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The next issue of the *IMF Survey*, which will provide full coverage of the spring meetings, will appear on May 7, 2001.

IMFC meeting

Ministers to discuss economic slowdown and IMF in the process of change

The current slowdown of growth in the world economy and the policy measures necessary to address it will be the primary focus of the third meeting of the International Monetary and Financial Committee (IMFC), which will be held at IMF headquarters on April 29. The IMFC, which will be chaired by Gordon Brown, the U.K. Chancellor of the Exchequer, will also consider a number of subjects relating to reform of the IMF. A joint meeting of the IMFC and the Development Committee (the Joint Bank-Fund Committee on the Transfer of Real Resources to Developing Countries) will be held later the same day and will address the issues of fighting poverty and strengthening growth in low-income countries. The Development Committee will meet the following day, April 30.

U.K. Chancellor of the Exchequer Gordon Brown will chair the IMFC meeting.

The IMFC comprises 24 IMF governors, who are ministers, central bank governors, or others of comparable rank. It was established at the 1999 Annual Meetings of the IMF's Board of Governors, when a resolution was adopted transforming the former Interim Committee into the IMFC (see *IMF Survey*, October 11, 1999, page 317).

The first item on the IMFC's provisional agenda is a review of the world economic outlook and the risks and vulnerabilities in the global financial system. This will focus *(Please turn to the following page, top)*

Address to Bundestag

In Berlin remarks, Köhler stresses crisis prevention as a crucial element in IMF's mandate

Following are edited excerpts from IMF Managing Director Horst Köhler's remarks to the members of the Deutsche Bundestag on April 2 in Berlin. The full text is available on the IMF's website (www.imf.org).

The world economy is undergoing a critical period of adjustment. The engine of global economic growth over the past 10 years—the U.S. economy—is sputtering, and in Asia and Europe growth is also slowing. It would, nevertheless, be wrong to lapse into gloominess. In many countries, key economic fundamentals are stronger today than they were a few years ago. Inflation is not a pressing issue; government budgets are comparatively solid; and the international monetary system is in a better position to respond to pressures, thanks to the predominance of flexible exchange rate regimes. Above all, there is room for economic policy to counteract the dangers of a deeper recession. On that basis, the IMF is forecasting global economic growth of over 3 percent for this year, which is roughly in line with the average growth rate over the past two decades.

Photo Not Available

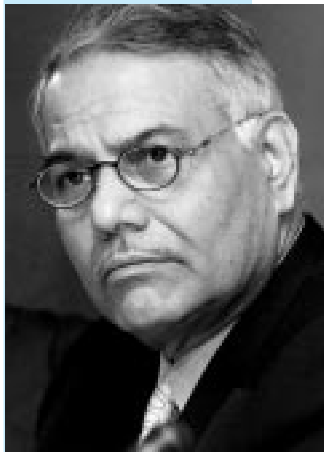
Deutsche Bundestag in Berlin.

Achieving a growth rate above 3 percent in 2001 will require skillful policy management. By aggressively lowering interest *(Please turn to the following page, bottom)*

Spring meetings address world economic situation

(Continued from front page, top) on appropriate policy responses to the current situation, including the issue of global trade liberalization. The committee is then scheduled to receive a progress report, "The IMF in the Process of Change," from IMF Managing Director Horst Köhler. Köhler's report is expected to focus on streamlining IMF conditionality and strengthening country ownership of programs, strengthening the IMF's focus on financial markets and crisis prevention through surveillance, and combating financial abuse and money laundering.

Köhler is also scheduled to report on progress since the Prague Annual Meetings in September 2000 in such areas as private sector involvement in crisis prevention and resolution, transparency, the implementation of standards and codes, and external vulnerability.



Indian Finance Minister Yashwant Sinha will chair the Development Committee meeting.

As indicated by the IMFC in its communiqué following its Prague meeting (see *IMF Survey*, October 9, 2000, page 314), the Committee is also to receive, for its information, reports on the establishment of the IMF's Evaluation Office and the status of discussions on the selection process for the IMF Managing Director and the President of the World Bank.

The IMFC's discussions will be held against the background of the IMF staff's latest review and projections for the global economy contained in the *World Economic Outlook*. The *World Economic Outlook* will be discussed at a press conference on April 26 by Michael Mussa, the IMF's Economic Counsellor and Director of the Research Department. It will also be released the same day on the IMF's website (www.imf.org).

The joint meeting of the IMFC and the Development Committee is expected to discuss fighting poverty and strengthening growth in low-income countries. As part of this discussion, they will consider a report from the Managing Director on

- enhancing the Poverty Reduction and Growth Facility and the poverty reduction strategy paper process;
- following up on the Heavily Indebted Poor Countries Initiative process;
- improving market access for developing country exports; and
- supporting postconflict countries.

Press conferences will follow the IMFC meeting and the joint IMFC–Development Committee meeting on April 29. The first will be given by Gordon Brown and Horst Köhler; the second by Brown and the chair of the Development Committee, Yashwant Sinha, the Indian Finance Minister, who will be joined by Köhler and James Wolfensohn, the President of the World Bank.

Ancillary meetings will be held before that of the IMFC. The Group of 24 ministers, representing the developing country members of the IMF, is to meet on April 28 and will be chaired by Nigeria. A press conference will follow the meeting. The finance ministers and central bank governors of the Group of 10 will meet on April 29, immediately prior to the IMFC meeting. ■

IMF and challenges of globalization

(Continued from front page, bottom)

rates, the U.S. Federal Reserve has appropriately demonstrated its determination to act, and it has further room to maneuver if necessary. The tax cut discussed in the United States will also ultimately strengthen consumer and investor confidence. And while Japan has returned to a zero interest rate policy, more resolute efforts at restructuring the corporate and banking sectors have yet to be made. Tax reforms in Europe have proved appropriate and timely. An interest rate cut by the European Central Bank would certainly help the European economy. And more ambitious reform efforts are at least as important as lower rates.

It is the task of international economic policy to tap the opportunities of globalization while limiting its risks. The risks lie in overstretching the ability of societies and political structures to adapt, and in financial crises caused as a consequence of excessive volatility in capital flows. To play an active part in the international effort to make globalization work for the benefit of all, the IMF must focus on promoting international financial stability as a global public good. Both economic theory and policy application are clearly lagging behind developments in financial markets. This is also an area where the IMF itself needs to catch up. We are systematically building up expertise on capital market issues by establishing the International Capital Markets Department in the IMF. We are also developing a channel for informal but regular dialogue with high-level representatives of private financial institutions, aimed at engaging the private sector more closely and from the outset in crisis prevention.

The main lesson from the financial crises of the past is that crisis prevention must be at the heart of the IMF's mandate. The IMF's bilateral and multilateral surveillance functions are the main vehicles to pursue this objective. It is my goal to use the IMF's surveillance

discussions to highlight the interdependence between member countries. Part of this is the recognition that financial crises are triggered not only in emerging markets but also in the global financial centers of industrial countries.

The IMF and other institutions have done much in the past two or three years to increase the transparency of economic and financial data. While increased transparency does not prevent wrong decisions, it makes the repetition of a crisis like the one in Korea in late 1997 fairly unlikely. An important area still needing much improvement is the early detection of vulnerabilities and signs of potential crises and the development of practical economic policy approaches to counter those developments.

Transparency can also rightly be demanded of the IMF. Currently, almost all country- and policy-related Board papers are published unless a member country expressly opposes publication. Recently, we published a paper on the IMF's website that reviewed IMF conditionality and have invited comments on it. During this year, an independent Evaluation Office will begin assessing the work of the IMF, evaluating policy and operations without interference from management or staff. I expect this to enhance the effectiveness and credibility of the IMF's work.

Another important vehicle to enhance crisis prevention is the IMF's work on the elaboration and dissemination of standards and codes for sound economic and financial policies and corporate governance. We must convince developing and emerging market countries not to interpret these standards primarily as a "dictate" by the industrial countries but rather to see them as useful guideposts in their own efforts to strengthen institutions and gain greater access to international investment capital.

We recently witnessed in Turkey how a public dispute between leading politicians can unleash a financial crisis. Political stability is a key factor for investor confidence. In Turkey, the restructuring of the banking sector, especially the state-owned banks, lies at the core of resolving the current financial crisis. In retrospect, I wish that Turkey had participated in the pilot Financial Sector Assessment Program (FSAP) that the IMF and the World Bank jointly developed after the Asian crisis. The FSAP gathers and analyzes detailed information on the strengths and weaknesses of the financial systems in member countries. I consider this program an important means to strengthen the stability of the international financial system by reinforcing its foundations.

However much effort goes into crisis prevention, crises cannot be completely ruled out in an open and dynamic global economy. The IMF therefore needs to be and remain an efficient "firefighter." This presupposes the availability of sufficient financial resources and adequate instruments for their use. However, the IMF is not, and should not be, in a position to match the volumes of private capital markets. Debtors and private creditors must always be aware that the IMF's financial assistance is not there to relieve them of their responsibility for the risks they take. To limit moral hazard in the current system and to bring about equitable burden-sharing, we must engage the private sector in crisis resolution efforts. Substantial progress has been made in this area in the past few months. However, the discussion is far from concluded.

Another important reform effort at the IMF concerns the conditionality attached to its lending. Conditionality remains essential to protect the IMF's resources and to promote the needed adjustment processes. However, in the past, conditionality sometimes became too extensive and ventured into areas outside the expertise of the IMF. I consider it very important that countries reaching an agreement with the IMF "own" the reforms themselves. In this context, less can be more, if it strengthens country ownership and contributes to a sustained implementation of needed reforms. In my experience, it is often not a lack of political will that hinders reform, but rather the lack of know-how. Therefore, we must pay even more attention in the future to providing efficient technical assistance and to building efficient administrative structures in the developing countries.

There is increasing awareness that success in poverty reduction must rest on two pillars: first, resolute efforts by the countries themselves to address the home-grown causes of poverty. This involves, above all, good governance, respect for the rule of law, an end to armed conflicts, and the fight against corruption. The second pillar consists of more decisive, faster, and more comprehensive support from the international community.

Debt relief clearly must form part of a comprehensive concept for poverty reduction. The IMF and the World Bank brought 22 countries to the decision point under the Enhanced Heavily Indebted Poor Countries Initiative by the end of last year. As a result, the total external debt of those countries will be reduced to one-third. The true test of the credibility of industrial countries' efforts to combat poverty is, in my view, in their willingness to open their markets to poor countries' exports and to deliver on their promises of official development assistance. It is political and economic madness for OECD [Organization for Economic Cooperation and Development] countries to spend $360 billion a year on agricultural subsidies, while poverty rages in developing countries, especially in the rural and farming regions. It is also overdue for industrial countries to honor their commitment to provide 0.7 percent of GNP for official development assistance. ■

Köhler: Debtors and private creditors must always be aware that the IMF's financial assistance is not there to relieve them of their responsibility for the risks they take.

Seminar presentation

Edwards urges building constructive dialogue between IMF and nongovernmental organizations

Nongovernmental organizations (NGOs) have acquired an impressive status in the past several years, both as powerful agents for reform and as tireless gadflies of officialdom. Have they, on balance, been a positive force for expanding global democracy or a threat to the established process of political representation? What should be their relationship to international financial institutions, such as the IMF?

Michael Edwards, Director of Governance and Civil Society at the Ford Foundation, addressed these questions in a March 27 seminar at the IMF. On balance, he said, the rise of NGOs has been a good thing for economic development and political participation. It has, however, posed difficult questions regarding the legitimacy of NGO groups and how their interests might appropriately be represented in global governance.

NGOs are not synonymous with civil society, he said, but represent a small, powerful subset of civil society with enormously diverse goals, activities, positions, and structures. Moreover, he pointed out, "Both NGOs and civil society are analytical, not normative, concepts. NGOs are simply what they are—they are not good or bad by nature." A healthy civil society, in his view, is one that allows all interests and associations to be represented, not one in which everyone thinks and acts in the same way.

Rise of NGOs

Edwards charted the astonishing growth of NGOs around the world. By 1990, he said, there were some 30,000 international NGOs. In India today, there are more than a million, while Brazil has some 210,000, and Tunisia, more than 5,000. There are a number of reasons for this remarkable growth.

- Changes in development thinking mean that issues of social capital, partnership, and shared ownership are seen as the keys to economic sustainability. It is now recognized that economic reform has to be understood and supported by society at large.
- The involvement of NGOs is seen today as being "good for business," in that it leads to lower project failure rates, more informed policy positions, and increased public support.
- The globalization process has affected notions of governance and reduced nation-states' control over decision making and over economic policy. NGOs see themselves as actors in the emerging global governance regime.
- Large numbers of citizens are concerned about what is happening in the world as a result of globalization and market forces. At an extreme, street protests are one measure of this feeling that "the world is spiraling out of control."

Edwards: legitimacy lies at the root of the issue for both NGOs and the IMF.

Are NGOs here to stay, or are they only the latest fashion in development thinking? Edwards asked. Despite the continued problems they face in financing their activities, "once they've been invited to the table, it is both hard and foolish to exclude them," he said. NGOs have won acceptance in three areas: they have changed the language of debate in such aspects as debt relief; they can negotiate the details of regimes, such as the land mine treaty; and they are able to monitor global agreements on issues such as child labor.

What NGOs bring to the table, he added, are information and reality checks, particularly from the grass roots; technical expertise on specific policy issues; representation for the voices of those segments of society that are often excluded or underrepresented; and checks and balances to promote accountability in markets and governments.

Should the IMF engage with NGOs?

This question, Edwards said, is one that has already been answered. The IMF today is actively engaged with NGOs and accepts that their demands should be heard. However, NGOs may underemphasize the responsibilities that accompany their right to be heard, and the question becomes one of how to encourage them to take these responsibilities more seriously.

There are some special problems in the IMF's relations with NGOs, Edwards observed. First is the nature of the IMF's work, which often deals with material that is not in the public domain—for example, because it is market sensitive. Second, the speed of decision making in the IMF often is not conducive to participatory discussion. And, third, the IMF must overcome a legacy of distrust harbored by the NGO community and acknowledge the view that the IMF must put its own house in order if it expects NGOs to do the same.

Questions of legitimacy

There recently has been something of a backlash against NGOs by those who would question their right to enjoy such an influential role, Edwards acknowledged. NGOs may not be representative in a formal sense, but they are legitimized through recognition by other legitimate bodies and through the expertise they bring to the table. At the same time, he said, their stance can be weakened if they are "dominated by voices from the industrial world, with no formal accountability to constituencies in the South." In addition, NGO positions can be "anecdotal and subjective and are consequently of less use in the policy debate than they could be."

Too often, Edwards said, there is "a disconnect between global action and local debate," and too little is done to build coalitions at the national or local level to support pro-poor policy reform. Frequently, he added, "it is easier for an NGO to have access to an executive director of the IMF or the World Bank than to its own finance minister." He singled out some local actions that had considerable success, including the work of Jubilee 2000 in Uganda and child labor agreements in Bangladesh.

Way forward

The first step that might be taken, Edwards explained, is to recognize that NGOs "should have a right to a voice, not a vote" and that every interest in civil society should have a fair and equal hearing. This means both promoting certification and self-regulation in NGO networks and ensuring a "level playing field" through capacity building and financial support, so that all NGOs can participate and do what is required to meet the specified criteria.

For the IMF, he proposed that these ideas could be incorporated at the country level through its poverty reduction strategy papers and other dialogues with member countries. At the global level, he proposed that a "world financial forum" be convened at regular intervals to facilitate an active and constructive engagement between the IMF and the NGOs.

Finally, Edwards asked how all this should relate to the problems of radical street protests, which, he said, constituted only one part of the NGO movement, though a significant part. It was important, he argued, not simply to write off the protesters as ignorant and violent, and not to allow reactions to the extremists to hamper efforts at constructive dialogue. It is important, he explained, "to concentrate on parts of the NGO movement that want to move off the street and participate."

Legitimacy lies at the root of the issue for both NGOs and the IMF, Edwards emphasized. Governments can confer authority, but not legitimacy, especially in a globalizing world. The best way to encourage NGOs to put their own houses in order is for the IMF to face up to the challenge of legitimacy itself, he commented. ■

Edwards's presentation at the IMF drew on material contained in his book, *Future Positive: International Cooperation in the 21st Century*, published by Stylus Publishing, LLC, P.O. Box 605, Herndon, VA 20172, U.S.A.; $19.95.

Economic Forum

Panel considers civil society's involvement in issues of global financial governance

Globalization has many dimensions—economic and social, political and environmental, cultural and religious—that affect everyone in some way and that have therefore attracted considerable attention in civil society. The term "civil society" has entered the global financing dialogue at all levels. Do the wildly disparate groups who claim to represent civil society have an impact on international financial policies? Should they? If yes, how can they best contribute to the effective, equitable, and democratic operations of global finance? Warwick University's Center for the Study of Globalization and Regionalization has teamed up with the United Nations (UN) University to study these questions; their Civil Society and Global Finance Project has brought together 20 leading civil society organizers, officials of multilateral institutions (including the IMF and the World Bank), and academic researchers to investigate the role of civil society in the governance of global finance. Seven of the core members of the project discussed their findings at an Economic Forum on that topic at the IMF on April 5.

"While there's little doubt that a strong civil society is valuable for democracy, there is considerable debate about organizations that claim to represent civil society," moderator and project participant Thomas Dawson, Director of the IMF's External Relations Department, said in his introduction. The speakers described that debate and other general issues surrounding civil society involvement in questions of global financial governance, assessed its benefits and dangers, and suggested future steps to maximize the benefits and minimize the shortcomings of civil society involvement in global finance.

Civil society achievements

"In one way or another, civil society matters," declared Albrecht Schnabel, Program Officer of the Peace and Governance Program of the UN University and co-director of the project. Countless civic associations have undertaken initiatives to change and shape global laws and institutions, he continued, and in response most major international governance agencies have established special mechanisms to interact with those civil society bodies and actors, creating, in essence, "enlarged multilateralism."

Jan Aart Scholte, of the Center for the Study of Globalization and Regionalization, and the other co-director of the project, pointed out that despite the advantages of financial globalization, its inadequate governance has created problems with respect to efficiency, stability, human security, social justice, and democracy. Civil society organizations—local and global, formal and informal, radical and supporters of the status quo—address these issues.

Albrecht Schnabel

Jan Aart Scholte

Kamal Malhotra

Nodari Simonia

Alison Van Rooy

Nancy Birdsall

These groups earn their legitimacy in a variety of ways, he continued. It may come from their collective knowledge and expertise (performance legitimacy); it may come because they advance the participatory and publicly accountable character of the government (democratic legitimacy); or it may come from their role as global conscience (moral legitimacy).

To date, these groups have most obviously influenced questions of transborder debt problems of the poorest countries (debt-relief initiatives), multilateral development bank projects (dams, pipelines, roads), structural adjustment lending (by the IMF and the World Bank), commercial global finance (proposals for a Tobin tax on foreign exchange transactions and so-called ethical investing), and global financial architecture.

How have they done this? Scholte listed seven positive outcomes of the activity of civil society organizations: heightened public awareness of global finance and its governance; increased participation of stakeholders otherwise excluded from the policy process on issues that affect them; critical, creative debate on policy issues; increased transparency in financial markets and the governance institutions that regulate them; greater accountability in those institutions; enhanced welfare—especially important in situations where financial difficulties create economic and social fallout; and, finally, increased legitimacy of global financial governance.

But, he noted, there is another side. When civil society organizations are uncivil, use harmful means to pursue dubious goals, do not represent their professed constituency, have poorly conceived and inept campaigns that contribute to low-quality input, and are undemocratic organizations that limit participation, consultation, transparency, and accountability, they only detract from effective governance.

Regional civil society effectiveness

Kamal Malhotra, Senior Civil Society Advisor, Bureau for Development Policy, UN Development Program, discussed the experience of civil societies in Asia. Citing examples in Thailand, Indonesia, and the Philippines, he found that they had advanced the cause of democracy, expanded economic and financial literacy, linked activists with academics, used grassroots data to monitor the social impact of crises, and promoted alternatives to official national development strategies.

In contrast, the civil society movement is a nonstarter in Russia, in the opinion of Nodari Simonia, Director of the Institute of International Relations and World Economy and Presidium Member of the Russian Academy of Sciences. Civil society groups that flexed their reform muscle during the perestroika period lost their independence under the Yeltsin regime, he claimed. Bureaucratic capitalism and paternalistic politics took over, an independent middle class failed to develop, and Russia never reached social or political consensus. Rapid decentralization has led, Simonia asserted, not to democratization but to "feudalization." Western-funded groups attempt to fill the gap left by the lack of indigenous organizations, but Russians neither accept them nor find them relevant. The Russian population is indifferent to the problems of global finance, he added, and decisions are made at the elite level, with minimal input from civil society.

Future roles

What role will civil society organizations play in the future? Already, international financial institutions are more open to an official role for them in development practice and even, minimally, in development policy commentary, said Alison Van Rooy, Senior Fellow at the North-South Institute. Instead of quieting the civil society organizations, however, this will encourage them to pry the door open still further. Street demonstrations, she said, do have a positive aspect because they motivate and energize reformers.

She presented three possible scenarios for the future. The most likely is a change of *target* from the Bretton Woods institutions to trade organizations, as economic literacy becomes trade literacy—a move, she added, that will frustrate would-be reformers of the international financial institutions who will have lost an ally—or to specific subjects such as public debt, the Bank for International Settlements, the role of export credit agencies, and others. The second scenario is a change of *discourse*: international financial institutions will merely reform their vocabularies, not their policies, and although rhetorical changes can eventually sway practice, the process is very slow.

Least probable (but the most optimistic outcome) is a change of *institutional mechanisms*—that is, the civil society organizations will engineer some measure of oversight over intergovernmental financial activities. If the UN General Assembly, she said, had more control over the work of the international financial institutions, civil society organizations would not only have a stronger voice, but the question of legitimacy would move from the organizations' own strategies and movements to what nation-states are doing to represent civil society appropriately internationally.

International financial leaders now focus on stability, pointed out Nancy Birdsall, Director of the Economics Programs at the Carnegie Endowment for International Peace, but if they better represented the global population affected by their decisions, their focus would shift to dimensions like fairness and effectiveness. Because poor countries are poorly represented in global finance, she said, we have a "democratic deficit." What's more, the poor within the poor countries are not represented in their own governments—a double whammy. Thus, the civil society organizations of the United States and Europe (the "North") are most effective when they

lobby their own democratic governments to take certain positions within the international institutions. In contrast, activists in developing and transition countries (the "South") find their best tactic is to target the institutions directly—or even lobby the northern governments. Birdsall said she wants to see civil society organizations in the North focus on the issue of representation in the international financial institutions and work, first, to strengthen the technical capacity of civil society organizations in the South and, second, to help build the democratic structure in which the concept of civil society can flourish. ■

Mary Myers
IMF External Relations Department

The panelists and other participants in the Civil Society and Global Finance Project address these and other issues in a series of papers that will be published as a book within a year. Abstracts of the papers are available at the project's website: www.warwick.ac.uk/csgr/projects/civilsoc.html. A transcript of the forum will be available on the IMF's website (www.imf.org).

IMF Institute seminar

Country-specific needs still dictate choice of exchange rate regime, panelists find

With an eye on the turbulence that has beset emerging markets in recent years, the IMF Institute sponsored a "High-Level Seminar on Exchange Rate Regimes" on March 19–20. Participants took a careful look at hard-peg and floating options and dissected the lessons of country experiences. IMF Managing Director Horst Köhler, who opened the proceedings, struck a recurring theme: no single exchange rate regime, he said, is ideal for all countries, and policymakers should base their choice of regime on country-specific needs.

Peg hard or float?

Although there is "a lot of talk" among emerging market economies about moving to floating regimes and adopting inflation targeting, in practice, many countries have not adopted true floating-rate regimes, according to Carmen Reinhart of the University of Maryland. Drawing on her work with Guillermo Calvo, she maintained that emerging market countries—unlike industrial countries—experience high inflation passthroughs and must denominate their debt and international trade transactions in foreign currencies. This leads to a pervasive "fear of floating," she contended.

Dollarization and other hard-peg regimes offer no panacea for developing countries, Reinhart said, but their benefits often outweigh their costs. Notably, removing the uncertainty of frequent currency movements can foster long-term capital market growth. She also disputed claims that Argentina's currency peg was to blame for the current financial crisis there. She faulted trade policy, saying more could have been done to promote trade flows between Argentina and the United States.

Offering an overview of exchange rate regimes, Jeffrey Frankel of Harvard University noted that the hard-peg option can significantly increase trade, encourage investment, provide a nominal anchor, and avoid speculative bubbles, while floating offers monetary independence, automatic adjustment to trade shocks, and avoidance of speculative attacks.

It is conventional wisdom at the moment, Frankel said, that no country can sustain full financial market integration, exchange rate stability, and monetary independence—the "impossible trinity"—and countries can choose only two. While acknowledging that there is clearly something to this, he saw no strong evidence yet that intermediate regimes have fallen completely out of favor and are disappearing.

Soft pegs are not viable for countries open to international capital flows, IMF First Deputy Managing Director Stanley Fischer asserted, and political economy factors—"more than anything else"—make it difficult to sustain intermediate solutions in the impossible trinity of a pegged rate, a monetary policy directed at domestic objectives, and an open capital account. At the same time, he said, country experience has shown that a variety of managed floats are possible.

Pointing to Argentina, Fischer emphasized that hard pegs are extraordinarily demanding: they force policymakers to confront the real choices they face. But Argentina would be no better off today if it had opted for a floating regime, he suggested. Under either regime it would have had to deal with its inability to get its public finances in order.

Policymakers run into trouble, Robert Flood of the IMF's Research Department observed, when they use monetary policy to achieve more than one objective. Even over the short term, he indicated, policymakers run into trouble when they use monetary policy to go beyond controlling exchange rates or the price level and try, for example, to temper business cycle fluctuations or defend a weak banking system. And because countries have little ability to influence their real interest rates over the long term, more problems arise as time goes on. Flood also queried why many countries with flexible exchange rates are accumulating more and more reserves. Models of financial crises indicate that countries run into crisis when they fall under a

Carmen Reinhart

Jeffrey Frankel

Robert Flood

Felipe Morandé

Alejandro Werner

Gil Bufman

Ryszard Kokoszczyñski

certain level of international reserves, but these models are unable to specify the exact level.

Latin America's experience with floating

Latin American countries have chosen floating regimes and had the choice made for them by crisis, so the region's experiences hold interesting lessons. Felipe Morandé of the Central Bank of Chile and Alejandro Werner of the Bank of Mexico recounted why their countries moved to floating rates and drew early lessons from their experiences.

For *Chile*, Morandé suggested, the question might be why it waited until September 1999 to float. Chile adopted a crawling peg in the 1980s to promote export-led growth and retained it, albeit in an unorthodox fashion, until the Asian crisis struck. Chile then experienced a sharp decline in its terms of trade and a significant increase in its private corporate debt spreads and current account deficit. It took steps to stabilize the situation, but when calm returned, it opted to float its currency. Chile has placed a priority on keeping inflation around 3 percent, and floating, Morandé indicated, afforded the country more flexibility and greater transparency in monetary policy.

Mexico's decision to float came not amid calm but amid crisis, Werner recalled. The country had run out of international reserves, and many initially viewed floating the peso as a stopgap measure until reserves could be rebuilt and some sort of intermediate regime worked out. But they, and others, came to view floating as the "best available choice" for Mexico.

Reviewing Mexico's experience with fixed and floating regimes, Werner noted that exchange rate volatility has been four times higher under a floating regime, but the volatility of reserves and interest rates has been significantly lower. He also indicated that Mexico has built up international reserves because they offer insurance against a sudden loss of access to international capital markets and provide a means to avoid self-fulfilling runs against a country's debt.

Fixed to floating: country experiences

In the past 15 years, *Israel's* exchange rate regime has moved from a nominal exchange rate anchor to gradually increasing flexibility, stopping short of a free float, however. Israel currently maintains an exchange rate band along with inflation targeting. According to Gil Bufman of Tishray, Ltd., and Leonardo Leiderman of the Deutsche Bank, the road to flexibility was bumpy and full of surprises, with the empirical features of the process turning out to be at variance with the expectations of most economists.

In addition, the prevailing intermediate regime, Bufman and Leiderman suggested, has had many negative side effects. It has created ambiguity about the status of the inflation target versus that of the nominal exchange rate target and thus damaged the credibility of both, and limited the efficacy of monetary policy in achieving the inflation target. An early exit to a float could have avoided these and other negative effects, Bufman and Leiderman said, noting that the increasing credibility of monetary policy in inflation targeting, combined with important adjustments in fiscal policy in the second half of the past decade, left sufficient room for this exit.

Poland's journey from fixed to floating needs to be seen within the context of the evolution of monetary policy, according to Ryszard Kokoszczyñski of the National Bank of Poland. Like most transition economies, Poland experienced hyperinflation in the early days of the transformation, so stabilization was a priority, and its stabilization program included a fixed exchange rate as a nominal anchor. Poland abandoned the fixed rate in 1991, moving first to a preannounced crawling peg to a currency basket, then to a crawling band in 1995, and, finally, to a free float in 2000.

From the beginning of the transition, Poland's monetary policy strategy had to address two often conflicting goals: to maintain a steady and predictable disinflation, and to maintain a sustainable external position. The first goal, Kokoszczyñski said, is obvious and general. But the second is more specific to Poland's situation. A large foreign debt inherited mostly from the previous regime; strong interactions among the exchange rate, current account, and inflation; and import-led economic growth all posed major constraints on a macroeconomic policy aimed at influencing the balance of payments. For a relatively large and open economy, such as Poland, there were simply too many instances of short-term trade-offs between inflation and the external position to make any intermediate target a viable basis for monetary policy. Adopting direct inflation targeting, Kokoszczyñski concluded, proved to be an optimal choice, necessitating a move from a fixed-rate regime to the abandonment of any commitment to a nominal exchange rate level.

Asia's experience

The Asian financial crisis of 1997–98, according to Leonardo Hernández of the IMF Institute and Peter J. Montiel of Williams College, has played a key role in generating the perception of a vanishing middle ground for exchange rate regimes in developing countries—a doctrine that has come to be known as the "hollow middle." The crisis forced the Asian economies that succumbed to currency and banking crises (Indonesia, Korea, Malaysia, the Philippines, and Thailand) to abandon their de facto exchange rate pegs, and the subsequent floats of their currencies were associated with sharp fluctuations in their values.

Yet, as Hernández and Montiel observed, in the wake of the crises, several of the affected countries appear to

be reverting to practices similar to those of the precrisis period—that is, stabilizing their currencies against the U.S. dollar without adopting any of the strong commitment mechanisms necessary to sustain a hard peg. The worry among observers is that the adoption of a soft peg may make these countries vulnerable to a repetition of the events of 1997–98. Hernández and Montiel argued that these postcrisis regimes have been successful, both in being judged sustainable by the markets and—especially in those countries that have avoided political instability—in being associated with successful macroeconomic performance.

The benefits of these policies may be specific to the postcrisis period but may not be optimal in the long run, Hernández and Montiel observed. In particular, they may constitute a second-best policy response to the persistence of some important domestic distortions. As policy initiatives such as ongoing banking and corporate sector reform succeed in diminishing the severity of these distortions, exchange rate policy, they contended, should be modified accordingly.

The lesson for postcrisis Asian countries (with the exception of Malaysia), they concluded, seems to be that there are intermediate choices along the exchange rate spectrum, and active management of the exchange rate is not only feasible under current international conditions but may actually be desirable, depending on country circumstances.

Fixed to fixed: country experiences

Argentina's currency board arrangement was successful from 1991, when it was inaugurated, to 1998, according to Guillermo Escudé, who presented a paper coauthored by Andrew Powell (both of the Central Bank of Argentina). Since 1998, however, a series of shocks, both domestic and external, have plunged the Argentine economy into "the long recession." The length of the recession, he said, is adding new urgency to the debate over the convenience and feasibility of the present monetary arrangement.

On the plus side, since the institution of the currency board arrangement, Argentina has achieved disinflation with an exchange rate anchor, strengthened its financial sector through strong prudential policies, and remonetized its economy after 40 years of demonetization. On the other hand, Escudé observed, the Brazilian devaluation in January 1999 was a severe shock to Argentina's nonagricultural manufacturing exports and points to the vulnerability of pegging to the U.S. dollar while expanding trade with Brazil.

A notable by-product of Argentina's reform process has been a very high unemployment rate. Escudé suggested that the fixed exchange rate system has contributed to the continuing high unemployment by eliminating exchange rate variability and, therefore, one of the fundamental sources of price level variability and, hence, real wage flexibility.

Current thinking in Argentina, Escudé concluded, is that the costs of relinquishing monetary policy and maintaining the currency board arrangement do not yet outweigh the benefits.

Throughout the history of *Hong Kong SAR*, a fixed exchange rate has been the norm rather than the exception, according to Priscilla Chiu of the Hong Kong Monetary Authority (HKMA). In fact, the Hong Kong dollar floated for only nine years, from 1974 to 1983.

The immediate cause precipitating the meltdown of the floating exchange regime, Chiu said, was uncertainties regarding Hong Kong's political transition. To restore confidence, the authorities decided to link the Hong Kong dollar at a fixed rate of HK$7.80 to the U.S. dollar. However, an important component of the monetary policy (certificates of indebtedness) was never transferred to the control of the government but remained in the hands of the private sector. In the parallel foreign exchange market, the exchange rate continued to be determined by demand and supply. The Asian crisis exerted considerable strains on the link arrangement, and in September 1998, the HKMA made the commitment to the link explicit and enhanced the transparency of currency board operations.

Since the adoption of the linked exchange rate system, the economy has been performing well, Chiu said. A flexible economy, coupled with a sound financial system, fiscal prudence, and deep foreign currency reserves, underpins the sustainability of the linked exchange rate system. Notwithstanding the strong performance in 2000, however, Hong Kong SAR faces challenges characteristic of a small open economy with no foreign exchange controls. These include exposure to the volatility of capital flows and the effects of a sharp global economic slowdown, Chiu said.

In June 1992, amid the collapse of the ruble zone and political turbulence, *Estonia* introduced a currency board as part of a broad economic and political reform. Peter Lõhmus, formerly of the Bank of Estonia, observed that the currency board arrangement played a very important role in Estonia's stabilization process and is viewed as the cornerstone for further development, particularly during Estonia's accession to European Economic and Monetary Union.

Despite changes in priorities, the currency board arrangement is still the policy of choice, Lõhmus said.

Leonardo Hernández

Peter J. Montiel

Guillermo Escudé

Priscilla Chiu

Photo Credits: Fabrizio Bensch, for Reuters, page 117; Arnd Wiegmann, for Reuters, page 119; Denio Zara, Padraic Hughes, Pedro Márquez, and Michael Spilotro for the IMF, pages 117–119, 121–126, and 129; and Saudi Arabian Monetary Agency, pages 131-132.

Peter Lõhmus

Leonardo Leiderman

It has served Estonia well in achieving price stability and has proved its resilience during the Asian and Russian crises. Nonetheless, the current regime faces challenges policymakers need to be mindful of, Lõhmus noted. In particular, as a small open economy, Estonia's exchange rate is subject to exchange volatility. Also, price convergence has led to higher inflation rates compared with those in countries with flexible systems. Finally, he continued, the "external calm" imparted by the peg may mask long-term and unaddressed ills.

Wrap-up

According to Leiderman, who summed up the proceedings, the vigor of the debate and the breadth of country experiences provided vivid evidence that academicians and policymakers are not close to agreeing on a single appropriate exchange regime, but he welcomed this lack of conclusiveness. Citing an axiom of former U.S. Treasury Secretary Larry Summers that all good news is temporary and all bad news is permanent, he counseled keeping an open mind. And while current sentiment did seem to favor corner solutions, he said it seemed prudent not to offer a premature obituary for intermediate solutions.

It is simply too early to pass final judgments, Leiderman said. The developing countries' perceived "fear of floating," for example, may be akin to the unsteadiness infants experience in taking their first steps. He also reminded participants that choosing an exchange rate regime is a lot like sausage making—much, including politics, goes into the mix.

If the experiences of Spain and Italy offer any guidelines for developing countries, what constitutes an appropriate regime will vary over time. Chile, Mexico, and others already seem to be emulating this example, at least to a point. And then, he added, there is Canada—a natural candidate for monetary union that seems to be doing just fine without one. All of this, he suggested, argued against being dogmatic and in favor of further research. ■

Texts of the papers presented at this seminar are available on the IMF's website at www.imf.org/external/pubs/ft/seminar/2001/err/eng/index.htm.

Safeguards assessments

Strengthened assessments framework helps safeguard use of IMF resources

In March 2000, the Executive Board of the IMF adopted a strengthened framework of measures to safeguard the use of financial resources made available to IMF member countries. These measures include safeguards assessments of member country central banks. The International Monetary and Financial Committee (IMFC), at the 2000 IMF–World Bank Annual Meetings, endorsed the new policy of safeguards assessments and stressed the "forceful application of the strengthened framework" (see *IMF Survey*, October 9, 2000, page 314).

The strengthened framework aims at supplementing conditionality, technical assistance, and other means that have traditionally ensured the proper use of IMF financial resources. Safeguards assessments, which became operational in July 2000, aim to provide a reasonable assurance to the IMF that a central bank's framework of reporting and controls is adequate to manage resources, including IMF disbursements. The assessments are conducted for central banks because they are typically the recipients of IMF disbursements.

Background

Several instances of misreporting and allegations of misuse of IMF resources led to a call in 1999 by the Interim Committee (now the IMFC) for the IMF to review its procedures and controls, so as to strengthen safeguards on the use of its resources. The review of the new proposals was aided by a panel of eminent outside experts, who provided the Executive Board with an independent evaluation of IMF staff proposals for the conduct of safeguards assessments. The external panel comprised six experts drawn from different geographic regions and with diverse backgrounds: Michèle Caparello, Director of Internal Audit at the European Central Bank, who chaired the panel; Jeremy Foster, Head of Central Bank Services at PricewaterhouseCoopers; Eduardo Grinberg, President of the Court of Accounts, Province of Buenos Aires, Argentina; Suparut Kawatkul, Director General, Thailand's Ministry of Finance; M.R. Rasheed, Deputy Governor of the Central Bank of Nigeria; and Lynn Turner, Chief Accountant, U.S. Securities and Exchange Commission. The panel made a number of recommendations and unanimously concluded that the staff proposals were "an appropriate and useful framework for the strengthening of the safeguards in the use of IMF resources." Of course, safeguards assessments would not prevent misuse of resources by a willful override of controls or manipulation of data.

Safeguards assessments consider the adequacy of five key areas of control and governance within a central bank, summarized under the acronym ELRIC: *E*xternal audit mechanism, *L*egal structure and independence of

the central bank, financial *R*eporting practices, *I*nternal audit mechanism, and the system of internal *C*ontrols. The ELRIC framework is derived from the IMF's Code of Good Practices on Transparency in Monetary and Financial Polices and employs International Accounting Standards, International Standards on Auditing, and the IMF's data dissemination standards (SDDS and GDDS) as benchmarks.

Implementation

Safeguards assessments apply to all countries with arrangements for use of IMF resources approved after June 30, 2000. Member countries with arrangements in effect prior to that date are subject to transitional procedures. These countries are required to demonstrate the adequacy of only one key element of the safeguards framework—namely, that their central banks publish annual financial statements that are independently audited by external auditors in accordance with internationally accepted standards.

The IMF's Treasurer's Department takes the lead in implementing safeguards assessments, which are undertaken in two stages. Stage 1 is a preliminary assessment by IMF staff at headquarters of the adequacy of a central bank's ELRIC, based on a review of documentation provided by the authorities and, if necessary, discussions with the central bank's external auditors. A confidential Stage 1 report that documents vulnerabilities identified in a central bank's ELRIC, together with staff's proposed remedial measures, is prepared for consideration by IMF management. If necessary, a Stage 2 (on-site) assessment is undertaken to confirm or modify the preliminary conclusions drawn by the Stage 1 assessment and to agree on appropriate remedial measures with the central bank authorities. Multidisciplinary teams led by IMF staff and including external experts conduct Stage 2 assessments. The final confidential report is discussed with central bank officials and includes their formal response. The conclusions and agreed-upon remedial measures are reported to the IMF Executive Board.

Early results

The implementation of the safeguards policy has resulted in a heightened awareness regarding transparency and governance issues in central bank operations, which it is hoped will lead to improved overall effectiveness of the safeguards employed by central banks. For example, at least 10 central banks have recently appointed, or are currently in the process of appointing, independent external auditors for the first time. They are those of Albania, Brazil, Cambodia, Croatia, the former Yugoslav Republic of Macedonia, Peru, Romania, Turkey, the Federal Republic of Yugoslavia, and the Banque des Etats de l'Afrique Centrale (BEAC). Several of these appointments can be directly attributed to the advent of safeguards assessments, and a number of central banks have sought IMF staff's advice in this matter.

Based on the Stage 1, Stage 2, and transitional procedure reports completed so far, the early experience with safeguards assessments suggests that they provide a useful tool for reducing the possibility of misreporting and for raising awareness among central bank officials of the need for vigilance over controls to safeguard central bank resources from misuse, especially in the area of foreign reserves. Although the sample of completed

Available on the web (www.imf.org)

Press Releases

01/12: Vietnam: $368 Million PRGF Arrangement, April 6

News Briefs

01/32: Pakistan, $133 Million Credit, March 30
01/33: IMF Welcomes Norway's Adoption of Inflation Targeting, March 30
01/34: IMF Invites Comments on Streamlining and Focusing Conditionality, April 9
01/35: Tajikistan: Review of Third Annual PRGF Program, April 12

Transcripts

Press Briefing, Thomas Dawson, External Relations Department Director, April 10

Public Information Notices

01/32: St. Lucia, March 29
01/33: Bulgaria, April 3
01/34: Poland, April 10
01/35: Oman, April 11
01/36: Colombia, April 12

Speeches

IMF Managing Director Horst Köhler, "The Challenges of Globalization and the Role of the IMF," Deutsche Bundestag, Berlin, April 2 (see page 117)

Letters of Intent and Memorandums of Economic and Financial Policies*

Brazil, March 29
Colombia, March 30
Pakistan, March 30
Uganda, April 2

Other

Tracking of Poverty-Reducing Public Spending in Heavily Indebted Poor Countries, by the IMF's Fiscal Affairs Department and the World Bank's Poverty Reduction and Economic Management Network, March 27*
Review of the Fund's Experience in Governance Issues, by the IMF's Policy Development and Review Department, March 28*
IMF Research Bulletin, March 2001, April 2
Macroeconomic Policy and Poverty Reduction: Revised Chapter 6 of the PRSP Sourcebook, April 6*
IMF Financial Activities, April 6
IMF's Financial Resources and Liquidity Position, April 10

* Date posted.

cases is too small to confirm a trend, recurring findings of safeguards assessments include the absence of reconciliation between audited financial statements and economic data used in the monitoring of IMF-supported programs; weak oversight by central bank boards over control, audit, and financial reporting processes; and, more generally, inadequate financial reporting. In general, central bank officials have been receptive to the findings of safeguards assessments and have adopted the staff's recommendations. In some cases, central banks have undertaken a deeper analysis of their ELRIC safeguards already in place in response to the IMF initiative.

Toward the end of 2001, the IMF Executive Board will review the framework governing the assessments and the collective experience from the new policy, with the assistance of the panel of external experts. ■

Chris Hemus
Safeguards Assessment Unit, IMF Treasurer's department

Members drawing on the IMF "purchase" other members' currencies, or SDRs, with an equivalent amount of their own currency.

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

Member	Date of arrangement	Expiration date	Amount approved	Undrawn balance
			(million SDRs)	
Stand-By arrangements				
Argentina[1]	March 10, 2000	March 9, 2003	10,585.50	6,751.19
Bosnia & Herzegovina	May 29, 1998	May 29, 2001	94.42	13.99
Brazil[1]	December 2, 1998	December 1, 2001	10,419.84	2,550.69
Croatia	March 19, 2001	May 18, 2002	200.00	200.00
Ecuador	April 19, 2000	April 18, 2001	226.73	113.38
Estonia	March 1, 2000	August 31, 2001	29.34	29.34
Gabon	October 23, 2000	April 22, 2002	92.58	79.36
Latvia	December 10, 1999	April 9, 2001	33.00	33.00
Lithuania	March 8, 2000	June 7, 2001	61.80	61.80
Nigeria	August 4, 2000	August 3, 2001	788.94	788.94
Pakistan	November 29, 2000	September 30, 2001	465.00	210.00
Panama	June 30, 2000	March 29, 2002	64.00	64.00
Papua New Guinea	March 29, 2000	May 28, 2001	85.54	56.66
Peru	March 12, 2001	March 11, 2002	128.00	128.00
Turkey[1]	December 22, 1999	December 21, 2002	8,676.00	4,742.90
Uruguay	May 31, 2000	March 31, 2002	150.00	150.00
Total			**32,100.69**	**15,973.25**
EFF arrangements				
Bulgaria	September 25, 1998	September 24, 2001	627.62	52.32
Colombia	December 20, 1999	December 19, 2002	1,957.00	1,957.00
FYR Macedonia	November 29, 2000	November 28, 2003	24.12	22.97
Indonesia	February 4, 2000	December 31, 2002	3,638.00	2,786.85
Jordan	April 15, 1999	April 14, 2002	127.88	91.34
Kazakhstan	December 13, 1999	December 12, 2002	329.10	329.10
Ukraine	September 4, 1998	August 15, 2002	1,919.95	1,017.73
Yemen	October 29, 1997	October 28, 2001	72.90	26.40
Total			**8,696.57**	**6,283.71**
PRGF arrangements				
Albania	May 13, 1998	July 31, 2001	45.04	4.71
Benin	July 17, 2000	July 16, 2003	27.00	16.16
Bolivia	September 18, 1998	September 17, 2001	100.96	56.10
Burkina Faso	September 10, 1999	September 9, 2002	39.12	22.35
Cambodia	October 22, 1999	October 21, 2002	58.50	33.43
Cameroon	December 21, 2000	December 20, 2003	111.42	95.50
Central African Rep.	July 20, 1998	July 19, 2001	49.44	24.96
Chad	January 7, 2000	January 7, 2003	36.40	26.00
Djibouti	October 18, 1999	October 17, 2002	19.08	13.63
Ethiopia	March 22, 2001	March 21, 2004	86.90	69.52
FYR Macedonia	November 29, 2000	November 28, 2003	10.34	8.61
Gambia, The	June 29, 1998	June 28, 2001	20.61	6.87
Georgia	January 12, 2001	January 11, 2004	108.00	90.00
Ghana	May 3, 1999	May 2, 2002	191.90	120.85
Guinea-Bissau	December 15, 2000	December 14, 2003	14.20	9.12
Guyana	July 15, 1998	July 14, 2001	53.76	28.88
Honduras	March 26, 1999	March 25, 2002	156.75	64.60
Kenya	August 4, 2000	August 3, 2003	190.00	156.40
Kyrgyz Republic	June 26, 1998	June 25, 2001	73.38	28.69
Lesotho	March 9, 2001	March 8, 2004	24.50	21.00
Madagascar	March 1, 2001	February 29, 2004	79.43	68.08
Malawi	December 21, 2000	December 20, 2003	45.11	38.67
Mali	August 6, 1999	August 5, 2002	46.65	33.15
Mauritania	July 21, 1999	July 20, 2002	42.49	24.28
Moldova	December 15, 2000	December 14, 2003	110.88	92.40
Mozambique	June 28, 1999	June 27, 2002	87.20	33.60
Nicaragua	March 18, 1998	March 17, 2002	148.96	33.64
Niger	December 14, 2000	December 21, 2003	59.20	50.74
Rwanda	June 24, 1998	June 23, 2001	71.40	19.04
São Tomé and Príncipe	April 28, 2000	April 28, 2003	6.66	4.76
Senegal	April 20, 1998	April 19, 2001	107.01	28.54
Tajikistan	June 24, 1998	December 24, 2001	100.30	34.02
Tanzania	March 31, 2000	March 30, 2003	135.00	75.00
Yemen	October 29, 1997	October 28, 2001	264.75	94.75
Zambia	March 25, 1999	March 28, 2003	254.45	224.45
Total			**2,976.79**	**1,752.50**
Grand total			**43,774.05**	**24,009.46**

[1] Includes amounts under Supplemental Reserve Facility
EFF = Extended Fund Facility.
PRGF = Poverty Reduction and Growth Facility.
Figures may not add to totals owing to rounding.
Data: IMF Treasurer's Department.

Honoring Assaf Razin

Conference ponders global outlook, financial crises, and effects of capital account liberalization

Assaf Razin has been writing about the promise and the perils of international economic integration for over three decades—long before globalization became a buzzword. Razin turned 60 this year, and his colleagues, collaborators, and friends marked the milestone by throwing a conference in his honor in Tel Aviv on March 25–26.

What were the highlights of the conference? Jacob Frenkel, Leonardo Leiderman, Paul Krugman, and Anne Krueger offered colorful, and sometimes contradictory, assessments of the world economic outlook. Krugman also sketched what the next generation of financial crises might look like. In addition, Andrew Rose evaluated the interest rate defense of currency pegs, and Barry Eichengreen and Charles Wyplosz offered a fresh assessment of the growth effects of capital account liberalization.

Shifting global outlook

Jacob Frenkel of Merrill Lynch International launched a panel discussion on the global outlook with a cautiously optimistic assessment of the U.S. outlook for 2001–02. Frenkel noted that, like Mark Twain's description of Wagner's music ("it's better than it sounds"), the U.S. economy is in better shape than it appears. The "slowdown feels like a recession" because of the sharp contrast with the strong growth in the preceding years. He predicted that the United States would easily avoid a recession this year. Consumer spending, he noted, has started to recover; housing starts have remained robust; and productivity growth remains positive. According to Frenkel, downward revisions of forecasts of the U.S. economy reflect, to some extent, the "filtering of psychology into forecasts," as forecasters react to the sharp declines in the U.S. stock market. These reactions are more than is warranted by U.S. economic fundamentals, including the likely course of U.S. monetary and fiscal policies.

Jacob Frenkel

The next panelist, Leonardo Leiderman of Deutsche Bank, struck a more pessimistic note. In his view, the U.S. economy was in "recession territory," and growth prospects for 2002 were anemic as well (see chart, page 130). As evidence in support of his forecasts, Leiderman pointed to the slowdown in all components of domestic demand and to the signals from the index of leading economic indicators.

After listening to Frenkel and Leiderman, Paul Krugman of Princeton University remarked that "we've just heard a bad forecast from an Israeli economist; the trouble is, we don't know which one." Krugman's own forecast for the U.S. economy was closer to Leiderman's. While agreeing with Frenkel that U.S. supply-side performance had been strong, Krugman suggested that this did not insulate a country from the business cycle, as shown by the economic debacles following strong growth in the United States in the 1920s and Japan in the 1980s. As in these earlier episodes, strong U.S. growth in recent years has been accompanied by a bubble in financial markets and an overhang of bad investment. Krugman also questioned the "rhetoric" about just-in-time inventory management techniques, won-

Paul Krugman

Assaf Razin at 60

Like other peripatetic Israeli scholars, Assaf Razin has, over the course of his career, combined an academic affiliation at home (Tel Aviv University) with visiting positions at several U.S. and European institutions, including several stints as a visiting scholar at the IMF. At the conference in his honor, Razin briefly summarized the highlights of his illustrious career—one in which he has written a dozen books, edited a dozen others, and published over 100 articles.

He observed that a rejected paper in 1975 led to his first book on globalization—a subject that still fascinates him. *A Theory of International Trade Under Uncertainty*, written with Elhanan Helpman, argued that as capital markets became more integrated, there would be a strong tendency for countries to specialize according to their comparative advantage. Three subsequent books continued to explore the implications of global integration. *Fiscal Policy in an Integrated World Economy: An Intertemporal Approach*, written with Jacob Frenkel in 1987, looked at the dynamics of the current account in a flexible price world; *International Taxation*, written with Frenkel and Efraim Sadka, examined the constraints that globalization imposes on the conduct of fiscal policies (the main problem, according to Razin, is a "race to the bottom" among national tax authorities in a globalized tax market); and, more recently, *Labor, Capital, and Finance: International Flows*, coauthored with Sadka, analyzed the side effects (good and bad) of globalization.

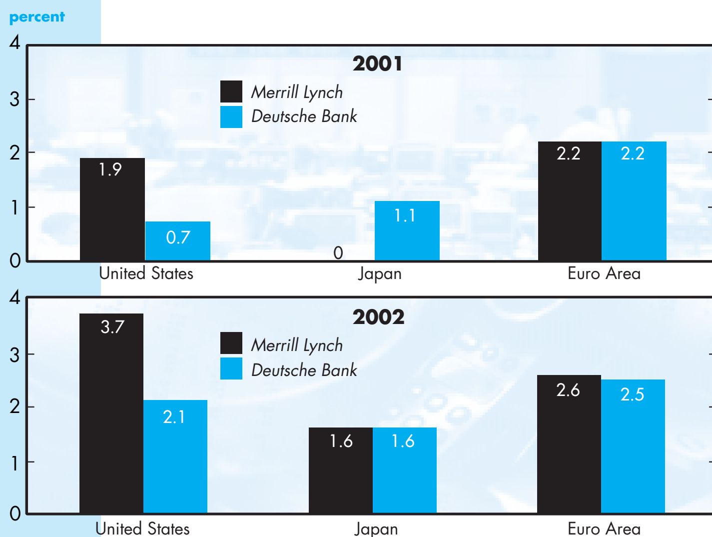
Assaf Razin

Razin, noting that in the Jewish tradition everyone lives for 120 years, said he viewed this conference on his sixtieth birthday as "a wonderful break between semesters." Also, deflecting the praise heaped on him during the conference, he quipped that he wished his parents could have been on hand: "my father would have liked to hear all this praise, and my mother would have believed all of it."

dering what accounted for the huge buildup in manufacturing inventories if these techniques were working as advertised.

Leiderman and Anne Krueger of Stanford University discussed the likely impact of the U.S. slowdown on other countries. Leiderman noted that the decline in U.S. import growth to an estimated 2 percent for 2001—far below the nearly 15 percent import growth of recent years—would have the predictably adverse impact on Mexico and many Asian economies. A slowdown could also trigger an increase in U.S. protectionism, Krueger warned, noting that protectionist pressures had not diminished despite the strong economic growth of recent years. The resolution of ongoing trade disputes, such as the one involving softwood lumber imports into the United States from Canada, would test the "free trade credentials" of the Bush administration, she said.

Private-sector growth forecasts



Data: Merrill Lynch and Deutsche Bank

Anne Krueger

Financial crises

A paper by Krugman—"Crises: The Next Generation?"—provided a narrative history of the literature on financial crises, highlighting the "disheartening fact" that each wave of crises elicited a new style of models that made sense of the crisis "after the fact." Against this backdrop, he attempted "to get ahead of the curve" by sketching what the next generation of crisis models (the fourth such) might look like.

According to Krugman, the next generation of crises may affect not currencies but asset prices more generally. The mechanisms for speculative attack and self-fulfilling pessimism identified in models of currency crises apply to stock markets as well. In the currency-crisis models, a disorderly devaluation of the currency raises the value of firms' foreign currency debts, thereby lowering their net worth and forcing them to curtail their investment. Krugman argued that one can tell a similar story in which a decline in confidence (say, because a technology bubble bursts or a political crisis erupts) leads to a sharp decline in asset prices. This lowers firms' net worth and forces them to cut investment. The fall in investment then validates both the decline in asset prices and the fall in confidence. Krugman suggested that a scenario of this kind explains some of Japan's current woes; moreover, the odds of such a scenario unfolding in the United States, though probably very small, ought not to be ignored.

Krugman noted that in both the recent currency-crisis models and the next-generation models, the policy options open to governments tend to be quite unpalatable. In currency crises, one policy choice, albeit a much-disputed one, is to raise interest rates to limit the devaluation of the currency, followed by a gradual reduction in interest rates once confidence is restored. Andrew Rose of the University of California, Berkeley, in a joint work with Robert Flood of the IMF, presented empirical evidence, based on a sample of 23 countries over the 1990s, suggesting that interest rate increases have helped defend currencies.

Capital mobility and growth

Though economic theory predicts that international capital mobility should have favorable effects on economic growth, "the data do not speak loudly" on this issue, according to Barry Eichengreen of the University of California, Berkeley, and Charles Wyplosz of the Graduate Institute of International Studies, Geneva. In joint work with Carlos Arteta, they reviewed the financial literature on the impact of capital account liberalization on growth and indicated that the previous findings have been not only contradictory, but also sensitive to the set of countries considered, the time period studied, and the econometric method used. Their own investigation yielded some support for the view that "the sequencing of reform shapes the effects of capital account liberalization," but, they cautioned, "we need to better understand [the] how and why" of this result. ■

Prakash Loungani
IMF External Relations Department

Member's use of IMF credit
(million SDRs)

	During March 2001	January–March 2001	January–March 2000
General Resources Account	**163.80**	**3,499.58**	**1,166.52**
Stand-By	105.00	3,440.78	906.52
SRF	0.00	2,349.57	0.00
EFF	58.80	58.80	260.00
CFF	0.00	0.00	0.00
PRGF	**94.86**	**167.29**	**86.81**
Total	**258.66**	**3,666.87**	**1,253.33**

SRF = Supplemental Reserve Facility
EFF = Extended Fund Facility
CFF = Compensatory Financing Facility
PRGF = Poverty Reduction and Growth Facility
Figures may not add to totals shown owing to rounding.

Data: IMF Treasurer's Department

Saudi Arabian Monetary Agency, IMF work to improve regional balance of payments statistics

In collaboration with the Saudi Arabian Monetary Agency (SAMA), the IMF's Statistics Department presented a training course in balance of payments statistics in Riyadh during January 27–February 15. The course was attended by national compilers in the countries of the Gulf Cooperation Council (GCC), which, in addition to the Kingdom of Saudi Arabia, includes Bahrain, Kuwait, Oman, Qatar, and the United Arab Emirates. The 32 participants included officials from the central banks of each of the GCC countries as well as users of balance of payments statistics from SAMA and other government departments in the Kingdom. Participants from the GCC Secretariat also attended. The course was held at SAMA's Institute of Banking, which provided logistical and administrative support.

As part of its technical assistance program, the IMF also conducts regional training programs for the Middle East and North Africa region in cooperation with the Arab Monetary Fund in Abu Dhabi. The most recent course on balance of payments methodology was held in September 2000.

Focus on practical training

Working with Dr. Abdulrahman Al-Hamidy, Director General of SAMA's Research and Statistics Department, the IMF structured the course to address statistical issues of concern to the GCC countries, with emphasis on practical training and the particular data needs of the region.

At the training session. (from left), Bayder Gurgen, Quazi Hafiz, John Motala, Dr. Muhammad Al-Jasser, and Abdullatif M. Ghaith.

Dr. Muhammad Al-Jasser, the Vice Governor of SAMA, opened the course and stressed the importance of timely, accurate, and comprehensive balance of payments statistics both for domestic policy formulation as well as in the global context. He emphasized that in the wake of the financial crises of the late 1990s, the need for international surveillance had assumed greater importance, necessitating the compilation of balance of payments statistics by all countries, in accordance with—as far as possible—the concepts, methodology, and format embodied in the fifth edition of the IMF's *Balance of Payments Manual (BPM5)*, to enhance transparency and international comparability.

Recent publications

Working Papers ($10.00)

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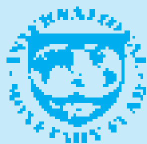

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Staff and experts from the IMF's Statistics Department provided an overview of the methodology of the *BPM5*. As an aid to understanding the material covered in the presentations, the course included six workshops devoted to balance of payments compilation. Six other sessions were devoted to the sharing of country experiences, based on the statistical practices followed in the countries of the GCC. The workshops and country experiences, which were conducted in small groups, proved to be especially popular with participants.

Participants in the SAMA–IMF training course in balance of payments statistics. The course was held at SAMA's Institute of Banking in Riyadh.

One of the difficulties of compiling balance of payments data that emerged from the discussions of country experiences was the absence in several GCC countries of a tradition of collecting information through surveys, particularly information on financial transactions of private nonfinancial institutions. In this regard, IMF staff referred to the international banking statistics compiled by the Bank for International Settlements (BIS) as a potential source of data on private capital flows—namely, deposits abroad of the nonbank sector and borrowing from banks abroad. The BIS international banking statistics represent creditor-source data provided to the BIS each quarter by 28 countries making up the BIS reporting area. Other related topics in this session included survey methods and follow-up procedures to improve response rates to enterprise surveys.

To facilitate interaction during the course, participants had submitted questions in advance of the sessions to the IMF's Statistics Department about estimation methods. These questions were formulated in light of specific challenges faced by GCC countries, particularly in the area of data sources and the difficulties encountered in collecting information by conducting surveys. In addition, participants requested clarifications about the classification of some transactions according to the *BPM5*.

IMF staff reviewed the methodology and data sources employed in the GCC countries and helped identify procedures for converting the existing balance of payments statistics to the format of the *BPM5* on the basis of the available data. These discussions also helped identify gaps in the data that had to be closed to bring the compilation of balance of payments statistics into accordance with *BPM5*. Discussion among the participants in the case studies also helped identify issues relevant to the compilation of balance of payments statistics in the GCC countries as well as appropriate data compilation strategies.

Overall, the course was well received by compilers. In the closing session, Dr. Al-Jasser expressed his appreciation for the IMF Statistics Department's cooperation in conducting the course and complimented the instructors and the participants for their devotion and hard work. He hoped that the participants would be able to use the knowledge and expertise they had gained in the course to improve the balance of payments statistics in their respective countries. ■

Dr. Abdulrahman Al-Hamidy
Saudi Arabian Monetary Agency
John Motala
IMF Statistics Department

For more information on the international banking statistics compiled by BIS, see its website at www.bis.org/publ/.

Copies of the *Balance of Payments Manual, Fifth Edition* are available for $27.50 each from IMF Publication Services. See page 131 for ordering information.

Selected IMF rates

Week beginning	SDR interest rate	Rate of remuneration	Rate of charge
April 2	3.94	3.94	4.57
April 9	3.76	3.76	4.36

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. The rate of remuneration is the rate of return on members' remunerated reserve tranche positions. The rate of charge, a proportion 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/cgi-shl/bur.pl?2001).

General information on IMF finances, including rates, may be accessed at www.imf.org/external/fin.htm.

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