

Is the IMF lagging behind the curve in the global crisis?

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The International Monetary Fund (IMF) was, until recently, occupied with internal reforms to sustain its financial well-being in the face of diminishing revenue from lending, as there was no new crisis-hit country. So the general perception seems to be that the IMF has been somewhat absent from the world financial scene. Since the US financial crisis erupted, although bank bail-outs in the advanced economies may ease the credit squeeze, the flow of capital to the emerging world will slow, restraining economic growth.

While the IMF, supposedly peculiarly equipped to assist crisis-hit economies, stands ready to give out financial aid, countries have often resorted to other sources of help: troubled Iceland and Pakistan have both made ad-hoc approaches to their better-endowed allies, China and Russia respectively, until they were left with no other option but to enter IMF programmes.

Countries' reluctance to follow the IMF route to financial assistance attests to the fact that borrowing from the IMF carries a heavy stigma. More importantly, governments are concerned about the stringent conditionality that comes with the rescue package. In a way, the IMF has truly become the lender of last resort for crisis-hit countries that can find help from no other source.

To its credit, the IMF has been an important source of economic data and information, through its "Global Financial Stability Report" and "World Economic Outlook" publications. It has provided useful analysis and policy advice to its members through annual consultations and staff visits to their countries. Moreover, it has stepped up assistance to low-income members affected by the recent food- and fuel-price shocks.

Still, there are doubts about whether the available IMF facilities are swift and flexible enough for the full range of crises. With its quarter of a trillion dollars of uncommitted usable resources, the IMF's core crisis-lending mechanism remains the classic stand-by arrangement, a programme designed to deal with short-term balance-of-payments problems. Nevertheless, recognizing the evolving needs of its membership in the light of the recent credit crisis, the IMF has at long last established a special short-term liquidity instrument that provides substantial up-front access to resources.

This new facility is somewhat similar to the swap lines extended among central banks to fellow members that do not call for typical IMF-supported adjustment programmes. Asian members have been proponents of this facility for several years, but the IMF Board has previously been reluctant to endorse it due to fear of moral hazard. It is ironic that only when problems in advanced economies led to contagion elsewhere did the IMF Board agree to such an instrument.

It is in times of crisis that the value of the IMF is measured. The unprecedented events of the past months present a historic opportunity for the IMF to rise to the challenge. The time has come for it to be more proactive and to come up with a true crisis-prevention instrument that removes the stigma and rigid conditionality attached to its traditional lending.

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