INTERNATIONAL MONETARY FUND

IMF Survey

JANUARY 24, 2005 VOL. 34, NO. 1

www.imf.org/imfsurvey

NEWS: Calculating cost of the tsunami

The December 26 tsunami in the Indian Ocean killed more than 226,000 people, left millions homeless, and ravaged coastlines in a dozen countries. Anti-poverty programs in the region could suffer serious setbacks. The IMF is assessing the financial demands the disaster will make on the affected countries and is discussing with governments what assistance the IMF can provide to help alleviate the burden.

KIM LUDBROOK/EPA

3

COUNTRY FOCUS: Ireland after the tiger years

For the past 15 years, Ireland has been by far the fastest growing economy in the European Union. Looking forward, growth prospects remain solid, but expectations will have to be reigned in. Wage increases, fiscal policy, and housing prices will all have to adjust to the prospect of growth in the order of 4–5 percent a year, half the growth rate of the boom years.

PAUL MCERLANE/Reuters

6

BOOKS: Europe vs. the United States

Does it matter if Europeans don't make as much money as Americans? At least they have time to enjoy the truly important things in life, such as family and friends. Or is it a bit more complicated than that? Maybe more Europeans wouldn't mind working longer hours if the rewards were commensurate with the efforts. Prakash Loungani reviews four books on this topic.

MASSOUD ETEMADI/IMF

8

FORUM: Africa should shift focus on trade

In recent decades, African countries have pursued a number of regional trade arrangements, hoping this would give economic growth a boost. But the results have not lived up to expectations. At an IMF-sponsored seminar in Dakar, ministers from Burkina Faso, Guinea, and Senegal and other participants, including Abdoulaye Bio-Tchané (right), debated whether the time has come to focus instead on opening up to global trade.

CHEIKH FAYE/Dakar, Senegal

14

IN THIS ISSUE

What's on

January

26–27 IMF-World Bank workshop for parliamentarians, Malabo, Equatorial Guinea

26–30 World Economic Forum Annual Meeting, Davos, Switzerland

26–30 World Social Forum, Porto Alegre, Brazil

30 OPEC 134th Meeting of the Conference, Vienna, Austria

February

4–5 Meeting of Group of Seven Finance Ministers, London

15–16 Conference on "Macroeconomic Challenges in Low-Income Countries," IMF, Washington, D.C., sponsored by the IMF, World Bank, U.K Department for International Development, and the Netherlands Foreign Ministry

28–March 11 Beijing+10 Conference: 49th Session of the Commission on the Status of Women, United Nations, New York

March

14–15 IMF Seminar on Foreign Aid and Macroeconomic Management, Mozambique

16 OPEC 135th Meeting of the Conference, Isfahan, Iran

April

5 IMF's *Global Financial Stability Report* (April 2005) released

10–12 Inter-American Development Bank Annual Meeting, Okinawa, Japan

13 IMF *World Economic Outlook* (Spring 2005) released

16–17 2005 Spring Meetings of the IMF and the World Bank Group, Washington, D.C.

May

4–5 Asian Development Bank Annual Meeting, Istanbul, Turkey

IMF Executive Board

For an up-to-date listing of IMF Executive Board meetings, see *http://www.imf.org.external/np/sec/bc/eng/index.asp*.

IMF Internship Program 2005

The IMF offers economic internships to graduate students each summer and winter. For summer 2005 internships, qualified candidates should apply by February 1.

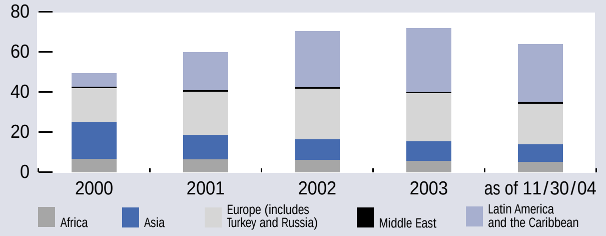
For details, see *http://www.imf.org/external/np/adm/rec/job/summint.htm*

At a glance

IMF financial assistance

Total IMF credit and loans outstanding, by region

(billion SDRs, end of period)



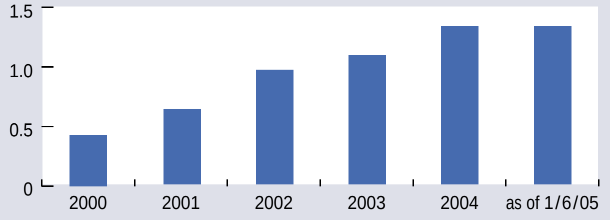
Largest outstanding loans

(billion SDRs, as of 11/30/04)

Nonconcessional		Concessional	
Brazil	16.74	Pakistan	1.05
Turkey	14.16	Zambia	.57
Argentina	9.39	Congo, Dem. Rep. of	.53
Indonesia	6.35	Ghana	.31
Russia	2.39	Tanzania	.28

HIPC debt relief[1]

(billion SDRs, end of period)

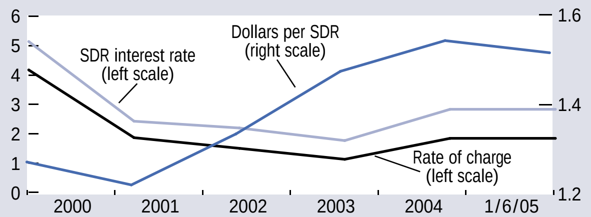


[1]Cumulative disbursements under the Heavily Indebted Poor Countries Initiative.

Related rates

SDR interest rate, rate of charge on IMF nonconcessional loans outstanding, and dollars per SDR

(percent, end of period) (dollars per SDR, end of period)



Note on IMF Special Drawing Rights

Special Drawing Rights or SDRs are an international reserve asset, created by the IMF in 1969 to supplement the existing official reserves of member countries. SDRs are allocated to member countries in proportion to their IMF quotas. The SDR also serves as the unit of account of the IMF and some other international organizations. Its value is based on a basket of key international currencies.

IMF focuses on financing needs after devastating tsunami

BEAWIHARTA/Reuters

Workers make their way toward the village of Meulaboh. Indonesia was particularly hard hit by the devastating earthquake and 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 a 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 (see box) 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 macroeconomic 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.

ADEK BERRY/AFP/Getty Images

World leaders, including IMF Managing Director Rodrigo de Rato and U.S. Secretary of State Colin Powell, gathered in Jakarta to coordinate relief and reconstruction efforts.

The Asian Development Bank (ADB) 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 Ifzal Ali, Chief Economist with the Manila-based multilateral development 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. In Indonesia, De Rato attended on January 6 the Special ASEAN Leaders' Meeting on the Aftermath of the Earthquake and Tsunamis, and met with regional and international leaders, including UN Secretary General Kofi Annan, World Bank President James Wolfensohn, and ADB President Tadao Chino. With these leaders he also surveyed the province of Aceh, which bore the brunt of the powerful earthquake and tsunami.

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, according to the ADB.

The Paris Club agreed on 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—nearly 20,000 boats—were completely destroyed or seriously damaged, and 10 of the 12 main fishing harbors were devastated, according to preliminary estimates of the UN Food and Agriculture Organization (FAO). 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 on January 13 approved a rescheduling in debt repayments that will reduce the country's international debt service payments by $114 million in 2005. Consideration is also being given to providing Sri Lanka with additional assistance of perhaps $150 million in emergency lending.

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. "As I saw for myself when I visited Galle, it is too soon to gauge the full extent of the reconstruction needs: assessment of this is currently under way," she said. "We are keen to do whatever we can to help." 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). Sri Lanka had entered into three-year PRGF and Extended Fund Facility arrangements totaling about $630 million in April 2003, but has yet to complete the first review of those arrangements.

SUPRI/Reuters

Relief supplies begin to flow.

Given its heavy reliance on tourism revenues and the extensive damage to that industry, the Maldives' recovery will depend on international assistance to help its recovery. During a visit to the island nation, 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," Krueger 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 and Northern Sumatra survived the disaster intact, the rest of the province's economy was devastated. 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 the banking system in the affected area. 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." ■

Conny Lotze
IMF External Relations Department

IMF emergency lending after natural disasters

The IMF provides emergency assistance to help member countries that cannot meet immediate financing needs arising from a major natural disaster without serious depletion of their foreign reserves. The assistance is designed to be disbursed rapidly and is supported by policy advice and, in many cases, technical assistance. A member requesting emergency assistance is required to describe the general economic policies it proposes to follow. The IMF Executive Board then considers the request and policy proposals for approval. Typically, assistance is limited to 25 percent of the member's quota in the IMF, although amounts up to 50 percent of quota can be and have been provided in certain circumstances. Emergency assistance loans are subject to the basic rate of charge (which is related to market rates and was 3.07 percent for the week ending January 22), and should be repaid within 3¼ to 5 years. However, on January 21, the Board approved a proposal to subsidize, upon request, emergency natural disaster assistance for countries eligible for the Poverty Reduction and Growth Facility. Since 1962, 24 countries have have received financial assistance related to natural disasters on 26 different occasions.

Higher oil prices propel Saudi Arabia's economy

Oil revenues helped Saudi Arabia markedly boost real GDP growth over the past two years, turn its fiscal position from deficit to surplus, significantly reduce debt, and double its external current account surplus to 14 percent of GDP in 2003, according to the IMF's annual assessment. Real non-oil GDP growth is estimated to have increased to 5 percent in 2004 from 3.8 percent in 2003 and is expected to remain strong over the medium term.

The IMF's Executive Board concluded that the medium-term outlook remained favorable but that high unemployment and a rapidly growing Saudi labor force pose serious challenges. It encouraged the Saudi authorities to continue to use the country's oil resources efficiently, implement comprehensive structural reforms, and reduce the economy's vulnerability to oil price fluctuations. It expressed support for the authorities' plans to reduce non-security current expenditures, while at the same time using higher oil revenues for health, education, and infrastructure development, and for a rapid reduction of government debt. The Board encouraged the government to implement fiscal reforms on both the expenditure and revenue sides and improve budget management as part of a medium-term fiscal strategy.

As for monetary and exchange rate policy, the Board commended the price stability achieved and endorsed the authorities' decision to keep the exchange rate peg to the U.S. dollar unchanged until the planned 2010 monetary union with other Gulf Cooperation Council countries. An IMF–World Bank Financial System Stability Assessment in 2004 found the Saudi banking system stable, profitable, and effectively supervised.

For more information, please refer to Public Information Notice No. 05/03 on the IMF's website (*www.imf.org*).

Mexico's economic recovery broadens

After three years of weak activity, Mexico's economic recovery strengthened and became more broadly based in the first half of 2004, with real growth picking up to 3.8 percent at an annual rate. Real GDP grew only 1.3 percent in 2003 and 0.6 percent in 2002. Business confidence and investment have risen, foreign direct investment inflows have strengthened, exports have picked up sharply, market perceptions of Mexico have remained favorable, and modernization of the financial sector—which shows healthy balance sheets—has continued, according to the IMF's annual economic assessment.

On a 12-month basis, consumer price inflation rose to 5.1 percent in September 2004 compared with 4 percent at end–2003, boosted by supply shocks, including higher oil and commodity prices. The IMF's Executive Board said Mexico needed to enhance economic performance on a lasting basis by bringing inflation down to the medium-term objective of 3 percent, reducing debt vulnerabilities, and reinvigorating structural reforms. But the Board noted that achieving the medium-term inflation target—which is close to being met—is problematic in an environment of repeated price shocks, and thus viewed the recent monetary tightening as appropriate.

While the targets for the traditional fiscal deficit have been met in recent years, and declines have been observed in the augmented deficit (the public sector borrowing requirement minus nonrecurring revenues), these fiscal outturns have been achieved in an environment of rising "windfall" oil revenues. The 2005 budget calls for further consolidation, but volatile oil revenues could again affect the outturn. The Board urged the government to save a substantial portion of the oil revenue windfall, increase non-oil revenues, reduce medium-term expenditure, and undertake fiscal reforms. It also encouraged the authorities to pursue key elements of the reform agenda—such as improving governance in public enterprises, enhancing labor market flexibility, and raising competition in the telecommunications sector.

For more information, please refer to Public Information Notice No. 04/140 on the IMF's website (*www.imf.org*).

Vietnam can build on record of strong economic growth

Vietnam has recorded high growth in recent years, shown prudent macroeconomic management, and increased its integration into the global economy, the IMF said in its annual economic assessment. The country is now well positioned to continue its structural reforms in key areas, including restructuring state-owned banks and enterprises, improving its private sector investment climate, securing accession to the World Trade Organization, and enhancing governance and the transparency of policy making.

Vietnam's real GDP has grown at annual rates of around 7 percent since 2000. Although 12-month inflation increased sharply in the first nine months of 2004 because of a jump in food prices, which comprise about half of the CPI basket, annualized monthly inflation has fallen since July. In its assessment, the IMF's Executive Board welcomed the government's efforts to contain upward pressures on wages and prices.

Vietnam's overall balance of payments has strengthened despite a widening of the current account deficit, which reflects surging imports driven by strong investment despite rapidly growing exports. The Board encouraged the authorities to reduce rapid credit expansion, move cautiously toward greater exchange rate flexibility, continue prudent fiscal management, and further develop financial markets and the private sector.

For more information, please refer to Public Information Notice No. 05/01 on the IMF's website (*www.imf.org*).

Ireland: Challenges after the tiger years

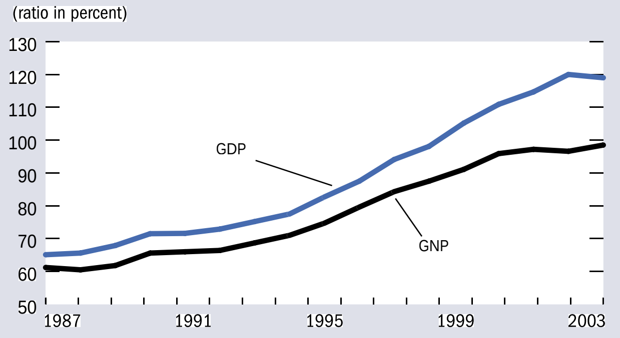
During the 1990s, income per capita in Ireland grew rapidly, converging to the European Union (EU) average as output and employment expanded. But over the medium term, growth rates are projected to be significantly lower, given the limited scope for further increases in labor supply and productivity catch-up. Marialuz Moreno-Badia from the IMF's European Department outlines the challenges facing the Irish economy.

Ireland experienced a period of unprecedented growth in the 1990s—a performance that earned it the nickname "Celtic tiger." Real GNP growth averaged 6.4 percent a year in 1991–2001, bringing per capita income up to the EU average (Chart 1), while unemployment declined sharply from almost 15 percent to less than 4 percent.

Chart 1

Ireland catches up

Irish per capita output now matches the EU average in GNP terms and exceeds it in GDP terms.



Data: European Commission, AMECO.

This impressive performance reflected sound policies, including openness to trade; participation in the EU; and a positive external environment. Membership in the European Economic and Monetary Union (EMU) brought a sharp decline in real interest rates and encouraged foreign direct investment. National wage agreements helped to quell industrial unrest and contributed to wage moderation, allowing the burgeoning labor force to be absorbed into employment. Fiscal consolidation reduced public debt from over 100 percent of GDP in 1988 to 36 percent in 2001 and created scope for tax reforms that increased incentives to work and invest. Finally, the global boom in information technology further boosted foreign direct investment, while the depreciation of the euro from its inception at the beginning of 1999 to early 2002 helped improve competitiveness.

Although the economic outlook remains favorable, growth over the medium term is expected to be markedly lower than during the boom years. With labor force participation rates leveling off because of falling fertility and a decline in immigration, and most of the catch-up in productivity already achieved, medium-term potential GNP growth is estimated at around 4.5 percent a year. While this rate is high by international standards, it is half the average growth rate experienced in 1995–2000.

The key challenge for Ireland will be to manage this transition to lower growth. Although the global slowdown of 2001–02 helped initiate an adjustment in expectations, there are three main areas where further adjustments are needed—competitiveness, the housing market, and fiscal policy.

Recovering lost competitiveness

Between 1998 and 2003, inflation in Ireland was persistently higher than in its principal trading partners, and the country saw its competitiveness deteriorate significantly. In early 2004, Ireland's inflation rate converged rapidly to the average euro area rate, but its real exchange rate (consumer-price-based) now stands some 15 percent above its level during 1995–98. The manufacturing sector has experienced a similar deterioration in competitiveness, with increases in wages outstripping productivity gains since 2001 and the euro strengthening. The wage increases negotiated in the latest round of the social partnership are in line with prospective core inflation and productivity developments, but they do not take into account past erosions in competitiveness or the risks of further euro appreciation.

If lost competitiveness is to be recovered, it will be important for Ireland to avoid exceeding agreed-upon wage increases—something that has occurred often in the past—and to extend the period of wage restraint. It will also be important to increase wage flexibility by shortening the duration of the wage agreements, which usually run for three years. Improving competition in the services sector could also help contain costs in the export sector, thereby helping maintain external competitiveness.

Coping with the housing boom

The dramatic increase in house prices in Ireland since the mid-1990s has been unsurpassed in the industrial world (Chart 2). Part of this increase can be explained by the strong growth in real disposable income and employment, demographic developments, lower and less volatile interest rates with membership in the EMU, the tax treatment of housing, and financial market liberalization during the 1980s and 1990s that facilitated a rapid expansion of credit. However, these factors do not seem to explain the full extent of housing price increases, particularly in light of the massive increase in supply in recent years. This view is further reinforced by exuberance in the buy-to-let market despite falling rents.

The increase in housing prices will need to moderate in the future. Because real estate represents an asset, its valuation depends not only on current but also on future demand and supply conditions, which, in turn, should reflect medium-term prospects for real income growth of 4–5 percent per annum. If the increase in housing prices does not slow down to reflect the prospect of slower growth, the risks of a disorderly correction in the housing market will rise.

An abrupt unwinding of house prices could have significant macroeconomic consequences, especially for employment and private consumption, though the effect on the financial sector would be limited. From this perspective, the central bank's public expressions of concern regarding recent price increases and credit growth could help tame expectations and induce a soft landing in the housing market.

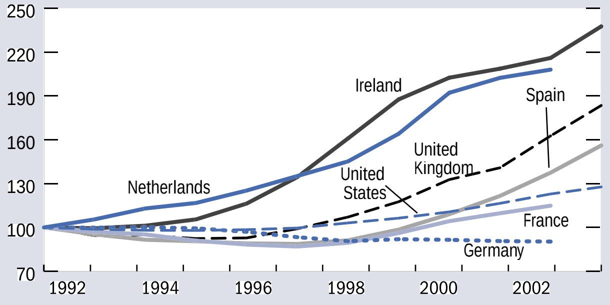
Over the medium term, however, additional policy changes are needed to address structural aspects of the housing market. In particular, the strong preference for home ownership in Ireland and the fact that real estate is the asset of choice for saving are arguments against subsidizing housing. Therefore, there is a strong case for removing the interest-deductibility of mortgage payments on primary dwellings and introducing a market-value-based wealth tax on property, graduated to tax second homes at higher rates.

Chart 2

Housing price inflation will need to moderate

Ireland has seen a dramatic increase in real residential prices.

(1992 = 100)



Data: Bank for International Settlements and IMF staff estimates.

Avoiding a procyclical fiscal policy

Fiscal policy has so far adjusted well to the prospect of lower growth over the medium term. Beginning with the 2003 budget, the authorities cut nominal expenditure growth from the clearly unsustainable average rate of 15 percent a year in 2001–02 to 7 percent in 2003, a trend that was continued with the 2004 budget. However, the better-than-expected outcome for 2003 and early returns in 2004 have been due in part to one-off receipts from changes in the capital gains tax regime and successes with anti-fraud measures, as well as the buoyancy of the property market.

Overall, Ireland's economic performance over the past decade or so has been enviable despite substantial global shocks. If Ireland manages its transition to slower growth well . . . it should be able to retain its status as one of the EU's fastest-growing economies for the foreseeable future.

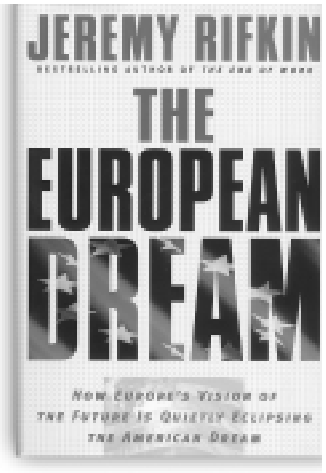
It will be important to resist political pressures to spend this improvement in public finances, as such an easing would be procyclical, raise inflation, hurt competitiveness, and risk damaging the cost-effectiveness of public spending. With growth picking up, little spare capacity, and the possibility of a slowdown in the housing market that could significantly affect revenues from stamp duties and capital gains taxes, the government should instead consider a modest tightening of fiscal policy in line with its commitment to structural balance over the medium term, as the IMF's Executive Board recommended. Concerns about the quantity and quality of public services in Ireland should be addressed by improving delivery, not by raising taxes and increasing expenditures as a percentage of GDP. In this respect, introducing multiyear spending plans to cover current spending could help limit procyclical pressures on spending.

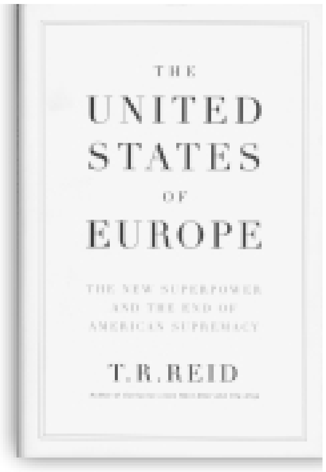
Overall, Ireland's economic performance over the past decade or so has been enviable despite substantial global shocks. If Ireland manages its transition to slower growth well—and early indications are that some of the necessary adjustments are already taking place—it should be able to retain its status as one of the EU's fastest-growing economies for the foreseeable future. ■

Copies of *Ireland: Selected Issues*, IMF Country Report 04/349, are available for $15.00 each from Publication Services (see page 16 for ordering details) or on the IMF's website (*www.imf.org*).

The grass is always greener across the pond

Is a new "United States of Europe" eclipsing the United States of America as an economic superpower? Four new books contrast European and U.S. socioeconomic paradigms and find much they wish each would learn from the other.





In *The European Dream*, Jeremy Rifkin, president of the Foundation on Economic Trends in Washington, D.C., says "Europeans should congratulate themselves on creating the most humane approach to capitalism ever attempted," one where the emphasis is on the quality of life. This is, he says, what an economy should be all about—namely, "access to a decent education, assuring our good health, providing adequate care for our children, and living in safe neighborhoods and communities. In most of these particulars, the European Union (EU) has already surpassed the United States of America."

To support his assertion, Rifkin marshals an array of social indicators: European children outscore U.S. children in reading and mathematics; infant mortality is lower and life expectancy higher among the EU countries; the United States does not provide health care for its citizens; and homicide and incarceration rates in the United States are much higher than in the EU.

Rifkin concludes that while Europe "is not yet ready to abandon" GDP as a yardstick of progress, "that a world superpower is seriously engaged in the process of rethinking" what makes for a good economy "is nothing short of revolutionary."

Loitering with intent

Not that Europe comes out too shabbily in comparisons of GDP, Rifkin adds. European aggregate productivity levels—GDP per hour of work—are well over 90 percent of the U.S. level. That European per capita incomes are only about 70 percent of the U.S. level is largely due to "the fewer hours worked in the EU," which he regards as a voluntary choice of Europeans.

In Europe, Rifkin—who has shuttled between Europe and the United States since the mid-1980s—sees people lingering for hours over their food in restaurants and enjoying the pleasures of a good stroll. Rifkin concludes that "if one measures the good life by the amount of leisure time available, the average European enjoys four to ten weeks more of play each year."

Rifkin's theme is echoed in *The United States of Europe* by T.R. Reid, a reporter for the *Washington Post*. Speaking recently at the Cato Institute, Reid described the formation of the European Union as "an admirable achievement" motivated in part by the realization of European elites that their individual countries would be "small planets orbiting around a bright American sun" in the absence of a union.

Like Rifkin, Reid makes much of the fact that the productivity of European companies appears to be catching up with those in the United States. "Like one of those heavy, powerful SUVs that Detroit turns out," Reid writes in his book, "the United States has been cruising along at a comfortable speed, completely unaware of the well-engineered European sedan coming up fast in the passing lane."

Before assignments in Japan and Europe, Reid said he had considered himself a "classical liberal"—one who believed in letting markets work with a minimum of government intervention. "But living in two communitarian societies that worked quite well" was an eye-opener. For instance, he says the fine—and free—treatment his daughter received in a British hospital made him appreciate the benefits of "socialized medicine." Like Rifkin, Reid applauds the European attempt to measure success "by standard of living and not GDP per capita."

Dream or daydream?

All well and good, say Martin Neal Baily and Jacob Funk Kirkegaard in *Transforming the European Economy*, but "today's affluent European economies face serious challenges if they are to maintain their current standard of living." Lack of job growth is undermining the

European model in two key ways. First, it divides the labor force into "the well-protected *insiders* who have jobs and an unsustainably large number of *outsiders* who do not." This flies in the face of a more humane form of capitalism, because "providing greater employment opportunities is a vital part of an egalitarian society." Second, sooner or later, Europe's workers will not be able to support its nonworkers and retirees in the style to which they have become accustomed. "The future of younger Europeans" is being mortgaged to underwrite the present high standard of living.

The authors, both with the Institute for International Economics, question the evidence that suggests European productivity is within striking distance of U.S. productivity. Relying on detailed case studies by the McKinsey Global Institute, Baily and Kirkegaard find lower labor productivity in France and Germany than in the United States in virtually all the industries studied.

For Baily and Kirkegaard, Europe's top priorities should be to improve productivity by "raising the level of competitive intensity" faced by European companies and to implement labor market reforms "that encourage people to work instead of encouraging them not to work." It is important to move on both fronts simultaneously: "Restructuring companies to raise productivity does not improve overall economic performance if alternative jobs are not available, or if workers have no incentive to accept them."

Baily and Kirkegaard wonder whether Europeans really have freely chosen to work less. More likely, they say, this decline in work is a response to the incentives provided by the European welfare system. High rates of absenteeism in Sweden, for instance, occur not because of true illness or a desire for leisure but in response to "very generous sickness and disability benefits." Likewise, the Netherlands' generous disability benefits have translated into higher disability rates than in almost any other country. More generally, Europe's choices about leisure "have occurred in an environment where work incentives have been altered substantially by the policy environment and are not optimal for the society as a whole." If Europeans want to maintain their high standards of living, the authors conclude, they "will have to give up some deep-seated beliefs about what is expected of workers and managers."

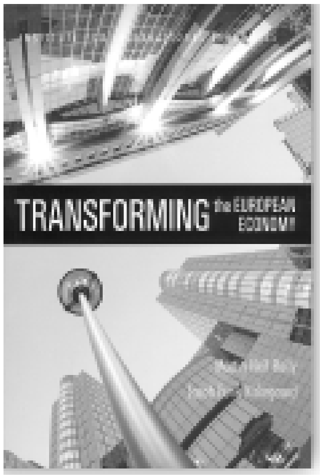
Nothing to fear?

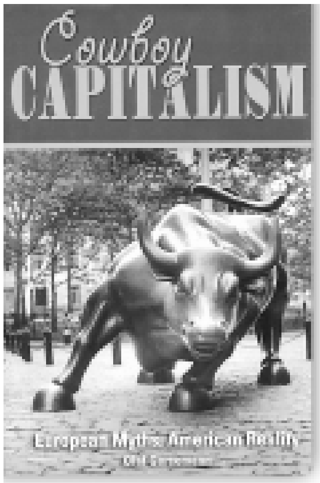
According to Olaf Gersemann, author of *Cowboy Capitalism*, one of Europe's deep-seated beliefs is that product and labor market reforms will lead to "American conditions." This anxiety about what they consider a more brutish form of capitalism is often reflected, says the Washington, D.C.-based correspondent for the German weekly *Wirtschaftswoche*, in the statements of European leaders. German Chancellor Gerhard Schroeder said Germans do not want to adopt "the laws of the jungle," a reference to perceived U.S. labor practices of "hiring and firing" freely.

Other U.S. stereotypes abound in Europe, notably that most workers have to hold "three jobs at the same time just to make a living" or that U.S. unemployment is low "only because so many people are behind bars." Gersemann challenges these stereotypes and finds, for example, that less than 2 percent of American workers hold multiple jobs. The U.S. unemployment rate would be just a bit higher had the prison population remained what it was in 1985.

Gersemann also challenges the view that European labor market practices deliver a greater sense of security to workers. Surveys by Gallup International indicate that a much higher proportion of Europeans "think that their jobs are in peril" and that they face "a prolonged search for a new job" if they do lose their jobs. The fear is justified—periods of unemployment in excess of six months are markedly more prevalent in Europe. Gersemann says that "it's not so much employment protection legislation that creates a feeling of economic security as it is a high level of employment." And, he concludes, "it's not cowboy capitalism that Europeans ought to fear but the fear of it." ■

Prakash Loungani
IMF External Relations Department





Helping countries develop: the role of fiscal policy

With the 2015 deadline for achieving the Millennium Development Goals (MDGs) looming, the role of government tax, expenditure, and financing policies in promoting development is commanding increasing attention. A new IMF book, *Helping Countries Develop: The Role of Fiscal Policy* (see box), offers insight into how developing countries can better manage their scarce public resources. The book's editors—Sanjeev Gupta, Benedict Clements, and Gabriela Inchauste—told the *IMF Survey* that among the main messages for policymakers are that fiscal discipline is key to pro-poor growth; that social spending financed by foreign aid should be targeted to the poor; and that where governance is still weak, there is a likely trade-off between aid and domestic revenue mobilization.

IMF

Sanjeev Gupta

The purpose of the book, explained Gupta—now Assistant Director in the IMF's African Department; then, head of the Expenditure Policy Division in the IMF's Fiscal Affairs Department—was to collect and disseminate recent in-house empirical research on the role of fiscal policy in promoting economic growth in developing countries. He added that the book demonstrated, as well, that the IMF was making a concerted effort to grapple with several policy issues of particular concern to low-income countries.

IMF

Benedict Clements

"We wanted to tackle some of the controversial issues put on the table by the critics of IMF," Clements added. These controversies include the suggestion that, by cutting deficits and reducing outlays, IMF-supported programs hurt growth and thus reduce countries' ability to reduce poverty and meet the MDGs. Controversy also surrounds the effectiveness of government spending. Many critics, said Clements, charge that government spending is wasteful and corrupt. It is fruitless, they argue, for governments to be spending more money and increase budget deficits in an attempt to improve social indicators or living standards of the poor. Inchauste noted that another controversial issue is that of user charges for education and health services, which many scholars have argued limit the poor's access to them.

What happens in the short run?

There is widespread agreement that fiscal discipline can promote economic growth, and therefore reduce poverty and positively affect human development over the longer term. Fiscal policy's appropriate role in the short term is more complicated. Most economists argue that in the right circumstances, fiscal expansion can be an effective tool to stimulate aggregate demand and revive a stagnant economy. But expansionary fiscal policy may not have its intended salutary effects where there are high or unsustainable levels of public debt, and this includes many developing economies.

What does the book say about this? "We tested the hypothesis that a tight fiscal stance in low-income countries has a negative effect on growth and found that it's not necessarily true," Gupta said. In fact, a reduction in the budget deficit, accompanied by changes in the composition of government spending, can be growth-enhancing, he added. For example, "if a government were to spend on capital projects and cut down on nonproductive spending—such as defense spending that is above the level needed for purposes of national security—the end result would be a push in favor of growth." Here, Gupta made a distinction between countries that have achieved some degree of macroeconomic stabilization and ones that have not. Countries in the first category, such as Tanzania, have the liberty to spend more, provided the financing is noninflationary, and can therefore afford a somewhat less stringent fiscal policy.

The book also explores other ways in which fiscal policy affects economic growth. Clements noted that, especially where there is poor governance, reducing the deficit seems to help improve factor productivity—because it forces the government to use resources more efficiently. This indirect effect on growth is different from the more direct effect that reducing the fiscal deficit might have by lowering inflation or increasing investment. "In some ways, these channels are different from what we normally think of in industrial countries," Clements said.

Achieving the MDGs

Most of the MDGs focus on non-income dimensions of poverty, such as providing more education and health services. To achieve these goals, governments in most low-income countries would need to increase spending in these sectors, and ensure, Gupta underscored, that these funds are allocated to efficient programs that target the poor. Various country-specific studies have shown that one such area is primary, as opposed to university, education. The composition of spending also matters, Clements said, noting that "whatever amount is spent should be consistent with an appropriate allocation of spending as well as sound macroeconomic policies. An adequate share should also be invested in capital projects that are conducive to economic growth." Armed conflicts are detrimental to the achievement of MDGs and sustained growth, added Inchauste, partly because it takes countries many years to recover after hostilities have ceased. With regard to user charges, she noted that while they may limit the access of the poor to social services, local communities may have no alternative but to contribute for services when governments are unable to raise and transfer the necessary resources.

A reduction in the budget deficit, accompanied by changes in the composition of government spending, can be growth-enhancing.

—Sanjeev Gupta

Securing financial resources

On the financing side, there is a lively debate over whether international aid is truly effective in reducing poverty and spurring economic growth. Aid, in itself, should not complicate macroeconomic management, Gupta said, but a sudden surge in aid inflows could pose a challenge for policymakers if it triggered increased domestic demand for local goods and services, which would lead to higher prices, an appreciated exchange rate, and lower exports.

Additional aid to finance spending on imports—for example, on drugs to combat HIV/AIDS—would not affect the exchange rate, Gupta noted. But if much of the money is spent on hiring doctors and teachers locally, or building schools and hospitals, domestic prices will tend to rise. This does not mean that more aid is not needed or would not be beneficial; but it implies that countries would need to take steps to manage a large increase in aid inflows.

IMF

Gabriela Inchauste

But do foreign grants deter efforts to raise revenue domestically? One concern is that when countries receive grant money, they reduce their efforts to increase their own tax revenues. If this is the case, then aid is not helping countries achieve the MDGs in a sustainable way. On average, this is not much of a problem, said Clements, but there is evidence that for countries with poor governance, increased grants do tend to be totally offset by a reduced tax effort. The remedy, Clements said, is not to reduce aid but to ensure that recipient countries improve tax administration and reduce tax exemptions. ■

Copies of the book are available for $40.00 each from IMF Publication Services. See page 16 for ordering information.

New book fills gaps in fiscal policy literature

With many of the world's poorest countries looking for improved strategies to tackle poverty and raise living standards, questions have been raised about how fiscal policy can help. *Helping Countries Develop: The Role of Fiscal Policy*, edited by Sanjeev Gupta, Benedict Clements, and Gabriela Inchauste, draws upon IMF research to identify sound principles for conducting fiscal policy in developing countries, and pays particular attention to the macroeconomic effects of fiscal policy in developing countries; public spending and the Millennium Development Goals; revenues and growth; and fiscal policy and aid. The book also examines the fiscal consequences of armed conflict and terrorism in low- and middle-income countries, and public expenditure management systems in Africa.

Reviews of the book by the academic community have been favorable. David Bevan of Oxford University, for example, said that "the volume will be essential reading for anyone with a serious interest in why fiscal policies have gone wrong in the past, and how they may be better managed in future." And, according to Tony Addison, of the World Institute for Development Economics Research, the book "will prove invaluable to both researchers and policymakers alike, particularly in developing countries themselves."

How are land inequality and development related?

Because land plays a central role in developing economies, it plays a key role in many theories seeking to explain the relative success of these economies in raising incomes and the quality of life of their inhabitants. Lennart Erickson, who recently transferred from the African Department to the IMF Institute, and Dietrich Vollrath, a doctoral candidate at Brown University, have developed a new measure of cross-country land inequality that, for the first time, includes the landless. Using this new measure, they tested theories relating land inequality to development, yielding somewhat surprising results. Jacqueline Irving of the IMF Survey *spoke with Lennart Erickson about their research and findings.*

IMF Survey: What are the relationships between land inequality, on the one hand, and institutions, financial development, and public provision of education, on the other?

Erickson: The literature has broadly seen institutions as crucial in determining economic growth or, at least, it has identified a powerful relationship between the two. But, to our surprise, we were unable to identify any robust relationship between political institutions broadly defined and land inequality. Nor did we see any strong correlation between financial development and land inequality. We were able to find some negative relationship between public provision of education and land inequality, but only if we measured inequality across the entire agricultural population.

We are of the view that, all other things being equal, if a relationship that holds in a micro setting is important, then it should also appear in the macro data. If it does not, this raises some important questions. We do not answer these questions in our paper, but, in addition to bringing new data to the question, we argue that, if other researchers are going to claim that these relationships are important, the onus is on them to explain why we are not seeing this in the cross-country data.

We think this research is part of a productive move in the macroeconomic literature toward trying to build more bridges with areas that have traditionally been considered the province of microeconomics. There is strong resistance by many microeconomists to thinking about these questions at all in a cross-country setting, but these are the sorts of intellectual debates that make our work as economists interesting.

IMF Survey: In what ways were your research approach and methodology unique?

Erickson: As a first step, we came up with a measure of land inequality that included the landless. This is the paper's main contribution. Previous measures had only looked at households that owned land—largely because of the lack of data on the number of landless households.

IMF Survey: How did you select the countries in your sample?

Erickson: We were able to obtain data from the UN Food and Agricultural Organization (FAO) for 82 countries, but for most of our analysis we used data for 45 or so of these countries. The period under study is post–World War II, mostly from the early 1960s through the late 1980s. We excluded the more developed countries, with a few exceptions, because we had strong suspicions that agricultural inequality in western Europe and in Japan during the postwar era had been driven by other factors, like agricultural subsidy policy.

IMF Survey: How were you actually able to measure land inequality *across* agricultural populations to include the landless?

Erickson: The standard way of measuring inequality is to construct a Gini coefficient. The larger the Gini coefficient, the greater the inequality measured within the particular population. The previous literature had used FAO data to determine the inequality of landholdings as measured by a Gini coefficient within the group of landowners. But a major shortcoming of this methodology was that it did not measure inequalities across landholders and landless in a country. Taking an oversimplified example, imagine a country with two landowners and each has a farm with 5 million acres and thousands of peasant farmers working the land. If you were to measure

URSULA DYREN/Deutsch Presse Agentur

A meager harvest in Peru. Estimates of land inequality have traditionally not accounted for the landless.

only inequality among the landowners, the data would show a country that has perfect land equality. This is certainly at variance with common-sense conceptions of inequality.

To address this, we construct what is probably the simplest measure possible. We don't have information on the number of landless households, but we do have information on overall agricultural populations. So we take the size of the overall agricultural population and divide it by the number of landholdings. This improves substantially on the previous measure in that it does include the landless, but it is nonetheless very crude. We hope that in future work we can come up with a more sophisticated measure, but this is a first step and an improvement on what has been done before.

IMF Survey: William Easterly found that *income* inequality is linked to poor institutions. Aren't your findings—which indicate that there is no relationship between land inequality and institutions—inconsistent with this? Aren't land inequality and income inequality very closely related?

Erickson: It is inconsistent, and we were quite surprised by our findings. One possibility is that somehow income inequality has effects on institutions, yet agricultural inequality, for some reason, does not. However, this seems counterintuitive to us. We do not think that we are overturning Easterly's results. Rather, we are raising questions about what the causes could be. This inconsistency in our findings could also indicate that we have our own data problems. For example, we may have looked at the wrong time period.


IMF

Erickson: "One possibility is that somehow income inequality has effects on institutions, yet agricultural inequality, for some reason, does not."

IMF Survey: You find scant evidence that land inequality and financial development are linked. But wouldn't there be a link given that those who do not own land lack an obvious source of collateral for obtaining credits to finance business ventures, which, in turn, hinders private sector development and, by implication, further financial sector development?

Erickson: The paper discusses cases at the micro level where high land inequality could lead to low financial development, and it also discusses cases where low financial development could lead to high land inequality. We find all of these arguments to be quite plausible, and we agree that causality could run both ways. Although we are not claiming to disprove these arguments, we are raising significant questions based on the premise that if these relationships exist at the micro level and they are important, they also should show up in the macro data. But they don't.

IMF Survey: Your findings seem to show that whatever strong effects land inequality has on education are mitigated over time. What might explain this?

Erickson: Over the course of the time period we looked at, the provision of education improved dramatically for all countries. We try to correct for this effect, but we may not have completely succeeded. Beyond this, we are not quite sure why the strong effects that land inequality has on education are mitigated over time. In the postwar era, the public provision of education skyrocketed, and by the end of the 20th century it had, thankfully, become more difficult to find countries where large numbers of children did not attend school. This goes beyond the scope of our work, but one of the important ways to move forward on this topic is to develop better measures of cross-country land inequality historically. Getting meaningful land inequality data going back before World War II and even into the 19th century would, however, entail comprehensive archival work. ■

Copies of IMF Working Paper No. 04/158, "Dimensions of Land Inequality and Economic Development" are available for $15.00 each from IMF Publication Services. See page 16 for ordering information. The full text of the paper is also available on the IMF's website *(www.imf.org)*.

Have African regional trade pacts delivered on their promises?

Trade liberalization is often cited as a key ingredient in efforts to boost growth in Africa and reduce poverty. But are the growing number of regional trade arrangements helping? A seminar on Trade and Regional Integration in Africa—held in Dakar on December 6 and sponsored by the IMF and the Central Bank of West African States (BCEAO)—took stock of these arrangements and debated what will be needed to increase trade and stimulate growth. Sanjeev Gupta, Assistant Director in the IMF's African Department, reports on the proceedings.

In recent decades, Africa has seen the creation of a number of regional trade arrangements, but questions are now being asked about whether these ambitious efforts are boosting trade and growth and deepening regional integration. Ministers from Burkina Faso, Guinea, and Senegal as well as representatives from African regional trade and monetary organizations joined with staff from the African Development Bank, the World Bank, UNIDO, and the IMF to evaluate the role of regional trade arrangements and chart future steps.

In opening remarks, Anne Krueger, First Deputy Managing Director of the IMF, noted that no country has been able to sustain rapid growth without opening up to international trade. She urged Africa to follow the example of fast-growing economies such as Chile and Korea that have pursued unilateral trade liberalization and reaped significant benefits—a point echoed by John Panzer of the World Bank in his presentation.

CHEIKH FAYE/Dakar, Senegal

IMF First Deputy Managing Director Anne Krueger and BCEAO Governor Charles Konan Banny.

Costs and benefits

A number of seminar participants, including Djene Camara, Guinea's Minister of Commerce and Industry, echoed developing country concerns about the price tag attached to trade liberalization. Lost tariff revenues are a common fear, Krueger acknowledged, but experience suggests this is not the rule and strengthened domestic taxation can replace lost revenues. Paraschand Hurry of the Common Market for Eastern and Southern Africa said his organization eliminated tariffs without a major loss of government revenue. Indeed, added Sanjeev Gupta of the IMF's African Department, trade liberalization can boost revenues if lower domestic prices spur increased demand.

More broadly, Krueger cautioned, regional arrangements must complement broad-based, nondiscriminatory trade liberalization; they cannot be a cover for protectionist behavior. Regional arrangements are meant to boost Africa's share in world and intraregional trade, attract foreign investment, and enhance export competitiveness. But various studies, Gupta said, suggest these goals are not being realized and Africa's external tariffs remain relatively high.

Abdoulaye Bio-Tchané, Director of the IMF's African Department, urged participants to be alert to the danger of overlapping and conflicting commitments and increased demands on already resource-strapped member countries. He and other participants also called for more ambitious measures to address poor transport systems, roadblocks, and cumbersome customs procedures. And Bio-Tchané underscored that Africa stands to gain from freer trade in services and the freer movement of labor and capital.

There was clearly a sense at the seminar that fixing the regional trade arrangements would not be enough. Broad-based trade liberalization, Gupta argued, would improve resource allocation by reducing the import substitution bias in Africa's trade regimes. Mamdou Diop, Senegal's Minister of Trade, called on participants to come up with concrete suggestions to boost Africa's trade, while Governor Charles Konan Banny of BCEAO deplored the insufficient diversification of the region's economies and Africa's small and declining share in world trade.

A number of participants saw trade liberalization complementing other initiatives. Camara, for example, expressed strong support for integrating trade policies into country poverty reduction strategies. And Olawale Ogunkola, Professor of Economics at Nigeria's University of Ibadan, stressed the value of greater investments in physical and human capital.

In summarizing the proceedings, Bio-Tchané saw wide support for streamlining Africa's regional trade arrangements, enhancing cross-border cooperation in customs, improving infrastructure to reduce the cost of moving goods, strengthening direct and indirect tax systems to recover possible revenue losses from trade liberalization, and making trade policy an integral part of counties' poverty reduction strategies. The IMF's African Department, he said, intends to pursue these and related issues in its discussions with countries and in its regional surveillance. ■

Stand-By, EFF, and PRGF arrangements as of December 31

Member	Date of arrangement	Expiration date	Amount approved	Undrawn balance
			(million SDRs)	
Stand-By				
Argentina	September 20, 2003	September 19, 2006	8,981.00	4,810.00
Bolivia	April 2, 2003	March 31, 2005	128.64	26.80
Brazil	September 6, 2002	March 31, 2005	27,375.12	10,175.48
Bulgaria	August 6, 2004	September 5, 2006	100.00	100.00
Colombia	January 15, 2003	April 14, 2005	1,548.00	1,548.00
Croatia	August 4, 2004	April 3, 2006	97.00	97.00
Dominican Republic	August 29, 2003	August 28, 2005	437.80	306.46
Gabon	May 28, 2004	June 30, 2005	69.44	27.78
Paraguay	December 15, 2003	September 30, 2005	50.00	50.00
Peru	June 9, 2004	August 16, 2006	287.28	287.28
Romania	July 7, 2004	July 6, 2006	250.00	250.00
Turkey	February 4, 2002	February 3, 2005	12,821.20	907.20
Ukraine	March 29, 2004	March 28, 2005	411.60	411.60
Uruguay	April 1, 2002	March 31, 2005	1,988.50	139.80
Total			**54,545.58**	**19,137.40**
EFF				
Sri Lanka	April 18, 2003	April 17, 2006	144.40	123.73
Serbia and Montenegro	May 14, 2002	May 13, 2005	650.00	187.50
Total			**794.40**	**311.23**
PRGF				
Albania	June 21, 2002	June 20, 2005	28.00	8.00
Azerbaijan	July 6, 2001	July 4, 2005	67.58	25.74
Bangladesh	June 20, 2003	June 19, 2006	400.33	251.83
Burkina Faso	June 11, 2003	June 10, 2006	24.08	17.20
Burundi	January 23, 2004	January 22, 2007	69.30	42.90
Cape Verde	April 10, 2002	April 9, 2005	8.64	2.49
Côte d'Ivoire	March 29, 2002	March 28, 2005	292.68	234.14
Congo, Republic of	December 6, 2004	December 5, 2007	54.99	47.13
Congo, Democratic Republic of	June 12, 2002	June 11, 2005	580.00	53.23
Dominica	December 29, 2003	December 28, 2006	7.69	4.71
Georgia	June 4, 2004	June 3, 2007	98.00	84.00
Ghana	May 9, 2003	May 8, 2006	184.50	105.45
Guyana	September 20, 2002	March 19, 2006	54.55	37.06
Honduras	February 27, 2004	February 26, 2007	71.20	50.86
Kenya	November 21, 2003	November 20, 2006	225.00	200.00
Kyrgyz Republic	December 6, 2001	April 5, 2005	73.40	9.56
Lao People's Democratic Republic	April 25, 2001	April 24, 2005	31.70	13.58
Madagascar	March 1, 2001	March 1, 2005	91.65	11.35
Mali	June 23, 2004	June 22, 2007	9.33	8.00
Mongolia	September 28, 2001	July 31, 2005	28.49	16.28
Mozambique	July 6, 2004	July 5, 2007	11.36	9.74
Nepal	November 19, 2003	November 18, 2006	49.91	35.65
Nicaragua	December 13, 2002	December 12, 2005	97.50	41.78
Rwanda	August 12, 2002	August 11, 2005	4.00	1.71
Senegal	April 28, 2003	April 27, 2006	24.27	17.33
Sierra Leone	September 26, 2001	June 25, 2005	130.84	14.00
Sri Lanka	April 18, 2003	April 17, 2006	269.00	230.61
Tajikistan	December 11, 2002	December 10, 2005	65.00	29.40
Tanzania	August 16, 2003	August 15, 2006	19.60	11.20
The Gambia	July 18, 2002	July 17, 2005	20.22	17.33
Uganda	September 13, 2002	September 12, 2005	13.50	6.00
Zambia	June 16, 2004	June 15, 2007	220.10	55.02
Total			**3,326.40**	**1,693.29**

EFF = Extended Fund Facility.
PRGF = Poverty Reduction and Growth Facility.
Figures may not add to totals owing to rounding.
Data: IMF Finance Department

GCC countries explore ways to boost growth

A lively discussion developed over desirable economic and governmental reforms at a recent seminar organized by the IMF and the Arab Monetary Fund (AMF) for parliamentarians and members of consultative councils from the six countries of the Gulf Cooperation Council (GCC)—Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates. Part of the context was the below-potential economic growth of the region and the associated stagnation of real per capita incomes in recent decades.

The 30 representatives (some elected, some appointed by governments), meeting in Abu Dhabi on December 19–20, explored strategies to accelerate growth in the region, including stepping up economic diversification, reducing the role and size of the public sector, strengthening institutions, implementing labor market reforms, and developing the financial sector. Discussions focused especially on policy areas where legislative and consultative bodies play a vital role.

Participants agreed that regional economic integration is key for development and growth. Presenters noted that significant progress had already been achieved with the free movement of goods, services, labor, and capital, and that further inroads were being made through the gradual harmonization of banking regulation and supervision, and progress with tax harmonization. But different regulations for foreign investment, ownership, and capital markets, and for integration with the global banking system have worked against an enlarged regional common market.

The objective of monetary union, which the GCC countries aim to meet by 2010, prompted an extensive debate. While the European Monetary Union's experience was seen as relevant, participants stressed that the GCC region differed in a number of significant ways, including in its heavy reliance on oil and limited economic diversification. They felt that monetary union would be beneficial, as long as it was accompanied by the harmonization of regulations, greater policy transparency to enhance credibility, and economic convergence. Member countries will also have to reach political consensus on the convergence criteria, particularly with regard to fiscal policy, financial sector regulatory practices, and the establishment of a central bank. Saleh Nsouli, Deputy Director of the IMF's Middle East and Central Asia Department, remarked that "the establishment of a monetary union in a few years will likely spur institutional reforms and raise the growth potential of the GCC."

On good governance, participants broadly agreed that it was key to better economic performance and that legislative and advisory bodies should take a proactive role. Graham Hacche, Deputy Director of the IMF's External Relations Department, noted that "a significant part of the gap between the region's economic performance and potential could be bridged by improving governance further, including by strengthening institutions."

The seminar was the first parliamentary session to be held under the joint IMF/AMF Regional Training Program. The IMF held its first parliamentarians' seminar in the region in March 2004 in Beirut, with participants from Egypt, Jordan, Lebanon, Syria, and the West Bank-Gaza. Another is planned this year for the Maghreb. Dr. Jassim Al Mannai, AMF Director-General, and others noted how frank and useful the discussions had been. Participants welcomed the IMF's effort to enrich and broaden its own understanding of the institutional and policymaking environment. ■

Arabs back economic reform

A poll of 2,600 adults in Jordan, Lebanon, Morocco, Saudi Arabia, and the United Arab Emirates in June–July 2004 showed that expanding employment, improving health care, and increasing educational opportunities ranked the highest—alongside resolving the Israeli-Palestinian conflict—among the 10 most important issues to people in the region. The survey, conducted by U.S. polling firm Zogby International and commissioned by the Arab American Institute, showed that "Arabs want reforms—reforms related to the quality of life," said John Zogby in a recent presentation to IMF staff. "Political reform is not unimportant, but there are priorities. They want health care, education, employment," he said. Also among the top 10 concerns were curbing extremism and promoting civil rights, democracy, political reform in general, women's rights, and political debate.

The *IMF Survey* (ISSN 0047-083X) is published in English, French, and Spanish by the IMF 22 times a year, plus *IMF in Focus*. Opinions and materials in the *IMF Survey* do not necessarily reflect official views of the IMF. Any maps used are for the convenience of readers, based on *National Geographic's Atlas of the World*, Sixth Edition; the denominations used and the boundaries shown do not imply any judgment by the IMF on the legal status of any territory or any endorsement or acceptance of such boundaries. Text from the *IMF Survey* may be reprinted, with due credit given, but photographs and illustrations cannot be reproduced in any form. Address editorial correspondence to Current Publications Division, Room IS7-1100, IMF, Washington, DC 20431 U.S.A. Tel.: (202) 623-8585; or e-mail any comments to imfsurvey@imf.org. The *IMF Survey* is mailed first class in Canada, Mexico, and the United States, and by airspeed elsewhere. Private firms and individuals are charged $79.00 annually.

To request an *IMF Survey* subscription or IMF publications, please contact
IMF Publication Services,
Box X2005, IMF, Washington, DC
20431 U.S.A.
Tel.: (202) 623-7430;
fax: (202) 623- 7201;
e-mail: publications@imf.org.