



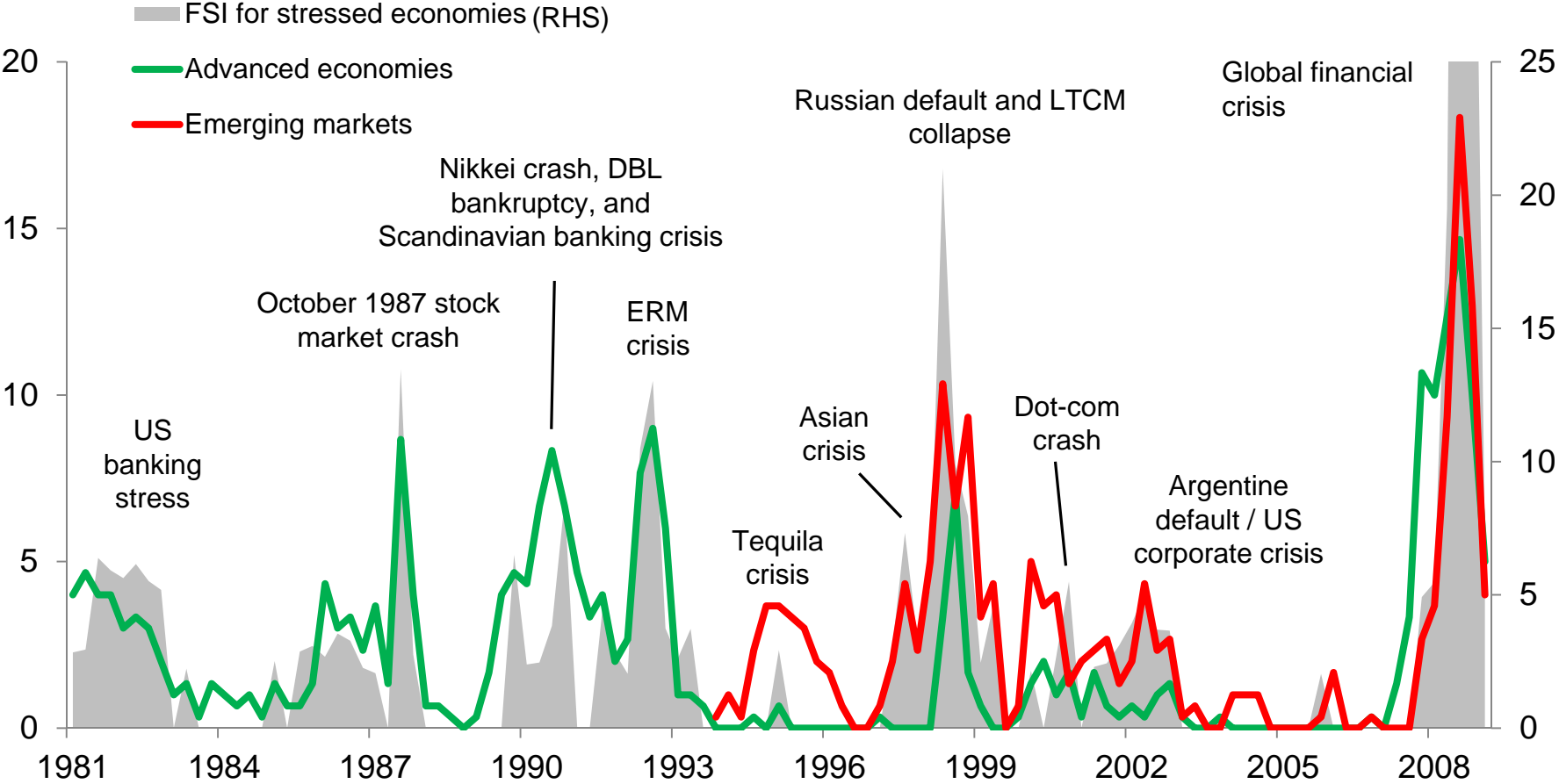
Strengthening the Global Financial Safety Net

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December 9, 2014



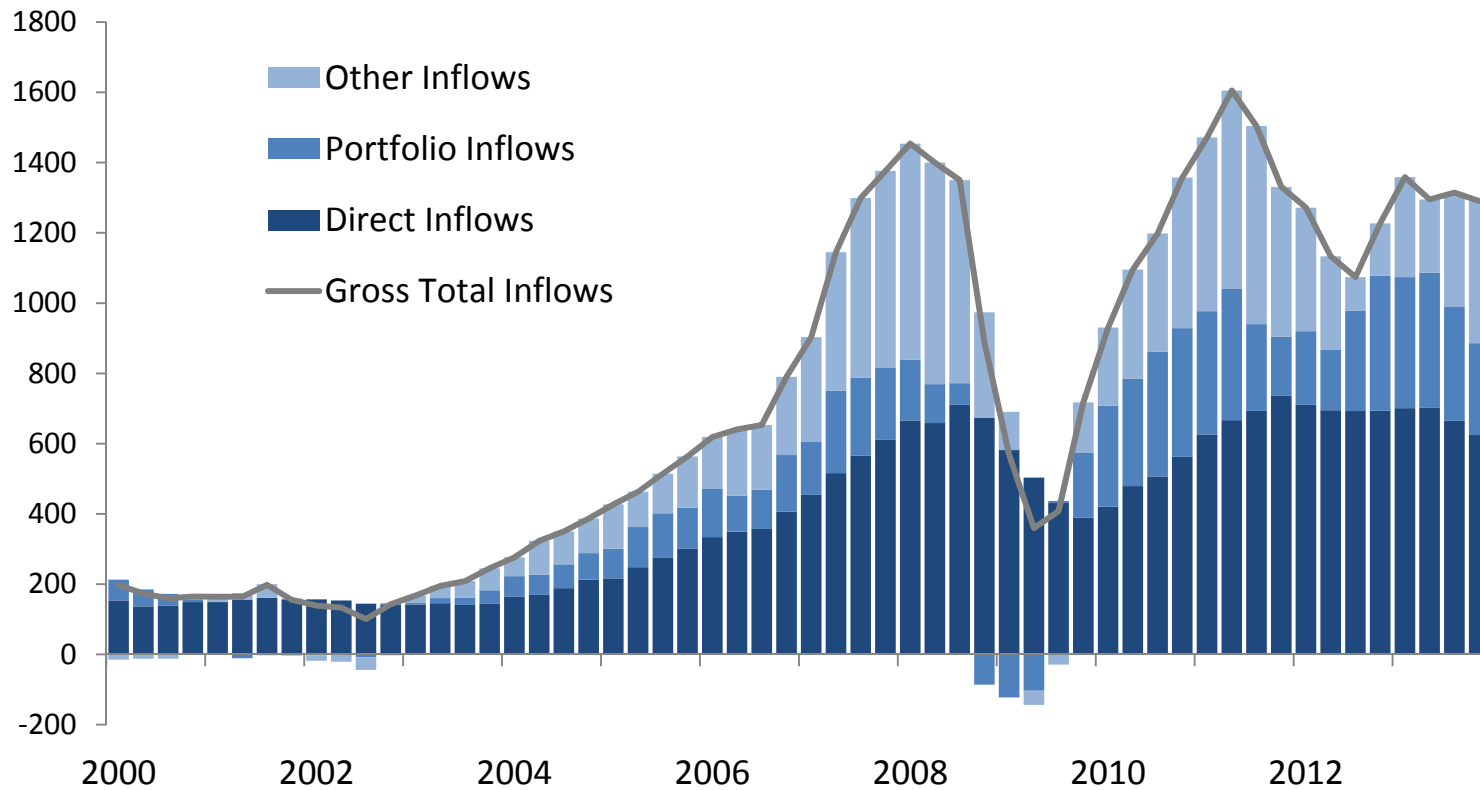
Systemic crises are not rare



Capital flow volatility continues to pose risks to EM economies



Gross Capital Flows to EMs
(In billions of USD)



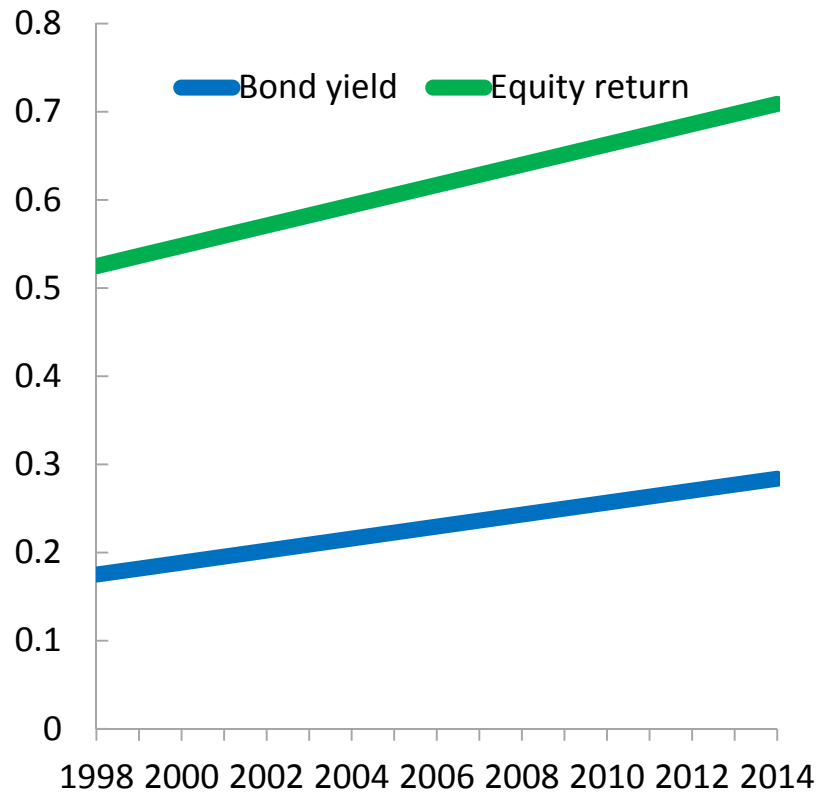
Source: FFA and IMF staff calculations.

Potential for global spillovers has increased



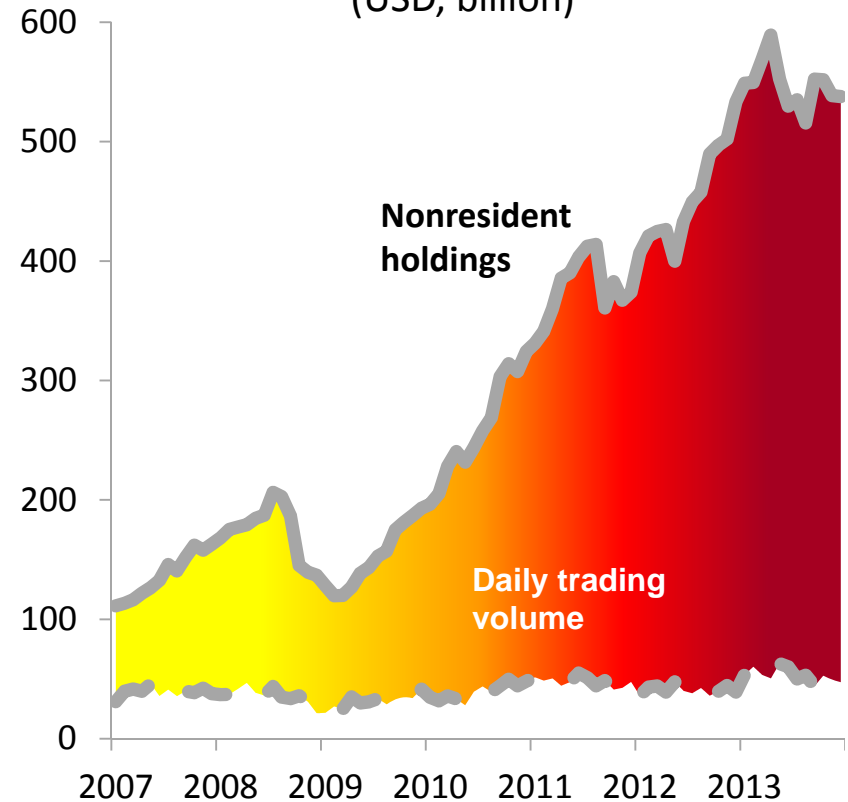
Increased co-movement in asset prices

Correlation between EM and AM asset prices (linear trend)




Increased liquidity risks

EM local government bonds (USD, billion)



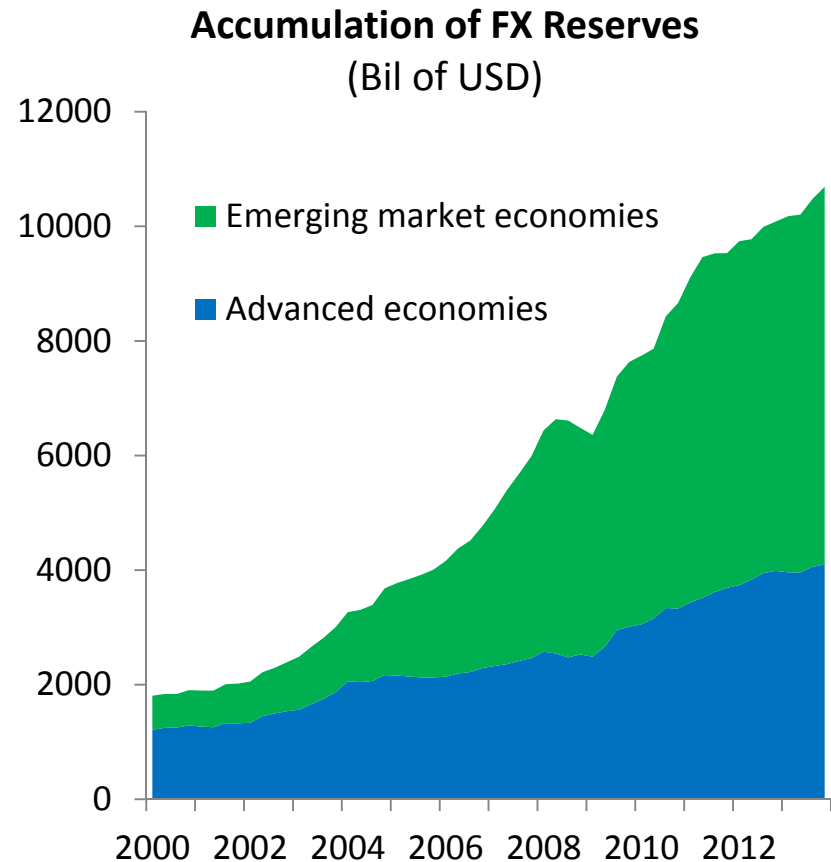
Sources: IMF Global Financial Stability Report, Fall 2014 and Fund staff calculations..

A multi-layered global safety net has emerged

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- ❑ Self-insurance
 - Reserve accumulation
 - ❑ Bilateral
 - Bilateral swap lines
 - ❑ Regional
 - RFAs and BRICS CRA
 - ❑ Global
 - IMF and other IFIs
 - ❑ There are important synergies across these four layers, but fragmentation has also increased

Self insurance

- ❑ Sizable increase in reserves
- ❑ Reserves can bring important benefits in terms of mitigating crises
- ❑ But can also result in inefficiencies
 - Holding excessive reserves can be costly
 - Potential market distortions (excess demand for safe assets)
 - They may never be enough (race to the top)



Source: IFS and IMF staff calculations.

Bilateral Swaps

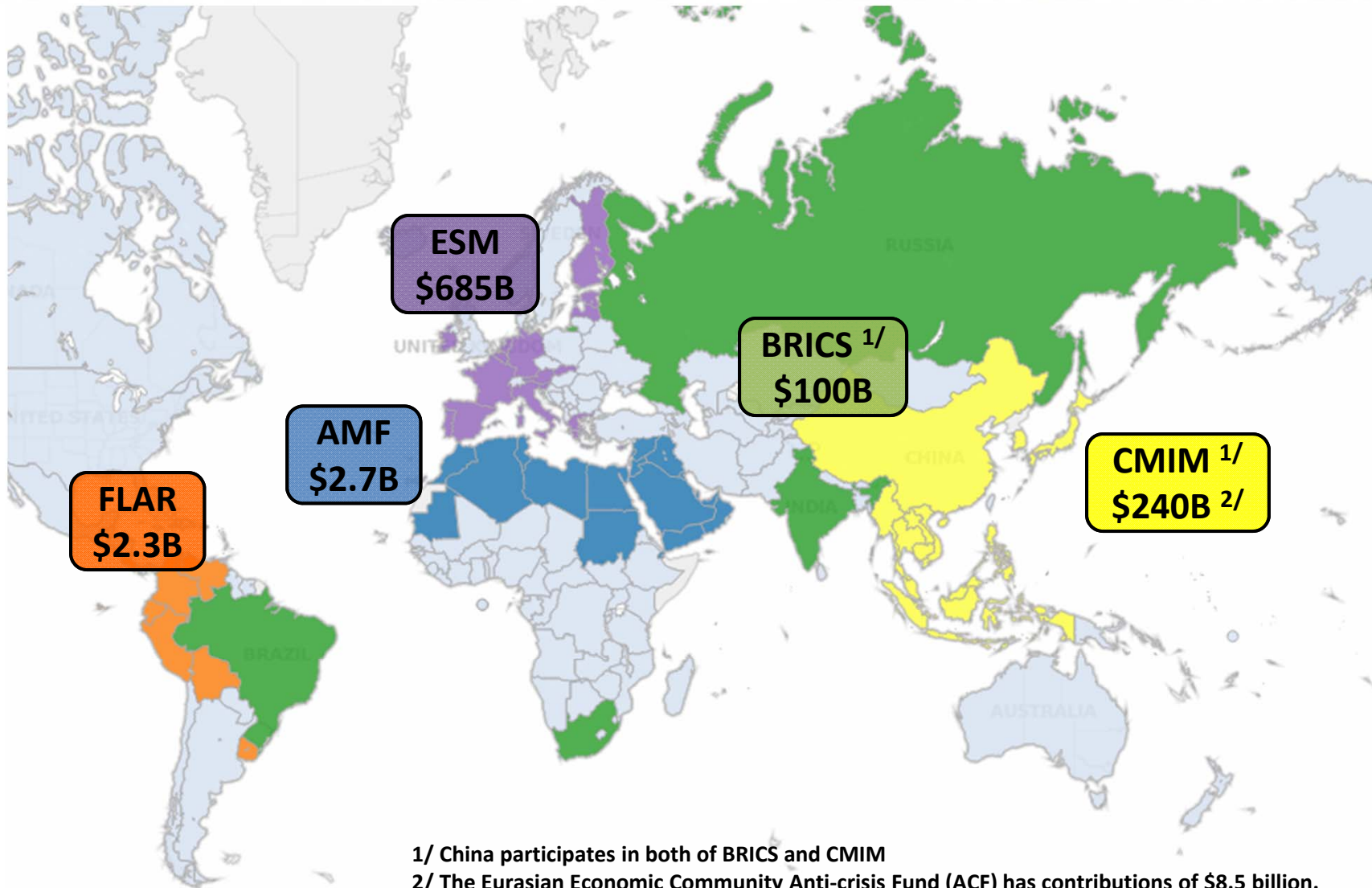
- Potential for unconstrained supply
- Provision of FX liquidity, with limited/or no stigma
- Uncertain availability (concerns about credit risk and consistency with central bank mandate)
- Subject to national preferences/interests

Regional Financing Arrangements



- (Most) relatively limited in size
- Unconditional support? How to deal with credit risk
 - Some rely on IMF programs/endorsement
- Governance
- Less stigma?

RFAs have expanded since the global financial crisis



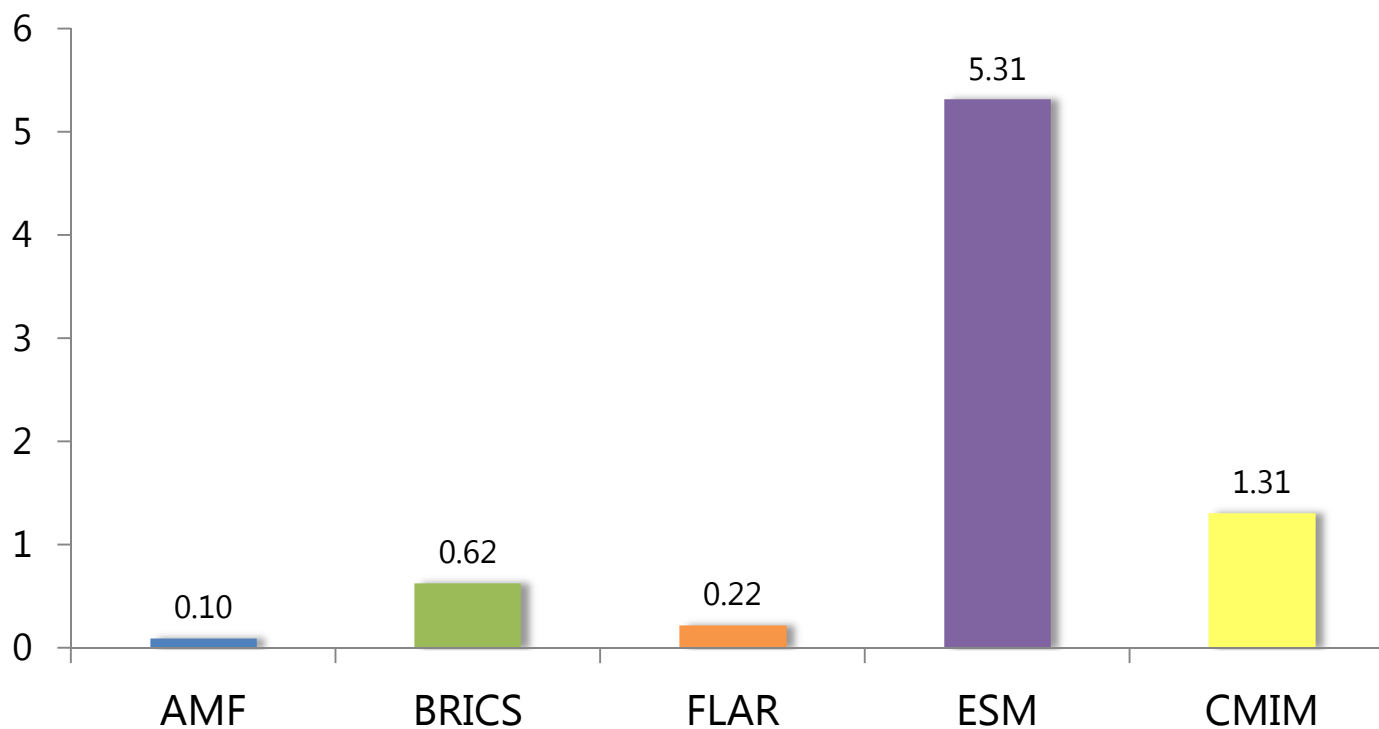
1/ China participates in both of BRICS and CMIM

2/ The Eurasian Economic Community Anti-crisis Fund (ACF) has contributions of \$8.5 billion.

Size of RFAs varies



Size of RFA Relative to Region's 2013 GDP
(In percent)



Source: RFA websites and IMF staff calculations.

IMF reforms were a central part of the response to strengthening the GFSN

- Quadrupled resources
- Two new instruments (FCL and PLL)
- Enhanced flexibility of existing instruments
- Still relatively limited demand for precautionary instruments
 - Stigma limits role played by the Fund
 - Duration/exit issues for FCLs?

Options to strengthen the GFSN

—Many proposals but still many questions



- How to prevent fragmentation?
- Cooperation between/with RFAs
 - How to strengthen coordination? Co-financing?
 - G-20 Principles for Cooperation between the IMF and RFAs
- Support for central bank swap lines
- Options to enhance the use of Fund instruments



Thank you