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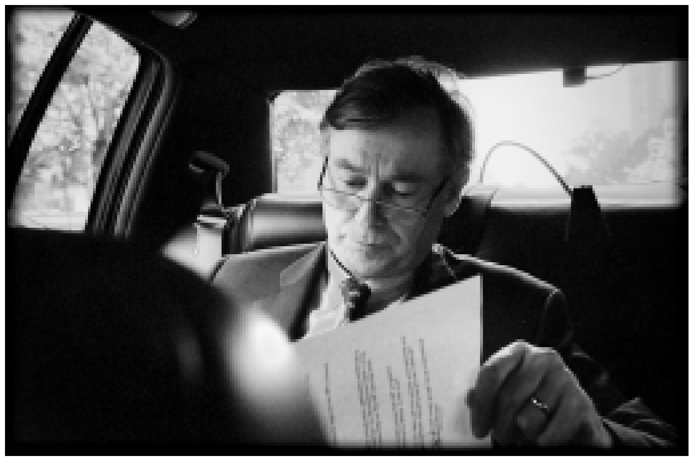
National Press Club address

Köhler says that IMF must adapt and reform to meet needs of evolving global environment

The IMF must adapt and reform to meet the demands of an evolving world economy, IMF Managing Director Horst Köhler told a Washington audience on August 7. Speaking at the National Press Club, Köhler said that "calls for a reform of the IMF are justified" for two reasons.

The first, he said, is that "the environment in which the IMF operates has changed dramatically. . . . Private capital flows are now a major source for promoting growth and productivity, but they can also be a source of abrupt volatility and crisis. To contain the latter and to promote the former is the issue at stake."



IMF Managing Director Horst Köhler on his way to speak at the National Press Club in Washington, D.C.

Second is the fact that "we need to draw lessons from experience," the Managing Director observed. "The IMF has made mistakes. In particular, the IMF was not attentive enough to the changes in global financial markets and their repercussions on exchange rate systems and domestic financial sectors." The IMF also underestimated the importance of institution (Please turn to the following page)

Interview with Sundararajan

Outreach efforts on standards and codes stress consultation and inclusiveness

V. Sundararajan

In its work on developing and disseminating standards, codes, and guidelines and conducting financial sector assessments, the IMF's Monetary and Exchange Affairs Department (MAE) is stepping up its outreach efforts. Here, V. Sundararajan, MAE's Deputy Director, discusses why outreach efforts hold the key to effective implementation of standards and codes.

IMF Survey: MAE has stepped up its outreach efforts. Can you give us an overview of these activities?

Sundararajan: MAE is involved in two types of new activities: first, developing and disseminating standards, codes of good practices, and guidelines and the related assessment methodologies—often in cooperation with other standard-setting bodies—and outreach efforts that feed into and disseminate the results of its development and assessment work on standards and codes. Second, MAE has been very active in implementing the Financial Sector Assessment Program, working closely with the World Bank and in cooperation with many central banks, national regulatory agencies, and standard-setting bodies. This work helps member countries identify risks and vulnerabilities, evaluate the observance of standards and their effectiveness in addressing the risks, and assess overall financial system stability and development needs. This work also requires outreach, particularly to build consensus on methodologies for assessment and analysis.

As background, I should mention that standards, codes, and guidelines are often (Continued on page 264)

In this issue

Köhler says globalization should work for all

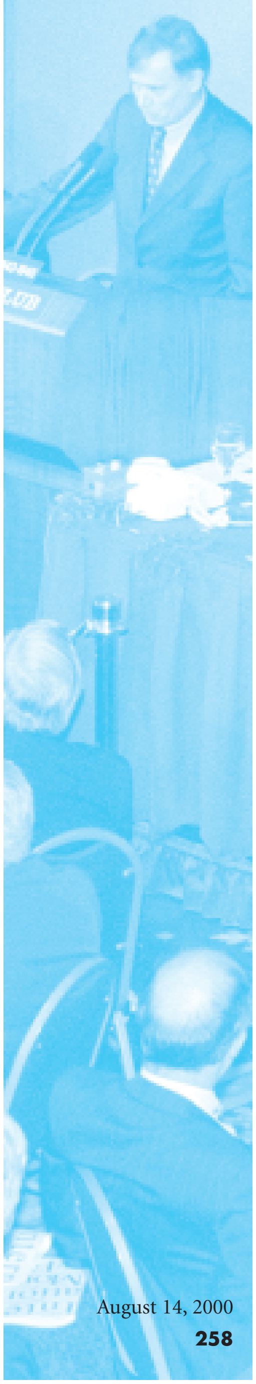
(Continued from front page) building, which needs both time and the ownership of the affected societies.

Saying that "the issue is to make globalization work for the benefit of all," the Managing Director explained that he sees "the IMF as a part of the workforce to secure shared prosperity in the world." To promote macroeconomic stability and growth, he said, the IMF needs to refocus on fostering sound monetary, fiscal, and exchange rate policies in its member countries and to concentrate particularly on the financial markets, both domestic and international.

A key lesson from the recent economic crises is to concentrate more than ever on crisis prevention, Köhler said—by identifying problems early through greater transparency and preventing them by promoting standards and codes for sound monetary and fiscal policy. To develop the dialogue with the private sector, he announced that he would set up a Capital Markets Consultative Group in the IMF, which would have its first meeting in September before the Annual Meetings.

An edited version of Köhler's remarks follows. ■

I felt it important to hear at first hand about the concerns and aspirations of the membership of the IMF.
—Köhler



Text of Managing Director's Press Club speech

The full text is available on the IMF's website: www.imf.org.

The outlook for the world economy is the best we have seen in over a decade. The IMF staff expects the global economy this year as a whole to grow by about 4¾ percent. But there should be no complacency. Many difficult problems remain to be solved. Ten years after the end of the Cold War, I see more opportunities than ever to make life better in this world.

IMF reform

I believe that the calls for a reform of the IMF are justified. Why must the IMF change?

First, because the environment in which it operates has changed dramatically. International financial markets have seen unprecedented growth in volume and sophistication, especially during the past decade. Private capital flows are now a major source for promoting growth and productivity, but they can also be a source of abrupt volatility and crisis. To contain the latter and to promote the former is the issue at stake.

Second, of course, we need to draw lessons from experience. The IMF has made mistakes. In particular, the IMF was not attentive enough to the changes in global financial markets and their repercussions on exchange rate systems and domestic financial sectors. And the IMF has—like everyone—underestimated the importance of institution building, which needs time and requires, crucially, ownership by the societies affected.

With this in mind, I felt it important to hear firsthand about the concerns and aspirations of the membership of the IMF. During the last three months, I have visited 15 developing and emerging market countries in Latin America, Asia, and Africa. Let me share a few of the impressions and views that I formed during my travels.

- The market economy and democracy are clearly in advance throughout the world. A fair judgment of the IMF should acknowledge that the institution has contributed to this fundamental trend in the world. And there is continued commitment to stay the course of reform and structural change.
- Overall, there is a broad recognition that there are serious homemade problems, including disregard for the rule of law, corruption, and armed conflicts, and that the main responsibility for tackling these problems lies with the countries themselves.
- Despite a lot of critical questions about the IMF, on the whole, there was no doubt that the emerging market and developing countries value the advice and support of the IMF and that they strongly wish to continue using it.
- Developing countries want the IMF to focus on its traditional functions and areas of responsibility—that is, to promote macroeconomic stability and growth. They endorse the view that stability fosters growth, and that growth is indispensable to reduce poverty. They would like to see an effective cooperation between the two Bretton Woods institutions, but also a division of labor, with the World Bank taking the lead in the direct fight against poverty.

Undeniably, globalization has provided enormous opportunities for growth, investment, and transfer of know-how and technology. It has brought about unprecedented economic expansion and welfare gains in the global economy. But the extreme income inequalities between nations are threatening to become a major source of political instability in the world. That about half of the population of this world has to get by on less than two dollars a day must be taken by no one as an acceptable state of affairs.

Turning back the clock will not solve this problem. The issue is to make globalization work for the benefit of all. There will not be a good future for the rich if there is no prospect of a better future for the poor. This will not happen by itself. We need to work for it.

I see the IMF as a part of the workforce to secure shared prosperity in the world. Indeed, the founders of the IMF 55 years ago recognized that there is an international common good. They called upon the IMF, not least to contribute to "the promotion and maintenance of high levels of employment and real income and to the development of the productive resources of all members." This, together with the objective of fostering international financial stability, makes the mandate of the IMF reach beyond the mere sum of national interests. And in this context, the now nearly universal membership of the IMF—182 member countries—and its cooperative nature are invaluable assets.

At the Annual Meetings in Prague, I will outline my vision for the future role of the IMF. I understand this vision as a platform for the development of a new operational concept for the future role of the IMF. I consider it very important that the discussion about the reform of the IMF be conducted within the IMF itself. Outside contributions are valuable and welcome. In the end, however, it is crucial that the members of the IMF know what they want and decide how they wish to give the mandate and the operations of the IMF a new shape.

Finding a focus for reform

If any institution—private or public—loses sight of its core purpose, it risks losing efficiency and, in the case of public institutions, ultimately its legitimacy as well. I do think that the IMF has been overstretched in the past and needs to refocus. And the focus must clearly be to promote macroeconomic stability and growth by fostering sound monetary, fiscal, and exchange rate policies in its member countries. In addition, according to the Articles of Agreement, the IMF is to "oversee the international monetary system in order to ensure its effective operation." Here, in particular, the mandate of the IMF is more relevant than ever. It obliges the IMF to concentrate its attention particularly on the financial markets, both domestic and international.

To implement this focus, the IMF has to exercise two major roles:

• crisis prevention through its surveillance and advice; and

• crisis management, including its catalytic lending.

Crisis prevention. An essential ingredient for preventing crises is that the IMF must be candid in its advice to member countries. My ambition for the IMF is not to have more and more programs for more and more countries. Instead, the objective should be to identify problems early through better data transparency and to prevent problems through the promotion of internationally agreed standards and codes for sound monetary and fiscal policy.

The IMF's surveillance must, in particular, pay much closer attention to the financial sectors in member countries to identify vulnerabilities and provide advice on improving their soundness. Its oversight function for the international financial system

Köhler: The IMF must be candid in its advice to member countries.

should place the IMF quite naturally at the center of the discussion on strengthening the global financial architecture. This does not mean that I see the IMF as a kind of regulatory superpower. But it should have a coordinating role among the various forums and agencies, such as the central banks, the Financial Stability Forum, and the supervisory authorities.

I also consider a regular direct exchange of information and dialogue between the IMF and the private financial sector as an important element of crisis prevention. Therefore, I have decided to establish a Capital Markets Consultative Group in the IMF. We will have our first meeting in September before the Annual Meetings in Prague.

Crisis management. Taking stock today, the international financial system is more stable, thanks to lessons learned and various measures to increase transparency. But there is no guarantee that new crises will not occur again. We must live, to some extent, with the risk of crises as part of an open and innovative economy. And therefore, clearly, there is a need for an official international agency to be able to mount a credible crisis response. But creditors and borrowers must know that the IMF's resources are and should remain limited. So there can be no doubt that they must assume responsibility for the risks they take and that taxpayers' money will not be easily available to protect them against the consequences of misjudgment. Therefore, it is only logical that the private sector has to be involved in the orderly and timely resolution of crises. In defining a

Every day that passes unused is a lost day in the fight against poverty.
—Köhler

framework for this, my objective is not to work against the private sector but for a constructive engagement with them.

IMF conditionality

The efficiency of the IMF also depends on the principle that the use of IMF resources is temporary and that it is granted on the basis that borrowers undertake the necessary and timely adjustments to correct their financial problems. This means that conditionality is indispensable for IMF lending. IMF facilities should be designed to discourage countries from getting used to IMF loans. Such a review is currently under way in the IMF Board. I am confident that we will come to a reasonable conclusion on this, because all members of the IMF are interested in preserving the revolving character of the IMF's resources.

Adjustment and reform programs are more likely to be successful on a lasting basis the more that countries identify themselves with these programs. To promote such ownership, the IMF should limit its structural conditionality to priorities in content and timing of reform programs. And it should concentrate on working with authorities and civil society on how best to implement these priorities. This also means that the IMF has to prioritize its technical assistance. Less can be more if it helps to break the ground for a sustained process of adjustment and reform. And we also have to have respect for the sovereignty of countries to define their own adjustment and reform paths. On the other hand, the IMF should, in its candid advice, make clear to members the possible costs of alternatives.

IMF transparency

In recent years, the IMF has clearly become more open. Letters of intent are routinely published. Many countries have agreed to publish their annual consultation reports. Our website has several million visitors a month. I see it as only natural that an institution that preaches transparency is transparent itself. But we have to strike a balance between openness and the members' desire for candid and confidential advice.

The IMF must explain itself better, what it is, and what it does—particularly in program countries. We have learned that our effectiveness is greatest when there is broader understanding of, and support for, our work. The IMF is, of course, ultimately accountable to its member governments. But gaining support for country programs requires a broader understanding of our work, including by parliaments and civil society. Therefore, the IMF should expand its dialogue with the public and reach out, not least, at the regional and local levels.

IMF and poverty reduction

The discussion about the role of the IMF in the poor countries is important. My conclusion is that the IMF should clearly stay engaged. Disengagement would deepen the division of the world, not least because of its political and psychological repercussions. It would run counter to the ambitions of the people in the poor countries and neglect their talents and potential. A real breakthrough in combating poverty can be achieved only if these countries build up the fundamentals for growth and gain access to the investment capital of the international markets. To achieve this will inevitably be an arduous and often lengthy process. But I do not see a sensible alternative. Every day that passes unused is a lost day in the fight against poverty. This is where I see the main justification for the IMF also to stay engaged, through the Poverty Reduction and Growth Facility (PRGF), in the poorest countries.

This concessional facility takes a new approach toward focused poverty reduction, help for self-help, and ownership. It helps break the ground for a new culture of good governance, sound macroeconomic management, and institution building. But here, too, the IMF must concentrate on its core competencies and rely on the World Bank to promote the necessary structural changes.

The PRGF is also an important vehicle to help make the initiative for enhanced debt relief for the heavily indebted poor countries successful. Debt relief is an important element for a comprehensive strategy to fight poverty. We have to recognize that there are countries that do not have the capacity to repay and need forthcoming debt reduction. But there are others for which debt reduction would give the wrong signal, because, in principle, they have the potential to repay if they conduct better policies. But there should be no confusion in one respect: debt relief will contribute to lasting improvements only if combined with better policies and better governance.

And we must not lose sight of the need to build and preserve an ethic of credit. "Credit" stems from the ancient Latin word *credere*. This means trust. And trust in creditor/debtor relations is indispensable for the long-term stability of financial systems.

I stick to the notion that, in the end, trade is better than aid. Estimates of the potential welfare gains for developing countries from a 50 percent worldwide reduction in barriers to trade generally fall in the range of $110 billion to $140 billion a year. If the willingness of the developing countries to help themselves were to be combined with bold debt relief *and* a bold initiative of the industrial countries to open their markets, the objective of the United Nations to halve the number of people in poverty by 2015 could become reality. ■

Managing Director responds to questions from press

Following are edited excerpts of the questions and answers that followed Köhler's National Press Club address. The full text is available on the IMF's website (www.imf.org).

QUESTION: As you look toward reform and restructuring, are there changes in the division of labor between the IMF and the World Bank that might be in order?

KÖHLER: First, it's important that these two institutions work closely together. They should also have a basic understanding of how best to serve the needs of their countries and define a common ground to judge trade and debt issues. No institution knows everything, so there is a good opportunity for a division of labor. The World Bank should concentrate directly on poverty reduction and take the lead there and in structural reforms. This should fit with the IMF's macroeconomic approach and with the new focus of the IMF to do more so that global financial markets become more stable and, after some time, also get more interested and engaged in poor and emerging market countries.

QUESTION: What kind of program should Russia have, and how large are its needs currently?

KÖHLER: My judgment is that this is a great country, so don't humiliate it, but don't be euphoric. The mistakes we made were mostly because we had been too euphoric, relying on rhetoric about reform programs. We need to see more implementation of good ideas. We have a good start with President Vladimir Putin. But my recommendation is to look carefully at what is implemented.

QUESTION: Currently, the Group of Seven is pushing the IMF to charge higher interest rates for long-term borrowers. Is this necessary?

KÖHLER: Well, I would have preferred that the Group of Seven present its ideas within the normal working process of the IMF. The direction of the Group of Seven proposal—that is, making the pricing more discouraging for borrowers—is right and should be considered carefully. But it's a problem now because a big group of countries within the IMF feels itself lectured by the presentation of these ideas.

QUESTION: Some people have already judged the debt forgiveness initiative a failure. What kind of a grade would you give it at this point?

KÖHLER: First, debt relief is an important element. The promises that have been made, not least at the Cologne summit of the Group of Seven, and now reconfirmed at the Okinawa summit, should be delivered. The IMF and the World Bank are expediting this process, but just to write off debts is not the right way. If debt relief were to go into the pockets of corrupt people and politicians, then what's the purpose? There has to be a link between debt relief, debt cancellation, and good policies. Without that link, debt relief cannot have a sustained effect.

Debt relief is an important element, but it should be combined with improved policies. We should not be overly bureaucratic. We should not ask the impossible from the debtor countries in terms of statistics. But we should want to see some response in terms of better policies. Also, clearly, armed conflicts in the debtor countries are detrimental to all that is good. So the countries themselves have to work for debt relief.

QUESTION: A current buzzword in international finance is "burden sharing." How should bondholders share in the pain when the IMF gets involved?

KÖHLER: We should not create an artificial contradiction between the public sector and taxpayers' money and the bad private sector and private profits. Private sector people know that they have to be part of the process. It's now a question of how to organize the process for a timely and orderly resolution of crises. This is not so easy. An overly structured approach to this might not be the best way. But it's also clear that bondholders are part of this process of crisis resolution. I favor, for instance, collective action clauses.

QUESTION: What are your impressions of Africa?

KÖHLER: I visited Nigeria, Cameroon, Senegal, Mozambique, Botswana, and South Africa, and came back from this particular visit very encouraged. I was, of course, deeply disturbed, even depressed, about the magnitude of poverty, but I was even more impressed

Selected IMF rates

Week beginning	SDR interest rate	Rate of remuneration	Rate of charge
July 31	4.60	4.60	5.33
August 7	4.62	4.62	5.35

The SDR interest rate and the rate of remuneration are equal to a weighted average of interest rates on specified short-term domestic obligations in the money markets of the five countries whose currencies constitute the SDR valuation basket (as of May 1, 1999, the U.S. dollar was weighted 41.3 percent; euro (Germany), 19 percent; euro (France), 10.3 percent; Japanese yen, 17 percent; and U.K. pound, 12.4 percent). The rate of remuneration is the rate of return on members' remunerated reserve tranche positions. The rate of charge, a proportion (115.9 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

that I found people, leaders, but more important, civil society who said that African countries have to help themselves. There is a commitment; they know that they have to concentrate on their own responsibility. The leaders of the Western world should reflect a bit more on how they can define an approach to Africa that goes a bit beyond what we have seen up to now. If we combined debt relief, market opening, and a very targeted approach to regions or countries clearly committed to going in the right direction and accepting conditionality, this would be a new start and a successful one.

Question: Political and institutional instability seem to make growth impossible in some countries. Is there truly any hope?

Köhler: We are living in one world, and I don't think we can afford to forget or drop certain countries, despite all the difficulties. But we have to be very targeted. We have to try. There is no quick fix, but my advice is don't drop countries, don't drop people.

Questioner: What is your reaction to the disturbances at the IMF and World Bank meetings?

Köhler: I cannot ignore that young people are critical of the IMF. Civil society has serious questions, and I take these seriously. But we should also be firm. We have a membership—governments—that is accountable. We cannot have responsibility "transferred" from these institutions to nongovernmental organizations. We should have a dialogue, we should listen, and we should try to take these comments into account to improve the IMF, the World Bank, and global policy for the people. ■

Available on the web (www.imf.org)

Press Releases

00/45: IMF Approves in Principle $198 Million PRGF Loan for Kenya, July 28

00/46: IMF Lifts Suspension of Sudan's Voting and Related Rights, August 1

00/47: IMF Approves Stand-By Credit for Nigeria, August 4 (see page 263)

News Briefs

00/63: IMF Completes First Review of Zambia Under PRGF-Supported Program and Approves $13.2 Million Disbursement, July 27

00/64: IMF Completes First Review of Rwanda Under PRGF-Supported Program and Approves $12.5 Million Disbursement, July 31

00/65: IMF Completes Philippines Review, Approves $314 Million Disbursement, August 1

00/66: IMF Completes First Review of Tanzania Under PRGF-Supported Program and Approves $26.3 Million Disbursement, August 1

00/67: IMF Managing Director Köhler Issues Statement on Brazil, August 2

00/68: IMF Approval of Kenya PRGF Credit Takes Effect, August 7

00/69: IMF Begins Publishing Quarterly Reports on Emerging Markets, August 9 (see page 272)

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00/53: Slovak Republic, July 28

00/54: Algeria, August 4

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00/56: Chile, August 9

00/57: Burkina Faso, August 8

00/58: Austria, August 8

00/59: IMF Executive Board Reviews Data Provision for Surveillance, August 7

Press Briefings

Thomas Dawson, Director, External Relations Department, and Masood Ahmed, Deputy Director, Policy Development and Review Department, July 26

Speeches

"Managing the International Monetary System," remarks by IMF First Deputy Managing Director Stanley Fischer, July 26

"The IMF in a Changing World," remarks by IMF Managing Director Horst Köhler, August 7 (see page 258)

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

Kenya, July 28

Jamaica, July 31

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Poverty reduction strategy papers (date posted)

Burkina Faso, July 28

Honduras (interim), July 31

Kenya (interim), August 3

Senegal (interim), August 3

Reports on the Observance of Standards and Codes (date posted)

Czech Republic, July 26

Concluding Remarks for Article IV Consultations (date posted)

Spain, July 27

Other

Offshore Financial Centers: Role of the IMF, July 26

Updated Factsheets on Technical Assistance, How We Lend, IMF Surveillance, and The IMF at a Glance, August 3

Supporting Document to the *Code of Good Practices on Transparency in Monetary and Financial Policies*, August 3

Schedule of Public Engagements of IMF Management, August 4

IMF Financial Activities, August 4

$1 billion approved

IMF approves Stand-By credit for Nigeria in support of economic program

On August 4, the IMF announced that the Executive Board had approved a 12-month Stand-By credit for Nigeria in an amount equivalent to SDR 788.9 (about $1.0 billion) to support the government's economic program for 2000–01. Edited excerpts of Press Release No. 00/47 follow. The full text is available on the IMF's website (www.imf.org).

The Nigerian authorities will treat the Stand-By credit as precautionary and do not intend to make any drawings at this time.

IMF Managing Director Horst Köhler commended the Nigerian authorities for the progress made toward restoring macroeconomic stability during their first year in office. "In the second half of 1999," Köhler said, "the federal government budget was brought to near balance from a deficit of 8 percent of GDP in the first five months of 1999. With the aid of higher oil prices, a sizable budget surplus was achieved in the first five months of 2000, inflation has remained well under control, and gross international reserves have recovered to $7.1 billion.

"The focus of macroeconomic policies in the program on the maintenance of stability, including low inflation and ensuring the prudent management of temporarily high oil revenues, is to be welcomed. It is crucial to avoid a repetition of the excessive and wasteful expansion of spending that characterized previous oil-price booms. At the same time, the program accommodates an increase in spending to address years of neglect of the social and physical infrastructure. Higher allocations for social spending need to be accompanied by an improvement in the effectiveness of this spending. The government's poverty reduction initiative is a welcome step toward strengthening transparency and accountability in the management of public resources and developing a poverty reduction strategy.

"An acceleration of the implementation of structural reforms is urgently needed to tackle serious deficiencies in the provision of power, telecommunications, and petroleum that are obstacles to growth. While privatization must be preceded by the establishment of regulatory structures and transparent and fair procedures for privatization, there should be no delays in this urgent task. Similarly, while progress has been made in tackling corruption, much remains to be done to establish good governance and the rule of law, particularly as regards the implementation of the new anticorruption law and the strengthening of the independent judiciary.

"In view of the challenges facing Nigeria, firm implementation of the program is needed to begin to lay the basis for sustainable growth. Sustained implementation of the program supported by the Stand-by Arrangement will require diligence and resolute efforts by the authorities to ensure that strengthened policy coordination is able to overcome evident weaknesses in institutional capacity that are a legacy of decades of economic mismanagement," Köhler said.

Macroeconomic policies

The program for 2000 calls for an increase in real GDP growth to 3.4 percent in 2000 from 1 percent in 1999; annual average inflation of 5.1 percent; an improvement in the external current account to a surplus of 0.2 percent of GDP in 2000 from a deficit of over 11 percent of GDP in 1999; and an accumulation of foreign exchange reserves of $2.6 billion to almost $7.8 billion, the equivalent of 5.6 months of imports of goods and services.

Nigeria: selected economic and financial indicators

	1996	1997	1998	1999 Estimate	2000 Program
	(annual percent changes)				
Real GDP (at 1990 factor costs)	4.3	2.7	1.8	1.0	3.4
Non-oil GDP deflator (period average)	28.6	8.4	10.2	6.6	5.1
	(percent of GDP)				
Overall government balance (commitment basis)	5.2	1.2	–14.0	–7.7	4.8
Current account balance	8.3	6.7	–9.8	–11.4	0.2
	(months of imports, cif)				
Gross international reserves	3.9	6.4	6.8	4.5	5.6

Data: Nigerian authorities and IMF staff estimates and projections

Fiscal policy will focus both on restraining overall expenditure to permit savings while oil prices are relatively high and on enhancing the quality of spending.

Structural reforms

The authorities are committed to remove acute infrastructure bottlenecks, especially in the power and telecommunications sectors, through the establishment of improved regulatory frameworks and privatization.

In addition, governance will be strengthened and economic security improved, so as to restore confidence and foster a more effective mobilization and use of Nigeria's abundant resources, as well as foreign direct investment. The centerpiece of the government's efforts to tackle corruption is the establishment of an anticorruption commission.

The program also supports the development of the government's poverty reduction strategy and, to meet pressing immediate needs, increased spending on social services.

Nigeria joined the IMF on March 30, 1961, and its quota is SDR 1.8 billion (about $2.3 billion). Nigeria has no outstanding use of IMF financing. ■

Outreach on standards and codes is expanding

(Continued from front page) used interchangeably to refer to a list of core principles and good practices. Assessment methodology refers to a set of more specific technical criteria and procedures used to compare a country's practices with the relevant codes of good practices.

MAE has been engaged in designing and disseminating good practices and guidelines in the areas of monetary and financial policy transparency and guidelines on public debt management and sound practices in reserves management. In addition, MAE, working with counterparts in the World Bank, contributes actively to developing assessment methodologies for the Basel Core Principles for Effective Banking Supervision, the International Organization of Securities Commissions' Objectives and Principles of Securities Regulation, the International Association of Insurance Supervisors' Insurance Supervisory Principles, and Core Principles of Systemically Important Payment Systems of the Bank for International Settlements' Committee on Payment and Settlement Systems. The IMF, in cooperation with the World Bank, also helps implement and assess these standards through its technical assistance and workshops and through the joint Bank–IMF Financial Sector Assessment Program. It also provides feedback to the IMF Executive Board and to standard-setting bodies to allow for continuous improvement of standards and guidelines.

V. Sundararajan sums up a discussion at the July 24 outreach meeting on sound practices in the management of foreign exchange reserves.

During the last two years, for example, MAE staff have spent a lot of time developing and disseminating the Code of Good Practices on Transparency in Monetary and Financial Policies through an elaborate outreach program. We sought to discuss the codes and country practices with the entire IMF membership through seven regional meetings. Based on this, we drafted a supporting document that provides guidelines and a rationale for how the code can be applied. Such work also provides valuable input into our Financial Sector Assessment Program and into the IMF's technical assistance and surveillance work.

Outreach, in effect, serves as a mechanism for broad consultation before policy papers are transmitted to the Executive Board. Traditionally, staff would write a policy paper and go to the Board for approval, with the Board discussion serving as the consultative mechanism with members. In contrast, on public debt management and reserves management, for example, we discussed the objectives and operational details initially with a sample of interested authorities, compiled and distilled these discussions into a set of good practices, and presented this to our Executive Board. Then, the consultation process is continued and broadened before the papers are resubmitted to the Board.

After the Board discussion of reserves management last May, for example, we organized a consultative outreach meeting on the subject. We invited 35 central bank experts to the IMF on July 24 and asked them what they thought of the proposed good practices. We wanted to find out whether the experts were reasonably comfortable with the staff formulation, whether the proposed good practices were applicable in all types of countries, and whether the relative emphases on issues were right. The discussion gave us a very good understanding of the practical implications of the proposals and a glimpse of the diversity of practices. One major conclusion was that we had to be very clear about the mix of objectives of reserves management before we began dealing with the related strategy and operational procedures. Technical objectives can differ from country to country. Most countries emphasize liquidity, but some tolerate a higher degree of risk to ensure an acceptable return. Accordingly, the procedures and the parameters of risk management may vary.

At the outreach meeting, we also discussed how to redraft the paper to improve its value to member governments in adopting good practices. We received very useful suggestions, including the recommendation that the paper on reserves management be more closely linked to the paper on public debt management guidelines. There was agreement that the objectives of reserves management needed to take into account developments in external liabilities and that the guidelines on reserves management should be drafted to bear a relationship—in terms of broad content and objectives—to the guidelines on debt management. Thus, this meeting played a very constructive role in providing concrete drafting suggestions and a wide range of ideas.

In October, we will be organizing, jointly with the World Bank, an outreach effort for the Financial Sector Assessment Program. It will include not only officials from countries that volunteered for the assessment but also representatives of institutions that provided the expertise and conducted the assessments as a form of "peer review." This outreach will provide feedback on the scope, methodologies, and procedures of the program and help improve the quality and consistency of assessments.

We have also lined up a series of outreach programs with offshore financial centers. We will discuss a template for assessing the adequacy of their regulatory frameworks from the perspective of systemic stability.

We are now working out a template for how to conduct these assessments. The outreach meetings will discuss this and examine whether it meets the centers' requirements, covers the key issues, and ensures consistent treatment of the offshore financial centers.

IMF SURVEY: Why is outreach more necessary now?

SUNDARARAJAN: Earlier, the structural and institutional aspects of monetary and financial systems and of macroeconomic stability were mainly covered under the IMF's technical assistance programs. There's been a growing realization, however, that globalization has also made these structural and institutional aspects crucial for the IMF's surveillance work and for program design. Globalization has also required a greater convergence of financial policy practices among members, which, in turn, makes the integration of countries in the global financial system much easier and the global system more stable.

Under these circumstances and given the technical nature of the structural and institutional aspects of financial stability and the underlying standards, codes, and assessment programs, it has become important to consult widely to facilitate effective discussions at the Executive Board. In these areas, our counterparts are not mainly ministries of finance and central banks, as in the past, but a much broader range of policy officials, regulators, bankers, and the private sector.

We need to reach out to all of these constituencies and develop a consensus before and after we go to our Executive Board for policy guidance. Following Board discussions, staff will still need to solicit additional feedback and actively disseminate the good practices and guidelines. Consultation is a particularly efficient way to gather feedback; improve the design of standards, codes, and guidelines; and ensure that the results are useful—and applicable—for a wide range of countries. This two-way exchange increases ownership and is a more efficient way to bring about policy consensus and convergence in due course.

By definition, standards, codes, and guidelines are good practices that are widely accepted and fairly robust and apply broadly to all countries; their adoption is voluntary. This characterization requires that there be broad-based consultation to ensure their wide acceptance. Given their voluntary nature, an outreach process becomes crucially important to disseminate good practices and build ownership and commitment to implementation.

IMF SURVEY: What lessons is the IMF learning?

SUNDARARAJAN: Outreach, as an instrument of strengthening consultation with member countries, is here to stay. We can think of this as an aspect of the IMF's transparency with its members and a way of letting them know what the IMF is doing to promote good practices. Also, the technical nature of these issues makes it essential that we reach out to a wide range of expert practitioners in member governments.

IMF SURVEY: What are the longer-term goals of the outreach program?

SUNDARARAJAN: A code of good practices and guidelines, once designed and developed, is not static. It will have to evolve on the basis of experience, and it will be important for us to periodically assess our experience. Our initial outreach efforts are focused on designing and disseminating the codes and preparing the supporting documents to facilitate implementation. Increasingly, future outreach efforts will examine the extent to which codes are effective or need amending and will evaluate whether the assessment methodology maintains consistent treatment for all countries.

Ludek Niedermayer (right) of the Czech National Bank addresses participants at the outreach meeting on reserves management.

Similarly, as the Financial Sector Assessment Program evolves, some form of regular outreach and consultation will be needed to assimilate feedback on the program and coordinate contributions of the numerous cooperating institutions that support the program. There will also be new areas where guidelines and policy consensus are needed, requiring a fresh cycle of public consultations and Board discussions. Right now, the IMF's plate is full.

IMF SURVEY: Can you summarize MAE's efforts?

SUNDARARAJAN: Outreach is a new way to carry out an old mission. One of the most basic and essential purposes of the IMF is to "provide the machinery for consultation and collaboration on international monetary problems." Also, ownership of good practices and codes is absolutely critical. If developing countries do not feel they have been sufficiently consulted during their design, particularly the design of the assessment methodologies, how are they supposed to implement them? While no one objects to codes and guidelines, there is a natural concern that one-size-fits-all solutions could be inappropriate and impair progress. The issue, therefore, is to ensure that the process of designing guidelines and good practices is totally inclusive and that implementation is tailored to the pace and sequencing of broader financial sector reforms to bring about effective and orderly integration with global financial markets.

And the IMF benefits too. We learn a lot from outreach. Individually, we may have seen what works in a few countries. Outreach efforts together bring a global range of views and practices, and this keeps us humble! ■

Public debt management

Guidelines help countries reduce their vulnerability to external financial shocks

Meeting in September 1999, the Interim Committee of the Board of Governors of the International Monetary Fund (now the International Monetary and Financial Committee (IMFC)) called on the IMF and the World Bank to cooperate with national debt-management experts in developing a set of guidelines on public debt management to help countries reduce their financial vulnerability. The request was made as part of a search for broad principles to help governments improve the quality of their policy frameworks for managing the effects of volatility in the international monetary and financial system.

(Left to right) Piero Ugolini, Mark Zelmer, and Robert Price: national debt managers responded very favorably to the draft guidelines.

The Working Group on Capital Flows, one of three working groups established by the Financial Stability Forum (FSF) (the FSF was created to strengthen cooperation among groups involved in regulating and overseeing global markets, see *IMF Survey*, March 8, 1999, page 69), highlighted the rationale for the development of the guidelines as part of a broader effort to strengthen countries' risk management and governance in the public sector and thereby reduce their vulnerability to external shocks. The value of these guidelines was reiterated in the forum's working group report as well as by the IMFC and the Development Committee at their spring 2000 meetings in Washington.

Staff response

In response to the Committee's request, the staffs of the IMF and the World Bank prepared Draft Guidelines for Public Debt Management. The draft guidelines derive from work, completed or in progress, that the IMF and the World Bank have done on countries' debt-management practices, market development, and external vulnerabilities.

In line with the IMFC's request and in an effort to capture good debt-management practices of a large constituency, the draft guidelines were sent for comments to some thirty member countries of the IMF and the Bank. They were also circulated to all members of the Executive Board for information. As a result, the staff was able to incorporate into the draft guidelines initial comments both from IMF and World Bank departments and from a broad geographical sample of member countries.

The guidelines were presented at an IMF Executive Board seminar on July 17 and at an informal meeting of the Executive Directors of the World Bank on July 19. Overall, these discussions were lively and useful. Participants agreed that the draft guidelines are a useful first step in developing and refining guidelines that countries can follow in an effort to improve their debt-management practices and reduce financial vulnerability.

Next steps

The revised draft guidelines, which reflect the initial comments of the IMF and the World Bank Executive Directors, have been placed on the IMF's website (www.imf.org). The staff will conduct an outreach program to gather feedback from a broader group of officials representing the membership of the IMF and the Bank. Its purpose will be to explain the guidelines to member country officials and encourage an exchange of views between the staff and national authorities that will allow the staff to become more familiar with country experiences and concerns. Two

Topics covered by draft guidelines

Debt management objectives and coordination with monetary and fiscal policies

Transparency and accountability

- Clarity of roles, responsibilities, and objectives of financial agencies charged with debt management
- Open process for formulating and reporting of debt-management policies
- Public availability of information on debt-management policies
- Accountability and assurances of integrity by agencies responsible for debt management

Institutional framework

- Governance
- Management of internal operations

Debt-management strategy

Risk-management framework

- Scope for active management
- Contingent liabilities

Development and maintenance of efficient markets for government securities

- Portfolio diversification and instruments
- Primary market
- Secondary market

such programs have been planned—in Santiago, Chile, under the auspices of the United Nations Economic Commission for Latin America and the Caribbean, and in Abu Dhabi, United Arab Emirates, under the auspices of the Arab Monetary Fund. Similar outreach efforts are planned for Africa, Asia, and Europe. At the end of the outreach program, the staff is expected to present final guidelines on public debt management for Executive Board approval in early 2001 and for endorsement by the IMFC at its spring 2001 meetings in Washington.

Draft Guidelines on Public Debt Management

The draft guidelines are designed to help policymakers manage their countries' public debt better and reduce their vulnerability to international financial shocks. Vulnerability is often greater for smaller countries and those with emerging markets because their economies may be less diversified, have a smaller pool of domestic financial savings and less-developed financial systems, and be more susceptible to financial contagion. Whether financial shocks originate in the domestic financial sector or stem from global financial contagion, prudent debt-management policies, along with sound macroeconomic policies, are essential to keep the human and output costs associated with such shocks to a minimum.

The draft guidelines cover both domestic and external public debt and encompass a broad set of financial claims on the government. They focus on principles applicable to a broad range of countries at different stages of development and with various institutional structures of national debt management. As such, they are intended to assist policymakers by disseminating sound practices that some member countries have adopted for their debt-management strategies and operations and that therefore have a record of experience.

The guidelines are grouped into six broad sections (see box, page 266). The first section focuses on the *objectives* of debt management and stresses that countries need to have clear objectives that explicitly take into account the financial risks they may encounter when seeking to minimize the government's debt-service costs. This section also highlights the need for *coordination* among debt managers, fiscal authorities, financial sector regulators, and the central bank.

Section two explains the need for *transparency* and *accountability* provisions in debt-management activities, while section three offers guidance on the governance of debt-management activities and the underlying *institutional structure.* The fourth section focuses on *debt-management strategy,* emphasizing the need to monitor and manage the financial risks embedded in a government's debt-management activities through the design of its borrowing programs. Section five reinforces the previous section by highlighting the need for a *risk-management framework* to help debt managers identify and manage the trade-offs between the expected costs and risks in the government debt portfolio. It contains guidelines on designing sovereign debt portfolios to reduce a country's vulnerability to the economic and financial shocks to which it may be exposed. This section also stresses that debt managers should be aware of the risks involved in seeking to actively profit from expected movements in interest rates and exchange rates, and emphasizes that debt managers should consider the impact that contingent liabilities have on the government's financial and liquidity position. The final section focuses on the role that debt management can play in the *development of efficient markets for government securities* through the design of borrowing instruments and programs, and on how debt management can help promote well-functioning secondary markets. ■

Piero Ugolini, Robert Price, Mark Zelmer
IMF Monetary and Exchange Affairs Department

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UN World Economic and Social Survey 2000

World export growth will increase in 2000, yet risks remain

World export growth is projected to increase, to about 8 percent in 2000, up from 4.8 percent in 1999 and 3.3 percent in 1998, according to the *UN World Economic and Social Survey 2000*, released on July 5 at the opening of the UN Economic and Social Council. This post–Asian crisis rebound has a good chance of continuing for years to come, the report explains. An important long-term force behind the current expansion is the dynamism of information and communications technologies. While growth has been widespread, however, it has not been universal.

Optimism abounds

Forecasting that gross world product would grow to 3.5 percent in 2000, from 2.7 percent in 1999, the report says that the developed economies have led the current economic upturn. The United States is enjoying its longest period of continued economic expansion—109 months in a row—combined with low inflation and low unemployment. Economic expansion in the European Union has also been gathering momentum since the second half of 1999, driven by exports and stronger domestic demand. The Japanese economy, in contrast, remains sluggish, and its GDP is expected to expand by only 1 percent in 2000.

The outlook for most developing economies has become more upbeat, according to the UN report. South and East Asian developing economies are expected to grow by 6½ percent in 2000–01, and the report expects a rebound in Latin America and the Caribbean. Africa's GDP overall is expected to increase by 4½ percent in 2000, although country performances vary widely. In the Baltics and Central and Eastern Europe, recent developments have been positive, and growth is expected to be 3¾ percent in 2000. Russia's macroeconomic performance was better than anticipated throughout much of 1999, and its economy is expected to grow by 4 percent in 2000–01.

Risks persist

The outlook for economic growth is positive, the report says, but "several caveats need to be taken into account."

The economic recovery in countries hit by the financial crisis and prolonged growth in several developed countries are accompanied by a legacy of large fiscal and current account imbalances in some countries that need to be lowered, and in some cases reversed, in the medium to long run. Critical among these are the large U.S. trade deficit and considerable fiscal deficits in Japan and several emerging market economies.

Policymakers in most developing countries are worried that inflation will speed up; thus, most have adopted a tight monetary policy. The report expresses concern that the developing countries may inadvertently adopt an excessively restrictive stance, which could have negative consequences for the whole world economy.

High equity prices, particularly in the United States, are another potential problem. A large correction in stock prices "would send not only the United States economy but the global economy as a whole to a much lower rate of growth," according to the report.

Oil prices could remain over $30 a barrel for a long period, which could prompt further increases in interest rates in industrial countries if price stability were threatened, the report states. This would slow growth in these countries and have negative consequences for the rest of the world.

The strong recovery in countries affected by the financial crisis has diverted attention from the structural problems that were its key causes, the report finds. Some of these problems have been resolved, but in many of these economies, the financial and corporate sectors remain fragile.

Alternatively, the report notes, if the benefits of information and communications technology were to spread more widely among developed and emerging market economies, a faster pace of economic expansion could ensue. "Historical experience shows that market forces by themselves are unlikely to distribute the benefits of global economic integration and technological innovation equitably across nations or among different groups within countries." ■

For more information about the *UN World Economic and Social Survey 2000*, see the website of the UN Economic and Social Council: www.un.org.

Photo Credits: Denio Zara, Padraic Hughes, Pedro Márquez, and Michael Spilotro for the IMF, pages 257, 259, 264–66; Mario Blejer, page 269; and Reuters, page 270.

IMFSURVEY

Participants address exchange rate and financial vulnerability in emerging markets

In a world of freely flowing capital, volatility, and fluctuating exchange rates, emerging markets are particularly vulnerable to external and internal financial shocks. At the sixth annual Dubrovnik Economic Conference, held in late June, experts from academia, multilateral financial institutions, governments, and capital markets met to share their thoughts on and experience with the ability of exchange rate regimes to withstand these shocks. The two-day gathering was sponsored, for the sixth consecutive year, by the Croatian National Bank and organized by Marko Škreb, Governor of the Croatian National Bank, and Mario I. Blejer, Senior Advisor in the IMF's Asia and Pacific Department. Participants explored a range of policy options and their implications.

Exchange rate policy choices

Last year's Nobel economics laureate Robert Mundell of Columbia University set the global tone for the conference by envisaging a world with three coordinated and stable currency zones. Emerging markets in each zone would link their currencies to the relevant lead currency, thereby transferring global stability to domestic markets. Such a system would help diminish room for speculative attacks, but countries would still need to meet the policy requirements of domestic stability. Jacob Frenkel of Merrill Lynch doubted the viability of global currency blocs and stressed that emerging markets would still need to overcome institutional weakness and persistent exposure to external shocks with constant vigilance and sound domestic policies.

Focusing on the transition economies of Eastern Europe, Mario Nuti of the London Business School listed the costs and benefits associated with adopting the euro, warning that the advantages associated with lower transaction costs and economic integration should be weighed against the disadvantages of having no lender of last resort and of possible incompatibility with long-term exchange rate and monetary policy requirements. Potential euro-area members were being encouraged to pursue the monetary convergence measures embodied in the Maastricht Treaty, but many hidden problems lay in quasi-fiscal deficits and on bank balance sheets. Real economic convergence remains elusive, added Grzegorz Kolodko, Poland's former finance minister.

Jacek Rostowski of the Central European University in Budapest (presenting a paper written with Andrzej Bratkowski) argued that, for applicant countries in the run-up to accession to the European Union (EU), it would not be possible to achieve the fiscal, exchange rate, and inflation criteria of the Maastricht Treaty while simultaneously maintaining prudent levels of current account deficits. Some countries should unilaterally adopt the euro before EU entry, so that the option of using higher inflation to secure real exchange rate appreciation could be employed before a nominal exchange rate appreciation (with its possibly devastating effect on competitiveness) became the only permitted route. Eric Nielsen of Goldman Sachs International also argued that higher inflation was preferable to increases in nominal exchange rates in adjusting to the inevitable appreciation of real exchange rates in emerging economies. This would make fixed income and equity investments particularly attractive in such markets.

Marko Škreb

Edgar Feige of the University of Wisconsin, Madison (in a paper written with M. Faulend, V. Šonje, and V. Šošić from the Croatian National Bank) explained how data deficiencies had resulted in existing levels of dollarization (or euroization) being poorly measured and understood in emerging market economies. He used U.S. customs data on cash flows to and from 26 countries to develop improved measures of their dollarization levels and, on the basis of these results, presented methods to estimate the extent of dollarization as a function of quantifiable variables in countries for which such data are still not available.

J. de Beaufort Wijnholds

Fixed versus floating

Addressing the question of whether the choice of exchange rate regime could increase monetary independence, Eduardo Borensztein of the IMF's Research Department (presenting a paper written with his Research Department colleague Jeromin Zettelmeyer) examined the response of interest rates in some emerging markets to changes in world interest rates. He concluded that while floating exchange rate regimes do not provide full monetary autonomy (in the sense of insulating domestic interest rates from external shocks), they do provide a higher degree of independence, at least regarding interest rates, than fixed exchange rate regimes. Interest rates in some pegged regimes had a one-to-one correspondence with world rates, while the effect on interest rates in floating regimes is typically one-half or less.

Ricardo Hausmann of the Inter-American Development Bank (in a paper written with Ugo Paniza and Ernesto Stein) noted significant differences in the manner in which countries allowed their currencies to float, with some countries maintaining a smaller stock of reserves and permitting greater volatility in their exchange rate relative to reserves or interest rates. He argued that countries such as the so-called Group of Three (the United States, Germany, and Japan), with a lower rate of pass-through from exchange rate to price changes and with a greater ability to borrow abroad in their own currencies, could afford the luxury of greater exchange rate volatility and, therefore, held fewer reserves. Emerging countries, on the other hand, had an incentive to use large reserve stocks to limit exchange rate movements to control domestic prices and minimize the negative impact on balance sheets of local firms forced to borrow in foreign currencies.

Photo not available

The Old City Harbor in Dubrovnik, Croatia.

Directly addressing the issue of how emerging markets should determine their optimal reserve levels, J. de Beaufort Wijnholds, IMF Executive Director (presenting a paper written with Arie Kapteijn, Assistant to the Executive Director), argued that the old benchmark of maintaining reserves at an appropriate level of import cover is outdated in a world of large capital flows. Instead, optimal reserve cover should be measured as the sum of a country's exposure to external capital withdrawal over the short term and an allowance for possible capital flight (and, therefore, reserve demand) by domestic residents, which would be measured as a fraction of the money supply (the proportion being larger with a pegged exchange rate). The cost of holding large reserve stocks should be viewed as an insurance premium, while proposals for large-scale SDR allocations from the IMF to increase reserves might only serve to increase moral hazard.

Renato Filosa of the Bank for International Settlements argued that emerging market economies are particularly susceptible, and increasingly vulnerable, to strong and frequent shocks of a type that render fixed exchange rate regimes unsustainable. Capital flows to emerging markets are highly variable and subject to bandwagon behavior, and a too-heavy reliance on them makes it virtually impossible to withstand shocks. In the absence of a nominal exchange rate anchor, Filosa said, a regime of inflation targeting is an effective and realistic alternative to rigid monetary rules.

Policy choices and the financial sector

Looking at emerging market vulnerability from the perspective of the financial sector, Barry Eichengreen of the University of California at Berkeley (in a paper written with Carlos Arteta) found that the particular exchange rate regime in force does not seem to have an impact on the incidence of banking crises in emerging markets. His key finding was that bank stability is put at risk when expansionary macroeconomic and financial policies combine with financial deregulation to create an unsustainable lending boom. Such policies encourage the pursuit of risky activities, resulting in lower-quality loan portfolios, and these risks may be augmented by capital account liberalization and poor supervision.

Even with sensible macroeconomic policies and good supervision, structural adjustment inevitably involves losses that will impinge on the banking system, according to Ricardo Lago of the European Bank for Reconstruction and Development. However, the real challenge is to prevent the initial, and inevitable, crisis from becoming systemic. The specific nature of banking in emerging economies, with a high percentage of nonperforming loans and the difficulty of selecting viable projects, meant that cautious policies and enhanced supervision were necessary to prevent systemic crises. ■

Gary O'Callaghan
IMF Resident Representative, Croatia

Improving data quality

IMF Executive Board reviews data provided by member countries for IMF surveillance

On June 26, 2000, the IMF Executive Board considered a staff paper on Data Provision to the Fund for Surveillance Purposes—the fourth review in a series that was initiated in July 1995. The Board discussion is summarized in a Public Information Notice (PIN) issued on August 7, extracts of which follow. The full text of PIN No. 00/59, as well as the staff paper under Board consideration, is available on the IMF's website (www.imf.org).

Background

In recent years, the IMF has intensified efforts to assist countries to improve the quality of their data. This has been accomplished through a variety of complementary efforts, including the expansion of the work of its Statistics Department on statistical methodologies, technical assistance and training activities, greater focus on the adequacy of member countries' data for surveillance, and the data standards initiatives.

In line with the encouragement given by the Executive Board, the Statistics Department is developing a framework for assessing data quality. The main objective of this framework is to provide more structure for the assessment of the quality of data, including those provided to the IMF for surveillance.

Executive Board assessment

Executive Directors recognized that recent financial crises had reinforced the importance of accurate, comprehensive, and timely economic data, especially on international reserves and external debt, for the assessment of countries' external vulnerabilities and as an essential element for IMF surveillance.

Directors considered data issues to be of critical importance in IMF surveillance. They were therefore encouraged that a large majority of members provide data on core statistical indicators on a timely basis. However, Directors also recognized that, for some countries, progress in this area has been slow, owing to resource constraints and the long gestation period needed for statistical capacity building.

Benchmarks

Directors agreed with the proposal to establish benchmarks for the provision of data to the IMF in the areas of *reserves and foreign currency liquidity and external debt*, although it was generally accepted that some elements of the benchmarks would not always be relevant for all members, given countries' different circumstances and phases of development. Directors noted that the data required for adequate IMF surveillance in some cases may be more detailed and timely than implied by the benchmarks. In this sense, the benchmarks should be viewed as neither a compulsory floor nor a ceiling, but rather as a framework to help assess members' data provision to the IMF. Many Directors emphasized that staff reports should compare countries' practices with these benchmarks, indicating the reason for any differences, their significance, and, if appropriate, the member's plans for strengthening data provision in these areas. Some Directors expressed concern that the benchmarks could gradually become de facto obligatory standards and that this would inappropriately burden already scarce resources, especially in developing countries. Most Directors agreed that using benchmarks rather than absolute standards was appropriate in view of the diversity of members' circumstances.

Directors considered that detailed specification of the benchmarks was warranted by the importance of the information in question and the need for comprehensive, timely, and comparable information. Most Directors agreed that the Special Data Dissemination Standard (SDDS) prescription for reserves and foreign currency liquidity should be adopted as the benchmark for provision of these data to the IMF. Most Directors also supported adoption of the prescribed and encouraged elements of the SDDS for external debt as the benchmark for these data. However, in commenting on the inclusion of the encouraged elements of the SDDS for these data in the benchmark, many Directors emphasized the difficulty of providing data on the debt-service schedule for the private nonbank sector for many countries. Some Directors noted that to assess a country's vulnerability accurately, it would also be important for members to provide data on residual maturities of external debt, starting with data for the government and banking sectors.

Directors noted the increased resource costs the benchmark approach would place on the IMF and on member countries. They emphasized the need for the IMF to provide technical assistance to help countries strengthen their data systems in line with the benchmarks, with many Directors stressing that such technical assistance should not come at the expense of cutting technical assistance in other areas.

Future data issues

Directors emphasized the critical importance of the IMF being provided with high-quality, accurate, and comparable fiscal data, and urged the staff to continue working on improving the provision of fiscal data to

the IMF. It was generally agreed that establishing a benchmark for fiscal data similar to the ones for reserves and external debt would be a difficult task at the present time; nonetheless, many Directors underscored the importance of continuing to work expeditiously on the methodological issues related to the development of a benchmark for fiscal data. Directors also encouraged the staff to continue providing technical assistance to help member countries strengthen their fiscal data.

Directors underlined the importance of establishing a practical framework for assessing the quality of data, and welcomed the staff's intention to carry forward its work in this area. ■

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Second quarter 2000

IMF begins to publish quarterly reports on emerging market financing

On August 9, the IMF began the regular publication on its website of *Emerging Market Financing: Quarterly Report on Developments and Prospects*.

The report is an element of the IMF's surveillance of developments in international capital markets. It draws, in part, on regular informal discussions with a broad set of private financial market participants. A staff team in the IMF Research Department, headed by Bankim Chadha, prepared the report, with comments and suggestions from other IMF departments and from Executive Directors.

The report indicates that emerging bond and equity markets during the second quarter of 2000 were hostage to volatile conditions in international capital markets. An adverse external environment dominated positive domestic fundamentals. In particular:

• In April and May 2000, as the mature equity markets declined, expectations of U.S. interest rates were revised up, competing credit markets deteriorated, and the euro fell to a low point. Consequently, emerging market assets registered substantial losses, while bond and equity issues slowed to a trickle.

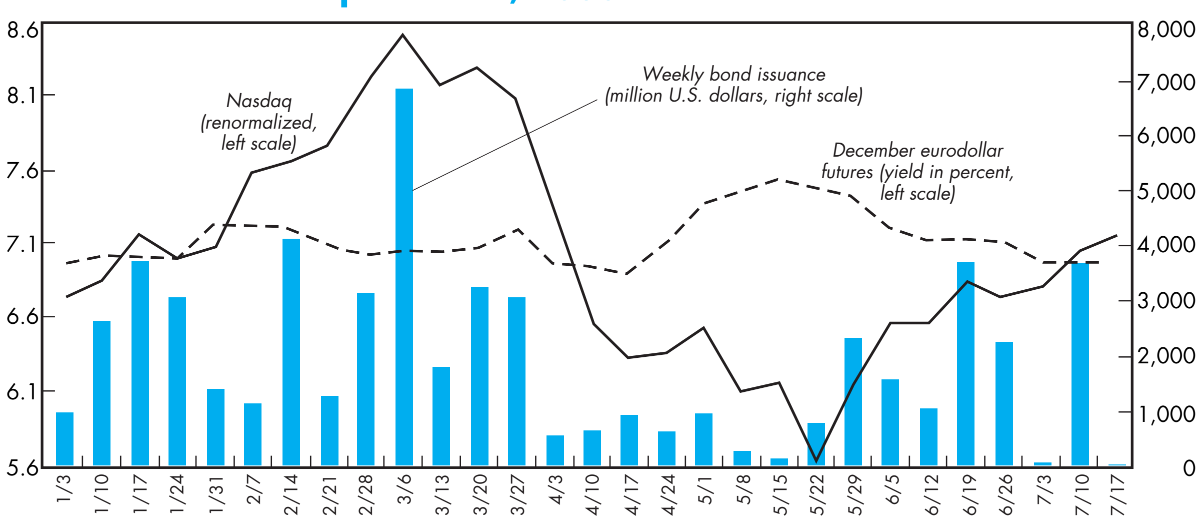
• In June, as U.S. interest rate concerns eased, emerging market assets and fund-raising on bond and equity markets rebounded along with global markets.

• Syndicated loan financing, as has frequently been the case in the past, remained relatively insulated from these developments.

Looking ahead, the IMF staff report that the tight link between the performance of emerging and U.S. asset markets had tempered their more optimistic outlook of the previous quarter. They expect that overall financing flows will moderate in the coming quarters, with choppy conditions on bond and equity markets. A decisive "decoupling" of emerging from U.S. markets is unlikely until there is a convincing resolution about the prospects for a soft versus a hard landing for the U.S. economy, according to the report.

Future quarterly reports will be published on the IMF website (www.imf.org) about four weeks after the end of each quarter. ■

Weekly emerging market bond issuance, Nasdaq, and U.S. interest rate expectations, 2000[1]



[1]As measured by December eurodollar futures.

Data: IMF, *Emerging Market Financing, Quarterly Report on Developments and Prospects*