IMF says its 'negative image' steers countries away from borrowing
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Many countries are hesitant to rely on the IMF's new lending instruments because of a perceived "stigma" attached to taking money from the global financial institution, the International Monetary Fund said yesterday.

The IMF has launched a series of new lending programmes in recent years that it hoped would appeal to countries with generally good economic policies, but that still needed some protection from market contagion. The Fund's traditional lending programmes are meant for countries with an urgent crisis, and come with stringent conditions attached.

But only a few countries have been interested, surprising IMF staff who had thought the programme would be popular during the period of market stress after the global financial crisis, and during the recent rout in emerging markets tied to the Federal Reserve's slowing pace of asset purchases.

In many cases, countries needing insurance against outside shocks have accumulated reserves, expanded bilateral swap lines, or launched regional financing arrangements instead of turning to the IMF.

"To a large degree, this reflects the degree of political stigma related to Fund engagement that prevents some members from seeking pre-emptive Fund financial support," IMF staff members said in a policy paper.

"Policymakers' reluctance to come to the Fund appears to stem largely from the persistently negative image that the Fund has among many civil society opinion leaders, NGOs, and the general public, particularly in countries affected by past crises," the paper added.

For example, the IMF's reputation in Asia remains tarnished by the policy advice it dispensed during the Asian financial crisis in the late 1990s. At the time, it recommended deep budget cuts and tight monetary policy, which critics say exacerbated the economic downturn.

Countries in the region have amassed some $6 trillion (RM19.6 trillion) in foreign exchange reserves in part to ensure they will never again have to seek an IMF bailout.

The IMF said it would strive to reach out to a broader group, beyond just governments, in order to improve its reputation.

"When countries do have to seek fund support it's better that they do it promptly and don't feel inhibited from doing so by... perceptions that Fund support is going to be damaging to their economy," a senior IMF official told reporters, speaking on condition of anonymity.

The paper focused on three instruments the IMF launched since the global financial crisis. At the height of the crisis in 2009, the IMF rolled out the Flexible Credit Line for well-run emerging market economies constrained by the global credit squeeze. But only Mexico, Poland and Colombia signed up.

Two years later, it launched a six-month liquidity line aimed at countries with solid policies that might have been at risk from market jitters, such as the debt crisis in the euro zone. So far, only Morocco has asked for that instrument, called the Precautionary and Liquidity Line.

Another new programme, called the Rapid Financing Instrument, also remains untested. This type of support, which is now seen as one of the options for helping Ukraine, is meant for nations with urgent balance of payment needs caused by outside shocks.

The IMF paper said the Fund would work on clarifying what countries must do to qualify for these types of programmes, which could encourage more of them to sign up. – Reuters, March 6, 2014.

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