Developed by the International Monetary Fund for use with the video
How to Use This Guide

This study guide is designed to facilitate use of “The Interconnected World,” a 40-minute film created for the International Monetary Fund (IMF), in economics and international relations courses at the postsecondary level. The film is presented in four parts, highlighting the IMF’s role through various lenses. It is designed to be viewed in its entirety or separately as short magazine pieces.

Objectives

After viewing the film and using this guide, students should be able to:

- **Discuss the evolving role of the IMF.** Describe the IMF’s history, starting with the creation of the Bretton Woods institutions in 1944 and the search for cooperative solutions after the Second World War. Contrast with its role today, and discuss the steps it is taking to help the world achieve financial and economic stability in the wake of the 2007–09 global economic crisis.

- **Explain the effects of the global economic crisis.** Compare and contrast the effects of the crisis on China, Ghana, and Poland, focusing on why each country was affected differently. Discuss the IMF’s role as a lender and trusted adviser during the crisis.

- **Outline policies to overcome the crisis.** Discuss the steps policymakers in China, Ghana, and Poland are taking to ensure economic progress and sustainable growth. Outline the IMF’s plans to provide a global financial safety net and describe how it is working with the Group of 20 (G-20) industrialized and emerging market countries to reduce global economic imbalances and foster sustainable global growth.

- **Discuss governance reform and why it matters.** Describe the reasons for giving emerging markets, such as Brazil, China, India, and Russia, more say in the running of the IMF. How will this reform make the IMF more effective?

Viewing the Film: “The Interconnected World” Website

To make “The Interconnected World” available to as wide an audience as possible, the IMF has developed a website dedicated to the film. All four segments of “The Interconnected World” are available for viewing on the website, which includes other materials relating to the film as well, including an interview with the film’s producer, Christopher Hird, and a link to the film’s Facebook page (which offers another option for viewing the film’s four segments). Additional resources related to the film will be posted on the website as they become available.

http://www.theinterconnectedworld.com/
What Is the IMF?

In 1944, in the late stages of the Second World War, representatives of 45 governments met in the U.S. town of Bretton Woods, New Hampshire, to agree on a new framework for international economic cooperation. They believed that a new structure was needed to avoid repeating the disastrous economic policies that had contributed to the Great Depression of the 1930s and the subsequent resort to global warfare.

The IMF was one of the international organizations that emerged from the Bretton Woods discussions (the chief others being the World Bank and the predecessor of the current World Trade Organization).

To maintain stability and prevent crises in the international monetary system, the IMF reviews national, regional, and global economic and financial developments. It provides advice to its 187 member countries, encouraging them to adopt policies that foster economic stability, reduce their vulnerability to economic and financial crises, and raise living standards. In addition, the IMF serves as a forum to discuss the national, regional, and global consequences of member countries’ policies.

The IMF also makes financing temporarily available to member countries to help them address balance of payments problems—that is, when they find themselves short of foreign exchange because their payments to other countries exceed their foreign currency earnings. Additionally, it provides technical assistance and training in member countries to help them build the expertise and institutions they need for economic stability and growth.

The IMF’s membership increased sharply in the 1960s, when former colonial territories joined after gaining their independence, and again in the 1990s, when countries of the former Soviet Union became members. The needs of the new members were different from those of the IMF’s founding member countries, necessitating a process of adaptation that is still under way today.

The accompanying box highlights some basic information about the IMF as an organization.
IMF at a Glance

- **Membership:** 187 countries
- **Headquarters:** Washington, D.C.
- **Executive Board:** 24 Executive Directors representing countries or groups of countries
- **Managing Director:** Dominique Strauss-Kahn (France), since 2007
- **Staff:** Approximately 2,500 from 160 countries
- **Total quotas (members' subscriptions):** $340 billion
- **Additional pledged or committed resources:** $600 billion
- **Loan commitments:** $254 billion, of which $190 billion has not been drawn
- **Biggest borrowers (credit outstanding):** Romania, Ukraine, Greece
- **Economic health checks of member countries:** 120 countries in year ending April 2010, of which 111 voluntarily published information on their checkups (as of April 30, 2010)
- **Technical assistance (on-the-ground help with administration and training):** 192.5 person-years (in year ending April 2010)
- **Technical assistance centers:** seven, one each in the Pacific; the Caribbean; East, West, and Central Africa; the Middle East; and Central America
- **Resident representative offices:** Resident staff based in 75 countries
- **Original aims:** Article I of the IMF’s Articles of Agreement, the legal framework for the Fund’s activities, sets out the institution’s main goals:
  - promoting international monetary cooperation;
  - facilitating the expansion and balanced growth of international trade;
  - promoting exchange rate stability;
  - assisting in the establishment of a multilateral system of payments; and
  - making resources temporarily available (with adequate safeguards) to members experiencing balance of payments difficulties

Note: All data as of January 2011 unless otherwise noted.

Questions for Discussion

1. As the text notes, the IMF (as well as other institutions that enhance global cooperation and coordination) was set up in large part as a response to the Great Depression and World War II. How is the kind of economic stability that the IMF was established to promote important in the context of preventing large-scale conflicts like the two world wars? What other kinds of negative events might the existence of an institution like the IMF be helpful in preventing or mitigating?

2. What are some of the advantages of having an institution like the IMF whose purpose is to promote global economic stability? Are there potential drawbacks as well? How might your perspective on those questions change if you were (a) a central banker in an advanced economy like the United States or the United Kingdom? (b) a leader in an emerging economy like India or China? (c) a policymaker in a low-income country such as Ethiopia or Nicaragua?

3. Why is it necessary to have a global institution that fulfills the IMF’s lending function to countries with balance of payments issues? Why might other (market-based) available sources of financing be unsatisfactory solutions for a country with such issues?

4. How does the IMF’s work affect you and others like you throughout the world, on a day-to-day basis? In other words, how do the IMF’s activities at a global level to promote economic stability translate into tangible benefits for each of the world’s citizens?
International Institutions and the Interconnected World

The economic and financial linkages that bind countries together in our increasingly globalized world have brought substantial benefits, but they have also had destabilizing effects. Here are some key economic and financial trends of globalization:

- **Expansion in world trade**: Increasing numbers of countries—from former Communist countries to developing Asia—have joined the global trading system by dismantling barriers to international exchange. The value of the global trade of goods and services increased from 42 percent of world output in 1980 to 64 percent in 2008, before falling to 54 percent in 2009.

- **Rise of emerging markets**: Emerging markets, a group of middle-income countries that have become rapidly integrated into global markets since the mid-1980s, have been the growth story of the past decade, gaining in strength and prominence and helping the world recover from the 2007–09 global economic crisis, which hit advanced economies particularly hard.

- **Increase in international capital flows**: The movement of money across borders has increased tremendously in the last three decades. Between 1980 and 1995, these flows of capital represented 2–6 percent of world GDP. That figure rose as high as 17 percent in 2007, before the global economic crisis hit.

- **Global imbalances**: Greater capital market integration has resulted in flows of money from emerging to advanced countries and sizable current account deficits in countries such as the United States and large account surpluses in Asia and oil-exporting countries. Strong and balanced global growth requires that such imbalances be narrowed, for example, by having surplus countries spur domestic demand and deficit countries encourage savings.

International organizations such as the IMF play an important role in supporting collaborative responses to economic and financial challenges stemming from our increasing interconnectedness. The IMF helps economies manage or reduce the volatility brought about by global interconnections, through economic analysis, policy advice, and lending to countries in financial distress. Its role is to find solutions to economic and financial problems for the benefit of all, then convince sovereign governments and countries about the value of implementing those solutions. Its work was well illustrated during the 2007–09 crisis.
The New IMF

As the world economy struggles to restore growth and jobs after the worst crisis since the Great Depression, the IMF has emerged as a very different institution. During the crisis, it mobilized on many fronts to support its member countries. It increased its lending, used its cross-country experience to advise on policy solutions, supported global policy coordination, and reformed the way it makes decisions. The result is an institution that is more in tune with the needs of its member countries.

- **Stepping up crisis lending.** The IMF responded quickly to the crisis, with cumulative lending commitments reaching a record level of more than $250 billion in 2010. This figure includes a sharp increase in concessional lending (that is to say, subsidized lending at rates below those being charged by the market) to the world’s poorest nations.

- **Greater lending flexibility.** The IMF has overhauled its lending framework to make it better suited to countries’ individual needs. It is also working with regional institutions to create a broader financial safety net, which could help prevent new crises.

- **Providing analysis and advice.** The IMF’s monitoring, forecasts, and policy advice, informed by a global perspective and by experience from previous crises, have been in high demand and have been used by the G-20, as noted in Section 4.

- **Drawing lessons from the crisis.** The IMF is contributing to the ongoing effort to draw lessons from the crisis for policy, regulation, and reform of the global financial architecture.

- **Historic reform of governance.** The IMF’s member countries have agreed to a significant increase in the voice of dynamic emerging and developing economies in the decision making of the institution (via an additional 6 percent shift of quota shares to these countries, on top of a 3 percent transfer in 2008), while preserving the voice of the low-income members (through a doubling of member quotas; see Section 5).

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### Questions for Discussion

1. The previous section noted that a desire to prevent another world war was a significant impetus for the development of the IMF. How does the increasing level of economic interconnectedness of the world’s countries also contribute to that goal?

2. What implications do the increasing flow of capital across borders and global imbalances have for international economic stability? Do they make an organization like the IMF more or less necessary, and how?

3. How do the reforms instituted by the IMF in response to the 2007–09 crisis make it better prepared to help the world’s countries weather the next one?
A country in severe financial trouble, unable to pay what it owes to other countries, poses potential problems for the stability of the international financial system, which the IMF was created to protect. Any member country, regardless of income level, can turn to the IMF for financing if it has a balance of payments need—that is, if it cannot find sufficient financing on affordable terms in the capital markets to enable it to make its international payments and maintain an adequate level of reserves.

IMF lending serves three main purposes:

- It can help countries reduce disruptive economic adjustment or avoid sovereign default, something that would be extremely costly for the country itself, and possibly for other countries through financial contagion.
- IMF loans can play a catalytic role in unlocking other financing. This is because an IMF-supported program can serve as a signal that the country has adopted sound economic policies, reinforcing policy credibility and increasing investors’ confidence.
- IMF lending can help prevent crises. The best way to deal with economic and financial problems is to nip them in the bud before they develop into a full-blown crisis.

During the 2007–09 global economic crisis, countries ranging from Iceland to Angola turned to the IMF for assistance. Since the start of the crisis, the IMF has committed more than $250 billion in loans to its member countries, an all-time record.

Yet many countries had misgivings about turning to the IMF for support. This reluctance can in part be traced back to the Asian crisis in 1997–98. Many people in the Asian region endured considerable distress during that crisis and blamed the IMF for imposing conditions on its lending that were too harsh.

The IMF learned important lessons from the Asian crisis. In particular, it recognized that although tough measures are required to address deep economic problems, the conditions accompanying its programs need to be more focused on meeting program objectives. It also realized it must be more conscious of the social impact of its programs.

The IMF has applied this and other lessons to its more recent lending programs. Moreover, in the early days of the 2007–09 crisis, it undertook a major overhaul of its lending policies. One of the innovations launched by the IMF is a
Flexible Credit Line for countries with a strong track record of good policies (see box). Once a qualifying country has requested and been approved for such a credit line, a loan can be disbursed when the need arises, rather than being conditioned on compliance with policy targets, as in traditional IMF-supported programs.

Questions for Discussion
1. How does a country that is unable to meet its obligations to another country pose a threat to international financial stability? What are the implications if such a country has no viable source from which to borrow the funds it needs to meet its obligations?
2. Why might the IMF’s willingness to lend to a country offer confidence to other potential lenders and investors?
3. Why was it important for the IMF to reconsider its approach to lending, using lessons learned from the Asian crisis? Why is it a problem if countries in need feel a reluctance to approach the IMF for assistance?
4. What options for insuring against crisis do countries have in the absence of a global provider like the IMF, and why might these options be detrimental to global stability or the countries’ own economic growth?

IMF loan programs are tailored to the specific circumstances of individual countries. In recent years, the largest amount of funds has been provided through Stand-By Arrangements, which provide loans to assist countries with short- and medium-term balance of payments problems at market-based rates that nevertheless are almost always lower than what the countries would pay for financing obtained through private markets.

While globalization has vastly increased the size of private capital flows, access to financing can be uneven. Many emerging market countries, for example, currently see an unmet need for insurance against large and volatile capital flows. The 2007–09 global economic crisis underscored the importance of providing an adequate global financial safety net.

To enhance the global financial safety net, in the early stages of the crisis, the IMF streamlined the conditions it applies to its loans and revamped its lending facilities to make them better suited for member countries’ needs. In this context, it has introduced two new lending instruments, the Flexible Credit Line and the Precautionary Credit Line. The idea behind both of these instruments is to provide a financial safety net to qualifying member countries.

The IMF has also upgraded its support for low-income countries, reflecting the changing nature of economic conditions in these countries and their increased vulnerability because of the effects of the global economic crisis. It has overhauled its lending instruments, especially to address more directly countries’ needs for short-term and emergency support. It will also more than double the resources available to low-income countries to up to $17 billion through 2014. Zero interest will be charged on all concessional lending through 2011.
Helping Countries Design Better Policies and Prevent Future Crises

As noted in the previous section, in today’s globalized economy, where the policies of one country can affect many other countries, resolving problems like the 2007–09 global economic crisis takes international cooperation.

As part of its responsibilities in overseeing the international monetary system, the IMF monitors the economic and financial policies of its member countries, an activity known as surveillance. The IMF does this for both individual countries (“bilateral surveillance”) and the global economy as a whole (“multilateral surveillance”).

Bilateral surveillance is an ongoing process that culminates in regular—usually annual—consultations with individual member countries. These discussions are known as “Article IV consultations” because they are required by Article IV of the IMF’s Articles of Agreement. During an Article IV consultation, an IMF team of economists visits a country to assess and discuss its economic and financial policies with government and central bank officials. IMF staff missions also often meet with members of parliament and representatives of business, labor unions, and civil society. In the context of bilateral surveillance, the IMF also interacts with regional economic groups, such as the euro area, the West African Economic and Monetary Union, and the Eastern Caribbean Currency Union. In the wake of the global economic crisis, the IMF is paying more attention to the impact of the policies of one country or group of countries on others.

The IMF also carries out extensive analysis of global economic trends and developments, known as multilateral surveillance. Its key outputs are three semiannual publications, the World Economic Outlook (WEO), the Global Financial Stability Report (GFSR), and the Fiscal Monitor. The WEO provides a detailed analysis of the state of the world economy, addressing issues of pressing interest. The GFSR offers an up-to-date assessment of global financial markets and prospects and highlights imbalances and vulnerabilities that could pose risks to financial market stability. The Fiscal Monitor surveys and analyzes the latest public finance developments, updates fiscal implications of the global economic crisis and medium-term fiscal projections, and assesses policies to put public finances on a sustainable footing.

Efforts are under way to enhance IMF surveillance. Recent measures include:

- mandatory reviews of the world’s top 25 financial centers;
- reports analyzing the effects of major economies’ policies on other countries’ economies; and
- thematic, cross-country reports that draw policy lessons for other member countries facing similar issues.
The IMF and the G-20

As the 2007–09 global economic crisis unfolded, the G-20 industrialized and emerging market countries assumed a leadership role on global economic issues.

The membership of the G-20 comprises the leaders, finance ministers, and central bank governors in nineteen advanced and emerging economies (see table). The European Union, represented by the rotating Council Presidency and the European Central Bank, is also a member. To ensure that global economic forums and institutions work together, the IMF’s Managing Director participates in G-20 meetings, along with representatives of several other international organizations.

Beginning with the G-20 Heads of State and Government Summit in Washington, D.C., in November 2008, G-20 leaders asked the IMF to support their work in a number of areas to help the global economy recover and to maintain global financial and economic stability.

In 2009, G-20 leaders asked the IMF to support the organization’s work with an analysis of whether member countries’ policies were collectively consistent with sustained and balanced growth for the global economy. The mutual assessment process, or MAP as it is known, is a new approach to policy collaboration. The IMF provides the technical analysis employed in the MAP to evaluate how members’ policies fit together—and whether, collectively, they achieve the G-20’s goal of a balanced global economy.

Questions for Discussion

1. How do countries benefit from external assessments of their economic and financial policies, such as those provided by the IMF’s Article IV consultations? Can you think of specific instances in which such assessments might be particularly useful or important?

2. How do the recent changes to IMF surveillance reflect what the world has learned from the 2007–09 economic crisis? For example, what did the crisis reveal to us about the need for mandatory assessments of major financial centers? Why have evaluations of the effects of countries’ policies on other countries taken on additional importance in light of the crisis?

G-20 Membership

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<tr>
<th>Argentina</th>
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<th>Russia</th>
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<tr>
<td>Australia</td>
<td>India</td>
<td>Saudi Arabia</td>
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<td>Brazil</td>
<td>Indonesia</td>
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<td>Canada</td>
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<td>China</td>
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<td>United Kingdom</td>
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<tr>
<td>European Union</td>
<td>Republic of Korea</td>
<td>United States</td>
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<td>France</td>
<td>Mexico</td>
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How the IMF Makes Decisions

The IMF has evolved along with the global economy throughout its 65-year history, allowing the organization to retain its central role within the international financial architecture. Unlike, for example, in the General Assembly of the United Nations, where each country has one vote, decision making at the IMF (and hence the voting structure) was designed to reflect the relative position of each member country in the global economy. Each IMF member country is assigned a “quota” that determines its maximum financial commitment to the IMF, as well as its voting power.

In order to conduct its activities effectively and be perceived as legitimate, the IMF must be seen as representing the interests of all of its member countries. Thus, it is crucial that this decision-making structure (referred to as the institution’s “governance”) both accurately reflect the world’s evolving economic structure and ensure adequate representation of countries with smaller economies.

When the IMF’s current Managing Director, Dominique Strauss-Kahn, was appointed in 2007, he pledged to make governance reform a key priority during his tenure. He wanted to ensure that the institution’s decision-making structure adequately reflected the larger role that emerging market and developing economies now play in the global economy.

After years of hard work in search of a compromise that would win the backing of a majority of the IMF’s member countries, agreement to reform the structure within which the IMF makes decisions was reached in November 2010.

The agreement will result in an unprecedented doubling of IMF members’ quotas and an additional shift of quota shares of 6 percent to dynamic emerging markets and developing
Questions for Discussion

1. Do you think the IMF’s decision-making structure would be fairer, or less fair, if it adopted a model similar to that of the United Nations, in which each country has the same voting power as every other? How might such a system alter the level of support for the IMF’s work among various groups of countries (such as low-income countries, emerging markets, advanced economies), and how might that affect the institution’s ability to carry out its mission?

2. What issues arise when an institution like the IMF considers altering its decision-making structure? What issues must those in charge take into consideration as they make the necessary decisions? Who are the different groups of stakeholders, and what needs of each must be addressed in the reconsideration process?

countries, made possible mainly by reducing the shares of a number of advanced economies and oil-producing countries. This comes on top of previous reforms agreed to in 2008, bringing the total shift of quota shares to dynamic emerging markets and developing countries to 9 percent. As a result of the quota rebalancing, Brazil, China, India, and Russia will be among the top 10 IMF shareholders. Other dynamic emerging market countries will also see their quotas increase, while the voice of low-income countries will be protected.
China’s stunning economic growth over the past 30 years (see box) has propelled it from one of the world’s poorest countries to the second-largest economy. With such growth, however, have come significant challenges, and China now finds itself confronting how to ensure the continuation of economic growth and its enviable success story.

Though now market-based, China’s economy is still state-led, as was particularly evident in the country’s response to 2007–09 worldwide economic crisis. Massive government stimulus—fiscal, financial, and monetary—cushioned the Chinese economy from the worst of the global economic downturn. Through spending on roads, infrastructure, and health, the government supported the country’s economic output as exports collapsed, helping the country sustain its targeted growth rate.

The crisis called attention to what is perhaps China’s biggest challenge to its economic future: how to reduce its dependence on foreign demand for Chinese goods. China’s people typically forego consumption in favor of saving—for retirement, for health crises, or for education—resulting in a domestic consumption rate among the lowest ever recorded.

As Chinese authorities recognize the need to rebalance growth away from a heavy reliance on exports, consumption is being encouraged, along with the development of China’s service industry. Recent increases in government spending on social programs aim at stimulating domestic consumption, generating retail sales, and increasing domestic demand. In addition to the changes to the country’s growth model, however, it may be necessary to develop formal institutions as a way of boosting confidence among investors and consumers.

There are other challenges, as well, associated with the country’s economic success. With market-based prosperity has come a substantial increase in economic inequity—that is, the disparity in income between the country’s rich and poor—which was practically nonexistent in the planned economy. Competition for jobs generated by the economic growth is fierce, and there is some dissatisfaction among the country’s largely rural migrant workers in regard to compensation and working conditions. As the country’s GDP grows, resource constraints become more binding, particularly in the areas of energy and the environment.
China’s economic success has an effect on the rest of the world too. Growing recognition of the spillover effect of China’s growth and policies on other countries, as well as the resulting adjustments in those countries, may cause some to regard China as a threat. The IMF can serve as a forum for discussion of the policy issues involved and as a key platform through which the international community gets a better understanding of China, and China, of the rest of the world.

Questions for Discussion

1. If you were a policymaker in China, which of the emerging challenges identified in the film—dependence on export income, growing income inequity, dissatisfaction with working conditions, resource constraints—would you make it your top priority to address? Which would be your second, third, and fourth? Why?

2. The film mentions that spillover effects of China’s growth have caused discomfort among some other countries and notes that the IMF can play a role in dispelling some of those countries’ concerns. How do you think the IMF can help in this? What other possibilities do you see for addressing this issue, either for China’s policymakers or for leaders in countries affected by these spillover effects?

3. What lessons can be learned from China’s economic transformation for other countries? Which parts of China’s success story do you think could be replicated elsewhere in the world? Which parts of it do you think are specific to the situation in China?

Projected Change in Key Chinese Economic Indicators (percent)

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<th>2010</th>
<th>2011</th>
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<tbody>
<tr>
<td>GDP</td>
<td>10.5</td>
<td>9.6</td>
</tr>
<tr>
<td>Consumer prices</td>
<td>3.5</td>
<td>2.7</td>
</tr>
</tbody>
</table>

Source: IMF, World Economic Outlook (October 2010).
Ghana is on the cusp of an ambitious milestone—becoming a middle-income country. If used strategically, the sizable offshore oil reserves discovered in 2007 would consolidate Ghana’s position as a thriving middle-income country.

International experience suggests that converting oil wealth into sustained improvements in living standards is technically feasible, but it will require a great deal of discipline and determination on the part of both Ghana’s government and its people. Importantly, the benefits derived from investing Ghana’s oil incomes will need to be maximized to transform the economy permanently over the 10- to 15-year lifetime of its proven oil reserves. Experts suggest that two options in particular could have the lasting impact required to achieve this: supporting small-scale farmers and building a stronger and more talented workforce.

Development of the domestic agricultural sector, including by improving the access of small-scale farmers to credit facilities and other financial services, is seen by many as a critical transformative investment Ghana should undertake. Such action would achieve a number of desirable outcomes, such as reducing domestic unemployment in rural areas, expanding the country’s productive capacity for foodstuffs and basic agricultural products, and potentially creating a new source of export-based economic growth. Development of the domestic agricultural sector would also coordinate well with Ghana’s existing efforts to sustain its traditional agricultural export sector for cash crops like cocoa. Ghana is, for example, putting in place certain interventions (in response to the oil boom) that will help safeguard the cocoa sector.

Ghana has a demographically young population. The oil sector, and the revenues derived from it, represent an opportunity for a nationwide human capital investment in Ghana’s future. A critical issue for the country is how to involve the maximum number of citizens in the oil program or the benefits derived from it. One option for doing this is using the windfall to expand training and educational opportunities for young people. Some training is also required to enable local people to fill jobs in the oil industry.

To sustain and build on these favorable trends and maintain progress toward broader economic stability over the medium term, continuing effort will be needed to reduce the government’s fiscal deficits and associated public borrowing. Although progress was made in reducing Ghana’s large fiscal deficit in 2009, indications are that 2010 saw a renewed rise in the deficit, contrary to the government’s goals for deficit reduction (see box). For 2011, it will be important to put the fiscal deficit back on a steady downward path to ease public borrowing concerns. Discussions are taking place between Ghana and the IMF about options for reducing projected deficits by limiting spending growth and strengthening domestic revenue mobilization.
Ghana’s Economy in Transformation

A country’s endowment of a valuable natural resource, even a large endowment, does not by itself bring about an economic transformation. Ghana has had huge gold reserves for years, but their extraction has not translated into the levels of economic growth that Ghanaians long for. The country’s economy is looking brighter today, however, with GDP rising and prices moderating (see table).

It is expected that, once oil output from the offshore field currently being tapped reaches full production, this will boost the size of Ghana’s economy by 6–7 percent and will increase the nation’s tax revenues by as much as 3½ percent of GDP. This will be an important supplement to Ghana’s currently low tax collection effort (about 15 percent of GDP) and will help it meet pressing financing needs and economic challenges.

Ghana’s budget deficit, which between 2002 and 2005 averaged about 3 percent of GDP, began rising sharply in 2006 and peaked above 8 percent of GDP in 2008, before falling back to below 6 percent of GDP in 2009. By late 2008 the country’s macroeconomic situation had deteriorated significantly. Ghana was confronted not only by huge budget deficits, but also by double-digit inflation and a record trade deficit (approaching 20 percent of GDP) brought about by the food and fuel crisis of 2007. The country was also beginning to feel the effects of the global financial crisis by the end of 2008. These difficulties led to discussions with the IMF and eventually a new loan program for Ghana of more than $600 million.

The three-year program between the IMF and Ghana provides not only financial resources to restore economic stability, but increased IMF technical assistance to the country. Most Ghanaians agree that although the relationship between the two has had its ups and downs, there is little question that the program was needed and that it points the way to a more stable and sustainable future for the country.

Questions for Discussion

1. As the film notes, Ghana will have to make decisions regarding how it will use the revenue from its recent oil discovery to improve the lives of its citizens and engineer a long-term economic transformation. If you were a Ghanaian policymaker, how would you persuade your country’s citizens to forego short-term measures in favor of those that promise longer-term improvements (which can sometimes be a hard sell)?

2. The film suggests two possible uses for Ghana’s oil resources to improve citizens’ lives over the long haul: development of the country’s agricultural sector and investments in education for youth and others. Does one of these strike you as more likely to yield the desired benefits than the other? If so, which one, and why? Can you think of other uses for the revenues that might also yield the desired result of long-term economic improvement for the country?

3. Given the country’s prospect for significant oil revenues in the near future, why do you think the IMF has placed emphasis, in its advice to Ghana, on the need to get the country’s budget deficit under control? How could failure to achieve this undermine the potential of oil revenues to transform the country’s economy and the lives of its citizens?

4. To what extent do the issues facing Ghana, as it plans how to handle the imminent increase in revenue from its oil reserves, reflect issues that any country would face if it experienced a sudden increase in income or resources? Which parts of Ghana’s story do you think are specific to the situation there?

Projected Change in Key Ghanaian Economic Indicators (percent)

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<tr>
<th></th>
<th>2010</th>
<th>2011</th>
</tr>
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<tbody>
<tr>
<td>GDP</td>
<td>5.0</td>
<td>9.9</td>
</tr>
<tr>
<td>Consumer prices</td>
<td>10.6</td>
<td>8.8</td>
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*Source: IMF, World Economic Outlook (October 2010).*
Poland: An Example of How to Achieve Sustainable Growth

As the only economy in the European Union not to experience recession in the 2007–09 global financial crisis, Poland serves as a story of economic success amidst a global downturn. Despite initial concerns that the downturn in the euro area (the main destination for Poland’s exports) would drag Poland down as well, the country’s economy fared much better than economies elsewhere in Europe.

Poland has a large domestic economy and is not as dependent on exports as many other countries in central and eastern Europe. Its flexible exchange rate also helped cushion the blow of the crisis. But credit for protecting the country from economic reversal largely goes to measures taken by the Polish government both before the crisis and after its onset. Responsible fiscal policy during the prosperous years preceding the crisis meant the country was in a solid financial position going into the crisis. Poland’s comparatively low level of debt allowed the government to use fiscal policy during the crisis to stimulate the economy and partly offset the downturn. As a result, the government managed to keep the economy on a stable economic track, though the levels of the deficit and government debt increased.

In 2009, Poland was one of the first countries to apply and qualify for an arrangement under a new IMF lending program, the Flexible Credit Line, designed precisely for countries like Poland with a strong economy and solid fundamentals. Although Poland has, to date, not drawn on its Flexible Credit Line arrangement, IMF approval sent a strong signal, to investors and to the markets, regarding the IMF’s faith in the strength of the Polish economy.

Poland’s positive, stable growth has enabled it to continue to advance living standards, building on its transition to a market-based economy in the 1990s (see box).

| Projected Change in Key Polish Economic Indicators (percent) |
|-------------|-------------|
|             | 2010    | 2011    |
| GDP         | 3.4     | 3.7     |
| Consumer prices | 2.4     | 2.7     |

Source: IMF, World Economic Outlook (October 2010).
Shock Therapy and Poland's Remarkable Economic Transition

The plan to transform Poland’s economy into a market-based system, approved by the Polish legislature in December 1989 after years of economic decline in the country, was considered a bold step at the time, but Polish policymakers, seeing no other viable way forward, were determined to make the transition. The challenge facing Poland was no small one—how to transform the country into a modern, market-driven economy. The IMF, drawing on its knowledge and experience, assisted the Polish government in designing the reform and stabilization program and offered technical assistance in crucial areas of running a market economy (lacking after years under a planned system).

The change in the system was met with both satisfaction, as Polish consumers enjoyed a growing abundance of goods after decades of comparative poverty, and surprise, as people confronted the challenges of having full responsibility for their own lives.

The transition was a painful experience for many people. The country went from near universal employment under the planned economy to 400,000 jobless within the first year of the market system, with projections of one million unemployed a possibility before the economic transformation took hold. Urban dwellers with good educations fared well in the new job market, but a significant part of Polish society found it extremely difficult to become reemployed, resulting in frustration and marginalization.

Yet the market economy also presented new opportunities and challenges for many who took advantage of the possibilities for entrepreneurship available in the new market economy. The efforts of these Polish entrepreneurs drove the country's initial economic success under the market system, eventually fueling interest among investors that represented a further step forward for the economy.

At first, the country’s economic growth was not very impressive, and it was even negative in the first two years of the market system. Once the path was set, however, economic growth accelerated, reaching 7 percent by the mid-1990s. The prudent economic policies pursued by the government after Poland joined the European Union in 2004 enabled the country to weather the 2007–09 financial and economic crisis with fewer ill effects than its European neighbors and many other of the world’s countries.

Questions for Discussion

1. Why might a country such as Poland find it valuable to have an arrangement like the Flexible Credit Line at its disposal? What issues do you think Polish policymakers had to consider in deciding to apply for the Flexible Credit Line? What potential drawbacks had to be factored in? What potential advantages do you think outweighed them?

2. The film notes that Poland’s economic transformation came with a down side, particularly for those who lost their jobs and found it difficult to find work in the market economy. Are there other potential adverse consequences of a transition from a planned to a market economy? If so, how can policymakers address those consequences to minimize their negative effects for citizens?

3. What lessons can be learned from Poland’s economic transformation for other countries? Which parts of Poland’s success story do you think could be replicated elsewhere in the world? Which parts of it do you think are specific to the situation in Poland?
For Further Reading

**Blogs**

iMFdirect, a blog covering the global economy and policy issues, posts content related to the IMF’s work in economics and finance at the global or national level. Blog posts currently highlight the debate over policy responses to the biggest global recession since the Great Depression.


Of particular relevance to the material covered in this study guide are the blogs by Olivier Blanchard, the IMF’s Economic Counsellor and head of its Research Department, on the G-20 mutual assessment process, and by IMF Historian James Boughton on governance.


**Key publications**

*Finance & Development* [quarterly online and print magazine]


*IMF Survey* [online magazine]


*World Economic Outlook*


*Global Financial Stability Report*


*Fiscal Monitor*


*Regional Economic Outlook* Reports

Factsheets

Accurate and up-to-date information on the work of the IMF has been in high demand throughout the 2007–09 economic crisis. The IMF’s factsheets provide a web-friendly, plain-English explanation of the work of the IMF on the issues of most importance to the institution’s key stakeholders as well as to those developing an interest in its work.


Of particular relevance to the material covered in this study guide are the factsheets covering

- The IMF’s response to the global economic crisis

- How the IMF makes decisions

- How the IMF promotes global economic stability

- The G-20 mutual assessment process
  http://www.imf.org/external/np/exr/facts/g20map.htm

- The IMF’s Financial Sector Assessment Program
- IMF surveillance
- Financial system soundness
- How the IMF lends
- IMF lending in response to the crisis
- IMF support for low-income countries
- Where the IMF gets its money
- Quotas at the IMF
Developed by the International Monetary Fund for use with the video