



Highlights of [GAO-10-44](#), a report to the Chairman, Committee on Financial Services, House of Representatives

Why GAO Did This Study

The International Monetary Fund (IMF) has significantly increased its total committed lending to countries from about \$3.5 billion in August 2008 to about \$170.4 billion in August 2009, as countries have been severely affected by the global economic crisis. IMF-supported programs are intended to help countries overcome balance-of-payments problems, stabilize their economies, and restore sustainable economic growth. Critics have long-standing concerns that the IMF has an overly austere approach to macroeconomic policy that does not sufficiently heed country viewpoints. To help address these concerns, the IMF recently stated that it has changed its policies, including by increasing its flexibility.

GAO was asked to examine (1) the process for designing an IMF-supported program, (2) the IMF-supported programs in four recipient countries, and (3) the extent to which the findings of empirical economic studies are consistent with the IMF's macroeconomic policies. GAO analyzed IMF and recipient country documents; interviewed U.S., IMF, and foreign government officials, conducting fieldwork in four relatively large recipient countries; and analyzed published or widely cited empirical studies.

GAO received written comments from the Department of the Treasury, noting its concurrence with the report's conclusions.

[View GAO-10-44 or key components.](#)
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INTERNATIONAL MONETARY FUND

Lending Programs Allow for Negotiations and Are Consistent with Economic Literature

What GAO Found

Designing an IMF-supported lending program involves a complex, iterative process based on projections for key macroeconomic variables; discussions between IMF staff and country officials regarding program goals, policies, and trade-offs; use of economic judgment; and IMF Executive Board approval. An IMF-supported program is intended to help countries achieve their objectives in the context of macroeconomic stability. Programs in low-income countries are broadly geared toward increasing economic growth and reducing poverty, and generally strive for low inflation and sustainable levels of debt. In middle- and high-income countries, programs generally aim to stem capital outflows, restore confidence, and stabilize the exchange rate by, for example, setting targets for budget deficits and international reserves. Trade-offs among the different combinations of objectives and policies allow for negotiations between the IMF staff and country officials, reflecting what is technically feasible and politically acceptable.

IMF-supported programs in the four countries GAO reviewed—Liberia, Zambia, Hungary, and Iceland—include different sets of objectives, targets, and conditions that reflect country circumstances, based on negotiations between the IMF staff and country officials. In postconflict Liberia, the program focuses on rebuilding capacity and contains a target for maintaining a balanced budget with no borrowing. In Zambia—a country negatively affected by the recent economic crisis—the IMF-supported program is designed to increase economic growth, reduce poverty, and improve governance. Hungary, which faced a rising risk of default, has a program that focuses on restoring investor confidence while reducing debt and expenditures. A banking and currency collapse in Iceland precipitated the IMF-supported program, which contains some controversial approaches to monetary policy and banking reform. All four countries are making progress but face challenges in implementing conditions or achieving targets in their IMF-supported programs.

The macroeconomic policies in IMF-supported programs are broadly consistent with the findings of the empirical literature GAO reviewed, although this literature lacks precise guidance for setting policy targets. For low-income countries, empirical evidence generally suggests inflation is detrimental to economic growth after it exceeds a critical threshold, which is broadly consistent with the inflation targets included in the IMF-supported programs we reviewed. For middle- and high-income countries, the literature identified specific policy weaknesses in advance of crises, including high inflation, high public indebtedness, and low international reserves. These weaknesses are consistent with the policies upon which the IMF focuses in the 13 programs in middle- to high-income countries GAO reviewed.