



# Global financial safety nets

## A menu of options

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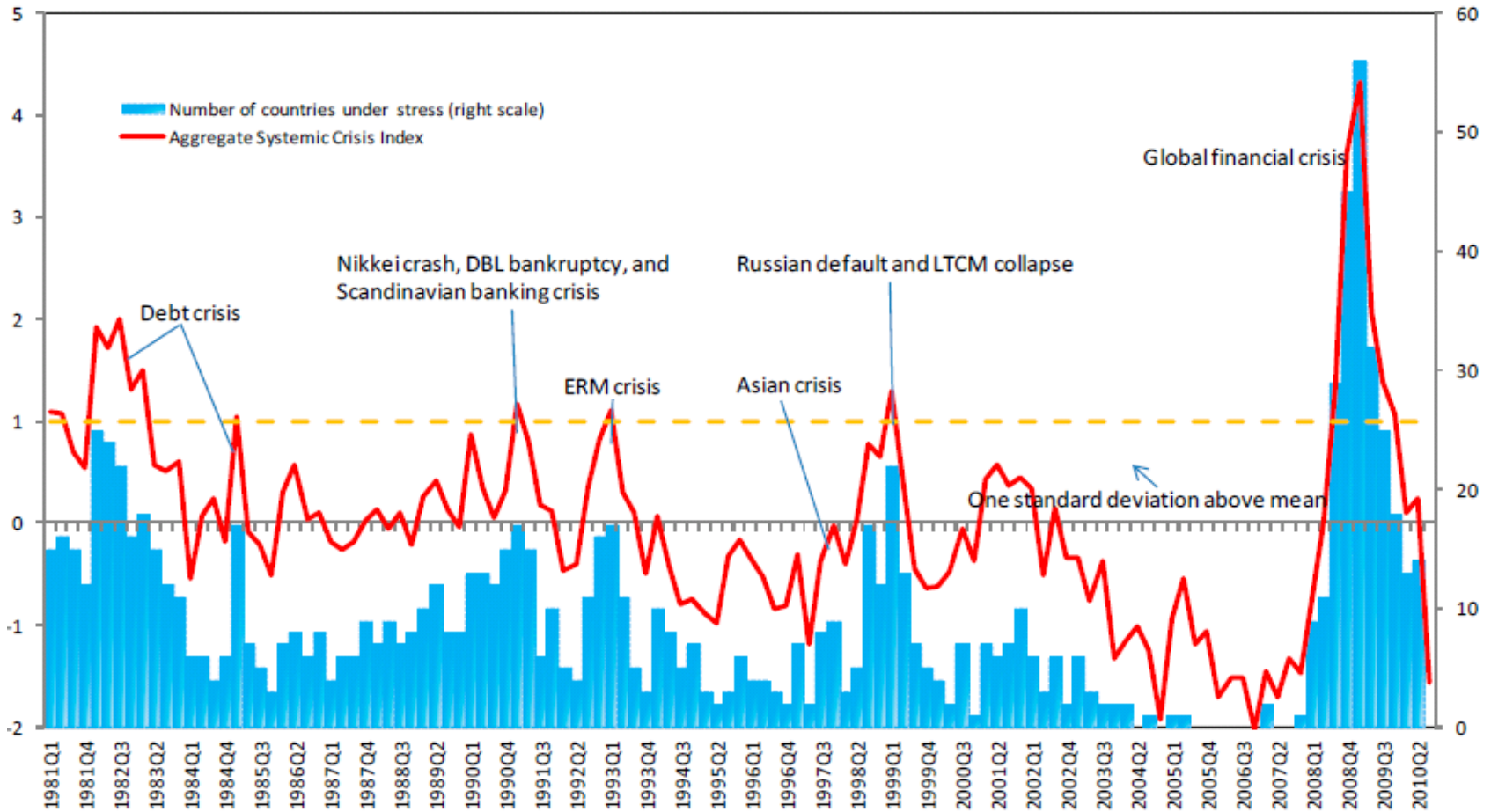
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# The experience of the crisis

- 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.

# 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

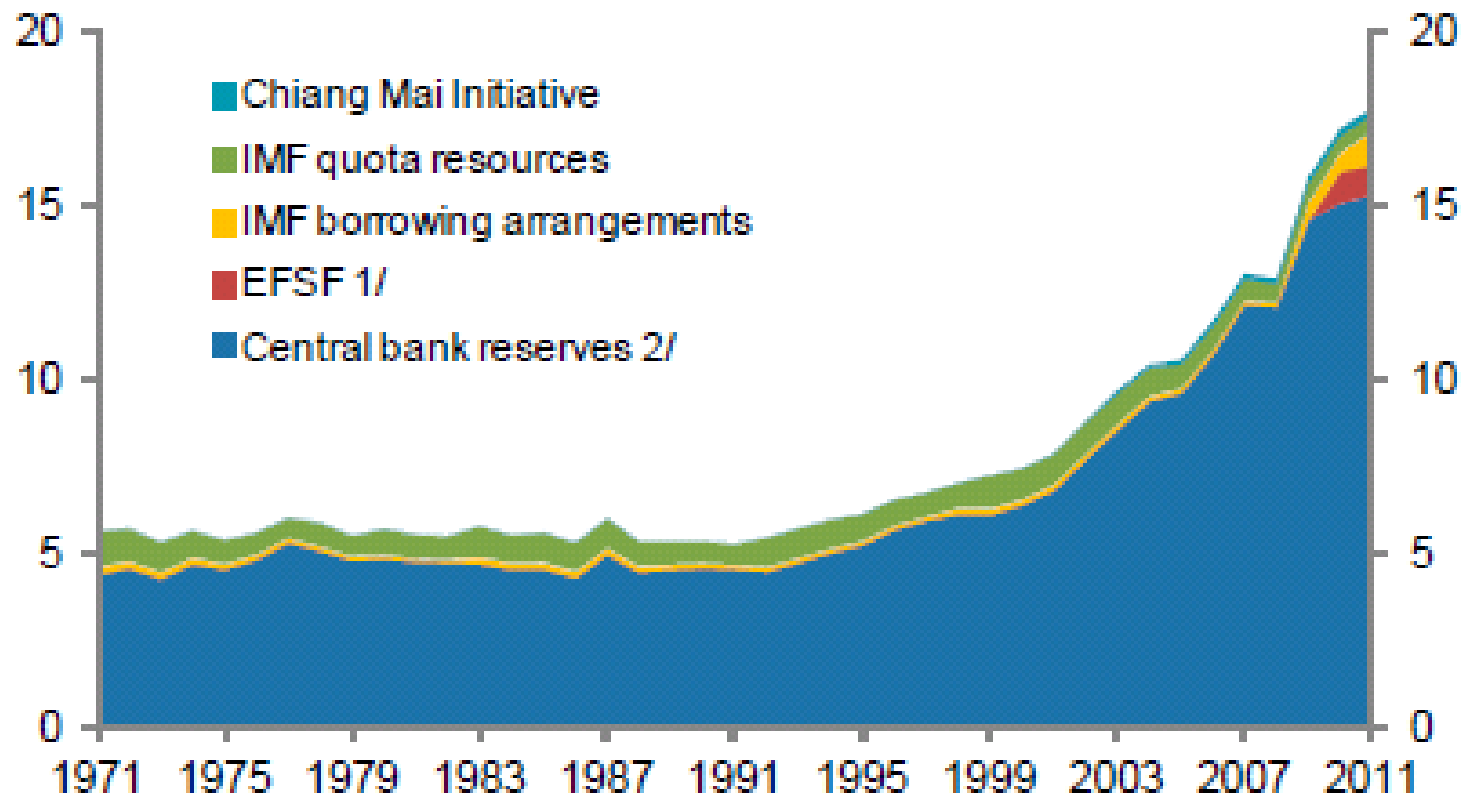
# Problems with existing mechanisms

- 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

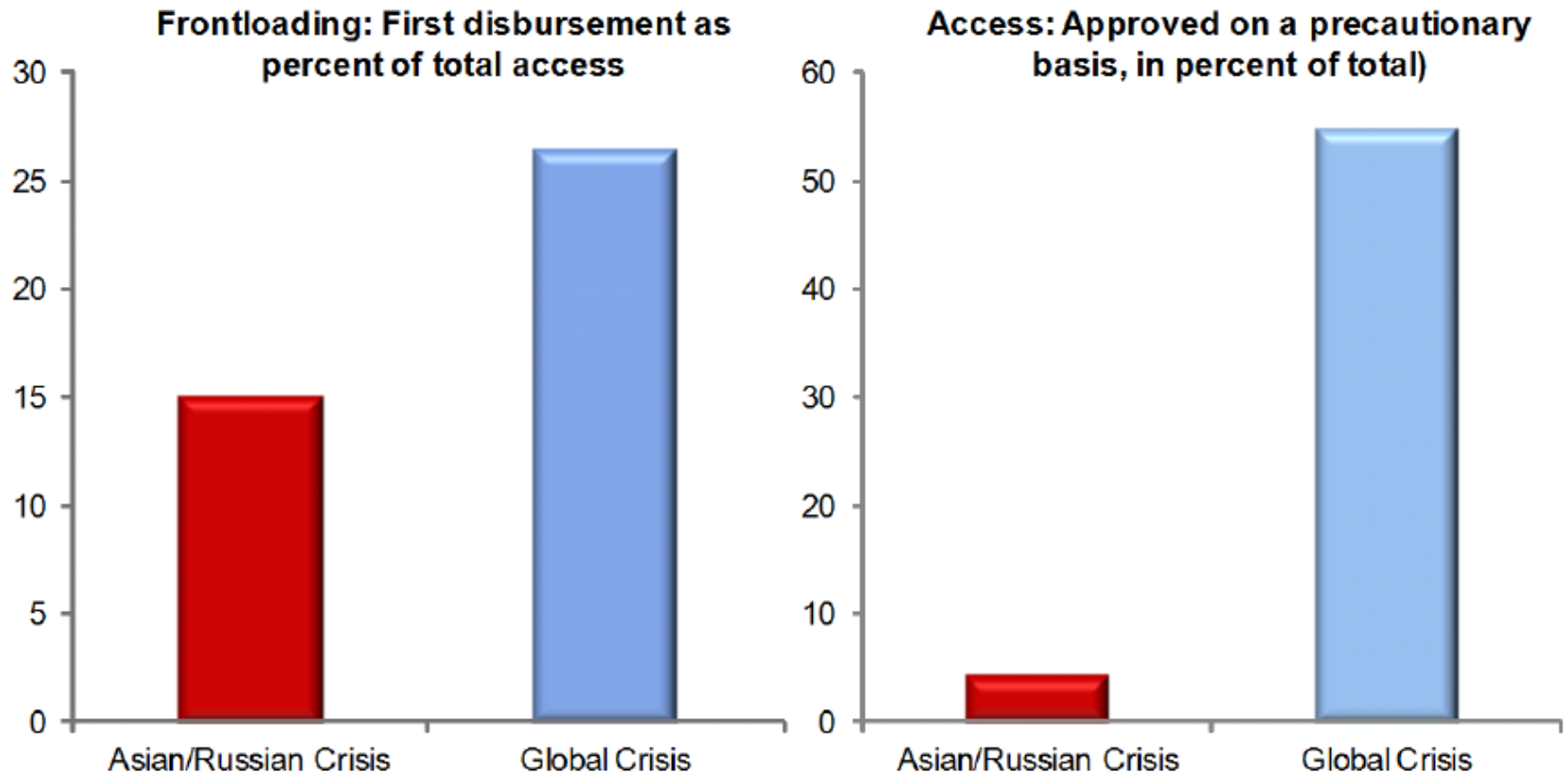




# Speed limits

- Precautionary programs
- Prequalification
- Ex ante cooperation mechanisms
- Swap networks

# Front Loading and Access



# 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