

The IMF in the Global Economy

New Initiatives and Prospects

Arnold McIntyre*

CCMF 13th Annual Senior Level Policy Seminar

Jamaica, September 4, 2009

**The views expressed herein are those of the author and should not be attributed to the IMF, its Executive Board, or its management.*

Outline

- Global Economic Developments and Outlook
 - Regional Economic Outlook
 - IMF Response: Reforms to Lending Facilities
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Global Developments and Outlook

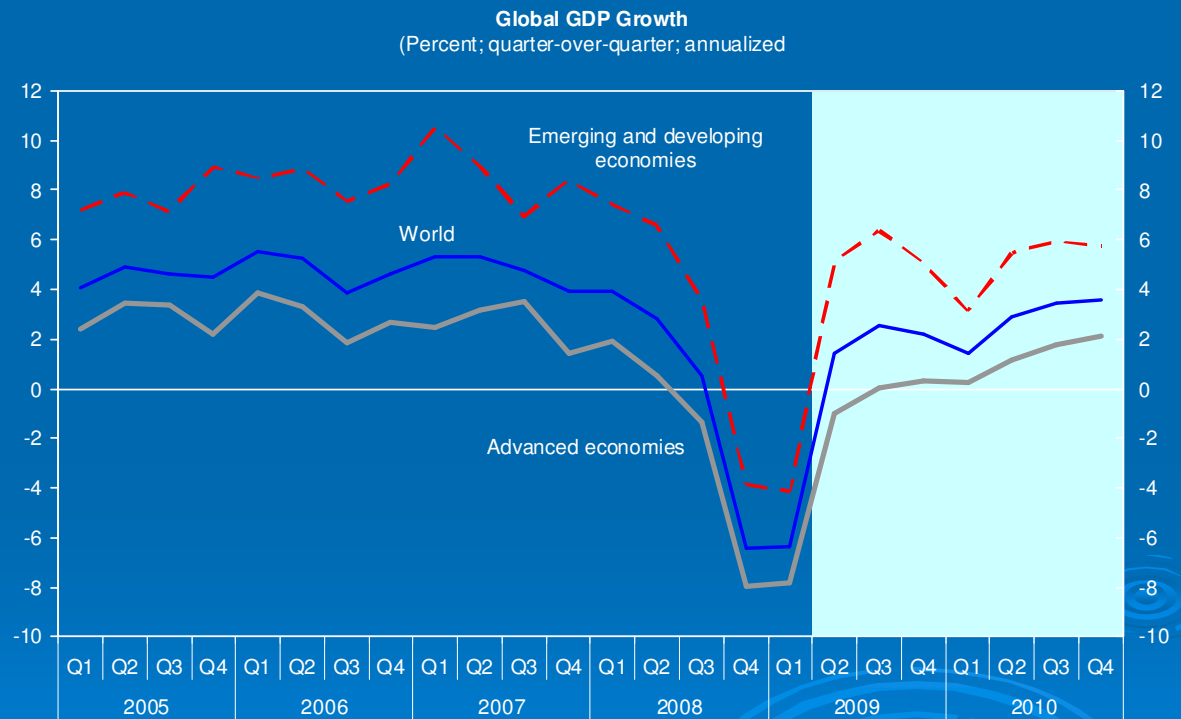
Key Messages

- Contractionary forces receding but weak recovery ahead;
- Financial conditions have improved but financial systems remain impaired;
- Demand rebalancing - given weak internal demand in some major economies domestic demand gains elsewhere e.g. emerging Asia needed to sustain global expansion

Global Developments

➤ Stabilization uneven and recovery sluggish

- World economy stabilizing - helped by unprecedented macroeconomic and financial support
- Recovery likely to be sluggish




Source: IMF, World Economic

Global Developments

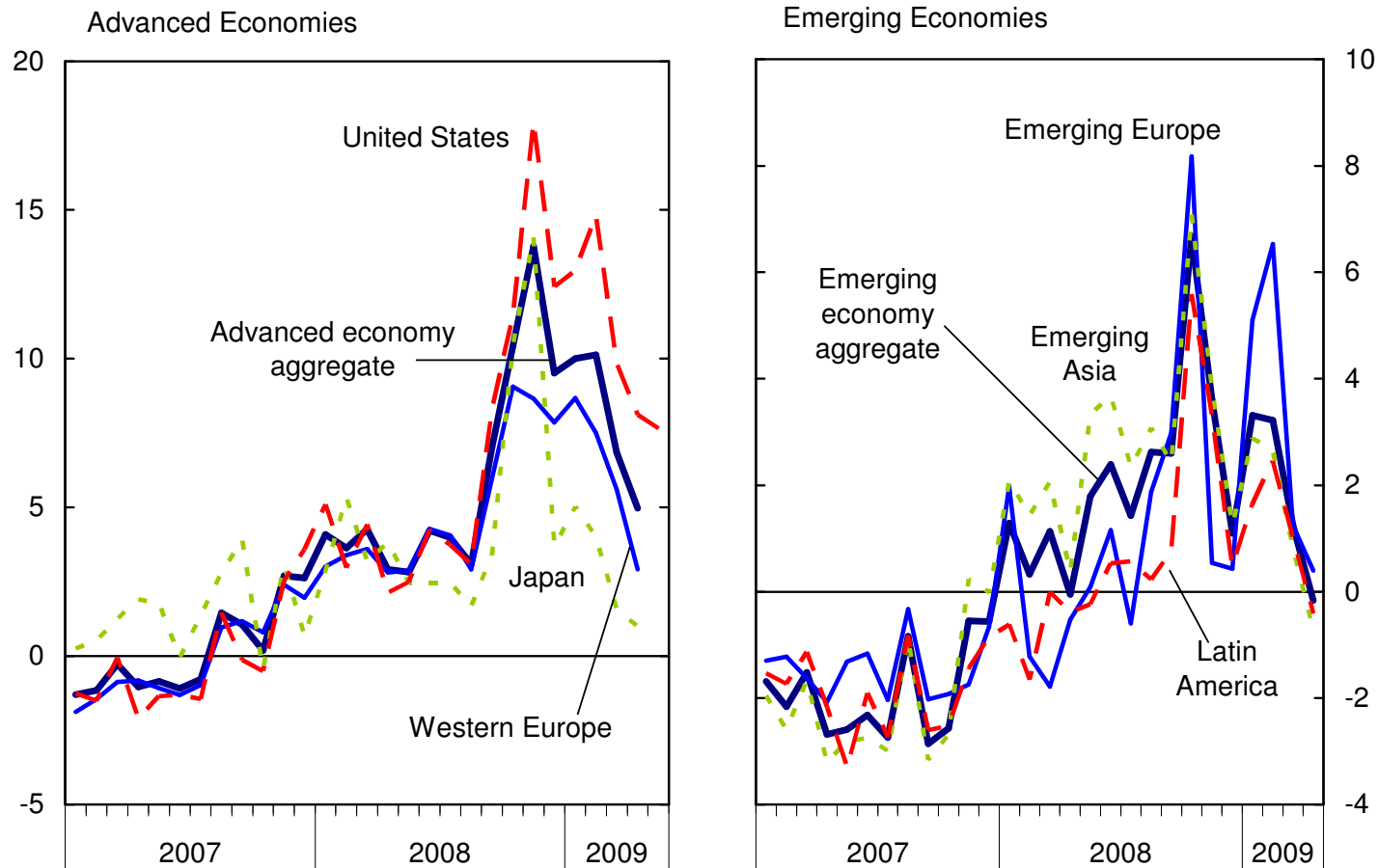
- Pace of recovery depends on balance between opposing forces
 - Drag exerted by financial shock, sharp decline in growth and global trade versus signs of reduced uncertainty and improvements in confidence
- Reduced concerns about systemic failure
 - policy actions have helped - cuts in policy interest rates, provision of liquidity, credit easing, and bank recapitalization

Global Challenges

- Premature exit from supportive fiscal and monetary policies
 - Progress in repairing financial balance could be undermined by rising unemployment and increased delinquencies
 - Inflation risk – central banks tighten more quickly if inflation expectations rise
 - Reconciling short and medium term objectives – maintaining supportive policies and laying foundation for exit strategy
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Global Developments

Financial Stress in Advanced and Emerging Economies 1/
(Purchasing-power-parity-weighted averages; stress index deviation from average)

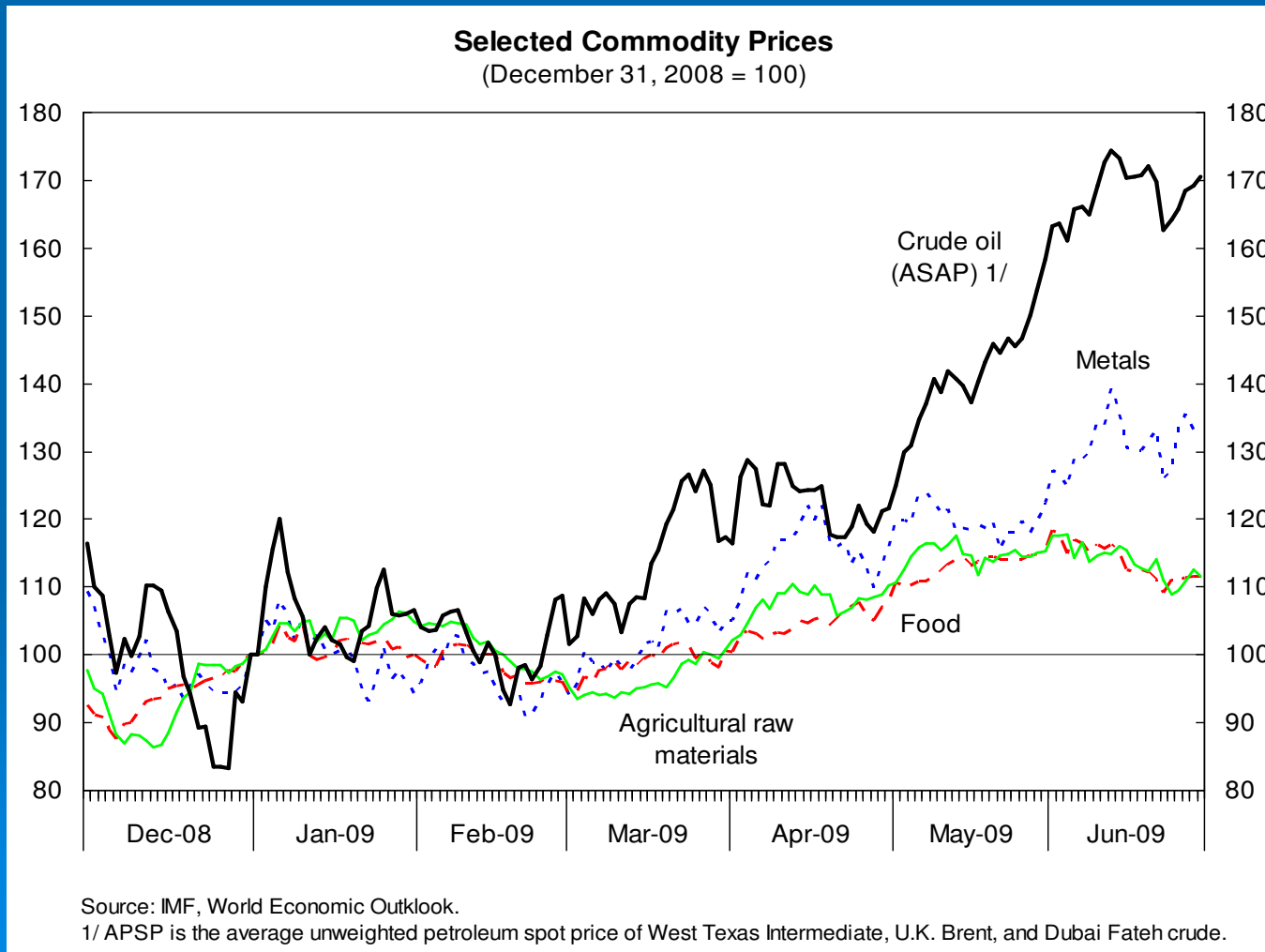


Source: IMF, World Economic Outlook.

1/ The financial stress indices are expressed as a deviation from the average since mid 1990's. The components of the indices for advanced and emerging economies differ.

Global Developments

Commodity prices have rebounded



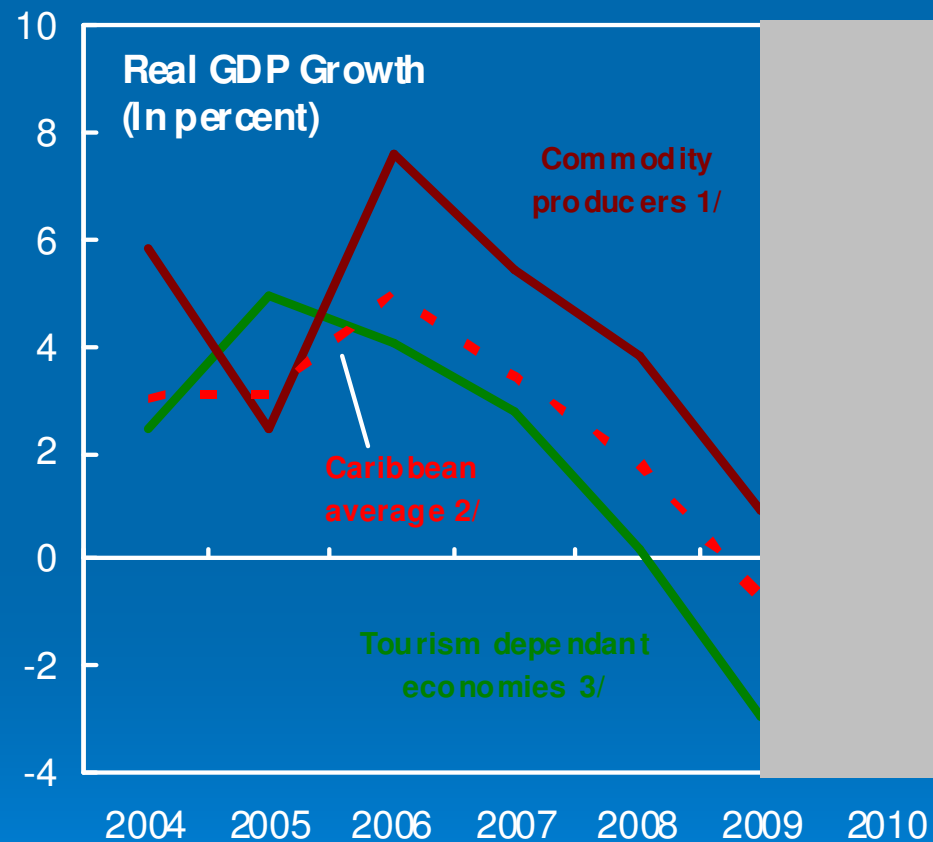
Global Outlook

- Sustained recovery will require renewed private spending – higher personal consumption and business investment
 - Unclear how weaker consumption in US and other advanced economies that suffered asset price collapses will be compensated for by stronger demand elsewhere
 - Can emerging markets, notably Asia drive recovery ? Improved prospects in China and India reflecting stimulus and faster-than-expected capital flows. Can it be sustained ?
- Inflation Pressures to remain low with continued weakness of global economy

Regional outlook

- Growth in the Caribbean region is expected to contract in 2009
- Spillover channels via:
 - Collapse in tourism
 - Fall in remittances
 - Sharp reduction in FDI inflows
 - Increasing financing sector strains (particularly through weakly supervised nonbank and offshore financial sectors)

Economic activity in the Caribbean has been buffeted by the global downturn



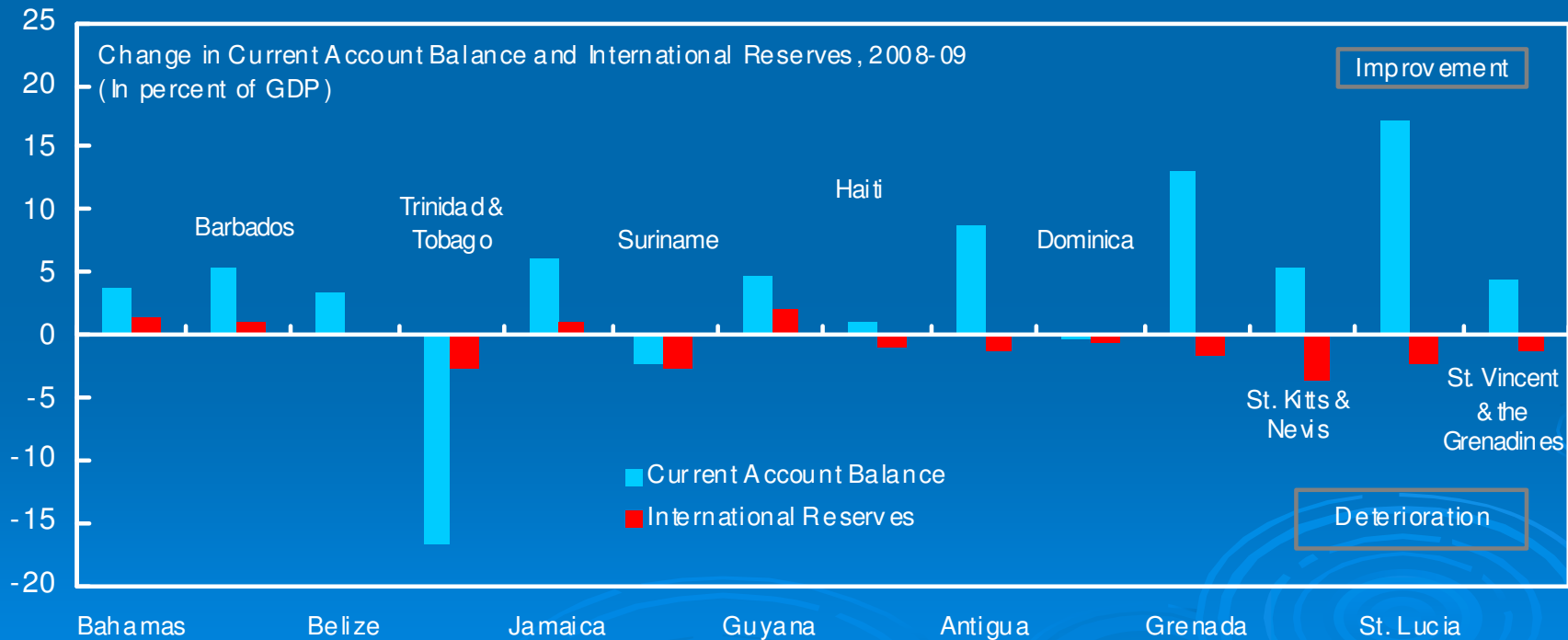
Source: Country authorities, World Economic Outlook, IMF; Fund staff estimates

1/ Includes Guyana, Suriname and Trinidad & Tobago

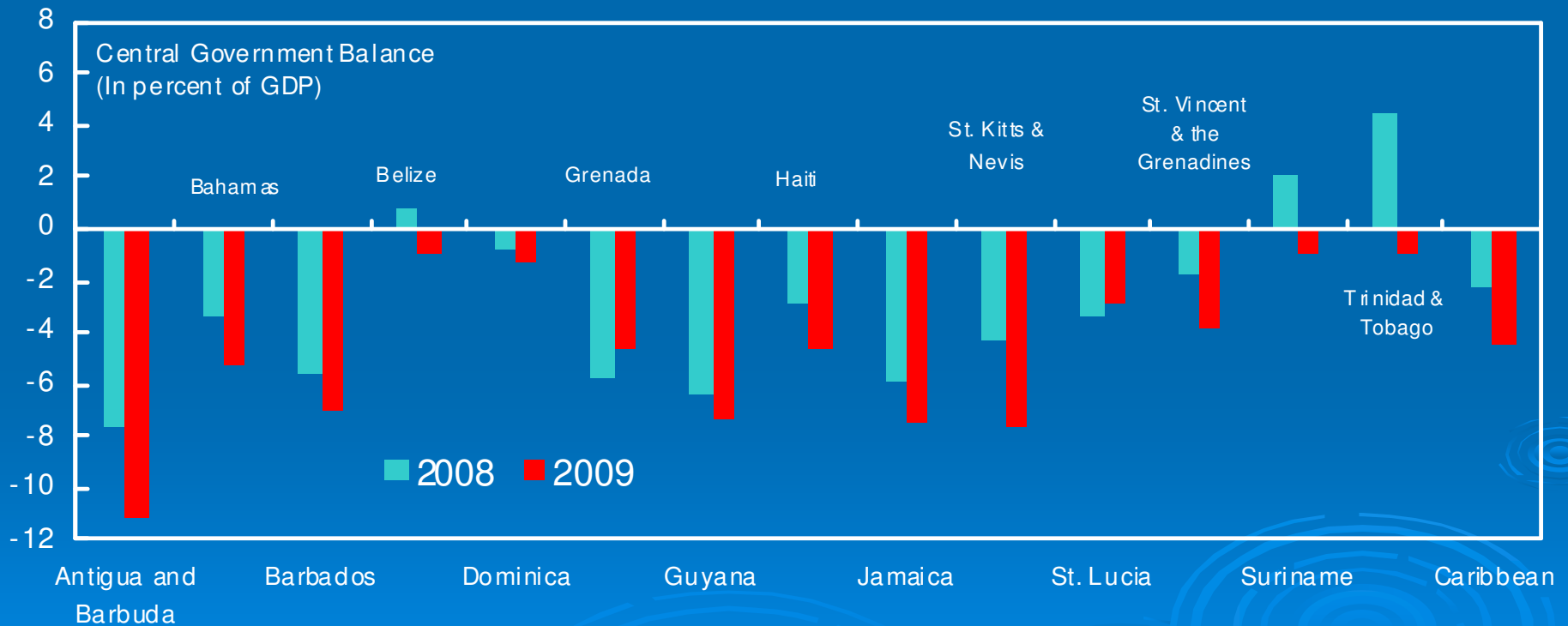
2/ Simple average of ECCU, The Bahamas, Barbados, Belize, Guyana, Haiti, Jamaica, Suriname and Trinidad & Tobago

3/ Includes The Bahamas, Barbados and the ECCU

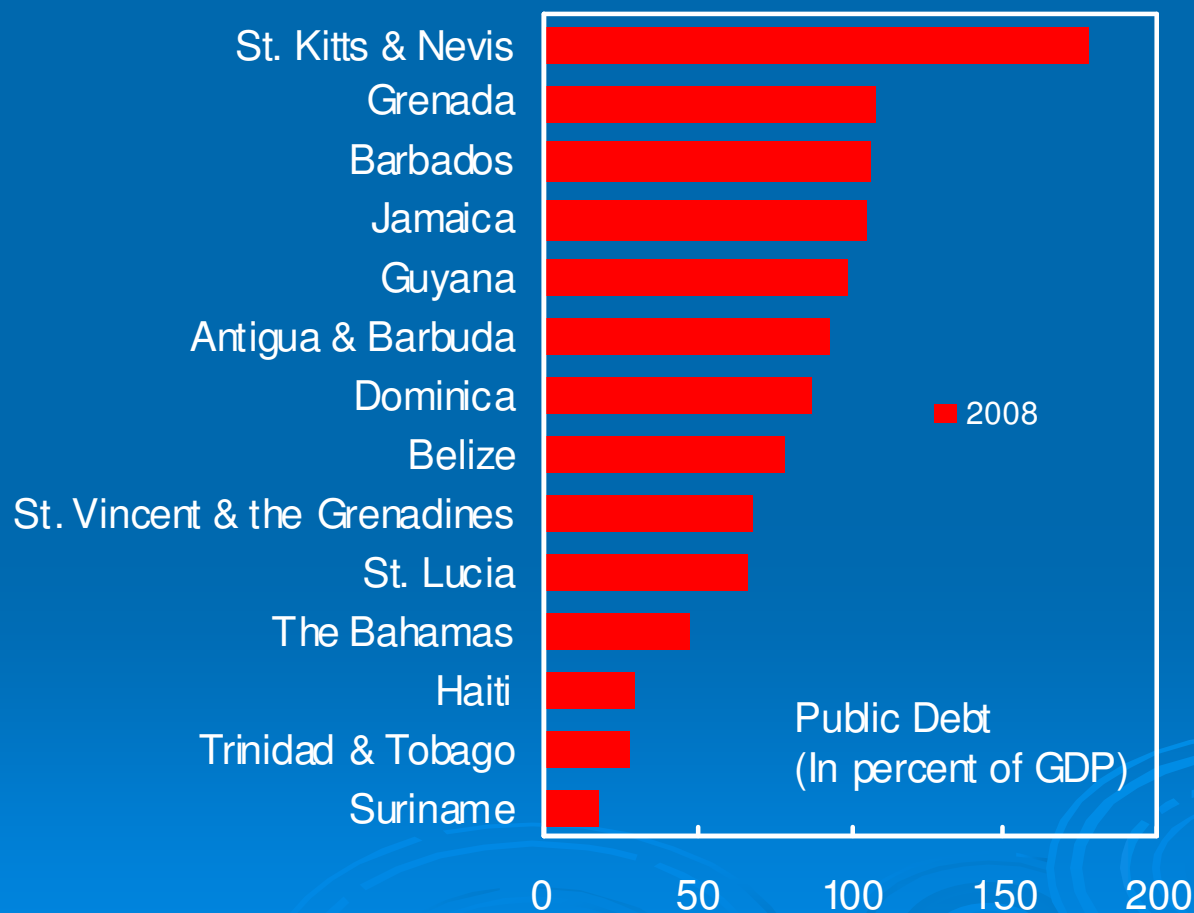
External current account deficit is projected to narrow in most Caribbean countries, with more constrained external financing



Fiscal balances are projected to deteriorate in 2009 with recession induced revenue losses and higher debt servicing costs



High debt levels and debt servicing burdens leave little room for countercyclical macroeconomic policies



Policy response

- Given the region's high debt levels and currency board arrangement in the ECCU, there is **little room for counter-cyclical fiscal policy** during the current economic downturn. Prudent in implementing stimulus packages—some are undertaking fiscal consolidation.
- **Monetary policy easing has been modest** given the presence of inflation persistence and exchange rate pressures.
- The weak macroeconomic environment calls for **an enhanced banking supervision**.
- The CLICO fallout underscores the need for **improving non-bank financial sector regulation** and closer policy coordination across the Caribbean

IMF Response: Reforms to Lending Facilities

- SDR allocation
- Overhauls of nonconcessional lending facilities and conditionality
- Reforms of the concessional lending facilities for low-income countries (LICs)

SDR Allocation

- **SDR allocations** to supplement IMF members' foreign exchange reserves
 - Allocation equivalent of \$250 billion in total was made on August 28, which will be followed by an additional allocation of \$33 billion on September 9.
 - The outstanding stock of SDRs will increase nearly ten-fold to about \$316 billion in total.
 - The allocation is based on a long-term global need to supplement members' existing reserve assets, providing an additional method to obtain hard currencies.
- **Significant benefit to Low-income countries**
 - About \$110 billion of the combined allocations will go to emerging market and developing countries
 - The allocation provides liquidity buffer that could limit the need for adjustment through contractionary policies and allow greater scope for countercyclical policies

SDR Allocation

Special and Illustrative General SDR Allocation

Country	NIR at End-2008 (US\$ millions)	Proposed Special Illustrative General SDR Allocation 1/ SDR Allocation 2/ SDR Allocation			Special and General SDR Allocation	
		(SDR millions)			(US\$ millions) 3/	(Percent of NIR)
Antigua and Barbuda	214.4	2.5	10.0	12.5	19.5	9.1
Bahamas, The	563.1	17.6	96.6	114.2	178.6	31.7
Barbados	678.3	6.3	50.0	56.3	88.1	13.0
Belize	165.5	4.0	13.9	17.9	28.0	16.9
Dominica	44.8	1.2	6.1	7.2	11.3	25.3
Dominican Republic	2,394.9	15.0	162.3	177.2	277.2	11.6
Grenada	41.5	1.6	8.7	10.2	16.0	38.5
Guyana	298.8	5.2	67.4	72.6	113.5	38.0
Haiti	549.8	4.1	60.7	64.8	101.4	18.4
Jamaica	1,772.9	18.3	202.7	221.0	345.7	19.5
St. Kitts and Nevis	102.8	1.9	6.6	8.5	13.3	12.9
St. Lucia	149.0	2.5	11.3	13.8	21.6	14.5
St. Vincent & the Grenadines	82.9	1.4	6.2	7.6	11.8	14.3
Suriname	634.0	12.1	68.3	80.3	125.6	18.8
Trinidad and Tobago	8,742.9	26.1	248.8	274.9	429.9	4.9
Total	16,435.7	119.6	1,019.6	1,139.2	1,781.6	10.8

Source: IMF staff estimates.

1/ Provided under the proposed Fourth Amendment of the Articles of Agreement.

2/ General allocation of 74.13 percent of existing quotas, which is equivalent to US\$250 billion.

3/ Assuming an SDR/US\$ exchange rate of 0.639417 on August 28, 2009.

Overhaul of Lending Framework

- **Increased flexibility**
 - **Flexible Credit Line (FCL)**, replacing Short-term Liquidity Facility (SLF), provides eligible countries large and upfront access with no ongoing conditions, longer repayment period, scopes for precautionary use, and flexibility in the nature of BOP problems faced by the members
 - **High Access Precautionary Stand-by Arrangements (HAPAs)** enables high-access to SBA on a precautionary basis. Access limits to SBA has also been raised
 - Allowing frontloading of access and reducing the frequency of reviews
 - Flexibility in allowing the Fund resources to be used for budget support
- **Modernizing conditionality**
 - Increased reliance on pre-set qualification criteria where appropriate, rather than traditional conditionality
 - Implementation of structural policies to be monitored in the context of program reviews, rather than through the use of structural performance criteria
- **Streamlined cost and maturity structures**
 - Grace periods lengthened and repayment schedules simplified
 - Level-based surcharge structure streamlined
- **Reform of facilities for low-income country members (see slides 21-23)**

Lending Facilities: New Terms and Facilities

Selected IMF's Lending Facilities

Lending facilities	Interest rate 1/	Grace period 2/	Maturity 2/	Repayment installments	Access (in percent of quota)	Surcharges
<i>Unrestricted</i>						
Stand-By Arrangement (SBA) (from May 1, 2009)	Adjusted rate of charge 3/	3 1/4 years	5 years	8 quarterly installments	up to 200 annually and 600 cumulatively	200 bps on outstanding credit exceeding 300% of quota and 300 bps when outstanding credit remain above 300% of quota for more than 3 years.
Extended Fund Facility (EFF) (from May 1, 2009)	Adjusted rate of charge 3/	4 1/2 years	10 years	12 semi-annual installments	up to 200 annually and 600 cumulatively	200 bps on outstanding credit exceeding 300% of quota and 300 bps when outstanding credit remain above 300% of quota for more than 3 years.
Emergency Assistance for Natural Disasters (ENDA)	Adjusted rate of charge 3/	3 1/4 years	5 years	8 quarterly installments	12.5-50	None
<i>Applicable to eligible members 4/</i>						
Flexible Credit Line (CFL) (from March 24, 2009)	Adjusted rate of charge 3/	3 1/4 years	5 years	8 quarterly installments	not subject to normal access limits (assessed on a case-by-case basis)	200 bps on outstanding credit exceeding 300% of quota and 300 bps when outstanding credit remain above 300% of quota for more than 3 years.

1/ Low-income countries will receive exceptional relief on all interest payments due through 2011 on IMF concessional lending facilities (including subsidized ENDA and EPCA). Subject to periodic review by the IMF Board, the first review would be scheduled for end-2011, with subsequent reviews every 3 years thereafter.

2/ Expectation basis has been eliminated.

3/ The rate of charge is based on the SDR interest rate, which is revised weekly to take account of changes in short-term interest rates in major international money markets. Large loans carry a surcharge. The adjusted rate of charge stood at 1.29 percent during the week of August 24-30, 2009. Commitment fees are also levied on an annual basis and refundable to the extent that purchases are made under an arrangement.

4/ Qualifications include very strong economic fundamentals and track record as well as continued commitment for implementing strong policies.

New IMF Facilities for LICs

- **Exceptional relief on all interest payments** due through 2011 on the IMF's concessional lending instruments.
- **Permanently higher concessionality** in future Fund financial support (with a mechanism for updating interest rates after 2011).
- A new architecture of concessional financing facilities: more flexible and tailored to the increasing diversity of LICs.
 - **Extended Credit Facility (ECF)** :is the successor to PRGF and provides medium to longer-term support to LICs with protracted balance of payments problems
 - **Standby Credit Facility (SCF)** : addresses short-term balance of payments needs, including caused by exogenous shocks (superseding ESF-HAC), and precautionary needs (like the SBA)
 - **Rapid Credit Facility (RCF)** : offers low-access emergency support with limited conditionality (superseding the subsidized ENDA and ESF-RAC, and to countries with limited capacity)

The New Lending Facilities for LICs

Lending facilities	Supersedes	Interest rate 1/	Grace period	Disbursement maturity	Repayment installments	Access-global limit (in percent of quota)	Access-Sub-limit (in percent of quota)	Access norms (in percent of quota)
<i>Restricted to Low-Income Countries (New Package)</i>								
Extended Credit Facility (ECF)	PRGF 2/	0% 3/	5 1/2 years	10 years	10 semi-annual installments	up to 100 annually and 300 cumulatively across facilities (exceptional access: up to 150 annually and 450 cumulatively)		120 if outstanding credit < 100; 75 if outstanding >= 100
Standby Credit Facility (SCF)	ESF-HAC 2/	0.25% 3/	4 years	8 years	9 semi-annual installments	same as above	up to 50 annually for precautionary use	120 if outstanding credit < 100; 75 if outstanding >= 100
Rapid Credit Facility (RCF)	ESF-RAC; subsidized ENDA and EPCA 2/	0% 3/	5 1/2 years	10 years	10 semi-annual installments	same as above	up to 25 annually and 75 cumulatively; for shocks window up to 50 annually and 100 cumulatively	

1/ Low-income countries will receive exceptional relief on all interest payments due through 2011 on IMF concessional lending facilities (including subsidized ENDA and EPCA)

2/ Credit outstanding under ENDA at the time of the PRGT reform and all ESF loans (existing and future) will have unchanged repayment terms and a reduced interest rate of 0.25 percent (would be expected to remain unchanged until the final maturity of these loans), whereas the PRGF would be automatically converted into the ECF, with ECF repayment terms and interest rate.

3/ Subject to periodic review by the IMF Executive Board. The first review would be scheduled for end-2011, with subsequent reviews every 2 years thereafter.

Summary

- Recovery is uneven and remains dependent on policy support
- Going forward, pace of recovery will be sluggish
- Global slowdown has had severe impact on the region – sharp decline in growth, worsening fiscal balances, external finance constrained and with high debt levels no room for countercyclical policy
- The Fund has responded to the serious challenges facing its membership by substantially increasing resources, restructuring lending facilities to meet the needs of its varied membership and increasing assistance to LICs

Thank you !

