Loans to CEE Countries and their Conditionalities

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HIGH LEVEL SEMINAR

THE IMPACT OF THE ECONOMIC CRISIS ON EDUCATION IN CENTRAL AND EASTERN EUROPE

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Education: The Cost of the Crisis

Aims of Research Exercise

- ❑Analyse loans to CEE-Central Asia countries
- ❑Analyse effects of loans on education
- ❑Tackle debates over loan conditionalities
- ❑Address measures to fire teachers/reduce salaries
- ❑Emulate 'Education on the Brink' (GCE)

GLOBAL CAMPAIGN FOR
EDUCATION
www.campaignforeducation.org

Education on the brink

Will the IMF's new lease on life ease or block progress towards education goals?

Global Campaign for Education. April 2009

G20 Initiatives: IMF Reform

- ❑Increase in the amount of loans
- ❑'Condition-light' Loans e.g. Flexible Credit Line

Vs. GCE Findings

- ❑Decrease in public wage bill in 39% of low-income countries analysed
- ❑Loans lead to a decrease in teachers' salaries
- ❑Loan conditions indirectly limit investments in education

Countries Analysed – CEE and Central Asia

	Type of Loan	Size of Loan
Albania	PRGF	US$ 25.4 million
Armenia	SBA	US$ 540 million
Azerbaijan	None	
Belarus	SBA	US$ 2,46 Billion
Bosnia & Herzegovina	SBA	US$ 1,57 Billion
Bulgaria	None	
Croatia	None	
Czech Republic	None	
Estonia	None	
Georgia	SBA	US$ 750 Million
Hungary	SBA	US$ 15,7 Billion
Kazakhstan	None	
Kosovo	None	
Kyrgyzstan	ESF	US$ 100 Million

	Type of Loan	Size of Loan
Latvia	SBA	US$ 2,34 Billion
Lithuania	None	
Macedonia	None	
Moldova	PRGF	US$ 118,2 Million
Montenegro	None	
Poland	FCL	US$ 20,58 Billion
Romania	SBA	US$ 17,1 Billion
Russia	None	
Serbia	SBA	US$ 4 Billion
Slovakia	None	
Slovenia	None	
Tajikistan	PRGF	US$ 116 Million
Ukraine	SBA	US$ 16,4 Billion
Uzbekistan	None	

14 out of 28 countries have an IMF loan: **$81.8bn/ €57bn** in total

Full data not available for all countries

Country Loans

Principles

- Paid back with interest
- Negotiated between governments and International Financial Institutions (IFIs)
- Conditionalities attached

Main Types of Loans to CEE Countries

- International Monetary Fund (IMF)
- European Union (EU)
- World Bank

Current Totals in CEE and Central Asia

- IMF: € 57bn
- EU: €14.6bn
- World Bank: €16.5bn in 2009

IMF Loan Types (1)

Types taken in the CEE-CA Regions (4 out of a possible 6)

- **PRGF**: Poverty Reduction and Growth Facility
- **ESF**: Exogenous Shock Facility
- **SBA**: Stand-By Arrangement
- **FCL**: Flexible Credit Line

1. PRGF: Poverty Reduction and Growth Facility

- Albania, Moldova and Tajikistan
- In use for c. 10 years
- Target poverty in lowest income countries - on country's per capita income
- Low interest rate of 0.5%
- Based on Poverty Reduction Strategy Papers: PRSPs
- Dependent on a number of conditions outlined in PRSP

PSRPs uncover a broad failure on the part of governments and donors to articulate a more integrated approach to education planning … they also downplay issues raised by extreme inequalities of opportunity [UNESCO]

IMF Loan Types (2)

2. ESF: Exogenous (External)Shock Facility

- ❑Only Kyrgyzstan in the CEE-CA Region
- ❑For countries eligible for PRGF, but which have not adopted a PRSP
- ❑Provides relief from significant economic shocks beyond governments' control
- ❑Low interest rate of 0.5%

3. SBA: Stand-By Arrangement

- ❑Armenia, Belarus, BiH, Georgia, Hungary, Latvia, Romania, Serbia, Ukraine
- ❑For countries with short-term balance of payment problems
- ❑Typically middle-income countries
- ❑Used heavily since the onset of the current crisis

4. FCL: Flexible Credit Line

- ❑Only Poland allowed to use this facility in CEE-CA Region
- ❑New facility since the onset of the current crisis
- ❑For governments with a good record of fiscal and monetary policy
- ❑Can be accessed when needed: transferred immediately (not payments)
- ❑Conditionality-free, but *ex ante* criteria to be met

EU Loans

Characteristics

- ❑Hungary, Latvia, Romania
- ❑Amount the EU can provide: €50bn (since the beginning of the crisis)
- ❑Issue of 'Eurobonds' by the European Investment Bank (on capital markets)
- ❑For EU Member States hit by the crisis
- ❑Conditions negotiated between EU, EIB and governments – not stringent

Convergence Criteria for Euro-Adoption

- ❑Apply to all Member States (excl. UK and Denmark)
- ❑Commission and European Central Bank measure 5 aspects bi-annually

PRICE STABILITY	SOUND PUBLIC FINANCES	SUSTAINABLE PUBLIC FINANCES	DURABILITY OF CONVERGENCE	EXCHANGE RATE STABILITY
CONSUMER PRICE INFLATON RATE	GOVERNMENT DEFICIT as percentage of GDP	GOVERNMENT DEBT as percentage of GDP	LONG-TERM INTEREST RATE	DEVIATION FROM CENTRAL RATE
Not more than 1.5% above the rate of the 3 best performing Member States	Reference value: not more than 3%	Reference value: not more than 60%	Not more than 2% above the rate of the 3 best performing Member States (for price stability)	Participation in ERM II* for at least 2 years without severe tensions

**European Exchange Rate Mechanism: Currency allowed to float within a range of ±15% with respect to a central rate against €*

World Bank Loans

Characteristics

- ❑Readily available to CEE-CA countries
- ❑Used for a variety of projects
- ❑Detailed agreements on the implementation of projects
- ❑Many are large projects e.g. infrastructure, energy-provision
- ❑Loans for general government expenditure have already been provided
- ❑Can be contracted between government/private company and WB
- ❑Conditions negotiated individually for each project

Figures

- ❑First half 2009: increased from US$8bn (€5.6bn) to US$12.5bn (€8.7bn)
- ❑Plan now to increase to €16.5bn through the rest of 2009

IMF Loans – Possible Effects on Education (1)
Aim: Low Fiscal Deficits

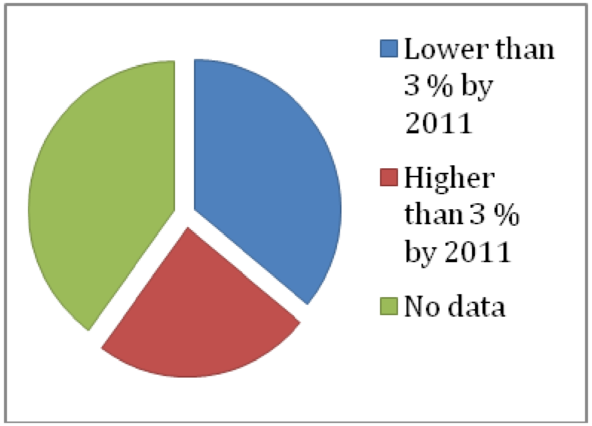

Figure 1 - Fiscal Deficit Targets in CEE and Central Asia Countries

Statistics

- ❑9 out of 13 countries for which data is available: 3% by 2011

Implications

- ❑Governments not to spend more than they receive: Budget cuts!
- ❑By contrast: Many Western governments now run up deficits for fiscal stimuli
- ❑Expenses are cut across the board, no room for manouevre

IMF Loans – Possible Effects on Education (2)
Aim: Low Inflation

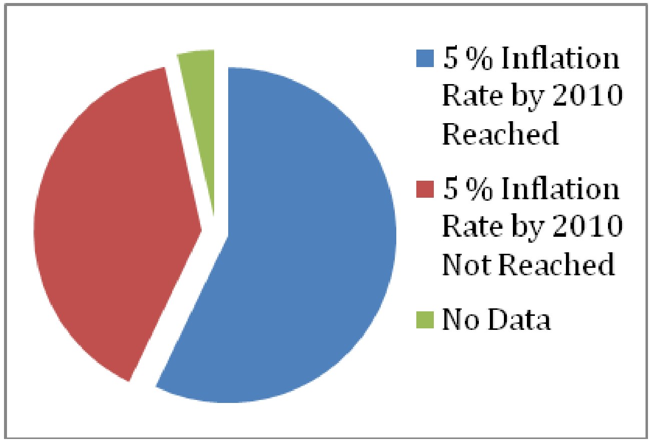

Figure 2 – Are Countries following a 5 % Inflation Target by 2010?

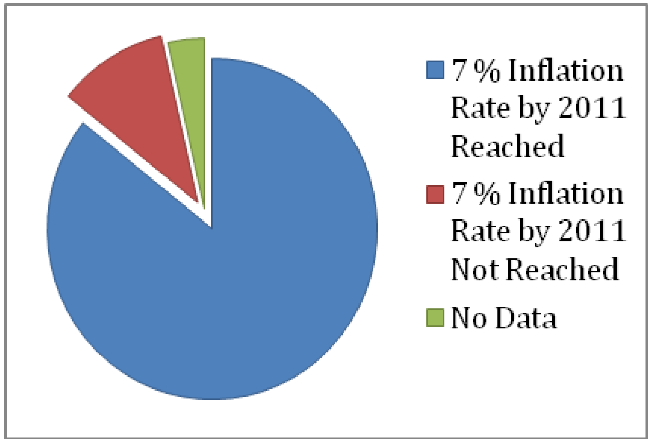

Figure 3 – Are Countries following a 7% Inflation Target by 2010?

Statistics

- ❑Almost all CEE-CA governments setting targets to reduce inflation
- ❑Russia, Tajikistan and Uzbekistan not reaching 7% inflation target.

Implications

- ❑Inflation kept low to keep goods affordable
- ❑Growth of monetary supply has to be kept low – low interest rates on state loans
- ❑Further restrains government spending

IMF Loans – Possible Effects on Education (3)
Aim: Maintaining Wage Ceilings

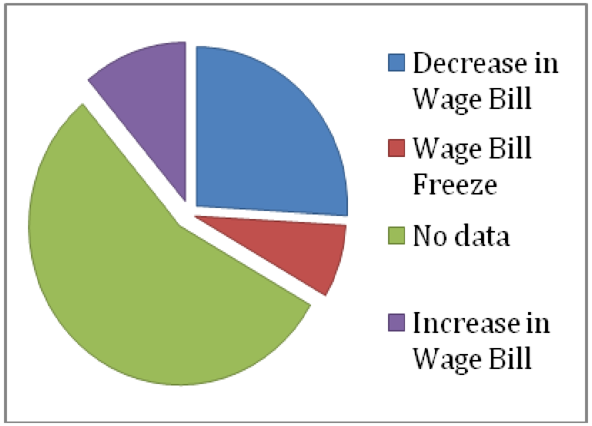

Figure 4 – Is there a Decrease in Countries' Wage Bills?

Statistics

- 9 out of 13 countries for which data is available: wage bill frozen/being reduced

Implications

- Past practice of IMF to impose public wage ceilings (% of GDP): biggest expense
- No longer a conditionality – IMF reports still praise this practice
- Leads to lay-offs, pay-cuts, overall budget cuts

IMF Loans – Possible Effects on Education (4)
Aim: Building Foreign Reserves

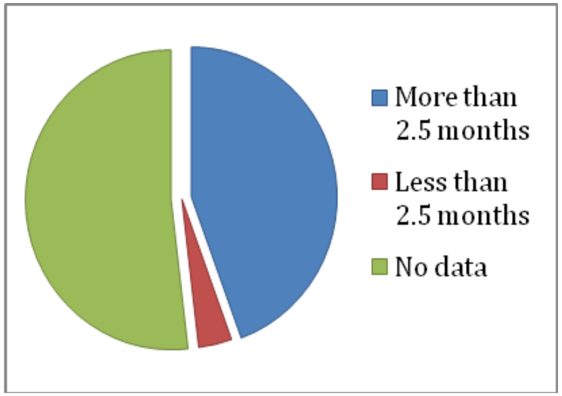

Figure 5 – How High are Foreign Reserves?
(Calculated in Months of Imports)

Statistics

- ❑Belarus and Tajikistan still building foreign reserves

Implications

- ❑Aid given in foreign currency – not spent, kept as a foreign reserve
- ❑Restricts government spending – also in education

Country Example: Poland

Background

- ❑Successful economy in recent years: 6% GDP growth in 2007, 2008
- ❑Investment in Education Steady: 5.4% of GDP, 2001 – 5.3% of GDP, 2006
- ❑Teachers' Salaries: Third lowest in Europe (2008)
- ❑Pupil-Teacher Ratio of 1:15 (average for Europe)

Current Developments

- ❑Mild Recession: GDP drop of 1.4% in 2009 (Expected to grow by 0.8% in 2010)
- ❑Unemployment on the rise: to reach 12% by 2010
- ❑Current fiscal stimulus – Unions were not consulted, no investments in education
- ❑Plans to adopt Euro in 2012

IMF Loan: FCL (Flexible Credit Line)

- ❑Poland has to remain eligible (*ex ante* criteria)
- ❑Cutbacks in various sectors
- ❑Promised laptops for secondary students not bought
- ❑Sports fields not built as promised
- ❑Plans for lowering compulsory school age delayed
- ❑Salaries not increased to the level promised

Country Example: Latvia (1)

Background

- Pre-crisis economic miracle: high growth since EU accession
- Generally high inflation and reliance on fiscal deficit
- Investment in Education Dropped: 5.7% of GDP, 2002 – 5.1% of GDP, 2006
- Teachers' Salaries: Fourth lowest in Europe (2008)

Current Developments

- GDP drop of 4.6% in 2008; contraction of 13% expected in 2010
- Public budget deficit expected to rise to 11% in 2020
- Loan package: IMF, EU and Nordic countries: total of €7.5bn
- Social tension caused by IMF Loan conditionalities: Government fell, Feb 2009

IMF Loan: SBA (Stand-By Arrangement)

- Fiscal deficit ceiling of 5%
- Ceiling on public wage bill
- Floor on foreign reserves

Country Example: Latvia (2)

Effect on Education

- Teachers returning from retirement: 70% pension cut
- 20% cut to teachers' salaries: April 2009
- Overall budget for teachers salaries: further reduction of 50.9% by Sept 2009
- Means potentially a redundancy of 10,000 teachers from a total of 35,000
- Further cost-cutting: 33 schools to close and 35 to be re-organised by Sept 2009

Planned Adoption of the Euro: Further Restrictions

- Deficit Ceiling
- Maximum inflation rate
- Maximum amount of foreign debt

Tensions between the IMF and the EU

- IMF pushing for currency devaluation
- EU against this, fearing delay in Euro adoption

Country Example: Serbia

Background

- Economic recovery since 2001: GDP growth rates of 5%
- Investment in Education Increase: 3.14% of GDP, 2001 – 3.5% of GDP, 2006 (still low)
- Pupil-Teacher Ratio of 1:25 (among highest in Europe)
- Teachers' Salaries: Thirteenth lowest in Europe (2008)

Current Developments

- GDP drop of 2% in 2009 (0% growth rate projected for 2010)
- Agreed to an IMF loan in May 2009: €2.7bn

IMF Loan: SBA (Stand-By Arrangement)

- More stringent inflation target
- Ceiling on Government's fiscal deficit: partly through wage and pension freezes
- Government forced to cut expenditure in all public sectors: including education
- Decrease in promised new education investments by 25 %

World Bank: Education Reform Proposed

- Minimum class size of 30, to save up to 40% on public education budget
- Decentralisation of education policy, to be able to fire teachers

What Does it All Mean?

- International loans continue to influence public sector spending
- Education is a clear victim of the crisis in the CEE-CA region
- The crisis has led to strong economic dominance over education
- It is more necessary for unions to play a role