Responding to the crisis in low-income countries

Post-Crisis Growth and Poverty Reduction in Developing Asia

Hanoi, March 22, 2010

Overview

I. Global Crisis – Impact on LICs

II. IMF Crisis Response

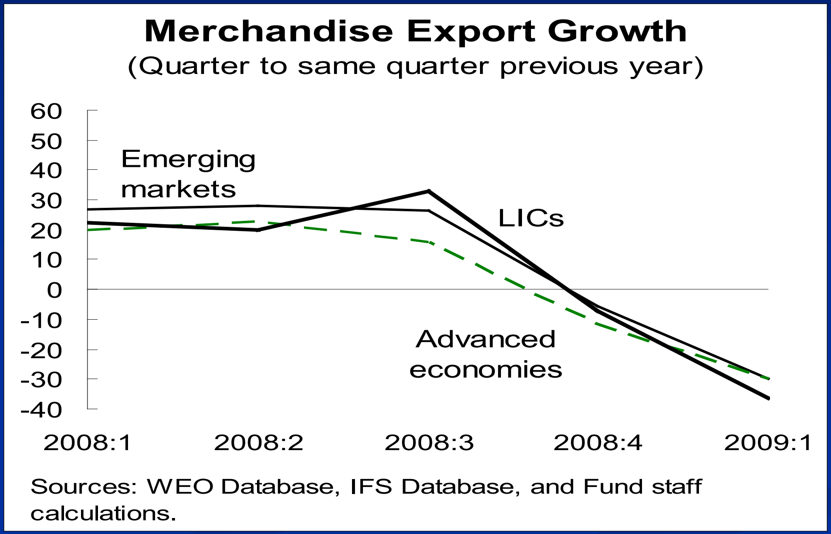
III. New Architecture of Financial Facilities

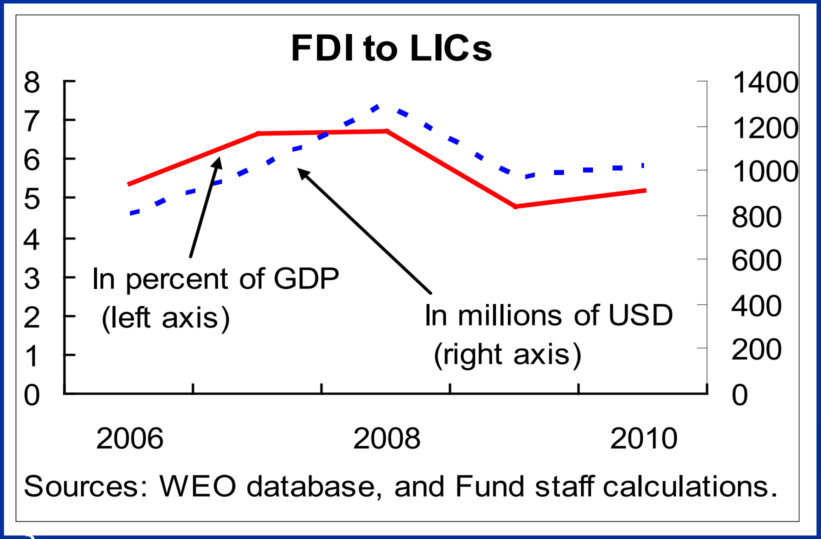
IV. Current Policy Challenges

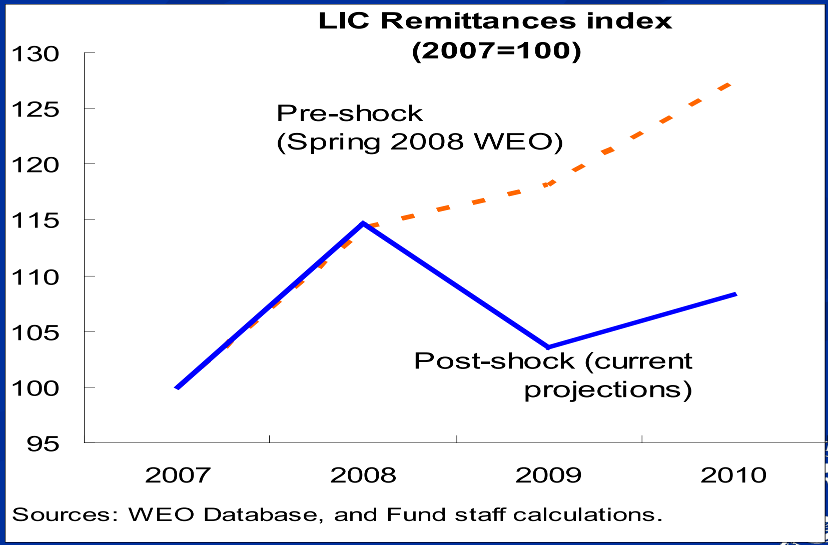
I. Global Crisis – Impact on LICs

LICs hit hard by the global crisis

- Main transmission channels:
  - Exports
  - FDI
  - Remittances

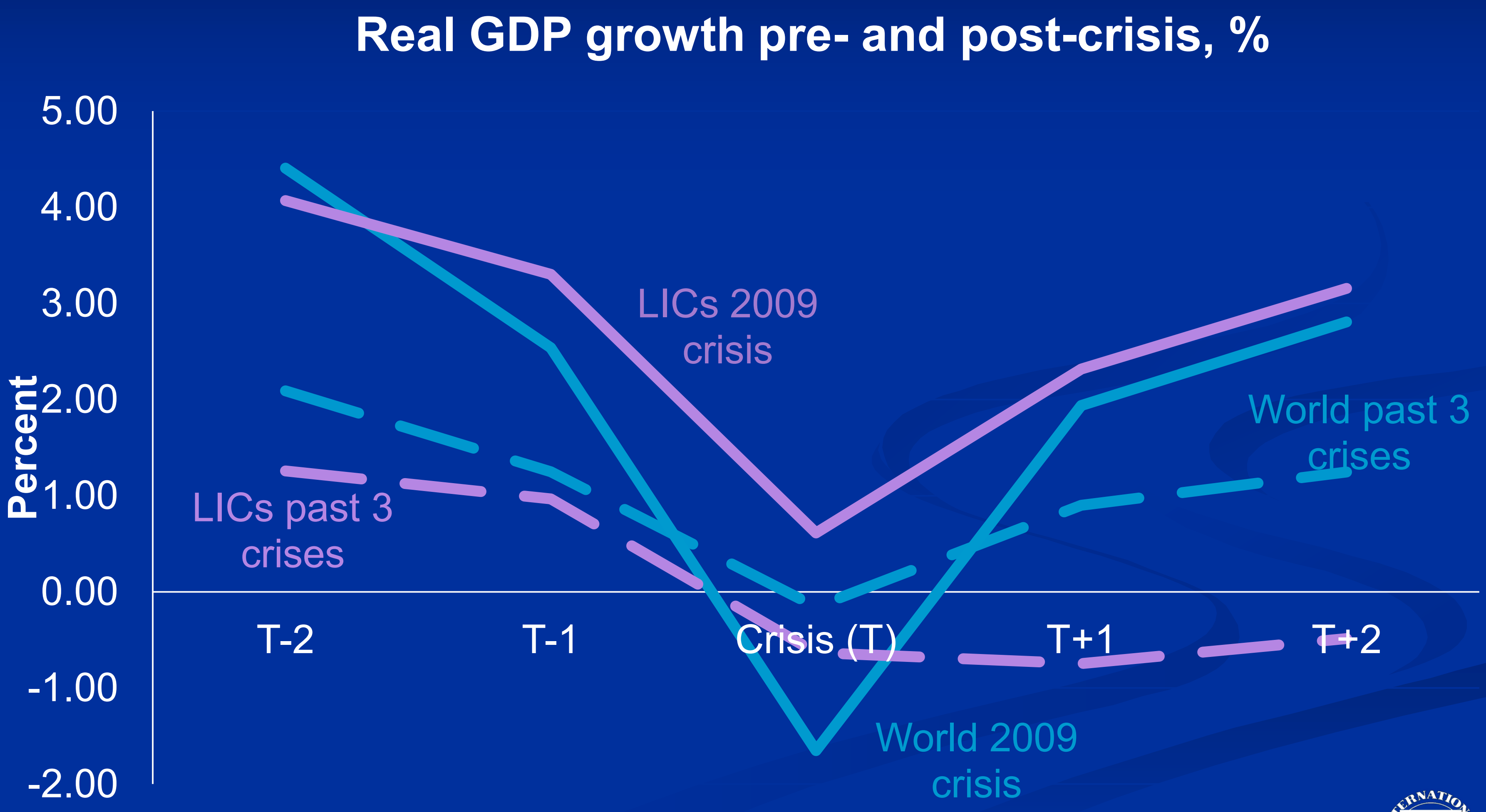






Global Crisis – Impact on LICs

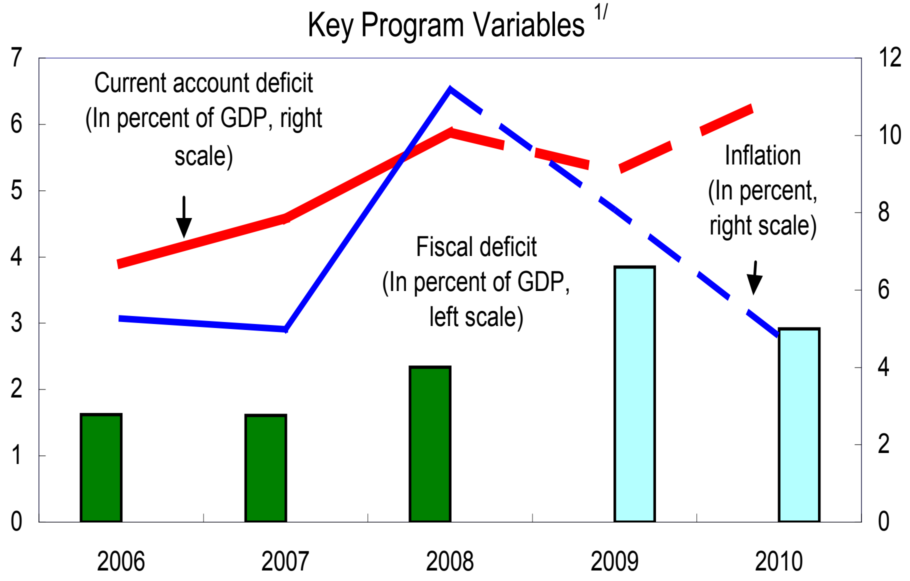
Growth slowed sharply



II. IMF Crisis Response

Program design flexible during twin crises

- Accommodated higher inflation and current account deficits during food/fuel shocks in 2008
- Accommodated countercyclical fiscal policy in both crises; fiscal stimulus where possible
  - Real expenditure budgeted to increase 7.5% per year in 2006-09 (2 percent of GDP)

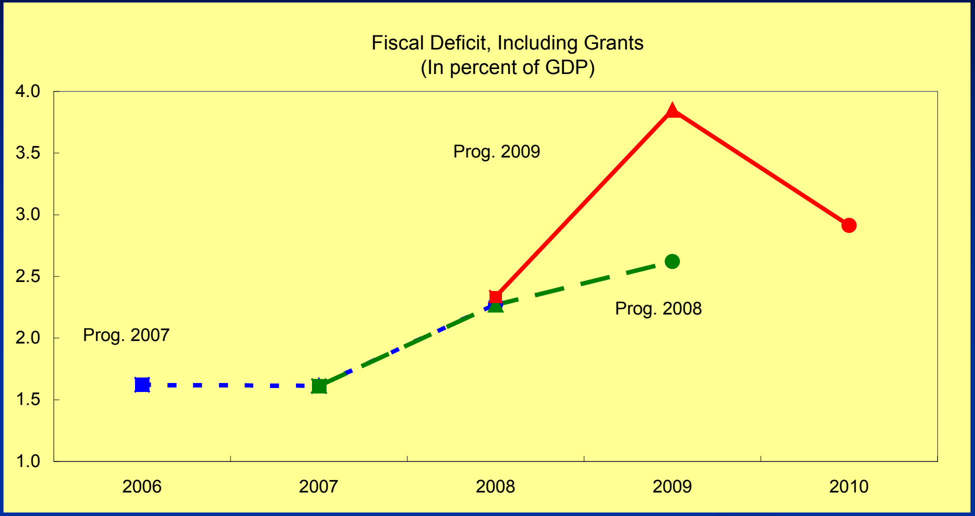


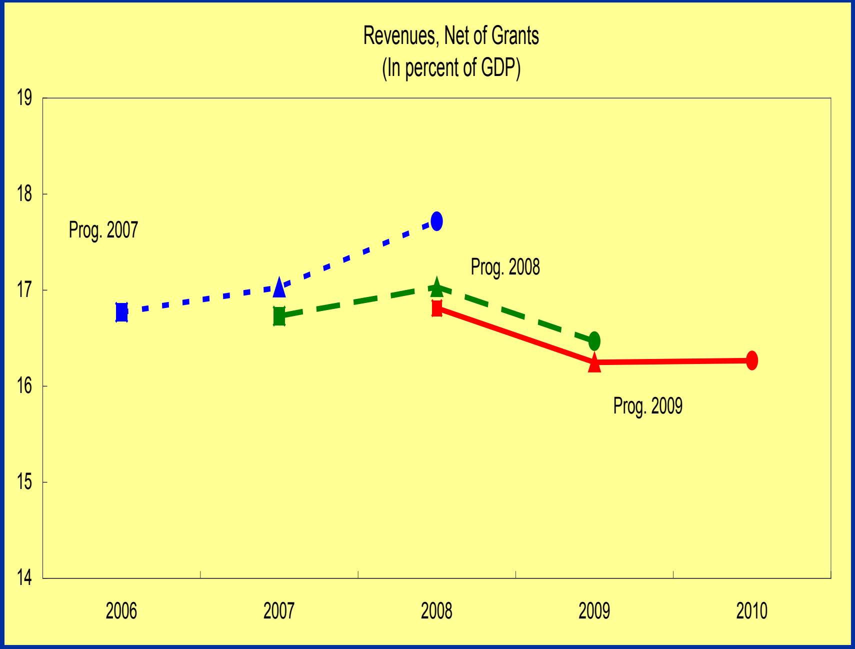
Sources: IMF Staff reports; and IMF staff estimates.
1/ Solid lines and darker bars represent actuals, while dashed lines and lighter bars refer to projections.

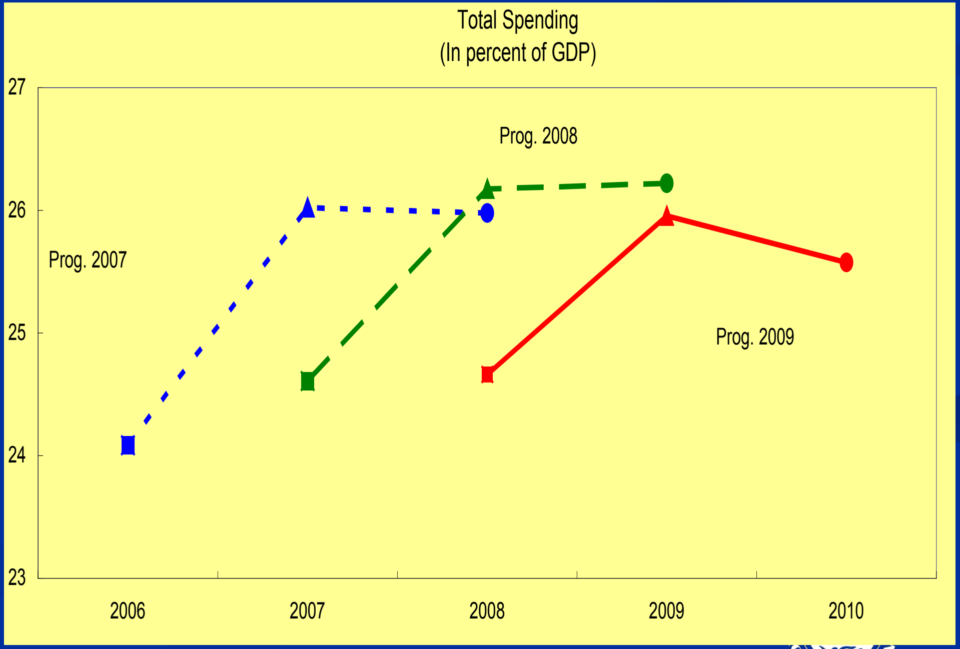
IMF Crisis Response

Fiscal stance eased

- ***Most have also accommodated larger fiscal deficits, with a large increase in "spending room", despite bleaker revenues***

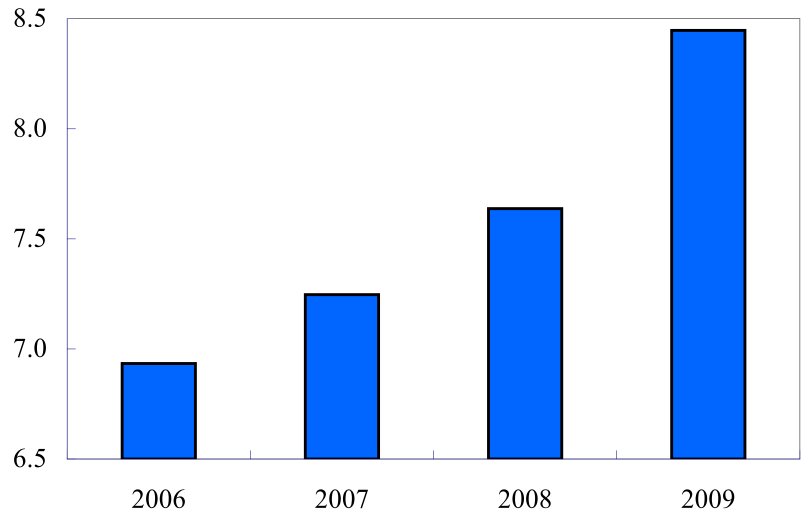






IMF Crisis Response
Protecting social spending

- Emphasis on protecting and increasing social spending in programs
- Social spending has increased in real terms and as a share of GDP
  - Over ¾ of countries budgeted higher social spending for 2009



Sources: Country authorities; and IMF staff estimates.

IMF Crisis Response

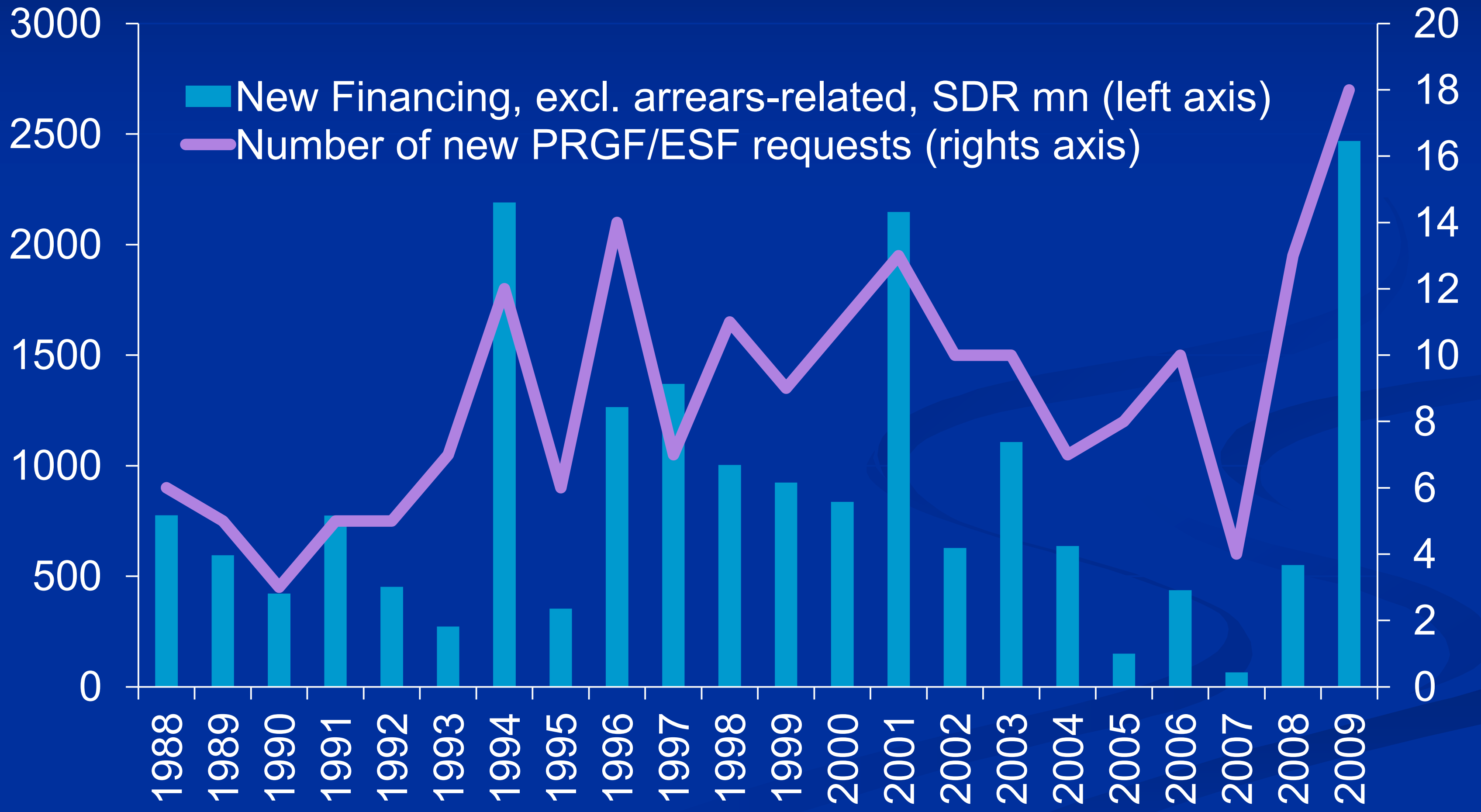
Better targeting of vulnerable groups

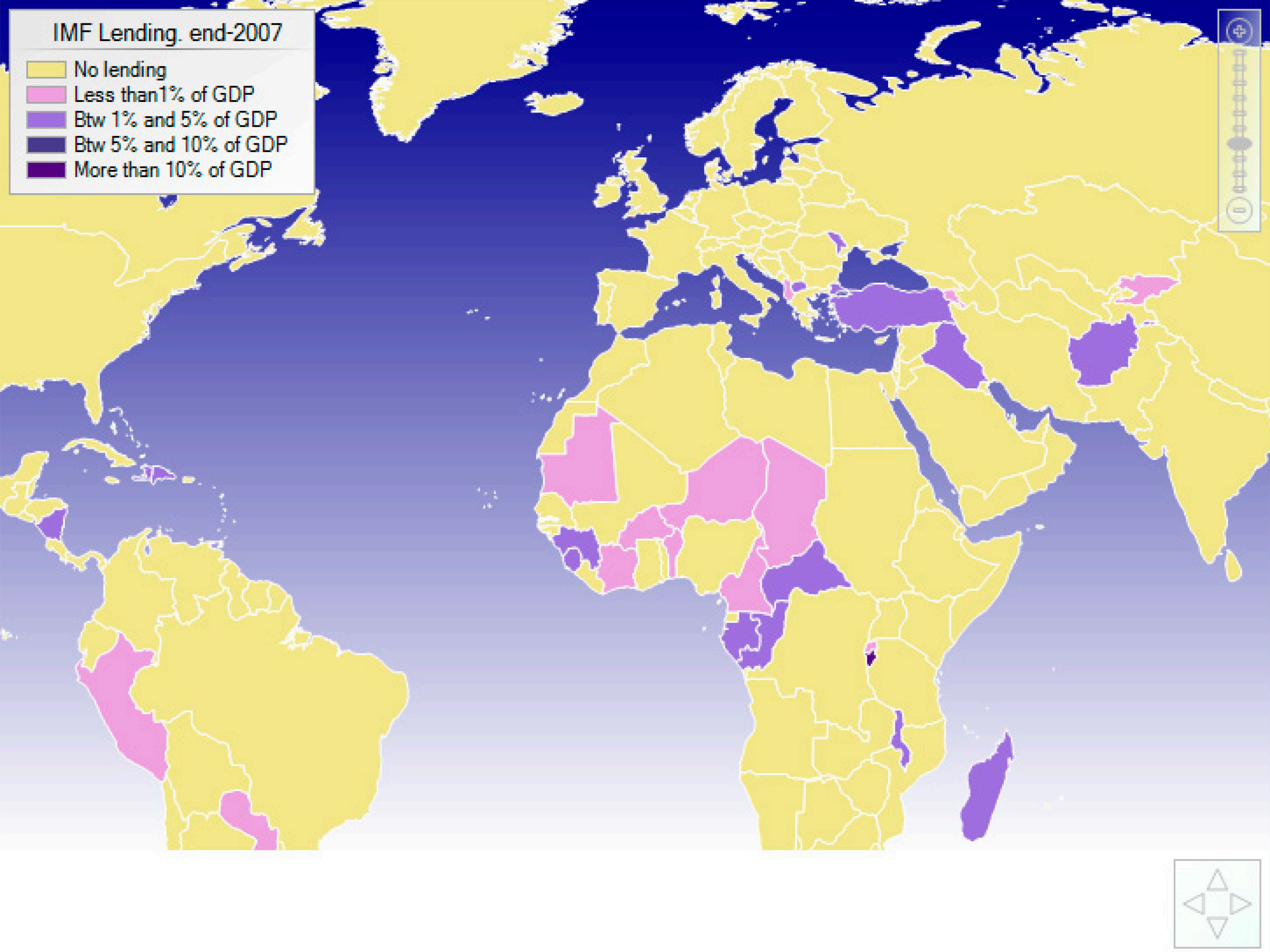
- Improving targeting in existing systems
- Introducing subsidies and cash transfers to the poor
- Focusing on monitoring of pro-poor spending and progress on social indicators in HIPCs

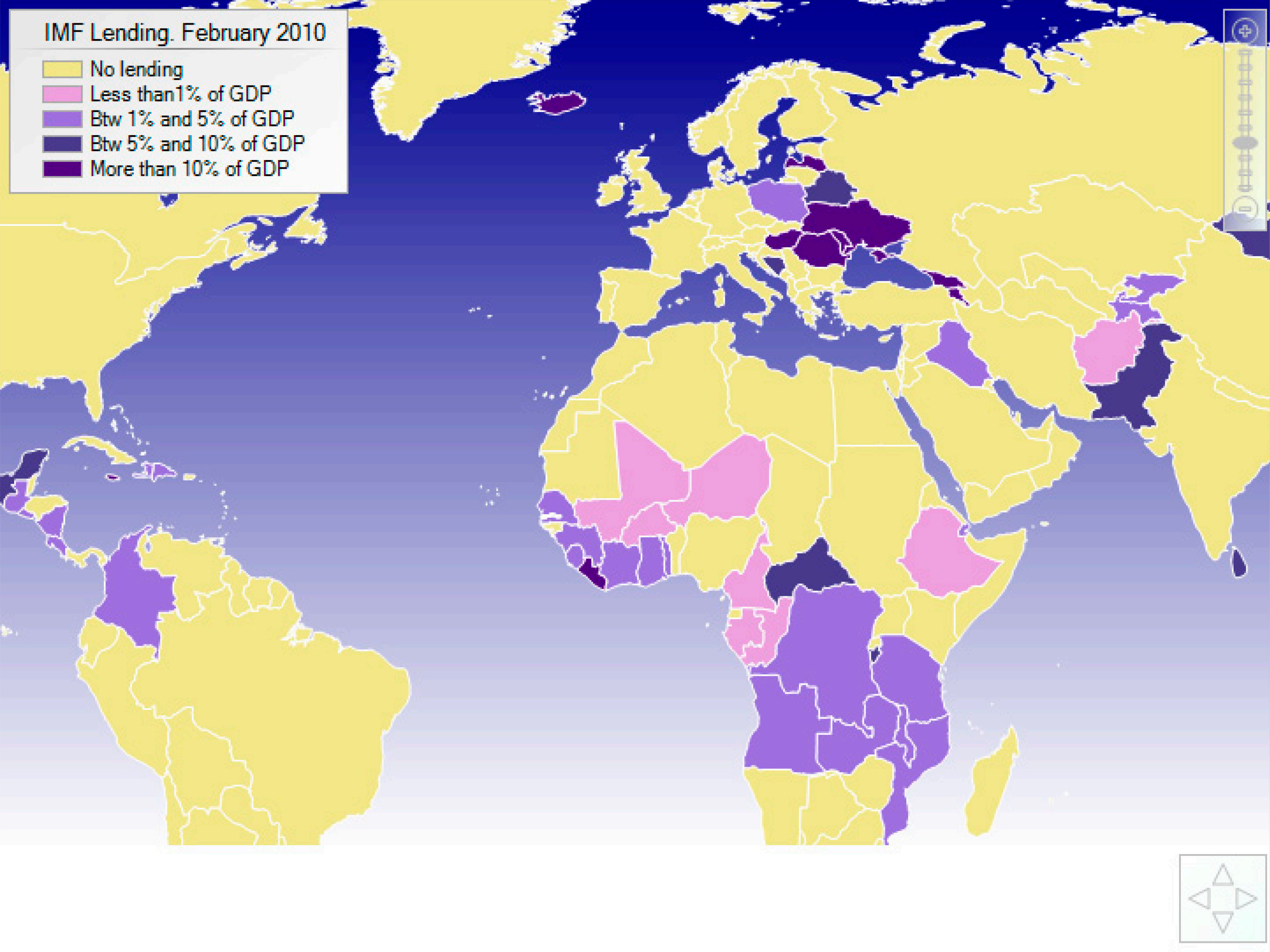
IMF Crisis Response
Sharp increase in concessional financial support

- 2009: IMF concessional assistance at $3.8 billion (historical: $1bn)
- Concessional lending capacity doubled, to $17 bn through 2014/15
- Financed partly by gold sales
- SDR allocation ($18 bn for LICs)
- Support of countercyclical programs

IMF Crisis Response
Concessional assistance to LICs




IMF Lending. end-2007
No lending
Less than1% of GDP
Btw 1% and 5% of GDP
Btw 5% and 10% of GDP
More than 10% of GDP


IMF Lending. February 2010
No lending
Less than1% of GDP
Btw 1% and 5% of GDP
Btw 5% and 10% of GDP
More than 10% of GDP

III. New Architecture of Facilities for LICs

Comprehensive reform of IMF concessional facilities

- July ’09 reform makes facilities more flexible and tailored to LIC needs
  - *Extended Credit Facility (ECF)* : Flexible medium-term support for countries facing protracted balance of payments problems; succeeds PRGF
  - *Standby Credit Facility (SCF)* : Short-term financial support; similar to Stand-By Arrangement available to all members
  - *Rapid Credit Facility (RCF)* : Rapid assistance to countries with urgent needs; one-off disbursements
- Access to financing doubled
- Zero interest through end-2011
- Non-financial Policy Support Instrument (PSI) broadly unchanged

New Architecture of Facilities for LICs

Support of poverty reduction and growth reinforced

- Support country-owned strategies
- Explicit safeguards to social spending
- Structural conditionality more focused on macro critical areas
- Binding structural conditions and wage ceilings abolished (review-based)
- Debt limits more flexible to meet infrastructure gaps
- Improved DSA

IV. Current Policy Challenges
Managing Volatility

- LICs more exposed to economic shocks, natural disasters than others
- While global integration supports development, risks of volatility need to be managed
- Climate change entails further risks
- LICs generally under-insured
- But cost of holding reserves high
- Need (i) policy buffers and (ii) concessional shocks support

Current Policy Challenges

How to re-build policy buffers

- First, do no harm: avoid premature or overly rapid fiscal tightening
- Then, strengthen fiscal positions: focus on revenue growth rather than spending cuts
- Borrow for high-return investment
- Avoid overreliance on debt-creating capital inflows, develop local savings and financial sectors

Thank you!