Challenges for the IMF during the financial crisis 2008-2012:

The ability to take measures to restore stability of the financial environment

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Abstract

This paper studies the new role of the International Monetary Fund during the global financial crisis and the European sovereign debt crises. Fund’s working engagement in Europe has intensified since the onset of the global financial crisis in 2008, with a significant increase, since mid-2010, as a result of the sovereign debt crisis in the euro area. Are the Fund’s current activities sufficient and should be given more scope? Or, in view of the scarcity of the Fund's resources, should its role as liquidity provider be limited, with more focus placed on the role of a crisis manager? Does the time horizon of standard IMF programmes (3 years) appear to be too short? The discussion of the new role of the IMF in the overall financial system amidst the prolonged financial crisis is highly animated. The main discussion has focused on the need to increase the IMF‘s financial resources. Old priorities and issues have given way to new ones. This paper presents some of them.

Keywords**:** optimal and sufficient IMF resources, the role of the IMF in a global crisis, short-term funding (bail-out loans) and long term support for growth initiatives, the need for growth initiatives (adjustment programmes) in countries and regions supported by the IMF.

JEL Classification**:** F 33, F 42, H 12

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1. Size of IMF financial resources

The global financial crisis has caused a rapid increase in demand for financing from international institutions. Consequently, these institutions, in particular the IMF, needed to increase their resources, in particular resources of the IMF. Prior to the crisis (until 2008), these resources were considered adequate, and their use showed a decreasing trend. This is because the basic financial resources stored in the general account come from, on the one hand, national membership quotas for the IMF (they are provided by member countries, primarily through payment of quotas) but also from the margin on loans granted on general terms and the additional allocation of Special Drawing Rights (SDRs) – which depend on the demand for Fund's loans – as well as from the sale of part of gold reserves. At the end of 1997 and the beginning of 1998, plans for IMF financing in the form of loans amounted to 32 billion SDR currency units, and subsequently the amount dropped to 1.3 billion SDR in 2008. However, already in the second half of 2008 this demand increased rapidly (IMF 2009)[1].

The crisis initially strengthened IMF resources because interest rate on loans, although reduced, constitutes its revenue. Therefore, literature emphasised that the IMF financing model goes against the grain of the fundamental mission of the Fund, i.e. prevention of financial crises. A strong financial position of the organisation's budget, given the existing financial mechanism, thus depends on the prevalence of such crises. (Grotte M., Życieńska A. 2011)[2]. This view, in light of too complex a mechanism of the composition of many different sources of IMF financing (see p.3 of this paper), seems oversimplified.

-The old central debate focusing on the need to increase the Fund‘s financial resources, which was held at the end of the former century and highlighted the Fund as a *crisis lender* and as a *crisis manager* with the responsibility to deal with actual or potential

[1] Review of the Adequacy and Options for Supplementing Fund Resources, January 2009 IMF Washington D.C
[2] Grotte M., A. Życieńska A., *Międzynarodowy Fundusz Walutowy i stojące przed nim wyzwania*, Warszawa 2011 NBP Materiały i Studia, vol. 254, p.8

crises was revived, however it took on a new significance *(Fischer, 1999)*[3]. While acknowledging a general allocation of SDRs as an option, Fisher dismisses it as being ineffective when a crisis is not truly global.

As a general rule, member states are able to raise cheap financing from the IMF in the case of temporary problems in their balances of payments. However, the global financial crisis which has already been lasting four years (2008-2012) is not temporary and its scale may exceed the possibilities of support from the IMF (IMF, 2011).[4] This may be supplemented with an observation that it is the resources and programs that are insufficient not only because of the scarcity of IMF resources (including resources from its shareholders), but also due to unusually high needs for funds on the part of borrowers - member countries and their creditors (the size of the official financing and much more damaging effects than in the past time in developing countries in situations of temporary problems in the balances of payments.) In developed countries, but particularly now in the euro area, the crisis in the global financial system tends to affect all countries and regions. The recent paper on *Strengthening the International Monetary System* (IMF, 2011) notes that the recent global crisis made clear that a systemic liquidity crisis requires the potential availability of very large and different (diversified) resources, and there is no global mechanism currently to ensure this function in a predictable manner[5].

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[3] Fischer S., *On the Need for an International Lender of Last Resort*, The Journal of Economic Perspectives, Vol. 13, No. 4, Autumn, 1999, pp. 85-104. He argued that given the IMF ‘ s access to resources, and given its technical experience in dealing with crises, the question is if the Fund has sufficient resources to be a crisis lender.

[4] Against the background of the global crisis and emerging lessons, the IMFC has called for concluding the 14th General Review of Quotas by January 2011.The Fund’s Liquidity Position—Review and Outlook Prepared by the Finance Department (in consultation with other departments), approved by A. Tweedie, April 2011, IMF.The results suggest, that total Fund resources between SDR 800 billion and SDR 940 billion may be needed, in which case the proposed expanded different financial instruments would represent an essential backstop to quotas even with a substantial quota increase.
A doubling of quotas, together with the proposed borrowed resources (expanded NAB – see p.11 of this paper), would provide the Fund with a commitment capacity of about US$1 trillion. Such an increase would allow the Fund to support members with its current facilities under a broad range of scenarios. However, even under the Fund’s existing mandate, some scenarios point to a case for more than a doubling of quota resources.

[5] Strengthening the International Monetary System—Taking Stock and Looking Ahead, IMF paper, March 2011

The crisis may develop in very different ways. Given the uncertainty about the optimal action in a given state and region or institution (e.g. IMF) and the lack of both long term crisis-exit strategy in individual countries and political unanimity in the euro zone and among other actors in the global economy, it is difficult to assess the needed resources for the IMF.

The IMF does not have great powers to create new own funds and financial resources as in the case of countries or banks because it relies on its past, existing particular resources and measures created by the states and subsequently managed by the IMF. These are not funds that would be proportionate and sufficient for prolonged, large scale global crises, even in the face of the "catalytic" role of the IMF discussed in a number of studies, i.e. a situation in which IMF financing has a multiplier effect on official and private capital inflows (Cottarelli and Giannini, 2002).[6]

- There are also opinions that the scale of the current debt and potential financing of the euro area by the IMF could expose the Fund to too great risk associated with the scale (*Aizenman, Sun 2009)*[7], particularly in the absence of consistency of action in the authorities of the Economic and Monetary Union. For this purpose, as part of the discussion in the IMF a proposal was made to establish a Global Stabilization Mechanism - a systemic liquidity provision mechanism to preserve global financial stability (GFSN)[8].

On the other hand it is often pointed out that the problems of the euro area should not burden excessively IMF balance sheets. Balance sheets of the IMF, which brings together 187 countries, are exposed too much to the risk related to the crisis in the euro area which covers 17 countries - argues for instance Mahamed El-Erian, CEO of PIMCO, the largest bond fund -

[6] Cottarelli C. and Giannini C., Bedfellows, *Hostages, or Perfect Stranger? Global Capital Markets and the Catalitic Effect of IMF Crisis Lending*, IMF Working Paper 02/193,2002.
[7] Aizenman, J. and Y. Sun, *The Financial Crisis and Sizable International Reserves Depletion: From 'Fear of Floating' to the 'Fear of Losing International Reserves'?*, NBER Working Paper No. 15308, October 2009
[8] The Fund's Mandate—The Future Financing Role—Reform Proposals, IMF Policy Paper, June 2010, See also The Fund's Mandate: Future Financing Role, IMF Policy Paper, March 2010.

in February 2012. Greece, Ireland and Portugal account for 60% of loans granted by the IMF - prior to granting the package for Greece.

If a need arises to provide loans to, for instance, Japan, whose public debt is extremely high and is currently the highest among advanced economies, and in the next few years demonstrates an upward trend (as a percentage to GDP - 233.4% in 2011 241% in 2012 and 246.8% in 2013) and whose growth was weaker than expected in the fourth quarter of 2011[9], the IMF may find itself in a “zero-sum game” as all the funds will probably be exhausted in the process of rescuing the euro area.

However, at the same time there is a danger of a spillover of the crisis in the euro zone onto the economies of other parts of the world and the risk of instability for the system as a whole. The IMF has produced “spillover reports” for the five economies in the world that have the greatest impact on other countries through trade, financial, and other links. Two of these reports focused on Europe (euro area and United Kingdom). The goal of spillover reports is to examine outward spillovers from countries whose policies or circumstances may significantly affect the stability of the global financial system (IMF 2012)[10].

- In addition, the size of the Fund's resources determines not only the scope of the financial assistance, but also makes the Fund credible, raises the level of confidence of market participants and serves as a preventive measure.

- Financial resources allocated to anti-crisis measures and access to those resources must be increased also in regional institutions. In Asia, the Chiang Mai Initiative was launched - a regional program managing approximately 120 billion USD and enabling to execute foreign exchange operations in order to provide fast assistance to the countries with short-term balance of payments problems. Measures were also undertaken in relation to currency

[9] Fiscal Monitor January 2012 IMF
[10] The IMF and Europe January 2012 – Factsheet URL: http:// www.imf org/external/np/exr/facts/Europe.htm

unions, including the Central African Economic and Monetary Community, Eastern Caribbean Currency Union, and the West African Economic and Monetary Union.

Would the concentration of support funds and centralisation of decisions on granting them not mean however a possibility of a more efficient management than the separate management by individual countries or regions? Must the availability of funds and effective financing by providing liquidity be linked inextricably with the anti-crisis management? Is supporting stronger policies, signalling these better policies to financial markets and by enhancing their credibility via program conditionality not more effective? (Ramakrishnan, Zalduendo, 2006)[11]

2. Forms of cooperation - IMF only as a provider of policy advice, controller or also the crisis manager

As far as the provision of liquidity is concerned, a number of institutionalised legal, decision-making and financial mechanisms was created (in particular in the euro area), referred to as safety nets (GFSN). It is network of country insurance and lending instruments - from multilateral institutions like the World Bank (IMF), through regional financing arrangements (for the euro area - EFSF, ESM, ECB activity in the area of liquidity provision), to arrangements relating to individual countries (both domestic and foreign) - that countries could draw on to cope with volatility and contagion from a crisis. The rich literature on this topic provides a description and analyses of the activities of these various institutions, including in the European Union, enabling a support for countries and providing liquidity to the financial system[12].

[11] Ramakrishnan U., Zalduendo J.,*The Role of IMF Support in Crisis Prevention*, IMF Working Paper 2006
[12] See for instance a long list of scientific literature included in the study on systematic crises in the world, Analitics of Systemic Crises and the Role of Global Financial Safety Nets, Strategy, Policy and Review Department IMF in consultation with other Departments, approved by Reza Moghadam, IMF Working Paper 2011

Apart from institutionalised formal bodies, there are various informal associations of institutions and groups - temporary and permanent. Groups of political leaders of developed countries of the world which make decisions of a strategic importance for the world economy (G-7/8, G-20) are the most important from the political perspective. They hold informal powers which often overlap with the tasks of the IMF (for instance exchange rate issues). This is evidently understandable, since they can act quickly, authoritatively and can explicitly try to reach consensus on issues related to the global crisis. Therefore, countries outside the G-20, including Poland, have a limited impact on the decisions taken by those bodies. The implementation of arrangements is subsequently a task of other international bodies where they already perform their functions.

However, there are many areas where they currently overlap, e.g. funding of the development falls within the competency of the World Bank and regional development banks, financial regulations and supervision - the Financial Stability Board, the international trade - WTO, foreign investments (OECD), international payment systems (Bank of International Settlements).

They require a review and coordination of activities, especially because each year an increasing number of those bodies is created, in particular within the euro area. A review should be also performed in relation to the system of representation and voting power of individual countries not only in the IMF, but in these organisations. A vivid discussion is held in connection with the expansion of many emerging economies and a change of their economic and financial position in the world.

Measures aimed at enhancing the coordination of the activities related to the global economic crisis are undertaken by the IMF. The Fund creates platforms for direct discussions held for the euro area and individual members of the area which have been formalized as an integral part of the IMF's surveillance of individual currency union members. As part of the euro area consultations, IMF staff exchanges views with counterparts from the European Central Bank (ECB) and the European Commission (EC) who are responsible for monetary and exchange rate policies and common policies in other areas, such as financial sector regulation and supervision, trade and competition policies, as well as other structural policies. An assessment of the fiscal position of the euro area as a whole is also included in the final staff report as part of the assessment of macroeconomic policies.

As part of the consultation staff presents the IMF's views on the economic outlook and policies of the euro area to the Eurogroup, which is comprised of the 17 finance ministers of the euro area.

A special cooperation through an informal body, also known as "Troika" due to the participation of representatives of three institutions (IMF, ECB, KE) should also be mentioned. It is aimed at ensuring maximum coherence and efficiency in discussions with governments on the policies that are needed to put their economies back on the path of sustainable economic growth and job creation. While the IMF cooperates closely with the other members of the Troika, Fund decisions on financing and policy advice are ultimately taken independently of the Troika process by the IMF's 24-member Executive Board.

Another cooperative effort, whose aim was to affect different regions of the world , the European Bank Coordination Initiative ("Vienna Initiative"), was launched at the height of the financial crisis to prevent a large-scale and uncoordinated withdrawal of cross-border bank groups from the region, something which could have triggered systemic bank crises not only in individual countries but in the region as a whole.

The Vienna Initiative brought together the IMF, the European Bank for Reconstruction and Development, the European Investment Bank and the World Bank, the EC and ECB, home and host country central banks, regulatory and fiscal authorities, as well as the largest western banking groups active in emerging Europe. It helped ensure that foreign banks remained engaged in Eastern Europe and that overall commitments remained intact, in conjunction with IMF-EU supported packages for Bosnia and Herzegovina, Hungary, Latvia, Romania and Serbia.

While banks' exposure maintenance commitments under the Vienna Initiative have lapsed with the end of the programs supported by the IMF and the EU, the Vienna Initiative participants remain in close contact. They stand ready to address the renewed risks of excessive deleveraging in Eastern and Central Europe and to bolster supervisory cooperation as cross-border banking groups are under financial pressure.

The Vienna Initiative performs control functions in relation to each IMF member country under Article IV of the Statute. Current economic and financial situation of the country and plans for the coming years are analysed and assessed. It is proposed that bilateral consultations be complemented with multilateral international comparisons, financial connections and flows of impulses at a broader regional and international scale, as well as with systemic stability problems and the identification of national policies which may adversely affect the global balance (Roubini, Setser 2007).[13]

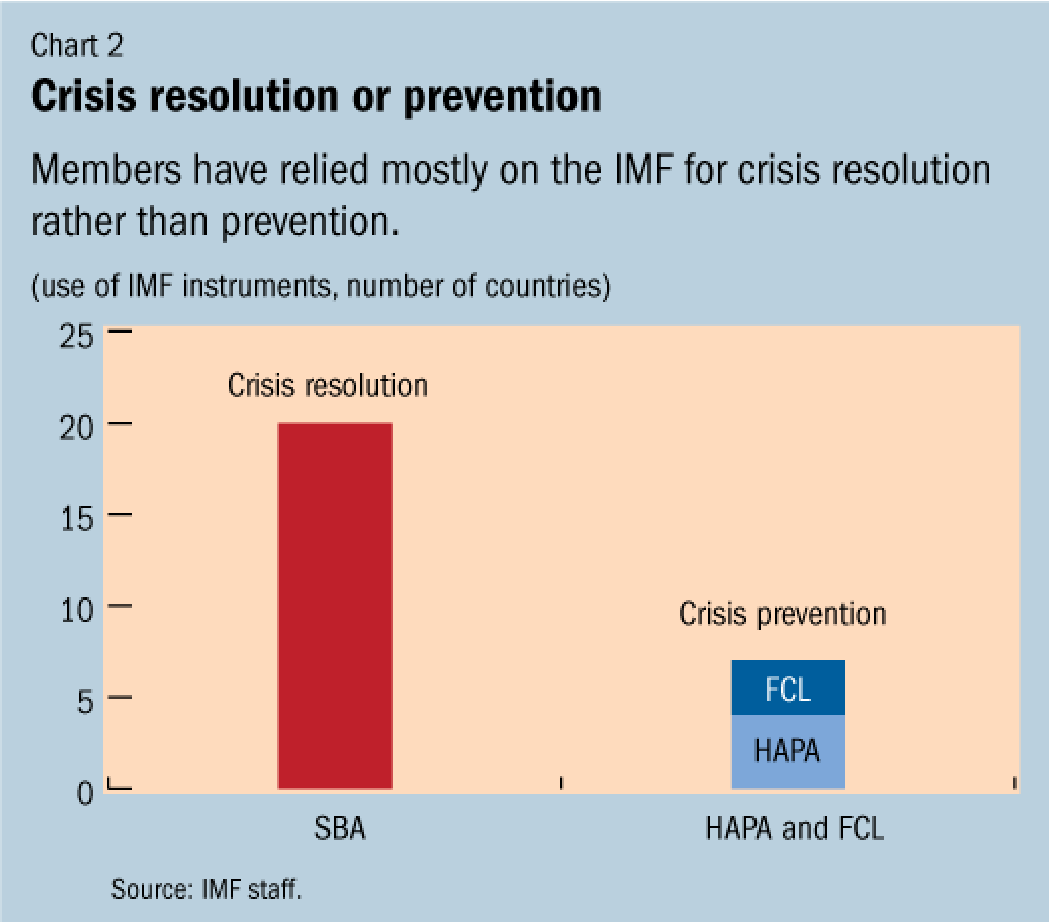
This direction, albeit right, raises the question of the possibility of organising such studies and the responsibility for their results. It seems that they should not pose a problem. Certainly, the IMF has a professional, international staff, the experience of many years in the field of supervision as well as a good organisational structure, transparency of rules, and especially political independence, which allows to avoid political particularism in relation to regions and countries. However, this is also a disadvantage because it does not allow for further action on a broader scale, making decisions and undertaking actions resulting from those analyses. This is because they fall within the competence of political bodies. However, the role of a crisis manager is possible. It is important to delimit the powers in this respect and

[13] Roubini N, Setser B. *The Future of the IMF*, Paper for the 2007 World Economic Forum, http://www.brookings.edu/topics/international-monetary-fund.aspx.

ensure a constructive, not just an advisory role. This is emphasised strongly by the government of the United States, the biggest beneficiary of the IMF - Treasury Secretary T. Geithner notes that greater IMF support for the euro zone and more funds for the IMF is possible but when supporting the euro area actions "we will need the IMF to play a supportive and constructive role", in particular the condition for providing this assistance is to revive economic growth while reconstructing the finance of the bankrupt Greece.

3. Expanded, diverse and flexible sources of country funding

As the global financial landscape has been transformed in recent years, the IMF’s lending instruments have evolved to meet changing needs of emerging and low-income countries. The sources and manner of funding changes, the terms of disbursement of funds are less restrictive, the role of the conditionality is changed, but at the same time, reduction of restrictions preventing a more rapid access to IMF financing is permitted. There have been criticisms in the past that some IMF loans had too many conditions that were insufficiently focused on core objectives. A modernization could be achieved by relying more on pre-set qualification criteria (ex-ante conditionality) rather than on traditional (ex post) conditionality. In addition, structural reforms will from now on be monitored in the context of program reviews, rather than through the use of structural performance criteria, which will be discontinued in all the Fund arrangements, including those with low-income countries. The Fund is used to a greater extent to perform the crisis prevention function instead of crisis resolution, however ex post measures are still dominant (see chart 2).



Since the crisis may develop in very different ways from those of past crises in developing or emerging economies (Poland, Latvia, Argentina), in order to resolve contemporary debt and liquidity problems in developed countries, even the most flexible, expanded IMF programs may turn out to be insufficient not only for financing but also for facilitating the economic recovery and economic growth of individual countries. For the time being, these programs help to solve short-term liquidity problems, buy time, thus to calm the markets (as in Greece). The issue currently related to the financing of indebted developed countries of the euro area in order to restore global balance in the euro area is of a different nature and weight (in relation to the size of resources). Provision of financing to these countries creates an increased risk and potential high losses for lending institutions (IMF and member countries). Apart from the issue of liquidity provision, it is necessary to implement simultaneously structural measures to ensure macro-economic adjustments (restructuring of the banking system - as in Ireland), and a reconstruction of the public sector (in Greece). Temporary elimination of the gap in the domestic financial system even seems to be harmful, addictive, therefore a real help, intervention in order to stimulate the economy of the country (Greece, Portugal), management of the public sphere is needed. Therefore, the instruments used by the Fund must be designed flexibly and tailored to the needs and capabilities of individual countries. They must be effectively addressed in order to restore stability and improve the resilience of the international financial system. The economies experiencing large capital inflows face a substantial risk of external debt crises (Reinhart and Rogoff, 2008) . In the two decades up to 2006 over one-third of identified episodes of large capital inflows ended abruptly and/or with a currency crisis (Cardarelli, 2009).

IMF arrangements in Europe now are provided mainly through Stand-By Arrangements (SBA), the Flexible Credit Line (FCL), the Precautionary and Liquidity Line (PLL), and the Extended Fund Facility (EFF).

The existing standard, traditional support is provided by the Stand-By Arrangement (SBA). It is granted to the country which is losing access to international financial markets. It allows a temporary financing of the balance of payments until the markets' confidence in the country's economic policy is restored. In order to make this instrument more flexible, a possibility to receive funds at the earlier date, reduce the frequency of the reviews and reduce fees for usage was recently introduced. In addition, limits of access to those funds were increased and lending terms were simplified.

Reforms of concessional lending instruments for low-income members are still in train.

In recent years the IMF announced the creation of a new ex ante mechanism - flexible credit line (FCL) for countries with very strong fundamentals, policies, and track records of policy implementation. Once approved, these loans — a type of insurance policy for strong performers—can be fully disbursed when the need arises rather than being conditioned on compliance with policy targets as in traditional IMF-supported programs. “The new crisis prevention tools enable the IMF to better tailor its lending to the different strengths and circumstances of its members” – say IMF officials.

These reforms were mainly to speed up the access to market financing, provide more security to countries in an uncertain market environment.

The Flexible Credit Line provides upfront access to IMF resources to countries with very good policies without tying disbursements to traditional policy conditionality. Countries that have made use of the credit line have pointed to the important role it played in helping maintain market access and creating room for accommodative policies during the crisis. The key to the Flexible Credit Line’s success has been its ability to send strong signals to financial markets, based on its rigorous qualification process. Poland has benefited from this facility since May 2009, paying commitment fees but not drawing from it (on the 21st of January 2011 SDR 69,819,000 in upfront fee was paid from state budget).

Recent reforms enhance the attractiveness of this credit line. Specifically:

• The duration of the Flexible Credit Line is doubled to up to two years, with a review after the first year to ensure uninterrupted access to the line for a longer period of time.

• The amount of access available under the credit line has been made more flexible, by removing the implicit cap of 1,000 % of quota. The Precautionary Credit Line provides flexibility in lending, and it will extend the availability of crisis insurance to countries with sound policies that may not qualify for the FCL and need similar insurance (meet the high FCL qualification standards), but do not require the same large-scale policy adjustment normally associated with traditional IMF Stand-by Arrangements (SBA). These countries can count on High Access Precautionary SBAs (HAPAs) as a regular lending window. Like the FCL, precautionary SBAs take account of country-specific circumstances and can be frontloaded based on the strength of a country's policies and the external environment. Salient features include:

• Countries that request use of the Precautionary Credit Line are assessed through a process of qualification (similar to that for the Flexible Credit Line) aimed at establishing the presence of sound policies and the absence of an immediate external financing need;

• The Precautionary Credit Line features streamlined conditionality assessed through reviews every six months and focused on addressing remaining vulnerabilities identified in the qualification assessment;

• This credit line could be established for a period of 1–2 years. It provides upfront access to IMF resources of up to 500 percent of quota for the first year and up to a total of 1,000 percent of quota after the first year.

Since early 2009, the IMF has signed a number of new bilateral loan and note purchase agreements to bolster its capacity to support member countries during the global economic crisis.

In early 2011, the amended and expanded New Arrangements to Borrow (NAB) became effective and was activated.

In December 2011 eurozone countries (the European Council) committed to providing additional resources to the IMF of up to 150 billion euro ($200 billion). This would be in the form of bilateral loans, in the form of an agreement or other legal form, transmitted directly to the Fund and allocated to the General Resources Account. Poland as one of the countries from outside the euro zone declared its readiness to participate in the increase of IMF resources.

Following the request of membership in 2011 through the International Monetary and Financial Committee and the general support by the G-20 leaders at the Cannes Summit, the IMF Executive Board discussed the adequacy of the Fund's resources in January 2012. Further political arrangements are in progress, in particular the issue of participation in financing the euro area countries by non-euro area countries (e.g. USA, Brazil or Mexico) gives rise to concern.

As of January 12, 2012, the IMF had 14 arrangements in Europe (see table), totaling about €120.6 billion or $161.6 billion (using the exchange rates prevailing on the effective date of each arrangement). This means that the IMF currently has devoted about 36.4 percent of its total usable resources committed under IMF-supported arrangements to Europe as a whole.

Most of the first wave of IMF-supported programs in 2008-09 was for countries in emerging Europe. The IMF provided front-loaded, flexible financing for many emerging European countries. In EU countries—including in Hungary, Latvia, and Romania—this financing was provided in conjunction with the EU. The IMF also provided financing to Iceland when its banking system collapsed in late 2008.

IMF-supported programs in Europe

As of January 12, 2012, the IMF had 14 arrangements in Europe, totaling about €120.63 billion, or $161.62 billion.

(In millions of SDRs, unless indicated otherwise)[1]

			Amount Agreed			Undrawn Balance		
			Billions[2]			Billions[2]		
Member	Effective Date	Expiration Date	Euros	Dollars	As percent of quota	Euros	Dollars	As percent of quota
Stand-by Arrangements								
Bosnia	7/8/09	6/30/12	1.13	1.57	600	0.75	1.04	400
Greece	5/9/10	5/8/13	30.87	39.34	2,399	10.38	13.23	807
Kosovo	7/21/10	1/20/12	0.11	0.14	157	0.09	0.11	125
Romania[3]	3/31/11	3/30/13	3.45	4.90	300	3.45	4.90	300
Serbia, Republic of[3]	9/29/11	3/28/13	1.08	1.47	200	1.08	1.47	200
Ukraine	7/28/10	12/27/12	11.66	15.15	729	9.04	11.74	565
Extended Arrangements								
Armenia	6/28/10	6/27/13	0.16	0.20	145	0.08	0.09	69
Ireland	12/16/10	12/15/13	22.57	29.87	1,548	9.76	12.91	669
Moldova	1/29/10	1/28/13	0.21	0.29	150	0.12	0.16	85
Portugal	5/20/11	5/19/14	26.53	37.78	2,306	13.68	19.47	1,189
Flexible Credit Line								
Poland[3]	1/21/11	1/20/13	22.04	29.80	1,135	22.04	29.80	1,135
Precautionary and Liquidity Line								
Macedonia[3]	1/19/11	1/18/13	0.48	0.64	600	0.25	0.34	314
Extended Credit Facility								
Armenia	6/28/10	6/27/13	0.16	0.20	145	0.07	0.09	64
Moldova	1/29/10	1/28/13	0.21	0.29	150	0.05	0.07	36

Source: IMF staff calculations.
[1]Totals may not add due to rounding.
[2]Calculated by multiplying program amount in SDR by the respective exchange rate prevailing on the effective date of the program.
[3]Treated as precautionary by the authorities.

During the global financial crisis, a number of emerging European countries requested financial support from the IMF to help them overcome their fiscal and external imbalances. In 2010-11, three members of the euro area—Greece, Portugal, and Ireland—also accessed IMF resources.

The IMF's Executive Board also continued its discussions about developing a more comprehensive mechanism to reduce countries' vulnerability to contagion during systemic events. While different options are still being considered, the idea of the so-called Global Stabilization Mechanism would be for the IMF to make consensual and simultaneous multicountry offers to approve Flexible Credit Line arrangements. The coordinated provision of access to IMF financing would help bolster market confidence during systemic crises and thus avoid a large-scale withdrawal of liquidity.

It will be imperative for the IMF to coordinate its reforms with other complementary efforts worldwide to develop an effective network of crisis-prevention mechanisms. In this spirit, a high-level meetings explores ways to promote greater synergies in regional surveillance and lending activities, with the ultimate goal of a global financial safety net.

However one must remember about the potential problem stemming from the time period covered by the programs. The time horizon of standard IMF programmes is 3 years. It appears to be too short given such a deep crisis which will prevail in the euro area over a long period of time. It will not be possible to bring under control the recession and high unemployment in most southern countries of the euro area, a high level of deficit and public debt, and a recovery of the economies of individual countries in such a short time. Only current funding can be provided in the initial period of reform. This is emphasised by L.B. Smaghi, who also stresses that the reforms are conditioned by the need to maintain a balance throughout the cycle of reforms, which means that the access to capital should be provided on a regular and continuous basis. It must therefore be accompanied by the certainty of continued financing under a long-term strategy for overcoming the crisis, coordination of activities across the area and the knowledge of the possible target scenarios for systemic activities on a scale of many years in their implementation from the beginning (Smaghi 2012).[14]

4. Conclusions

The difficulties in identifying the role of the IMF, as presented in this Paper, may occur throughout 2012. They are very likely to increase as the financial crisis develops in subsequent years. The inability of reaching a political consensus on crisis resolution measures slows down the actions of the IMF and makes it difficult for the Fund to properly address the needs of the global financial system.

[14] Smaghi L.B., *How to equip the IMF for the crisis of our time*, Financial Times, January 27, 2012

One of the ways to facilitate the IMF to respond to economic crises would be to prolong the duration of the adjustment programs beyond three years. Such a solution may contribute to supporting growth initiatives in countries of IMF operations.

However, even the best solutions and programs mean nothing without a proper support from the leading countries of the world economy. It is therefore essential for the world political leaders to devise a coordinated form of coping with the crisis. Lack of coordinated action or no action at all may have equally negative consequences. Especially today it is of vital importance to cooperate on a global scale.

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