

The Design of a Country Insurance Facility: Discussion

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A Global Liquidity Facility

- EMs suffer from liquidity shocks
- The authors draw lessons from:
 - Domestic LLRs
 - Bilateral swaps from the US Fedand propose a global liquidity facility to benefit a broad range of countries
- For an effective ILLR, the authors suggest a liquidity facility with **automaticity** (of ex ante qualification and ex post trigger) and **plentiful liquidity**
- In practice, there may be a trade-off between these two desirable features

Automaticity: Rules vs. Discretion

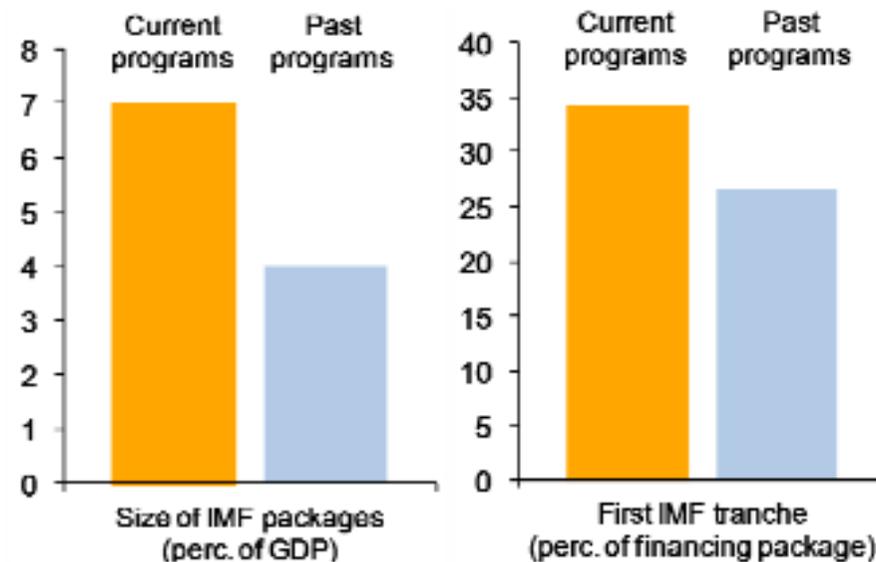
- Pre-qualification has several advantages:
 - Increased predictability
 - Incentive for sound policies
 - De-stigmatizing request for external financial assistance
- Automatic pre-qualification places a burden on forecasting ability:
 - Severity of shock (US unemployment)
 - Transmission mechanisms (Irish banking crisis)
 - Shocks to “collateral” (Euro-zone developments)
- This narrows the scope for pre-qualification and argues for some discretion

Use of the Crisis Facility

- Objective triggers
 - Identifying triggers: González-Rozada and Levy-Yeyati (2005), Caballero and Panageas (2008)
 - Complications: Risk-sharing vs. contagion, cyclical vs. structural shocks, the need for adjustment
- Informational imperfections
 - Market sensitivity of labeling members needs to be taken into account
 - Take-up of FCL
 - Secrecy of domestic LLR facilities

Flexibility May Be A Substitute

- IMF packages during the crisis:



- Reduction in EM spreads may have been due to expansion of aggregate Fund resources

Regional Financing Arrangements

- As trade linkages grow within regions, pooling arrangements become more attractive (Basu et al. 2010)
 - Intra-regional exports as % of total exports: Europe (73%), Asia (50%), South and Central America (26%) (data from R. Bebczuk)
 - Transfers of reserves to regional pools or co-financing to leverage off IMF lending and/or Fed swaps
- Cross-border financial linkages: May improve risk-diversification but may also make the global network more prone to systemic risks
- Susceptible to region-wide shocks so global pool still needed

Conclusion

- A very stimulating proposal!