where social safety nets were strengthened following the crises in that region.

In low-income countries, Gupta focused on two criticisms: that the fiscal adjustment involved in IMF-supported programs slows progress in reducing poverty and that the IMF limits public expenditures that could be financed by foreign aid. Low-income countries, he said, receive assistance through the IMF's concessional lending window—the Poverty Reduction and Growth Facility—which allows expenditures and deficits to rise while paying attention to the programs' macroeconomic consequences.

A comparison of economic performance in low-income countries before and after the establishment of the Poverty Reduction and Growth Facility in 1999 supports these contentions (see chart, page 150). Gupta noted, for example, that the average fiscal deficit targets for three years were quite high in Mozambique (15.4 percent of GDP), Zambia (13.1 percent of GDP), and Uganda (9.4 percent of GDP). He also pointed out that expenditures in these countries were higher by about 1 percent of GDP, on average, in the first year of program implementation, including pro-poor spending in relation to both GDP and the share of total spending. This spending was supported by higher external flows. But he acknowledged that the IMF needed to increase its efforts to shield the poor from the potential adverse effects of fiscal adjustment. Overall, he concluded, the IMF does tailor its fiscal policy advice to country circumstances.

Is fiscal tightening the best solution?

Commenting on the criticism that the IMF appears to ignore Keynes' prescription for fiscal stimulus in a recession, William Cline said that it missed the point of today's capital market dynamics and ignored decades of political economic history, particularly in Latin America. Most emerging market economies faced financial crisis, he observed, because capital flows to them dried up. It should therefore come as no surprise, he said, that Keynesian fiscal deficit spending was not necessarily the best remedy for those countries. Increasing the fiscal deficit when capital market confidence is low could actually cause economic contraction, Cline noted, because a wider fiscal deficit signals to investors a country's inability to repay its debt, thereby boosting interest rates further in a vicious spiral. This point, he said, combined with, among other things, the presence of crowding out and a lack of available financing, casts doubt on the effectiveness of increasing the fiscal deficit as a response to a recession caused by a collapse in capital market confidence.

Turning to specifics in IMF program countries, Cline noted there might be some validity to the criticisms of IMF fiscal policy advice in East Asia, where the countries did not have fiscal problems, their ratios

Available on the web (www.imf.org)

Press Releases

03/61: Economic Counsellor Kenneth Rogoff Notifies IMF Management of Intention to Return to Harvard University in the Autumn, April 29

03/62: IMF Approves $33 Million PRGF Arrangement for Senegal, April 29

03/63: IMF Approves $28 Million Stand-By Credit for the Former Yugoslav Republic of Macedonia, April 30

03/64: IMF Approves $13 Million in Postconflict Emergency Assistance for Burundi, May 5

03/65: IMF First Deputy Managing Director Concludes Visit to Ankara, May 7

03/66: IMF Approves $258 Million PRGF Arrangement for Ghana, May 12

Public Information Notices

03/55: IMF Concludes 2003 Article IV Consultation with the Republic of Latvia, April 28

03/56: IMF Concludes 2003 Article IV Consultation with the Republic of Belarus, April 30

03/57: IMF Concludes 2003 Article IV Consultation with New Zealand, May 2

03/58: IMF Concludes 2003 Article IV Consultation with Hungary, May 9

03/59: IMF Concludes 2003 Article IV Consultation with the Russian Federation, May 9

Speeches

"On the IMF's Role and Activities in Africa," Thomas C. Dawson, Director of IMF External Relations Department, Seminars for Parliamentarians, Civil Society, and the Media, Accra, April 28

"Fostering Sustainable Growth in Latin America—Key Challenges," Horst Köhler, IMF Managing Director, at the 33rd Washington Conference of the Council of the Americas, April 29

"Dealing Justly with Debt," Jack Boorman, Special Advisor to the IMF Managing Director, at the Carnegie Council on Ethics and International Affairs, New York, April 30

"Latin America and the Caribbean: Building a Sustainable Recovery," Anoop Singh, Director of the IMF's Western Hemisphere Department, 21st Annual Journalists and Editors Workshop on Latin America and the Caribbean, Miami, May 2

Transcripts

Press Briefing by Thomas C. Dawson, Director, IMF External Relations Department, May 8