

We need the IMF

by Jarle Berge, Deputy Governor, Norges Bank, *Dagens Næringsliv*, 31 July 2002.

Professor Kalle Moene's article, "Et fond fullt av feil" (a fund full of faults) in the Norwegian financial daily *Dagens Næringsliv* on 20 July supports the stern criticism of the IMF presented in the book *Globalization and its Discontents* by Joseph Stiglitz, winner of the Nobel prize in economics in 2001 and former chief economist at the World Bank. Stiglitz' book is interesting and thought-provoking - and controversial. A broader assessment of his book is made by Barry Eichengreen in *Foreign Affairs*, July/August 2002 and by John Williamson at the Institute for International Economics.

Criticism is useful but should be based on the IMF's actual responsibilities. In contrast to the World Bank, the IMF is not an institution engaged in development aid. The IMF's task is to promote international monetary cooperation, to foster exchange stability, to promote international trade, to encourage efficient utilisation of resources and work to achieve stable growth in the global economy.

The IMF reports regularly on economic developments in the member countries and makes recommendations concerning economic policy. Most countries agree to the publication of these reports. Anyone who reads the reports (www.imf.org) will see that the IMF's approach in the analyses and advice is far from "one-size-fits-all". Global economic trends are analysed in the publications *World Economic Outlook* and *Global Financial Stability Report*. These publications show no sign of having been written by "third-rate economists", as Stiglitz on one occasion described the IMF staff.

The IMF can provide loans to member countries with payment problems, but the IMF's financial resources consist of foreign exchange reserves from the member countries and not development aid funds. The loans are short-term and the interest rate is lower than the market rate. The other member countries' security that their foreign exchange reserves will not be lost lies in the country's commitment to implement economic-political measures that provide hope for the country's ability to work its way out of the current crisis and regain the confidence of financial markets. Remedying balance of payments problems will most often imply a need for austerity measures. We are not aware of successful examples of countries that have tried to use deficit financing and high inflation as a means of solving such problems, although it may seem like Stiglitz believes that this is what they should try. When establishing programs, the IMF places more emphasis than before on social conditions. More importance has also been attached to combating corruption as well as developing the rules and institutions needed for a smoothly functioning economy. Nevertheless, it is often controversial when the IMF makes such demands, because they can challenge established power structures in the country.

The IMF has been criticised for its handling of the Asian crisis. The crisis came as a surprise, except in Thailand, and the dimensions were substantial. In such situations, everything is not handled as well as could be desired. The IMF has acknowledged this. But the course of action was quickly altered when this became clear. However, there is no basis for saying that comparable countries without IMF programmes managed better than countries with IMF programmes during the Asian crisis. While Stiglitz and others who oppose globalisation have criticised the IMF for being too strict in their lending policy, others have been concerned that the loans have been too large and frequent. It is difficult for the IMF to strike a balance, but in a crisis, a balance must be struck and decisions must be made.

For the poorest developing countries, the IMF offers heavily subsidised loans, financed by contributions from the individual member countries. The close cooperation with the World Bank in

this area has changed considerably in recent years, with stronger focus on poverty reduction, national ownership and coordinated aid.

The poor countries must develop their own development strategies (PRSPs - Poverty Reduction Strategy Papers) which shall form the basis for all aid to the country, whether it comes from the IMF, the World Bank, the United Nations or bilateral partner countries. The IMF acknowledges that for development countries to succeed, ownership of their own development strategies is essential. In addition, increasing emphasis is being placed on systematic evaluations of the macroeconomic reforms' impact on social conditions and poverty. The IMF plays a key role in the debt relief initiative for the poorest countries (HIPC - Heavily Indebted Poor Countries). The initiative may provide a total of about USD 55 billion in debt relief. The HIPC countries will therefore be able to use more funds on social investments than on debt servicing. The HIPC initiative and the PRSP processes have contributed to a gradual increase in expenditure on health and education in the poorest countries. The changes are to a considerable degree the result of input from various sources: the developing countries themselves, academia, NGOs and industrialised countries, including the Nordic countries. It is therefore incorrect to say that the IMF does not learn, is immune to criticism and obstructs the international fight against poverty. Nevertheless, it is important that justified and constructive criticism continues to be put forward.

The significance of transparency has been one of the most important lessons for the IMF in recent years, both with regard to the institution itself and the situation in the member countries. The IMF regularly assesses its own policies. A separate, independent evaluation office has also been established to evaluate experience with the lending programs. The Norwegian authorities also place considerable importance on transparency in relation to the IMF. The IMF's analyses of the Norwegian economy are made available to the public. A Report to the Storting (white paper) is presented every year. This report deals with the important issues on the IMF's agenda and the Nordic-Baltic constituency's views on these issues (see Report no. 6 to the Storting (2001-2002)). In addition, the Nordic-Baltic representatives' presentation at the half-yearly meetings of the IMF and the World Bank are also published. The constituency's stand on important issues on the IMF's agenda are thus documented and available.