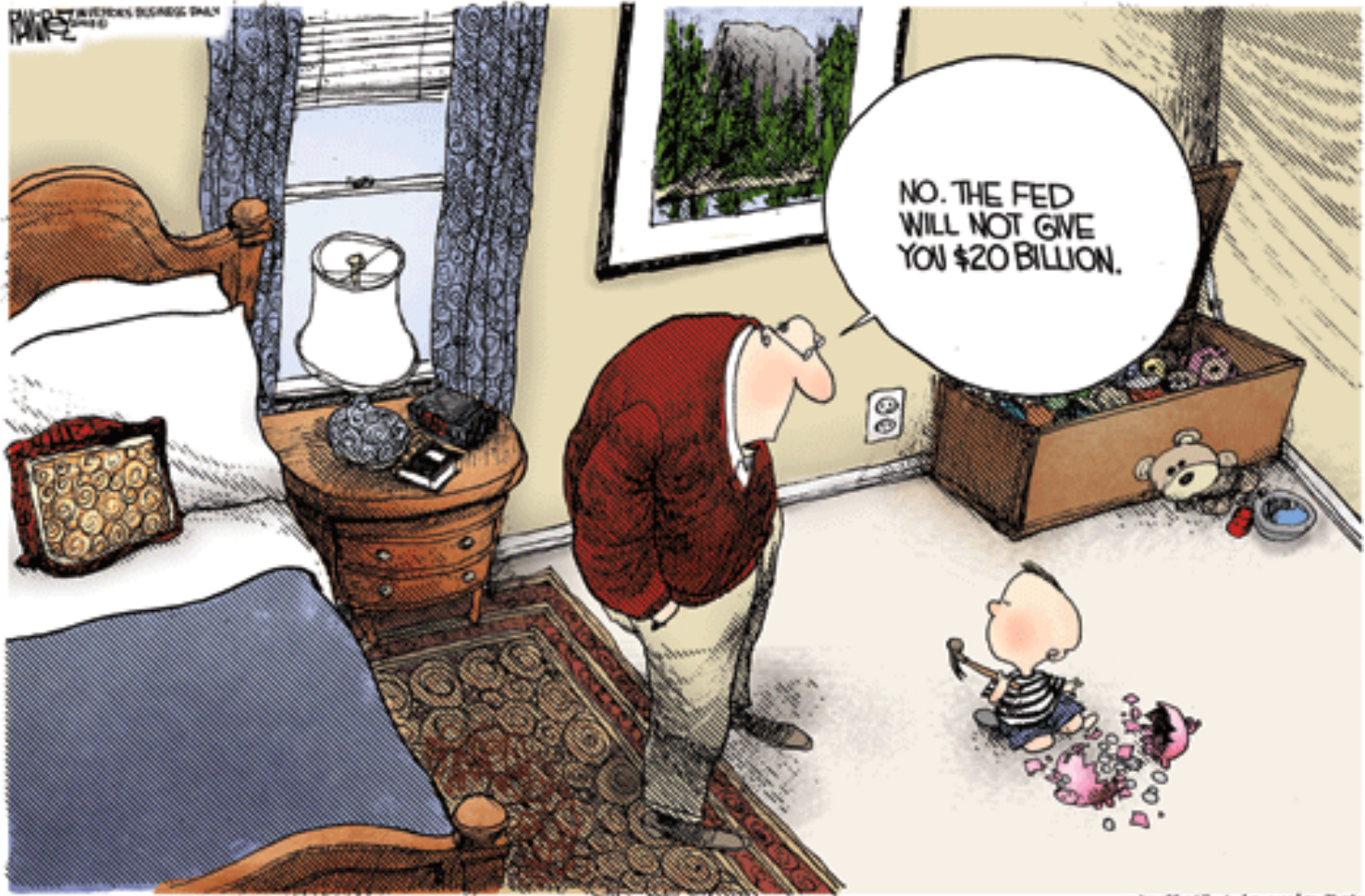


# **A Lender of Last Resort For sovereigns**

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# 1. Who wants a Lender of Last Resort?



## 2. Why a lender of last resort for countries?

1. **Def: LoLR provides funding for solvent but illiquid counterparties. At a penalty rate.**

2. **Why does a government become illiquid when it is solvent?**

- Shock, temporary, exogenous (earthquake)
- Global liquidity provision as insurance
- Moral hazard of insurance
  
- Illiquidity is mostly the product of fear of insolvency
- Insolvency is ill defined in the case of sovereigns
- Incomplete contract and property rights: Missing insolvency regime for sovereigns : Willingness vs. ability to pay
- Expectation matter: Multiple equilibria

### 3. Why an international lender of last resort?

1 Mismatch between assets and liabilities of the country

2 (financial sector) - Currency mismatch

- 3 - Own Central Bank cannot act as LoLR
- 4 - IMF for small countries not for large countries
- 5 - De facto new regime:
  - FED at center of global liquidity insurance
  - De facto US dollar role will decline
  - (share of world GDP, fiscal capacity)
  - Multipolar world - System of Swap lines
- Macroprudential, capital controls,
- deglobalization of finance

## 4. Why a national lender of last resort for governments?

1 Q1: Should the central bank monetize budget deficits?

2 Q2: Should the central bank provide liquidity in the case of an "unjustified" run on government liabilities?

3  
4 Mismatch among government assets and liabilities:

- 5 - Sovereign funding strike domestic debt markets
- Contagion, spreads are "Made in Athens & Berlin"

## 5. LOLR in the Eurozone? OMT and ESM

- 1
  - 2
  - 3
  - 4
  - 5
- **OMT is not for government but for combatting financial fracturing**
  - **ESM conditionality contradicts LoLR**
  - **LoLR for Spain? - Should the US FED act as a LoLR for Florida?**
  - **The concept of the sovereign in the Eurozone is not clear**

**OMT and ESM are crisis management tools  
substitutes for a fiscal solution such as a debt redemption pact**

- 1
  - 2
  - 3
  - 4
  - 5
- **No appetite for a global solution**
  - **Several international LoLRs - Formalize the system of swap lines**
  - **Financial protectionism - Increase financial oversight through IMF**
  - **In Europe : overcome financial fragmentation - banking union**
  - **LoLR for governments should not be a permanent feature of the financial architecture**

**Thank you for your attention**