IMF-Supported Macroeconomic Policies and the World Recession: A Look at Forty-One Borrowing Countries

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Contents

Introduction 4

Afghanistan 9

Armenia 11

Belarus 13

Bosnia and Herzegovina 16

Burkina Faso 17

Burundi 18

The Central African Republic 19

Republic of the Congo 21

Costa Rica 22

Côte d'Ivoire 23

Djibouti 24

El Salvador 25

Gabon 27

The Gambia 29

Georgia 31

Ghana 33

Grenada 35

Guatemala 37

Haiti 39

Hungary 41

Iceland 43

Kyrgyz Republic 45

Latvia 46

Liberia 48

Malawi 50

Mali 51

Mozambique 53

Mongolia 54

Niger 56

Pakistan 58

Romania 60

São Tomé and Príncipe 61

Senegal 63

Republic of Serbia 65

Seychelles 68

Sierra Leone 70

Tajikistan 72

Tanzania 74

Togo 75

Ukraine 77

Zambia 79

References 81

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Introduction

This paper arises out of discussions with the International Monetary Fund (IMF) over the Fund's recommended macroeconomic policies during the course of the current world recession. In a panel discussion held on June 19, 2009, there was disagreement between the IMF and CEPR over whether or to what extent the IMF has supported pro-cyclical policies in borrowing countries during the current world recession. CEPR agreed to take a comprehensive look at current IMF agreements, as a prelude to further discussions with the Fund on this issue.

This paper looks at IMF agreements with 41 countries. These include Stand-By Arrangements (SBA), Poverty Reduction and Growth Facilities (PRGF), and Exogenous Shocks Facilities (ESF).[1]

The paper finds that 31 of the 41 agreements contain pro-cyclical macroeconomic policies. These are either pro-cyclical fiscal or monetary policies – or in 15 cases, both – that, in the face of a significant slowdown in growth or in a recession, would be expected to exacerbate the downturn. In some cases, the Fund subsequently relaxed the original conditions; sometimes (as in Hungary, Latvia, Republic of Congo, and Haiti) this appeared to be the result of social unrest or other pressures on the borrowing government. These relaxations of fiscal and monetary policy are noted in the text below, but the original agreements are included in the tally because they still represent, in the authors' opinion, a policy mistake that may have caused unnecessary economic harm during the time when the policy was in effect.

In many cases the Fund's pro-cyclical policies were based on over-optimistic assumptions about economic growth. For example, of the 26 countries that have had at least one review, 11 IMF reports had to lower previous forecasts of real GDP growth by at least 3 percentage points, and three of those had to correct forecasts that were at least 7 percentage points overestimated. Most likely there will be more downward revisions to come.

The Fund might respond that it could not be expected to anticipate the depth of the world recession and its impact on developing countries through exports, capital inflows, remittances, access to trade credits and other channels. But the Fund should have been more careful in its projections and should have anticipated a severe downturn that would have serious effects on low-and-middle-income countries. The United States, which is about one-quarter of the world economy, officially went into recession in December of 2007. The cause of this recession was both foreseeable and foreseen; for example some economists began writing about the housing bubble in 2002,[2] and while no one could anticipate exactly when it would burst, the size of the bubble as it grew was continuously tracked; and well before it peaked in 2006, it was clear that this would have a huge impact on both the U.S. and world economy. Other economists such as Nouriel Roubini[3] focused more on the impact that the anticipated bubble collapse would have on the financial sector. All of this data and analysis was available to the Fund, which has one of the largest economic research

[1] For an explanation of these three lending facilities, see the following:
IMF. 2009. "IMF Lending." http://www.imf.org/external/np/exr/facts/howlend.htm
IMF. 2009. "The Poverty Reduction and Growth Facility (PRGF)." http://www.imf.org/external/np/exr/facts/prgf.htm
IMF. 2009. "The Exogenous Shocks Facility (ESF)." http://www.imf.org/external/np/exr/facts/esf.htm

[2] See for example Baker 2002.

[3] See for example Roubini 2006.

departments in the world. The Fund publishes the World Economic Outlook every six months, the purpose of which is to analyze current trends; the WEO missed this enormous bubble and its likely consequences.

By the time of the IMF projections that are included in this paper, the world recession was well underway. It should have been obvious, even before the deepening financial crisis that followed the collapse of Lehman Brothers, that this recession would lead to a sharp fall-off in capital flows to developing countries. There was a sharp decline of these flows after the bursting of the stock market bubble (in 2000-2002), which caused the U.S. recession of 2001[4]. It was very clear to those who had analyzed both of these bubbles that this recession would be far worse, and have a much bigger impact on developing countries not only through the financial sector, but also through trade and other avenues. According to the World Bank, net private capital inflows to developing countries dropped from a $1.2 trillion peak in 2007 to $707 billion by the end of 2008 and a projected $363 billion in 2009.[5]

It is also worth noting that the IMF has a history of over-optimistic projections in many countries.[6] So it is not so easy to separate forecasting errors from an underlying bias toward overly restrictive fiscal and monetary policies.

The same is true with regard to the Fund's treatment of inflation during 2008, when there was a huge run-up in commodity prices. In some countries this was part of the IMF's rationale for tight monetary policy, even in the face of negative external shocks that slowed growth. For countries whose government budgets were negatively impacted by oil price increases, this was also part of the rationale for pro-cyclical spending cuts. The Fund should have anticipated that most of this inflation was temporary, and treated it as such when formulating macroeconomic policy.

Over the past year or two the IMF has been a strong supporter of the use of government fiscal stimulus to counter-act the world recession, and it has long supported expansionary monetary policies, e.g. in the European Union, as well. It may then seem paradoxical that so many of the IMF's agreements concluded during this recession have been pro-cyclical. But there has long been a double standard for low-and-middle income countries, in that Fund policy does not allow or encourage the same types of expansionary macroeconomic policies as it recommends for the high-income countries.

The economic argument for this double standard is that developing countries face a much more binding foreign exchange constraint. That is, if they stimulate their economies during a downturn they run the risk of expanding current account deficits and therefore running low on foreign exchange. Countries with hard currencies (the United States, Eurozone countries, Japan) do not face the same constraint, and of course the U.S. has the added advantage that the U.S. dollar is the world's key currency. However, developing countries that have sufficient reserves are in very much the same position as the high-income countries. A prime example of this is China, with more than

[4] IMF 2002.
[5] World Bank 2009.
[6] See for example Baker and Rosnick 2003 and Rosnick 2009. The main exception has been countries where the IMF has had strong policy disagreements with the governments, where it has sometimes had huge forecasting errors in the other direction (see Rosnick and Weisbrot 2007)

two trillion in international reserves, which has implemented perhaps the world's most effective stimulus program during this recession.

The purpose of IMF lending during a world recession should be – as much as possible – to provide sufficient reserves so that borrowing countries can pursue the expansionary macroeconomic policies that high-income countries are capable of, in order to minimize the loss of employment and output, as well as more permanent or long-lasting damage that sometimes occurs in the most vulnerable countries. Of course some countries headed into this downturn with unsustainable fiscal or current account deficits; but even in these cases there should be a strong bias towards waiting until the world recession has passed before attempting to adjust these deficits. Other countries may have an unsustainable debt burden; in these cases there is an argument for more and speedier debt cancellation in the near future, rather than trying to improve the fiscal balance while the economy is crashing.

In some countries the rationale for tightening macroeconomic policies during the current downturn has been to restore confidence as a result of capital flight. In these cases, the IMF should be more open to capital controls, which it does not recommend in any of the agreements, and in some cases (e.g. Pakistan) it opposes these measures. In any case this is rarely a sufficient justification to prescribe pro-cyclical macroeconomic policy, especially if the Fund is capable of providing sufficient reserves to restore confidence. That is the purpose of the Fund's new Flexible Credit Line, which has provided a large credit line without conditions. It has worked very well, and is a major improvement in IMF policy; but unfortunately it has only been made available to three countries: Mexico, Colombia, and Poland. Now that the Fund's resources have been boosted by hundreds of billions of dollars to unprecedented levels, it should consider providing this kind of support to other countries. Most of the countries that would need this kind of a credit line have vastly smaller economies than Mexico, Colombia, or Poland; so there is plenty of room to expand it.

In the case of Latvia, for example, the pro-cyclical policies have been part of an effort to preserve a pegged exchange rate. This is similar to IMF-supported policy in Argentina during their steep recession of 1998-2002, where a fixed, overvalued exchange rate was supported with tens of billions of dollars of loans until it inevitably collapsed. In cases such as Argentina and Latvia, maintaining the peg means that adjustment must take place through shrinking the economy and real wage declines. Latvia's GDP is projected to shrink by 18 percent this year.[7]

Of course the IMF has to be concerned with the borrowing country's ability to repay the loans, but it is possible that the Fund's risk aversion in this regard is too extreme, and leads to unnecessary pro-cyclical policies. For example, in the case of Ukraine, the Fund recommended pro-cyclical policies despite the fact that Ukraine's public debt was just 10.6 percent of GDP.[8] But regardless of the cause, it is time for the Fund to re-examine the criteria, assumptions, and economic analysis that it uses to prescribe macroeconomic policies in developing countries.

This paper does not focus on other aspects of IMF policy in the current agreements that may also be in need of reform. As can be seen below, in many poor countries the agreements focus on reducing the public wage bill, privatizations, and liberalization. While in some cases these reforms

[7] IMF 2009.
[8] See Weisbrot 2009.

may be justified, there are undoubtedly others where they may run counter to the long-term development needs of the borrowing countries.

About the Criteria

In this paper we counted as pro-cyclical fiscal policy a programmed reduction in the fiscal deficit (or an increase in the fiscal surplus) during a recession or significant growth slowdown. For example, in Hungary, the IMF agreement in 2008 called for reducing the fiscal deficit from –3.4 percent of GDP in 2008 to –2.5 percent of GDP in 2009, while GDP growth fell from 0.5 percent in 2008 to a projected –6.7percent for 2009.

Similarly, we counted as counter-cyclical a programmed decrease in the fiscal surplus (or an increase in the fiscal deficit).

On monetary policy, an increase in policy interest rates during a recession or significant growth slowdown was counted as pro-cyclical, with an interest rate cut as counter-cyclical. For money supply targets, some agreements did not target money supply growth, and thus were not counted as pro-cyclical or counter-cyclical on the basis of this measure. Some explicitly indicated a tightening of monetary policy, e.g. "monetary policy will be tightened moderately, with reserve money growth below growth in nominal GDP."[9] These agreements were counted as tightening monetary policy. For other agreements that did not specify the direction of monetary policy, if money supply growth was significantly less than nominal GDP growth, then that was counted as a tightening.[10]

We recognize that it is not always easy to determine whether an IMF program is pro-cyclical, counter-cyclical or neutral based on these key macroeconomic policies. In cases where it was not clear, a blank was left in Table 1. Still there can be differences over how to measure this. We look forward to further discussions with the IMF to reach more clarity on these policies.

This year the IMF has taken action more akin to a Central Bank's function as lender of last resort, by making available for borrowing some $283 billion of Special Drawing Rights (SDR's IMF reserve assets that can be exchanged for hard currency) to member countries without conditions. While most of this will be available to high-income countries who will not borrow it, there will still be a significant amount going to low-and-middle-income countries, including about $20 billion to the Low Income Countries. This money can be borrowed without conditions. While many low-income countries cannot afford to take on new debt, this unconditional lending and injecting liquidity into the world economy by the IMF, in a time of world recession represents an unprecedented step forward. The next step should be to eliminate harmful conditions attached to other IMF lending facilities.

[9] See p.20, "Sierra Leone: 2008 Article IV Consultation, Third Review Under the Three–Year Arrangement Under the Poverty Reduction and Growth Facility, Financing Assurances Review, and Requests for Waivers of Nonobservance of Performance Criteria, Augmentation of Access, and Modification of Performance Criterion—Staff Report; Public Information Notice and Press Release on the Executive Board Discussion; and Statement by the Executive Director for Sierra Leone." January. http://www.imf.org/external/pubs/ft/scr/2009/cr0902.pdf.

[10] We used trend nominal GDP growth, since some countries had negative current nominal GDP growth because of recession.

TABLE 1
Expansionary and Contractionary Elements of Current IMF Agreements
○ Indicates Expansionary Policy ● Indicates Contractionary Policy

Country:	Fiscal Policy	Monetary Policy	Public-Sector Wage Bill	Liquidity And Money Supply Growth	Interest Rates
Afghanistan	●	●		●	
Armenia	○	●		●	
Belarus	●	●	●	●	●
Bosnia and Herzegovina	●	●	●	●	
Burkina Faso	●				
Burundi	●	●	●	●	
Central African Republic	●		●		
Congo, Republic of	●		●		
Costa Rica	○	●	○	●	●
Côte d'Ivoire					
Djibouti	●	●	●		
El Salvador	●				
Gabon	●	●	●		
Gambia, The	●	●			●
Georgia	○				
Ghana	●	●	●	●	●
Grenada	●		●		
Guatemala		○			○
Haiti	○	●	○	●	
Hungary	●	●	●	●	●
Iceland					
Kyrgyz Republic	○	●	●	●	●
Latvia	●	●	●	●	●
Liberia			○		
Malawi		●		●	●
Mali	●				
Mongolia	●	●	●		●
Mozambique	○				
Niger	○				
Pakistan	●	●	○		●
Romania	●	●	●	●	
São Tomé and Príncipe	○		●	●	
Senegal	●				
Serbia, Republic of	●	○	●		○
Seychelles	●	●	●		●
Sierra Leone		●	●	●	
Tajikistan		●	○	●	
Tanzania	○	○	○	○	
Togo			○		
Ukraine	●	●		●	●
Zambia	○		○		

Afghanistan

Continuing from the Staff Monitored Program that ran from 2004-2006, Afghanistan entered into a PRGF agreement in the spring of 2006. The program focuses on resolving debt issues, maintaining price stability and fiscal stability through increased revenues and expenditure control. Given the security situation, defense spending makes up a large portion of overall expenditures in Afghanistan. Significant resources are also spent off budget through external sources.

The PRGF program appears to be intended for bargaining with external creditors and joining the HIPC initiative. "In July 2006, Paris Club creditors agreed to cancel more than US$ 10 billion of debt, thereby reducing Afghanistan's external debt by nearly 90 percent, and capitalized all debt service payments falling due until March 31, 2009. At the HIPC decision point, in July 2007, they committed to canceling all remaining claims once Afghanistan reaches its completion point under the HIPC initiative."[11] However, by the agreement's fifth review, in 2009, the Afghan government did not foresee reaching the completion point within the agreement's time frame, and requested an extension to the agreement in order to have more time to reach it and other goals.[12]

The fifth review for Afghanistan (2009) states a clear pro-cyclical orientation, despite the world recession and national economic downturn. "The economic program for 2009/10 envisages a prudent monetary policy to ensure a fast disinflation [and] fiscal adjustment anchored on remedial measures to increase revenues and contain spending…"[13]

This includes:

- "A reduction in reserve money growth from 35 percent in 2008/09 to 17 percent in 2009/10 to lower inflation to about 6 percent by March 2010."[14]

- "…lower the operating budget deficit excluding grants from 5.5 percent of GDP in 2008/09 to 4.7 percent of GDP in 2009/10."[15]

These policies take place against a backdrop that includes a sharp fall-off in growth from 12 percent in 2007/08 to an estimated 3 percent 2008/09. The agreement notes that inflation had fallen from a peak of 43 percent in May 2008 to just 9 percent (year over year) in February 2009.

The program also contained significant privatization and liberalization. Afghan authorities had raised tariffs on soft drinks and bottled water and "issued a new presidential decree allowing some producers to apply for a lower import tariff (of 1 percent) on raw materials and intermediate inputs"[16] that would be used "exclusively for industrial production."[17] However, soon after these measures were implemented the program eliminated the 1 percent tariff rate on raw materials, and

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[11] IMF 2008a, 12.
[12] IMF 2009, 29.
[13] Ibid., 3.
[14] Ibid.
[15] Ibid.
[16] IMF 2007b, 4.
[17] Ibid, 27.

made scrapping the soda and bottled water tariff increase "a structural performance criterion for a later review."[18]

Privatization focused predominantly on state-owned banks and Afghan authorities "have made some progress in divesting State-Owned Enterprises (SOEs) and restructuring the state-owned banks. Of the 24 SOEs that were scheduled to be auctioned, 11 have already been sold. We have also lowered the price of six SOEs in order to auction them successfully. In addition, the Cabinet has approved the privatization of 15 other SOEs."[19] At the third review, with fuel prices rising, the program also dealt with "issues pertaining to the government's role in the economy, including its involvement in the domestic petroleum market".[20] Authorities highlighted that "the government's intention, as highlighted in the Afghanistan Compact, is to withdraw from the oil sector and privatize the Fuel and Liquid Gas Enterprise (FLGE) by March 2009."[21] More recently, privatizations have been stalled due to Parliament's decision to amend "the State-Owned Enterprise Law to stipulate that its approval would in the future be required for any restructuring or liquidation of public enterprises."[22] In the fifth review IMF "staff urges the authorities to seek a clarification of the requirement under the amended State-Owned Enterprise Law that Parliamentary approval is needed for the privatization of public enterprises and liquidation of state-owned banks."[23]

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[18] IMF 2008a, 53.
[19] Ibid., 45.
[20] Ibid., 25.
[21] Ibid., 54.
[22] IMF 2009, 8.
[23] Ibid., 14.

Armenia

Despite limited integration with international financial markets, Armenia was severely affected by the global financial crisis. Growth in recent years had been largely based on a construction boom fueled by remittances and capital inflows from Russia, which contracted following the onset of the global crisis. Armenia was also hit by the collapse of its mining exports prices, bringing GDP growth to a halt in the 4th quarter of 2008.[1]

The impact of the crisis contrasted sharply with IMF staff appraisals during Armenia's request for a PRGF. IMF staff considered it "unlikely" that the global financial crisis would "affect the short-term growth outlook significantly."[2] As late as October, 2008, IMF staff was still concerned with potential "overheating" and projected 10 percent GDP growth for 2008 and 8 percent for 2009, despite serious signs of a worsening external environment as the world headed towards recession.[3] IMF staff commended Armenian authorities for removing previously planned fiscal stimulus for 2008 and 2009 and for tightening monetary policy.

Although formally committed to a floating exchange rate, large depreciation pressures prompted authorities to defend the dram (domestic currency) and, in effect, adopt a de facto pegged exchange rate regime. To this end, the Central Bank sold about $50 million a week of foreign reserves, decreasing reserves from $1.084 billion in December 2008 to $657 million by February 2009.[4] Authorities feared the potentially destabilizing effects of a large and sudden depreciation on the banking sector, which could erode confidence and cause a mass withdrawal of deposits as depositors sought to convert to foreign currency. IMF staff estimates, moreover, suggested that the dram was seriously overvalued, by as much as 30 percent.[5] This caused increasing dollarization since it led the financial sector to restructure its balance sheets to avoid currency mismatches, passing on exchange rate risk to borrowers by refusing to rollover domestically-denominated debt.

By mid 2009 remittances and capital inflows were expected to continue falling and the construction sector was set to contract further. GDP was then projected to shrink by 1.5 percent in 2009.[6] Significant revenue shortfalls put further pressure on the widening budget deficit. It was in this context that authorities requested the cancellation of its current PRGF in exchange for an exceptionally large SBA, 400 percent of Armenia's quota (SDR 165.6 million, or around $258 million), in light of its increased financing needs.[7]

Under the SBA program, authorities agreed to prevent the fiscal balance from slipping and restore medium-term sustainability by cutting non-priority spending. New investments, unless externally financed, were banned. Excise duties on tobacco and imported alcohol were raised. Also, against opposition by IMF staff, authorities decided to raise tariffs on certain imports in a further effort to boost revenues.

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[1] IMF 2009b, 3.
[2] IMF 2009a, 4.
[3] Ibid.
[4] IMF 2009b, 4.
[5] Ibid.
[6] Ibid., 10.
[7] Ibid.

The program also involved returning to a flexible exchange rate and limiting Central Bank intervention to smoothing "extreme" volatility.[8] When the Central Bank stopped intervening in the foreign exchange market it simultaneously raised its policy rate by 100 basis points.[9] This was intended to prevent capital outflows, maintain demand for dram-denominated-assets and curb potential inflationary pressures. The exchange rate subsequently depreciated by 22 percent, correcting most of the misalignment.[10] As a consequence, foreign exchange transactions decreased, there was no massive outflow of deposits and dollarization leveled off.

However, despite success in exchange rate policy, the effects of the crisis were far larger than anticipated. Instead of the comparatively mild forecast of a 1.5 percent contraction, IMF staff now projected that GDP would shrink by as much as 10 percent in 2009 (a full 18 percent difference from its original projections during the PRGF request).[11] In response to worsening conditions, authorities requested an augmentation of the SBA of 180 percent of its quota, bringing its total access to 580 percent (SDR 533.6 million or about $830 million).[12]

The revised SBA program included modest monetary easing, cutting the policy rate by 150 basis points, but by then the extent of dollarization had eroded the efficacy of the transmission mechanism.[13] To strengthen the functioning of monetary policy, authorities decided to gradually increase repo maturity to up to one year. They also began to offer foreign currency swaps on a regular basis and increased purchases of government securities.

The IMF program has counter-cyclical fiscal policy; by the first review in June 2009, overall government expenditure was set to increase from 21.8 percent of GDP in 2008 to 26.9 percent for 2009. The budget deficit was also set to increase, from 1.7 percent of GDP to 6.5 percent for 2009.[14] Monetary policy was procyclical: broad money, moreover, shrank by 2.16 percent in 2008.

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[8] Ibid., 11.
[9] Ibid.
[10] IMF 2009c, 7.
[11] Ibid., 3.
[12] Ibid., 17.
[13] Ibid., 10.
[14] ibid., 29.

Belarus

Belarus' SBA with the IMF comes after several years of high GDP growth (averaging "close to 9 percent" since 2002) gave way to the global recession and slowed to a 1.1 percent annual rate in the first quarter of 2009.[1] Exports were particularly hurt by the onset of the international crisis, and the current account deficit rose from 6.8 percent of GDP in 2007 to 7.6 percent in 2008. Moreover, international reserves had dwindled, covering just 1.5 months of imports and 57 percent of short-term debt by the end of 2007, partly as a result of a the current account shock, and partly because of a "sizable shift in November-December to foreign currency by households, apparently in response to the NBRB's [Central Bank of Belarus] policy of gradually depreciating the [Belarusian] ruble."[2] Finally, inflation had risen to 13.7 percent at the end of 2008, from 12.1 percent one year earlier, "partly [as a] result of global food and energy shocks, but indicators of domestic demand, high credit growth, and output growth above trend point to an overheated economy."[3] The SBA aims to address this rising inflation and falling GDP and reserves.

The SBA prioritizes maintaining a balanced budget in 2009. This implies a reduction of the budget deficit from an estimated 0.5 percent of GDP in 2008, with spending cuts of 2.2 percent of GDP.[4] This is clearly pro-cylcical, since the IMF at this time was projecting a crash in GDP growth from 10.5 percent in 2008 to just 1.4 percent in 2009.[5] Rather than eliminating the small deficit accumulated in 2008, it would seem to make more sense to allow public spending and the deficit to rise in order to make up for the sharp falloff in private domestic investment spending, the drop in consumer spending, and external shocks including a fall-off in foreign domestic investment and foreign lending.[6] The mistake was seen to be even worse four months later, in August 2009, when the IMF revised its projected GDP growth for 2009 to negative 3.3 percent. Thus the SBA was prescribing fiscal tightening while the economy was headed into recession.

The agreement projects nominal public wage growth will slow and real wages are expected to decline. The SBA calls for a nominal wage change of "at most 10 percent, somewhat below inflation over this period… This would deliver 0.6 percent of GDP in fiscal adjustment relative to 2008. The wage increase in enterprises with a substantial government stake will be limited to 5 percent in 2009."[7] The latter ceiling will apply to any business that is "fully state owned, or in which the government has a dominant influence, a majority, or a blocking shareholder position."[8]

Also, the agreement foresees drops in investment and capital projects by both the government and state-owned enterprises (SOEs). These will be allowed to rise again if future financing emerges.

The agreement also targets subsidies and price controls for spending cuts. Subsidies will initially be cut by approximately one percent of GDP. Further rises in utility prices will happen slowly "in light of the tight wage policy."[9] For example, average housing and heating prices were scheduled to rise

[1] IMF 2009a, 2.
[2] Ibid., 12.
[3] Ibid., 2.
[4] Ibid., 33 (Table 1) and 35 (Table 2).
[5] Ibid., 33 (Table 1).
[6] Ibid., 37 (Table 4).
[7] Ibid., 20.
[8] Ibid., 55.
[9] Ibid., 21.

by approximately 15 percent (from 141,862 to 162,865 rubles per month) before the agreement took effect, "and possibly increased further during [2009]. Additional increases will be implemented in 2010, to improve the cost recovery ratio."[10]

By the first review, in August 2009, revenue was lower than the IMF agreement anticipated by 5.5 percent of GDP, and further cuts were planned. The government had decided to "postpone any wage increase to September at the earliest," saving an additional 0.2 percent of GDP.[11] Furthermore, "expenditures on goods and services were cut, except for purchases for education and health. Investment projects were cancelled or postponed, unless they were already close to completion or in priority areas."[12] Public investment was expected to fall by 4 percent of GDP from its 2008 levels. The agreement also called for further cuts of subsidies, including "generalized subsidies on interest rates, utilities and transportation."[13]

Two areas of fiscal policy were spared from this tightening: social spending and taxes on profits. Social spending, supported by World Bank financing, is expected to rise from 12.0 percent of GDP in 2008 to 13.5 percent in 2009. Even at the first review, the IMF encouraged Belarus to continue supporting social spending, adding "in that regard, World Bank assistance will be important."[14] Also, taxes on profits are anticipated to fall from 24 to 20 percent, reducing government revenue by an additional 0.7 percent of GDP. Moreover, "several small taxes and fees will be eliminated, including the local sales tax on goods and services (½ percent of GDP). To contain the revenue shortfall, the VAT rate will be increased by 4 percentage points (1 percent of GDP), and the authorities plan to reduce exemptions. In addition, excise rates on selected goods were raised by 10 percent in June."[15]

Finally, additional revenue is expected from privatization of State Owned Enterprises (SOEs). The Belarus government stated that it is "looking for a strategic investor to sell the majority shareholding in two state banks (OJSC Belpromstroibank and OJSC Belinvestbank) and a minority holding in JSSB Belarusbank and OJSC Belagroprombank as soon as market conditions permit."[16] The government is also targeting "147 corporations, including in the telecommunications, chemical, petrochemical, and construction industries, the shares of which the government will sell."[17] By the first review, these efforts had accelerated. A new structural benchmark called for a draft Privatization Law to be submitted to Parliament by September 2009, "establishing a Privatization Agency charged with preparing enterprises for privatization, with power to hire advisors … to support the process. The Agency … will consult with the World Bank and identify, by November 2009, five large SOEs as candidates for privatization … with the aim of offering the controlling stakes in these SOEs for sale through an open, international, transparent, and competitive tender by February 2010."[18]

Monetary policy is also pro-cyclical, targeting inflation, bringing money supply growth to a near-standstill, and raising interest rates. The SBA states that "inflation had to be kept under firm

[10] Ibid., 55.
[11] IMF 2009b, 15.
[12] Ibid., 8.
[13] Ibid., 15.
[14] Ibid.
[15] Ibid.
[16] IMF 2009a, 53.
[17] Ibid., 55.
[18] IMF 2009b, 17.

control" and targets an 11.5 percent rate.[19] To do so, the agreement foresees controlling base money growth through "a ceiling on the net domestic assets of the NBRB,"[20] which assumes "a small velocity increase."[21] By the first review, monetary policy tightens further; money supply growth is expected to be "lower than in the original program."[22] The result of this tighter monetary policy will be "near-zero real growth of credit to the economy,"[23] although "central bank credit to commercial banks and credit to the economy would grow in nominal terms."[24] During this time, real GDP growth had dropped from 10.5 percent in 2009 to a projected –3.3 percent in 2009, and inflation was projected to fall from 13 percent in 2008 to 11 percent in 2009.

Interest rates were raised as a prior action to this SBA, and will continue to rise throughout the program. Before the agreement was signed, the policy rate rose from 12 to 18 percent and the refinancing rate rose from 10.75 to 12 percent. Under the SBA, "the authorities will eliminate the ceiling on interest rates charged on corporate loans (previously the refinance rate plus 300 basis points)."[25] By the first review, the central bank also "reversed the 2 percentage point cut in the interest rate on overnight lending by the central bank."[26]

[19] IMF 2009a, 16.
[20] Ibid., 29.
[21] Ibid., 52.
[22] IMF 2009b, 12.
[23] Ibid., 11.
[24] Ibid., 12.
[25] IMF 2009a, 17.
[26] IMF 2009b, 12.

Bosnia and Herzegovina

Roughly 95 percent of assets in the Bosnian banking system belong to foreign-owned banks, mostly European. Correspondingly, the SBA emphasizes avoiding capital flight during this global financial crisis, by placing a high priority on maintaining Bosnia's currency board regime. To this end, the IMF prescribes a regimen focused on tighter fiscal policy. Under the SBA, Bosnia and Herzegovina "recognize that financing constraints and the existing structural deficit mean that an easing of fiscal policy to cushion the downturn is unfortunately no longer possible."[1]

The IMF agreement calls for drastic cuts in government spending. Prior to the agreement, deficits rose from zero to 4 percent of GDP between 2007 and 2008. Without a change in policy, 2009 was expected to see a deficit of 7.75 percent of GDP. Instead, the SBA has a target deficit of 4.75 percent for 2009, 4 percent for 2010, and a return to balanced budgets by 2012 or 2013. The budget will target public sector wages and benefits as well as government purchases. In the Federation of Bosnia and Herzegovina,[2] all government wages as well as disability, veteran, and war victim benefits are to be cut by 10 percent from their December 2008 level. Also, the Federation will introduce an income ceiling for benefits recipients and cease indexing the benefits themselves. The Republika Srpska (RS) will also cut budgets, though somewhat less drastically: the highest paid civil servants' pay will be reduced by 10 percent, veteran and disability benefit eligibility will be tightened, and capital spending will be cut. Furthermore, RS municipalities will also cut wages and pensions. Finally, the SBA imposes ceilings on credit from the banking system to the central government, the Federation, the RS, and canton governments.

In contrast, the plan does not call for changes in monetary policy. Inflation has already fallen dramatically, from a 10 percent annual rate in July 2008 to zero in April 2009. The IMF expects it to rise to 1.6 percent in 2009, and stabilize at 2.5 percent by 2014. The money supply is holding steady, with money growth projected to be 0.6 percent in 2009. Since this is less than the rate of inflation, it is a negative real change in the money supply. Therefore, both fiscal and monetary policy are procyclical under this agreement. Foreign direct investment fell by half from 2008 to 2009, but the IMF expects it to recover in 2010. .As fiscal policy will be unable to help ease the recession, it is this investment which is expected to bring recovery: the IMF expects GDP growth to rise from 4 percent in 2009 to 6 percent in 2012 and 2013.

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[1] IMF 2009, 6.

[2] Bosnia and Herzegovina is divided into two political entities: the Federation of Bosnia and Herzegovina, and the Republika Srpska.

Burkina Faso

This agreement between Burkina Faso and the IMF is the third consecutive agreement. It covers fiscal policy, but monetary policy is decided at the regional level, through the West African Economic and Monetary Union. Under a previous agreement, in December 2006, 51 percent of the state telecommunications company, ONATEL, was sold to Maroc Telecom for CFAF 139 billion, or 4 percent of GDP; another 20 percent of the company is scheduled to be made available through the regional exchange and an additional 6 percent sold to ONATEL employees, leaving the government with approximately one quarter of the ownership of the company. By January of 2007, Burkina Faso used the first wave of revenue from this sale to become "practically free of domestic debt."[1]

The IMF clearly underestimated the impact that the world economic recession would have on Burkina Faso. In its second review under the three-year PRGF, dated July 2008 – with the world recession well under way -- it projects the country's 2008 GDP growth at 6.2 percent. By the fourth review, it has revised that projection downward to 3.5 percent.

In the second review, the IMF program calls for a reduction of the government's fiscal deficit from 5.4 percent of GDP in 2008, to 4.5 percent in 2009, and 4.1 percent in 2010. In view of the slowdown of the economy (from 5 percent in 2008 to a projected 3.5 percent in 2009), this program's fiscal policy was pro-cyclical.

The IMF was largely satisfied with Burkina Faso's fiscal performance during the first year of agreement: "Burkina Faso contained public expenditure in 2008, although the year was marked by the food crisis. Indeed, while limiting total expenditure, the government pursued its efforts to maintain priority expenditure."[2] Nonetheless, the government did fall short of social spending targets at each of the first four reviews.

[1] IMF 2007, 37.
[2] IMF 2009b, 33.

Burundi

Burundi's PRGF agreement with the IMF targets both inflation and what the IMF sees as unnecessary government spending. The plan anticipates the government cutting the wage bill and doubling taxes on oil, while using new aid funds to raise social spending. Meanwhile the plan seeks to counter high inflation by reducing excess liquidity.

Fiscal policy focuses on reducing non-aid spending, thereby cutting the overall deficit (including grants) in half, from 2.5 percent of GDP in 2008 to 1.3 percent of GDP in 2011. Meanwhile, the plan includes using aid money to fund new social safety net programs (an additional 0.7 percent of GDP). Thus, the overall spending levels will stay roughly the same: the overall deficit (excluding grants) is expected to drop from 23.5 percent of GDP in 2008 to 21.9 percent of GDP in 2011. Programs being cut include petroleum support and the public sector wage bill. Under this agreement, fuel prices will be liberalized, to rise and fall with world prices. Moreover, Burundi will re-instate a 20 percent petroleum tax, which had been allowed to fall to 10 percent. Burundi's public wage bill was below average for the region, at 10.8 percent of GDP, and it has seen "continued demands for wage increases in light of soaring food and oil prices." Nonetheless, the IMF prioritizes freezing it and gradually reducing the wage bill through various measures, including attrition and a hiring freeze in most sectors, although the second review allows for an upward revision of 0.5 percent of GDP. These measures became part of the final agreement despite the concerns from local authorities that cutting the wage bill will hurt their ability to disarm and integrate former militants, and that there was already widespread discontent due to rising prices.

Monetary policy is also contractionary, but less aggressively so. It prioritizes restricting money supply growth in order to reduce inflation, even though the high inflation rates of 2007 and 2008 were "mostly driven by rising food and energy prices, which subsequently receded."[1] Reserve money growth, which rose from six percent in 2006 to 17.4 percent in 2007, is programmed to decelerate to eight percent in 2008. To accomplish this, the government plans on using "a proper mix of foreign exchange sales and liquidity sterilization" and enlisting the support of private banks to sell foreign currency, to limit liquidity.[2] Through this strategy, the plan expects inflation to fall to the single digits from its 25.7 percent rate at the end of 2008, and fall further to about six percent by 2011.

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[1] IMF 2008, 4.
[2] Ibid., 43.

The Central African Republic

The Central African Republic has been devastated by internal conflict; as a result "Real domestic per capita income has plummeted since the late 1980s."[1] The current PRGF builds on a previous Emergency Post Conflict Assistance agreement with the Fund. The agreement focuses on fiscal policy, as monetary policy is largely determined by The Economic and Monetary Community of Central Africa (CEMAC). It prioritizes fiscal tightening, which together with improving the business environment, is expected to achieve a reduction in government debt and provide a strong signal to donors that the economic situation is stable. A floor on the primary balance is therefore a performance criterion, with the expectation that by maintaining a surplus the government will slowly be able to pay down the debt. While significant progress was made in clearing external arrears, the lack of progress in paying domestic arrears (predominantly public-sector wages) caused unrest: "After a two-month strike of civil servants over payment of salary arrears, a new government was appointed in January 2008. The security situation outside the capital remains fragile, and social tensions over domestic arrears, mostly salaries, are not yet fully resolved."[2]

The primary budget surplus will be achieved by raising tax revenue and reducing expenditures, specifically the public-sector wage bill, which is projected to fall from 4.2 percent of GDP in 2007 to 3.5 percent in 2009. "The wage restraint does not take account of the staffing needs in the civil service ─ which in the health and education sectors are significant ─ but rather fiscal prudence as we bring the wage bill back in line with the overall expenditure envelope."[3] In 2008, the wage bill was increased by 0.3 percent to allow for new hires in the health and education sectors. The target primary balance was also relaxed significantly in 2009. This was due to the severe loss in revenue resulting from the effects of the global recession. At the same time "The revised program safeguards budgeted spending and incorporates new externally financed peace-process spending."[4] The peace-process spending is being financed by the UN and regional partners in the CEMAC. This tightening of fiscal policy may be due in part to the IMF's underestimating the impact of the global recession. The initial PRGF agreement foresaw increasing GDP growth of 3.5 percent in 2008, 4.5 percent in 2009, and 5.0 percent in 2010. However, by the fourth review, projections of GDP growth for the three years had fallen to 2.2 percent, 2.4 percent, and 3.1 percent, respectively.

The Fund also calls for reducing the implicit subsidies for petroleum, and implementing an automatic pricing mechanism. This was delayed until June 2008, because of "Concerns about the social impact of higher fuel prices."[5] Nevertheless, this was a structural benchmark, and on "June 1, 2008, weighted average fuel prices increased by 16 percent."[6]

Water and electricity prices were also topics of concern to this agreement. In their Memorandum of Economic and Financial Policies submitted to the IMF prior to the PRGF agreement, the C.A.R. government states: "One option being explored is the private-sector management of the water and electric utilities supported by tariff reforms and enhanced collections."[7] The agreement itself did not

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[1] IMF 2007, 5.
[2] IMF 2008b, 6.
[3] IMF 2007, 44.
[4] IMF 2009b, 5.
[5] IMF 2008b, 5.
[6] Ibid., 14.
[7] IMF 2007, 50.

call for privatization, though; instead, to help them weather the effects of higher fuel prices in 2008, water and electricity prices were scheduled to rise by five percent each, as a structural benchmark. Although the higher fuel prices were temporary, this price increase was to be "a first step toward reaching long-term sustainable tariffs, which are still above the new tariff levels."[8] However, "Because of serious disruptions in electricity and water supply and public dissatisfaction with their delivery, the government was unable to adjust electricity and water tariffs in June 2008."[9]

The agreement also focuses on improving the business environment. Reducing the amount the government can borrow from commercial banks is expected to free up credit to the private sector. Special focus will be attracting foreign direct investment to develop local natural resources "because the government itself lacks the technical and financial capacity to exploit the country's forest and mineral wealth."[10] Moves will also be made to open up trade, and the Fund "staff also encouraged the authorities to move with its CEMAC partners to lower barriers to trade. The staff noted that both the Diagnostic Trade Integration Study and the World Trade Organization's Report on the C.A.R.'s trade policies stressed the distortions caused by the relatively high common external tariff (CET)."[11]

[8] IMF 2008b, 43.
[9] IMF 2009b, 9.
[10] IMF 2007, 14
[11] IMF 2008a, 18.

Republic of the Congo

The Republic of the Congo's PRGF agreement with the IMF focuses almost exclusively on fiscal policy, as its membership in the Central African Economic and Monetary Community (CEMAC) limits its monetary policy options. The fiscal policy recommendations are based on Milton Friedman's Permanent Income Hypothesis (PIH), and entail postponing government plans to work toward the Millennium Development Goals (MDGs) in order to reduce the non-oil deficit to levels the PIH model predicts are sustainable. When the Republic of the Congo signed the PRGF, the economy was recovering from a recent recession. A platform accident at the Nkossa oil fields had reduced oil production and led to a recession in 2007, but growth had resumed by the time of the agreement in December 2008.

Congo's IMF agreement is "guided by" the PIH model, which suggests that "the sustainable non-oil primary deficit is estimated at about 3-5 percent of non-oil GDP, compared with more than 40 percent of non-oil GDP currently."[1] In order to reach that goal, the non-oil deficit will have to be cut 3-4 percent each year. It stood at 43.2 percent of GDP in 2008, and is projected to fall to 40.2 percent of GDP in 2009. The IMF is requiring this budget reduction in spite of the fact that the basic fiscal balance has been consistently positive: 14 percent of GDP in 2007, 30 percent in 2008, and a projected 20 percent in 2009.[2] It is unclear why the Congo needs to maintain such large surpluses.

In the near term, reaching this goal requires "the elimination of fuel subsidies and restraint on wages and goods and services, and domestic revenue mobilization," as well as improving tax collection and enforcement.[3] The plan calls for a gradual reduction of fuel subsidies, such that any reductions in the world price of fuel should not be passed on to consumers. However, it comes at a time when recent rises in fuel prices (such as a 13 percent price increase in October) have fomented "tensions" great enough to cause temporary reversals of policy.[4] The plan also entails postponing development spending: "While sympathetic to this concern and the authorities' desire to front-load public investment in an effort to meet the MDGs, staff urged them to pursue the indicated fiscal path," indicating that the government could resume attempts to meet the MDGs in the future, if other spending is cut and tax revenue raised.

Finally, the plan requires the Congo to push the CEMAC for lower external tariffs. This recommendation comes because "as a small open economy Congo would benefit from closer integration with the regional and global economy; presently, trade and investment linkages are concentrated in the oil sector."[5] Currently, the highest tariffs reach 30 percent, and the IMF would like to see this lowered to 20 percent.

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[1] IMF 2009a, 4, 15.
[2] Ibid., 6, 18; IMF (n.d.); authors' calculations.
[3] Ibid., 18.
[4] Ibid., 5
[5] Ibid., 14.

Costa Rica

The IMF approved in early April 2009 a 15-month, US$735 million stand-by arrangement for Costa Rica "to support the country's strategy to cope with the adverse global economic environment."[1] More specifically, in order to help the economy adjust to the global slowdown, "authorities have tightened monetary conditions and increased exchange rate flexibility. Fiscal policy will be geared toward mitigating the impact of the adjustment on domestic activity and the most vulnerable population."[2]

During 2006 and 2007, the Costa Rican GDP grew at an average annual rate of approximately 8.3 percent, which allowed for low unemployment rates and higher government revenue. This, in turn, brought the fiscal balance down to –1.4 percent of GDP in 2006, and generated a surplus of about 0.3 percent of GDP in 2007.[3]

During the second quarter of 2008 the economy overheated, the central bank missed the inflation goals and economic authorities reacted by raising interest rates in an attempt to curve down money aggregates: the policy interest rate went from 5.5 percent in early January to 10 percent in August, where it remained during the first half of 2009. By the time these measures were applied, the global economy was already entering into a recession and the Costa Rican financial system faced severe international constraints in the international market. Meanwhile, direct investment and exports slowed down, and international reserves started to decline.

When the government announced a fiscal stimulus package in January 2009 the index of economic activity had seen four consecutive months of negative year-over-year rates of growth. In addition to the late fiscal reaction the central bank continued to apply a restrictive monetary policy which made it difficult for producers to fully benefit from the fiscal stimulus.

The SBA with the IMF was announced in April 2009 and, as indicated above, it included a "firm control of monetary policy in order to narrow the external current account deficit and lower inflation."[4] Interestingly, the release later adds that the plan contemplated higher fiscal spending to protect the vulnerable population, but the text of the arrangement warns that "the authorities should be prepared to delay or even withhold some of the stimulus if the current account deficit does not converge to a manageable level, financial shortfalls arise, and/or inflation pressures fail to abate."[5]

Thus the agreement provides for flexibility in fiscal policy, but this effort is undone when money remains tight and when the operation of the economy is centered around price stabilization. During the first quarter of 2009 the Costa Rican GDP fell 4.8 percent with respect to the same period in 2008. Economic activity seems to be recovering in the second quarter, but real GDP is still expected to fall 1.3 percent in 2009.[6]

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[1] IMF 2009a.
[2] IMF 2009b, 17.
[3] Ibid, 25.
[4] IMF 2009a.
[5] IMF 2009b, 17.
[6] Banco Central de Costa Rica 2009.

Côte d'Ivoire

Côte d'Ivoire's PRGF agreement with the IMF focuses on fiscal policy, as monetary policy is limited by their membership in the West African Economic and Monetary Union. The agreement calls for reducing taxes on cocoa and on profits, and replacing them with new taxes on food and fuel. Cocoa taxes are to fall from 32 percent of cost, insurance, and freight (CIF) to 22 percent by 2011, in addition to a 2009 reduction in the profit tax (BIC) from 27 to 25 percent. Meanwhile the tax exemption on food is being discontinued, except for ordinary rice. The higher tax on petroleum products amount to 0.5 percent of GDP.

Regarding spending, Côte d'Ivoire's primary balance has been consistently positive (0.9 percent of GDP in 2004, 0.4 percent in 2005, 0.3 percent in 2006, and 0.6 percent in 2007) and is programmed to grow to 1.2 percent of GDP by 2010 after reaching 0.9 percent in 2009. However, government spending will be limited: primary expenditures will remain at their current level of 18.2 percent of GDP, rising only to 18.5 percent in 2011. "Despite … several concessions granted to workers in the social sector and justice, the public-sector wage bill will be kept at 6.8 percent of GDP mainly by limiting new recruitment to education and health."[1] Moreover, post-conflict "Crisis-related expenditure will increase to 1.4 percent of GDP," from 1.2 percent in 2008, but of that sum, "0.3 percent (mainly for elections and reinsertion of ex-soldiers) will be financed from external resources."[2] Finally, the programmed rise in "pro-poor" expenditures, (a rise of 0.8 percent of GDP, to 7.7 percent) will be offset by cuts in electricity subsidies.

[1] IMF 2009, 12.
[2] Ibid.

Djibouti

Djibouti's GDP growth rate has been steadily increasing over the previous few years: real GDP growth has risen from 3.2 percent in 2005, to 4.8 percent in 2006, 5.3 percent in 2007, and a projected 5.9 percent in 2008. Foreign Direct Investment (FDI) has contributed greatly to this growth, as Djibouti expands its port infrastructure: FDI has risen from 8.3 percent of GDP in 2005 to 24.3 percent in 2008.

The primary deficit rose slightly in 2007, from 2.0 to 2.2 percent of GDP. A recent reform to the tax department "has greatly improved tax administration, resulting in a surge of over 300 percent" of delinquent taxes, but overall tax revenue shrank by one percent of GDP due to new tax exemptions.[1] These tax exemptions included new investments, as well as several basic food items, and are meant to attract FDI and to cushion the impact of rising world prices. This year Djibouti is expected to institute a value-added tax (VAT) and reduce its current sales tax. The VAT will have exemptions for financial products and basic food items.

The IMF PRGF plan prioritizes eliminating the budget deficit by 2011. The Fund projects real GDP growth increasing from 5.9 percent in 2008 to 6.9 percent in 2009. If this turns out to be accurate, then the fiscal policy would not be pro-cyclical. However, given that most of the region has suffered serious external shocks this year, it is quite possible that 2009 GDP growth is overestimated (as in numerous IMF projections for this year, in the region). So it is still possible that the contractionary fiscal policy could end up being procyclical. Meanwhile, by 2011 social spending is expected to rise from 9.6 to 11.3 percent of GDP. Djibouti plans to accomplish this through "improving expenditure management, reducing expenditure in low-priority areas, and gradually reducing the public-sector wage bill."[2] Moreover, Djibouti will shrink and restructure the public electric company (EDD) and the water and sewer company (ONEAD).

The rise in inflation in 2008 was due almost entirely to world commodity prices, which fell again soon after this agreement was signed, rather than domestic conditions. Nonetheless, Djibouti's IMF agreement introduces reserve requirements on deposits to private banks, as a tool for reducing liquidity and controlling inflation in the future. Under Djibouti's currency board arrangement (CBA), there is not much room for the use of monetary policy to stabilize the growth of the economy.

[1] IMF 2009, 8, 13.
[2] Ibid., 21.

El Salvador

In January 2009, the IMF approved a 14½ month US$800 million precautionary SBA for El Salvador. The program is aimed at supporting the country's strategy to cope with the global financial crisis. As the program has a precautionary character, the Salvadorian authorities do not intend to draw on the IMF funds.[1]

According to the press release, "The program's main goal is to help provide adequate liquidity to the country's economy, largely by controlling government spending."[2] The program submitted to the Fund indicates that the country has shown "solid macroeconomic fundamentals during 2009."[3] Economic authorities expect the program to "play a catalytic role in strengthening investor and depositor confidence by reducing uncertainty about macroeconomic policies in the run-up to the elections, and during the first few months of the new administration."[4]

In the Salvadorian dollarized economy, monetary policy cannot be utilized to stimulate economic activity, and obviously it is not possible to print more money to finance public spending. This situation increases vulnerability to external shocks and calls for close monitoring of liquidity in the banking and financial institutions. The program thus also calls for financial reform and especially stronger financial sector regulation and supervision.[5]

Economic growth was expected to slow down in 2008 as a result of lower remittances from abroad and tighter credit conditions in the international financial markets. The country maintains strong linkages to the international community, and foreign banks own nearly 90 percent of total assets, but the impact of the financial turmoil has been limited.[6] However, non-performing loans, as a percent of total loans, have increased from 2.3 during the 2003-06 period, to 3.1 in 2008.[7]

Growth in 2009 is expected to slow to 2.5 percent as a result of slower export growth and domestic activity. To make up for the reduction in domestic demand, "authorities have revised their fiscal deficit target for 2009 to 2.8 percent, –0.4 percentage points above their earlier target."[8] The upward revision of the fiscal deficit was made possible by loans received from the Inter American Development Bank (IADB) to finance social infrastructure.[9]

Expenditure is closely controlled with the aim of creating space for social spending through the reduction of other expenditures. In particular, emphasis is placed on the elimination of non-residential subsidies on electricity.[10]

On the side of monetary policy, and as mentioned above, dollarized economies like El Salvador do not have room to apply monetary stimulus. In the event of the external shock, these economies have

[1] IMF 2009a.
[2] Ibid.
[3] IMF 2009b, 1.
[4] Ibid., 1.
[5] Ibid., 3.
[6] Ibid., 3,4.
[7] Ibid., 4.
[8] Ibid., 9.
[9] Ibid.
[10] Ibid., 9-10.

to rely on the liquid assets that the banking institutions hold abroad. This buffer would play as a "first line of defense against deposit outflows."[11] Commercial banks seemed to hold enough reserves abroad as to allow them to face unexpected increases in withdrawals. In case these withdrawals became unusually large, then the Banco Central de Reserva would have to step in, providing required liquidity. The ability of the central bank to act in this direction is strengthened by resources made available through the precautionary stand-by arrangement.

During the first nine months of 2009 exports fell almost 17 percent with respect to the same period in 2008. Traditional and non-traditional exports decreased 3.1 percent and 14.5 percent, respectively.[12] Another important element in this economy, remittances from Salvadorians living abroad (and which represent around 18 percent of GDP), fell 10.2 percent in the first eight months of 2009, with respect to the same period in 2008.[13] Meanwhile, the monthly indicator of economic activity shows negative annual rates of growth from October 2008 through July 2009; this should come as no surprise as El Salvador is a very open economy and heavily dependent on external demand.[14]

Evidently dollarization makes it difficult to apply corrective measures to this economy; under these conditions eventual stimulus packages can only come from external sources (which in this case must take the form of international financial institutions).

[11] Ibid., 11.
[12] Banco Central de Reserva 2009a.
[13] Banco Central de Reserva 2009b.
[14] Banco Central de Reserva 2009c.

Gabon

Gabon's IMF agreement focuses on cutting non-oil deficits, privatization, and targeting inflation. Citing Milton Friedman's (1957) Permanent Income Hypothesis,[1] the Fund devises a long-term fiscal framework based on the projection that Gabon's oil reserves are not expected to last beyond the next 30 years. On the basis of this long-term calculation, the Fund concludes that current spending is not sustainable over the long run, and "Given the uncertainty regarding future economic conditions, precautionary motives justify frontloading the fiscal adjustment." Gabon has had a primary fiscal surplus of over 10 percent of GDP every year since 2003; however, it has simultaneously had non-oil primary deficits of over 15 percent of non-oil GDP.

In fiscal policy, this agreement requires reducing the non-oil deficit to 6 percent of non-oil GDP by 2011. Deficits will be reduced through eliminating fuel subsidies and tax exemptions, and improving collections of delinquent taxes. Fuel subsidies, which cost the government over CFAF 100 billion in 2006 (2 percent of GDP), will be reduced and eventually eliminated. The government plans to offset the cost to poor households by reducing subsidies more slowly on fuels more commonly used by the poor, and by adding approximately CFAF 19.3 billion in "compensatory measures targeted at lower-income households," such as free water and electricity to households with low usage, additional transfers to single mothers and the elderly, and more funding for purchasing AIDS medicines.[2] (At the first review, these subsidy reductions had not occurred on schedule, and by the second and third reviews, fuel subsidies had actually risen with world oil prices.) Regarding tax exemptions, this agreement foresees cataloguing exemptions within the first year, and reducing them by 25 percent by 2010. Finally, the government will improve its collection of delinquent taxes, including seizing tax-delinquent forestry permits. These contractionary fiscal measures took effect during a period when real GDP growth was falling, from 5.5 percent in 2007 to 2.0 percent in 2008, and a projected 0.7 percent in 2009.[3]

Additionally, this agreement covers the privatization or restructuring of two major public enterprises, in addition to Air Gabon, which was privatized before the SBA was signed. Gabon Post, the national postal service, has also been liquidated, and replaced by La Poste, a new, smaller state enterprise. La Poste will continue to receive subsidies, but these subsidies will diminish over time. Finally, SOGATRA, a public transportation entity, will be restructured "with the objective, over time, to introduce a more efficient management model."[4] The agreement states that in the case of the postal service, "the staff of the new entity will be appreciably smaller," but does not give an estimate of how many jobs are expected to be lost in these processes.

Regarding monetary policy, much is set at the regional level through the Economic and Monetary Community of Central Africa (CEMAC) and the Bank of the Central African States. However, the IMF agreement notes that the Gabon authorities have pressed CEMAC for the "liberalization of interest rates, especially minimum lending rates, which represent a significant cost for banks." Also, the agreement foresees a fall in inflation to 3 percent; it had been rising but even at its highest point reached only 6.25 percent, in March 2007. Although the government has limited control over

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[1] IMF 2007, 11.
[2] Ibid., 5.
[3] IMF (n.d.).
[4] Ibid, 38.

monetary policy, the agreement plans for inflation to decelerate through the tightened fiscal policy, mentioned above.

The Gambia

The PRGF agreement with The Gambia focuses on a tight fiscal stance to reduce debt, and a monetary policy geared towards reducing inflation. In addition, there are significant structural reforms in order to improve the business environment.

"The bulk of The Gambia's external debt is owed to multilateral creditors, with the World Bank, African Development Bank and the Fund accounting for about 70 percent of total outstanding external debt at end-2005."[1] The Gambia was expected to benefit greatly from expected debt relief through the HIPC initiative and the MDRI; while they reached the decision point in 2000, they did not reach the completion point for the HIPC initiative until after the first review of the PRGF.

The program targets basic balance surpluses in order to pay down debt and domestic arrears. Basic balance surpluses of 1.4 and 1.5 percent of GDP are projected in 2008 and 2009 respectively. In the fourth review, GDP growth is projected to grow at 5.9 percent in 2008 and is revised down from 6.5 percent to 4.6 percent in 2009. Despite the slowing economic growth the basic balance (while revised downwards) is projected to stay the same at a surplus of 0.2 percent of GDP from 2008 to 2009. The basic balance is then projected to increase to a surplus of 0.9 percent in 2010. At the fifth review, GDP growth for 2009 is revised downward by another one percent. The basic balance surplus, however, will only decrease from 0.2 percent to 0.1 percent of GDP. This shows a pro-cyclical policy stance, partly resulting from an underestimation of the effects of the world recession.

Fiscal policy also focused on increasing revenue and containing expenditure. To increase revenue during the food and fuel shock "The pump prices of petroleum products were increased in May 2008 by 10–24 percent to remove an implicit budget subsidy that had emerged in the preceding months."[2] Then, as fuel prices subsided "The authorities agreed to maintain retail prices of petroleum products at current levels, in spite of falling world prices, to boost revenues."[3]

As for expenditures, the program had allowed for civil service reform and increasing the public-sector wage bill to "stem the exodus of highly trained staff."[4] The Fund advocated for focusing only on the most highly skilled, but Gambian authorities believed that "increases will be needed at lower grades too to move them towards a living wage."[5] This proved moot, however, because in light of decreased revenues from the global slowdown "they have deferred a substantial wage increase."[6] Because the IMF advocated for lessening the wage growth, and because these measures were never actually implemented, Table 1 shows no expansionary policy for The Gambia's public-sector wage bill. Wage bill projections do not incorporate this planned increase for the foreseeable future.

"The principal objective set for monetary policy is the maintenance of low inflation."[7] Because of "persistent undershooting of the CBG's reserve money path," Fund "Staff believes there is scope

[1] IMF 2007a, 14.
[2] IMF 2008b, 5.
[3] IMF 2009a, 28.
[4] IMF 2008a, 10.
[5] IMF 2008b, 17.
[6] IMF 2009a, 10.
[7] IMF 2007a, 30.

for higher growth in reserve money without fueling inflation" in 2008.[8] Despite this "growth in reserve money remained subdued at about 6 percent in the twelve months to December 2008."[9] Thus, the real money supply fell during this period. As for interest rates, the treasury bill rediscount rate had been raised in 2007 due to threats of increased inflation from 14% to 15%. Later the Fund acknowledged that "With hindsight, monetary policy in August may have been too tight."[10] Nevertheless, "In October 2008, concerned about a deteriorating fiscal outlook, the CBG raised the treasury bill rediscount rate from 15 to 16 percent."

[8] IMF 2008b, 23.
[9] IMF 2009a, 6.
[10] IMF 2008a, 11.

Georgia

Georgia's SBA with the IMF, approved in September 2008, addresses a liquidity shortfall, from post-conflict capital flight, and a large current account deficit, from rising fuel and food import prices. As an SBA, it is more limited in scope than the PRGF agreements elsewhere. The agreement states that "Even though Georgia is PRGF eligible, a PRGF is not appropriate at this time because it cannot accommodate the level of high access needed in this case, and Georgia does not require the type of comprehensive reform that a PRGF arrangement is designed to address."[1]

Georgia's IMF agreement was signed at the end of the South Ossetia conflict, which brought dramatic changes in spending priorities. The plan states: "On the expenditure front, capital spending is projected to increase significantly (by about 4 percent of GDP), while current spending (mainly on defense) is anticipated to fall sharply despite the expected pick up of social outlays." [2] The agreement plans for deficits in 2008 and 2009, as a "result of a large one-off spending in the wake of the recent conflict."[3] The plan calls for an overall deficit of no more than 6 percent of GDP in 2008, reduced to 3.75 percent of GDP in 2009. These deficits are to be financed with a $500 million Eurobond issued in April 2008, and were allowed to rise by up to three percent of GDP if additional concessional donor support emerges.

After the initial agreement, international donors met and agreed to post-conflict support of $4.5 billion over three years. Thus, the Georgian budget for 2009 incorporated an overall deficit of 6.75 percent of GDP. However, the global recession soon made it less likely that donors would follow through on pledges. The Second Review of the plan states that "For 2009, the authorities have appropriately reduced the fiscal deficit target to reflect a downward revision in expected official financing. The overall deficit-to-GDP ratio is now projected to be somewhat lower than in 2008, but expenditure switching toward infrastructure investment and better targeted social spending should nevertheless result in a positive fiscal stimulus."[4] By the Third Review, despite the lower target of 5.6 percent of GDP, revenue projections had fallen and the overall deficit was projected to rise to 9.4 percent of GDP in 2009 and 7.3 percent of GDP in 2010.[5] These larger deficits were funded by an expansion and extension of Georgia's IMF agreement in August 2009 adding SDR 270 million and 15 additional months. Moreover, anticipating a possible revenue shortfall from the downturn, the IMF recommended further fiscal tightening if that occurred: "A reduction of the fiscal deficit, while contractionary, would free resources to deal with potential problems in the banking sector and reduce the need for foreign exchange interventions to limit lari [local currency] depreciation by alleviating balance of payments pressures."[6]

Within government expenditure, social spending and tax rates are of particular interest in the agreement. Social spending is scheduled to increase from 7.2 percent of GDP in 2008 to 8.2 percent in 2009 and 8.3 percent in 2010; however, real GDP is expected to fall 4.0 percent in 2010, so real social spending will actually fall between 2009 and 2010. An income and dividend tax reduction, which was planned before the crisis, was implemented despite the deficits, in order to attract the

[1] IMF 2008, 12.
[2] IMF 2009a, 15.
[3] IMF 2008, 59.
[4] IMF 2009b, 17.
[5] IMF 2009c, 33.
[6] Ibid., 15.

return of investors who fled Georgia during the conflict. "As the authorities have stressed, reversing the already announced income tax rate cut could give the wrong signal to investors at a time when reassuring them of the government's probusiness policies is essential for restoring investor confidence."[7]

The value of the lari also receives attention under this agreement. During the South Ossetia conflict, the National Bank of Georgia adopted a temporary peg, and allowed a 16 percent devaluation thereafter. The IMF agreement stipulates that "as market conditions become more stable (e.g. when deposit outflows stop), the exchange rate will have to adjust to the expected lower supply of foreign exchange."[8] Additional pressure on the lari arose from a large current account deficit: "The sudden decline in private capital inflows has exposed this key vulnerability, and the future evolution of these inflows will determine the need for adjustment."[9] The First Review indicates that raising interest rates will facilitate the transition to a flexible exchange rate: "Exchange rate flexibility should be accompanied by supportive monetary policies. Staff recommended a more active role for monetary policy in encouraging market interest rate adjustments, and stressed that lowering liquidity surpluses once confidence returns — including by increasing policy rates, which were significantly reduced after the conflict — would be a necessary step."[10] By the Second Review, the IMF recommended raising interest rates, but the Georgian government resisted this idea: "The authorities felt that there was no scope for raising interest rates to resist the flight from local currency in the uncertain climate that prevailed. They also felt that such an increase was not justified as an anti-inflationary policy in the current environment, and would generate additional problems for private borrowers, although most lending is in dollars." However, the government was open to other measures, "including by raising interest rates on central bank certificates of deposit, or rolling back recent reductions in the reserve requirement, if needed.[11]

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[7] Ibid., 23.
[8] IMF 2008, 17.
[9] IMF 2009a, 17.
[10] Ibid., 13.
[11] IMF 2009b, 11.

Ghana

After completing a three-year PRGF agreement in 2006, Ghana returned to the Fund in 2009 with a new PRGF. The primary objectives are to reduce fiscal deficits, lower inflation and "provide the macroeconomic assurances necessary to maintain existing support levels."[1] After economic growth increased to a twenty year high of 7.8 percent in 2008, which "reflected expansionary fiscal policies"[2] the program for 2009 "expects fiscal tightening to be a significant drag on growth."[3] The expansionary fiscal policies prior to 2009 included "high energy-related subsidies, increased infrastructure investment, higher wages and salaries, and a rise in social mitigation expenditures to dampen the effects of the global price shocks."[4]

Fiscal policy is geared towards reducing the overall fiscal deficit, which was at 14.5 percent of GDP at end 2008. The program includes a ceiling on the deficit as a quantitative performance criterion. For 2009, the "budget targets a deficit of 9.4 percent of GDP, largely based on spending cuts."[5] In light of updated projections, with unchanged policies, the deficit would rise to 10.4 percent, implying further spending reduction to reach the program target. In 2010, the Fund targets a deficit of 6 percent of GDP, noting that "fiscal [tightening] measures of about 3½ percent of GDP will be needed."[6] The deficit reduction will be attained primarily through spending restraint in the public wage bill "combined with higher utility prices."[7] Lowering the wage bill will be accomplished through "a selective hiring freeze"[8] and a lower than budgeted salary increase for health workers in 2009. In addition to current expenditures, "capital spending has been cut by 3 percent of GDP."[9]

Monetary policy will be focused on reducing inflation and the "case for further monetary tightening has strengthened since the mission."[10] The authorities will use an inflation targeting regime and will limit the growth of the money supply, and raise interest rates. "Reserve and broad money growth are projected to slow to reduce inflation to single-digit rates by end-2010."[11] Reserve money growth is programmed to slow from 27.1 percent in 2008 to 16.5 percent in 2009. Interest rates have increased "by 6 percentage points between October 2007 and February 2009."[12] Although the Bank of Ghana declined to raise rates further in their May meeting, "the mission cautioned that further tightening might be needed to achieve the central bank's disinflation goal."[13]

At the time of the review, the global crisis had already had a significant negative impact on Ghana: the Fund noted that "private remittances are slowing, there has been some outflow of portfolio investments, and the outlook for foreign direct investment is not encouraging." Furthermore,

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[1] IMF 2009, 21.
[2] Ibid., 6.
[3] Ibid., 9.
[4] Ibid., 40.
[5] Ibid., 6.
[6] Ibid., 4.
[7] Ibid., 12.
[8] Ibid., 48.
[9] Ibid., 6.
[10] Ibid., 14.
[11] Ibid., 11.
[12] Ibid., 7.
[13] Ibid., 14.

"Official access to global market financing is now extremely limited."[14] In particular, "Net private remittances are also projected to decline 30 percent in 2009, with limited recovery before 2011."[15]

[14] Ibid., 40.
[15] Ibid., 22.

Grenada

Devastated by hurricanes in 2004 and 2005, the first of which caused damage estimated at 200 percent of GDP, Grenada signed a PRGF agreement in the spring of 2006. Since Grenada is part of the Eastern Caribbean Common Union, which limits flexibility on monetary policy, the IMF-supported program focuses on fiscal and structural policies.

Fiscal policy targets a primary budget surplus by 2010. At the second review, GDP growth projections are substantially reduced from prior projections, from 3.6 percent to 1.6 percent in 2008 and from 4.2 percent to 1.6 percent for 2009. The primary balance (excluding grants), while allowed to rise slightly from the original targets, still aims to decrease the deficit from 6.0 percent of GDP in 2008 to 2.2 percent in 2009. This entails expenditures decreasing from 34.2 percent of GDP in 2008 to 30.4 percent in 2009. At the most recent review, GDP growth projections are reduced again, from 1.6 percent to 0.3 percent in 2008 and from 1.6 percent to –0.7 percent in 2009. The primary balance is adjusted, however it still entails a reduction from –7.5 percent in 2008 to –4.4 percent in 2009. Total expenditures are thus projected to decline even further in 2009 to 26.7 percent of GDP. The fiscal policy prescribed in this agreement is therefore pro-cyclical.

Reaching the targeted primary surplus (originally projected) was to be attained through both revenue and expenditure measures. On the revenue side, the program calls for implementing a Value Added Tax, which after numerous delays, is set to be implemented in February 2010.

Containing expenditures was also a key component of the agreement. Originally, the authorities intended "to keep wages constant in real terms through 2008, thereby reducing the wage bill by about 1¼ percentage points of GDP."[1] Since the government had "maintained a freeze on public sector positions since 2000"[2] wage increases make up the extent of increases in the wage bill. The wage discussions, however were delayed, resulting in savings of 0.4% of GDP. At the third review, the agreement called for "freezing wages for public service workers."[3] In the second half of 2008, in response to fiscal slippage in the first half of the year, numerous measures were taken, including limiting capital expenditures to just 2.8% of GDP (pre-hurricane levels) and "Bringing forward to September 20 the date after which no new commitments for nonessential expenditure items can be made".[4] Because public-sector wages were programmed to fall as a percentage of GDP, and because even the nominal increases were delayed, Table 1 shows contractionary policy for this sector.

Although "most of the privatization and divestiture occurred in the 1990s,"[5] the agreement calls for further divestiture in order to finance the deficit and pay down the debt. However, in light of the global recession, some of these plans will be delayed.

Throughout the term of the PRGF, Grenada has been exploring a concessional loan from the Export-Import Bank of China to fund a large joint project, in the range of 7 to 12 percent of GDP. Even though "authorities estimate that the unemployment rate was around 25 percent in 2008 (based on preliminary data from the Country Poverty Assessment), and they project that it will rise

[1] IMF 2006, 15.
[2] Ibid., 67.
[3] IMF 2009b, 10.
[4] IMF 2009, 7.
[5] IMF 2006, 69.

significantly in 2009,"[6] the "program's ceiling on bilateral concessional borrowing does not accommodate this loan."[7]

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[6] IMF 2009b, 4.
[7] Ibid., 11.

Guatemala

Guatemala has been hit by the world recession, as would be expected by its dependence on the U.S. economy. GDP growth slowed from 6.3 percent in 2007 to 4 percent in 2008 and an estimated 1 percent for 2009. Remittances, which comprise 38 percent of the country's foreign exchange earnings, are projected to fall from 11.3 percent of GDP in 2008 to 9.9 percent of GDP for this year. The IMF projects Guatemala's exports to decline by 11.5 percent this year, as compared to a 15.5 percent *increase* for 2008. Private sector capital flows have also slowed drastically, from 4 percent of GDP to a projected 1 percent of GDP this year.

These trends were still worsening when Guatemala signed a Standby Arrangement with the IMF in May 2009. This agreement, while not explicitly requiring procyclical macroeconomic policies, appears to constrain the government from taking adequate counter-cyclical measures, given the size of the external shocks and the sharp slowdown in the economy.

With regard to fiscal policy, the budget deficit is projected to rise from 1.8 percent of GDP last year to 2.8 percent for 2009. However, just 0.4 percent of this is from spending increases. It is clear that fiscal policy will not even compensate for the decline in remittances, let alone other rapidly declining sources of private spending.

It would seem that, with the IMF's help, the government could pursue a much more expansionary fiscal policy to try and minimize the loss of output and employment and the dangers of a steep recession. The IMF recognizes that "Guatemala's debt is low and debt dynamics are sustainable."[1] The country's public debt is 22.5 percent of GDP, and its public foreign debt is just 13.1 percent of GDP (2009). The public sector financing gap is also, by the IMF's judgment, low at 2.4 percent of GDP. In these circumstances, it would make sense for the government to take on a bit more debt during a time of sharp economic slowdown to pursue a more expansionary fiscal policy. It is difficult to imagine that, with IMF support, such a policy would be seen by the private sector as unsustainable. The IMF also notes that "greater provision of pubic goods – infrastructure, security, health and education – is needed to increase productivity and investment and raise growth" – an additional reason to increase spending.[2]

Moreover, although the document projects a 0.4 percent of GDP increase in spending, there are a number of statements in the agreement indicating that even this slightly expansionary fiscal policy might be reversed, for example "The authorities are working to identify nonessential spending programs to be ready in case cuts become inevitable."[3]

This despite the fact that Fund emphasizes the dangers of downside risks: "Aggregate demand growth is slowing rapidly, due to falling remittances, lower export prices and demand, and lower capital inflows. Given close economic and financial ties with the region and with the United States, downside risks are considerable."[4] This is especially true given the widely recognized uncertainty surrounding the U.S. economic recovery.[5] Given these risks and the country's low debt level, the

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[1] IMF 2009, 13.
[2] Ibid., 15.
[3] Ibid., 9.
[4] Ibid., 14.
[5] See Baker and Deutsch 2009.

Fund should be more concerned about how the government might have to expand its spending, rather than looking for places where cuts might be made.

Monetary policy, while not explicitly procyclical, also seems overly conservative given the situation. "Monetary policy should be focused on anchoring inflation at low levels. Staff supports the recent easing of monetary conditions, which is expected to continue in the coming months ... further easing should be gradual and the authorities should prevent that the short-term real interest rates turn negative."[6]

The easing of monetary policy described in the agreement involved lowering the policy rate by one percentage point since the end of 2008, to 6.25 percent (at the time of the agreement). This brought the policy rate to about the level of mid-2008, despite the fact that consumer price inflation had fallen from 14 percent in mid-2008 to 5 percent in March 2009. With the fall in inflation "firmly entrenched," as the IMF acknowledges, and the economy facing such strong negative external shocks, a more expansionary monetary policy would also appear to be in order.[7] On the positive side, since the agreement was signed, the policy rate has been lowered further, to 4.5 percent.

Guatemala's income distribution is so skewed that, although it is not one of the poorest countries in the region, it has 51 percent of the population below the poverty line and malnutrition among children is a serious problem.[8] Although the IMF agreement allows for 0.3 percent of GDP to be spent on cash transfer programs for the poor, it is likely that this will not be enough to compensate for the negative effects of the downturn. It is therefore potentially costly, in human as well as economic terms, to err on the side of inadequately expansionary fiscal and monetary policy during this recession.

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[6] IMF 2009, 14.
[7] Ibid., 7.
[8] See Reuters 2009 and Valladares 2009.

Haiti

Despite a turbulent political situation, very high crime rates and severely destructive weather conditions, Haiti made tremendous strides in restoring political and economic stability between 2004 and 2008. Under a 6-month Staff Monitored Program and two subsequent annual Emergency Post-Conflict Assistance agreements, Haiti managed to resume growth, achieve fiscal discipline, lower inflation and increase its international reserves, according to the IMF. A PRGF was requested to consolidate these gains and pave the way for HIPC debt cancellation.

The PRGF, approved in November 2006, targeted annual GDP growth of 4 percent, an annual inflation rate of 6 percent, an increase in international reserves and the continued strengthening of fiscal discipline in order to reallocate public funds towards priority areas of investment and poverty reduction spending. A key policy conditionality was a ban on Central Bank financing of government deficits. Greater spending on health and other social services initially fit comfortably in the PRGF framework since revenue prospects were quite favorable.

The PGRF's goal of reducing inflation was complicated by two factors: (1) the high degree of dollarization in the economy and (2) the weak transmission of Central Bank policy rates to market interest rates. As a response, IMF staff advised Haiti's authorities to control inflation via the supply of base money while longer-term measures to transition to an inflation targeting regime were set in motion.

Increasing remittances fueled GDP growth through higher consumer spending but, at the same time, led to an appreciation of the gourde (local currency), hurting Haiti's export competitiveness. Despite this trend, IMF staff advised authorities to maintain a floating exchange rate regime, limiting interventions to restoring international reserves, as required in the PRGF framework, and smoothing out seasonal fluctuations.

Haiti's positive economic outlook reversed dramatically in 2008 due primarily to the effects of increasing international commodity prices. Riots erupted throughout the country in response to the sharp rise in the prices of food and fuel, leading to the resignation of the Prime Minister. Inflation rose from 7.9 percent in September 2007 to 16.3 percent in April of 2008 and the exchange rate depreciated significantly.[1]

The government response, which included subsidies to the price of rice and emergency infrastructure repairs, put pressure on program fiscal targets. Amidst the deteriorating situation, IMF staff encouraged authorities to prioritize the "safeguard of achieved stability."[2] Authorities responded by reaffirming their commitment to the program ban on Central Bank financing, limiting emergency spending to budget reallocations and tentative international donor support.

As the impact of the commodity price shock was subsiding, the onset of the global financial crisis put further pressure on Haiti's recovery. The recession in the U.S. and Canada lowered demand for its exports and decreased the flow of remittances, causing private consumption to fall. At this point, IMF staff urged authorities to "resist pressures for further spending unless additional domestic

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[1] IMF 2008b, 30.
[2] Ibid., 3.

revenue or external financing becomes available."[3] Much needed donor support, however, failed to materialize, forcing authorities to lower their original spending plans and rely instead on funds from the Petrocaribe initiative with Venezuela.

To make matters worse, Haiti experienced four consecutive hurricanes and tropical storms that reduced GDP by roughly 15 percent.[4] Facing an increasingly desperate situation and seeking to minimize the impact of the crisis on the poor, Parliament approved a tripling of the minimum wage, the first adjustment since 2003, and sought to increase public sector wages. With the public deficit now reaching 5.3 percent of GDP, authorities limited new spending to a reduced list of priority investments. Finally, authorities requested a waiver on the PRGF guidelines, including temporary Central Bank financing of the government budget and a relaxing of the floor on international reserve accumulation. IMF staff conceded to $50 million of Central Bank financing and relaxed the floor on reserve accumulation provided these measures were to be promptly reversed.

The PRGF program was counter-cyclical. The overall government deficit increased from 2.9 percent of GDP in 2008 to 4.7 percent in 2009. Total expenditure also increased from 32.9 percent of GDP in 2008 to a program target of 37.4 percent in 2009. Real broad money, however, shrank by 1.12 percent in 2008.

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[3] IMF 2009a, 15.
[4] Ibid., 4.

Hungary

Hungary authorities and the International Monetary Fund (IMF) reached an agreement on a 17-month US$15.7 billion stand-by arrangement.[1] The program's main objectives are: "(i) substantial fiscal adjustment to ensure that the government's financial needs will decline; and (ii) to maintain adequate liquidity and strong levels of capital in the banking system."[2]

During 2006 and 2007, a surge of foreign borrowing within the private sector allowed Hungary to run large current account deficits (7.5 and 6.4 percent of GDP, respectively), and a large fiscal deficit in 2006. The measures taken then to bring down the government deficit included: "reducing public employment, instituting co-payments, rationalizing hospital beds, and scaling back pharmaceutical subsidies."[3] As a result, the fiscal balance (as a percent of GDP) went from –9.3 in 2006 to –4.9 in 2007.

In 2008 the international financial crisis reduced Hungary's access to foreign capital, leading to severe difficulties in the local and foreign banks operating within the country. The results in the financial account of the balance of payments – a deficit of 5.9 billion euros in 2009 (6.6 percent of GDP) as compared to a *surplus* of 10.6 billion euros in 2008 (10.1 percent of GDP) – show how drastically conditions have tightened in the international financial markets.

The stand-by arrangement signed with the IMF in November 2008 included measures to bring the government deficit, as a percent of GDP, down to 3.4 in 2008 and to 2.5 in 2009. The projected rate of GDP growth fell to 1.8 percent in 2008 and to –1.0 percent in 2009. The estimates for 2009 were later revised to a fiscal deficit of 3.9 percent of GDP and to a –6.7 percent rate of growth of real GDP in the same year.[4]

Even though the IMF has accepted upward revisions of the fiscal deficit target, the prevailing goal has continued to be one of containing spending. At the end of last year Hungary's Parliament approved a rather drastic fiscal responsibility law. The legislation included strict guidelines on spending and on the evolution of the fiscal deficit and public debt; meanwhile the economy continues to be severely hit by the international crisis.

The program submitted to the IMF includes a further tightening of the fiscal budget. Specific measures adopted include a nominal wage freeze and elimination of the 13th month salary for public employees, the elimination of the 13th month pension for all early retirees and application of caps on pension payments, postponement or elimination of indexation of selected social benefits, and cuts in various spending allocations to ministries.[5]

To make things more complicated, the fiscal rigidities mentioned above have been accompanied by procyclical monetary policy. Broad money is growing at a lower pace lower than inflation and credit to the private sector (0 percent in real terms in 2009) is expected to fall 5 percent in real terms this

[1] IMF 2008a.
[2] IMF 2008b, 1.
[3] IMF 2007, 1.
[4] IMF 2008b, and IMF 2009.
[5] IMF 2008b.

year.[6] The policy interest rate, at 10 percent at the end of 2008, was much higher than the euro area rate of 3 percent. And the 9.5 rate in early 2009 still looks much higher than the euro average.[7] It was only in July this year that the policy rate was lowered to 8.5 percent. This move was followed by additional rate cuts at the end of August (to 8.0 percent) and at the end of September (to 7.5 percent). The moves are definitely in the right direction, though we have to admit that they come rather late.

The second review of the stand-by arrangement accepts that a worsening of Hungary's situation calls for a revision of quantitative targets and mentions the need to preserve financial sector stability. But the review also continues to insist on the need to work towards fiscal restraint with specific measures to eliminate subsidies of various sorts, contain the growth of the public sector wage bill and rationalizing some transfers.[8]

[6] IMF 2009.
[7] Eurostat 2009.
[8] IMF 2009, 9.

Iceland

The International Monetary Fund (IMF) approved a two-year, US$2.1 billion SBA with Iceland in November 2008. The program has three main objectives: "To contain the negative impact of the crisis on the economy by restoring confidence and stabilizing the exchange rate in the near-term; to promote a viable domestic banking sector and safeguard international financial relations by implementing a sound banking system strategy…; and to safeguard medium-term fiscal viability…"[1]

At the time of this stand-by arrangement, Iceland was "in the midst of a banking crisis of extraordinary proportions that is expected to lead to a deep recession, a sharp rise in the fiscal deficit, and a dramatic surge in public sector debt, reflecting a very high cost of restructuring the banking system."[2]

An enormous banking crisis was triggered by a loss of confidence and fed by high leverage and dependence on foreign funding. The crisis led to the collapse of the three most important banks in the country, which accounted for about 85 percent of the banking system.[3]

A credit boom, denominated mostly in foreign currency, had caused a significant increase in foreign exchange exposure in both households and firms. The credit expansion caused the economy to overheat and inflation reached 12.7 percent in 2008 (it had remained below 7 percent since 2003). The current account deficit reached 25.4 percent of GDP in 2006 and 14.6 percent in 2007.[4] The country's GDP is expected to shrink by 9.6 percent in 2009.[5]

During the years before the crisis the central bank remained focused on maintaining low inflation rates, while losing sight of the risks associated to the mounting current account deficit and currency appreciation.[6] The gross external debt, held mostly by private commercial banks, was nearly 180 percent of GDP in 2004. It hit 551.5 percent in 2007 and was expected to reach more than 670 percent in 2008. Vulnerability to external shocks was very clear, and the situation was no longer viable when the international financial markets went under stress in 2008.[7]

The "Request for Stand-By Arrangement" states that: "The crisis hit swiftly and powerfully. … the loss of confidence in Iceland's financial system in October 2008 led to the collapse of its three largest banks in the span of a week."[8] Furthermore: "the krona depreciated by more than 70 percent in the off-shore market, and the equity market tumbled by over 80 percent."[9]

The macroeconomic program signed with the IMF emphasizes the need to restore confidence in the financial sector. Bank restructuring is a key part of the proposal, with an estimated cost of 83

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[1] IMF 2008a.
[2] IMF 2008b, 1.
[3] Ibid, 4.
[4] The deficit was expected to drop to 10.7 percent of GDP in 2008, mostly as a result of tight conditions in the international financial markets and adjustment in the foreign Exchange market. (IMF, 2008b; 5 and 26).
[5] IMF 2009, 11.
[6] IMF 2008b, 26.
[7] Ibid, 26.
[8] Ibid, 5.
[9] Ibid, 5.

percent of GDP on a gross basis.[10] The stand-by arrangement seeks to prevent further exchange rate depreciation by "maintaining a flexible exchange rate policy while using monetary policy and, in the near term, capital controls to stabilize the exchange rate."[11] It is also argued that medium-term fiscal sustainability will be pursued, mostly after 2010.

As stabilization of the króna became a key priority for national authorities, the central bank decided to step out of the inflation targeting system, as it "no longer provided a credible anchor for monetary policy."[12] Thus, monetary policy would be based on a combination of "interest rate policy, liquidity management, foreign exchange intervention, and restrictions on capital flows."[13]

[10] Ibid,.7.
[11] Ibid, 10.
[12] Ibid, 11.
[13] Ibid, 11.

Kyrgyz Republic

On December 10, 2008, the IMF approved a loan of approximately $100 million (75 percent of quota or 1.98 percent of 2008 GDP) under an 18-month ESF program for the Kyrgyz Republic. The Kyrgyz Republic has been under IMF arrangements almost on a continuous basis since 1993. The country became an independent republic in 1991. The current ESF responds to several shocks: a drop in the foreign financing of Kazak-owned banks (about 50 percent of the banks in the country), an inadequate water level in the Toktogul reservoir (which provides 90 percent of the country's electricity) to provide the needed level of power, an earthquake (which caused substantial loss of life and property), as well as the global rise in prices and slowdown in growth.

In February 2009, Russia approved a budget-support concessional loan for the Kyrgyz Republic of $450 million (8.9 percent of GDP in 2008). As a result, the country is now applying more stimulus than originally envisaged. The original program called for limiting the budget deficit in 2008 to 1.3 percent of GDP and to 1.7 percent of GDP in 2009 (from 0.3 percent in 2007). Even though the economy is now expected to grow by less in 2009 (0.9 percent, compared to 3.7 percent when the agreement was signed), the deficit for 2009 will be limited to 1.9 percent of GDP.

These widening deficits reflect a mix of limited spending increases and tax cuts. The VAT tax is expected to be cut from 20 to 12 percent, although that is partially offset with a new property tax and other tax increases. The Unified Monthly Benefit will be increased both in generosity (from an average of US$3 to US$4 per month) and in scope (by "reducing the exclusion risk"), and pensions have been increased to offset inflation.[1] Expenditures from the Social Fund are expected to rise from 5.4 percent of GDP in 2008 to 5.9 percent in 2009. However, the public-sector wage bill is scheduled to drop from 7.2 percent of GDP in 2008 to 6.7 percent in 2009.

The original program also had the goal of reducing inflation to about 20 percent by the end of 2008 and to 10 percent by the end of 2009 (from a peak of 32.5 percent in July 2008, although it fell to 16.5 percent by October), "with a view to returning to single-digit inflation in 2010"[2]. In fact, there was a significant tightening of monetary policy in 2008: "Since end-March 2008, interest rates on 3-month Treasury bills have risen by almost 11 percentage points, to 18½ percent by end-October, exceeding both headline and core inflation." Simultaneously, the National bank of Kyrgyz Republic (NBKR) sought to fight inflation through unsterilized foreign currency sales and later, sterilized foreign currency purchases, in order to support the som [local currency] while restricting money supply growth. As a result, reserve money growth grew by only 11½ percent in the first ten months of 2008."[3] In a May 2009 Letter of Intent, the Kyrgyz authorities seem to have somewhat eased their goal to bring down inflation, which is now to bring it down to a range of 10-15 percent by end-2009. The first review, in July 2009, states that inflation will probably drop to 10 percent for the year, due to recessions in countries that usually send remittances to the Kyrgyz Republic.

[1] IMF 2008, 13.
[2] Ibid., 9.
[3] Ibid., 10.

Latvia

The Executive Board of the International Monetary Fund (IMF) approved on December 23 a 27-month US$2.35 million SBA for Latvia. The IMF press release states that the stand-by arrangement is provided "to support the country's program to restore confidence and stabilize the economy."[1] According to the proposal submitted to the IMF, the program's objectives are "to arrest the immediate liquidity crisis and then to ensure long-term external stability, while maintaining the exchange rate peg."[2]

The program relies heavily on reducing aggregate demand as a means to avoiding further disequilibria which could, in turn, put the foreign exchange peg at risk; the proposal indicates that: "Rationalized government expenditures and higher taxes will reduce aggregate demand, promoting a more viable external current account and a more sustainable debt burden, and lowering the risk premium."[3] The adjustment in the government budget was expected to include "substantial and front-loaded fiscal tightening."[4] About one third of the fiscal adjustment was expected to result from higher revenue (higher taxes and broader tax base), while roughly two thirds would result from expenditure cuts.[5]

In assessing the impact of the policy measures mentioned above, the Fund indicates that: "positive macroeconomic impacts should dominate over the medium term," and moreover: "[s]hort-term contractionary effects should remain moderate."[6]

It is later argued that, due to the Latvian "quasi currency board," expansionary monetary policy cannot be utilized to offset the fiscal moderation.[7] Moreover, within this system, unfavorable balance of payments results (as Latvia was experiencing as a result of the global downturn) would cause a reduction in money supply, thus reinforcing the contractionary effects of the fiscal tightening. Unable to raise exports (due to the pegged exchange rate that results from the currency board), the country finds itself out of options to face the most severe recession since the early 1930s.

The initial SBA with the IMF is clearly procyclical as it promotes the use of policy fiscal measures that reduce aggregate spending when the economy is heading towards a deep recession.

Specific measures on the fiscal side (according to the initial program proposal) include cutting wages and bonuses in the central government and (if possible) to state-owned enterprises, and a reduction of transfers.[8] Local governments are also part of the process, and on December 2008 they signed a protocol with the government in which specific measures were adopted as part of the fiscal adjustment. Specifically, local governments were to adopt nominal wage cuts (analogous to those in the central government), and restrictions on borrowing.

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[1] IMF 2008.
[2] IMF 2009, 1.
[3] Ibid., 15.
[4] Ibid.
[5] Ibid.
[6] Ibid.
[7] Ibid.
[8] Ibid, p. 18, 19.

The monetary sector, already experiencing a procyclical evolution as a result of unfavorable results in the foreign sector and tight credit conditions in the international financial markets, was also affected by upward adjustments in the lending rates and in the policy interest rate.[9]

Last year, GDP growth fell to –2.0 percent (later revised to –2.3 percent). Government authorities expected a 5 percent GDP contraction in 2009, while the World Economic Outlook projects a 12 percent decline. By some estimates the economy could contract as much as 18 percent in this year.[10]

An adjustment program with too much emphasis on maintaining a foreign exchange peg has led to sizeable reductions in government spending and to tight monetary policy. Latvia's stand-by arrangement is clearly procyclical.

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[9] The Rigibor (Riga Interbank Bid Rate) rose from around 3.5 percent in the March-August 2008 period to 7.76 percent in December of the same year. The marginal lending facility, set at 7.5 percent in May 2007, was raised in December 2008 to 15 percent or 30 percent, depending on how often central bank funds were utilized within the previous 30 day period. See Bank of Latvia (2007).

[10] For more on these projections, see Cordero 2009.

Liberia

Liberia emerged from 15 years of civil war in 2003 with a new administration committed to restoring growth, reducing poverty and normalizing relations with external creditors. The current PRGF is a continuation of a SMP (Staff Monitored Program) designed to strengthen fiscal processes, increase administrative capacity, maintain price level stability and bolster the government's credibility before international lenders. The civil war left most of Liberia's main export industries disrupted and the public administration in severe disarray. As such, the PRGF program also targets infrastructure reconstruction and commercial and tax reforms to attract foreign investment and increase the competitiveness of export industries.

Strengthening the public sector served the double goal of improving administrative capacity and contributing to internal security by providing alternative forms of employment for ex-combatants. As such, the government of Liberia targeted steady increases in the public-sector wage bill and emphasized the payment of public sector wages on time.

With strong support from IMF staff, Liberia's authorities committed to maintaining an available cash-based balanced budget and limiting expenditure growth to new sources of revenue and external grants, in part to qualify for HIPC debt relief. Nevertheless, despite the government's refusal to borrow from abroad, total government expenditure was targeted to increase, driven largely by greater spending on public sector wages and salaries.

The global recession left Liberian authorities facing a tougher fiscal position due to lower growth prospects. Both parties stated that there was "little room for counter-cyclical fiscal policies" because of falling government revenues and the continued commitment to maintaining a balanced budget.[1] IMF staff urged Liberian authorities to minimize the previously planned public sector wage increases. The staff told the authorities to instead "rationalize" wage increases or, in other words, to target specific jobs for an increase while leaving the rest at current levels.[2] At the same time, however, Liberian authorities announced the decision to stimulate the economy through corporate tax cuts, lowering the upper rate from 35 to 25 percent, and "simplifying" personal income taxes.[3]

The main goal of monetary policy was to fight inflation, although this was severely constrained due to the high level of dollarization in the Liberian economy, where U.S. dollars account for close to 90% of all currency in circulation. Monetary policy was thus limited to managing and stabilizing the Liberian dollar exchange rate through Central Bank interventions in the foreign exchange market. However, the scope for these interventions was itself limited by specific targets on Central Bank expenditure.

In the wake of the global recession the Liberian dollar faced downward pressure due to lower growth prospects and contracting exports. IMF staff strongly advised Liberian authorities to abstain from intervening in the foreign exchange market to prevent the slide of the Liberian dollar and instead manage its depreciation in a stable manner. Authorities, however, continued to appear committed to maintain the value of the Liberian dollar at least to a limited extent. Indeed, the

[1] IMF 2009b, 3.
[2] Ibid., 9.
[3] Ibid., 27.

Central Bank exceeded its expenditure ceiling securing additional Liberian dollars to counteract the drop in demand, violating the terms of the agreement.

Liberian authorities expressed a strong interest in de-dollarizing in order to achieve greater monetary policy independence but were rebuffed by IMF staff who urged caution, arguing that forcing the timetable for de-dollarization "could have destabilizing effects, discouraging de-dollarization in the longer run."[4] In particular, the IMF proposed several measures to pursue de-dollarization gradually, including issuing Liberian dollars in larger and better quality notes, using them as the public sector's unit of account, and requiring them for tax payments and other official transactions with the government.

[4] Ibid., 14.

Malawi

Malawi signed a one-year ESF loan agreement with the IMF on December 3, 2008 for US$77.1 million (around 1.8 percent of GDP and 75 percent of the country's IMF quota). Malawi has been under IMF arrangements almost continuously since 1983, although a previous PRGF agreement, signed in 2000, was not completed.

The main objective of the current ESF program is to "bring import coverage of gross reserves at the end of 2009 roughly back to where it was at the end of 2007," from 1.3 months of imports ($209 million, 5 percent of GDP), to 2 months of imports ($345 million, 7.1 percent of GDP) between the end of 2008 and the end of 2009.[1] Because of increases in the import bill (due to price increases in fertilizers and the lagged effect of increased oil prices in 2008), reserves were expected to decline to a low of $158 million by February 2009, before increasing again to $257 million by June 2009.

Boosting reserves will require "a combination of reduced domestic borrowing and monetary tightening."[2] Domestic borrowing is projected to fall from 1.3 percent of GDP during the 2007/2008 fiscal year to -0.1 percent of GDP the following year. Meanwhile, external (concessional) financing is expected to rise substantially, from 1.4 percent of GDP to 3.8 percent during the same period. In addition, the Fund recommended implementing policies "that promote increased Malawi exports and reduced imports [to] help soften the impact of domestic demand compression on growth, employment, and poverty reduction. The June fuel price increase is helpful in that regard. It is equivalent to a 1½ – 2 percent decline in household real disposable income and a 1½ –3 percent depreciation of the real effective exchange rate."[3]

Tightening monetary policy is an important part of the program, and was already partially implemented when the agreement was signed. "The increase in short-term interest rates resulting from the tightening already done should over time help reduce credit growth to levels more consistent with the reserve situation."[4] Moving forward through the program, Malawi plans to "slow monetary expansion in order to contain pressures on inflation and the exchange rate. Thus, for the remainder of FY2008/09, [the government] will aim at an expansion of broad money that is below nominal GDP growth."[5]

Finally, the IMF advised Malawi to introduce more flexibility into the currency regime. The Reserve Bank of Malawi has maintained a nominal Kwacha (local currency) value of approximately US $.007 through foreign exchange interventions, leading the IMF to classify it as a de facto peg. In this agreement, "The IMF advises the Malawian government to have a more flexible exchange rate and that greater flexibility could soften the impact of the current terms-of-trade shock on growth and poverty reduction, as well as facilitate reserve accumulation."[6]

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[1] IMF 2009, 11.
[2] Ibid.
[3] Ibid.
[4] Ibid., 14.
[5] Ibid., 36.
[6] Ibid., 14.

Mali

Mali has been a long time user of Fund resources; the current PRGF (effective May 28, 2008) is the fifth since 1992, meaning near consecutive involvement with the Fund. Nevertheless "Mali's development indicators … are among the lowest in the world."[1] Since Mali is part of the West African Economic and Monetary Union (WAEMU), monetary policy is conducted on a more regional basis; the program therefore focuses on fiscal policy and structural reforms. Fiscal policy is geared towards accomplishing a budget surplus by 2010-2011. Structural reforms focus on improving the business environment and numerous privatizations.

Mali was greatly affected by the food and fuel price increases in 2008 and took strong measures to limit social unrest. Measures included banning exports of rice, corn and other basic foodstuffs and reducing the taxes on petroleum. While the measures reduced revenue "the authorities defend them as the price of avoiding the social unrest."[2] In turn, expenditure was cut in order to maintain the basic deficit at program levels. The program supported a revised 2008 budget that would cut spending by 2 percent, although the actual revised budget only cut 1.5 percent. This was agreed to "on the understanding that there will be under-execution of domestically financed capital expenditure and that no adjustment to program domestic financing is required."[3] Current IMF projections have remittances dropping from 4.5 percent of GDP in 2008 to 3.6 percent in 2009, while tourism receipts will drop 0.4 percent of GDP. These projections are probably overly optimistic and under a more adverse shock remittances and tourism receipts would decline a further 0.6 percent of GDP.

The original PRGF program called for a basic fiscal deficit for 2009 of 0.7 percent of GDP, reduced from 1.9 percent of GDP in 2008. Although the IMF only forecast a small decline in growth from 2008 to 2009 in this agreement (from 5.4 to 5.1 percent), by the second review (August 2009) the IMF projection for 2009 was 4.1 percent and 5.1 percent for 2008. Thus, the economy was slowing when the IMF program called for a reduction of the fiscal deficit in 2008. In the first and second reviews, the IMF allowed for a higher deficit, 2.0 and 1.6 percent of GDP, respectively.

Although spending levels in 2009 are up from their extremely depressed levels in 2008, they are below those originally programmed. In fact, "the revised projections reflect spending cuts equivalent to 1.2 percent of GDP (mostly in domestically financed capital expenditure) that are only partially offset by new spending for agriculture (0.5 percent of GDP) and the housing bank (0.2 percent)."[4] Moreover, "Given the downside risks to the current macroeconomic framework, the authorities have decided to curtail spending in the first three quarters of the year to create a precautionary budget reserve."[5] The budget reserve could be used in the fourth quarter if "the annual fiscal objectives are no longer considered at risk."[6] This, despite the fact that Mali's overall debt is relatively low at just 23 percent of GDP.

[1] IMF 2008a, 6.
[2] IMF 2008b, 9.
[3] Ibid., 8.
[4] Ibid., 11.
[5] Ibid.
[6] Ibid.

The program also entails significant privatization and structural reforms. The state cotton ginner will be broken up into four subsidiaries and privatized. The government has "launched a tender for privatizing the International Bank of Mali (BIM)."[7] The telephone company is also being privatized, and steps are being taken to restructure and possibly privatize the housing bank (BHM). As of the second review "Reform of the parastatal sector is now receiving renewed focus. Work is going forward on privatizing CMDT [Cotton Ginning Company of Mali], and on restructuring, and possibly privatizing, BHM [Housing Bank of Mali]. Regulation of EDM [Energy Company of Mali], the electricity company, is being reinforced, and the water division may be spun off. The fertilizer and irrigation programs (notably at the Niger River Authority) are also being looked at for efficiency gains."[8] Mali also has begun reforming the Malian Retirement Fund in order to "reduce gradually the CRM deficit and its cost to the Government."[9] They are currently moving forward in reforming the pension system, by changing the contribution rates for civil servants.

[7] IMF 2008a, 10.
[8] IMF 2009, 12.
[9] IMF 2008a, 41.

Mozambique

Mozambique completed a PRGF program in July of 2007 and is currently under a Policy Support Instrument (PSI). Recently the Mozambique authorities requested a yearlong arrangement under the High-Access Component of the ESF. The global crisis has hurt Mozambique's economy, with export prices "projected to decline about 30 percent from their 2008 level;" also, "Private capital inflows are cautiously projected to fall about 40 percent from their 2008 level."[1] GDP growth is projected to be about 2 percent below the previous forecast, at 4.3 percent. The program aims to combat the external shocks by slightly easing monetary and fiscal policy, while putting in place structural reforms to improve the business environment and "catalyze[ing] support from donors that are considering stepping up their assistance, notably the World Bank."[2]

The fiscal program is revised to incorporate higher levels of domestic financing, which are increasing by about 1.1 percent of GDP. This is necessary due to lower than budgeted revenues. "In other respects, the fiscal program for 2009 is largely as previously envisaged."[3] Further stimulus "is curtailed by the large projected decline in external reserves."[4] Reserves are projected to fall by US$200 million, of which $42 million would be due to fiscal expansion.

The monetary program also allows for some easing in order to "limit the crowding out of credit to the private sector."[5] Also, "Monetary policy will remain geared towards keeping inflation low" by targeting reserve money growth. The program allows for a modest increase in reserve money growth from 11.0 percent originally programmed to 12.5 percent. Staff were confident this would not trigger inflation because inflation was already low "and external inflationary pressures appear weak."[6]

Structural reforms focus on improving the business environment, in light of the slowdown in GDP growth. A key aspect of these reforms will be "Reducing the costs of doing business" and better management of natural resources, which "have attracted significant foreign private capital."[7] Labor measures will focus on the lack of skilled labor and reducing "labor market rigidities by disseminating the new labor law and further defining its regulations."[8] Other reforms will address continuing trade liberalization. In 2008 the Southern African Development Community free trade area was implemented, and by end 2009 a final Economic Partnership Agreement with the EU will mean "quota- and duty-free access to the EU on a reciprocal basis." As a first step Mozambique reduced custom tariffs on imports from the EU in December of 2008.[9] The authorities also "recently approved [a] new foreign exchange law [which] liberalizes current account transactions."[10]

Mozambique has had three nearly consecutive PRGF agreements with the Fund since the mid 1996.

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[1] IMF 2009, 9.
[2] Ibid., 17.
[3] Ibid., 15.
[4] Ibid., 16.
[5] Ibid., 4.
[6] Ibid., 15.
[7] Ibid., 13.
[8] Ibid., 45.
[9] Ibid., 39.
[10] Ibid., 16.

Mongolia

Mongolia's SBA with the IMF came after several years of fiscal expansion (including public-sector wage increases and new social transfers, which together accounted for 6 percent of GDP), and a drop in fiscal revenue of 10 percent due to falling mineral prices. This SBA calls for substantial tightening, in both fiscal and monetary policy. "While regrettable, the procyclical policies which were in place during more favorable times, now necessitate procyclical policies to avert an impending fiscal, balance of payments, and social crisis."[1] The fiscal tightening was prescribed as Mongolia's GDP growth was projected to fall from 8.9 percent in 2008 to 2.7 percent in 2009, well into the global recession in March 2009. While the overall fiscal deficit was set to increase from 5 percent of GDP in 2008 to 6 percent in 2009, actual government expenditure decreased, from 40.2 percent of GDP to 36.8 percent in 2009.[2]

Under this agreement, fiscal policy aims "to prevent the boom-bust fiscal cycle related to world copper prices" by ensuring that "a greater proportion of windfall copper revenues is saved."[3] To that end, it anticipates a 2009 "fiscal responsibility legislation" bill submitted to parliament, to "commit to a structural fiscal rule that would limit expenditure growth and restrain the accumulation of public debt" and set spending "in reference to a conservative assumption on the medium-term level of copper prices."[4] The new fiscal responsibility law will moderate spending in the future.[5] The agreement foresees a decrease in the non-mineral deficit from 15.1 percent of the GDP in 2008 to 9.9 percent in 2009 and 9.1 percent in 2010.

To reach the target deficit, Mongolia committed to several spending cuts. First, it agreed to "a comprehensive overhaul of the entire system of social transfers in the coming months" aimed at eliminating social transfers that are not targeted at the poor, and replacing them with more focused programs.[6] Also, the 2009 budget includes cutting capital spending, including "a halt to any project that has not yet gotten underway. Additional savings will be generated from a wage and hiring freeze, cuts in bonuses and in some untargeted social allowances, and reductions in other purchases of goods and services."[7] Finally, revenue is to be raised through new taxes on petroleum, beer and tobacco, and limited increases in customs duties.

Monetary policy has also been procyclical, in particular while the economy was slowing from 2008 to 2009. Inflation rose to 34 percent in August 2008, "driven by an overheating economy, high global prices for food and fuel, and the continued boom in copper prices."[8] However, by the time of the first review it was projected to fall to 10.1 percent in 2009.[9] The initial agreement called for substantial increases in the policy interest rate, which will later "steadily decline, once the current crisis has been averted."[10] This process began days before the agreement was signed in March, 2009, when the Central Bank raised the policy rate from 9.75 percent to 14 percent. By the first review in

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[1] IMF 2009a, 17.
[2] Ibid., pg. 19
[3] Ibid., 9.
[4] Ibid., 10.
[5] Ibid., 4.
[6] Ibid., 9.
[7] Ibid.
[8] Ibid., 3.
[9] Ibid. 11
[10] Ibid., 10.

August 2009, the exchange rate stabilized, and the central bank lowered the policy rate to 12.75 and then 11.5 percent – still higher than the initial 9.75, but substantially lower than its peak. The first review stated that now "There is some room for monetary easing,"[11] and that the "central bank plans to proceed carefully with a gradual relaxation of monetary conditions, cautiously testing the water and observing the impact on the banks, exchange rate, inflation, and reserves,"[12] but that "the central bank should remain prepared to raise interest rates quickly if market conditions were to deteriorate."[13]

[11] IMF 2009b, 2.
[12] Ibid., 4.
[13] Ibid., 8.

Niger

Niger was approved for a third consecutive PRGF agreement in May of 2008. As part of the Western African Economic and Monetary Union (WAEMU), Niger's monetary policy is largely conducted on a regional scale; therefore the agreement focuses predominantly on fiscal policy and structural reforms. The objectives are to maintain macroeconomic stability while undertaking structural reforms to improve the business environment. Niger authorities also believed that "it is necessary to maintain donor confidence with appropriate reforms."[1]

Niger is relying on three large investment projects to continue GDP growth in 2009, and insulate the country from the global crisis. A production-sharing agreement was approved in 2008 with China National Oil and Gas Exploration and Development Corporation (CNODC). Plans are in place to develop an oil field, and to build a refinery and pipeline. Fiscal space was created in mid-2008, when the government received a signing bonus worth 5.3 percent of GDP. The government holds a 20 percent share in the oil field, and will contribute to drilling expenditures. The government is also responsible for 40 percent of the capital costs of the refinery, spending that was originally programmed for 2008 but was deferred to 2009. Another project is a uranium mine. Niger is a large uranium exporter and "the three foreign shareholders of the two uranium operating companies reached an agreement with the government increasing by 37.5 percent the export price of uranium for 2008, after a 50 percent increase in 2007."[2] The mine is being developed by AREVA, the French nuclear power group. The cost is over US$1 billion and aims to eventually triple uranium output. "The agreement allows the government company SOPAMIN to market about 10 percent of production at the higher spot price."[3] Finally, a large dam will be constructed to improve irrigation systems.

As GDP growth was projected to slow, from 9.5 percent in 2008 to 3 percent in 2009, fiscal policy allowed for increased expenditure in line with the poverty reduction strategy, and significant capital spending related to the three large investment projects. The signing bonus from CNODC provided much of the fiscal space for these measures. The deficit is much higher in 2009 (5.8 percent of GDP compared to a surplus of 1.3 percent in 2008) but this is because investment related to the oil deal was pushed back while revenues from the signing bonus were registered in 2008. Indeed, total government expenditure only rose from an estimated 22.9 percent of GDP in 2008 to a projected 24.6 percent in 2009.

The program also stresses structural reforms to improve the business environment. The aim is to reduce the cost of doing business; as such "The company profit tax is scheduled to be cut from 35 percent to 30 percent in the 2010 budget year."[4] Niger will also reform "fixed assets taxation, to exclude industrial equipment."[5]

In the financial sector "All banks are making preparations to meet the new higher capital requirement of CFAF 5 billion which enters into effect at end-2010, with two out of 10 banks

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[1] IMF 2008, 13.
[2] IMF 2008, 11.
[3] Ibid.
[4] IMF 2009b, 12.
[5] Ibid.

already meeting it."[6] Throughout the program, Niger has been determined to establish an agricultural bank to provide credit to farmers, but "staff encouraged them to review all the options before deciding on the most effective way to proceed."[7] As of the most recent review, it seems they have decided to go forward with the bank, "with utmost care to minimize the risk of operational losses and fiscal costs that similar banks have often incurred in the region."[8]

[6] IMF 2009b, 12.
[7] IMF 2009a, 22.
[8] IMF 2009b, 12.

Pakistan

The agreement with Pakistan is an SBA with exceptional access of 500 percent of quota, later increased to 700 percent. The program aims to achieve macroeconomic stability through tight fiscal and monetary policies.

The tightening of fiscal and monetary policy under Pakistan's SBA proved to be highly pro-cyclical, more than anticipated because of over-optimistic assumptions about the country's economic growth. The other rationales for the pro-cyclical policies also turned out to be based on unanticipated trend reversals. For example, Pakistan's current account deficit, which was at 8.4 percent of GDP for fiscal year 2008 (which began in July 2007), had largely disappeared by February of 2009. Inflation, which peaked in October 2008 at an annual rate of 25 percent, was down to 19 percent in March 2009, mostly due to the decline in world commodity prices and other deflationary pressures due to the world recession. Meanwhile, the most recent IMF projections (IMF 2009b) have Pakistan's GDP growth at 2.0 percent for fiscal years 2008/09 and 3.0 percent for 2009/10.

The original October 2008 program called for significant fiscal tightening. The deficit, which had increased to 7.4 percent of GDP in 2007/2008 due to the food and fuel shocks, was targeted to fall to 4.2 percent in 2008/09 and 3.3 percent in 2009/10. This was to be accomplished through both revenue and expenditure measures. On the expenditure side, the program calls for ending fuel and energy subsidies as well as lowering development spending through "better prioritization."[1] As of the original agreement, domestic fuel prices had been raised and electricity tariffs had been increased by 18 percent. The program does allow for an increase in social safety net spending, from 0.6 percent of GDP to 0.9 percent. At the time of the first review, despite a worsening economic environment and a downward revision in GDP growth from 3.4 to 2.5 percent in 2008/09, "The authorities do not see scope for relaxing the fiscal stance and have opted for an unchanged fiscal deficit target."[2] At the second review, in light of significant resources from donors, it was "agreed that the 2009/10 deficit target (excluding grants) could be increased to 4.6 percent of GDP, compared to the original program target of 3.4 percent of GDP."[3] Some of the donor support was for security spending, and the increase in the deficit also is a result of lower than expected revenues. Although the program calls for "a general increase in civil servants' salaries by 20 percent"[4] the "authorities decided to reduce non-priority development spending."[5] Overall expenditures for 2009/10 remain at roughly the same percent of GDP as previously programmed and slightly below the level in 2008/09.

On the revenue side, the program calls for rapidly increasing tax revenue. This includes increasing excise taxes and increasing the general sales tax by one percent to 16 percent. In addition, "A key step will be the replacement, starting in 2010/11, of the GST with a broad-based VAT."[6]

"The program envisages a tightening of monetary policy."[7] As a prior action to the IMF board considering the program, the State Bank of Pakistan raised the discount rate by 200 basis points to

[1] IMF 2008, 9.
[2] IMF 2009a, 14.
[3] IMF 2009b, 5.
[4] Ibid., 14.
[5] Ibid., 15.
[6] IMF 2009a, 54.

15 percent. The program acknowledged that "the authorities should be ready to raise the discount rate further if the monthly program benchmarks for reserves are not achieved."[8]

In April the policy rate (State Bank of Pakistan discount rate) was cut by 100 basis points. Pakistan authorities "argued that the recent declines in headline and core inflation justified a further reduction in the policy rate." IMF staff, however "urged caution" and it was agreed that the rate would remain as is for now.[9]

[7] IMF 2008, 11.
[8] Ibid., 18.
[9] IMF 2009b, 15.

Romania

Beginning in 2003, Romania experienced a five-year economic boom fueled by large capital inflows, reflecting, in part, positive prospects due to continued integration with the EU. The large volume of flows led to an appreciation of the leu (local currency) and significant credit expansion. Domestic credit grew an average of 50 percent per year between 2004 and 2008. The rapid boom, with average annual GDP growth of 6.5 percent between 2003 and 2008, began to show signs of overheating, prompting authorities to raise interest rates and bank minimum reserve requirements in an unsuccessful effort to fight inflation.

IMF staff identified public spending growth as the "main culprit" behind the overheating.[1] The public-sector wage bill had more than doubled in the last five years due to an increase in government employment and higher wages.[2] The pension deficit, due partly to an early retirement age, was projected to increase to more than 2 percent of GDP by 2011.[3]

The global financial crisis caused GDP growth to plummet from 9 percent quarter-to-quarter growth in the first 3 quarters of 2008 to –13 percent in the fourth quarter.[4] The stock market crashed, losing 65% of its value from its Aug. 2008 peak,[5] credit contracted, and the real exchange rate depreciated by 7 percent by the end of 2008.[6] The boom had also led to increasing currency mismatches and worsened Romania's maturity structure, creating the danger of severe balance sheet effects and roll over problems during the financial crisis.

The SBA sought to reduce the public deficit to under 3 percent of GDP by 2011 from 4.9 percent in 2008, arguing for the need to restore confidence and that "excessive public spending in recent years and the current tight financing environment do not leave room for counter-cyclical fiscal policies."[7] Reducing the deficit involved significant cuts to the public wage bill, in particular cuts to bonuses and benefits, and raising taxes, including higher excise tax rates on tobacco and alcohol, and higher property taxes. Authorities also lowered spending on subsidies and on goods and services. The pension system was reformed, including a raise in the age of retirement.

The main goal of monetary policy was to fight inflation, gradually lowering it within the target range of 3.5 to 1 percent.[8] "While under normal circumstances, the sharp slowing of economic activity and falling world prices might permit an easing of the monetary policy stance,"[9] IMF staff stressed that it could lead to capital flight and a depreciating exchange rate. As such, modest monetary easing is allowed (although not programmed), provided net foreign asset and exchange rate targets were comfortably met. Broad money is projected to grow just above nominal GDP growth in 2009, however significantly below trend nominal GDP growth, a more accurate comparison given the sharp downturn in Romania's economy.

[1] IMF 2009, 4.
[2] Ibid., 11.
[3] Ibid., 13.
[4] Ibid., 5.
[5] Ibid., 6.
[6] Ibid., 6.
[7] Ibid., 10.
[8] Ibid., 17.
[9] Ibid., 18.

São Tomé and Príncipe

When São Tomé and Príncipe signed an Poverty Reduction and Growth Facility agreement with the IMF, the government had run sizeable, though diminishing, primary deficits: 10.7 percent of GDP in 2006, 8.4 percent in 2007, and 6.6 percent in 2008. Also, inflation had risen to a 37 percent annual rate in June 2008, "reflecting rising international prices of food and fuel and the depreciation of the dobra" (local currency) as well as "the use of National Oil Account (NOA) balances to finance the fiscal deficit."[1] The PGRF agreement addresses both of these issues, primarily through tight fiscal policy. Monetary policy options are somewhat limited through São Tomé and Príncipe's membership in the Economic and Monetary Community of Central Africa.

Fiscal policy under this agreement mainly targets reduced primary deficits: 4.5 percent of GDP in 2009, 3.9 percent in 2010, and continued reductions until 2011, when the primary deficit is programmed to reach 1.9 percent of GDP. The program can be considered counter-cyclical, however, to the extent that the overall budget surplus (including grants) decreases – from 16.6 percent in 2008 to 7.9 percent in 2009 – and total government expenditure under the program was expected to double between 2008 and 2009, from 31 percent of GDP to 62.9 percent. This surge in spending, though driven largely by increased external grants, takes place at a time when GDP growth was projected to remain more or less stable, only slowing from 5.8 percent in 2008 to 5.5 percent in 2009.

Meanwhile, the agreement aims to reduce inflation "to low double digits early in the program and to single digits by its end."[2] Since much of monetary policy is determined at the regional level, the program envisages using fiscal policy to reduce inflation, which is allowed to remain in double digits until 2010. The program also foresees "foreign exchange auctions, subject to preserving an adequate level of external reserves" by the central bank, in order to control liquidity.[3]

As world petroleum prices rose throughout 2007 and 2008, the government raised official domestic prices twice to maintain parity: an increase of 14 to 25 percent in 2007 and by 9 to 18 percent in 2008. By October 2008, domestic oil prices "were broadly in line with international prices,"[4] but as world oil prices continued to fall, they became "significantly higher than international prices at end-2008."[5]

Finally, the government of São Tomé and Príncipe has negotiated an agreement with Portugal, in which "São Tomé and Príncipe would peg its dobra to the euro … and Portugal would provide support to the peg with a credit line."[6] In response, the IMF stated that "a successful peg to the euro would help deliver low inflation and deepen integration with Portugal, São Tomé and Príncipe's main economic partner. However, strict macroeconomic discipline will be necessary for the success of a more rigid exchange arrangement—a point on which the authorities agreed."[7]

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[1] IMF 2009, 5.
[2] Ibid., 9.
[3] Ibid.
[4] Ibid., 33.
[5] Ibid., 5.
[6] Ibid., 9.
[7] Ibid.

The growth of broad money and base money remains below the inflation rate during 2008 and 2009. Interest rates were maintained at a high level in 2008.

Senegal

In 2008, Senegal's annual GDP growth had slowed from 4.8 percent in 2007 to 3.9 percent. This development was partly the result of the international rise in food and fuel prices, which represented a 5.25 percent of GDP balance of payments shock, and large government payment delays to the private sector.[1] The payment delays had led to slower growth in construction and real estate. The banking sector was also affected as a result of an increase in non-performing loans.

The government responded to the price shock with subsidies to the price of rice and fuel, which cost around 3 percent of GDP, and the suspension of taxes on certain food products.[2] These measures put increased pressure on fiscal deficit targets established by Senegal's three-year Policy Support Instrument (PSI) arrangement with the IMF, signed in November 2007. When major errors and shortcomings in the 2008 budget came to light, revealing a far worse fiscal outlook than previously assumed, the budget minister was dismissed and authorities proceeded to cut spending. However, the spending cuts proved inadequate at containing the deficit and, in response, government authorities requested a one-year, US$ 75.6 million (30 percent of quota or 0.6 percent of projected 2009 GDP) ESF, which was subsequently approved in December 2008.[3]

The main priority of the program was to correct the delay of payments and contain the fiscal deficit "to underpin macroeconomic stability and safeguard debt sustainability."[4] The ESF only covered 0.5 percent of GDP of the total exogenous shock, requiring further spending cuts to bring the deficit within the program targets.[5] In this context, IMF staff recommended cutting price subsidies and reinstating taxes on temporarily exempted products.

By the time of the completion of the first ESF review, in June 2009, payment delays had been successfully addressed but Senegal was now facing problems associated with the global financial crisis. Remittance flows, which originate mostly from Spain, Italy, France and the U.S., dropped sharply. FDI growth was slowing as a major iron ore mining project was delayed. Export prices also took a hit. The price of phosphoric acid, Senegal's main export, decreased to half of its 2008 level.[6] As a consequence, GDP growth was now expected to come in at 3.1 percent for 2009 and 3.4 percent for 2010.[7]

The severity of the effects of the global recession prompted authorities to request an Augmented ESF, which was approved on June 19, 2009, increasing the current ESF loan amount of US $112 million to a total of US$186 million (75 percent of quota or 1.5 percent of projected 2009 GDP).[8]
The augmented ESF provided for a "temporary fiscal easing relative to earlier program targets" due to a large drop in expected revenues.[9] This measure, however, was just enough to keep spending levels constant.[10] The augmented ESF only partially covered the balance of payments shock,

[1] IMF 2009a, 3.
[2] Ibid., 18.
[3] Ibid., Press Release on the Executive Board Discussion, 1.
[4] Ibid., 13.
[5] Ibid., 18.
[6] IMF 2009b, 7.
[7] Ibid., 20.
[8] Ibid, Press Release on the Executive Board Discussion , 1.
[9] Ibid., 3
[10] Ibid., 24.

reflecting IMF staff's anticipation of further donor support and distrust of authorities' ability to implement policy.[11]

GDP growth was expected to recover to an average of around 5 percent in the medium term, and inflation should remain low in light of the sharp drop in food and fuel prices. The current account deficit was projected to narrow as exports recover and demand for imports lag behind due to lower remittance and FDI flows. Also, IMF staff acknowledged the shortcomings of their past projections, stating that the impact of the global recession was far larger than expected. Indeed, the balance of payments for 2008-2010 was CFAF 330 billion worse than projected at the time of the ESF request in late 2008.[12]

[11] Ibid., 13.
[12] Ibid., 11.

Republic of Serbia

The IMF approved in January 2009 a 15-month, US$530.3 million SBA to help the Republic of Serbia maintain macroeconmic and financial stability. The Serbian authorities "intend to treat the arrangement as precautionary, and not to draw on Fund resources unless the need arises."[1]

Serbia's financial buffers should be enough as a first line of defense against the threat of contagion from the international crisis, but the SBA request states that "implementation of much stronger policies than in the past will be needed to maintain market confidence."[2] Moreover, the program focuses on "upfront fiscal restraint, with the 2009 deficit limited to 1.75 percent of GDP; containing inflation, while maintaining a managed float to facilitate external adjustment; strengthening crisis preparedness, and reforms to boost the economy's supply side."

At the time the SBA was signed, Serbian GDP was expected to have grown 6.0 percent in 2008 and the projection for 2009 stood at 3.5 percent. Inflation projections indicated 9.5 percent for 2008 and 8.0 percent for 2009. On public finances, the fiscal deficit (cash basis), reached 1.9 and 2.3 percent of GDP in 2007 and 2008, respectively. For 2009, the program calls for bringing the government deficit down to 1.8 percent of GDP.[3]

During 2008 the stock market fell, while sovereign spreads widened and the dinar (local currency) depreciated considerably against the euro. Households, alarmed by rumors and by the situation in other countries, have withdrawn some of their deposits.[4] Meanwhile, the current account balance rose to almost 18 percent of GDP in 2008 (from 16 percent in 2007), and is expected to remain at 16 percent of GDP in 2009. Private external debt also increased from 26.2 percent of GDP in 2005 to a projected 50.8 percent in 2009.[5]

As in other countries, financial and economic fragility increased as the international situation worsened, and the agreement served as a shield against further deterioration of local and international conditions.

The proposal submitted to the IMF argues that "fiscal restraint will be a cornerstone of the authorities' program."[6] It also indicates that "given Serbia's history of fiscal dominance, restraint is also needed to reassure investors and the Serbian public that policies remain on sound footing."[7] Specific measures adopted by the Serbian authorities included the suspension of pension indexation in 2009, the adjustment of public sector wages only by projected inflation, and the suspension of non-essential hiring. Public enterprises and local governments are expected to follow similar wage procedures.[8]

[1] IMF 2009a.
[2] IMF 2009b, 1.
[3] IMF 2009b, 26.
[4] IMF 2009b, 5.
[5] IMF 2009b, 26.
[6] IMF 2009b, 12.
[7] Ibid, 12.
[8] Ibid, 12.

The program also considers various options to increase taxes, restoration of dividend transfers from public enterprises and streamlining spending on goods, services, and on subsidies. It is worth noting that the government budget "preserves allocations for capital spending, enterprise restructuring, and subsidized lending to small- and medium-sized enterprises."[9]

The program also warns that if the fiscal objectives are put in danger by the conditions in the local and global economy, then "the authorities stand ready to reduce discretionary spending further and – as a last resort – to increase the VAT rate."[10]

On the monetary side, the program "supports strengthening the focus on inflation targets as the economy's nominal anchor."[11] The foreign exchange regime remains a managed float.

Finally, the program emphasizes the authorities' determination to pursue structural reforms; in particular, they will "push ahead with privatization and enterprise restructuring plans, notwithstanding the difficult economic environment."[12] Moreover "wage policies in public enterprises will be strictly controlled to avoid adverse wage dynamics and encourage rationalization."[13]

Projections for the 2009 level of several variables had to be modified in May: real GDP growth in 2009 was now expected to be -2.0 percent (instead of the 3.5 percent mentioned above), and the fiscal deficit would reach -3.0 percent of GDP (instead of the 1.8 percent originally estimated).

Adverse conditions in the world economy put downward pressure on exports, while depressed local activity (combined with currency depreciation) contributes to a decrease in imports. The current account deficit fell due to a slumping domestic economy and currency depreciation.

The September 2009 review of the SBA[14] projects that output will decline 4 percent in 2009, and that the fiscal deficit has to be adjusted upwards due to the reduction in government revenue which results from the downturn. Careful monitoring of government spending will continue throughout 2009 and 2010.[15]

In the monetary sector, broad money and credit to the private sector have increased only slightly over the inflation rate from January through August 2009; however, the National Bank of Serbia's policy rate dropped from 17.75 percent to 12 percent.[16] Moreover, a similar declining pattern was observed for the weighted lending rates of commercial banks;[17] it is clear that the central bank is attempting to pursue counter-cyclical monetary policy.

However, the September review states that: "Monetary policy should continue to focus on inflation." It is later argued that, the economic slowdown notwithstanding: "further monetary easing

[9] Ibid, 13.
[10] Ibid, 13.
[11] Ibid, 13, 14.
[12] Ibid, 15.
[13] Ibid, 15.
[14] IMF 2009c.
[15] Ibid.
[16] National Bank of Serbia 2009a.
[17] National Bank of Serbia 2009b.

should proceed with caution."[18] So even though the SBA review seems to insist on the need to focus on inflation controls, the implementation of the program appears to move along a more counter-cyclical pattern.

[18] Ibid.

Seychelles

At the time Seychelles signed an SBA with the IMF in October 2008, the government was heavily indebted. The agreement states that, "At almost 151 percent of GDP, public debt is unsustainable."[1] Approximately two-thirds of this debt (98 percent of GDP, or US$808 million) is from international sources, mainly the Paris Club (to whom Seychelles owes US$313 million in arrears alone). To address this external debt problem, the agreement recommends "a comprehensive official and private debt restructuring … to close financing gaps and put medium-term debt on a sustainable path."[2] By the second agreement, the Paris Club had "granted exceptional debt treatment to Seychelles under the Evian approach," resulting in "a clearance of US$140 million of arrears and determining that "Seychelles' debt stock will be reduced by 45 percent in nominal terms in two tranches. The remaining amounts will be rescheduled over 18 years, including five years of grace."[3]

Another important goal of the program is to maintain a primary fiscal surplus in order to pay down the domestic debt. The agreement anticipates primary balances to rise from -2.3 percent of GDP in 2007 to 7.1 percent in 2008 and 6.2 percent in 2009, and then gradually ease to 5.5 percent in 2013. At the first review, a waiver was granted for this performance criterion, which was missed due to "the reclassification of a loan extended by the government to the state-owned public oil company."[4] To compensate, the program raised the primary balance target for 2009 to 9.8 percent of GDP. By the second review, the primary surplus was "well above target, helped by the large on-lending repayment by the national oil company (SEYPEC)," and the target for 2009 was raised again, to 11.4 percent of GDP.[5]

During the time of this programmed increase in the primary fiscal balance, Seychelles fell into a deep economic contraction. GDP growth fell from an estimated –0.9 percent in 2008 to –10.7 percent for 2009. These latter projections are from the IMF's second review in July 2009. At the time of the SBA agreement (October 2008), the Fund was projecting 3.1 percent growth for 2008 and –0.5 percent growth for 2009, despite the negative external shocks from the world recession.

These surpluses were to be met through the "reduction in public employment and the replacement of indirect subsidies by a targeted social safety net."[6] The original agreement planned a public-sector workforce reduction through a "voluntary and involuntary departure scheme" that was "expected to reduce the number of public sector employees by 12.5 percent by end 2008."[7] By the first review, meeting the fiscal surplus target was made easier because "The downsizing of the civil service [was] greater than targeted at some 3,300 staff by March 2009 (17 percent of government employees), with about a 12 percent reduction in the parastatal sector."[8]

The reallocation of funds from subsidies to safety nets had already begun at the beginning of the program. The original agreement states that "More frequent adjustments toward cost-recovery levels

[1] IMF 2008, 6.
[2] Ibid., 9.
[3] IMF 2009b, 6.
[4] IMF 2009a, 3.
[5] IMF 2009b, 4.
[6] IMF 2008, 4.
[7] Ibid., 15.
[8] IMF 2009a, 5.

for water and electricity prices are reducing government subsidies to the public utility company, and petroleum product prices are now adjusted monthly to reflect international prices."[9] Additional subsidy reductions were to be reached through: eliminating fuel subsidy coupons for fishermen, electricity rebates per household of 90 Seychelles rupees, subsidies on liquefied petroleum gas for cooking, and other subsidies for agriculture, hatcheries, the Seychelles Trading Company, and Coevity Prawns, as well as raising public bus fares to cost-recovery levels. All of these subsidies were to be eliminated by January 2009. In their place, a Welfare Agency Act was passed in November 2008, establishing a social welfare agency. Regarding the benefit levels, the first review states that "The level of income support available under the means-tested social safety net was set at a conservative level initially, containing government expenditure in this area to well below the amount projected in the program. The government has recently increased benefit payments, within the confines of the program's fiscal targets, to alleviate pressure on the most vulnerable segments of society."[10] The second review includes a request for a "strategy on strengthening the social safety net and enhancing targeting of social assistance."[11]

Seychelles transitioned to a flexible exchange rate in 2008, and has asked the IMF for assistance in managing monetary policy under the new regime; specifically, the government requested that the IMF provide "a long-term monetary advisor to help them deal with the transition from a fixed to floating exchange rate regime."[12] Among the monetary advice given was that real interest rates, which were negative in 2008, had to rise substantially. The Fund stated that "Higher market-determined interest rates will be crucial to limit the extent of exchange rate overshooting,"[13] as the currency was expected to drop significantly after the float. The IMF acknowledges that higher interest rates may lead to borrower distress and an increase in defaulted loans, but considered that it would have limited impact on the banks themselves: "After adjusting bank capital for credit risk, the possible consequences of higher interest rates and the exchange rate leave banks with capital coverage of 27 to 34 percent of their loan portfolio. Distribution of this risk is fairly even."[14] As a result, T-bill interest rates rose from 5.9 percent in September 2008 to 29 percent in December 2008, before dropping back to 12.4 percent in May 2009.[15]

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[9] IMF 2008, 43.
[10] IMF 2009a, Statement by Christopher Legg, 2.
[11] IMF 2009b, Information Annex, 7.
[12] IMF 2008, 19.
[13] Ibid.
[14] Ibid.
[15] IMF 2008, 18; 2009a, 25; and 2009b, 4.

Sierra Leone

After "ten years of almost continuous involvement with Fund programs" Sierra Leone signed a new PRGF in the spring of 2006.[1] Although the second review was delayed nearly a year due to policy slippages, a new government took office in September of 2007 that was committed to the PRGF. The program seeks to consolidate gains after the post-conflict recovery through fiscal prudence and structural reforms to improve the business environment and private sector's participation in the economy. The economic program targets primary deficits of around 2 percent of GDP throughout the duration of the program, and uses monetary policy to target inflation. The domestic debt burden is lower than much of the region, standing at 30 percent of GDP and after HIPC and MDRI relief, "the NPV of external debt-to-GDP and debt-to-export ratios would decline to 10 percent and 47 percent, respectively by end-2007."[2] Despite these relatively low levels, "the staff stressed the need for prudent borrowing policy and the strengthening of debt management capacity to avoid another build up of unsustainable debt."[3]

At the second review in July 2008, the projected fiscal deficit for 2008 was 2.4 percent of GDP, and the program called for a reduction of the deficit to 1.7 percent of GDP for 2009. At that time, the Fund did not project a drop in GDP growth for 2009, despite the external shocks from the world recession.

Between the second and fourth review GDP growth projections are lowered, from 6.0 percent to 4.0 percent for both 2009 and 2010. At the fourth review, the primary fiscal deficit target for 2009 was allowed to rise from 1.7 percent to 3.3 percent of GDP, although it is lowered to 1.9 percent for 2010.

On the expenditure side of fiscal policy, the program focuses on the public-sector wage bill. The authorities were criticized because "the management of the public sector wage bill remained weak;" the reason given was that "in January 2005 the wage bill was raised substantially after the presentation of the budget in parliament due to concessions to labor unions following a two-day general strike."[4] Although wages increased near inflation rates, "The staff took the view that reining in the wage bill and improving control of wage expenditures needed to be addressed with urgency."[5] Although the government "stressed that managing the wage bill in the aftermath of a conflict is a daunting task, as they feel compelled to reinstate displaced civil servants as they return."[6] Most recently, the public sector wage bill was maintained at around 6 percent of GDP (the same as the previously programmed figure), allowing for a modest increase from 5.7 percent of GDP in 2008.

The program set an indicative target on pro-poor expenditure, through mid-2008. But "[t]he indicative targets on poverty related expenditures and domestic revenue were missed at all test dates by a wide margin."[7] Overall expenditure was drastically lower than envisioned in 2007, and consequently the budget allowed for an increase to 3.1% of GDP in 2008. However, because

[1] IMF 2006, 5.
[2] IMF 2007, 16.
[3] Ibid.
[4] IMF 2006, 12.
[5] IMF 2007, 15.
[6] Ibid.
[7] IMF 2008, 6.

external budgetary support was cut by about 40% "due to delays in meeting structural conditions" it led "the authorities to cut current expenditures by 0.6 percent of GDP."[8] For 2009, expenditure levels have been maintained at program levels, despite a 1.5% shortfall in revenues caused primarily by "a downward revision of imports, declining mining activity, and weaker corporate income," due to the global slowdown.[9]

The program also uses monetary policy to target inflation. For 2009, "monetary policy will be tightened moderately, with reserve money growth below growth in nominal GDP."[10] Contributing to the tight monetary policy is the raising of reserve requirements for banks from LE $12 billion to LE $15 billion by the end of 2009.

Sierra Leone's IMF agreement also contains provisions for privatization and liberalization. First, "Twenty four state-owned enterprises in various economic sectors are being targeted [for privatization], including financial institutions."[11] The National Commission for Privatization is also reviewing the tariffs of the electricity and water utilities. During the food and fuel crisis in 2008, Sierra Leone undertook a number of measures to combat rising prices and social unrest, such as reducing import tariffs on rice and flour and reducing taxes on petroleum. However "Staff advised against general subsidies through reductions in taxes" and suggested an automatic pricing mechanism for petroleum prices, meaning a "full pass-through of world oil prices."[12] This would entail the "restoration [of] petroleum product taxation to its 2006 level."[13] The export ban on rice and palm oil will also be lifted in 2009. Finally, Sierra Leone agreed to the Common External Tariff of the Economic Community Of West African States, "resulting in a reduction of the average tariff to 11.5 percent from 17 percent."[14]

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[8] IMF 2009b, 7.
[9] Ibid., 8.
[10] IMF 2009a, 20.
[11] IMF 2006, 13.
[12] IMF 2009a, 11.
[13] Ibid., 19.
[14] IMF 2007, 13.

Tajikistan

Tajikistan is facing a severe external shock, and consequently entered into a PRGF agreement with the Fund in April. Remittances, estimated to be 47 percent of the economy in 2008, are projected to decline by 30 percent in 2009. Exports are cautiously projected to decline by 7 percent and FDI by over 47 percent. As a result the Fund projects that "U.S. dollar per-capita gross national disposable income would decline by around 6 percent in 2009."[1] The PRGF agreement seeks to "Facilitate external adjustment through exchange rate flexibility,"[2] and authorities in Tajikistan believe an agreement with the IMF "will unlock budget support from the Asian Development Bank (AsDB), the World Bank, and the European Union."[3]

Despite a worsening economic environment, "the authorities believe that the overall fiscal deficit target (excluding PIP) of ½ percent of GDP set out in their 2009 budget remains appropriate."[4] Nonetheless, revenues and grants have decreased by 1.8 percent of GDP compared to original projections. The program will "raise social spending on transfers to households, health, and education by almost 1½ percent of GDP"[5] and will continue the civil service reform program that aims to bring public wages closer to a living wage. To make up for the increased current expenditure, "they will, therefore, delay domestically financed capital spending,"[6] leading to a decline of 2.2 percent of GDP in total spending and net lending compared to what was previously forecasted.

Although GDP growth is projected to slow from an estimated 5 percent to just 2 percent in 2009, the overall deficit is actually projected to be lower than what was programmed under the previous Staff Monitored Program. The PRGF programmed deficit for 2009 was revised downward to 0.5 percent of GDP (the previous Staff Monitored Program projected a 2009 deficit of 1.2 percent of GDP). Since there was a 1.3 percent surplus in 2008, this represents a 1.8 percent negative shift in the fiscal balance from 2008 to 2009, including a 0.4 percent of GDP increase in spending.

The program moves Tajikistan away from the "de facto peg to the U.S. dollar" that has been in place since 1998 and will have "the somoni [local currency] move in line with market pressures."[7] The somoni has already depreciated 9 percent against the U.S. dollar and is expected to depreciate further. This may cause increased inflationary pressures and so the authorities "target reserve money growth of 12 percent in 2009"[8] compared to 22.7 percent originally programmed, to dampen these pressures. The 12 percent growth in reserve money is below the 21.5 percent growth in nominal GDP in 2009, implying a procyclical monetary policy.[9] Furthermore, "If external financing needs turn out larger than anticipated, or if foreign exchange inflows are lower than projected, fiscal and monetary policy need to be tightened promptly to alleviate pressures on the exchange rate and

[1] IMF 2009, 5.
[2] Ibid., 4.
[3] Ibid., 5.
[4] Ibid., 14.
[5] Ibid.
[6] Ibid.
[7] Ibid.
[8] Ibid., 49.
[9] Ibid., 28; authors' calculations.

safeguard the banking system."[10] The program does not allow Tajikistan to contract any new non-concessional debt, in order to maintain the debt to GDP ratio below 40 percent.

Medium term policies focus on structural reforms. Since "Tajikistan's growth potential is constrained by government interference in markets" the reforms focus on increasing the independence of the National Bank of Tajikistan and auditing State-Owned Enterprises.[11] The cotton sector, which employs nearly 50 percent of the labor force, will be reformed by "working to reduce government interference in farmers' crop choice" and by establishing "a private-sector led financing mechanism, including through the use of land rights as collateral."[12] This is significant because Tajikistan is faced with an increasing cotton debt problem, such that "By end-2008, cotton farmers are reported to have accumulated over $400 million in debt to cotton investors."[13] Further reforms will be implemented regarding the power utility Barki Tajik. The program stresses the importance of continuing "with the scheduled electricity tariff adjustments."[14]

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[10] Ibid., 26.
[11] Ibid., 4.
[12] Ibid., 21.
[13] Ibid.
[14] Ibid.

Tanzania

Since 1986, Tanzania has had multiple agreements with the IMF and since 1996, it has been under IMF arrangements almost on a continuous basis. The most recent one before the current downturn, was a three-year Policy Support Instrument (PSI) arrangement signed on February 16, 2007. Although not a financial arrangement (the IMF does not lend any money with a PSI), under a PSI the country is in close consultation with the IMF and sets out policy and reform targets, just like under a traditional loan agreement.[1] Following IMF advice, Tanzania undertook far reaching structural reforms, including the liberalization of its capital account and measures aimed at improving fiscal management. After the onset of the global financial crisis, Tanzania signed an ESF agreement in 2009, building on these prior arrangements.

Prior to the global financial crisis, Tanzania sustained steady GDP growth for the last 8 years, averaging 7 percent annually.[2] Growth was supported by large increases in public spending. Tanzania also decreased its external vulnerabilities from 2000 to 2008, increasing its international reserves to about four months of imports.[3]

The global financial crisis affected Tanzania primarily through lower export and tourism growth, due to falling international demand, and declining foreign investment. As a consequence, real GDP growth was projected to fall from 7.5 percent in 2008/2009 to 4-5 percent for 2009/2010.[4] Tanzania's relatively favorable public debt position allowed authorities to undertake fiscal stimulus measures projected to reach roughly 4 percent of GDP over a two-year period.[5] Moreover, its track record of sound macroeconomic management, in the judgment of IMF staff, made it possible to expand spending on infrastructure over the medium and long run without jeopardizing fiscal sustainability.[6] Public sector wages and employment were also set to gradually increase.

Inflation remained high, due mostly to the delayed effect of the rise of international food and fuel prices in 2008, and to local food supply shocks. However, higher anticipated rainfall pointed to a favorable regional agricultural outlook, suggesting lower food prices in 2009. This low projected inflationary pressure provided policy space for an easing of monetary policy to counteract the impact of the global financial crisis. IMF staff advised government authorities to remain vigilant of possible reversal in inflationary expectations and "stand ready to assume a tighter monetary stance to extinguish inflationary pressures, if necessary."[7]

Tanzania's foreign reserves are expected to decline modestly throughout 2010 before recovering in 2011. Export growth is projected to recover gradually by 2010, along with GDP growth. Recovery will be aided by favorable international oil prices and productivity increases resulting from stimulus-related infrastructure investments.

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[1] IMF 2008.
[2] IMF 2009, 5.
[3] Ibid.
[4] Ibid., 8.
[5] Ibid., 11.
[6] Ibid., 12.
[7] Ibid.

Togo

After thirty-eight years of dictatorship and international isolation, Togo underwent significant political and economic reform, leading to the resumption of democratic politics and a renewed interest in working with international donors. Togo was faced with a large public debt burden, wasteful and neglected public enterprises in its key export sectors, a poor business environment, decaying infrastructure and severe governance problems. As such, the main objectives of the current PRGF are to (1) bring public debt to a sustainable level, (2) re-engage development partners, (3) increase resources for human capital and infrastructure investment, (4) strengthen fiscal oversight and (5) restructuring state-owned enterprises (SOEs). Monetary policy is largely directed by the West African Economic and Monetary Union, of which Togo is a member, so this agreement mainly addresses fiscal policy.

The original PRGF agreement, signed in April 2008, called for gradually reducing the overall fiscal deficit, despite the slowing economy. (The IMF in this agreement projected GDP growth of 3.0 percent for 2008 and 4.0 percent for 2009; by the first review, in the fall of 2008, these numbers had been revised downward to 0.8 percent and 3.0 percent).

Togo balanced its budget and pursued administrative reform, including extensive fiscal oversight measures, under the guidance of a Staff Monitored Program (SMP), in hopes of receiving HIPC debt relief. Greater investments in human capital and infrastructure were financed by cutting other government spending, re-structuring SOEs and through external grants. These measures resulted in a small primary surplus and allowed for a modest increase in the public-sector wage bill. However, this increase was achieved, in part, by increasing the retirement age for civil servants.

In an effort to revitalize its export and banking sectors, Togo sought to re-structure and privatize its major SOEs and banks. The farthest-reaching effort in this direction was in cotton, traditionally one of Togo's strongest exports, where the SOE, SOTOCO (which had been "unable to pay more than 250,000 farmers for their 2004/2005 crop"), was completely liquidated.[1] This measure, however, left the cotton market in disarray and cotton farmers "struggling," especially following subsequent weather shocks and the global recession in 2008 and 2009.[2]

Togo was hit by two major shocks in 2008: the surge in world food and fuel prices and severe flooding that devastated its transportation and agricultural infrastructure. As the impact of the price shock began to subside Togo was affected by the global recession in 2009, when falling global demand dampened the export sector's nascent recovery. Authorities dealt with these shocks in several ways. To deal with the external price shock, corporate income taxes were lowered and the retail price of fuel was increased by 18 percent with the exception of kerosene, which would have primarily affected poor households.[3]

Government authorities attempted to mitigate the social impact of these shocks through seed subsidies to support subsistence farmers, an increase in the minimum wage, and temporary direct lump-sum transfers to civil servants. Authorities also sought to counteract the recession by increasing investments in infrastructure, particularly in flood-affected areas. However, IMF staff

[1] IMF 2009, 10.
[2] Ibid.
[3] IMF 2008b, 7.

objected to these increases, citing "the need for continued spending controls and the risks capacity constraints still pose to project budget execution."[4]

[4] IMF 2009, p. 10.

Ukraine

On November 4, 2008, the Executive Board of the IMF approved a two-year SBA with Ukraine for US$16.4 billion. The program submitted by Ukrainian authorities has two main objectives: "(i) to stabilize the domestic financial system against a backdrop of global deleveraging and a domestic crisis of confidence, and (ii) to facilitate adjustment of the economy to a large terms of trade shock."[1]

After strong growth from 2004 to 2007, the global slowdown hit Ukraine very hard towards the end of 2008. In the fourth quarter GDP fell 8 percent, and industrial production contracted over 25 percent from November to December. Just in those months, exports fell 16 percent, and the situation got even worse during January and February 2009, with industrial output and exports dropping 32 percent and 38 percent, respectively. Annual GDP growth for 2009, initially projected to reach -3.0 percent was, as of April expected to hit -9.0 percent.[2]

The situation has continued to deteriorate; during the first quarter of 2009, real GDP fell 20.3 percent and fixed investment dropped almost 49 percent. With exports falling almost 16 percent and imports down by over 35 percent, the current account has improved considerably, but mostly as a result of the economic contraction. Ukraine's GDP is now expected to fall by 15 percent during 2009.[3]

The adjustment program submitted to the Fund includes the utilization of a flexible exchange rate, supported by targets on the monetary base, migration to an inflation-targeting regime, and "resetting incomes policy in line with targeted inflation, while protecting the most vulnerable."[4] Also the proposal calls for "maintaining a prudent fiscal stance and … bringing energy prices more in line with costs."[5]

The program insists that monetary policy "shift to tighter stance" and that "an increase in the National Bank of Ukraine (NBU)'s low deposit interest rates … would be needed in the near future."[6] The proposal later indicates that reserve requirements will have to be restored and that the refinancing rate should increase in order to meet inflation objectives.[7] Information from the National Bank of Ukraine show that, effectively, the average rate for all policy instruments moved from 15.3 in January 2008 to 17.2 percent in May 2009. In August the average rate was down to 14.7 percent, a movement caused by a reduction of the discount rate to 10.25 percent also in August.[8] However, the growth of broad money and credit to the private sector remain below the inflation rate.[9]

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[1] IMF 2008, 1.
[2] World Bank 2009a.
[3] World Bank 2009b.
[4] IMF 2008, 10.
[5] Ibid., 10.
[6] Ibid., 14-15.
[7] Ibid.. 15.
[8] National Bank of Ukraine 2009.
[9] IMF 2009, 26.

The program reveals the authorities' intention to pursue a prudent fiscal stance while accounting for the need for social expenditure.[10] The initial program proposal aimed at a zero fiscal balance for 2009. This fiscal restraint, combined with tight monetary policy, deepened the economic contraction, and this, in turn, reduced tax revenue. The balanced budget projection for 2009 had to be modified to a deficit of 4 percent of GDP, and the latest revision puts the projection at 6.0 percent of GDP.[11]

Clearly in the very last months the macroeconomic program has been adjusted to the worsening conditions of the Ukraine economy: the fiscal deficit has been allowed to rise, and the policy interest rate has been pulled down. However, this is only happening in the second review of the SBA (September 2009). All throughout the first semester of 2009 it was clear that the Ukraine economy was being hard-hit by the global recession; yet, tight monetary conditions continued to be applied in procyclical fashion until very recently.

Finally, the Fund's insistence on reforms in sensitive issues has led to a confrontation between the most important political forces in the country: Prime Minister Tymoshenko and President Yushchenko. As an example, earlier this year the IMF declined to release the second tranch of the funds provided under the SBA, on the grounds that more efforts were needed to reach a more balance fiscal budget.[12]

[10] IMF 2008, 17.
[11] IMF 2009; World Bank 2009.
[12] New York Times 2009.

Zambia

Zambia signed a PRGF agreement with the IMF in June 2008, shortly after enacting a new fiscal regime for the mining sector. The new arrangement "will substantially increase the government share of mining profits and rents [through] an increase in the mineral royalty to 3 percent (from 0.6 percent), an increase in the corporate income tax to 30 percent (from 25 percent), and introduction of either a variable profit tax when the profit ratio is above 8 percent or a graduated windfall tax (levied on production value) when world copper prices exceed $2.50 a pound."[1] This change was expected to increase government revenue from 18.7 percent of GDP in 2007 to 21 percent in 2008 through 2010, making fiscal tightening unnecessary. Including grants, primary balances were expected to remain in positive territory throughout the program.

Thus, government spending was programmed to grow. The initial agreement states that "Expenditures are budgeted to rise by 2.8 percentage points due to a rebound in capital spending from the 2007 low; an increase in the wage bill because of social sector hiring and a 2–3 percent real wage increase; and allocations to the constitutional review process and arrears clearance (these will increase spending by 1.1 percent of GDP compared to 2007)."[2] Overall, spending priorities were expected to shift toward funding infrastructure, health, and education.

However, world copper prices plummeted in late 2008, and Zambian production slowed considerably; projections of real GDP growth for 2009 had to be revised down to 4 percent (compared to an original estimate of 6.3 percent). By the first and second reviews, government revenue had not risen but was actually "projected to decline by 1.3 percentage points to 17.7 percent of GDP in 2009, with decreased mining taxes."[3] Furthermore, "With copper prices projected to recover only gradually over the medium-term, mining taxes in 2009-10 would be about 7 percentage points of GDP lower than had earlier been expected under the program."[4] As a result, projections for both current and capital expenditures in 2009 dropped by about one percent of GDP each, and additional external financing will fund much of the remaining capital expenses. Thus, the IMF recommended that, as the program progresses, to "protect the domestically financed portion of capital spending, it will be critical to contain current spending, particularly on wages and benefits."[5] The government, originally projecting a fiscal surplus of nearly 1 percent of GDP in 2009, is now expecting a fiscal deficit of 2.6 percent of GDP in 2009. Similarly for 2010, the projected surplus has turned into a fiscal deficit of 1.7 percent of GDP.

In the initial program submitted in 2008, monetary policy was aimed at reducing inflation to 7 percent in 2008 and 5 percent in 2009.[6] While arguing that "monetary policy will be sufficiently firm to keep inflation on a downward trend," the program also mentions that there will be room to "accommodate a robust expansion of credit to the private sector of about 20 percent and a buildup of international reserves to 3.2 months of imports by end-2008."[7]

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[1] IMF 2008, 8.
[2] Ibid., 10.
[3] IMF 2009, 6.
[4] Ibid., 5.
[5] Ibid., 10.
[6] IMF 2008, 35.
[7] Ibid, 35.

During 2008 Zambia experienced a slowdown in foreign investment and an increase in inflation due to world fuel prices. As a result, the inflation target was "well beyond reach,"[8] as annual inflation rose to 16.6 percent in December 2008. The revised projections call for 10 percent inflation in 2009, falling to single-digit levels thereafter. With inflation rising and "with foreign investors eschewing government securities, further increases in interest rates may be unavoidable to ensure that policy stays adequately tight."[9]

The program, however, still allowed monetary policy to ease in 2008 in order to accommodate higher food and oil prices. As mentioned above, authorities expect to bring inflation down to 10 percent in 2009, while allowing for positive rates of growth of real broad money and real credit to the private sector.

[8] IMF 2009, 4.
[9] Ibid., 7.

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