The Global Economic Recession and Route to Recovery

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April 26, 2010

Outline:

- IMF 101: Who we are? What do we do?
- Impact of crises: Global, Regional, LICs
- Fund’s response: What did we do?

IMF 101

Who we are?

What do we do?

How do we do it?

IMF 101: it started in Bretton Woods in 1944…

IMF 101: What do we Do?

- Stabilize the international monetary and financial system

IMF 101: who we are?

IMF 101: who we are?

IMF 101: who we are?

- The IMF currently employs around 2,600 staff from more than 160 countries.
- Around half of all staff members are economists, most of whom have Ph.D's.
- The quality of its staff allows the institution to produce world-class research.

IMF 101: What do we do?

- Firefighter - provide financial assistance to countries in need
- Doctor - share advice on how to nurse individual countries and the global financial system back to health
- Coach - help countries develop skills and policy knowledge on monetary and financial issues
- Architect – analyze and recommend how to overhaul the global financial system

IMF 101: Firefighter

- Provide policy advice, loans, and credit lines to its members
- Reassure markets
- Restore confidence

IMF 101: Doctor: Diagnostics

- Global - assessing health of world economy and stability of financial markets. Analysis published in World Economic Outlook (WEO) and Global Financial Stability Report (GFSR).
- Regional - a more detailed look published in Regional Economic Outlooks (REOs).
- Bilateral - regular checkups of countries' economies, known as Article IV consultations. In some cases, a deep look at the financial sector.

IMF 101: Coach: Knowledge Transfer

- The IMF shares its expertise with member countries through technical assistance in macro-critical areas:
  - Build new skills
  - Share cross-country policy expertise
- The objective is to help improve the design and implementation of members' economic policies.

IMF 101: Architect: Adapting Design

- Broadening and improving surveillance of global economic and financial developments and policies
- Strengthening economic policy coordination
- Improving regulation and supervision of international financial institutions
- Enhancing international public liquidity and loans to support adjustment

Impact of Crises

Global

Regional

LICs

Key Messages

- The global recovery has been better than expected, but it is proceeding at varying speeds across regions. The recovery is tepid and policy-dependent in many advanced economies, but already fairly vigorous in many emerging and developing economies.

- Global output is expected to rise by 4.2 percent in 2010, representing an upward revision of 0.3 percentage points from the January 2010 World Economic Outlook.

- Risks have changed but remain on the downside. Systemic financial risks have receded, but risks related to sovereign debt have become more evident in some advanced economies.

- Given the still-fragile recovery, fiscal stimulus planned for 2010 should be fully implemented, except in countries that are suffering large increases in risk premiums—these countries need to begin fiscal consolidation now. If macroeconomic developments proceed as expected, most advanced economies should embark on significant fiscal consolidation in 2011.

- At the same time, policymakers need to design and implement credible medium-term fiscal consolidation strategies, including clear timelines to bring down debt ratios.

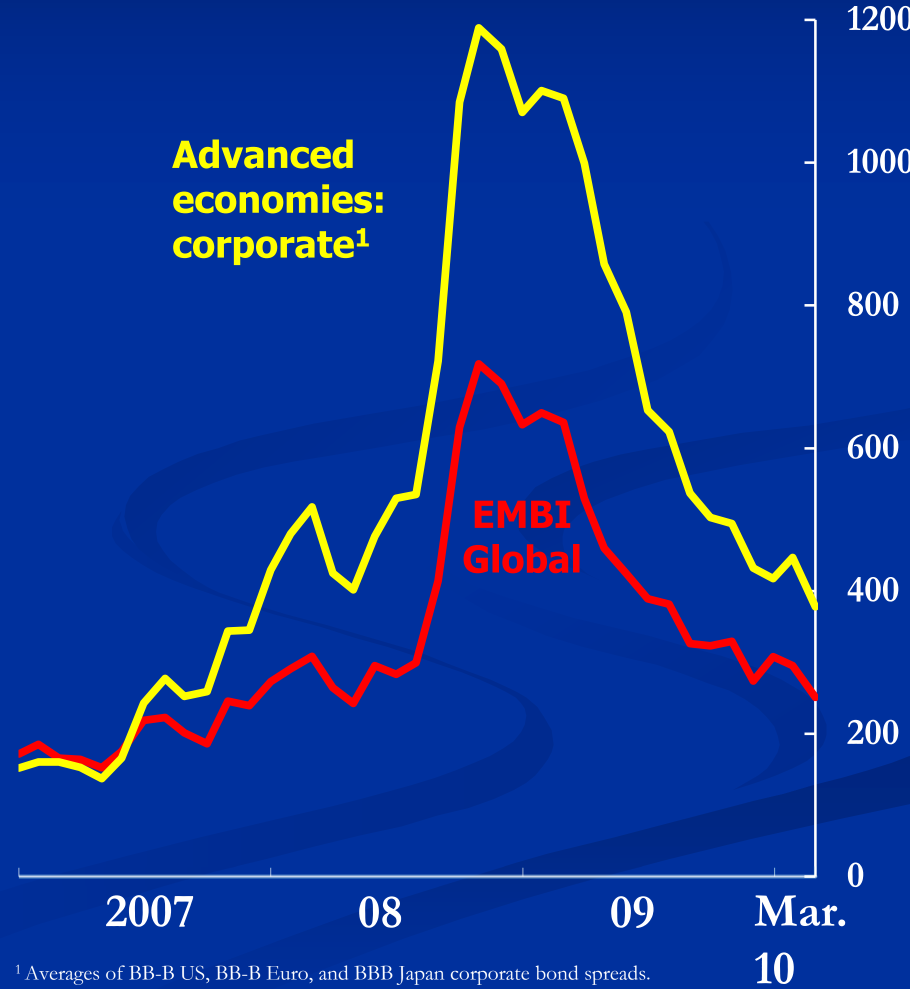
- Financial sector repair and reform is also a priority.

- The resumption of capital flows to many emerging economies is welcome, but can complicate policymaking.

Financial markets have recovered faster than expected…

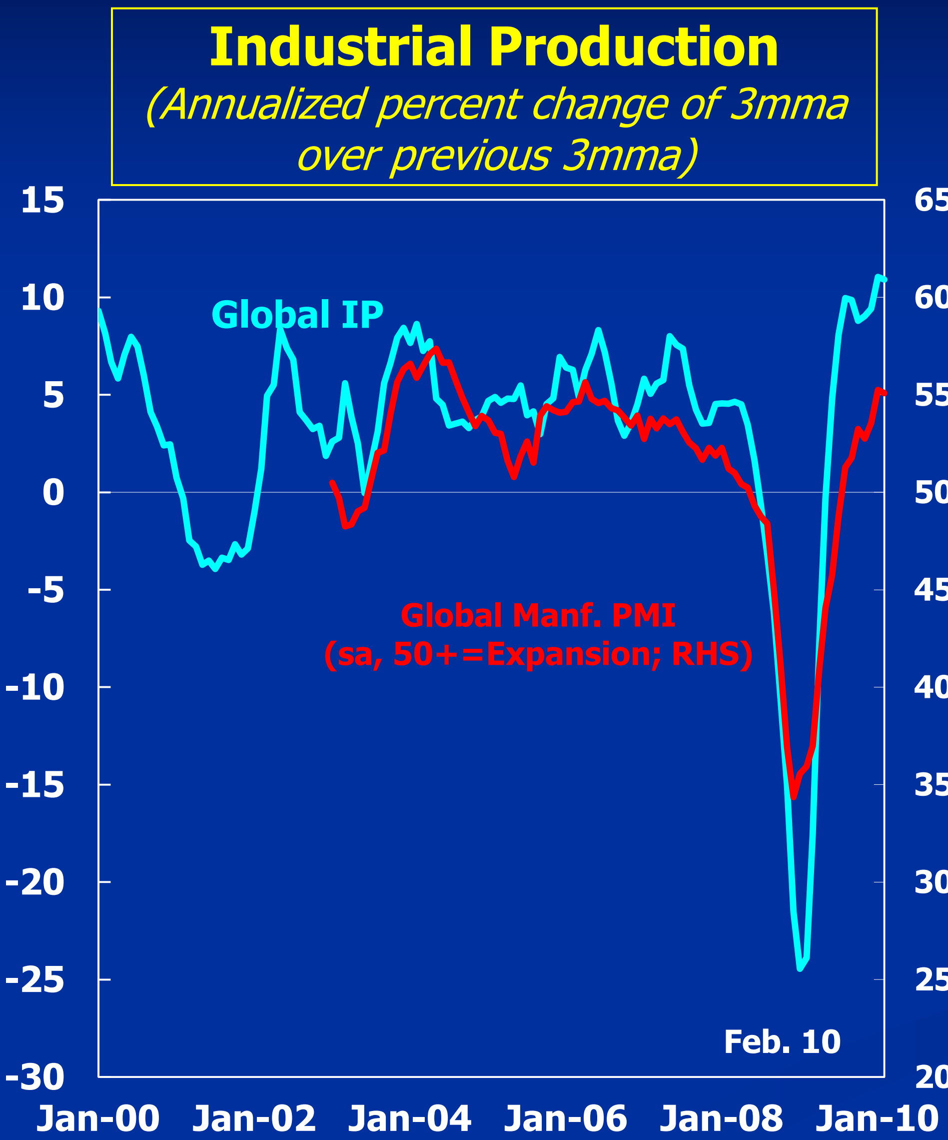
Global Stocks
(Morgan Stanley MSCI Stock Price Indices in U.S. Dollars, MER Weighted; 2007 = 100)

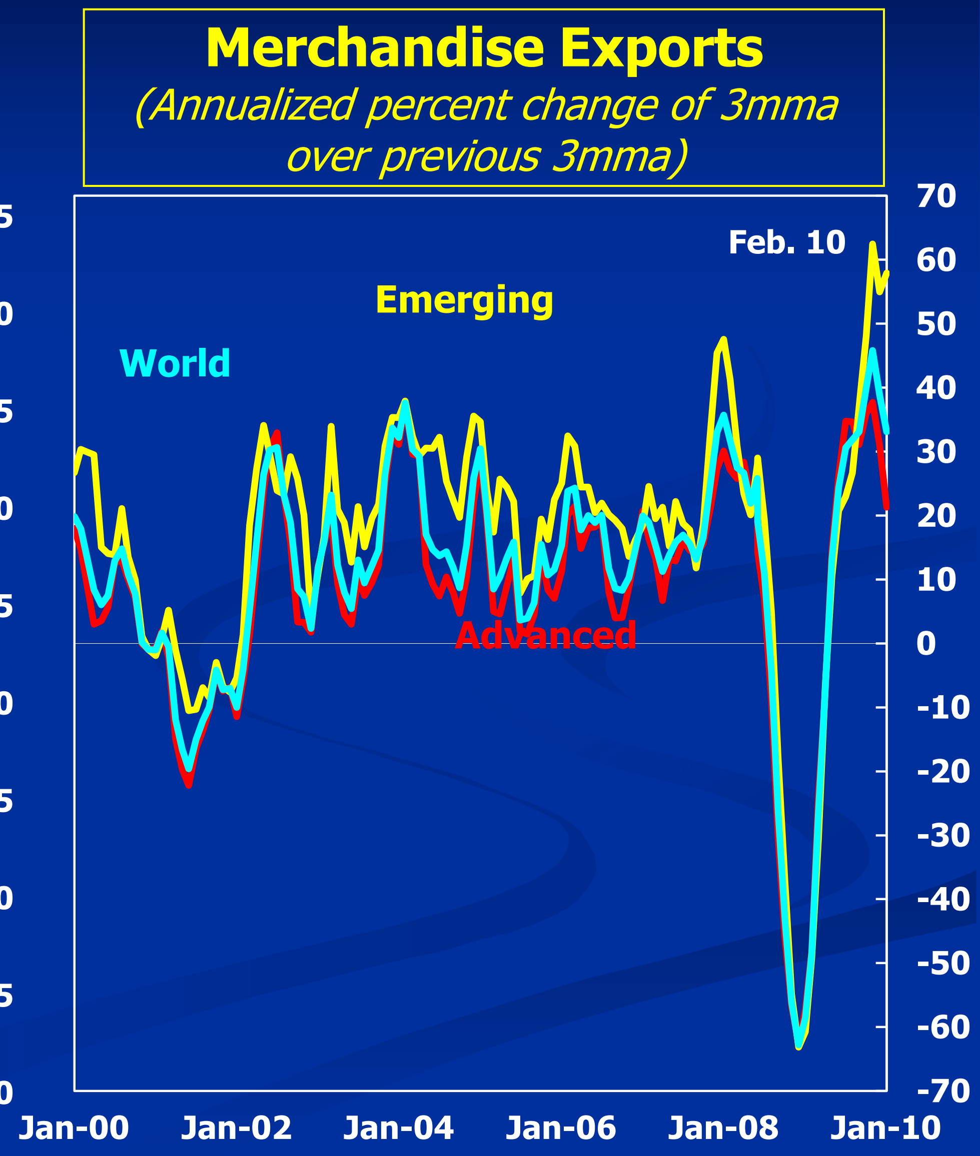
Sovereign and Corporate Bond Spreads
(basis points)



[1] Averages of BB-B US, BB-B Euro, and BBB Japan corporate bond spreads.

…and production and trade have rebounded sharply.





The multi-speed recovery will continue in 2010 and 2011…

	2010		2011	
	World Economic Outlook	Consensus Forecasts 1/	World Economic Outlook	Consensus Forecasts 1/
World	4.2	4.2	4.3	4.2
Advanced Economies	2.3	…	2.4	…
United States	3.1	3.2	2.6	3.1
Euro area	1.0	1.2	1.5	1.5
Japan	1.9	2.2	2.0	1.6
Emerging and Developing Economies	6.3	…	6.5	…
China	10.0	9.9	9.9	9.0
India	8.8	8.2	8.4	8.4
Brazil	5.5	5.5	4.1	4.4
Russia	4.0	4.5	3.3	4.6

1/ Consensus forecasts, Asia Pacific consensus forecasts (Apr. 12, 2010); Latin American consensus forecasts (Mar. 15, 2010); and Eastern European consensus forecasts (Mar. 15, 2010). India consensus forecast on fiscal year basis.

But the recovery has proceeded at varying speeds across and within regions.

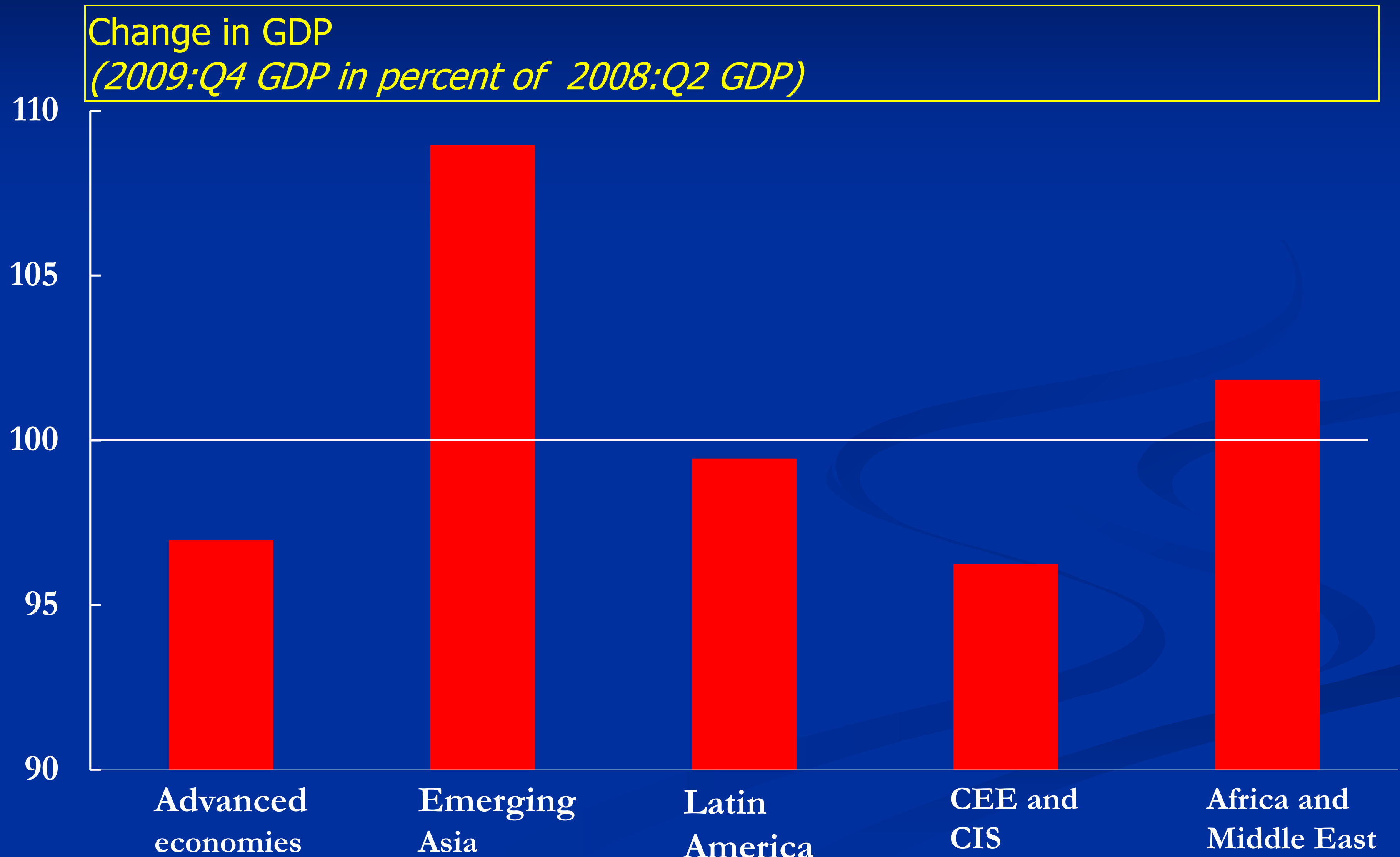
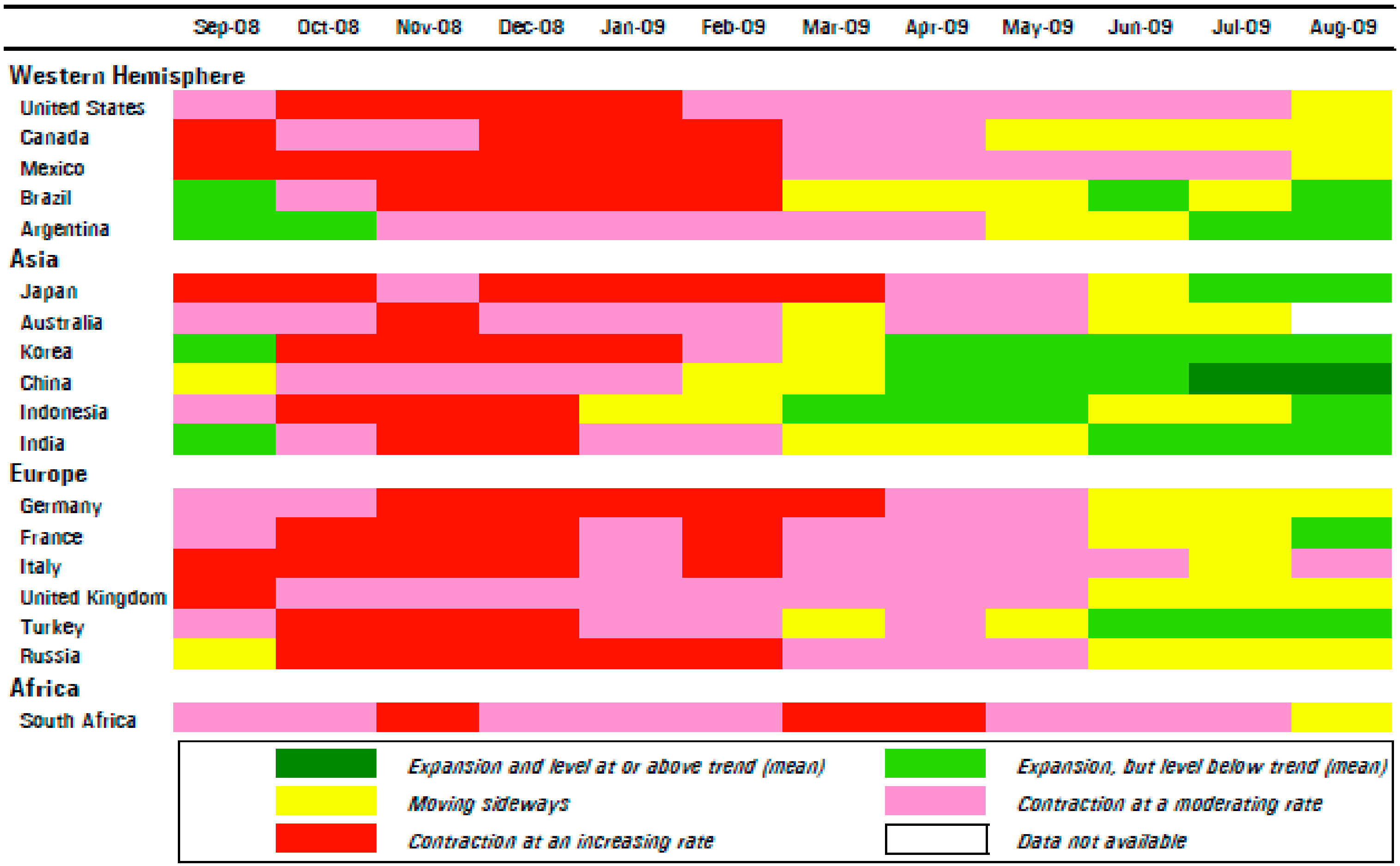


Figure 1.2. Assessing Global Growth Momentum[1]

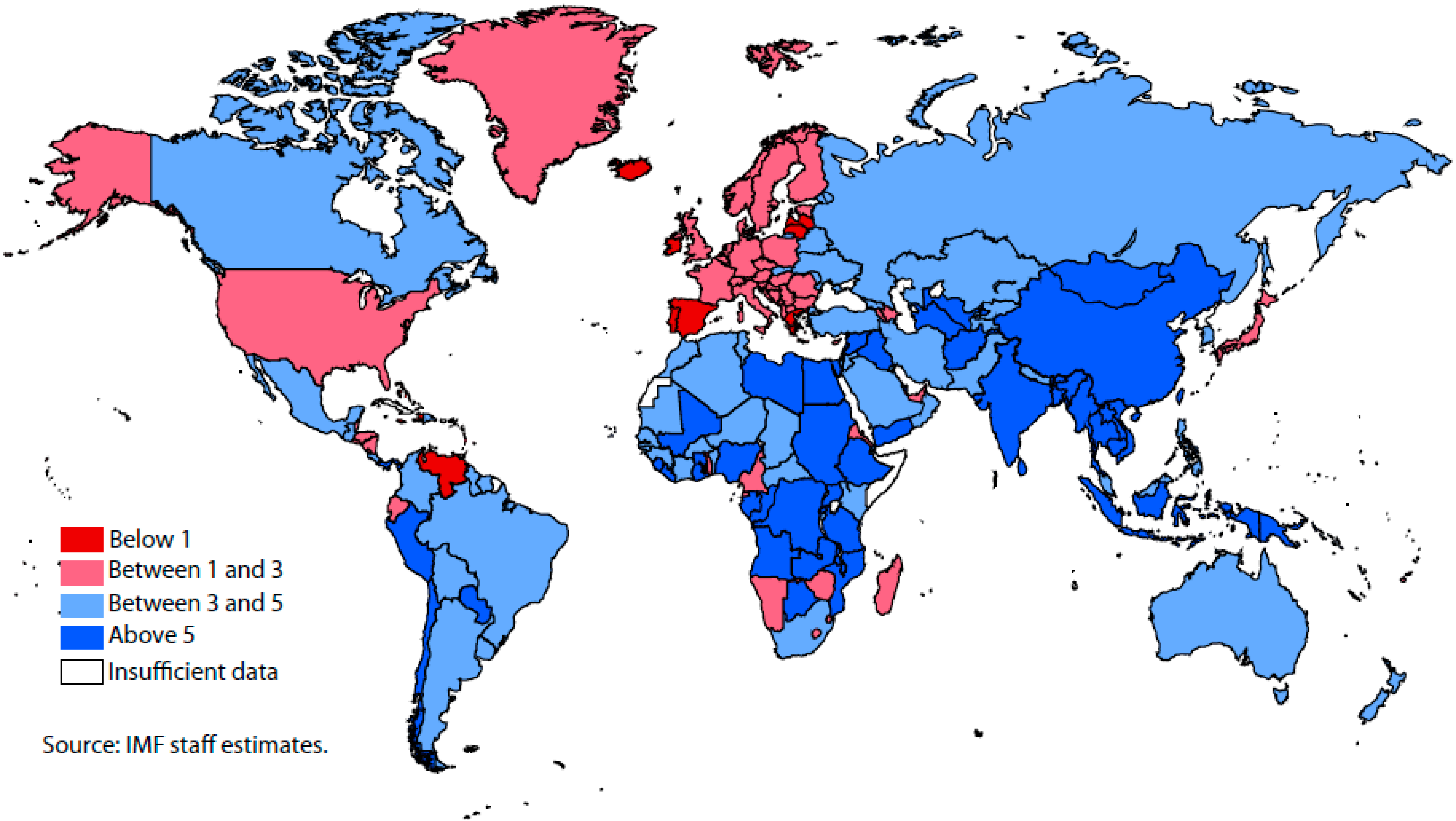


Sources: Haver Analytics; Bloomberg LP; and IMF, Global Data Source database and staff calculations.

[1] The above chart is based on the four economic indicators, including industrial production, real retail sales, merchandise exports, and purchasing managers index (PMI). Some of the ratings—particularly for recent months—are based on both actual data as well as projections of the underlying variables.

Figure 2.1. Average Real GDP Growth during 2010–11

(Percent)



Source: IMF staff estimates.

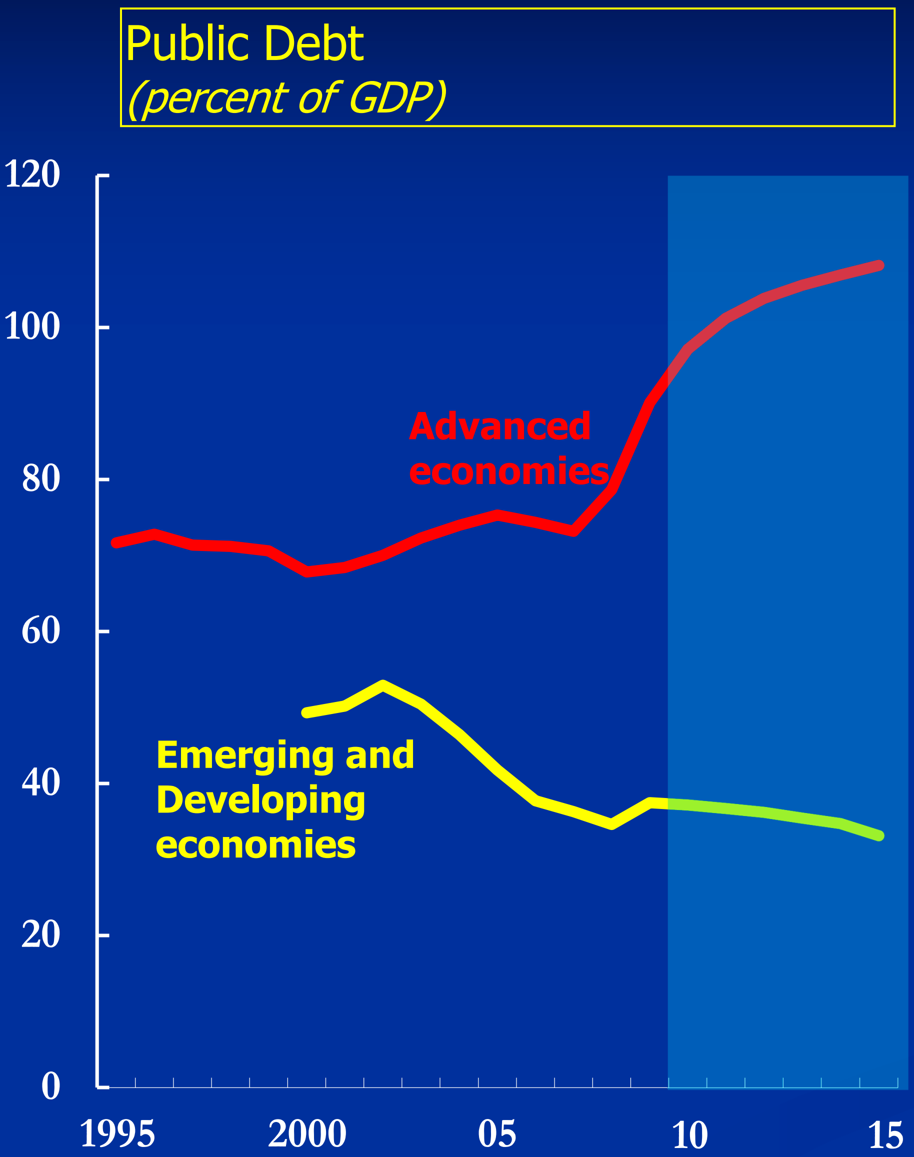
Four factors driving the engine of Asian rebound

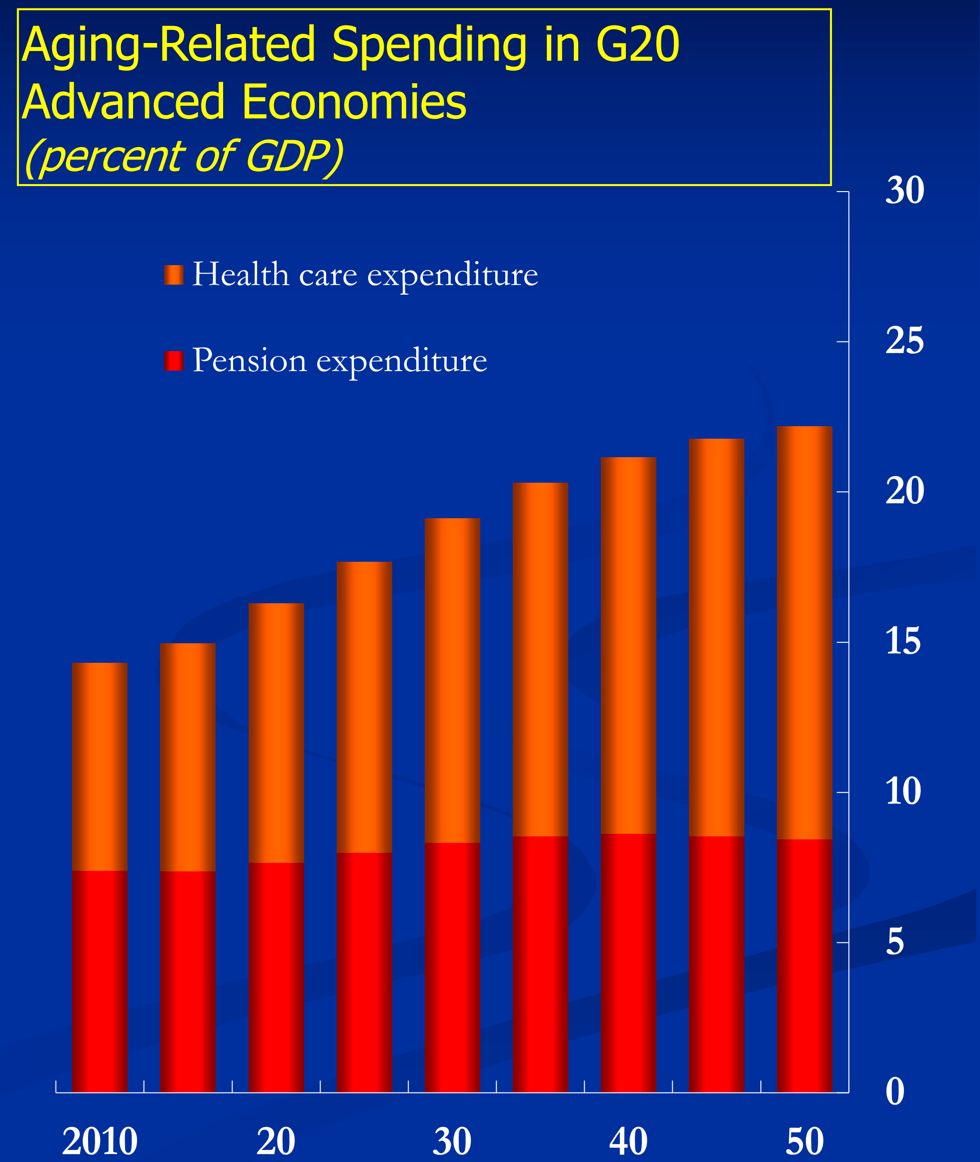
- Trade normalization
- Inventory cycle
- Resumption of capital inflows
- Policy response

The outlook remains unusually uncertain, with risks generally to the downside.

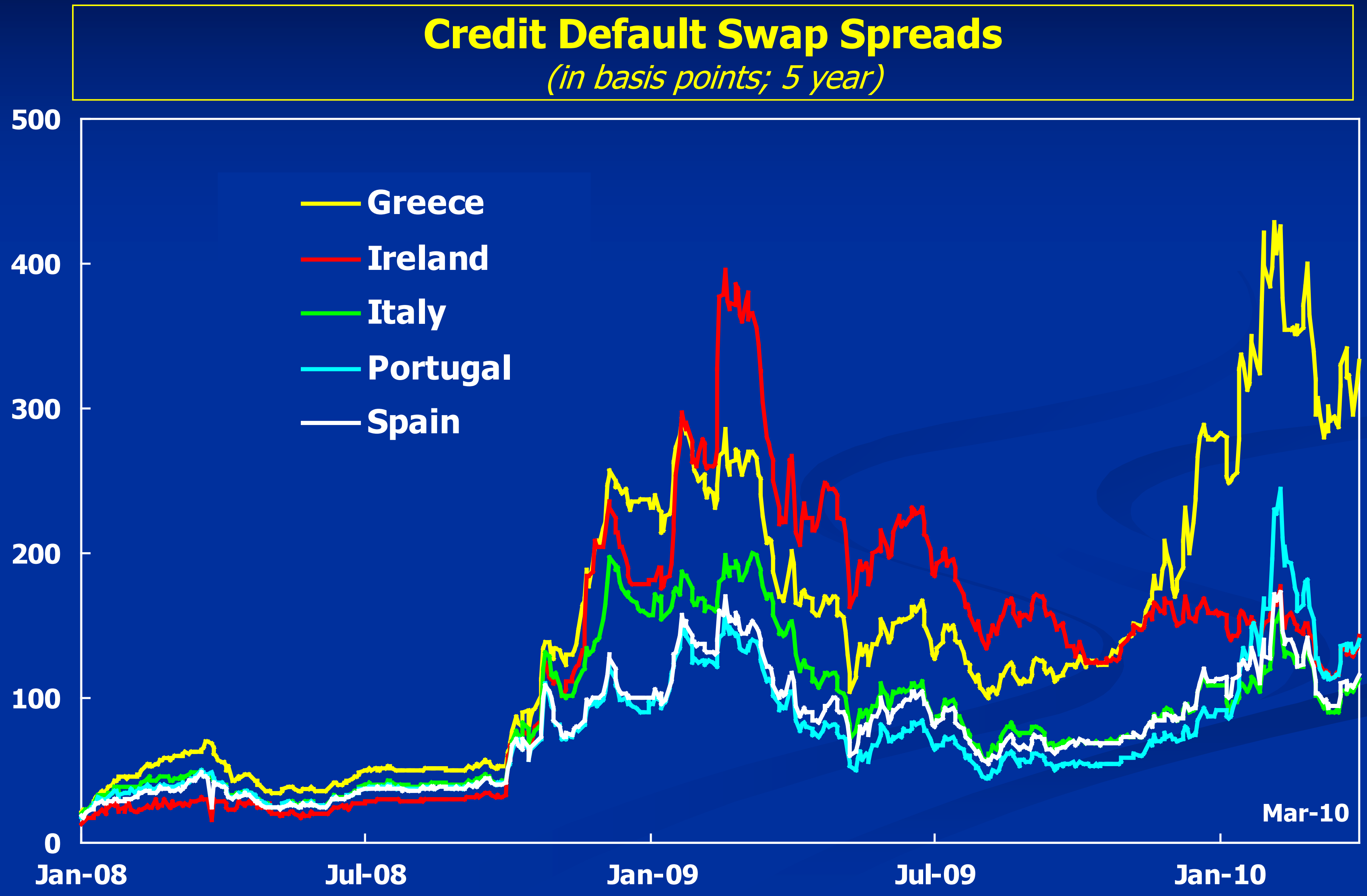
- Downside Risks:
  - Sovereign risks in advanced economies could undermine financial stability and extend the crisis.
  - Limited policy space to respond to new adverse shocks
  - Slow progress on banking sector restructuring that could unduly restrain the financial sector's ability to support the recovery by providing credit.
- Upside Risks:
  - Stronger-than-expected improvement in financial market sentiment prompting a surge in capital flows, trade, and private demand.

Fiscal risks in some advanced economies have become evident...





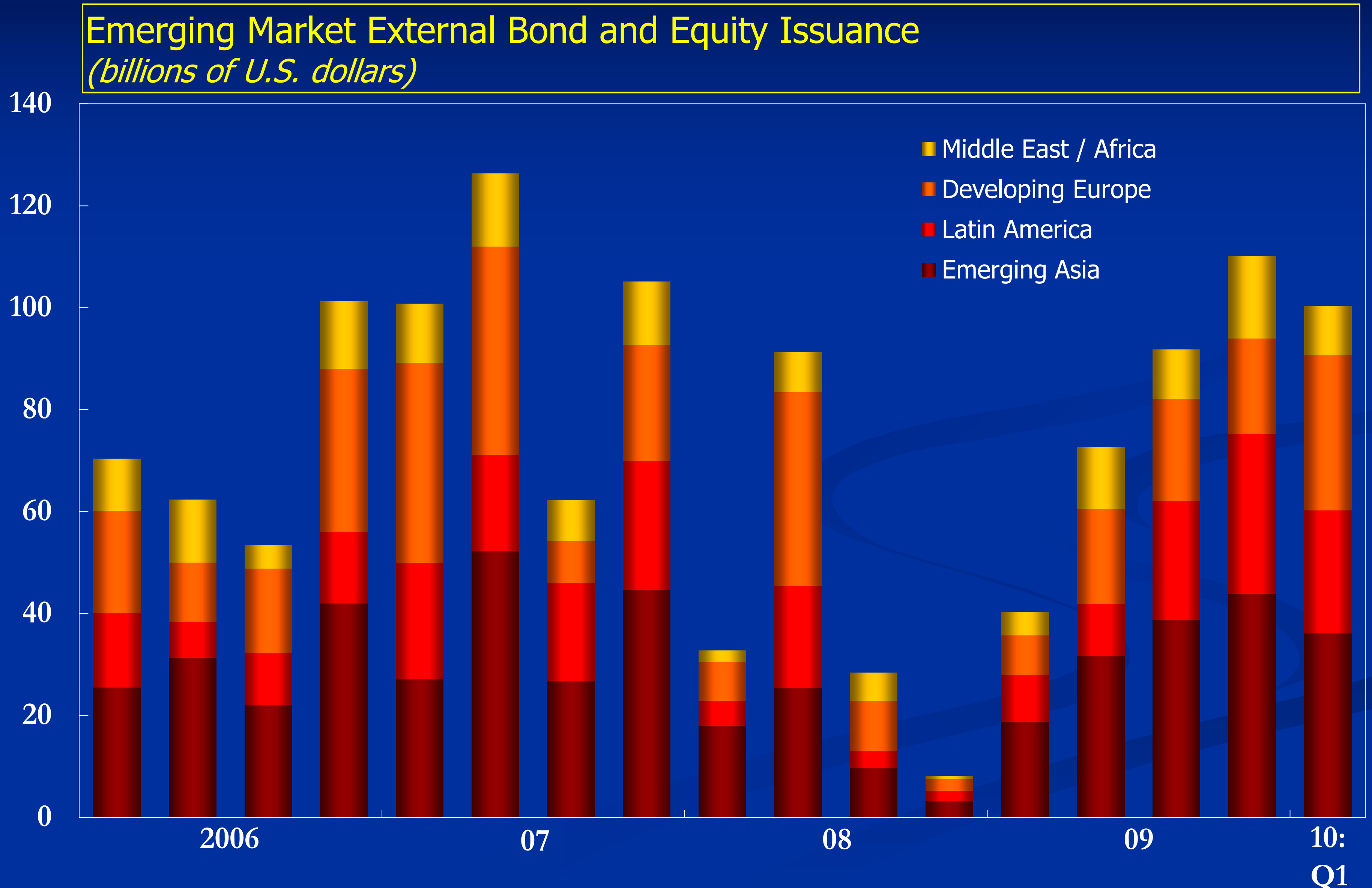
…leading to sharp increases in some sovereign CDS Spreads.



Bank credit will remain hard to come by, especially in many advanced economies…

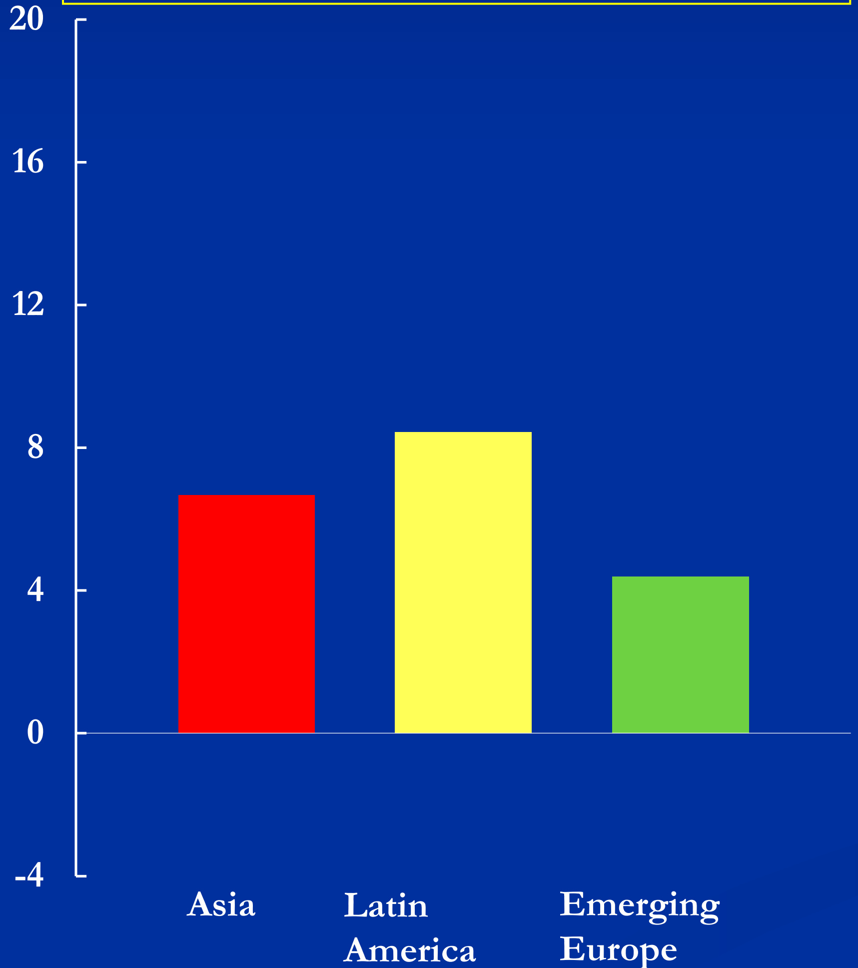
Source: Bank of England, European Central Bank, and the Federal Reserve Board.

Capital flows to emerging markets have resumed…

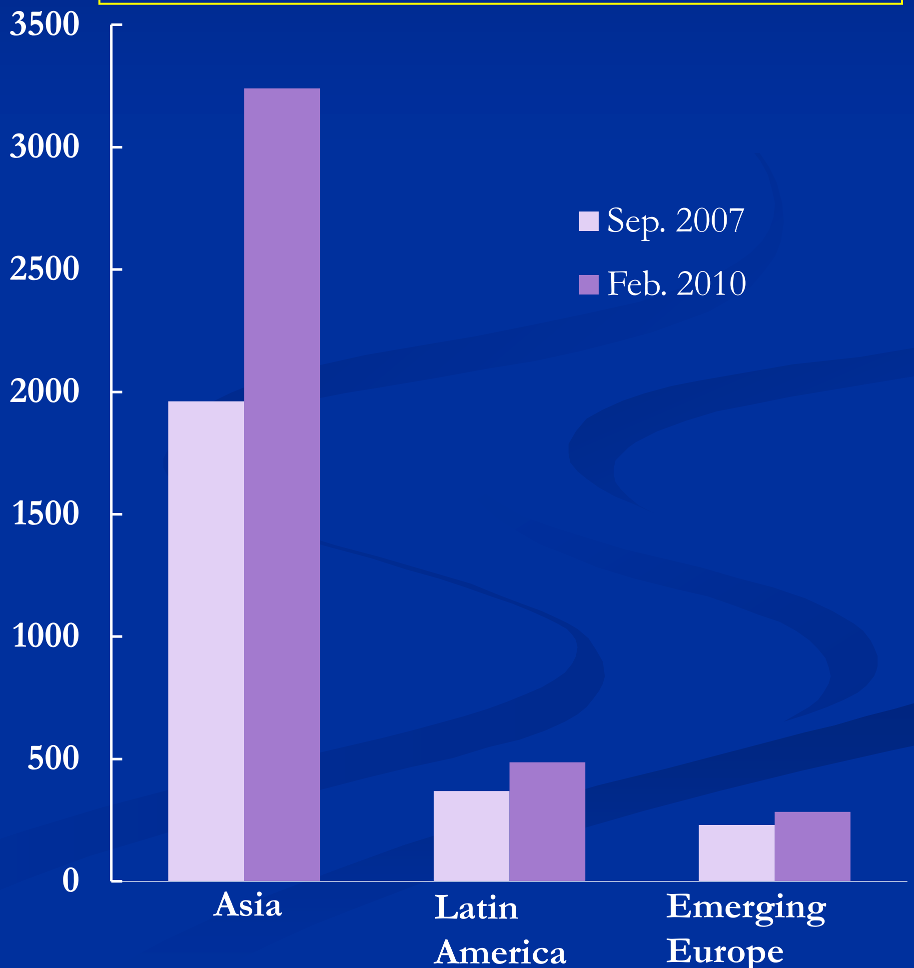


…posing policy challenges: global demand rebalancing versus reserve accumulation.

REER Change
(Percent; March 2010 from September 2007; GDP weighted)

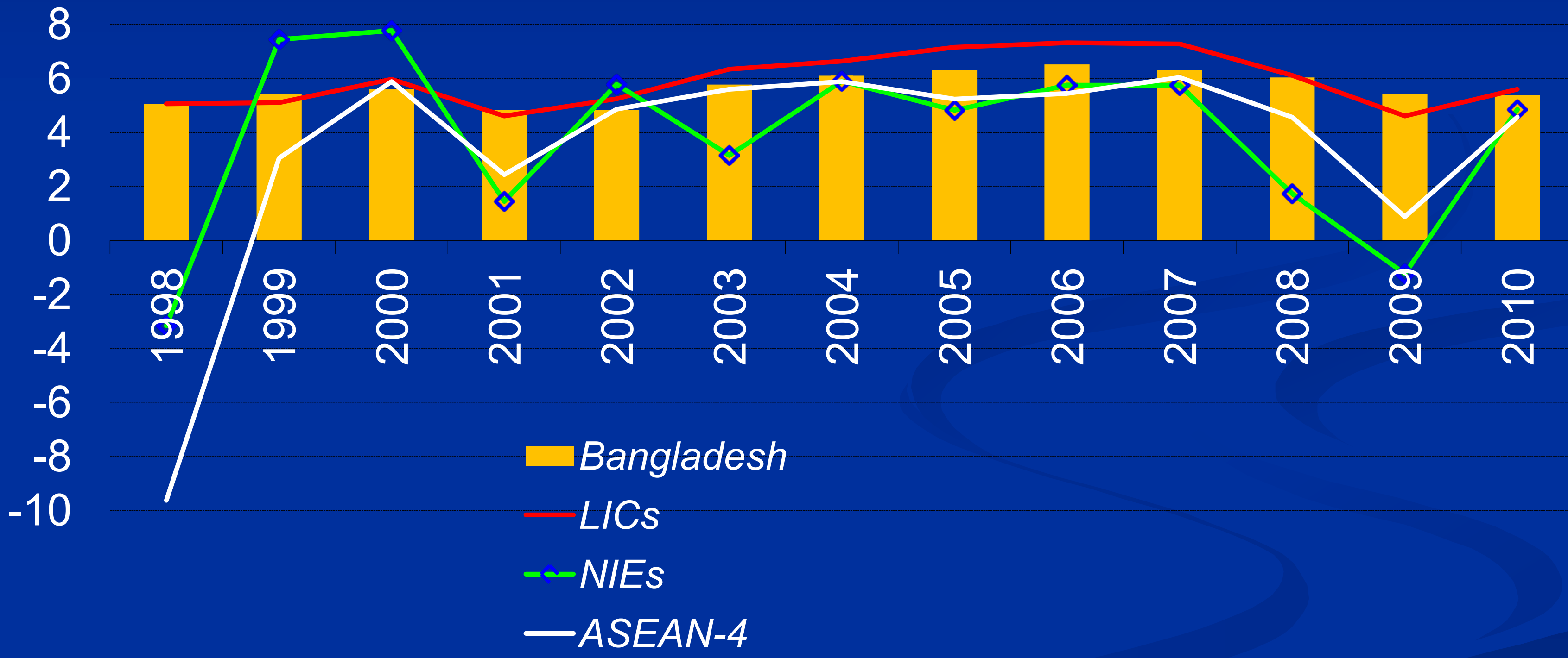


Reserve Accumulation
(billions of US dollars; September 2007 - February 2010)



Asian LICs: growth rates moderated, decline less severe than in the emerging economies

Real GDP Growth
(Year-on-year; in percent)

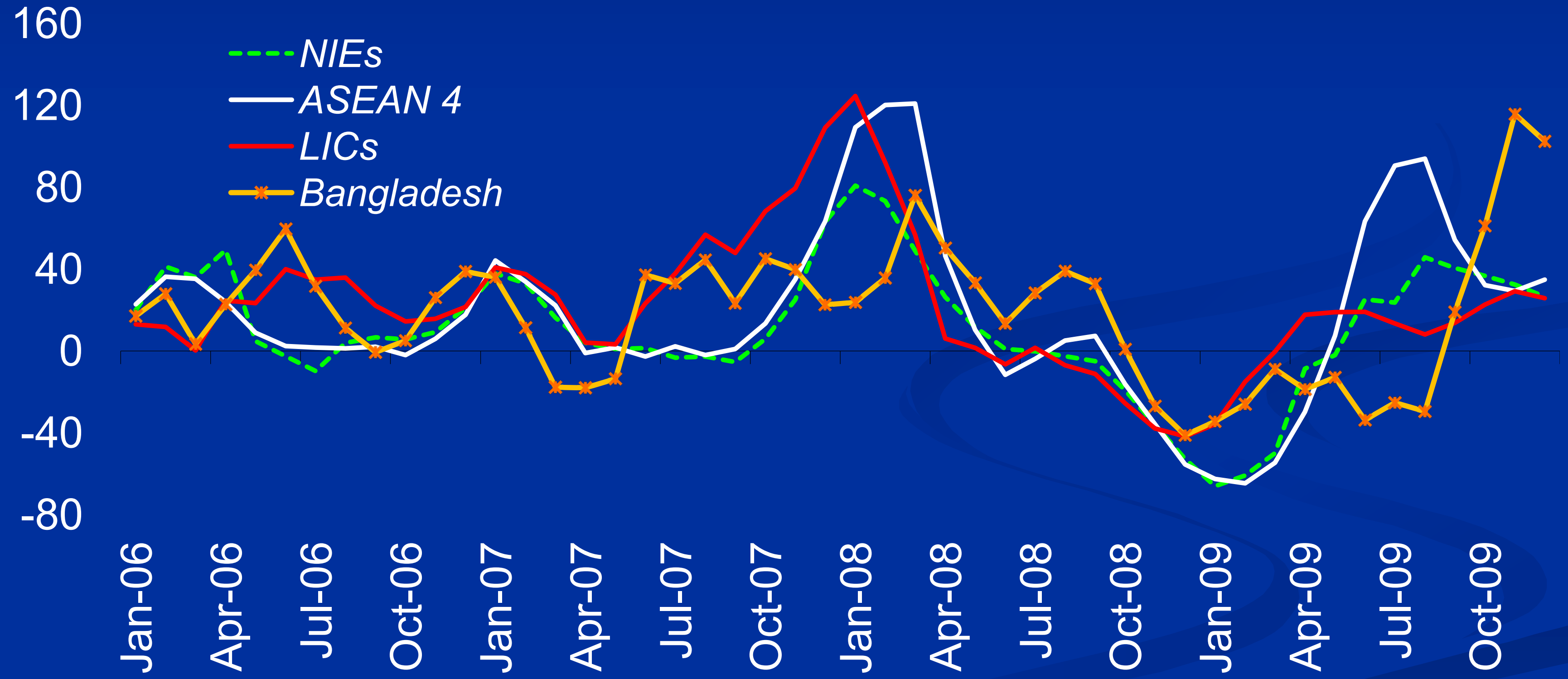


Sources: IMF, WEO database; and staff calculations.

Asian LICs: Exports held up better than emerging markets, but performed similarly

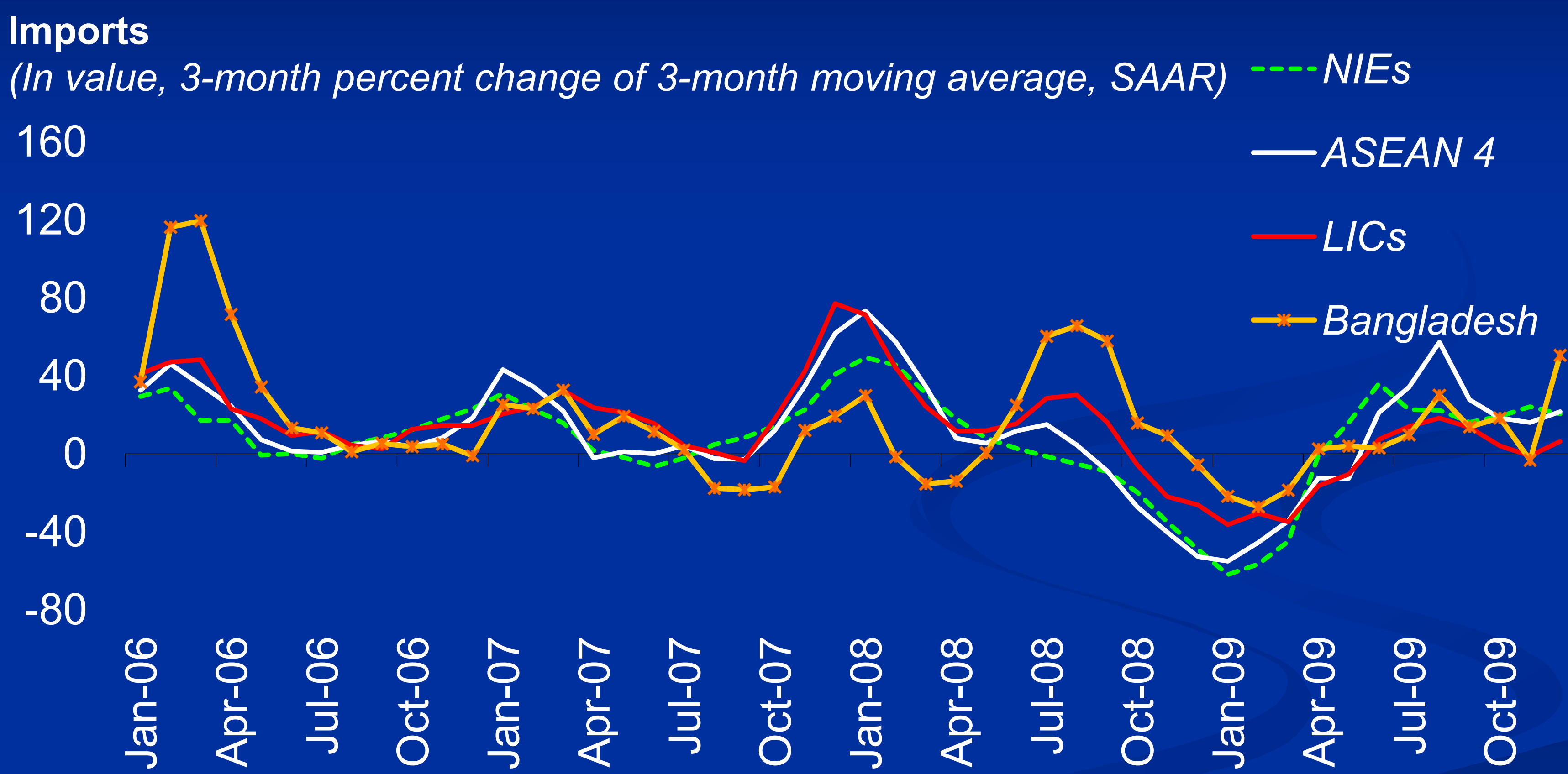
Exports

(In value, 3-month percent change of 3-month moving average, SAAR)



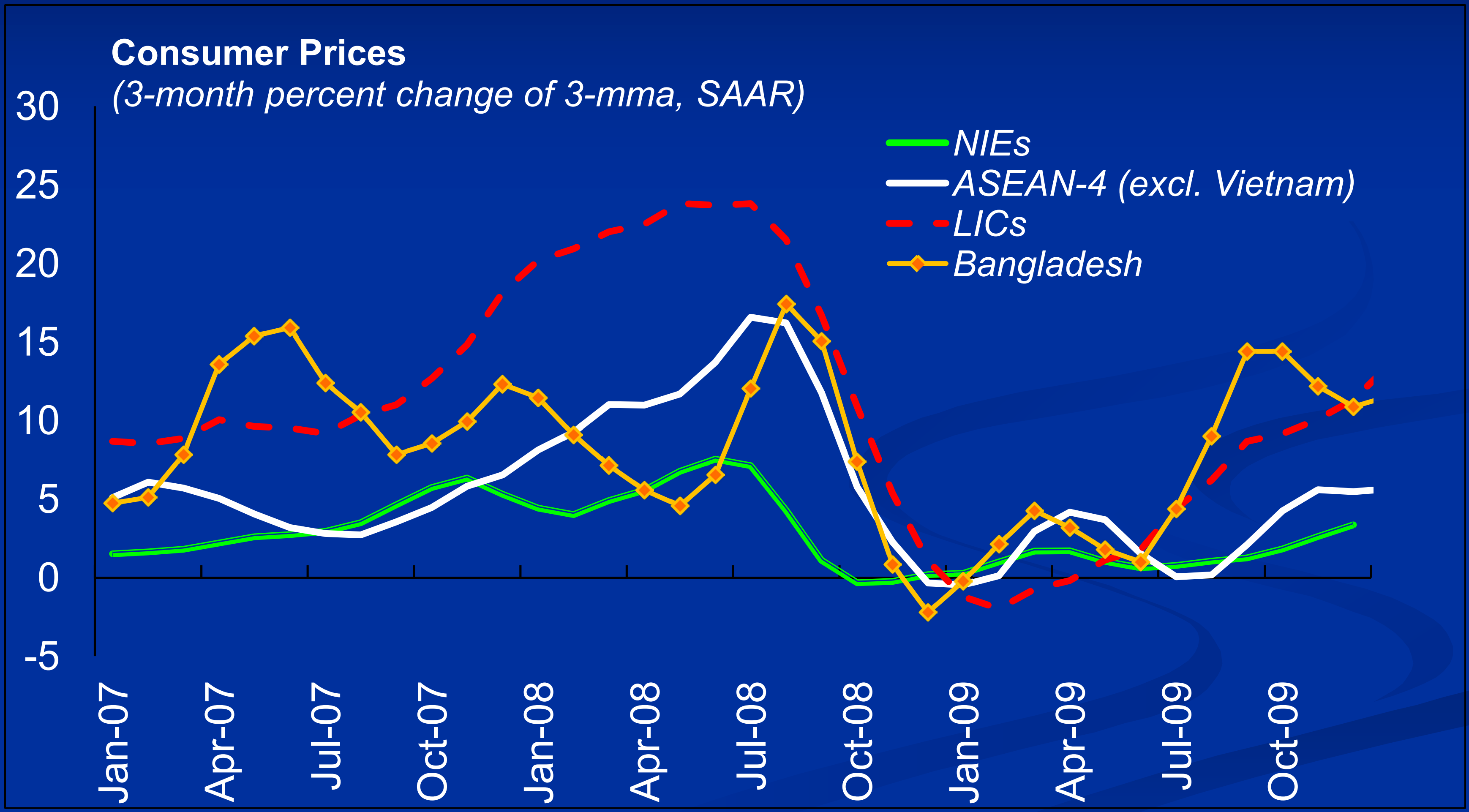
Sources: IMF, *Direction of Trade Statistics;* and staff calculations.

Asian LICs: Imports held up better than emerging markets, but performed similarly



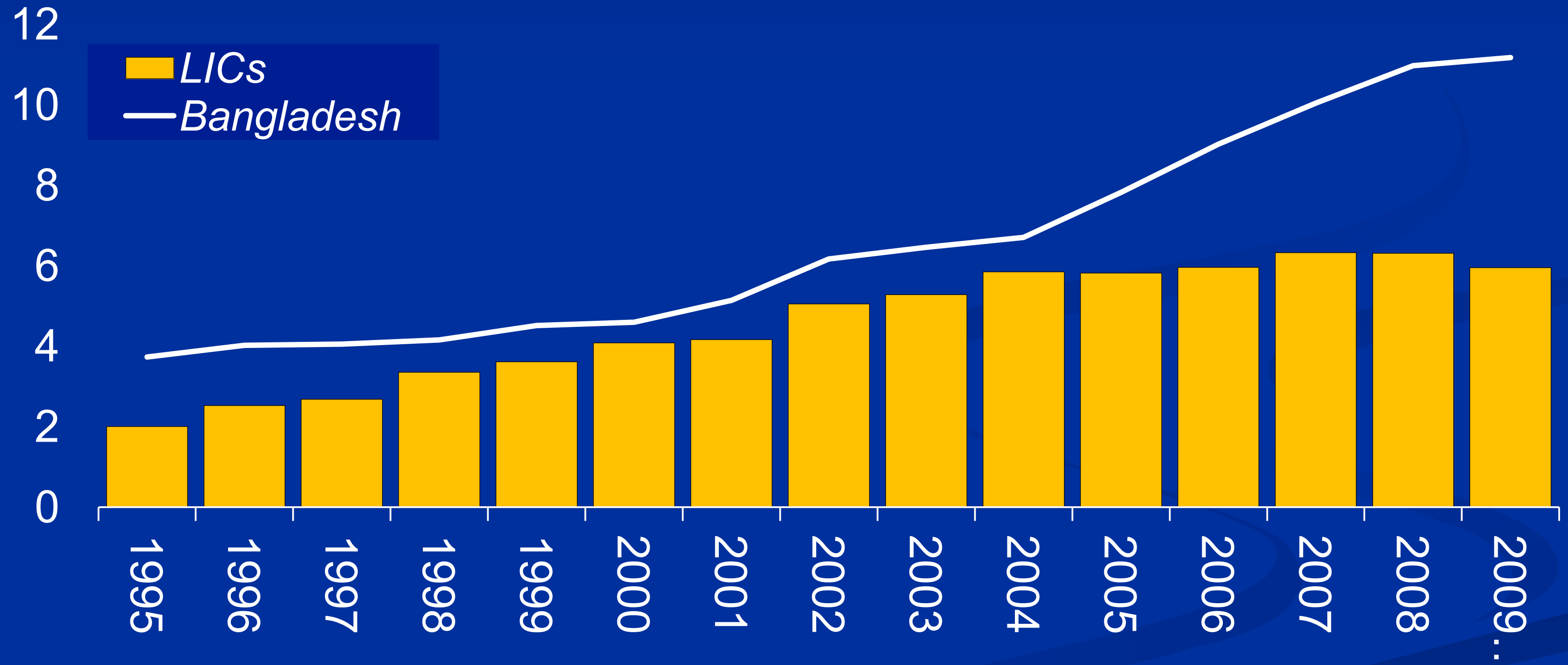
Sources: IMF, *Direction of Trade Statistics;* and staff calculations.

Asian LICs: Inflation declined from pick-2008, but is on an upward trend driven by global prices



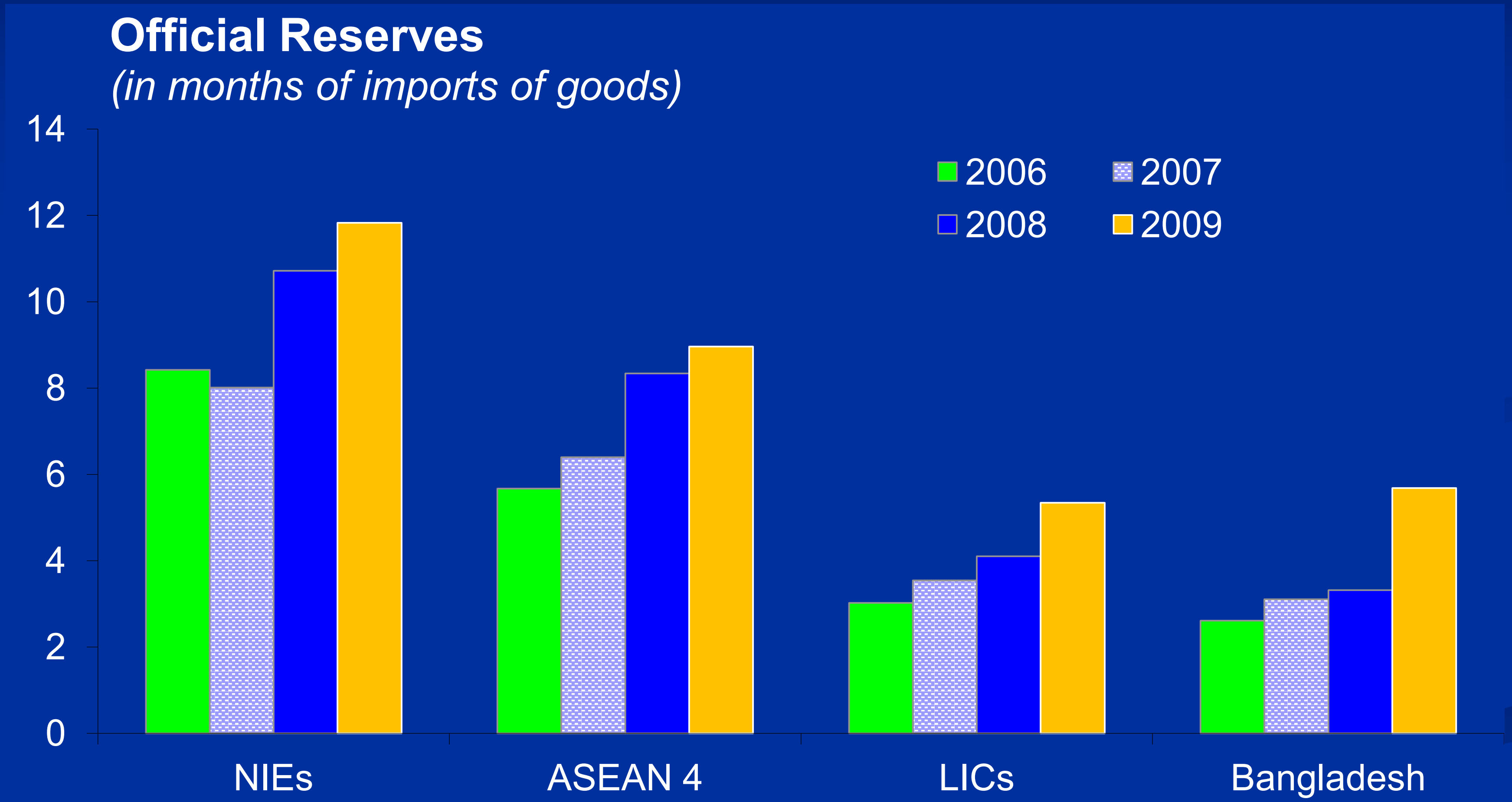
Asian LICs: Inflow of remittances remained strong

Remittances
(LIC average; in percent of GDP)

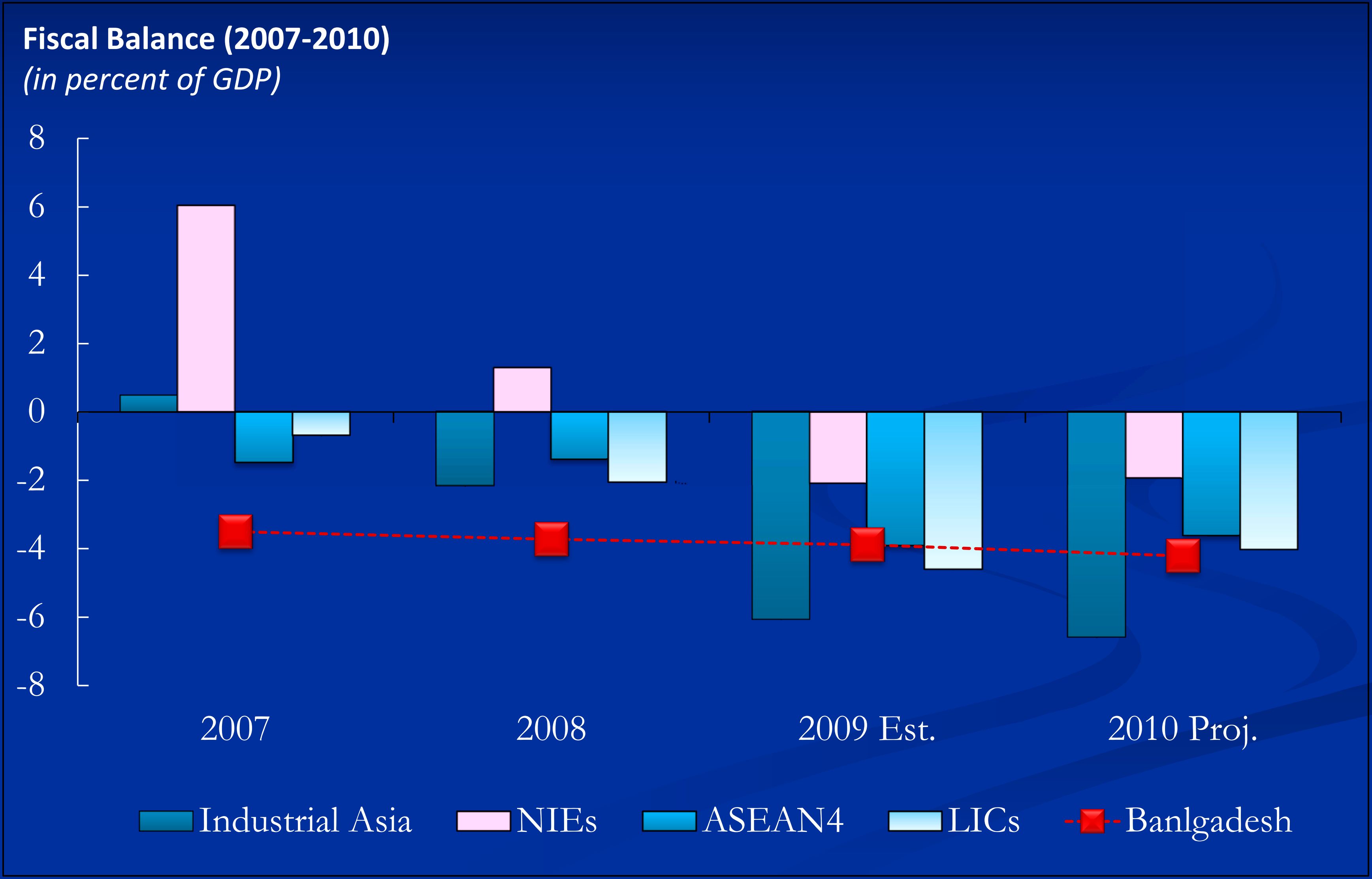


Sources: IMF, WEO database; and staff calculations.

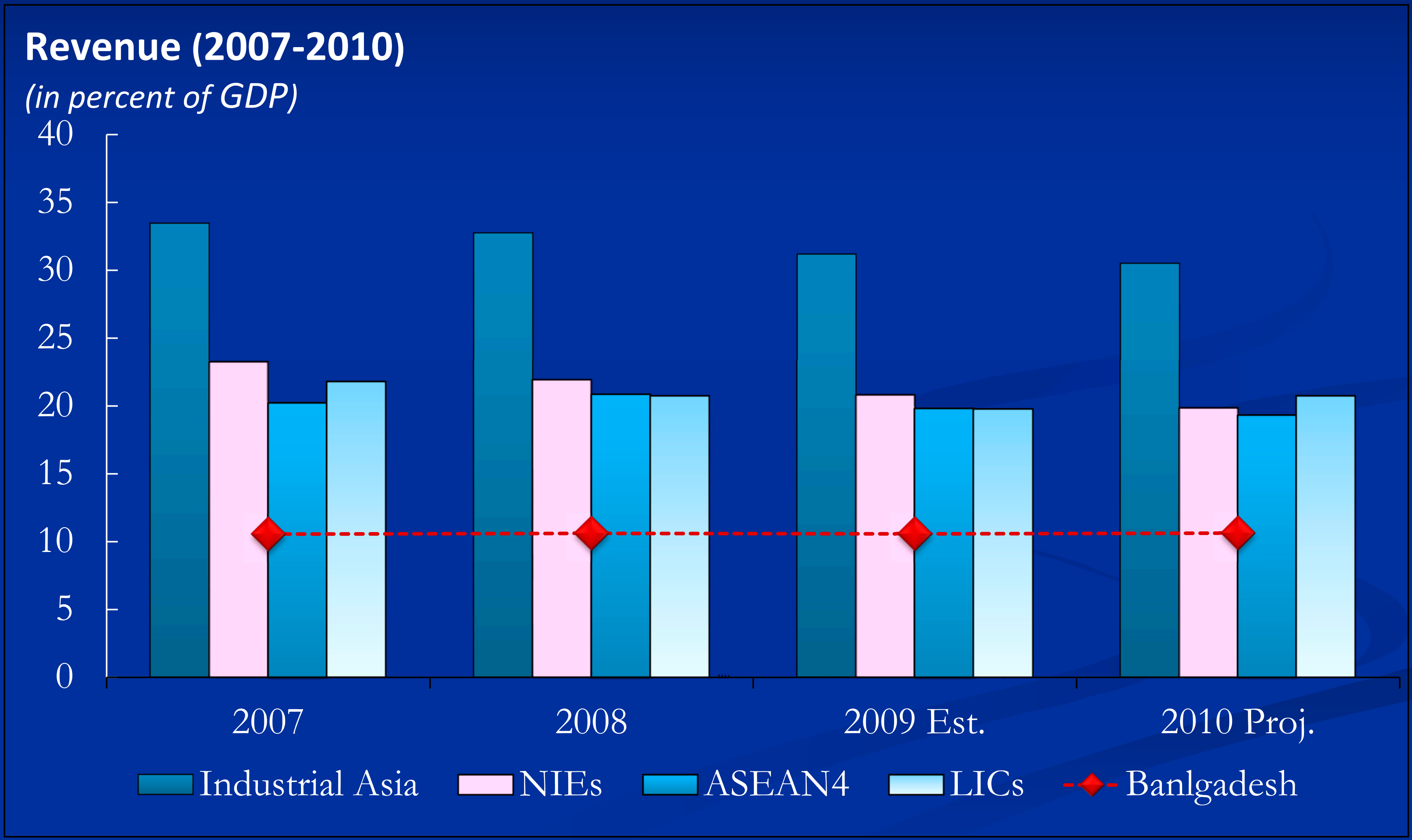
Asian LICs: … as a result, reserve coverage increased



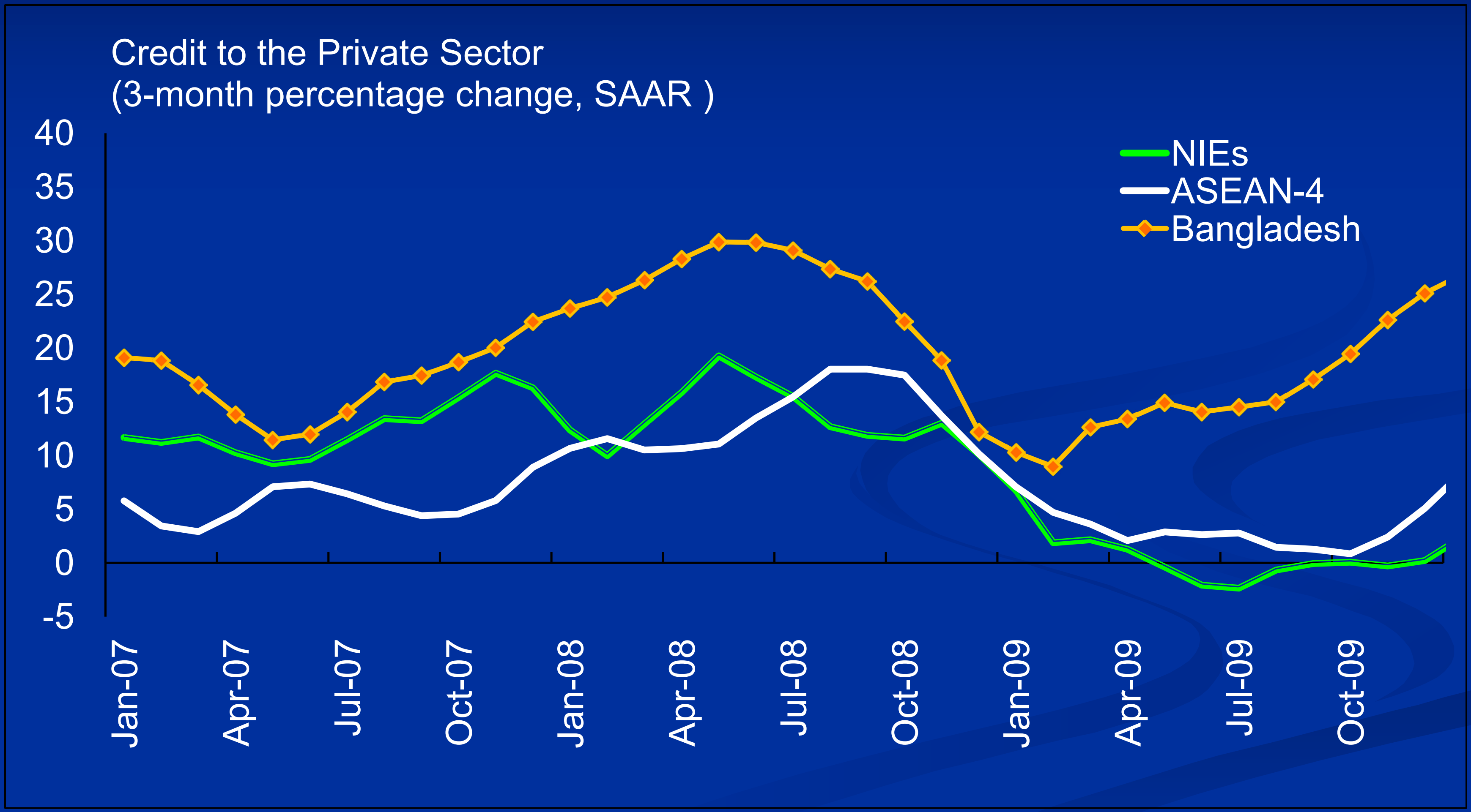
Asian LICs: fiscal policy was expansionary



Asian LICs: Revenues declined slightly, while spending was accommodative



Asia: Credit to private sector contracted, but is on recovering trend



Conclusions

- Asia is rebounding
- Trade is normalizing
- Gradual exit from accommodative stance
- Gradual MT fiscal consolidation
    - Enhanced revenue mobilization
    - Provision of social safety nets
    - Efficient public investment

IMF's Response to Crisis:

Low-Income Countries

Overview

- Role of IMF Financial Facilities for Low-income Countries
- New Architecture of Financial Facilities
- Conditionality and Debt Policies
- Current Policy challenges

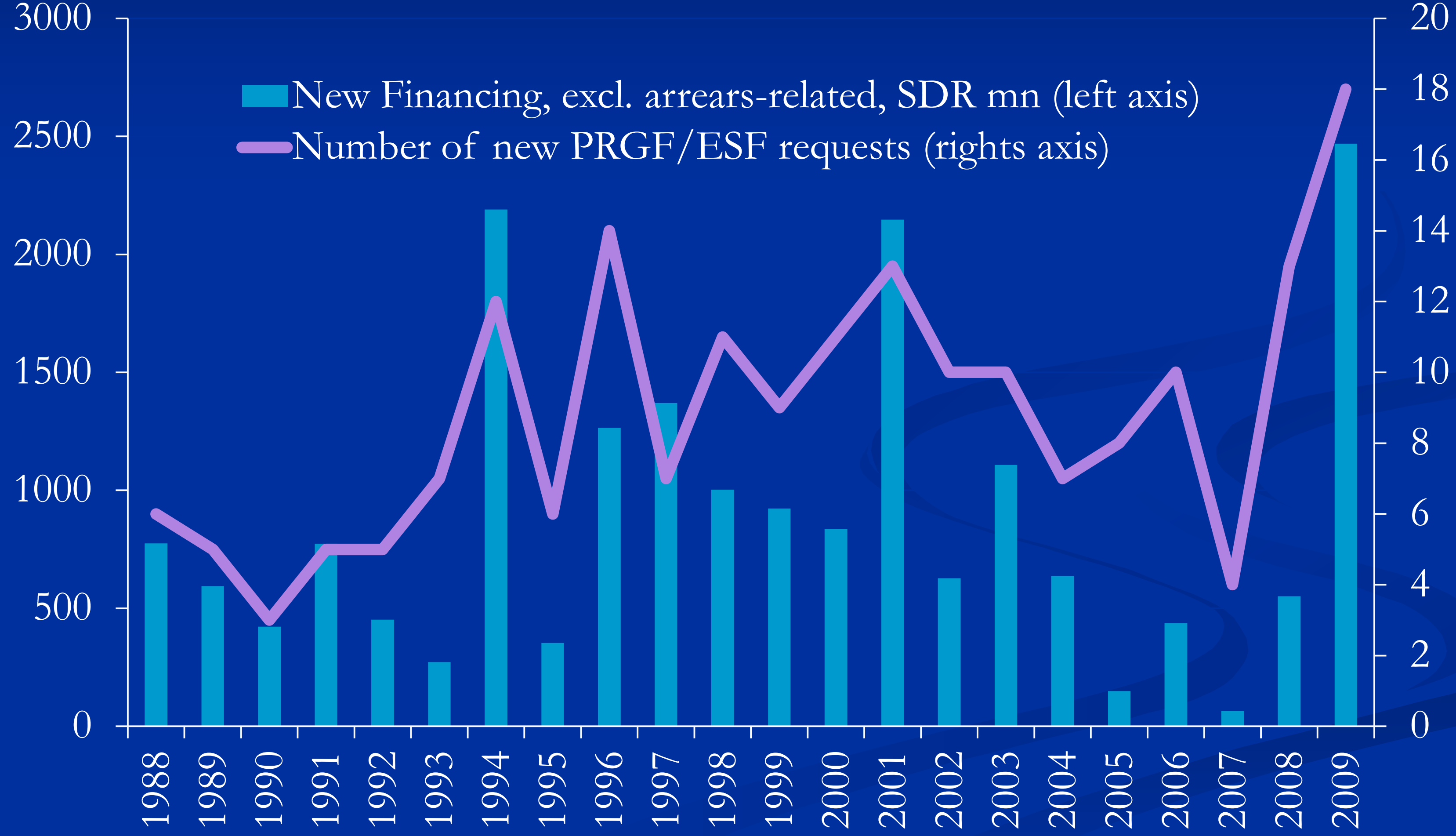
Role of IMF Financial Facilities for Low-income Countries

- IMF lending available for all members, to help overcome balance of payments problem
  - This can include its use for budget support
- Concessional facilities for low-income countries—incl. for longer-term engagement
  - Policy programs and conditionality anchored in countries' own growth and poverty reduction strategies
  - Ongoing policy dialogue and regular program updates
  - Signaling can help catalyze donor support
  - Rapid response (higher access) in case of shocks

IMF Crisis Response:
Sharp increase in concessional financial support

- 2009: IMF concessional assistance at $3.8 billion (historical: $1bn)
- Concessional lending capacity doubled, to $17 bln through 2014/15
- Financed partly by gold sales
- SDR allocation
- Zero interest on all concessional credit
- Support of countercyclical programs

IMF Crisis Response:
Concessional assistance to LICs



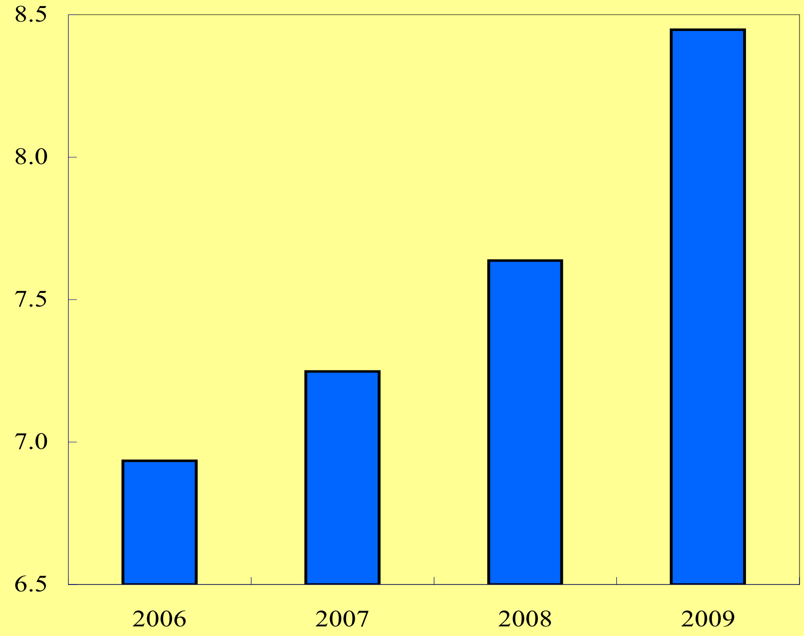
IMF Crisis Response: Policy Advice

- Fuel & Food Price Shocks
  - Pass-through price increases
  - Accommodate the first-round effects
  - Protect the most vulnerable
- Financial crisis
  - Countercyclical stimulus, where appropriate
  - Protect the vulnerable
  - Focus on key structural reforms

Emphasis on Social Protection

- Protect social spending
- Improve targeting in existing systems
- Introduce subsidies and cash transfers to the poor
- Focus on monitoring of pro-poor spending and social indicators in HIPCs

Average Social Spending for Selected Countries
(In percent of GDP) 1/



Sources: Country authorities; and IMF staff estimates
1/ Due to data limitations, based on eight countries that have reported consistent data series over time.

New Architecture of Facilities for LICs
Comprehensive reform of IMF concessional facilities

- July '09 reform makes facilities more flexible and tailored to LIC needs
  - Diverse country circumstances – fragile states to pre-emerging market
  - Gains on growth and stabilization but vulnerable to global shocks
- New Poverty Reduction and Growth Trust (PRGT), with three lending windows
- Non-financial Policy Support Instrument (PSI) broadly unchanged
- Objective: assist LICs in achieving sustainable macroeconomic position with strong and durable poverty reduction and growth

New Architecture of Facilities for LICs
Three concessional facilities for LICs

- *Extended Credit Facility (ECF)* : Flexible medium-term support for countries facing protracted balance of payments problems; succeeds PRGF

- *Standby Credit Facility (SCF)* : Short-term financial support for countries that no longer face entrenched problems, but require episodic support; can be used on a "precautionary" basis as insurance; similar to Stand-By Arrangement available to all members

- *Rapid Credit Facility (RCF)* : Rapid assistance to countries with urgent needs when ex-post conditionality is not feasible or necessary; one-off disbursements

The Extended Credit Facility (ECF)
Successor to the PRGF

- Like the PRGF, the ECF is tailored to countries facing protracted financing needs
- Compared to the PRGF, the ECF provides for:
  - Lower interest rate (initially zero)
  - More flexible timing of PRSP
  - More flexible structural conditionality focused on long-term goals
  - Global access policies consistent across all facilities
  - More flexible options for extending support : up to five years per arrangement

The Standby Credit Facility (SCF)
A concessional Short-Term Facility

- Similar to the Stand-By Arrangement (SBA), the Fund's main lending tool used by middle-income countries
- Provides flexible support to LICs with short-term financing and adjustment needs
- Supersedes Exogenous Shocks Facility High Access Component
- Targeted at countries that no longer face protracted balance of payments problems, but may need episodic assistance
- Can also be used on a precautionary basis to provide insurance

The Rapid Credit Facility (RCF)
A New Emergency Facility

- Provides rapid financial support in a single up-front disbursement for countries facing urgent financing needs
- No "ex-post" conditionality, relatively low access
- For cases where Upper Credit Tranche conditionality not needed (e.g. exogenous shock), or not feasible (low-capacity fragile situations)
- Highly flexible -- supersedes three emergency facilities

The Policy Support Instrument (PSI)
Non-Financial Support

- Established in 2005, PSI remains broadly unchanged
- Supports low-income countries that have secured macroeconomic stability and do not need Fund financial assistance
- Supports country-owned poverty reduction and growth strategies, with more flexible documentation requirements
- Can also be used concurrently with some financial facilities: presumption of access to SCF if PSI on-track

New Architecture of Facilities for LICs
Access and financing terms

- Global *access limits and norms* :
  - Equitable allocation of concessional financing to LICs
  - Access limits roughly twice the pre-crisis level : 100 % of quota annual; 300 % of quota cumulative
  - Exceptional access and blending with GRA possible
  - Sub-limits for RCF and precautionary use of SCF
- More concessional support :
  - Lower interest rates (now zero or ¼ percent)
  - Periodic adjustments to limit fluctuations in concessionality
  - Exceptional interest relief on all concessional Fund credit through end-2011 to assist LICs during crisis

New Architecture of Facilities for LICs

Support of poverty reduction and growth reinforced

- All instruments support country-owned poverty reduction and growth strategies
- Explicit link between Fund-supported programs and poverty reduction and growth objectives
- Safeguards on social and other priority spending, including through explicit program targets
- Strong donor coordination
- More flexible documentation

Conditionality and Debt Policies

- Structural conditionality more focused on macro critical areas
- Binding structural conditions and wage ceilings abolished (review-based)
- Debt limits more flexible to meet infrastructure gaps
- Improved DSA

Using IMF lending for the Budget

- The IMF normally lends to the central bank
- These resources can be used to raise central bank reserves, or for domestic lending—to the private sector or the government
- Such "indirect" lending to the government has been common in IMF-supported programs
- What is new: more lending directly to the treasury (e.g., with greater central bank independence)
- And: more attention, with global crisis

Current Policy Challenges:
Managing Volatility

- LICs more exposed to economic shocks, natural disasters than others
- While global integration supports development, risks of volatility need to be managed
- Climate change entails further risks
- LICs generally under-insured
- But cost of holding reserves high
- Need (i) policy buffers and (ii) concessional shocks support

Current Policy Challenges:

How to re-build policy buffers

- First, do no harm: avoid premature or overly rapid fiscal tightening
- Then, strengthen fiscal positions: focus on revenue growth rather than spending cuts
- Borrow for high-return investment
- Avoid overreliance on debt-creating capital inflows, develop local savings and financial sectors

Thank you!