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Press Statement at the Conclusion of the IMF Seminar on "IMF Responses to the Global Crises: Meeting the Needs of Low-Income Countries"

International Monetary Fund (IMF) Resident Representative Office in Dhaka held a seminar on "IMF Responses to the Global Crises: Meeting the Needs of Low-Income Countries" at the Bangladesh Bank today. Dr. Atiur Rahman, Governor of Bangladesh Bank was the chief guest and Dr. Ahsan Mansur, Executive Director, Policy Research Institute, was a guest speaker.

Mr. Jan Kees Martijn and Mr. Yongzheng Yang, IMF economists in the Strategy, Policy, and Review Department, presented how the IMF has helped mitigate the impact on low-income countries (LICs) of the "twin crises," i.e. global food and fuel price shocks during 2007-08 and the subsequent global financial crisis.

The IMF economists reported on recent Fund research which shows that many LICs across the world have been hit hard by the twin crises. There have been sharp contractions in exports, foreign direct investment, and remittances in most LICs.

IMF-supported programs with flexible policy measures helped LICs to mitigate the impact of the twin crises:

- *Accommodating higher inflation targets.* As the impact of rising global food and fuel prices intensified in the first half of 2008, inflation targets were raised to take account of the first-round effects of these soaring prices.

- *Easing fiscal policy.* The majority of programs allowed for larger budget deficits and increased government spending despite declining revenue. On average, total spending was programmed to increase by close to 2 percent of GDP over the period 2006-09—in real terms this translates into an average annual increase of almost 7½ percent.

- *Strengthening social protection.* Most programs initiated in 2008-09 supported higher social spending, with a greater focus on targeted support for vulnerable groups.

- *Alleviating external adjustment pressure.* Programs have generally accommodated widening external current account deficits, partly financed through the use of official reserves. The scaling up of IMF financial assistance, together with increased donor support, has played an important role in easing financing constraints.

- *Streamlining structural conditionality.* Program design has become more flexible, and the average number of conditions has declined steadily over the past decade.

The IMF has also stepped up its financial assistance to LICs:

- *Increased lending.* The IMF committed US$3.8 billion in concessional loans in 2009, a sharp increase from the historical average of US$1 billion per year. The IMF has doubled its concessional lending capacity to $17 billion through 2014.

- *Interest relief*. Interest payments on outstanding and new IMF concessional loans will be waived through end-2011 to help LICs cope with the global crisis. Higher lending concessionality will be preserved after 2011.

- *Allocation of Special Drawing Rights (SDRs).* In September 2009, LICs received US$18 billion worth of SDRs to boost their international reserves.

Further, the IMF has overhauled its concessional lending facilities for LICs, and introduced a new set of financing instruments tailored to the diverse needs of LICs and better suited to mitigate the global crisis impact:

- An *Extended Credit Facility* to provide flexible medium-term support when LICs face protracted balance of payments problems;

- A *Standby Credit Facility* to address short-term and precautionary balance of payments needs; and

- A *Rapid Credit Facility to* offer emergency support with limited or no conditionality.

Looking forward, the IMF economists stressed that the Fund will continue working closely with its low-income members to help strengthen growth and reduce poverty. Particular attention will be given to the need to rebuild policy buffers (with stronger domestic financial systems and fiscal positions) as the economic recovery takes hold, and to improve LICs' capacity to manage volatility as they continue to integrate into the global economy.