Crisis Management: Policy Response and Support

6th Vienna Economic Forum

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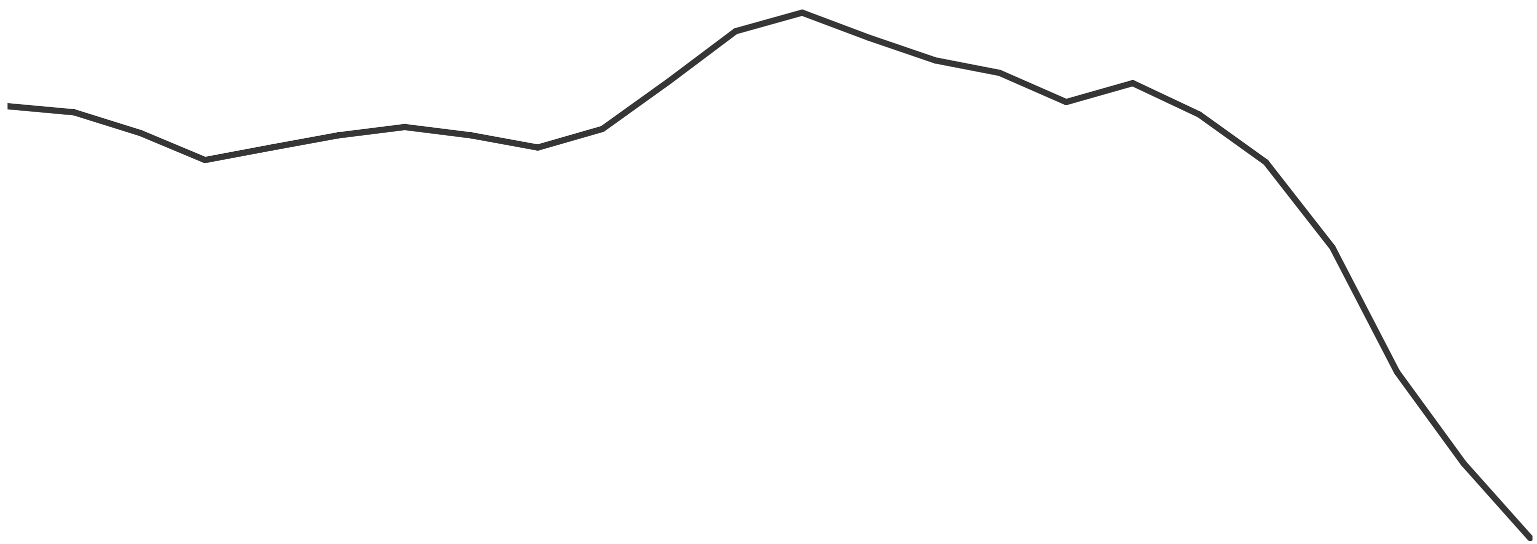
Outline of Presentation

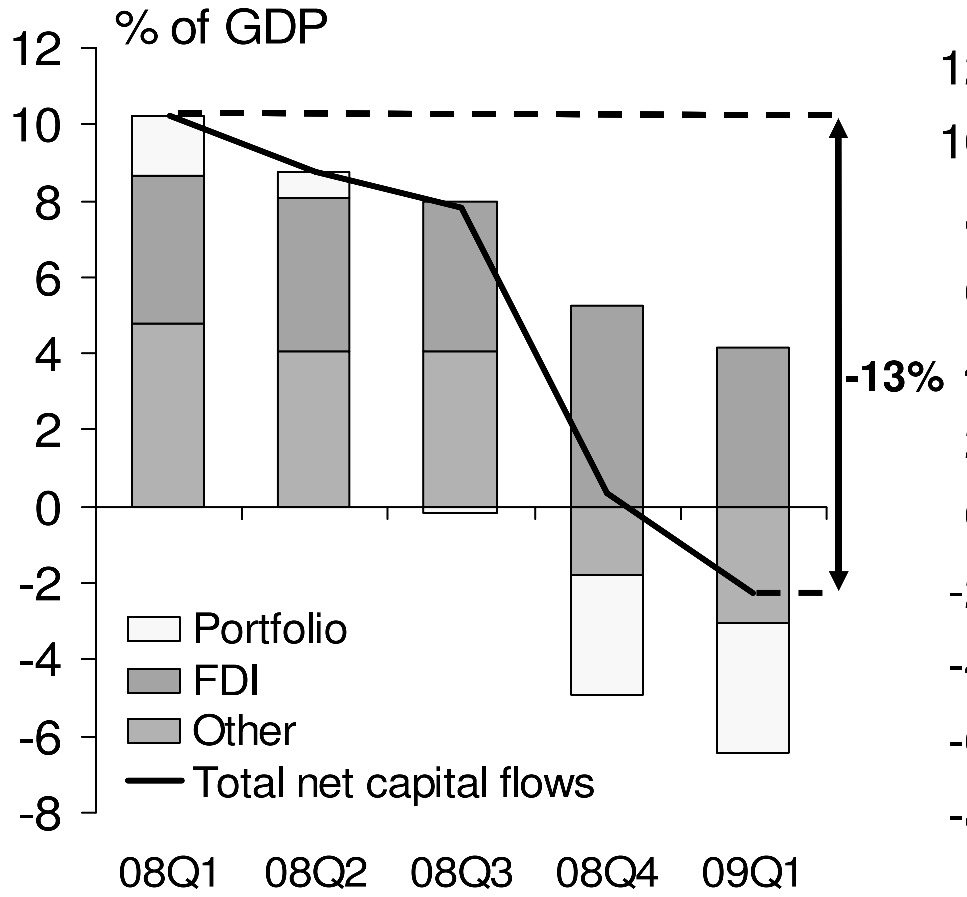
- Why did the crisis hit this region so hard?
- How did the IMF respond?
- How does adjustment in this crisis compare with other crises?
- What are the prospects for the region?

First Shock: Collapse in Trade

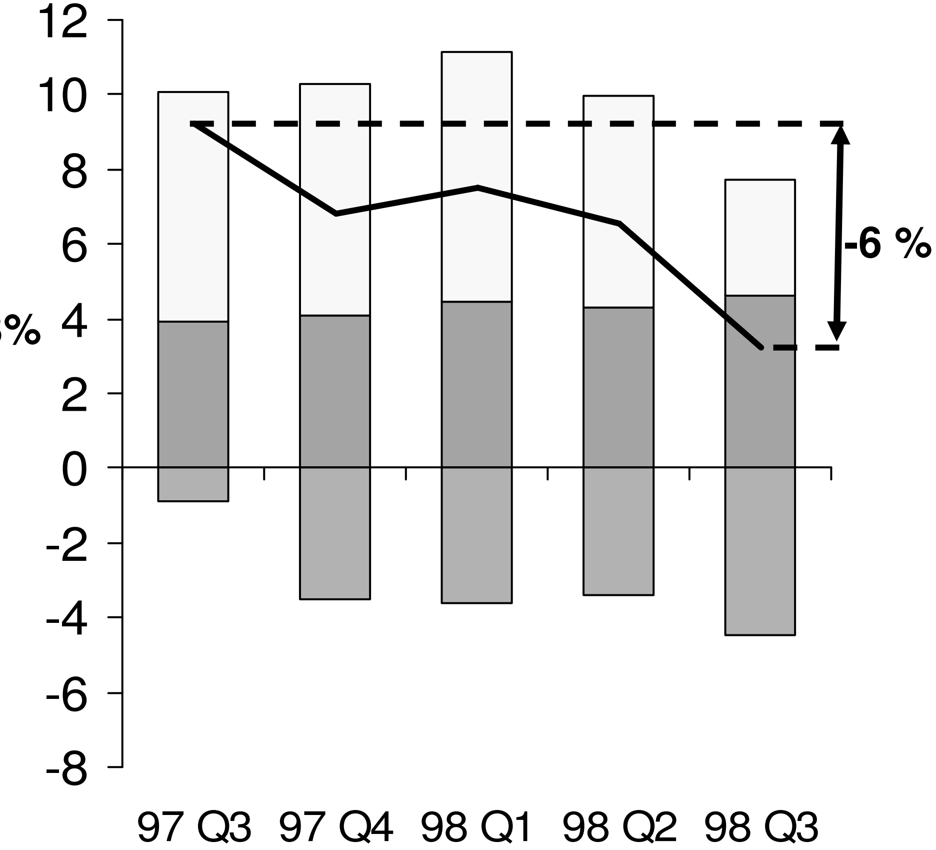


Second Shock: Sudden Stop of Capital Flows

This sudden stop



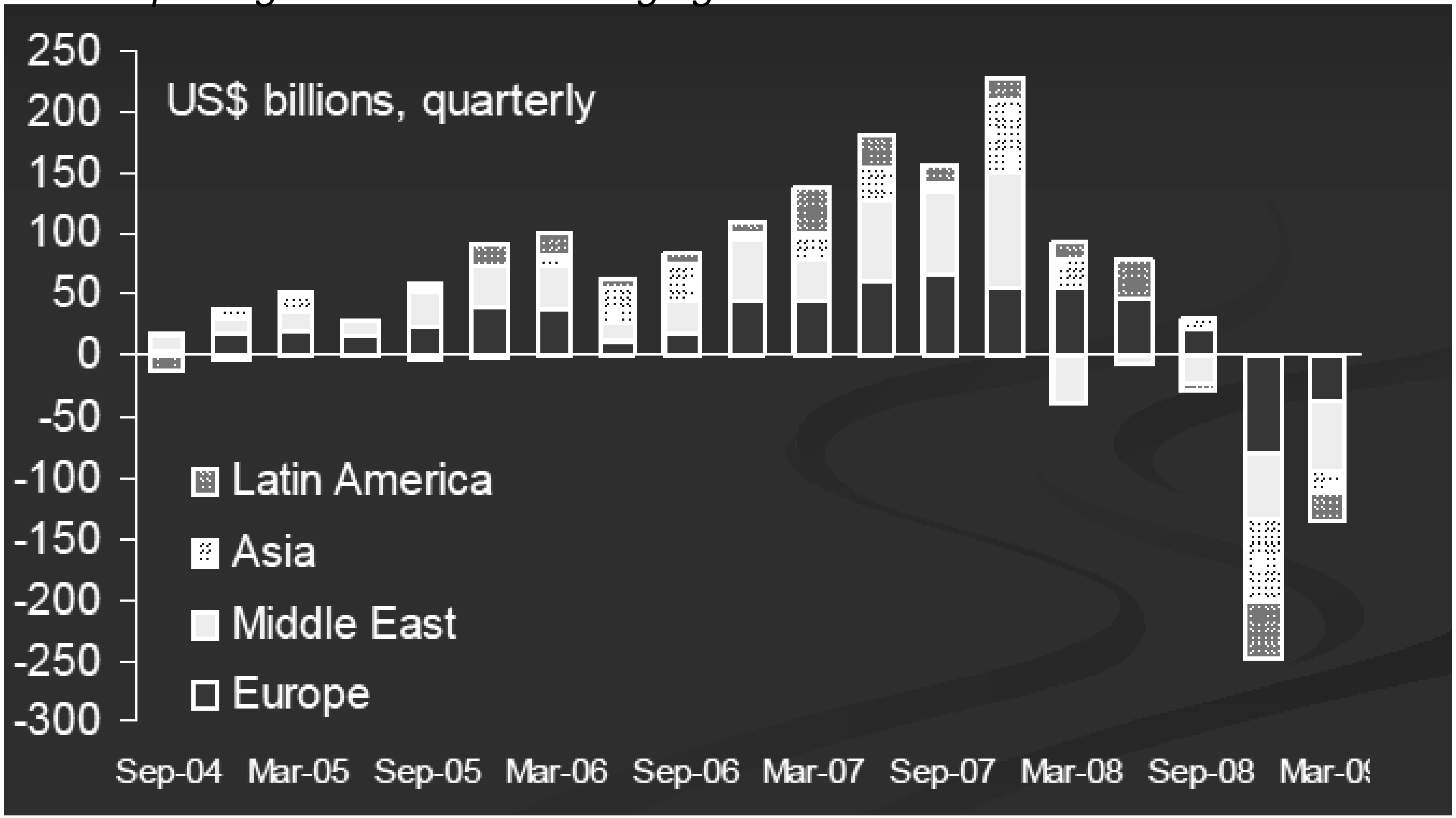
Sudden stop in 1997-98



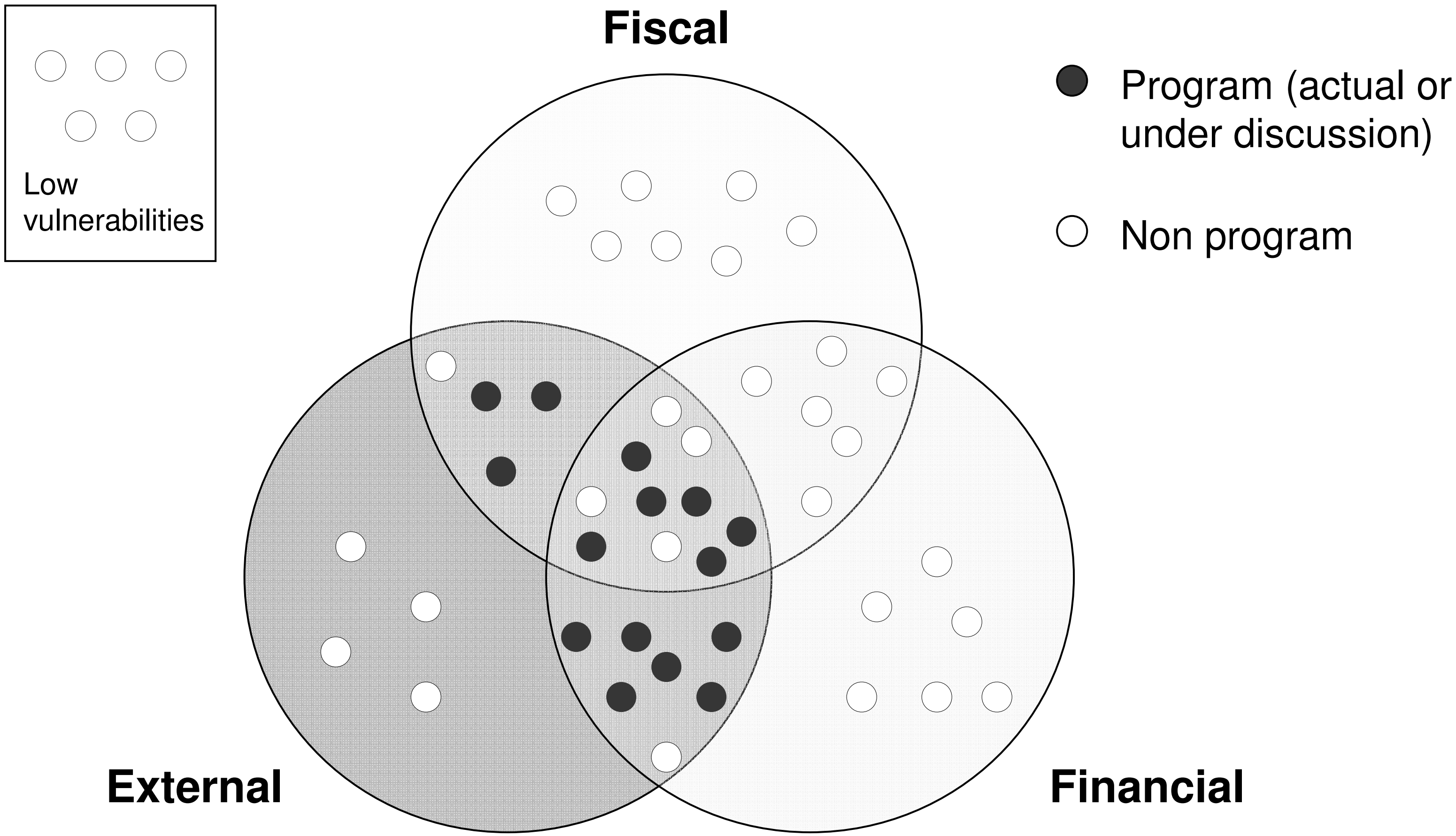
Covers 28 EM countries.

Reversal of Bank Flows

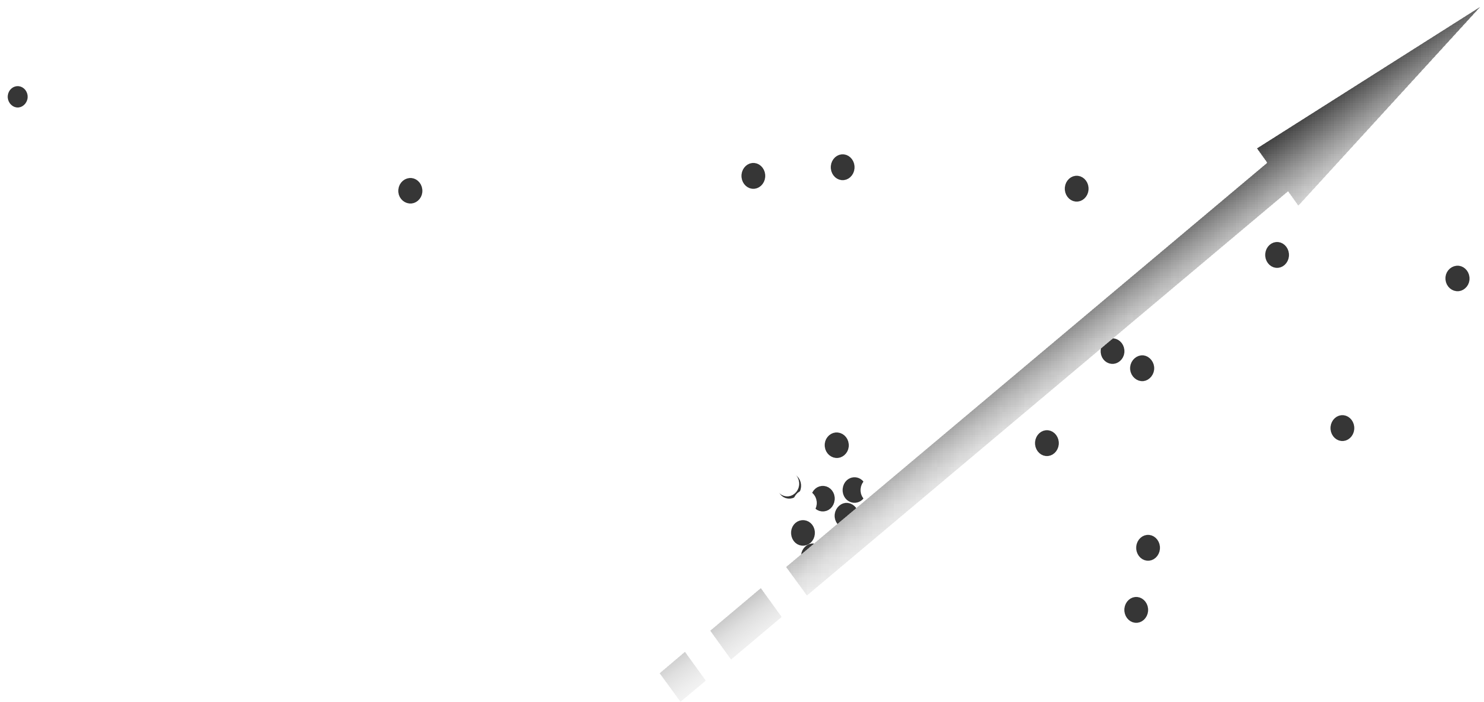
BIS-reporting bank flows to emerging markets



Many Vulnerable Countries Turned to the IMF



Credit Booms and External Deficits Made Countries Vulnerable



IMF Resources And Lending Framework Improved

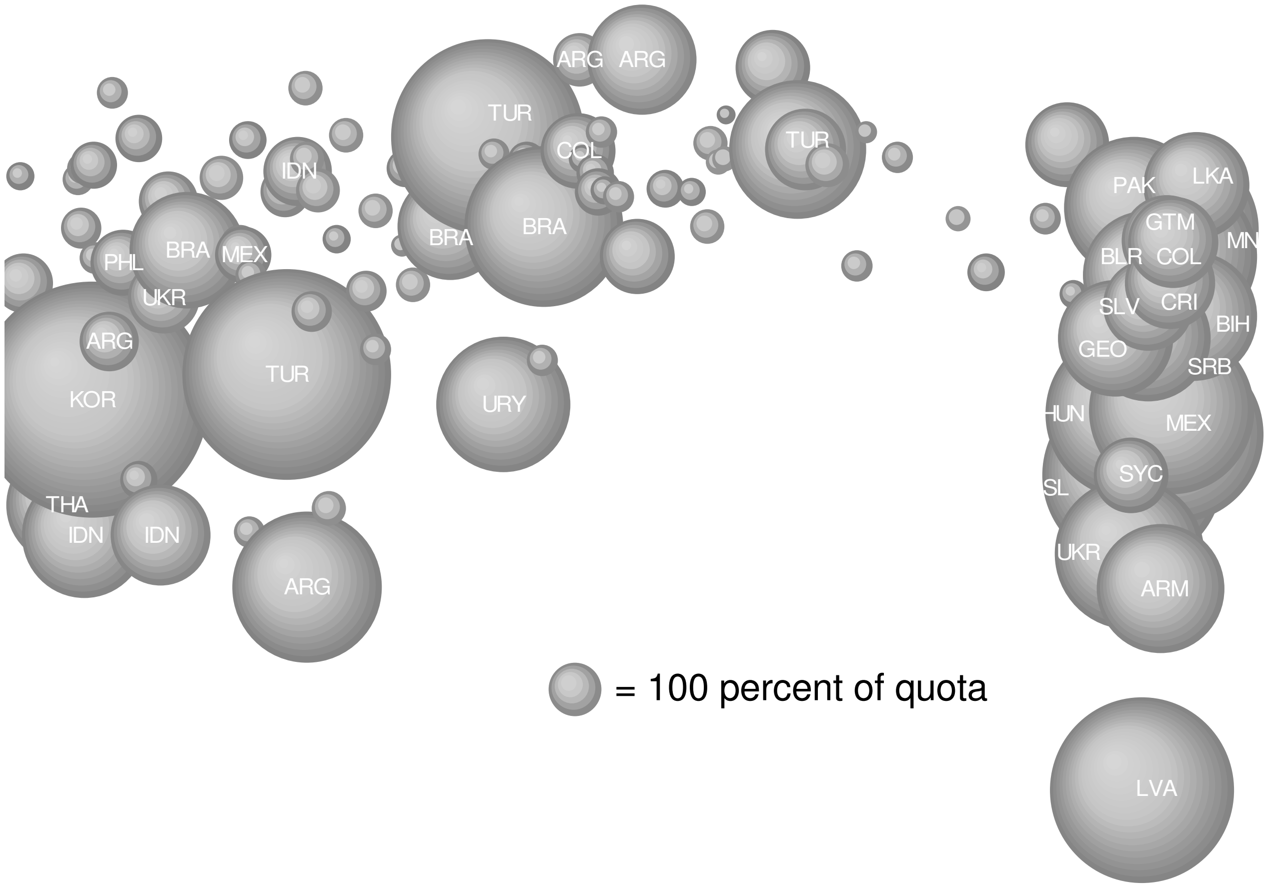
- Additional resources:
  - $500bn ultimately available through NAB
  - $250bn through additional SDR allocation ($100bn for EMEs)
  - More than doubling resources for Low Income Countries
- March 09 reforms to lending framework:
  - Flexible Credit Line (FCL)
  - Modernization of conditionality framework
  - Standby arrangement (SBA) made more flexible
  - Increase in access levels

European Bank Coordination Initiative (Vienna Initiative)

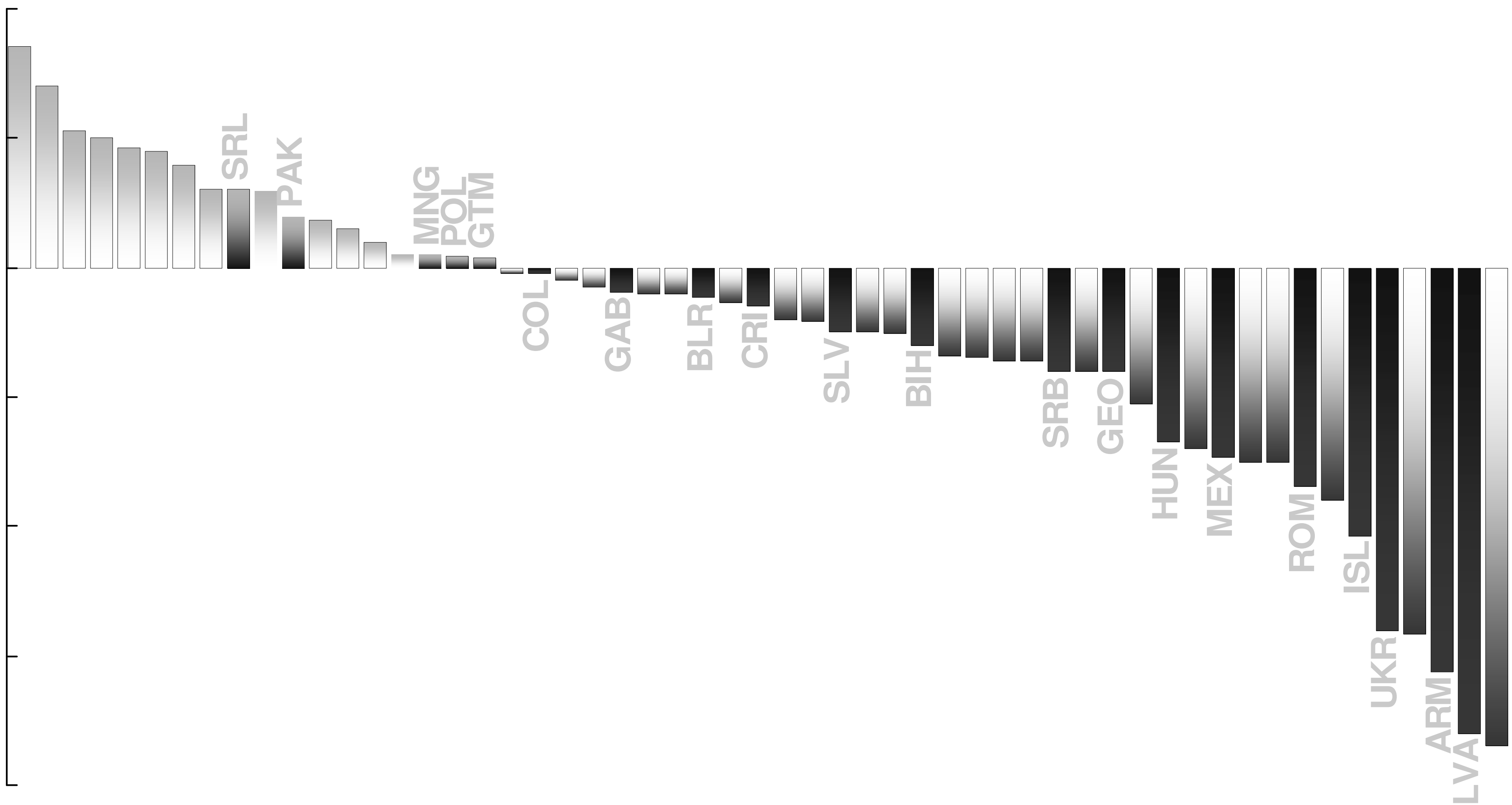
- Agreement by parent banks to maintain exposure and capital
    - Bosnia and Hercegovina, Hungary, Latvia, Romania, Serbia
- Stress testing of banks
- MDBs to provide financing to support continued engagement
    - EBRD, IFC, EIB

Current IMF Arrangements

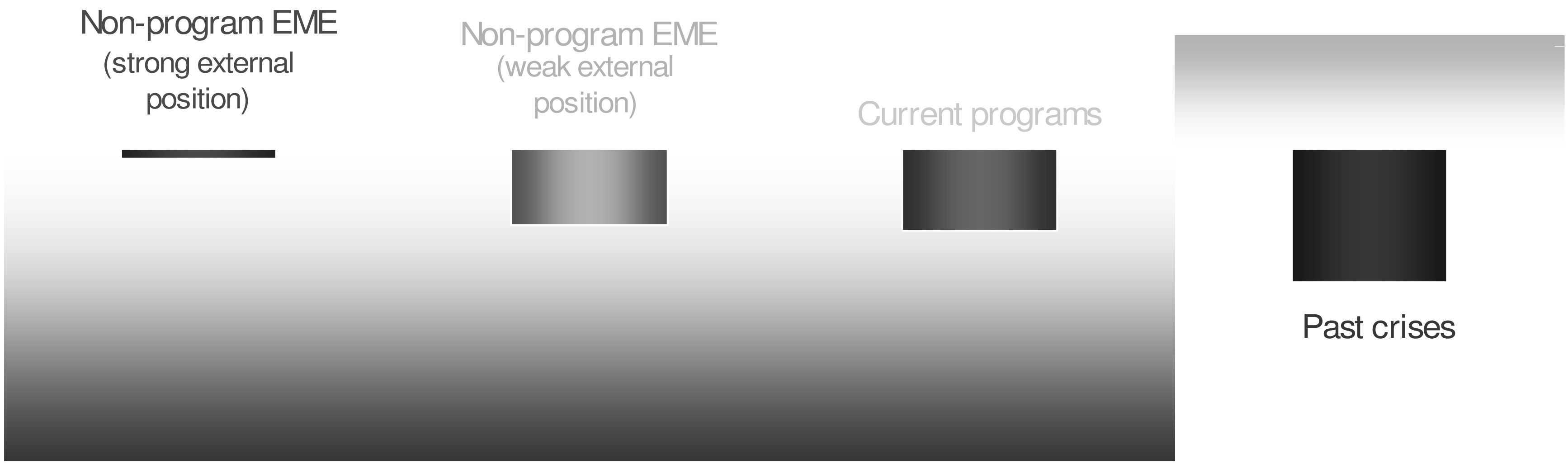
Large Arrangements, Simultaneous, Large Output Losses



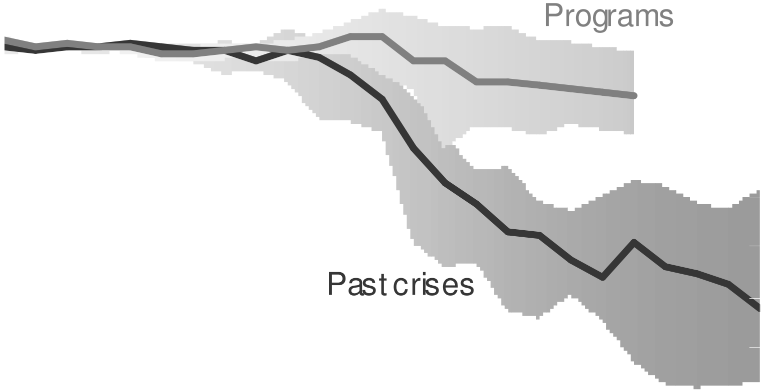
Output Losses not Surprising, Given Recession

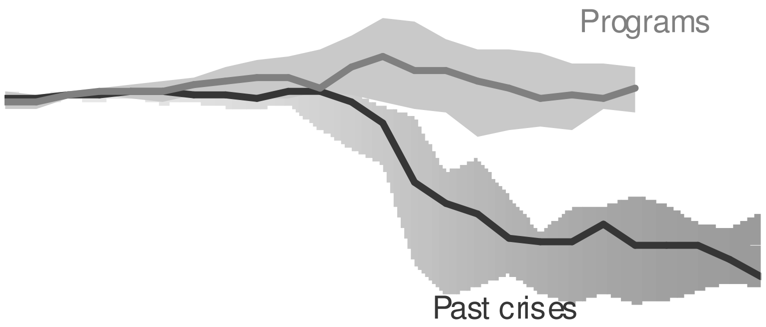


But Smaller than in Past, Despite Recession

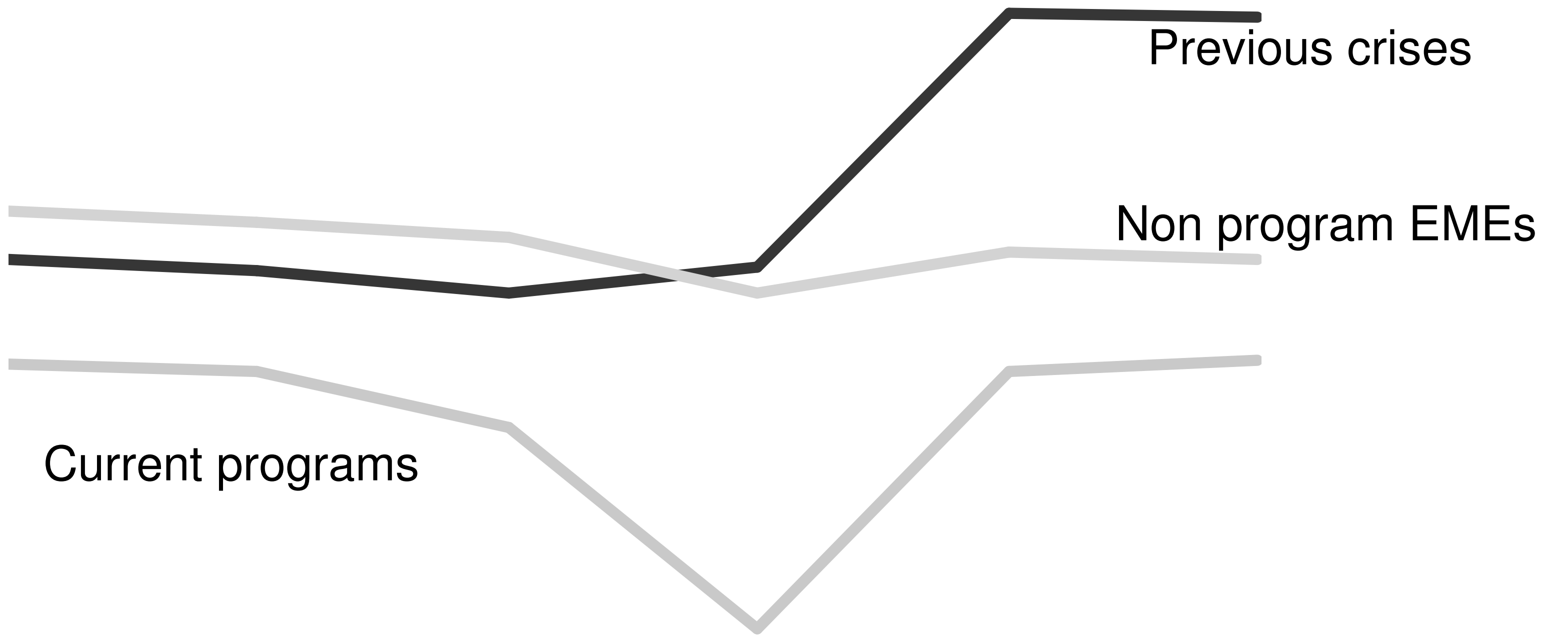


Reduced Overshooting of Exchange Rate

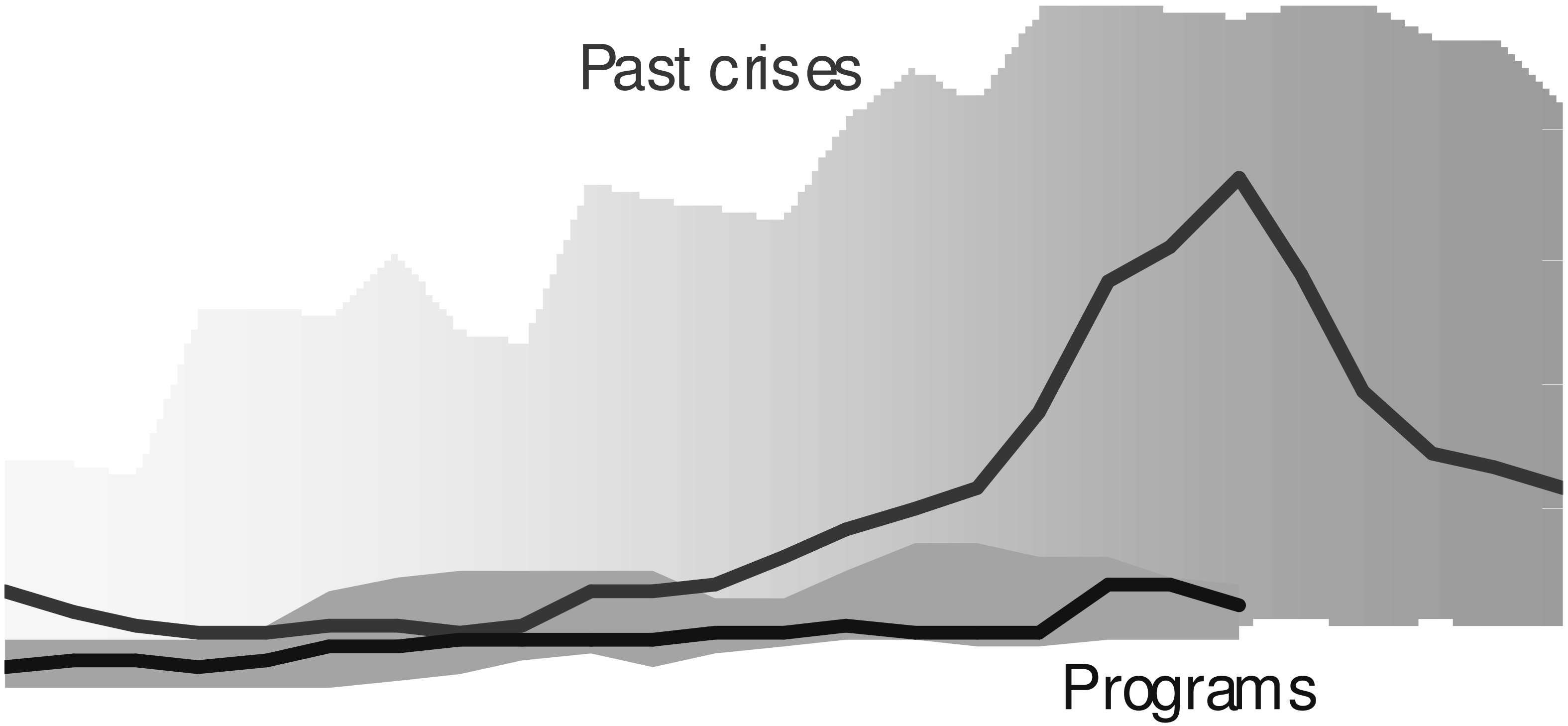




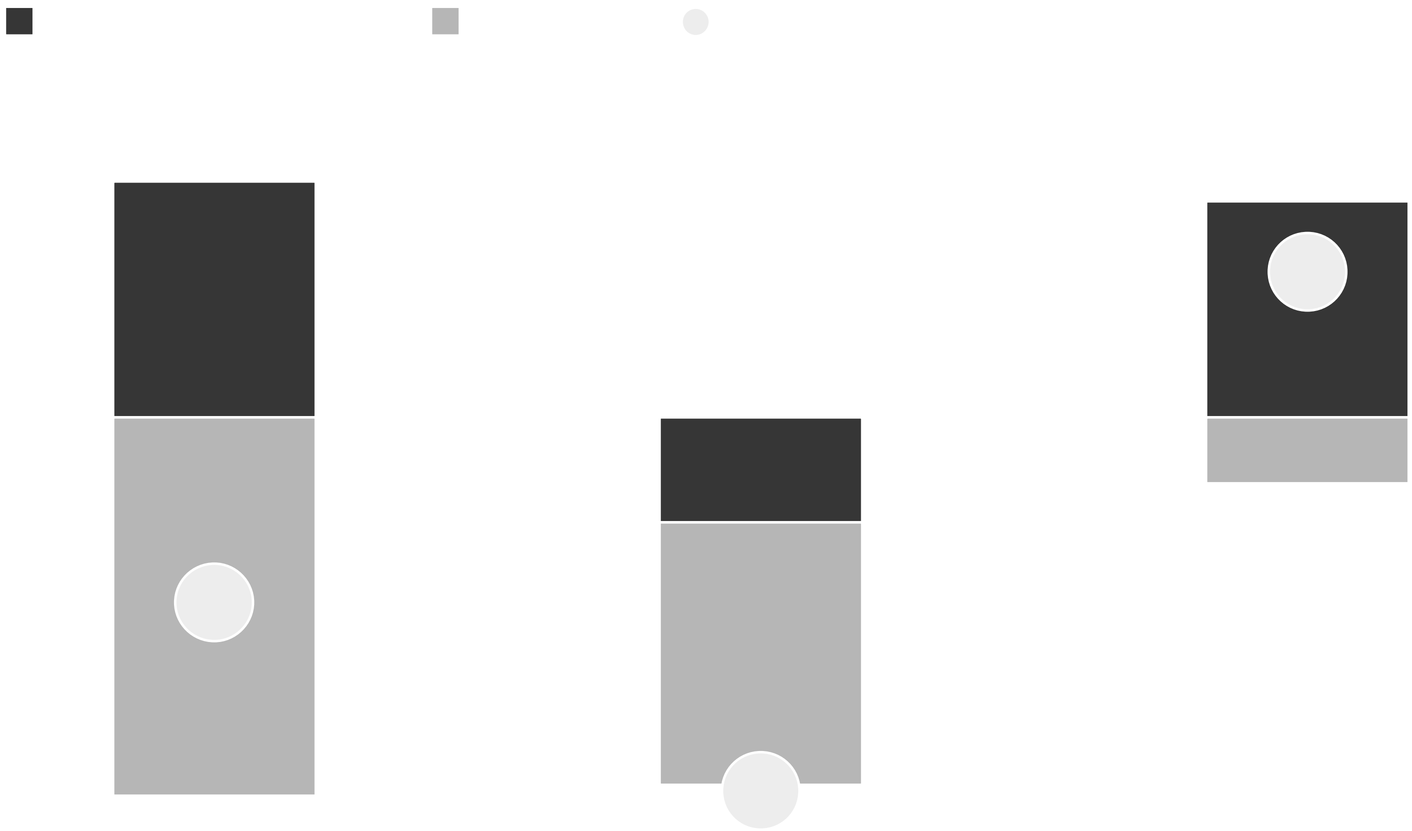
Less Severe External Adjustment



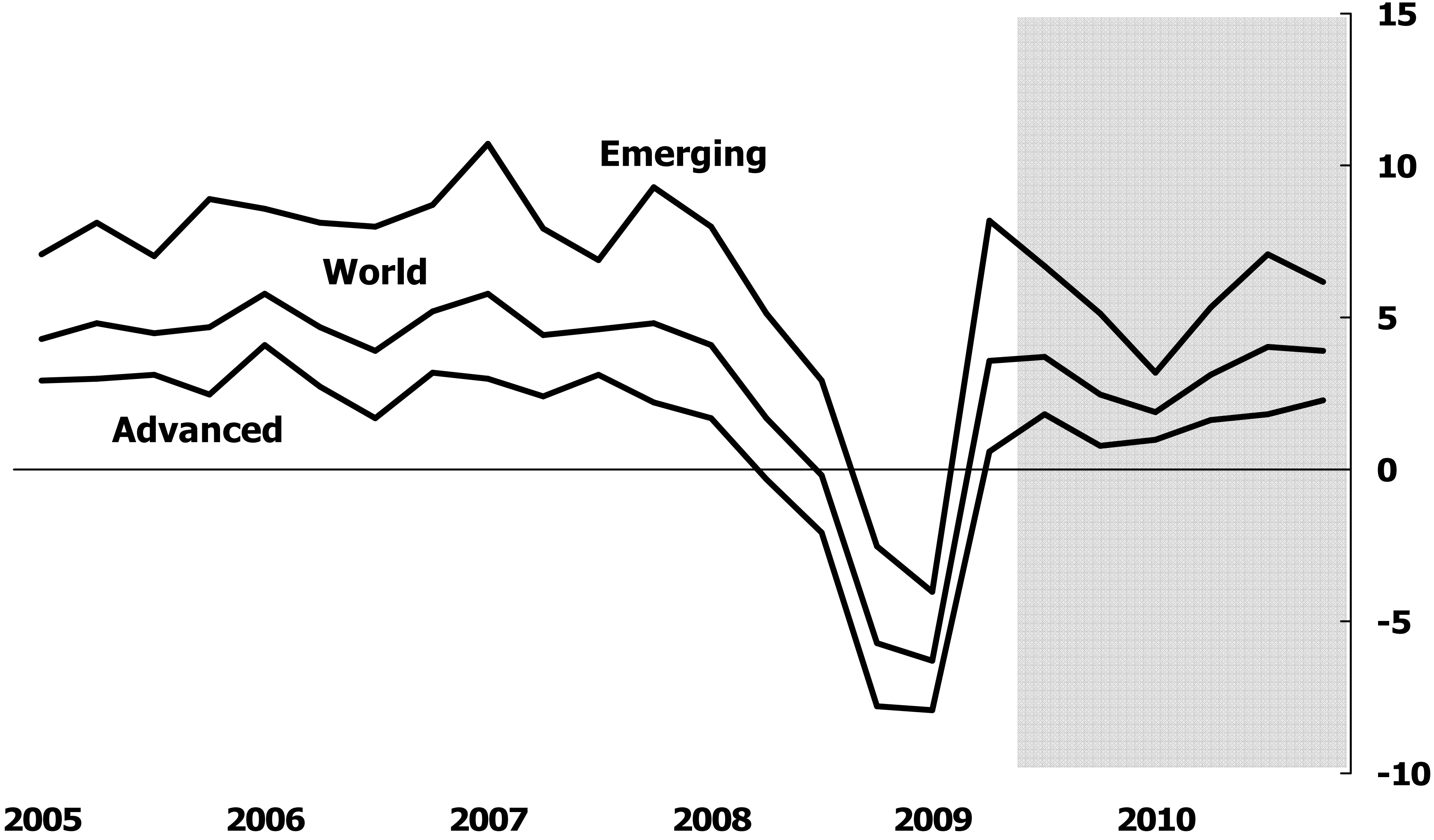
Interest Rate Spikes Avoided



Little Fiscal Retrenchment



Growth Recovering – but Likely to be Slow



Serious Risks but Good Prospects

- Risks
  - Slow recovery in industrial countries
  - Lethargic recovery of bank inflows
  - Poor implementation of adjustment programs
  - Fragility in domestic financial systems
  - Growing public debt
- Opportunities
  - Region well placed for European investment
  - Well-educated labor force
  - Poised to continue convergence to West European levels
  - IMF and others willing to continue support

Thank you