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New IMF?

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Main conditions

- Floor on reserves
- Ceiling on domestic credit
- Cap on fiscal deficit
- Structural reforms

Polak model

$$L = kY \text{ or } \Delta L = k\Delta Y \quad (\text{demand for money}) \quad (1)$$

$$M = mY \text{ (import propensity of income)} \quad (2)$$

$$\Delta L = \Delta R + \Delta D \quad (\text{money supply}) \quad (3)$$

$$\Delta R = X - M + K \quad (\text{balance of payments}) \quad (4)$$

Polak model

Main implication:

$$\Delta D = -\Delta R$$

Policy target: ΔR

Policy instrument: ΔD

$$\Delta L^* = k\Delta Y^* - \Delta R^*$$

Credit ceiling is determined by projected growth of nominal income and targeted reserves

Other conditions

- Fiscal deficit only to the extent that increases domestic lending (extended version of the Polak model: targets reserves and prices; instruments credit to the government and the exchange rate)
- Structural reforms do not have clear connection with the core model
- However, all policies are substitutable to an extent - in that respect, regulation or income policies may be used (there is, however, an issue of consistency)

Implication

- Balance of payment imbalance requires decline in credit expansion, which may mean lower growth rate to improve the balance of payments
- Stability may be supported by fiscal prudence
- Structural reforms may improve the ability to implement policies

Relaxing conditions: going firendly

- Higher fiscal deficits and modest fiscal stimuli (the latter only in some cases)
- No structural conditions (except where absolutely necessary)
- Achieving aims rather than fulfilling targets (when it comes to reforms)
- Sustainability rather than stability (sustainability unlike stability, however, requires the growth rate)

Consistency

- So far, there is no new model, just increased flexibility
- It is not clear that the model is consistent with the new policy approach
- In particular, it is not clear that the main target and the main instrument can be maintained and be implemented flexibly within the same IMF program?

The evolution of the programs

- Accepting higher fiscal deficits in a number of cases (not in all)
- This may continue, though mostly because of necessity rather than project design
- In some cases, fiscal flexibility has not been applied
- Again, this may change with the times

After the crisis?

- Polak model is not a growth model and is not easy to extend, operationally, to the medium term
- There is no replacement at the moment
- The “state of macro” (Blanchard 2009) may be such that the IMF may have problems after the crisis because it may return to old practices for the lack of alternatives

The EU connection

- IMF has engineered EU credits to supplement its loans to member states that are not in euro
- IMF has coordinated EU banks to commit to continue crediting countries that have an IMF financial program
- EU and the ECB have provided some assistance to non-euro and non-EU states, but there is a limit set by the fact that there is no common fiscal authority
- There is, however, still a problem with

Output gap

TABLE 13 : Output gap relative to potential GDP (deviation of actual output from potential output as % of potential GDP, 1992-2010) ¹ 22.04.2009

	5-year averages						2008		2009		2010		
	1992-96	1997-01	2002-06	2004	2005	2006	2007	X-2008	IV-2009	X-2008	IV-2009	X-2008	IV-2009
Belgium	-0.7	0.2	0.2	0.3	0.5	1.6	2.5	0.6	1.9	-1.1	-2.6	-1.9	-3.8
Germany	0.2	0.1	-0.4	-0.9	-0.9	1.1	2.7	1.6	3.0	0.2	-3.2	-0.2	-3.7
Ireland	-3.1	2.2	1.9	0.8	1.9	2.7	5.0	-1.4	0.8	-3.8	-7.2	-2.9	-8.5
Greece	-1.8	-1.2	1.2	2.2	1.3	2.0	2.5	1.5	2.5	0.7	-0.5	0.2	-2.4
Spain	-2.5	0.0	-0.1	-0.5	-0.3	0.6	1.4	-0.2	0.9	-2.1	-2.5	-3.1	-3.6
France	-2.1	-0.2	1.0	1.0	1.2	1.7	2.2	0.3	1.7	-1.1	-2.2	-1.6	-3.1
Italy	-1.4	-0.1	0.7	0.5	0.6	1.9	2.6	-0.3	0.9	-1.3	-3.7	-1.8	-4.0
Cyprus	:	0.1	0.1	-0.4	-0.3	0.5	1.9	0.2	2.2	-0.3	0.4	-0.4	-1.3
Luxembourg	-0.8	0.0	0.9	-0.5	0.9	3.9	5.6	0.7	1.2	-1.6	-4.2	-2.6	-5.9
Malta	:	2.0	-1.6	-3.4	-1.5	-0.2	1.4	0.6	1.8	0.2	-0.2	-0.1	-1.1
Netherlands	-1.0	1.0	-0.9	-1.4	-0.9	0.7	2.4	1.4	2.7	0.0	-2.0	-0.9	-3.3
Austria	-0.6	0.7	-0.6	-1.4	-0.5	1.2	2.7	1.3	2.9	0.0	-2.2	-0.5	-3.3
Portugal	-1.5	1.5	-0.5	-1.1	-0.9	-0.2	1.3	-0.6	0.8	-1.4	-2.7	-1.7	-3.5
Slovenia	:	0.2	-0.4	-1.1	-0.4	1.7	4.5	1.7	3.2	0.1	-1.3	-0.6	-2.7
Slovakia	:	-1.7	-1.0	-1.6	-0.7	1.8	6.5	2.9	8.0	0.8	0.9	-0.7	-2.2
Finland	-4.0	1.8	0.1	-0.3	-0.1	2.4	4.1	0.9	2.7	-0.6	-3.1	-1.1	-3.9
Euro area	-1.3	0.1	0.2	-0.1	0.0	1.4	2.5	0.6	2.0	-0.7	-2.8	-1.3	-3.6
Bulgaria	:	-3.0	2.5	2.7	2.9	3.3	3.6	1.5	3.7	-0.1	-2.0	-1.2	-5.4
Czech Republic	:	-2.8	-0.4	-1.6	0.9	3.8	5.9	2.4	5.3	1.2	-0.7	0.3	-3.3
Denmark	-1.1	1.1	0.3	-0.2	0.8	2.4	2.4	0.1	-0.2	-1.2	-4.0	-1.6	-4.5
Estonia	:	-1.2	3.3	1.6	4.4	8.8	10.4	1.1	3.3	-4.1	-8.6	-5.4	-10.3
Latvia	:	-1.5	3.0	1.3	4.6	10.1	15.0	3.6	6.6	-2.9	-7.9	-5.0	-10.6
Lithuania	:	-3.8	3.1	3.5	4.7	6.1	8.9	4.4	7.6	0.3	-6.1	-3.8	-11.7
Hungary	:	-0.9	1.1	0.9	1.6	3.6	3.3	1.2	3.0	0.0	-3.7	0.0	-4.1
Poland	:	0.4	-0.1	0.6	0.1	1.7	3.4	1.5	3.5	-0.1	-1.5	-1.0	-3.8
Romania	:	-5.5	0.9	2.2	2.1	5.4	6.6	4.8	8.5	3.4	0.2	2.8	-3.0
Sweden	-3.8	-0.8	0.9	0.8	1.7	3.2	3.3	0.4	0.9	-1.4	-3.8	-1.4	-3.4
United Kingdom	-1.7	0.5	0.8	1.0	0.8	1.4	2.4	1.0	1.6	-1.4	-3.1	-2.5	-3.8
EU	:	0.1	0.3	0.1	0.3	1.5	2.6	0.7	2.0	-0.8	-2.9	-1.5	-3.7

¹ When comparing output gaps between the spring and the autumn forecast it has to be taken into account that the overall revisions to the forecast

Government consumption

TABLE 8 : Government consumption expenditure, volume (percentage change on preceding year, 1992-2010)

	5-year averages			2004	2005	2006	2007	2008		2009		2010	
	1992-96	1997-01	2002-06					X-2008	IV-2009	X-2008	IV-2009	X-2008	IV-2009
Belgium	1.2	2.0	1.5	1.8	0.4	0.1	2.3	1.9	2.1	1.5	1.8	1.5	1.7
Germany	2.4	1.1	0.4	-0.7	0.4	0.6	2.2	1.7	2.0	1.5	2.0	1.1	1.8
Ireland	3.4	7.3	3.9	2.3	3.1	5.3	6.8	4.7	2.1	0.5	-0.6	0.8	2.0
Greece	1.0	4.3	2.0	2.9	1.2	0.0	7.7	2.9	3.2	2.7	1.9	2.7	1.9
Spain	2.1	3.8	5.1	6.3	5.5	4.6	4.9	4.1	5.3	1.3	5.1	0.7	4.7
France	1.8	1.0	1.7	2.3	1.2	1.3	1.4	1.3	1.7	0.9	1.8	0.7	1.1
Italy	-1.0	1.7	1.8	2.2	1.9	0.5	1.0	1.1	0.6	0.6	0.7	0.5	0.6
Cyprus	:	5.3	3.5	-5.5	3.4	7.4	0.1	5.2	8.7	5.9	7.0	3.6	2.4
Luxembourg	4.1	4.8	3.9	4.6	3.4	2.7	2.6	4.3	1.3	4.2	5.0	4.0	2.4
Malta	:	0.0	2.6	0.4	-0.4	5.9	-0.8	4.3	8.3	2.8	-1.2	2.4	1.6
Netherlands	1.7	2.9	3.1	-0.1	0.5	9.0	3.0	1.2	2.1	2.1	2.0	1.0	1.0
Austria	2.6	2.0	1.3	1.0	1.5	2.3	1.8	2.6	0.5	1.9	0.6	1.7	0.8
Portugal	1.6	3.8	1.4	2.6	3.2	-1.4	0.0	-0.1	0.5	0.2	0.6	0.5	0.2
Slovenia	2.2	3.7	3.3	3.4	3.3	4.1	2.5	3.2	3.7	2.6	2.9	2.6	2.9
Slovakia	:	1.6	3.8	-2.2	3.3	10.2	-1.3	3.9	4.3	2.8	2.0	3.6	1.2
Finland	-0.6	1.5	1.7	1.8	2.0	0.6	0.8	1.5	1.7	1.4	2.3	1.2	1.9
Euro area	1.5	1.7	1.8	1.6	1.5	1.9	2.2	1.8	2.0	1.2	2.0	1.0	1.7
Bulgaria	-15.4	5.2	3.4	3.8	2.5	-1.3	3.1	4.1	0.1	4.0	0.2	4.0	0.4
Czech Republic	-1.7	1.9	2.4	-3.5	2.9	-0.7	0.4	1.1	0.9	0.7	0.5	0.6	0.4
Denmark	2.6	2.2	1.6	1.8	1.3	2.1	1.3	1.5	1.1	1.3	2.1	1.1	1.1
Estonia	:	0.1	1.5	2.3	1.9	1.8	3.9	2.6	4.4	-1.5	-3.6	0.6	-2.4
Latvia	:	2.8	2.7	2.1	2.7	4.9	3.7	3.5	1.5	1.0	-5.0	1.0	-2.0
Lithuania	:	3.0	4.1	8.2	3.5	3.7	3.3	5.3	4.3	3.7	-9.9	2.6	-3.2
Hungary	-1.7	2.1	3.9	1.8	2.4	4.3	-7.4	-0.8	0.5	2.1	-3.2	2.7	0.2
Poland	3.3	2.4	4.1	3.1	5.2	6.1	3.7	1.7	0.0	1.2	-0.3	1.5	0.7
Romania	3.6	-1.0	-0.9	-8.6	3.8	-4.1	1.6	3.5	3.2	3.5	-11.0	3.3	0.1
Sweden	0.4	0.8	0.9	-0.2	0.4	2.0	0.4	0.6	1.3	0.6	0.5	0.8	0.6
United Kingdom	0.6	1.9	2.7	3.4	1.7	1.6	1.5	2.0	3.4	1.3	3.6	2.0	2.9
EU	0.9	1.8	2.0	1.8	1.6	1.9	1.9	1.8	2.2	1.3	1.9	1.2	1.7
USA	-0.1	2.3	2.3	1.8	0.5	1.8	1.9	2.3	2.8	2.6	5.6	2.8	5.9
Japan	3.1	2.8	1.7	1.9	1.6	0.4	2.0	0.2	0.9	0.2	1.3	0.4	0.9

Growth and deficits

- Government deficit

•	2007	2008	2009	
• Euro	-0.6	-1.9	-5.3	
• EU	-0.8	-2.3	-6.0	
• NMS 8		-1.5	-2.9	-5.0
• FMS	-3.0	-3.0	-5.0	

Growth and deficits

- Government consumption

	2007	2008	2009
• Euro	2.2	2.0	1.9
• EU	1.9	2.2	1,9
• NMS 8		-4.0	
• FMS now)		-8.0 (the way it looks	

Growth and deficits

- Employment

•	2007	2008	2009
• Euro	1.7	0.7	-2.6
• EU	1.7	0.7	-2.6
• NMS			-4.2
• FMS			-4.0