

IMF-Bundesbank Symposium

Speakers Agree on IMF Role in Crisis Management; Stress Importance of Transparency, Data Disclosure

The preeminent role of the IMF in crisis management following the Asian crisis, its surveillance function, as well as its involvement in the growth and development of the economies in transition, were the focus of a symposium held in Frankfurt, Germany, on July 2. The symposium on “The Role of the IMF in the Global Economy” was organized jointly by the IMF and the Deutsche Bundesbank, with the cooperation of the newspaper *Frankfurter Allgemeine Zeitung*. It brought together more than three hundred participants from government and the private sector, as well as from the press.

All the speakers at the symposium agreed that the IMF, with its unique expertise, had played and should continue to play a central role in crisis resolution. They also agreed on the prime importance of transparency and a fuller disclosure of information on the part of all those involved—international financial institutions, governments, and the private banking sector. Participants disagreed, however, on the extent to which moral hazard—the expectation on the part of private creditors that subsequent official financing would protect them against the consequences of unwise investments—was an important element in the Asian crisis.

Origins of Crisis

Following an introduction by Jürgen Jeske, Editor of the *Frankfurter Allgemeine Zeitung*, Bundesbank President Hans Tietmeyer observed in his opening address that while the main causes of the Asian crisis were “the misguided, or at least risky, policies pursued by the countries in question their

(Please turn to the following page)

Camdessus Announcement

IMF Board to Consider Strengthened Reform Program and Increased Financing for Russia

On July 13, IMF Managing Director Michel Camdessus announced that “The IMF team currently in Moscow has reached agreement with the government of Russia on a major strengthening of Russia’s economic program, which I intend to recommend to the IMF’s Executive Board as the basis for an immediate and significant increase in the IMF’s financial support for Russia. This support will help Russia face its difficult problems, which have been exacerbated by the sharp decline in commodity prices, in particular oil.

“Under the new economic program, Russia’s fiscal position is being strengthened markedly. The federal

budget deficit is expected to fall to 5.6 percent of GDP in 1998, from 6.8 percent in 1997. As a result of the measures agreed with the Russian government, the deficit is targeted to fall further to 2.8 percent of GDP in 1999. Many structural reforms of the fiscal system, including major measures to improve the tax system, as well as additional reforms agreed in the context of the program supported by the World Bank, will be implemented.

“The additional support that I will recommend to the Executive Board of the IMF will amount to SDR 8.5 billion (about \$11.2 billion) in (Continued on page 229)

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IMF Executive Board completes review of Indonesian program. See page 229.

Symposium Participants**Moderator:**

Carola Kaps, Correspondent,
Frankfurter Allgemeine Zeitung,
Washington, D.C.

Opening remarks

Jürgen Jeske
Editor, *Frankfurter
Allgemeine Zeitung*

Opening address

Hans Tietmeyer
President, Deutsche Bundesbank

Keynote address

Michel Camdessus
Managing Director,
International Monetary Fund

First Panel:**Crisis Management:****IMF Financing,
Too Much or Too Little?**

Martin Kohlhaussen
Chairman, Commerzbank AG

Michael Mussa
Economic Counsellor and
Director, Research Department,
International Monetary Fund

Helmut Schieber
Member of the Directorate,
Deutsche Bundesbank

Andrew Sheng
Deputy Chief Executive,
Hong Kong Monetary Authority

Jürgen Stark
Secretary of State,
German Finance Ministry

Second Panel:**Crisis Prevention:
IMF Surveillance,
Need for New Teeth?**

Marc-Antoine Autheman
Former Executive Director of
the IMF for France

Michael Mussa

Andrew D. Crockett
General Manager, Bank for
International Settlements

Otmar Issing
Member of the Directorate,
Deutsche Bundesbank

Horst Siebert
President, Kiel Institute

Third Panel:**The Role of the IMF in
Transition Economies**

Josef Tosovsky
Prime Minister,
Czech Republic

Rolf Breuer
Spokesman of the Board Group,
Deutsche Bank AG

Michael C. Deppler
Director, European Department,
International Monetary Fund

Klaus Regling
Director General,
International Financial Relations,
German Finance Ministry

(Continued from front page) own internal weaknesses make them vulnerable.” He added, though, that “it is also true that the global financial markets are sometimes a factor in making the magnitude of the reversal so great.”

Noting that the key fundamentals in the Asian countries were sound, Tietmeyer observed that “on closer inspection it can be seen that the economic successes of recent years already carried the seeds of the later crisis.” These took the form of massive short-term capital flows, asset inflation, misallocation of capital, currency appreciation, decreasing competitiveness, and growing capital account deficits.

The IMF had accumulated important experience with the strategy of countering a crisis of confidence by intervening very early with large amounts of financial assistance, Tietmeyer said. He cautioned that there were risks in this approach: the frequent application of this strategy was expensive for the IMF; the levels of early financial assistance acted as a kind of benchmark; and the early, massive intervention by the IMF could undermine the ability of the financial markets to function in the long run, leading to a danger of moral hazard.

The first requirement, in his view, was that “the IMF should concentrate less on correcting a market outcome that has already occurred. Instead it should try to influence the ex ante setting in which the financial markets operate and to improve their functioning.” This requires more transparency and information so that, on the one hand, financial markets might form their expectations more rationally and realistically and, on the other hand, the IMF itself could assess the need for action more quickly. At the same time, the IMF is not a rating agency, he said: “The ultimate responsibility for correctly assessing chances and risks in a given country remains with the players in the financial markets.”

Tietmeyer recommended that the IMF should minimize its provision of financial assistance by bearing only the absolutely necessary portion of a financing package; defining a maturity and interest rate for its financial assistance that would give the debtor an incentive to repay as soon as possible; and making its assistance subject to strict conditionality. “The central role of the IMF needs to be strengthened rather than reduced,” he concluded. “In performing this role, the IMF will contribute to enhancing the stability and openness of the global economy.”

Role of IMF

Delivering the keynote address to the symposium, IMF Managing Director Michel Camdessus outlined the key elements of IMF policy advice to members. With specific reference to the IMF’s efforts to contain the Asian crisis, he observed that “it takes time to turn around a situation where major structural transformations are called for—we had to marshal catalytic, but alas, sizable financial support, and convince public and

private creditors to take their share in the burden of rebuilding the creditworthiness of these countries.” An equally important effort, he said, was “to help other countries that were being threatened with contagion to strengthen their macroeconomic fundamentals and their economic structure.”

Recently, the Managing Director said, “a new crisis—a crisis within the crisis—has emerged with the weakness of the yen.” The fall of the yen could seriously jeopardize the ongoing recovery of the economies that were hit first and adds to the market instability that affects other countries within the region, as well as some countries, such as Russia, outside it. He called on Japan to “move aggressively and quickly to rehabilitate its banking sector, to adopt policies—including reforms that would provide significant tax relief—to ensure that fiscal stimulus is not withdrawn too quickly next year, and to open up and deregulate its economy.”

Camdessus responded directly to the question whether the IMF was creating a moral hazard for borrowers and investors. “As for borrowers,” he said, “there is agreement that no country would deliberately pursue reckless policies because it thought the IMF would bail it out in the event of a crisis. The political cost would simply be too great. As for investors, the debate is going on, and it is a healthy one.... Many private investors are taking heavy losses.” He noted that foreign equity investors had lost nearly three-fourths of the value of their equity holdings in some markets; many firms and financial institutions would go bankrupt; and overall the crisis had been very costly for many foreign commercial banks. Efforts should now be made, he said, to involve the private sector in resolving both sovereign and private debt problems.

He outlined seven areas—seven pillars of wisdom—where the membership could help the IMF at this time. These, he said, would be to:

- show more of a presence in the IMF and take, head on, its responsibility as the biggest group of shareholders;
- continue to recommend a tough approach to the IMF and to act with evenhandedness;
- be helpful and avoid holding back at financing consortia or creditor groups;
- avoid undercutting the IMF by designing new schemes or institutions, such as the proposed Asian Fund, which would be gentler or kinder than the IMF;
- help in the key task of surveillance and in emphasizing the IMF message to the rest of the world;
- compete for excellence in economic policymaking; and
- give generously to the IMF the benefit of the doubt and their full support.

The full text of the Managing Director’s address is available on the IMF’s web site (<http://www.imf.org>).

IMF Financing: Too Much or Too Little?

The first panel discussed the issue of crisis management and the appropriate extent of IMF financing. Particular attention was paid to the issue of moral hazard.

Opening the discussion, Michael Mussa of the IMF stressed that it was important not to exaggerate the scale of support from the IMF. This support had been considerable, he said, but not large enough to prevent considerable destruction of national and international prosperity. “The adjustment that economies need to make in these circumstances cannot be made without cost and pain to themselves and to other countries as well,” he explained. “Loans from the Fund and the international community support necessary adjustment efforts; they can limit but not eliminate

the pain. There may be a concern in some instances that financial support has not been large enough.”

Countering the arguments that IMF support had increased moral hazard, he said: “We need to distinguish between the moral hazard associated with expectations of bailout by taxpayers supplied by national governments, which is a real problem, and the issue of whether there is a significant moral hazard problem associated with support provided by the international community, which is not a gift at the expense of the taxpayer. It was the enthusiasm of investors about the prospects for these economies and the ample supply of world liquidity and the low returns available in many industrial country markets that were the primary motivating factors behind most capital flows to these emerging market countries. It was not the expectation that there would be significant trouble and it was not the expectation that the IMF would provide liquidity to deal with that trouble.” The one case where the issue of moral hazard might apply, he said, was that of Russia. “There is undoubtedly a perception in the financial community that for a variety of reasons Russia is too large to fail. That perception has influenced capital flows to Russia.”

If financial intervention in the markets becomes unavoidable, the IMF should be the lead manager and remain at the center of the management, in the view of Helmut Schieber of the Bundesbank. The IMF is a very flexible institution with an outstanding level of expertise, he said, and it can act quickly when a crisis occurs. He did not, he explained, share the view that extraordinarily large financial packages have automatically calming effects on financial markets. The situation in Asia was only calmed, in his view, “when the crisis countries have made credible

commitments to implement reform and after the financial sector had participated in finding a solution to the crisis.”

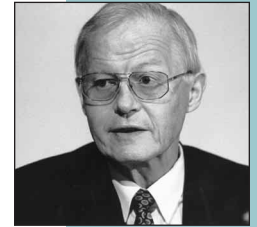
Schieber added that he found the IMF’s “two-pronged approach of macroeconomic adjustment and structural reform to be fundamentally appropriate.” He added that “the IMF is doing well to insist on far-reaching financial reforms. In Asia, the IMF had to act quickly enough without acting prematurely.”

Private Sector Actions

The real element behind the crisis was the short-term debt incurred by the private sector in an environment of a weak financial system, according to Jürgen Stark of the German Finance Ministry. He expressed his concern that the IMF’s financing policy, starting with the Mexican crisis in 1994–95, might have contributed to moral hazard and encouraged reckless financial behavior, both by the private sector and governments. At the same time, he said: “From the outset of a crisis the IMF must take the lead in assisting a country in overcoming the crisis. The IMF has a unique expertise with regard to the global economy and in particular with regard to the working of the financial markets.” However, he explained, the IMF “should in the first place act as a catalyst to help mobilize external financing from the private sector to ensure burden sharing. I do not concur with the argument that exceptionally high IMF financing is justified in financial crisis situations with systemic or contagion risks.”

Support for the IMF’s approach from an Asian perspective was voiced by Andrew Sheng of the Hong Kong Monetary Authority. The Asian economies did not fully appreciate what he called “the dark side of globalization”—that is, the risks inherent in very rapid capital flows. For balanced growth to be achieved, he said, strong, well-supervised banking systems are required. The IMF has a catalytic role in facilitating structural change and in promoting transparency, he said, adding that “there is no alternative to more dialogue between the public sector and the private sector to get better information in order for the markets to work better.” The IMF also has a catalytic role in introducing best practices standards and techniques for both developing and emerging markets, he remarked.

On the issue of moral hazard, Sheng observed: “No one in Asia would go through the shame and blame of IMF-supported adjustment programs while thinking that they



Helmut Schieber



Jürgen Stark



Michael Mussa

would be bailed out. I do not find it useful to criticize the doctor when I am on the operating table. We should support the IMF in its difficult task in crisis management.”

While the IMF has to intervene if the international monetary system is threatened by systemic risks, “it cannot be the job of public sector institutions to correct the mistakes of private investors,” according to Commerzbank’s Martin Kohlhausen. “I do not think that either we at the bank or our competitors have ever thought in granting a credit that if there are problems the IMF will bail us out.” He argued that more pressure should be put on debtor countries to have them observe the rules of the free flow of capital and to introduce transparent banking and accounting systems.

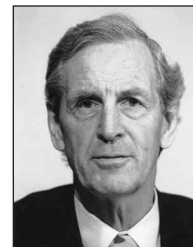
“Every reform must focus on crisis prevention,” he said. “The domino effect was concealed previously by

the general euphoria about Asia, which caused the crisis when it broke out to reach unprecedented proportions. IMF surveillance must play a central role, although under no circumstances should the IMF violate its neutrality. Once a country has been warned in good time, the public should be informed if the country fails to take appropriate action as suggested by the IMF.”

Debt forgiveness is not a solution, Kohlhausen said. Creditor banks should provide liquidity and maintain short-term credit lines to win time for long-term rescheduling. “The main task, however, needs to be shouldered by the countries in trouble,” he concluded.



Andrew Sheng



Martin Kohlhausen

Frankfurt Symposium: Second Panel

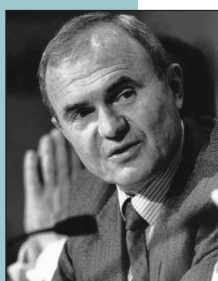
IMF Surveillance: Need for New Teeth?

The rationale for surveillance—the process of consultation with national authorities through which the IMF evaluates the policies, performance, and prospects of each member—was addressed by the second panel. Participants discussed ways in which surveillance might be made more effective through greater transparency, improved banking standards, and enhanced availability of data, as well as the availability of IMF financing to back up the surveillance process.

The basis for IMF surveillance was outlined by Otmar Issing of the Bundesbank, who saw three issues:

- policymakers must give a prompt and decisive response to macroeconomic imbalances before their scale triggers reversals of sentiment in the market;
 - the financial system must be healthy and stable so that it does not itself become a source of crisis in the event of a change in the underlying conditions; and
 - the buildup of macroeconomic imbalances must be identified at as early a stage as possible.

Once imbalances have been identified by the IMF, he said, it will be incumbent on the national authorities to tackle them as early as possible. He considered that the IMF faces a dilemma in that “its warnings to a country would carry more weight if there were a threat of their being made public. At the same time, announcing them publicly might trigger the very crisis that surveillance was meant to prevent.” One solution, he suggested, would be for international lenders to report their exposures to an individual credit register, which, in turn, would return the aggregated data to the reporting institutions.



Otmar Issing

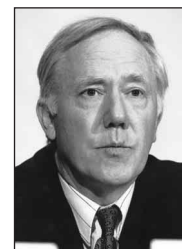
Banking Standards

One cannot turn back the clock on an open, liberal international capital market system, Andrew Crockett of the Bank for International Settlements commented. Financial markets are subject to strains, and such strains are likely to be with us for some time. What will be important, in his view, would be to try to improve the functioning of markets, rather than try to devise administrative controls for them. Institutions, he said, must be sound and confidence-inspiring if the system as a whole is going to work well. It is important to ensure that markets operate more effectively than in the past; and for this the infrastructure will need to be developed, including such instruments as accounting standards, legal contracts, and bankruptcy laws.

In this connection, he added: “I see the function of the IMF as being to play the central role in the dissemination of good standards in each of these areas and in the monitoring and surveillance of countries’ performance in actively adopting those standards. The evolution and development of the standards themselves can best be done by national authorities working together to work out common standards of best practice.”

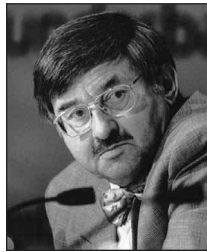
Data Availability

Issues of improving the regulatory instruments and transparency were also addressed by Horst Siebert of the Kiel Institute. “The Asian crisis has demonstrated that we need more accurate data on foreign exchange reserves,” he said, “but in addition to macroeconomic data, we need more information on short-term private



Andrew Crockett

debt. We need the data quickly. In a world of high mobility of portfolio capital, it creates uncertainty and instability if data on fundamentals are published with large time lags.”



Horst Siebert

On the issue of surveillance, Siebert stressed that “the IMF should not be a silent supervisor that deliberates with the country where a problem is developing behind closed doors. It is better to blow the whistle before the train crashes. Of course signaling more actively to the markets that a problem in developing is a very delicate task, and the IMF should not ignite the hurricane or reinforce it, but also should not hold back information so that people are misdirected from seeking shelter.”

He expressed concern that the IMF had moved away from the short-run objective of bridging liquidity gaps toward a longer-term role of defining the conditions for a sustainable economic situation and of providing larger amounts of financial assistance. In his view, he argued, “the larger the scale of operation and the bigger the role of the IMF, the lower the losses that the private lenders have to take.”

Financing and Surveillance

There is no way to prevent crises from occurring, Michael Mussa pointed out. “The question is, can surveillance help to diminish the frequency and magnitude

of crises that do occur? IMF surveillance, if it is to be effective, needs to have the backing of the IMF membership. It is also important that the disciplining power of financial markets be brought into play in some effective way. That would give additional teeth to the words that have been spoken, both inside and outside the IMF.”

On the interaction between financing and surveillance, he emphasized, “What gives the IMF clout is not primarily its words. It is the fact that, for many countries, IMF talk is backed up by financial resources that may become available in a time of difficulty that gives some credibility and force to IMF surveillance. If the IMF were nothing more than a talking institution, it would not have very much influence behind its surveillance in many countries.”

There are fundamental limits to IMF surveillance, in the view of Marc-Antoine Autheman. He stressed that the IMF deals with sovereign countries that cannot be forced to cooperate and that sometimes have the support of “protector countries” in their refusal to cooperate. The IMF also may be fallible and finds it difficult to challenge market opinion when this is reflected in price and volume changes. “After the Mexican crisis, too much emphasis in the debate about IMF surveillance has been placed on procedures and not enough on substance,” he said, adding that the IMF should be more forceful in stressing that, when there are capital outflows, monetary policy should immediately be tightened in a credible way.



Marc-Antoine Autheman

Frankfurt Symposium: Third Panel

Role of the IMF in Transition Economies

All participants in the third panel discussion agreed that, with IMF support, the transition economies in central and eastern Europe had made considerable progress and had been well insulated from the contagion effects of the Asian crisis.

Josef Tosovsky, acting Prime Minister of the Czech Republic, identified three stages of transition in these economies:

- economic stabilization, comprising price liberalization, opening for foreign trade, and other basic steps, with the IMF providing financial support at a time when private capital may be reluctant to enter the country;
- structural change, the building of the infrastructure for a market economy, with the IMF shifting from providing financial support to giving apolitical practical support for policymakers and technical assistance; and
- full integration of the transition economies into the international financial system.

He explained that one of his main concerns for transition countries was the destabilizing effect of

large swings in capital flows. Nonetheless, he said, “the benefits of free movement of capital outweigh the costs.”

The role of the IMF, he felt, should be to assist countries whose policies are sound but that suffer capital outflows as a result of contagion; to act to confine a crisis to the country in which it occurs; and to increase transparency through providing good and timely data to the markets.

Responding to a question, Tosovsky said there was a need for more “burden sharing” between individual countries and the private sector in dealing with the consequences of capital flows.



Josef Tosovsky

Crisis Prevention

The IMF has been successful in helping the transition economies deal with the crisis, Michael Deppler of the IMF emphasized. “The approach that the IMF had initiated in Poland in 1989–90 had proved to be the

successful one: economic liberalization, stabilization, and as rapid a structural reform as possible,” he said. “It is very clear today that the countries that are succeeding the best are the countries that followed the policy the closest, and the countries that are lagging—Romania is an example—are the countries that were least able to stick to that strategy.” For those countries, he said, IMF involvement in technical assistance and program design continues to be important.

“For the more successful cases we have been ahead of the game in warning countries not to take temporary success as a time to relax, about the need to control their fiscal policy, to push on structural policy, to worry about their current account deficits and their exchange rate policies, and basically in preparing them for crises to come,” he explained.

The Czech case, he said, was “a star example of a country that had the diagnostics of some of the Asian countries—and indeed worse in some respects—yet pressures from the markets that emerged in May 1997 were quickly and decisively solved. This was because the governments knew the basic directions in which policy would need to move when the crisis came, and they acted decisively. When I look at the experience of Poland, Hungary, and the Czech Republic over the past year or so, I see an Asian problem that was contained because of good policy responses by national authorities. I believe that the IMF has been instrumental in that process.”

Economic Stabilization

All those involved were poorly prepared for the needs of the transition process, said the Deutsche Bank’s Rolf Breuer, speaking from the viewpoint of the private sector. Once the problems arose, the IMF was rapidly on the spot with financial assistance, he noted, adding that transition countries require different policies and conditional IMF support than other emerging countries. In addition, he said, the IMF had been very successful in helping the transition countries fight inflation, emphasizing that “conditionality should not be flexible on this score.”

The main task of the IMF, in his view, should be the stabilization of the world economy in the event of major systemic crises, and the IMF should not be pushed back and forth between the public and the private sectors. He expressed his concern that the IMF’s financial resources were becoming stretched and appealed to members to act quickly to approve a quota increase.



Michael Depler



Klaus Regling

In the past, Breuer said, crisis management had often been given priority over structural reform, and there was a risk in such countries as Russia and Ukraine that the focus would be solely on crisis management. In these countries, he observed, the IMF had to tread a fine line between crisis escalation, the risk of moral hazard, and threats to its credibility, and it was essential to strike a balance between risks.

Klaus Regling of the German Finance Ministry compared the experience of the transition and Asian economies and stressed that the end of the centrally planned systems was a turning point in the history of the IMF. He said that among the transition economies there had been very good progress in macroeconomic stabilization. In 1997 the countries of the region had registered growth for the first time, inflation had come down considerably, budget deficits had been reduced, and these positive trends were expected to continue this year. Those countries that had managed to implement IMF-supported programs most smoothly are also those that have made the most progress. Noting that progress on the structural side had been less convincing, he recommended that future programs should focus on this area.

Compared with the Asian economies, there are, he said, “similarities in the weakness of the banking systems, including bank supervision; there is a lack of transparency in decisions affecting the business environment and in developing a reliable legal system; and there are also problems with good governance and in controlling corruption.”

Asked if there is a political dimension to IMF support, Michael Depler emphasized that every paper sent to the IMF Executive Board has a technical, apolitical program attached to it. “There is a very strong technical judgement behind every IMF program,” he stressed. “There are political considerations that lie behind some of these things, but the basic programs are technically valid quite apart from political considerations.”

Klaus Regling concurred saying: “The legitimacy of the IMF rests on its reputation of doing a professional, absolutely perfect job. If there were any doubt, the importance of the IMF would decline very rapidly. Most of the advice that the IMF gives and the actions it undertakes can have profound political implications in the countries concerned, and normally it does. The impact can be very political, but the work has to be economically sound and professional.”

Ian S. McDonald
Editor-in-Chief, *IMF Survey*



Rolf Breuer

Maystadt Proposes Setting Up Working Groups To Increase Effectiveness of Interim Committee

On June 19, Philippe Maystadt submitted his resignation as chairman of the Interim Committee of the IMF's Board of Governors—the IMF's principal advisory body—in order to accept the nomination to head his political party in his native Belgium. Maystadt, who also resigned as Belgian Minister of Finance, had assumed his duties as chairman in September 1993. He also served as Minister of Finance and Foreign Trade of Belgium from 1988. In a letter addressed to IMF Managing Director Michel Camdessus, Maystadt reviewed his five years on the Interim Committee and suggested some directions the Committee might take in the future, including a proposal to establish working groups to examine international monetary issues. The text of Maystadt's letter follows.

I consider it an honor to have presided over the past ten meetings of this distinguished Committee. This has been a challenging experience. I was pleased to assist you in your work on the transition economies, the special allocation of SDRs, and the increase in the IMF's quotas. The Hong Kong SAR [annual] meeting last year brought the SDR and quota issues to a successful conclusion, and it is my hope that members will soon take the necessary steps to bring the quota increase and the SDR amendment into effect. I also want to say how much I valued our work on surveillance, which led to the adoption of our Declaration on Cooperation to Strengthen the Global Expansion, in Madrid in 1994 [see *IMF Survey*, October 17, 1994, page 320], and of the Partnership for Sustainable Global Growth, in Washington two years later [see *IMF Survey*, October 14, 1996, page 327].

Unfinished Agenda

However, as you know, work is never completed. Looking ahead, the Asian crisis, the creation of the European Monetary Union, the HIPC [highly indebted poor countries] Initiative—to name but a few—point to a long, unfinished, and pressing agenda. These are three areas that I consider to be critical in this regard.

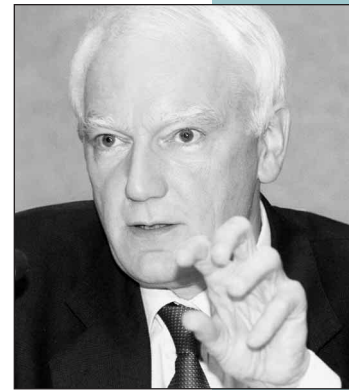
First, the Asian crisis—its scale, the difficulties to resolve it, and its global significance—make it urgent for the IMF to continue its efforts to adjust itself to the tremendous changes under way in the global economy, in particular the globalization of markets and the growing mobility of capital. Those efforts should also be complemented by a series of actions addressing the challenges of world financial markets. I believe the last meeting of our Committee contributed to build a consensus on how to proceed. However, a lot of work still has to be done. In particular, we will have to improve our knowledge on how international financial markets

are functioning, to find ways to reduce the risks posed by abrupt short-term capital flows, and to modernize the system of regulating and supervising bank and nonbank financial activities. I trust you will ensure that progress will be made in the coming months in addressing those issues effectively.

The crisis in Asia also underlines the importance of orderly and properly sequenced liberalization of capital movements, particularly those of a short-term nature. There is a need to proceed cautiously and with good advice. No country should be forced to liberalize immediately, or to remove controls when they are justified by legitimate reasons. To achieve this objective, I would hope that the IMF, in line with its mandate to oversee the international monetary system, will play a central role in helping its member countries to better manage the process of liberalization, so that they derive the maximum benefits from globalization, while mitigating any associated risk.

Second, we are witnessing historic events unfold in Europe, with the arrival of the euro. While this issue has not as yet been at the center of the Interim Committee's discussions, our surveillance of the international monetary system would be incomplete if we did not address it. Related to this, there are two immediate challenges for the international community. The IMF should take all the necessary steps to adjust its financial organization and operations to the arrival of the euro. And the monetary authorities should work closely together, as well as with the IMF, in order to achieve a smooth transition to the new international monetary regime that will emerge as a consequence of the creation of the euro.

Looking ahead, I hope with Paul Volcker that the creation of the euro will be “the impetus for renewed thinking on the international front.” I think the IMF has a major responsibility in this regard, in accordance with the very first words of Article I of its Articles of Agreement. In my view, the IMF should propose an appropriate course of action to strengthen stability in the exchange rate system. The ongoing work on the architecture of the international monetary system would remain incomplete if it were not complemented by a new reflection on how to achieve this goal of a greater monetary stability.



Maystadt: The crisis in Asia underlines the importance of orderly and properly sequenced liberalization of capital movements.

Third, I will remember the launch of the HIPC Debt Initiative as one of the most important agreements reached by the Interim Committee over the last few years. The international community is now equipped with an instrument able to offer highly indebted poor countries a solution for their debt problem. However, in order to guarantee the success of this initiative, vigilance is required. I see the immediate challenge as threefold. There is a need, first, to encourage all eligible countries to join the initiative as soon as possible; second, to enhance the effectiveness of IMF arrangements with low-income countries, in response to the internal and external reviews of the Enhanced Structural Adjustment Facility; and third, to secure the financing the IMF needs to be able to support,

on a long-lasting basis, the adjustment efforts of the poorest countries.

Fourth and finally, I would like to emphasize the central role the Interim Committee should continue to play

in supervising the management and adaptation of the international monetary system. As the Managing Director recently said, there is no other international forum that can match the scope of the Interim Committee's responsibilities and the legitimacy of its members.

This being said, to be effective in fulfilling its mandate, the Interim Committee should allow for substantive exchanges of views. With this consideration in mind, I have tried several times to "revitalize" our Committee, and I find today it would be useful to address this issue again, as part of the ongoing efforts to improve the functioning of the international monetary system.

Working Groups

As a contribution to this debate, I would like to suggest a possible avenue to make the Interim Committee more effective. The idea would be to establish working groups to examine issues pertaining to the international monetary system, if these issues appear to be very complex and difficult to solve.

I see several advantages to this proposal. First, it would help policymakers and national experts to bring their ideas and suggestions on the issues that are taken up in their group. Building on those inputs to develop a better understanding of how the system works could be extremely useful to address the challenges of global economic and financial integration. This would also be a way for the IMF's members to play a bigger role in finding solutions to difficult problems and in relieving some pressure from the IMF staff, which cannot be expected to have answers to all problems.

Second, it could be up to each member of the IMF that appoints an executive director and each group of

members of the IMF that elects an executive director to designate in each working group a representative with the experience and/or responsibilities needed to contribute effectively to the group discussions. This approach would enhance the legitimacy of the proposals for improving the functioning of the international system and facilitate the emergence of a consensus at world level.

Third, working groups could play an important role in reflecting on issues that could not be tackled easily by the IMF—for instance, when these issues go beyond the scope of IMF activities and responsibilities. By creating a working group to address these issues, it might be possible to avoid these issues not being discussed at all. Subsequently, it would be up to the Interim Committee to ensure an appropriate follow-up of the working group's proposals. This might be an effective way to fill some gaps in today's international architecture.

Finally, under this proposal, the Interim Committee would continue to function as the main forum within the IMF structure for consideration of important policy issues with respect to IMF activities and policies, economic surveillance and policy cooperation, and the international monetary system. As is currently the case, the Executive Board, the Managing Director, and the Chairman of the Interim Committee would continue to play a key role in preparing each meeting. However, the Interim Committee's role would be enhanced by the discussions it could have on specific issues raised by the working groups, which could benefit from guidance at the ministerial level.

You may have guessed that my proposal arose after the recent initiative taken by the United States to organize a special meeting of 22 finance ministers and central bank governors to deal with the crisis in Asia and to strengthen the international system. As I understand it, this was a one-off meeting, which led to the creation of three working groups. A first step toward implementing my proposal would be to agree for those groups to report on their progress to the Interim Committee.

I would like to conclude by expressing my sincere gratitude and thanks to you for all the support and cooperation from which I benefited during the period of my chairmanship. It has been a tremendous privilege for me to work with you toward the strengthening of international policy cooperation. I would also like to stress how much the Managing Director, the Secretary, and the staff of the IMF have facilitated my work as chairman of the Interim Committee, through their advice and unfailing cooperation. ■

The Interim Committee should allow for substantive exchanges of views.

— **Maystadt**

Photo Credits: Helmut Fricke for *Frankfurter Allgemeine Zeitung*, pages 221, 223–26; Denio Zara and Padraic Hughes for the IMF, pages 227, 229, and 231.

Executive Board to Consider Russian Program

(Continued from front page) 1998. Half this amount (about \$5.6 billion) will be provided as soon as the agreed actions of the Russian government have been taken, by legislation where necessary, and upon IMF Executive Board approval. The rest would be made available during the remainder of the year. Together with the resources provided under the current Extended Fund Financing (EFF) credit for Russia, total financing from the IMF during the remainder of 1998 would amount to SDR 9.5 billion (about \$12.5 billion). I expect the IMF Executive Board will consider the program of the Russian government on July 20.

“Given the systemic nature of the problem, the size of the additional financing, and the IMF’s liquidity position, I have initiated consultations with the participants in the General Arrangements to Borrow (GAB) to activate the GAB to secure most of this additional financing for Russia.

“The Russian government has also informed me that it intends to request a new EFF for the years 1999–2001. I welcome its intention and expect that, with continued reform, I would recommend further IMF financial support for Russia’s medium-term economic program on a scale similar to that of the present EFF, approximately SDR 2 billion (about \$2.6 billion) a year.

“I understand that the World Bank’s management has reached agreement in principle with the Russian government on a far-reaching structural reform program, and intends to recommend to its Board of Executive Directors the approval of structural adjust-

ment lending that would make available an additional \$800 million in 1998. Together with disbursement of already committed adjustment loans, total adjustment loan disbursements by the World Bank to Russia during the remainder of 1998 could then amount to \$1.25 billion. The World Bank plans a total disbursement of some \$3 billion in adjustment lending for Russia in 1999, subject to strong progress of the reform program and to approval by the Bank’s Board of Executive Directors. Total World Bank disbursements to Russia during the remainder of 1998 and 1999, including adjustment and investment lending, could reach up to \$6 billion. During the same period, as previously announced, the Japanese authorities plan to make available to Russia \$1.5 billion in balance of payments support, co-financed with World Bank adjustment loans.

“The Russian government is announcing today its intention to offer to holders of treasury bills (GKO) the opportunity to convert the bills into medium- or long-term bonds denominated in U.S. dollars. I welcome this initiative, which will ease pressures in the GKO market that have arisen in rolling over maturing bills and will reduce the burden of interest payments on the budget.

“The strengthening of Russia’s economic policies—both fiscal and structural, the large additional financial resources, and the debt conversion scheme should fundamentally improve the financial situation of the Russian government,” Camdessus said. ■

IMF Completes Review and Increases Financing of Indonesia’s Economic Program

On July 16, the IMF Executive Board completed its review of Indonesia’s economic program. In a statement, Alassane Ouattara, Acting Managing Director of the IMF, said: “I am pleased to announce that in support of the Indonesian government’s economic program, the IMF’s Executive Board today approved the completion of a review of Indonesia’s stand-by credit. The Board also approved an increase in the financing under the 36-month stand-by credit by SDR 1 billion (about \$1.3 billion), to SDR 8.3 billion (about \$11 billion). Following the completion of the review, SDR 734 million (about \$1 billion), is available to Indonesia immediately, bringing total IMF disbursements under the credit to SDR 3.7 billion (about \$4.9 billion). The full amount of the additional financing approved today is to be made available before end-March 1999, in addition to the IMF resources already committed for the period.

“New financing for the program is also to be provided through an informal arrangement among bilat-



On July 10, at the IMF, Ginandjar Kartasasmita, Indonesia’s Coordinating Minister for Economy, Finance, and Industry (right); and Widjojo Nitisastro, Economic Adviser to the President of Indonesia, briefed the press on developments.

eral creditors that involves the rescheduling of principal payments falling due or the provision of an equivalent amount of new money. Additional financing will also

be made available by Australia, China, the Asian Development Bank, and the World Bank. The total additional financing for the program, including the increase in the IMF stand-by credit, amounts to over \$6 billion, all of which is to be provided before end-March 1999. This comes on top of substantial external financing previously committed by multilateral institutions, and by Japan and other bilateral donors.

“In completing the review, Executive Directors commended the authorities for good policy implementation in very difficult circumstances. They welcomed the economic priorities set by the government to prevent a further economic decline, reduce inflation, and to substantially intensify its efforts to protect the poor from the worst effects of the crisis. In this connection, strengthening of the distribution system was an urgent priority. Directors also agreed that a much higher budget deficit was necessary to accommodate higher subsidies on essential items and other social spending. Continued firm control over monetary policy and rapid implementation of the reforms underway in the banking system and corporate restructuring were also viewed as policy priorities,” Ouattara said. ■

Press Information Notices

Press Information Notices (PINs) are IMF Executive Board assessments of members’ economic prospects and policies issued—with the consent of the member—following Article IV consultations, with background on the members’ economies. Recently issued PINs include:

- Kazakhstan, No. 47, July 1
- Lao PDR, No. 48, July 7
- Bosnia and Herzegovina, No. 49, July 14

Full texts of PINs are available on the IMF’s web site (<http://www.imf.org/pins>).

Selected IMF Rates

Week Beginning	SDR Interest Rate	Rate of Remuneration	Rate of Charge
July 6	4.29	4.29	4.59
July 13	4.27	4.27	4.57

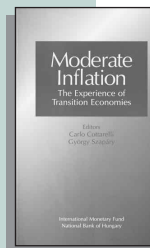
The SDR interest rate and the rate of remuneration are equal to a weighted average of interest rates on specified short-term domestic obligations in the money markets of the five countries whose currencies constitute the SDR valuation basket (the U.S. dollar, weighted 39 percent; deutsche mark, 21 percent; Japanese yen, 18 percent; French franc, 11 percent; and U.K. pound, 11 percent). The rate of remuneration is the rate of return on members’ remunerated reserve tranche positions. The rate of charge, a proportion (currently 107 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 web site (<http://www.imf.org/external/np/tre/sdr.thm>).

Data: IMF Treasurer’s Department

Recent IMF Publications

Books

Moderate Inflation: The Experience of Transition Economies (\$25.00), edited by Carlo Cottarelli and György Szapáry. Proceedings of a seminar held in Budapest, Hungary, in 1997.



Working Papers (\$7.00)

- 98/87: *The United Kingdom’s Experience with Inflation Targeting*, Timothy Lane and Skander Van Den Heuvel. Reviews the first five years’ experience with inflation targeting in the United Kingdom.
- 98/88: *The Price Incentive to Smuggle and the Cocoa Supply in Ghana, 1950–96*, Aleš Bulíř. (See page 235.)
- 98/89: *Current Account Reversals and Currency Crises: Empirical Regularities*, Gian Maria Milesi-Ferretti and Assaf Razin. Studies large reductions in current account deficits and exchange rate depreciations in low- and middle-income countries.
- 98/90: *Intermediation Spreads in a Dual Currency Economy: Argentina in the 1990s*, Luis Catálo. Examines the causes of high intermediation spreads in Argentina using a dual currency model of the banking industry.

Papers on Policy Analysis and Assessment (\$7.00)

98/7: *Mitigating the Social Costs of the Economic Crisis and the Reform Programs in Asia*, S. Gupta and others. Presents a preliminary analysis of the likely social impact of the economic crisis and the reform programs in Indonesia, Korea, and Thailand.

Other Publications

Summary Proceedings, Annual Meeting 1997 (free). Includes statements from the Fifty-Second Annual Meetings of the Board of Governors of the IMF and World Bank, held in Hong Kong SAR, September 23–25, 1997.

Publications are available from IMF Publication Services, Box XS800, 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 text 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 web site (<http://www.imf.org>). The full texts of all Working Papers, Papers on Policy Analysis and Assessment, and Press Information Notices (PINs) are also available on the IMF’s web site.

Bolstering Market Access of Developing Countries Is Essential for Progress in Globalized World

Following are edited excerpts of an address given by IMF Managing Director Michel Camdessus at the High-Level Meeting of the UN Economic and Social Council (ECOSOC) in New York, July 6.

The events of recent months in Asia and elsewhere have brought home to us the perils as well as the promise of our increasingly globalized world. It is almost as if we face two doors. Through one is the promise of a huge pool of resources for investment and growth, economic equity, and social advancement. But through the other is the threat of financial instability, crises, and the marginalization of countries unable to join this powerful current of world economic unification.

I would like to share my thoughts on how the IMF is trying to create an enabling environment, so that developing countries can enjoy better market access and better integrate into the global economy and the multilateral trading system. Or to put it another way: the IMF can help countries open the door in such a way that they maximize the benefits of globalization and minimize the risks.

Asian Crisis

For the past few decades, East Asia, without question, has showcased the benefits of globalization. Using a mix of saving, prudent fiscal policies, investment in physical and human capital, and—at least partially—the liberalization and opening up of economies, these countries managed to produce a “miracle” in terms of high growth and poverty reduction.

But there was another side to this miracle that we so admired. In a globalized economy, a few macroeconomic virtues are not enough. Constant vigilance by all countries must be maintained over all the socioeconomic parameters. The soundness of the banking system, in particular, must be monitored at all times. The unsustainable accumulation of short-term financing must be avoided. And great care must be taken to ensure that governments conduct their affairs in an irreproachable and transparent manner and that all forms of corruption, favoritism, nepotism, and “cronyism” are shunned.

But let us not single out the Asian countries alone. These missing elements exist to a degree everywhere. And these countries’ problems would not have reached such proportions if financial institutions operating in the international markets had not taken excessive risks.

What is the IMF doing to contain the crisis? As soon as it was called upon, the IMF moved quickly to help Thailand, then Indonesia, and then Korea formulate reform programs aimed at tackling the roots of their problems and restoring investor confidence. These programs go far beyond restoring the major fiscal, mone-

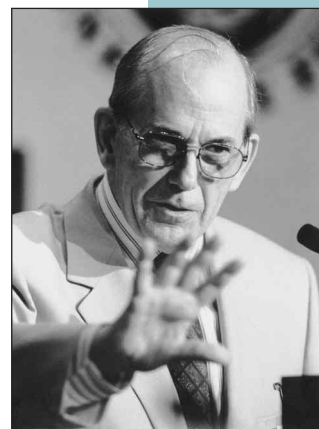
etary, or external balances. Their aim is to strengthen financial systems, improve governance and transparency, restore economic competitiveness, and modernize the legal and regulatory environment. To provide the breathing space in which these efforts could go forward, we have marshaled an unprecedented volume of financial support. And in varied ways, we have helped countries around the world that were being threatened with contagion to strengthen their macroeconomic fundamentals and their economic structures.

But in recent weeks, a new crisis—a crisis within the crisis—has emerged with the weakness of the yen. This new development reflects a serious lack of confidence, provoked in part by recessionary conditions in Japan, as well as the crisis facing its financial institutions. Clearly, the fall of the Japanese yen is not unrelated to the Asian crisis, but it could also seriously jeopardize the ongoing recovery of the economies that were hit first. And it adds to the market instability that is again affecting other countries within the region, as well as some countries, including Russia, outside it. Thus, Japan must now move aggressively and quickly to rehabilitate its banking sector, to adopt policies—including reforms that would provide significant tax relief—that ensure that fiscal stimulus is not withdrawn too quickly next year, and to open up and deregulate its economy.

What else needs to be done to dispel the crisis and restore broad-based growth?

- The international community must pull together to support the adjustment programs of those countries most severely affected by the crisis. The multilateral institutions—the IMF, World Bank, Asian Development Bank—and a number of individual countries have taken on this task. But it is also vital that countries with balance of payments surpluses recycle these surpluses in the form of untied loans and humanitarian aid to countries in the process of adjustment. In the most difficult situations, they should stand ready as creditors to grant generous terms for the restructuring of their claims; and, in general, they should support the recovery in Asia through new loans; and, above all, they should keep their markets open.

- We must strengthen policies to improve fiscal management, in order to put economies on a sounder footing. This message applies to all countries, including those now taking the historic step of adopting the euro. It applies in particular to the transition economies and certain emerg-



Camdessus: *The IMF can help countries open the door so that they maximize the benefits of globalization and minimize the risks.*

ing countries, particularly those in Latin America, which are more vulnerable than others. It applies most especially to Russia, which has also been severely shaken by the crisis and which knows that additional external assistance would provide only temporary relief unless accompanied by far-reaching and long overdue adjustment measures.

- We must help preserve the stability of exchange rates in countries whose actions may be crucial to market stability, such as China and Hong Kong SAR, despite the short-term negative impact of the crisis on their exports and growth.

Developing countries can only go so far if they face restrictions in their markets.

Increased Openness

Against the background of what has happened in Asia, what can developing countries do to position themselves to reap the benefits of global-

ization while minimizing the risks? An important part of the answer lies in further liberalizing and opening up economies in an orderly manner.

- *Trade liberalization.* With the Uruguay Round behind us, thanks to the successful efforts of the World Trade Organization (WTO), the opportunities are greater than ever for developing countries to integrate into the global trading system. They must now create the macroeconomic and institutional framework that would allow them to exploit export opportunities. This means going beyond the minimum requirements of the Uruguay Round, as the IMF and the WTO consistently counsel members.

It is the countries that pursue strong, progressive trade liberalization in the context of general economic reforms and market-oriented policies that come out ahead on growth and trade performance. For some, regional integration initiatives may serve as a stepping-stone for accessing the global trading system. But the risk of fragmenting the world trading system through propagation of a multiplicity of overlapping, conflicting, and contradictory regional trading arrangements must be avoided. This is why these initiatives must be preceded or accompanied by substantial nondiscriminatory trade liberalization.

But developing countries can only go so far if they face restrictions in the markets where they have the greatest export potential. It is here that industrial countries could make a significant contribution—which would be a good investment in their own future—by liberalizing import restrictions on a bound and permanent basis. They should also resist the temptation to replace tariffs and nontariff barriers with administered protection measures, such as antidumping. An assurance of broad-based, nondiscriminatory access to individual country markets would be a shot in the arm for confidence in the developing countries and could play a key role in improving the climate for foreign direct investment in them.

- *Payments liberalization.* Historically a primary focus of the IMF, payments liberalization goes hand in

hand with trade liberalization. The Bretton Woods agreement gave the IMF the mandate to help eliminate “foreign exchange restrictions that hamper the growth of world trade.” It has taken more than 50 years, but we are well on our way to finishing the job.

- *Capital account liberalization.* As countries liberalize their current accounts, the trend toward capital account liberalization is irreversible. But are the customary arguments in favor of the freedom of capital movements still valid in light of the Asian crisis? The problem in Asia was not that countries went too far or too quickly with opening their capital accounts. Rather, the problem stemmed from a poorly sequenced approach and a lack of prudential regulations and oversight. For this reason, the IMF does not support a mad rush to full capital account liberalization, regardless of the risks. What we do support is the liberalization of capital flows in a prudent and properly sequenced way that will maximize the benefits and minimize the risks.

Strengthening Sustainable Development

A particular issue of concern is how the international community can help Africa—and low-income countries in general—avoid marginalization and accelerate high-quality growth. Let me just mention four things that the IMF is doing:

- We are taking steps to put the Enhanced Structural Adjustment Facility (ESAF)—our concessional lending window—on a self-sustained footing so that we can continue to support reform efforts in low-income countries over the long term.

For many years, I have advocated “high-quality growth.” Indeed, the policy emphasis of IMF-supported programs includes protecting or increasing public outlays for health care, education, and other basic social services. In our most recent study of 32 low-income countries implementing IMF-supported adjustment programs during 1985–96, real per capita spending on health and education increased on average by 2.8 percent annually during the program periods.

- We have been moving swiftly to implement our joint HIPC Initiative with the World Bank for the heavily indebted poor countries. Just in the 18 months since its launching, commitments of about \$6 billion have been made to six countries; and work with a number of other countries is in the pipeline. The initiative provides a major opportunity for debtor countries, and they must seize this opportunity to expeditiously reach a sustainable external debt position.

But debt is only one of the impediments to sustainable development. The countries that wish to solve this problem in the absence of an appropriate policy framework cannot hope to achieve much. That is precisely why we have stressed all along that debt relief under this Initiative be linked to programs that can act as a catalyst

for high-quality growth and help position countries to tap international capital markets as soon as possible.

• Over the years, the IMF has provided assistance to countries that have experienced political turmoil, civil unrest, or international armed conflict—and since 1995, we have had a special policy to provide emergency post-conflict assistance.

• The IMF stands ready to continue to provide—and intensify—training and technical assistance for capacity building and institutional reform in Africa and low-income countries elsewhere. It is our intention to extend the reach of our training by the establishment of an IMF regional institute in Africa, jointly with training partners in the region. ■

Stand-By, EFF, and ESAF Arrangements as of June 30

Member	Date of Arrangement	Expiration Date	Amount Approved	Undrawn Balance
			(million SDRs)	
Stand-By Arrangements			27,805.05	9,919.66
Bosnia & Herzegovina	May 29, 1998	May 28, 1999	60.60	36.36
Cape Verde	February 20, 1998	April 19, 1999	2.10	2.10
Djibouti	April 15, 1996	March 31, 1999	8.25	2.93
Egypt	October 11, 1996	September 30, 1998	271.40	271.40
Estonia	December 17, 1997	March 16, 1999	16.10	16.10
Indonesia	November 5, 1997	November 4, 2000	7,338.24	4,402.94
Korea ¹	December 4, 1997	December 3, 2000	15,500.00	2,900.00
Latvia	October 10, 1997	April 9, 1999	33.00	33.00
Philippines	April 1, 1998	March 31, 2000	1,020.79	1,020.79
Thailand	August 20, 1997	June 19, 2000	2,900.00	800.00
Ukraine	August 25, 1997	August 24, 1998	398.92	217.59
Uruguay	June 20, 1997	March 19, 1999	125.00	125.00
Zimbabwe	June 1, 1998	June 30, 1999	130.65	91.45
EFF Arrangements			11,166.42	6,224.16
Argentina	February 4, 1998	February 3, 2001	2,080.00	2,080.00
Azerbaijan	December 20, 1996	December 19, 1999	58.50	26.33
Croatia, Republic of	March 12, 1997	March 11, 2000	353.16	324.38
Gabon	November 8, 1995	November 7, 1998	110.30	49.63
Jordan	February 9, 1996	February 8, 1999	238.04	35.52
Kazakhstan	July 17, 1996	July 16, 1999	309.40	309.40
Moldova	May 20, 1996	May 19, 1999	135.00	97.50
Pakistan	October 20, 1997	October 19, 2000	454.92	398.06
Panama	December 10, 1997	December 9, 2000	120.00	102.00
Peru	July 1, 1996	March 31, 1999	300.20	139.70
Russian Federation	March 26, 1996	March 25, 1999	6,901.00	2,564.74
Yemen	October 29, 1997	October 28, 2000	105.90	96.90
ESAF Arrangements			4,531.03	2,376.65
Albania	May 13, 1998	May 12, 2001	35.30	29.42
Armenia	February 14, 1996	February 13, 1999	101.25	33.75
Azerbaijan	December 20, 1996	December 19, 1999	93.60	38.02
Benin	August 28, 1996	August 27, 1999	27.18	18.12
Bolivia	December 19, 1994	September 9, 1998	100.96	0.00
Burkina Faso	June 14, 1996	June 13, 1999	39.78	13.26
Cameroon	August 20, 1997	August 19, 2000	162.12	108.08
Chad	September 1, 1995	August 31, 1998	49.56	8.26
Congo, Republic of	June 28, 1996	June 27, 1999	69.48	55.58
Côte d'Ivoire	March 17, 1998	March 16, 2001	285.84	202.47
Ethiopia	October 11, 1996	October 10, 1999	88.47	73.73
The Gambia	June 29, 1998	June 29, 1999	20.61	20.61
Georgia	February 28, 1996	February 27, 1999	166.50	55.50
Ghana	June 30, 1995	June 29, 1999	164.40	68.50
Guinea	January 13, 1997	January 12, 2000	70.80	35.40
Guinea-Bissau	January 18, 1995	July 24, 1998	10.50	0.00
Haiti	October 18, 1996	October 17, 1999	91.05	75.88
Kenya	April 26, 1996	April 25, 1999	149.55	124.63
Kyrgyz Republic	June 26, 1998	June 25, 2001	64.50	64.50
Macedonia, FYR	April 11, 1997	April 10, 2000	54.56	27.28
Madagascar	November 27, 1996	November 26, 1999	81.36	54.24
Malawi	October 18, 1995	October 17, 1998	45.81	15.27
Mali	April 10, 1996	April 9, 1999	62.01	20.67
Mauritania	January 25, 1995	July 13, 1998	42.75	0.00
Mongolia	July 30, 1997	July 29, 2000	33.39	27.83
Mozambique	June 21, 1996	June 20, 1999	75.60	25.20
Nicaragua	March 18, 1998	March 17, 2001	100.91	84.09
Niger	June 12, 1996	June 11, 1999	57.96	19.32
Pakistan	October 20, 1997	October 19, 2000	682.38	454.92
Rwanda	June 24, 1998	June 23, 2001	71.40	59.50
Senegal	April 20, 1998	April 19, 2001	107.01	89.18
Tajikistan	June 24, 1998	June 23, 2001	96.00	78.00
Tanzania	November 8, 1996	November 7, 1999	161.59	74.47
Uganda	November 10, 1997	November 9, 2000	100.43	60.26
Yemen	October 29, 1997	October 28, 2000	264.75	220.75
Zambia	December 6, 1995	December 5, 1998	701.68	40.00
Total			43,502.50	18,520.47

¹Includes amounts under Supplemental Reserve Facility.
 EFF = Extended Fund Facility
 ESAF = Enhanced Structural Adjustment Facility
 Figures may not add to totals owing to rounding.
 Data: IMF Treasurer's Department

The Extended Fund Facility provides assistance for adjustment programs over larger amounts of financing than under Stand-By Arrangements.

Following is an excerpt of a recent IMF press release. The full text of the press release is available on the IMF's web site (<http://www.imf.org/external>) or on request from the IMF's Public Affairs Division (fax: (202) 623-2678).

The Gambia: ESAF

The IMF approved a three-year loan for The Gambia under the Enhanced Structural Adjustment Facility (ESAF), equivalent to SDR 20.6 million (about \$27 million) in sup-

porting grants) to 4 percent of GDP in 1998 and further to 2 percent by 2000.

Within this medium-term strategy, the program for April 1998–March 1999, supported by the first annual ESAF loan, projects a real GDP growth of 3.8 percent in 1998 and aims at limiting average annual inflation to 3 percent and reducing the external current account deficit (excluding official transfers) to 10.6 percent of GDP. Gross official reserves are expected to remain at a level equivalent to more than five months of imports. A rigorous fiscal policy will be the cornerstone of the government's policy to limit the overall budget deficit (excluding grants) to 4 percent of GDP from 7.8 percent in 1997. Tight monetary policy will continue in 1998, consistent with keeping the annual rate of inflation at about 3 percent.

Structural Reforms

To enhance The Gambia's medium-term growth prospects and rebuild private sector confidence, the government plans to modernize the legal environment for economic activity, including security of contracts; improve the quality of public services; and normalize financial relations between the government and the public enterprise sector. To increase the efficiency of financial markets and deepen financial intermediation, the government will implement actions to simplify the regulatory framework, improve the functioning of primary and secondary markets, and strengthen the soundness of the banking system.

Addressing Social Needs

The government strategy in the social and environmental sectors aims at developing human resources, alleviating poverty, and improving the management of natural resources.

The Gambia joined the IMF on September 21, 1967. Its quota is SDR 22.9 million (about \$30 million). The Gambia's outstanding use of IMF financing currently totals SDR 5.8 million (about \$7.7 million).

Press Release No. 98/28, June 29

The Gambia: Selected Economic Indicators

	1996/97 ¹	1997 ¹	1997 ²	1998 ³	1999 ³	2000 ³
	(percent change)					
GDP at constant prices	0.8	3.2	5.4	3.8	4.8	5.0
Consumer price index (period average)	2.1	3.0	2.8	3.0	3.0	3.0
	(percent of GDP)					
Overall fiscal balance (excluding grants)	-11.4	-6.0	-7.8	-4.0	-2.9	-1.9
Current account balance (excluding official grants)	-12.8	-11.6	-11.6	-10.6	-10.2	-9.9
	(months of imports)					
Gross foreign official reserves	5.5	5.0	5.3	5.6	6.0	6.2

¹Projection.

²Estimate/preliminary.

³Program.

Data: The Gambian authorities and IMF staff estimates and projections

port of the government's economic program for 1998–2000. The first annual loan, equivalent to SDR 6.9 million (about \$9 million), is available in two equal semiannual installments, the first of which is available immediately.

Medium-Term Strategy and Program for 1998–2000

The proposed ESAF-supported program will provide the authorities with a framework for reestablishing macroeconomic stability, resuming structural reforms, and rebuilding confidence that will enable the country to achieve durable economic growth and a lasting reduction in poverty. The authorities' medium-term program for 1998–2000 aims at consolidating government finances by further reducing the budget deficit; improving the structure of revenue and expenditure, including a significant reduction of import tariffs; implementing structural reforms to encourage private sector development and economic diversification; strengthening the institutional and administrative infrastructure to improve governance; and implementing a comprehensive social agenda focused on education and health.

The basic economic objectives for 1998–2000 are to achieve real GDP growth of 4.5–5 percent a year, keep annual inflation around 3 percent, reduce the external current account deficit (excluding official transfers) to less than 10 percent of GDP by 2000, and keep gross official reserves above the equivalent to five months of imports. The fiscal program aims at reducing the overall budget deficit (exclud-

Members' Use of IMF Credit (million SDRs)

	Jun. 1998	Jan.–Jun. 1998	Jan.–Jun. 1997
General Resources Account	1,149.62	7,223.54	2,008.19
Stand-By Arrangements	629.79	5,666.68	494.88
Of which: Supplemental Reserve Facility	465.00	4,400.00	0.00
EFF Arrangements	519.83	1,556.86	1,405.71
CCFF	0.00	0.00	107.60
SAF and ESAF Arrangements	38.99	460.70	261.17
Total	1,188.61	7,684.24	2,269.36

Note: EFF = Extended Fund Facility

CCFF = Compensatory and Contingency Financing Facility

SAF = Structural Adjustment Facility

ESAF = Enhanced Structural Adjustment Facility

Figures may not add to totals shown owing to rounding.

Data: IMF Treasurer's Department

Appropriate Price Incentive Is Key to Boosting Ghana's Cocoa Production

Cocoa—historically the key sector in the Ghanaian economy—experienced a long, drastic decline in officially recorded production between the early 1960s and the late 1980s. What happened, and why, has long intrigued analysts.

Severe weather or unfavorable international prices (or more favorable prices for competing crops) often play important roles in constraining production or influencing farmers' decisions about which crops to plant. In Ghana, droughts and two cyclical downturns in international cocoa prices did indeed negatively affect cocoa production. But while cocoa production was falling markedly, and chronically, in Ghana, it was rising sharply in neighboring Côte d'Ivoire. The pointed contrast between the experience of two neighboring economies suggests that domestic factors in Ghana had a strong hand in shaping the output response. Comparatively high export taxes and decidedly disadvantageous exchange rate distortions appeared to create important disincentives.

In *The Price Incentive to Smuggle and the Cocoa Supply in Ghana, 1950–96*, Alès Bulíř of the IMF's African Department surveys the recent history of the country's cocoa production and examines the impact export taxes had on its principal cash crop. Drawing on empirical analysis, he concludes that the combination of high taxes and an unrealistic exchange rate discouraged cocoa production and encouraged smuggling. The study estimates that at least half of the officially recorded "decline" in Ghana's cocoa production was, in fact, a diversion of cocoa production to Côte d'Ivoire, where the crop commanded higher prices.

Macroeconomic policy changes brought about by Ghana's Economic Recovery Program in the mid-1980s helped to redress the severe exchange rate distortions and stem, and to some degree reverse, the decline in cocoa production. But the problem of smuggling and price disincentives persisted into the 1990s. Bulíř suggests that higher producer prices—that is, lower export tax rates—could boost Ghana's overall cocoa production and increase its tax revenues.

Cocoa Production

At its peak, in the late 1950s, Ghana produced between 400,000 and 450,000 metric tons of cocoa annually. At that point Ghana accounted for 35 percent of the world's cocoa, and cocoa, in turn, accounted for 50–60 percent of its total merchandise exports and a comparable percentage of its fiscal revenue. Beginning in the early 1960s, however, cocoa domestic producer prices began to decline, the relative prices of other crops rose, and severe droughts depressed production.

By the early 1980s, Ghana's annual cocoa production barely reached 200,000 metric tons. Cyclical developments in international cocoa prices fed the initial contraction of the Ghanaian cocoa sector in the late 1960s and early 1970s, but something other than natural or cyclical forces seemed to be at work as well. In the late 1960s and into the 1970s, the effective duty on cocoa had assumed punitive levels, and macroeconomic policies, designed to further import substitution, encouraged an overvalued exchange rate. Marketing inefficiencies—notably the performance of the Cocoa Marketing Board, which at one point had over 100,000 ghost workers on its rolls and whose administration absorbed almost 40 percent of total export revenues in some years—further cut into the crop's profitability.

But adverse external developments and a disadvantageous macroeconomic environment could not on their own, Bulíř argues, explain a 50 percent contraction in cocoa supply. Had past plantings been maintained, output would have declined only 3–4 percent annually, given the average productive life of cocoa trees. New plantings would have had to cease completely for two decades to produce a decline of this magnitude, and there was little evidence that this had happened. A more likely explanation, the study suggests, is that smuggling, particularly in border areas, increased dramatically.

Taxation of Cocoa

For Ghana, export taxes on cocoa proved a double-edged sword. They offered an administratively simple means of gathering significant, and sorely needed, revenue. But export taxes customarily do—and in Ghana certainly did—affect the marginal rate of return. Recent research indicates that one to two million rural workers migrated from Ghana in the 1970s; farmers made substantial shifts from cocoa to other food crops; and severe exchange rate distortions provided significant incentives for smuggling.

Ghana traditionally taxed cocoa by having its Cocoa Marketing Board prepay farmers a government-set price in domestic currency for their crop. The Board then marketed the crop externally, retaining an agreed portion of the export earnings. The practice to some extent shielded domestic producers from short-term international fluctuations in cocoa prices, but left the farmers vulnerable to other effects that distorted incentives.

The assumptions used to calculate producer prices were often unrealistic, and the official exchange rate—used for these calculations—bore little relation to the



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black market rate. In 1983, for example, the Ghanaian cedi was trading at thirty times the official rate in the black market. Subsequent macroeconomic reforms addressed the exchange rate distortion, thus easing this implicit tax on cocoa.

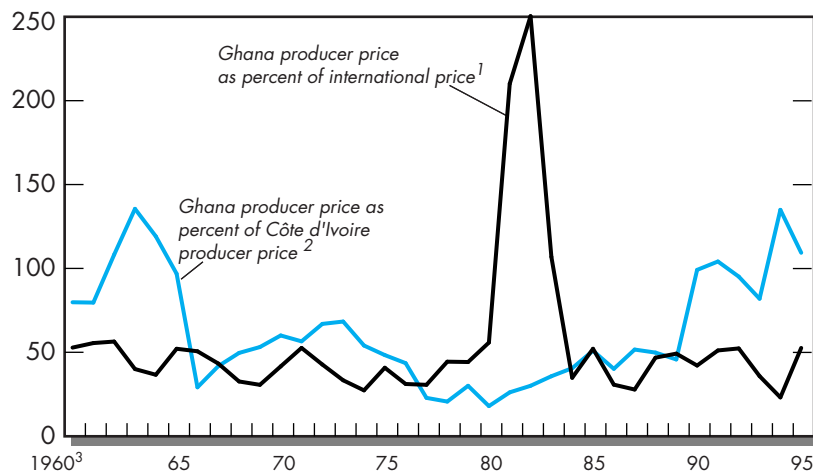
But macroeconomic projections used to set producer prices continued to deviate markedly from actual experience, customarily favoring the government. The farmers' share in real terms was eroded by faster-than-expected depreciation of the cedi and higher-than-expected inflation. Although farmers were subsequently compensated for these deviations, the compensation rarely matched actual losses. Ghana's producer price, at 40–50 percent of international cocoa prices in the 1970s and 1980s, lagged sharply behind Brazil and Malaysia—and more specifically behind Cameroon and Côte d'Ivoire with whom they were directly competitive—where producer prices averaged 60–90 percent of international prices over the same period.

What Happened to Ghana's Cocoa Supply?

The dramatic, and mysterious, decline in Ghana's cocoa supply has led it to become, Bulir notes, "one of the most modeled commodities in the developing world." Efforts to explain the sharp fall in cocoa output have examined the stock of cocoa trees and fertilization efforts as well as the relationship between overall capacity and producer prices for cocoa and competing food crops. But Bulir believes the most complete explanations also weigh the price incentive to smuggle. With cocoa a cash crop and Ghana's border with Côte d'Ivoire and Togo virtually unguarded, price developments in Côte d'Ivoire offered strong incentives to smuggle. Virtually all new cocoa plantings in Ghana in the 1970s and 1980s, other researchers found, occurred in areas adjacent to Côte d'Ivoire and Togo. "The supply of cocoa is ultimately a function of relative producer prices," Bulir notes, though weather may also influence short-term production capacity and output movements.

The study measures the real international price, which reflects secular and cyclical price developments and signals the expected return on cocoa production; real producer prices, which gauge the rate of return on cocoa relative to other crops; and the ratio of Ghanaian to Ivoirien producer prices (the smuggling incentive), which contrasts the rate of return on domestically sold cocoa with that smuggled to Côte d'Ivoire.

Ghana: Cocoa Price Developments



¹Converted at the official exchange rate; in constant 1963 cedis.

²Converted at the black market exchange rate.

³Crop years, October–September.

Data: Ghana, Cocoa Marketing Board, and author's estimates

Bulir's model finds that international prices and the price incentive to smuggle can explain more of the short- and medium-term fluctuations than any other variable. Smuggling might have reduced the officially recorded supply of cocoa by 40,000–60,000 metric tons annually—about one-half of the observed decline in output in the 1970s. The findings also indicate that further declines in the real domestic producer price motivate increased smuggling.

The policy implications of these findings suggest that lower producer prices—that is, higher export tax rates—only temporarily boost government revenue. Relatively quickly—by the second year—farmers adapt and the amount of cocoa sold to the Cocoa Marketing Board drops, effectively nullifying the revenue gain. By contrast, higher producer prices do undercut the smuggling incentive. The study estimates that if Ghanaian producer prices stabilize during 1996–2000 at 55 percent of the 1996 international price (compared with 50 percent of the 1995–96 international price) and if the Ghana–Côte d'Ivoire price gap is completely closed, the supply of cocoa should rise to 440,000 metric tons in 2000 from 320,000 metric tons in 1995. But higher producer prices are not an unalloyed good, Bulir cautions. Raising the farmers' share further—say, to 65 percent—would increase the annual supply of cocoa modestly (by 20,000 metric tons), but at the significant cost to government revenue (a reduction of 30 percent). ■

Copies of IMF Working Paper 99/88, *The Price Incentive to Smuggle and the Cocoa Supply in Ghana, 1950–96*, by Aleš Bulir, are available for \$7.00 from IMF Publication Services. See page 230 for ordering information.