

Supplementary Reading

IMF focuses on financing needs after devastating tsunami

The IMF is working with governments and other international agencies to assess the financing needs for reconstruction in the areas devastated by the December 26 tsunami in the Indian Ocean, which killed more than 226,000 people and ravaged coastlines in dozen countries. The full economic impact in the most affected countries—Indonesia, Sri Lanka, the Maldives, Thailand, and India—is still being calculated. The IMF has offered emergency assistance on the order of \$1 billion and has sent teams to the region to evaluate financing and support needs in individual countries. “The ways in which we can help include providing advice and technical assistance in assessing the macro-economic impact and budgetary and balance of payments needs,” said IMF Managing Director Rodrigo de Rato, who toured the worst-hit region of Aceh in northern Sumatra on January 7. Afterward de Rato said little could have prepared him for the visit to Aceh. “Entire cities and towns, and the lives lived in them, were simply washed away,” he said.

The Asian Development Bank said in a report that the tsunami had set back poverty reduction programs in the region and could thrust an additional two million people below the poverty line. “The poverty impact of the tsunami will be enormous,” said the Chief Economist with the Manila-based bank. “Poverty is potentially the most important effect of this natural disaster.” De Rato and later First Deputy Managing Director Anne Krueger visited some of the affected countries to meet with government leaders and discuss IMF assistance. Meanwhile at headquarters, IMF staff personally had donated more than \$130,000 by January 18, which the institution pledged to match.

Although the overall economic impact on the region may be limited, de Rato said the destruction in the coastal regions has had a devastating effect on the local fishing and agriculture industries. “It will be a costly human and social problem in the affected areas,” de Rato told reporters. He said it was important that different tools were available to help the affected countries: new financing, refinancing, and grants. “And we feel that grants should be a very important part of it all,” he added. So far, official bilateral and multilateral pledges total about \$ 5 billion. The Paris Club agreed in January 12 to a temporary debt moratorium for tsunami nations if requested, and private donations amount to an estimated \$1 billion.

Among the countries most affected by the tsunami, Sri Lanka will face considerable difficulties in overcoming the disaster on its own and will be dependent on international assistance. In Sri Lanka, the tsunami tore up railways and roads, and destroyed thousands of homes. More than 7,500 fishermen were killed and over 5,600 are still missing. About 80 percent of coastal fishing vessels were completely destroyed and seriously damaged, and 10 of the 12 main fishing harbors were devastated. Sri Lanka’s large budget deficit will make it difficult to extend financial help to the disaster areas, and a likely decrease in tourism revenues will adversely affect its current account deficit. Sri Lanka has requested assistance from the IMF, and the IMF Executive Board has approved a rescheduling in debt payments that will reduce the country’s international debt service payments by \$114 billion in 2005.

During her visit to Sri Lanka on January 18, Krueger discussed the tsunami's impact on the economy and policy options to support a recovery. "We are keen to do whatever we can to help." She said. In addition to financial assistance, the IMF is ready to resume discussions with the government on an economic recovery program supported by the IMF's Poverty Reduction and Growth Facility. (PRGF). Krueger praised the government for its sound economic policies in recent years. "It will be important to move as quickly as possible to help the homeless and undertake reconstruction," he said. "At the same time it will be important to avoid generating bottlenecks that could in fact slow down delivery of rehabilitation and risk macroeconomic instability."

Indonesia saw a tremendous loss of human life with more than 100,000 people dead. While the oil and natural gas production facilities in Aceh survived the disaster. In particular, about 70 percent of Aceh's small scale fleet was destroyed and large numbers of fishermen were killed, dealing a severe blow to fishing, which is a major industry in the province. Agriculture in the coastal regions will be heavily affected by the tsunami, and the adverse impact may continue for several years as an increase in salinity may affect soil fertility. The IMF offered technical assistance to Indonesia, including advice on how to administer funds for the reconstruction effort to ensure transparency and good governance, and on how to restore financial intermediation services of banking system in the affected areas. During his visit to the area, de Rato said that "it is not a problem in which aggregate numbers of GDP are relevant—it is more a question of microeconomics and micro-social problems. And that, of course, is very important."

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