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The international Monetary Fund (IMF) is still prescribing policies and conditionalities, as they were in the financial crises more than a decade ago, that could worsen the economies of borrowing countries or increase their vulnerabilities to the effects of the current global crisis, according to two recent studies.

The global financial crisis had led to a resurgence in lending by the IMF which has suffered a sharp decline in its lending in recent years as countries avoided the institution due largely to the harmful conditionalities attached to its loans. But the institution seemed to have failed to learn from its past mistakes in handling the previous financial crises in 1997-98 and continued to prescribe contractionary policies in countries which had turned to the institution for funds to either stimulate their economies or to avoid a serious downturn.

An assessment by the Third World Network (TWN) of nine countries which have negotiated Standby Arrangement (SBA) loans with the IMF since September 2008 revealed that the Fund's fiscal, monetary and exchange rate policies remain as tight and restrictive now as they have been in previous years. The countries reviewed by TWN include Pakistan, El Salvador, Georgia, Ukraine, Hungary and Iceland. Sri Lanka has just recently requested a loan amount of US$1.9 billion while other countries that may be negotiating loans in the near future are Turkey and Romania.

Typically, such policies include reducing fiscal deficits by restraining public expenditure, in which the burden falls on public sector employees, the poor and the unemployed, and reducing inflation and monetary tightening by increasing interest rates.

Such conditions are harmful and unnecessarily imposed on countries already facing declining output and negative external economic shocks, according to the Washington-based think-tank Center for Economic and Policy Research (CEPR) in its just released report "Empowering the IMF: Should Reform be a Requirement for Increasing the Fund's Resources?" It finds that such conditions can unnecessarily exacerbate the effects of the global economic recession on these countries.

The CEPR report reviews the IMF's current practices and policy-making in the context of a proposed quadrupling of IMF resources to US$1 trillion (following the G20 pledge), and a consequent increase in the Fund's influence over economic policy-making in developing countries. At the same time, the IMF has advocated the passage of economic stimulus packages and expansionary monetary policy to address the global economic malaise.

For instance, IMF Managing Director, Dominique Strauss-Kahn in February 2009, said: "For a year now, since I spoke at Davos last January, the Fund has advocated fiscal stimulus to restore global growth. There is now a broad consensus on this."

In a similar vein, its Chief Economist, Olivier Blanchard said in an interview in December 2008: "I would put it even more starkly. What is needed is not only a fiscal stimulus now but a commitment by governments that they will follow whatever policies it takes to avoid a repeat of a Great Depression scenario."

Thus, the procyclical (contrac-tionary) policies adopted in all the agreements that the IMF have negotiated since September 2008 contradict its own rhetoric.

"All the nine loan country recipients are being directed to implement the exact opposite policies of public expenditure reductions, fiscal consolidation plans, public sector wage cuts, and the phased elimination of subsidies," said TWN. While the objectives of these IMF-supported loan policies are to boost foreign exchange reserves and address public debt burdens, it noted that there is no clear mention or analysis of the economic and social impacts that these contractionary policies will have in economies that are already facing economic downturn.

While spending on social safety nets and social assistance schemes are being supported by the IMF in several loan recipient countries, it was noted that in countries such as Pakistan the cumulative increase in social spending is 0.3% of GDP, whereas the reduction in public spending is on the order of 3.2% of GDP.

The IMF's contractionary monetary and fiscal polices in a number of countries now appeared to also contradict the G20's pledge at its recent summit in London that resource increases to the global financial institutions will "support growth in emerging market and developing countries by helping to finance countercyclical (expansionary) spending." They are also opposite to the countercyclical policies that the G20 countries have prescribed to themselves; ie. within G20 countries "interest rates have been cut aggressively... and our central banks have pledged to maintain expansionary policies."

According to CEPR, the IMF's current lending practices have implications for the immediate future of the affected countries, because procyclical policies can exacerbate the world economic downturn. But more importantly, the proposed quadrupling of IMF resources will have implications for many years to come, even after the world economy recovers. CEPR stressed that governments that are contributing to this increase in funding should think carefully about these implications and the possibilities of making such increases contingent on serious reforms of the IMF - especially in the areas of governance and accountability.

According to CEPR, the IMF made serious mistakes in the economic crises of the 1990s that adversely affected the economies of a number of countries such as Argentina, Indonesia, South Korea, Thailand and Brazil, in those crises, it said, the Fund failed to act as a lender of last resort, when it was most urgently needed in Asia, as countries such as South Korea, Indonesia, Thailand, the Philippines, and Malaysia fell victim to a severe shortage of foreign exchange. It then imposed pro-cyclical policies and in some cases, such as South Korea, set unrealistic inflation targets that would be impossible to achieve, given the currency depreciation, without a severe economic contraction.

In Indonesia, the IMF also failed to arrange a roll-over of the short-term foreign debt owed by Indonesian non-financial firms. Indonesia was thus unable to stabilize its currency and economy, and firms could not obtain the necessary credits for essential imports and even exports.

In Argentina, the IMF lent tens of billions of dollars to support an overvalued exchange rate that inevitably collapsed, while attempting to adjust the economy to this unsustainable exchange rate through contractionary macroeconomic policies. When the inevitable sovereign debt default and exchange rate collapse occurred at the end of 2001, the Fund failed to act as a lender of last resort. Instead, it (together with the World Bank) drained a net 4% of GDP out of the country in 2002, while pressuring Argentina to pay more to its foreign creditors, and opposing some of the most important economic policies that facilitated Argentina's recovery and ensuing six-years of rapid economic growth.

In recent months, the CEPR report finds that the IMF is prescribing again policies that most of which could be deemed inappropriate. In El Salvador, for example, the country has signed an SBA that precludes the use of expansionary fiscal policy. In Pakistan, the IMF agreement signed last December provides for the tightening of both fiscal and monetary policy and requires Pakistan to get rid of one of the recently proposed exchange controls: the limit of 25 percent for advance payments on imports.

The IMF's current lending policies are a matter of concern for those who have been critical of the Fund's record. TWN maintained that such polices should not be continued to be prescribed to countries in the current context of the global recession just as they should not have been imposed during the last Asian financial crisis. It called on governments to hold back their contributions to the increase in funding to the IMF as "additional resources to the IMF would give it the means by which to discipline crisis-hit countries the wrong way, worsening the crisis for them''. ◻◻◻

—Third World Network Features