



IMF-supported Programs in Crisis: What have learned so far?

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Internal review

- **Focus:** review of programs with EMs since fall '08
 - 15 SBAs: Armenia, Belarus, Bosnia & Herzegovina, Georgia, Hungary, Iceland, Latvia, Mongolia, Pakistan, Romania, Serbia, Ukraine, and precautionary SBAs with Costa Rica, El Salvador, Guatemala
 - FCLs (Mexico, Colombia, Poland) not covered
- **Aim:** early feedback, mid-course changes
- **Approach:** focus on 2009; comparisons with past crises and current nonprogram EMs; robust results

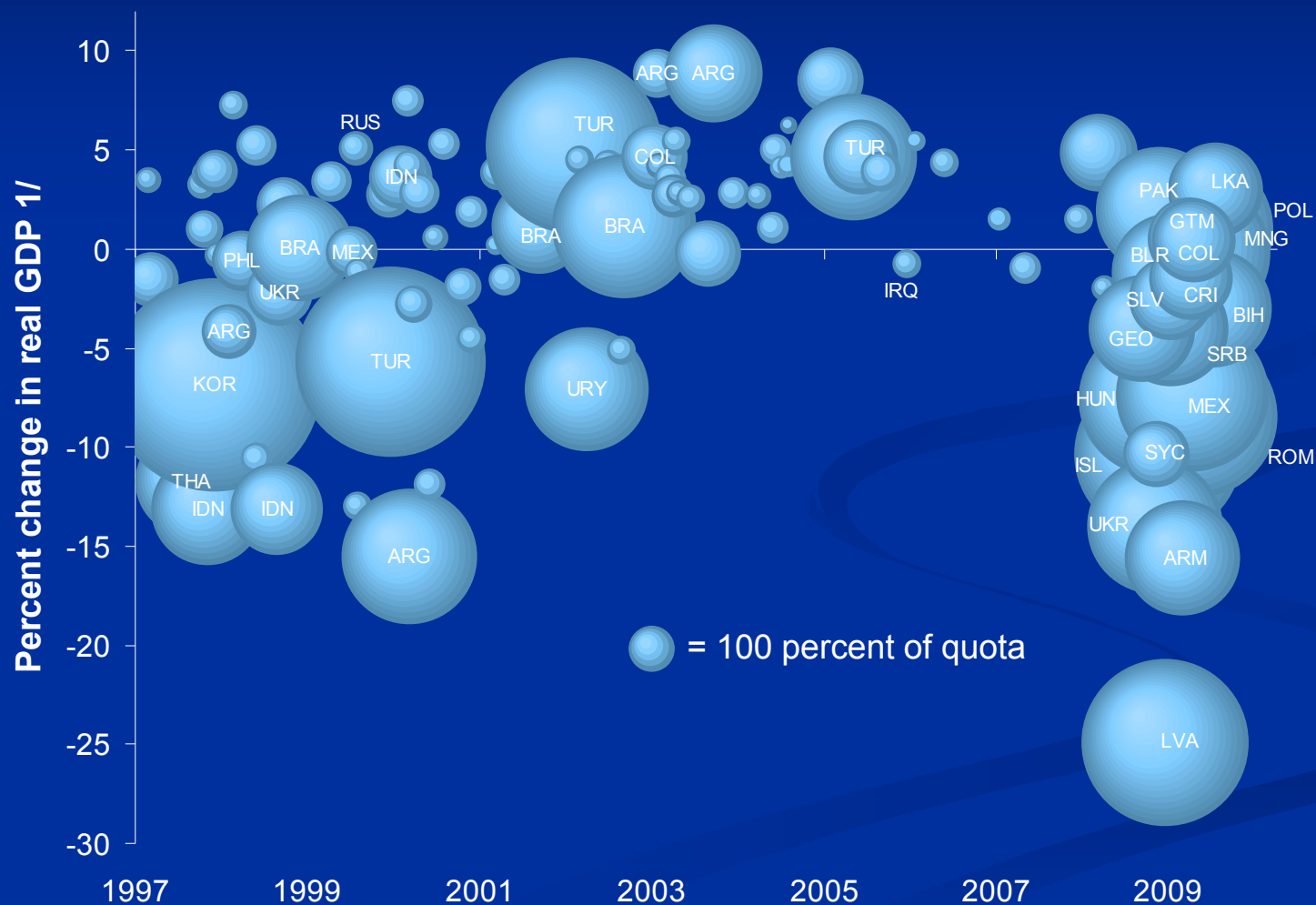
Results preview

- Programs so far avoided worst problems from past crises
- Policies/outcomes similar to comparable nonprogram countries
- **Caveats**
 - Results preliminary, dependent on projections for 2009
 - Caution interpreting comparisons with past programs

Fund lending in context

large programs, simultaneous, big output losses

Access levels and growth declines in Fund arrangements

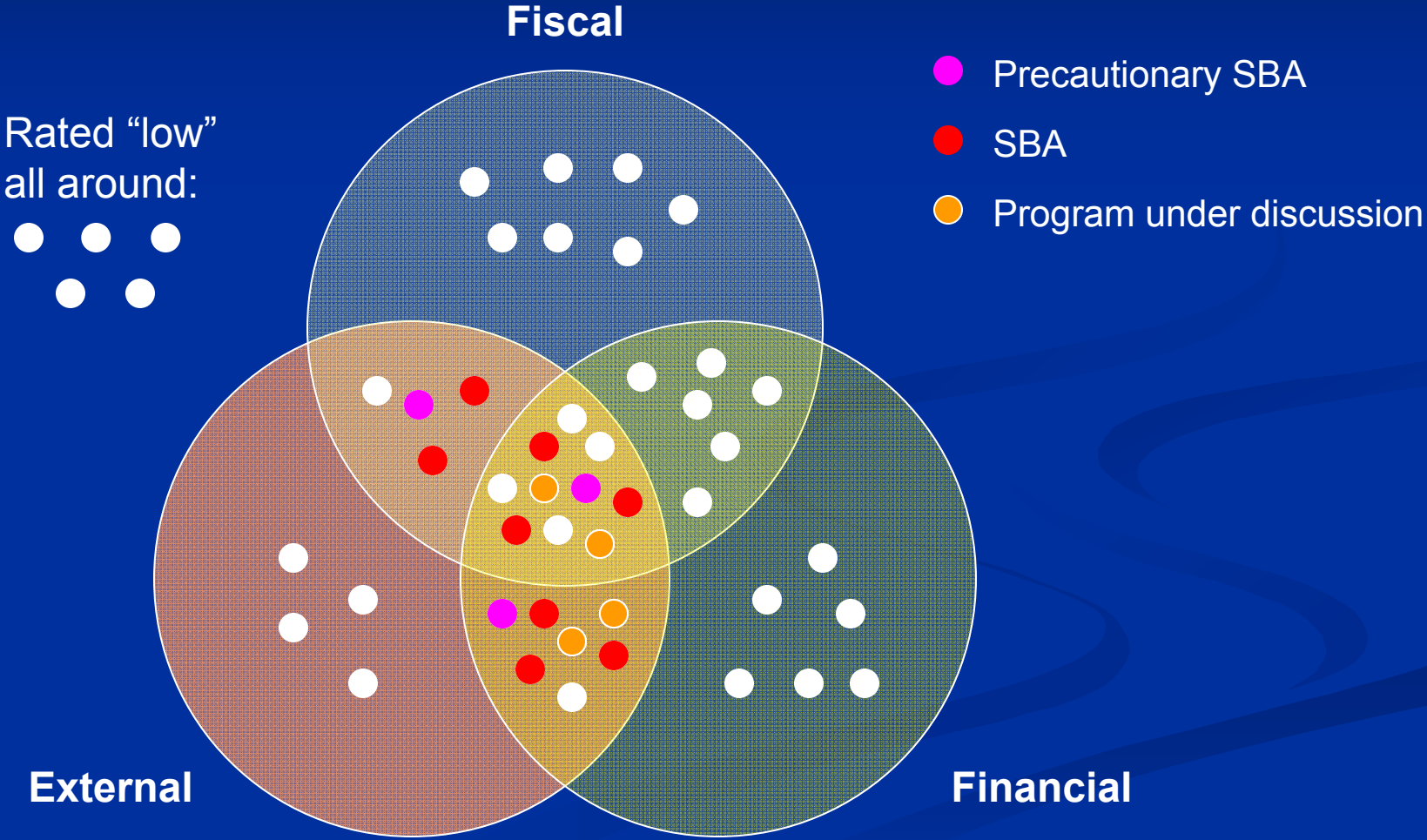


Sources: WEO and staff calculations.

1/ Maximum cumulative decline in three years from program inception; projected changes for current programs.

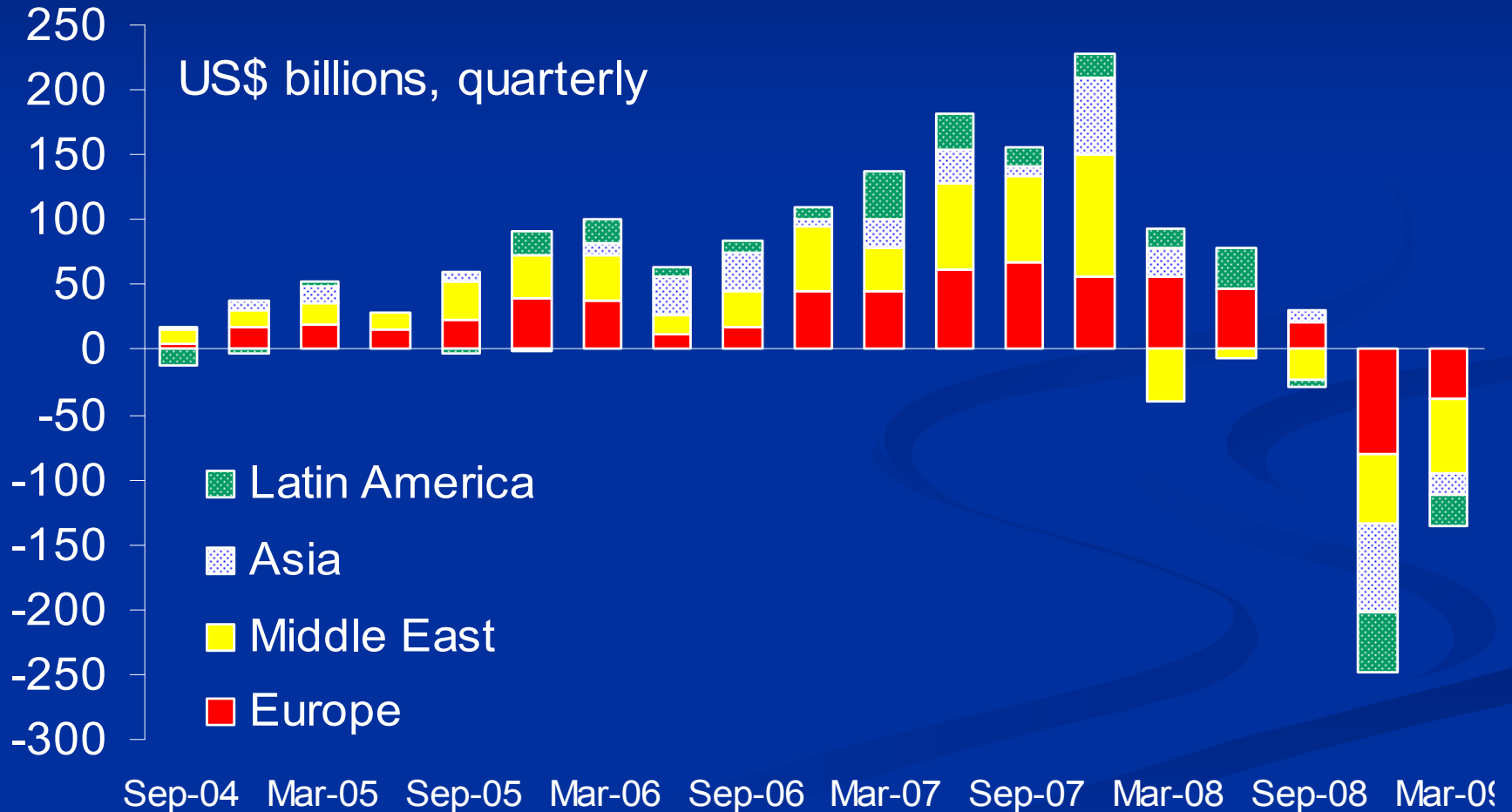
Emerging markets had vulnerabilities...

(vulnerability ratings as of Sep 2007)

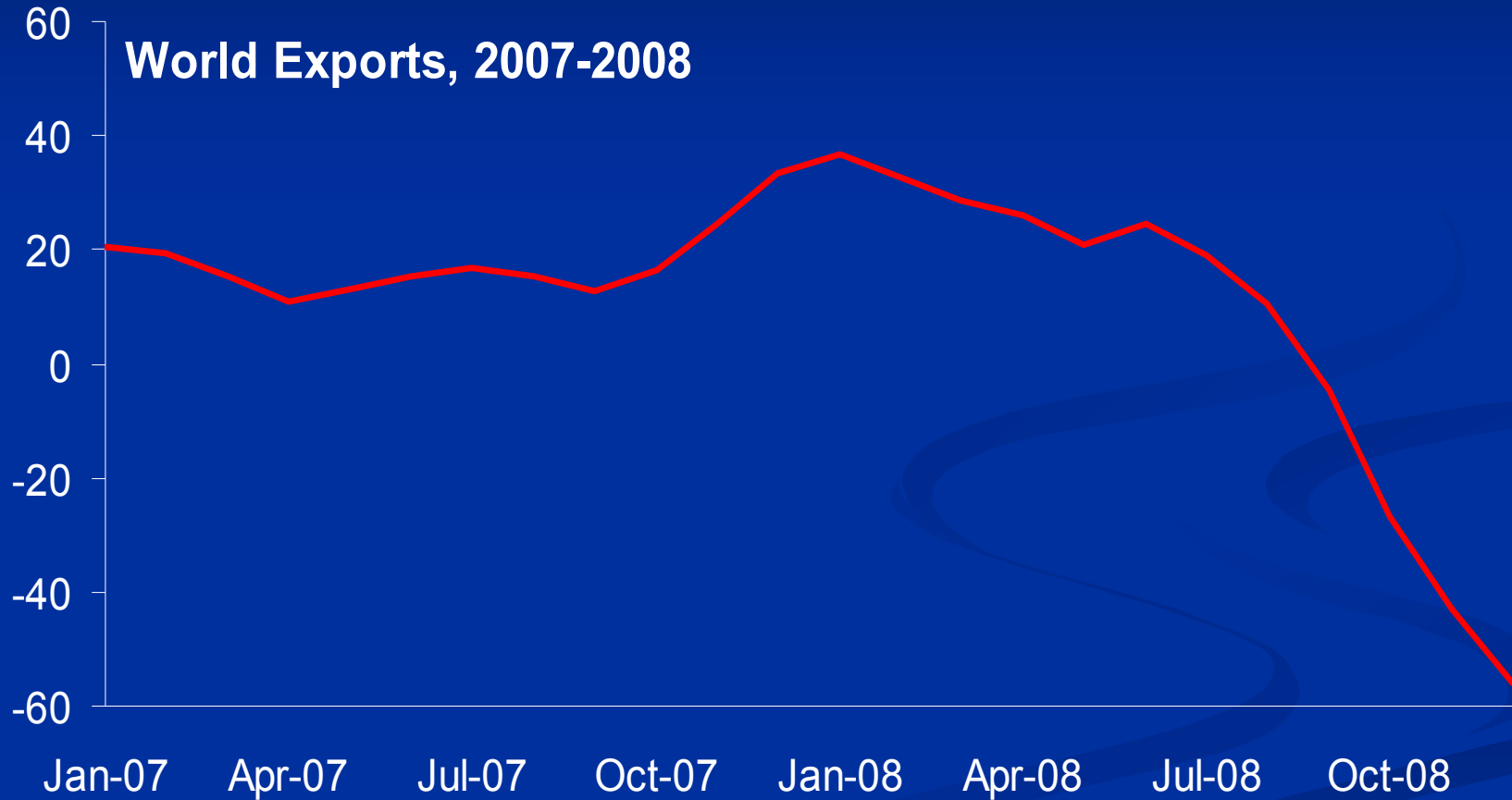


...triggered by sudden stop in capital flows...

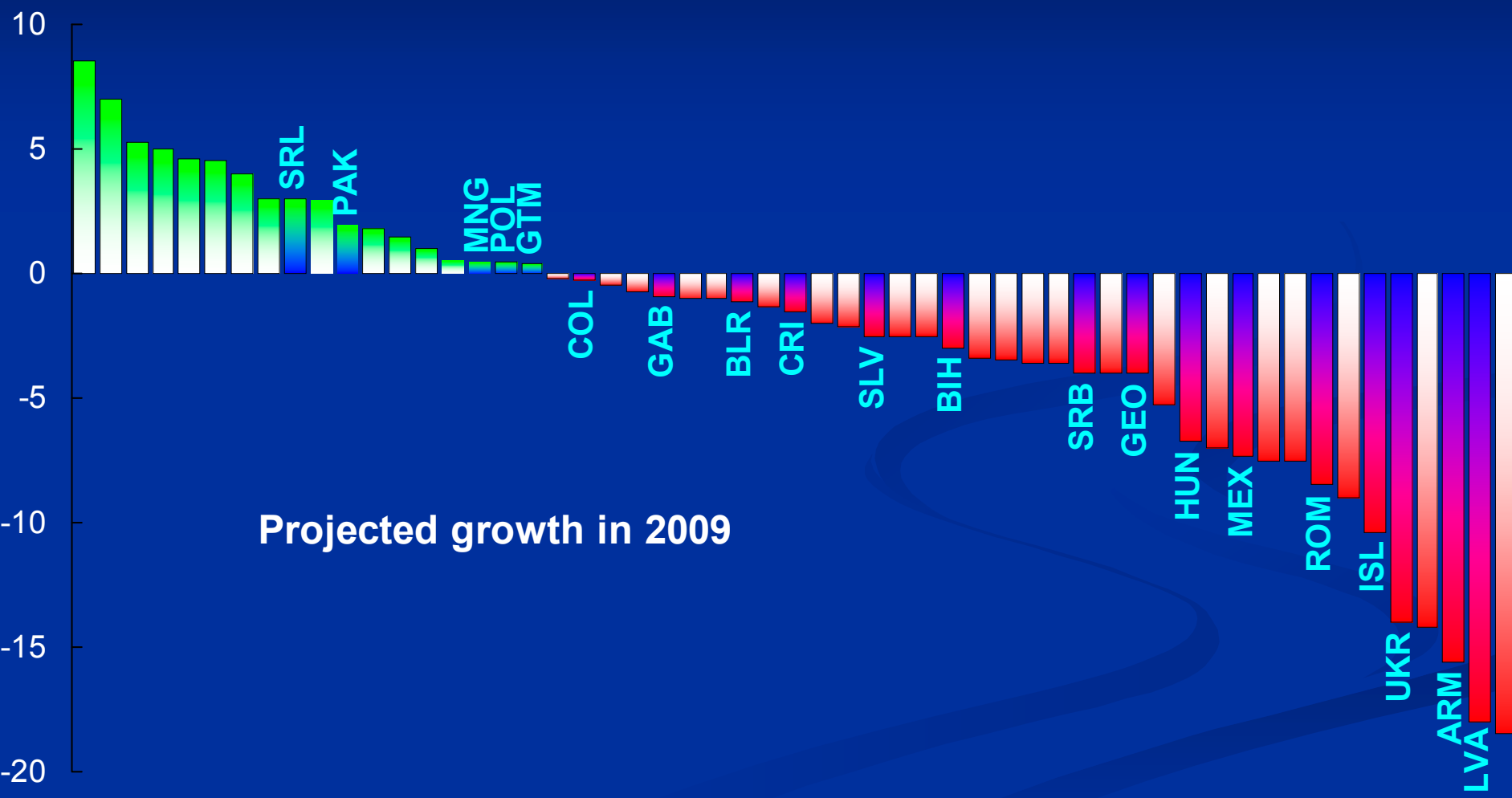
BIS-reporting bank flows to emerging markets



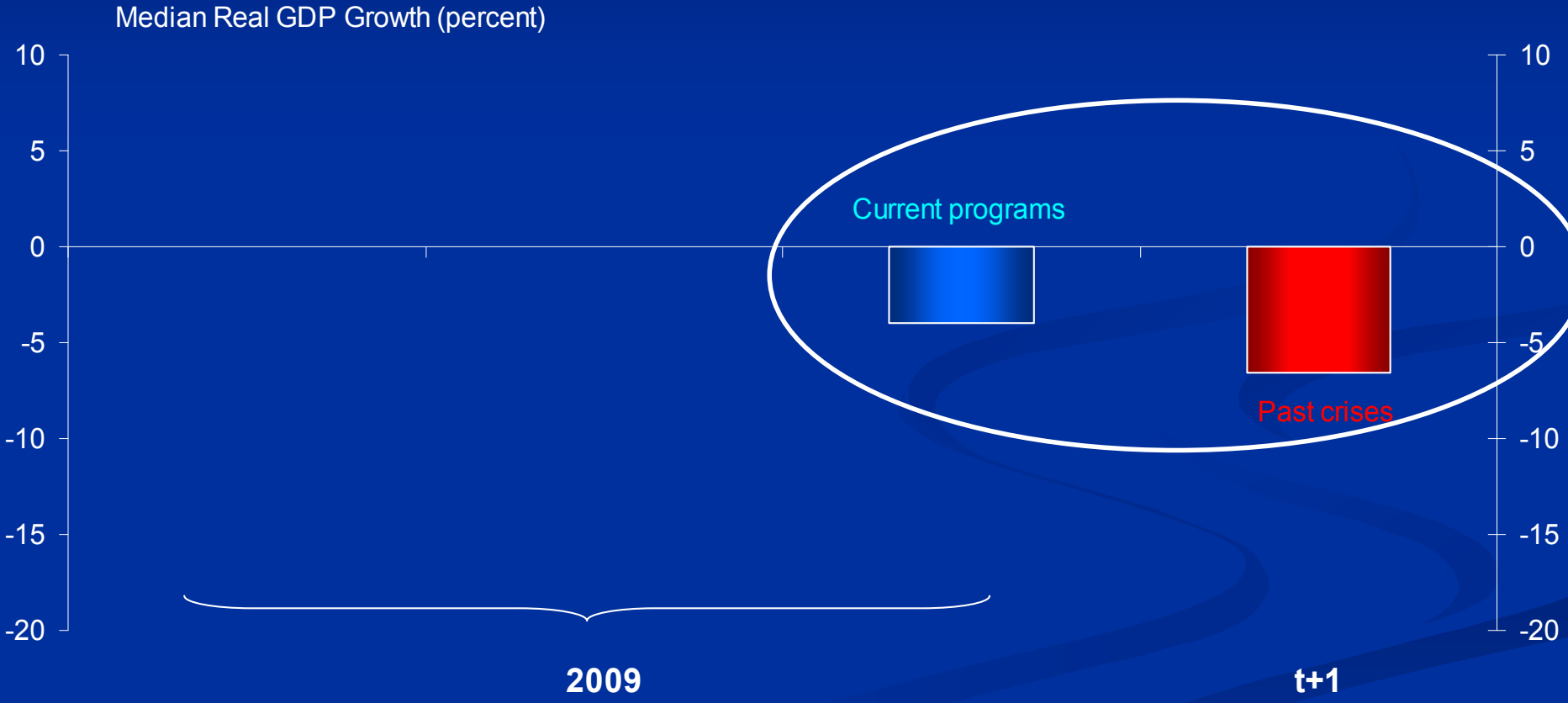
...and collapsing external demand for exports...



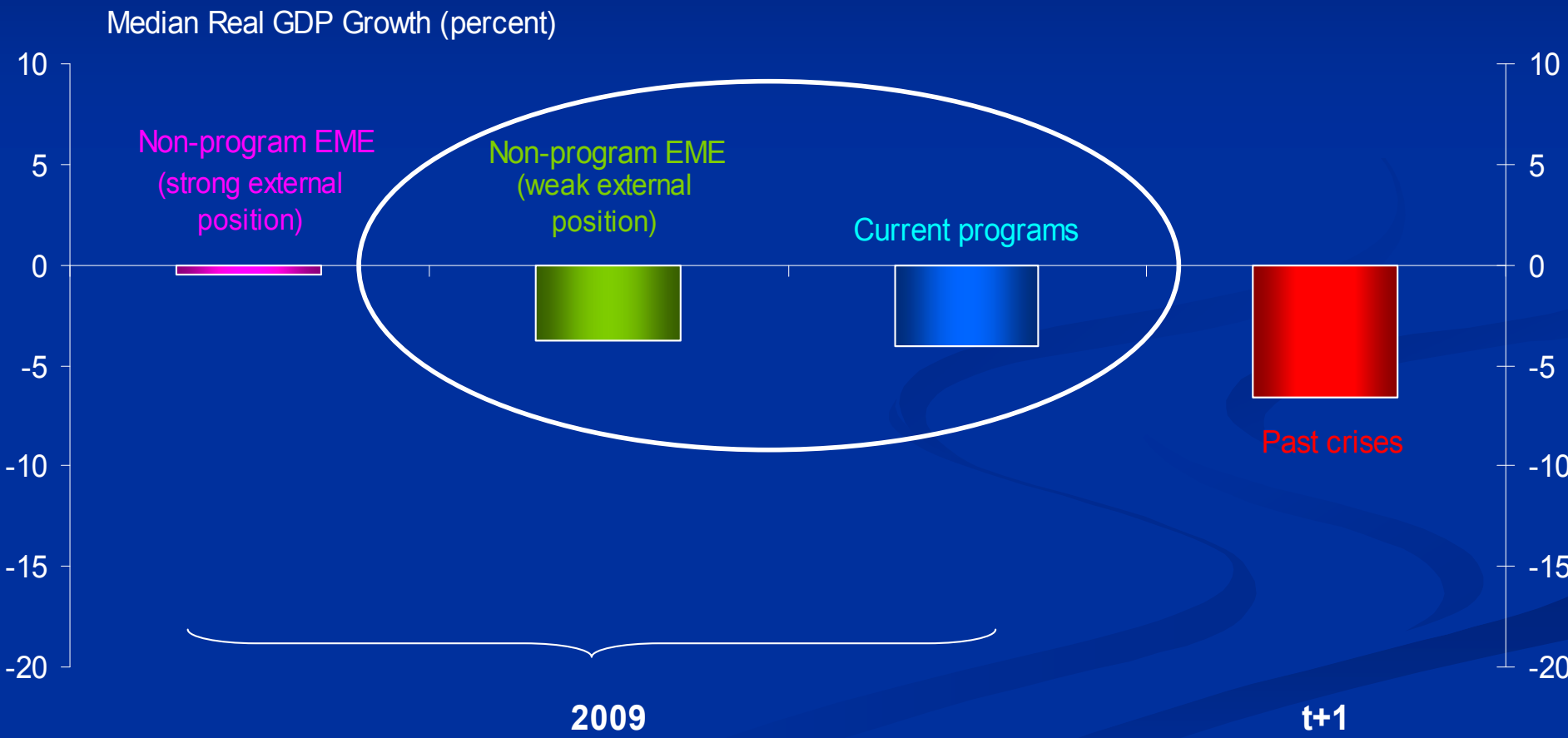
Not surprisingly, sharp output contractions



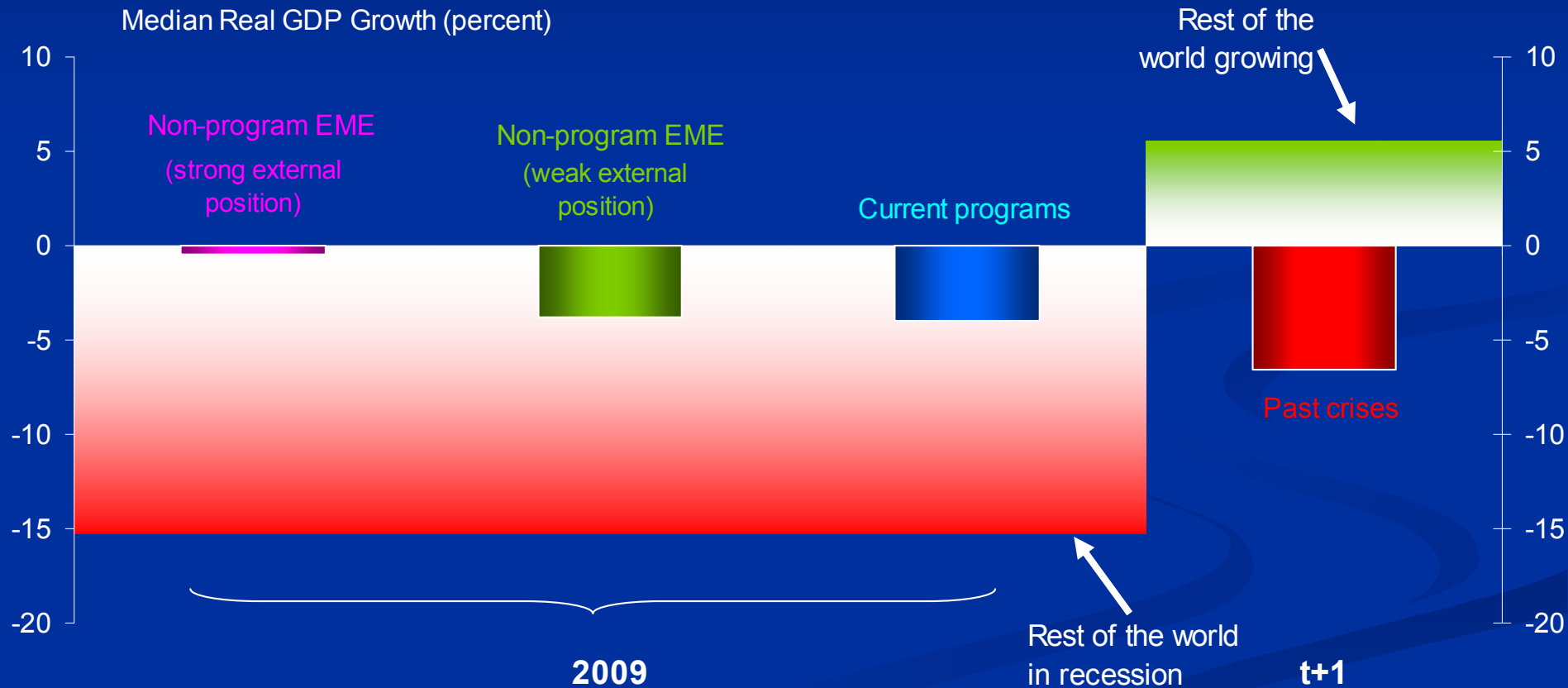
But, output contractions smaller than past crises



...contractions comparable to nonprogram EMs



Output contractions this time less dramatic when seen in context of global recession



Taking stock of output contractions

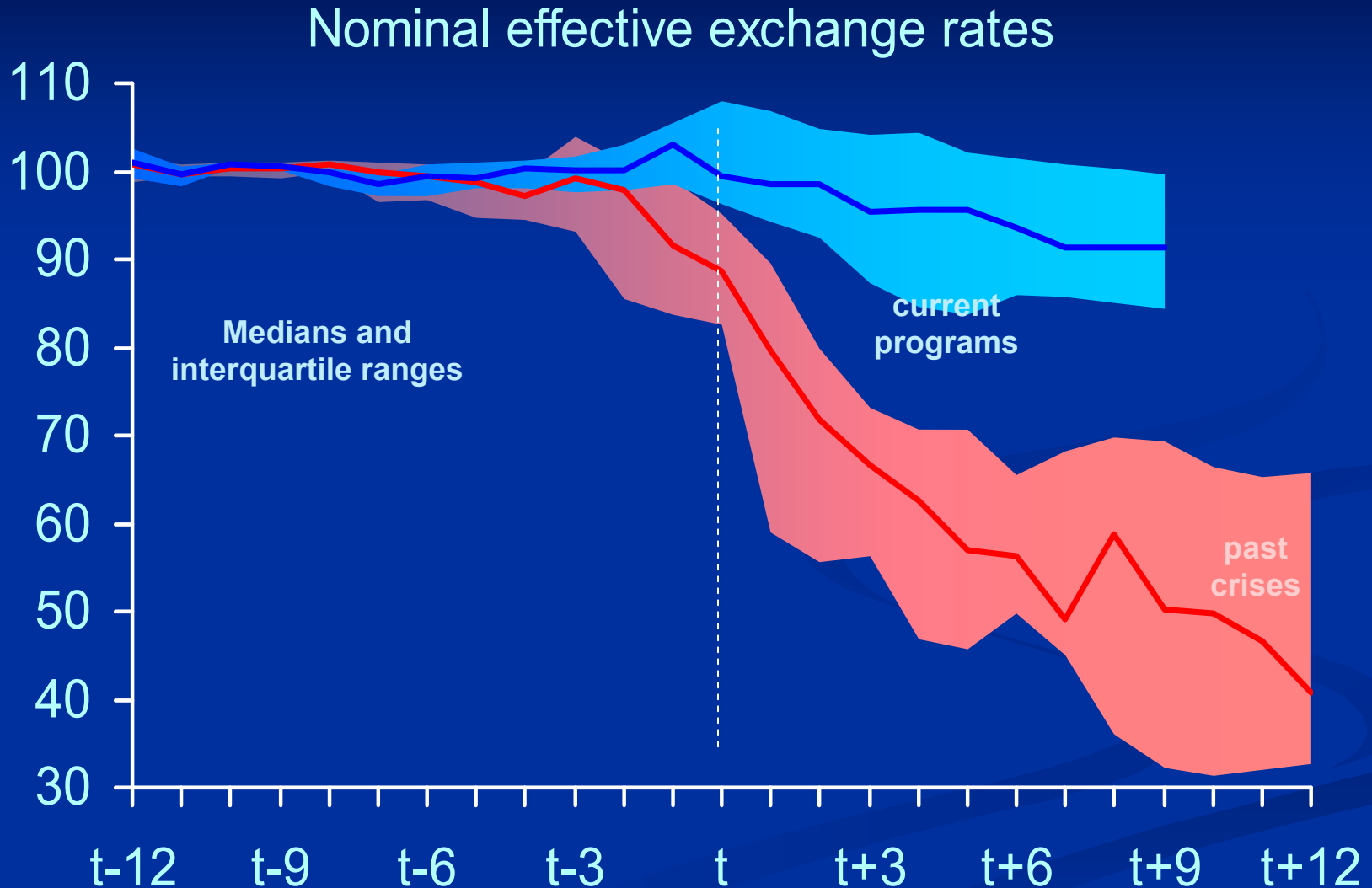
- Output losses in countries with programs, albeit large, have been smaller than in past programs
- But they have not been significantly worse than in other emerging market countries with similar preexisting external vulnerabilities. In other words,
- Fund support has allowed program countries to do as well as similar countries whose balance of payments did not get as badly hit

Programs avoided past problems

Past crises

- Exchange rate overshooting
- Sharp current account contractions
- Banking crises

No currency overshooting this time



Programs avoided past problems

Past crises

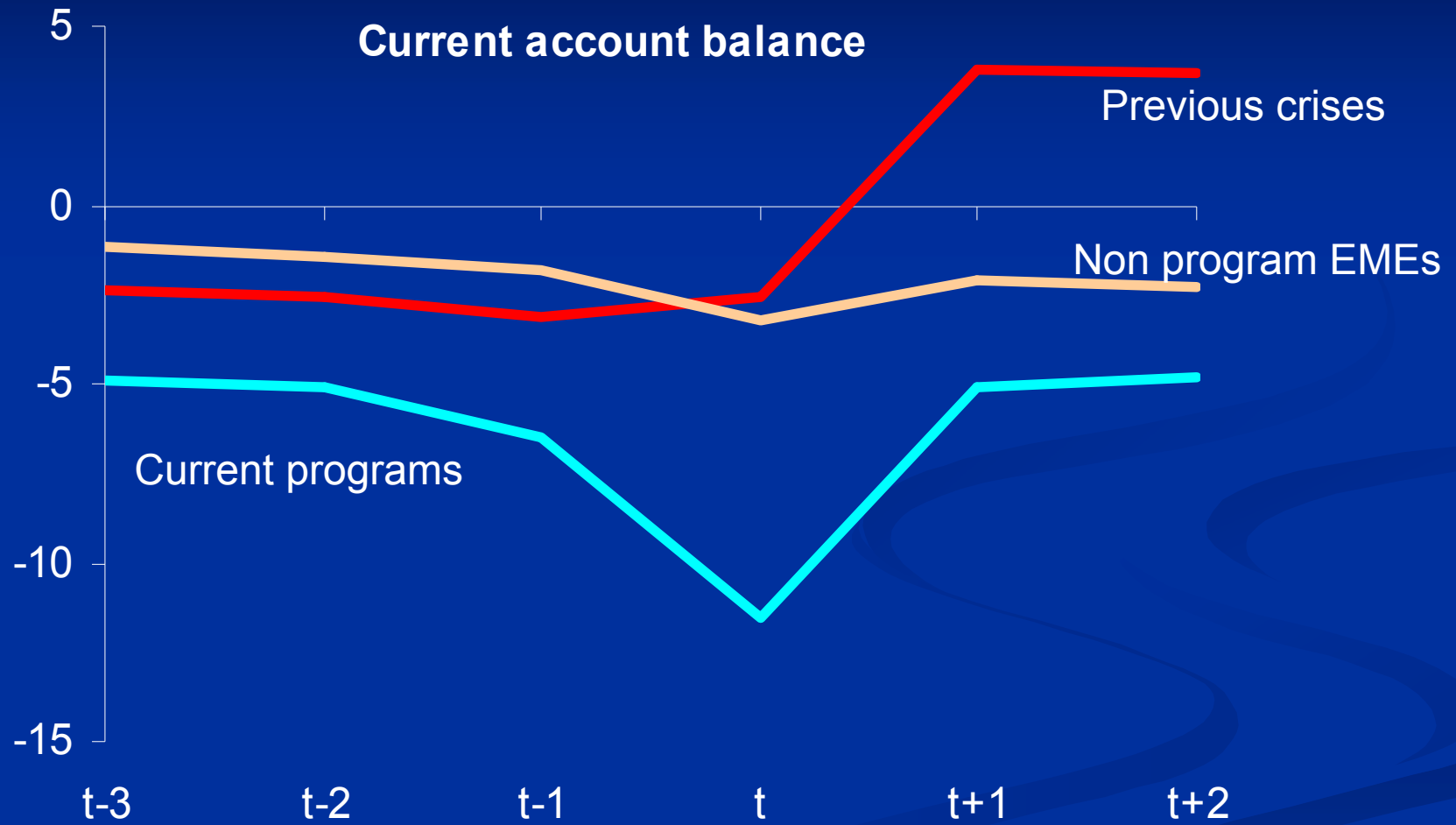
- Exchange rate overshooting
- Sharp current account contractions
- Banking crises



Current crises

- No

More limited external adjustment this time



Programs avoided past problems

Past crises

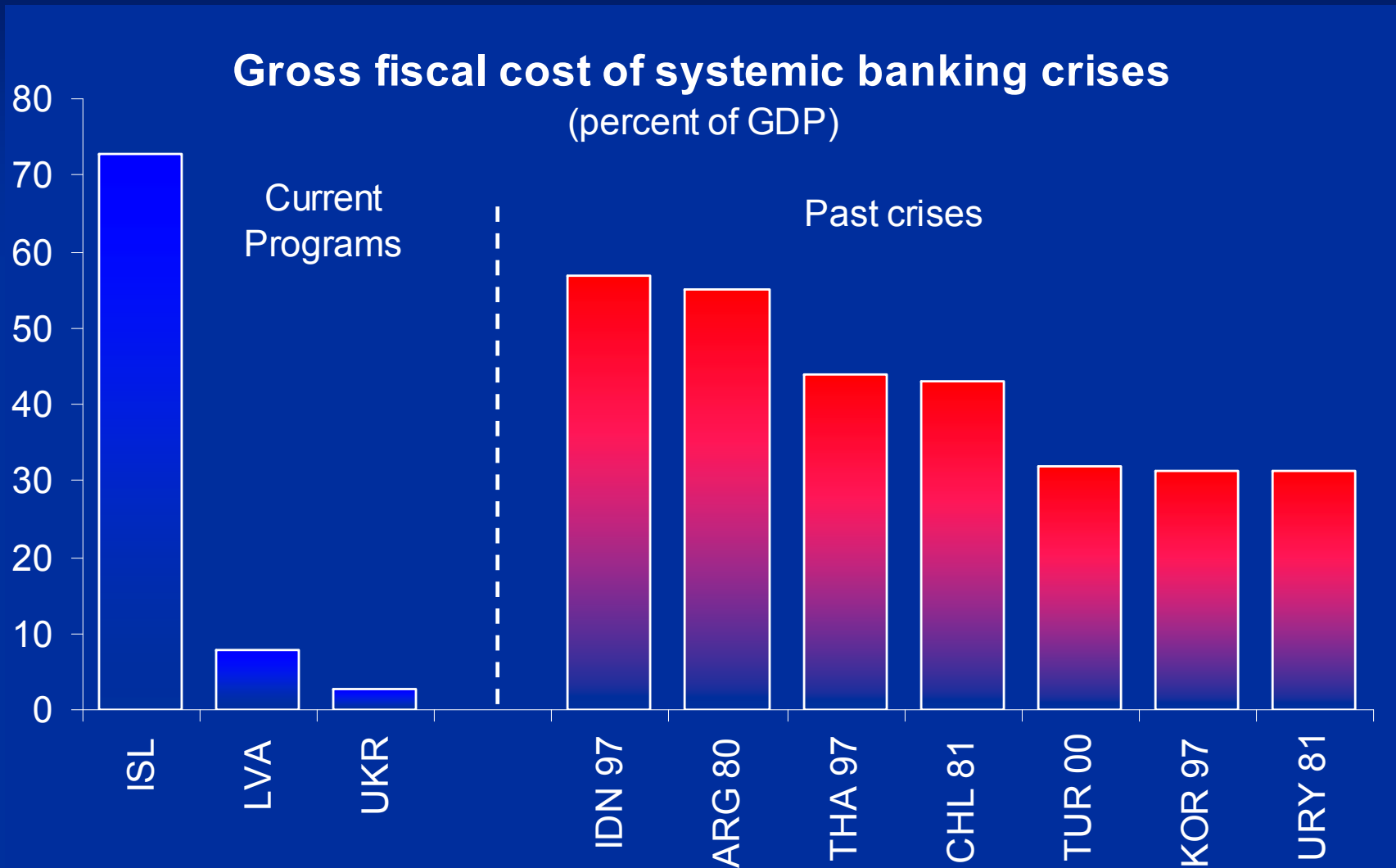
- Exchange rate overshooting
- Sharp current account contractions
- Banking crises



Current crises

- No
- Limited

Fewer systemic banking crises this time



Source: Laeven and Valencia (2008); FAD-MCM: Public Interventions in Financial Systems.

Programs avoided past problems

Past crises

- Exchange rate overshooting
- Sharp current account contractions
- Banking crises



Current crises

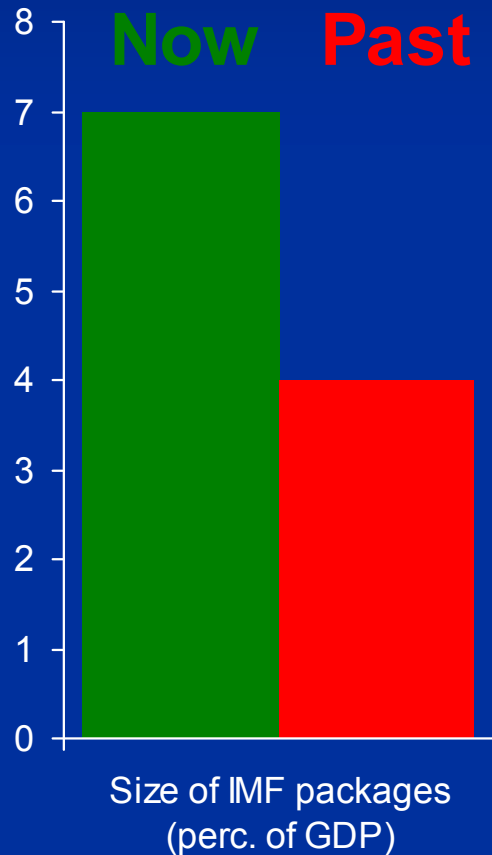
- No
- Limited
- Few

How were worse outcomes avoided?

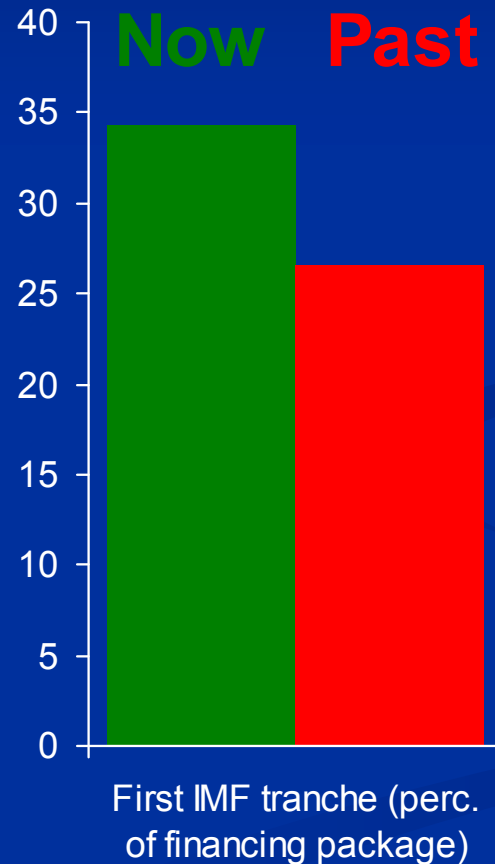
1. Effective use of IMF financing

(1) Financing packages tailored to needs

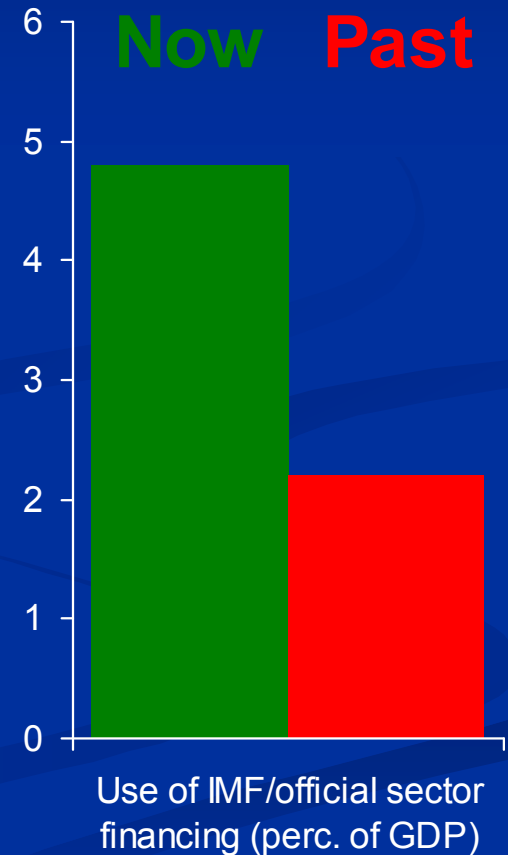
Large



Frontloaded



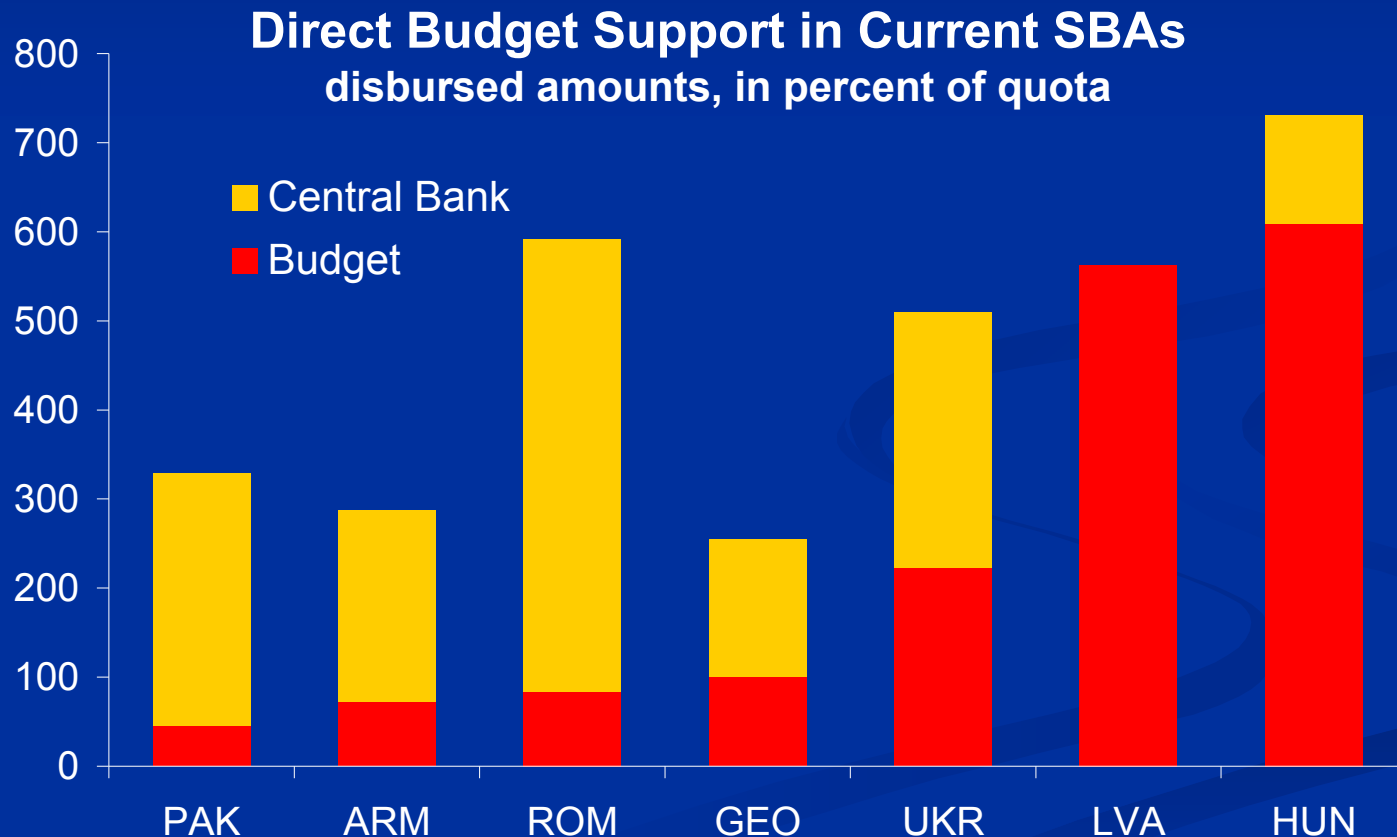
Used—not put in reserves



Median values across Fund arrangements

...financing channeled where needed

- to support the banking systems (ISL, HUN, LVA, UKR)
- to support budget financing, when fiscal loosening appropriate



Source: Staff estimates.

How were worse outcomes avoided?

1. Effective use of IMF financing
2. Stronger ownership

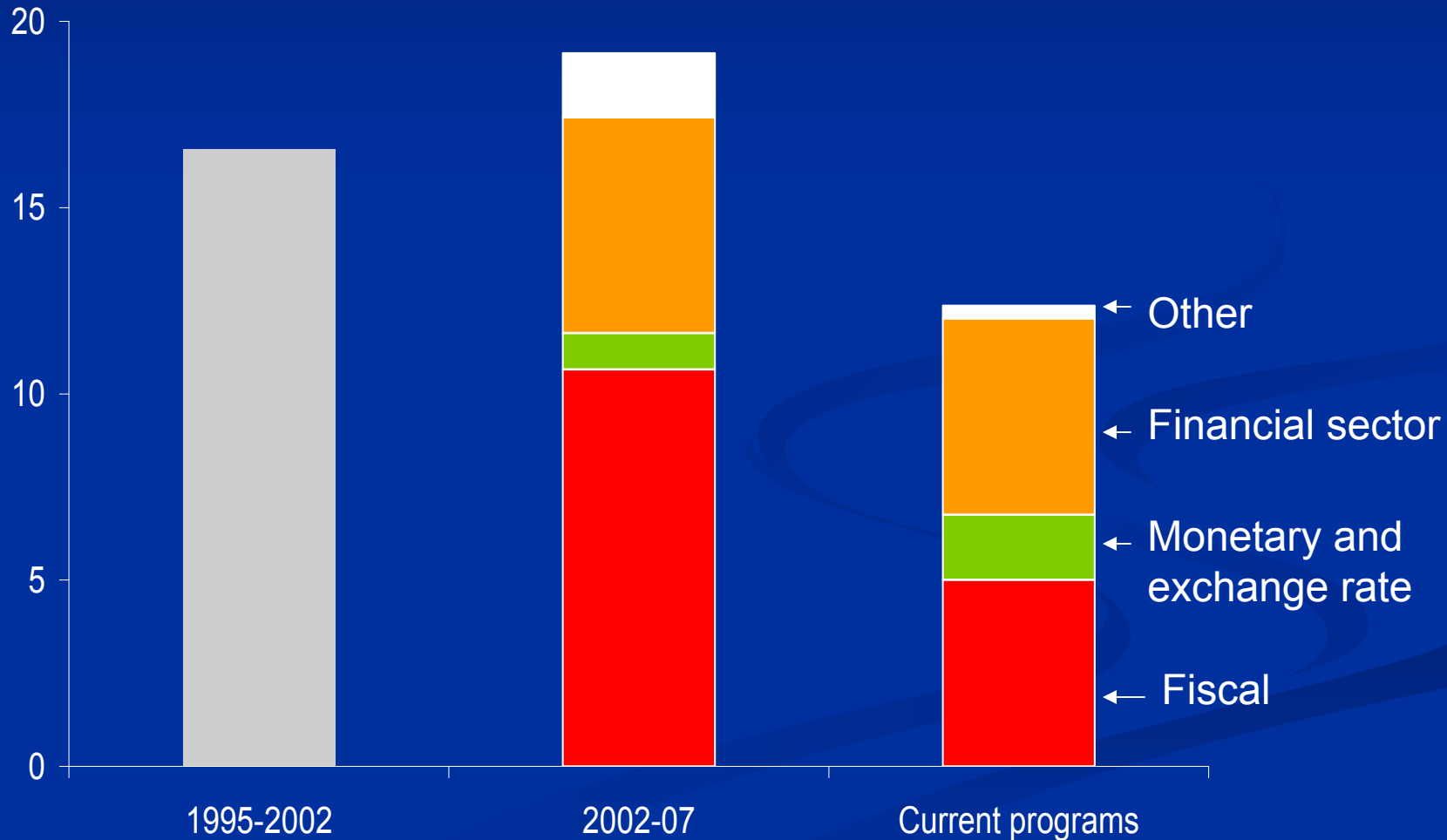
(2) Program ownership strong

Ownership supported by continued adaptation of programs to evolving conditions and by acceptance of ...

- ... full range of currency regimes, capital controls
- ... institutional constraints (e.g., EU)
- ... focused policy conditionality

More focused conditionality

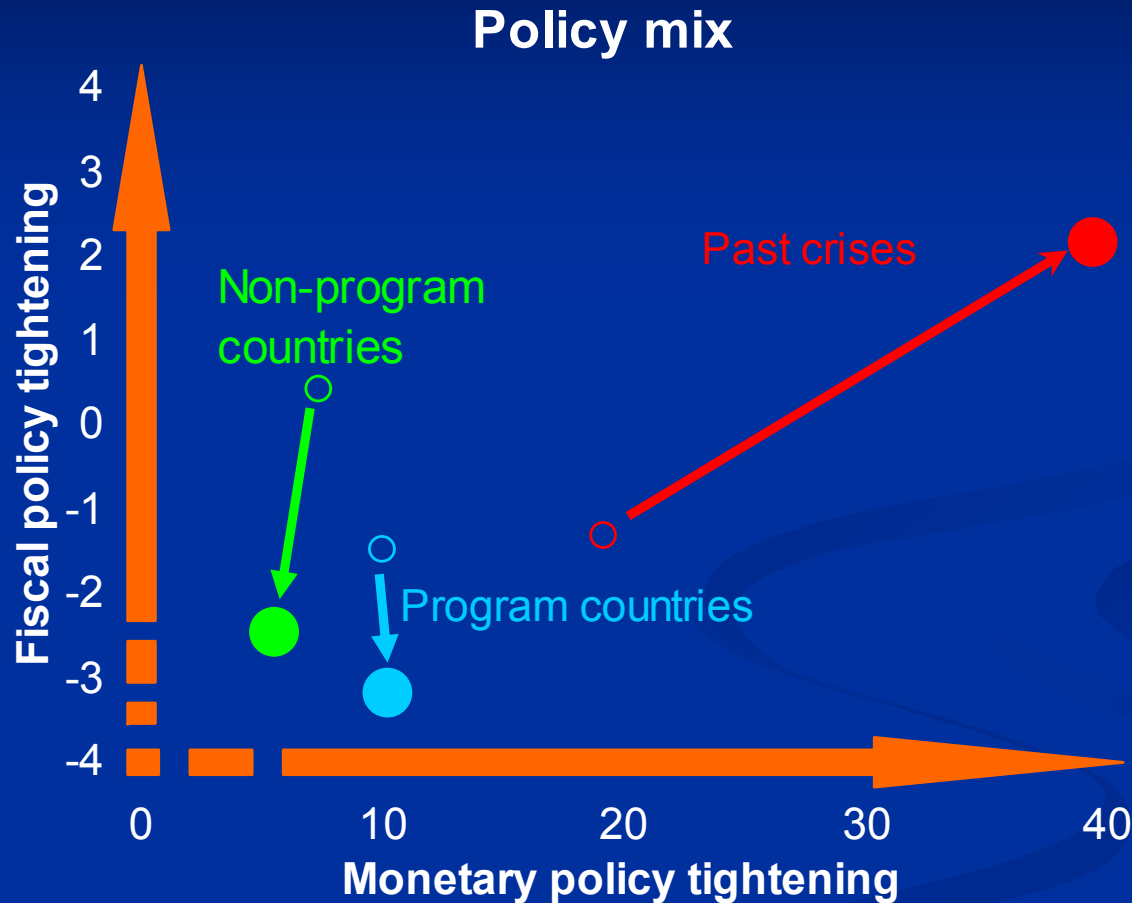
Structural conditions in IMF programs
(Average per program year)



How were worse outcomes avoided?

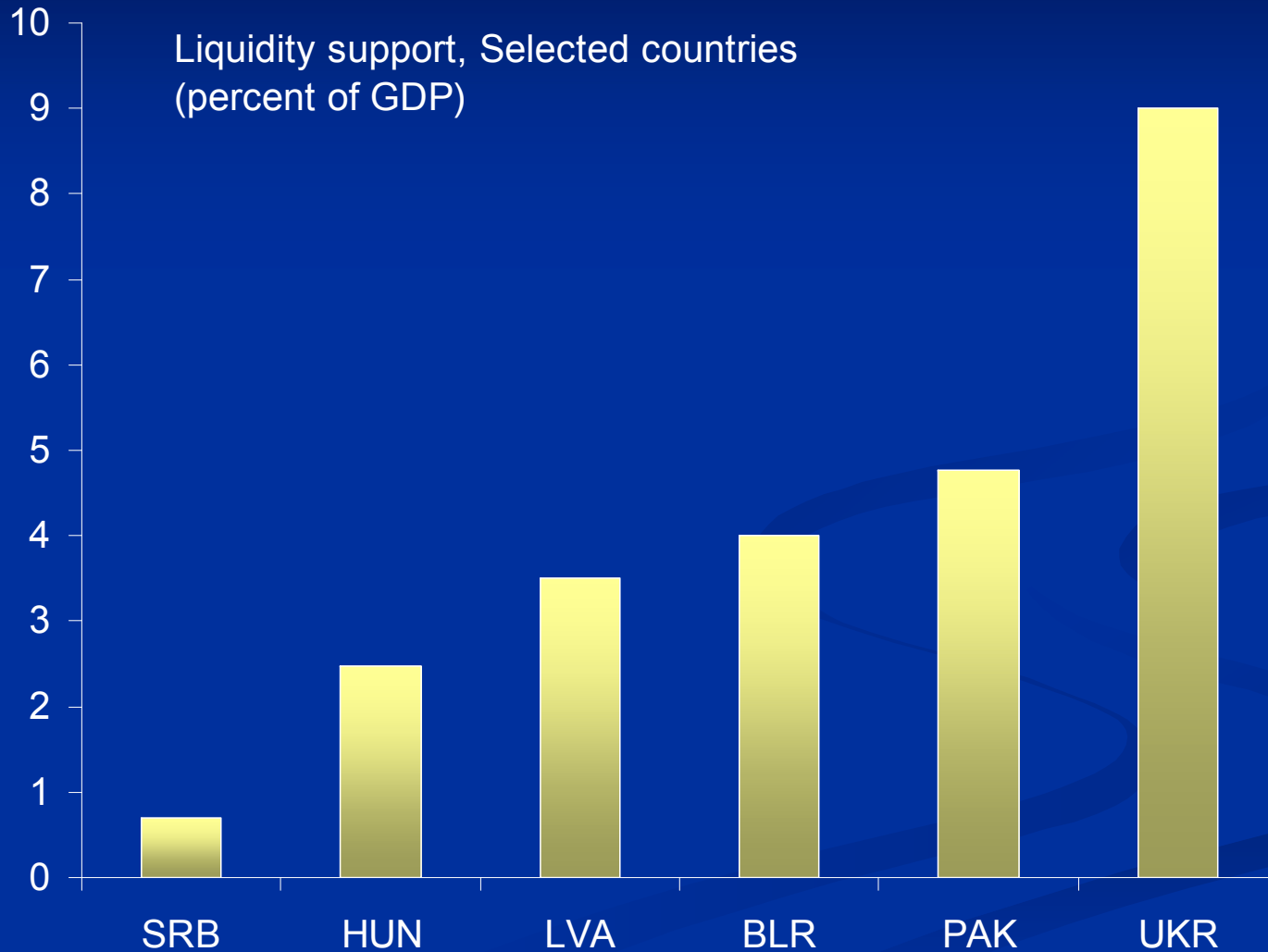
1. Effective use of IMF financing
2. Stronger ownership
3. Supportive policies

(3) Supportive fiscal-monetary policy mix...



Fiscal policy: median primary balance to GDP ratios in the year before crisis (2008, circle) and the crisis year (2009, dot). **Monetary policy:** median nominal interest rates six months before crisis (2008 H2, circle) and six months into crisis (2009 H1, dot).

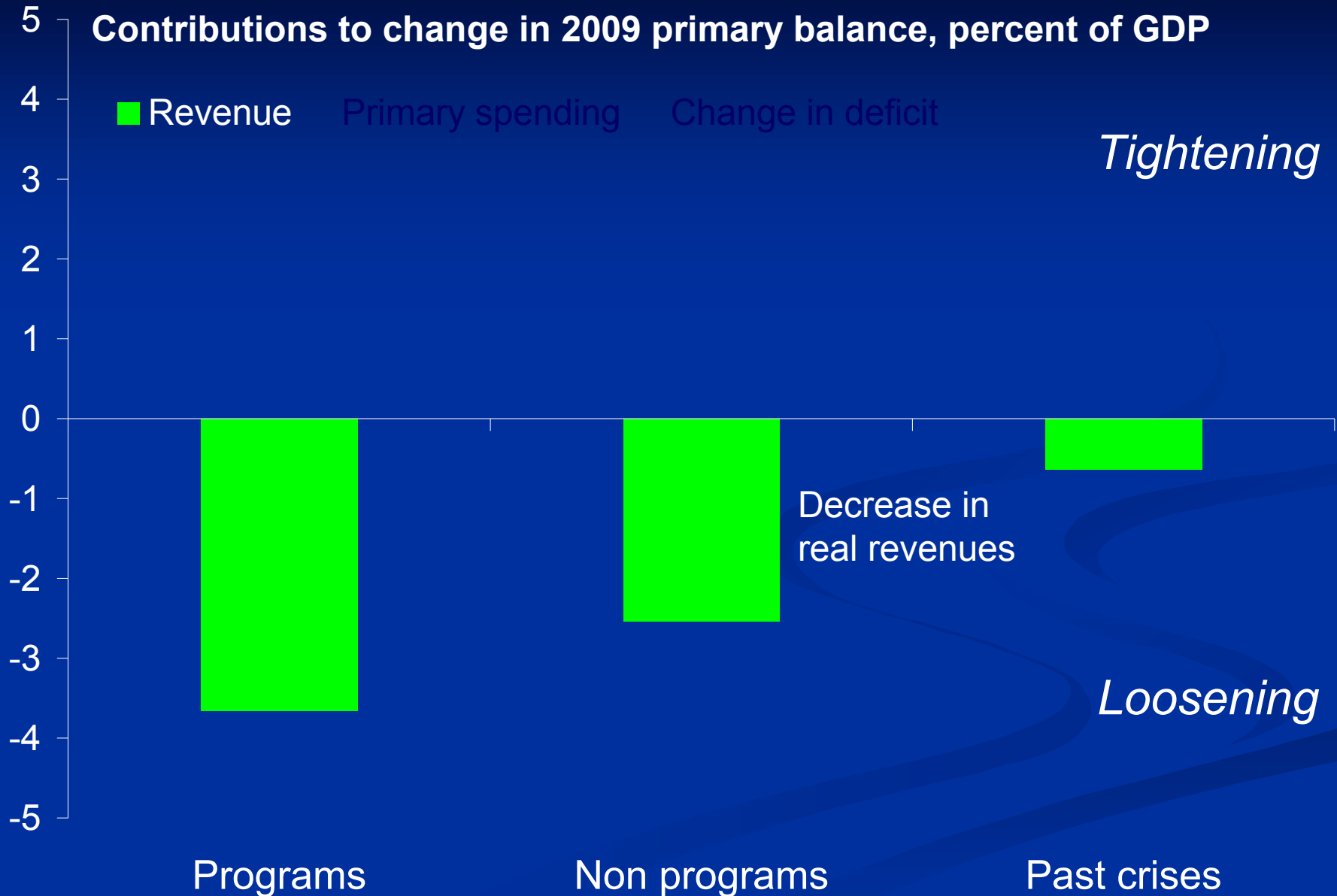
...complemented by steps to avoid funding crisis



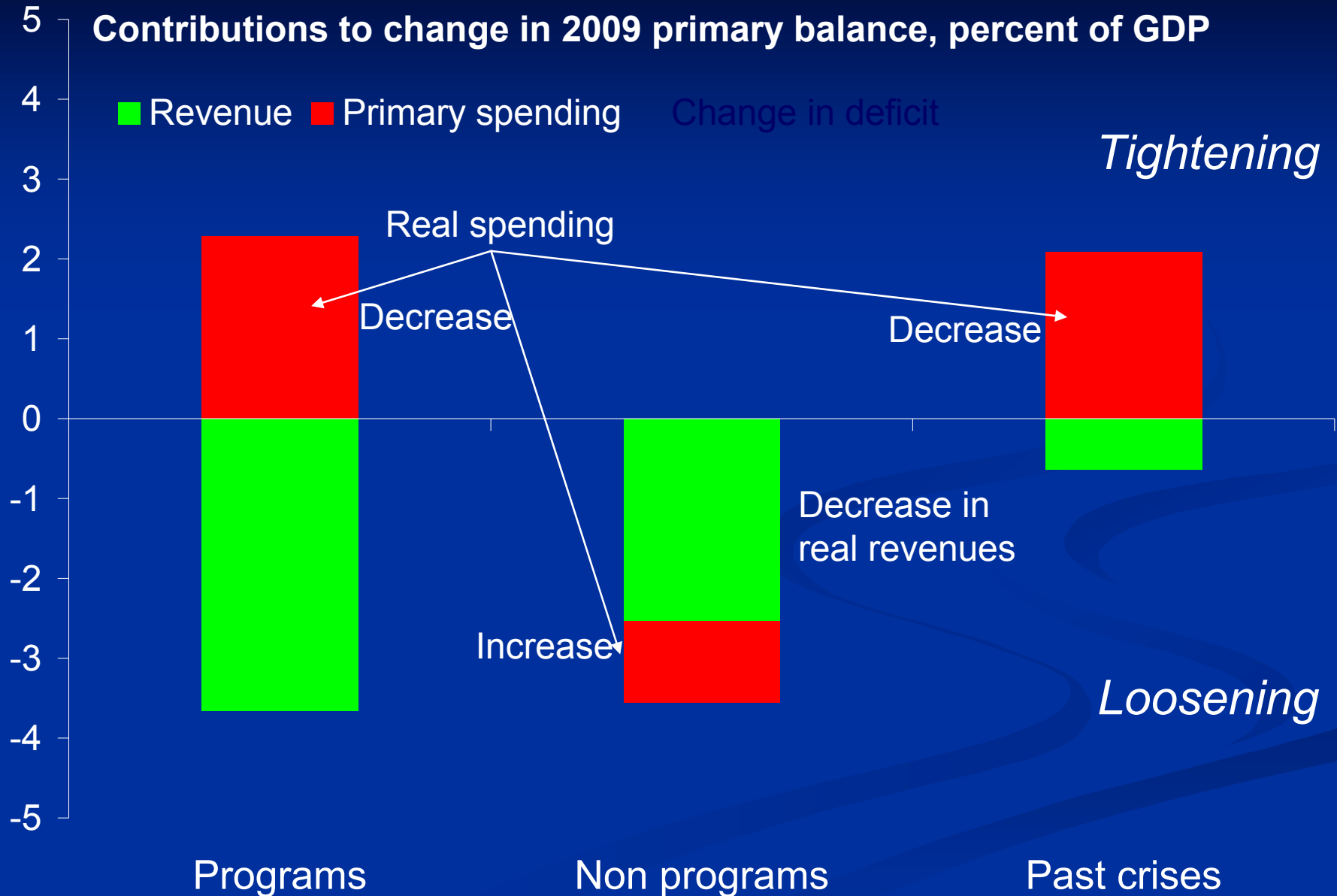
A closer look at macro policies

- Fiscal policy accommodated revenue shortfalls
- Monetary policy avoided spikes in interest rates

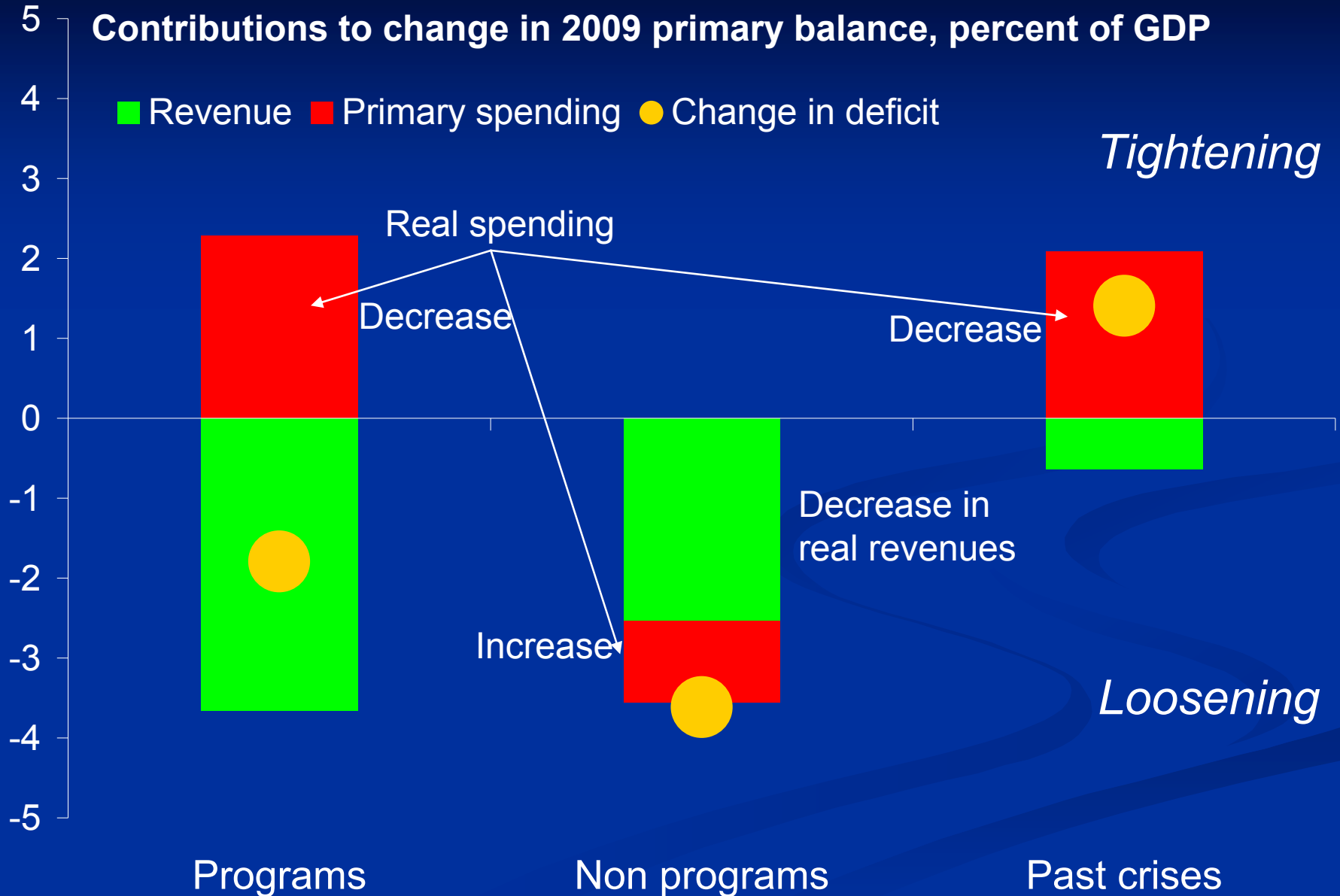
More fiscal accommodation than past



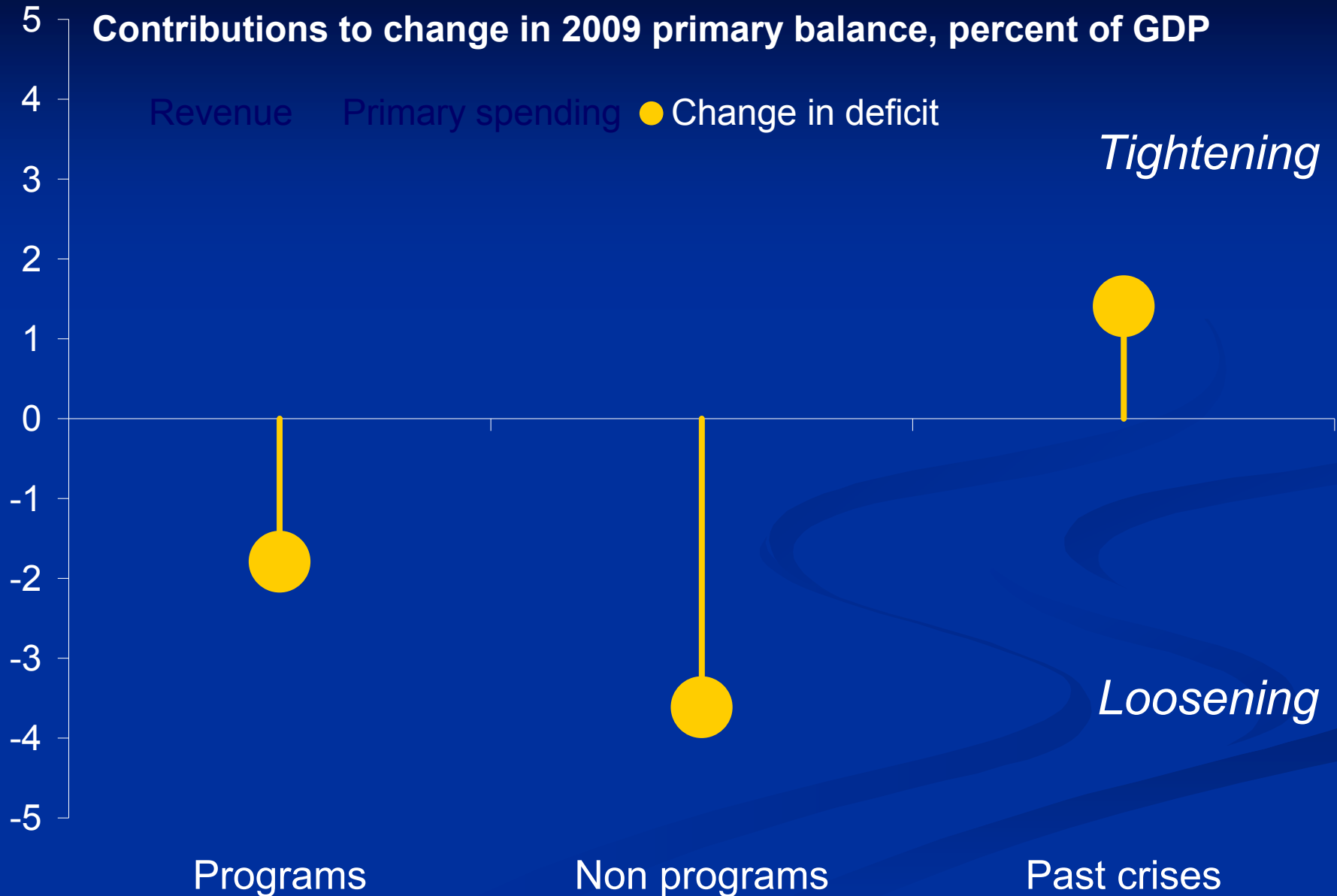
More fiscal accommodation than past



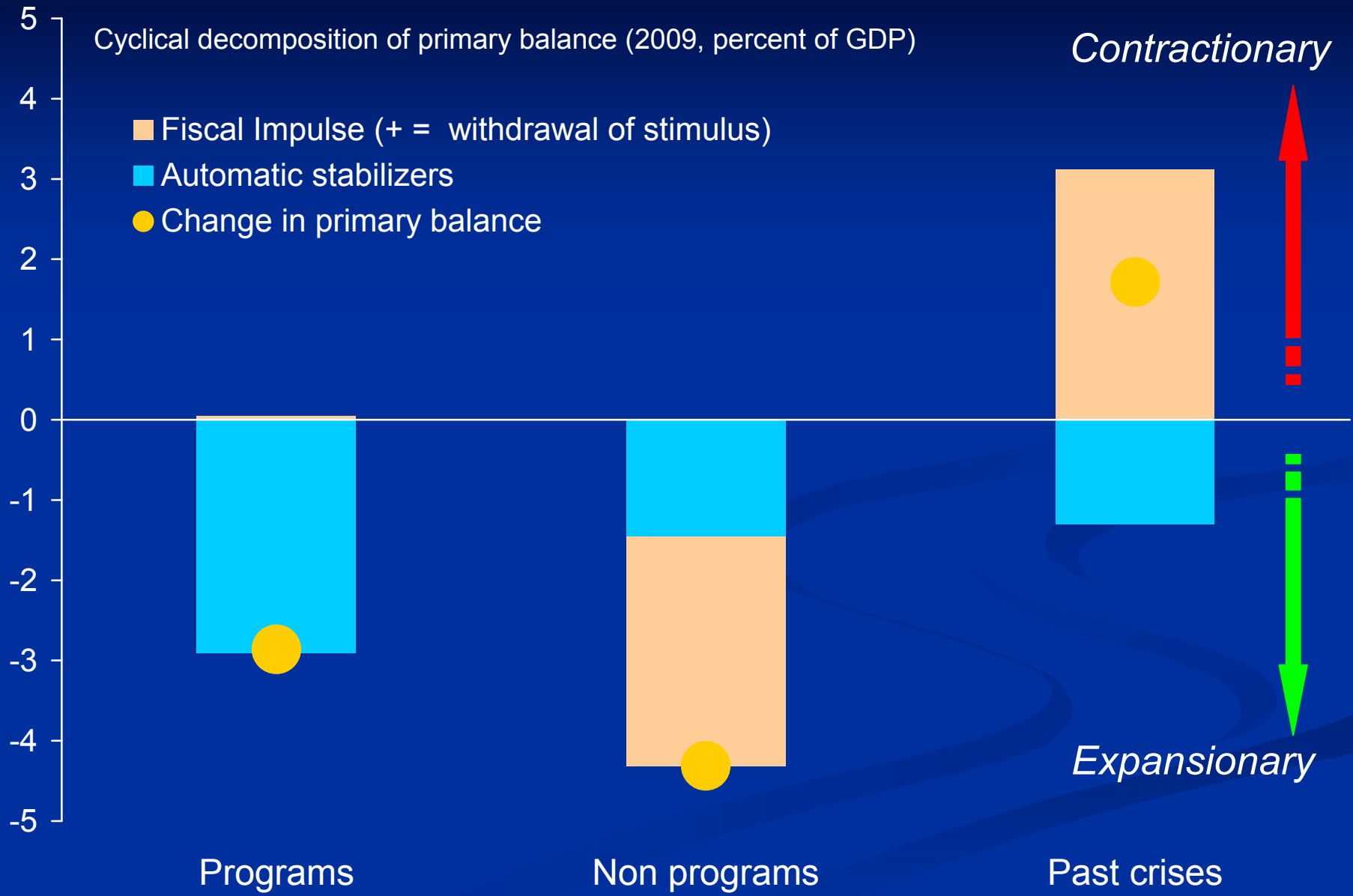
More fiscal accommodation than past



More fiscal accommodation than past



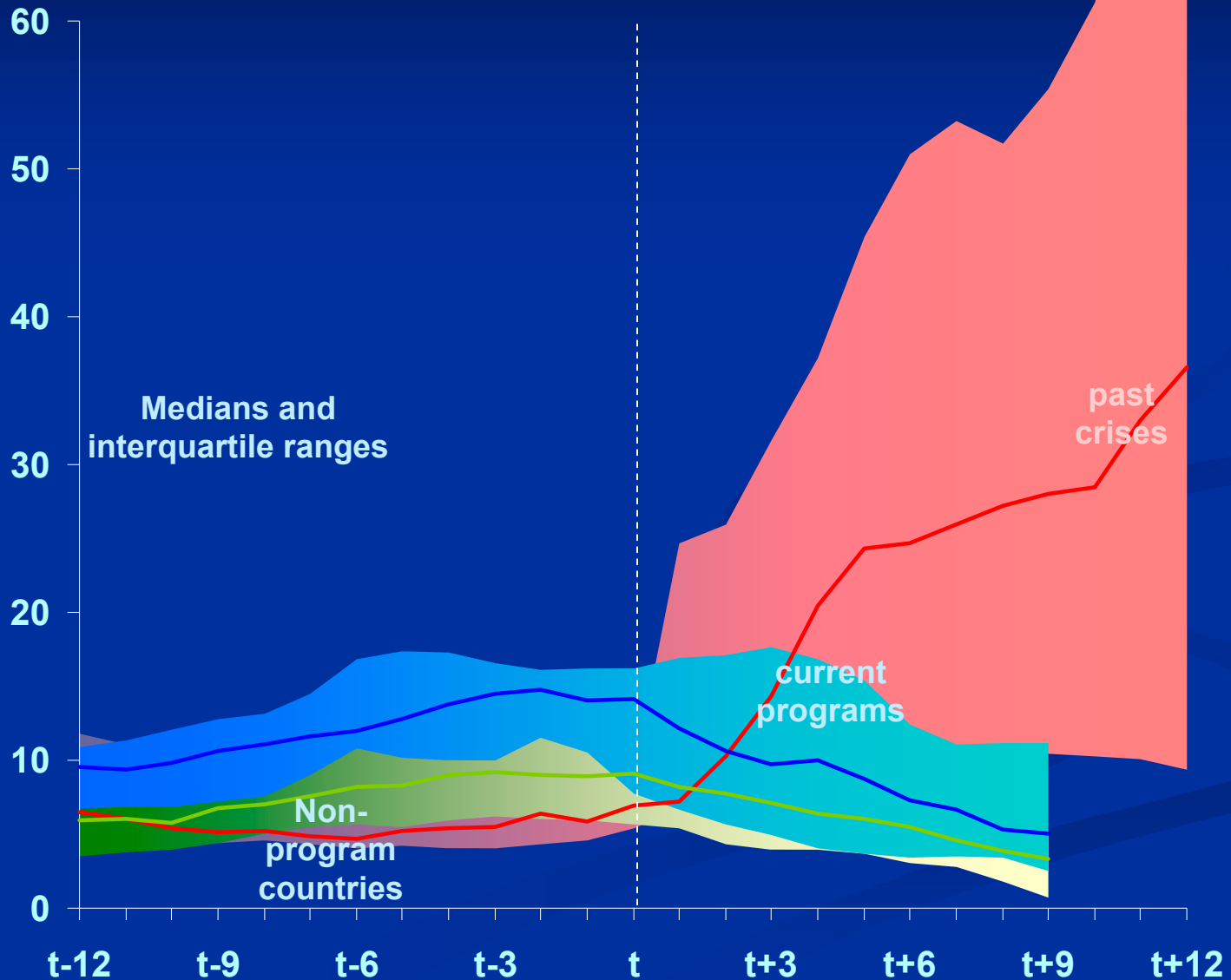
Accommodation also in cyclical sense



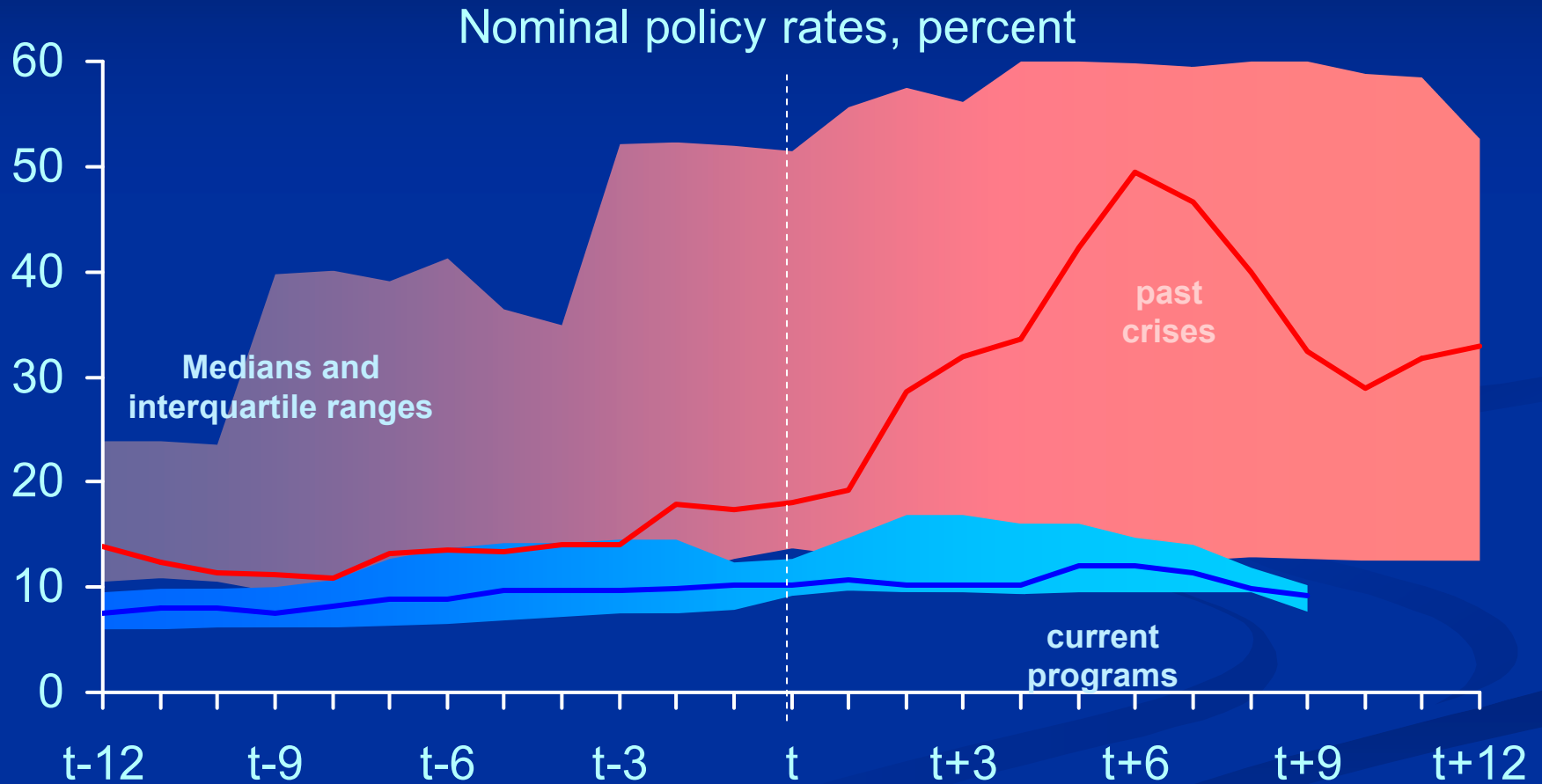
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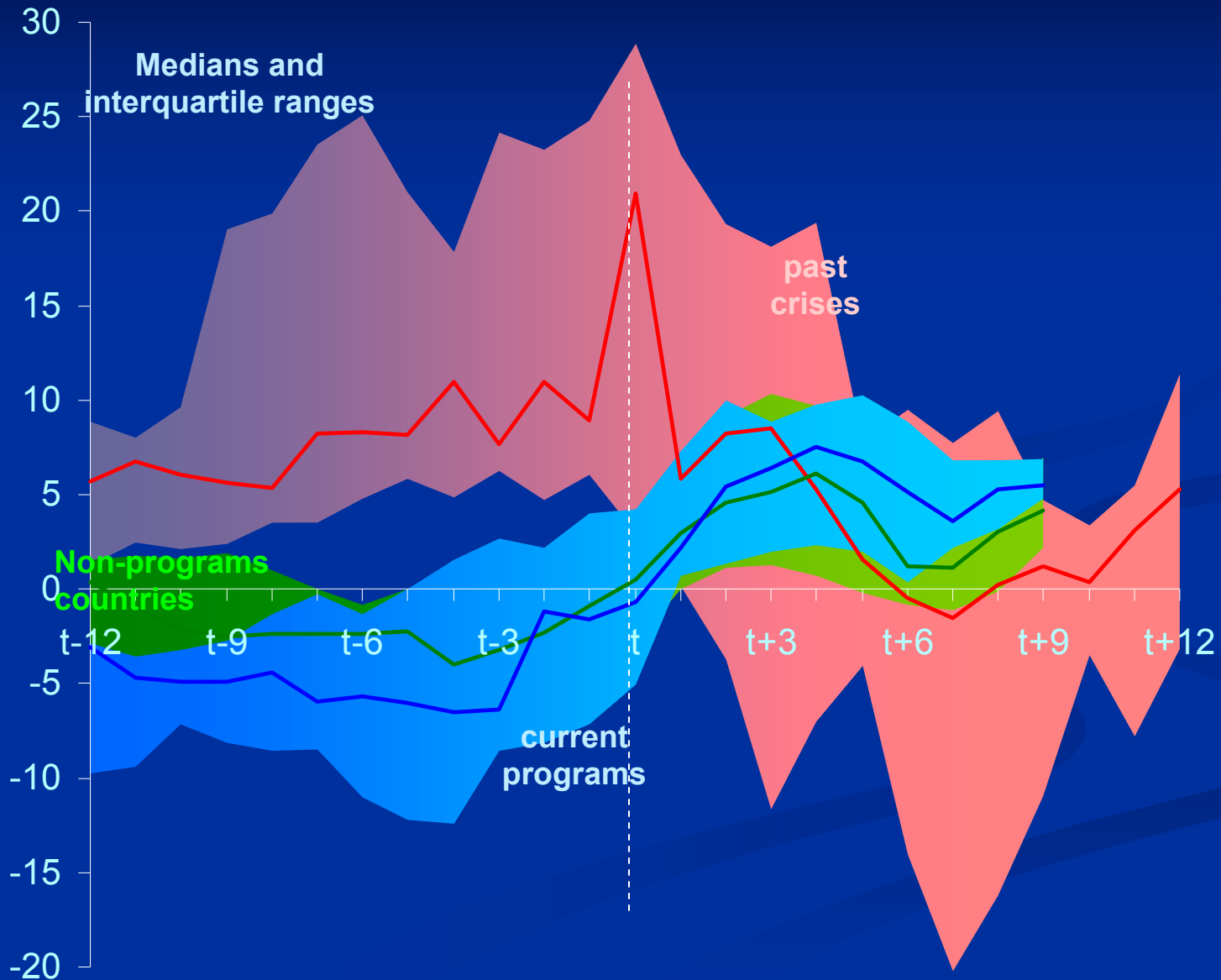
Benign inflation backdrop



...help avoid interest rate spikes...



...though some room for easing

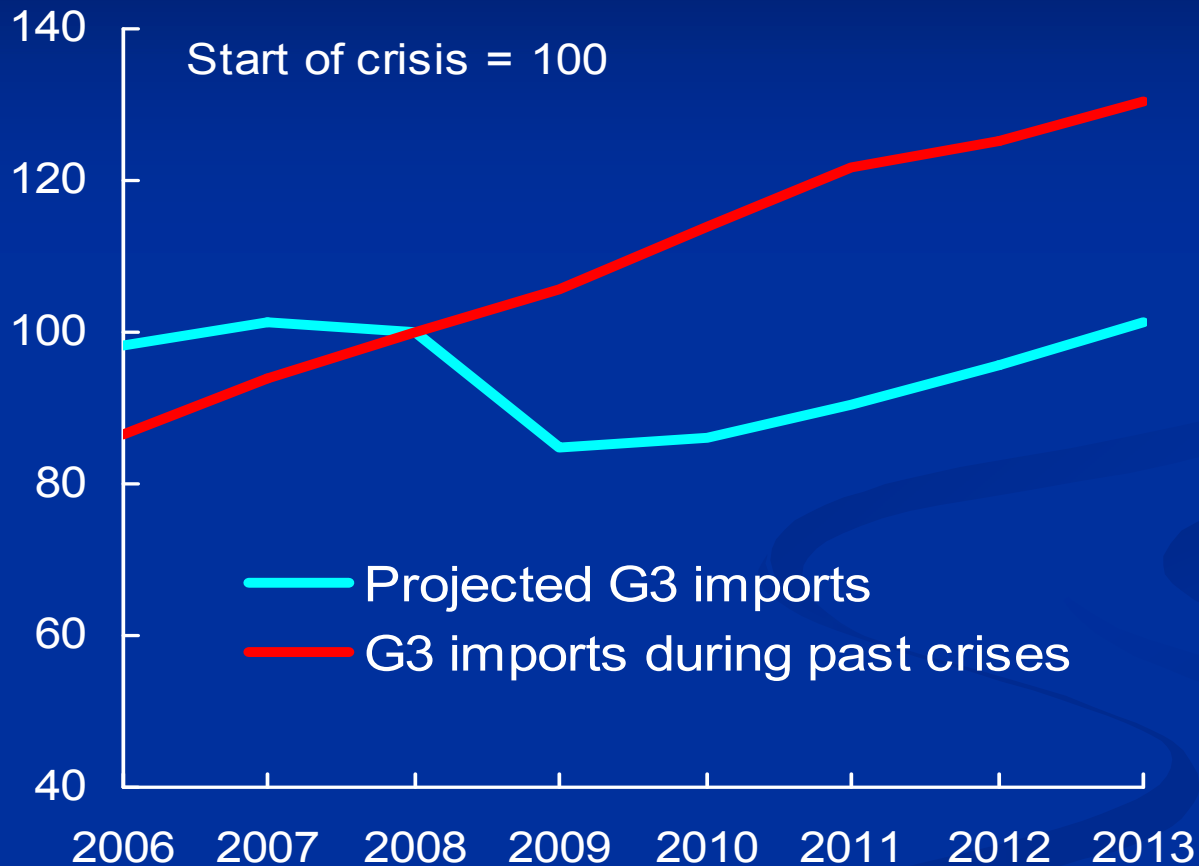


Challenges going forward

- Recovery reliant on global economy

Lower external demand in this crisis

Trade volumes: imports by G3 countries



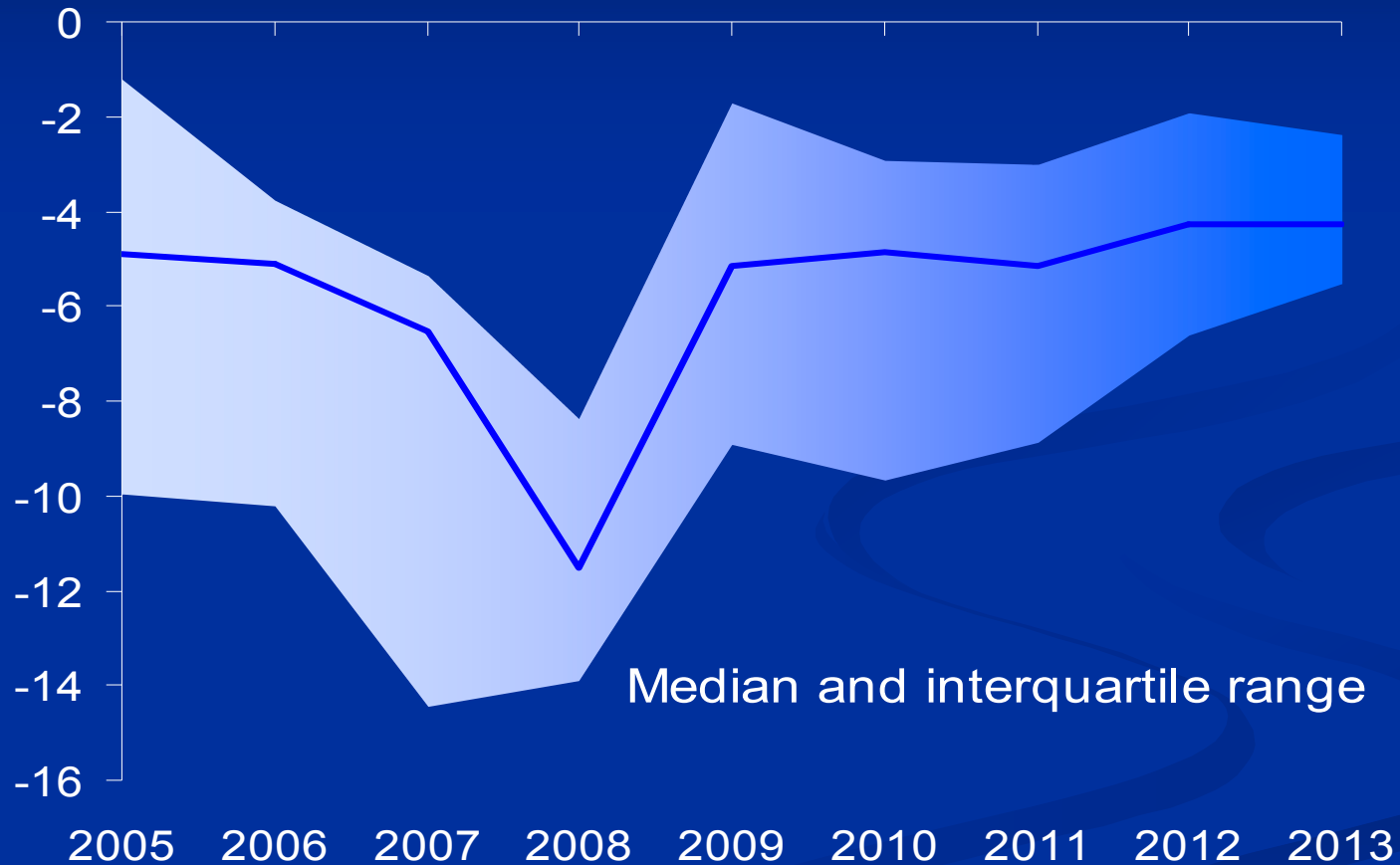
Source: WEO and staff estimates.

Challenges going forward

- Recovery reliant on global economy
- Lagging competitiveness in some countries

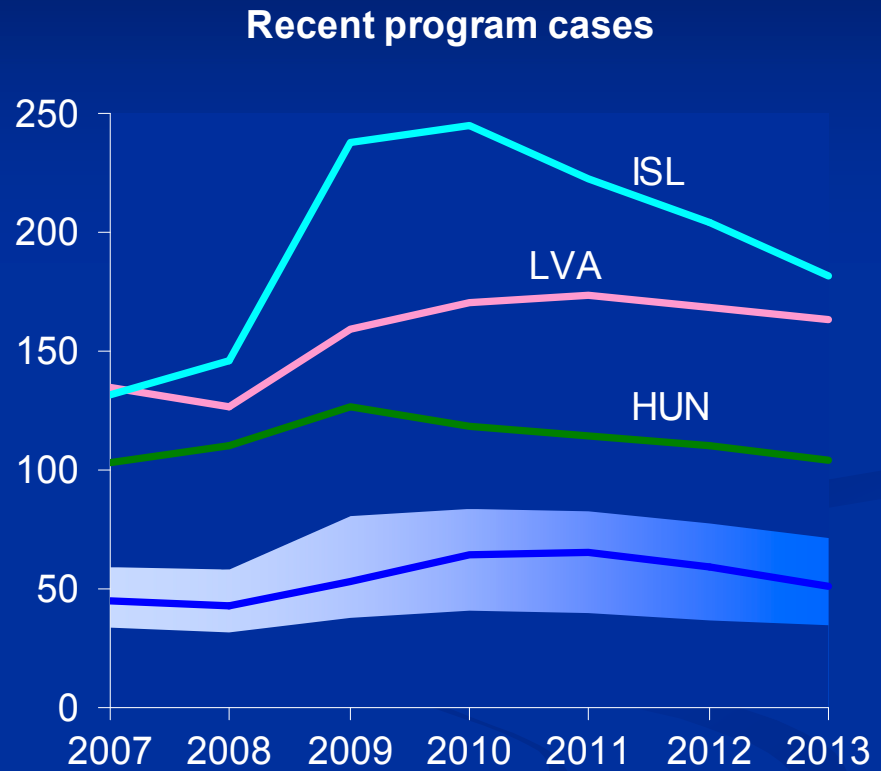
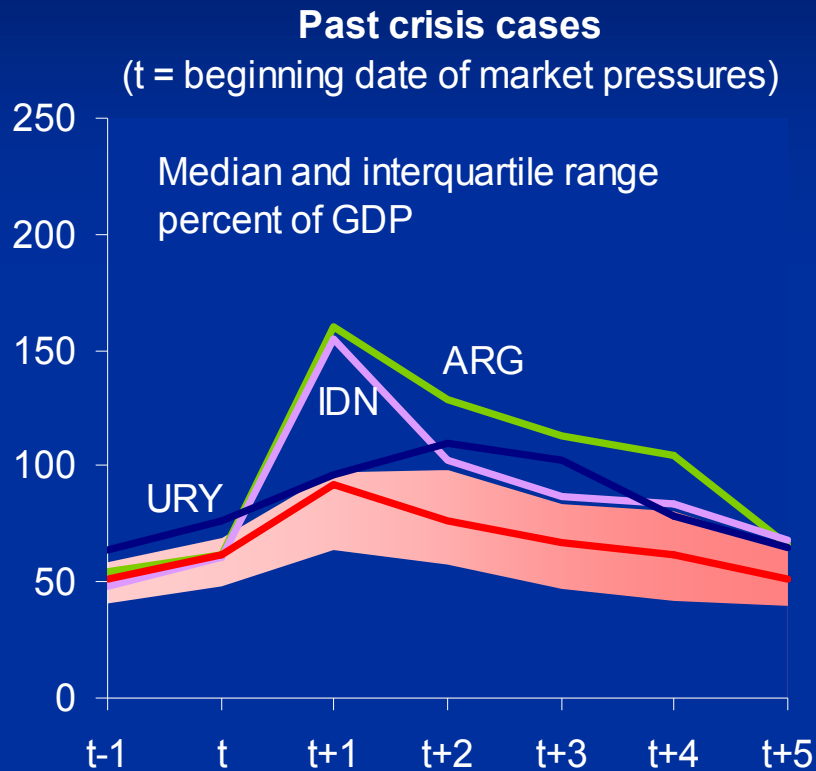
Limited current account adjustment...

Current account adjustment percent of GDP



Source: WEO and staff estimates.

...weighing on external debt sustainability in some cases



Source: WEO and staff estimates.

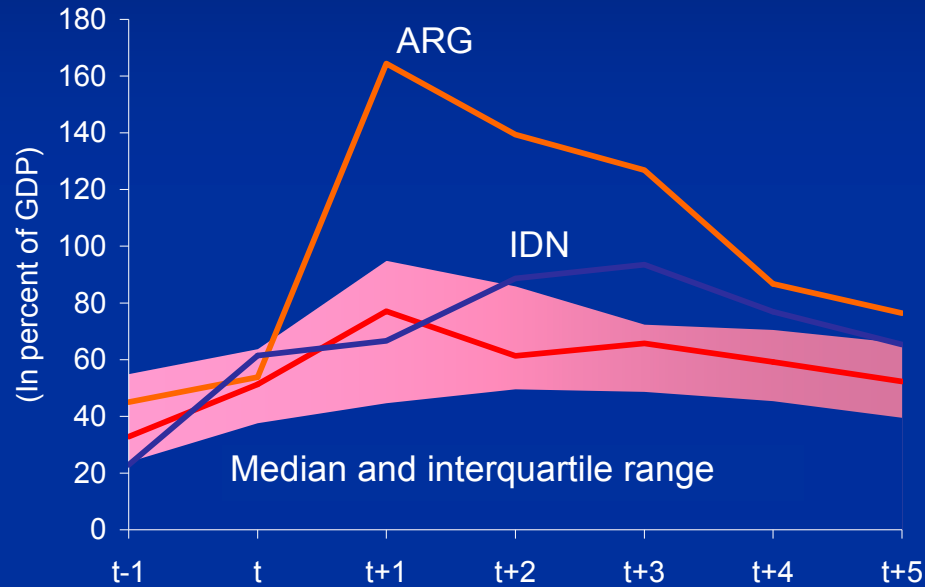


Challenges going forward

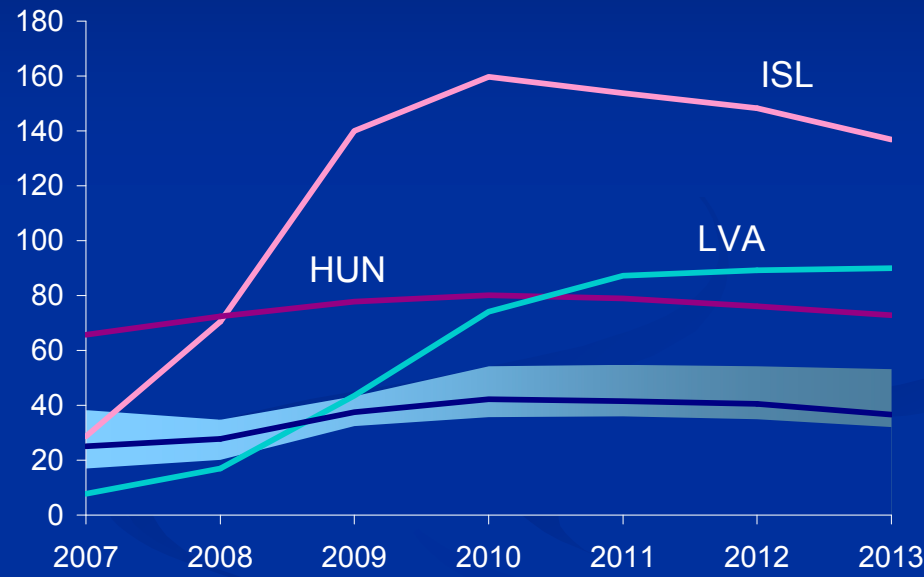
- Recovery reliant on global economy
- Lagging competitiveness in some countries
- Heavy debt burdens in some countries

Fiscal sustainability concerns

Past crisis cases
(t = beginning date of market pressures)



Recent program cases

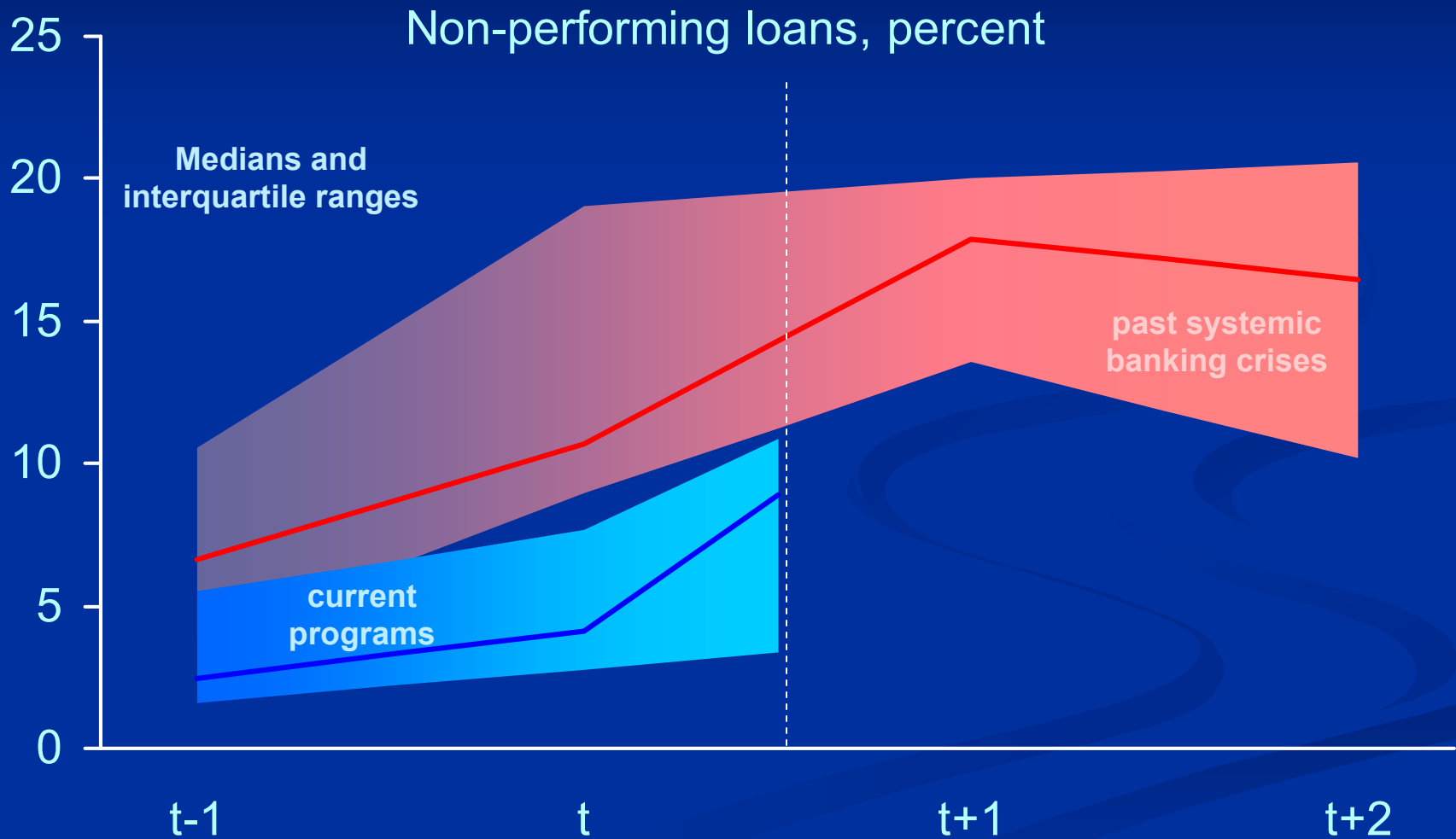


Source: WEO and staff estimates.

Challenges going forward

- Recovery reliant on global economy
- Lagging competitiveness in some countries
- Heavy debt burdens in some countries
- Bank balance sheets still impaired

Rising credit risks



Takeaways

- External shock, but also pre-existing vulnerabilities
- IMF programs avoid worse outcomes
- Drivers: large, upfront financing; supportive policies
- Full exit from crisis requires additional adjustment
- Adjustment burden eased by IMF financing

Thank You