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A STRONGER INTERNATIONAL MONETARY SYSTEM: Filling Gaps in the Global Financial Safety Net

The Central Bank of Iceland
The Reinventing Bretton Woods Committee
September 15, 2017



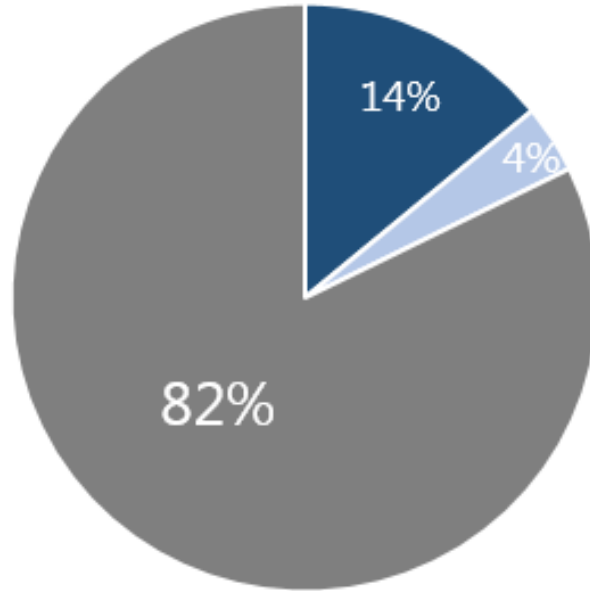
Contents

- Changing contours of the global economy and growing demand for liquidity
- An evolving global financial safety net (GFSN), but with remaining weaknesses
- Strengthening the GFSN by enhancing Fund-RFA cooperation and further reforming the Fund toolkit

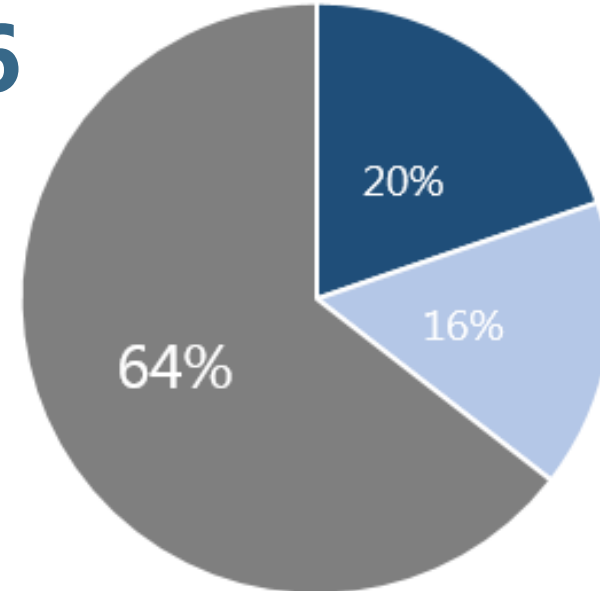
CHANGING CONTOURS OF THE GLOBAL ECONOMY

Rising EM contribution to global output

2000



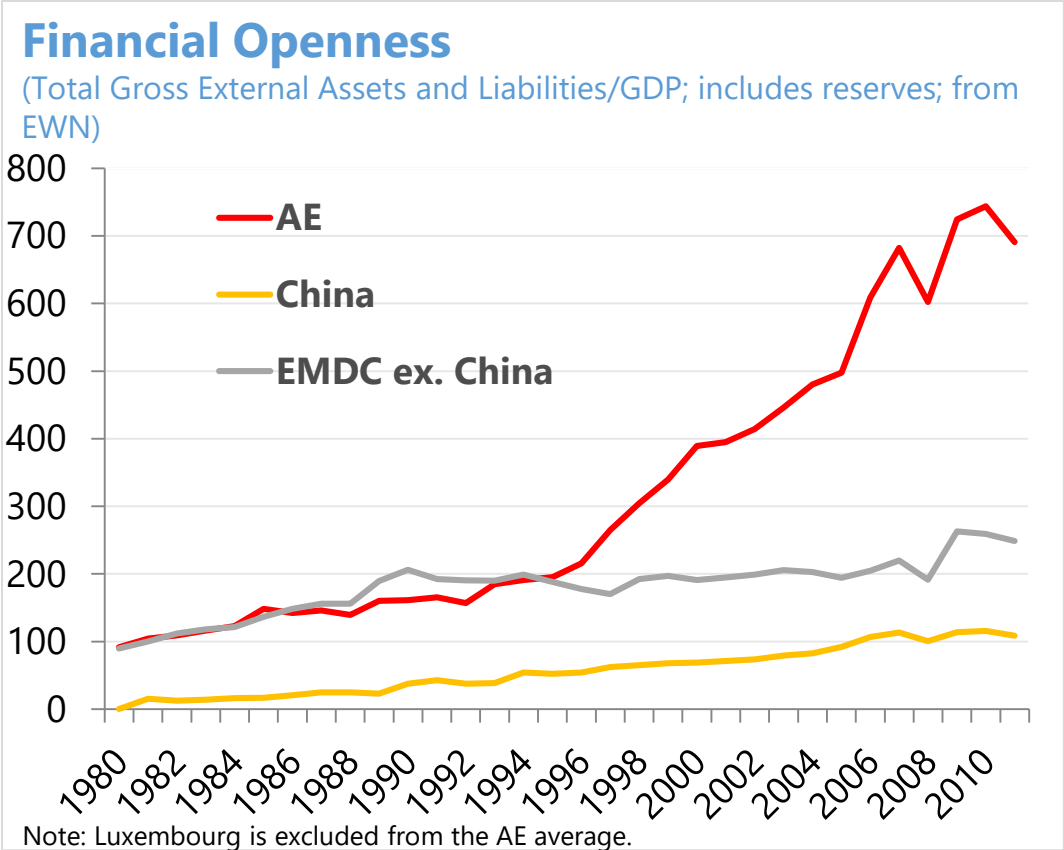
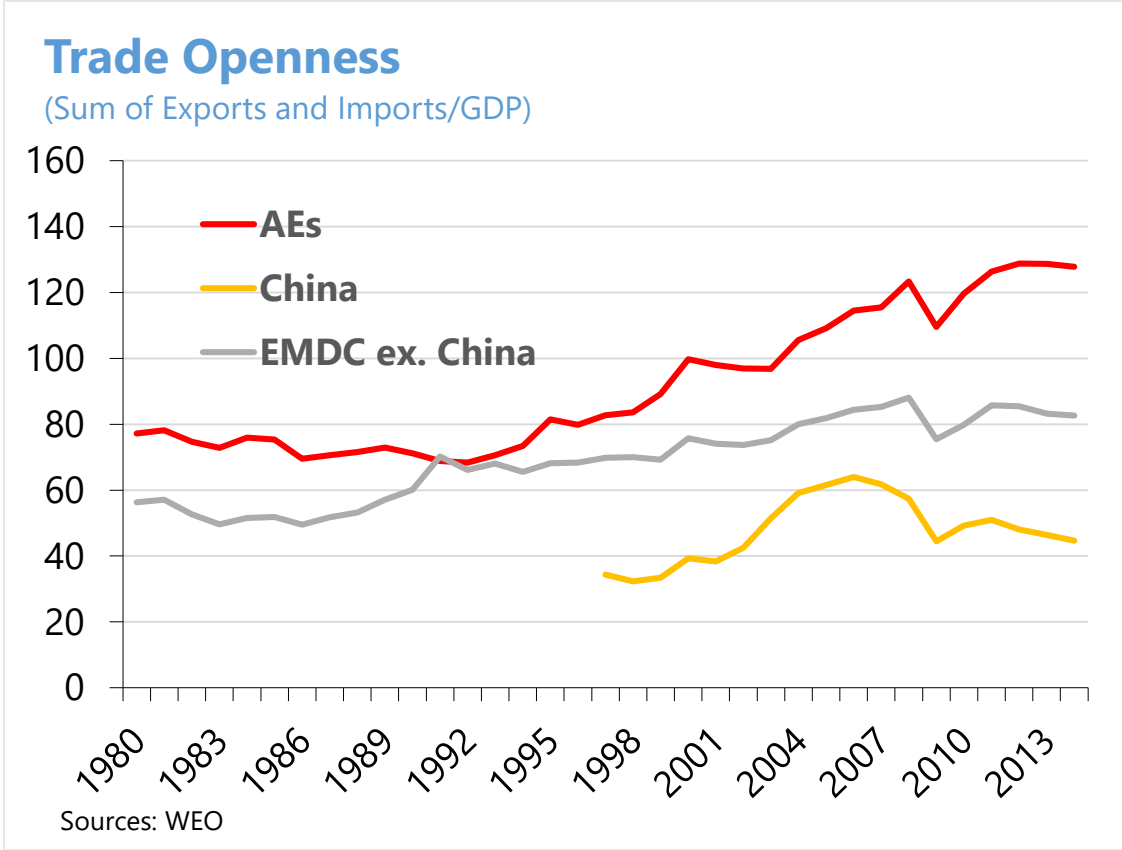
2016



■ EMs ex. China ■ China ■ AEs

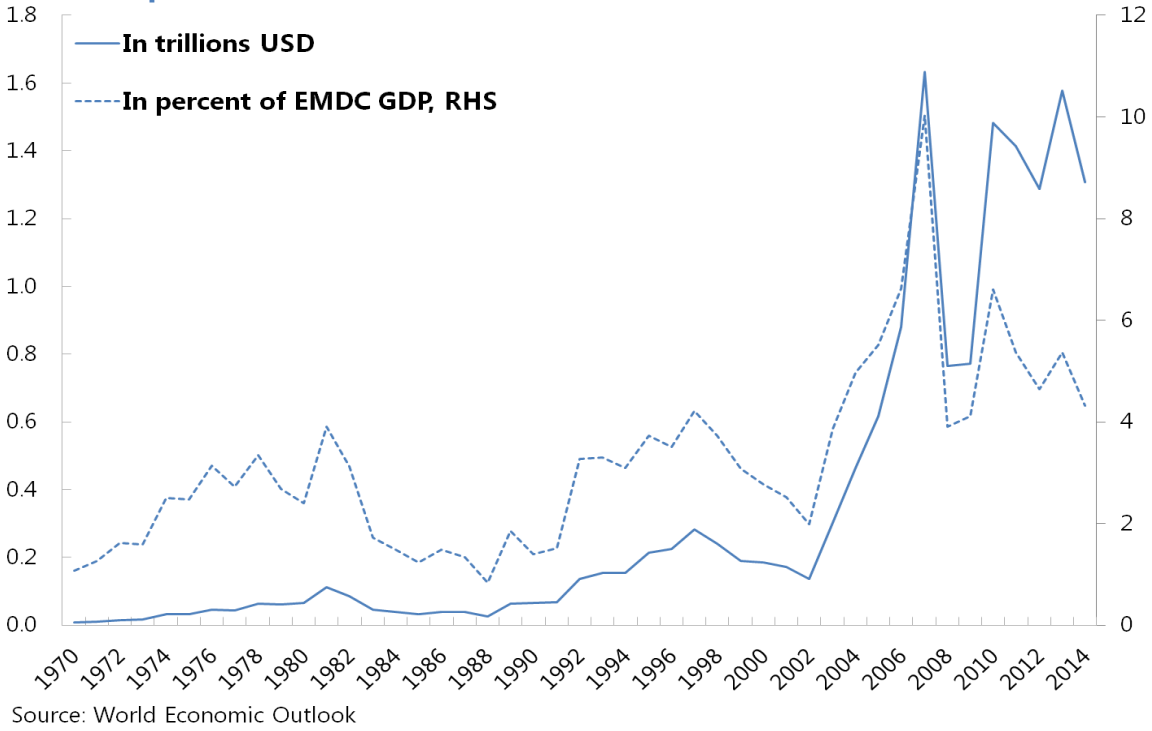
Sources: IMF staff calculations

Rapid trade integration of EMs, but slower financial integration

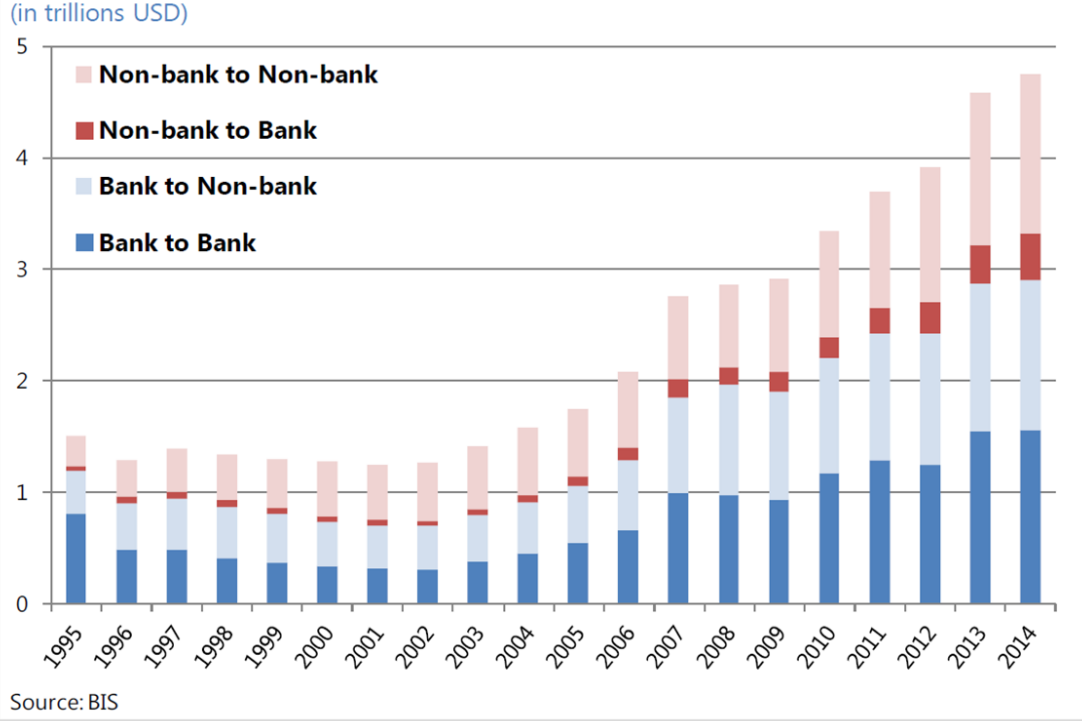


Still, large pick-up in EMs' capital flows and external liabilities

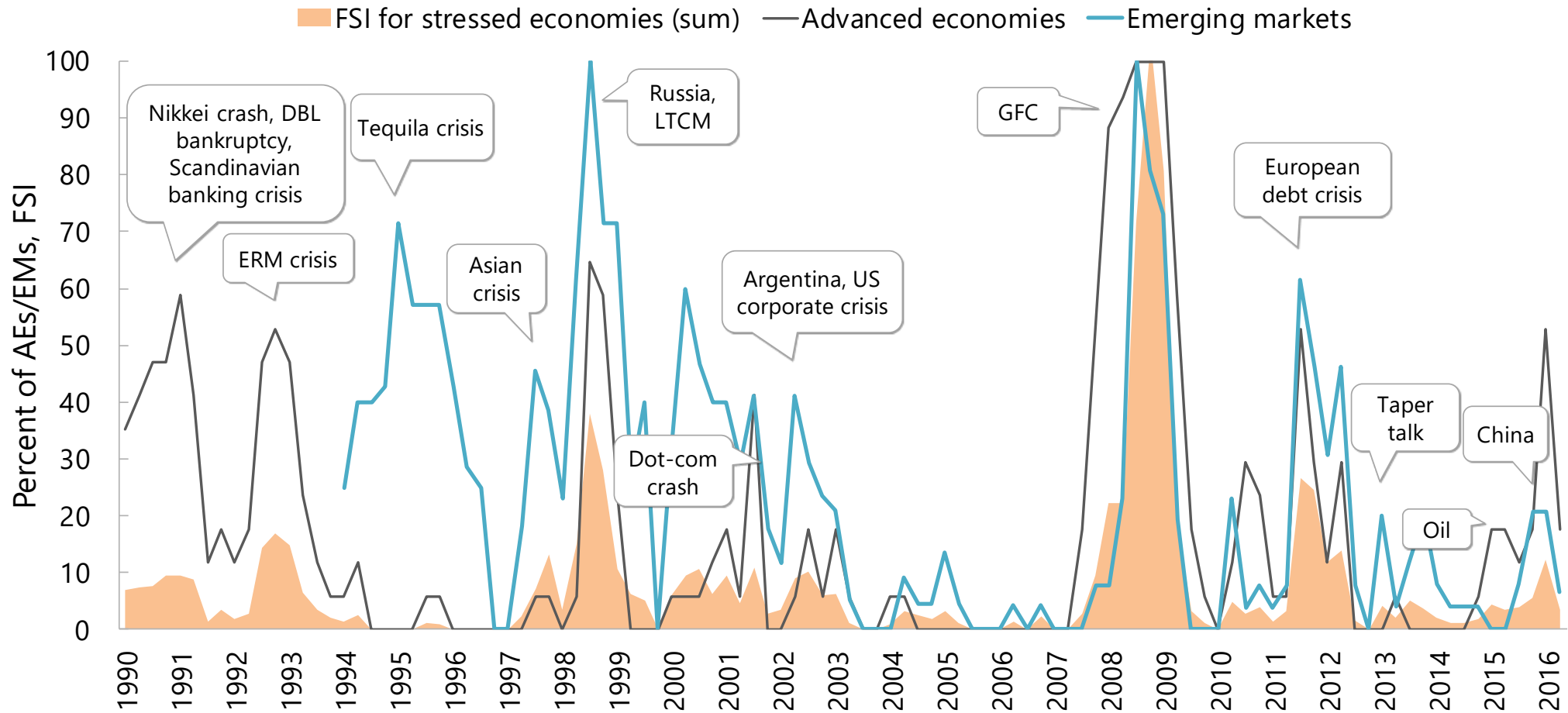
Global Capital Flows to EMDCs



Cross-Border Liabilities by Counterparty, Developing Countries

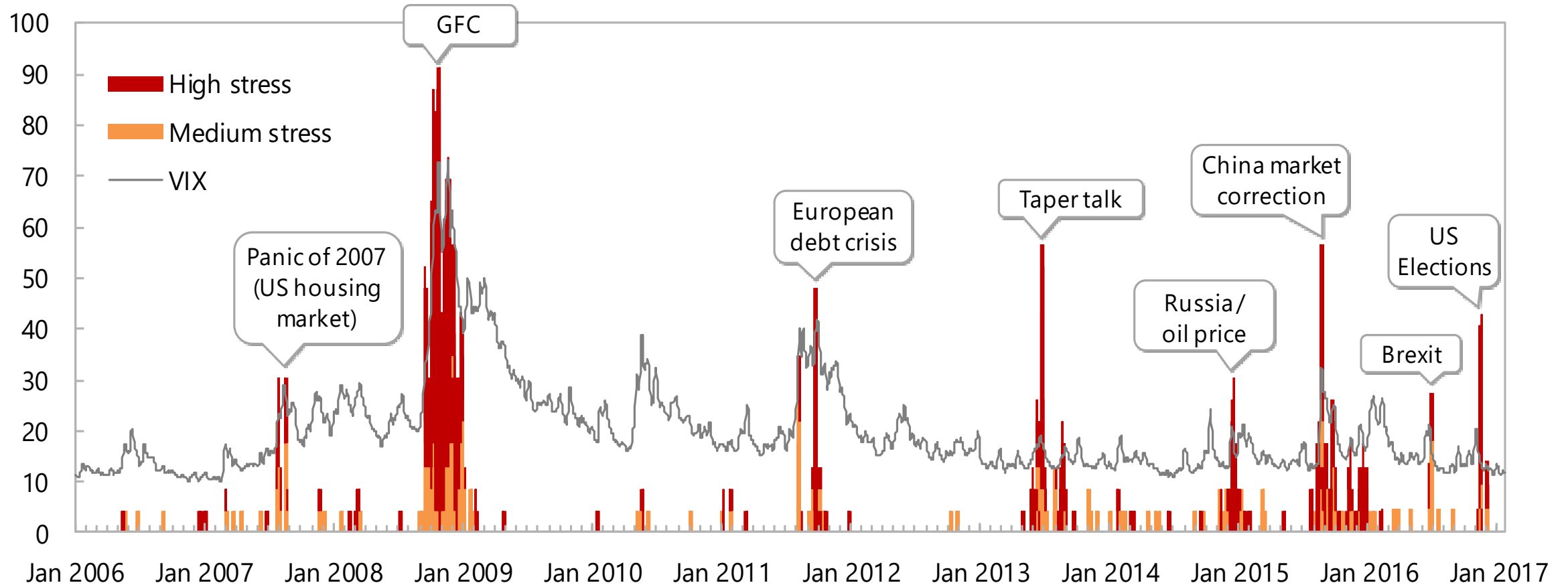


EMs increasingly affected by global liquidity events..



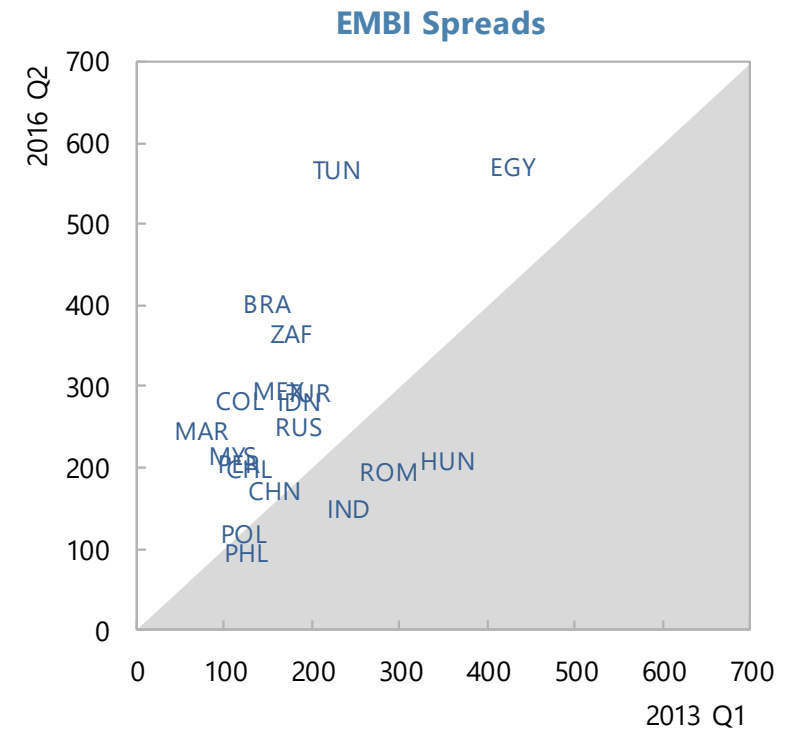
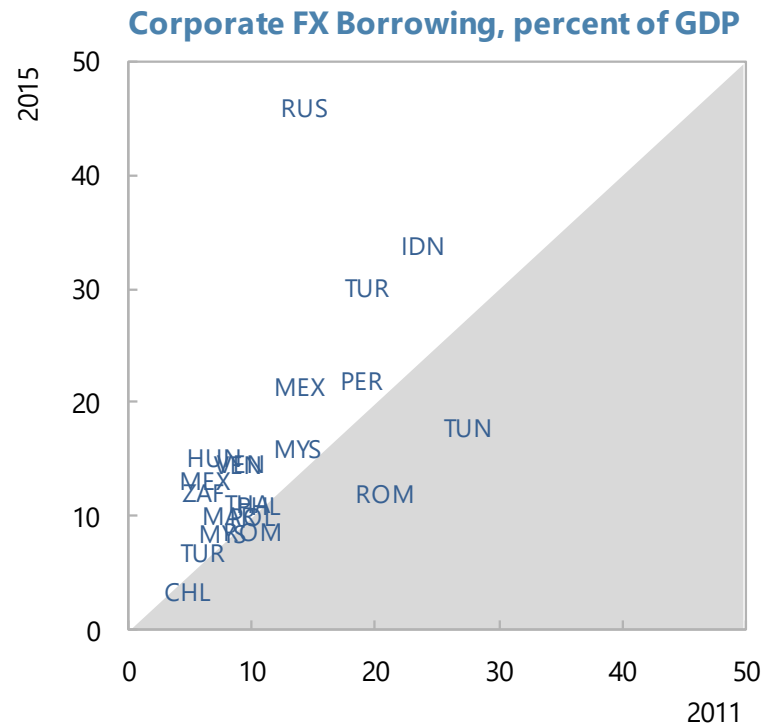
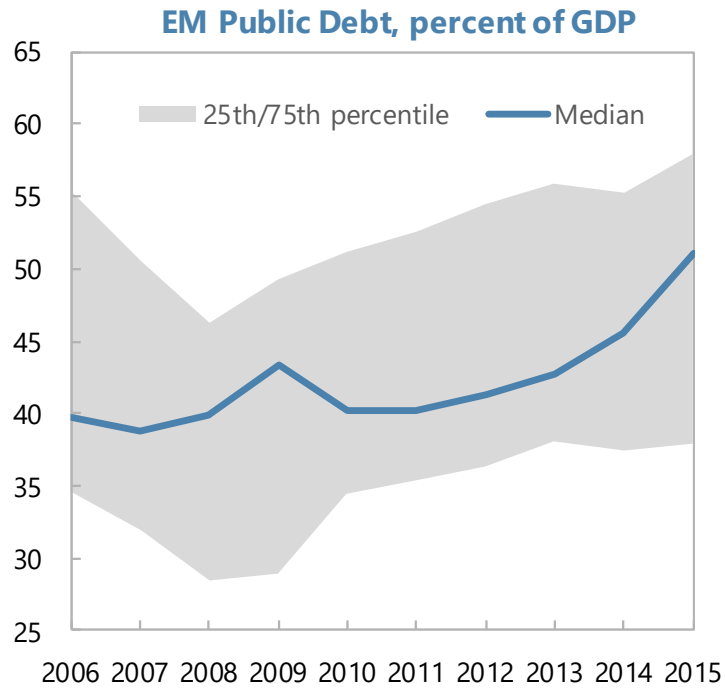
Sources: IMF calculations

...which have been more frequent and synchronized...



Sources: IMF calculations

...leaving EMs mostly unscathed, but more susceptible to future shocks...



Sources: IMF calculations

...at a time of prolonged and heightened uncertainty

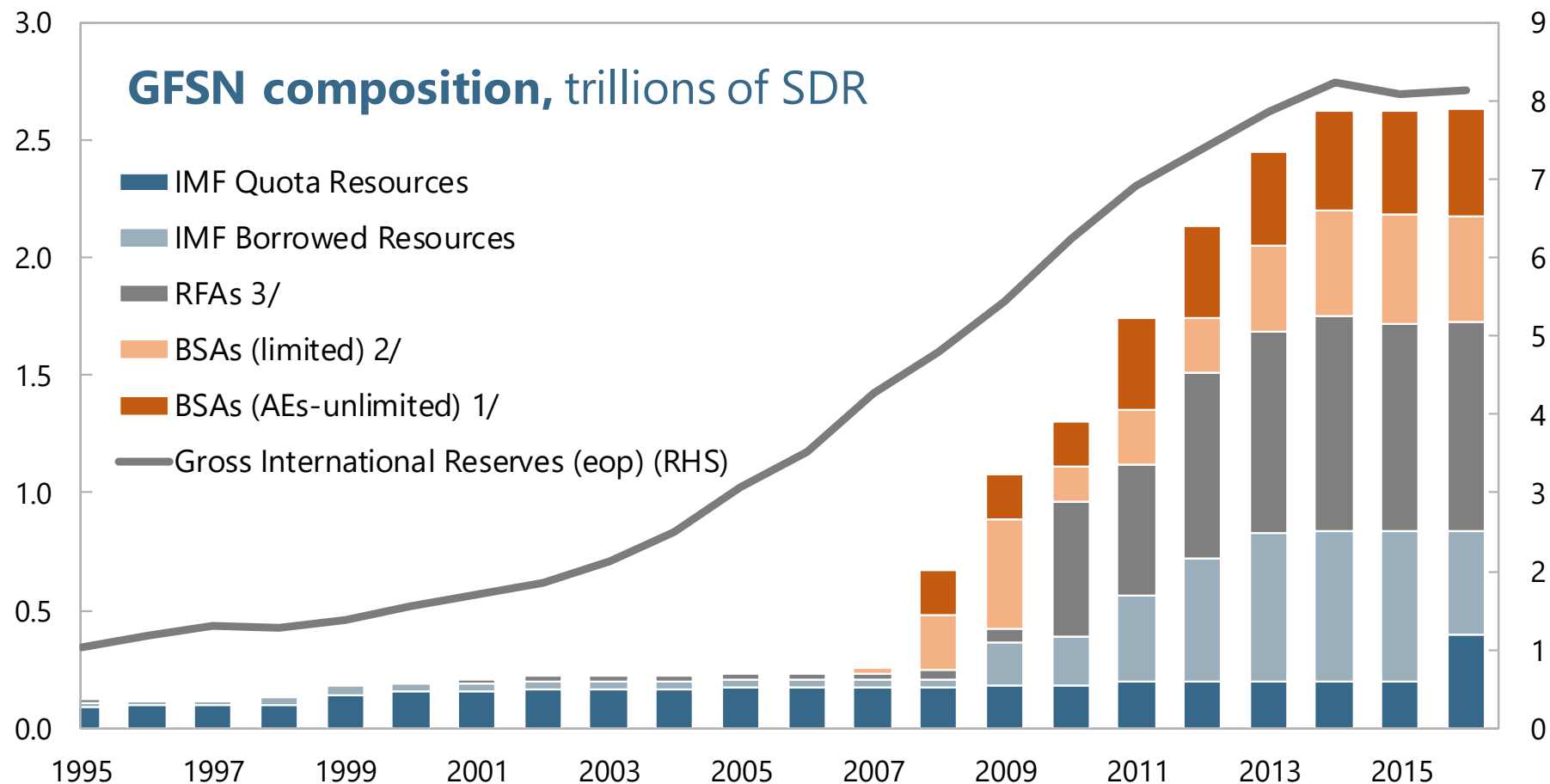
Risks tilted to the downside over the medium term:

- Protracted policy uncertainty
- Financial tensions
- Inward-looking policies
- Noneconomic factors (e.g., rising geopolitical tensions)

World Economic Outlook: July 2017 Update

**AN EVOLVING GLOBAL FINANCIAL
SAFETY NET**

GFSN expanded rapidly since the crisis...



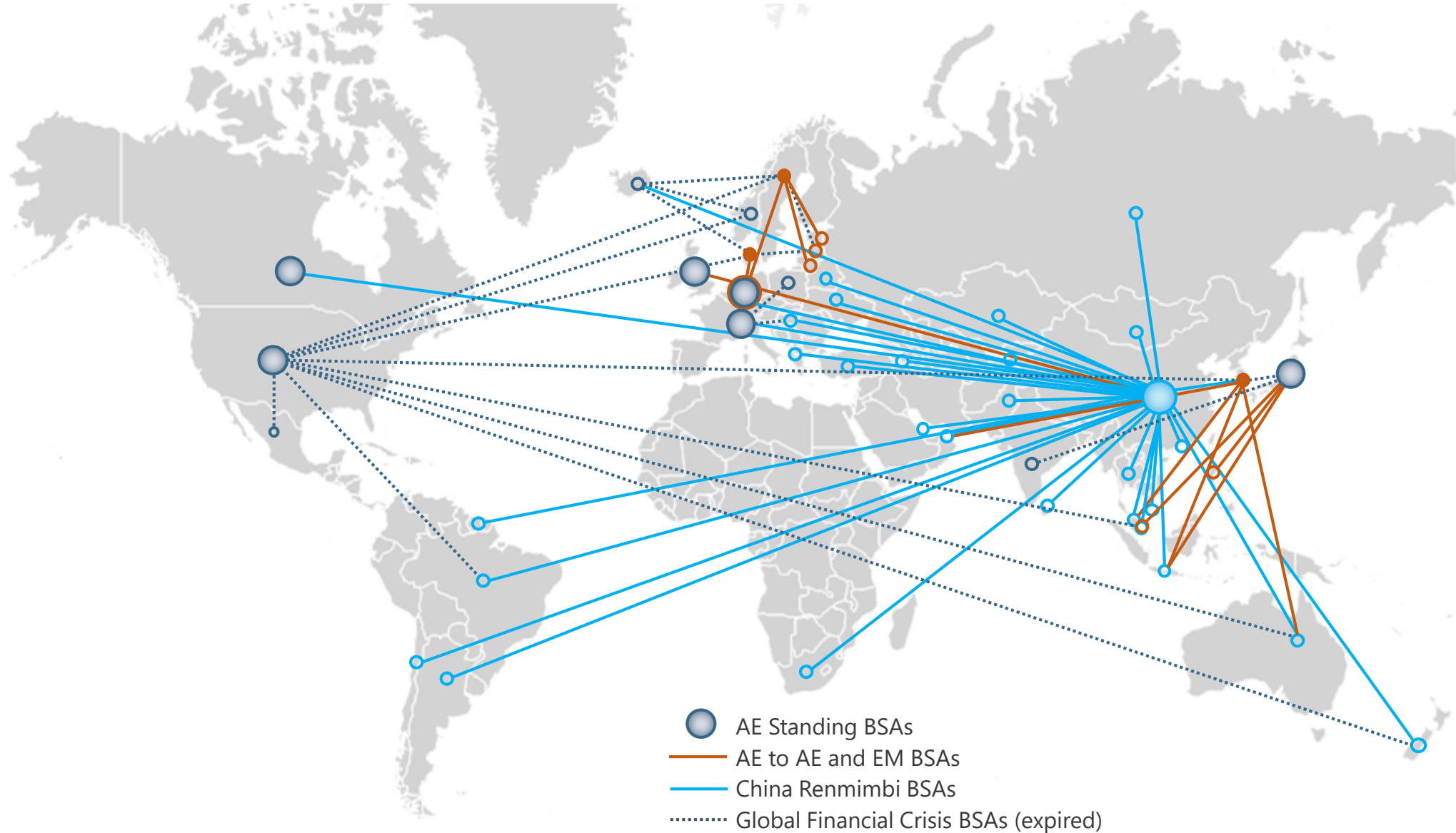
Sources: Bank of England; Central Bank websites; RFA annual reports; and IMF staff estimates.

1/ Unlimited swap arrangements are estimated based on known past usage or, if undrawn, on average past maximum drawings of the remaining central bank members in the network. Two-way arrangements are only counted once.

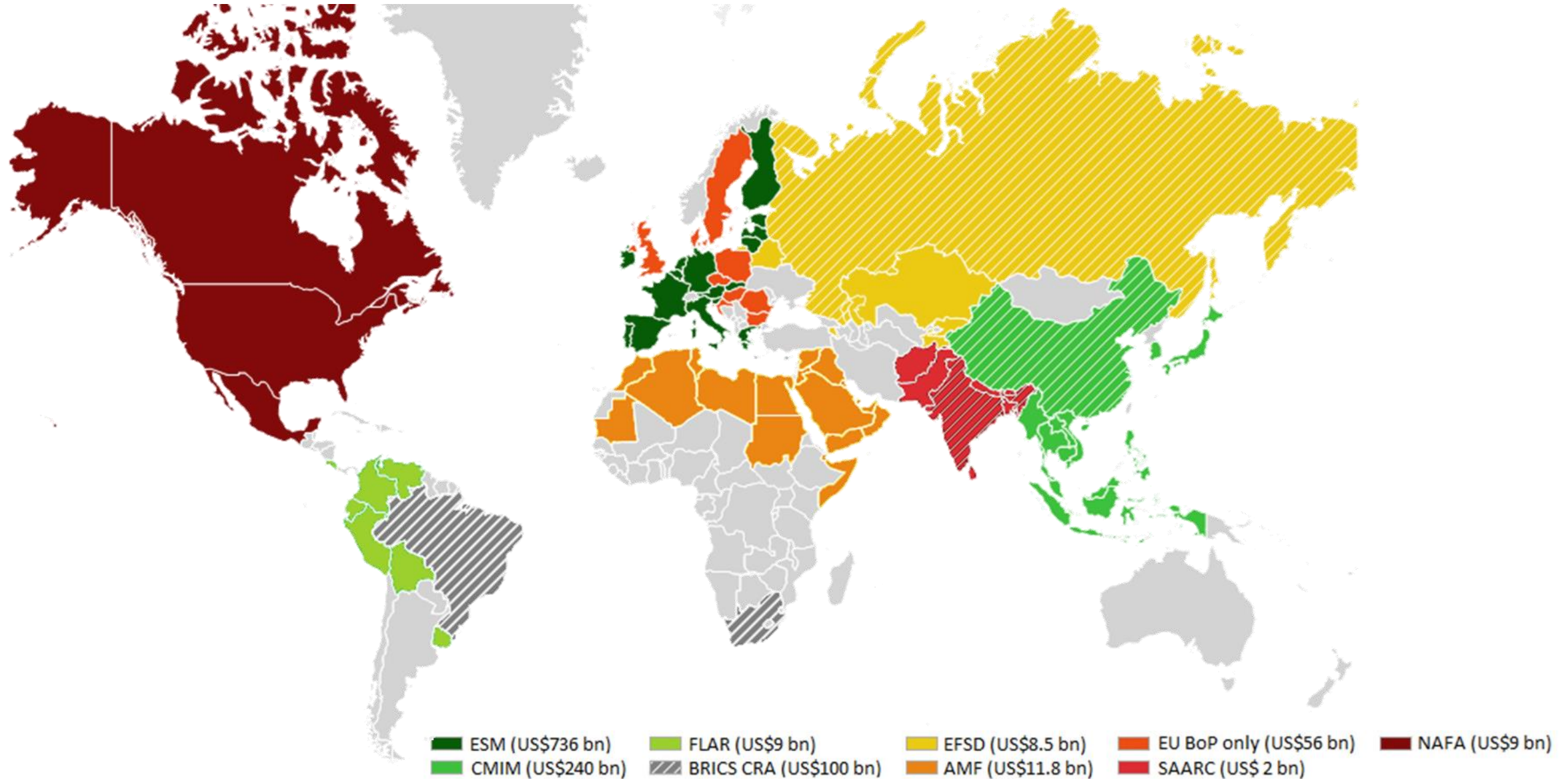
2/ Limited-value swap lines include all arrangements with an explicit value limit and exclude all CMIM arrangements, which are included under RFAs. Two-way arrangements are only counted once.

3/ Based on explicit lending capacity/limit where available, committed resources, or estimated lending capacity based on country access limits and paid-in capital.

...driven by bilateral swap arrangements (BSAs)...

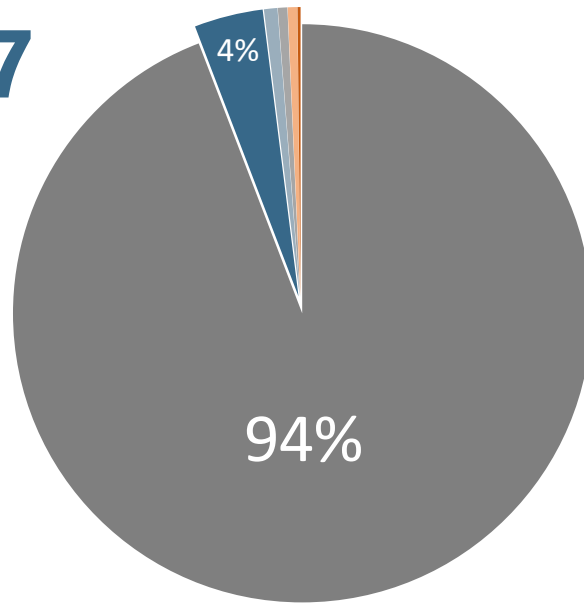


...and Regional Financing Arrangements (RFAs)

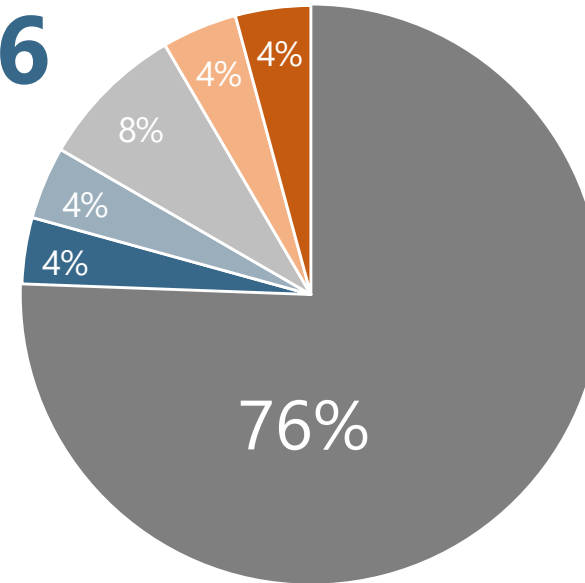


Result: a multilayered, decentralized GFSN...

2007



2016



- Gross International Reserves
- IMF Quota Resources
- IMF Borrowed Resources
- RFAs
- BSAs - limited
- BSAs - AEs unlimited

Sources: Bank of England and IMF staff estimates.

...with remaining weaknesses, particularly for EMs and other AEs...

	Reserve currency AEs	Other AEs	Systemic & gatekeeper EMs	Other EMs	DCs
Predictability	2	1	1	1	0
Speed	2	2	2	1	1
Reliability	2	1	1	0	1
Cost	2	1	0	0	0
Policies	0	1	1	1	1

Red (0) = Limited/insufficient for predictability, speed, reliability, and policies, and high for cost;

Yellow (1) = Some;

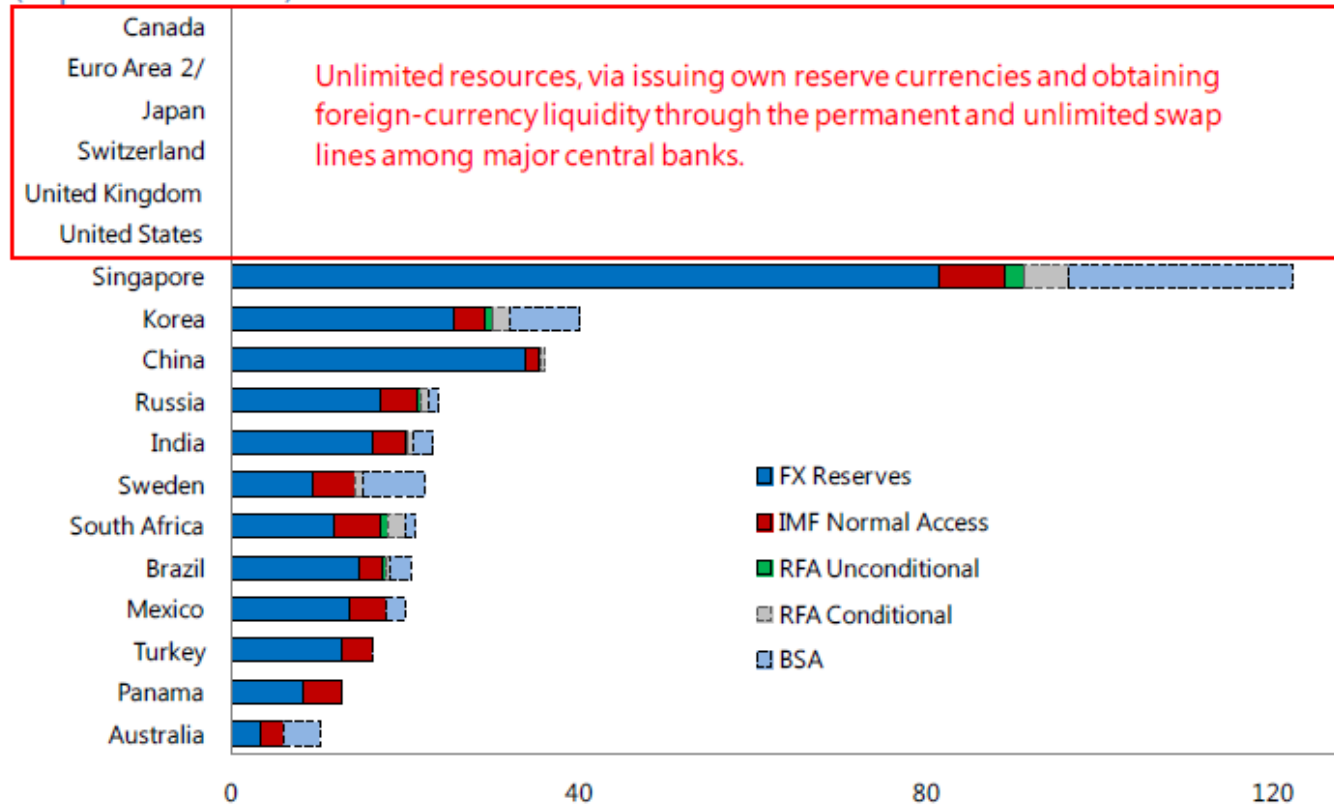
Green (2) = Extensive/adequate for predictability, speed, reliability, and policies, and low for cost

Adequacy of the Global Financial Safety Net, IMF, March 2016

..such as uneven coverage and coordination challenges

GFSN Resources for Systemic and Gatekeeper Economies 1/

(In percent of GDP)



1/ The chart shows normal access to Fund resources for all countries--it does not take into account existing Fund arrangements with some of these countries.

2/ The ESM is currently limited and access to ECB liquidity support is subject to certain rules.

Source: IMF staff estimates.

FILLING THE GAPS

The Fund's GFSN work agenda

Enhancing
cooperation with
RFAs



First CMIM test run (2016)



Fund-RFA collaboration (July '17 paper)

Reforming the
IMF toolkit



Policy Coordination Instrument (PCI)
(approved July '17)



Ongoing work on possible enhancements
to precautionary facilities

Resources

- Strengthening the International Monetary System—A Stocktaking (March 2016)
<https://www.imf.org/external/np/pp/eng/2016/022216b.pdf>
- Adequacy of the Global Financial Safety Net (March 2016)
<https://www.imf.org/external/np/pp/eng/2016/031016.pdf>
- Collaboration Between Regional Financing Arrangements and the IMF (August 2017)
<https://www.imf.org/en/Publications/Policy-Papers/Issues/2017/07/31/pp073117-collaboration-between-regional-financing-arrangements-and-the-imf>
- Adequacy of the GFSN – Proposal for a New Policy Coordination Instrument (July 2017)
<http://www.imf.org/en/Publications/Policy-Papers/Issues/2017/07/26/pp072617-adequacy-of-the-global-financial-safety-net>

THANK YOU