occurs too early: problems of the banking sector not fixed yet
 - In the case of Greece the big problem was the government not the banks
- Should the original sinner matter?

EMF versus SDRM



- SDRM: a legal framework for sovereign insolvency (A. Krueger)
 - Clear rules and incentives for creditors and debtors to agree upon an orderly, predictable restructuring of unsustainable debt
- In principle EMF and SDRM not incompatible, are they alternative?
- SDRM is cheaper: no fund required
 - but is it sufficient?
- SDRM presumes unambiguous identification of unsustainable debt. Can be done?
- EMF includes a first stage to support a country to adjust and possibly avoid the default

Thank you!

