



**The IMF and its Role in Ethiopia**  
**IMF Resident Representative Office, Ethiopia**  
**October 13, 2009**



# The IMF and its Role in Ethiopia

- **Three part presentation**
  - 1. What is the IMF
  - 2. What is it doing in Ethiopia
  - 3. Current situation – IMF and the Global Crisis



# 1. What is the IMF



# The Roles of IMF and World Bank



## THE IMF

- o Promote global financial stability
- o Exchange Rate Stability (balanced growth of trade)
- o Forum for international monetary cooperation
- o Temporary financial assistance to members experiencing balance of payments difficulties

## THE WORLD BANK

- o Reconstruction and economic development after WWII
- o Long-term economic development
- o Project financing, including infrastructure, energy, education, health



# The IMF's beginnings

- Founded in 1944 in Bretton Woods, New Hampshire, along with the World Bank.
- Intended to be a pillar of the international economic system after World War II.
- Created to help the world avoid another Great Depression like the one in the 1930s.
- Started with 44 members in 1945. First loan, to France, was made in 1947.



# The Bretton Woods Conference, 1944



# The IMF Is Accountable to Governments

- *Board of Governors*. Consists of one governor from each member country (meets once a year).
- *International Monetary and Financial Committee (IMFC)*. Consists of 24 governors. Advises the Board of Governors (meets twice a year).
- *Executive Board*. Consists of 24 Executive Directors. Conducts day-to-day business of IMF (meets three times a week).
- Crucial aspect of the IMF's governance: nearly all decisions are made by consensus.



# The IMF's Mandate

- Promote international cooperation by providing a forum for consultation and collaboration.
- Facilitate the expansion of international trade.
- Promote exchange rate stability.
- Assist in the establishment of a multilateral payment system without exchange restrictions.
- Provide financial assistance to members that have balance of payments difficulties.





# The IMF's Executive Board



Countries with their own Executive Director: France, Germany, Japan, United Kingdom, United States, China, Saudi Arabia, and Russia. The other 178 members are represented by 16 Executive Directors.



# The Role of Quotas

A member's quota is broadly determined by its economic position relative to other members.

The quota determines:

- **Subscriptions:** maximum amount of resources the member is obliged to provide to the Fund.
- **Voting power:** ability to formally influence the IMF's decision making.
- **Access to financing:** a member can access up to 200 percent of its quota annually and 600 percent cumulatively. Access can be higher in exceptional circumstances.



# Examples of Voting Power

United States	16.77%	Nigeria	0.80%
Japan	6.02%	Norway	0.77%
Germany	5.88%	Malaysia	0.68%
United Kingdom	4.86%	Turkey	0.55%
France	4.86%	Pakistan	0.48%
China	3.66%	New Zealand	0.42%
Saudi Arabia	3.16%	Philippines	0.41%
Russian Federation	2.69%	Singapore	0.40%
Netherlands	2.34%	Serbia	0.22%
India	1.89%	Sri Lanka	0.20%
Australia	1.47%	Slovakia	0.17%
Mexico	1.43%	Guatemala	0.11%
Spain	1.39%	Iceland	0.06%
Korea	1.33%	Seychelles	0.02%
Indonesia	0.95%	Bhutan	0.01%
Austria	0.86%	Palau	0.01%



# Governance Reforms

- April 2008 reforms need to be put in place.
- Once implemented, 54 members will receive an increase in their quotas, including China, India, Brazil and Mexico.
- G-20 called for further improving representation for emerging and developing countries by January 2011.

# IMF Staff

- The IMF currently employs around 2,600 staff.
- Around half of all staff members are economists, most of whom have Ph.D's.
- The quality of its staff allows the institution to produce world-class research.
- With its near global membership, the IMF strives to employ a staff that is as diverse as possible. Its staff come from more than 160 countries.



# How to Find Out What the IMF Is Doing

The IMF's transparency policy ensures that most Board documents will be made public.

Material describing the IMF's work and its relationship with member countries is available on [www.imf.org](http://www.imf.org).

**International Monetary Fund**

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**IMF Set to Lend Ukraine \$16.5 Billion, In Talks With Hungary**

The IMF says it has reached a tentative agreement with Ukraine to lend the eastern European country \$16.5 billion to help it combat a series of economic problems tied to the international financial turmoil and announced broad agreement with Hungary on a set of policies designed to bolster near-term stability.

**What's New**

- The Use of Blanket Guarantees in Banking Crises**  
October 28, 2008  
Working Paper No. 08/250
- Kingdom of Swaziland: IMF Executive Board Concludes 2008 Article IV Consultation**  
October 27, 2008
- IMF and Hungary Agree on Policies to be Supported by International Community**  
October 26, 2008

**Key Issues**

**SDR Rates for October 28**

1 USD = SDR 0.674721  
SDR Interest Rate = 1.91%  
More SDR Info

**Highlights**

- Statement by IMF Executive Board on Review of Managing Director's Conduct
- Strauss-Kahn Statement on Executive Board Review of his Conduct
- At a Glance: Crisis Lending and the IMF
- Regional Economic Outlooks
- World Economic Outlook, October 2008
- Global Financial Stability Report  
Financial Stability Portal

**Making Public Money Count**

The latest post from our *Public Financial Management Blog* reviews the effectiveness of aid agencies (October 22, 2008)

**World Economic Outlook Report**  
October 2008

Database | WEO data forum | Webcast | Transcript

**Global Financial Stability Report**



## 2. IMF Role in Ethiopia

**Overall objective to help promote growth and economic stability to support Government's poverty reduction efforts.**

### ■ Three main functions

- Surveillance and policy advice
- Lending
- Technical Assistance

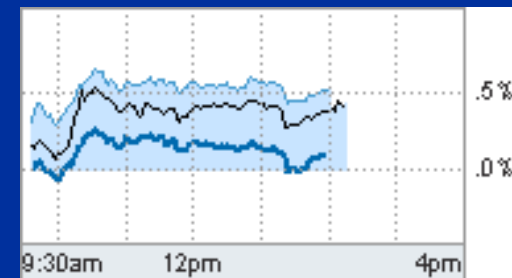
# Ethiopia in the IMF

- **Joined in 1945 – founding member**
- **Quota of SDRs 133.7 million (0.07% of total)**
- **Member of constituency comprising 20 African countries, including South Africa, with total voting power of 3 percent**
- **Recent IMF programs – 1992-5 (SAF), 1996-1999 (PRGF), 2001-2004 (PRGF), 2009 (ESF – I and II)**
- **Debt outstanding to IMF – approx. SDR 107 million. Large debt relief provided by IMF in 2004.**



# IMF Surveillance

- Assess the health of the world economy with the World Economic Outlook (published twice a year ) and international financial markets with the Global Financial Stability Report (published twice a year)
- Annual bilateral Article IV Consultations with each member country. Last one with Ethiopia was concluded in July 2008 and the 2009 consultation to begin in the coming months.
- Consultation will cover fiscal, monetary, debt and exchange rate issues and other issues that have important macroeconomic dimensions



# IMF Surveillance

## ■ Issues covered in Ethiopia

- How fast has the economy been growing and what are the sources?
- Why was inflation so high and how can it be reduced?
- How has fiscal policy been performing – what can be done to raise tax revenues?
- What has led to the low level of foreign exchange reserves and rationing in the foreign exchange market?
- What can be done to increase financial intermediation?
- How sustainable is Ethiopia's debt?

# IMF Lending

- **Balance of Payments Support provided in 2009 under the Exogenous Shocks Facility (ESF)**
  - \$50 million in balance of payments (BoP) support provided in January 2009
  - Another \$240 million in BoP support approved by IMF Board on August 26 to help Ethiopia cope with impact of global recession.
    - *The program runs from July 2009 till October 2010*
    - *Money will be tranching. Three disbursements. \$115 million was already provided – the rest will come in 2010 depending on program performance.*
- **IMF also provided about \$180 mn in SDR allocation in August which has boosted gross reserves.**
- **All in all, over \$300 million disbursed in recent days (equivalent to 20% of existing reserves)**



# Program Content

Overall objective of the program is to help rebuild international reserves, while maintaining a sound macroeconomic environment for growth and poverty reduction.

Government of Ethiopia's commitments and IMF analysis on IMF website ([www.imf.org](http://www.imf.org)) .

- Continued tight fiscal policy with limits on domestic borrowing, including of public enterprises; some easing from 2008/09.
- Further slowing of monetary expansion
- Exchange rate adjustment to accompany demand management but not to re-ignite inflation
- Maintaining debt sustainability - some concern over rising debt ratios, although still moderate risk.
- Structural reforms focus on tax reform, control of public enterprise borrowings and improving monetary management



# Technical Assistance to Ethiopia

*Have been providing technical assistance in our core macroeconomic areas for decades. Some of the areas we are helping with at present are:*

- Improving Macroeconomic Statistics
- Modernizing tax and customs administration and tax policy
- Enhancing public expenditure management
- Strengthening monetary operations
- Improving banking regulation and supervision

In addition we provide a broad range of training on macroeconomic issues for Ethiopia's officials



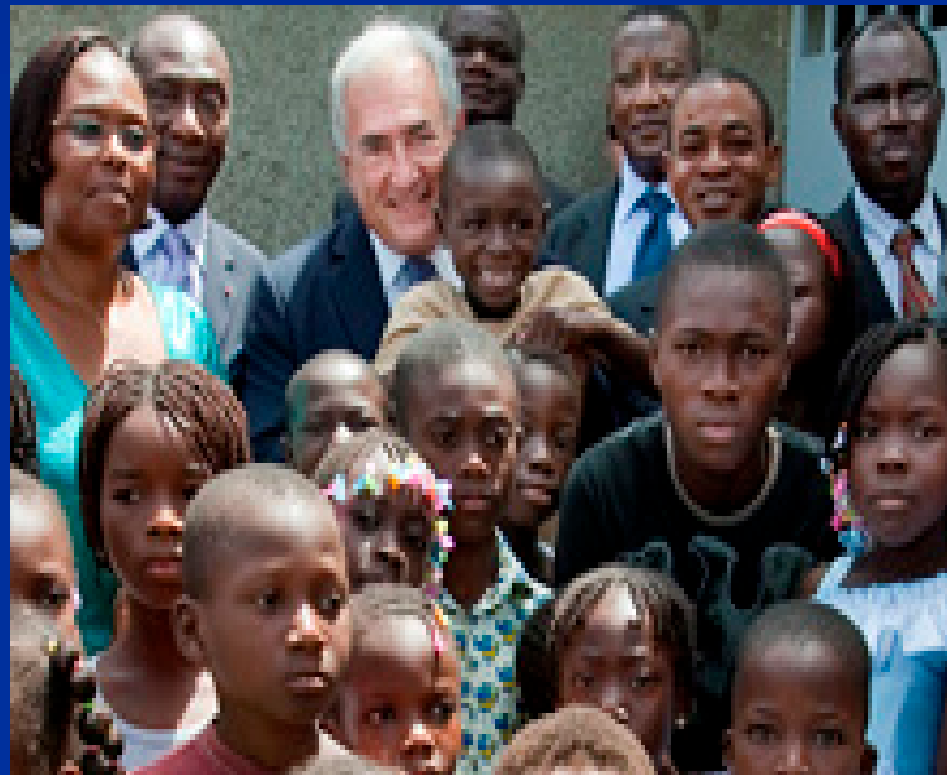
# 3. The IMF Helping Chart a Global Recovery

**Firefighter**

**Doctor**

**Coach**

**Architect**



# The IMF and the Global Crisis

- **Firefighter** - provide financial assistance to countries in need
- **Doctor** - share advice on how to nurse individual countries and the global financial system back to health
- **Coach** - help countries develop skills and policy knowledge on monetary and financial issues
- **Architect** – analyze and recommend how to overhaul the global financial system



# IMF Loans and Advice Crucial

- Concerted global action to combat crisis.
- IMF influential in calling for monetary and fiscal stimulus.
- IMF forecasts and analysis helped guide global policy response.
- Multilateral action yielding results.



# Leaders committed to Triple IMF Funds to Combat Crisis

- Increase lending resources to \$750 billion to create a bigger financial safety net.
- Additional \$250 billion worth of new Special Drawing Rights to member countries.
- By September, \$165 billion in new funding has been committed by countries.



# Focus on Low-Income Countries

- New framework for loans to the world's poorest nations, including increased resources, a doubling of borrowing limits, zero interest rates until the end of 2011, and more flexible terms.
- By August 2009, new IMF lending to sub-Saharan Africa of about \$3 billion, almost triple the level for 2008.
- Boost concessional lending to up to \$17 billion through 2014, including up to \$8 billion over the next two years.
- 24 low-income countries have received debt relief from the IMF totaling about \$7 billion.



# More Money, Fewer Conditions

- More funds for lending.
- Streamlined approach to remove stigma of borrowing.
- New flexible credit line for strong performing emerging economies.
- Reform does away with “hard” structural conditionality.
- New focus on objectives rather than specific actions.

# Doctor Seeking to Prevent Problems

The IMF undertakes surveillance at all levels:

- **Global** - assessing health of world economy and stability of financial markets. Analysis published in World Economic Outlook (WEO) and Global Financial Stability Report (GFSR).
- **Regional** - a more detailed look published in Regional Economic Outlooks (REOs).
- **Bilateral** - regular checkups of countries' economies, known as Article IV consultations. In some cases, a deep look at the financial sector.



# Advice on Confronting the Crisis

- Countries that can afford fiscal stimulus should implement it without undermining medium-term fiscal sustainability.
- Financial systems should be repaired quickly by recapitalizing banks and isolating bad assets.
- Financial regulation should be strengthened by:
  - expanding the scope of regulation
  - minimizing procyclicality in regulation and accounting
  - filling information gaps
  - strengthening central banks' frameworks for systemic liquidity provision

# Architect

The IMF has analyzed what caused the crisis and presented these recommendations to the G-20:

- Broadening and improving surveillance of global economic and financial developments and policies.
- Strengthening economic policy coordination.
- Improving regulation and supervision of international financial institutions.
- Enhancing international public liquidity and loans to support adjustment.

# IMF Working to Stabilize the International Monetary and Financial System





**Thank you**

