IMF Survey

INTERNATIONAL MONETARY FUND

JULY 4, 2005 VOL. 34, NO. 12

www.imf.org/imfsurvey

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NEWS: IMF outlines work priorities

The IMF has set itself an ambitious work program for the coming months. In addition to developing a medium-term strategy for the institution, it will focus on sharpening its efforts in surveillance of economic and financial developments, and in lending to members seeking to stabilize and reform their economies. Also a top priority: ensuring the effectiveness of the IMF's role in low-income countries, including consideration of the recent G-8 debt proposal.

Henrik Gschwindt de Gyor/IMF

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COUNTRY FOCUS: Swiss voters' direct say on reforms

The Swiss economy returned to growth in 2004, but further economic reforms are needed to meet the challenges of raising the growth rate and tackling mounting fiscal pressures. Does the country's direct democracy system—which gives the Swiss public a say on many aspects of policy—impede the ability to push through needed reforms? A look at the outcome of referendums under this system seems to confirm that voters tend to understand the urgency of reforms much more in difficult times, while preferring the status quo when the economy is doing well.

Lukas Lehmann/AFP

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REGIONAL FOCUS: Do Africa's regional pacts boost trade?

Prompted largely by increasing regionalism worldwide and the ongoing Doha multilateral trade negotiations, there has been a renewed push in Africa over the last several years to broaden and deepen the region's preferential trade arrangements. A new IMF study looks at whether African regional trade arrangements are meeting their goals to expand trade within and outside the region and improve overall economic welfare in Africa.

Sean Gallup/Getty Images

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FORUM: Love and money

Whom you decide to marry will have important economic consequences—for yourself and society. In an IMF Institute seminar, Professor Raquel Fernández from New York University argued that in societies where people mostly marry partners from a similar educational background, inequality may increase. She also showed that the cultural background of second generation immigrant women is important in determining how much they work and how many children they bear.

Henrik Gschwindt de Gyor/IMF

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What's on

July

4–8 IMF workshop on anti–money laundering and combating the financing of terrorism, Dalian, China

6–8 Group of Eight Summit, Gleneagles, Scotland

11 UN World Population Day, Hong Kong SAR

13–14 IMF seminar for legislators on value-added tax policy and administration, Lao P.D.R.

August

22–26 IMF–Singapore Regional Training Institute seminar, "Creditor Rights in Emerging Economies," Singapore

24–September 2 APEC Small and Medium Enterprise Ministerial, Daegu, Republic of Korea.

September

6–7 IMF high-level seminar, "Financial Stability—Central Banking and Supervisory Challenges," Washington, D.C.

8 IMF Economic Forum, "IMF Conditionality: Good, Bad, or Ugly?" Washington, D.C.

14–16 High-level plenary meeting, UN General Assembly, to review progress on UN Millennium Declaration commitments, New York

24–25 IMF and World Bank Annual Meetings, Washington, D.C.

October

19 IMF Book Forum, Pietra Rivoli, *Travels of a T-shirt in the Global Economy: An Economist Examines the Markets, Power, and Politics of World Trade*, Washington, D.C.

23–27 IMF high-level seminar, "Current Developments in Monetary and Financial Law," Washington, D.C.

November

3–4 IMF Jacques Polak Sixth Annual Research Conference, Washington, D.C.

4–5 Fourth Summit of the Americas, Mar del Plata, Argentina

6–7 IMF high-level seminar, Symposium on Integrity Supervision of Financial Sector Firms, Washington, D.C.

16–18 The World Summit on the Information Society, Tunis, Tunisia

December

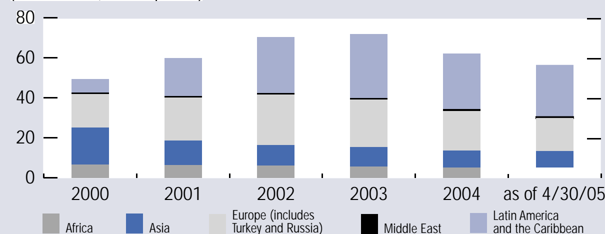
13–18 The Sixth World Trade Organization Ministerial Conference, Hong Kong SAR

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

At a glance

IMF financial data

Total IMF credit and loans outstanding, by region
(billion SDRs, end of period)



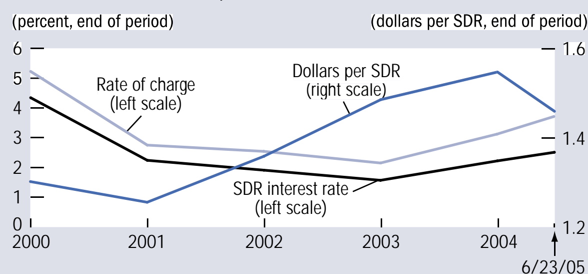
Major currencies, rates per SDR
(end of period)

	June 2005	Year ago
Euro	1.205	1.206
Japanese yen	160.810	158.909
U.K. pound	0.812	0.809
U.S. dollar	1.475	1.466

IMF available resources
(one-year forward commitment capacity, billion SDRs)

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

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

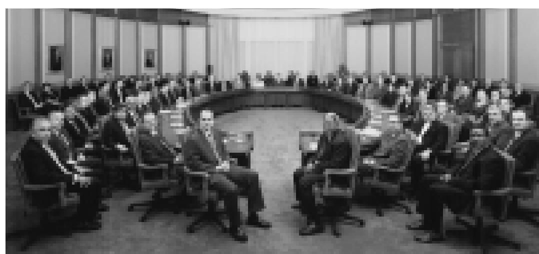


Note on IMF Special Drawing Rights
Special Drawing Rights (SDRs) are an international reserve asset, created by the IMF in 1969 to supplement the existing official reserves of member countries. SDRs are allocated to member countries in proportion to their IMF quotas. The SDR also serves as the unit of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

Strategic direction, surveillance top IMF's work program

The work program of the IMF's Executive Board over the coming year has among its key priorities making the institution's medium-term strategy operational, strengthening the effectiveness of its surveillance and crisis prevention efforts, refining its role in low-income countries, and reviewing its instruments, IMF Managing Director Rodrigo de Rato said in a statement released on June 22. These priorities, which reflect the guidance of the International Monetary and Financial Committee (IMFC) at its April 16 meeting, were confirmed by the Executive Board when it discussed the Managing Director's statement. On June 22, the Board agreed that the work program will be modified to allow consideration of the Group of Eight debt relief proposal (see page 188).

Fleshing out a medium-term strategy. The IMF, de Rato said, is working to reach understandings on a medium-term strategy paper that incorporates the priorities, organizational implications, and potential trade-offs among the IMF's major activities over the next few years. In the next stage, the IMF will focus on enhancing the effectiveness of surveillance; intensifying work on financial sector and capital account issues; the planning, prioritization, and integration of technical assistance activities; calibrating the intensity of future work on standards and codes; refining instruments for supporting low-income countries; and the prioritization, efficiency, and allocation of resources in the IMF's operations. A comprehensive Board discussion of the Fund's medium-term strategy is planned for September. De Rato added that as deliberations on the medium-term strategy are completed, it will be "important to turn more intensively to issues related to the longer-term evolution of the international monetary system and the role of the Fund."



Denio Zara/IMF

IMF Executive Board.

Surveillance and crisis prevention. Effective IMF surveillance of country, regional, and global developments remains "central," de Rato noted, to the IMF's role in supporting the stability of the international financial system. In keeping with the 2004 biennial review of surveillance, the IMF will concentrate on sharpening the focus of surveillance, deepening its treatment of exchange rate issues, enhancing its oversight of the financial sector, improving analysis of debt sustainability and balance sheet vulnerabilities, strengthening attention to regional and global spillovers in country surveillance, and reflecting on how surveillance takes place in low-income countries. Progress in assessing the effectiveness of surveillance is another priority. Implementation of these priorities will be assisted by an evaluation of the Financial Sector Assessment Program, and reviews of the Standards and Codes Initiative and IMF transparency.

Supporting low-income members

The IMF, as the IMFC reaffirmed, has a critical role in supporting low-income countries. To ensure its effectiveness, the IMF will review the modalities of IMF support; bolster IMF assistance to countries seeking to achieve the Millennium Development Goals (MDGs); and, before the UN Summit on the MDGs in September, build a "better understanding within the international community of the IMF's role in this area," de Rato said.

On modalities, the work program highlights the importance of addressing "both the need for additional instruments and the design of existing facilities." There will be a review of the design of programs supported by the Poverty Reduction and Growth Facility (PRGF), and in response to the IMFC, the Executive Board will also discuss proposals for Program Support Arrangements, intended to enhance the IMF's signaling role for countries that do not need or want financing, and for a "shocks" facility within the PRGF. Discussions on strengthening the IMF's role in low-income countries will focus on its work in the field in supporting members' poverty reduction strategies.

IMF resources and instruments. Lending, de Rato noted, "remains a central pillar" of the IMF's mandate, with its effectiveness relying on country ownership of programs and strong supporting institutions. Recent reviews of the design of IMF-supported programs (see *IMF Survey*, June 20, pp. 180–82) and guidelines for the conditionality attached to IMF loans provide valuable lessons that will inform continuing reviews and assessments of financing instruments and policies.

Other work in prospect. Other issues to receive attention include capacity building, crisis resolution initiatives, and institutional effectiveness, including issues of voice, quotas, and participation. ■

The full text of the IMF Managing Director's statement on the work program is available in Press Release No. 05/147 on the IMF's website (*www.imf.org*).

Debt relief proposal means changes ahead in IMF work program

IMF Executive Directors agreed on June 22 that the IMF's work program should be modified in light of the Group of Eight (G-8) proposal, announced on June 11, that the World Bank, IMF, and African Development Bank cancel their claims on 18 countries that have reached the completion point under the HIPC (Heavily Indebted Poor Countries) Initiative and other HIPC countries (currently 17) as they reach the completion point. The decision to revisit the IMF's work program came out of an initial Board discussion of the G-8 proposal, which focused partly on issues that will need to be addressed in analyzing the proposal.

The Executive Board asked staff to carefully assess the proposal, and its legal, financial, and policy implications for the IMF, as well as possible modifications. This assessment will be considered in the context of other proposals related to the IMF's involvement with low-income countries that are already on the Board's near-term discussion agenda. In the meantime, the IMF will continue to operate under existing policies and procedures until decisions to alter these policies are taken by the required majorities. That is, the IMF will make new commitments and disbursements under the Poverty Reduction and Growth Facility (PRGF) and the HIPC Initiative, and member countries will continue servicing, in full and on a timely basis, their financial obligations to the IMF and the PRGF trust.

Bilateral contributions from the G-8 countries (Canada, France, Germany, Italy, Japan, Russia, the United Kingdom, and the United States) and other donors would cover the costs of debt relief to the World Bank and the African Development Bank; current IMF resources would cover the costs of debt relief for obligations to the IMF. For countries whose existing and projected debt-relief obligations cannot be met through existing IMF resources (for example, Liberia, Somalia, and Sudan), donors commit—under the G-8 proposal—to provide the extra resources necessary: "We will invite voluntary contributions, including from the oil-producing states, to a new trust fund to support poor countries facing commodity price and other exogenous shocks."

Which countries would benefit from the new proposal? The 18 that have reached the completion point under the HIPC Initiative are Benin, Bolivia, Burkina Faso, Ethiopia, Ghana, Guyana, Honduras, Madagascar, Mali, Mauritania, Mozambique, Nicaragua, Niger, Rwanda, Senegal, Tanzania, Uganda, and Zambia. The other 17 are Burundi, Cameroon, the Central African Republic, Chad, the Comoros, Côte d'Ivoire, the Democratic Republic of Congo, The Gambia, Guinea, Guinea-Bissau, the Lao P.D.R., Malawi, Myanmar, the Republic of Congo, São Tomé and Príncipe, Sierra Leone, and Togo. ■

The full text of Public Information Notice No. 05/79, "IMF Executive Board Discusses G-8 Finance Ministers' Proposal for Further Debt Relief for HIPCs," is available on the IMF's website (*www.imf.org*).

Gabon's economy picks up as reforms to diversify continue

Since 2003, Gabon's economy has recorded positive growth, low inflation, and significantly stronger fiscal and external positions as a result of the government's far-reaching program of economic and structural reforms, high oil prices, and external debt rescheduling, the IMF said in its annual economic review. The IMF Executive Board commended the authorities for the progress made but stressed that with prospects of declining production in the oil sector, high external debt, and widespread poverty, challenges remained. Looking ahead, Gabon will face the challenges of managing the transition from a highly oil-dependent economy to a more diversified one that encourages private sector initiative and helps to eradicate poverty.

In 2004, non-oil growth benefited from rising output in manganese mining and timber processing, while activity in construction, electricity, and cement production picked up later in the year. The fiscal stance in 2004 remained tight as the significant windfall in oil revenue was used primarily to reduce foreign and domestic debt and increase deposits in a savings fund for future generations. The Board welcomed this, saying that paying down government debt now will help reduce the future burden of debt service on the public finances and the vulnerability of the economy to oil price swings.

However, the Board noted several fiscal risks in 2005 and urged the authorities to continue their structural reforms of recent years aimed at improving the management of public resources and promoting private investment and economic diversification. Strengthening the institutional framework by improving financial management in the public sector and reinforcing transparency and governance more generally will be critical to raising economic growth and reducing poverty. These are the twin aims of the Poverty Reduction Strategy Paper currently under preparation. ■

Gabon	2001	2002	2003	2004	2005 Projections
			(percent change)		
Real GDP	2.0	0.0	2.4	1.4	2.0
Average CPI	2.1	0.2	2.1	0.4	1.0
			(percent of GDP)		
Overall central government balance (commitment basis)	3.2	3.4	7.4	7.4	10.7
External public debt	63.1	62.8	56.0	49.6	43.0

Data: IMF staff report, March 2005.

Kuwait's economy records fastest growth since 1990

In 2003–04, Kuwait's macroeconomic performance strengthened further as a result of sharply higher oil prices and production, with renewed trade relations with Iraq being another positive factor. Real GDP expanded at its fastest pace since the 1990 Gulf War, the IMF said in its annual economic review. The IMF Executive Board welcomed Kuwait's strong economic rebound, which boosted per capita income, kept unemployment low, and helped build up assets for future generations. The Board also welcomed Kuwait's continued low inflation.

Owing to higher oil revenues, the central government budgetary position remained strong. Fiscal policy was expansionary, as much of the revenue was spent on various government programs. While welcoming the large overall fiscal surpluses, the Board expressed concern about the pace of expenditure growth, including the higher wage bill, and the associated sharp increase in the non-oil fiscal deficit. It cautioned that increasing the relative size of the public sector would undermine the authorities' objective of boosting the role of the private sector.

Monetary conditions tightened in the second half of 2004 following the rise in U.S. interest rates and the introduction of a ceiling on the credit-to-deposit ratio. The Board agreed that the authorities needed to take precautionary steps to stem the unsustainable pace of expansion of credit to the private sector. However, it noted that the ceiling, if maintained over the medium term, would constrain market-based operations, and welcomed the authorities' intention to abolish the measure once domestic credit expansion stabilizes.

The Board urged the authorities to accelerate structural reforms by expeditiously passing those laws and amendments that open the economy further to private sector investment. The improved security situation and relations with Iraq reposition Kuwait in its traditional role as a gateway to regions to its north and east. In stressing the importance of generating jobs for Kuwait's fast growing labor force, the Board supported labor market reforms aimed at training and providing incentives to develop private sector skills. ■

Kuwait	2000	2001	2002	2003	2004 Estimates
			(percent change)		
Real oil GDP	2.2	–3.3	–7.9	19.8	9.5
Real non-oil GDP	1.9	3.6	4.3	4.8	5.5
Average CPI	1.6	1.4	0.8	1.0	1.8
			(percent of GDP)		
Overall fiscal balance	40.8	17.5	21.3	19.1	22.1

Data: IMF Public Information Notice, May 2005; and IMF staff estimates.

Liberia's economy rebounds, but action plan needed to improve governance

In 2003–04, Liberia's economy remained volatile in the aftermath of the 14-year civil war that officially ended with the August 2003 peace agreement. After real GDP plummeted in late 2003 as a result of renewed hostilities and the United Nations ban on timber exports, activity rebounded in 2004, the IMF said in its annual economic review. In 2005, the economic recovery is expected to strengthen, buttressed by the improving security situation, donor inflows, and reconstruction activities.

While welcoming the economic recovery, the IMF Executive Board noted that Liberia's economic position is still fragile, activity still below pre-war levels, poverty widespread, and the public debt large and unsustainable. It stressed that the flow of urgently needed external assistance and private investment depends on decisive actions to strengthen institutions, reduce corruption, and improve governance.

After initial success in implementing a balanced cash-based budget, fiscal management has weakened, and arrears reemerged during 2004. The Board urged the authorities to strengthen expenditure controls and bolster revenue collection, and improve the transparency and accountability of government operations. It encouraged the authorities to make the recently established anti-corruption commission operational as quickly as possible.

The Central Bank of Liberia has gradually moved toward financial soundness. Efforts to reduce operational outlays are aimed at eliminating its cash deficit by early 2006. The banking sector, however, has weakened further as a consequence of the last internal conflict. The Board encouraged the authorities to expedite the process of taking stock of domestic and external debt so that a strategy for achieving debt sustainability can be developed. ■

Liberia	2001	2002	2003	2004 Estimates	2005 Projections
			(percent change)		
Real GDP	2.9	3.7	–31.3	2.4	8.5
			(percent of GDP)		
Overall fiscal balance (cash basis)	–0.7	–1.3	0.7	–0.1	0.0
Current account balance, including grants	–24.5	–3.4	–18.2	–13.3	–19.9
Public sector external debt	596.6	601.5	831.8	766.4	713.2

Data: IMF Public Information Notice, May 2005.

For more information, refer to IMF Public Information Notices No. 05/63 (Kuwait), No. 05/64 (Liberia), and No. 05/55 (Gabon) on the IMF's website (*www.imf.org*).

Switzerland: Economic reform in a direct democracy

Switzerland's unique system of direct democracy is sometimes blamed for the country's slow growth. Voters can decide on many aspects of policy, including structural reforms and fiscal management. But reforms are rarely popular, which leads to the argument that direct democracy bolsters the status quo, which over time could cause Switzerland to fall behind its peers. But is this really the case? A recent IMF Selected Issues paper looks at whether popular participation impedes fiscal adjustment or reform, and examines the circumstances under which voters do accept change.

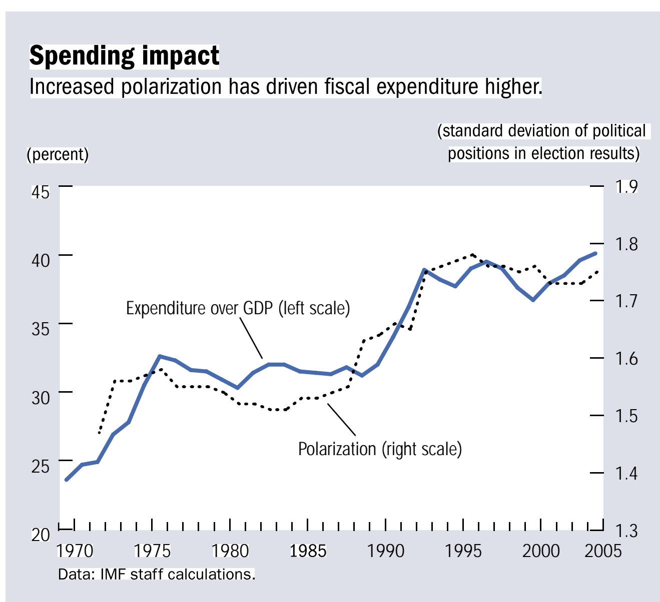
No other country gives voters as much say on economic policies as Switzerland. Referendums can be called on all laws and international treaties, provided more than 50,000 voters sign a petition. The Swiss currently vote in about 15 national referendums per year, and the number doubles if one includes cantonal and local referendums. Since consensus is important for political success, legislation is slow and involves extensive consultations. For the same reason, the federal government includes the four largest political parties, ranging from conservative to leftist.

Political trends

The average political position of Swiss voters has been fairly stable over time. An analysis of federal and cantonal elections shows no trend toward either left or right in the period 1970–2004. The distribution of political power in parliament, however, shows increased polarization between the left, the right, and the center. Among the three political positions, the two dominant parties—the populist conservative SVP and the leftist SP, which have fairly contrasting programs—enjoy the strongest voter support, while support for the center parties has been weaker.

A strengthening of the extremes at the expense of the center poses a threat to Switzerland's consensus-based political system. It makes compromise more difficult and encourages disruptive referendums. It has also increased tensions within the federal government, which has a broad political composition. Government parties take contradictory positions in referendums, undermining their ability to persuade voters. Increased polarization may be the result of several factors: Swiss society is becoming less homogeneous; the Swiss are having fewer children; and traditional values are becoming less important compared with individualism, globalization, and affluence.

Apart from these long-term developments, political polarization in the short term seems to follow the economic cycle. Polarization increases during economic upturns, while moderation and unity strengthen during recessions. Clearly, voters are less inclined to experiment politically in difficult times.



Change under pressure

Reflecting political pressures, Swiss fiscal policy has been procyclical. Fiscal adjustment has generally taken place during recessions, when voters have been more unified, while slippages have occurred during upturns, when they have been more polarized. Indeed, the structural balance tended to deteriorate during upturns, mainly through a loss of expenditure control (see chart, left). Recessions restored moderation and fiscal discipline. Switzerland's inclusive political system is not adverse to fiscal adjustment, but it needs a downturn to trigger action.

The many checks and balances of the Swiss political system encourage a status quo bias during normal times. An indicator based on the results of 162 referendums and 17 unchallenged laws on structural reform for the years 1970–2004 shows that severe economic pressure during the mid-1990s led to a wave of reforms (see chart, page 191). A prolonged recession, large fiscal deficits and a sharp increase in unemployment created the necessary pressure to persuade the Swiss of the need for change. Within a short period of time, the electorate agreed to cuts in pension and unemployment benefits, reforms of competition and antitrust laws, the privatization of telecoms and airports, bilateral treaties with the European Union, and the introduction and increase of a value-added tax (VAT).

The introduction of the VAT is a particularly instructive case study. For decades, economists and the government extolled the virtues of a VAT as welfare-enhancing in contrast to the distortive sales tax. Nevertheless, attempts to introduce a VAT failed in 1977 and 1979, when economic growth was strong and unemployment low. The electorate felt no urgency for structural change and feared hidden tax increases. A third attempt finally succeeded in 1993, when Switzerland faced a recession, high unemployment, and a soaring fiscal deficit. In this situation, voters even accepted a rate increase. Another proposed VAT rate increase failed in 2004, when the economy was in recovery.

Room to evolve

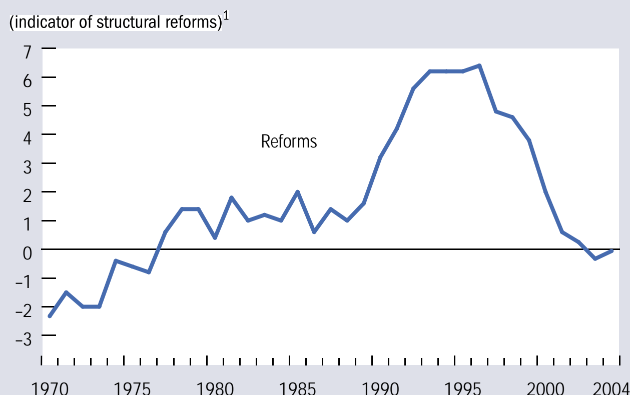
In the Swiss political system of direct democracy, reforms are more likely to be adopted under economic pressure, when the political climate favors compromise. Under these conditions, reforms can be significant and quick, and once in place, they cannot be reversed easily in the consensus-based system. However, the present combination of economic expansion, political polarization, and internal stress in federal and cantonal governments makes fiscal adjustment and economic reform difficult.

Nevertheless, the system is able to evolve, as proven by the addition of the "debt brake" to the constitution in 2001. The debt brake is an explicit attempt to break the pattern of procyclical fiscal policy, by stressing structural, not actual, balances. In its first three years of operation, the debt brake has indeed bolstered fiscal discipline despite political polarization. For the first time, fiscal adjustment is actually taking place during an upturn. ■

Benedikt Braumann
IMF European Department

Reform urgency

The recession in the 1990s prompted Swiss voters to approve a wave of fiscal and structural reforms.



[1]Reforms are classified according to significance. Positive values indicate faster and deeper reforms.
Data: IMF staff calculations.

Swiss recovery needs continued fiscal prudence

The Swiss economy returned to growth in 2004, supported by external demand and domestic policies. However, the recovery has been fragile, the IMF said in its annual economic review. Growth is projected to continue in 2005, although at a slower pace. The IMF Executive Board commended Switzerland's sound economic management and flexible labor markets, which have secured low inflation and unemployment, and a high standard of living.

However, the Board noted downside risks stemming from possibly weaker demand in major trading partner countries, higher oil prices, and further appreciation of the Swiss franc. Raising the economic growth rate and tackling the fiscal pressures associated with population aging continue to be Switzerland's main challenges.

Switzerland	2001	2002	2003	2004 Estimates	2005 Projections
			(percent change)		
Real GDP	1.0	0.3	–0.4	1.7	1.2
Domestic demand	2.3	–0.8	0.2	1.0	1.1
Average CPI	1.0	0.6	0.6	0.8	1.2
			(percent of GDP)		
General government balance[1]	0.1	–1.2	–1.6	–1.0	–1.6

[1]Excludes privatization revenue and gold sales. Includes confederation, cantons, communes, and social security.
Data: IMF Public Information Notice, June 2005

The Board stressed the importance of opening up sheltered sectors, intensifying competition in product markets, and eliminating non-tariff barriers.

The Swiss National Bank has maintained an accommodative stance, and the Board agreed that the current low level of interest rates should be maintained for the time being. However, it noted that with a narrowing output gap, some monetary tightening will be needed sooner or later.

The general government deficit is estimated to have narrowed in 2004, and the federal government plans further steps under the debt-brake rule to eliminate the structural deficit. Mounting pressure on the social security system in the years ahead will require continued fiscal prudence and reforms in cooperation with cantonal governments. In this context, proceeds from gold sales by the Swiss National Bank should be used exclusively for debt reduction. The agreement for a new structure of fiscal federalism should enhance coordination between the various levels of government, improve transparency, and reduce incentives for spending on non-priority projects.

More information on Switzerland can be found in IMF Country Report Nos. 05/188 and 05/190 on the IMF's website (*www.imf.org*).

Going beyond regional arrangements to boost African trade

Some 30 regional trade arrangements (RTAs) now exist in Africa and each country on average belongs to four. Many of these arrangements are part of deeper regional integration ambitions, but a new IMF study argues that small market size, poor transport facilities, and high trading costs are impeding the ability of African countries to reap the potential benefits. Authors Sanjeev Gupta and Yongzheng Yang (IMF African Department) recently discussed their findings with Jacqueline Irving of the *IMF Survey*. They point to the need for more broad-based liberalization and streamlining existing RTAs, while improving the region's infrastructure.

There has been much recent interest in, and debate over, the merits of RTAs. A key aim of this study, Gupta explained, was to look at the existing arrangements in sub-Saharan Africa to see whether they are meeting their goal of increasing intraregional and extraregional trade and whether they are benefiting the region, or, indeed, whether there is a need to rethink their underlying strategies. "This is an area that has not been studied in great detail for Africa," he added, noting that trade policy is an important part of economic policy, especially in terms of its potential to promote and sustain growth.

Have RTAs helped increase intraregional trade? There seems to have been an increase in African intraregional trade over the past 25 years, but it still remains low compared with other regions. Since the mid-1990s, intra-African trade overall has been stable at about 10 percent of total African trade despite intensified efforts to integrate regionally. In contrast, intraregional trade is currently about 70 percent of total trade for Europe and 50–60 percent for parts of Asia. "In other regions, after these sorts of agreements were signed, intraregional trade normally grew rapidly," Yang said, referring to western Europe in the decades following the founding of the European Economic Community (EEC) in 1957, and East Asia more recently.

This regional variation in performance can be partly explained by the less favorable initial conditions African RTAs have faced. African economies tend to trade primary commodities and have very similar export/import structures—leaving limited scope for trade with one another. The weak complementarity among countries is evident, Yang explained. While machinery and transport equipment comprise about three-quarters of Africa's total imports from the rest of the world, African economies can meet no more than 4 percent of the region's import demand for these goods.

Very poor infrastructure also plays a part. According to a 2002 World Bank study, around 13 percent of sub-Saharan Africa's roads are paved, while just over 30 percent of the roads are paved in the developing world overall. Plus, 10 of the 15 landlocked developing countries in Africa spend up to 40 percent of their export earnings on transport of the traded goods. "Strengthening Africa's infrastructure would help promote trade, but then one could ask whether RTAs are needed to do this," noted Gupta. He pointed out that the multiplicity of African RTAs with overlapping memberships imposes large, often conflicting obligations on these countries, most of which are already hampered by inadequate capacity.

Would currency unions help?

Some economists have argued that, absent a common currency, an RTA is limited in its ability to boost trade between its members. Andrew Rose (University of California, Berkeley), for example, has found the effect of a common currency on intraregional trade to be positive and highly significant. In a 2000 study, Rose showed that countries could increase bilateral trade by as much as three times by introducing a common currency. In a 2004 study, Céline Carrère (Université de Lausanne, Switzerland) found that currency unions in Central and West Africa reinforced the positive effects of the corresponding trade agreements on intraregional trade, while mitigating any trade diversion effects.

But Gupta and Yang emphasize that while a currency union may reduce trade transaction costs, in the absence of other necessary conditions—which, along with good infrastructure, include sound macroeconomic conditions and good implementation of RTAs—the impact of a currency union on trade would not be that strong. "One of the problems with African RTAs is that their implementation is often delayed and, once the tariffs are reduced, they are often replaced by nontariff barriers, roadblocks, checkpoints, and so on," Yang observed.

Marginalized in world trade

So far, there appears to be scant evidence of a positive effect of African RTAs on the region's share of world trade, which has fallen from 4 percent in the 1970s to about 2 percent at present, with a stagnating share of manufactured goods trade. "The use of trade as an instrument to improve the regional economy's productivity and allocation of resources has not happened in Africa the way that it has in other parts of the world," Gupta noted. In his view, this indicates a need for the region to rethink its policies.

Henrik Gschwindt de Gyor/IMF

Gupta and Yang: "Where an RTA does boost trade among its members, it is often at the expense of trade with economies outside the RTA."

Why haven't RTAs increased Africa's competitiveness in world markets? Small market size is one key reason. "One of the rationales for having an RTA is to enlarge the market," Yang explain-ed, "but the size of sub-Saharan Africa's regional economy is about the size of Australia, and when you exclude the largest national economy, South Africa, it's the size of Austria." Moreover, African RTAs have often been designed to have high external trade barriers against the rest of the world, which constricts the expansion of trade. With 90 percent of Africa's total trade conducted with non-African countries, a very large portion of overall trade is hampered by high tariffs and other barriers.

Gupta and Yang found that where an RTA does boost trade among its members, it is often at the expense of trade with economies outside the RTA. "When you do the math," Yang recounted, "it turns out that overall trade does not increase—it may even be reduced in some cases—and so there is generally a minimal overall impact on welfare."

Open RTAs to expand trade

Pointing to evidence in other regions showing that intraregional as well as extraregional trade grows when economies pursue broader-based, nondiscriminatory trade liberalization, Gupta and Yang recommend this course for the existing African RTAs. "Going back to the example of the founding of the EEC," Yang recalled, "these countries did not stop at reducing internal barriers; they also participated in successive multilateral trade liberalization rounds and that helped reduce the trade diversion effect and expand their trade with the rest of the world." To make this work in Africa, Gupta and Yang suggest, the countries would need to take action to facilitate trade, particularly by reducing infrastructure bottlenecks and border impediments. At the same time, streamlining the multiplicity of African RTAs to reduce the numerous, overlapping country memberships could help make them work better, including by reducing trading costs.

They concede, however, that greater opening of the African RTAs to the rest of the world—through multilateral and unilateral liberalization—is a difficult task. "There is an adjustment cost," Yang continued, "and African countries would need to undertake additional reforms to be better able to respond to opportunities in overseas markets." While diversifying the region's commodity-based economies is one desirable route, this is a longer-term development process. More immediate measures that would make these economies more dynamic and better able to withstand adjustment costs include improving the policy environment and investment climate to attract more foreign direct investment, and improving domestic tax collection to compensate for any fiscal revenue losses that may occur as tariff barriers fall. "There is a range of steps policymakers can take to improve revenue collection from domestic tax sources," Yang said, "but early action is needed to diversify the revenue base, to prepare the way for unilateral and multilateral trade liberalization."

Gupta said that it is important to take a case-by-case look at how countries' fiscal revenues would be affected by tariff reductions since, in certain circumstances, fiscal revenues have been known to increase following trade liberalization. Under a scenario in which a country maintains quantitative restrictions on imports and offers significant tax exemptions—but decides to simultaneously lower tariffs and remove tax exemptions and import restrictions—fiscal revenues could actually go up.

But it is impossible to generalize about how these economies will be affected, Gupta cautioned, and countries that do suffer severe revenue losses and balance of payments difficulties after tariff barriers fall may be eligible for temporary assistance from the IMF and other international institutions to ease the adjustment. The IMF and other sources of technical assistance can also help these countries strengthen their domestic tax systems, so that they can recoup any fiscal revenues lost to trade liberalization. And the IMF stands ready to help countries increase their share of world trade by providing advice on how they can establish and maintain macroeconomic stability and improve their investment climates. It is also critical, Gupta and Yang noted, that rich countries further open their markets to African countries' exports. ■

Copies of IMF Working Paper No. 05/36, "Regional Trade Arrangements in Africa: Past Performance and the Way Forward," are available for $15.00 each from Publication Services (see page 200 for ordering details) or on the IMF's website (*www.imf.org*).

EU accession countries: Finding the right time for euro adoption

The accession, in May 2004, of 10 countries (Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, the Slovak Republic, and Slovenia) to the European Union (EU) marked the end of the first phase of the economies' integration into the EU. These countries are also committed to entering the European Monetary Union (EMU) and adopting the euro, but when should they do so? There is no predefined timetable, and in a new IMF Working Paper, Alěs Bulíř and Kateřina Šmídková warn that an early "race to the euro" may entail substantial economic costs in terms of growing external imbalances and real exchange rate misalignment.

Under the Maastricht rules, to qualify for euro area membership, a country must achieve a high degree of price stability, have a sustainable fiscal position (in terms of the public deficit and public debt), maintain a stable exchange rate—the country must be a member of the Exchange Rate Mechanism (ERM2) for a minimum of two years—and have long-term interest rates close to those in the euro area (see box below). Bulíř and Šmídková point to potential difficulties in sustaining the ERM2 regime prior to adoption of the euro, if the accession countries enter with domestic currencies appreciating in real terms or with weak policies, or both.

New members and the Maastricht criteria

Four conditions—described in the Maastricht Treaty, which sets out the legal principles for Europe's Economic and Monetary Union—must be met before countries can adopt the euro. These conditions, which must be assessed at a single point in time, are

- annual average inflation rate that does not exceed that of the three best-performing member states by more than 1½ percentage points;
- annual average nominal interest rate on the 10-year benchmark government bond that is no more than 2 percentage points above the corresponding average in the same three countries;
- a fiscal deficit below 3 percent of GDP and public debt less than 60 percent of GDP; and
- trading of the country's currency against the euro without severe tensions within "the normal fluctuation margins" of the Exchange Rate Mechanism for at least two years.

Volatile real exchange rates

How challenging will it be for the new EU member countries to meet the EMU criteria and adopt the euro? Bulíř and Šmídková foresee a possible conflict between appreciation of real exchange rates in the Central European transition countries in recent years and the EMU criteria of low inflation and a stable nominal exchange rate. Looking at a sample of four new accession countries—the Czech Republic, Hungary, Poland, and Slovenia—for which consistent data are available, Bulíř and Šmídková find that, on average, between 1992 and 2003, exchange rates appreciated by 3.3 percent a year.

Is real exchange rate appreciation now over, making EMU entry relatively simple? Or is it likely to continue for a few more years, resulting in potentially costly adjustment in those countries? If the latter is true, would a switch to the euro do harm? If so, how serious would the resulting exchange rate misalignment be? And what drives this appreciation anyway?

To answer these questions, Bulíř and Šmídková derive estimates of sustainable real exchange rates, which are motivated by foreign direct investment (FDI)-driven integration gains, for each of these countries (see box, page 195). Sustainable exchange rates are defined as being consistent with macroeconomic fundamentals, including the requirement that external liabilities can be financed in the long run. They use the estimates derived on this basis in two ways. First, measure the misalignment of historic real exchange rates; and, as a forward-looking measure of real exchange rate stability following the adoption of the euro. Their model simulates exchange rate developments over 2004–09, conditional on macroeconomic projections from the Global Econometric Model of the U.K. National Institute of Economic and Social Research and asks the question: How would the trajectory of the estimated real equilibrium exchange rate change if the nominal exchange rate had been fixed on January 1, 2004?

Test driving on forerunners

Before applying their framework to the new accession countries, Bulíř and Šmídková tested it on a sample of three countries that joined the EU in the 1980s—Greece in 1981, and Portugal and Spain in 1986. The choice of countries was based on the fact that, prior to adopting the euro, these forerunners appeared to fit a pattern of stylized facts that is similar to that of the new accession countries. The forerunners' real exchange rates appreciated on average by 0.5 percent annually during the 10 years prior to joining the EMU; their net external liabil-

ities increased, partly reflecting FDI inflows; and their current account deficits widened.

Following the mandated two-year period of nominal convergence, Portugal and Spain adopted the euro in 1999, and Greece, in 2001. Did the change in exchange rate regime affect external equilibrium or cause misalignment? Bulíř and Šmídková found, first of all, that all forerunners started their ERM membership with fundamentally appropriate parities vis-à-vis the euro and, second, prior to euro adoption, after two years in the ERM, their parities appeared sustainable. Third, post-adoption real appreciation vis-à-vis the sustainable real exchange rates in these countries seemed to be persistent, with no signs of abating.

Implications for new entrants

Applying the same framework to the Czech koruna, Hungarian forint, Polish zloty, and Slovenian tolar, Bulíř and Šmídková found that at end-2003, just before EU enlargement, real exchange rates were not close to their fundamentals-based values, and an early fixing vis-à-vis the euro would have resulted in overvalued currencies in all countries except Slovenia. Fixing the euro conversion rates at the early-2004 exchange rates without major macroeconomic policy adjustments to reverse the slide in fundamentals would have posed major problems for the Czech Republic, Hungary, and Poland.

Simulating the performance of sustainable real exchange rates through to 2010, the model suggests that if the forint, koruna, and zloty had been fixed against the euro at their end-2004 exchange rates under then-current macroeconomic policies, they would not have stayed within the ERM2 stability corridors even though they may have converged to their fundamentals-based exchange rates. As a result, say Bulíř and Šmídková, the Czech Republic, Hungary, and Poland would have faced a growing accumulation of debt and an erosion of external competitiveness, and real exchange rate misalignment. An early "race to the euro" would have been costly indeed.

Oliver Berg/AFP

The euro symbol near the European Central Bank's main building in Frankfurt, Germany.

Policy implications

What would need to be done to achieve convergence in their model? Either the growth and export performance of the new accession countries would have to improve substantially compared with the past, or their fiscal deficits and external debt would have to be sharply reduced. In other words, what Bulíř and Šmídková paraphrase as the pragmatist's approach to euro adoption—wait for the right time and do what you can—may not be viable. While this approach served some countries well in the past—most notably Greece—it may not work for the new EU accession countries, given the simulated slow adjustment of their exchange rates to fundamental equilibrium and large initial disequilibria. Moreover, increased uncertainty may be a problem: finding the "right" time and the "right" exchange rate at the time of high capital mobility is likely to be more difficult than in the past.

Their results also suggest that following the adoption of the euro, the convergence problems would not disappear. For example, should a slowdown of FDI inflows—similar to that in the forerunner countries—materialize, the real convergence in the new accession countries might decelerate substantially. Moreover, levels of external debt in the accession countries are higher than they were in Greece, Portugal, and Spain at a comparable point of time. Although external financing of fiscal deficits has been modest to date, as the fiscal deficits in the Czech Republic, Hungary, and Poland continue to swell, their governments are likely to start competing with the private sector for external financing. ■

A model of sustainable exchange rates

In the Bulíř and Šmídková model, a sustainable exchange rate is determined by external and domestic demand, the effective prices of exports and imports, and the stock of foreign direct investment (FDI). Empirically, the stock of FDI is found to be associated with an improvement in net exports. Moreover, the sustainable rate is constrained by a maximum permissible external debt, the level of which is binding in 2022.

Copies of IMF Working Paper 05/27, "Exchange Rates in the New EU Accession Countries: What Have We Learned from the Forerunners?" are available for $15.00 each from Publication Services (see page 200 for ordering details) or on the IMF's website (*www.imf.org*).

For external imbalances, globalization is a double-edged sword

The large and rising U.S. current account deficit, and the corresponding surpluses in Japan, the emerging market economies of Asia, the oil-producing countries of the Middle East, and other countries, have led to mounting concerns that these imbalances are unsustainable, and that an abrupt depreciation of the U.S. dollar may occur, with possibly disruptive effects on the global economy. Not all observers are equally concerned, however, and some have argued that today's deep international economic and financial integration makes a benign resolution of the imbalances more likely. The Spring 2005 *World Economic Outlook* (*WEO*) takes a closer look at this controversial issue and finds that globalization can facilitate global rebalancing if investor confidence is maintained, but can increase the risk of disorderly and costly rebalancing if the adjustment is abrupt. Thomas Helbling (IMF Research Department and coauthor of the *WEO* study) summarizes the findings.

Globalization affects external adjustment through a number of channels, among them, international portfolio diversification, exchange-rate-related valuation effects on assets and liabilities, and trade.

Increasing international diversification. Globalization affords improved opportunities for international financial diversification. Recent data indicate an increased willingness by investors to hold foreign assets. This decline in the "home bias" in asset holdings matters for external imbalances and their adjustment because it means that large sustained current account surpluses or deficits increasingly tend to be accommodated by international financial markets (see chart). Growing international diversification can also facilitate adjustment by allowing a gradual rather than abrupt rebalancing, avoiding the sharp changes in exchange rates and interest rates that occur in a disorderly adjustment.

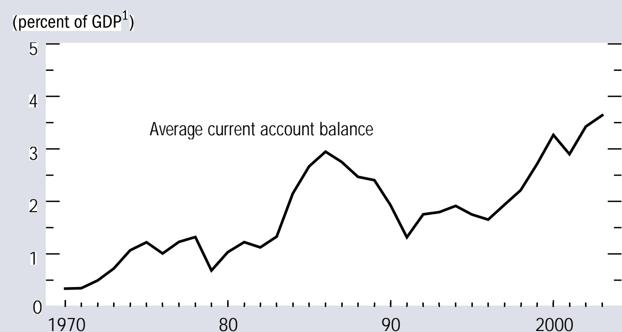
The catch is that net external positions, which have grown greatly in recent years, may continue to increase substantially in the early stages of a rebalancing. This further raises external financial vulnerabilities if policies are not consistent with a credible medium-term policy framework aimed at external and internal balances. Investor confidence could then be undermined, leading to abrupt portfolio adjustment and disruptive financial market turbulence. With larger external positions, these risks are likely to be more elevated now than in the past.

Exchange rate movements and the value of assets and liabilities. Financial globalization also affects adjustment through the effects of exchange rate movements on the market value of external assets and liabilities. With assets and liabilities much larger than in the past, these effects can be large. Perhaps paradoxically, such "valuation effects" can in some instances facilitate external adjustment among industrial countries, as they are, in effect, wealth transfers from countries with appreciating currencies to countries with depreciating currencies. For example, valuation adjustments associated with the U.S. dollar depreciation in 2003—the latest year for which data are available—lowered the value of outstanding U.S. net external liabilities by almost $400 billion. Thus, despite a current account deficit of 4.8 percent of GDP, U.S. net external liabilities increased by only 0.9 percent of GDP. The counterpart was valuation losses by investors in countries with appreciating currencies.

Trade effects. With real globalization, trade integration has advanced rapidly, most notably in emerging markets in recent years, and the global distribution of trade flows has become more equal (see table, page 197), which helps adjustment through wider burden-sharing. As the *WEO* study cautions, however, globalization does not appear to have affected other key adjustment parameters. In particular, the overall tradability of goods and services does not seem to have increased despite declining trading costs. Why? The tradable sector's share in output in most industrial countries has actually fallen slightly in recent years because of the rapid expansion of service sectors. Similarly, trade flows do not appear to

Accommodating imbalances

Industrial current account balances have become larger in an environment where investors increasingly diversify their portfolios internationally.



[1]In absolute values—that is, negative balances in percent of GDP are reflected as positive numbers.
Data: IMF, *World Economic Outlook*, April 2005.

Trade integration has grown rapidly

A more equal distribution of trade flows helps adjustment.

	Origin									
	Emerging Asia		Euro area		Japan		Rest of world		United States	
Destination	1984	2003	1984	2003	1984	2003	1984	2003	1984	2003
Exports[1]										
Emerging Asia	. . .	. . .	0.16	0.40	0.34	0.59	0.49	0.89	0.23	0.37
Euro area	0.18	0.65	. . .	. . .	0.12	0.16	2.37	2.65	0.31	0.31
Japan	0.28	0.45	0.06	0.11	. . .	. . .	0.16	0.21	0.19	0.14
Rest of world	0.27	0.41	2.19	2.96	0.42	0.24	. . .	. . .	1.03	1.18
United States	0.47	0.93	0.38	0.57	0.49	0.32	1.40	1.85	. . .	. . .
Total	**1.20**	**2.44**	**2.79**	**4.04**	**1.37**	**1.31**	**4.42**	**5.60**	**1.75**	**2.00**

[1]Extraregional exports as a percent of GDP.

Data: IMF, *Direction of Trade Statistics*, and *International Finance Statistics;* and IMF staff calculations.

have become more responsive to price and demand conditions, suggesting that adjustment still requires important changes in prices, demand conditions, or both.

Globalization and the adjustment calculus

Overall, then, what are the combined effects of real and financial globalization on the adjustment of global imbalances? To analyze this question, the *WEO* research team used the IMF's new multicountry Global Economy Model, developing a four-bloc version that broadly mirrors the geographical constellation of the current imbalances among the United States, the euro area plus Japan, emerging Asia, and the rest of the world. Two scenarios were considered: gradual adjustment and more abrupt adjustment.

In the gradual rebalancing scenario, the study traced how real sector globalization would affect the adjustment path, assuming a moderate fiscal adjustment about the size proposed by the U.S. administration (in this, U.S. net external liabilities as a share of GDP eventually have to stabilize in the long run, while the U.S. current account deficit narrows to a lower level consistent with this steady level of liabilities).

The simulations highlight the fact that the fundamental adjustment patterns during rebalancing have not changed with globalization. In particular, the simulation finds that the narrowing of the U.S. current account deficit is the result of a combination of higher U.S. real interest rates and higher U.S. saving ratios—reducing domestic demand—on the one hand, and a significantly weaker U.S. dollar—boosting net exports—on the other hand. In the other blocs, the rebalancing involves opposite adjustment patterns.

What has changed with globalization is that some key variables have to change less during adjustment, making it less costly. In particular, with globalization, external adjustment can be achieved with a smaller real depreciation of the U.S. dollar and smaller real appreciations in the other blocs, and with smaller increases in real interest rates in the United States and elsewhere. As a result, globalization generally allows the adjustment to occur with smaller short-run declines in output growth.

But what if the adjustment is not gradual? For its second set of simulations, the *WEO* team examined how adjustment unfolds if investor preferences change rapidly—that is, if investors are unwilling to continue accumulating U.S. assets for a considerable period. In this instance, net capital flows to the United States slow sharply, requiring a more abrupt adjustment in the U.S. current account. Correspondingly, U.S. interest rates rise relative to the earlier scenario, the U.S. dollar has to depreciate sooner and more sharply, and U.S. output slows more markedly.

The silver lining in this scenario is that real interest rates outside the United States fall, and—despite slower U.S. growth—GDP growth in the rest of the world rises moderately. This partly reflects the fact that the decline in desired asset holdings in the rest of the world is accompanied by a reduction in desired savings, which boosts consumption. In practice, however, demand outside the United States could fail to pick up—for example, because of adverse confidence effects—and GDP growth would be correspondingly weaker.

In sum, there is potentially good news and bad news. Globalization has created scope for less costly global rebalancing if financial market conditions remain favorable and investors continue to accumulate U.S. assets. The larger net foreign asset positions, however, raise the stakes considerably should there be sharp and unexpected changes in investor preferences. As the simulations underscore, a timely and orderly resolution of global current account imbalances remains a pressing concern. ■

Copies of the April 2005 *World Economic Outlook* are available for $49.00 each ($46.00 academic price) from IMF Publications Services. The full text of the latest issue of the *World Economic Outlook* is also available on the IMF's website (*www.imf.org*).

Mobilizing parliamentarians for development

How can legislators spur development? A conference held in Vienna, Austria, on June 11–13, cosponsored by the World Bank and the Austrian Development Agency, argued that lawmakers in donor and recipient countries can encourage good governance and ensure the resources needed to fuel growth.

This first-of-its-kind event brought together over 100 representatives from about 30 parliamentary organizations and assemblies, as well as representatives from multilateral organizations, aid agencies, foundations, and institutions. It connected a wide range of actors that provide both knowledge and financial assistance to capacity-building programs for legislators on development, and spurred discussion on how to improve cooperation and collaboration.

Frank Helmrich/TRIMEDIA
The Vienna conference drew representatives from 30 parliamentary organizations and assemblies.

There was broad consensus among participants that legislators can play important roles in promoting sustainable development and reducing poverty. In developing countries, parliamentarians—as elected representatives—can give voice to the interests of disadvantaged people affected by economic reforms. As lawmakers, they can champion economic and social reform, and promote good governance so as to spur growth and raise living standards. In donor countries, legislators are typically responsible for approving foreign aid allocations and help shape the debate and policy choices on development priorities.

But legislators in low-income countries are sometimes not fully involved in economic and financial decision making, particularly in formulating the budget or drafting countries' poverty reduction strategy papers (PRSPs). Each PRSP, which lays out the macroeconomic, structural, and social policies and programs that a country will pursue to promote broad-based growth and reduce poverty, is meant to be developed in conjunction with domestic stakeholders and external development partners, including the IMF. Many conference participants called for a greater flow of information to legislators—particularly from their own governments—so they can make more informed decisions and better fulfill their roles as representatives of their people.

But what can legislators do to promote development? Participants proposed a range of interesting ideas. In the opening session, Eveline Herfkens, the UN Secretary-General's Coordinator for the Millennium Development Goals (MDGs), called on legislators to be more proactive and scrutinize the actions of their national governments with regard to progress on the MDGs and trade matters. She also urged them to ask their respective governments for reports on their positions before IMF–World Bank meetings. In fact, in several countries, such as Finland, France, Ireland, the Netherlands, and the United Kingdom, national parliaments ask the government to report to parliament on the policies pursued at the World Bank or the IMF. Norbert Mao, Member of Parliament in Uganda and Board Member of the Parliamentary Network on the World Bank (PNoWB), asked donors to consult with recipient country parliaments before devising their policies and setting project priorities.

Mao also called for a strengthening of domestic parliaments—"for example by requiring parliamentary approval of loans and financial assistance"—and urged fellow legislators to take advantage of IMF and World Bank efforts to improve their dialogue with legislators, noting that "the doors of the Bank and the Fund are now open for legislator engagement, and it is up to parliamentarians themselves to walk through the door and seize the opportunity." This is a timely call, since the IMF has been expanding its outreach efforts to legislators in recent years. Discussions highlighted the continued lack of awareness of the IMF's parliamentary outreach efforts, however.

The conference, which explored the scope for collaborating with new partners as well as bilateral donor agencies, expressed interest in creating a "network of networks." A loose and informal alliance of parliamentary networks on development could, participants suggested, improve cooperation and coordination for outreach activities. This would include sharing information on activities, funding, and best practices; setting up a mechanism for more direct interaction—a "matchmaking role" of the PNoWB; and increasing the scope and ability for joint action. ■

Patrick Cirillo and Michaela Schrader
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HIPC debt relief (status as of June 23, 2005)

IMF member	Decision point	Completion point	Amount committed	Amount disbursed[1]
			(million SDRs)	
Heavily Indebted Poor Countries (HIPC) Initiative				
Under original 1996 Initiative				
Bolivia	September 1997	September 1998	21.2	21.2
Burkina Faso	September 1997	July 2000	16.3	16.3
Côte d'Ivoire	March 1998	--	16.7[2]	–
Guyana	December 1997	May 1999	25.6	25.6
Mali	September 1998	September 2000	10.8	10.8
Mozambique	April 1998	June 1999	93.2	93.2
Uganda	April 1997	April 1998	51.5	51.5
Total original HIPC			**235.3**	**218.6**
Under the 1999 Enhanced HIPC Initiative				
Benin	July 2000	March 2003	18.4	20.1
Bolivia	February 2000	June 2001	41.1	44.2
Burkina Faso	July 2000	April 2002	27.7	29.7
Cameroon	October 2000	Floating	28.5	5.5
Chad	May 2001	Floating	14.3	8.6
Congo, Democratic Republic of	July 2003	Floating	228.3[3]	2.3
Ethiopia	November 2001	April 2004	45.1	46.7
Gambia, The	December 2000	Floating	1.8	0.1
Ghana	February 2002	July 2004	90.1	94.3
Guinea	December 2000	Floating	24.2	5.2
Guinea-Bissau	December 2000	Floating	9.2	0.5
Guyana	November 2000	December 2003	31.1	34.0
Honduras	June 2000	April 2005	22.7	26.4
Madagascar	December 2000	October 2004	14.7	16.4
Malawi	December 2000	Floating	23.1	6.9
Mali	September 2000	March 2003	34.7	38.5
Mauritania	February 2000	June 2002	34.8	38.4
Mozambique	April 2000	September 2001	13.7	14.8
Nicaragua	December 2000	January 2004	63.5	71.2
Niger	December 2000	April 2004	31.2	34.0
Rwanda	December 2000	April 2005	33.8[4]	37.5
São Tomé and Príncipe	December 2000	Floating	–	–
Senegal	June 2000	April 2004	33.8	38.4
Sierra Leone	March 2002	Floating	98.5	66.0
Tanzania	April 2000	November 2001	89.0	96.4
Uganda	February 2000	May 2000	68.1	70.2
Zambia	December 2000	April 2005	468.8	508.3
Total Enhanced HIPC			**1,590.3**	**1,354.4**
Combined total for 28 members			**1,825.5**	**1,573.0**

Definitions

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

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

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

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

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

[4]Excludes commitment of additional enhanced HIPC assistance of SDR 12.98 million subject to receipt of satisfactory financing assurances from other creditors.

Data: IMF Finance Department.

Forum

Women, marriage, and inequality

Love conquers all? Well, maybe, but the decisions we make about marriage will likely have long-term economic consequences—not only for ourselves, but also for society. In a seminar arranged by the IMF Institute, Professor Raquel Fernández of New York University presented provocative findings on marriage and inequality, and the influence of culture on women's decisions about work and children.

Fernández first discussed what she calls "sorting"—deciding whom we go to school with, work with, marry and have children with, and choose to be our neighbors. This process takes place along many dimensions, including income, aptitude, education, tastes, and race, and has important consequences for our place—and our children's place—in society.

A vicious circle

Fernández's findings—based initially on a study of the United States, but later extended to cover 34 countries—suggest that in societies marked by great inequality, individuals are more likely to interact with, and therefore marry, people from a similar background. This kind of sorting not only perpetuates existing inequality, it exacerbates it, creating a vicious circle. As Fernández explained, "if marital sorting increases, then a smaller fraction of children will become skilled. This drives down wages for unskilled workers and increases those of skilled workers and also increases the degree of wage inequality." By contrast, countries whose citizens more readily marry across socioeconomic lines are more likely to achieve an overall increase in educational attainment—Sweden and Australia are two such examples.

Henrik Gschwindt de Gyor/IMF

Culture is an important factor in determining how much women work and how many children they have, a study shows.

Culture matters

In a different study, Fernández sought to show that culture (in addition to markets and institutions) matters in women's decisions to work and have children. She and her colleagues studied a data sample from the 1970 U.S. census that included women born in the United States whose parents had been born outside the country. To isolate the effect of culture, they used past labor force participation and fertility variables in the ancestry country as cultural proxies—assuming that these variables reflected markets, institutions, and culture (beliefs about the appropriate role of women) in the country of origin. If these variables helped determine the behavior of women born and raised in the United States, it must be because they still captured cultural beliefs that family (and neighborhoods) had transmitted to these women.

The women in the data sample were, on average, 35.7 years old, had 3.1 children, and had worked 15.2 weeks in the previous year. But the variations across cultures were significant. For example, women with Cuban fathers worked 27.6 weeks on average and had 2.4 children. In contrast, women with Mexican fathers worked only 4.2 weeks on average but had 4.2 children.

After controlling for various other factors (the women's education, residence, and their husbands' background), Fernández and her colleagues showed that the cultural proxies were still relevant. These findings led her to conclude that culture "is a quantitatively and statistically significant determinant of women's work and fertility outcomes." ■

Camilla Andersen
IMF External Relations Department

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