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IMF bolsters financial sector work

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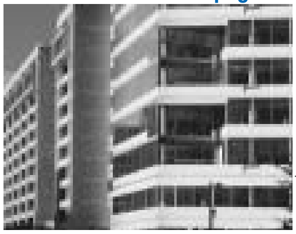
Responding to changes in the world economy and the need to strengthen further the IMF's financial and capital market work, IMF Managing Director Rodrigo de Rato announced the merger of two Fund departments into a new one that will serve as "a center of excellence for the IMF's financial, capital market, and monetary work." A newly created steering committee will also ensure close involvement of IMF management in the organization's financial sector work.



Michael Spilotro/IMF

Nobelist makes case for sustainable development

page 37

Some argue that sustainable development is a luxury that poor countries can ill afford, but Kenya's Wangari Maathai, winner of the 2004 Nobel Peace Prize, disagrees. Her Green Belt Movement has mobilized African women to plant more than 30 million trees, and now she continues her fight in Kenya's parliament. In an interview with the IMF's Lynn Aylward, she reflects on the roles that democracy, conservation, and good governance play in development.

Wolfgang Kumm/Newscom

Cementing the gains from financial globalization

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Financial integration and the prevailing benign global financial market environment have made it possible for emerging market economies to improve their external financing and budgetary positions and to borrow more externally. However, an IMF Working Paper finds that, while an improvement in fundamentals has played an important role in some of the countries, the recent decline in the fiscal deficits of some others reflects the benign environment. For those, a deterioration in the environment could reverse the gains. They should therefore strengthen their polices, including by pursuing additional structural reforms.

Emerging market countries wield new influence

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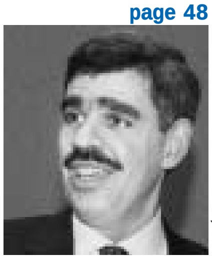
Emerging market countries have been enjoying an unusually long period of robust growth and low inflation. Now accounting for one-half of world GDP, these countries, particularly Brazil, Russia, India, and China, are wielding new influence in the global economy. Is it a "structural break" with the past? And, if so, what are the implications for the IMF? Mohamed A. El-Erian, head of Harvard University's endowment fund, tackled these topics at a recent IMF Institute seminar.



Henrik Gschwindt De Gyor/IMF

IN THIS ISSUE

What's on

February

7–9 United Nations Environment Program, Global Ministerial Environment Forum, Dubai, United Arab Emirates

8 IMF Book Forum, *The Moral Consequences of Economic Growth*, Benjamin Friedman, Washington, D.C., United States

8–9 World Trade Organization General Council Meeting, Geneva, Switzerland

8–9 OECD Global Forum on Competition, Paris, France

10–11 Group of Eight Finance Ministers' Meeting, Moscow, Russia

16–18 Global Conference on Social Responsibility, Vilamoura, Portugal

28–March 1 Joint IMF–Africa Institute high-level seminar, "Realizing the Potential for Profitable Investment in Africa," Tunis, Tunisia

April

3–5 Inter-American Development Bank Annual Meeting, Belo Horizonte, Brazil

4–6 Seventh International Scientific Conference, "Modernization of Economy and the State," State University–Higher School of Economics, with World Bank and IMF participation, Moscow, Russia

5–6 World Economic Forum on Latin America, São Paulo, Brazil

22–23 IMF–World Bank Spring Meetings, Washington, D.C., United States

May

3–6 Asian Development Bank Annual Meeting, Hyderabad, India

20–22 World Economic Forum on the Middle East, "Embracing the Future: Unleashing the Potential of the Middle East," Sharm El-Sheikh, Egypt

21–22 European Bank for Reconstruction and Development Annual Meeting and Business Forum, London, United Kingdom

22–23 OECD Forum 2006, "Balancing Globalization," Paris, France

22–27 World Health Assembly, World Health Organization, Geneva, Switzerland

31–June 2 World Economic Forum on Africa, "Going for Growth," Cape Town, South Africa

June

15–16 World Economic Forum on East Asia, "Creating a New Agenda for Asian Integration," Tokyo, Japan

19–23 World Urban Forum III, Vancouver, Canada

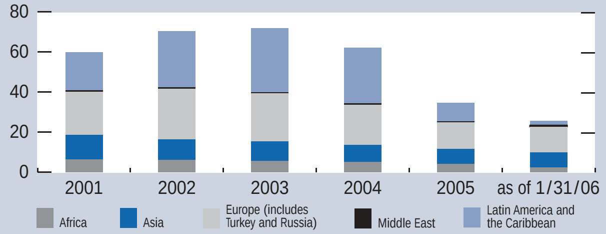
IMF Executive Board
For an up-to-date listing of IMF Executive Board meetings, see *www.imf.org.external/np/sec/bc/eng/index.asp*.

At a glance

IMF financial data

Total IMF credit and loans outstanding, by region

(billion SDRs, end of period)



Largest outstanding loans

(billion SDRs, as of 1/31/06)

Nonconcessional		Concessional	
Turkey	10.14	Pakistan	0.99
Indonesia	5.46	Congo, Dem. Rep. of	0.55
Uruguay	1.61	Bangladesh	0.22
Ukraine	0.82	Cameroon	0.19
Serbia & Montenegro	0.60	Yemen, Republic of	0.18

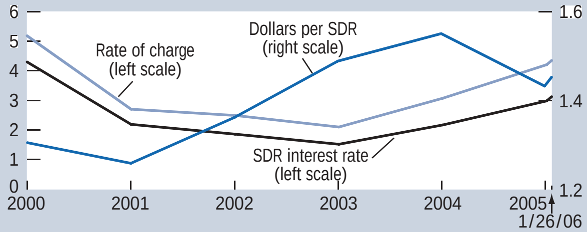
IMF available resources

(one-year forward commitment capacity, billion SDRs)

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 (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 moves to strengthen its financial sector work

IMF Managing Director Rodrigo de Rato on February 1 announced proposals to create a new department "to be a center of excellence for all aspects of financial, capital market, and monetary work in the IMF." The new department, which will begin work in mid-2006, will merge the functions and staff of the existing International Capital Markets Department and Monetary and Financial Systems Department. De Rato also announced the establishment of the Financial Sector Steering Committee, which he will chair, to guide the merger and coordinate the IMF's financial sector work.

Throughout its 60-year history, the IMF has adapted to changing international economic circumstances to meet the needs of its members, de Rato said, and "nowhere is this challenge more important for the future effectiveness of the Fund than in the rapidly evolving financial and capital market arena." These changes in the IMF's structure "will put financial issues at the center of the Fund's work and ensure that our financial expertise better serves our 184 country members."


Stephen Jaffe/IMF

De Rato: The new department will be a center of excellence for the Fund's financial, capital market, and monetary work.

He added that "by bringing under one roof work that is currently spread among a number of departments, we will improve the cohesion of our work and use our resources efficiently. I see this merger as the logical evolution of the work the Fund has been doing in this area over the past several years. I am particularly pleased that, in my discussions with staff over recent weeks, I have found support and ownership for this proposal."

The decision is the result of an extensive management review, including in the Managing Director's September 2005 "Report on the IMF's Medium-Term Strategy," of the Fund's work in this area. It follows a review by a working group led by William J. McDonough (see IMF Press Release No. 05/132).

A search for a director for the merged department will begin shortly. ■

Oman focuses on economic diversification and job creation

Oman's real GDP grew by an estimated 4.5 percent in 2004 and 3.8 percent in 2005. In the face of declining oil production, economic growth has been resilient, and Oman has made significant progress in diversifying its economy, the IMF said in its annual economic review. Revenues from high oil prices have been used to develop non-oil sectors and create jobs. Nonhydrocarbon sectors grew by 8 percent in 2004 and 6 percent in 2005, driven by manufactured exports, construction, and services, including tourism.

Oman's banking system remains strong, bolstered by enhanced supervision, sound lending practices, and a healthy economy. The "Omanization" of the labor force, a program that makes national education a priority and generates job opportunities, continues. Privatization efforts were stepped up with a 2004 law removing limits on foreign participation in privatized companies, partially privatizing the state telecommunications company (Omantel), and licensing a second mobile telephone company.

The IMF Executive Board commended the authorities for their outward-oriented development strategy and continued sound economic management, which have led to a rapid development of the non-oil economy, a stable monetary and financial system, large fiscal surpluses, and a sizable accumulation of foreign assets. Directors counseled Oman to continue its economic diversification and job creation and welcomed steps to strengthen private sector activity and economic growth through continued structural reforms.

Directors recommended that Oman strengthen its budgetary process by improving the monitoring of discretionary spending and insulating government expenditure from short-term swings in oil prices. Directors said that it was important to safeguard spending on education and health, and they welcomed the authorities' plans for the privatization of utilities, which would allow for a reduction in subsidies and additional spending in priority areas.

Oman was commended for implementing the proposals of the IMF–World Bank Financial Sector Assessment and improving the legal and regulatory framework for private sector–led growth. Directors praised the authorities for their strong emphasis on training and education and encouraged them to put a temporary freeze on further increases in Omanization quotas until training is well advanced. ■

Oman	2001	2002	2003	Prel. 2004	Proj.[1] 2005
			(percent change)		
Real GDP	7.5	2.3	1.9	4.5	3.8
Real hydrocarbon GDP	3.5	–2.1	–5.9	–3.2	–1.5
Real nonhydrocarbon GDP	9.8	4.7	5.8	8.0	6.0
Consumer price index	–0.8	–0.2	0.2	0.8	1.9
			(percent of GDP)		
Central government revenues and grants	45.6	44.7	45.5	47.5	47.6
Hydrocarbon revenue	37.1	35.5	35.2	39.1	40.0
Fiscal balance	8.5	5.4	4.4	4.7	10.5

[1]Based on policy intentions and IMF staff's real GDP projections.
Data: Omani authorities and IMF staff estimates.

Central African Republic needs to create conditions that will jump-start growth

The Central African Republic (C.A.R.) has seen its economic and social conditions deteriorate steadily over the past decade, partly because of poor economic management but also because of political and military disturbances that culminated in the March 2003 coup, the IMF said in its annual review. As a result of the conflict, the country's capital stock eroded, the formal sector contracted, and the production of cash crops all but ceased. However, security has now improved and peaceful presidential and legislative elections took place during March–May 2005, paving the way for democratic rule.

Real GDP grew by only 1 percent in 2004, with activity in most sectors stagnating. The country's public finances remain weak, with revenue at only 8 percent of GDP in 2004, and the authorities continue to have difficulty controlling spending, particularly on public sector wages. As a result, domestic and external payments arrears have accumulated. Efforts to increase revenues have been hampered by lax tax and customs administration, rooted partly in corruption. The rising wage bill has absorbed a disproportionate share of the C.A.R.'s scarce resources.

The IMF Executive Board commended the C.A.R. authorities on the peaceful completion of elections and improved security. Directors noted that the country needs to consolidate peace and security, establish an environment conducive to private sector activity in order to jump-start growth, and improve social conditions. To achieve those goals, the authorities would have to stabilize public finances and deliver public services more effectively.

Directors urged the authorities to move swiftly to bring the public sector wage bill under control, which, along with paying salaries in a timely manner, will be critical for establishing and maintaining financial stability. They welcomed the recent introduction of the monthly treasury cash-flow plan and improved identification of spending at the commitment level. They also urged the authorities to strengthen tax collection and improve customs and tax administration, as well as to demonstrate a strong commitment in the fight against corruption. ■

Central African Republic	2001	2002	2003	Prel. 2004	Proj. 2005
			(percent change)		
Real GDP	0.3	–0.6	–7.6	1.3	2.2
Consumer prices (average)	3.8	2.3	4.4	–2.2	2.4
			(percent of GDP)		
Overall fiscal balance[1]	–0.9	–1.2	–3.1	–2.2	–1.3
Narrow primary balance[2]	0.3	1.0	–2.1	–2.7	–1.3
External current account balance	–2.5	–3.1	–4.9	–4.3	–3.9

[1]Commitment basis, including grants.
[2]Excludes interest payments, foreign-financed investment, and grants.
Data: C.A.R. authorities and IMF staff estimates and projections.

Greece's growth prospects are favorable, but imbalances need to be addressed

Greece's economic growth has been very strong for several years, underpinned by a large drop in interest rates, rapid increases in private sector credit, and an expansionary fiscal stance, according to the IMF's annual review. However, macroeconomic imbalances have appeared. In 2004, the general government deficit rose to 6.6 percent of GDP, the primary balance shifted into deficit, and public debt stood at 109 percent of GDP. Inflation has persistently exceeded the euro-area average, eroding competitiveness and Greece's export market share. Moreover, labor markets are characterized by high unemployment and low participation rates.

The IMF Executive Board welcomed the strong growth and agreed that prospects remain promising. In light of the imbalances, it stressed that fiscal consolidation should be Greece's top priority. Directors commended the authorities' planned reduction of the budget deficit in 2005 and their objective of cutting it further in 2006, and they urged the authorities to reach fiscal balance by the end of the decade.

A key long-term policy challenge, Directors noted, is to improve productivity and competitiveness. To strengthen product and labor markets, the authorities have reduced the corporate tax rate, made overtime more flexible, adopted a new competition law, further liberalized gas and electricity markets, simplified business licensing, strengthened management and oversight of state-owned enterprises, and created a framework for public-private partnerships.

Directors commended these reforms. They encouraged the authorities to build on them by simplifying taxes, overhauling the tax administration, cutting red tape, further liberalizing gas and electricity markets, easing employment restrictions, and making minimum wages more flexible. ■

Greece	2002	2003	2004	Proj. 2005	Proj. 2006
			(percent change)		
Real GDP	3.8	4.6	4.7	3.5	3.3
Domestic credit[1] (end of year)	8.5	3.0	7.7	10.1	...
			(percent)		
Unemployment rate	10.3	9.7	10.5	10.0	10.0
CPI (average)	3.9	3.4	3.0	3.6	3.3
			(percent of GDP)		
General government gross debt	112	109	109	108	104
Current account balance	–6.0	–5.6	–3.8	–3.2	–3.6

[1]Staff estimates. Latest data for September (domestic credit, deposit rate); October (government bond yield); and August (M3).
Data: Greek National Statistical Service; Greek Ministry of National Economy; Bank of Greece; IMF, *World Economic Outlook* and staff estimates and projections.

For more information, please refer to Public Information Notices Nos. 05/165 (Oman), 05/158 (C.A.R.), and 06/03 (Greece) on the IMF's website (*www.imf.org*).

Wangari Maathai

Development requires a holistic approach, says Kenyan Nobelist

In 2004, when the Nobel Committee awarded Kenya's Wangari Maathai its Peace Prize, it cited "her contribution to sustainable development, democracy, and peace." The committee made special mention of her work in founding the Green Belt Movement, which mobilized African women to plant more than 30 million trees, and her courageous stand against political oppression. Maathai, commended for combining "science, social commitment, and active politics," is a member of parliament and Deputy Minister of the Environment, Natural Resources, and Wildlife. She spoke with Lynn Aylward of the IMF's Policy Development and Review Department about why she believes peace, conservation, and good governance are intertwined and so critical to development.

AYLWARD: How does it feel to be part of the system, when you worked outside it—maybe even against it—for so long?
MAATHAI: Well, it's good to be in the system to see how it works. When I was on the outside, I was often frustrated—it took so long for it to move. Inside, you see that not all these problems and frustrations are solved! I am not in the cabinet, and the position of assistant minister in Kenya is to some extent political rather than operational. So I experience frustration within the system also. But, on balance, it is better to be inside. After all, this is the government that the people of Kenya brought to power.

AYLWARD: You have called for a holistic approach to development, and you say that Kenya's Green Belt Movement exemplifies such an approach. What exactly do you mean by that?
MAATHAI: I like to use the traditional three-legged African stool to explain holistic development. This stool is made from a single piece of log. You chisel its three legs at once, so that you have a stable foundation. I compare the legs to the three pillars of government. One leg is the sustainable development of resources and equitable distribution of the same. The second leg is good governance, which allows for the sustainable development and equitable distribution of resources. And the third leg is peace—the deliberate working for peace within and among countries. If people are stable and secure, they can innovate, create wealth, and develop themselves and their resources. But if one of these legs is unstable or even missing, then resources, people, and relations among peoples are exploited.

Lynn Aylward/IMF

Maathai likens the three legs of this traditional African stool to the three pillars of government: sustainable development, good governance, and peace.

AYLWARD: Is there any truth to the stereotype that, since you are an environmentalist, a liberal, and a proponent of sustainable development, you don't particularly like or trust the private sector?
MAATHAI: No. It gets back to the stool. When the three pillars are there, then the private sector can thrive and create jobs for people. But when there is, for example, bad governance, it creates insecurity, which is bad for the investor and keeps investment away or allows resources to be exploited in an unsustainable fashion.

AYLWARD: What are the roots of the Green Belt Movement?
MAATHAI: In 1974, I was president of the Kenyan Association of University Women and the Committee of Women of Kenya and was teaching at the University of Nairobi. I was preparing for the very first UN Conference on Women, to be held in Mexico in 1975, and had in mind focusing on the sharp discrimination that academic women faced in Kenya. But the

women I was meeting through the Conference on Women were raising very basic issues, such as needing enough firewood to prepare meals for their families, or growing tea and coffee only to see their husbands receive the income from their small holdings and share it at their pleasure.

These realizations gave birth to the Green Belt Movement. Planting trees may seem simplistic, but it solved many of the women's problems: trees could provide wood for fuel, address soil erosion and deforestation, provide substitute food supplies for crops that had been supplanted by commercial farming, generate income, and address poverty. I immediately connected the women's initial complaints with the environment. Their complaint about the lack of firewood made me remember my own childhood, when there was no exposed soil except where land was being prepared for cultivation. That memory inspired my first book, *The Naked Earth*.


Gianluigi Guercia/AFP/Getty Images

Maathai: "Taking care of the environment isn't a luxury; it's the necessity that makes luxury possible."

AYLWARD: Much has been made of the fact that the Green Belt Movement also helped empower women.

MAATHAI: Yes, but I learned something about that. For our first tree-planting exercise, I was able to have a forestry agent come and teach the women how to plant trees. But he came with many trucks and a backhoe, assistants, and a range of grades of soil material, from the finest sand to little pebbles. To be honest, it was overwhelming, and these were not supplies that the women could replicate. I learned a lesson then about using technologies that are too complicated.

AYLWARD: Despite this rocky beginning, the movement thrived. In interviews, you have tried to draw some attention away from the fact that the prize was given to the first African woman recipient and focus more on the fact that it was given to an environmentalist. Can you comment?

MAATHAI: I really applaud the Nobel Committee for recognizing the connection between the environment, governance, and peace. A country concerned about the welfare of its citizens—present and future—is usually democratic and concerned about the rights of its people. Citizens can greatly assist their government, too. It is again an example of the stool and interconnections: to achieve the common good of a sound environment, strong national governance, and international peace, citizens need to demonstrate individual responsibility, and the government, political accountability.

AYLWARD: But some commentators suggest that a sustainable environment is a luxury. Do you have some sympathy for their argument that it is better to build a big factory, accept some environmental degradation, increase employment, and worry about a pristine environment later, when more people have enough to eat?

MAATHAI: As we speak, Kenya is importing timber. Fifty years ago, when I was a child, Kenya had large tracts of forest, even though only one-third of the land is arable. We had large forests, but we opted to clear them. We could have replanted trees, but we did not. In two generations, we needed to import timber—some of it now coming from the Congo. Maybe in three to four generations, the Congo's forests will be finished, too. Where is the luxury in that? Taking care of the environment isn't a luxury; it's the necessity that makes luxury possible.

AYLWARD: There is a very active debate in academic economic circles about whether international aid works—that is, does it produce economic growth and poverty reduction? The debate is motivated in large part by disappointment with the past 50 years of experience with aid. Some say aid works if governance is good in the recipient country or if institutions are strong. Others say you must strip out emergency relief—which should be provided but should not be expected to produce growth—or allow for a longer lag time for aid to have an impact on health care and education. From your experience, does aid work?

MAATHAI: It can. It should. But not in the face of the constraints you mention. In my 1995 speech to the UN Conference on Women in Beijing, I used the term "bottleneck" and I mentioned corruption. I was strongly criticized—10 years ago was too early to mention corruption! But it was important to draw attention to the need for democratic space to energize the local people and to have good institutions. Aid works, but it doesn't do all the work for you. I can get money to plant trees—but money can't plant a tree; people do that. And money can't stop soil from washing away—the tree that an individual plants does that. It makes me sad that, despite some progress, I could write the same speech all over again today. All the money in the world will not produce results in a situation of bad governance.

AYLWARD: What are your feelings about the IMF?

MAATHAI: Every time I want to criticize the IMF or the World Bank or the G8 [Group of Eight] countries, I am confronted with the realities on the ground. I look forward to seeing studies that show that debt relief is working. For example, I am hoping we see some good results come out of debt relief and good governance in Tanzania if it follows the rules.

I was at Gleneagles, where I was humbled to find myself with the Bonos of this world. Bono cares deeply about the poverty he encounters when he travels, and I think it is painful for him to hear from the IMF and the World Bank and the G8 that debt relief won't necessarily reach the people he cares about.

I long for the day when we have made more progress in addressing the governance shortfalls that donors say stymie the effective use of funds from debt relief. Then I can critique the IMF, the World Bank, and the G8. Then I can say that these institutions do not have a human face.

AYLWARD: How has your Nobel year been, and what projects are on your radar screen, in addition to your parliamentary responsibilities?

MAATHAI: The year since I was awarded the Nobel Prize has been extremely busy. But I recently looked back and realized that it was a year when I was never in a bad mood, not once!

Let me mention two projects. Eleven heads of state have joined to protect the Congo ecosystem. They have signed a treaty to do so, and I am taking these governments at their word. They say we need resources, but they want to avoid the pitfalls of mismanagement. So whatever resources they receive, including, I hope, some debt relief linked to environmental protection, would be channeled into a trust fund to be managed by an independent body. The hope is that it would deal with logging—legal and illegal—and promote the rights of the indigenous people who live in the forest.

All the money in the world will not produce results in a situation of bad governance.... I long for the day when we have made more progress in addressing the governance shortfalls that donors say stymie the effective use of funds from debt relief.

—Wangari Maathai

At the Second Heads of State Summit for Conservation and Sustainable Management of Central Africa's Forest Ecosystems in February 2005, I accepted an invitation to be the roving ambassador for the Congo Basin, advocating for the sustainable management of this world heritage site.

The African Union has also asked me to help create an advisory body that would consist of two representatives of civil society from each member country. This is a great step—bringing in civil society to advise the Union and mobilize at the national level.

Perhaps the main thing I have learned is what a huge constituency there is for the Peace Prize and how many people seem energized by it. I meet with schoolchildren who want to plant a tree with me, with college students who want to hear more about governance—even with men who want to tell me their stories! And I believe the awarding of the prize sent a message to the girl child of Africa. I hope she thinks, "If Wangari could do it, I can do it too!" ■

Building a better future at home: remittances in Moldova

In today's world, economic integration goes beyond international trade and capital movements and increasingly involves the movement of labor, too. A case in point is Moldova, where large-scale labor emigration and remittance flows have played a dominant role in shaping the country's recent economic evolution. A new IMF Special Issues paper takes a closer look at the kinds of policies that would allow Moldova to maximize the benefits of its remittance inflows.

After the collapse of the former Soviet Union, Moldova began a profound transformation as it moved from a centrally planned to a more market-based economy. The resulting dislocations led to a sharp contraction in output and massive job losses. These were compounded in 1998, when the shock waves from the Russian financial crisis hit Moldova particularly hard because of the strong trade links between the two countries. As Russia's domestic demand collapsed, Moldova's exports to the countries of the former Soviet Union—the destination for two-thirds of its exports—declined by 50 percent in the second half of 1998 compared with the same period in 1997. The cumulative GDP loss reached 10 percent between 1997 and 1999, and it is estimated that the poverty rate rose sharply, to over 70 percent by 1999 from 47 percent in 1997.

With few viable options at home, many workers were forced to seek job opportunities outside Moldova to support their families. Between 1998 and 2000, the number of Moldovans working abroad doubled, and remittances rose from \$122 million to \$172 million. In turn, these inflows, by providing an important supplement to household disposable incomes, helped accelerate a subsequent domestic recovery.

What is striking about Moldova's experience to date is that migration has persisted even after the domestic economy recovered strongly (see chart, left). Since 2000, Moldova's domestic economy has shown marked improvement, with GDP rising by a cumulative 30 percent by 2004. Nonetheless, migration and remittances have continued to intensify, with new migrants benefiting from the informal support of a growing expatriate community. In 2004, official estimates put the total gross inflows of workers' remittances at \$700 million, almost 27 percent of GDP (see chart, right)—high in comparison even with other countries with significant remittances. At the same time, Moldova's gross national disposable income per capita—a measure that includes net income and transfers from abroad—more than doubled between 2000 and 2004, reaching close to \$1,000. In addition, the country's poverty rate declined from its peak of 73 percent in 1999 to about 26 percent by 2004.

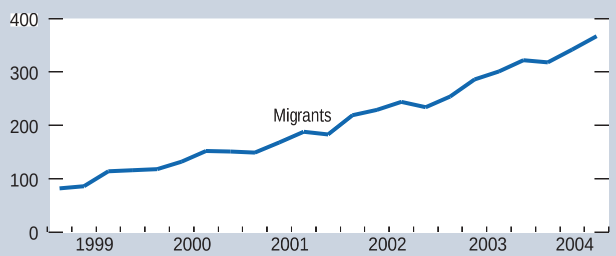
Large and stable inflows

At end-2004, Moldovan migrant workers, both temporary and permanent, accounted for about 17 percent of Moldova's total population. They send large portions of their earnings home, which their families have used chiefly to meet their basic consumption needs and to finance housing and education, investing smaller amounts in business activities. As is common in other countries that receive remittances, Moldova's remittance inflows are likely to remain a stable

Rising migration

More Moldovans are seeking jobs abroad despite improving domestic economic conditions.

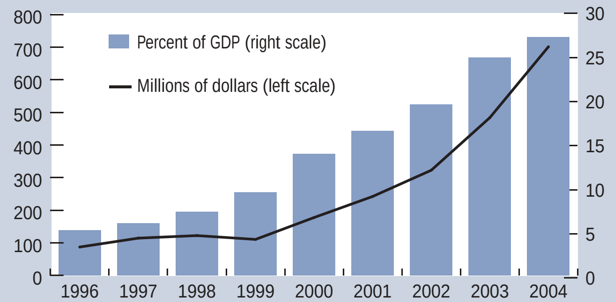
(thousands)



Note: Number of Molodovan migrants as declared by their families.
Data: Moldova, Department of Statistics and Sociology, 2005.

Booming remittances

Gross workers' remittances in Moldova rose sixfold between 1996 and 2004.



Data: National Bank of Moldova.

and countercyclical source of foreign exchange in the short run. And, as more migrants settle abroad permanently, portfolio choice considerations may become more important.

Migration and remittances have important macroeconomic consequences, too. They drive growth through household consumption; reduce the labor supply and put pressure on wages; finance a large and widening trade deficit; put pressure on the exchange rate to appreciate; fuel inflationary pressures; contribute to higher tax revenues, particularly through higher value-added tax collection on rising imports; and threaten the sustainability of the pension system.

Vitaly Belousov/Itar-Tass Photos

In Russia, Moldovans complete paperwork to register as migrant workers.

Indeed, the study's microeconomic survey confirms that households spend most of their supplemental income on consumer goods and housing construction. This spending has provided a strong short-term boost to domestic demand that has helped drive GDP growth in recent years. Ultimately, however, ensuring sustainable growth will require a more balanced composition of aggregate demand—with a greater contribution from business investment in particular.

Policy choices are critical

In Moldova's public debate, the issues of migration and remittances have tended to be framed in terms of good or bad. For the longer term, however, what matters more are the underlying reasons for these phenomena and the policy response. In principle, the greater mobility of capital and labor permits a more efficient allocation of resources. In that sense, a wider choice of employment opportunities, both at home and abroad, for Moldova's workers is welcome. At the same time, policy choices in three broad areas—fiscal, monetary, and structural—become critical for maximizing the potential benefits of labor migration and remittances.

For ***fiscal policy***, Moldova's key short-term challenge is to help safeguard macroeconomic stability and resist procyclical spending temptations in the face of surging tax revenues. Reduced unemployment and improved household incomes from higher wages and transfers from abroad ease social spending pressures. Over the longer term, considerations of fiscal sustainability become critical, as the government grapples with shifts in the demographic structure through the loss of some of its economically active population. At present, the pay-as-you-go pension system, which relies on contributions from the current generation of workers to finance retirement benefits for current retirees, is coming under pressure, as the exodus of workers reduces the base on which the contributions are levied.

Monetary policy has a key role to play in creating a stable macroeconomic environment, but it needs greater support from fiscal and structural policies to be effective. At this point, a strategy geared to maintaining a flexible exchange rate regime, paired with a clear focus on low inflation as the overriding goal of monetary policy, appears to be a reasonable option. Improving and maintaining external competitiveness are inextricably linked to the over-riding policy challenge of accelerating economic development. In that sense, competitiveness should be viewed not only in terms of safeguarding external sustainability but also in terms of Moldova's ability to build solid economic growth by attracting much-needed foreign direct investment.

On the ***structural*** side, the short-term benefits of remittances for the domestic economy should not be allowed to obscure the need to implement an effective structural reform agenda. Moldova's problem today is that much of the impetus to migrate stems from the lack of opportunities at home. In the end, only by making Moldova a more attractive place for both labor and capital can the government ensure that its resources—most important, the skills and talent of its population—will be used to their full potential for the benefit of present and future generations. A determined and sustained effort to improve the business environment would enhance Moldova's attractiveness as a destination for foreign capital and stimulate larger foreign direct investment inflows, which have been relatively modest to date. It would also create incentives that would help channel migrant remittances increasingly toward productive uses. This aspect will assume greater importance over time because more migrants are likely to work abroad permanently and consider investing their savings in their host country. ■

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Copies of IMF Special Issues Paper, *Migration and Remittances in Moldova*, by Milan Cuc, Erik Lundbäck, and Edgardo Ruggiero, are available for $25.00 each from IMF Publication Services. Please see page 48 for ordering details.

Emerging markets can harness globalization's fiscal payoffs

Over the past decade, emerging market economies have become increasingly integrated with the global financial marketplace. Improved market access stemming from financial globalization has important positive implications for a country's capital account and economic growth. Are there fiscal payoffs as well? A new IMF Working Paper finds that, indeed, financial integration and a benign global financial market environment in recent years have resulted in improved external financing and budgetary positions. The potential for a reversal of favorable external conditions, however, underlines the need for further fiscal reforms.

Financial integration has permitted emerging market economies as a group to borrow externally more than ever before. In nominal U.S. dollar terms, emerging market public external debt grew markedly over the 1990s and has grown even faster since 2000. It is the composition of external debt, however, that shows best how much market access has improved: while external debt to official creditors and banks has been declining, market-placed bond debt, which hinges much more on investor confidence than do bank loans, has grown rapidly and now makes up a larger share of these countries' external debt than at any point in the past three decades.

Improved market access

Three sets of mutually reinforcing factors underlie the recent improvement in market access:

Improved fundamentals. Many emerging markets have improved their fundamentals by pursuing sound macroeconomic policies, implementing structural reforms to improve incentives for savings and investment, and reducing distortions. Also, debt sustainability, when measured against GDP or exports, has improved despite the rise in nominal debts. Many countries have also restructured their debts to reduce their cost of external financing—for instance, by lengthening the maturity profile of debt and refinancing high-cost with lower-cost obligations, as well as by better managing investor relations. These improvements have contributed to a large number of ratings upgrades over the past four years, with several countries now in the investment-grade category.

Evolving financial markets. In part reflecting emerging market economies' improved fundamentals and their growing influence in the global economy, their investor base has broadened and deepened, with the emergence of dedicated investors, including mutual funds and hedge funds. Emerging market assets are increasingly being identified as a separate asset class, and institutional investors—particularly some of the largest pension funds in the major industrial economies—have begun to include them systematically in their portfolios. Both developments have led to an expectation of more stable future capital flows, lowering the riskiness of the asset class and making it more appealing.

Exceptionally benign global financial environment. Over recent years, global interest rates have declined; yield spreads have narrowed; and commodity prices have remained high, boosting growth and fiscal revenues in the many net commodity exporters among emerging markets. In addition, the weakening of the U.S. dollar over 2002–04 is likely to have benefited those countries whose debts are denominated in dollars but whose export bases are broadly diversified. Because many commodities are denominated in U.S. dollars, however, the overall effect of a dollar decline may be ambiguous.

Better fiscal performance

An analysis of 40 of the largest emerging market economies in four regions shows that fiscal performance has benefited considerably from improved market access. While there are considerable cross-country variations, the analysis shows that the median (average) country in each of three regions—Africa and the Middle East, emerging Europe, and Latin America—saved an estimated 2 percent of GDP cumulatively in its fiscal balances from 2002 to 2005 compared with 2001—that is, before financial conditions became unusually favorable. The exception was Asia and the Pacific, where, because of lower outstanding official debts, cumulative fiscal savings stood at somewhat less than 1 percent of GDP.

What accounted for these savings? The chief impetus was low global interest rates—more specifically, the combined effect of lower rates on variable-rate debt and on newly issued fixed-rate debt. In contrast, annual savings from narrower spreads have so far remained small, although they are considerably larger in net present value terms.

Exchange rate movements have had more ambiguous effects: calculated over 2002–05, they reduced, on average, debt service in Africa and the Middle East and emerging Europe but increased it in Asia and the Pacific and Latin America. This somewhat surprising finding is explained by the fact that the U.S. dollar, despite its overall weakness during that period, has appreciated against a number of currencies in some of the countries analyzed.

Reversal of fortunes?

What would be the effect on emerging market economies' fiscal positions if the financial environment were to become less benign? After all, global interest rates at the short end of the yield curve have risen significantly as U.S. monetary policy has been tightened, and global long-term rates could rise from their recent low level, particularly if growth remains buoyant, inflation concerns increase, and the U.S. dollar is subject to further downward pressure. In the past, higher long-term interest rates have, in turn, tended to be associated with wider spreads. And it is not clear that commodity prices and exchange rates vis-à-vis the U.S. dollar will remain as favorable for many emerging markets as in past years.

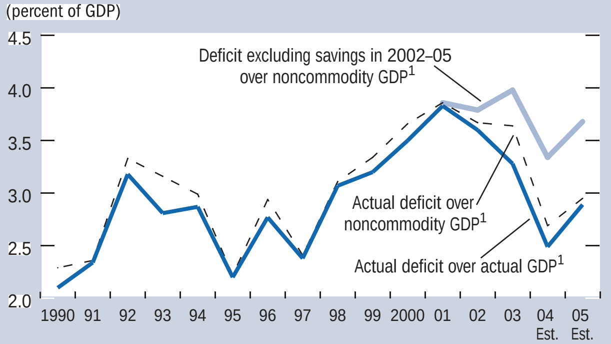
Simulating the impact of higher global interest rates, wider spreads, a weak U.S. dollar, and high commodity prices (compared with the 2001 benchmark) on the 40 emerging market economies' fiscal performance suggests that, on average, their fiscal deficit in 2005 would have been as high as in 2001 (see chart). While some have achieved substantial improvements, others have seen a worsening. This suggests that the recent decline in the fiscal deficits of many of them reflects more the benign financial environment than an improvement in the countries' underlying fiscal performance. And, if fiscal fundamentals have improved less than they appear, a reversal in external financial conditions could bring about a deterioration in many emerging market economies' budgetary positions.

Furthermore, there is an added concern: that the most vulnerable countries could be hit hardest by a change in external conditions, because they tend to benefit most from a benign financial environment. This could be compounded by a disproportionate widening of spreads in some cases, given the empirical evidence that the narrowing of the yield spread has been driven at least as much by liquidity as by fundamentals.

In reality, the effects of a less benign global financial environment will depend on a variety of considerations. The effects of a rise in interest rates, for instance, may be ameliorated to some extent by valuation changes attendant on any further dollar depreciation, and the relationship between risk premiums and spreads may be different from the past, reflecting changes in investor perceptions of the long-run prospects of emerging market economies. In general, it makes a difference if rates rise primarily because of strong activity (which would support emerging market growth), supply-side constraints, or oil price–related inflation pressures. And, even if conditions were to deteriorate, many countries would be able, at least for some time, to reap benefits from the improvements they have made in their asset-liability structure in recent years.

Better fiscal picture

A benign financial environment has helped emerging market economies improve their fiscal performance.



Note: Savings as defined in the text.
[1]Median of 40 emerging market economies.
Data: Authors' calculations, based on various data sources.

Locking in the benefits

Countries that have pursued good policies should be able to deal better with an adverse environment. Others, whose underlying vulnerabilities may even have increased and that have relied mainly on the benign external environment, could make better use of the environment to strengthen their policies.

Continued structural reforms could help countries lock in benign financing conditions more permanently. Investors are likely, for example, to reward steps that signal more prudent behavior, and countries that take such steps could expect a payoff in the form of relatively lower spreads, even if external economic conditions were to turn sour.

An analysis of the relationship among a broad measure of fiscal transparency, countries' sovereign ratings, and spreads indicates that more transparent countries get better ratings and pay lower spreads, even after controlling for other factors. Implementing just 5 additional best-practice fiscal transparency measures of 20 that were identified (such as publishing contingent liabilities) could yield estimated savings on the order of ¼ of 1 percent of GDP, on average, for the countries examined.

It is clear that countries pursuing sound policies benefit the most from financial integration. This suggests that there can be a virtuous cycle of prudent policies helping to enhance integration without raising vulnerabilities and improved performance, which, in turn, is a spur for greater policy discipline. ■

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Copies of IMF Working Paper No. 05/212, "Financial Globalization and Fiscal Performance in Emerging Markets," by David Hauner and Manmohan S. Kumar, are available for $15.00 each from IMF Publication Services.

Best practices for value-added tax refunds—how to mend the "Achilles' heel" of the VAT

Under a value-added tax (VAT), businesses are refunded the difference between the tax they pay on their purchases and what is collected on taxable sales. Although refunds are straightforward in principle, serious problems often arise in practice, including opportunities for fraud and corruption, while delayed refunds pose particular problems for export-oriented businesses. What can be done to ensure effective and efficient refunds? A recent IMF Working Paper by Graham Harrison and Russell Krelove surveys current practices and proposes a list of best practices.

Nearly 130 countries use a VAT, and this tax currently accounts for 25 percent of the world's tax revenue. Refunds—an integral part of the VAT process (see box)—have been substantial, too, exceeding 40 percent of gross VAT collections in many developed countries. In developing and transition economies in Africa, Asia, the Middle East, and Latin America, refund levels tend to run lower, typically between 2 percent and 20 percent (see table, page 46).

To gain a clearer perspective of how countries administer refunds and deal with problems, the IMF surveyed tax administrations in a sample of 36 developing, emerging, transition, and developed economies. The survey found that refund levels are substantial but vary widely across regions and that they are typically higher in advanced and emerging market economies. Within regions, refund levels are largely similar among countries with similar VAT systems and economic conditions. Countries tend to establish a pattern of refund claims over time, with levels remaining relatively constant from year to year.

The refund level is influenced by a number of factors, including the nature of the economy, the design of the VAT system, taxpayer compliance behavior and the extent of fraud, and the system and culture of the tax administration. The level of refunds is likely to be higher in countries with more open and faster-growing economies and modern tax systems.

The findings also confirm that most refund claims, in both the number and value of claims, are made by exporters. Typically, a small number of large exporters account for the majority of excess credits refunded. Most developed countries pay refunds within four weeks of receiving a claim, but claims in developing and transition economies often take several months and sometimes more than a year to process. These delays invariably occur when state budgets are under pressure and when tax collection targets are not being met.

Statutory deadlines are common but are often not met, and more than half of the countries surveyed do not pay interest on late refunds. In export-oriented countries, such practices can seriously undermine the competitiveness of the export sector. If VAT refunds are not paid to exporters, or if payment is delayed without interest (that is, without recognizing the time value of money to the exporter), the tax becomes embedded in the exporter's costs, and, with higher costs, the firm is less competitive in international markets.

Compliance issues

Registered taxpayers may not pay the correct amount of VAT for a number of reasons, including error, deliberate understatement of liabilities, and systematic abuse of the refund

Primer on the VAT

Despite its name, the value-added tax, or VAT, is generally not intended to be a tax on "value added" as such; rather, it is a tax on consumption. The system provides a way for firms to offset the tax they pay on their own purchases of goods and services against the tax they charge on their sales of goods and services. The VAT is levied at multiple stages of the production process. The advantage is that revenue is collected throughout the production process without distorting production decisions.

How does it work?

- Firm A, for example, sells a product for $100 (excluding tax) to Firm B, which in turn sells the output for $400 (again, excluding tax) to final consumers.
- Assuming the VAT is 10 percent, Firm A then charges Firm B $110, giving $10 to the government in tax.
- Firm B will charge final consumers $440, giving $30 to the government in tax: output tax of $40 less a credit for the $10 of tax charged on its inputs.
- The government collects a total of $40 in revenue.

system. Countries have generally found it difficult to estimate the size of the problem, but the revenue leakage is thought to be substantial. While fraud and evasion are similar across countries, the methods used to tackle the problem are not (see box). The survey found that countries employ various methods, ranging from efforts to influence taxpayer behavior to more intrusive systems and regulations that apply to good and poor compliers alike. Two-thirds of the respondents used risk assessments in processing refund claims, but these differed widely in scope and sophistication.

One-fourth of respondents also had in place statutory requirements to verify every refund claim prior to payment. Even those that lacked this legal feature often aimed to verify all claims as a matter of administrative practice. One-third reported that their countries did not have a VAT audit program. For those that did, prerefund audits were the focus in one-fourth of the countries concerned.

More broadly, the survey found that many developing and transition countries fail to implement effective audit programs. Why? Respondents cited a variety of reasons, including insufficient numbers of highly skilled and appropriately remunerated audit practitioners; authorities' concerns about collusion between taxpayers and auditors; inadequate preparations at the time of VAT implementation, possibly because the consequences of a weak audit program were not immediately perceptible; the lack of clear political support for the tax administration; and the absence of an appropriate legal and judicial environment.

What works best?

Successful tax administrations, however, have found ways to make their refund process both efficient and effective. These systems are characterized by their ability to distinguish between claimants with a history of good compliance and those with poor or unknown compliance histories. They also use prerefund audits for high-risk refund claims and postrefund audits for claims of lesser perceived risk and apply criteria to determine the likely extent of revenue risk associated with each refund claim.

What can developing and transition countries, which often face resource constraints, do to develop more effective VAT refund systems? Here are a number of best practices particularly well suited for developing and transition countries:

- ***Keep the number of payers at a level that the tax administration can realistically manage.*** A country should set a high VAT registration threshold to ensure its tax authority has the capacity to handle a given number of payers and refund claimants in a self-assessment environment.
- ***Subject registration applications to proof of identity and other basic checks*** to prevent

Frank Rumpenhorst/Newscom

A value-added tax is levied at multiple stages of the production process, which companies—such as this car factory in Germany—pay in the course of doing business and then collect later as refunds from governments.

VAT fraud and evasion

Fraud and evasion can occur in various forms, including

Inflated refund claims. The simplest method is to create fake invoices for purchases never made. Indeed, organized crime networks have been known to establish businesses solely to fabricate invoices for sale to those wishing to defraud the revenue.

Underreported sales. This is the most common way to evade a VAT, particularly by small operators in retail services, where taxable inputs are small relative to taxable sales.

Fictitious traders. This involves the creation of short-lived sham enterprises that register for the VAT and create the illusion of trading in goods and services. A typical ploy is to invent fake export invoices for nonexistent goods and claim VAT refunds.

Domestic sales disguised as exports. Under this scheme, traders sell goods on the domestic market but claim a refund using a fake export invoice.

Other forms of evasion and fraud. These include barter arrangements hidden from the authorities, traders who are liable for the VAT but do not register, and goods imported illegally and then sold with the VAT added but not remitted to the tax authorities.

fictitious traders from entering the VAT system and stealing funds through the refund system.

• ***Establish suitable forecasting and monitoring systems to anticipate refund levels and make sufficient funds available to meet all legitimate refund claims.*** Authorities should be able to predict, with some degree of certainty, the level of refunds they might reasonably expect to pay throughout the year.

• ***Process refunds within a reasonable statutory period (for example, 30 days from the date on which a refund claim is made).*** The statutory deadline may be extended in special circumstances, and the tax administration should report to the public on its performance in meeting the statutory deadline.

• ***Pay interest on late refunds*** to compensate taxpayers with legitimate refund claims for being deprived of their working capital.

• ***Offset excess credits against VAT and other tax arrears,*** except where an outstanding amount is subject to a genuine dispute. To support this practice, the necessary taxpayer accounting and debt management systems need to be in place.

• ***Always pay refunds promptly to exporters*** or to enterprises that export a large share of their products (for example, where at least 50 percent of the turnover is attributed to export sales). As appropriate, other taxpayers may be required to carry forward their excess credits for six months.

• ***Make verification of refund claims a component of a wider audit program*** designed to achieve broad coverage of taxpayers and compliance issues. Prerefund audits should be limited to high-risk cases (for example, the first refund claim by a new registrant), while lower-risk claims should be subjected to selective postrefund audits.

• ***Give preferential treatment to regular exporters with sound compliance histories.*** Some tax administrations assign an approved refund level within their computer systems for taxpayers with sound compliance records and accounting practices. Others categorize refund claimants according to their compliance history and perceived level of risk. Low-risk claimants receive automatic refunds, often within a few days of filing their claims. Selected higher-risk taxpayers are required to substantiate their claims.

• ***Consistently apply appropriate sanctions to taxpayers who falsely claim refunds*** or do not comply with record-keeping requirements. Refund-related fraud should be prosecuted through the criminal justice system.

• ***Provide an appeals process so that taxpayers can, on reasonable grounds, appeal decisions that withhold refunds.*** Such appeals should be considered by an independent tribunal and dealt with promptly.

• ***Provide clear information to taxpayers on their rights and obligations and the procedures for making a refund claim.*** VAT returns and refund claim forms should be simple, have clear instructions, and be convenient to file. ■

VAT refunds vary widely among countries and regions

Refunds range from nearly 40 percent in Europe to less than 10 percent in Asia and Africa.

	Average[1]
(percent of gross VAT collections)	
Canada	50.3
European Union	38.1
Eastern Europe	36.8
New Zealand	35.5
Former Soviet Union	29.6
Latin America	17.4
Middle East	16.2
Asia (excluding Singapore)[2]	7.0
Africa (excluding South Africa)[2]	6.0

[1]Average refund level over a four-year period (1998 to 2001).

[2]Gross VAT collections are 54.3 percent for Singapore and 39.4 percent for South Africa.

Data: IMF survey responses, IMF staff estimates, and *World Economic Outlook*.

Copies of IMF Working Paper 05/218, "VAT Refunds: A Review of Country Experience," by Graham Harrison and Russell Krelove, are available for $15.00 each from Publication Services. Please see page 48 for ordering details. The full text is also available on the IMF's website (*www.imf.org*).

HIPC debt relief (status as of January 26, 2006)

IMF member	Decision point	Completion point	Amount committed	Amount disbursed[1]
			(million SDRs)	
Heavily Indebted Poor Countries (HIPC) Initiative				
Under original 1996 Initiative				
Bolivia	September 1997	September 1998	21.2	21.2
Burkina Faso	September 1997	July 2000	16.3	16.3
Côte d'Ivoire	March 1998	—	16.7[2]	—
Guyana	December 1997	May 1999	25.6	25.6
Mali	September 1998	September 2000	10.8	10.8
Mozambique	April 1998	June 1999	93.2	93.2
Uganda	April 1997	April 1998	51.5	51.5
Total original HIPC			**235.3**	**218.6**
Under the 1999 Enhanced HIPC Initiative				
Benin	July 2000	March 2003	18.4	20.1
Bolivia	February 2000	June 2001	41.1	44.2
Burkina Faso	July 2000	April 2002	27.7	29.7
Burundi	August 2005	Floating	19.3	0.1
Cameroon	October 2000	Floating	28.5	11.3
Chad	May 2001	Floating	14.3	8.6
Congo, Democratic Republic of the	July 2003	Floating	228.3[3]	3.4
Ethiopia	November 2001	April 2004	45.1	46.7
Gambia, The	December 2000	Floating	1.8	0.1
Ghana	February 2002	July 2004	90.1	94.3
Guinea	December 2000	Floating	24.2	5.2
Guinea-Bissau	December 2000	Floating	9.2	0.5
Guyana	November 2000	December 2003	31.1	34.0
Honduras	June 2000	April 2005	22.7	26.4
Madagascar	December 2000	October 2004	14.7	16.4
Malawi	December 2000	Floating	23.1	11.6
Mali	September 2000	March 2003	34.7	38.5
Mauritania	February 2000	June 2002	34.8	38.4
Mozambique	April 2000	September 2001	13.7	14.8
Nicaragua	December 2000	January 2004	63.5	71.2
Niger	December 2000	April 2004	31.2	34.0
Rwanda	December 2000	April 2005	46.8	50.6
São Tomé and Príncipe	December 2000	Floating	—	—
Senegal	June 2000	April 2004	33.8	38.4
Sierra Leone	March 2002	Floating	98.5	66.0
Tanzania	April 2000	November 2001	89.0	96.4
Uganda	February 2000	May 2000	68.1	70.2
Zambia	December 2000	April 2005	468.8	508.3
Total enhanced HIPC			**1,622.5**	**1,379.1**
Combined total			**1,857.8**	**1,597.7**

Definitions

Decision point: Point at which the IMF decides whether a member qualifies for assistance under the HIPC Initiative (normally at the end of the initial three-year performance period) and decides on the amount of assistance to be committed.

Completion point: Point at which the country receives the bulk of its assistance under the HIPC Initiative, without any further policy conditions. Under the enhanced HIPC Initiative, the timing of the completion point is linked to the implementation of pre-agreed key structural reforms (that is, floating completion point).

[1]Includes interest on amounts committed under the enhanced HIPC Initiative.

[2]Equivalent to the committed amount of $22.5 million at decision point exchange rates for March 17, 1998.

[3]Amount committed is equivalent to the remaining balance of the total IMF HIPC assistance of SDR 337.9 million, after deducting SDR 109.6 million representing the concessional element associated with the disbursement of a loan under the Poverty Reduction and Growth Facility following the Democratic Republic of the Congo's clearance of arrears to the IMF on June 12, 2002.

Data: IMF Finance Department.

Are emerging markets altering the world economy?

The recent buoyancy of emerging market economies is almost unprecedented in its duration. Is this extraordinary period of growth, low inflation, and absence of balance of payments crises a secular transformation of the global economy, a "structural break" with the past? And, if so, what are the potential ramifications for the IMF?

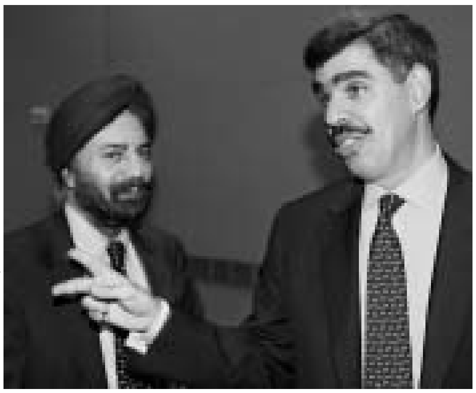
At an IMF Institute seminar, Mohamed A. El-Erian (formerly managing director, Pacific Investment Management Company, and now president and chief executive officer of the Harvard Management Company, where he manages Harvard University's endowment fund) tackled these topics in a review of recent developments in international capital markets.

A break with the past?

Emerging market countries now account for almost one-half of world GDP. El-Erian focused on Brazil, Russia, India, and China, whose growth prospects remain good, whose global trade linkages continue to deepen, and whose exports are moving up the value-added ladder. These countries now have better policies, stronger financial system balance sheets, and improved data dissemination. According to El-Erian, on the basis of this structural break with the past, they have seen barriers to market entry collapse and have been able to wield new influence in the global economy.

The number of upgrades that rating agencies have given to these emerging market countries has accelerated, El-Erian said, and this would point to a tremendous change in the quality of growth. All would seem to indicate, he said, that we are experiencing "a significant, loud revolution." Volatility used to be a more serious issue for emerging market countries, but recently, every spike in their interest rate spreads has been externally induced. This suggests that investors perceive that economic and financial fundamentals in these countries are getting stronger. But it is still too early to know, he said, if what we are seeing is a new reality or an old-fashioned overshoot on the part of investors based on excessively optimistic expectations.

Interestingly, consumers in emerging market countries are not yet responding to these changes by increasing spending. El-Erian attributed "the relatively elusive Asian consumer" to countries' domestic policies designed to "hold back their consumers." The United States remains the main consumer, and emerging market countries, going against every textbook expectation, remain savers.


Henrik Gschwindt De Gyor/IMF

Manmohan Singh Kumar, Assistant Director of the Fiscal Affairs Department, looks on as Mohamed A. El-Erian speaks to seminar participants during a break.

Rethinking the IMF's role

If a major structural break is occurring, what is the appropriate role of the IMF? In El-Erian's view, the IMF must now be seen as a provider of trusted advice rather than as a source of financing. As for the IMF's broader role in international capital markets, risk management will be key. He sees a need for more IMF country missions dealing more systematically with these issues and for greater open-mindedness. He counseled the Fund to first listen to what countries have to say rather than sticking steadfastly to briefing papers. The IMF, unlike any other organization in the world economy, "speaks to every member country and is not selling a product," El-Erian said. Therefore, it has a unique role to play in international capital markets but must take steps to stay relevant and useful. If the IMF does not do this, he cautioned, others will, but they will do so less efficiently. ■

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