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To succeed Michel Camdessus

IMF Executive Board selects Horst Köhler to serve as IMF Managing Director

On March 23, the IMF's Executive Board selected Horst Köhler as the new Managing Director of the IMF. The text of Press Release No. 00/21 follows:

The Executive Board of the IMF today agreed unanimously to select Horst Köhler as Managing Director and Chairman of the Executive Board of the IMF. Köhler will succeed Michel Camdessus, who resigned on February 14, 2000.

Köhler, 57, a national of Germany, is currently President of the European Bank for Reconstruction and Development, a post to which he was appointed in September 1998.

Köhler was President of the German Savings Bank Association from 1993 to 1998. From 1990 to 1993, he served as Germany's Deputy Minister of Finance, being responsible for international financial and monetary relations. During this time, he led negotiations on behalf of the German government on the agreement that became the Maastricht Treaty on European Economic and Monetary Union, was closely involved in the process of German unification, and held the position of Deputy Governor for Germany at the World Bank. He was personal representative ("sherpa") of the Federal Chancellor in the preparation of the Group of Seven economic summits in *(Please turn to the following page)*

Horst Köhler

Focus on IMF reform

International Monetary and Financial Committee to hold first meeting on April 16

The IMF's evolving role in the international monetary system is expected to be a main focus of the first meeting of the International Monetary and Financial Committee (IMFC), which is to be held in Washington on April 16. In addition to considering issues in the reform of the IMF, the IMFC is also expected to review the continued strengthening of growth in the world economy and progress in the Initiative for the Heavily Indebted Poor Countries (HIPC) and the Poverty Reduction and Growth Facility (PRGF).

The IMFC comprises 24 IMF Governors, ministers, or others of comparable rank, and is chaired by Gordon Brown, U.K. Chancellor of the Exchequer. It was established at the 1999 Annual Meetings, when the IMF's Board of Governors adopted a resolution transforming the Interim Committee into the IMFC (see *IMF Survey*, October 11, 1999, page 317).

Following a review of world economic developments and prospects, the provisional agenda for the IMFC provides for consideration of a number of issues related to reforming the role of the IMF in the global economy. Specifically, these are

- the next steps in the ongoing review of IMF financial facilities;
- safeguarding the resources of the IMF;
- a review of IMF surveillance *(Continued on page 100)*

In this issue

Houston (1990), London (1991), Munich (1992), and Tokyo (1993).

Köhler earned a doctorate in economics and political science from the University of Tübingen, where he was a scientific research assistant at the Institute for Applied Economic Research from 1969 to 1976. After completing his education, he held various positions in Germany's ministries of economics and finance between 1976 and 1989.

He is married to Eva Köhler and has two children. ■

Washington press conference

Köhler addresses range of issues facing IMF, strategy for global economic reform

On March 17, Horst Köhler, then speaking as nominee for the post of Managing Director of the IMF, met with the press. Following are edited excerpts of that press conference. The full text is available on the IMF's website (www.imf.org).

Köhler: "I do think that in a globalized world, the IMF, with its universal membership, is a cornerstone for promoting growth and stability."

KÖHLER: I have come to Washington to introduce myself to the Executive Directors of the IMF. Yesterday, I also met with Stanley Fischer, the Acting Managing Director, and I had a talk with the U.S. Secretary of the Treasury, Larry Summers. It is now important for me to listen carefully before making any specific statements on the role of the IMF, to listen to the IMF shareholders and its staff, but also to outside experts.

I do think that in a globalized world, the IMF, with its universal membership, is a cornerstone for promoting growth and stability. I am fascinated by the expertise of the IMF, its staff, and management. I do think that with regard to the future work of the IMF, the focus should be even more on crisis prevention, and we should make the best use of the strengths of this institution. It also remains important to combine financing with adjustment and to stay engaged in all member countries.

QUESTION: You have dealt with Russian President [Vladimir] Putin when you were at the EBRD [European Bank for Reconstruction and Development]. Do you feel you can deal with him now at the IMF? And what is ahead for Russia and the IMF?

KÖHLER: Indeed, I met and talked to Mr. Putin in December last year. We had a very frank exchange of views. I noted that the reform process in Russia is not strong enough and that is the main cause of the difficulties in Russia. Mr. Putin clearly admitted this was right. And he said that in his view Russia needs to have a strong state.

I confirmed that was right in terms of bringing more predictability to this state and country. But at the end, we will have to wait on concrete deeds and not just listen to words, because deeds count. But I would think that we should give Mr. Putin the benefit of the doubt and work together, and I am open to a constructive dialogue with him.

QUESTION: The IMF, as you are probably aware, is viewed in some parts of this country as the devil incarnate. In the U.S. Congress and elsewhere, there's been a lot of criticism of the IMF. How would you plan to address that and what directions would you see as priorities?

KÖHLER: Well, first, we should all know—management and shareholders—about the direction of changes or reforms in the IMF. Second, I am fully committed to an open discussion and dialogue with the U.S. Congress. We are meeting in a discussion about reforms. I have a good feeling that out of all these contributions and comments it will be possible to sort out structures and conclusions that will strengthen the IMF to do a good job in the future.

QUESTION: Could you tell us a little bit more about your conversation yesterday with Mr. Fischer and whether you obtained assurances that he will stay on for the short or the long term?

KÖHLER: We had, indeed, very good and long discussions. I appreciate very much Stanley Fischer's intellectual brilliance and his experience in working and guiding the IMF. I clearly told him that I would be interested that he stay, and he at the same time told me that he would like to stay. I am sure that he and I will work together very closely for some time.

QUESTION: Mr. Köhler, the process that led to your selection as the next Managing Director has come under heavy criticism—in part because developing countries felt left out, in part because it gave new ammunition to the IMF's critics, and in part because it was probably unfair to some people involved. As the IMF's new leader, would you recommend that the process of selection of the Managing Director be reviewed, discussed, and changed?

KÖHLER: I agree that this process was really not the best and I have no hesitation in saying that it should be reviewed and improved.

QUESTION: Could you talk a little bit about your meeting with U.S. Secretary of the Treasury Larry Summers and what was discussed? The United States finally came out in support of your nomination but at first it didn't seem wholehearted. Did that come up at all?
KÖHLER: Well, before I met with Larry here in Washington, he called and told me that he would look forward to working with me. Here in Washington, we reviewed the work of the IMF and had an exchange of views about reform priorities. We agreed on most of these items. Of course, we couldn't touch on everything in detail, but the talk was in substance very friendly. I know Larry Summers from one year of cooperation in 1993. He knows my working style is open, speaking candidly, but our experience is that it is the best way to find the best solution. I am really looking forward to working together with Larry Summers in more concrete terms.

QUESTION: You had said you wanted to focus more on crisis prevention and would like to see the IMF focus more on crisis prevention. How is the IMF preventing crises today?
KÖHLER: Well, many items come into this. The most important axis for crisis prevention activities is the surveillance activity of the IMF's Executive Board. And surveillance operates in two ways. First, macroeconomic stability surveillance gives advice to countries. But, second, structural issues underpin macroeconomic stability and sustained growth. And the work done, or in the process of being done, in the Financial Stability Forum is very important for bringing this critical discussion about the international financial architecture to very concrete conclusions. Here I would think is the main priority for the IMF to enhance its activities for crisis prevention.

QUESTION: Will you be in office for the [April 16] spring meeting [of the International Monetary and Financial Committee]?
KÖHLER: I must say that the time between when I first talked to German Chancellor [Gerhard] Schroeder and today is less than two weeks. I have not yet even had a chance to organize my work in the EBRD. Going to Washington after the election is, of course, fascinating and challenging, but I would also go to Washington with a bit of a sadness, because the EBRD is a good and efficient institution. I don't want to give the staff of the EBRD the impression that this represents a downgrading of their institution. So I am very interested in organizing an orderly transition, and I am urging shareholders of the EBRD to decide very rapidly on my possible successor.

QUESTION: Would you support the cancellation of debts owed to the IMF by developing countries as was advocated last week in the Meltzer Commission?
KÖHLER: I don't want to go into details today, but I can address a point of principle. Debt reduction, or debt relief, is and can and should be an element of a global strategy to secure global growth and fight poverty. But debt relief or debt reduction without growth, macroeconomic stability, and structural reforms makes no sense. It has to be combined with reforms and with macroeconomic stability.

Köhler: "In principle, more disclosure of information and of IMF policy and IMF activities and approaches is the right direction to go at the beginning of this century."

QUESTION: There is a discussion going on about how the IMF should use the information it gathers during the surveillance process. Some say that this is privileged information that should be communicated directly from the IMF to governments. Others say that perhaps the market should be used to bring influence to bear on governments via the IMF making this information more public. How much information should the IMF provide to the public and to the private market?
KÖHLER: The IMF should release information that enables markets and the public to better judge a country, its economy, and its problems. There is an area of information that has to be confidentially treated—for instance, in the context of private involvement—because these people want to keep their information. But, in principle, more disclosure of information and of IMF policy and IMF activities and approaches is the right direction to go at the beginning of this century.

QUESTION: How are you going to approach the issue of developing countries in terms of their role in the global economy and their place in organizations like the IMF and the World Bank? How will you consult with and involve them in your new role?
KÖHLER: We are so often—and even maybe too often—talking about globalization. But if we are serious about

globalization, we must understand that the developing countries are part of this globalized world. We are really one world. I not only met with the full group of IMF Executive Directors yesterday, I also met with the Executive Directors for the constituencies of the developing countries. We have to give more attention to developing countries to find strategies that are sustainable.

QUESTION: There are probably going to be very large protests during the spring meetings. How will you approach public skepticism about the IMF's intentions and its abilities?

KÖHLER: My intention is to have more open dialogue with the public and with NGOs [nongovernmental organizations]. It is our obligation to explain IMF policy and activities better maybe than we have done in the past. And we have to have a dialogue. But I also hope we are not embarking on a process where dialogue with the NGOs is weakening the democratic institutions in our societies and countries. There has to be a process of openness, more public disclosure, and more attention to these concerns and contributions to the discussion, but there must also be an awareness that our institutions have been given responsibility by elected officials, and this should not be weakened.

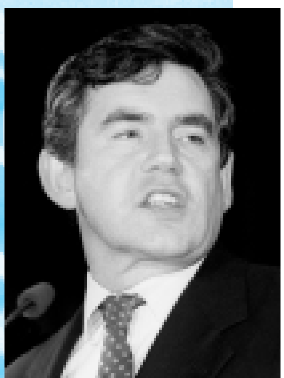
QUESTION: What would you do to prevent the misuse of IMF funds?

KÖHLER: Experience reveals the need to be even more careful, and if something happens, to draw conclusions and to organize our own work so that it will not be repeated. ■

Agenda for April committee meetings

(Continued from front page) and the links between surveillance and international standards and codes of conduct. This will take place against the background of the IMF Executive Board's biennial review of surveillance; its progress reports on standards and codes of good practice; its discussion of the lessons from the pilot exercise in the Financial Sector Assessment Program and the next steps in this area; and its review of the IMF's data standards initiative; and

• work toward a framework for securing private sector involvement in the prevention and resolution of financial crises.



Gordon Brown, Chairman of the IMFC.

The IMFC is also scheduled to review progress on the HIPC Initiative and poverty reduction and growth strategies.

As a basis for discussion of much of its agenda, the IMFC is expected to receive a report from the IMF management on progress on a wide range of issues in strengthening the architecture of the international financial system. Other issues that ministers may discuss include the progress in implementing the Special Data Dissemination Standard and the General Data Dissemination System; issues of reserves and debt management; initiatives toward greater transparency; exchange rate regimes; and the external evaluation of IMF activities.

Tarrin Nimmanahaeminda, Chairman of the Development Committee.

The IMFC's discussions will take place against the background of the IMF staff's latest review and projections for the global economy in the *World Economic Outlook*. The *World Economic Outlook* will be released on the IMF website on April 12, when it will also be discussed at a press conference by Michael Mussa, Economic Counsellor and Director of the IMF's Research Department.

Following the conclusion of the IMFC's meeting on April 16, Chairman Brown and the IMF's management are scheduled to hold a press conference at which the Committee's communiqué will be released.

A number of ancillary meetings will take place in connection with the IMFC. The Group of 24 ministers, representing the developing member countries of the IMF, is to meet on April 15, with Germán Suárez, Governor of the Central Bank of Peru, in the chair. A press conference will be held following the meeting. The finance ministers and central bank governors of the Group of 10 will meet on April 16 prior to the IMFC meeting.

Following the IMFC meeting, on April 17, the Joint IMF–World Bank Development Committee will meet. The Committee, formally known as the Joint Bank-Fund Committee on the Transfer of Real Resources to Developing Countries, will be chaired by Tarrin Nimmanahaeminda, Finance Minister of Thailand. The Committee is expected to discuss trade and development issues and steps toward intensifying action against HIV/AIDS. The Committee is to receive an IMF–World Bank progress report on implementing poverty reduction strategy papers and the HIPC Initiative. It will also receive a report on the conclusions of the World Bank–Commonwealth Task Force on Small States and an update on the World Bank's financial capacity. Chairman Nimmanahaeminda and James Wolfensohn, President of the World Bank, will hold a joint press conference following the meeting. ■

The next issue of the *IMF Survey* will be dated April 24 and will provide full coverage of the IMFC and the Development Committee meetings.

IMFSURVEY

Prospects for recovery improve in southeast Europe; countries record stronger external positions

IMF staff are projecting a resumption of growth in southeast Europe in 2000. GDP for the region is estimated to have contracted slightly in 1999, in part because of the Kosovo crisis but more so because of underlying macroeconomic and structural problems in the two largest economies, Romania and Croatia. Nevertheless, generally prudent macroeconomic management in most countries has provided a stable environment in which economic growth should rebound quite strongly in 2000 (see upper table). On average, Romania and Croatia are projected to continue to grow more slowly than the smaller countries in the region, but for both countries, growth is projected to firm during the year. In all countries, the sustainability of growth will depend on further progress in addressing macroeconomic imbalances and implementing structural reforms.

Inflation is now low in all of the countries of the region except Romania, where it is still over 50 percent. The Romanian government aims to reduce inflation to 27 percent by end-2000. Elsewhere, monetary and fiscal policies are generally consistent with maintaining low inflation.

External financing

Almost all countries in the region recorded better-than-expected external positions in 1999, with Bosnia and Herzegovina, Croatia, former Yugoslav Republic (FYR) of Macedonia, and Romania (see lower table) achieving significant reductions in their current account deficits. But even with continuing adjustment efforts in most countries, official balance of payments financing needs, including grants, are projected to be about $2.3 billion for the region in 2000. Financing for all but about $300 million of these needs has been provisionally identified—assuming the disbursement of sizable assistance committed, but not used, in 1999, and $400 million in net purchases in 2000 under existing IMF programs. Greater official balance of payments financing could still be used to support stronger adjustment and reform programs.

Project (as distinct from balance of payments) financing by official creditors is provisionally projected to amount to about $2 billion in 2000, similar to estimated disbursals in 1998 and 1999 (see lower table). However, the amount could go higher following commitments from donors at a conference in Brussels, March 29–30, to finance a number of selected quick-start regional projects.

Southeast Europe: growth and inflation

	1998	1999 Preliminary	2000 Projected
		(percent)	
Real GDP growth			
Albania	8.0	8.0	8.0
Bosnia and Herzegovina	12.4	10.0	15.0
Bulgaria	3.5	2.5	4.0
Croatia	2.5	–1.0	2.5
FYR of Macedonia	2.9	2.7	6.0
Romania	–5.4	–3.2	1.3
Average (weighted by countries' GDP)	–0.5	–0.2	3.5
		(percent; end of period)	
Inflation			
Albania	8.7	–1.0	3.0
Bosnia and Herzegovina	10.0	5.0	3.0
Bulgaria	1.0	6.2	3.5
Croatia	5.4	5.0	3.5
FYR Macedonia	–3.1	2.4	1.0
Romania	40.6	54.8	27.0
Average (weighted by countries' GDP)	21.7	26.5	13.7

Data: Country authorities and IMF staff estimates

Southeast Europe: external current account and financing needs

	1998	1999 Estimated	2000 Projected
		(percent of GDP)	
Current account balances			
Albania	–6.0	–8.5	–8.6
Bosnia and Herzegovina	–26.8	–17.4	–16.6
Bulgaria	–0.5	–5.2	–4.0
Croatia	–7.1	–6.4	–5.0
FYR Macedonia	–8.8	–4.0	–9.1
Romania	–7.2	–3.8	–3.9
Average, weighted by countries' GDP	–7.1	–5.7	–5.5
		(billion U.S. dollars)	
Required regional financing from official creditors	**3.2**	**3.4**	**4.4**
Project financing by official creditors[1]	**2.0**	**1.9**	**2.1**
Balance of payments and/or budget support[2]	**1.2**	**1.5**	**2.3**
Identified	1.2	1.5	2.0
Unidentified	0.0	0.0	0.3
Memorandum item			
IMF financing, net[3]	0.0	0.1	0.4

[1]For 2000, based on existing commitments and expected disbursements.
[2]Includes nonproject official grants and humanitarian aid.
[3]For 2000, based on existing programs.

Data: Country authorities and IMF staff estimates

IMF relations with the region

• *Albania* is in the second year of a three-year program supported by an arrangement under the Poverty Reduction and Growth Facility (PRGF). The program is on track. The macroeconomic strategy emphasizes fiscal consolidation through strengthening tax revenues, and the structural reform priorities are bank and enterprise privatization. In March, an IMF mission conducted the final review of the second-year arrangement and discussed policies for a third-year program. The authorities are preparing an interim poverty reduction strategy paper that will set out their plans to reduce poverty in Albania.

• *Bosnia and Herzegovina* has had a Stand-By Arrangement with the IMF since May 1998. At the end of March, the second and third reviews of the arrangement were completed, and the arrangement was extended to March 2001. Macroeconomic stabilization continues to rely on a successful currency board arrangement as well as on fiscal adjustment. Progress in the structural area has been hesitant, however, and an acceleration of reforms, particularly in enterprise privatization, will be key to maintaining broad-based and rapid growth.

• In *Bulgaria*, an Extended Fund Facility arrangement is on track, with the third program review completed at the end of March 2000. It is supporting an adjustment and reform program designed to run from July 1998 to June 2001. The authorities remain fully committed to their currency board arrangement, which is underpinned by prudent fiscal and incomes policies and has provided the impetus for wide-ranging structural reform. Economic activity is also strengthening. IMF staff have reached understandings with the authorities on policies for 2000.

• *Croatia's* inoperative Extended Fund Facility arrangement expired in March 2000. The authorities have requested discussions on a Stand-By Arrangement. A program in support of a Stand-By Arrangement would be expected to include, among other things, resolute fiscal retrenchment and structural reforms—notably, further privatization and restructuring of the health care and pension systems. If there were early agreement on a program, a 12- or 18-month Stand-By Arrangement could be in place by midyear.

• In *FYR Macedonia*, the IMF does not currently have an active program. Progress in discussions on a three-year program, supported by a mix of funding from the PRGF and the IMF's General Resources Account, will require the authorities' strong commitment to structural reforms—particularly to enterprise privatization.

• *Romania's* Stand-By Arrangement, approved in August 1999, focuses on continued fiscal consolidation and the restructuring and privatization of banks and enterprises. Performance under the arrangement has generally been good, although completion of the review, originally due by late October 1999, has been considerably delayed, most recently by the need to agree on a program for 2000. At the end of March, the IMF's Executive Board approved a two-month technical extension of the arrangement—which was due to expire—to provide time to complete the review and reach agreement on a further extension of it to the end of February 2001.

• Under the terms of United Nations (UN) Security Council Resolution No.1244, IMF staff are continuing to provide technical assistance to the interim UN administration in *Kosovo*, albeit on a diminished scale now that budgetary and payments systems are successfully in place. IMF staff are also monitoring budgetary policies and developments. The IMF does not have regular relations with Kosovo, which is a province of the Federal Republic of Yugoslavia, a nonmember country. ■

Robert Corker
European I Department

The full text of the IMF report on southeast Europe is available on the IMF's website (www.imf.org).

IMF invites comments on textbook on national accounts compilation

There has been increasing interest in the compilation of quarterly national accounts in many countries for economic monitoring and analysis. Based on training seminars and technical assistance provided by the IMF in several countries, a draft textbook on quarterly national accounts has been prepared. The underlying concepts are the same as the annual accounts and follow the *System of National Accounts 1993*; however, a number of practical and theoretical issues become more prominent in quarterly compilation. The textbook has been designed for national accounts compilers who have experience in annual compilation and wish to develop quarterly estimates, as well as those already working on quarterly estimates who wish to consider improvements to existing systems.

The IMF is inviting comments on the draft textbook to be made by June 21, 2000. The textbook would be finalized shortly thereafter. Comments on the draft are most welcome. They may be sent by e-mail (qna@imf.org) or facsimile (1-202-623-6028). Further information is also available on the IMF's website (www.imf.org).

Participants agree on value of inflation targets as tool to promote medium-term price stability

"The IMF is not becoming a missionary for inflation targeting," IMF Acting Managing Director Stanley Fischer assured his listeners as he opened a seminar on implementing inflation targets sponsored by the IMF Institute on March 21–22. Rather, he said, the purpose of the seminar was to discuss, in a neutral way, the merits and difficulties of inflation targeting—that is, when a country's policymakers aim, as a goal of monetary policy, for an explicit inflation rate (for a related story, see *IMF Survey*, February 7, page 37). Fischer reviewed inflation targeting and mentioned a number of issues that arise when countries contemplate adopting such a framework.

Acting Managing Director Stanley Fischer (left) consults with Mohsin Khan, Director of the IMF Institute.

Overview

Typically, high inflation is viewed as the problem. The countries that adopted inflation targeting started with a level of inflation higher than they felt was desirable. Fischer noted that these countries were generally successful in achieving their targets, as evidenced in a decline in inflation during the 1990s. The flip side of the problem is what countries should do when inflation is already low, as it is in Japan. How should a country with low inflation set the target range? Fischer noted that undershooting the target was also bad, because the monetary authorities were obliged to take steps to bring inflation back up or risk losing credibility with the public.

Other questions that arise, Fischer said, are whether the target should be a specific number or a range; what measure of inflation should be targeted—for example, the growth of the consumer price index versus a narrower price measure, or even an expectation of future inflation; and what the trade-offs are between inflation, on the one hand, and output, the exchange rate, and the current account, on the other. He also noted that although there is a trend toward implementing inflation targeting, the choice of this framework does not mean that the central bank should ignore other issues. The ultimate goal of monetary policy, Fischer said, should be the same in all countries—industrial, developing, and emerging market economies: a well-functioning, growing economy with stable prices.

Theoretical issues

The first two sessions of the seminar dealt with conceptual issues, both theoretical and empirical. In the context of a long-standing debate about whether monetary policy should be discretionary (flexible) or based on rules, Bennett McCallum analyzed several explicit rules for monetary policy. He found, for example, that whether these rules targeted the interest rate or a monetary aggregate (that is, a measure of the money supply), they would have implied a tighter monetary policy for the United States during the 1970s than was actually implemented. McCallum noted that discretion would never be eliminated from monetary policy. Nonetheless, he favored systematizing monetary policy as much as possible through rules rather than allowing policymakers complete discretion.

Bennett McCallum Carnegie-Mellon University

Lars Svensson explored how monetary policy should be conducted in countries that have already achieved price stability (low, stable inflation), which many countries succeeded in doing during the 1990s. He advocated forecast targeting (that is, targeting the central bank's actual inflation forecast, which differs from private inflation expectations because it benefits from policy input), rather than either adhering to a simple instrument rule or targeting a monetary aggregate, as the best way to maintain price stability. In advocating discretion by policymakers, he felt that commitment to fixed rules was neither a desirable nor a practical way to maintain price stability.

Lars Svensson Stockholm University

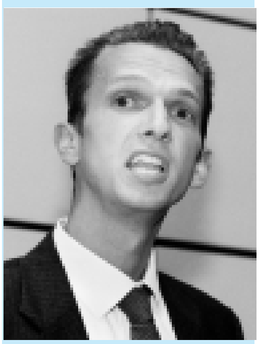
For several decades, high inflation was the primary threat to monetary stability in the world, Svensson stated. Now, however, sustained low inflation has introduced a different risk—that falling prices may push countries into an economic decline. One way countries can prevent inflation rates from becoming too low is through inflation targeting, which he viewed as a form of constrained discretion. Commitment to a target is important, even when policy decisions are made with discretion, he concluded.

Country studies

In the remaining sessions of the seminar, the inflation targeting experiences of Canada, New Zealand, the

Charles Freedman
Bank of Canada

David Archer
Reserve Bank of
New Zealand



Andrew Haldane
Bank of England

Leo Leiderman
Bank of Israel and
Tel Aviv University

United Kingdom, Israel, Mexico, and Brazil were discussed by representatives from these countries' central banks.

Canada. Charles Freedman focused his presentation on the reasons Canada adopted inflation targeting, how well the framework succeeded, and some lessons that Canada had learned. Countries that turn to inflation targeting generally share a number of characteristics, he said, including a history of high inflation, a floating exchange rate (whether voluntary or forced), and no other anchor for monetary policy. Canada fitted this description when it adopted an inflation targeting framework in February 1991, becoming only the second country in the world after New Zealand to do so.

In the mid-1970s, Canada targeted monetary aggregates, which worked until inflationary pressures emerged in the 1980s. In 1988, with a long-term goal of establishing credibility and lowering inflation, the authorities announced that monetary policy would center on price stability. Then, in February 1991, the government and the Bank of Canada together announced an inflation target of 3 percent a year, which they hoped to achieve over 22 months. The joint announcement, the choice of the consumer price index (CPI) as the measure of inflation, and the commitment to a gradual reduction all enhanced credibility and made success more likely, according to Freedman.

Canada's experience with inflation targeting was very positive, Freedman said, and along the way, Canada learned a number of lessons:

- The goal should be a well-functioning economy, not low inflation in itself.
- It is a good idea to focus on an inflation forecast.
- Transparency is important for the success of the inflation targeting framework.

New Zealand. New Zealand is the world's inflation targeting veteran, having instituted this framework in 1989, David Archer said in discussing his country's choices. He noted, first, that New Zealand adopted inflation targeting more by default than by design, as the Reserve Bank, contemplating reform, adopted the public sector's recipe for its own reform—namely, choosing a clear, specific objective; designating the authority to manage it; and holding that authority accountable for meeting the objective. Inflation targeting, Archer said, emerged as the "least bad of the alternatives available."

New Zealand's version of inflation targeting has four features, Archer explained: choice of a single medium-term objective for monetary policy; emphasis on achieving the objective directly rather than indirectly through an intermediate target; an institutional structure that specifies the roles and responsibilities of the two main actors—the central bank and the government; and transparency in setting and implementing its goals.

How successful has New Zealand been in achieving price stability? Archer noted that it went from having the worst inflation record in the Organization for Economic Cooperation and Development before adopting inflation targeting to having the best.

United Kingdom. The number of countries that implement inflation targeting—primarily industrial countries—has grown to double digits over the past 10 years, evidence of how it has increased in importance as a framework for monetary policy. Andrew Haldane considered some issues related to the design of an inflation targeting regime through the lens of the United Kingdom's experience. He recognized that no one framework can meet all countries' needs, but suggested that all monetary regimes would benefit from the "ghostbusting" feature of the U.K. regime. This means, he explained, that countries' monetary authorities must be proactive in setting monetary policy to offset incipient inflationary pressures—the "ghosts"—which will be invisible to the public but which the central bank must detect and exorcise by taking policy measures in good time.

Haldane addressed the institutional framework for monetary policy; target specification; dealing with lags in the transmission of monetary policy, as well as with inflation uncertainties, output objectives (in particular following supply shocks), and the exchange rate; and the transparency of monetary policy. Finally, Haldane noted that inflation targeting, because of its flexibility, transparency, and clarity, may be well suited to emerging market economies.

Israel. When Israel adopted inflation targeting in 1991–92, it started with a history of astronomical inflation—500 percent a year in the mid-1980s—but without a consensus that high inflation was bad. Therefore, Leo Leiderman said, monetary policy under inflation targeting was not fully credible. It fell to the central bank to persuade the public and politicians that inflation was bad and had to be reduced. In the time it took the central bank to establish credibility, it was obliged to take a strong, uncompromising stance in conducting monetary policy. As it gains credibility, Leiderman said, the central bank will be able to relax its conservative position and target inflation more flexibly.

Israel, like Brazil, but unlike Canada, New Zealand, and the United Kingdom, had fiscal imbalances that made inflation targeting more difficult. Another difference is that, because of Israel's large public sector, which includes the defense industry, wage policy is very important.

Mexico. Since experiencing a currency and financial crisis in 1994–95, Mexico's monetary policy has evolved. While it is not formally implementing inflation targeting, it is moving in that direction, according to Alejandro Werner. With the devaluation of the peso in December 1994, inflation rose, the Bank of Mexico lost credibility, and in 1995 the country adopted intermediate targets for monetary policy. Since 1996, the Bank of Mexico has had an annual inflation objective, which is decided jointly with the federal government. During the first year of this new monetary policy, Werner said, Mexico was hit by severe shocks—including huge movements in the exchange rate, increases in public sector prices, and wage negotiations that were inconsistent with the central bank's inflation objectives.

Since 1998, Werner said, Mexico's monetary policy has been more proactive and preventive, qualities that increase its credibility. Its goals are to lower inflation gradually and to offset inflationary shocks over time to lead to sustainable stabilization. With a more proactive monetary policy and flexible exchange rate, Werner noted, Mexico now has a wider range of options when responding to external shocks. The Bank of Mexico has adopted a medium-term objective for inflation—less than 10 percent for 2000—and so far inflation expectations have almost converged to the target.

Brazil. Brazil is a newcomer to inflation targeting, having adopted its framework in July 1999. Sérgio Werlang placed Brazil's decision to target inflation in the context of both domestic and global uncertainties. Toward the end of 1998, Brazil began to feel the effects of the Asian financial crisis of 1997–98 and the Russian crisis of mid-1998. At the time, its fiscal deficit was sizable, and these "contagion" effects drained capital from the country. At the beginning of 1999, facing a run on its currency, Brazil abruptly abandoned its exchange rate peg and let market forces determine the value of its currency. With the regime change, the background paper explained, most of the central bank's board of directors was replaced. Upon taking office in March 1999, the new board immediately took steps to calm the markets and proposed the adoption of inflation targeting as the new monetary policy regime.

There were institutional obstacles to surmount on the way to implementing the new regime, but on July 1, 1999, Brazil formally adopted inflation targeting. One of the hallmarks of Brazil's new regime is the emphasis on transparency, through, among other channels, publication of the minutes of the Monetary Policy Committee. Werlang concluded that, although Brazil had met its inflation target for 1999 (8 percent), it was premature to announce the success of its inflation targeting regime.

Forward-looking conclusions

Leo Leiderman returned to the podium to summarize the main issues that would be relevant for countries contemplating adopting inflation targeting.

The first point, he said, was the uncertainty about the staying power of such a framework. "Is it a fashion that may disappear?" he wondered. Although he declined to answer the question outright, he noted that inflation targeting was 11 years old and going strong, whereas exchange rate targeting and monetary aggregate targeting had been less successful. The main benefit of inflation targeting is that it makes monetary policy more focused than under other regimes but is not so narrowly focused that other elements cannot be incorporated.

Leiderman's second point was that there is no clear formula for implementing inflation targeting. It is, he said, a framework rather than a rule, but he cautioned that the framework must be adapted to each country's individual needs.

A third issue that will confront inflation targeting candidates, Leiderman said, is the "paradox of floating." Inflation targeting can be implemented only under a flexible exchange rate regime. Paradoxically, monetary policy that is designed to reduce inflation will also reduce the degree of exchange rate flexibility by strengthening the currency.

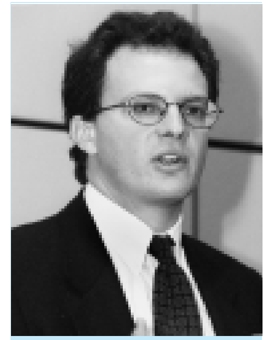
Fourth, inflation targeting is extremely discretionary; it requires intuition, consensus, and common sense in determining the target. It involves trial and error to see how financial markets will react to central bank decisions. However, credibility is also important. Thus, the bias must be toward conservatism.

The final two points Leiderman raised were IMF conditionality and luck. Conditionality is a challenge, he said, because IMF programs and countries' inflation targeting programs must be consistent. As for luck, he concluded that it was always necessary.

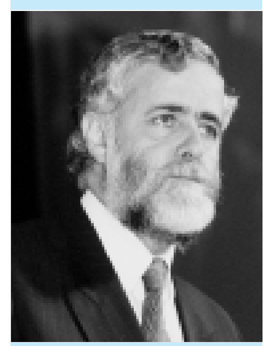
In his closing remarks, IMF Deputy Managing Director Eduardo Aninat offered some final thoughts on the status of inflation targeting in the world. He began by noting that policymakers and academics concurred that medium-term price stability—the usual goal of an inflation targeting regime—is the appropriate goal of monetary policy.

Given the success that a number of countries, primarily industrial, have achieved with such a regime over the past 11 years, he concluded that it appeared to hold promise for developing countries as well. He cautioned, however, that, although targeting inflation was a useful framework for conducting monetary policy, it was not a panacea. Ultimately, he said, maintaining sound macroeconomic fundamentals "remains the necessary condition for preserving price stability under any monetary framework." ■

The agenda for the conference, along with links to the papers delivered and relevant background documents, can be found on the IMF's website at www.imf.org. external.pubs/ft/seminar/2000/targets/index/htm. The conference papers, unedited and in draft form, will be posted on the website as they become available.


Alejandro Werner
Bank of Mexico


Sérgio Werlang
Central Bank of Brazil


Eduardo Aninat
IMF Deputy Managing Director

IMF study

Asset management policies can play key role in resolving financial crises

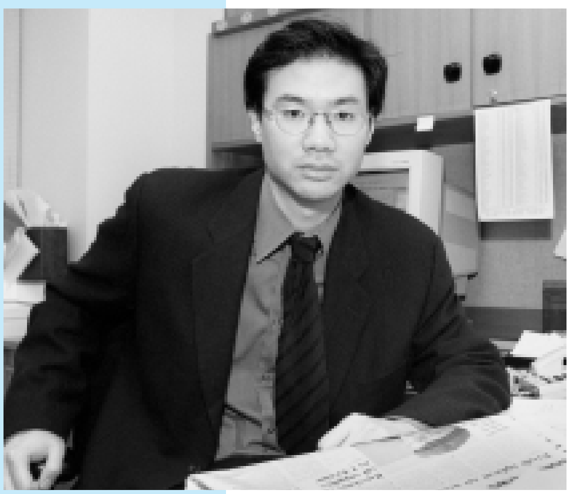
In a recent IMF Working Paper, David Woo examined how Asian crisis countries dealt with an unprecedented rise in loans that could no longer be serviced under the terms of their original contracts. Extensive nonperforming assets, left unresolved, can deepen a crisis, stall recovery efforts, and complicate macroeconomic management.

In a crisis, countries use asset management policies to facilitate financial restructuring, encourage a high rate of recovery, speed up the resolution of the nonperforming assets, and normalize the asset market. In the Asian crisis countries, two asset management approaches predominated: the creation of asset management companies and the initiation of out-of-court centralized corporate debt workouts. Woo speaks to the IMF Survey *about Asia's experience and what constitute best practices.*

IMF SURVEY: Why should countries—and governments—be concerned about nonperforming assets?

WOO: Nonperforming assets tie up resources when resource allocation is a precondition for economic recovery. Nonperforming assets can also weaken financial institutions whose financial intermediary role is critical for economic recovery.

Most banking crises are triggered by an explosion of nonperforming assets, followed by a deterioration in credit quality and credit discipline. Typically, when we speak of bank restructuring, we talk about recapitalizing banks, strengthening prudential regulation, and improving profitability. Less attention is paid to how to deal with nonperforming assets, despite the fact that these are often the underlying cause of the banking crisis. Resolution of nonperforming assets is a much more difficult issue to tackle, and it takes much longer.



Woo: "Less attention is paid to how to deal with nonperforming assets, despite the fact that these are often the underlying cause of the banking crisis."

IMF SURVEY: Why did asset management play such a key role in efforts to resolve the Asian crisis?

WOO: What is distinctive about the Asian crisis is the incredible magnitude of nonperforming assets and the weakness of the legal systems. Asia's legal system, which was underdeveloped in many ways to begin with, simply could not deal with the volume of nonperforming assets. This is why governments, and even the private sector, in the Asian countries began to turn to extra-legal frameworks to deal with nonperforming assets. This gave rise to the use of asset management companies and out-of-court corporate debt restructuring.

IMF SURVEY: What are the objectives of asset management companies and out-of-court corporate debt restructurings? Under what circumstances are they appropriate?

WOO: Asset management companies are still a very controversial subject, and I have tried to deal with them as such in my paper. We have very little evidence about how well they work, so it is too early to label them a panacea. The underlying rationale behind asset management companies is an economies-of-scale argument. If a country has limited expertise in asset management, it makes sense to pool those limited resources to maximize asset recovery.

Also, financial crises may reflect serious problems with credit discipline. Let's say I've been borrowing from you for a long time and have developed a special credit relationship. When I'm not paying back, you may give me additional loans to help pay off the earlier loan. Asset management companies can remove those loans from credit managers to ensure that the borrowers are treated objectively.

Asset management companies can make it easier to assign value to distressed financial institutions. If a bank wants to go to the market to raise capital, it is often very difficult to value nonperforming assets in the middle of a banking crisis. If the bank wants to raise capital or the government is trying to privatize a bank that it has taken over, taking the nonperforming assets off the balance sheet makes it easier for new shareholders or buyers to assign a value to these banks.

Asset management companies have also been used to facilitate privatization for the resolution of closed banks. In some cases, the final objective may not be maximizing the recovery of assets. For example, a foreign bank may be willing to buy an undercapitalized domestic bank but simply not want to touch the nonperforming assets. In that case, the government actually removes the nonperforming assets before privatizing the bank—as France did with the resolution of Crédit Lyonnais. The repository of the nonperforming assets then becomes an asset management company charged with managing those nonperforming assets.

Asset management companies may also be given tremendous special legal power to deal with delinquent debtors, as was done in Malaysia. In that instance, the banks simply did not have the power to act under existing law.

But I do want to stress that asset management companies should not be viewed as a standard instrument for use in noncrisis times. And even during crises, I would caution countries to think very carefully about the formation of such companies. There are a lot of potential drawbacks, and no hard and fast rules. Although all of the Asian crisis countries created asset management companies, each company was very different. Thailand, for example, created private rather than public asset management companies. The government sold several banks but, as part of the contract, required the buyers to manage the nonperforming assets on behalf of the government. This is because the government lacked the expertise to manage nonperforming assets but tapped private sector expertise to do so.

Out-of-court corporate debt workouts are also something you wouldn't want to do in normal circumstances. You do it in crisis mode because the courts are not working and you don't have the time to wait. In a country like Thailand, where so many loans were nonperforming, if the banks had cut off all credit lines, the economic impact would have been very severe. The government had to find a quick way to resolve nonperforming loans and restore the health of the economy. The underlying rationale for a workout is not only to help creditors and debtors but also to limit the social repercussions of nonperforming assets.

A government-coordinated centralized workout may be advisable in situations where a workout led completely by the private sector would not be feasible. If you have one or two very large creditors, they can take the lead and bring others into the fold. But where there is no single large creditor, everyone tends to sit on the sideline with a wait-and-see attitude. In this situation, government may have no choice but to try to catalyze the process itself.

IMF SURVEY: Your study reviews the experiences of asset management companies during the Asian crisis and distills a set of best practices. What are the chief things a country should keep in mind when creating an asset management company?

WOO: Obviously, there are a lot of legal issues. In many countries, the asset management company cannot transfer nonperforming assets from the bank without the permission of the debtors. That has slowed the process.

The regulatory framework is also crucial. Consolidated supervision must be in place when asset management companies are introduced, especially when private banks set up their own asset management companies as subsidiaries. Without consolidated supervision, banks setting up such company subsidiaries can simply boost their own capital by transferring assets to the subsidiaries at above-market prices.

The IMF is concerned about the pricing of assets, particularly in cases where these are essentially taken over by government-owned institutions. The Korean Asset Management Company bought nonperforming assets from all banks, including ongoing private banks. The IMF was very concerned that the government bought these assets at above-market prices to bail out the financial institutions. If that were the case, the transfer would be, in effect, a subsidy from the government. We felt strongly that if subsidies were needed—if the bank were, let's say, insolvent—direct recapitalization by the government (which gives the government more leverage in the bank) would be superior to transferring assets at above-market value. In Mexico, where assets were essentially bought at a book value that was significantly higher than their real underlying value, the government incurred an implicit cost in owning assets that weren't worth very much.

It is easy to understand the temptation that asset pricing offers governments. Direct recapitalization, which the public may see as giving money away to highly paid bankers, is sometimes politically very difficult. The public is much less likely to scrutinize the price at which assets are bought from these banks, but this is the wrong way to go. Asset management companies should be free of political intervention; political interference can really undermine the effectiveness of these companies.

Another important aspect of asset management companies is the timing of asset disposition. A crucial lesson is that the warehousing of assets may not prevent prices from tumbling, since the future supply of assets will likely be discounted in current prices. However, the need to catalyze activities in stagnant asset markets may lead government-owned asset management companies to dispose of some assets rapidly, even though by postponing the disposition they may obtain better prices.

IMF SURVEY: Is there also an emerging consensus on how government-led debt workouts should proceed?

WOO: The Asian debt workout approach differed from the consensus-oriented London approach in that it allowed the majority of the creditors to decide the fate of the debtors. Although, strictly speaking, debt workouts are outside the legal system, they require much heavyhanded intervention on the part of the government to enforce ground rules. A lot of people did not like the direct government intervention, but it was probably the first-best option under the circumstances.

In terms of best practices, I believe it is critical that banks be at least partially restructured before they embark on a comprehensive workout of impaired assets. Weak banks pushed into this process may not have the incentive to do the right things. Weak banks may also be reluctant to make necessary concessions (because of the immediate impact of the concessions on their balance sheets) or they may make too many concessions when pressured by the government.

Woo: "Both asset management companies and out-of-court debt workouts have definite drawbacks. But in a crisis of systemic proportions, they may be a necessary evil."

You also want strong banks in order to enforce credit discipline. In Thailand, for example, when the number of nonperforming loans grew, borrowers capable of servicing their loans also defaulted. A heavy volume of nonperforming loans makes it difficult for creditors to chase after all of them, and when banks begin to offer big concessions to troubled borrowers, good borrowers say, "well, I'm going to default too." Banks have to be strong, so that the incentives of the borrowers and the banks are optimally aligned.

Also, provision and classification rules are crucial. If the provision rules for restructured loans are too weak, banks will restructure loans only to improve their book capital ratios. This is because if they can classify the restructured loans immediately as performing, they can cut back on their provisioning. If a bank is weak and afraid it might be closed if it falls below the minimal capital ratios, it may restructure loans too eagerly if loan classification and restructuring requirements are too weak.

Asset management companies can also play an important role in out-of-court workouts. In countries such as Korea where individual banks may not have the clout to bargain with large enterprises, asset management companies can consolidate the exposure of banks to particular enterprises and be in a position to negotiate with the debtors more effectively. The threat of bankruptcy must be reasonably credible to ensure that parties come to the table. Although these workouts occur out of court, they are heavily reliant on an effective legal framework to make nonperforming asset resolution meaningful and efficient.

IMF SURVEY: The paper cautions about the dangers of emergency measures overstaying their effectiveness....

WOO: That's why many asset management companies need to have a limited lifetime. Since often the asset management company is itself in liquidation, its board must make certain that staff do not have incentives to prolong the life of the company unnecessarily. Where, of course, the asset management company is part of a deposit insurance agency—as it is in the U.S. Federal Deposit Insurance Corporation—a more permanent arrangement is appropriate. Those who create an asset management company should also ensure that the staff has legal protection to execute their responsibilities in good faith. Otherwise, the staff may be hesitant to take the necessary steps for fear of lawsuits.

For debt workouts, especially in Asia, the danger was in reinvolving the government in a major way when many of the original problems resulted from government-directed lending to certain sectors. There was concern that the government might resume its past role of deciding who gets saved and who doesn't.

I'd like to stress again that both asset management companies and out-of-court debt workouts have definite drawbacks. But in a crisis of systemic proportions, they may be a necessary evil.

Effective asset management essentially has four prerequisites: an effective legal system, a sound financial regulatory and supervisory framework, a neutral tax framework, and a stable macroeconomic environment. If all these are in place, the asset management process should not need to rely on the creation of an asset management company or on an out-of-court corporate debt workout. ■

Copies of IMF Working Paper No. 00/33, *Two Approaches to Resolving Nonperforming Assets During Financial Crises*, by David Woo, are available for $7.00 each from IMF Publications Services. See page 109 for ordering details.

Selected IMF rates

Week beginning	SDR interest rate	Rate of remuneration	Rate of charge
March 20	4.22	4.22	4.80
March 27	4.24	4.24	4.82

The SDR interest rate and the rate of remuneration are equal to a weighted average of interest rates on specified short-term domestic obligations in the money markets of the five countries whose currencies constitute the SDR valuation basket (as of May 1, 1999, the U.S. dollar was weighted 41.3 percent; euro (Germany), 19 percent; euro (France), 10.3 percent; Japanese yen, 17 percent; and U.K. pound, 12.4 percent). The rate of remuneration is the rate of return on members' remunerated reserve tranche positions. The rate of charge, a proportion (currently 113.7 percent) of the SDR interest rate, is the cost of using the IMF's financial resources. All three rates are computed each Friday for the following week. The basic rates of remuneration and charge are further adjusted to reflect burden-sharing arrangements. For the latest rates, call (202) 623-7171 or check the IMF website (www.imf.org/external/np/tre/sdr/sdr.htm).

Data: IMF Treasurer's Department

IMF completes Mexico review, approves $1.2 billion credit

The IMF Executive Board announced in a news brief dated March 17 that it had completed the first and second reviews under the Stand-By credit for Mexico. As a result, Mexico will be able to draw up to the equivalent of SDR 905 million (about $1.2 billion) from the IMF.

Commenting on the IMF Executive Board discussion, Eduardo Aninat, Deputy Managing Director, said:

"The Mexican government's pursuit of sound economic policies in recent years allowed it to weather the unsettled conditions in international capital markets in 1998 without major contagion effects. This was also reflected in the favorable performance of the economy in 1999 and early 2000, in particular the continued growth momentum, the decline in inflation, and the improved capital market access.

"Macroeconomic policies were kept in line with the program in 1999, and the quantitative performance criteria under the Stand-By Arrangement were met, in some cases with large margins, with the exception of a small deviation in the public sector primary surplus. The Mexican government is to be congratulated for creating the economic conditions to ensure a smooth transition to the next administration. Such a transition would signal a major positive departure from past trends.

"In 2000, the government intends to continue to implement economic policies aimed at promoting sustainable growth of output and employment, addressing priority social needs, and continuing to lower inflation. In this regard, the economic program

Recent publications

Books

Financial Programming and Policy: The Case of Turkey, Richard Barth and William Hemphill, with contributions from Irina Aganina, Susan George, Joshua Greene, Caryl McNeilly, and Jukka Paljarvi. Includes a diskette with tables and spreadsheets. ($29.50)

Balance of Payments Textbook (Chinese version) ($25.00)

Balance of Payments Compilation Guide (Chinese version) ($32.50)

Working Papers ($7.00)

00/34: *Toward a Framework for Systemic Liquidity Policy*, Claudia Dziobek, J. Kim Hobbs, and David Marston

00/35: *Tax Policy for Emerging Markets: Developing Countries*, Vito Tanzi and Howell H. Zee

00/36: *The Role of the State and the Quality of the Public Sector*, Vito Tanzi

00/37: *Concordance in Business Cycles*, C. John McDermott and Alasdair Scott

00/38: *Financial Liberalization, Bank Market Structure, and Financial Deepening: An Interest Margin Analysis*, Abdourahmane Sarr

00/39: *Currency Crisis and Contagion: Evidence from Exchange Rates and Sectoral Stock Indices of the Philippines and Thailand*, Jun Nagayasu

00/40: *Retarding Short-Term Capital Inflows Through Withholding Tax*, Howell H. Zee

00/41: *Demographic Transition in the Middle East: Implications for Growth, Employment, and Housing*, Pierre Dhonte, Rina Bhattacharya, and Tarik Yousef

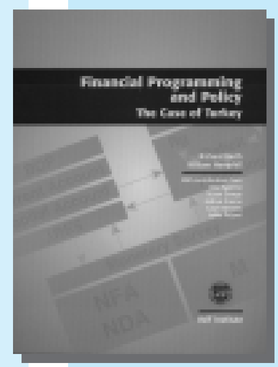
00/42: *Educational Choices and Educational Constraints: Evidence from Bolivia*, Gabriela Inchauste

00/43: *The International Monetary System in the (Very) Long Run*, Barry Eichengreen and Nathan Sussman

00/44: *Globalization and Growth in the Twentieth Century*, Nicholas Crafts

00/45: *Dynamic Gains from Trade: Evidence from South Africa*, Gunnar Jonsson and Arvind Subramanian

00/46: *Medium-Term Determinants of Current Accounts in Industrial and Developing Countries: An Empirical Exploration*, Menzie D. Chinn and Eswar S. Prasad



IMF Staff Country Reports ($15.00)

00/39: Nepal: Staff Report for the 1999 Article IV Consultation

00/40: Bolivia: Staff Report for the 1999 Article IV Consultation and Request for Second Annual Arrangement Under the Poverty Reduction and Growth Facility

00/41: Republic of Slovenia: Staff Report for the 1999 Article IV Consultation

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for 2000 is based on a prudent fiscal stance involving expenditure restraint in the context of the recent rise in world oil prices. Monetary policy will continue to be conducted within the context of the present flexible exchange rate system, with the objective of lowering inflation, and including the use of inflation targeting.

"Good progress has been made in implementing the structural reforms established under the program. Measures have been introduced to increase tax efficiency and improve the transparency and reliability of external debt statistics. Notwithstanding the important progress during the past few years in stabilizing and reforming the banking system, it remains undercapitalized. However, important steps have been taken to strengthen the operating environment of the banking system and to facilitate the banking system recovery, including measures adopted to bolster the regulatory framework and advance the bank restructuring and recapitalization process.

"The proposed reforms to enhance bankruptcy procedures and enforcement of creditors' rights and the authorities' plans to develop rapidly a market for the securities of the Bank Savings Protection Institute are critical for further strengthening the banking system and for facilitating financial intermediation in the domestic economy," Aninat said. ■

The full text of News Brief No. 00/17 is available on the IMF's website (www.imf.org).

IMF completes Mozambique review, approves $50 million loan

In a news brief issued on March 27, the IMF Executive Board announced that it had completed the first review under the Poverty Reduction and Growth Facility (PRGF) for Mozambique. As a result, Mozambique will be able to draw up to the equivalent of SDR 36.8 million (about $50 million) from the IMF.

In view of the emergency situation and its likely impact on the balance of payments, access under the PRGF arrangement has been augmented.

Commenting on the IMF Executive Board's discussion, Shigemitsu Sugisaki, Deputy Managing Director of the IMF, made the following statement:

"The Executive Directors expressed their deep sympathy for the people of Mozambique who had sustained deep human losses as a result of recent flooding. Regarding the material aspects of the tragedy, the authorities were commended for their quick response in providing assistance to flood victims, mobilizing the support of the international donor community, and planning for the reconstruction of the extensive damage to infrastructure.

"In 1999, Mozambique's overall economic performance was strong, as evidenced by high growth, low inflation, and a comfortable level of international reserves. However, financial policies in the second half of the year had raised some concerns. Regaining control of monetary aggregates and managing the budget prudently are crucial for the preservation of macroeconomic stability, and the authorities' commitment to economic stability is, in this respect, reassuring.

"The government's structural reform agenda suffered some delays toward the end of 1999. However, the authorities have now implemented some of the delayed measures and intend to proceed with important reforms in the areas of fiscal management and transparency and public administration—all actions necessary for improving the formulation and monitoring of economic policies. In this context, the authorities' commitment to start the publication of quarterly budget execution reports is particularly welcome. Reforms to promote private sector development will also be important. Following the introduction of trade restrictions affecting the cashew and sugar sectors in 1999, the authorities intend to carry out comprehensive studies to guide the liberalization of these sectors and to strengthen their performance.

"Significant progress in strengthening the poverty focus of the government's economic and social policies has been achieved in recent years, as evidenced by a thorough poverty assessment, the formulation of a poverty action plan, and an interim poverty reduction strategy paper. It is now important to widen the dialogue on poverty issues and include a broad spectrum of civil society in the process of preparing a full poverty reduction strategy paper, which will serve as the basis for future support under the Fund's Poverty Reduction and Growth Facility, and for further debt relief under the Enhanced HIPC [Heavily Indebted Poor Countries] Initiative," Sugisaki said. ■

The full text of News Brief No. 00/18 is available on the IMF's website (www.imf.org)

Photo credits: Denio Zara, Padraic Hughes, and Michael Spilotro for the IMF, pages 97–100, 103–106, 108 and 112; Odd Andersen for AFP, page 110; Sebastian D'Souza for AFP, page 111.

UNCTAD press release

FDI flows to India expanded in the 1990s

During the 1990s, India became one of the most dynamic Asian host countries for foreign direct investment (FDI), according to United Nations Conference on Trade and Development's (UNCTAD's) *World Investment Directory 2000: Volume VII, Asia and the Pacific*. During the decade, annual average FDI flows to India expanded more than six times, rising to $2.7 billion in 1995–98 and reaching a peak of $3.6 billion in 1997, from $470 million in 1991–94. FDI flows slowed once during the decade in 1998—the first time in 11 years—in the wake of that year's financial crisis in Asia. India's share in total flows to Asia and the Pacific during the period tripled to 3.3 percent from 1.1 percent, while the region's share in world annual average flows decreased to 18 percent from 20 percent, the report says. Preliminary estimates for 1999 show that inflows have remained stable.

Features of India's performance

During the decade, according to the report, a number of changes took place.

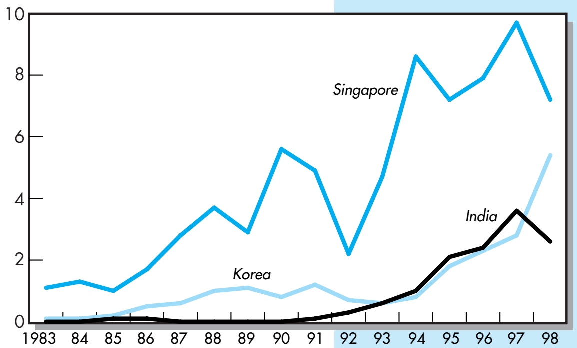
• FDI flows to India were about half of those to Korea in the early 1990s, but during 1995–98 India almost caught up, with $2.7 billion in FDI compared with Korea's $3.1 billion for that period.

• From 1993 (and excluding 1998), the change in India's position as FDI host is reflected in the ratio of FDI per $1,000 of GDP. For India, this ratio quadrupled from 1993 to 1997, and during 1993–97, India attracted more FDI than Korea.

• FDI going into India's large domestic market was predominantly from developed countries. In 1995, 86 percent of FDI stock was from developed countries, including the United Kingdom, the United States, and Germany, of which 24 percent came from the United States (which may be an underestimation, since some investments are routed through Mauritius).

• The manufacturing sector attracted significant amounts of FDI. In 1995, it represented as much as 83 percent of total FDI to India.

FDI flows to selected countries in Asia and the Pacific
(billion U.S. dollars)



Data: UNCTAD

Why India's dynamism?

The Indian government has made a concerted effort since the beginning of the 1990s to attract FDI. In 1991, India passed the New Industrial Policy Act, which introduced policy reforms and permitted the automatic approval of ventures with up to 51 percent of foreign equity in high-priority industries, the report explains.

The government has taken steps since the beginning of 2000 to liberalize further. Measures to attract FDI include

Available on the web (www.imf.org)

Press Releases

00/20: IMF Executive Board to Decide on Managing Director on March 23, March 21

00/21: IMF Board Selects Horst Köhler as IMF Managing Director, March 23

00/22: IMF Executive Board Approves Extension of Stand-By Credit to Romania to May 31, 2000, March 27

00/23: IMF Approves $115 Million Stand-By Credit for Papua New Guinea, March 29

00/24: IMF Approves Augmentation and Extension of Bosnia and Herzegovina's Stand-By Credit and Completes Second and Third Reviews, March 30

News Briefs

00/17: IMF Completes Mexico Review and Approves $1.2 Billion Credit, March 17

00/18: IMF Completes Mozambique Review and Approves $50 Million Loan, March 27

00/19: IMF Completes Peru Review Under the Extended Arrangement, March 30

Public Information Notices (PINs)

00/21: Slovenia, March 16

00/22: Bosnia and Herzegovina, March 16

00/23: Hungary, March 17

00/24: Mexico, March 22

Press Briefings

Transcript of a press briefing by Horst Köhler, president of European Bank for Reconstruction and Development [and recently selected by the Executive Board as IMF Managing Director], March 17

Transcript of a press briefing by Thomas Dawson, Director, IMF External Relations Department, March 23

Letters of Intent and Memorandums of Economic and Financial Policies (date posted)

Liberia, March 27

Mozambique, March 27

Peru, March 27

Notes: PINS are IMF Executive Board assessments of members' economic prospects and policies. They are issued following Article IV consultations—with the consent of the member—with background on the members' economies; and following policy discussions in the Executive Board at the decision of the Board.

Letters of Intent and Memorandums of Economic and Financial Policies are prepared by a member country and describe the policies that the country intends to implement in the context of its request for financial support from the IMF.

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- ending the state monopoly in insurance;
- opening up banking and manufacturing industries to competition;
- rapidly divesting public sector enterprises;
- increasing stakes for foreign investors in such projects as chemicals and chemical products, electricity production and distribution, construction, transport and storage, and advertising; and
- allowing wholly foreign-owned ventures in the mining and film industries.

In addition, India is moving to a system where most investment proposals are approved automatically, except for a short negative list, as long as the proposed foreign equity is within the specified ceiling. Foreign exchange controls have been relaxed, and mandatory licensing will be relaxed further, the report says. International trademarks are protected by legislation, and other legislation was passed to bring Indian patent law up to global standards.

India has also undertaken international measures to promote and protect FDI and foster economic cooperation. As of March 2000, India had concluded 37 bilateral investment treaties and 72 double taxation treaties. India also joined the Multilateral Investment Guarantee Agency in 1994.

According to a survey conducted by the Confederation of Indian Industry, investors are optimistic about the near-term business outlook. Their optimism, coupled with the government's commitment to economic reform, makes India's potential for higher FDI growth even greater. ■

A description of the *World Investment Directory 2000* and ordering information are available on UNCTAD's website (www.UNCTAD.org).

Training for supervisors

Toronto Centre for Financial Sector Supervision signs cooperation agreement with IMF

On March 16, the IMF and the Toronto International Leadership Centre for Financial Sector Supervision signed a letter of agreement covering the IMF's financial support of the Centre, which provides training to supervisory officials in the banking, securities, and insurance sectors. Stefan Ingves, Director of the Monetary and Exchange Affairs (MAE) Department, signed the letter on behalf of the IMF. The IMF's $500,000 grant will contribute to the Centre's development of training courses and the expansion of an Associates Program aimed at providing senior supervisors with a network for exchanging views on supervisory issues.

Stefan Ingves (seated left) shakes hands with David J.S. Winfield, Executive Director of the Toronto Centre. The Toronto Centre was also represented by Thomas E. Kierans, Chair of the Board (seated center). MAE staff members (standing from left) Carl-Johan Lindgren, Chee Sung Lee, and V. Sundararajan look on.

The Toronto Centre was founded in 1998 to fill a perceived gap in the area of financial sector supervision—strong leadership of the supervisory process. It focuses on augmenting the leadership and managerial capabilities of top supervisors from both developing and developed countries to make them more effective in dealing with financial sector issues, thereby reducing the potential for market disruption. The program offered by the Centre is for senior supervisors who already have experience and technical expertise in financial sector supervision and features intensive analyses of case studies led by supervisors who have been on the front line. The Centre thus serves as a forum where senior supervisors can share their real-world experiences about financial institutions and systemic rescues and failures and enhance their skills for implementing supervisory regimes.

The IMF has been involved with the Toronto Centre from the beginning; the Director of MAE is a member of the Centre's executive board; and IMF staff actively participate in the design and delivery of the courses and in the recruitment of participants. The Centre was founded by the World Bank and the government of Canada, both of which continue to be active supporters. Grants from the Bank for International Standards and private international banks will also help to finance the Centre. ■

The text of News Brief No. 00/16 announcing the agreement is available on the IMF's website (www.imf.org).