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G-20 SUMMIT

World Leaders Launch Action Plan to Combat Financial Crisis

Leaders of the world's major economies have drawn up an action plan to combat the burgeoning financial crisis and pull the global economy back from one of the worst downturns in decades.

Leaders of the Group of 20 (G-20) industrialized and emerging market economies announced a series of immediate and longer-term actions to stabilize the financial system, stimulate domestic demand, help emerging and developing economies battered by the crisis, and strengthen the regulatory framework. They said they would hold a second summit by April 30, 2009.

They stressed their commitment to ensuring that the International Monetary Fund (IMF), the World Bank, and other multilateral financial institutions have sufficient resources to continue playing their role in overcoming the crisis. Japan has announced its intention to lend the IMF an extra $100 billion to boost its resources.

(continued on page 171)

Stephen Jaffe/IMF

G-20 leaders gathered in Washington, D.C., on November 14–15 to agree on a global plan for stabilizing the financial system.

IMF Launches Short-Term Lending Facility

The IMF has created a new short-term lending facility to channel funds quickly to emerging markets that have a strong track record but that need rapid help during the current financial crisis to get them through temporary liquidity problems.

Jens Norgaard Larsen/Scanpix Danmark

New loan facility will help IMF members fortify defenses against temporary capital account outflows.

In a press announcement, the IMF said the Short-Term Liquidity Facility (SLF) is designed to help emerging market countries with a track record of sound policies address the fallout from the crisis. The new facility, approved by the IMF's Executive Board on October 29, comes with no conditions attached once a loan has been approved and offers large up-front financing to help countries restore confidence and combat financial contagion.

"Exceptional times call for an exceptional response," said IMF Managing Director Dominique Strauss-Kahn. "The Fund is responding quickly and flexibly to requests for financing. We are

(continued on page 170)

IMF Approves Loans for Hungary and Ukraine

The IMF has announced loans totaling more than $32 billion for Hungary and Ukraine, which have both been hit by the effects of global financial turmoil (see page 174).

Also in this issue

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Address editorial correspondence to:

Current Communications Division
Room 7-106, IMF, Washington, DC 20431 U.S.A.
Tel.: (202) 623-8585; or e-mail any comments to imfsurvey@imf.org.

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Short-Term Lending Facility

(continued from page 169)

offering some countries substantial resources, with conditions based only on measures absolutely necessary to get past the crisis and to restore a viable external position," he said.

Until recently, emerging markets were one of the few bright spots left in a world economy hit by massive deleveraging, failing banks, and corporate profit warnings. But now, the crisis is spreading beyond the advanced economies where it originated, with emerging markets all over the world suffering from the squeeze in global financial markets. The IMF has already reached financing agreements with Hungary and Ukraine, and is in advanced talks with several other countries.

The SLF will allow the IMF to help its members at a critical time. "Even countries that have excellent track records of implementing strong macroeconomic policies have been caught up in the global financial market crisis. They need support, and the IMF is ready to give it," Strauss-Kahn said.

"The SLF will support the authorities' efforts to reduce the impact of the crisis. Approval of a request for support under the SLF will help members fortify defenses against temporary capital account outflows, boost confidence, and provide needed policy space," he said.

Despite the current surge in demand for IMF resources, there is a growing recognition that the Fund's traditional facilities may not be the optimal means of addressing short-term balance of payments pressures in every case.

"While existing Fund loan facilities offer flexibility, they are fundamentally used for countries that require both financing and policy adjustment, and not for countries that despite strong initial macroeconomic positions and policies are facing short-term liquidity pressures. This facility addresses that gap in the Fund's toolkit of financial support," Strauss-Kahn said.

The unique features of the SLF will address the needs of emerging market countries more directly than would a traditional IMF stand-by arrangement:

- ***Purpose.*** Provide large, up-front, quick-disbursing, short-term financing to help countries with strong policies and a good track record address temporary liquidity problems in capital markets.
- ***Eligibility.*** Countries with a good track record of sound policies, access to capital markets, and sustainable debt burdens may qualify (the IMF's standard debt sustainability analysis should indicate a high probability that both public and private debt will remain sustainable). Policies should have been assessed very positively by the IMF's most recent country assessment.
- ***Conditions.*** Financing is made available without the standard phasing and loan conditions of more traditional IMF arrangements. However, borrowers are expected to certify that they are committed to maintaining strong macroeconomic policies.
- ***Size of loan.*** Disbursement of IMF resources can be up to 500 percent of quota, with a three-month maturity. Eligible countries are allowed to draw up to three times during a 12-month period.

The IMF's liquidity currently stands at historically high levels. But this could rapidly change as the IMF approves new lending under its more traditional facilities, and if there is wide demand for the SLF. "The IMF will respond with all the necessary financing," Strauss-Kahn said. "We are prepared to use our own resources and to work with others to generate additional resources to make sure that countries have the money they need to restore confidence and maintain stability."

The new facility is part of a wider review of the IMF's financing role in member countries, launched earlier in 2008 to make sure the Fund has the right instruments to meet countries' needs in a world characterized by growing—and increasingly complex—cross-border financial flows. ■