

# **Accomplishments and limitations of the recent reforms in the IMF's lending facilities and conditionality. Results of the empirical evidence\***

- Preliminary version. Comments are welcome. -

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## **Abstract**

While the International Monetary Fund (IMF) has been ratified as the responsible for ensuring international financial stability, it undertook a reform to adapt its operation to the new requirements. Through this recent reform, which includes the enhancement of the credit lines and the revision of the guidelines on conditionality, it seeks to answer the criticisms which claimed to increase the available resources in line with current needs, and to reduce interfering in the political decision making processes of member countries through the imposition of structural conditionalities.

However, questions arises about whether we are facing a new IMF, which promotes countercyclical policies and limits its interference in the internal policy process of the member countries, or it is a slightly updated version that maintains the same form and orientation of its monitoring mechanisms and recommendations of economic policy.

To answer this question there are analyzed the 20 agreements granted under the *Stand-By* and *Flexible Credit Line* during the eleven months elapsed since the outbreak of the financial crisis to consider its duration, the magnitude and schedule of the disbursements committed, and the conditionalities required. Then there are compared the results before and after the reform.

It is proposed as a hypothesis that while the reforms have achieved in augmenting the credits magnitude and focusing the conditionalities in its core areas, it have not succeeded in establishing remarkable changes to the political economy orientation thereof. This is verified on the fact that although the scope of conditionalities has been narrowed, the Fund has increased the emphasis on compliance of preconditions oriented to public expenditure adjustments, which reproduces -in tougher way- requirements with a similar orthodox orientation to those before the reform.

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## Introduction

One of the things that brought the outbreak of the economic crisis was the reappearance of the International Monetary Fund (IMF or Fund) within the centre of the international scenario. Just a year before, the Fund was immersed in a crisis only comparable to the one it had faced during the '70, with the dollar-gold standard disappearance. Unsupported and affected by an increasing operative deficit as a result of the very low utilization of its credits, there were discussions about its reform or its disappearance.

Although during that time it accomplished a few goals, such as a limited improvement of the vote distribution favoring developing countries, the establishment of a Managing Director election process based on merits and an increase of the transparency, the economic prosperity raised doubts on its continuity. However, the outbreak of the sub-prime crisis took place short after that and the G20 backed it up as the responsible for maintaining the international finance stability. For this purpose, it announced the tripling of its resources up to US\$ 750 billions, which will be accomplished through industrialized countries direct contributions, the selling of a part of its gold reserves and, issuance of securities. Direct contribution will be included in the NAB/GAB credit arrangements, which will allow the enlargement of Fund resources, avoiding discussing on the increase and distribution of the quotas<sup>1</sup>. In addition, a 250 billions of SDR issuance was approved which will allow increasing the international liquidity.

If the size of the crisis made it necessary to increase its resources, the countries distrust of its recipes brought about the approval in 2009 of a reform concerning the financing and conditionality policy in order to renovate its credit lines (IMF, 2009a). The diagnosis of the organism –recognizing some critiques, for example Torres (2008)-suggested that their credits were non attractive due to both a limited financing in what concerned the countries' necessities and to the establishment of conditionalities that restricted the decision margin on the economic policy as well as interfered with the local decision-making political process. This led to development countries, their traditional clients, to avoid requiring credits.

Concerning its financing policy, there are two new issues to point out. On the one hand, there is the renovation of the credit lines through which it eliminated some of the less used<sup>2</sup> and established the Flexible Credit Line (FCL). The latter offers unlimited financing (even though a maximum of 1000 % of the countries' quota is expected), with a long term of repayment (from 3¼ to 5 years), without conditionalities and the possibility to be used as precautionary or in a balance of payment urgency. However, not every country is able to request it, given that it is limited to those with a solid economic policy record and having had a positive evaluation on the annual review. On the other hand, the Fund strengthened the Stand-By (SBA) –traditional credit line– through the duplication of the normal access limits (from 100% to 200% of the annual quota and from 300% to 600% of the total quota). Additionally, it set a larger frontloading of access and a decrease of the reviews frequency.

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<sup>1</sup> At September 8, 2009, these following countries had already committed financing (all figures are in US dollars): Japan and US 100 billion each other, EU 178 billion, Canada and Switzerland 10 billion each other, Norway 5 billion, Korea 10 billion, Australia 10 billion and Singapore 1.5 billion. (IMF, 2009b)

<sup>2</sup> It were discontinued the Supplemental Reserve Facility (SRF), the Compensatory Financing Facility (CFF), and the Short-term Liquidity Facility (SLF). Also it was decided to discourage the use of the Extended Fund Facility (EFF) for large disbursements.

Regarding the conditionality policy, the Fund suggested a reform based on three pillars, in order not only to adapt the conditions to the requirements of the countries according to their weaknesses and strengthens, but also to reduce the stigma associated to its observance. Firstly, they would reduce the traditional conditions (ex post) of the arrangements through a larger use of pre-qualification criteria (ex ante conditionality). Secondly, they would eliminate structural performance criteria and they would supervise the observance of structural reforms within the programs' reviews. Finally, they would limit the conditionality to central expertise areas, that is, finance, monetary, fiscal and exchange rate macroeconomic variables.

Through this reform, the Fund sought to present itself as an organism that had learnt from its mistakes, capable of adapting to the countries needs, disbursing financing and fostering the implementation of counter-cyclical policies of fiscal stimulus which would restrain the crisis' recessive impact. However, although with some shades, the Fund keeps on reproducing a similar logic of the 90's, along with its conditions of disbursements which prevent from limiting the capital flight in restricting any kind of exchange or capital control –even though temporary-, which deepens the external shock impact. This increases the pressure for implementing restrictive monetary and fiscal policies –such as fiscal regulations or the increase of the interest rate- that intensify the economic contraction.

In the following part of the article, the transformations of the financing policy central aspects as well as IMF conditionalities will be described and analyzed given the reform implemented on the end of March 2009, which ground the precedent considerations<sup>3</sup>.

## **Empirical evidence about financing policy**

### **Credit and disbursements**

Since the outbreak of the crisis, the Fund approved 20 arrangements, 17 SBA and 3 in the new FCL. The first conclusion is that the augmentation of its resources has been reflected not only on a remarkable increase of the magnitude of committed financing and disbursement but also on the quantity of approved arrangements. In order to put the reach of this change into perspective, Chart 1 presents a comparison of the magnitude of the lending approved and disbursed in the first eleven months of the outbreak of the current crisis and Southeast Asian, the most recent example of a financial crisis comparable to the actual (see Charts in Appendix A.1 and A.2 for detailed data)<sup>4</sup>. Although one could argue that there are some differences that would limit the scope of the comparison (the current crisis is deeper and started at the center of global capitalism), both share the fact that they are clear references of financial crises as an economic phenomenon<sup>5</sup>, and share the existence of an active participation of the IMF -

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<sup>3</sup> Due to space limitations and the brief time elapsed since the implementation of the reform, the consideration of the extent of the revisions' frequency reduction and the fees and charges structure's simplification was put aside.

<sup>4</sup> It was decided not to include data on the crisis 2001/2 -which especially affected Turkey, Brazil and Argentina- because it is difficult to identify a moment that establishes a starting point. While arguably, there is agreement in considering the devaluation of the Thai Baht in July 1997 and the bankruptcy of Lehman Brothers in September 2008 as the beginning of chosen crisis.

<sup>5</sup> It is understood as a financial crisis, the process which includes the phases of "distress" of economic upswing, slump and panic. The latter is characterized by the conversion of real or financial assets to money or repayment of debt, with a crash in the prices of commodities, houses, buildings, stocks, bonds – in short, in whatever has been the subject of the mania in the upswing (Kindleberger, 2000: 2-3).

through lending and the requirement of economic policy measures from the time the crisis began<sup>6</sup>.

Chart 1. IMF: Agreed amounts and Disbursements; Ratio with Quotas (Jul-97 to May-98 and Sep-08 to Jul-09)

*In millions of SDR. Only General Resources Account*

	Programs Approved	Amount Agreed	Disbursed	Total Quotas	Ratio Agr / Quotas	Ratio Disb / Quotas
Jul-97 to May-98	13	31.031	19.435	8.222	377%	236%
Sep-08 to Jul-09	20	103.630	25.408	12.298	843%	207%
<i>o/w SBA</i>	17	51.446	25.408	7.002	735%	363%
<i>o/w FCL</i>	3	52.184	0	5.296	985%	0%

Total Quotas: Total quotas of countries that signed an Arrangement

Source: own elaboration based on www.imf.org

In comparing the credits ratio with the requesting countries quotas, there is a duplication regarding the committed financing, although the disbursements have a slight decrease. This is understood when SBA and FCL credits are discriminated. If we only take the formers, the relation between the disbursements and the quotas increased a 50% with respect to what happened in 1997/98. It happens that the three FCL credits are large but until now they were not used by the requesting countries (Mexico, Colombia and Poland). The introduction of FCL has notably enlarged access limits, which is verified in the increase of credits lines magnitude authorized by the FMI. Whether in absolute terms or with regard to the countries quotas, the Fund has increased its financing even if only comparing SBA credits.

Thus, a similar conclusion could be reached if instead of comparing the ratio of committed and disbursed lending to the quotas, we compare the former to GDP values of the crisis previous year.

Chart 1.1. IMF: Agreed amounts and Disbursements; Ratio with GDP (Jul-97 to May-98 and Sep-08 to Jul-09)

*In millions of SDR. Only General Resources Account*

	Programs Approved	Amount Agreed	Disbursed	GDP /1	Ratio Agr / Quotas	Ratio Disb / Quotas
Jul-97 to May-98	13	31.031	19.435	1.032.923	3,00%	1,88%
Sep-08 to Jul-09	20	103.630	25.408	1.646.329	6,29%	1,54%
<i>o/w SBA</i>	17	51.446	25.408	1.646.329	3,12%	1,54%
<i>o/w FCL</i>	3	52.184	0	1.646.329	3,17%	0,00%

/1 Values for 1996 and 2007 (both end of period). Calculated from GDP in current US dollars by SDR geometric average

Source: own elaboration based on www.imf.org and IMFS

### Access' limits and characteristics

The reform also tried to augment financing through the duplication of normal access limits. Chart 2 presents the distribution of financing arrangements regarding the type of authorized access (exceptional or not). More than the 90% of the 11 arrangements approved before the reform (between September 2008 and March 2009 inclusive) had exceptional access. However, after the reform, the figure falls to 17% placing closer to the 23% which characterized the disbursed arrangements during the first eleven months of the crisis in South East Asia. Data allow one to infer that instead of enable an increase, the duplication of access limits legitimated a situation that had been taking place from the beginning of the crisis as a consequence of the countries' need of financing and the organism resource availability.

<sup>6</sup> This characteristic highlights another difference with the 2001/2 crisis, where the IMF intervention started before the crisis' outbreak (Chudnovsky, López and Pupato, 2003: 19). For example, in the case of Argentina, the Fund maintained agreements almost continuously throughout the 90's decade.

Chart 2. IMF: Lending Arrangements by access (Jul-97 to May-98 and Sep-08 to Jul-09)

*Only General Resources Account*

	Exceptional Access	Normal Access	% Excep	% Normal
Jul-97 to May-98	3	10	23%	77%
Sep-08 to Jul-09 /1	11	6	65%	35%
o/w Pre-Reform	10	1	91%	9%
o/w Post-Reform	1	5	17%	83%

/1 FCL credits excluded

Source: own elaboration based on www.imf.org

In this sense, the Fund faced this crisis with much more available resources comparatively speaking than the way it dealt with the one in South East Asia. While in the mid 1997 it had a high amount of outstanding credits from the disbursements made during the crisis in Mexico, in the outbreak of the current crisis the Fund was going through a sort of “desert crossing” comparable to the one that it went through in the ’70 (Dauvergne, 1988: 61) looking for clients which request its high resources.

Chart 3. IMF: Financial Resources and Liquidity Position, Jun-97 and Ago-08 /1

*In millions of SDR. End of period*

	Jun-97	Ago-08
Total Resources	149.200	224.200
Less: Non Usable Resources	98.500	60.800
o/w Credit outstanding	34.200	7.700
Usable Resources	50.700	163.400
Less: Committed disbursements	18.000	800
Less: Prudential balance	10.000	34.900
Net usable resources	22.700	127.700
Ratio Net / Usable	45%	78%

Not include NAB / GAB Arrangements

Source: own elaboration based on www.imf.org

Finally, the reform suggested an increase in the magnitude of disbursements at the beginning of the program. The information in Chart 4 presents the average ratio of disbursements at the beginning of the arrangement of the total original authorized amount. The reason for taking the average is to account for the IMF behavior in each arrangement. If the aggregated proportion is taken instead –that is, adding every value-, we would be at the risk of overestimating the result, attributing to other arrangements the magnitudes that only refer to one of them. For instance, the IMF in 1997 made large disbursements to Thailand and Korea –which implicated a 41% and a 30% of the committed original amount respectively. But, when it is compared to the rest of the cases, it is verified the fact that it was an exceptional decision. In order to avoid an underestimation of the result, the chart considers only the arrangements which included disbursements.

Chart 4. IMF: Ratio Upfront Received / Initially Agreed Financing Averages (Jul-97 to May-98 and Sep-08 to Jul-09)

*Excluding Precautionary Arrangements*

	All	SBA Only
Jul-97 to May-98	21%	29%
Sep-08 to Jul-09	35%	35%
o/w Pre-Reform	39%	39%
o/w Post-Reform	26%	26%

Source: own elaboration based on www.imf.org

The data on the second column allow us to observe that the average by Stand-By arrangement of initial disbursements over amounts agreed rose from 29% to a 35% –in the disbursements during the first eleven months of the South East Asian crisis; this means that, in average, the first IMF disbursement at the beginning of each arrangement during the crisis of South East Asia represented the 29% of the total approved. Currently, that value rises up to 35%, that is, if the IMF approved a credit line for 100 SDR, it disburses in average 35 SDR at the beginning of every arrangement. Although there has been an increase, its magnitude does not allow us to assure that we face an outstanding change.

It is true that the difference would be larger (21% to 35%) if EFF were included in the first period and if all arrangement were compared –not only SBA. However, even though this information was included in the Chart to enrich the analysis, there are some doubts regarding the validity of the comparison. EFF are long term arrangements (those four arranged during South East Asian crisis lasted 3 years) and they are less thought as support for economies that go through temporary balance of payment turbulences than a framework programs for the consolidation of structural reforms. Nevertheless, it is true that in some occasions they were approved following criteria that exceeded those previously mentioned.

On the other hand, it is important to point out that if the data related to previous and posterior periods of the reform were compared, the disbursement average decreases with respect to the arrangement instead of increasing. While in average in every approved arrangement before the reform a 39% of the committed financing was disbursed, this value falls to a 26% for the period after it. Remarkably, it is a value beneath the 29% corresponding to 1997/98 credits.

The precedent data do not allow us to clearly establish that there has been an increase concerning initial disbursements. Although the comparison between current values and those of the South East Asian crisis (whether we take into account all the arrangements or just the SBA) lets us observe that there was an increase, its magnitude does not seem to indicate a structural change regarding this subject. In addition, and ironically, this conclusion becomes relative when we examine that the values corresponding to the current crisis -previous to the reform- are higher than those after it. All in all, although we can affirm that so far the reform has not achieved any modifications in this sense, it is prudent to wait a longer period of time before jump into a conclusion about the reach of it in this subject.

## **Empirical evidence about conditionality policy**

### **A more focused conditionality**

Just as the case of lending policy, the influence of the reform on the conditionality policy presents shades and uneven implications regarding the aspects which constitute it. This requires a comprehensive analysis but, due to length limitations, we present a first approach which focuses on the behavior followed by central variables<sup>7</sup>.

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<sup>7</sup> To obtain the data for the period Sep-08 to Jul-09, it were analyzed all the conditionalities included in the Staff Reports elaborated during that period, which correspond to the agreements listed in Appendix Table A.2. Thus a database was created containing the 102 quantitative and 166 structural conditionalities, included in 16 Stand-By Agreements and its revisions since 01-Sep-08 to 31-Jul-09 (of a total of 20 agreements approved in the period, there is no data on Sri Lanka's and, of course, the 3 FCL

As it is well known, there are two kinds of conditionalities, quantitative or structural. The formers refer to quantitative targets of macroeconomic issues such as fiscal balance, indebtedness and monetary base. The latter, consist of institutional economy framework reforms, and the reform suggested the need to focus them. We can see in Chart 5<sup>8</sup> that comparing the average in 1995/00 and in 2001/04, the Fund made progress focusing them toward its critical responsibility areas<sup>9</sup>. As expected, in the first stage of the current term there are a high proportion of conditions oriented toward the financial sector, given the need to implement measures in order to stabilize the sector more affected by the crisis. Likewise, there is a great progress, although lower, within the concentration of conditions in the Fund central areas when comparing the existing distribution before and after the reform. Currently, the areas concerning financial, monetary, exchange and fiscal policies concentrate the 95% of the structural conditions. From the data we can infer that less than introducing a structural change, in this point the reform consolidated and slightly deepened a process already verified before its approval.

The Fund “specialization” in its core areas marks a contrast with the dispersion showed in its exigencies during the ’90 when, following the *Washington Consensus* decalogue, it reached other areas such as privatizations, deregulations and labor and educative reforms. Another issue to emphasize is that the arrangements with Pakistan, Armenia and Mongolia included measures to strengthen social protection nets (in these cases they were benchmark criteria). Although moderately, the Fund seems to have improved some practices that were criticized in the past. In particular, those concerning the intervention on areas alien to its expertise and the mitigation of adverse effects caused by the programs which impacted on the most vulnerable sectors.

Chart 5. IMF: Structural Conditionality distribution by area (95-00, 01-04 and Sep-08 to Jul-09)  
% of all conditions. Only General Resources Account

1995-2000		2001-2004		Pre-Reform Sep-08 to Mar-09		Post-Reform Apr-09 to Jul-09	
Financial		Financial		Financial		Financial	
Sector	21%	Sector	28%	Sector	42%	Sector	34%
Other World		Public		Other IMF		Other IMF	
Bank Core	18%	Expenditure	18%	Core	21%	Core	26%
Privatizations	14%	Tax Policy	14%	Public		Public	
Rest	47%	Rest	40%	Expenditure	21%	Expenditure	22%
				Rest	6%	Rest	12%

Source: columns 1-2: IEO-IMF (2007a: 5); column 3: own elaboration based on IMF

### Structural conditionality by area and type

In order to reduce the stigma on borrowers, the reform tried to reduce the traditional ex post conditionalities and to be more based on pre-qualification criteria to decide a disbursement. In this sense, the introduction of FCL made some progress since it consists of a credit line that does not include ex post conditions and it is disbursed based

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agreements that does not include conditionalities). All the documents consulted are detailed in the Reference Section.

<sup>8</sup> To obtain the distribution by area, it were analyzed all the conditionalities and they were classified by area according to the pursued objective. Then they were distributed according to the month in which was approved the agreement or the revision to which they refer. Thus, there were consolidated two sets of conditions by area, one for the months prior to the reform, and one for the months subsequent to it. From these two sets it was calculated for each area the percentage of total conditions.

<sup>9</sup> See Appendix Table A.3 for a description of the area categories in which the structural conditions are distributed.

on the robustness of macroeconomic variables<sup>10</sup>. Likewise, the use of performance structural conditionalities were discontinued which makes the current arrangements to impose exclusively conditions of prior action and benchmark type. The formers are harder due to the exigencies that should be taken care of before the approval or review. The latter are the soft ones since its evaluation is carried out within the review (it does not impose additional deadlines to the review) and its non-fulfillment is not the object of sanctions in formal terms (Woods, 2006: 375).

It is interesting to analyze the evolution of the types of structural reforms distribution after the elimination of performance targets in order to see if there has been an increase in the proportion of benchmark or in prior actions. In Chart 6<sup>11</sup> we can observe that, after the elimination, their proportion was distributed almost uniformly considering both types of conditions, being a slightly higher the increase in benchmark. For every 10 conditions that the organism demands in each new arrangement or review after the reform, there are 7 benchmark and 3 prior actions.

The proportional increase in benchmarks in comparison to other years (the benchmark proportion per arrangement year during 1998 was 48% approximately<sup>12</sup>) lead us to think that the reviews will gain more importance as a negotiation instance, since it will constitute a fulfillment deadline for the established structural reforms. Simultaneously, given that there are not very clear criteria regarding the continuity or discontinuity of a program when these goals are not fulfilled, it is possible that this fact increase the negotiating power for staffers and the management, insofar as their subjective criteria will have much more weight when approving –or not- the reviews.

Chart 6. IMF: Structural Conditionalities  
Average by type, Sep-08 a Jul-09  
*% of all conditions. Only GRA*

	Pre- Reform	Post- Reform
Prior Actions	23%	29%
Performance	19%	0%
Benchmark	58%	71%

Source: own elaboration based on IMF

Although we have seen so far that the reform has incorporated some novelties, some authors (Weisbrot, Cordero and Sandoval, 2009, Weissmann, 2009) consider that the Fund still demands economic policy measures with an orthodox orientation, which limit the possibility to implement counter-cyclical policies and deepen the recessive cycle. In order to formalize an analysis that allow us to come to preliminary conclusions on whether there has been changes or not regarding the political orientation of the exigencies, it has been compared the distribution of structural conditions combining both area and type criteria. It has been argued that areas with a higher proportion of prior action conditions are those which detent a major importance to the Fund, since, when it comes to these areas, it shows less tolerance. For example, if a condition concerning the establishment of social protection networks is a benchmark type, but another one that demands to cut the current expenditures is prior action, it is interpreted

<sup>10</sup> The *Staff Reports*' wording relating to the approval of the FCL in Poland, Mexico and Colombia shows this characteristic. In two of them -Poland and Colombia-the first chapter's title refers explicitly to the "solid foundations" on which the economy rest, while in the remaining, the first text box is headed "solid performance" referring to the evolution of the economy in the last ten years.

<sup>11</sup> Prepared with a criterion similar to the one of Table 5, but instead of classifying conditions by area, they were classified by type.

<sup>12</sup> See IEO-IMF (2007a: 16).

that the organism puts more emphasis on the latter. Of course, still considering the importance or the former.

Chart 7. IMF: Total Structural Conditionality by area and type (Sep-08 to Jul-09)

*All conditionalities. Only GRA*

	Prior Actions	Performance	Benchmark	Total
Tax Policy	2	2	10	14
Public Expenditure	13	3	20	36
Financial Sector	12	10	42	64
Other IMF Core	14	1	24	39
SOE Reform	1	0	1	2
Privatization	0	0	1	1
Civil Service Reform	1	0	3	4
Social Policies	1	0	1	2
Other WB Core	0	0	4	4
<b>Total</b>	<b>44</b>	<b>16</b>	<b>106</b>	<b>166</b>

Source: own elaboration based on IMF

Chart 7.1. IMF: Structural Conditionality distribution by area and type *Pre-Reform*

*All conditionalities. Only GRA*

	Prior Actions	Perfo	Bench	Total
Tax Policy	0%	40%	60%	100%
Public Expenditure	21%	16%	63%	100%
Financial Sector	18%	26%	55%	100%
Other IMF Core	42%	5%	53%	100%
Other	22%	11%	67%	100%
<b>Total</b>	<b>23%</b>	<b>19%</b>	<b>58%</b>	<b>100% (90)</b>

Source: own elaboration based on IMF

Chart 7.2. IMF: Structural Conditionality distribution by area and type *Post-Reform*

*All conditionalities. Only GRA*

	Prior Actions	Perfo	Bench	Total
Tax Policy	22%	0%	78%	100%
Public Expenditure	53%	0%	47%	100%
Financial Sector	19%	0%	81%	100%
Other IMF Core	30%	0%	70%	100%
Other	0%	0%	100%	0%
<b>Total</b>	<b>29%</b>	<b>0%</b>	<b>71%</b>	<b>100% (76)</b>

Source: own elaboration based on IMF

Charts 7.1 and 7.2 show that the reform introduced a change within the qualitative composition of the reforms according to area and type. That is, in eliminating structural performance criteria, these conditions were not equitably distributed so the proportions would be equilibrated. Public Expenditure Management (PEM) is the area where the exigencies are harder in terms of the proportion of prior actions on the total of conditions of the same area, going from 21% to 53% of the total. It is this area the one that concentrates exigencies such as expenditures cuts or the budgets approval that include regulations which allow a deficit decrease, both typical exigencies of an orthodox style. The other areas that increment its proportion of demanding targets in relative terms is Tax Policy, which goes from not having any prior action to reach a 22% of the total. The rest of the conditionalities –aligned with the slight relative increase of benchmark in detriment of prior actions after the elimination of performance criteria-, increase to a great extent the benchmark proportion.

Chart 8.1. IMF: Structural Conditionality distribution by type and area *Pre-Reform*

*All conditionalities. Only GRA*

	Tax Policy	PEM	Financial Sector	Other IMF Core	Other
Prior Action	0%	19%	33%	38%	10%
Performance	12%	18%	59%	6%	6%
Benchmark	6%	23%	40%	19%	12%

Source: own elaboration based on IMF

Chart 8.2. IMF: Structural Conditionality distribution by type and area *Post-Reform*  
All conditionalities. Only GRA

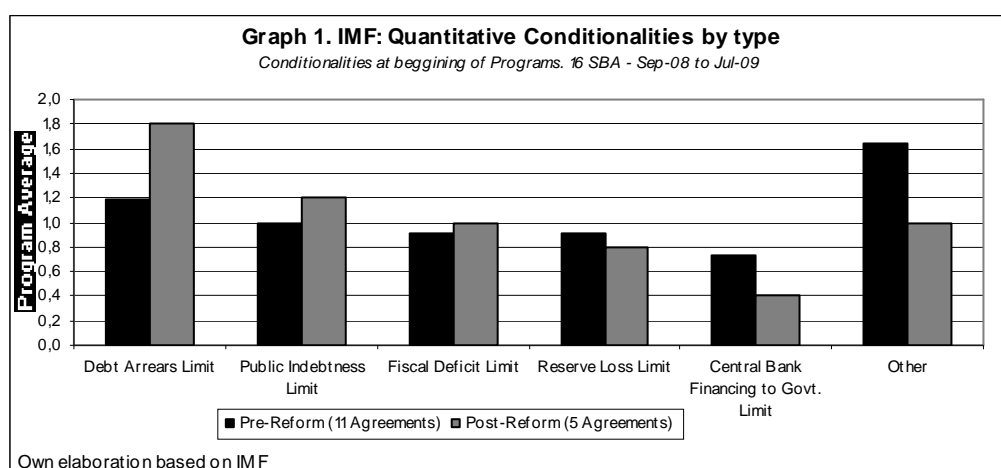
	Tax Policy	PEM	Financial Sector	Other IMF Core	Other
Prior Action	9%	41%	23%	27%	0%
Performance	0%	0%	0%	0%	0%
Benchmark	13%	15%	39%	26%	7%

Source: own elaboration based on IMF

As it can be inferred from Chart 8.1 and 8.2, PEM and other IMF Core are the areas in which a higher quantity of prior actions was concentrated after the reforms, principally including exchange and monetary measures. Thus, conditionalities that look for stabilization through policies of demand restriction such as deficit reduction (Ukraine and Rumania), public salary cuts (Serbia and Bosnia), and increase in the interest rate (Island, Pakistan and Byelorussia –the first two before the reform), are the ones mostly demanded as prior actions.

### Quantitative Conditionalities

Quantitative conditions also seem to reproduce this orientation. Graph 1 presents their distribution according to the objective and the average by program<sup>13</sup>. All the arrangements include in average conditions that limit the possibility of suspending – although temporarily- the debt service and impose limits to public indebtedness. Even though the preoccupation for maintaining a reasonable level of indebtedness is remarkable, it is desirable to relax these exigencies within recessive contexts, since the use of the credit –in a moderate way- could contribute to a reactivation. In this sense, almost every arrangement in average imposes limits to fiscal deficit. For instance, the demand to implement a zero deficit law in the middle of an economic crisis has reappeared in the arrangements with Ukraine and Byelorussia.



The graphic reaffirms what has been pointed out regarding the concentration of Fund's conditions. After the reform, the average of conditions by program included in

<sup>13</sup> For the preparation of this graph it were taken the 102 quantitative conditionalities of the database indicated in the footnote 7, and they were ordered according to the moment in which they were established (i.e. agreements approved before or after the reform). Then the number of conditions was divided by the number of agreements, and it was yielded a program average. The categories used for classifying the quantitative conditionality are based on Stone (2008: 18).

the category *other* decrease at the time that the first three increase in proportion. These are critical elements of any orthodox program which, during the falling of the activity, looks for reestablishing the equilibrium through the reduction of the demand.

### **Concluding Remarks**

Despite the fact that only a brief period of time has passed from the reform, the synthetic presentation of principal data about IMF's financial and conditionality policy allow us to settle some preliminary observations regarding its reach. It goes without saying that, although the Fund did not expressly propose to modify the economic policy orientation of its recommendations, there might be modifications in this sense due to two important gestures. The first one is the reference to the programs being "adequately tailored" to the varying of strength of policies and the fundamentals of country members. The second one, are the frequent statements of several officials regarding the need for the countries to have fiscal and monetary action margins to implement stimulus programs that impulse the demand and consumption (Muchhala, 2009: 2).

However, after the reform, the IMF presents new aspects along with continuity patterns. The formers are constituted by larger lending, the availability –through FCL- of high financing without ex post conditionalities (although with hard pre-qualification criteria), the deepen of the focusing of structural conditionalities in its core areas, and a certain interest for protecting the most vulnerable sector of society. Nevertheless, the orthodox orientation of its policy recommendations is maintained with hardly any modifications. This lead to the fact that its conditions, although limited to few areas, reproduce within their content the adjustment with free capital mobility framework which can deepen the impact of an external *shock* as far as it limit the possibility of implementing counter-cyclical policies.

If the central potencies agreed that the depth of the current crisis requires evoking Keynes through counter-cyclical policies of fiscal stimulus similar to the ones implemented during the Great Depression, the content of the measures demanded by the Fund to borrower countries would seem to demonstrate that the spirit of one of its principal inspirers is still far away from orienting the premises from which it designs its policy recommendations.

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## Appendix

Chart A.1. IMF: Detail of Approved Lending Arrangements, Jul-97 to May-98

*In billions of SDR. Only General Resources Account*

A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P
Type	Prec	Acce ss	Country	Date	Duration months	GDP	Quota	Amount Agreed	% of GDP	% of Quota	Received	Ratio L/I	Amount Initially Agreed	Received Upfront	Ratio O/N
SBA		E	Thailand	Ago-97	34	125.362	574	2.900	2,31%	505%	2.000	69%	2.900	1.200	41%
SBA		NE	Ukraine	Ago-97	12	30.727	997	399	1,30%	40%	181	45%	399	36	9%
SBA	Prec	NE	Latvia	Oct-97	18	3.915	91	33	0,84%	36%	0	0%	33	0	0%
EFF		NE	Pakistan	Oct-97	36	53.291	758	455	0,85%	60%	57	13%	455	38	8%
EFF		NE	Yemen	Oct-97	36	4.476	176	106	2,37%	60%	9	8%	106	9	8%
SBA		E	Indonesia	Nov-97	36	172.764	1.498	8.338	4,83%	557%	2.935	35%	7.338	2.200	30%
SBA		E	Korea	Dec-97	36	384.483	1.634	15.500	4,03%	949%	12.135	78%	15.500	4.100	26%
EFF		NE	Panama	Dec-97	36	6.423	150	120	1,87%	80%	10	8%	120	10	8%
SBA	Prec	NE	Estonia	Dec-97	15	3.247	46	16	0,49%	35%	0	0%	61	0	0%
EFF	Prec	NE	Argentina	Feb-98	36	187.511	1.537	2.080	1,11%	135%	0	0%	2.080	0	0%
SBA	Prec	NE	Cape Verde	Feb-98	14	346	7	2	0,58%	29%	0	0	2	0	0%
SBA	Prec	NE	Philippines	Apr-98	24	58.132	633	1.021	1,76%	161%	0	0%	1.021	0	0%
SBA		NE	Bosnia and H	May-98	12	2.247	121	61	2,71%	50%	24	39%	61	24	39%

Prec: Precautionary Arrangement

Access: Exceptional (E) of Non-Exceptional (NE)

GDP: Values for 1996 and 2007 (both end of period). Calculated from GDP in current US dollars by SDR geometric average

Amount Initially Agreed: Amount agreed at Arrangement's Approval (could be later augmented)

Received Upfront: First disbursement at Arrangement's approval

Source: own elaboration based on www.imf.org

Chart A.2. IMF: Detail of Approved Lending Arrangements, Sep-08 to Jul-09

*In billions of SDR. Only General Resources Account*

A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P
Type	Prec	Acce ss	Country	Date	Duration months	GDP	Quota	Amount Agreed	% of GDP	% of Quota	Received	Ratio L/I	Amount Initially Agreed	Received Upfront	Ratio O/N
SBA		E	Georgia	Sep-08	18	6.678	150	477	7,14%	318%	288	60%	477	162	34%
SBA		E	Ukraine	Nov-08	24	92.494	1.372	11.000	11,89%	802%	7.000	64%	11.000	3.000	27%
SBA		E	Hungary	Nov-08	17	90.346	1.038	10.537	11,66%	1015%	7.587	72%	10.537	4.200	40%
SBA		NE	Seychelles	Nov-08	24	465	9	18	3,87%	200%	8	44%	18	6	33%
SBA		E	Iceland	Nov-08	24	13.209	118	1.400	10,60%	1186%	560	40%	1.400	560	40%
SBA		E	Pakistan	Nov-08	23	93.879	1.034	5.168	5,50%	500%	2.636	51%	5.168	2.067	40%
SBA		E	Latvia	Dic-08	27	17.739	127	1.522	8,58%	1198%	535	35%	1.522	535	35%
SBA		E	Belarus	Ene-09	15	29.237	386	2.269	7,76%	588%	956	42%	1.620	517	32%
SBA	Prec	E	El Salvador	Ene-09	15	13.304	171	514	3,86%	301%	0	0%	514	0	0%
SBA		E	Serbia	Ene-09	27	26.025	468	2.619	10,06%	560%	701	27%	351	234	67%
SBA		E	Armenia	Mar-09	28	6.027	92	534	8,86%	580%	264	49%	368	151	41%
SBA		NE	Mongolia	Abr-09	17	2.543	51	153	6,02%	300%	77	50%	153	51	33%
SBA	Prec	NE	Costa Rica	Abr-09	15	17.129	164	492	2,87%	300%	0	0%	492	0	0%
FCL	Prec	n/a	Mexico	Abr-09	12	667.899	3.153	31.528	4,72%	1000%	0	0%	31.528	0	0%
SBA	Prec	NE	Guatemala	Abr-09	18	22.002	210	631	2,87%	300%	0	0%	631	0	0%
SBA		E	Romania	May-09	24	108.387	1.030	11.443	10,56%	1111%	4.370	38%	11.443	4.370	38%
FCL	Prec	n/a	Poland	May-09	12	275.625	1.369	13.690	4,97%	1000%	0	0%	13.690	0	0%
FCL	Prec	n/a	Colombia	May-09	12	132.317	774	6.966	5,26%	900%	0	0%	6.966	0	0%
SBA		NE	Bosnia and H	Jul-09	36	9.903	169	1.015	10,25%	600%	183	18%	1.015	183	18%
SBA		NE	Sri Lanka	Jul-09	20	21.123	413	1.654	7,83%	400%	207	13%	1.654	207	13%

Prec: Precautionary Arrangement

Access: Exceptional (E) of Non-Exceptional (NE)

GDP: Values for 1996 and 2007 (both end of period). Calculated from GDP in current US dollars by SDR geometric average

Amount Initially Agreed: Amount agreed at Arrangement's Approval (could be later augmented)

Received Upfront: First disbursement at Arrangement's approval

Source: own elaboration based on www.imf.org

Chart A.3. Classification of Structural Conditionality Areas by Independent Evaluation Office of the IMF

Area	Description
Tax Policy and Tax Administration	Revenue issues; tax legislation and regulation; tax policy issues; and tax and customs administration
Public Expenditure Management (PEM)	Expenditure policy and administration, fiscal reviews (audits, public expenditure reviews), domestic arrears, public debt, guarantees, and contingent liabilities.
Financial Sector	Financial Sector Reforms and Development Laws and regulations of the financial sector. Also banking supervision and corrective actions in problem banks.
Other IMF Core	Foreign exchange rate regime; exchange rate policy; some aspects of trade policy; capital account issues; monetary policy; macroeconomic and statistics issues; and safeguard assessments issues.
SOE Reform	Restructuring of public enterprises, pricing policies, regulatory reforms in utilities.
Privatization	All activities related to the privatization of non-financial Stated-Owned Enterprises.
Civil Service Reform	Civil Service Reform Wage and employment limits, other measures affecting employment in the public sector.
Social Policies	Social Policies Design of policies in social sectors such as education, health, and pensions.
Other World Bank Core	Trade liberalization, governance and corruption; poverty reduction and social sector spending; social safety nets; design of sector policies in agriculture, land and roads; marketing and pricing reforms; decentralization; labor market policies; and natural resource management.

Source: IEO-IMF (2007b: 25).