Abstract:

International Monetary Fund (IMF)

“The Sovereign Debt Crisis: Europe and the IMF”
International Monetary Fund: an introduction

The I.M.F. was created at the Bretton Woods Conference in 1944 as a framework for international economic cooperation to be established post World War II. The Fund works to foster global growth and economic stability. It provides policy advice and financing to members in economic difficulties and works with developing nations to help them achieve macroeconomic stability and reduce poverty. The I.M.F. also promotes international monetary cooperation and exchange rate stability, assisting in the establishment of a multilateral system of payments, facilitates the expansion and balanced growth of international trade, and provides resources to help members in balance of payments difficulties. As a specialized United Nations agency, the Fund counts 188 members, which are represented through a quota system.

The I.M.F. thus supports its members by providing:

- policy advice to governments and central banks based on analysis of economic trends and cross-country experiences;
- research, forecasts, and analysis based on tracking of global, regional and local economies and markets;
- loans to help countries overcome economic difficulties (public finances/governments funding);
- concessional loans to help fight poverty in developing countries;
- Technical assistance and training to help countries improve the management of their economies.

In managing the challenges posed by globalization and economic development, the I.M.F. tracks global economic trends and passes on expertise to governments on how to tackle economic difficulties, providing a unique forum for policy dialogue.

Europe, the crisis and the I.M.F.

The crisis began in the mortgage markets in the United States in 2007 and swiftly escalated into a crisis that affected activity and institutions worldwide. The following year the crisis called the International Monetary Fund back into action, as it brokered rescue packages for countries like Pakistan, Iceland, Hungary and Ukraine. The IMF was mobilized on many fronts to support its member countries, increasing its lending, using its cross-country experience to advice on policy solutions, and introducing reforms to modernize its operations and become more responsive to the needs of its members. The Fund’s work in Europe further increased when the apex of the crisis shifted to the region and the sovereign debt crisis hit the euro area in the spring of 2010, leading the I.M.F. to focus largely on Europe, an idea that would have been unthinkable before the outbreak of the sovereign debt crisis. In particular, the Fund was called to play a major role when France and Germany were unable to agree on a purely European solution to Greece’s short-term debt needs. In late 2011, the Fund took aggressive steps to help stop the debt crisis from spiraling out of control. It announced that it would offer credit to countries in relatively good fiscal shape facing liquidity problems. During the period 2010-2012, another two members of the euro area - Portugal, and Ireland - requested and were granted access to I.M.F. resources in order to help overcome their fiscal and external imbalances. In March 2012, European leaders agreed to bolster the I.M.F. firewall (the permanent European Stability Mechanism) from 500 billion euros to 800 billion euros. As of mid-2012, the I.M.F. had arrangements with 10 countries in Europe with commitments totalling to €124.06 billion, resulting in the 62% of the I.M.F.’s total disbursing and precautionary commitments.

The I.M.F. has repeatedly sought discussions with governments on the policies that are needed to put their economies back on the path of sustainable economic growth and job creation and help ensure that foreign banks remained engaged in Eastern Europe. Such goals have been pursued through the Funds’ engagement in two major cooperation programs with the European Commission and the European Central Bank (known as Troika), and in addition, amongst others, the European Bank for Reconstruction and Development, in the European Bank Coordination Initiative (Vienna Initiative).

New challenges ahead

The director of the International Monetary Fund, Ms. Lagarde, urged euro-zone members to make a more determined, collective response to the crisis by taking concrete steps toward a complete monetary and fiscal union, including recommendations for a unified banking system and the issuance of joint euro zone debt. Addressing these problems is crucial to ensuring the restart of durable growth, which is essential for a sustained and strong global recovery.
Many challenges still attend the I.M.F. and the Euro-zone: the financial backing of the European Union and the International Monetary Fund has been essential to the countries of the region, a broader and deeper structural approach is necessary and reforms and difficult decisions will need to accompany the boosted lending capacities of the Fund. The sovereign debt crisis is far from solved and many European countries are still potentially at risk. What can the Fund and the European Nations do to face it? What affective solutions can they propose in the framework of the I.M.F.?