THE LENDING ARRANGEMENTS OF THE IMF IN EUROPEAN UNION IN TIMES OF CRISIS – CHARACTERISTICS AND EVOLUTIONS

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Abstract:
This paper focuses on the lending arrangements of the IMF in EU countries during crisis period. First, we reviewed the literature regarding IMF-supported programs in times of crisis. On the other hand, we provided a description of the IMF arrangements in EU countries in 2008-2013. We found that these programs differ in type, duration, amount and conditionality, but not significantly in their key objectives (achieving sustainable public finances and ensuring financial sector stability).

Key words: *IMF lending arrangements, EU countries, crisis*

1. IMF – supported programs in times of crisis – a literature review

Some authors examine the role of the IMF as crisis manager and crisis lender (Boughton, 2000; Chandavarkar, 2002), the role played by the IMF as a creditor and as a monitor of economic reforms (Marchesi and Sabani, 2007) or the efficacy of IMF's finance in preventing financial crises (Brandes and Schule, 2008).

Many articles have been written on the role of the IMF in financing and designing economic reform programs for developing countries and in dealing with crisis periods, thus:

- the IMF's role in dealing with the Asian crisis in Thailand, Indonesia and South Korea in 1997-1998 (Jonas, 1999; Ito, 2007);
- the IMF-supported program in Indonesia during the crisis period (Boediono, 2002; Grenville, 2004);
- the IMF's influence on economic policies in Russia in the 1990s (Jordan, 2001; Odling-Smee, 2006);
- the IMF Intervention in Korea in 1997 (Crotty and Lee, 2009);
- 104 IMF financial arrangements in 74 developing countries during 1973-1991 (Santaella, 1996);
- the IMF involvement in 13 low income countries between January 2007 and June

2009 (Van Waeyenberge, Bargawi and McKinley, 2010);
- the transition experience of the IMF in Eastern Europe (Rodlauer, 1995);
- the effectiveness of IMF programs in Eastern European countries (Eke and Kutan 2009);
- the IMF-supported adjustment programs in Poland during 1990-1995 and in Russia for the period 1992-1994 (Gomulka, 1995);
- Hungary's relationship with the IMF between 1954-1994 (Csaba, 1995);
- Hungary, Latvia and Ukraine experience in Stand-By Arrangements signed with the IMF during current crisis (Cordero, 2009);
- the IMF rescue package for Greece in the context of sovereign debt crisis (Visvizi, 2012).

Analyzing the financial crises that have threatened Mexico, Thailand, Indonesia, Korea, Malaysia, Russia and Brazil between 1994 and 2001, Fischer (2003) discusses the reform of the international financial system stressing the role of the IMF reforms in crisis prevention and responses.

Reviewing the IMF’s current practices, Weisbrot, Cordero and Sandoval (2009) conclude that in the crises of the 1990s Fund „made serious mistakes that adversely affected the economies in need” and „failed to act as a lender of last resort”. They find that „the Fund’s current policy decisions and orientation remain similar to those of the 1990s”.

Edwards and Hsieh (2011) highlight recent changes in IMF lending, considering that „this is a marked change from earlier decades, during which IMF lending was more evenly distributed across regions, and Europe accounted for a relatively low share”.

Barkbu, Eichengreen and Mody (2012) describe financial crises and the multilateral response in the last 40 years warning that both crises and programs have changed over time.

Other studies evaluate the effects of IMF loan programs on economic growth, reforms and other variables: Conway (1994); Garuda (2000); Dicks-Mireaux, Mecagni and Schadler (2000); Hutchison and Noy (2003); Martinez-Vazquez and Mina (2003); Barro and Lee (2005); Dreher and Rupprecht (2007); Hajro and Joyce (2009); Abbott, Andersen and Tarp (2010); Dreher and Walter (2010).

The framework underlying the IMF conditionality is described in: Buira (1983); Joyce (1992); Guitian (1995); Drazen (2002); United Nations (2010).

2. IMF arrangements in EU countries in 2008-2013 - some features

The characteristics of the IMF programs (type, period and amount) in EU countries in time of crisis are presented in Table 1. We analyzed only the non-concessional IMF-supported programs through the General Resources Account (GRA) not concessional arrangements through the Poverty Reduction and Growth Trust (PRGT).

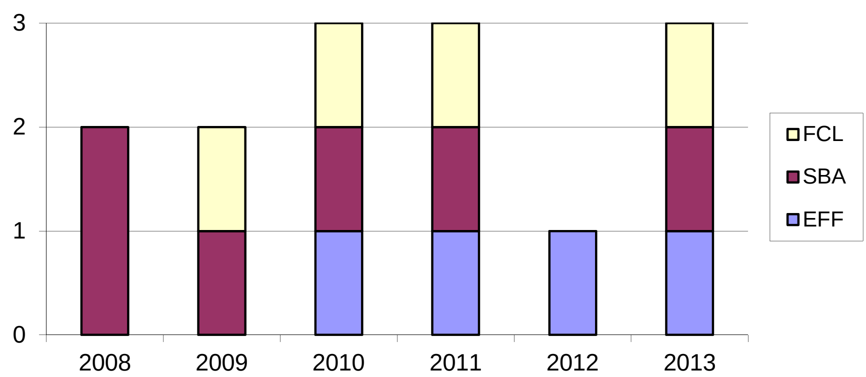
Table 1. IMF arrangements in EU countries during 2008-2013 (millions of SDRs)

No.	Country	Facility	Date of Arrangement	Date of Expiration or Cancellation	Amount Agreed	Amount Drawn	Amount Outstanding
1.	Cyprus	EFF	May 2013	May 2016	891.0	668.2	222.7
2.	Greece	EFF	March 2012	March 2016	23,785.3	16,574.4	23,280.8
3.		SBA	May 2010	March 2012	26,432.9	8,891.1	17,541.8
4.	Hungary	SBA	November 2008	October 2010	10,537.5	2,900.5	7,637.0
5.	Ireland	EFF	December 2010	December 2013	19,465.8	18,205.4	18,205.4
6.	Latvia	SBA	December 2008	December 2011	1,521.6	539.3	982.2
7.	Poland	FCL	January 2013	January 2015	22,000.0	0	0
8.		FCL	January 2011	January 2013	19,166.0	19,166.0	0
9.		FCL	July 2010	January 2011	13,690.0	13,690.0	0
10.		FCL	May 2009	May 2010	13,690.0	13,690.0	0
11.	Portugal	EFF	May 2011	May 2014	23,742.0	2,363.0	21,379.0
12.	Romania	SBA	September 2013	September 2015	1,751.3	1,751.3	5,210.0
13.		SBA	March 2011	June 2013	3,090.6	3,090.6	7,682.6
14.		SBA	May 2009	March 2011	11,443.0	874.0	10,569.0

Source: IMF - IMF Lending Arrangements Database

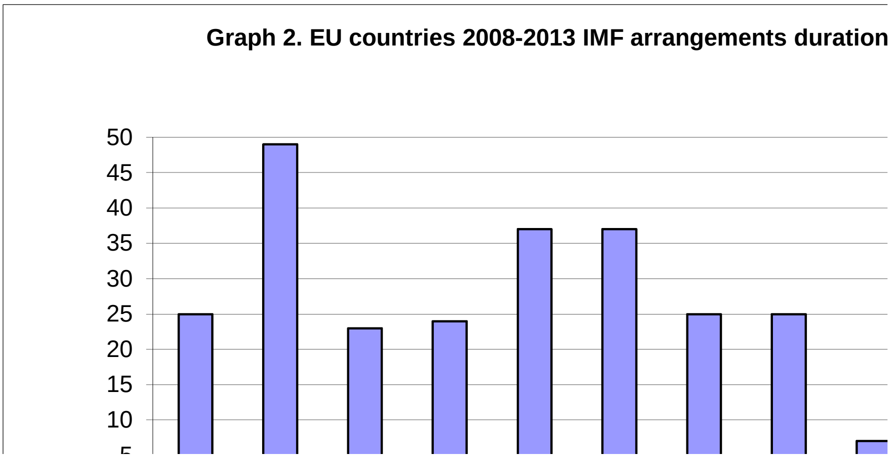
In the period 2008-2013 there were approved 14 non-concessional arrangements in EU developed and emerging and developing countries: 6 SBA (Standby Arrangement), 4 EFF (Extended Fund Facility) and 4 FCL (Flexible Credit Line) (Graph 1). All Flexible Credit Lines were treated as precautionary.

Graph 1. Number and type of IMF arrangements approved in EU countries during 2008-2013

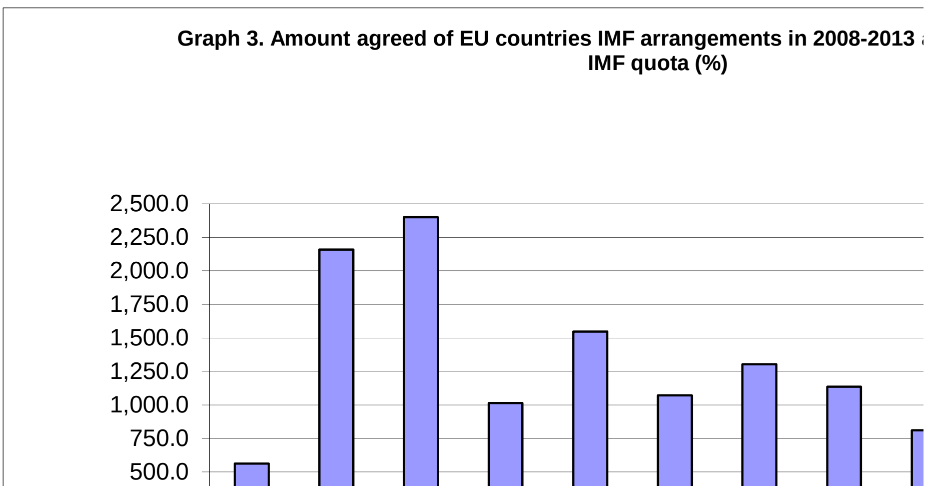


In several countries (Greece, Hungary, Portugal and Romania), IMF programs were accompanied by financial assistance from other official creditors (EU, World Bank and other institutions).

There are differences between programs regarding theirs duration, with a median of 24 months (Graph 2).



Almost all arrangements implied exceptional access to IMF resources, over the usual limits (with maximum levels of 2159% and 2399% of IMF quota for Greece and 2306% of IMF quota for Portugal). There is much variability of access in percent of each country IMF quota, with a median of 837% of quota (Graph 3).



The design of the programs (main objectives) is as follows (see the number of country facility in Table1):

(1. Cyprus) *Objectives* (http://www.imf.org/external/pubs/ft/scr/2013/cr13125.pdf):

- to restore financial stability and resumption of credit to support economic activity;
- to adjust fiscal budget that balances short-run cyclical concerns and long-run sustainability objectives, while protecting vulnerable groups.

(2. Greece) *Objectives* (http://www.imf.org/external/pubs/ft/scr/2012/cr1257.pdf):

- to reduce debt-to-GDP ratio to 120% by 2020;
- to put growth at the center of the Greece agenda;
- to achieve a viable level of public spending;
- to ensure the solvency of the banking sector while protecting depositors.

(3. Greece) *Objectives* (http://www.imf.org/external/np/sec/pr/2010/pr10187.htm):

- to restore confidence and fiscal sustainability**;**
- to restore competitiveness**;**
- to safeguard financial sector stability**.**

(4. Hungary) *Objectives* (http://www.imf.org/external/np/sec/pr/2008/pr08275.htm):

- to implement a substantial fiscal adjustment to ensure that the government's debt-financing needs will decline;
- to maintain adequate liquidity and strong levels of capital in the banking system;
- to restore stability in the financial sector and create the conditions for an economic recovery.

(5. Ireland) *Objectives* (http://www.imf.org/external/pubs/ft/reo/2011/eur/eng/pdf/appendix.pdf):

- to restructure the banking sector that will entail extensive deleveraging and reorganization;
- to provide an appropriate balance between consolidation to achieve fiscal sustainability while mitigating adverse effects on growth and protecting the most vulnerable;
- to pass the structural impediments to business environment that might underpin competitiveness.

(6. Latvia) *Objectives* (http://www.imf.org/external/np/sec/pr/2008/pr08345.htm):

- to stem the current liquidity crisis and then ensure long-term external stability, while maintaining the exchange rate peg;
- to stabilize the financial sector, restore depositor confidence, and to avoid the disorderly adjustment that would follow if the exchange rate peg were abandoned;
- to stem the loss of bank deposits and international reserves;
- to restore confidence in the banking system in the medium-term and to support private debt restructuring.

(7. Poland) *Objectives* (http://www.imf.org/external/pubs/ft/scr/2013/cr1321.pdf):

- to preserve investor confidence, supporting macroeconomic policies, and providing significant insurance against external risks.

(8. Poland) *Objectives (*http://www.imf.org/external/pubs/ft/scr/2011/cr1124.pdf):

- to safeguard the economy against heightened downside risks;
- to preserve investor confidence and support macroeconomic policies.

(9. Poland) *Objectives* (http://www.imf.org/external/np/sec/pr/2010/):

- to give confidence that Poland economic policies will remain strong.

(10. Poland) *Objectives* (http://www.imf.org/external/np/sec/pr/2009/pr09153.htm):

- to support the authorities' policy response, boosting market confidence, and placing Poland in a better position to manage adverse developments.

(11. Portugal) *Objectives* (http://www.imf.org/external/pubs/ft/scr/2011/cr11127.pdf):

- to stabilize the fiscal balance supported by structural fiscal reform;
- *to safeguard financial stability* and prevent a protracted credit contraction.

(12. Romania) *Objectives* (http://www.imf.org/external/pubs/ft/scr/2013/cr13307.pdf):

- to maintain sound macroeconomic policies and financial sector stability and continue structural reforms to enhance growth prospects.

(13. Romania) *Objectives* (http://www.imf.org/external/np/sec/pr/2011/pr11101.htm):

- to boost potential growth through structural reforms;
- to improve efficiency of the public sector for reducing bureaucratic barriers to economic efficiency and increasing the absorption of EU structural funds;
- to introduce deep-rooted reforms in the energy and transport sectors, including pricing reforms, improved regulation, and the restructuring and privatization of energy and transport state owned enterprises;
- to reassure private markets and provide a cushion against future shocks.

(14. Romania) *Objectives* (http://www.imf.org/external/np/sec/pr/2009/pr09148.htm):

- to reduce the fiscal imbalance to bring the deficit back under 3% of GDP by 2011;
- to maintain adequate capitalization of banks and liquidity in domestic financial markets;

- to bring inflation within the target range of the National Bank of Romania by end-2009 and maintain it there;
- to secure adequate external financing and improve confidence.

As it can be observed, the IMF programs in EU countries in the period 2008-2013 differ in type, duration, amount and conditionality, but not significantly in their key objectives (achieving sustainable public finances and ensuring financial sector stability).

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