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## **The extent of change of the policies and principles of the International Monetary Fund after 2008 global financial crisis**

This paper has been divided into several sections in which it scrutinizes the extent at which the principle and policies of IMF have changed with respect to the 2008 global financial crisis. In spite of diverse economic and political situations under which crises occurred during different times of history, particular features common to all crises are revealed. The rapidly evolving global economy, as well as new challenges with economic and social implications make the problem of financial crises, including currency crises, extremely important in the current situation. Especially given the fact that the crises affect various countries and regions of the world. Serious currency crashes have occurred in developing countries with marked structural problems, but also in mature economies which possess fully developed market mechanisms and efficient systemic solutions. In addition, the severely destructive impact on the global financial balance and the scale of potential losses caused by such turbulences indicate that there is a need for a responsible and effective preventive policy on all decision-making levels. It seems that adequate responses and actions on the global level, in addition to actions simultaneously taken by regional organizations and by various countries themselves, can be a basis for creating conditions conducive both to the stabilization of the entire global economy and to its sustainable growth. This article looks into the conceptualization of the performance of IMF in the crisis, highlighting its role, limits of output performance, and utility as metrics of evaluation.

*Keywords:* financial crisis, global financial crisis, consequences of the crisis, IMF programs, monetary policy.

The global financial crisis of 2008 had an adverse impact on the International Monetary Fund (IMF), pushing it back to the center stage of the global economic governance just after a period in which it had lost legitimacy and relevance. The output performance is considerably a highly fundamental metric in the evaluation of the ability of IMF to predict the crisis through a networked surveillance; make a timely response by swiftly and effectively lending; and reverse its set principles, policies and procedures with the aim of preparing to prevent the next crisis in the best way. Nevertheless, the performance of IMF on the 2008 global financial crisis was mixed up [1]. The IMF did not do a satisfactory job with regards to addressing the global imbalances ahead of the 2008 crisis through its surveillance activities, but they did a commendable job by responding decisively and quickly within the first days and months of the crisis. This paper takes an evaluation of the extent to which the policies and principles of International Monetary Fund on the ex-ante, mid-term, and ex-post of the 2008 global financial crisis.

The 2008 global financial crisis was a great test to the IMF from the onset on its importance and the role it plays in the global economic governance and in the global economy. The argument that IMF had lost credibility and relevance had sparked among many people even before the crisis had ignited in September 2008. Its staff was shrinking, and its lending was declining. A number of countries had stopped paying attention to the surveillance of IMF. The crisis resulted in a drastic change of the IMF, thereby, infusing it with a level of importance and fresh life as the centerpiece of the global economic governance. The leaders of G20 turned to IMF to make it be the financial firefighter, which included committing to an agreement to triple the IMF lending resources up to \$750 billion. The resources of IMF by 2013 had hit the \$1 trillion mark. The lending of IMF skyrocketed between the periods of 2007–2011 from less than \$1 billion to a peak of more than \$220 billion. In the explosion of the euro crisis in spring of 2010, IMF was part of the «Troika» of creditors along with the European Central Bank and the European Union, which played a critical role in responding to the European crisis. However, the move of the IMF in the global economic governance in the wake of the 2008 global financial crisis was never as a result of an excellent pre-crisis performance but on the fact that it was the most appropriate institution at that particular time [2].

Therefore, the response by the IMF to the crisis set the space for its relevance and legitimacy in the future. Taking a scrutiny into IMF change of policies and principles with respect to the occurrences of the 2008 global financial crisis becomes important due to the central role it is expected to play in the global economic

governance and ongoing scrutiny of the credibility of the institution. After all, the purpose of IMF is to safeguard the international monetary stability and ensure promotion on economic growth.

The eruption of the global financial crisis happened in September 2008, as a result of the collapse of the Lehman Brother, which caused a shock on the global markets resulting in financial panic as there was seizing up of the credit markets, consequently resulting in unemployment and economic crises. This global financial crisis had its roots in a subprime housing loan crisis in the U.S., which was caused by increasing prices of houses, availability of some easy-to-obtain mortgages, relative stable short-term interest rates, and weak regulation on over-sighting. There was securitization of the mortgages, thereby creating risky instruments. The rise of the interest rates, individuals began to default on mortgages, sales of houses slowed down, and the bubble popped. There was flimsy regulation, and this played a role in the meltdown. The U.S. never made any attempts to resolve the housing bubble as well as the central bankers of Europe failing to resolve the urge in borrowing.

Lehman is among the largest investment banks and the oldest bank in the United States, with assets worth \$600 billion and 25000 employees. The subprime mortgage crisis had hit it hard with a sharp decline in its stock's value across the year. Its consideration to be bankrupt was historic [3].

The resultant «Great Depression» became the worst that the world had ever experienced since the 1930 Great Depression, thereby resulting in exerting enormous pressure on the existing efforts to further global economic governance. There was a dramatic contraction of trade, capital flows dried up, and there was a rise in unemployment in the months that followed. The global economic growth in 2008 was rated at 1.9 %, while the previous year it was rated at 2.1 %. This kind of contraction marked the first time such a decline was experienced in the world for over sixty years.

The view by the experts on the crisis and responses towards it indicate that the failures of the global economic governance, implying that the IMF somehow lacked the ideas, leadership, or the coordination before, during or even after — basing on the historic role it plays in the global economic governance. The structure of international cooperation on the matter of economic concerns has seemed seriously deficient, and in various areas of global economic concerns apart from the monetary cooperation; the international cooperation is flawed, non-existent and stalled. This could be based on the fact that the various governments are facing domestic political obstacles towards ensuring increased cooperation, and some of the key players in international economics have divergent interests and goals over different major economic issues.

The strong aspect of consensus that was witnessed at November 2008 and in April 2009 G20 meetings became the basis of common fear, but as long as this was abated, a forward movement was made [4]. The argument of the IMF staff economists was that the crisis was a story of fragmented surveillance in the silos of expertise; a debate on a policy that was disbursed by a number of fora, with limited cooperation from national financial regulators in the economy; ad-hoc regional, bilateral, and multilateral facilities towards addressing the liquidity and financing needs; and the general failures to ensure engagement of key decision-makers around the world.

The IMF made an open acknowledgment that it provides few warnings with respects to the increased vulnerabilities and risks in the worldwide financial system which led to the global economic crisis, though, it is of great importance to understand that IMF was not in this alone. The external and internal reviews have shown that there was insufficient attention, which had been paid to the vulnerabilities in the advanced economies being that they had a strong conviction that the structures they laid for the financial institutions put them in a more position as the financial markets depicted a fundamentally sound status. They overlooked the spillover and the contagion risks and regarded any form of risks that were raised to be too unspecific and too scattered to generate a policy response. The International Monetary Fund (IMF) worked on putting significant efforts towards overhauling its entire surveillance activities by recognizing that this was basically an ongoing undertaking.

The global financial crisis resulted in exposing the prevalent analytical weaknesses throughout the profession of economics and the surveillance entities like the IMF, Bank for International Settlements, the Organization for Economic Co-operation and Development (OECD). The IMF showed analytical weaknesses in the sense that there were knowledge gaps throughout the interaction that exist between the financial sector and the macro-economy, absence of a framework for global risk assessment and high level of insufficient discussions and analysis of the spillovers and risks with high impact but low probability. The problem of data gaps was also a major concern. The Independent Evaluation Office (IEO) of IMF showed that the «silos» within its operations has further hampered the ability of its staff in developing a complete framework of the primary vulnerabilities and risks which face the economy at global level [5]. The IMF responded to this con-

cern by introducing a number of publicly available confidential exercises and multilateral reports which are aimed at ensuring facilitation of the discussion and identification of the baseline of the spillovers and the risks. The staff of IMF regularly updates the internal global assessment of risks alongside with the prevailing confidential exercises in order to strengthen the move to ensure identification of risks and vulnerabilities at an early stage [6]. The Financial Stability Board (FSB) and the IMF undertook the step of tailing risks and vulnerabilities to the global economy by the governors of central bank, and finance ministers, and introduced a set of semiannual presentations. The IMF have further put efforts to break the internal silos and ensuring fostering of some of the interdepartmental collaboration.

Moreover, the IMF bridged the gaps in its legal framework surrounding the surveillance by adopting the Integrated Surveillance Decision (ISD) in 2012. Before the ISD, the consultations on the bilateral regulations of Article IV, legally restricted IMF's capacity to discuss the vulnerabilities and risks from the policies of a member, modalities and scope of the multilateral surveillance had not been defined properly. The ISD guarantee the IMF's capacity to discuss the spillovers, which arise from the individual members' policies which may result in undermining the global economic or financial stability as a section of the Article IV discussion. While IMF may give suggestions on the other policy actions to be adopted, the ISD is not supposed to give the International Monetary Fund (IMF) the power requiring a member to change its policies. Additionally, the greater meditations on the spillovers, all the current reports have included the matrices of risk assessment besides having reformed the analysis on the sustainability of debt.

These particular changes have created an improvement of the IMF's operations around the process of identification of risks and assessing potential spillovers [7]. The other remaining priorities that IMF identified in its Triennial Surveillance Review of 2014 included continuous improvement of the integration that exists between the multilateral and bilateral surveillance, integration of the microfinance analysis into the discussions of Article IV, undertake strengthening of the surveillance of prudential policies, expansion of policy advice of structural issues, strengthening the procedures used in assessment of the external balances, and reviving the «balance sheet analysis».

The IMF's surveillance system ensures monitoring of the global economy and the member states' financial and economic policies. It gives advice to countries on risks and on the appropriate policies they need to adopt in order to ensure reduction of vulnerability to crises and promote economic stability [8]. Moreover, a central role of the fund is to exercise an overseeing responsibility in the international financial system, even though, the surveillance recommendations are not binding upon member states.

The fund's two specific types of surveillance are the bilateral (in which it addresses individual members) and multilateral (which focuses on the stability of the global economy). The IMF has been publishing the *World Economic Outlook* since 1981. This is the main document which reflects on the fund's multilateral surveillance operations. The second document in terms of importance to the fund is the *Global Financial Stability Report*, which had its first publication in 2002 [9]. The fund undertakes its operations in terms of bilateral surveillance by having its staff meet every year with each of the member countries for the Article IV consultations, which is a requirement of the membership of every country in the IMF. The mission of the IMF staff was to assess the financial and the economic policies and conditions of a country by meeting and discussing with governments and the central bank officials. Often, the IMF staff meets with other domestic players like the members of parliament and representatives from civil society, labor and businesses. The Executive Board of IMF reviews the report from the staff in order to assess the policies and actions of the member states with the aim of ensuring that a member state is compliant with the IMF Articles of Agreement.

The IMF was considerably not a key player right when the market imploded. The crisis was not that immediately about the emerging markets or the developing nations which were the main clients of IMF. However, the fund performed a poor job by raising any red flag as a result of its surveillance before the crisis. It never noticed the crisis, though, it noticed the instability of the housing prices in a number of advanced economies, until the crisis broke out. Its forecasts showed stable conditions and could not understand what exactly happened to the banks and other financial institutions. In fact, in April 2007, its *World Economic Outlook* happened to conclude that the risks to the global economy seemed to be very low.

The IMF showed a little capability in identifying some of the risks, for instance, flagging members of a possible impact of the global imbalances on the dollar. Even such identification could be made, the message was ineffective, and everything was put in general terms, as there was no any assessment of the scale of the problems or rather the severity of the potential impact of such indications which were undermined by the accompanying sanguine overall outlook.

There was a quick move by the IMF when the crisis had hit in order to get money out of the door and help in the coordination of the regional and global initiatives [10]. Countries then lined up for help once the global economy had begun to contract. The IMF Managing Director, Strauss-Khan made it clear that he wanted the staff of the fund to keep conditionality for the loans narrowing down to those issues related to the crisis, and then lower the conditionality as possible as they could. IMF had already used its Emergency Financing Mechanism by the end of October 2008 to give assistance in a highly speedy way. Within the mechanism, the board of the fund made approvals for loans in a rapid manner, approximately within 48–72 hours after the national government and the IMF had come to an agreement. The latter became highly dramatic as for the time in 30 years a Western European country, Iceland, borrowed from IMF as a result of the collapse of the Iceland banking system. The loans were provided under the Emergency Financing Mechanism. The majority of the loans provided by the IMF was supported by other commitments, to enable a coordinated response with the total financing going beyond the IMF loan itself.

The rapid response by the IMF to those countries which were severely impacted by the crisis was a reflection of the fact that they were obviously vulnerable to the external shocks. For instance, Hungary faced a possibility of its own financial meltdown just after the crisis had begun, amid an adverse sell-off in the government bonds and a downward pressure on the forint [11].

Additionally, the IMF announced its plans to establish a \$100 billion new short-term lending facility, that is, the Short-Term Liquidity Facility, to ensure the provision of loans of up to 3 months to the middle-income nations that included South Korea, Mexico, and Brazil. This loan never included the policy conditionality, which could ideally facilitate the process of getting that money disbursed quickly [12]. Later, this turned to the Flexible Credit Line (FCL) in 2009, which finally even provided great flexibility on such issues like repayment period and the aspect of a cap to fund resources.

Moreover, the IMF changed its policies towards improving its communication process of the key surveillance messages in its public reports. The fund understood that in order to gain traction with the policy makers, the key surveillance messages had to be communicated clearly. The communication can be held behind the closed doors during the Article IV discussions, and publicly through the published forms of the Article IV and the multilateral surveillance reports. Though, it is not easy to judge the effectiveness and candour of the IMF's bilateral discussions with the policy-makers from other quotas, the published surveillance reports have faced criticism both pre-crisis and post-crisis periods for the reason of lacking clarity, insufficient follow-ups on the previously identified risks and recommendations, showing weak links between the policy recommendations and presented analysis, and ensuring provision of a laundry list of risks instead of doing an highlight of the risks of the most concern. The introduction of the new multilateral reports since the 2008 global financial crisis has led to a further increase in the amount of information provided to the policy-makers in order to digest and absorb, with expression of complaints as in the 2014 Triennial Surveillance Review which showed that the volume of the IMF reports tend to overload the policy-makers [13].

The IMF further restructured its policies and principles with aim of improving the management of its funding risks. The fund realized that by strengthening its risk management, controls and governance, the aspects of pro-cyclical tendencies would be easily avoided [7]. That is, the stress test estimates and assumptions of risks associated with liquid assets, funding costs and cash flows were restructured to be increasingly sensitive to the collateral triggers and credit ratings of firms.

Additionally, the IMF redesigned its funding to create a buffer on the minimum liquidity funding. It set the minimum stock that is required for the high liquid assets, which are considered to be less prone to the aspect of illiquidity when exposed to extreme events, as this would provide insurance at times of market stress or downturn [7]. This was applied systematically across fundamental financial institutions to ensure that there is stability in their financial undertakings.

The 2008 global financial crisis prompted the IMF's creation of a crisis firewall. The fund wanted to form the best approach towards meeting the ever-growing financing needs by those countries, which were hit by this drastic financial crisis [9]. It wanted to strengthen the global financial and economic stability, and thus, it hugely bolstered its capacity to lend after the onset of the 2008 global financial crisis. The fund ensured that this was achieved by increasing the quota subscriptions of the member countries which is the key source of IMF financing; and thus, being able to secure huge borrowing agreements.

The IMF stepped up the crisis lending. It overhauled its framework of lending to make it suit the needs of the countries, which were affected by the crisis. Its new framework gave emphasis on crisis prevention, assessment, and streamlining of program conditionality [1]. From the start of the 2008 global financial crisis, over \$700 billion were committed by the IMF towards providing finances as a buffer to its member coun-

tries. In addition, the IMF put measures to help the poorest countries of the world [1]. It took an unprecedented reform on its policies and principles towards the low-income nations and quadrupled the resources devoted to the process of concessional lending.

The fund sharpened its policy advice and analysis. It ensured a thorough provision of policy advice and risk analysis to enable the member countries to overcome the spillovers and challenges from the global financial crisis [10]. The fund also implemented a number of initiatives to adapt and strengthen the surveillance to a highly interconnected world, taking into consideration the lessons that were learned from the crisis. Moreover, the fund reformed its way of governance to ensure that it effectively provides a global economic stability.

The 2008 global financial crisis triggered a rapid response by some of the most powerful states alongside their central banks, thereby resulting in pushing the IMF back onto the core of the global economic governance after experiencing a period of a declining demand for its advice and lending facilities. However, the newfound significance of the IMF was not on the basis of the past excellent performance, but the position it occupied as the institution to go to in such times of economic trouble. The IMF became the recipient of a large infusion of resources and considerably became the crisis manager, by quickly dispensing millions of dollars to those countries which were in need.

The pre-crisis, during and the post-crisis periods marked the different levels of IMF undertakings. The crisis called for strategic approach by the IMF in the period before it occurred, during when it was occurring, and the period in which it had occurred [14]. This has obviously led to the change in policies and principles of the fund in order to meet the contingent aspects of the crisis and ensure a proper and strategic measure in handling the world's worst economic and financial crisis. However, the fund's output performance following the mixed up in key areas. The fund dropped the ball with regards to foreseeing the crisis. However, after the crisis had hit, the fund adjusted its principles and policies in order to foster a quick and effective response.

Moreover, a multilateral approach should be formulated with regards to filling the information gaps that could exist. An internationally coordinated and cooperative approach would result in paying significantly in ensuring stability of the global economy as it measures the cross-border elements of financial exposures and spillovers. The IMF should enhance its cooperation and collaboration with the other national authorities which are tasked with the responsibility of stabilizing global financial economy.

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А.Б. Тасмаганбетов, Г.Т. Ганчев, Г.И. Ахметова, А.Т. Жансейтов

## **Халықаралық валюта қорының 2008 жылғы жаһандық қаржы дағдарысынан кейінгі саясаты мен қағидаттарының өзгеру дәрежесі**

Мақала 2008 жылғы жаһандық қаржы дағдарысына байланысты Халықаралық валюта қорының (ХВҚ) қағидаттары мен саясатының өзгеру дәрежесі қарастырылатын бірнеше бөлімдерге бөлінген. Өртүрлі тарихи кезеңдерде дағдарыс болған экономикалық және саяси жағдайлардың алуан түрлілігіне қарамастан, барлық дағдарыстар үшін ортақ ерекшеліктер анықталды. Қарқынды дамып келе жатқан әлемдік экономика, сондай-ақ экономикалық және әлеуметтік салдары бар жаңа сын-қатерлер қаржылық дағдарыстар, оның ішінде валюталық дағдарыстар проблемасын қазіргі жағдайда өте өзекті етеді. Әсіресе дағдарыстар әлемнің түрлі елдері мен өңірлеріне әсер ететінін ескере отырып, елеулі валюталық құлдырау тек құрылымдық проблемалары бар дамушы елдерде ғана емес, толық дамыған нарықтық тетіктерге және тиімді жүйелік шешімдерге ие жетілген экономикасы бар елдерде де орын алды. Бұдан басқа, жаһандық қаржы теңгеріміне және осындай күйзелістерден туындаған әлеуетті шығындардың ауқымына елеулі жойқын әсер ету шешімдерді қабылдаудың барлық деңгейлерінде жауапты және тиімді алдын алу саясатын жүргізу қажеттігін көрсетеді. Жаһандық деңгейдегі барабар жауап шаралары мен іс-қимылдар өңірлік ұйымдар мен түрлі елдердің өздері бір мезгілде қабылдайтын іс-әрекеттерден басқа, бүкіл әлемдік экономиканы тұрақтандыруға да, оның тұрақты өсуіне де ықпал ететін жағдайлар жасау үшін негіз бола алады. Бұл мақалада ХВҚ-ның дағдарыс жағдайында қызметінің концептуалдануы қарастырылды, оның рөлі, нәтижелілік шегі және пайдалылығы бағалау метрикасы ретінде атап көрсетілді.

*Кілт сөздер:* қаржылық дағдарыс, әлемдік қаржы дағдарысы, дағдарыстың салдары, ХВҚ бағдарламалары, ақша-несие саясаты.

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## **Степень изменения политики и принципов Международного валютного фонда после глобального финансового кризиса 2008 года**

В статье рассмотрена степень изменения принципов и политики Международного валютного фонда (МВФ) в связи с глобальным финансовым кризисом 2008 года. Несмотря на многообразие экономических и политических ситуаций, в которых происходили кризисы в разные исторические периоды, выявляются общие для всех кризисов особенности. Стремительно развивающаяся мировая экономика, а также новые вызовы с экономическими и социальными последствиями делают проблему финансовых кризисов, в том числе валютных, чрезвычайно актуальной в нынешней ситуации. Особенно с учетом того, что кризисы затрагивают различные страны и регионы мира. Серьезные валютные обвалы произошли не только в развивающихся странах с выраженными структурными проблемами, но и в странах со зрелой экономикой, которые обладают полностью развитыми рыночными механизмами и эффективными системными решениями. Кроме того, серьезное разрушительное воздействие на глобальный финансовый баланс и масштабы потенциальных потерь вызванных такими потрясениями указывают на необходимость проведения ответственной и эффективной превентивной политики на всех уровнях принятия решений. Представляется, что адекватные ответные меры и действия на глобальном уровне, помимо действий, одновременно предпринимаемых региональными организациями и самими различными странами, могут стать основой для создания условий, способствующих как стабилизации всей мировой экономики, так и ее устойчивому росту. В статье рассмотрена концептуализация деятельности МВФ в условиях кризиса, подчеркивается его роль, пределы результативности и полезность как метрики оценки.

*Ключевые слова:* финансовый кризис, мировой финансовый кризис, последствия кризиса, программы МВФ, денежно-кредитная политика.