ILO Research Paper No. 2

International
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A development perspective

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ISSN 2306-0875 (web pdf)

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Acknowledgements

The authors would like to thank Duncan Campbell for incisive comments on an earlier version of this paper. It was also presented at the IMF's 'Jobs and Growth' seminar on 11 May, 2012. Comments provided by two discussants (Atish Ghosh and Andrew Berg) are reflected in this revised version. The standard disclaimer applies: any remaining errors or omissions are the sole and collective responsibility of the authors.

Abstract

This paper undertakes a content analysis of 2009–2010 IMF Article IV consultations for a sample of 30 low-income and 20 middle-income countries on the following themes: (a) fiscal adjustments (b) inflation targets (c) employment generation, poverty reduction and expansion of social protection. Insufficient attention appears to have been given to employment generation, poverty reduction and expansion of social protection. 'New' generation Article IVs might need to be modified to respond to this lacuna. This might be best achieved when the IMF works with other development partners to broaden the content and scope of the IMF's regular consultations with member states.

Keywords: development policy, employment, fiscal and monetary policy, international agreements and observance, macroeconomic policy, social protection

JEL classification: E61; E63; F53; O23; O24

1 Introduction

Under the IMF's article of agreements, Article IV consultations play an important surveillance role. As the IMF observes:

> Article IV consultations usually take place once a year. IMF economists visit the member country to gather information and hold discussions with government and central bank officials, and often private investors and labor representatives, members of parliament, and civil society organizations. Upon its return, the mission submits a report to the IMF's Executive Board for discussion. The Board's views are subsequently summarized and transmitted to the country's authorities. Currently, nine out of ten member countries agree to publication of a Public Information Notice (PIN), which summarizes the staff's and the Board's views, and four out of five countries agree to publication of the staff report itself.[1]

Public access to Article IV consultations is of comparatively recent origin. It emanates from a pilot project that the IMF initiated in April 1999 to improve its transparency.[2] These consultations are an excellent source of information on the nature of macroeconomic policy advice offered by the IMF to member states. Yet, unlike the extensive – albeit contentious- literature on the nature and impact of conditionalities that are enunciated under the IMF's lending arrangements, relatively little effort has been invested in undertaking a 'content analysis' of staff reports that support the Article IV consultations in order to decipher the nature of the macroeconomic policy advice that is offered to member states.[3] This paper intends to deal with such a lacuna by undertaking a content analysis of 2009-2010 article IV consultations (and equivalent country reports if such consultations are not available) for a sample of 30 low-income and 20 middle-income countries on the following themes : (a) fiscal adjustments (b) inflation targets (c) employment generation, poverty reduction and expansion of social protection. The list of low and middle income countries is drawn from World Bank sources. This is supplemented by drawing on another study that assesses the IMF Article IV consultations for 25 low- and middle-income countries.[4]

A discourse on the nature of macroeconomic policy advice as dispensed by the IMF to a selected sample of its member states is timely because of the proclamations by the Fund that it is now necessary to engage in a wholesale re-examination of macroeconomic policy principles in the wake of the Great Recession of 2008–2009 that was triggered by the US-driven financial crisis of 2007–2008.[5] Critics have argued that both the financial crisis and the Great Recession represent the inadequacies of the standard macroeconomic framework, with the IMF widely seen as the internationally recognized custodian of this framework. This is a critique that has been exacerbated by the current debate on the

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1 See http://www.imf.org/external/ns/cs.aspx?id=51. Edwards et al. (201) trace the evolution of greater transparency with respect to the IMF Article IVs. Note that there are significant variations by regions in the public release of the IMF Article IV reports ranging from 46 per cent in Sub Saharan Africa to 100 per cent in the OECD countries.

2 See http://www.imf.org/external/pubs/pilot.htm

3 For a meta-analysis of studies that assess the impact of IMF conditionalities, see Steinwand and Stone (2008). As noted, the literature on the content analysis of Article IV consultations is relatively scarce. Two good examples are Momani (2006) focusing on the case of Canada; and Fratzscher and Reynaud (2011) focusing on 36 emerging economies. Note that, unlike this paper, Fratzscher and Reynaud use the PINs rather than the full staff reports.

4 Roy and Ramos (2012). The appendix to this paper gives the full list of countries covered by this study.

5 Blanchard et al. (2012).

efficacy and relevance of fiscal austerity measures in the debt-distressed economies of the Eurozone and elsewhere.[6]

The standard macroeconomic framework assigns a central role to macroeconomic stability as a prerequisite for economic growth. Macroeconomic stability is assessed in terms of the ability of countries to attain and sustain preferred nominal targets (whether implicit or explicit) pertaining to debts, deficits and inflation. The rationale is that predictability in terms of key nominal targets engenders market confidence, boosts investment, propels growth, and supports employment creation and poverty reduction. In principle, these nominal targets should be tailored to country-specific circumstances, but in practice they have often tended to become part of a 'one size fits all' approach. Thus, in the case of inflation, the target suggested by the IMF for developing countries is usually less than 5 per cent, while for debt-to-GDP ratios the prudential thresholds are set at 40 per cent, despite the fact that they do not seem to be anchored in robust empirical evidence.[7] There is also a growing body of evidence that the relationship between macroeconomic stability and growth is asymmetric. Extreme instability – such as hyperinflation and out-of-control budget deficits - kills growth, but it does not follow that restoration of stability will be sufficient to promote self-sustaining growth and lead to durable and productive job creation. Hence, as noted, a re-thinking of the standard macroeconomic framework is underway, a process in which leading IMF economists themselves are playing an important role.[8]

The content analysis undertaken in this paper seeks to assess the extent to which the Article IV consultations reveal the persistence of a 'one size fits all approach' as they pertain to targets on debts, deficits and inflation and the extent to which the consultations focus on employment creation, poverty reduction and extension of social protection that go beyond a mere re-affirmation of the view that the primary – if not the sole - role of macroeconomic policy managers is to act as guardians of stability. Such an assessment is important given that the IMF has claimed that, in response to its critics, it has become more flexible in the design of its lending arrangements and in offering policy advice to both borrowing and non-borrowing countries. In the context of low-income countries, the IMF makes the point that 'macroeconomic policies (are) intended to become more supportive of growth and poverty reduction objectives, including by safeguarding social and other critical spending in times of adjustment' (IMF, 2009:29).[9] Hence, it seems appropriate to assess the IMF article IV consultations through the prism of employment creation, poverty reduction and extension of social protection.

The rest of the paper is structured as follows. Section 2 describes the methodology that is used to undertake the content analysis of the Article IV consultations (and equivalent country reports where such consultations are not available). Sections 3 to 5 report the results based on this methodology on the themes of fiscal adjustment, inflation targets, employment creation, poverty reduction and extension of social protection. A consistent attempt is made to locate the discussion in a broader development context. Section 6 offers a summary of key findings and their implications for the future evolution of the Article IV consultations.

[6] See Grauwe (2011) for an insightful account of the predicament faced by debt-distressed Eurozone countries.
[7] These 'preferred' targets are discussed more fully at a later juncture.
[8] See Blanchard et al. (2012).
[9] IMF (2009).

2 Methodology

The content analysis draws on the 2010 Article IV consultations of each country, and if the 2010 reports were not available, a country report under a lending arrangement was used instead. Some countries (four) did not have any Article IVs or equivalent reports for 2010, in which case the last available report (2009) was used (see Appendix for the full country list). The policy recommendations that are analysed are usually for the medium term, that is, from 2010 onwards till 2015.

2.1 Variables representing fiscal adjustment

As noted, one of the themes explored in this paper is the issue of fiscal adjustment. This topic is selected because it is very much part of the current global policy discourse on fiscal consolidation. This is taken to represent IMF advice of urging the government to adopt fiscal discipline through a combination of expenditure adjustments and revenue mobilization. Within the broad sphere of fiscal adjustments, the following areas are highlighted.

1) Explicit spending restraint: The variable is defined as the IMF recommendation for explicit control or cuts in public spending. The advice ranges from requiring tight controls over spending in Ghana to curbing the growth of recurrent spending in the Solomon Islands. The fund also makes the case for explicit cuts in the case of Republic of Tajikistan where the advice is to cut spending and in Tanzania's case, reigning in fiscal spending.

2) Manage public sector debt: For the purposes of the research, the variable is defined to include cases where the IMF proposes a country to rein in its public debt to more sustainable levels. This policy prescription includes various aspects. Turkey is recommended to moderate public debt levels while Ghana is urged to pursue debt sustainability by "limiting non-concessional financing to high-return infrastructure and energy projects". The IMF also recommends controlling other variables to manage public debt – for instance Benin is asked to "contain the increase in non-priority expenditure to control debt sustainability" and the "controlling public sector wages to preserve fiscal and debt sustainability". It is suggested that Kenya control its current spending to bring debt-to-GDP down to sustainable levels. The strengthening of debt management capacity is recommended for some countries like Ethiopia, Cambodia and Bangladesh. The IMF also sets a threshold for public debt – if the present value of public debt to GDP ratio exceeds a certain threshold, then that country is at a risk of debt distress, which in turn is classified into 'high', 'medium', 'low'.

3) Mobilize revenue: The variable is defined to include aspects of tax and non tax revenues along with efforts to reform and simplify the administration and collection process. For example, the IMF suggests that Bangladesh should reform its income tax and VAT policy, while Bolivia was advised to improve the efficiency and equity of the tax system. For Armenia the IMF stated that "tax administration reforms remain crucial to the authorities' objectives of sound public finances…"

2.2 Variables representing inflation targets

This topic is selected because leading IMF economists believe that inflation targeting represents macroeconomic orthodoxy that is in need of revision in the wake of the Great Recession of 2008–2009. For some countries, the IMF explicitly addresses the issue of inflation, while for others there is no such guideline. The IMF usually recommends combating inflation using specific tools. Bangladesh for instance has been advised to hike up its interest rates to prevent inflationary pressure along with a modest appreciation of its exchange rate to moderate imported inflation, that is, use the exchange rate as part of an anti-inflation strategy. The IMF explicitly states for Ghana that to control inflation the "case for further monetary policy tightening is strong" and that expansionary fiscal policy should be reined in.

2.3 Variables representing employment creation, poverty reduction and extension of social protection

One of the central policy debates in global development is the extent to which the conventional macroeconomic framework is able to support the process of employment creation and poverty reduction other than through the process of growth itself. The global poverty reduction agenda now rests on two interrelated pillars: (a) the attainment of the Millennium Development Goals (MDGs) by 2015 as endorsed by the UN system in 2000; and (b) progress towards a 'social protection floor' as endorsed by the UN system in 2009. The targets and indicators pertaining to MDGs underwent a significant change in 2005 when a new target of 'MDG1b' was selected as part of the global monitoring system and was defined to represent progress towards 'full and productive employment and decent work for all, including young men and women'. MDG1b is the product of a long campaign by the ILO to establish an explicit link between employment and poverty as part of the global poverty reduction agenda. The IMF is a co-author with the World Bank of an annual 'Global Monitoring Report' (GMR) that focuses on tracking progress towards the MDGs. Recent GMRs have included a succinct discussion of MDG 1b.

As noted, a global campaign towards a social protection floor envisages progress towards a minimal set of social protection measures (such as conditional cash transfers) across the developing world in particular. The lead agencies are now the ILO and the WHO while the Bretton Woods institutions are cooperating agencies.

In representing variables pertaining to employment creation and poverty reduction, this paper makes a distinction between 'explicit references' to MDGs, MDG 1b and social protection floor and 'general references' to employment creation and poverty reduction.

1) Explicit reference to MDGs: This is defined to include any mention of the MDGs in terms of creating and mobilizing resources towards attaining them. For Benin, the IMF has stated that "the authorities' main challenge is to contain the impact of the crisis...and achieve higher sustainable growth in the medium term to make progress toward the MDGs". The IMF, in Benin's case, has urged it to achieve higher economic growth to target the MDGs. Nepal on the other hand has been advised to seek "foreign financing at favorable terms" and pursue a stable GDP growth to make progress towards the MDGs.

2) Explicit reference to a social protection floor: This is defined to include any mention of a social protection floor in terms of directing resources towards its attainment.

3) Explicit reference to MDG 1b: This variable is defined to include any reference to MDG 1b and the ways in which macroeconomic policies can be geared towards supporting it.

4) General reference to poverty reduction: General reference to poverty reduction is defined to include any suggestions regarding the improvement of quality and access of education and health services and the efforts to alleviate poverty. The IMF also mentions the need to create fiscal space for reducing poverty. In the case of Nepal, the IMF suggests that "further revenue needs to be bolstered to support growth and poverty reduction". For Ethiopia, the IMF recommends stronger tax efforts to "boost resources to finance pro-poor spending".

5) General reference to Social Protection: The variable is defined to include any reference to social security transfers, old age pensions and essential health care. For instance the IMF concurred with Malaysia's compensatory cash transfers to the most vulnerable groups while it concurred with Benin's plan to strengthen the social protection system of the poor. For Malawi, the IMF referred to the improvement required in its structure of social safety nets under the ECF supported program. The Fund highlighted the importance of garnering resources to finance the implementation of the National Social Protection Framework in Tanzania as well.

6) General reference to employment generation: The variable is defined as the IMF advice of suggesting the countries to focus on job creation through economic growth or any other policies concerning employment. For example, Turkey is encouraged to promote employment generation by reducing formal sector labor costs and easing regulations to enable easier hiring. South Africa is urged to make growth more labour intensive while Benin is asked to promote female and youth employment.

A method of coding was then followed to identify if the IMF recommends or refers to a certain policy or not. A binary coding is used, with 1 = "Yes" if policy A is recommended for a country and 0 = "No" if policy A is not recommended for the country. Specific key phrases and sentences were taken into account in order to capture the incidence of a policy advice. For example, the policy advice of controlling inflation was checked as 1 if the phrases like "authorities should remain vigilant and respond appropriately if higher food prices persist" or "The central bank should be ready to tighten monetary conditions if inflation picks up" appeared in the reports. Similarly, in order to distinguish whether a country is a low-income country or a middle-income one, a dummy was assigned.

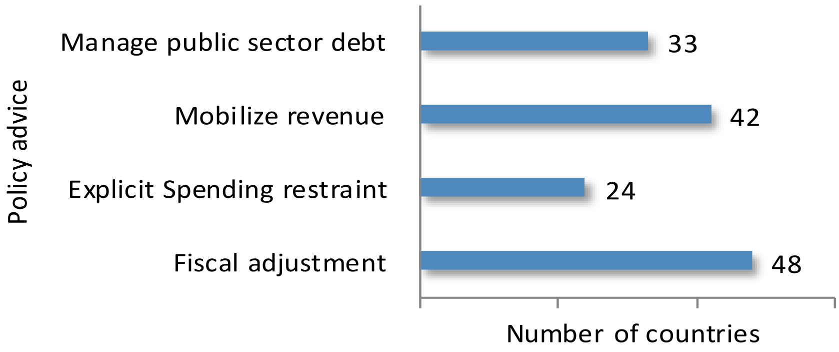
3 Fiscal adjustment and the Article IV consultations: Key findings and implications

This section discusses the theme of fiscal adjustment, demonstrates its prominence in the Article IV consultations and suggests that this is in line with the global advice offered by the IMF. The discussion then explores the extent to which the IMF in its country-level advice reveals a predilection for adopting across-the-board prudential targets pertaining to debts and deficits. This section also highlights the challenge of revenue mobilization to finance core development needs and concludes by noting the risks of adopting a 'one size fits' all approach.

3.1 Fiscal adjustment: The alignment between country-level advice and the IMF's global posture

As can be seen from Figure 1 the issue of fiscal adjustment looms large in the IMF staff reports analyzed for a sample of 50 low- and middle-income countries. In 48 out of 50 cases, the standard recommendation is that countries should engage in fiscal discipline. In many cases, this generic advice is followed up by specific recommendations entailing some combination of expenditure restraint (24 countries), containment of public sector debt (33 countries) and additional revenue mobilization (42 countries). One study that focuses on the 'public information notices' or PINs find that the IMF's assessment of the fiscal situation on emerging economies is typically negative.[10]

Figure 1: IMF Policy statement for fiscal adjustment



Note: Frequency distribution for 50 countries.
Source: IMF Article IV Consultations and equivalent reports (2009–2010, see Appendix for details).

This emphasis on fiscal adjustment is consistent with the advice that the IMF has issued in its recent global reports. Certainly, during the Great Recession there was a much greater willingness by the Fund to support the cause of counter-cyclical macroeconomic policies. Thus, it observes in the 2010 Global Monitoring Report (GMR: 9):

> More than one-third of (developing) countries introduced discretionary fiscal stimulus plans in 2009. Absent such support, the impact on individual countries' growth and the shortfall in global demand would have been even greater.

Yet, the Fund and its sister organization the World Bank sees the need for fiscal policy to adapt to the post-Great Recession era and argues that the 'rapid expansion of fiscal deficits and greater reliance on domestic finance in many countries may not be sustainable'. It warns that '(t)he deterioration in debt ratios in low-income countries is particularly worrisome'. Hence '(a)ll countries should adopt credible medium-term fiscal adjustment plans to bolster confidence in macroeconomic policies…'.[11] This is a theme that is also reflected in the 2011 GMR in which the Bretton Woods institutions express the need for developing countries to 'tighten' policies through a combination of restrictive monetary policy,

[10] Fratzscher and Reynaud (op.cit).
[11] Global Monitoring Report (GMR) (2010).

fiscal consolidation and appreciation of the real exchange rate. In particular, the IMF expresses concerns about lax credit conditions that might inhibit the pursuit of fiscal consolidation.[12]

Both the 2010 and 2011 global reports are consistent with the IMF's 2009 review of conditionalities for low-income countries. The review notes that '(e)xpenditures that were intended to provide temporary support to the economy will likely need to be scaled back, and fiscal deficits should be reduced as revenues recover' (IMF, 2009:30).

3.2 Debts and deficits: Prudential targets and the Article IV consultations[13]

Does the Fund adopt a preferred fiscal deficit target or targets when advising developing countries to engage in fiscal adjustment? In its 2005 review of macroeconomic policy design for 15 low income countries with access to concessional lending that were classified as 'mature stabilizers',[14] the IMF noted that several studies showed that the 'level at which deficit reduction no longer boosts growth ranges between 1.5 per cent and 2.5 per cent', although it acknowledged that these estimates were 'subject to considerable uncertainty' (IMF, 2005:40). The 2005 report also pointed out that the observed average deficit was 4.5 per cent of GDP for the countries under review, but it did not see the benefits from further fiscal consolidation. Hence, one can infer that an average fiscal deficit of 4.5 per cent of GDP was deemed appropriate for low-income countries.

Is such a norm being used in assessing the conditions of today? A more stringent limit seems to be implicit in the 2010 GMR. For example, the average fiscal deficit of developing countries is projected to expand from approximately 1.5 per cent of GDP 2008 to 4.5 per cent of GDP (GMR, 2010: 79). Yet, this expansion is deemed to be 'unsustainable' in many cases. Hence, the implication is that developing countries as a group should aim for fiscal deficits that are closer to the levels that prevailed in 2008 (less than 2 per cent of GDP).

On prudential thresholds pertaining to public debt, the IMF is more explicit in its guidance. A 2002 report noted that, for developing economies, a 40 per cent debt-to-GDP ratio should be used as a prudential threshold when monitoring the sustainability of external borrowing.[15] A 2010 report issued by the Fiscal Affairs Department used this threshold to offer illustrative examples of the extent of fiscal adjustment that would be required for developing countries to stabilize the debt-to-GDP ratio by 2030.[16]

Of course, one can raise questions about the empirical robustness of the prudential thresholds on public debt that are being used for policy guidance. Studies on the public debt-growth link suggest that the level at which public debt harms growth in developing countries and emerging market economies range from 20 per cent to 90 per cent of GDP (see Table 1). Furthermore, the relationship between initial debt-to-GDP ratio and subsequent growth for developing economies is weak. The 'slope' in the 'line of best fit' is rather shallow. For example, one study (Kumar and Woo, 201:4) that served as a key input in the IMF's 2010 Fiscal Monitor notes that: `a 10 percentage point increase in the initial debt-to-GDP ratio

[12] GMR (2011). In his comments on this paper, Atish Ghosh points out that the IMF policy advice on fiscal issues does have a 'tightening bias' as an antidote to the fact that countries have a tendency to acquire too much debt.
[13] Atish Ghosh, in his comments on this paper, contends that it is best to consider the 'prudential targets' noted in this paper as rules of thumb that fit a wide variety of circumstances.
[14] The moniker 'mature stabilizers' refers to countries that have managed to consolidate macroeconomic stability and exhibited the following profile.
[15] IMF (2002).
[16] IMF (2010).

is associated with a slowdown in annual real per capita GDP growth of around 0.2 percentage points per year`. One also infers from this study an important point that is not emphasized by the authors. Even a modest negative effect of debt on growth can be easily offset by other variables that promote growth (such as schooling) which, in the aforementioned study, has a positive and statistically significant coefficient that is substantially larger in magnitude than the coefficient on public debt.

Table 1: Public debt and growth: Revisiting the evidence

Countries (years)	Public debt and growth: A sample of studies that identify threshold effects	Year
93 developing countries (1968–98)	The average impact of debt changes from positive to negative at a threshold of about 35–40 per cent of GDP[17]	2002
55 low-income countries (1970–99)	The average impact of debt changes from positive to negative at a threshold of around 30–37 per cent of GDP[18]	2003
61 developing countries (1969–98)	The average impact of debt changes from positive to negative at a threshold of about 35–40 per cent of GDP[19]	2004
56 heavily indebted poor countries (1969–2000)	The relationship between debt and growth changes from positive to negative at a threshold of about 45 per cent of GDP[20]	2009
44 developed and emerging countries (200 years and 3700 annual observations)	The relationship between debt and growth changes from positive to negative, for emerging markets, at a debt threshold of 60 per cent of GDP[21]	2010
38 advanced and emerging market economies (1970–2007)	The impact of debt only has a significant effect on growth at a threshold of above 90 per cent of GDP[22]	2010
79 developing countries (1970–2002)	The relationship between debt and growth changes from positive to negative, for countries with good policies and institutions, above the threshold of 20–25 per cent of GDP; however, debt becomes irrelevant to growth at the threshold above 70–80 per cent[23]	2010
92 low- and middle-income countries (1990–2007)	Public debt has a negative impact on output growth up to a threshold of 90 per cent of GDP, beyond which its effect becomes irrelevant[24]	2010
101 developing and developed countries (1980–2008)	The relationship between debt and growth changes from positive to negative at a threshold of 64 per cent for developed countries[25]	2010
93 low-income countries and emerging markets (1975–2004)	The relationship between noninflationary debt and growth changes from positive to negative at a threshold of 35 per cent of bank deposits[26]	2010

[17] Pattillo et al. (2002).
[18] Clements et al. (2003).
[19] Pattillo et al. (2004).
[20] Baseerit (2009).
[21] Reinhart and Rogoff (2010).
[22] Kumar and Woo (2010).
[23] Cordello et al. (2010). In countries with bad institutions, the threshold is between 15-53 per cent. The term ‘irrelevant’ means that one cannot discern any statistically significant impact of debt-to-GDP ratios on growth beyond a certain threshold.
[24] Presbitero (2010).
[25] Caner et al. (2010).
[26] Abbas and Christensen (2010).

The IMF itself is cautious about a rigid adherence to prudential thresholds on public debt. The 2002 report points out, "… it bears emphasizing that a debt ratio above 40 per cent of GDP by no means necessarily implies a crisis – indeed … there is an 80 per cent probability of not having a crisis (even when the debt ratio exceeds 40 per cent of GDP)." Another IMF 2010 paper on fiscal space observes that the debt limit found in the research "is not an absolute and immutable barrier ... Nor should the limit be interpreted as being the optimal level of public debt." [27]

In light of the above discussion and caveats attached to preferred targets on deficits and debts, how do the Article IV consultations in the countries under review deal with the theme of fiscal adjustment? The texts of the consultations usually do not incorporate explicit numerical targets on debts and deficits, as can be seen from Table 2. Nevertheless, some inferences can be drawn using the fiscal statistics that pertain to the countries under review.[28] With a very few exceptions (Liberia, Albania, India, Kenya) the projected fiscal deficits lie below 4 per cent of GDP. There are wide variations in the public debt-to-GDP ratios, but for countries that are classified as having low risk of 'debt distress' by the IMF, the maximum projected debt-to-GDP ratio is 42 per cent.[29]

Table 2: Nature of IMF advice on Fiscal Adjustment

Country	IMF reference to Fiscal Adjustment
Liberia	"…develop great expertise in expenditure planning and according a higher priority to capital spending at all levels."
Benin	"Directors encouraged the authorities to resist spending pressures in the run up to the 2011 elections."
Bangladesh	"… continued prudent management of expenditures while protecting priority spending are the keys to ensure improvement in the debt indicators".
Ghana	"Reduction of the budget deficit to 8 per cent of GDP in 2010 will require tight controls over spending..." "Shortfalls in fiscal consolidation are an important risk".
Nepal	Domestically financed deficits are recommended to be contained along with bolstering of revenue and widening of tax base.
Sierra Leone	"Given tight budget constraints and weak project implementation capacity, staff advised the authorities to select projects with the highest priority, contain non-priority spending, and strengthen domestic revenue collections." "… expressed concern about the recent acceleration in fiscal spending and the continued use of central bank financing for budget expenditures."
Rwanda	"Gradually reduce spending while protecting priority spending…"
Zambia	Over the medium term, the IMF recommends "…improving spending efficiency".
Cambodia	"...efforts should also continue to strengthen public financial management to ensure effectiveness of priority social and infrastructure spending. "
Haiti	"More efficient and transparent spending and renewed efforts to increase revenue would enhance the credibility of the state…"

27 Ostry et al. (2010).
28 Data from the *World Economic Outlook* (WEO) was used in cases where the relevant fiscal statistics from the country reports were missing.
29 Debt sustainability analyses, that leads to various categories of 'debt distress (low, medium, high) are standard features of IMF Article IV consultations.

Zimbabwe	They strongly encouraged the authorities to return to cash budgeting, and reduce the wage bill and other low-priority expenditures. Recommends move towards "fiscal sustainability".
Burundi	"Make spending more efficient by implementing recent public financial management (PFM) reforms and enhancing governance and accountability in the use of public resources."
Central African Republic	"The authorities need to continue to focus on efficient government revenue mobilization, prudent expenditure and debt management…"
Chad	"The staff recommends a fiscal adjustment strategy based on achieving a steady reduction of the non-oil primary deficit while focusing spending on priority areas."
Democratic Republic of the Congo	"Comprehensive implementation of the PFM reform agenda is critical to improve the effectiveness of public spending".
The Gambia	“The mission welcomes recent measures to increase government revenues, but strong political will is also needed to ensure that spending is contained. “ "Improving fiscal operations depends upon achieving a reliable stream of government revenues, together with firm expenditure control."
Kenya	"The program targets a gradual reduction in the central government primary balance through tax reform and strict control of current spending to bring the debt-to-GDP ratio below 45 per cent at the end of the program period."
Lao P.D.R	"Staff noted that the overall fiscal deficit should be put on a medium-term consolidation path, building on recent revenue gains and the phasing out of off-budget spending, while strengthening expenditure management."
Malawi	"Directors welcomed the tightening of monetary policy and encouraged the Malawian authorities to control the growth of monetary aggregates by ensuring fiscal discipline and prudent credit expansion." "Continuing reforms in public financial management and tax administration, designed to enhance capacity and strengthen both expenditure control and revenue performance..."
Mauritania	Authorities are asked to pursue fiscal consolidation, contain non-poverty related current spending and enhance the quality of public spending.
Guinea-Bissau	“Staff encourages the authorities to implement decisively the policies underlying the draft budget to control spending and raise domestic revenue through the implementation of new tax measures and better revenue administration next year.”
Kyrgyz Republic	"...need for near and medium term fiscal consolidation."
Mali	"Advancing the agenda in PFM reform will be vital to enhancing the quality of expenditure, strengthening cash management, and improving fiscal transparency."
Niger	“Fiscal policy should be designed to ensure long-term fiscal sustainability by smoothing expenditure over time and avoiding over-borrowing.”
Solomon Islands	“Staff urged limiting the growth of recurrent spending, in particular the wage bill and parliamentary entitlements, to ensure adequate resources were available for high-impact outlays to consolidate fiscal gains and help achieve development objectives.”
Republic of Tajikistan	“Staff argued that, as the crisis wanes and external support declines, a bolstering of revenues and some expenditure cuts will be necessary…”
Tanzania	“Reining in fiscal expenditure is necessary to avoid sharp increases in interest rates and help rebuild the policy buffers that will be needed to mitigate future downturns.”

Togo	"Furthermore, the authorities should be prepared to curtail spending plans if revenue mobilization falls short or adequate financing cannot be identified on concessional terms."
Burkina Faso	None
Ethiopia	None
Russia	"Staff welcomed the revenue measures under consideration, but noted that most of the adjustment would need to take place on the expenditure side, through reforms and reductions in discretionary spending."
Malaysia	"They stressed that a sound and sustained fiscal adjustment is necessary to put the public debt ratio on a downward path…"
Turkey	"In addition, the mission urged continued implementation of measures to control healthcare, wage, and pension expenditure."
South Africa	Recommends against procyclical bias in fiscal policy. Avoid allocations to public sector wages.
Bolivia	"Directors recommended improving the efficiency and equity of the tax system, better balancing spending responsibilities and revenue at different levels of government…"
Armenia	"In addition to their wide-ranging tax reform agenda (described below), strengthening public expenditure and debt management will be critical to achieving fiscal policy goals."
Albania	"They [directors] recommended both one-off and structural revenue and expenditure measures…" Fiscal consolidation a priority.
Cameroon	"...emphasized that it was critical to strengthen expenditure and cash management to maintain fiscal and financial stability, ensure effectiveness of public spending…" "…reprioritize spending programs; to keep a tight control over budget execution..."
Cape Verde	"Net domestic debt should be kept below 20 per cent of GDP, including by tightly controlling recurrent spending, improving tax administration, and rationalizing tax exemptions."
El Salvador	"Strict control of government spending in 2010–11 will be critical." "Fiscal performance would be enhanced by actions to improve public expenditure…"
Guyana	"It will be important to strike a balance between allowing for a more gradual fiscal consolidation while staying the course of prudent policies to consolidate fiscal and debt sustainability."
India	"...fiscal consolidation must rest on tight control of non-productive expenditure." Furthermore, given high government debt and large capital inflows, fiscal consolidation would be the preferred macroeconomic tool to cool the economy."
Indonesia	"While supporting the strategy, staff also stressed that achieving the medium-term growth targets would require redirection of spending priorities, better budget execution, and improving tax revenue ratios."
Jordan	"...envisaged fiscal consolidation will have to come largely from the spending side." Wages and pensions to be controlled.
Moldova	"Staff advised a greater emphasis on reducing current spending."
Belize	It was considered "important to create space for priority social spending and infrastructure investment in a manner consistent with the fiscal consolidation strategy."
Egypt	"...tightening expenditure controls." "Expanding the tax base to boost revenue through policy measures and improved tax compliance helps enable long-lasting consolidations…"

Mexico	Additional measures are recommended over the medium term in terms of widening the tax base and the introduction of a medium term expenditure planning framework.
Honduras	"It will also be important to exercise strict control over current expenditure, improve the composition of public spending, and strengthen the financial position of public enterprises and pension funds."
Mongolia	"Strict adherence to the targets in the medium-term fiscal framework and fiscal responsibility law will be essential."

Source: IMF Article IV Consultations and equivalent reports (2009-2010).

Table 3 captures the fact that both the mean for the observed and projected fiscal deficit for 48 countries that are recommended to undertake fiscal adjustments lie well below 3 per cent of GDP, while the mean of the actual debt-to-GDP ratio is expected to decline from 56 per cent of GDP to 39.7 per cent per cent between 2010 and 2015. This is consistent with GMR 2011 which shows that the projected debt path for the period 2011-2015 for all low-income countries converges to 40 per cent of GDP.[30] Thus, the available fiscal statistics suggest that the average debt and deficit projections lie within the norms of prudential targets that the IMF refers to in its global reports and program reviews.

Table 3: Fiscal statistics and the countries in the Article IV consultations (in per cent)

Variables	Mean Observed Fiscal Deficit (2007-2010)	Mean Fiscal Deficit Projections (2015)	Mean Observed Debt (2007-2010)	Mean Debt Projections (2015)
Total (48 countries)	-2.5	-2.4	56.3	41.3
LICs (28 countries)	-1.8	-2.6	62.0	38.0
MICs (20 countries)	-3.4	-2.1	47.9	45.5
Program countries (22 countries)	-2.4	-2.5	62.6	36.1
Non-Program countries (26 countries)	-2.6	-2.2	50.7	45.9

Source: IMF Article IV Consultations and equivalent reports (2009-2010).

There are additional ways in which one can evaluate if the advice on fiscal adjustment converges towards common numerical targets or whether they vary on the basis of country-specific characteristics. These are shown in Tables 4 and 5. In Table 4, the key finding that is reported is that even if countries are classified by various criteria (whether they are low-income or middle-income, whether they are asked to engage in spending restraint and control of public debt, whether they are currently participating in IMF lending arrangements), the differences in the mean values of both the actual and projected debts and deficits are not statistically significant at the 5 per cent level. This is supplemented by Table 5 which shows, based on the coefficient of variation (CV), that the projected deficits and debts have lower dispersion than the baseline numbers (2007-2010). This suggests some convergence towards a common target.

[30] GMR (2011: chapter 2).

Table 4: Tests of statistical significance (at 5 per cent level) of different mean values of debts/ deficits

Country categories	Are the differences in mean values of actual fiscal deficits (2007-2010) statistically significant (at 5 per cent level)?		Are the differences in mean values of projected fiscal deficit (2015) statistically significant (at 5 per cent level)?		Are the differences in mean values of Mean Actual Debt (2007-2010) statistically significant (at 5 per cent level)?		Are the differences in mean values of Projected Debt (2015) statistically significant (at 5 per cent level)?	
	Yes	No	Yes	No	Yes	No	Yes	No
LICs vs MICs		X		X		X		X
Spending restraint vs no spending restraint		X		X		X		X
Control of public debt vs no control						X		X
IMF Program countries vs non-program countries		X		X		X		X

Source: Authors' estimates based on IMF Article IV Consultations and equivalent reports (2009-2010).

Table 5: Coefficient of variations (CV) to measure dispersion/ uniformity in projections

	Total (48)	LICs(28)	MICs(20)
CV Observed Fiscal Deficit (2007-2010)	1.58	2.54	0.67
CV Projected Fiscal Deficit (2015)	0.85	0.63	1.16
CV Observed Debt (2007-2010)	0.84	0.94	0.43
CV Projected Debt (2007-2010)	0.62	0.80	0.39

Source: Authors' estimates based on IMF Article IV Consultations and equivalent reports (2009-2010).

A noteworthy feature of the Article IV consultations is the emphasis given to revenue mobilization (42 countries). This is consistent with the 2005 review of macroeconomic policy design for 15 low-income countries in which the IMF has clarified the role of enhanced revenue mobilization in developing countries. 'Few countries', the report observes, 'have sustained minimally acceptable living standards at tax ratios below 10 per cent'. The review then proceeds to suggest that most 'low to lower-middle income countries' should aim for a 15 per cent tax-to-GDP ratio as a 'reasonably medium-term target' and even notes that '(a) ratio closer to 20 per cent would provide more room for productive expenditures'....Nevertheless, the advice on revenue mobilization as reflected in the Article IV consultations is usually not linked to explicit and rigorous estimates of financing needs in, say, infrastructure investment and more generally for the attainment of the MDGs and the provision of social protection. In other words, the country-level consultations on fiscal policy, while full of general references to revenue mobilization, are not usually accompanied by estimates of the required financing for attaining core development goals and a strategy of sustainable resource mobilization to meet those financing requirements.[31]

[31] These issues are revisited in the section on employment creation, poverty reduction and expansion of social protection.

3.3 Fiscal adjustment and the risks of a 'one size fits all' approach: Some country-specific examples[32]

One of the key findings is that the emphasis attached to fiscal adjustment in developing countries suggests a predilection for a 'one-size-fits all' approach presumably because it reduces the monitoring costs of multilateral policy surveillance. The risk of this approach is that the advice on fiscal adjustment might be issued without sufficient attention being paid to country-specific circumstances. The discussion highlights a number of cases that lends some support to this thesis.

The 2010 Article IV for **Jordan** stated that the government has pursued fiscal consolidation plans for the year 2010 and the medium term, against the backdrop of a downturn in economic activity. The Fund advice stressed that the government should formulate a medium term debt strategy to curb debt levels and also pursue fiscal consolidation by cutting back on spending, in particular on wages and pensions. The IMF advice of such a fiscal tightening was prescribed regardless of the forecast of lower growth rates in 2010.

In the case of **Nepal**, the report acknowledges that debt reduction has created fiscal space that could be used for 'much needed infrastructure, human capital and peace process'. Nonetheless, the report highlights low level of external reserves which requires that debts and deficits remain at current low levels. This advice on maintaining prudential targets is made regardless even though the IMF acknowledges concerns that the 2007-2009 global economic crisis had an adverse impact on remittances and tourism earnings.

For **Guinea-Bissau** which is currently under an IMF lending arrangement, the IMF referred to the fact that the country will face an uncertain economic outlook. The Fund even acknowledged in the report that Guinea-Bissau will face downside risks from low levels of spending during an era of fiscal adjustment.

Albania has been recommended to undergo fiscal consolidation despite its "fragile economic recovery". Fiscal consolidation in this scenario is risky as this might complicate Albania's economic recovery in terms of falling consumption and production levels. There is no specific recommendation for Albania to bolster its revenues, although there is a reference to the reform of tax administration in terms of the underreporting of the taxable income from wealthy individuals and the informal sector.

There are also cases of countries – such as **Colombia, Vietnam, Peru, Indonesia and Botswana,** where the Article IVs recommend further fiscal consolidation despite a healthy fiscal situation (measured by a variety of indicators: low risk of debt distress, low debt to GDP ratios, low fiscal deficits).

As a concluding comment, one might note that the current preoccupation with public debt and fiscal consolidation have had the consequence of distracting attention from the crucial role that fiscal policy plays in promoting growth and development. This point is made forcefully in an insightful 'interim report' that informed the deliberations of the Development Committee of the IMF and World Bank in April 2006. The authors of the report note that debts and deficits are useful indicators for '…controlling the growth of government liabilities, but (they) offer little indication of longer term effects on

[32] This section draws on Roy and Ramos (2012).

government assets or on economic growth. Conceptually, the long-term impact is better captured by examining the impact of fiscal policy on government net worth'. The report argues that '…there is clearly a need for fiscal policy to incorporate, as best as possible, the likely impact of the level and composition of expenditure and taxation on long-term growth'…[33] This is where more work needs to be done.

4 Inflation targets and the Article IV consultations: Key findings and implications

This section discusses the theme of setting inflation targets, demonstrates its significant presence in the Article IV consultations and suggests that this is in line with the global advice offered by the IMF. The discussion then explores the extent to which the IMF in its country-level advice reveals a predilection for adopting across-the-board prudential targets pertaining to inflation. This section also highlights the challenge of monitoring inflation targets in the face of supply-side shocks, most notably food price inflation and concludes by noting the risks of adopting a 'one size fits' all approach. The section emphasizes the need to go back to the refreshing eclecticism of the founding fathers of the IMF who advocated the notion of 'reasonable' price stability within a framework of growth-promoting policies.

4.1 Inflation targets and developing countries: An overview[34]

A core element of the mainstream macroeconomic framework is the role that is assigned to monetary policy. Ever since New Zealand adopted an 'inflation targeting framework' in 1990, it has become *de rigueur* among most orthodox economists to regard this as a 'best practice' approach. Thus, the primary role of the central bank, both in developing and developed countries, is to foster price stability within a medium-term framework by pursuing low, single digit inflation using the interest rate as a key policy instrument. This in turn is expected to promote policy credibility and to support growth.

Presently, 44 countries around the world have adopted inflation targets (IT). 18 are emerging and developing countries. The median inflation target of these 18 countries is 3.5 per cent. Excluding the countries in transition, Armenia, Czech Republic, Hungary, Poland, Romania and Serbia, there are 12 developing countries, with a median inflation target of 4.25 per cent.

How were these inflation targets set? Are they anchored in the historical experience of developing countries or on robust empirical evidence? It appears that the inflation targets that are set for emerging economies and developing countries are well below the long-run rate inflation rate (1961-2009, excluding the very high inflation episode of 1989-1995) and, in many cases, below the actual inflation rate of the 2000s. The inflation targets that are set do not take account of non-linearities in the growth-inflation relationship that is, there is a threshold below which inflation has a positive impact on growth, while above this threshold inflation has a negative effect on growth.

[33] Development Committee (2006), p.i. This report was attached to the April 23, 2006 World Bank's Development Committee meeting. Note that this section uses the term 'inflation targets' rather than 'inflation targeting'. The latter is a specific macroeconomic framework that is broader than setting low, single digit inflation targets – which is the key issue explored in this section. The need to distinguish between 'inflation targets' and 'inflation targeting' was made by IMF economist Atish Ghosh.

[34] The discussion summarizes findings that are discussed in greater depth in Anwar and Islam (2011).

As in the case of setting prudential targets for debts and deficits, the existence of a threshold effect in the growth-inflation relationship should be taken into account when setting inflation targets. Based on an analysis of 19 studies, the threshold effects for the developing world vary from 11 per cent to 40 per cent in cross-section estimates and 6 per cent to 11 per cent in country-specific estimates. Hence, the median targeted inflation rate for the 12 developing economies was recorded to be 4.25 per cent, which appears to be 'too low' in the sense that it might impose opportunity costs in the form of foregone growth. One should also note that the growth-inflation trade-off itself appears to have changed over time, with data from the 2000s suggesting a positive relationship between inflation and growth. This is unlike previous decades when the growth-inflation relationship was negative, but even this negative trend is sensitive to the presence of outliers. In addition, when a comparison is made between a group of IT and non-IT countries at similar levels of income and human development, IT countries do not exhibit better employment and labour market outcomes than their non-IT counterparts.[35]

One of the expected benefits of an inflation targeting regime is that it generates a premium for the private sector by reducing inflation risks. This should then lead to reduced costs of borrowing. This should in turn spur private sector investment. Unfortunately, this does not seem to be the case as the available evidence shows that the median cost of borrowing in LDCs has either remained at elevated levels or gone up in the 2000s (a period of low inflation) relative to previous decades.

One reason why borrowing costs may not come down to capture the premium of reduced inflation risks is that such costs might be determined largely by structural factors. It is likely that in many developing countries the banking system is dominated by a few large financial (and multinational) institutions. Such market imperfections might mean that the premium of reduced inflation risks is being largely captured by these institutions rather than being passed on to borrowers in the form of lower cost of credit. These market imperfections are likely to be compounded by the weak institutional and legal environment prevailing in many developing countries. IT regimes – however flexible and effective – cannot deal with these structural issues and hence are limited in their capacity to make a major contribution to employment creation.[36]

Perhaps the biggest challenge of pursuing low, single digit inflation targets for developing countries in the current global climate is the challenge of tackling food price inflation. The correlation coefficient between median inflation rates in LICs (low-income countries) and a global food price index is 0.8.[37] One estimate suggests that about 44 million people might be pushed into at least transient episode of poverty as a result of high and rising food prices.[38] Unfortunately, an IT regime that relies heavily on using the interest rate to foster price stability is not really designed to deal with food price inflation. Not surprisingly, the Bretton Woods Institutions take a circumspect view in dealing with inflationary pressures in the current global environment. Thus, in the case of the low-income countries, the GMR 2011 (p.64) offers the following advice:

> Most low income countries ….must closely monitor the effects of commodity prices on their domestic inflation rates, given risks associated with rising world prices for food and fuel. If these

[35] Details available in Anwar and Islam (2011).
[36] See Anwar and Islam (2011).
[37] Authors' estimates.
[38] World Bank latest issue of 'Food Price Watch' available at www.worldbank.org/foodcrisis/food price watch report, February 2011. See also ADB (2011) on the causes and consequences of food price inflation in developing Asia.

global shocks persist and feed through to local prices, monetary policy should accommodate the direct impact; however it may need to be tightened in some cases to counter second round effects.

4.2 Inflation targets and the Article IV consultations: A continued emphasis on low, single digit inflation

In light of the above discussion on the appropriateness of setting low inflation targets, what is the position of the IMF on this critical issue? Here, once again, the 2005 review that has been extensively discussed in Section 1 is very insightful. It notes that '(t)he desirability of single-digit inflation targets has been questioned' and adds:

> …(T)he scope for monetary policy to impede growth far exceeds its ability to create it: high inflation above, for example, 40 per cent – is certainly inimical to growth, but keeping inflation low will not by itself induce a growth boom'.[39]

It also noted that the empirical literature has identified non-linearities and threshold effects (ranging from 3 per cent to 40 per cent) in the inflation-growth nexus and that 'one strong argument in support of higher inflation targets for developing countries is the need to accommodate exogenous shocks'.[40] Despite these concerns and caveats, the IMF concluded that, on balance, '…the broad objective of monetary policy … should continue to be keeping inflation in the single digit range'.[41] It is perhaps not surprising that a 2007 review by the Independent Evaluation Office (IEO) found that an inflation rate below 5 per cent was usually targeted in 29 Sub-Saharan African (SSA) countries that had IMF-supported programs in the 2000s.[42]

What about the advice that the IMF has given to the countries under review here in terms of controlling inflation? The content analysis reveals that the IMF explicitly recommended control of inflationary pressures as a priority of monetary policy in 27 out of the 50 countries covered by this study (Tables 6 and 7). This is consistent with its global advice that developing countries need to respond to renewed inflationary pressures in the late 2000s – although this applies mainly to middle income rather than low-income countries (GMR, 2011, chapter 3).

Table 6 records the projected inflation rates for the 27 countries that vary from 2.2 per cent (Jordan) to 8.5 per cent (Democratic Republic of Congo), but the mean projected inflation rate for all 50 countries is very close to the 5 per cent threshold that appears to have been used by the Fund in its policy advice in the past and is consistent with the predilection for single digit inflation rates that it endorsed in its 2005 review.[43]

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39 IMF (2005 :18).
40 IMF (2005 :20).
41 IMF (2005 :53).
42 IMF (2007). See also Goldsbrough et al (2007). The authors show that in 22 of the 32 IMF program countries, the IMF targeted an inflation rate of 5 per cent or less as part of its policy surveillance.
43 Duncan Campbell and Andrew Berg, in their comments on this paper, argue that projections should not be used for assessing IMF targets on inflation. This is a good point, but the purpose of this discussion is to illustrate what the IMF expects the median inflation rates for LICs and MICs to be in the medium term.

Table 6: IMF on inflation projections in 27 countries

Country	Inflation projections (medium term 2015) (in per cent)	Country	Inflation projections (medium term 2015) (in per cent)
Ethiopia	6.1	Bolivia	3.5
Benin	West African Economic and Monetary Union (WAEMU) convergence criterion of 3 per cent (2.2)	Armenia	4.0
Bangladesh	4.5	Albania	3.0
Rwanda	5.0	India	5.2
Cambodia	3.0	Indonesia	3.8
Democratic Republic of Congo*	8.3	Jordan	2.2
Ghana	5.0	Moldova	4.0
Kenya	5.0	Egypt	6.5
Malawi	5.9	Honduras	5.0
Mauritania	5.0	Mongolia*	5.0
Kyrgz Republic	6.2		
Solomon Islands	4.0-5.0		
Zambia	5.0		
Haiti	5.0		
Guyana	4.0		
Russia	5.2		
Turkey	4.1		

Source: IMF Article IV Consultations and equivalent reports (2009-2010)
* World Economic Outlook (WEO), October 2010.

Table 7 highlights the nature of advice issued to the afore-mentioned countries on inflation control. An important feature of Table 8 is that it suggests that in the majority of cases the sources of inflation are both demand and supply-driven; in some cases they are exclusively supply-driven. This implies that prescribing control of inflation through standard monetary policy instruments in cases where inflation is not largely or exclusively demand-driven might not be effective. Indeed, the major challenge that many developing countries now face is the resurgence of food price inflation against which the use of standard monetary policy instruments is likely to be ineffective.

Table 7: Nature of IMF advice on inflation targeting

Country	Source/s of inflation	IMF recommendation
Ethiopia	Demand side	"Maintaining a low reserve money growth policy in 2010/11 is needed to sustain a low inflation environment along with raising interest rates."
Benin	Supply side	Recommended to use **monetary policy** monitor inflation and **use e/r as nominal anchor** if needed.
Bangladesh	Demand side	Has been asked to **hike up interest rates** to prevent inflation because of the accommodative conditions.
Rwanda	Supply side and demand side	Recommends the authorities to combat inflation by "**strengthening monetary and exchange rate policies to ensure low and stable inflation**." Exchange rate used as a nominal anchor to reduce imported inflation.
Cambodia	Demand side	Recommended to **reduce the injection of riel liquidity** to avoid inflationary pressures and authorities asked to **monitor "liquidity overhang"**.
Democratic Republic of Congo	Supply side	Central Bank asked to refrain from lowering interest rates until inflation subsides and welcomes the tightening of the monetary policy. "Maintaining low inflation is critical to consolidating macroeconomic stability and alleviating its effect on the DRC's poor and vulnerable households, who have no protection against rising prices."
Ghana	Supply side	"The authorities should stand ready to tighten policies, if needed, to avoid an upturn in inflation expectations."
Kenya	Demand side	If inflationary pressures arise, the central bank should be ready to tighten liquidity conditions. Should also adopt a formal inflation targeting framework.
Malawi	Demand side	Recommends that monetary policy should rely more heavily on interest rate adjustments to inflation targets.
Mauritania	Supply side	Recommended authorities to be vigilant and "respond appropriately" **if higher food prices and foreign exchange market pressures intensify**.
Kyrgz Republic	N.A.	Monetary policy to be used against signs of exchange rate or inflationary pressures. Central bank to "mop up excess liquidity" as well.
Solomon Islands	Supply side	Recommended the central bank to act if demand led inflationary pressures rise.
Zambia	Demand side	"Staff and the authorities agreed that a moderate tightening of monetary policy was appropriate, particularly given the liquidity injection stemming from the recent maize purchase."
Haiti	Supply side and demand side	"Further improvements in the monetary framework will be critical to ensuring the absorption of aid inflows while avoiding excessive inflationary pressures."
Guyana	Demand side	"It will be important to prevent an emergence of inflationary pressures as the recovery ensues."
Russia	Demand side	Monetary policy should be focused on inflation control.
Turkey	Demand side	Credit growth should be moderated to dampen inflation expectations.
Bolivia	Demand side	Recommended to tighten monetary conditions to prevent excess liquidity, credit creation and inflation.
Armenia	Supply side	Recommended that policy rates should be raised further if there is evidence of demand pressures or supply shocks on inflation.
Albania	Supply side and demand side	Recommended cautious monetary stance to be followed with emphasis on "anchoring inflation expectations".
India	Supply side	Further monetary tightening required to lower inflation.

Indonesia	Supply side	A "continued effective communication of a proactive policy" required to lower the level of inflation.
Jordan	Supply side	The central bank should be ready to tighten monetary conditions if inflation accelerates. The exchange rate provides an "appropriate" nominal anchor.
Moldova	Supply side	The IMF "agreed" that the current monetary stance is appropriate to control inflation.
Egypt	N.A.	The central bank should be ready to tighten monetary conditions if inflation picks up.
Honduras	N.A.	"The monetary and exchange rate policies should be geared at keeping inflation low…"
Mongolia	N.A.	"The increase in spending, however, will increase inflation (especially the wage and pension increase) and place a heavier burden on monetary policy to contain inflation."

Source: IMF Article IV Consultations and equivalent reports (2009-2010).

In a number of cases, the need to use the exchange rate as an anti-inflation tool is highlighted, although the standard advice is to aim for exchange rate flexibility.[44] This raises additional issues of the trade-off that is implicit in the use of the exchange rate as an instrument of inflation control (by restraining imported inflation) and the use of the exchange rate to sustain international competitiveness.[45] If the exchange rate is used as an anti-inflation tool and becomes part of the monetary policy framework, then it might impede the capacity of policy-makers to use it to influence resource allocation between traded and non-traded goods sector. This is an important concern given that the empirical literature suggests that competitive and stable real exchange rates have a statistically significant impact on international competitiveness.[46]

4.3 Moving beyond single digit inflation targets: Distinguishing between general principles and numerical targets

The pursuit of low, single digit inflation in developing countries within a 'one size fits all' approach seems to be reflected to some extent in the Article IV consultations reviewed here. For the 27 countries on which there are specific references to the need to control inflation, there is only one case where the projected inflation seems to be significantly above the 5 per cent target. The setting of low single digit inflation is not anchored in robust empirical evidence as the IMF itself noted in its insightful 2005 review. In addition, such a monetary policy framework based on low, single digit inflation is not equipped to deal with food price inflation nor has it brought about any sustained decline in the cost of borrowing in low-income countries. This is an important point given that access to finance and the cost of credit are identified as important constraints by the private sector in developing countries in enterprise surveys.

[44] As Roy and Ramos (2012:8) observe: 'The IMF's recommendation of allowing greater exchange rate flexibility is a common practice throughout the (Article IV) reports'. On the other hand, the IMF, based on data available as on April 2008, identifies 115 cases among its member states that use the exchange rate as 'an anchor' based on either the US dollar, the Euro, a composite basket or other currencies. See http://www.imf.org/external/np/mfd/er/2008/eng/0408.htm

[45] See Krueger (1997) who emphasizes that this trade-off cannot be ignored. The role of the exchange rate as an anchor from the perspective of mainstream macroeconomics militates against its allocative role from the perspective of international trade theory.

[46] See, for example, Rodrik (2008).

A possible way forward in dealing with the issue of setting appropriate targets for inflation in developing countries is to focus on general principles rather than numerical benchmarks that are of questionable empirical validity. The core principle of price stability must be upheld but tailored to suit country-specific circumstances. This is the substance and spirit of the IMF's articles of agreement. Thus, one of the key obligations of each member state is that it should,

> ...endeavor to direct its economic and financial policies toward the objective of fostering orderly economic growth with reasonable price stability, with due regard to its circumstances.[47]

Hence, there is a case for emphasizing this principle when prescribing macroeconomic policy advice to developing countries.

5 Employment creation, poverty reduction and social protection and the Article IV consultations: key findings and implications

This section focuses on the theme of employment creation, poverty reduction and social protection and explores the manner in which, and the extent to which, they are reflected in the Article IV consultations in the sample of 50 countries. The discussion makes a distinction between 'explicit references' to MDGs, MDG 1b and the 'social protection floor initiative' and 'general references' to employment, poverty and social protection. It also seeks to clarify the extent to which the Article IV consultations consider employment generation and poverty reduction as by-products of growth and the extent to which there needs to be determined public action. In particular, the issue of the financing requirements of meeting the MDGs and the social protection floor initiative is highlighted. The discussion notes that donor assistance through traditional means will simply not be able to meet the financing requirements implicit in the attainment of the MDGs and the social protection floor initiative. This means that domestic resource mobilization will have to play a key role. This will need to be augmented by the need to find alternative means of augmenting traditional sources of development assistance.

5.1 The employment-poverty link: the long road to MDG 1b

The Millennium Development Goals (MDGs), launched after the UN Millennium Summit of September 2000, represented a renewed commitment by the international community to global poverty reduction. At the time the MDGs were unveiled, there was no reference to the attainment of 'full and productive employment and decent work for all' as a vehicle for sustainable reductions in global poverty. This omission happened despite the fact that the World Summit on Social Development that led to the Copenhagen Declaration of 1995 had 'full employment as a basic policy goal' and was an integral part of its 'ten commitments.[48] It took more than a decade before 'full and productive employment and decent work for all' became a key target (target Ib) under the first MDG goal of eradicating extreme poverty and hunger.[49]

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[47] See http://www.imf.org/external/pubs/ft/aa/aa04.htm#1

[48] See http://www.un.org/esa/socdev/wssd/copenhagen_declaration.html

[49] Even scholars who have assiduously sought to construct the evolution of the MDGs have paid insufficient attention to this anomaly. See Hulme (2009). The new MDG target on employment was launched in 2008. See ILO (2009a). Hence, it took 13 years to make the transition from the 1995 Copenhagen Declaration to the 2008 version of the MDGs. Rodgers et al. (2009) argue that the 2000 version of the MDGs were influenced by the

MDG 1b is the result of a long campaign by the ILO, but how has the IMF and its sister organization reacted to its incorporation in the global monitoring framework? One way of assessing its importance to the work of the Fund is to focus on its use and citation in the Global Monitoring Reports (GMRs) jointly produced by the Fund and the World Bank. As noted at previous junctures, the GMRs focus on reviewing the global progress towards attaining the MDGs. There is usually at least one chapter that is devoted to macroeconomic policy issues. The 2010 GMR briefly discusses MDG1b and concludes that 'progress on full and productive employment, especially for women, was lacking even before the crisis' (p.18). In GMR 2011, however, any discussion of MDG1b is notably absent, an omission that is also reflected in the Article IV consultations as will be shown subsequently. Of course, one challenge in monitoring MDG 1b is that the target has a universalistic orientation and is not time-bound. This is unlike many other MDGs. Despite this, the use of MDG1b can serve as a basis for discussing labour market and employment dimensions of development that have so far received relatively little attention in the GMRs.

ILO maintains that this lack of attention to labour market dimensions of development needs to be redressed because progress on full and productive employment is indeed 'lacking'. The challenge in developing countries is not one of jobs per se, but of productive jobs that can lift workers and their families out of poverty. Using the international poverty line of USD 1.25 dollars a day, ILO estimates for low-income countries suggest that the incidence of the working poor is currently around 50 per cent of total employment.[50] Halving it by 2015 would require an employment growth of around 7 per cent per annum which is more than double the employment growth rate of 3 per cent achieved during the last two decades. Hence, one would need to go beyond relying on growth to generate adequate productive jobs. In any case, as GMR 2011 observes, per capita growth would need to double from the historical rate of 1.9 per cent for developing country in order to attain the MDGs by 2015.[51] Such a required growth has been met during periods of growth accelerations but whether they can be sustained over a long period of time is open to question.

5.2 From narrowly targeted programs to a social protection floor: an overview

The traditional literature on targeted poverty reduction programs argues against adopting a comprehensive approach to social protection because it maintains that, given budget constraints, governments in developing countries should target the poor in providing income transfers and minimize 'leakages' of such transfers to the non-poor and the near-poor. This approach is inadequate in coping with the socio-economic consequences of large-scale macroeconomic crises. Furthermore, the need to build political support for progressive social policies requires a broader conceptualization of poverty that focus not just on the currently poor, but also the near-poor and the interests of the burgeoning middle class in developing countries who often lack economic security.[52] In addition, the limitations of

OECD, the Bretton Woods institutions and the UN to 'redefine the international agenda and narrow its focus'. See Rodgers et al. (2009). For a critical look at the MDGs, see Chang (2010). See also Easterly (2006).

52 The estimates are for least developed countries that are a subset of low income countries.

51 GMR (2011: chapter 1).

52 Kanbur (2010) explores the traditional theory of targeting and highlights its limitations. He argues for the case of a more comprehensive approach to social protection. See also *Commission on Growth and Development* (2010). The vulnerability of the developing world's 'middle class' (those above USD 2 a day) is analysed in Ravallion (2009). Birdsall (2010) provides new evidence on the middle class using higher standards than the conventional US 2 a day. Brady offers a powerful argument for a universalistic approach to social policy in 'rich democracies'. See Brady (2009).

a fragmented approach to social protection which highlights specific policy instruments, rather than the importance of adopting a system-wide approach, are also increasingly being recognized in the post-crisis era.

Elements of a social protection floor are gradually being built up in developing countries. Currently, there are basic social welfare schemes in '…around 30 developing countries reaching more than 300 million beneficiaries'.[53] Conditional cash transfers, including employment guarantee schemes, are regarded as among the most lauded social policy innovations in developing countries in recent years.

Despite these innovations, there is a long way to go given that the majority of the world's population do not have access to adequate social security coverage. In low income countries, more than 90 per cent do not have access to social protection. It is against such a context that the notion of a 'social protection floor' initiative emerged and was endorsed by the UN system in April 2009. Its philosophical premise is that that all citizens in the developing world are entitled to nationally adapted social protection coverage entailing both labour market and other social assistance and social insurance programs. ILO estimates have shown that even low-income countries can afford a social protection floor with transitional donor assistance.[54] The challenge is to harness the necessary resources to invest in the social protection floor initiative and to ensure that it acts as an automatic stabilizer to temper the consequences of economic volatility.[55]

The lead agencies for promoting the agenda of a social protection floor are ILO and WHO, while the IMF and World Bank are cooperating agencies. The Fund's position is summarized by the IMF's Special Representative to the UN who extolled the merits of a social protection floor but also noted that such a scheme requires a '…very careful assessment of its long and medium-term financing implications'.[56] He drew attention to ILO-IMF collaboration in a few pilot countries where the ILO would analyze the gaps in the social protection system and costs of attaining a social protection floor and IMF would analyze its fiscal sustainability.

5.3 Employment, poverty and social protection and the Article IV consultations: Key findings

As Figure 2 shows, in a majority (31 out of 50) cases, the Article IV consultations make 'general references' to poverty reduction and social protection. However, 'explicit references' to MDG 1b and SPF are virtually non-existent.[57] While one could argue that the SPF is of very recent origin and have not had time to make its way to the 2010 Article IVs, the same cannot be said about MDG 1b which has been part of the global poverty reduction agenda since 2005 and was formally incorporated in the global monitoring system of the MDGs by the UN system since 2008. As noted, despite the lack of

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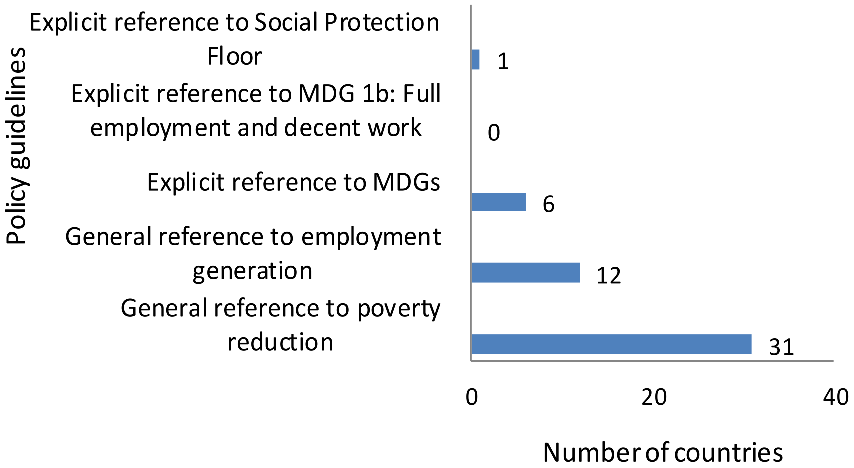
[53] ILO (2009b: 22).
[54] ILO (2009b).
[55] ILO (2011a).
[56] As reported in ILO (2011b).
[57] Duncan Campbell, in his comments on this paper, points out that the Article IVs are not intended to deal with MDG 1B and the SPF. The response to this important observation is that the IMF is committed to upholding both as part of its global partnerships in development. It is, after all, one of the co-authors (with the World Bank) of the 'Global Monitoring Reports' which focuses on MDGs. It is also considered as one of the 'cooperating agencies' in the advocacy and implementation of SPF. It is working jointly with the ILO in a number of countries.

time-bound indicators, MDG 1b can serve as a basis for discussing progress towards 'full and productive- employment' in developing countries.

Figure 2: IMF Policy recommendations on employment generation, poverty reduction and social protection



Note: IMF Policy Statement for LICs and MICs and frequency distribution for 50 countries
Source: IMF Article IV Consultations and equivalent reports (2009-2010)

One could argue that a failure to anchor the discussion in the Article IV consultations in MDG1b is not a concern so long as employment dimensions of development are adequately discussed. This is where the Article IVs also have not paid a great deal of attention. Where an analysis is made, it is usually through the particular prism of high public sector wages, labour market rigidities and lack of sufficient growth as causes of unemployment. Policy menus then entail structural reforms, including public sector pay and labour market reform, to increase growth and a renewed commitment to macroeconomic stability. Table 8 summarizes the IMF perspectives on employment in a sample of staff reports associated with the 2010 Article IV consultations. The inference that one can make is that the employment analysis is not systematically integrated in the Article IVs.

Table 8: Nature of poverty analysis in the Article IVs: some country-specific examples

Nature of employment analysis	Countries
Employment statistics quoted, but not analysed	Colombia, India, Indonesia, Paraguay, Peru, Thailand
Impact of exchange rate appreciation on employment and labour market rigidities	China
High public sector wages and labour market rigidities as causes of unemployment	South Africa, Senegal, Benin, Botswana, Senegal, Cape Verde, Turkey
Training and skills development to improve employability	South Africa, Turkey
Structural reforms and attention to macro stability will boost growth and assist employment creation	Jordan, Egypt

Source: Roy and Ramos (2012) out of a sample of 25 countries.

There are 31 cases in which there is a ‘general reference’ to poverty reduction in the Article IVs. In many of these cases, but by no means all, the Article IVs interpret poverty reduction as a by-product of growth. Where specific recommendations are made, they entail initiatives to promote financial inclusion, fiscal space to support financing of pro-poor spending and on enhancing access to basic social services and the need for ‘sustained labour-intensive growth’ to reduce poverty and unemployment (Table 9).

Table 9: Nature of poverty analysis in the Article IVs: some country-specific examples

Nature of poverty analysis	Countries
Sustained labour-intensive growth	Rwanda
Finding fiscal space to support financing of pro-poor spending and enhancing access to basic services	Rwanda, Benin, Mauritania, Ethiopia
Promoting financial inclusion within a framework of prudential regulation	Rwanda, Liberia
Poverty as a by-product of growth	Niger, Egypt, The Gambia, Kyrgyz Republic, Guyana

Source: IMF Article IV consultations and equivalent reports (2009-2010).

Table 10: Financing needs for infrastructure

Country	Financing needs for infrastructure investment
Zambia	A recent World Bank study assesses that Zambia needs to spend an average of $1.6 billion a year over the next decade to develop its infrastructure."
Burkina Faso	Capital expenditure is projected at 12.5 per cent of GDP, with an important share allocated to the rehabilitation of infrastructure. **It is reasonable to estimate at least 5-10 per cent of GDP may be needed to finance infrastructure.**
Liberia	"Over the next ten years, meeting Liberia’s infrastructure needs would require at least US$3.7 billion (382 per cent of 2010 GDP). This is the conclusion of the multi-stakeholder Africa Infrastructure Country Diagnostic (AICD), completed in 2010, which covered roads, power, ports, water and sanitation, and telecommunications, but excluding ports that are assumed to be privately financed. "
Sierra Leone	"For 2011-13, the government estimates an infrastructure need of US$1.4 billion, of which, based on current commitments, donors are projected to finance about US$176 million and the government US$161 million. This leaves a financing gap of about US$1.1 billion, or 15 per cent of 2011–13 GDP. The government expects that donors could provide an additional US$335 million. Furthermore, the plan is to attract private investors to construct and own the Bumbuna II hydropower station at an estimated cost of US$624 million. The remaining financing gap is US$96 million, which accounts for 1.4 per cent of 2011–13 GDP."
Tanzania	"The government reasserts its commitment to use the programmed domestic financing of 1 per cent of GDP each year…"
El Salvador	"Boost tax revenue by at least 1½ per cent of GDP. Such a reform would establish a sustainable resource base for financing needed infrastructure…" An indirect mention of a figure maybe.
India	"…but a mooted figure of US$1 trillion would boost infrastructure investment to 9 per cent of GDP"-Authorities views for the next Plan.

As noted at a previous juncture in the discussion, a key policy challenge is the sustainable financing of the MDGs and the SPF. Given the IMF's recognised expertise on fiscal sustainability analysis, it is fair to suggest that the Article IV consultations should pay considerable attention to an assessment of the financing needs pertaining to interventions to support employment creation, poverty reduction and enhancing social protection coverage. Yet, this is an area where there is paucity of analysis. There are 19 cases where there is a discussion of, or at least some reference to, budgetary allocations to pro-poor spending and public expenditure on social protection are made and 7 cases where financing needs pertaining to infrastructure are noted (Tables 10 and 11). Yet, a dissection of the Article IVs suggests that the discussion is often a reference to government-provided estimates or estimates generated by others. They cannot really be regarded as an in-depth assessment of financing needs.

Table 11: Financing needs for pro-poor spending

Country	Pro-poor expenditure and Social Protection financing needs
Ghana	"Total poverty spending" projected to be 9.1 per cent of GDP in 2011.
Zambia	"Financing for the social sectors and infrastructure development is projected to increase to 50 percent of the budget…"
Burkina Faso	Total poverty reducing expenditure projected to be 6.4 per cent of GDP in 2010.
Democratic Republic of Congo	Projected pro-poor spending for 2011 is 6.7 per cent of GDP.
Benin	"Expenditures will be targeted to support growth and poverty reduction. Total expenditure is expected to represent 25.9 percent of GDP." Authorities view.
Ethiopia	Projected 2010/2011 "poverty reducing expenditure" is 4.7 per cent of GDP.
Sierra Leone	Total projected poverty expenditure for 2011 is 5.5 per cent of GDP.
Burundi	Pro-poor expenditure projection for 2011 is 18.9 per cent of total expenditure.
Guinea-Bissau	"In 2010–2012, the government is committed to using at least 50 percent of tax revenues for current and domestically financed capital spending in health, education, agriculture, and infrastructure."
Kyrgyz Republic	Social Fund projected expenditures for 2011 is 9 per cent of GDP; and transfers to Social Fund is 3.1 per cent of GDP, projected for 2011.
South Africa	Projected "social spending" for 2012/13 is 16 per cent of GDP.
Russia	"Social policies" 2010 projected to be 0.8 per cent of GDP.
Armenia	Currently, health and education spending at 4 per cent of GDP is low for the given income level. "Social Allowances and pension" projected to be 6.5 per cent of GDP in 2012 and 2013.
Bolivia	"Social programs" projected to be 2.2 per cent of GDP for 2011.
Albania	"Social protection transfers" projected to be 1.7 per cent of GDP in 2011.
El Salvador	Refers to the "...General AntiCrisis Plan (PGA), which channels spending of about 1 percent of GDP to social programs." Refers to subsidy reforms to free resources of 0.3 per cent of GDP in 2011 to be redirected towards social spending.
Honduras	"The government has committed resources equivalent to 1.6 per cent of GDP to all social investment programs in 2011."
Moldova	Transfer to "Social Insurance Fund" contributions projected 12.6 per cent of GDP for 2011. Refers to "The amended budget will thus provide for a 37 per cent increase in capital expenditure and over 50 per cent increase in social assistance spending relative to 2009."
Egypt	"Transfers to Social Insurance Fund" projected to be 0.6 per cent of GDP in 2010/11.

Source: IMF article IV consultations and equivalent reports (2009-2010).

6 Conclusions

The Article IV consultations play an important surveillance function and are an excellent source of information on the nature of the macroeconomic policy advice that the IMF offers to its member states. Since 1999, as a result of a much welcome effort by the Fund to enhance transparency, a large majority of the staff reports that support the Article IV consultations have become publicly accessible and electronically downloadable documents. Yet, a content analysis of these documents has not been undertaken as extensively as the analysis of IMF conditionalities. This paper thus attempted to address this gap by assessing the nature of the macroeconomic policy advice that the IMF provided to a sample of 30 low- and 20 middle-income countries in 2010 (and in a few cases in 2009) through the Article IV consultations. This was supplemented by drawing on an assessment of IMF Article IV consultations that focused on 25 low- and middle-income countries. Three themes were explored: (1) fiscal adjustment, (2) inflation targeting and (3) employment, poverty and social protection. The themes were in turn linked to the broader development context. This analysis was deemed to be timely because the IMF has, in recent policy statements, rightly highlighted the need to pay more attention to the social dimensions of growth in undertaking macroeconomic policy reviews and has even suggested a wholesale re-examination of macroeconomic policy principles.

The evidence assembled here does not seem to support the view that a lot has changed in terms of the country-level advice that the IMF offered to its developing country member states in 2010. Fiscal adjustment loomed large (48 out of 50 cases) with a predilection for a ‘one size fits all approach’ characterised by an implicit preference for low fiscal deficits (usually 2 per cent of GDP) and low public debt to GDP ratios (usually 40 per cent of GDP). These targets are also consistent with the global posture of the IMF. The ‘one size fits all’ approach – while useful in reducing the monitoring costs of multilateral policy surveillance - has an uneasy existence with the empirical literature as well as the IMF’s own analyses that numerical targets pertaining to deficits and debts are not anchored in robust evidence and not compatible with the need to align macroeconomic policy advice with country-specific circumstances.

The IMF maintained after a 2005 review that, despite the ambivalent nature of the evidence, there is on balance the need to emphasize low, single digit inflation as an appropriate target for developing countries. The paper found that the pursuit of low, single digit inflation (5 per cent or less) seemed to be a key implicit benchmark in the IMF’s policy advice in 27 cases where control of incipient inflationary pressures is seen as a priority of macroeconomic policy. The projections for the 50 countries under review showed that there was indeed an expected convergence towards a 5 per cent inflation rate for the 2011-2015 period.

The paper noted that perhaps the biggest challenge facing a single digit inflation targeting framework is that it is not effective enough in dealing with food price inflation. It also has not yielded the expected dividends in terms of reducing the cost of borrowing. As a result, lack of access to finance and high cost of credit persist as major constraints on the growth of the private sector in developing countries.

In some cases, the Article IVs suggested that member states should continue to use the exchange rate as an anti-inflation tool. The analysis found that this raised additional issues of a trade-off between use of the exchange rate as a means of restraining imported inflation and its use as a tool for fostering international competitiveness.

The analysis found that the Article IV consultations contained ample references to poverty reduction, but the discussion is usually rudimentary. In the case of employment, there are no references to MDG 1b or to the UN-endorsed social protection floor. This lacuna is in line with the insufficient coverage of MDG1b in the Global Monitoring Reports that the Fund co-authors with the World Bank. In the small number of cases in which employment analysis was undertaken, job creation was usually either seen as a by-product of growth or perceived through the particular prism of high public sector wages and labour market rigidities.

What lessons can one draw for the future evolution of the Article IV consultations? There is a case for moving beyond monitoring debts, deficits and inflation from the perspective of simple numerical targets that are of questionable empirical validity. One should, of course, uphold the core principles of fiscal sustainability and price stability, but they need to be tailored to country-specific circumstances rather than being linked to a formulaic approach that highlight the monitoring of a few nominal targets. This is in line with the substance and spirit of the Article of Agreements of the IMF.

The discussion of fiscal issues needs a more explicit development dimension. This means a more regular and rigorous analysis of the sustainable financing of the MDGs and the social protection floor. There are in, some Article IVs, references to financing needs of developing countries in the areas of infrastructure and pro-poor expenditure, but they are usually no more than a citation of estimates provided by the government or other agencies. Given the IMF's long-standing expertise on the analysis of fiscal issues, one hopes that the future generation of Article IVs will address this gap. This will transform the IMF's continued and justified emphasis on domestic resource mobilization from an issue of fiscal adjustment to the much more profound and long-term issue of dealing with core development challenges. The recent announcement that the IMF will cooperate with the ILO in a few pilot countries on assessing the sustainable financing of the social protection floor is certainly a very promising development.

Finally, there is a case for redressing the insufficient emphasis given to the poverty-employment link. As noted, where employment analysis is undertaken, it is usually of a perfunctory nature. The authors of future staff reports that underpin the Article IV consultations can substantially enrich the nature and scope of the macroeconomic policy advice if a determined attempt is made to show how the macroeconomic policy framework can support sustained and productive employment creation. Using MDG1 b as a normative benchmark in undertaking such analysis would be a most appropriate starting point. An adequate reflection of the challenge of providing broad-based and productive employment as a sustainable route out of poverty in the Article IVs might require the harnessing of expertise outside the Fund.[58] An additional benefit of this proposed initiative is that it would reinvigorate the synergies that flow from collaboration among development partners.

[58] One of the authors was advised by two senior IMF officials that a future generation of Article IV consultations is indeed in the making and that employment analysis will be substantially strengthened. This advice was given at a meeting with aforementioned IMF officials at ILO, Geneva held on June 7, 2011.

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Appendix: Article IV and equivalent reports used in this paper

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Ethiopia: 2010 Article IV Consultation and First Review of the Arrangement under the Exogenous Shocks Facility—Staff Report; Staff Supplements; and Press Release on the executive Board Discussion.

Benin: 2010 Article IV Consultation and Request for a Three-Year Arrangement Under the Extended Credit Facility—Staff Report; Staff Supplements and Staff Statement; Public Information Notice and Press Release on the Executive Board Discussion; and Statement by the Executive Director for Benin.

Bangladesh: 2009 Article IV Consultation—Staff Report; Staff Supplement; Public Information Notice on the Executive Board Discussion

Ghana: 2010 Combined First and Second Reviews Under the Arrangement Under the Extended Credit Facility, Request for Waiver of Nonobservance of Performance Criteria, Modification of Performance Criteria and Rephasing of Disbursements—Staff Report; Staff Statement and Supplement; Press Release on the Executive Board Discussion; and Statement by the Executive Director for Ghana.

Nepal: 2010 Article IV Consultation and Request for Disbursement Under the Rapid Credit Facility—Staff Report; Staff Supplements; Public Information Notice on the Executive Board Discussion; Press Release on the Executive Board Discussion; and Statement by the Alternate Executive Director and Advisor for Nepal.

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Arab Republic of Egypt: 2010 Article IV Consultation—Staff Report; Public Information Notice on the Executive Board Discussion; and Statement by the Executive Director for the Arab Republic of Egypt.

Mexico: 2010 Article IV Consultation—Staff Report and Public Information Notice on the Executive Board Discussion.

Guinea-Bissau: 2010 First Review Under the Three-Year Arrangement Under the Extended Credit Facility and Financing Assurances Review—Staff Report; Staff Statement; Press Release on the Executive Board Discussion; and Statement by the Executive Director for Guinea-Bissau.

For the Roy-Ramos study cited and used in this paper, 2010 IMF Article IVs were used for 25 countries: Albania, Benin, Cameroon, Cape Verde, China, Colombia, Egypt, El Salvador, Ethiopia, Guinea-Bissau, India, Indonesia, Jordan, Kazakhstan, Malaysia, Moldova, Nepal, Panama, Paraguay, Peru, Senegal, South Africa, Thailand, Turkey, and Vietnam. Five of them are classified as low income countries, 13 are lower-middle income, and seven are upper-middle income.