

IMF Financial Crisis Loans

	Georgia (Sept 2008)	Ukraine (Oct 2008)	Hungary (Nov 2008)	Iceland (Nov 2008)	Latvia (Dec 2008)	Pakistan (Dec 2008)	Serbia (Dec 2008)	Belarus (Jan 2009)	El Salvador (Jan 2009)
Stand-by Arrangement (SBA) Loan	<p>SBA loan for US\$750 million over 18 months.</p> <p>Objectives: 1) Rebuild international reserves and sustain private capital inflows to restore investor confidence and donor support in reconstruction efforts.</p> <p>2) To focus spending priorities on reconstruction by reducing the fiscal deficit, tightening monetary policy and returning the exchange rate to a flexible regime.</p>	<p>SBA loan for US\$16.4 billion over 23 months.</p> <p>Objectives: 1) Financial sector liquidity, deposit guarantees and debt resolution frameworks.</p> <p>2) Adjustment to the large external shock and inflation reduction.</p>	<p>SBA loan for US\$15.7 billion over 17 months.</p> <p>Objectives: 1) Improve fiscal sustainability and liquidity for domestic financial markets and banks.</p> <p>2) Secure confidence and external financing.</p>	<p>SBA loan for US\$2.09 billion over 24 months.</p> <p>Objectives: 1) Prevent currency depreciation and avert capital flight through tight monetary policy and a flexible exchange rate.</p> <p>2) Restructure banks in order to restore financial stability; and, reduce expenditures due to soaring public debt levels.</p>	<p>SBA loan for US\$2.35 billion over 27 months.</p> <p>Objectives: 1) To arrest the immediate liquidity crisis through banking sector reforms.</p> <p>2) To ensure long-term external stability and maintain the exchange rate peg.</p>	<p>SBA loan for US\$7.6 billion over 23 months.</p> <p>Objectives: 1) Restore macroeconomic stability through a tightening of monetary and fiscal policies.</p> <p>2) Ensure social stability and adequate support for the poor and vulnerable in Pakistan.</p>	<p>SBA loan for US\$523 million over 15 months.</p> <p>Objectives: 1) Safeguard macro-stability via fiscal tightening, inflation targeting and financial sector buffers.</p> <p>2) Bolster market confidence through a managed float exchange rate and boosting production and exports.</p>	<p>SBA loan for US\$2.46 billion over 15 months.</p> <p>Objectives: 1) Facilitate an orderly adjustment to external shocks.</p> <p>2) Address pressing vulnerabilities through “strong macro-adjustments and structural reforms.”</p>	<p>SBA loan for US\$800 million over 14.5 months.</p> <p>Objectives: 1) Precautionary loan with the goal of improving the country’s financial defenses by providing liquidity.</p> <p>2) Central goals are to facilitate access to multilateral World Bank and Inter-American Development Bank loans, and to secure investor confidence by “reducing uncertainty” of the country’s economic policies.</p>

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Fiscal Policies	<p>1) Current spending is to be reduced from 26.6% of GDP in 2008 to 23.1% in 2009. The aim is to free state funds for relief and reconstruction (estimated at \$1 billion in damages to civilian infrastructure) and to demonstrate macro-stability to multilateral and bilateral creditors whose financial assistance is necessary for post-conflict reconstruction</p> <p>2) The fiscal deficit reduction is from 6% of GDP in 2008 to 3.75% of GDP in 2009, following further reductions in defense spending.</p>	<p>1) The fiscal deficit for 2009 is targeted at a zero overall balance (quantitative performance criterion). Parliament is to pass 2009 budget consistent with a zero deficit target.</p> <p>2) Public savings are to be generated via: a) freezing public wages, pensions and other social transfers, b) postponing for 2 years minimum wage increases, and b) passing through imported gas prices to consumers and reducing gas subsidies.</p>	<p>1) Fiscal deficit targeted to decrease from 3.4% to 2.5% of GDP.</p> <p>2) Public expenditures to be reduced by 2% of GDP through a fiscal consolidation plan premised on not using contingency reserves, and aimed at reducing the state's borrowing requirements.</p> <p>Expenditure reductions involve freezing public sector wages, eliminating the 13th month salary for public servants, capping pension payments, postponing social benefits and trimming allocations to government ministries.</p> <p>3) Cancellation of 2009 tax cuts planned.</p>	<p>1) Given sharp deficit and public debt increases, the fiscal deficit is targeted at 3.9% of GDP in 2009. Deficit-financing will occur through public fund purchases of government securities.</p> <p>2) A fiscal consolidation plan is the priority for 2009, consisting primarily of significant wage reductions in the incomes policy agreement with social partners.</p>	<p>1) With a -5% growth rate for 2009 and the threat of a double-digit fiscal deficit next year, the budget deficit is to be reduced from 7% of GDP to 4.9% of GDP through fiscal tightening.</p> <p>Roughly 1/3 of the tightening will come from Value-Added Taxes and excise increases, 2/3 from public sector wage cuts, and reducing current spending by 25%.</p> <p>2) Incomes policy will cut public sector wages and bonuses by 25% in 2009 (indicative ceiling on the public wage bill), in order to improve competitiveness and curb currency overvaluation.</p>	<p>1) Reduction in the fiscal deficit from 7.4% of GDP in 2007/8 to 4.2% in 2008/9, involving spending cuts and elimination of energy subsidies.</p> <p>2) Spending on social safety nets to increase from 0.6% to 0.9% of GDP, (<i>an increase of 0.3% of GDP in comparison to the 3.2% reduction in public spending</i>). Electricity tariffs were increased by 18% and tax exemptions are to be eliminated.</p>	<p>1) Fiscal policy is to tightly restrain wage growth in the public sector. Subsidies are to be phased out, and spending on goods and services frozen in nominal terms, although spending for SMEs, firms and the capital account will be secured.</p> <p>2) The fiscal deficit target of 1.75% in 2009 and 1% of GDP in 2010 is deemed vital to reassure investors and the Serbian public that the economy is stable.</p>	<p>1) Fiscal tightening measures aim to contract demand and consumption and slow investment and wage growth, deemed necessary due to an overheated economy and access to capital constraints. Measures entail targeting a balanced government budget, reducing public sector wages, increasing utility tariffs and reducing direct lending. (Price and wage liberalization is advised to support the change in the exchange rate regime.)</p> <p>2) State deregulation and privatization —to spur private sector growth.</p>	<p>1) The fiscal deficit target is 2.8% of GDP for 2009, while social program financing is constrained in a public sector deficit target of 2.2%-- requiring tax increases and cuts in expenditure, especially energy (gas and transport) subsidies. Public wage increases are to be contained in order to reduce the risk of a wage-price spiral.</p> <p>2) Reduction in public debt to 30% of GDP by 2013— achieved through expenditure cuts and tax increases.</p>

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Monetary and Exchange Rate Policies	<p>1) The exchange rate regime will return to market-based in 2009, while monetary policy is based on an inflation targeting regime, set to reduce inflation from 10% in 2008 to 7.6% in 2009. The IMF asserts a commitment to “low inflation” and maintains that the medium-term goal is “single-digit inflation.”</p> <p>2) Quarterly targets are assigned to net international reserves (NIR) and net domestic assets (NDA), as performance criteria). The fiscal space between the NDA ceiling and the NIR floor decreases over the medium-term.</p>	<p>1) Main goal for monetary policy is to reduce inflation from 25.5% in 2008 to 17% in 2009, and further down to 5-7% by 2011. Liquidity will be withdrawn by restoring reserve requirement rules and raising interest rates on central bank deposits.</p> <p>2) A flexible market-based exchange rate and abolishment of the exchange rate band is advised in order to meet international reserve targets (quantitative performance criterion). A key structural benchmark is to cancel the foreign exchange transactions tax.</p>	<p>1) Monetary policy is to bring inflation back to the official target of 3% by early 2010—to be achieved by tightening the interest rate over a 2-year horizon (quantitative performance criterion) and restraining nominal wage growth.</p> <p>2) Exchange rate band will remain removed—because the exchange rate is at risk of devaluation from global deleveraging.</p> <p>Due to this risk, the IMF advises increasing the official interest rate.</p>	<p>1) Monetary policy was increased by 600 basis points to 18% in October 2008, deemed necessary to stabilize the krona currency.</p> <p>Premature relaxation of monetary policy is warned against, with the rationale that restoring confidence will take time given the country’s dramatic banking sector collapse.</p> <p>2) Exchange rate flexibility is to be maintained, in order to prevent capital outflow and loss of investor confidence.</p>	<p>1) Monetary policy has been to raise the official interest rate by 6% in 2008. Domestic demand contraction is advised in order to curb wage and price inflation.</p> <p>2) The exchange rate peg is to be strengthened in order to “foster real depreciation” and to afford the country’s large financial sector liabilities.</p>	<p>1) Monetary policy will be tightened through an interest rate increase of 200 basis points to 15%, and through establishing an “interest rate corridor,” under the rationale that international reserves will be protected and domestic financing of the government be achieved through market placements of government securities.</p> <p>2) The State Bank of Pakistan will pursue a flexible exchange rate policy and will discontinue financing for the government.</p>	<p>1) Inflation targeting aims to reduce CPI levels from 9.5% in 2008, to 8.0% in 2009 and 6.5% in 2010. This is to be achieved by increasing official interest rates.</p> <p>2) The exchange rate policy is to maintain the managed floating regime in order to absorb exogenous shocks.</p>	<p>1) The official interest rate has already been raised, and will continue to be increased in order to support the new exchange rate regime, which consists of a wider bandwidth.</p> <p>2) A new exchange rate regime is to be implemented, as the existing dollar peg hindered inflation control. The new regime, implemented on 1 January 2009, includes currency devaluation to a new dollar parity and a switch to a new currency basket that can better adapt to external shocks.</p>	<p>N/A –</p> <p><i>Monetary and exchange rate policy is not available for El Salvador at the moment.</i></p>

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Financial Sector Policies	<p>1) The IMF advises a comprehensive assessment of the banking system's vulnerabilities and risks, and improvements in managing liquidity.</p> <p>2) The independence and capacity of the Financial Supervision Agency and its cooperation with the central bank is to be significantly strengthened.</p>	<p>1) Restore banking system liquidity via central bank and ensure bank solvency through monitoring and supervision.</p>	<p>1) A bank-support package consisting of a blanket-guarantee of all bank deposits, liquidity for banks and a guarantee fund for inter-bank lending.</p> <p>2) Capital Base Enhancement Fund to bolster banks' capital adequacy ratio to 14%.</p>	<p>1) Following the October 2008 nationalization of 3 major Icelandic banks, the government is to recapitalize the banks to a capital adequacy ratio of at least 10%.</p> <p>2) A comprehensive strategy of bank restructuring involves asset valuation and recovery, depositor and creditor insurance, supervision and an insolvency framework.</p>	<p>1) Latvian government is advised to claim full ownership and capitalize the private bank, Parex, thereafter returning it to the private sector as quickly as possible (with EBRD participation to boost capital and liquidity).</p> <p>2) Banking system vulnerabilities are to be reduced through supervision by independent auditors and by boosting the crisis response capacity.</p>	<p>1) The transition to a single treasury account and banking legislation amendments will occur via Parliamentary approval by end-June 2009, with the result of strengthening State Bank of Pakistan enforcement of banking supervision.</p> <p>2) A contingency plan for handling problem banks was produced in December 2008.</p>	<p>1) Structural reform recommendations consist of privatizing and restructuring socially-and state-owned enterprises and "phasing out state ownership in banks and insurance."</p> <p>2) The development of local currency bond markets and a public debt management strategy is advised, while the financial transfer tax will be eliminated from the 2009 budget.</p>	<p>1) Financial sector reforms highlight the need to "purge the banking system of directed lending" in order to strengthen banks' capital positions and incentivize risk-management for both banks and borrowers.</p> <p>2) Financial sector advice supports maintaining the already enacted blanket deposit guarantee, but calls for refining financial liquidity and solvency frameworks.</p>	<p>1) Close monitoring of bank liquidity and short-term borrowing, and strengthening financial sector regulation and supervision to enable banks to weather the crisis.</p> <p>2) Enhance financial sector crisis preparedness through liquid asset requirements, external credit lines for the central bank, and close monitoring of banks. Improving the access to, and the profile of, budget financing.</p>

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THE INTERNATIONAL MONETARY FUND: RHETORIC VERSUS REALITY

WHAT THE IMF SAYS:

“For a year now, since I spoke at Davos last January, **the Fund has advocated fiscal stimulus to restore global growth.** There is now a broad consensus on this.” -- *Dominique Strauss-Kahn, IMF Managing Director*¹

“I would put it even more starkly. **What is needed is not only a fiscal stimulus now but a commitment by governments that they will follow whatever policies it takes to avoid a repeat of a Great Depression scenario.**” -- *Olivier Blanchard, IMF Chief Economist*²

“**Monetary and fiscal policies need to become even more supportive of aggregate demand...**” and “On *fiscal policy* .. the key here is to design packages that provide maximum boost to demand, which argues for measures to increase spending.” -- *Olivier Blanchard, IMF Chief Economist*³

WHAT THE IMF DOES:

“Reflecting the pro-cyclical fiscal stance since 2006 and limited budgetary financing options, **there is no scope now for countercyclical fiscal loosening.** Anything less than a tight fiscal stance could also jeopardize the credibility of the program in the eyes of foreign investors and the Serbian public. **Fiscal policy will in addition need to put a tight constraint on nominal wage growth in government sectors and public enterprises.**” -- *IMF Stand-By Arrangement loan for Serbia*⁴

“**Tight fiscal and wage policies** have already been put into place, together with structural reforms in key areas, in order to restore macroeconomic stability and return the economy to a higher growth path by 2010-11.” -- *IMF Stand-By Arrangement loan for Latvia*⁵

“We are strongly committed to low inflation and, in the current environment, **believe that maintaining single-digit inflation and reducing it gradually in the medium term is essential.**” -- *IMF Stand-By Arrangement loan for Georgia*⁶

¹ International Monetary Fund, “Statement by the IMF Managing Director Dominique Strauss-Kahn at the Conclusion of his Visit to Malaysia,” Press Release No. 09/29, February 7, 2009, <http://www.imf.org/external/np/sec/pr/2009/pr0929.htm>.

² International Monetary Fund, “IMF Spells Out Need for Global Fiscal Stimulus,” IMF Survey online, December 29, 2008, <http://www.imf.org/external/pubs/ft/survey/so/2008/INT122908A.htm>.

³ International Monetary Fund, “World Growth Grinds to Virtual Halt, IMF Urges Decisive Global Policy Response,” IMF Survey Online, January 28, 2009, <http://www.imf.org/external/pubs/ft/survey/so/2009/RES012809A.htm>.

⁴ International Monetary Fund, “Republic of Serbia: Request for Stand-by Arrangement,” January 23, 2009. <http://www.imf.org/external/pubs/cat/longres.cfm?sk=22640.0>.

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⁶ International Monetary Fund, “Georgia: Request for Stand-by Arrangement,” October 6, 2008. <http://www.imf.org/external/pubs/cat/longres.cfm?sk=22403.0>.

