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Financial contagion



Typical street scene in Santa Ana, El Salvador. (Photo: iStock)

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IMF Survey: Amid Crisis, IMF Emphasizes Readiness to Lend Quickly

IMF Survey online

October 9, 2008

- IMF ready to lend through emergency financing mechanism
- Allows IMF Board to act more quickly than for normal lending program
- IMF has more than \$200 billion of loanable funds, plus extra resources

Managing Director Dominique Strauss-Kahn has emphasized the IMF's readiness to act quickly through its emergency financing procedures to lend to countries needing help during the present financial crisis.

Related Links



Ankara stores slash prices during Turkey's 2001 financial crisis, when country drew on emergency IMF financing (photo: Tarik Tinazay/AFP)

- Quick crisis action needed (</external/pubs/ft/survey/so/2008/NEW100908A.htm>)
- Strauss-Kahn briefing video (<http://www.youtube.com/watch?v=fbilaP69shI>)
- Focus on crisis (</external/pubs/ft/survey/so/2008/NEW100608A.htm>)
- Key issues: IMF lending (</external/pubs/ft/survey/so/2008/CAR091508A.htm>)
- IMF response to Asian crisis (</external/np/exr/facts/asia.htm>)
- Korea's emergency loan (</external/np/sec/nb/1997/nb9725.htm>)
- Indonesia's emergency loan (</external/np/sec/nb/1997/nb9722.htm>)
- Philippines' emergency loan (</external/np/sec/pr/1997/PR9733.HTM>)

The IMF's Emergency Financing Mechanism was set up in 1995 and has been used on six occasions—in 1997 during the Asian crisis (</external/np/exr/facts/asia.htm>) for the Philippines (</external/np/sec/pr/1997/PR9733.HTM>), Thailand, Indonesia (</external/np/sec/nb/1997/nb9722.htm>), and Korea (</external/np/sec/nb/1997/nb9725.htm>); in 2001 for Turkey; and this year for Georgia (</external/pubs/ft/survey/so/2008/NEW100908A.htm>).

The IMF has more than \$200 billion of loanable funds and can draw on additional resources through two standing borrowing arrangements (</external/np/exr/facts/gabnab.htm>).

The emergency mechanism enables rapid approval of IMF lending to its 185 member countries. "We are ready to answer any demand by a country facing problems," Strauss-Kahn told reporters (<http://www.youtube.com/watch?v=fbilaP69shI>) October 9.

Turmoil hurting emerging markets

The IMF says the financial turmoil hitting advanced economies is starting to slow growth in some emerging markets. The world economy is entering a major downturn in the face of the most dangerous financial shock in mature financial markets since the 1930s, according to the IMF's *World Economic Outlook* (http://www-stg-ext/gen/work/Transit4/tc/output/2c_sa/xhtml/http://www.imf.org/external/pubs/ft/survey/so/2008/RES100808A.htm), which now expects world growth to slow to 3.0 percent in 2009—0.9 percentage point lower than forecast in July.

The emergency mechanism enables the IMF's Executive Board to act more quickly than for a normal IMF lending program.

Conditions for lending would still have to be agreed, but payment could be upfront and the size of the loan can be higher than normal. "A program has to exist, there is no way to find a situation without a program defining the macroeconomic policy to be followed. That has to be done very quickly—very quickly means two weeks at most. That's the emergency procedure," said Strauss-Kahn.

Executive Board role

Under the procedure, IMF management informs the Board of the intention to activate emergency procedures and provides reasons; a short written report is circulated as soon as feasible, describing the member's economic situation; once agreement with the authorities has been reached on a program, the IMF staff report would be circulated, and the Board would consider the request for a program within 48-72 hours.

The rules state that member's past cooperation with the IMF would have a strong bearing on the speed with which the Fund could assess the situation and agree on necessary corrective measures.

Comments on this article should be sent to imfsurvey@imf.org (<mailto:imfsurvey@imf.org>)