

Cologne economic summit

Leaders welcome recovery from crisis, call for cooperation to relieve poverty and debt

Meeting in Cologne on June 18–20, the heads of state or government of the Group of Eight industrial countries said in a communiqué issued on June 20 (see page 211) that they were encouraged by policy actions taken in the major industrial countries and in some emerging market economies to sustain growth and improve performance. At the same time, challenges remain—in particular, finding ways to increase and extend the positive benefits of globalization to people all over the world.

To help the poorest countries laboring under a heavy burden of debt, the Group of Eight approved the Cologne Debt Initiative (see page 214), which is designed to provide deeper, broader, and faster debt relief through major changes to the Heavily Indebted Poor Countries (HIPC) Initiative launched in 1996. Leaders generally hailed the package, saying it would reduce countries' overall debt by more than half, lowering interest payments and freeing money for education and health care. IMF Managing Director Michel Camdessus also welcomed the initiative (see below).

Major elements of the new initiative include:

- *Framework for poverty reduction.* The IMF and the World Bank should help qualifying countries draft and implement plans for the effective targeting of savings derived (Please turn to the following page)



Group of Eight leaders meet in front of Cologne Cathedral during their summit. From left to right, they are Russian Prime Minister Sergei Stepashin, Japanese Prime Minister Keizo Obuchi, Canadian Prime Minister Jean Chrétien, French President Jacques Chirac, U.S. President Bill Clinton, German Chancellor Gerhard Schröder, Italian Prime Minister Massimo D'Alema, outgoing European Commission President Jacques Santer, and U.K. Prime Minister Tony Blair.

Support for debt initiative

Camdessus backs Cologne summit declaration on relief for poorest countries

In a news brief issued on June 22, IMF Managing Director Michel Camdessus expressed his support for the debt relief initiative proposed at the Cologne summit. The text of News Brief 99/33, which follows, is also available on the IMF's website (www.imf.org).

"I welcome the strengthening of the Heavily Indebted Poor Countries (HIPC) Initiative proposed last weekend in Cologne," Camdessus said. "We will do our utmost to secure agreement on the strengthened

initiative and its financing by the annual IMF-World Bank meetings in September. The enhanced initiative should enable HIPC countries that themselves pursue policies intended to foster sustainable development and poverty reduction to make an exit from unsustainable debt burdens. An enhanced initiative framework should provide a strong incentive for the adoption of such policies. It is particularly important that adequate financing be provided (Please turn to the following page)

Contents

209
Cologne economic summit

209
Camdessus on HIPC Initiative

211
Group of Eight communiqué

213
Recent publications

214
Cologne debt initiative

215
Selected IMF rates

216
Mauritius seminar

218
IMF Executive Board work program

219
Press releases
Mongolia
Peru
Mozambique

220
New on the web

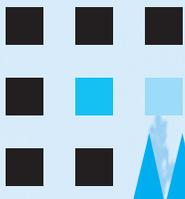
222
Central Asian customs reforms

223
Asian Development Outlook 1999

223
Investment in Russia and Central and Eastern Europe

224
IMF completes Ukraine review

IMF releases Executive Board work program, see page 218.



Cologne 1999

(Continued from front page) from debt relief, together with increased transparency of budgetary procedures to protect social spending.

- *Faster debt relief.* Although relief should continue to be predicated on sound economic policies over two stages, the second stage—the “completion point”—could be shortened if a country meets ambitious policy targets early on.

- *Deeper and broader relief.* Target ratios indicating the level where debt sustainability can be assumed should be reassessed and lowered. This would result in deeper debt forgiveness, take greater account of debtor countries’ fiscal positions, and broaden the HIPC Initiative to more countries.

Camdessus says IMF welcomes debt initiative

(Continued from front page) for all multilateral institutions to enable them to provide debt relief on their claims as required under the initiative,” he added.

As an indication of the strengthening of the initiative, the IMF estimates that the overall costs in net present value terms will more than double to \$27.5 billion from the current level of about \$12.5 billion. The bilateral forgiveness of official aid would be in addition to this.

The IMF is ready to play its part in financing its share of the costs of an enhanced initiative through gold sales. “IMF management, which initially proposed gold sales in September 1996, is committed to conducting such sales, once agreed, in an orderly and careful manner that would not disrupt the gold market,” Camdessus said. “As agreed under the HIPC framework, gold sales would need to be supplemented by further bilateral contributions to meet the IMF’s share of costs under an enhanced initiative. Consultations will be conducted during the summer in order to secure the full financing needed.”

Camdessus underlined that an enhanced HIPC Initiative, to be effective, needs to be supported by wider policies, namely

- policies in HIPCs designed to promote growth, sustainable development, and poverty reduction, including lower military spending and higher social spending, and a tighter link between debt relief and education and health spending, which will be a particularly relevant feature of the new scheme;
- increased aid flows in support of such policies;
- restraint on commercial export credit lending to HIPCs, with no such loans for military purposes; and
- unrestricted access to industrial country markets for the export products—which are largely raw materials and agricultural products—of low-income countries.

- *Financing.* To meet the significant costs of the new debt, the Group of Eight indicated support for, among other proposed mechanisms, a limited sale of up to 10 million ounces of the IMF’s gold reserves.

The Group of Eight noted that the IMF plays a prominent role in facilitating cooperation among all countries, especially in the macroeconomic and financial areas at the center of its mandate. As part of a general effort to strengthen and reform the international financial institutions, it recommended the IMF’s Interim Committee be given permanent standing as the “International Financial and Monetary Committee.” The leaders also called for further improvements in IMF surveillance and programs. ■

FINANCE DEVELOPMENT

PUBLISHED BY THE INTERNATIONAL MONETARY FUND

The June 1999 issue of *Finance & Development* is now available. It contains several articles focusing on the achievements of transition economies over the past decade and the challenges they face. Among the articles in this issue are

A Decade of Transition: An Overview of the Achievements and Challenges

Saleh M. Nsouli

Lessons of the Russian Crisis for Transition Economies

Yegor Gaidar

Taming Inflation in the Transition Economies

Carlo Cottarelli and Peter Doyle

Determinants of Growth in Transition Countries

Oleh Havrylyshyn and Thomas Wolf

Time to Rethink Privatization in Transition Economies?

John Nellis

Transition and the Changing Role of Government

Vito Tanzi

Escape Routes from Post-Soviet Inflation and Recession

Michael Kaser

Finance & Development is published four times a year by the International Monetary Fund, in English, Arabic, Chinese, French, and Spanish. Subscriptions are free of charge. To receive *Finance & Development*, please write to IMF Publication Services, Box FD 99, Washington DC 20431, U.S.A.

Leaders call for cooperative effort to increase prosperity, promote social progress

Following are excerpts of a communiqué issued by the Group of Eight on June 20.

We, the heads of state and government of eight major democracies and the President of the European Commission, met in Cologne for the twenty-fifth economic summit. On the threshold of the new millennium, we discussed growing opportunities as well as forward-looking solutions to the challenges facing our nations and the international community.

Globalization, a complex process involving rapid and increasing flows of ideas, capital, technology, goods, and services around the world, has already brought profound change to our societies. It has cast us together as never before. Greater openness and dynamism have contributed to the widespread improvement of living standards and a significant reduction in poverty. Integration has helped to create jobs by stimulating efficiency, opportunity, and growth.

The information revolution and greater exposure to each other's cultures and values have strengthened the democratic impulse and the fight for human rights and fundamental freedoms while spurring creativity and innovation. At the same time, however, globalization has been accompanied by a greater risk of dislocation and financial uncertainty for some workers, families, and communities across the world.

The challenge is to seize the opportunities globalization affords while addressing its risks to respond to concerns about a lack of control over its effects. We must work to sustain and increase the benefits of globalization and ensure that its positive effects are widely shared by people all over the world. We therefore call on governments and international institutions, business and labor, civil society, and individuals to work together to meet this challenge and realize the full potential of globalization for raising prosperity and promoting social progress while preserving the environment.

Getting the world economy on track

Since we met last year in Birmingham [see *IMF Survey*, May 25, 1998, page 157], the world economy has faced major challenges. Progress has been achieved in addressing the crisis and laying the foundations for recovery. Policy steps aimed at supporting growth in the major industrial countries and important policy actions leading to stronger performance in some emerging markets have improved the economic outlook.

A number of substantial challenges still remain. We therefore renew our commitment to pursue appropriate macroeconomic policies and structural reforms.

These will contribute to more balanced growth in the world economy, thereby reducing external imbalances.

The world economy is still feeling the effects of the financial crises that started in Asia two years ago. Without an open, rules-based world trading system and the beneficial flows of goods and services it encourages, the countries affected would be having much greater difficulty recovering from these crises and stabilizing their economies.

We welcome the outline agreements recently reached by Russia with the IMF and the World Bank and look forward to their speedy implementation as a further important step in Russia's reform program. Once an IMF agreement is in place, we encourage the Paris Club to act expeditiously to negotiate a debt rescheduling agreement with Russia. To support Russia's efforts toward macroeconomic stability and sustainable growth, we encourage the Paris Club to continue to deal with the problem of the Russian debt arising from Soviet-era obligations, aiming at comprehensive solutions at a later stage once Russia has established conditions that enable it to implement a more ambitious economic reform program.

We agreed to intensify our dialogue within the Group of Eight structures on the longer-term social, structural, and economic reform in Russia. Particular emphasis should be given to concrete areas of cooperation, such as small business development, strengthened cooperation with regions, health, and the social impact of economic transformation. We agreed to deepen our cooperation on law enforcement, fighting organized crime and money laundering, including as they relate to capital flight.

Building a trading system for everyone

The multilateral trading system incorporated in the World Trade Organization (WTO) has been key to promoting international trade and investment and to increasing economic growth, employment, and social progress. We therefore renew our strong support for the WTO and our commitment to an open trade and investment environment. We call on all nations to resist protectionist pressures and to open their markets further. We encourage those states not yet members of the WTO to join it, by accepting its principles.

Given the WTO's vital role, we agree on the importance of improving its transparency to make it more responsive to civil society while preserving its government-to-government nature. We pledge to work for a successful ministerial meeting in Seattle to launch the new round. We will also seek a more effective way within the WTO for addressing the trade and environ-



ment relationship and promoting sustainable development and social and economic welfare worldwide.

Designing employment policies

One of the most urgent economic problems is the high level of unemployment in many countries. We reaffirm the importance of intensified international cooperation and enhanced efforts at the national level to design the right policies for more employment. To strengthen the foundations for sustainable growth and job creation, we strongly emphasize a two-tiered approach:

- promoting structural reforms to enhance the adaptability and competitiveness of our economies and to help the long-term unemployed to return to the labor market; and
- pursuing macroeconomic policies for stability and growth and ensuring that monetary and fiscal policies are well balanced.

The greater the adaptability of our economies, the greater the likelihood that economic growth will result in more employment. We therefore strongly support elimination of structural rigidities in labor, capital, and product markets; promotion of entrepreneurship and innovation; investment in human capital; reform of the tax/benefit systems to strengthen economic incentives and encourage employment; and development of an innovative and knowledge-based society.

Strengthening social safeguards

As the process of globalization has gained momentum, it has brought with it important social and economic progress. At the same time, rapid change and integration have left some individuals and groups feeling unable to keep up and have resulted in some dislocation, particularly in developing countries. We therefore need to take steps to strengthen the institutional and social infrastructure that can give globalization a “human face” and ensure increasing, widely shared prosperity.

Social security policies, including social safety nets, must be strong enough to encourage and enable individuals to embrace global change and liberalization and to improve their chances in the labor market, while enhancing social cohesion. We recognize that, given financial constraints, it is vital to strike a sustainable balance between social support programs and greater personal responsibility and initiative.

We are convinced that the countries most seriously affected by the recent economic and financial crises will sustain a speedier recovery if they create and improve the necessary social infrastructure. It is therefore particularly important to maintain investment in basic social services during times of crisis. Budgetary priorities and flexibility should enhance the quality of social infrastructure and investment.

Democracy, the rule of law, good governance, and respect for human rights and for core labor standards are

further indispensable prerequisites for social stability. The development of well-functioning and corruption-free institutions that are cost-effective, transparent, and accountable to the public must complement the process of liberalization.

We call on the international financial institutions to support and monitor the development of sound social policy and infrastructure in developing countries. We commend actions already being taken in this regard. We urge the IMF to give more attention to this issue in designing its economic programs and to give particular priority to core budgets, such as basic health, education, and training to the extent possible, even during periods of fiscal consolidation. We welcome the efforts of the World Bank, in collaboration with the United Nations (UN), to develop principles of good practice in social policy and their work to strengthen partnerships with borrower countries through the comprehensive development network. We invite the World Bank and the IMF to work together to develop a set of policies and practices that can be drawn upon, by donors and borrowers alike, in the design of adjustment programs that ensure the protection of the most vulnerable.

Deepening the development partnership

Developing countries are essential partners in a globalized world. We are committed to working with them, especially with the poorest countries, to eradicate poverty, launch effective policies for sustainable development, and develop their capacity to integrate better into the global economy, thus benefiting from the opportunities offered by globalization.

- We will continue to provide substantial support and assistance to developing and transition economies in support of their own efforts to open and diversify their economies, democratize and improve governance, and protect human rights.

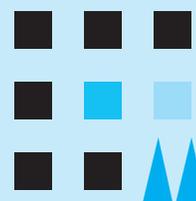
- We will strive gradually to increase the volume of official development assistance (ODA) and to put special emphasis on countries best positioned to use it effectively.

- To ease future debt burdens and facilitate sustainable development, we agree to increase the share of grant-based financing in the ODA we provide to the least-developed countries.

- Nongovernmental organizations also have an important role to play.

- While international assistance and debt relief are clearly important, their positive effects depend on sound national efforts toward economic and structural reform and good governance, where the private sector and civil society are able to play productive roles.

- We intend to step up work with developing countries and multilateral institutions to improve developing country capacity to exercise their rights and meet their obligations in the global trading system so as to ensure that they derive the full benefits of



liberalized trade and thus contribute to global economic growth.

• We call on the UN and the international financial institutions to help developing countries mobilize sufficient means for social services and basic infrastructure and continue to support and to mainstream democratization, good governance, and the rule of law into country development strategies.

We reaffirm our commitment to contribute to the achievement of economic and social development in Africa, Asia, and Latin America. We will review the situation in that regard every year, on the basis of reports by the international financial institutions and the relevant regional development banks on the alleviation of poverty.

Launching the Cologne Debt Initiative

We have decided to give a fresh boost to debt relief to developing countries. In recent years, the international creditor community has introduced a number of debt relief measures for the poorest countries. The Heavily Indebted Poor Countries (HIPC) framework has made

an important contribution in this respect. Recent experience suggests that further efforts are needed to achieve a more enduring solution to the problem of unsustainable debt burdens. To this end, we welcome the 1999 Cologne Debt Initiative [see page 214], which is designed to provide deeper, broader, and faster debt relief through major changes to the HIPC framework.

The central objective of this initiative is to provide a greater focus on poverty reduction by releasing resources for investment in health, education, and social needs. In this context, we also support good governance and sustainable development.

We are aware that new proposals will require additional substantial financing. While several means of financing are under consideration, credible progress in identifying additional funding possibilities is needed, and we stand ready to help with financing solutions. In this context, we recognize the importance of fair burden sharing among creditors.

We have accepted the invitation of the Prime Minister of Japan to meet in Okinawa (Kyushu) on July 21–23, 2000. ■

Recent publications

Books

Economic Adjustment and Reform in Low-Income Countries: Studies by the Staff of the International Monetary Fund. (\$26.50)

Occasional Papers

(\$18.00; academic rate: \$15.00)

176: *Back to the Future: Postwar Reconstruction and Stabilization in Lebanon*, edited by Sena Eken and Thomas Helbling

178: *IMF-Supported Programs in Indonesia, Korea, and Thailand: A Preliminary Assessment*, Timothy Lane, Atish Ghosh, Javier Hamann, Steven Phillips, Marianne Schultze-Ghatas, and Tsidi Tsikata

Working Papers (\$7.00)

99/62: *Macroeconomic Conditions and Import Surcharges*, Piritta Sorsa

99/63: *Spend Now, Pay Later? Tax Smoothing and Fiscal Sustainability in South Asia*, Paul Cashin, Nadeem Haque, and Nilss Olekalns

99/64: *Survey of Literature on Demand for Money: Theoretical and Empirical Work with Special Reference to Error-Correction Models*, Subramanian S. Sriram

99/65: *The Georgian Hyperinflation and Stabilization*, Jian-Ye Wang

99/66: *Financial Fragility and Economic Performance in Developing Economies: Do Capital Controls, Prudential Regulation, and Supervision Matter?* Marco Rossi

99/67: *Price and Monetary Dynamics Under Alternative Exchange Rate Regimes*, Michael Bleaney

99/68: *Privatization, Social Impact, and Social Safety Nets*, Sanjeev Gupta, Christian Schiller, and Henry Ma

99/69: *Economic and Legal Considerations of Optimal Privatization: Case Studies of Mortgage Firms (DePfa Group and Fannie Mae)*, Hans-Joachim Beyer, Claudia Dziobek, and John R. Garrett

99/70: *A Test of the General Validity of the Heckscher-Ohlin Theorem for Trade in the European Community*, Dalia Hakura

99/71: *Excess Volatility and the Asset-Pricing Exchange Rate Model with Unobservable Fundamentals*, Leonardo Bartolini and Lorenzo Giorgianni

99/72: *Sticky Prices: An Empirical Assessment of Alternative Models*, Esteban Jadresic

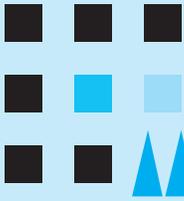
99/73: *The Evolution of Output in Transition Economies: Explaining the Differences*, Andrew Berg, Eduardo Borensztein, Ratna Sahay, and Jeromin Zettelmeyer

99/74: *Estimating Trade Equations from Aggregate Bilateral Data*, Tamim Bayoumi



Publications are available from IMF Publication Services, Box XS900, IMF, Washington, DC 20431 U.S.A. Telephone: (202) 623-7430; fax: (202) 623-7201; e-mail: publications@imf.org.

For information on the IMF on the Internet—including the full texts of the English edition of the *IMF Survey*, the *IMF Survey's* annual *Supplement on the IMF, Finance & Development*, an updated *IMF Publications Catalog*, and daily SDR exchange rates of 45 currencies—please visit the IMF's website (www.imf.org). The full texts of all Working Papers and Policy Discussion Papers are also available on the IMF's website.



Cologne 1999

Cologne Debt Initiative

Ministers call for “faster, deeper, broader” debt relief for the world’s poorest countries

Following is the text of the report of the Group of Seven finance ministers to the Cologne economic summit on the Cologne Debt Initiative.

Launched in 1996, the initiative to reduce the debt overhang of heavily indebted poor countries (HIPC Initiative) has already yielded positive results, bringing together for the first time multilateral, Paris Club, and other official bilateral creditors in a comprehensive framework for debt relief. Nonetheless, recent developments and experience have highlighted the vulnerability of many HIPCs to exogenous shocks. At the threshold of a new millennium, it is now time to reinforce the initiative so as to enhance the prospects for a robust and lasting exit for qualifying countries from recurrent debt problems.

We therefore support faster, deeper, and broader debt relief for the poorest countries that demonstrate a commitment to reform and poverty alleviation. If this is implemented, the debt stock of countries possibly qualifying under the HIPC Initiative would be reduced, from some \$71 billion in net present value terms remaining after traditional debt relief, by an additional \$27 billion. These measures, together with forgiveness of debts arising from official development assistance (ODA), of which some \$20 billion in nominal terms is owed to Group of Seven countries, would lower countries’ debt-service burdens significantly and free resources for priority social spending.

Framework for poverty reduction

While enhanced debt relief will reinforce debtor countries’ scope for policy action, sound economic policies must continue to be pursued, and renewed unproductive expenditure must be avoided. At the same time, it is important that the benefits of debt relief be targeted to assist the most vulnerable segments of the population. Hence, there will have to be a strong link between debt relief, continued adjustment, improved governance, and poverty alleviation. Both better governance in budgetary matters and financial savings derived from debt relief should allow for targeted expenditure on basic social services.

The pursuit of sound social policies should be integrated with structural adjustment programs that debtor countries are expected to implement. The new HIPC Initiative should be built on an enhanced framework for poverty reduction, developed by the international

financial institutions. This is critical to ensure that more resources are invested in health, education, and other social needs, which are essential for development.

To that effect, the World Bank and the IMF should adapt their support under the “Policy Framework Papers,” in particular the IMF’s programs under the Enhanced Structural Adjustment Facility. Integrating their efforts, the World Bank and the IMF should help qualifying countries with the drafting and implementation of poverty reduction plans for the effective targeting of savings derived from debt relief, together with increased transparency of budgetary procedures to protect social expenditures. Throughout program design and implementation, there should be consultations with broader segments of civil society. Such dialogue will be the basis for deepening the sense of “ownership” with governments and citizens in debtor countries when necessary adjustment programs are to be adopted.

We call upon the World Bank and the IMF to develop, by the time of the Annual Meetings, specific plans for such an enhanced framework for poverty reduction.

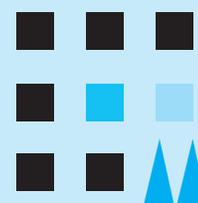
Faster debt relief

While implementation of debt relief must continue to be predicated on sound economic policies over two stages, debtor countries should be allowed to advance the “completion point” through improved performance. The second stage could thus be shortened significantly if a country meets ambitious policy targets early on (“floating completion point”). This mechanism should lay out specific priority steps needed to deepen structural reforms and enhance social sector investment, focusing in particular on poverty reduction.

In addition to addressing the debt overhang, the HIPC Initiative should focus more on significantly reducing the cash-flow burden of debt-service payments, in order to release resources for poverty reduction. The debt-service burden of qualifying countries should be alleviated more quickly through provision of “interim relief” by the international financial institutions even before debt reduction is implemented at the “completion point.” This is already current practice in the Paris Club for bilateral debts, and the international financial institutions should provide comparable treatment. Furthermore, after the “completion point,” the international financial institutions could front-load debt stock reduction in a way to reduce debt-service payments more strongly in the early years.

In order both to make the HIPC process more predictable and to simplify the modalities of earlier cash-

Photo Credits: Michael Urban for Reuters, page 209; Denio Zara and Padraic Hughes for the IMF, pages 216 and 217.



flow relief, the amount of debt reduction should be determined at the “decision point” on the basis of the situation prevailing at that time. This will provide greater certainty about the level of debt relief.

A number of the very poorest countries with a heavy debt burden have not yet embarked on the HIPC process. We call on the international financial institutions and the Paris Club to make it a priority to assist them to begin the process.

Deeper and broader debt relief

In order to achieve lasting debt workouts for qualifying HIPCs and to support their efforts to alleviate poverty, the international community should commit to new steps to free up resources. Target ratios indicating the level where debt sustainability can be assumed should be reassessed and lowered. Thus, we support bringing down the debt-to-exports ratio from a current 200–250 percent range to 150 percent. In addition, the alternative debt-to-revenue ratio should be given more attention and be lowered from 280 percent to 250 percent. This also suggests a revision of the subcriteria designed to avoid moral hazard under this alternative and describing the minimum GDP ratios of exports and tax revenues; these subcriteria could be lowered from 40 percent and 20 percent, respectively, to 30 percent and 15 percent. These combined revisions would result in deeper debt forgiveness, take greater account of debtor countries’ fiscal positions, and broaden the HIPC Initiative to more countries.

While bilateral creditors in the Paris Club currently grant countries qualifying for the HIPC Initiative debt forgiveness of up to 80 percent on commercial debt, we support an even deeper degree of cancellation. To achieve debt sustainability, we would be prepared to forgive up to 90 percent and more in individual cases if needed, in particular for the very poorest among these countries. For poor countries not qualifying under the HIPC Initiative, the Paris Club could consider a unified 67 percent reduction under Naples terms and, for other debtor countries, an increase of the existing limit on debt swap operations with due regard to appropriate transparency.

While many bilateral creditors have forgiven debt arising from official development assistance (ODA) and/or extend ODA to poor countries only in the form of grants, remaining ODA debt continues to be a source of the debt overhang in many countries. We therefore call on all creditor countries to forgive bilaterally, through a menu of options, all ODA debt of qualifying countries on top of the amounts required to achieve debt sustainability. We are aware that such forgiveness would present a special burden on some creditor countries. In order to help ensure that HIPCs do not face new debt problems in the future, new ODA should preferably be extended in the form of grants.

Financing

We recognize that these changes will entail significant costs, in particular arising from debt owed to the international financial institutions. However, the final costs of the initiative are subject to many uncertainties, and actual outlays will be spread over a long period of time. We are prepared to support a number of mechanisms to meet these costs, recognizing the importance of maintaining an adequate concessional lending capacity by the international financial institutions:

- To meet its costs, the IMF should mobilize its resources, while maintaining an appropriate level of reserves, through the use of premium interest income; possible use of reflows from the special contingency account or equivalent financing; and use of interest on the proceeds of a limited and cautiously phased sale of up to 10 million ounces of the IMF’s gold reserves.
- The multilateral development banks should build on the work they have begun to identify and exploit innovative approaches that maximize the use of their own resources.
- The costs to the international financial institutions will also require bilateral contributions. We have pledged substantial contributions to the existing HIPC Trust Fund. We will consider in good faith contributions to an expanded HIPC Trust Fund.
- In meeting the costs, we call for appropriate burden sharing among donors, taking into account all relevant aspects, including the magnitude and quality of ODA already extended and past ODA forgiveness, and recognizing the contributions of countries with high ODA loans outstanding relative to GDP.

On the basis of this framework, we call upon the international financial institutions and the Paris Club to provide faster, deeper, and broader debt relief. Concrete proposals should be agreed by the time of the next annual meetings of the IMF and the World Bank. ■

Selected IMF rates

| Week beginning | SDR interest rate | Rate of remuneration | Rate of charge |
|----------------|-------------------|----------------------|----------------|
| June 21 | 3.34 | 3.34 | 3.80 |
| June 28 | 3.39 | 3.39 | 3.85 |

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

Data: IMF Treasurer’s Department

Structural adjustment in sub-Saharan Africa is focus of high-level regional gathering

For the first time in a generation, sub-Saharan Africa's economic performance has shown substantial improvement in recent years, based largely on improved policies. Nevertheless, the overall economic situation is fragile, as evidenced by the slowdown in economic growth and the increase in financial imbalances in 1998, owing to poor weather, weak commodity prices, and armed conflicts. More fundamentally, sub-Saharan Africa still has a long way to go to make a real dent in pervasive poverty, begin catching up with other developing regions, and integrate itself fully into the global economy.

To review the current economic and financial policy issues facing sub-Saharan African countries, the IMF Institute, in collaboration with the Bank of Mauritius, organized a high-level seminar on structural adjustment in sub-Saharan Africa, which was held in Mauritius during May 12–14. The opening addresses were delivered by the Prime Minister of Mauritius, Navinchandra Ramgoolam; IMF Deputy Managing Director Alassane D. Ouattara; the Governor of the Bank of Mauritius, Rameswurlall Basant Roi; and IMF Institute Deputy Director Saleh Nsouli. Several ministers, central bank governors, and other senior officials from 11 sub-Saharan African countries participated in the seminar.

Issues and challenges

Structural adjustment is essential for all African countries, Ramgoolam emphasized in his opening remarks, requiring perseverance in the implementation of policies and reforms that are consistent and sustainable in the long run. He also underscored the importance of a new partnership with industrial countries that recognizes and acts upon Africa's need for more open trade, more foreign direct investment, greater transfer of technology, and deeper debt relief.

Ouattara stressed some key priorities in Africa's efforts to foster growth and integrate itself into the global marketplace. The IMF would, he said, continue to support strong reform programs with financial and technical assistance, as well as training designed to enhance administrative and technical capacity. He pointed to the expanded training efforts of the IMF Institute in Africa, as evidenced by the recent decision to establish a Joint Africa Institute in Abidjan, in collaboration with the African Development Bank and the World Bank.

Enlarging on the IMF's role in Africa, Nsouli reviewed the recent experience of structural adjustment programs supported by the IMF's concessional loan facility—the Enhanced Structural Adjustment Facility (ESAF). He noted that sub-Saharan African countries implementing macroeconomic and structural adjustment programs

had made progress in reducing financial imbalances and liberalizing their economies; however, efforts to privatize public enterprises, reform the financial sector, and improve the institutional framework had lagged behind. He explained that the experience with ESAF-supported programs had been reviewed by three outside evaluators, who had put particular emphasis on the need for better targeting of social safety nets over longer periods and for fostering program ownership. On the basis of the external as well as internal reviews of the ESAF, the IMF Executive Board had reemphasized the objective of ensuring that the poor are appropriately protected during the process of adjustment and reform and had underscored the importance of program ownership.

Mauritius's success with macroeconomic and structural adjustment, which was initiated in the late 1970s, provided important object lessons, Basant Roi said. He explained that the adjustment process had benefited from a genuine ownership of the programs by the government and the public, a high degree of pragmatism, and a broad consensus with international organizations on the direction of the desired reforms. In a globalized economy, this process had to be continued; in particular, strong macroeconomic policies had to be accompanied by structural reforms, especially those aimed at making the financial sector more resilient to abrupt changes in asset prices and capital flows.

Second-generation reforms

Calamitsis, former Director of the IMF's African Department, stressed the need to implement a second generation of reforms to boost growth and reduce poverty in sub-Saharan Africa. While the first generation of reforms focused on restoring basic macroeconomic equilibria and jump-starting the engine of growth, the second generation involves a broader and qualitatively different set of reforms—notably, creating an enabling environment for private investment, ensuring good governance, fostering more open trade and payments systems, and strengthening financial sectors. To avoid a stop-and-go approach to reform, Calamitsis said, governments needed to seek and secure a national consensus on the direction of policies and measures. He also pointed to the importance of resolving the continued upheavals and armed conflicts in a number of African countries, since peace and security are critical to the achievement of a more dynamic and sustainable growth and a reduction of poverty.

Because increased investment was needed to improve the region's long-term growth performance, it was important to foster an environment conducive to more



Alassane D. Ouattara



Saleh Nsouli



Evangelos Calamitsis

saving and investment, according to Ernesto Hernández-Catá, Associate Director of the IMF's African Department. He emphasized the need to reduce risks posed by macroeconomic instability, loss of assets due to poor enforcement of contracts, and destruction caused by armed conflicts. Governments should restore and consolidate macroeconomic stability by continuing to implement sound fiscal and monetary policies; intensify efforts to improve economic efficiency by pushing trade liberalization and enhancing competition; improve infrastructure to encourage trade and investment; allocate more resources to education and health and improve efficiency in service delivery; take steps to root out corruption; and enhance the quality and integrity of the legal system.

The promotion of good governance is critical, Vito Tanzi, Director of the IMF's Fiscal Affairs Department, explained. He emphasized that the role of the state should be focused on developing reliable public institutions, effectively delivering essential public services and basic infrastructure, upholding and strengthening the professionalism of the judiciary, improving social indicators, and eliminating corruption in the government and corporate sectors. In this regard, particular attention should be given to adopting the recently developed code of good conduct on fiscal transparency.

The acceleration of trade liberalization is essential to boost growth by enhancing the competitiveness of African producers and speeding up the region's integration into the global economy, according to Robert Sharer of the IMF's Policy Development and Review Department. He added that efficient regional integration can help accelerate the process of trade liberalization both regionally and globally, but regional groupings will need to foster nondiscriminatory multilateral trade liberalization to enable their members to achieve closer integration into the world economy.

Policy and structural reform

Reviewing the progress made and the lessons learned, Roland Daumont of the IMF Institute noted that, while fiscal adjustment had remained fairly modest in sub-Saharan Africa in recent years, it had to be viewed in the broader context of structural reform in taxes, expenditure, and civil service, as well as that of the public enterprise and financial sectors. Tax reforms should continue to focus on the simplification and rationalization of tax systems and be supported by sustained technical assistance, he said. There was considerable scope for increasing the level and efficiency of spending on education and health. Given their long gestation periods, early implementation of fiscal reforms was desirable.

Bruno Cabrillac of the Bank of France noted that despite the progress made in financial restructuring in many African countries, particularly the CFA franc zone, there is still a need to strengthen the legal framework for banking activities. Important reforms included ensuring

the independence and public accountability of central banks; reinforcing the prudential regulation and supervision of banks; rehabilitating or, if necessary, closing weak commercial banks; improving loan recovery; deepening and broadening financial markets; and opening the banking sectors to healthy competition and internationally recognized best practices in bank management, particularly through privatization.

Senegal's structural adjustment experience, particularly since the devaluation of the CFA franc in January 1994, provided an interesting case study. Papa Ousmane Sakho of the IMF's African Department stressed that, with the restoration of competitiveness brought about by the devaluation, Senegal was able to achieve both an appreciable economic recovery and financial stability in recent years. Nevertheless, major challenges remained, and the authorities needed to pursue and even accelerate structural and institutional reforms, with a view to increasing investment and growth in Senegal.

Looking ahead

A concluding roundtable discussion focused on the key policies and reforms that will need to be vigorously pursued to promote more rapid growth in an environment of financial stability. Chaired by Calamitsis, the roundtable included Alexandre Barro Chambrier, IMF Executive Director; Cyrus D.R. Rustomjee, Alternate IMF Executive Director; El Hadj Ibrahima Sall, Minister Delegate in charge of Planning for Senegal; and Louis A. Kasekende, Executive Director, Bank of Uganda.

While welcoming the economic progress made by many African countries in recent years, speakers emphasized that much more had to be done to address the major impediments to faster growth in the region. They also cautioned that there were downside risks in the region's economic outlook and emphasized the importance of avoiding policy reversals. They agreed that a second generation of reforms was essential to achieve more dynamic and sustainable growth and reduce the widespread poverty on the continent. In this regard, they highlighted the need for good governance, with a focus on transparency and a credible judiciary, well-targeted social safety nets, more open trade and payments systems, and strengthened financial sectors. They also saw the merits of efficient regional integration as supportive of multilateral trade liberalization, noting that regional arrangements could help promote peace and security. Some speakers and participants emphasized the importance of rural development and better health in Africa at the dawn of the new millennium.

In his closing remarks, Ouattara emphasized the need to carefully tailor reforms to the circumstances of each country. He also stressed that effective management of the reform process would be critical, requiring credible and enlightened political leadership and a broad consensus among all major forces in society. ■



Ernesto Hernández-Catá



Robert Sharer



Papa Ousmane Sakho



*Alexandre Barro
Chambrier*

IMF releases Executive Board's work program to increase public awareness of its activities

In a news brief dated July 2, the IMF announced that it is releasing for the first time a summary of the work program of its Executive Board for the next few months as a step in increasing public awareness of the IMF's activities. The full text of News Brief 99/38 is available on the IMF's website (www.imf.org).

The work program is a road map for the work of the IMF's Executive Board, which consists of the 24 officials appointed or elected by the IMF's 182 member countries, and which meets on a regular basis to assess economic developments in individual and regional economies and the world economy, and to discuss and decide on the IMF's loans to member countries, as well as general policy issues affecting the international financial system.

"The release of the work program summary is an important step to enhance the transparency of the IMF's operations. Taken together with other recent actions, today's release shows a continued commitment to increase IMF openness," said Shailendra J. Anjaria, Director of the IMF's External Relations Department. The work program is prepared in the light of discussions each spring and fall at the IMF's Interim Committee, the ministerial body that

poorest countries, including the IMF's contribution to this latter initiative and the IMF's support for its poorest members.

Reform of international financial architecture. The new work program calls for discussion in four areas:

- involving the private sector in forestalling and resolving financial crises;
- analyzing key issues concerning exchange rate regimes, both among major international currencies and in emerging market economies;
- capital account liberalization, including the role of capital controls; and
- standards and transparency.

The Board will build on the progress made in the reform of the international financial architecture, including by ensuring that reforms already agreed on are incorporated into the regular work of the IMF, as appropriate.

The Board will also review the experience of producing a series of experimental case studies of transparency practices in individual countries, and it will evaluate a revised version of the Code of Good Practices on Transparency in Monetary and Financial Policies.

The Board has requested staff papers on architecture issues for consideration in the period after the Annual Meetings, including a study of offshore banking and offshore financial centers, and a review of IMF data standards, a central component of efforts to enhance transparency.

Debt relief and poverty reduction. The Board will consider a joint IMF-World Bank report on the review of the Initiative for the Heavily Indebted Poor Countries (HIPC), focusing on the steps to enhance the link between HIPC Initiative assistance and poverty reduction. The report will build

upon the initial IMF-World Bank HIPC review, which was presented to the boards of both institutions in April, and which brought a call from the IMF Interim Committee for redoubled efforts to secure full financing for HIPC and the continuation of the Enhanced Structural Adjustment Facility (ESAF). Proposals for modifying the HIPC Initiative in light of the views of the international community will be submitted for the Board's consideration.

The HIPC Initiative is a joint IMF-World Bank effort to provide debt relief to a group of poor countries



The IMF's Executive Board (here with the 24 Executive Directors, their alternates, and staff) represents the organization's 182 member countries.

considers the activities of the IMF. The current work program looks ahead to the fall meeting of the Interim Committee, scheduled for September 26, 1999, and to the Joint Annual Meetings of the IMF and World Bank Group to be held September 28–30, 1999.

Key elements of work program

The Board's agenda in the period ahead covers many issues, with two central special themes: reform of the architecture of the international financial system, and a strengthened framework for debt relief for the world's

undertaking economic reform; ESAF is the IMF's concessional lending window, which also benefits poor countries.

The Board will also consider papers on possible modalities for conducting IMF gold sales to support its ESAF lending and its contribution to the HIPC Initiative, as well as a paper containing a comprehensive set of proposals for future funding of the ESAF and the HIPC Initiative. The IMF's decisions on these issues will be considered in the light of the Board's discussions.

In addition, reflecting the increased focus on the social content of IMF-supported programs and following the recent external evaluation of the ESAF, the Board will review a paper on the IMF's approach to social sector issues and policies aimed at strengthening the integration of social issues into the IMF's policy advice and operations, in particular in ESAF, HIPC and crisis countries.

Among the other topics contained in the Board's Work Program

- The fall 1999 *World Economic Outlook*, which will reassess global economic conditions and prospects, with particular attention to prospects and policies for more evenly balanced growth among the major industrial countries, and the progress of the recoveries in the emerging market economies that suffered financial crises. The report will also consider the policies needed to safeguard macroeconomic stability at low inflation.

- The 1999 *International Capital Markets Report*, which will analyze how market participants, regulators and governments are responding to the challenges posed by the market turbulence experienced following the Russian debt default;

- A paper on financial sector crisis and restructuring, which will draw upon the lessons of IMF-supported programs in Asia;

- Reports on external evaluation of IMF economic research activities and of IMF surveillance; and

- A full range of individual country discussions, including around 90 separate Article IV country surveillance discussions, and financial arrangements with member countries. ■

Transcript of IMF-DBSA videoconference available on the web

The transcript of an IMF-Development Bank of Southern Africa (DBSA) videoconference is now available on the IMF's website (www.imf.org). The June 8 videoconference, which discussed the IMF's May 1999 *World Economic Outlook*, the Heavily Indebted Poor Countries (HIPC) Initiative, and the proposed reform of the international financial system (the new financial "architecture"), was moderated by El Tigani Ibrahim, Program Coordinator for Southern Africa in the IMF's External Relations Department and Mosebjane Malatsi, Senior Strategic Business Planner at the Development Bank of Southern Africa.

Press releases

Following are excerpts of recent IMF press releases. Full texts are available on the IMF's website (www.imf.org) under "news" or on request from the IMF's Public Affairs Division (fax: (202) 623-6278).

Mongolia: ESAF

The IMF approved the second annual arrangement under the Enhanced Structural Adjustment Facility (ESAF) to support Mongolia's economic and financial program. The three-year ESAF arrangement was approved on July 30, 1997, in an amount of SDR 33.4 million (about \$45 million). (See Press Release No. 97/36, *IMF Survey*, August 18, 1997, page 268.) The decision provides Mongolia with SDR 14.8 million (about \$20 million) in support of the authorities' adjustment program, with a disbursement of SDR 5.9 million (about \$8 million) available immediately.

Medium-term strategy and 1999/2000 program

The authorities' strategy is to create a stable macroeconomic environment and implement market reforms conducive to private-sector-led growth. The 1999–2000 program aims at achieving real GDP growth of 3–4 percent a year, a further

Mongolia: selected economic indicators

| | 1995 | 1996 | 1997 | 1998 ¹ | 1999 ² | 2000 ² | 2001 ² |
|-----------------------------------------------------------|------------------------------------------|-------|------|-------------------|-------------------|-------------------|-------------------|
| | (percent change) | | | | | | |
| Real GDP | 6.3 | 2.6 | 4.0 | 3.5 | 3.5 | 4.0 | 4.5 |
| | (percent of GDP) | | | | | | |
| Overall government balance | -6.4 | -8.2 | -8.6 | -11.2 | -9.8 | -9.4 | -7.7 |
| Current account balance (excluding official transfers) | -5.5 | -10.0 | 1.3 | -11.3 | -10.7 | -9.5 | -8.4 |
| | (weeks of imports of goods and services) | | | | | | |
| Gross international reserves | 11.6 | 9.5 | 12.8 | 11.5 | 12.8 | 14.4 | 14.7 |

¹Estimates.

²Projections.

Data: Mongolian authorities and IMF staff estimates and projections

reduction in inflation to low single digits, and a rebuilding of gross official reserves to the equivalent of 14 weeks of imports in 2000. To meet these objectives, the government intends to implement a restrained fiscal policy to reduce the overall deficit significantly over the medium term. Monetary policy will remain tight to lock in the recent strong gains in inflation performance and to strengthen the external payment position.

Structural reforms

Structural reforms will focus on restoring a sound banking system, accelerating the already successful privatization program, and enhancing the transparency and efficiency of government operations.

Addressing social needs

The government has a firm commitment to strengthen the social safety net and improve the provision of social services to alleviate the costs of transition to a market economy. Emphasis is being placed on market-oriented measures, including expanded training programs and small business creation.

Mongolia joined the IMF on February 14, 1991, and its current quota is SDR 51.1 million (about \$69 million). Its outstanding use of IMF financing currently totals SDR 34.3 million (about \$46 million).

Peru: Extended Fund Facility

The IMF approved a three-year credit for Peru equivalent to SDR 383 million (about \$512 million) under the Extended Fund Facility (EFF) to support the government's economic reform program for 1999–2001. The government intends to treat the EFF credit as precautionary and will only draw under it if adverse external circumstances make it necessary.

In commenting on the Executive Board's discussion of the request by Peru, IMF First Deputy Managing Director Stanley Fischer made the following statement:

"Directors welcomed the authorities' overall strong record of prudent economic management in the face of a number of

external shocks that adversely affected economic performance in 1998 and early 1999. Based on continued timely policy adjustment, the program for 1999 assumes that a recovery will gradually build momentum in the course of the year.

"Directors endorsed the fiscal program, which provides for a modest decrease in the primary surplus in 1999. They agreed that it strikes an appropriate balance between the need to adapt fiscal policy at a time of sluggish economic activity and the need for further fiscal consolidation over the medium term. Directors endorsed the authorities' aim of bringing the fiscal accounts close to balance in the course of the next two to three years.

"Directors welcomed the emphasis being placed on more efficient, higher-quality fiscal expenditure, as well as on further improvements in tax administration, as ways of mobilizing resources for priority expenditures, including in education, health, and poverty alleviation.

"Directors endorsed the authorities' two-pronged approach to poverty alleviation, which stresses macroeconomic policies that both foster strong and sustainable growth, and target social programs aimed at helping lift individuals and families out of poverty.

"Several Directors stressed the importance of continued close monitoring of the banking system. They welcomed the recent reform of banking legislation, which in their view should improve the ability of the bank supervisory agency to address bank problems at an early stage and give a better chance of resolving them before a state of insolvency is reached.

"Directors welcomed the authorities' intention to give renewed emphasis to the government's structural reform agenda, including the privatization and concession program. Directors observed that the flexible exchange rate system had helped the economy adjust to external shocks, and supported the authorities' intention to maintain this flexibility."

Medium-term strategy

The medium-term strategy is to promote sustainable growth of output and employment, consolidate progress toward external viability, and continue efforts to reduce inflation. The objectives of the program include raising output growth to 6 percent a year and lowering annual inflation to 3 percent. The fiscal deficit, after increasing in 1999, would be nearly eliminated by 2001. The program for 1999 assumes 3 percent growth in real GDP and envisages an annual inflation rate of 6 percent, a decline in the external current account deficit to 5 percent of GDP, and a moderate accumulation of net international reserves that would keep gross reserves in the range of 11–12 months of imports of goods and services.

Structural reform

The structural reform agenda encompasses the implementation of recently revised banking legislation, improvements in the pension system, privatization, and the granting of concessions for shifting control over productive activities from the public sector to the private sector.

Addressing social needs

In the social sector, the government attaches high priority to reducing poverty and improving the overall impact of social programs, including better targeting of resources for nutrition, education, health, and rural development.

Peru joined the IMF on December 31, 1945, and its current quota is SDR 638.4 million (about \$853 million). Its

Peru: selected economic indicators

| | 1995 | 1996 | 1997 | 1998 | | Projections | | |
|-------------------------------------------|------|------|------|------------------|-------------|-------------------|------|------|
| | | | | Program | Preliminary | 1999 ¹ | 2000 | 2001 |
| Real GDP | 7.3 | 2.5 | 7.2 | 4.0 | 0.7 | 3.0–4.0 | 5.5 | 6.0 |
| Consumer prices (end of period) | 10.2 | 11.8 | 6.5 | 7.5–9.0 | 6.0 | 5.0–6.0 | 4.0 | 3.0 |
| | | | | (percent of GDP) | | | | |
| Current account | –7.3 | –5.9 | –5.2 | –5.9 | –6.0 | –5.0 | –5.0 | –4.8 |
| Combined public sector overall balance | –2.8 | –1.0 | 0.0 | 0.0 | –0.5 | –1.2 | –0.8 | –0.3 |

¹The program was designed on the basis of real GDP growth of 3 percent and inflation during 1999 of 6 percent.

Data: Central Reserve Bank of Peru and IMF staff estimates and projections

Available on the web (www.imf.org)

Report

IMF Policy on Lending into Arrears to Private Creditors, including Summing-Up by the Acting Chairman of the Executive Board meeting, June 14, 1999

News Briefs

99/34, June 28. IMF Executive Board Completes Yemen Review and Approves Next Credit Tranche

99/36, June 30. IMF Executive Board Completes Review and Approves Credit Tranche for Azerbaijan

Public Information Notices (PINs) are IMF Executive Board assessments of members' economic prospects and policies issued following Article IV consultations—with the consent of the member—with background on the members' economies; and following policy discussions in the Executive Board at the decision of the Board. Recently issued PINs include

99/48, Bhutan, June 17

99/49, Trinidad and Tobago, June 21

99/50, Austria, June 21

99/51, Albania, June 22

99/52, Italy, June 23

99/53, Morocco, June 25

99/54, Burkina Faso, June 28

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

Albania, Letter of Intent, May 22

Peru, Letter of Intent, June 7

Mexico, Letter of Intent, June 15

outstanding use of IMF financing currently totals SDR 589 million (about \$787 million).

Press Release No. 99/24, June 24

Mozambique: ESAF

The IMF approved a three-year loan for Mozambique under the Enhanced Structural Adjustment Facility (ESAF), equivalent to SDR 58.8 million (about \$78.5 million) to support the government's 1999–2002 economic reform program. The first annual loan will be disbursed in three equal installments; the first—equivalent to SDR 8.4 million (about \$11.2 million)—will be available on July 8, 1999.

In commenting on the Executive Board's discussion of Mozambique's request, IMF Deputy Managing Director Shigemitsu Sugisaki made the following statement:

"Directors welcomed the authorities' commitment to macroeconomic stabilization and the structural reforms. These were key determinants of Mozambique's strong economic performance in 1998 when real GDP grew by over 10 percent a year, inflation fell to single-digit levels, and international reserves rose substantially.

"Directors recognized the scale of the challenges facing Mozambique, above all to reduce the high incidence of poverty. They stressed that, to meet the tasks that would fall to the public sector in addressing poverty and developmental needs, without sacrificing macroeconomic stability, it would be necessary to increase government revenue, strengthen tax administration, and reduce exemptions and tax distortions. Over time, Directors looked forward to a strengthening fiscal position permitting a decline in Mozambique's heavy dependence on foreign aid.

"Directors encouraged the authorities to persevere on the reform path and welcomed the emphasis given in the government's program to the efficiency and transparency of government operations, carrying forward civil service reform, the improvement of the legal and judicial system, the development of the financial system, and the encouragement of private sector participation in the provision of public services.

"Directors noted with satisfaction the intended strengthening of education and health services, which would benefit from the substantial prospective debt relief under the HIPC Initiative. Directors welcomed the authorities' continuing efforts to strengthen the provision and targeting of social services. They looked forward to the forceful implementation of the recently adopted Poverty Action Plan and adequate allocation of government spending in the social sector and building up human capital," Sugisaki said.

Program summary

Macroeconomic performance improved markedly during the three-year ESAF program that expires in July 1999, under which Mozambique consolidated its recovery from war and raised depressed per capita income. This strong performance was fostered by prudent fiscal and monetary policies, political stability, and favorable external developments. Increased confidence in the economy was reflected in higher levels of foreign aid, long-term capital inflows, and a stable exchange rate.

Medium-term strategy

The government's medium-term program addresses key structural problems while aiming to consolidate economic growth, projected at about 10 percent in 1999 and 7 percent annually during 2000–01. Annual inflation, which has

declined from 70 percent in 1994 to less than 1 percent in 1998, is expected to be held near 5 percent in 1999 onward. The level of gross international reserves is expected to remain at the equivalent of about five months of imports of goods and nonfactor services during 1999–2001.

To achieve these objectives, the government's program continues to emphasize financial discipline, outward-looking policies, and the creation of an environment conducive to private investment. A domestic primary budget deficit of 2.6 percent of GDP, before grants, is targeted in 1999.

Mozambique: selected economic and financial indicators

| | 1997 | 1998 | 1999 ¹ | 2000 ² | 2001 ² |
|----------------------------------------------|-----------------------------------------------------|-------|-------------------|-------------------|-------------------|
| | (annual percent change) | | | | |
| Real GDP | 11.3 | 12.0 | 9.7 | 7.0 | 7.2 |
| Consumer price index (end of period) | 5.8 | -1.3 | 5.5 | 5.0 | 5.0 |
| | (percent of GDP) | | | | |
| Domestic primary balance | 0.7 | -0.6 | -2.6 | -1.7 | -1.6 |
| Current account balance (before grants) | -17.8 | -20.5 | -34.1 | -23.7 | -15.9 |
| | (months of imports of goods and nonfactor services) | | | | |
| Gross international reserves (end of period) | 6.8 | 6.7 | 5.0 | 5.5 | 5.0 |

¹Program.
²Projections.

Data: Mozambican authorities and IMF staff estimates and projections

Structural reforms

A package of budgetary reforms is being implemented, as well as a public enterprise restructuring and privatization program. With these structural reforms, the government seeks to promote fiscal sustainability, improve the efficiency and transparency of the budgetary process, reduce further the extent of state participation in the economy, create a competitive and sound banking system, and increase the openness of the economy.

Mozambique joined the IMF on September 24, 1984, and its quota is SDR 113.6 million (about \$151.7 million). Its outstanding use of IMF financing currently totals SDR 148.6 million (about \$198.3 million).

Press Release No. 99/25, June 28

Mozambique to receive HIPC assistance

The IMF and the World Bank's International Development Association (IDA) have agreed that Mozambique has met the requirements for receiving close to \$3.7 billion in debt relief from its external creditors under the Heavily Indebted Poor Countries (HIPC) Initiative. The total debt relief package is worth \$1.7 billion in today's values.

The IMF and IDA agreed to increase the assistance beyond the \$2.9 billion (\$1.4 billion in today's values) originally committed in April 1998 to ensure that Mozambique reached the agreed debt sustainability target. The relief was granted in the context of Mozambique's demonstrated record of economic and social reforms.

News Brief No. 99/35, June 30

The full text of this News Brief is available on the IMF's website (www.imf.org).

Central Asian countries receive IMF assistance to modernize customs services

Five countries of the former Soviet Union—Azerbaijan, Kyrgyz Republic, Tajikistan, Turkmenistan, and Uzbekistan—are receiving assistance from the IMF in strengthening their customs administration through a project financed by the Swiss Federal Office for Foreign Economic Affairs. The goal of the project is to help these countries improve their revenue performance, further liberalize international trade, respond to demands from international business for improved service, and introduce modern technology to assist customs control and facilitate trade.

Seminar launches project activities

In April 1998, IMF Managing Director Michel Camdessus and Swiss Minister of Finance Kaspar Villiger signed an agreement under which Switzerland provided a \$2.5 million grant to finance IMF-executed technical assistance projects in these five countries. Project activities were launched at a seminar organized by the IMF's Fiscal Affairs Department and held in Geneva from May 26 to June 3. Staff from the department delivered presentations, covering the role of foreign trade taxes, regional economic integration, new trends in the organization of customs administrations, preshipment inspection services, import control procedures, trade facilitation, import valuation, approaches for fighting corruption, computerization, and strategies for customs reform.

Other speakers represented the World Trade Organization, the World Customs Organization, the United Nations Conference on Trade and Development, the European Commission, and the Swiss and Turkish customs services.

Administrations need to change

Customs administrations are usually responsible for collecting revenue, administering trade policy, and reducing illegal imports and exports. Although revenue from import duties is generally falling in developing and transition economies, the revenue collection role of customs administration is not diminishing because revenue from other taxes on imports, notably sales or value-added tax, can be substantial. The challenge for customs administrations in the global economy is to have effective customs controls while at the same time reducing the costs imposed.

Reform strategy facilitates integration

The experiences of modern customs administrations in industrial countries provide a model for a reform strategy that developing countries might adopt to create an environment that facilitates increased compliance and reduced costs. Such a strategy should incorporate

appropriate and transparent legislation; simple, up-to-date procedures; and enforcement based on an assessment of risk and selective controls targeted at high-risk goods and enterprises.

At the outset, the countries should make a conscious decision to align their legislation and procedures with international standards and practices, which will help ensure their integration with the world trading community. To support implementation of the strategy, changes will be required in computer systems, organization, management, recruitment and training, and services provided to importers and exporters. It was emphasized at the seminar that a large number of changes could not be implemented at once and that careful consideration had to be given to sequencing.

Features of the seminar

As part of the seminar, the Swiss customs administration arranged for the participants to visit its Berne headquarters and the border post between Switzerland and France at Bardonneux. The interactive sessions combined presentations, case studies, and discussions and enabled the delegations—senior officials from the five countries—to mix informally, encouraging them to open new lines of communication on customs issues. To promote the exchange of views, each country was asked to describe the state of its customs service.

The sessions enabled the participants to identify the main challenges they face in modernizing their customs services and to assign priority to the reforms they must undertake. Most of the countries have already experienced tremendous challenges in establishing their services. The Tajik customs service, for example, has grown dramatically over the past seven years, from 8 employees in 1 office to more than 1,400 employees in 86 offices. All of the countries have had difficulty monitoring and controlling exemptions and customs valuation and financing the replacement of computer software and equipment, which is largely obsolete and not Y2K compliant. All five countries also recognized that they needed to improve their revenue performance from the taxation of imports.

The seminar was considered successful in raising the awareness of the participants about the necessary elements of a modern, efficient, and effective customs administration. As the next step under the Swiss-financed project, the Fiscal Affairs Department will send technical missions to those countries that request assistance in identifying the specific changes they must make and in formulating a strategy and a plan of action to implement them. ■

François Corformat and James Walsh,
IMF Fiscal Affairs Department

Report endorses greater openness as key to growth in Asian developing economies

Asia's economies endured a tough year in 1998, as growth rates in many previously dynamic economies barely remained positive or became negative, according to the *Asian Development Outlook 1999*. Inflation rose in Southeast Asia, largely due to steep currency devaluations, and current account balances in Asia's developing economies improved as a result of reduced imports rather than increased exports. The Asian financial crisis hurt many of Asia's most dynamic economies and raised questions about the role of openness in promoting sustainable growth, the report continues. Nevertheless, it concludes, the Asian developing economies' best route for ensuring economic growth and prosperity is through economic openness and liberal economic policies.

Region in 1998

In 1998, the report states, the slowdown in Asian growth that began with the deceleration of exports in 1996 worsened with the currency crisis in 1997. It then turned into a widespread regional contraction, with growth in East and Southeast Asian developing economies being the lowest since World War II, averaging -6.9 percent in Southeast Asia and -1.4 percent in the newly industrializing economies. Nervous investors pulled capital out of supposedly risky emerging markets in Asia in 1998, and capital flows turned negative after reaching \$105 billion in 1996.

The economies in the region generally considered more dynamic did the worst in 1998—Indonesia suffered a huge contraction, and Malaysia and Thailand had substantial declines, the report states. Among the newly industrializing economies, China fared the best, sustaining little damage, while Korea suffered a large contraction. Hong Kong SAR and Singapore, whose economies are based on trade and financial services, were also affected by the regional slowdown. Reduced export demand partially explained the contractions in Hong Kong SAR and Korea.

Across Asia, the average rate of consumer price inflation rose to 6.5 percent from 4.6 percent in 1997, according to the report. The sharp depreciation of the rupiah caused double-digit inflation in Indonesia. In the newly industrializing economies, inflation rose primarily because of price increases in Korea caused by the sharp depreciation of the won. Milder devaluations in Malaysia, the Philippines, and Thailand drove up inflation in those countries.

Throughout the region, the report points out, current accounts improved as capital flowed out, with Asia's aggregate current account moving to a surplus of 3.6 percent of GDP in 1998. The improvement came from import reductions, and overall exports did not increase as expected. In the newly industrializing economies, weak demand from other Asian crisis countries

and weak global demand for electronic products were to blame for their poor export performance.

Asia's vulnerability to capital flow reversals was compounded by weak and poorly regulated banking systems in the region. In the newly industrializing economies, particularly in Korea, bad loans increased, the report explains, because of the impact of high interest rates on weak financial institutions.

Link between openness and growth

Annual economic growth between 1965 and 1990, on average, was 2 percent higher in the Asian developing economies that maintained outward-oriented policies than in those that had inward-looking policies, according to the report. Openness, the report adds, promotes market discipline and stimulates growth through improved access to new technologies and skills and to investable resources in international capital markets.

The outward-oriented development strategies—including encouraging exports, reducing import tariffs, and removing quantitative restrictions—adopted by the newly industrializing economies of Asia allowed them, in one generation, to achieve progress that in many Western economies took several generations, the report states. These countries have also largely erased poverty, low life expectancy, malnutrition, and illiteracy.

The massive capital outflow from these economies during the financial crisis threatens to wipe out much of their

Foreign direct investment rises in Central and Eastern Europe, declines sharply in Russia

Foreign direct investment flows to Russia fell dramatically in 1998, to \$2 billion from \$6 billion in 1997, according to a United Nations Conference on Trade and Development (UNCTAD) press release. In Central and Eastern Europe, however, foreign direct investment reached a new high of more than \$16 billion in 1998, from \$13 billion in 1997. EU investors accounted for 72 percent of this, while 9 percent was from the United States.

Flows to Russia fell in 1998 following the country's general economic downturn and the drying up of privatization-related inflows, which had accounted for over one-third of inflows in 1997, UNCTAD reported. The nature of foreign direct investment also accounted for the slowdown—less than 16 percent was prompted by efficiency-seeking motives. Because foreign investors were attracted to Russia's mining, metallurgy, food production, and service sectors, the country's ability to transform foreign direct investment into engines of export-led growth was limited.

The full text of the press release is available on UNCTAD's website (www.unctad.org).





Ian S. McDonald
Editor-in-Chief

Sara Kane
Deputy Editor

Sheila Meehan
Senior Editor

Elisa Diehl
Assistant Editor

Sharon Metzger
Senior Editorial Assistant

Lijun Li
Editorial Assistant

Jessie Hamilton
Administrative Assistant

Philip Torsani
Art Editor

Victor Barcelona
Graphic Artist

The *IMF Survey* (ISSN 0047-083X) is published in English, French, and Spanish by the IMF 23 times a year, plus an annual *Supplement on the IMF* and an annual index. Opinions and materials in the *IMF Survey* do not necessarily reflect official views of the IMF. Any maps used are for the convenience of readers, based on National Geographic's *Atlas of the World*, Sixth Edition; the denominations used and the boundaries shown do not imply any judgment by the IMF on the legal status of any territory or any endorsement or acceptance of such boundaries. Material from the *IMF Survey* may be reprinted, with due credit given. Address editorial correspondence to Current Publications Division, Room IS7-1100, IMF, Washington, DC 20431 U.S.A. Tel.: (202) 623-8585; or e-mail any comments to imfsurvey@imf.org. The *IMF Survey* is mailed first class in Canada, Mexico, and the United States, and by airspeed elsewhere. Private firms and individuals are charged \$79.00 annually. Apply for subscriptions to Publication Services, Box XS900, IMF, Washington, DC 20431 U.S.A. Tel.: (202) 623-7430. Fax: (202) 623-7201; e-mail: publications@imf.org.

progress in recent years, the report notes. However, the financial crisis was not caused by the outward-oriented trade policies these countries pursued, and such policies should remain a central component of development. What the crisis does raise questions about is the desirability of completely free capital movement and full capital account convertibility, the report adds. The crisis did not overwhelm countries such as China or India, which had greater restrictions on capital account convertibility than the countries that were engulfed by the crisis.

This does not suggest that countries with a great deal of convertibility should close their capital accounts when faced with a crisis. Instead, they may wish to consider introducing some friction in financial flows using price-based measures, such as taxes on short-term capital, to avoid distortions to beneficial capital account transactions. Countries must also proceed with banking and financial sector reforms before opening their capital accounts. In the middle of a crisis, the report notes, introducing capital controls—although they may provide some breathing space—likely will not slow down speculative capital flows or fix the weaknesses in the economy that caused the crisis in the first place.

As the new millennium approaches, the report observes that the global economy faces a number of challenges: Asia's advanced economies are still suffering economic turmoil; the European Union is facing prospects of diminished growth and high unemployment; and the U.S. economy, while it appears unscathed by the crisis, is likely to slow down. Increased protec-

Developing Asia: selected economic indicators (percent)

| Indicator and subregion | 1996 | 1997 | 1998 | 1999 | 2000 |
|--------------------------------------------------|------|------|------|------|------|
| Gross domestic product growth | | | | | |
| Developing Asia | 7.4 | 6.2 | 2.6 | 4.4 | 5.1 |
| Newly industrializing economies | 6.3 | 6.0 | -1.4 | 2.3 | 4.3 |
| China and Mongolia | 9.6 | 8.7 | 7.8 | 7.0 | 6.5 |
| Central Asian republics | 1.1 | 3.5 | 0.4 | — | — |
| Southeast Asia | 7.1 | 4.0 | -6.9 | 0.8 | 2.8 |
| South Asia | 7.2 | 4.7 | 5.7 | 5.5 | 5.8 |
| Pacific | 3.1 | -3.4 | 0.1 | — | — |
| Inflation rate | | | | | |
| Developing Asia | 7.3 | 4.6 | 6.5 | 3.7 | 4.1 |
| Newly industrializing economies | 4.3 | 3.5 | 3.8 | 1.1 | 2.3 |
| China and Mongolia | 8.4 | 2.8 | -0.8 | 2.0 | 3.0 |
| Central Asian republics | 42.3 | 21.6 | 10.1 | — | — |
| Southeast Asia | 6.6 | 5.6 | 21.0 | 8.3 | 6.4 |
| South Asia | 9.5 | 7.3 | 13.0 | 7.6 | 7.2 |
| Pacific | 8.6 | 4.0 | 8.6 | — | — |
| Current account balance (relative to GDP) | | | | | |
| Developing Asia | -1.3 | 0.5 | 3.6 | 2.5 | 1.4 |
| Newly industrializing economies | 0.3 | 1.7 | 9.2 | 4.9 | 2.8 |
| China and Mongolia | 0.9 | 3.2 | 2.5 | 0.9 | 0.4 |
| Central Asian republics | -6.0 | -4.2 | -7.2 | — | — |
| Southeast Asia | -5.5 | -3.3 | 5.2 | 4.4 | 3.2 |
| South Asia | -2.3 | -2.2 | -2.0 | -3.1 | -2.5 |
| Pacific | 4.4 | -1.1 | -1.6 | — | — |

Data: *Asian Development Outlook 1999*

tionism in advanced economies and waning support for trade liberalization and openness will exacerbate the problems facing the world economy. The path to global prosperity and recovery from the crisis, the report concludes, lies in an open global environment. ■

The *Asian Development Outlook 1999* is available for \$36.00 from the Asian Development Bank, P.O. Box 789, 0980 Manila, Philippines. See www.adb.org for more information.

IMF Executive Board completes Ukraine review, approves next credit tranche

In a news brief issued on June 30, IMF First Deputy Managing Director Stanley Fischer announced that the IMF Executive Board had completed the financing assurances review under Ukraine's current three-year Extended Fund Facility (EFF), which was approved on September 4, 1998. As a result, Ukraine may now purchase an additional SDR 86.10 million (about \$115 million) from the IMF. The text of News Brief 99/37 is also available on the IMF's website (www.imf.org).

"Directors welcomed the progress made by the authorities in maintaining macroeconomic stability," Fischer said. "They noted that monetary restraint supported by fiscal consolidation had helped reduce inflation and contributed to a buildup in foreign reserves. At the same time, they stressed the need to maintain fiscal discipline in the months leading up to the presidential elections at end-October, including by strengthened efforts to collect revenues and by timely clearance of

expenditure arrears. Directors urged the authorities to accelerate the structural reforms envisaged under the program.

"Directors noted that Ukraine continues to face a highly fragile macroeconomic environment. In view of the country's heavy debt service obligations, Ukraine's economic recovery will require the continued involvement of private creditors. In that regard, a collaborative solution to Ukraine's debt service problem must be found in line with Ukraine's ability to pay over the medium term. Directors took note of the negotiations thus far with private creditors but urged the authorities and Ukraine's creditors to persevere in their efforts to reach an agreement on terms comparable to other recent agreements with other creditors both domestic and foreign, and taking account of debt falling due in the period ahead. The outcome in this area will be a key factor to be considered in the context of the financing review for the next drawing that is expected to be considered by the IMF's Executive Board in July 1999," Fischer said.