

The Assessment of the IMF's Role in Maintaining Financial Stability Over a Decade [2008-2018]: An Evolving Reform

تقييم دور صندوق النقد الدولي في الحفاظ على الإستقرار المالي خلال العقد ما بين

[2008-2018]: إصلاح يتطور

Salima GUETTAFI

Constantine2 University, Algeria

salimaguettafi.phd@gmail.com

Date of receipt: 06/09/2019 Date of revision: 16/09/2019 Date of acceptance: 26/09/2019

Yassine LAIB

Constantine2 University, Algeria

yassinelaib@yahoo.com

Abstract

This study aims to assess the role of the (IMF) in maintaining Financial Stability a decade after the (GFC), a role that cannot be assessed accurately, it has been analyzed through monitoring a wide-ranging reforms that recommended the (G20) to the (IMF) since 2008, through a comprehensive analysis of the undertaken reforms and their implementation along 2008 to 2018, relying on 2 main axes: the IMF's surveillance reforms and reviews as well as its governance system progress, and the lending framework reforms and reviews; in order to track the progress made in the IMF's preventive, its remedial role and reflecting its reality.

As a result, the reality of IMF's role in financial stability is a wide evolving role in line with the evolving reforms entailing enhanced preventive and remedial dimensions and requiring continual adaption and reforms to the challenges, until the day it can be tested by a major crisis.

Keywords : IMF, Financial Stability, G20 Post-GFC Reforms, Surveillance Reviews, Lending Framework

Jel Classification Codes: G01, F38, F42

ملخص

تهدف هذه الدراسة إلى محاولة تقييم دور صندوق النقد الدولي (صندوق) في الحفاظ على الإستقرار المالي، وهو دور لا يمكن قياسه أو تقييمه بدقة وإنما من خلال تقييم وتحليل أهم الإصلاحات المتخذة والمنفذة خلال عقد من الزمن منذ 2008 إلى 2018، تنفيذًا لإقتراحات G20 لما بعد الأزمة المالية العالمية حيث تم الإعتماد في ذلك على محورين أساسيين في التحليل هما إطار إصلاح رقابة الصندوق والمراجعات الدورية لها وكذا تطور نظام الحوكمة؛ وإصلاح إطار الإقراض ومراجعاته، في سبيل تتبع التقدم المحرز في دور صندوق النقد الدولي الوقائي والعلاجي ومعرفة واقعه.

خلصت الدراسة إلى أن واقع دور صندوق النقد الدولي في الحفاظ على الإستقرار المالي، يعكس انه ما هو إلا دور واسع يتطور في ظل تطور الإصلاحات التي تنطوي على أبعاد وقائية وعلاجية معززة، ويتطلب الإصلاحات التكيف المستمر في ظل التحديات، إلى غاية ما يتم إختباره بالنتيجة من قبل أزمة كبيرة.

الكلمات المفتاحية: صندوق النقد الدولي، الإستقرار المالي، إصلاحات G20 ما بعد الأزمة المالية العالمية، مراجعات الرقابة، إطار الإقراض.

* Corresponding Author: Salima Guettafi,
E-mail : salimaguettafi.phd@gmail.com

1. Introduction

Already a decade! After the turmoil of the global financial crisis (GFC) of 2008, over 10 years from 2008 to 2018, the whole interest of economists and policymakers in seeking new regulatory and supervisory policies have been raised to maintain financial stability at its national or global level. To this end, several reforms have been proposed and implemented, many of them are still implementing overtime, they addressed different aspects of financial stability, but the role of the International Monetary Fund (IMF) was strongly presented as the main discussed issue, the fact that, the (IMF) was founded to ensure the stability of the international monetary system and has adapted its goals to ensure the international financial stability since the 1990s facing the globalization crisis and changes, but it has showed its ineffectiveness in both predicting and managing the magnitude of the (GFC) despite all the efforts it deployed before...It has lost its pertinence! Hence, in the wake of the (GFC) many international financial meetings, notably the (G20) summits has evoked the issue of the (IMF) and the financial stability through discussing its legitimacy, and the reforms that it should undertake to maintain financial stability. Subsequently, the (G20) had a key role in endorsing IMF's post-GFC reforms.

In fact, financial stability is the state whereby the build-up of systemic risk is prevented (Mersche, 2018), so maintaining it, depends on containing systemic risk that is a complex concept itself requiring international cooperation and coordination at many levels. From its part, the (IMF) must play a preventive role through its supervisory and surveillance including bilateral and multilateral reports or programs related to the assessment of the financial sectors and the macro-financial linkages also macro-prudential framework, to identify vulnerabilities and subsequently avoid or manage them before they threaten the financial stability; but the role of the (IMF) goes beyond that, it is also about facing Instability after sudden or accumulated risk by providing financial assistance, analysis and advice, leading to recovery and thereby maintain financial stability e.i. it plays a remedial role. Accordingly, it plays a double role preventive and remedial.

The Problematic of the study

the (IMF)'s post-GFC reforms had to pay attention to the aforementioned IMF's double role, and indeed this is what was reflected in the outcomes of the (G20) summits, recommending the (IMF) afterwards to reinforce its role by adopting reforms related to its surveillance, lending framework, and governance all together with other efforts that would complement each other then contribute to maintain financial stability; From that time to date, the (IMF) focused more than a decade on implementing those reforms, taking into consideration their obvious effect on financial stability in other words it worked on enhancing its role in maintaining financial stability. Hence, the Question that may arise is: **What is the reality of the IMF's role in maintaining financial stability a decade after the GFC?**

The Objectives of the study

This study aims to assess the role of the (IMF) in maintaining Financial Stability, a role that cannot be assessed accurately, but analyzed starting by reviewing the evolution of the IMF in the financial stability issue, Than tracking and monitoring the progress made in implementing the most important G20 post- GFC reforms including governance (quotas an, board size and composition) and surveillance (financial surveillance in particular) which may reflect the preventive role by focusing on the essential aspects of financial stability particularly those are about containing systemic risk, and also the lending reforms (conditionality, resources, lending tools and so on) reflecting the remedial one. Thus, it allows to rich a comprehensive analysis of the undertaken and implemented reforms along 2008 to 2018, in order to reflect the IMF's focus in both the preventive and the remedial role, and then recognize its current reality.

The Importance of the study

The importance of the study comes from the importance of the financial stability issue itself and the evolution of the efforts made by the IMF to maintain it in parallel with the improvement in understanding the nature of the financial stability by time; it also rises from the uncertainty that characterizes the financial systems and the whole world economy, especially since there are predictions by experts of a possible crisis to come;

so the study may reflect the reality of the IMF's role and the extent of the implementation of reforms and its readiness.

Therefore to treat the problematic and fulfill the purpose of the Study, the study will adopt a descriptive analysis to address the IMF's financial stability framework and track its evaluation, highlight the progress made in implementing the most important post-GFC reforms, and monitor the IMF's role relying on the Reviews of the (IMF) itself and many different reports; based on the fact that such assessment can be accurate only through the emergence of a major crisis, yet a qualitative assessment may be appropriate. Thus, the next section will present an overview of the (IMF) and the financial stability, the third section will represent fundamentals of the (IMF) and the (G20) post-GFC reforms, the fourth section analyzes the reform process and Assess the IMF's Role in maintaining financial stability over (2008-2018); the last section, however, concludes the study.

2. The International Monetary Fund (IMF) and the Financial Stability

The (IMF) is an organization of 189 countries, working to foster global monetary cooperation, secure financial stability, facilitate international trade, promote high employment and sustainable economic growth, and reduce poverty around the world (IMF, 2018)so it could play its role in financial stability in many ways as required the latter.

2.1. The concept of Financial Stability: an Overview

Financial stability is a broad concept and there is no consensus on its definition but it becomes since the wake of the (GFC), widely accepted when it is approached in terms of preventing systemic risk; where Systemic risk can best be described according to (ECB, 2017) as “the risk that the provision of necessary financial products and services by the financial system will be impaired to a point where economic growth and welfare may be materially affected”, (p.3).It raises endogenously from within the financial system due to an endogenous build up of financial imbalances, or due to an exogenous shock from inadequate macroeconomic or structural conditions that amplifies endogenously; in both cases it requires a sustainable supervision on the financial soundness, on the macroeconomic and structural policies and the macro-financial linkages, also on the amplification mechanisms focusing on the macro-prudential approach to

prevent the systemic risk's build-up and therefore maintain financial stability. Hence, to find out the (IMF) role, it would be vital to address the evolution of the IMF's financial stability framework.

2.2. The (IMF) from the monetary to the International Financial system Stability: an evolving endeavor

The (IMF), this International Financial Institution that has been created during a period of instability, following many global political and economic disasters including the Great Depression of the 1930s, the collapse of the gold-standard, and the second World War, which have exhausted the European economies and the Global economy as a whole; has been established In 1944 to achieve its primary purpose that is ensuring the stability of the International Monetary System through ensuring stability of exchange rates, avoiding competitive devaluations, expanding global trade, and treating payment imbalances. In general it had to restore the stability required in that period and beyond. However, In line of the global financial changes, the (IMF) has adapted its missions and purposes to accommodate the global economic requirements, especially after the globalization crises of the 1990s where it had to face new challenges and to broaden its scope of work towards developing its three main missions those are, surveillance, financial assistance, and technical assistance; and focusing on the financial sector whose fragility was the main cause of the crises; All in order to face a new dilemma which is the Financial stability.

In this regards, during the annual meetings of the (IMF) and the World Bank in September 2000, Horst Kohler a Former (IMF)'s head, outlined its vision about the Future of the (IMF), where he addressed the need for the (IMF) to play a central role in the stability of the international financial system; To focus on the macroeconomic and financial areas of its mandate, while complementing the other international institutions efforts; and most importantly, to work as an open institution that learns from experience and adapts to changing circumstances (IMF, 2003). Kohler's vision was fully supported by the (IMF)' members and served as an (IMF) guide that drives its work and reforms. Hence, the (IMF) focused on its three main missions given the importance of their complementary in meeting financial stability requirements, especially that is according to (Schinasi, 2004) "Financial

stability entails both preventive and remedial dimensions” (p.7). Where the (IMF) could play that double role; be it preventive relying on its surveillance and technical assistance missions using macro-prudential analysis to identify, monitor, and mitigate or threat the vulnerabilities before they threaten financial stability; or remedial relying on its lending tools to provide financial assistance for economies whose financial stability is already damaged, so as to recover and to maintain it. Therefore, the (IMF's) role is not only preventive about the macro-prudential approach, but it could be also remedial. In this context, it should be noted that the (IMF) has adapted its framework of financial stability overtime since the 1990s especially in the wake of each crisis it experienced. Where among eminent initiatives, it undertook a survey of its member countries to identify (FSIs)¹ in 2000 finished by developing a list of key (FSIs) in 2006; also in 1999 it launched with the World Bank the (FSAP) which is designed to identify financial system strengths and vulnerabilities² as part of its macro-prudential analysis and preventive role at same time. From another hand, the (IMF)'s remedial role has also been developed overtime, where many lending tools has been changed or updated according to the members circumstances. So while (IMF) was deploying efforts in cooperation with various stakeholders to enhance that role, the (GFC) of 2008 has appeared as a new challenge!

3. The (IMF) and the (G20) facing the (GFC)

The magnitude of the (GFC) has shown again shortcomings in the (IMF's) role whether in predicting the crisis or in containing it, reflecting the weakness in its preventive and remedial sides. Accordingly, the (IMF) should have intensified efforts to restore the current financial stability and preserve its future. Moreover, the Group of 20 major and emerging world economies (G20) has held crucial summits to address the (GFC) and the issue of financial stability that has gone beyond the responsibilities of any

¹ The Financial Soundness Indicators (FSIs) are measures that indicate the current financial health and soundness of country's financial institutions, they include aggregate individual institution data and indicators that are representative of the markets in which the financial institutions operate.

² see more about the FSAP and Macro-stress tests in:

<https://www.imf.org/en/Publications/WP/Issues/2016/12/31/Stress-Testing-at-the-IMF-22275>

one organization, even if it is the (IMF) itself; where they have endorsed several proposals concerning reforming the international financial system, and have asked the (IMF) to participate in, as a leader in drawing lessons from the crisis, and to implement some post GFC-reforms.

3.1. The (G20) summit in Washington November 2008

Washington's Summit identified 2 main priorities to plan the actions required for a more stable international financial system: (i) fulfill the major policies set by major economies to save banks and stabilize the international financial system, emphasizing the necessary Funds for (IMF), World Bank and regional development banks; and (ii) identify and develop the fundamental principles that form the framework of financial reforms to be implemented; accordingly the (G20) has appointed 4 working groups to track the implementation, each working group was assigned a specific mission: (i) strengthening regulation and transparency at the individual institution or the whole financial system level and paying more attention to the (systemically important) institutions, to the financial and economic cycle, and the macro-prudential supervision; (ii) enhancing cooperation in regulation and supervision of international financial institutions and markets, and working on the tax haven issue beside proposing regulatory means for non-cooperating parties; (iii) working exclusively on the (IMF) Reforms, through reviewing its role and mandate including its governance, its financial resources, appropriateness of its lending mechanism, and the effectiveness of its surveillance; and (iv) enhancing the World Bank and the regional development banks role (Benhammouda et sadni jallab, 2011, pp. 73-75). Thus, Washington summit has represented an important step to stabilize of the international financial system.

3.2. The G20 summit in London April 2009

On April 2, 2009 in London, a second (G20) summit has been held and pledged to fund and reform the international financial institutions, particularly the (IMF), where they agreed the following (G20, April 2009):

- To treble the (IMF)'s available resources to \$750 billion by providing Immediate financing from members of \$250 billion subsequently incorporated into an expanded New Arrangement to Borrow (NAB), increased by up \$500 billion.

- To support a new Special Drawing Rights (SDR) allocation of \$250 billion.
- To conduct all (G20) economic policies cooperatively and support the (IMF)'s Surveillance, also to focus on the independent (IMF) surveillance of (G20) economies and financial sectors.
- To implement the package of (IMF) quota and voice reforms agreed in April 2008 and call (IMF) to complete the next review of quotas (January 2011).
- To give more consideration to (i) the involvement of the (IMF)'s Governors in providing strategic direction to the (IMF) and increasing its accountability, and (ii) the appointment of the Heads and senior leaders through a transparent and merit-based selection process, emphasizing its scope and governance reforms.
- To use the additional resources from agreed sales of (IMF)'s gold, in order to provide \$6 billion additional concessional and flexible finance for the poorest countries over the next 2 to 3 years.

Besides, the (G20) London summit the (G20) has deployed and still deploying various initiatives to support the (IMF) and the prospects of the financial stability and the economic growth.

4. The Analysis of the IMF financial stability Reforms over (2008-2018)

Based on the fact that the (IMF) plays a double role in maintaining financial stability, and that the mechanisms also the tools by which it plays that role have known a wide-ranging reforms, it can be considered that the (IMF) has evolved over time in parallel with the progress made in implementing reforms i.e., making its role be as preventive or remedial progressing under the evolving reforms; but it would not be neither easy nor logic to judge and assess that, only through the emergence of a future major crisis to demonstrate whether the (IMF) is really effective in maintaining financial stability in advanced, emerging, and developing and poor economies, or not yet and is still needs further expanded reforms. However, it would be reasonable to assess that role qualitatively from 2008 to 2018, relying on two main axes: (i) the surveillance Reviews which undertakes the (IMF) periodically including the post-GFC surveillance reforms, and (ii) the lending framework reforms and reviews as well as the governance progress.

4.1. The IMF' post-GFC Surveillance Reforms and Reviews

The (IMF) has adopted several important post-GFC surveillance

reforms and accompanied them by deeper reviews in order to diagnose the reforms, detect risks and spillovers, and strive against shortcomings; it may review its preventive role. Accordingly, it completed to date 4 reviews since the (GFC), they are the Triennial Surveillance Review (TSR) of 2008, of 2011, of 2014, and the Interim Surveillance Review (ISR) of 2018.

4.1.1. The (TSRs) of 2008, 2011, and 2014

In September 2008, a (TSR) has been conducted at time when the (IMF) was making efforts to refocus on its mandate, this (TSR)³ focused on bilateral surveillance in the recent past with emphasis on some priorities most importantly the perspective in bilateral surveillance together with more cross country analysis and, better incorporation of the risk analysis conducted at the multilateral level; payed more attention to the Financial sector surveillance, and also Integration of macroeconomic and financial sector surveillance; so the (IMF) by this (TSR) has reflected an ambitious step to draw a direction toward working on the macro-financial analysis in a multilateral level . Again in August 2011, the (IMF) worked intensively over the past 3 years on the interconnection of its surveillance through an in-depth financial stability analysis including all Article IVs and the multilateral reports WEO/GFSR/Fiscal Monitor taking into account spillovers. New vehicles to sharpen the focus on Macro-financial risks cross-country and spillovers have also been developed and reflected in many initiatives, the most important are as follows:

- **establishing (FSB) in 2009**, and intensify the cooperation (IMF) and (FSB);
- **Provide early warning Exercise (EWE)** which was established in 2009 to assess low probability but high impact risks to the global economy and identifies policies to mitigate them; it integrates macroeconomic and financial perspectives on systemic risks;
- **The Vulnerability Exercise for Advanced and Emerging Market Countries (VEA/ VEE) and The Vulnerability Exercise for the Low Income Countries (VE-LIC):** represent key inputs to the (EWE), compute summary measures of country and regional vulnerability ratings. Which in turn, reflect sectorial vulnerabilities (external, fiscal, financial, and

³See more about the (TSR) of 2008 in: <https://www.imf.org/en/Publications/Policy-Papers/Issues/2016/12/31/2008-Triennial-Surveillance-Review-Overview-Paper-PP4295>

nonfinancial corporate) and assessment of risks (macro-risks from growth and inflation, risks from asset prices, systemic risks, and contagion), a similar exercise (VE-LIC) was launched in 2011 for (LICs)⁴;

- **The (G20) Mutual Assessment Process (MAP):** represents a policy collaboration conceived at **2009 Pittsburgh Summit**, aimed at ensuring that collective (G20) policy action benefits all and that (IMF) collaborates with others to provide technical assistance for the (MAP) (IMF, 2018);
- **The Fiscal Monitor:** was launched in 2009 as an (IMF) survey, published twice a year to analyze latest public finance progress, update medium-term fiscal projections, and assess policies to put sustainable public finances⁵.
- **Mandatory (FSAP):** In September 2010, the (IMF) made the (FSAP) mandatory for 25 jurisdictions with systemically important financial sectors (S25) to undergo assessments under the program every 5 years.
- **Thematic multi-country reports** are assessments that would permit (IMF²) staff to experiment in the space between bilateral and multilateral surveillance and connect the dots (e.g., the 2009 paper on cross-cutting themes in major Article IV consultations);
- **Spillover Reports:** by which the (IMF) has enhance risk analysis through covering spillovers from members' economic and financial policies on domestic and global stability, they started in 2011 and focused until 2013 on the external effects of domestic policies in 5 systemic economies (S5).

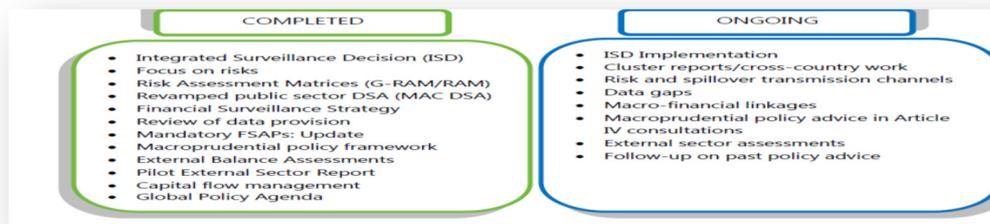
Despite that progress which illustrates the clear objective of the IMF in containing systemic risk by paying attention to the financial assessments and the amplification mechanisms and spillovers, another (TSR) took place in light of a sluggish global recovery in 2014, continuing to work on deep spillovers analysis, More tailored expert policy advice by enhancing the (IMF)'s understanding of macro-prudential policy; where On July 18, 2012, the (IMF) adopted a new Decision on Bilateral and Multilateral Surveillance known as **the Integrated Surveillance Decision (ISD)**, which focused on: (i) laying out a conceptual link between bilateral and multilateral

Figure1.progress since the 2011 TSR

⁴ See more about VEA/VAE/VE-LICs in (EWE) in:

<https://www.imf.org/external/np/pp/eng/2010/090110.pdf>.

⁵ See more in : <https://www.imf.org/external/datamapper/datasets/FM>



Source: (IMF, July 2014, p. 6)

surveillance focusing on multilateral surveillance, considering both bilateral and multilateral surveillance complementary but legally they are separate (IMF) functions; and (ii) makes Article IV consultations a vehicle not only for bilateral surveillance but also for multilateral surveillance, allowing to discuss the full range of spillovers from member's policies that affect global stability (IMF, June 2012); In September 2012, the (IMF) also endorsed a new **financial surveillance strategy** that includes prioritized steps to further strengthen financial surveillance relying on a three-pronged strategy: (i) improve risk identification and macro-financial policy analysis, (ii) innovate further in the (IMF)'s bilateral and multilateral instruments and products to foster an integrated perspective on financial risks, and (iii) increase traction by engaging more actively with stakeholders (national authorities, private agents, and multilateral bodies) (IMF, August 2012). Also in 2014 there was **(FSAP) Review** in which there were actions to facilitate integrating FSAP findings into Article IV; and updating mandatory (FSAPs) for (S29) rather than (S25). Moreover, the (IMF) continued focusing on spillovers using other tools such as the External Sector Reports⁶, and the Risk Assessment Matrices (G-RAM/RAM) a consolidated list of key global risks, as a prime source of the global risks discussed in Article IV. This illustrates the enhancement due to the detailed implementations and since implementation takes time, the (IMF) proposed in 2014 moving comprehensive surveillance

⁶ the External Sector Report (ESR) is a report approved by the IMF in 2012 represents a multilaterally consistent assessment of largest economies' external sector positions and policies, see more in: <https://www.imf.org/en/Publications/SPROLLs-GSA/External-Sector-Reports>

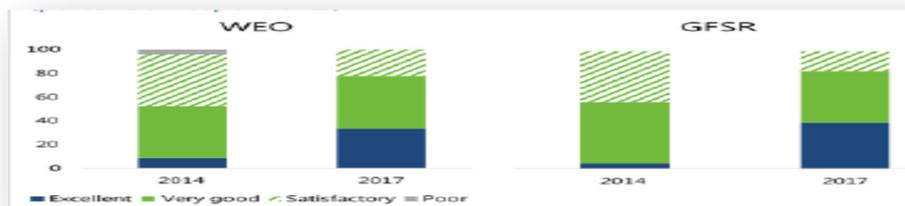
reviews to 5 year cycle, complemented by interim report after 2.5/3 years (IMF, July 2014, p. 2).

4.1.2. The Assessment of the IMF's Preventive Role in maintaining financial stability over (2008-2018)

In April 2018, the (IMF) concluded an Interim Surveillance Review (ISR) providing a basis for the next comprehensive review expected in late 2019. Accordingly, it turned out that (IMF's) surveillance has become better adapted to the global conjecture and more integrated, with considerable progress in implementation of core areas including Analysis of risks and spillovers; fiscal and external sector analysis; as well as a newer work on macro-financial analysis and of macro-structural policy. However, based on the previous analysis of each (TSR) and according to 2018 (ISR)' findings (IMF, April 2018), the most important progress of (IMF's) 2008-2018 surveillance can be summarized in the following points:

- **Integration of Bilateral and Multilateral Surveillance and advances in risks and spillover analysis:** the progress made by the (IMF) in this area is heavily based on the (ISD) which expanded the (IMF's) responsibility with respect to develop the conceptual link between its bilateral and multilateral surveillance resulting in deeper discussion of global risks and spillovers in the flagship reports (the world economic outlook (WEO), and the Global Financial Stability Report (GFSR)), taking into consideration the progress in quality of these reports (see figure.2); besides the focus on Article IV' consultations with emphasis on systemic stability be it domestic or global.

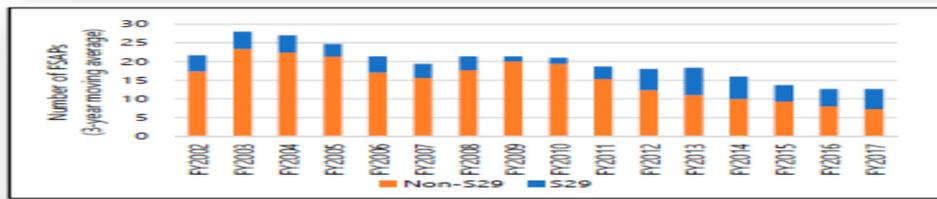
Figure.2 Quality of Risk Analysis in Multilateral Surveillance



Source:(IMF, April 2018, p. 8)

In the same context, the Financial Surveillance Strategy, has highlighted the (IMF)' programs and tools (the FSAP in particular) which became mandatory to (S25) since 2010 and to (S29) since 2014, and improved its components including stress tests by covering broader set of risks to more understand the macro-prudential framework. Moreover, Article IV has stepped up attention to macro-financial linkages and has been charged with integrating financial sector concerns into their consultations since 2014, where the (FSAP) findings have been integrated in; and this reflects the considerable number of (FSAPs) completed during (2010-2017) see figure.3 (127 FSAPs covering 110 different economies S29 and Non-S29).

Figure3.Evolution of FSAPs



Source:(IEO, January 2019, p. 13)

- Fiscal and External Sector Analysis:** Important advances have been made in regards to the strengthen of the External sectors and positions which may affect the financial stability; there was a gradually replacement of the consultative group on exchange rate issues (CGER) methodology by the external balance assessment (EBA) methodology in multilaterally manner in order to enhance the external sector assessment and subsequently the External Sector Reports (ESR) focusing on the major economies (S29) and the euro area, also for the countries outside the (EBA), a new (EBA-lite) has been introduced focusing on external balance in emerging markets and (LICs). From another side, the Fiscal policy surveillance and advice have also progressed and are continuing to adapt with the reforms through developing analytical tools (e.g., the Fiscal Monitor dataset that has been updated in 2016 providing key fiscal indicators).
- Macro-financial analysis and structural policies:** the (IMF) focused in deepen Macro-financial analysis into its surveillance framework; where it

recommended in the 2014' (TSR) that macro-financial analysis become an integral part of Article IV focusing on macro-prudential policies, by starting with a pilot program for 24 countries in 2015, expanded to 66 countries in 2016, and to be extended across the full membership by end 2018. Moreover, the (IMF) worked on enhancing the structural policies and advice relying on different initiatives such as the report prepared by the (IMF) in 2015 entitled "Structural reforms and macroeconomic performance: initial considerations for the Fund" including broad analysis and tools that enable the countries tailoring their macroeconomic performance and financial stability.

Beside the surveillance improvements and reviews, the (IMF's) governance reforms also would reinforce the preventive role through a wide-ranging **governance reforms** agreed by the (IMF) in April 2008, and November 2010, and approved in December 2010 under the 14th General Review of Quotas, including a doubling of quotas reached SDR 477 billion, Shifting more than (6%) of quota shares to dynamic emerging market and developing countries and also more than (6%) of quota shares from over-represented members to under-represented ones, preserving quota and voting shares of the poorest members, and reviewing the quota formula. Moreover, the reforms included the executive board size and composition, where it will remain at 24 members, and its composition will be reviewed every 8 years, starting when the quota reform takes effect; and the Executive Board will consist only of elected Executive Directors ending the category of appointed Executive Directors, and that there will be further scope for appointing second Alternate Executive directors to enhance representation of multi-country constituencies⁷. This may exclude particular interests and better reflect legitimacy and change of members countries economic power.

4.2. The IMF' post-GFC Lending Framework and the Assessment of its remedial role over (2008-2018)

The (IMF) has also adopted post-GFC reforms aimed to strengthen its lending framework and contribute to strengthen its remedial role, in some cases its preventive role too! When (IMF)' lending tools could prevent crises altogether, before they cause financial instability. The following summarize:

4.2.1. Modernizing and reviewing Conditionality of lending

⁷ see more in : <https://www.imf.org/en/News/Articles/2015/09/14/01/49/pr10418>

The (IMF)'s conditionality represented usually a problem causing hesitation of many countries in seeking loans until vulnerabilities and crises intensify, due to the countries' negative perception of this conditionality concerning its severity and prejudice to national ownership; but since March 2009 the (IMF) streamlined it to be adapted to its members' economic policies and fundamentals, and modernized in two key ways: (i) the (IMF) will rely more on pre-set qualification criteria (ex-ante conditionality) where appropriate rather than on traditional (ex post) conditionality; (ii) implementation of structural policies in (IMF) will be monitored in the context of program reviews rather than through the use of structural performance criteria⁸. While structural reforms will continue to be integral to Fund-supported programs where needed (IMF, 2009). However, to assess the progress in the adaptation of the new conditionality and the design of supported programs, the (IMF) conducted Reviews of Conditionality (ROC) and concluded according to the (ROC) of 2011 that the conditionality has generally been appropriately streamlined and tailored to countries needs, its design adapted to the (GFC), and there was a strict follow-up to the conditionality guideline. Moreover, the program's macroeconomic and social impact was generally positive despite some cases led to inevitable output losses and needed large adjustment policies for medium-term fiscal and external sustainability. Furthermore, the conditionality continued to evolve and recommended leveraging economic (IMF, June 2012).

4.2.2. Enhancing and reviewing lending tools

The (IMF) introduced new lending tools, enhanced others and eliminated the seldom used ones; It introduced in April 2009 the Flexible Credit Line (FCL), and the Precautionary Credit Line (PCL) in August 2010 two precautionary programs for countries with very strong or sound economic policies and fundamentals respectively⁹, aimed particularly to restore confidence and prevent crises, they would be approved for countries meeting pre-set qualification criteria, so that the financing Access

⁸see more about the Conditionality policy commitment, the performance criteria in particular in: <https://www.imf.org/en/About/Factsheets/Sheets/2016/08/02/21/28/IMF-Conditionality>

⁹ See more in: <https://www.imf.org/external/np/pp/eng/2011/110111.pdf>

under the (FCL) varies depending on each case, and this flexible access is justified by the very strong economic fundamentals, which accordingly give confidence in economic policies in the country, then leads to avoid a potential crisis; The (FCL) has been developed as an enhanced successor of the earlier Short-Term Liquidity Facility (SLF) which was also designed for the very strong economies, but with tight design features as well as inability to use it on a precautionary basis (IMF, 2009). Thus it can be considered that (FCL) as a new post-GFC lending tool may contribute to enhance not only the remedial role but also the crisis prevention in World's powerful Economies. From another side, the (PCL) has been broadened and replaced by the Precautionary and Liquidity Line (PLL) in November 2011, which combines a qualification process (similar to the FCL' one but with a lower bar) with focused ex-post conditionality aimed at addressing the remaining moderate vulnerabilities identified during qualification, it is designed to meet the liquidity needs of countries with sound economic fundamentals i.e., with some remaining vulnerabilities not very strong economic fundamentals as is required in FCL¹⁰. Moreover, the (IMF) has enhanced its traditional Stand-by Agreements (SBA) to increase its flexibility and ensure its availability as a new lending tool for members that may not qualify for the (FCL); and the Rapid Financing Instrument (RFI) in 2011 as a rapid and low-access financial assistance to all member countries facing an urgent balance of payments need or other urgent circumstances, without the need to have a full-program in place (IMF, 2018). Furthermore, other lending tools have been eliminated such as Supplemental Reserve Facility and the Compensatory Financing Facility.

In 2011, 2014, and 2017, the (IMF) reviewed the new lending tools, where it has been concluded that (FCL) and (PLL) have been effective and successful in meeting their objectives, where that Colombia, Poland, and Mexico have been provided combined access up to about \$100 billion

¹⁰See more about FCL, and PLL, Respectively in :

<https://www.imf.org/en/About/Factsheets/Sheets/2016/08/01/20/40/Flexible-Credit-Line>

<https://www.imf.org/en/About/Factsheets/Sheets/2016/08/01/20/45/Precautionary-and-Liquidity-Line>

under the (FCL), and only the republic of Macedonia and Morocco had used the (PLL); whereas the (RFI) remains untested since it has not seen any use.

4.2.3. Boosting Resources and simplifying lending

Boosting more resources to the (IMF) was a prerequisite to the post-GFC lending reforms, where the 14th Review of Quotas in December 2010, doubled the (IMF)' resources to reach SDR 477 billion; Bilateral agreements also were concluded as additional (IMF)' resources provided by some Members in 2009 and 2010 to ensure a firewall to the (GFC). Moreover, in July 2009 a new framework of bonds adopted by the (IMF) designed to its members public sectors in order to enhance the ability of the Fund to provide resources when needed, These bonds are based on (SDRs) with quarterly interest payments (لطرش, 2009, pp. 9-10). The access limits of non-concessional lending have also doubled and the cost and maturity structure of lending has been simplified through new repayment schedules.

4.2.4. New lending framework for Low-Income Countries (LICs)

The (LICs) were also part of the IMF' extended post-GFC lending reforms, where it enhanced the concessional lending framework, relying on the Poverty Reduction and Growth Trust (PRGT)¹¹ which is tailored to the needs of (LICs) with zero interest payments through end 2011 to help them overcome the (GFC). Moreover, new facilities have been introduced: an Extended Credit Facility (ECF) to provide medium- to long-term support, a Stand-By Credit Facility (SCF) to cover short-term and precautionary needs, and a Rapid Credit Facility (RCF) to provide emergency support with limited conditionality. The lending access has also doubled similarly to the non-concessional framework. The (IMF) reviews regularly its concessional financing, where it has been enhanced in 2015 through a (50%) increase in (PRGT) access norms and limits, it was also decided in 2016 to set interest rates on loans to zero until December 31, 2018 (IMF, 2017).

5. Conclusion

The (GFC) has highlighted the Need to Implement a wide set of Reforms that had to be coordinated internationally to better maintain the financial stability, leading the (G20) to undertake an important step by endorsing

¹¹ See more about the PRGT in: <https://www.imf.org/external/np/fin/prgt/index.htm>

post-GFC reforms focused particularly on the IMF as an international financial institution seeking to maintain financial stability; since 2008 and throughout a long implementation process, the IMF has taken many initiatives related to its surveillance and governance seeking to enhance its preventive role from one side, and many others related to its lending framework in order to enhance its remedial role from another side, they required time to reform in-deep the IMF's double role in line with what the analysis and aspects of financial stability required. However, after analyzing the progress made in implementing these reforms, the study lead to conclude the reality of the IMF's role in maintain financial stability after a decade from the GFC, beside the followings results:

- ✓ The reforms adopted and the reviews conducted by the IMF illustrate the Fund's interest to reinforce its role be it preventive or remedial; however there is more interest in the former one to avoid what could threaten the financial stability, and in case of threat it can refer to its remedial role which contains remedial tools or preventive- remedia at same such as the FCL;
- ✓ The (IMF) accompanied its evolving reforms by permanent and ongoing reviews, which would indicate the decisions taken or updated, the programs introduced, updated, or discontinued, the most commonly used and less frequently used programs; it would also, enhance the understanding of macro-prudential policy as well other policies, giving priority to the systemic stability and spillover analysis bridging gaps that were encountered during that period, identifying what to expand or to include within the evolving reforms even under further time if needed;
- ✓ Regarding the Preventive role, the surveillance has became better adapted to the global conjecture and more integrated given the considerable focus on a deep Analysis of Systemic stability and spillovers, fiscal and external sector analysis, newer work on macro-financial analysis as well as macro-structural policy through different integrations, establishment and updates of exercises, programs, reports; the governance also reflected a new convergence between the economies power; it reflects the reality of a robust surveillance which contain the core analysis of vulnerabilities and risks;

- ✓ Regarding the remedial role, many lending tools have been introduced, other enhanced; the (IMF) strengthen resources, flexible conditionality and create LICs programs to face different countries requirements.
- ✓ So The reality of the IMF's role in maintain financial stability, after a period from 2008 to 2018, taking into account the evolution of implementations and the reforms those are still evolving, and the fact that most of them have been meeting their objectives and timelines, is considered as a wide role that entails enhanced preventive and remedial dimensions, which consists more on the preventive one s, it is also an evolving role which requires continual adaptation in accordance with the challenges as the financial system and the global economy continue to evolve, since it has not yet been tested by a major crisis; so depending on the conviction that maintaining financial stability is not that easy role in the absence of regulatory framework that reduces the probability of a crisis to zero, the (IMF) should remain open, vigilant, and adaptive institution as Koehler said in more than 18 years ago.

5. Bibliography List :

Benhammouda et sadni jallab, h. e. (2011). *le G20 et les défis de la gouvernance globale*.Bruxelle, Belgique: De Boeck.

ECB. (2017). *financial stability review* , 3.

G20. (September 2009). *G20 Leaders Statements: the pittesburg summits*. toronto.canada: G20 Information center.Univerdsity of Toronto.

G20. (April 2009). *London Summit leades' statement*. washington, USA: International Monetary Fund IMF.

IEO. (January 2019). *IMF Financial Surveillance-Evaluation Report 2019*.Washington, USA: International Monetary Fund. Independent Evaluation Office.

IMF. (june 2012). *2011 Review of conditionality-Overview Paper*. Washington, USA: International Monetary Fund.

IMF. (August 2011). *2011 Triennial Surveillance Review-Overview paper*. Washington, USA: International Monetary Fund IMF.

IMF. (july 2014). *2014 Triennial Surveillance Review-Overview paper*. Washington, USA: International Monetary Fund.

IMF. (April 2018). *2018 Interim Surveillance Review*. Washington, USA: International Monetary Fund.

- IMF. (March 2017). *Approaches to Macrofinancial Surveillance in Article IV Reports*. Washington, USA: International Monetary Fund.
- IMF. (2009, March 24). *IMF implements major lending policy improvements*. Retrieved 02 11, 2019, from International Monetary Fund: <https://www.imf.org/external/np/pdr/fac/2009/032409.htm>
- IMF. (2019, February 25). *IMF Stand-By Arrangement*. Retrieved February 11, 2019, from International Monetary Fund: <https://www.imf.org/en/About/Factsheets/Sheets/2016/08/01/20/33/Stand-By-Arrangement>
- IMF. (2017). *Lending*. Retrieved february 13, 2019, from IMF Annual Report 2017: <https://www.imf.org/external/pubs/ft/ar/2017/eng/lending.htm>
- IMF. (june 2012). *Modernizing the Legal Framework for surveillance-An Integrated Surveillance Decision*. Washington, USA: International Monetary Fund.
- IMF. (2018, March 8). *The G20 Mutual Assessment Process (MAP)*. Retrieved February 04, 2019, from International Monetary Fund: <https://www.imf.org/en/About/Factsheets/Sheets/2016/07/27/15/48/G20-Mutual-Assessment-Process-MAP>
- IMF. (2018). *The IMF at a Glance*. Retrieved january 02, 2018, from International Monetary Fund: <https://www.imf.org/en/About>
- IMF. (August 2012). *The IMF's Financial Surveillance Strategy*. Washington, USA: International Monetary Fund.
- IMF. (2018, March 8). *The IMF's Rapid Financing Instrument (RFI)*. Retrieved 02 11, 2019, from International Monetary Fund: <https://www.imf.org/en/About/Factsheets/Sheets/2016/08/02/19/55/Rapid-Financing-Instrument>
- IMF. (2003, August). *what is the IMF?* Retrieved january 03, 2019, from Internatioanl Monetary Fund: <https://www.imf.org/external/pubs/ft/exrp/what/ara/whata.htm#new>
- Mersche, Y. (2018, september 6). *Financial Stability and the ECB*. Retrieved january 03, 2019, from European Central Bank: <https://www.ecb.europa.eu/press/key/date/2018/html/ecb.sp180906.en.html>
- Schinasi, G. (2004). *Defining financial stability*. International Monetary Fund.

