The Impact of IMF Lending on Developing Nations: Case Studies from Ghana, Serbia, Ireland, and Jamaica

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The International Monetary Fund (IMF) plays a crucial role in fostering sustainable development and growth for its approximately 190 member nations. The IMF supports these objectives by backing economic strategies, policies, and regulations that ensure stability in financial and monetary sectors. These sectors are vital for enhancing productivity, creating job opportunities, and driving economic prosperity. The governance and transparency of the IMF are maintained by its member countries.

The IMF focuses on three key goals: (i) strengthening international monetary cooperation, (ii) promoting economic diversification and trade, and (iii) dissuading policies or regulations that could impede prosperity. To achieve these goals, the IMF facilitates collaboration among its member economies and with international organizations.

The IMF also offers technical assistance and training to help countries build robust institutions and improve economic policies. By sharing best practices and providing targeted advice, the IMF supports member countries in their efforts to achieve sustainable growth and development. Furthermore, the IMF conducts regular surveillance of global and national economies, providing insights and guidance on economic stability and risks. This continuous monitoring helps the IMF anticipate challenges and offer timely assistance to its members.

Types of IMF Loans

IMF offers various types of loans tailored to the specific needs and circumstances of member economies:

1) **Stand-By Arrangement (SBA):** A short to medium-term loan for developing and developed economies to address balance of payment or short-term issues.
2) **Standby Credit Facility (SCF):** Similar to SBA, designed for low-income countries to manage short-term balance of payment issues.
3) **Extended Fund Facility (EFF):** For economies facing long-term balance of payment challenges, extending over a period of 3 years or more.
4) **Extended Credit Facility (ECF):** Similar to EFF but specifically for low-income countries, addressing medium to long-term structural challenges.
5) **Rapid Financing Instrument (RFI):** Provides immediate financial assistance for balance of payment needs, including natural disasters or commodity price shocks.
6) **Rapid Credit Facility (RCF):** Rapid assistance for low-income countries facing emergencies, with a grace period of 5 years and a maturity of 10 years.
7) **Flexible Credit Line (FCL):** For countries with strong policies but facing urgent cash shortages, offering a 1 to 2-year credit line.
8) **Precautionary and Liquidity Line (PLL):** Addresses liquidity needs of economies with strong policies but residual issues.
9) **Catastrophe Containment and Relief Trust (CCRT):** Provides grants instead of loans to poor countries during natural disasters or crises.
10) **Policy Support Instrument (PSI):** Offers non-financial assistance to low-income countries for policy advice and support, lasting 1 to 5 years.

These loans aim to support economic stability, growth, and development, tailored to the specific needs and circumstances of each member economy.

Success stories of IMF lending

1) Ghana's IMF Program: Restoring Africa's Luster

In 2015, Ghana experienced economic instability, characterized by escalating deficits, high inflation, and currency devaluation. These challenges were worsened by excessive government spending and dwindling credit reserves. In response, Ghana sought assistance from the International Monetary Fund (IMF) and obtained a US$918 million loan. The IMF recommended a three-year plan to help Ghana stabilize its economy:

- **Fiscal Reforms:** The plan called for controlling debt by capping wages, eliminating subsidies, and boosting tax revenue through efforts to combat tax evasion.
- **Monetary Policy:** The IMF suggested establishing a robust monetary policy framework to address budget deficits and bring down inflation.
- **Banking System Reforms:** The plan included measures to improve the banking system, such as addressing under-capitalization, enhancing asset quality through bank recapitalization, and implementing stronger regulatory measures.

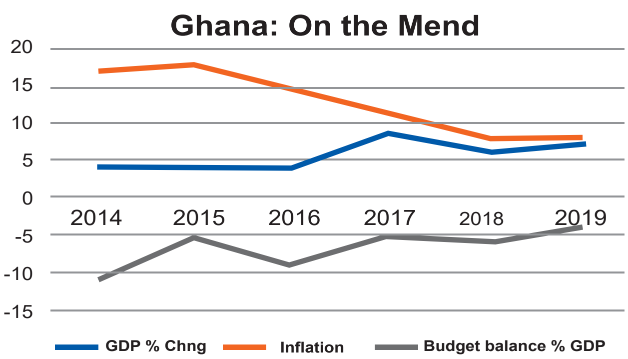

Figure 1: Ghana's GDP, Inflation and Budget Balance at glance

Source: IMF

Outcome

In 2019, Ghana achieved a remarkable increase in its economic growth rate, rising to 8.8% from 2.2% in 2015. The inflation rate also dropped significantly, from approximately 19% to 8%. As a result of fiscal discipline, the country was able to allocate revenues to support social services such as free secondary education. For the nation's population of around 28 million, Ghana provided market-competitive salaries and wages, job opportunities, and enhanced purchasing power. Although Ghana continues to rely on external financing and faces fiscal challenges, it has successfully improved its pace of development and achieved notable economic progress.

2) Serbia's IMF Program: Achieving Economic Success

Since 2008, Serbia has faced economic volatility, which worsened in 2014. The country's economy experienced stagnation due to weak public institutions, unmet tax collection targets, and increased government spending, leading to a swift accumulation of public debt. In response to this concerning situation, the government initiated a plan to implement fiscal reforms, strengthen the financial sector, and pursue an inclusive economic program. The International Monetary Fund (IMF) supported these efforts with economic guidance, regulatory advice, and preventive financing to assist Serbia's recovery.

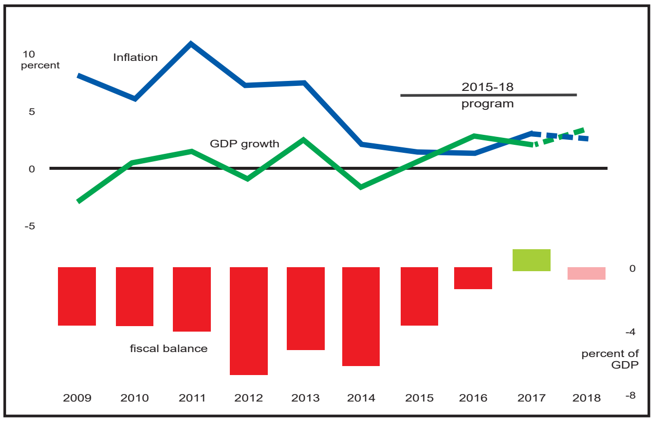

Figure 2: Serbia Growth Returns restored after IMF-supported program

Source: IMF

Outcome

Following three years of rigorous implementation of the planned program, Serbia successfully emerged from its economic challenges. In 2014, the country had one of the highest fiscal deficits in Europe, but by 2017, it reported a surplus. Economic confidence improved with increased financing and investment from both domestic and international sources. By 2018, layoffs and factory closures had declined significantly. The banking sector exhibited strength, and the volume of non-performing loans decreased compared to the pre-crisis period.

3) Rebounding from Economic Turmoil: Ireland's Path to Recovery

In 2007, Ireland's economy faced severe challenges due to a fiscal crisis intensified by the global financial downturn and domestic vulnerabilities. The collapse of the property bubble led to a decline in foreign investment and a significant increase in bank debt related to property loans, adversely affecting economic activity.

Tax revenues fell by 20% within two years, compelling the government to assume responsibility for major banks in 2008, which equated to around 30% of GDP. This crisis persisted until 2010, resulting in an outflow of 60 billion euros, nearly one-third of GDP, and an unemployment rate that climbed to 15%. In 2010, facing economic challenges, Ireland sought assistance from the IMF and EU, receiving a loan of 67.5 billion euros, equivalent to 10% of its economy.

Outcome

IMF recommended that the Irish government implement a series of measures to address the economic crisis, including bank mergers, staff reductions, and aligning assets with deposits. The government launched a three-year plan to reduce the budget deficit, which involved raising taxes, cutting spending, and undertaking reforms that contributed to an 8% reduction in GDP. Although the initial implementation faced challenges, Ireland's economy began to recover by 2012. This recovery was marked by increased investment, a reduction in bank arrears, and an improvement in property prices. By 2018, the unemployment rate had fallen to below 6%, reflecting significant economic progress.

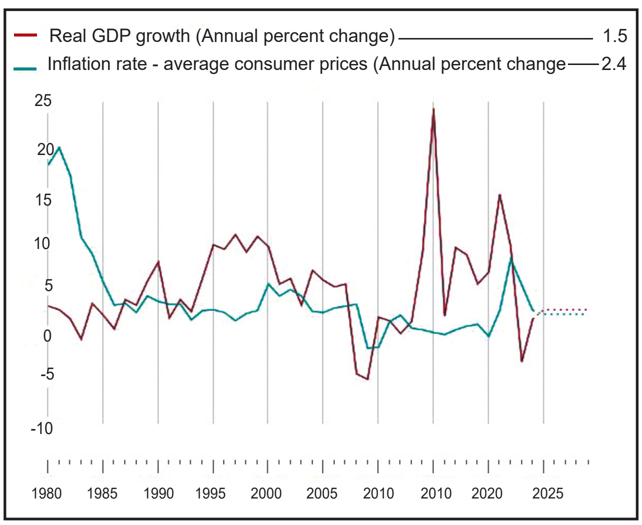

Figure 3: GDP growth and inflation rate of Ireland over the years

Source: IMF

4) Jamaica & IMF: Partnership's Strength

In 2008, Jamaica's economy was significantly affected by the global financial crisis, resulting in policy shortcomings and a sharp increase in public debt. The country faced additional challenges, including vulnerability to natural disasters, a brain drain, rising crime rates, and emigration. By 2013, Jamaica's public debt had reached 147% of GDP, making it one of the most indebted economies worldwide. To address these issues, Jamaica sought financial support from the International Monetary Fund (IMF).

Due to its weak policy history and substantial budget deficits, Jamaica underwent a second debt exchange and aimed to achieve a surplus equivalent to 7.5% of GDP to stabilize the economy and tackle enduring structural problems. Under the IMF's Extended Fund Facility (EFF) in 2013 and a subsequent Stand-By Arrangement (SBA) spanning six years, Jamaica managed to stabilize its economic situation.

The country benefited from strong capacity-building support from international financial institutions and other partners, which enhanced social outcomes and contributed to the nation's economic recovery.

Outcome

Jamaica achieved fiscal sustainability by maintaining a 7% GDP surplus for six consecutive years, reducing public debt to below 100% of GDP. Tax reforms, including a shift to indirect taxes supported by the IMF and Inter-American Development Bank, yielded significant benefits. Unemployment decreased, business confidence rose, and poverty levels declined. Economic development improved with sectors like mining becoming more active. IMF assistance increased investment in social and capital projects. Financial sector reforms strengthened securities dealers and financial institutions. Jamaica's recovery serves as a model for other vulnerable economies facing crises.

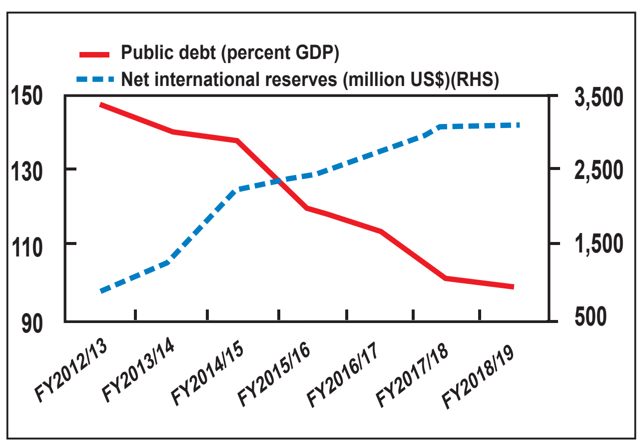

Figure 4: Jamacia's on recovery path

Source: IMF

IMF and Pakistan: A Rocky Relationship

Pakistan has relied on IMF funding to address economic challenges during periods of political instability. Below is a timeline illustrating the relationship between the International Monetary Fund (IMF) and Pakistan:

1958:

- Pakistan joins the International Monetary Fund (IMF).
- IMF lent out US$25,000 (equivalent to US$253,576 in 2022) to Pakistan on standby arrangement basis

1965-1968:

- Two IMF programs were pursued back-to-back by the then President Ayub's finance team in 1965 and 1968
- Pakistan again sought to borrow from the IMF
- IMF provided to Pakistan US$37,500 (equivalent to US$348,231 in 2022) on 16 March 1965
- Pakistan again applied to IMF for the third time on 17 October 1968 due to balance of payment issues and received US$75,000 (equivalent to US$631,148 in 2022)

1972-1977:

- Pakistan seeks IMF funding for three consecutive years due to economic challenges following the separation of East Pakistan and global recession.
- Pakistan got loan of US$84,000 (equivalent to US$587,666 in 2022) in 1972, US$75,000 (equivalent to US$494,415 in 2022) in 1973.
- Another of loan by IMF of US$75,000 (equivalent to US$445,040 in 2022) in 1974 was lent to Pakistan to meet its growing needs.
- Pakistan had four one-year Stand-By Arrangements (SBAs) with the IMF between 1972 and 1977

1980-1981:

- Earlier SBA of 4 years was followed by a three-year extended arrangement in 1980
- IMF loans taken during the Soviet-Afghan war period to bolster defense and economic strength.
- In 1980, an extended facility of US$349,000 (equivalent to US$1,239,542 in 2022) from IMF was reached in 1980
- In 1981, Pakistan received from IMF US$730,000 (equivalent to US$2,349,788 in 2022) in 1981 due to ongoing US cold war against Soviet Union.

198-2007:

- Economic decline observed post-Soviet-Afghan war, leading to seeking IMF loans.
- During the 1988-90, in Benazir Bhutto's first regime, US$4 billion as foreign loans and US$1.11 billion as grants were received by the country
- Over the 1988–2001 period, Pakistan had seven IMF arrangements, four short-term and three multiyear arrangements.
- Pakistan entered into a stand-by arrangement with the IMF in 2000 for a nine-month period followed by a three-year Poverty Reduction and Growth Facility (PRGF)
- During General Pervaz Musharraf regime from 2000 to 2001, IMF granted loan of US$1.5 billion to Pakistan
- During 1999 to 2007, around US$17.503 billion was borrowed

2008:

- Asif Ali Zardari's government seeks IMF loan amid economic troubles upon assuming office.
- In 2008, the government secured the biggest IMF bailout package in history which was of US$7.2 billion

2013-2023:

- During the regime of PML-N in 2013, IMF granted the 2nd highest loan which amounted to US$4.4 billion under the Extended Fund Facility
- In 2019, the PTI government received loan of US$4.3 billion
- In 2020, the IMF only owed around US$9 billion out of Pakistan's US$112 billion external debt.
- In 2022, reaching US$1.64 billion loan, underscore the deepening financial reliance of Pakistan on the IMF
- In May 2023, Pakistan received the first tranche of US$1.2 billion from IMF
- The US$700 million fund represents the second tranche of the IMF bailout signed with Pakistan in June 2023.

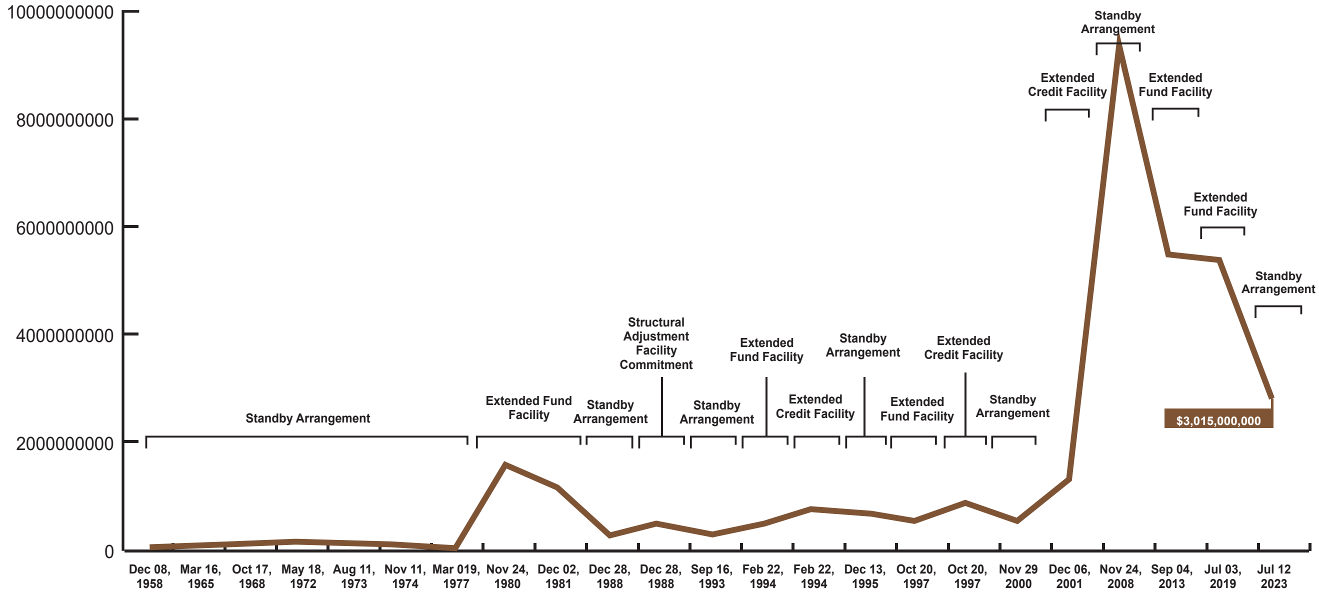

Figure 5: IMF Lending Commitments with Pakistan from 1958 to 2023

Source: IMF

- In November 2023, Pakistan and IMF reach deal for releasing US$700m from US$3bn bailout package
- In the FY2023, Pakistan's IMF loans amounted to a substantial US$894 million, accompanied by charges and interest payments totaling US$776m and US$325.8m, respectively

2024:

- Economic Coordination Committee approved Rs. 272 billion in technical supplementary grants for fiscal year 2023-24
- Pakistan ranks fifth in outstanding debt with the IMF, standing at US$7.4 billion

Over the years, the relationship between Pakistan and the International Monetary Fund (IMF) has been marked by periodic interventions aimed at addressing economic challenges and stabilizing the economy. The country's most recent IMF bailout represents its 23rd lending commitment. Despite these interventions, Pakistan continues to face a recurring cycle of economic instability and reliance on IMF loans. This ongoing dependency highlights the need for comprehensive structural reforms to break the cycle and achieve long-term economic stability.

Way Forward

1) **Reduce Domestic Borrowing Costs:** Pakistan should negotiate and reduce domestic borrowing interest rates by 5-6% and revise policy rates linked to inflation with the IMF, aiming to lower financial costs and increase deficit savings.

2) **Focus on Productive Investments:** Redirect investments towards productive areas like manufacturing to enhance exports and alleviate Pakistan's balance of payments crisis, with Special Economic Zones being prime investment destinations.

3) **Continue SOE Privatization:** The privatization of state-owned enterprises (SOEs), exemplified by the interim government's actions with Pakistan International Airlines (PIA) and First Women Bank Limited (FWBL), should be swiftly and zealously continued, extending to key sectors like power, railways, and oil and gas.

4) **Develop Sukuk Market:** It is imperative to launch a full-fledged sukuk market that shall not only increase our Gross National Savings Rates multifold but also has the capacity to finance 70-80% of our public sector development program.

5) **Increase Direct Tax Revenue:** Increase the direct tax revenue multifold by implementing a 10% ushar on agriculture produce, which averages US$68-70 billion per annum, making Pakistan the seventh-largest producer of agriculture in the world.

6) **Streamline Federal Government:** Reducing the size of the federal government to not more than 12-15 ministries and slashing the grants and subsidies by 30%.

7) **Implement Robust Monetary Policy:** Implementing a robust monetary policy framework can assist Pakistan in managing budget deficits and controlling inflation, ultimately stabilizing the economy and alleviating inflationary pressures.

8) **Strengthen Banking Resilience:** Pakistan can focus on improving the resilience and stability of its banking system by implementing measures to reduce non-performing debts and enhance regulatory oversight.

9) **Prioritize Fiscal Reforms:** Pakistan should prioritize implementing fiscal reforms to address issues such as unmet tax collection targets and excessive government spending. Strengthening public institutions and improving tax collection efficiency can help reduce the accumulation of public debt.

10) **Seek International Expertise:** Seeking assistance and advice from international experts who have experience in managing similar economic challenges can be beneficial. Pakistan can collaborate with experts from countries like Norway and the US to develop and implement effective strategies for economic recovery.

11) **Leverage Global Support:** Pakistan can benefit from capacity-building support from international financial institutions and other partners, similar to Jamaica. Strengthening institutional capacity and receiving technical assistance can help Pakistan implement reforms effectively and achieve better social outcomes.