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- Bowersox, Donald J., Closs, David J., (1996), "Logistical Management." Tata McGraw, Hill, New Delhi.
- Hunker, H.L. and A.J. Wright (1963), "Factors of Industrial Location in Ohio," Ohio State University.

Contributions to books

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- Schemenner, R.W., Huber, J.C. and Cook, R.L. (1987), "Geographic Differences and the Location of New Manufacturing Facilities," Journal of Urban Economics, Vol. 21, No. 1, pp. 83-104.

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- Chandel K.S. (2009): "Ethics in Commerce Education." Paper presented at the Annual International Conference for the All India Management Association, New Delhi, India, 19–22 June.

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- Kumar S. (2006): "Customer Value: A Comparative Study of Rural and Urban Customers," Thesis, Kurukshetra University, Kurukshetra.

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- Kelkar V. (2009): Towards a New Natural Gas Policy, Economic and Political Weekly, Viewed on February 17, 2011 http://epw.in/epw/user/viewabstract.jsp

BACKGROUND OF IMF & IMPACT OF FINANCIAL CRISIS IN ARGENTINA

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ABSTRACT

The crisis unfolded against the backdrop of several decades of outstanding economic performance in Asia, and the difficulties that the East Asian and western countries face are not primarily the result of macroeconomic imbalances. Rather, they stemmed from weaknesses in financial systems and, to a lesser extent, governance. But the greater challenge lies beyond the mere definition of standards in the process of implementation. Countries need new laws, new institutions, and strong professionals to adopt and apply the new standards. And the international community needs mechanisms to make the standards operational and to monitor progress. The IMF, which has been given a universal mandate for surveillance, will have here a critical role a daunting task indeed for which it will need to avail itself of the support of the variety of other bodies with more practical experience in different areas. ***[CRS Report for Congress, Martin A. Weiss updated October 30, 2008].***

KEYWORDS

International Monetary Fund (IMF), International currency exchanges, Foreign Exchange rates, Economic growth, financial system

INTRODUCTION

International Monetary Fund

The International Monetary Fund [IMF] with its headquarter in Washington D.C. was founded in 1944 as result of the Bretton Woods conference in New Hampshire, United States. The target of the 45 participating governments was providing a framework for international economic cooperation. **[IMF, 2006].**

The IMF was created to support orderly international currency exchanges and to help nations having balance of payment problems through short term loans of cash. **[Stewarts, 2009].**

With affixing the signature of the first 29 countries to its Articles of Agreement, the IMF took up its tasks in December 1945 **[IMF, 2006].**

IMF introduced new international reserve assets The Special Drawing Right (SDR) in 1969 to support the Bretton Woods fixed exchange rate system. A country participating in this system needed official reserves government or central bank holdings of gold and widely accepted foreign currencies that could be used to purchase the domestic currency in world foreign exchange markets, as required maintaining its exchange rate. But the international supply of two key reserve assets gold and the U.S.dollar proved inadequate for supporting the expansion of world trade and financial development that was taking place.

However, only a few years later, the Bretton Woods system collapsed and the major currencies shifted to a floating exchange rate regime. In addition, the growth in international capital markets facilitated borrowing by creditworthy governments. Both of these developments lessened the need for SDRs.

Today, the SDR has only limited use as a reserve asset, and its main function is to serve as the unit of account of the IMF and some other international organizations. The SDR is neither a currency, nor a claim on the IMF. Rather, it is a potential claim on the freely usable currencies of IMF members.

The value of the SDR was initially defined as equivalent to 0.888671 grams of fine gold which, at the time, was also equivalent to one U.S. dollar. After the collapse of the Bretton Woods system, however, the SDR was redefined as a basket of currencies, today consisting of the euro, Japanese yen, pound sterling, and U.S. dollar. **[IMF, 2008b].**

Each IMF member has to deposit a certain quota of SDRs, related to the relative size of the country in the world economy. This quota defines the voting power of the member. Total quotas, which provide the main financial resource for the IMF, are at the moment at about SDR 216.75 billion **[IMF, 2008e],** with the USA holding the largest part of about 17 percent of the stock **[IMF, 2008g]**.

Currently 185 countries are members of the IMF **[IMF, 2008h].** There is a strong variation in the volume of loans the IMF has granted since its formation. In the 1970s the oil shocks, in the 1980s the debt crisis and in the 1990s the crises in emerging market economies led to a boost in demand for IMF loans. Those loans have largely been repaid. At the end of March 2008 only $16.1 billion of the $209.5 billion funds loanable were outstanding **[IMF, 2008c].** The income from interest charges is accordingly low at the moment.

Organization Mission

The mission of the IMF is to Achieve International Financial Stability and Cooperation. Keep sufficient cash reserves for each member nation to avoid financial crises due to currency instability and to Promote Economic Growth. Provide loan reserve assets to member nations that have financial or balance of payments problems and advise member nations on Macroeconomic policy issues such as interest rates and investment levels. **[Stewarts, 2009].**

Purpose

The purposes of the International Monetary Fund are to promote international monetary cooperation, facilitate the expansion of international trade for the sake of high levels of employment and real income, promote exchange-rate stability and avoid competitive depreciation, work for a multilateral system of current international payments and for elimination of exchange controls over current transactions, create confidence among member nations and give them the opportunity to correct balance of payments adjustments while avoiding measures destructive of national and international prosperity, and make balance of payments and disequilibrium's shorter. **[IMF Leland B.Yeager].**

Tasks of the IMF

The work of the IMF is based on three main types in order to stable the international financial system. (1) **Surveillance** involves the monitoring of economic and financial developments, and the provision of policy advice, aimed especially at crisis-prevention.(2) The main purpose of **Technical assistance,** is to helps the member countries to effectively manage their economic policies, strategies and financial affairs.(3) **Financial assistance** means to provide loan to countries with balance of payments difficulties to support measures against the crises.**[IMF, 2008a].**

Surveillance

In today's globalized economy, where the policies of one country may affect many other countries, international cooperation is essential. The IMF, with its nearly universal membership of 185 countries, facilitates this cooperation. The monitoring system of the IMF practices in two areas: The bilateral and the multilateral surveillance. In the bilateral surveillance the exchange rate policies of each individual member country are evaluated. The IMF advises on risks to stability and growth of the countries and analyses cross country spillovers. Through the central surveillance countries can profit from the experience of the other members **[IMF, 2007].** Multilateral surveillance, on the other hand, refers to the surveillance of economic linkages between countries and international economic and market developments, including the global implications of policies pursued in individual countries. Within the scope of the world economy and the global consistency of exchange rates are monitored**.** Multilateral and Bilateral surveillance are closely linked concepts. Multilateral surveillance often draws on the country specific information obtained from bilateral surveillance. **[IMF'S multilateral surveillance P. 5].**

Technical Assistance

Technical assistance provided to emerging and industrialized economies in select cutting-edge areas helps provide traction to IMF policy advice, and keeps the institution up-to-date on innovations and risks to the international economy. With the technical assistance, the IMF supports its member countries to create country specific financial, structural, and macroeconomic policies and strong institutional and human resources. About 90 percent of the demand for technical assistance comes from low and lower-middle income countries. The IMF helps low-income countries expanding their participation in the global economy and establishing poverty and debt-reducing projects and growth programs. **[IMF, 2008d].**

Financial Assistance

IMF helps countries to stabilize their currencies, reconstruct their international reserves, and continue import-payments. A base for a stable economic growth is to be formed. According to the World Bank, the loans of the IMF are not targeted on specific projects. The interest rates for the loans are adapted from the SDR interest rates, with a surcharge on large loans. The maximum extent of the loan is generally a multiple of the quota the member has paid into the Fund. The IMF is a so-called "lender of last resort":

IMF loans are generally conditional on the adoption of appropriate policies to resolve a country's balance of payments difficulties and to establish adequate safeguards for the temporary use of IMF resources. Conditionality also provides the member with assurances on what is needed for the IMF to make its financial resources available. Through the conditionality the IMF tries to control that the money is really used by the country to resolve its economic troubles to be able to repay the loan according to the agreement. The measures the IMF sets prior to the credit approval, to make sure that there is a basis on which an effective program can be built on, are for instance abolishing price controls, adjusting exchange rates to a sustainable level, and adapting the government budget to the fiscal framework of the program. Conditions that have to be met for the approved amount of loan to be disbursed are e.g. the reduction of public debt, fortification of the financial systems, and the containment of inflation **[IMF, 2008f].**

Selected IMF Lending Facilities

- **Stand-By Arrangements:** Form the core of the IMF's lending policies. A Stand-By Arrangement provides assurance to a member country that it can draw up to a specified amount, usually over 12–18 months, to deal with a short-term balance of payments problem.
- **Extended Fund Facility:** The IMF support for members under the Extended Fund Facility (EFF) provides assurance that a member country can draw up to a specified amount, usually over three to four years, to help it tackle structural economic problems that are causing serious weaknesses in its balance of payments.
- **Supplemental Reserve Facility:** Provides additional short-term financing to member countries experiencing exceptional balance of payments difficulty because of a sudden and disruptive loss of market confidence reflected in capital outflows. The interest rate on SRF loans includes a surcharge over the IMF's usual lending rate.
- **Contingent Credit Lines:** Precautionary lines of defense enabling members pursuing strong economic policies to obtain IMF financing on a short-term basis when faced by a sudden and disruptive loss of market confidence because of contagion from difficulties in other countries.
- **Emergency Assistance:** Introduced in 1962 to help members cope with balance of payments problems arising from sudden and unforeseeable natural disasters, this form of assistance was extended in 1995 to cover certain situations in which members have emerged from military conflicts that have disrupted institutional and administrative capacity. **[Selected IMF lending Facilities].**
- **Trade Integration Mechanism:** Allows the IMF to provide loans under one of its facilities to a developing country whose balance of payments suffers because of multilateral trade liberalization, either because its export earnings decline when it loses preferential access to certain markets or because prices for food imports go up when agricultural subsidies are eliminated. **[What is IMF SEP 30, 2006].**

Core Elements

There are at least four core elements of conditionality that the U.S. and IMF should promote in the context of the current crisis.

- **Currency stabilization is critical**. The markets may have over-reacted to economic conditions in Asian countries with such extreme depreciation of currencies. The Asian economies are fundamentally sound, and with corrective policies they should rebound. The IMF's primary goal should be to stabilize currencies. Surely, agreement should be reached to avoid competitive devaluations that will further destabilize the international financial and trading systems.
- **The IMF must also seek vast improvements in the financial services sectors of countries using IMF Stand-By instruments.** The IMF should seek agreement from the affected countries to reform the laws and regulations governing their domestic financial institutions so that they meet generally accepted international standards. This would include laws to ensure adequate capital and reserves, adequate oversight, and standards for transparency.
- **The economies of these countries must be open.** The IMF must insist on economic reforms that open economies to both internal and external competition. Assisted countries must be open to competition, trade, investment, and capital flows domestically and internationally. Small domestic businesses and international companies must not be excluded from open market competition because of collusion among conglomerates, governments, and financing institutions.
- **Finally, existing creditors should be expected to bear an appropriate financial burden.** Public perception that IMF assistance will privatize creditors' profits and socialize their losses will erode public and Congressional support faster than anything else. And that is understandable. It simply does not appear fair or legitimate to use IMF resources to hold banks and investors harmless, or to shield them from the consequences of poor judgment in loans and investments. **[Role of the United States and the IMF by John J. LaFalce January 27, 1998]**

Growth in developed and developing countries decoupling or delayed coupling

With a recession already underway in the UK, Germany, France, the USA and other developed countries, it is quite startling to hear the Malawian finance minister argue that Malawi's economy is projected to grow by more than 8% this year. Yet this is today's stark reality. The USA is going through the greatest financial crisis since the 1930s, but, as the Financial Times has reported, Lagos is not Lehman. Nigeria, held back by decades of economic mismanagement, is growing at nearly 9%. Leaders in China suggest that they can help the world by offering growth rates of up to 10%, and many African countries still gain significantly from this (they are growing at 6-7%).

Growth performances vary substantially among developed and developing countries. African growth exceeds OECD growth by margins not seen for 25 years; East Asia's growth is diverging as much as it did during the last significant global economic downturn in the early 1990s (see Figure A).

The relationship between OECD GDP and Africa's GDP has weakened as a result of the emergence of countries such as China, as well as structural changes in African economies. According to the IMF World Economic Outlook report in April 2008, a decline in world growth of one percentage point would lead to a 0.5 percentage point drop in Africa's GDP, so the effects of global turmoil on Africa (via trade, FDI, aid) would be quite high. The correlation between African GDP and World GDP since 1980 is 0.5, but between 2000 and 2007, it was only 0.2. As there have been significant structural changes (and a move into services that were able to withstand competition much better) as well as the rise of China, African growth has temporarily decoupled from OECD GDP. **[Dirk Willem Te Velde, Oct 2008]**

The Bailout Moral Hazard Problem

The current literature differentiates between moral hazard on the creditors' and on the debtors' side. From the debtors' perspective, the implied or even explicit insurance/bailout enables domestic borrowers to increase their risk exposure beyond the optimal level in the absence of insurance, as, in case of a negative shock that will leave them unable or unwilling to repay in full, they will be at least partially bailed out. On the other hand, there is the creditors' side. As creditors are aware that they will be bailed out in case of a balance-of-payment crisis in an emerging economy, their behavior changes. This has often been cited **[Noy, 2003]** as one of the more apparent stylized facts of the East Asian crises especially since most large international lenders were indeed partially bailed out.

An implied insurance (a bail-out is an expost insurance policy) of sovereign and corporate bond issues or inter-bank lending can result in the following:

- An increase in the amount transacted over and above the amount that would have been transacted in the absence of such implicit guarantees.
- A decrease in the price of loans so that its no longer reflects the true (insurance-free) risk borne.
- A change in the composition of investment away from uninsured investment (e.g., equity) to insured flows (e.g., sovereign bonds).
- A change in the composition of international portfolios away from less risky but less profitable investment opportunities to more risky but more profitable if outcomes are positive.

These moral hazard effects might imply that IMF-led bailouts lead to sub-optimal equilibrium in which there is both a dead-weight-loss and a redistribution of resources away from domestic or foreign taxpayers to the international creditors or the sovereign countries that are bailed out **[Noy, 2003].**

LITERATURE REVIEW

The Anatomy of Financial Crises (views of Eichengreen and Portes)

The major contribution of insight into the material is Eichengreen and Portes 1987 work The Anatomy of Financial Crises, they particularly compare the financial crises of the 1930s to more recent occurrences of the 1980s. However since the beginning of the 1980s more than twenty-two years have passed and international contexts, politics and markets have undergone changes.

Eichengreen and Portes [1987] provide the subsequent definition of the term financial crisis as a basis for their research: "A financial crisis is a disturbance to financial markets, associated typically with falling asset prices and insolvency among debtors and intermediaries, which ramifies through the financial systems, disrupting the market's capacity to allocate capital within the economy."**[pp. 1-2]**. they even go further and enlarge their definition beyond single nations: "In an international financial crisis, disturbances spill over national borders, disrupting the market's capacity to allocate capital internationally." **[p. 2].**

According to some viewers, Market is not anymore able to allocate capital within an economy. Eichengreen and Portes already provide with the afore mentioned definition three components contributing to a financial crisis: Bank failures, debt defaults and foreign-exchange market disturbances. They are interlinked and at the same time each incident can evoke one of the others, ultimately leading to a generalized financial crisis. Al-ready each single dysfunction can disrupt the allocation of capital. Market conditions and institutional configurations, mainly depending on the roles of regulatory and stabilization polices. Financial crises result as well as from macroeconomic shocks as from distortions coming from financial markets. Hence it is crucial in preventing financial crises to secure a stable macroeconomic environment, which might financial markets allow to function **[pp. 72-73].**

Structural reasons for financial crises and compare them according to their specific time and circumstances **[Eichengreen & Portes, 1987, pp. 65-67].**

- External events led in the 1930s to debt defaults and endangered debtor countries banks. Contrary the banks of creditor countries did not hold too much sovereign debt that could provoke problems for them. In the 1980s the opposite seemed to have happened again (referring to Argentina). At this time the banks were sophisticated enough to assess credit risks and thus prevent a collapse of the financial system. Furthermore national authorities and international institutions' direct policy interventions nearly prevented the banking system from failing.
- Bank failures foster like no other factor debt defaults.
- In both times capital movements contributed to the propagation of crises. In the 1930s the authorities occasionally could restrict convertibility for averting debt de-fault by withdrawing short-term funds. Whereas in the case of the 1980s capital flight, induced by exchange-rate over valuation linked with missing exchange controls, made a bigger contribution to the development of dept crisis. The 1980s arrangement struggled with stopping this linkage compared to the 1930s one. A further 1980s threat were exchange- rate misalignments bringing protectionist trade policies in difficulties. Debtor countries were not able to achieve sufficient of the needed export surpluses.
- 1930s debt defaults did not always put down the debtor's exchange rate. The same effect was reached in the 1980s even for non-defaulting debtors due to the burden of debt service. This appearance was assisted by government's budget pressures and the necessity to accomplish current account surpluses. Both support a depreciation which takes the financial burden away of maintaining raising net exports under the constraint of overvalued rates.
- The banks of the 1980s were threatened because of their own excessive speculations in exchange markets. However instable foreign exchange markets mainly led in the 1930s to general financial instability.
- Home country's currency got in the 1930s under pressure through bank failures, which finally caused capital flight and incidentally even endangered major foreign creditor's currency. Disturbances in the 1980s US banking system seem to excite foreign exchange markets, although Eichengreen & Portes mention this fact as not being significantly considered **[1987, p. 67].**
- As more complete information are, the less quickly spread financial crises. Regulatory and stability policies can help creating a stable macroeconomic environment, which in the case of an imbalance is as much contributing to financial crises as per-turbations of financial markets do. Consequently the magnitude of financial crises varies under different in situational settings. Eichengreen & Portes alert in the context of the Great Depression in the US one important issue: The US government had been less effective than governments of other countries to avoid "the transformation of financial market disturbances into a generalized financial crisis**" [p. 35].**

PORTES APPROACHES

The analysis of Eichengreen and Portes [1987] primarily identify common patterns behind financial crises. First Portes appreciate Eichengreen's work ("All crises are the same") but later Portes comes up with counter-arguments and a suitably named chapter ("All Crises are Different"). Therefore is another logic given in third chapter Types of Financial Crises: "There is no credible unicausal story, and in each crisis the nature of the interaction among the factors listed here is itself unique." **[pp. 3-4].**

The economies do have weak banking system and portes also accuses presence of weak banking systems as a feature of past crises which mostly originated in overvalued exchange rates. In contrast present crises behave different and started else wise. Although only few common factors amounting for financial crises can be identified, Portes instances especially exchange rate pegs to the dollar, which lead to "overvaluation and large account deficits, and excessive private sector foreign borrowing." **[p. 3]**. In his work Portes also points on an economy's individual factors as facilitating a financial crisis, which vary throughout a broad scope of features:

- The role of fundamentals
- The relative importance of bank and securitized debt

- The relative importance of private and sovereign debt
- Exchange rate regimes and history
- Underlying structure and dynamics **[p. 3]**

In contrast parallel adhere several of the following causes making the identification and adequate reactions to crises challenging:

- A speculative attack on the exchange rate here we must distinguish between attacks based on deteriorating 'fundamentals' and those that exhibit self-fulfilling expectations.
- A 'financial panic' a bank run or its international analogue – in this case, no degree of 'transparency' or better information will eliminate herd behavior, which is based on a collective action problem.
- The collapse of an asset price bubble.
- A crisis induced by moral hazard (implicit or explicit guarantees of bailout)
- The recognition of a 'debt overhang', followed by a disorderly workout" **[Portes,1998, p. 4].**

BRIEF HISTORY OF PAST FINANCIAL CRISIS

Panic of 2008 effecting almost whole world. Lot of small and multinational companies disappeared from business world and for millions of investors and workers of these companies has been proved as a terrifying months. Investors watched their shares, bonds and mutual funds crash almost across the board. Many people, understandably, are panicking and fighting the urge to sell. The market's swings have been violent. Managing your investments is one thing. Managing your emotions during the biggest financial panic in a generation is another. Knowing history, as well as finance, is a big help.

In the past century, the world has seen countless financial crises, economic downturns, and market crashes. Of course we know about the famous crashes of 1929 and 1987. But what about the panics, crashes and slumps of 1812, 1837, 1857, 1873, 1903, 1907, 1914, 1917, 1930-2, 1937, 1946, 1962, 1966, 1973-4, 1976-8 and 1998? These things happen quite often. Some are worse than others. But the market has always eventually recovered.

In August 1998, the Dow Jones Industrial Average fell 1,000 points about one fifth in a few days, following the financial crisis in Asia and Russia. Despite the dire warnings, the U.S. didn't enter a severe recession. Most people have even forgotten there was a panic in 1998. It wasn't the crash of 1929 that caused the Great Depression. Wall Street actually rallied sharply in the following six months. It was a string of subsequent policy blunders that caused most of the misery.

The same kind of crashes already happened i.e. in 1873 so many banks and brokerage houses failed, and so many others had to shut their doors temporarily, that the stock exchange itself closed for about 10 days to stop the panic. Anyone who bought after the crash of 1873 and held on for 20 years, simply reinvesting dividends, trebled his money. Anyone who did the same following the gigantic crash of 1907, when J.P. Morgan Sr. stepped in to rescue the financial system, made a 700% return. After the 1987 crash, the figure was 900%. **[Brett Arends Oct. 19, 2008].**

The Wall Street Crash heads the list, with the US stock market falling by 89% between 1929 and 1932. The bursting of the speculative bubble led to further selling as people who had borrowed money to buy shares had to cash them in a hurry when their loans were called in. The second biggest collapse came from the technology-rich US NASDAQ index, which fell by 82% following the bursting of the dot.com bubble in 2000. In third place, with a 79% decline, was the Japanese stock market, which suffered a protracted slide in price from 1990 to 2003 as a share and property price bubble burst and turned into a deflationary nightmare. Next came the UK stock market's 73% drop in 1973 and 1974. Set against the backdrop of a dramatic rise in oil prices, the miners' strike and the downfall of the Heath government.

The Hong Kong stock market's heavy fall (64%) in 1997-1998 came as investors deserted emerging Asian shares, including a much overheated Hong Kong stock market. The UK took sixth place in the table with a 52% market fall between 2000 and 2003 as investors suffered the consequences of the collapse of the technology bubble. In 1937-38 Wall Street fall 49%. This share price fall was triggered by an economic recession and doubts about the effectiveness of Franklin D Roosevelt's New Deal policy. **[Matherton April 14, 2008].**

Example "Historical Losses" (Appendix: 1)

ANALYTICAL FRAME WORK OF CURRENT FINANCIAL CRISES

In July 2008, US Federal Reserve supported the rescue of Bear Stearns by taking $29 billion of the investment bank's mortgage-related assets as collateral for a loan to J. P. Morgan Chase, which then agreed to 'acquire' the insolvent investment bank. In the beginning of September Fannie Mae and Freddie Mac, the two largest US mortgage lenders having a portfolio of about $5 trillion in home loans, which is equivalent to about 40 percent of the US mortgage market, were effectively nationalized by the US Government. In Mid-September, crisis was triggered following the liquidation of 158 years old investment bank Lehman Brothers, 'forced sale' of 94 years old Merrill Lynch.

In 3rd Week of September, The US sub-prime mortgage credit crisis turned into a financial implosion when the largest insurance company in the world American International Group (AIG), which operates in more than 100 countries effectively became insolvent. Additionally, US Treasury organized $85 billion loan rescue package for the American International Group (AIG). Default by AIG was imminent mainly due to the falling value of its debt securities and insurance contracts, and Credit Default Swap (CDS) amounting to $441 billion; of which more than three quarters were held by European Banks. The Contagion effect has been seen on Major Financial Institutions in Europe like UK, Switzerland, France, Germany, Iceland, Nether land, and elsewhere. **[Impact of Global Financial Crises on OIC Member States 20 October 2008].**

The global financial crisis of 2008 is a major financial crisis, the worst of its kind since the Great Depression. It became prominently visible in September 2008 with the failure, merger or conservator ship of several large United States-based financial firms. The underlying causes leading to the crisis had been reported in business journals for many months before September, with commentary about the financial stability of leading U.S. and European investment banks, insurance firms and mortgage banks consequent to the subprime mortgage crisis.

As history shows that Wall Street crashed many times and this time again, why? Because many have blamed the greed of Wall Street for causing the problem in the first place because it is in the US that the most influential banks, institutions and ideologues that pushed for the policies that caused the problems are found. According to Joseph Stiglitz, Nobel Prize winner for Economics, former Chief Economist of the World Bank and university professor at Columbia University, "You throw enough money at Wall Street, and some of it will trickle down to the rest of the economy. It's like a patient suffering from giving a massive blood transfusion while there's internal bleeding; it doesn't do anything about the basic source of the hemorrhaging, the foreclosure problem. But that having been said, it is better than doing nothing." And he further added that we're having a massive blood transfusion without stopping the hemorrhaging at the bottom. Real Estate prices are likely to continue to fall. And we need to do more. This proposal does very little to stem the underlying problem.

The crisis became so severe that after the failure and buyouts of major institutions and their after shocks spread all over the world i.e. Wall Street shockwaves hammer the Asia stocks, a number of European Bank failures and declines in various stock indexes, and large reductions in the market value of equities (stock) and commodities worldwide. The crisis has led to a liquidity problem and the de-leveraging of financial institutions especially in the United States and Europe, which further accelerated the liquidity crisis. World political leaders and national ministers of finance and central bank directors have coordinated their efforts to reduce fears but the crisis is ongoing and continues to change, evolving at the close of October into a currency crisis with investors transferring vast capital resources into stronger currencies such as the yen, the dollar and the Swiss Franc, leading many emergent economies to seek aid from the International Monetary Fund.

The roots of the crisis are understood, on a simplified basis, by three L's:

- Lack of accountability, • Leverage, • Liquidity

Lack of accountability is most evident in the fundamental changes in the mortgage market in recent historical periods **[Joseph Stiglitz, Bail Out Wall Street Now, Oct. 2, 2008].**

"Serious global downturn" (Appendix: 2) shows that, on an annual basis, global growth is expected to moderate from 5.0 percent in 2007 to 3.9 percent in 2008 and 3.0 percent in 2009 .

IMPACT OF FINANCIAL CRISES ON GLOBAL ECONOMY

The effects are complex and work across multiple channels. **First**, and most important, access to bank credit is likely to be highly restrained for a considerable period, as banks seek to reduce leverage and rebuild capital bases. Bank lending standards have already been ramped up sharply, and they are likely to tighten further as weakening economies further magnify bank losses, even while governments are providing public funds to help boost capital bases. **Second**, access to debt securities markets has tightened dramatically, not just for riskier low-grade borrowers but even for top-rated issuers and short-term securities, such as commercial paper, that are normally immune from such risks. **Third**, the drop in equity prices and residential property values has eroded household net wealth. For example, household net wealth in the United States has fallen by an estimated 15 percent over the past year. Fourth, emerging economies are also facing much tighter limits on external financing, as global deleveraging and increasing risk aversion have curtailed investor interest in these markets. **[Crisis through the Lens of History, Charles Collyns 2008].**

IMPACT OF THE ASIAN CRISIS ON ASIAN BUSINESS ENVIRONMENT

Business environment across the region has been permanently changed by the crisis and its aftermath. The confident complacency with in and about the region which was characteristic before the crisis, especially on the part of the global financial sector is history. Today within and beyond region alike, there is for the first time an acceptance of informed analysis and an expectation of demanding scrutiny. Countries, industries and individual firms are all under the microscope, not least by overseas investors who react negatively to opaque, unconsolidated accounts and non transparent transactions.

The business environment in the economies of East Asia is largely determined by rates of economy growth, buoyancy of domestic demand and the international competitiveness of global appeal of national output. However the crisis has emphasized the need of prudential supervision, modern institutional processes and the rule of law.

Factors for business to consider are an enhanced need for local knowledge and a greater need for close and continuous monitoring. Compared with a pre-crisis past, differences between countries are more important, industry structures in the modern sectors are more fluid and competitive, and risk of global financial market instability as well. **[Asian post-Crisis Management BY Usha C. V.Haley and Frank-jurgen Richter P: 346-349].**

LESSONS FOR WORLD CRISES

The first and most important lesson from every financial crisis since the Great Depression is to act early, to act aggressively, and to act comprehensively to deal with financial strains and to ensure the adequacy of external financing for countries that have been affected by contagion from the crisis, including steps to increase the availability of IMF credits.. The priority must be to quench the fire, even if unorthodox measures are needed that would not be applied other than in the context of a systemic event. As former U.S. Treasury Secretary Larry Summers said, when markets overshoot, policymakers must overshoot too. Thus, the Great Depression became so great in part because for four years after the stock market crash of 1929, policymakers followed orthodox policies that allowed credit to shrink, banks to collapse, and the crisis to feed on itself. Policymakers today are very aware of this chilling precedent, including Federal Reserve Chairman Ben Bernanke, who has studied the period closely to help strengthen understanding of how financial and real sectors of the economy interlink (Bernanke, 1983).

A second important lesson is the value of providing macro-economic support in parallel with financial actions. With the effectiveness of monetary policy limited by financial disruptions, fiscal stimulus must play an important role to help maintain the momentum of the real economy and curtail negative feedbacks between the financial and real sectors. Indeed, increasing interest is now being paid to boosting infrastructure spending, akin to the public work programs of the Depression era.

The third lesson is the need for policy solutions that work at the global level.

The bottom line is that, we can avoid the worst of the past. The global economy is being battered by a massive financial crisis, but the damage can be contained by strong and coordinated actions that repair the financial damage, support activity, and ensure continued access to external financing. **[Crisis through the Lens of History, Charles Collyns 2008].**

CASE STUDY

ARGENTINA AS A MODEL OF SUCCESSFUL POLICYMAKER DURING FINANCIAL CRISIS AND IMF

Argentina was seen as a model of successful policymaking in 1990s. By pegging its exchange rate to the dollar under a currency board type arrangement in 1991, Argentina ended hyperinflation, reducing inflation rates to single-digit levels. Because of an increase in foreign bank entry, the banking sector in Argentina, traditionally weak, was strengthened considerably. A 1998 World Bank financial sector review rated Argentina second only to Singapore among emerging markets in the quality of its bank supervision (Perry and Serven 2002).Because of Greater economic stability, country attracted foreign investment contributing to an acceleration in economic growth; indeed, even as lenders withdrew their financing in East Asia in 1997, capital inflows continued to Argentina.

Things began to turn sour in 1999. The collapse of the Brazilian currency led to sharp declines in export revenues, and economic growth was negative for three years in a row. Nevertheless, with some brief exceptions, financial markets remained relatively undisturbed until 2001, when uncertainty about the growing public debt and the persistent economic contraction led to very sharp increases in the yields investors demanded to hold Argentine government bonds. Extended to the durability of the currency peg and the ability of the financial system to make good on dollar liabilities that were backed to a significant extent by peso assets, including government debt. The result was massive deposit withdrawals from the banking system.

Because of these developments, in December 2001, Argentina suspended payments on its external debt and restricted deposit withdrawals (the "corralito"). In January 2002, it abandoned its peg to the U.S. dollar. Because of continuing uncertainty about financial conditions, interest rates have continued to rise and the currency has depreciated 356% against the U.S. dollar in the year to September 20. The impact of the Argentine crisis has been severe. Output is forecast to decline 15% and inflation to rise to 72% in 2002. **[Federal Reserve Bank of San Francisco [FRBSF], 2002].**

Development of the Crisis

The major cause of Argentine crisis was the deficiencies of Argentina's peg to the U.S. dollar under a type of currency board arrangement. While the currency board did play a role, it also can be argued that other cause of the crisis was Argentina's persistent inability to reduce its high public and external debts. These made the economy vulnerable to adverse economic shocks and shifts in market sentiment.

[Appendix 3] illustrates the trend in the public debt/GDP ratio in Argentina since 1995, as reported by the International Monetary Fund (IMF) .This ratio measures the total amount of public debt relative to the ability of the economy to produce (taxable) income to service it. In the figures, the thick solid line shows the actual path while the thinner solid lines and dashed lines represent alternative scenarios anticipated by the IMF first under a 1998 Extended Fund Facility (EFF) program and then under a 2000 Stand-By Arrangement (SBA). The figure reveals that Argentina's public debt/GDP ratio rose rapidly, from 35% in 1995 to nearly 65% in 2001. It is also apparent that under IMF consultations, it was consistently anticipated that Argentina's public debt/GDP ratio would stabilize or fall, but this did not happen. The actual path of the public debt/GDP ratio far exceeded the IMF projections in five different reviews between 1998 and 2000.

Argentina's experience stands in contrast to South Korea's, where a financial crisis in 1997-1998 forced the government to intervene to rescue failing banks and led to a rescheduling of its external debt. In South Korea, the public debt/GDP ratio rose sharply, from over 10% in 1997 to over 30% in 2000, but then declined. However, even at its peak, South Korea's public debt/GDP ratio was less than half Argentina's, and the path of the debt remained below that projected by the IMF in three separate reviews.

There is no unambiguous threshold at which public debt becomes unsustainable, and Argentina's public debt/GDP ratio of 65% in 2001 was still lower than that observed in some European countries. However, given the history of defaults and macroeconomic instability in emerging markets like Argentina, their threshold sustainable public debt may be much lower than in advanced economies. Additionally, limitations on tax collection capability imply that a higher public debt/GDP ratio makes emerging markets more vulnerable to adverse shifts in market sentiment that raise the cost of funds. In line with this, large spikes in the yield on public debt occur in emerging markets that are rarely seen in advanced economies. For example, between January and November 2001, investor uncertainty raised the yield on an Argentine 10-year government bond (denominated in U.S. dollars) about 20 percentage points, to around 35%, signaling the growing unwillingness of investors to hold Argentine debt. Such a sharp rise in the interest rate, as well as a default and crisis, is more likely if the public debt/GDP ratio is 65% (as in Argentina) than if it is around 30% (as in South Korea). Argentina also was vulnerable because its capital account was open and there was a large amount of borrowing in foreign currency from abroad. A large external debt made Argentina vulnerable to default not only in the event that interest rates rose, but also in the event that the currency depreciated sharply, as this increased the repayment burden in domestic currency.

Argentina's external debt profile in 1990 and 2000 may be assessed using two alternative measures, the external debt/GDP and the external debt/export ratios. As external debt typically has to be serviced in foreign currency, the external debt/GDP ratio is a more informative measure of the size of the debt relative to payment capacity if output can easily be shifted to earn more exports. Otherwise, the debt/export ratio provides a better indicator. By either measure, Argentina's debt rose significantly between 1990 and 2000: the external debt/GDP ratio rose from 44% to 51%, and the external debt/exports rose from 421% to 471%.

ARGENTINA'S DEBT RATIOS ROSE FOR AT LEAST TWO REASONS

- Primary fiscal surpluses (government revenues minus expenditures exclusive of interest payments on the debt) were not large enough to cover interest payments and also retire some of the outstanding public debt. Between 1991 and 2000, Argentina's primary surpluses averaged 0.14% of GDP. These surpluses were remarkable achievements, given Argentina's past history, but they were still well below interest payments, which averaged 2.4% of GDP over this period. There were significant obstacles to reducing expenditures and raising revenues. On the expenditure side, the government was a large employer and, for political reasons, found it hard to cut its wage bill. The central government also found it hard to control spending by provincial governments, whose liabilities it was eventually forced to assume. At the same time, revenues were adversely affected by difficulties in tax collection and, after 1999, by falling output and rising unemployment.
- Export growth (and therefore economic growth) was not sufficiently robust to improve the country's ability to meet its debt obligations and lower debt/GDP ratios. In the 1990s, the dollar value of Argentina's exports of goods and services grew at 7.7% a year, less than the nearly 9% growth in its external debt and well below the rate of growth of exports in Asian economies such as South Korea or Malaysia (10%-11 %). Export growth has been dampened by Argentina's trade barriers, which remain relatively high outside the Southern Cone common market area of Mercosur, of which Argentina is a member. These trade barriers have increased since the crisis broke out. Exports also suffered following the 1999 collapse of the Brazilian real because Argentina's rigid currency board arrangement produced an overvalued currency. Indeed, the focus on maintaining a rigid peg at all costs appears to have diverted attention away from the risks of not paying attention to real sector fundamentals **[FRBSF, 2002].**

Operations of IMF

IMF formulates the policies to control the financial crises. These policies, designed not only in Argentina, but in developing countries all over the world, contributed directly to the crisis.

- First, as the IMF's Independent Evaluation Office (IEO) report clearly states, the Fund prescribed many of Argentina's policy reforms during the 1990s, including the privatization of social security. Privatization was a condition in several of the IMF agreements signed during the 1990s.
- Second, when the depression began in late 1998, the IMF demanded a series of spending cuts in order to eliminate the fiscal deficit. However, since the deficit was not due to increased government spending, but to rapidly increasing debt-service payments, the cuts implemented at the IMF's behest actually deepened the debt cycle. Spending cuts led to a drop in economic activity, which resulted in decreased tax revenues and a higher deficit. At this point, further fiscal spending cuts were implemented.
- Third, the IMF tripled its exposure to Argentina (from $5 billion to $15 billion) just three months before the default. This seemingly contradictory measure served to buy sufficient time for those to take their capital outside the country, deepening the capital flight process that eventually resulted in the run on deposits in early December 2001.

The IMF's active participation in the Argentine crisis does not end with the December 2001 default. Following the crisis, the IMF committed major errors in all three key areas of policy formulation: a) in its diagnosis of the crisis and its aftermath, b) in its projections about the evolution of key economic variables in the post-crisis months, and c) in its policy prescriptions. These mistakes are clearly laid out in an unprecedented official document. At the time, the law was being used to investigate capital flight that had violated banking restrictions implemented during the crisis. Both laws were modified according to the IMF's demands. These reforms led to virtual impunity for many speculators and white-collar criminals and delayed the possibility to restore productive capacity in businesses filing for bankruptcy due to the crisis **[Cibils, 2006].**

THE CURRENCY BOARD

The Argentine Currency Board pegged the Argentine peso to the U.S. dollar between 1991 and 2002 in an attempt to eliminate hyperinflation and stimulate economic growth. In order to control inflation and build confidence in local currencies to foster investment and growth in the country. Three options of exchange rate management available to any government: a floating exchange rate, a super-fixed exchange rate (including the possible use of a currency board), or a hybrid system. The hybrid system consisted of various levels of control over exchange rates, and it was discredited in the early 1990s when empirical evidence from several currency crises showed that, in a world of high capital mobility, a semi-fixed exchange rate was very unstable, because it allowed a country with poor monetary policy to exercise too much discretionary power. The consequence was that a government had to choose between either fixed or fully floating exchange rate systems.

Before the implementation of the currency board there was much debate over which currency or currencies to peg the peso against. In the view of many economists, the peso should have been pegged to a basket of currencies from the countries that were Argentina's major trading partners. Others argued that the peso should be pegged to the U.S. dollar because it would provide simplicity of understanding, the highest degree of safety, greater international credibility, and the promise of increased trade with the United States. The latter argument won the day, with both positive and negative consequences.

Argentina's currency board established a fixed pegging of one-to-one parity between the peso and the U.S. dollar. It also guaranteed full convertibility of pesos into U.S. dollars. The government hoped to establish local and international credibility in the peg and to limit the amount of local control over monetary and fiscal policy. The currency board regime intended to stabilize the peso, encourage both foreign and local investment, and foster sustained economic growth.

While it initially met with considerable success, the board's actions ultimately failed because of significant flaws in policy implementation. In contrast of what most people think, this peg actually did not exist, except only in the first years of the plan. From then on, the government never needed to use the foreign exchange reserves of the country in the maintenance of the peg, except when the recession and the massive bank's withdrawals started in 2000. **[Miguel A. Kiguel]**

LESSONS FROM THE ARGENTINEAN CRISIS

Argentina's experience with debt and financial crises over the last decades provides important lessons:

Fixed Exchange Rate

The peso has proven to be uncompetitive. There is no other option but to devalue. Internationally, it has always proven to be the case that fixed exchange rate systems, sooner rather than later, outlive their utility and become a burden on the economy. Hardly have countries been able to exit pegs gracefully. Internationally, there is only best example of a successful and smooth abandonment of a fixed exchange rate system.

The lesson is the same for all nations and at all times. When economic fundamentals are sound, a floating exchange rate is as good as a fixed one. If fundamentals flounder, a fixed exchange rate offers no shield and, if any, becomes an additional burden, diverting the attention of policymakers and resources to maintaining the peg that could be usefully deployed to attend to real economic problems. **[Anantha-Nageswaran, 2002].**

Debt restructuring processes
Financial markets should not be the aim of debt restructuring processes. For a debt restructuring process to result in a sustainable and serviceable debt load in the long run it must be based on an economy that grows to a strong internal market and an equitable distribution of income. This is opposite to the Washington Consensus prescriptions, centered on fiscal austerity, financial liberalization and the free flow of speculative funds is precisely the policies that feed financial cycles and crises. **[Cibils, 2006].**

Recognition of social cost in crises
IMF role and responsibility cannot escape scrutiny. For one, many question the timing of its fresh loan support to Argentina in August and its later suspension. It probably misled some into believing that IMF thought that the Argentine fiscal situation was salvageable. Simply put, many question whether the IMF delayed the inevitable. IMF rightly claims that the currency board was not its choice (in fact, it claims to have counseled Argentina privately that it was becoming unsustainable) and hence the fiscal austerity decisions that Argentina took right from the beginning of 2001 flowed from its own decision to maintain the currency board at all costs, the question is whether the IMF could have advised Argentina differently and made such advice public.

The IMF did not do so and it gave loans under the condition that fiscal austerity is implemented. In this aspect, the IMF did not betray any learning from previous crises. Viewing the problem as one of reckless government borrowing and spending and urging fiscal austerity is questionable as the country faced a simultaneous private sector demand collapse that requires public spending to be kept up. Failing to do so gives rise to high social costs that a fiscal austerity programme extracts out of a nation already suffering from severe private sector demand contraction.

Investors anticipate the high social costs (protests and non- compliance) and reject such austerity as unworkable. Thus, IMF mandated government measures fail to impress markets and interest rates either remain high or even edge higher. The net result is a further squeeze on the ailing economy that brings it closer to breaking point. **[Anantha-Nageswaran, 2002].**

Strong Law Rule
The rule of law is vital to the success of economic reforms. It helps keeping the reforms in place and restrains a government from annulling the law in order to undo a reform. Without reforms in the legal and judicial systems in Latin American countries, the future for these economies remains uncertain. Some Latin countries have made such reforms with demonstrable success, as illustrated by Chile, whose leaders have decided not to depend on IMF financing but to pursue economic and political freedom.

International bailouts encourage risky behaviors
IMF owns archives show that, since 1983, it has provided nearly continuous funding to Argentina regardless of whether it met its prior loan conditions or was in fact in crisis. Such lending practice had two negative consequences.

First, the IMF assistance became predictable and signaled to investors that their risk would be mitigated by a bailout that investing in Argentina would bring a guaranteed profit regardless of how poor the economic conditions were. **[Eiras & O'Driscoll, 2002].**

Second, the Argentine government had little incentive to reform; the money would still come in. These consequences led to Argentina's recent default, and they will lead to capital flight if the current government lifts the financial restrictions set by the previous government.

Argentina – A Perspective
After the Argentina crisis seems to be overcome, it is important to examine Argentina's current economic situation and its susceptibility for another financial crisis. Argentina dependence on few exports goods, something that might cause trouble if these goods are not any more as highly demanded as they are nowadays.

Argentina's agricultural products play a vital role and account for 30% of all exports. Next follow up petroleum-related exports (20%), cars and car-related goods (9%) **[Bundesagentur fur Außenwirtschaft [BFAI], 2008b, p. 2]**. This shows already Argentina's high dependence on few exports goods, something that might cause trouble if these goods are not any more as highly demanded as they are nowadays.

Argentina's imports significantly rose since the end of the crisis **[Appendix 4]** and display the country's need for foreign goods which are urgently required to keep up the country's performance. This excellent performance was mainly measured by high growth rates of the GDP, which constantly lay over 8% since 2003. The growth of the Argentinean GDP, which amounted to US-$ 210 billion in 2007, has mainly been pushed through domestic consumption **[BFAI, 2008a, p. 1]**. The crucial point is that if the domestic consumption decreases again, the Argentinean economic will be endangered.

The domestic consume is an issue which has to be examined more closely, because currently it might cool down again. Two main reasons can be identified: Rising inflation and the financial market's resulting inability to allocate capital. Official statistics are faked and do not reflect real inflation rates. The official inflation rate kept single digit, while in reality the population faces inflation above 20% **[Hocus-pocus, 2008]**. High inflation restrains domestic demand, fosters inequality and poverty. Though an Argentinean labour economist confirms a poverty rate's rise from 27% (2006) to 30% (2007), it is actually hard to measure poverty since there are no more official poverty statistics released from official site **["Cristina in the land of the make-believe, " 2008].** Through inflation real wages decreased and the government even makes the situation more precarious when planning to officially limit wage increases to 20% to 30% for 2008 **[BFAI, 2008a, p. 4].**

High inflation comes along with another crucial issue. Not permitting the public and particularly banks to know the real inflation rates disturbs the markets for money. On the one hand the central bank keeps the interest rates negative in real terms to foster workers tendency to spend their wages instead of saving them. On the other hand high inflation is a signal of limited output capacities, production capacities that should be enlarged to meet demands. Capacities which currently can only be enlarged with loans when, due to the rise in salaries, taxes and prices for raw material, companies' margins are shrinking and cannot finance anymore the required expansion.

Such controversial governmental actions are characteristic for Argentina's administration and elevate the susceptibility for another financial crisis. Officials pursue a questionable strategy, which is a mixture of direct interventions and scarce free-market attempts leading to an inconsistent approach **[BFAI, 2008a, p. 4]**. Once in favor of the national budget and finances, and once preferring a prosperous economy while sacrificing price stability **["Argentina's economy," 2008].** The public's dissatisfaction can easily been read off in sinking support of the president's politics in public pools **["Deadlock," 2008].**

CONCLUSION
Conclusion is divided in to three stages.

Challenges for IMF
The current financial crisis represents a major challenge for the IMF since the institution is not in financial position to be able to lend to the United States or other Western countries affected by the crisis (with the possible exception of Iceland). The IMF's total financial resources as of August 2008 were $352 billion, of which $257 billion were usable resources. The most the IMF ever lent in any one year period (the four quarters through September 1998 at the height of the Asian financial crisis) was $30 billion. The rise of emerging market countries over the past decade has created new challenges for the IMF. Many emerging market economies argue that their current stake in the IMF does not represent their role in the world economy. Several countries, particularly in East Asia and South America, believe that their new economic weight and status should afford them a larger quota and a greater voice at the institution. **[CRS Report for Congress, Martin A. Weiss updated October 30, 2008].**

Programs announced by IMF in financial crises
IMF has announced new lending programs, including "contingency credit lines," which allow qualifying countries to receive credit at the first sign of a crisis, and a "supplemental reserve facility" to provide substantial amounts of credit to countries with exceptional balance-of-payments problems **[P:8].** On the macroeconomic side, the use of monetary and fiscal policies to support growth and break negative feedback loops between the financial and real sectors. IMF researchers and policymakers have examined various measures designed to control the downside of capital movements while retaining their benefits**. [P: 5]** It

also plays a valuable role in providing assistance to countries when private funds are not available. **[P: 7]** The IMF, like the World Trade Organization, has become a focus of dissent for those disturbed by the impact of global markets. **[P: 8]** [**The IMF and Global Financial Crises July, 2000 Joseph Joyce]**

Suggestions for the IMF in Global Financial Crisis

In case of another financial crisis, Argentina will not take help from IMF. In 2005, Argentina has even repaid their debt to the IMF before maturity to stop interventions by the Fund at their economic policy. Similarly most of the loans granted by the IMF to its member countries have been repaid by now. At the moment it seems that hardly any country wants to borrow from the IMF. Especially countries which have already used an IMF-credit try to avoid those loans accompanied by controversial IMF-conditionality. So the IMF can not avoid restructuring to regain trust of the member countries and to find a new use for the idle deposits. One often complained matter is the IMF quota system. The quota largely determines a member's voting power in IMF decisions, which is presently dominated by those who will presumably never borrow. In April 2008 the Board of Governors of the IMF adopted a reform of the system to increase the voice and participation of emerging market and low income countries through a new quota formula including an increase in the basic votes **[IMF, 2008j].**

The amendment will need to be accepted by at least three-fifths of IMF members representing 85 percent of the total voting power in order to become effective **[IMF, 2008j]**. However in an experts' letter addressed to the IMF some concerns had been expressed.

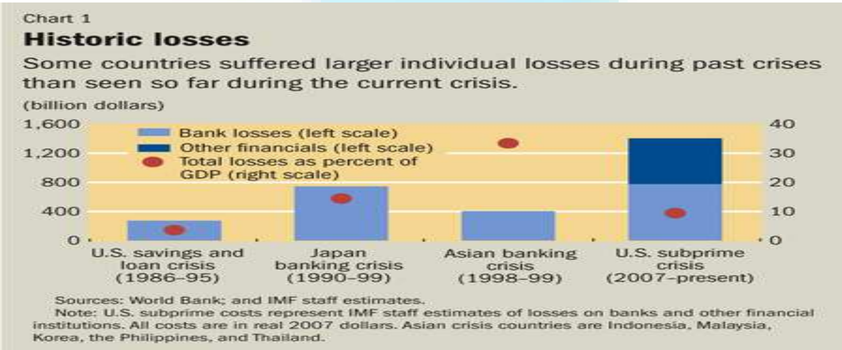
A major weakness is seen in the revised formula, which most important variable is the member countries' gross domestic product. The formula is expected to achieve only very modest improvements. For instance the combined voting share of China, Korea, India, Brazil, and Mexico will increase from 8.2 percent to only 10.7 percent and at the other side the combined share of the five European countries Italy, Netherlands, Belgium, Switzerland and Sweden will decline only from 10.4 percent to 9.5 percent of total votes. The only step in the right direction is considered to be the triplication of the basic votes allocated to each member **[Linn, Bryant & Bradford, 2008].**

A second concern is the IMF intervening in a crisis instead of preventing it. The Fund should not only react when a crisis is already under way, or even worse, a reform is already planned, but also be proactive. Through its surveillance the IMF can recommend changes in non-crisis times. With different types of loans it could support those reforms. As a matter of course no country would request for a credit of the IMF with strong conditionality, as long as they can borrow from the market. So it is crucial that the loans have slightly lower interest than the market and are linked to country ownership programs. In Argentina, the ownership of the policies should reflect a shared vision and an active support of reform objectives by the countries' authorities and the IMF **[IMF, 2001].**

Despite the problem of having only few countries borrowing from the Fund, the IMF it is not doomed, but its role has changed. Instead of forcing member countries to adhere to disputable conditionalities, they should act as a partner who can provide valuable advice and loans at fair conditions. So the most important reform for the IMF is at the moment not diminishing the crisis of a member country, but the reorganization of their own structure and tasks.

APPENDIX

APPENDIX: 1



APPENDIX: 2

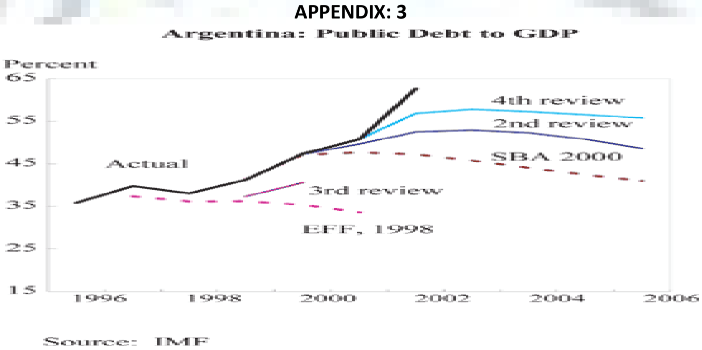
Serious global downturn

A deep financial crisis and continuing high commodity prices have led to fast deteriorating global growth.
(percent change, unless otherwise noted)

	Year-on-Year		
		Projections	
	2007	2008	2009
World output	**5.0**	**3.9**	**3.0**
Advanced economies	2.6	1.5	0.5
United States	2.0	1.6	0.1
Euro area	2.6	1.3	0.2
Germany	2.5	1.8	—
France	2.2	0.8	0.2
Italy	1.5	–0.1	–0.2
Spain	3.7	1.4	–0.2
Japan	2.1	0.7	0.5
United Kingdom	3.0	1.0	–0.1
Canada	2.7	0.7	1.2
Emerging and developing economies	8.0	6.9	6.1
Developing Asia	10.0	8.4	7.7
China	11.9	9.7	9.3
India	9.3	7.9	6.9
Western Hemisphere	5.6	4.6	3.2
Brazil	5.4	5.2	3.5
Mexico	3.2	2.1	1.8

Source: *World Economic Outlook*, October 2008.
Note: Real effective exchange rates are assumed to remain constant at the levels prevailing during August 18–September 15, 2008.

APPENDIX: 3



APPENDIX 4: ARGENTINA'S BALANCE OF TRADE FROM 1992 TO 2007 (IN MILLION US-$)

	1992	1993	1994	1995	1996	1997	1998	1999
Exports FOB	12.399	13.269	16.023	21.162	24.043	26.431	26.434	23.309
Imports CIF	14.982	16.872	21.675	20.200	23.855	30.450	31.377	25.508
Trade Balance	-2.583	-3.603	-5.652	962	188	-4.019	-4.944	-2.200
	2000	2001	2002	2003	2004	2005	2006	2007
Exports FOB	26.341	26.543	25.651	29.939	34.576	40.387	46.456	55.933
Imports CIF	25.281	20.320	8.990	13.851	22.445	28.687	34.151	44.780
Trade Balance	1.061	6.223	16.661	16.088	12.130	11.700	12.306	11.154

Source: Instiuto Nacional de Estadísticasy Censos [INDEC] 2008 IV

GRAPH OF APPENDIX 4

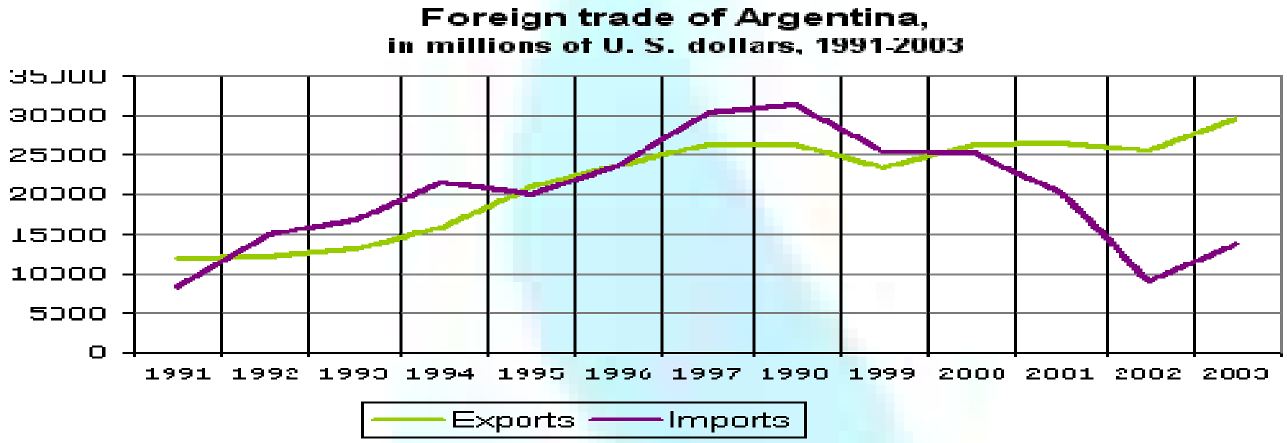


FIGURE A: GROWTH RATE HAVE BEEN DIVERGING BUT FOR HOW LONG?

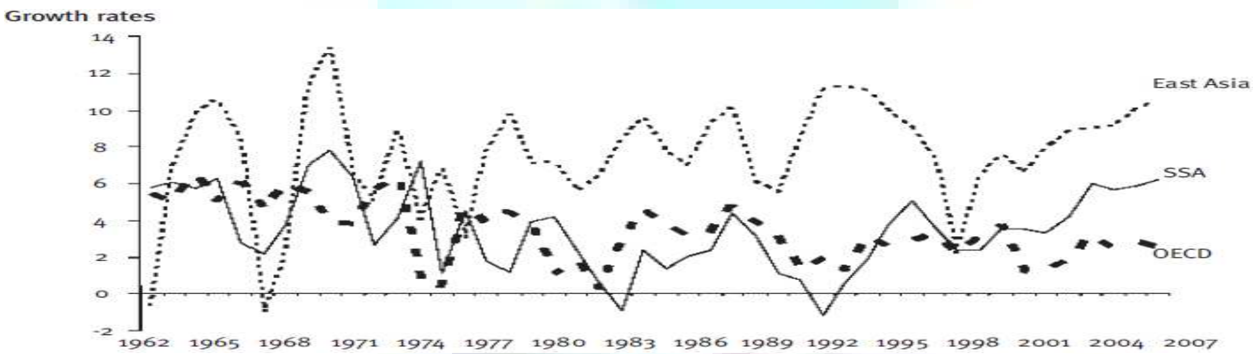
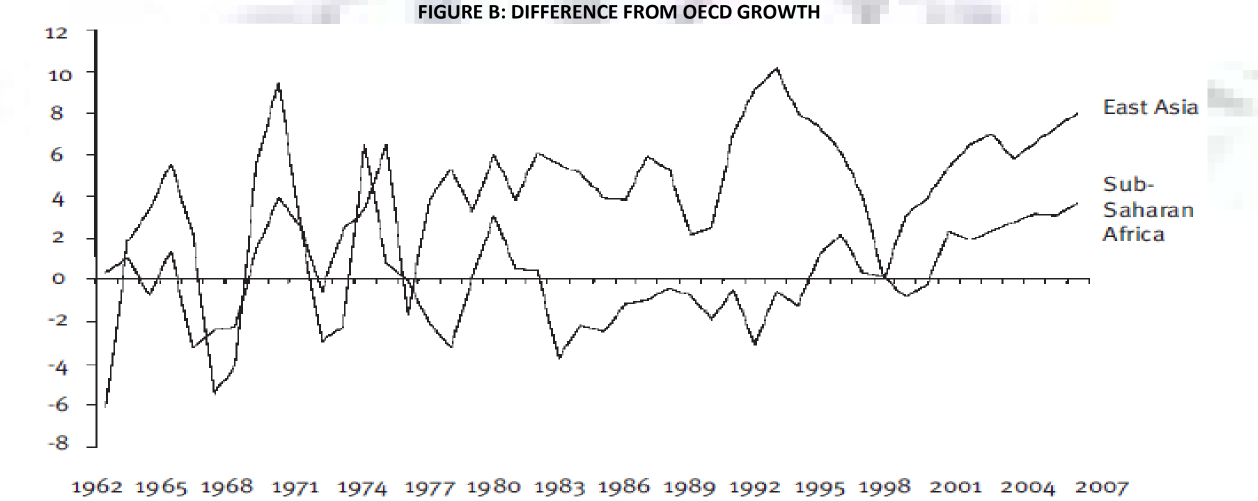


FIGURE B: DIFFERENCE FROM OECD GROWTH



Source: world Development indicator

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