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Contents

The next issue of the *IMF Survey*, to be published on October 11, 1999, will provide complete coverage of the Annual Meetings.

Annual Meetings

Boards of Governors to gather amid signs of recovery from global economic crisis

Amid encouraging indications of a gradual recovery from the economic crises that have affected many regions of the world, the Boards of Governors of the World Bank and the IMF will gather in Washington for the fifty-fourth Annual Meetings, which will formally open on Tuesday, September 28. The meetings will be chaired by Mahesh Acharya, Finance Minister of Nepal.

Mahesh Acharya, Chair of the 1999 Annual Meetings.

The Annual Meetings were to be preceded on September 26 by the meeting of the Interim Committee of the Board of Governors on the International Monetary System (Interim Committee), which is the IMF's principal advisory body. Gordon Brown, U.K. Chancellor of the Exchequer, has been named the new Chair of the Interim Committee (see box below), succeeding Carlo Azeglio Ciampi of Italy, who resigned in May. The following day, September 27, the Joint Bank and Fund Committee on the Transfer of Real Resources to Developing Countries (Development Committee) was to meet, chaired by Tarrin Nimmanahaeminda, Finance Minister of Thailand.

In contrast to the 1998 Annual Meetings, which took place in an atmosphere of concern over the global repercussions of the Asian and Russian crises (*IMF Survey*, October 19, 1998, page 305), this year's meetings will open amid signs of improvement in financial market conditions, particularly in those countries that have benefited from IMF support of their adjustment efforts. As noted in the IMF's *Annual Report* for 1999, the countries in Southeast Asia that were directly affected by crisis are showing signs of recovery; Brazil's economic program is showing success; and even Russia is doing better economically (see related story on page 291).

(Please turn to the following page)

Interim Committee selects Gordon Brown as new chair

In a press release issued on September 10, the Interim Committee announced the selection of its new chair. The text of Press Release No. 99/41, which follows, is also available on the IMF's website: www.imf.org.

The members of the IMF's Interim Committee have selected Gordon Brown, the U.K. Chancellor of the Exchequer, as Chair of the Committee. Brown succeeds Carlo Azeglio Ciampi, Italy's former Minister of Treasury, Budget and Economic Programming, who resigned in May 1999.

Brown has been Chancellor of the Exchequer since May 1997. He has also been a member of the U.K. Parliament since 1983. As a parliamentarian, Brown has held a number of senior Labour Party posts, including those involving economic and trade matters.

The Interim Committee was established in October 1974 to advise the IMF's Board of Governors on supervising the management and adaptation of the international monetary system, as well as to deal with sudden disturbances that might threaten the stability of the system. The Committee deliberates on the principal policy issues facing the IMF.

Gordon Brown, Chair of the Interim Committee.

The Committee has 24 members who are Governors of the IMF, Ministers, or others of comparable rank and reflects the composition of the IMF Executive Board. Each member country that appoints and each group of countries that elects an Executive Director appoints a member of the Committee. The Committee usually meets twice a year; in the spring and ahead of the Annual Meetings in the autumn. Its next meeting is in Washington, D.C., on September 26, 1999.

Agenda for Annual Meetings

(Continued from front page) Against this encouraging background, the Interim Committee was to assess the outlook for the global economy and the policy requirements for a sustained and better balanced global economic recovery, as well as to consider developments in the international capital markets. To assist it in its deliberations, the Committee received summaries of the IMF Executive Board's discussions of the *World Economic Outlook* and *International Capital Markets* reports.

• *Monetary and financial system*. A major item on the Committee's agenda was scheduled to be a review and discussion of progress in strengthening the international monetary and financial system, which has been a key element in the Executive Board's discussions in recent months. This review includes consideration of ways to involve the private sector in forestalling and resolving financial crises; the appropriate choices of exchange rate regimes; the orderly liberalization of capital movements; and considerations of institutional reform and strengthening or transforming the Interim Committee.

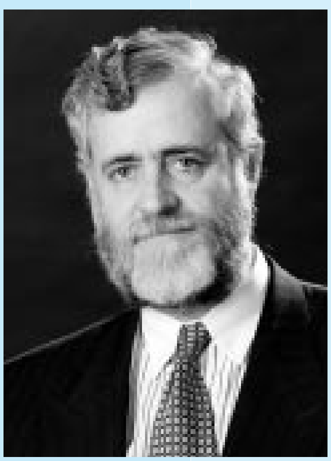
• *ESAF and HIPC*. As part of its consideration of the IMF's role in promoting sustainable growth and reducing poverty, the Committee was scheduled to discuss means of reforming the Enhanced Structural Adjustment Facility (ESAF) to give greater prominence to the goal of supporting members' poverty reduction efforts; ways to strengthen the Heavily Indebted Poor Countries (HIPC) Initiative; and the future financing of both ESAF and the HIPC Initiative.

At a September 23 press conference, IMF Managing Director Michel Camdessus explained that while negotiations on the future financing of ESAF and HIPC Initiative were still proceeding, the proposal was to have off-market transactions with member countries for 14 million ounces of IMF gold. This would allow the IMF to invest the capital gain from these transactions in the markets and, with the resources so generated, to provide the needed financing for ESAF and the HIPC Initiative.

• *Y2K problem*. The Committee was also to examine contingency planning for the so-called millennium bug, or Y2K problem, and its possible impact on national accounts systems and other databases worldwide.

Eduardo Aninat named IMF Deputy Managing Director

In a news brief issued on September 13, IMF Managing Director Michel Camdessus announced the appointment of Eduardo Aninat, currently the Finance Minister of Chile, as Deputy Managing Director of the IMF to a five-year term, starting in December 1999. Aninat will succeed Alassane D. Ouattara, who left the IMF at the end of his appointment on July 31, 1999, to pursue a political career. The text of News Brief 99/56, which follows, is also available on the IMF's website: www.imf.org.



Eduardo Aninat

"I have been impressed for many years with Dr. Aninat's grasp of the issues affecting the international economy, as well as with his energy and clarity of purpose in discharging his key responsibilities as the Minister of Finance of one of the most successful economies in the world," said Camdessus. "His firsthand knowledge of the challenges of policymaking, particularly in a period of international financial volatility that has also affected Chile, will be an invaluable asset for the IMF in its role as economic policy advisor to its member governments. I know he views the opportunities his new position presents with great enthusiasm. I also know of his deep commitment to his country and his ongoing responsibilities in the design and approval of the Chilean budget legislation for the year 2000, which will require him to take his new post only in December of this year."

Aninat has an M.A. and a Ph.D. in economics from Harvard University, has taught public finance and economic development at the Pontificia Universidad Católica de Chile (from which he has a B.A. in economics), and was an assistant professor of economics at Boston University. He has been the finance minister of Chile since March 1994. He was the Chair of the Board of Governors of the IMF and World Bank in 1995–96 and served three years as a member of the Development Committee of the World Bank and the IMF, representing a constituency of six countries: Argentina, Bolivia, Chile, Paraguay, Peru, and Uruguay. In that capacity, he has been involved in discussions on initiatives ranging from international policies for heavily indebted poor countries to the proposals for the reform of the international financial architecture.

Prior to that, he served in a range of economic positions in the Chilean government that included chief negotiator for the bilateral Canada-Chile trade agreement and chief debt negotiator and senior advisor of the Central Bank of Chile and the ministry of finance. From 1981 to 1994, he was a principal in Aninat, Méndez y Asociados, one of the largest economic consultancies in Latin America. He has been a consultant for international institutions, such as the World Bank and the Inter-American Development Bank, and has advised a number of governments on matters ranging from tax policy to debt restructuring. In 1989, he was the Latin American coordinator for Harvard University's International Tax Program. Aninat has been a member of the boards of directors of several private companies and institutions in Chile and abroad. He is currently a member of the board of Fundación Andes, the largest nonprofit foundation dedicated to providing grants for educational and artistic purposes in Chile.

Aninat is married to Maria Teresa Sahli and has six children.

• *Surveillance and programs*. The Committee was scheduled to discuss optimum ways to integrate social sector issues in IMF policy advice and IMF-supported programs, drawing on the work of the World Bank and other international institutions. The Committee was to review progress in the area of developing and monitoring standards, as well as the recent steps taken to make IMF practices and members' policies more transparent, including through such measures as the release of Public Information Notices (PINs), IMF policy papers, summaries of Board discussions, and other materials, and the pilot program for the release of Article IV reports. The Committee's agenda also included a discussion of the progress made in financial sector reform and banking system restructuring through IMF-supported programs.

The meeting of the Interim Committee was preceded by a preparatory meeting of the Committee's deputies on September 17. Other meetings included those of the ministers of the Group of 10 industrial countries, the Group of 24 developing countries, and the deputies of the Group of 24. Also, the Financial Stability Forum met in Paris on September 15, chaired by Andrew Crockett, General Manager of the Bank for International Settlements. On September 22, Michael Mussa, Economic Counselor of the IMF and Director of the Research Department, briefed the press on the October 1999 edition of the IMF staff's *World Economic Outlook*.

The opening ceremonies of the Annual Meetings on Tuesday, September 28, will be followed by the addresses of Mahesh Acharya, World Bank President James Wolfensohn, and Michel Camdessus. During the annual discussion, which will span September 28–30, the governors of the Bank and the IMF, representing industrial and developing countries and regional groupings, will address major issues affecting the world economy and the operations of the two institutions.

In addition to the formal proceedings of the Annual Meetings, a series of World Bank and IMF seminars is to be held in conjunction with the meetings. These will address a wide range of topics on the theme of "On the Eve of the Millennium: Setting the Agenda for Global Growth and Development." Keynote speakers at the seminars are scheduled to include Kofi Annan, the Secretary General of the United Nations, and Alan Greenspan, Chairman of the Board of Governors of the U.S. Federal Reserve System. The seminars are designed to bring together corporate executives and bankers, senior government officials, and other opinion leaders for discussion and debate on key issues.

The schedule for the Annual Meetings, fact sheets on the IMF, and related documents are available on the IMF website: www.imf.org. ■

Annual Report

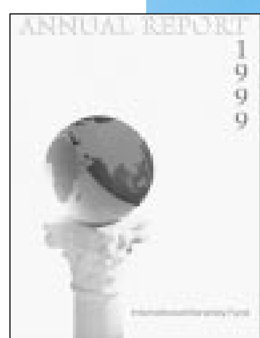
IMF assistance to member countries reaches record level of $30 billion in FY 1999

On Thursday, September 9, Stanley Fischer, First Deputy Managing Director of the IMF, held a press conference to present the IMF's Annual Report 1999*, which describes developments during the IMF's financial year—May 1, 1998 to April 30, 1999. Excerpts from his opening statement follow.*

Two years ago, this briefing took place after the Thai devaluation and the IMF agreement with Thailand, but before the breadth and depth of the Asian crisis had become clear. One year ago, we met in the aftermath of the Russian devaluation and unilateral debt restructuring at a time when it seemed the Asian crisis could become a global crisis. This was before the Long-Term Capital Management episode.

Financial crises are abating

This year, the worst of the crisis seems well behind us, with most of the Asian crisis countries recovering fast, largely in the context of IMF-supported programs. Brazil's IMF-supported adjustment program is succeeding with more rapid growth than had been expected, and even the Russian economy is doing better than expected, also in the context of an IMF-supported program. But there are still important elements of fragility in individual countries—most obviously in Indonesia—and in the fact that the cost of borrowing for emerging market countries has recently risen again.



Three themes emphasized

The *Annual Report* is a report on our work program, which consists mainly of surveillance, lending, and technical assistance activities. But in the aftermath of the financial crises, the IMF and the international community have also directed considerable efforts to developing and beginning to implement wide-ranging proposals to reform the international financial system.

Photo Credits: Denio Zara and Padraic Hughes for the IMF.

The fiscal year that ended in April 1999 saw a continuing heavy demand for IMF financing. New disbursements of IMF credits reached a record of $30 billion, and from the end of April through the end of August, we disbursed an additional $4 billion. New loan commitments in fiscal year 1999, ending April 30, 1999, totaled more than $43 billion, and we committed an additional $11 billion from end-April through end-August.

The increase in IMF quotas to $281 billion under the Eleventh Quota Review took effect in January 1999. This led to a sharp increase in the amount of uncommitted usable resources we have—that is, the amount of money we can lend if it becomes necessary—to $77 billion. While our liquid liabilities also grew, the "liquidity ratio," which is the ratio of net uncommitted usable resources to our liquid liabilities, nearly doubled to 89 percent. When the quota increase went into effect, our borrowing capacity under the General Arrangements to Borrow and the associated New Arrangements to Borrow rose to about $46 billion.

Stanley Fischer, IMF First Deputy Managing Director (left), with Thomas Dawson, Director of the IMF's External Relations Department, at the Annual Report 1999 *press conference.*

The *Annual Report* is a publication of the Executive Board, which is our decision-making body, rather than of the staff, in the sense that we sit down with the Board in several exhaustive sessions and go through the report line by line until there is agreement on the text. The report is based mainly on summings-up of Board discussions on major policy issues during the financial year, and many of those have been published separately, as part of our successful efforts to enhance our own transparency.

The 1999 report has four parts: an overview; a summary of the Board's discussions of the global economy—including their discussions of the world economic outlook and the report on international capital markets; a description of IMF activities in 1998–99, notably, our work to help strengthen the global financial architecture, the Board's surveillance activities, lending, and work on the Enhanced Structural Adjustment Facility (ESAF) and the Heavily Indebted Poor Countries (HIPC) Initiative; and a section on internal issues of IMF staffing, organization, and budget. There are three major themes in this report: financial crises and our response, architecture, and debt relief for the heavily indebted poor countries.

Financial crises and IMF response

On the first topic, the Board has held several meetings to review the lessons from the Asian crisis, particularly from the experiences of the crisis countries—Indonesia, Korea, and Thailand—that have IMF programs (see table, page 293). We have also drawn on the experiences of other countries, including the Philippines, which was in a program but did not go through a crisis of the same dimension, and Malaysia, which had a major crisis but was not in a program.

The lessons are becoming familiar to you: the need to analyze regularly, particularly in the context of our surveillance, the appropriateness of exchange rates and exchange rate regimes; the need to provide to the markets, and the public more generally, full, accurate, and clear financial information not only on the public sector, but also on the private sector; the need to strengthen financial systems, including regulatory and prudential regimes; the need to adapt institutions and regulations in creditor countries to better ensure the appropriate pricing of risk and thereby seek to inhibit bandwagon or herding behavior; and the need to seek to reduce the systemic risk associated with financial market turbulence. What is important is that work is getting under way or is well under way in the IMF to implement the policy conclusions that have been drawn from recent events. The report also provides a chronology of developments, including the IMF's response to the crises in Russia and Brazil.

We have discussed implications for the design and implementation of our own programs. One important lesson is that we need to help countries strengthen social safety nets to soften the adverse impact of crises and adjustment on the poor—work typically done by the World Bank. It will turn out, and I think it is being seen in Thailand, in particular, and Korea that the social costs of these crises were much less than popular accounts at the time suggested. Nonetheless, everything needs to be done to try to reduce those costs, and the Board has focused on that.

We have also focused on the need to explain to markets and the general public the full content of programs—I think that was done more effectively, say, in the Brazilian case than it had been earlier—and, of course, the need to be flexible in adapting programs to changing circumstances.

Strengthening of financial systems

On the second topic, the proposals that have commanded broad support from the international community are the promotion of transparency and accountability, and the development and dissemination of internationally accepted standards and codes of good practice; the strengthening of financial systems; paying greater attention to how capital markets are liberalized and making sure that it is done in an orderly way; seeking to involve the private sector more fully in forestalling and resolving crises; ensuring that the exchange rate regime is appropriate for the circumstances of the country; ensuring the adequacy of the

IMF's own resources; and providing Contingent Credit Lines from the IMF, and the private sector, as a defense against financial contagion.

We have made a lot of progress in increasing the transparency of our operations and discussions and also in publishing the results of IMF surveillance. We are publishing Public Information Notices (PINs) after most Board discussions of reports on Article IV consultations. We publish summings-up of what the Board says when we make loans to countries. We have released Board documents relating to the debt relief initiative and have asked for public comments. We have published the conclusions of the internal and external evaluations of the ESAF. The Board has commissioned and discussed external evaluations of surveillance and economic research activities. And we publish on the website up-to-date information on our liquidity position and on members' financial accounts with the IMF.

Most recently, the Board has agreed on the presumption that member countries will release the Letters of Intent, Memorandums of Economic and Financial Policies, and Policy Framework Papers that underlie the programs that we support, and most countries are doing that. That is a major and important change. We are also in the midst of an 18-month pilot project during which member countries can voluntarily release Article IV staff reports. We are publishing PINs after Executive Board discussions of policy papers, and we have substantially liberalized public access to the IMF's archives.

Debt relief

Finally, the third main topic is the operation and financing of ESAF and implementation of the joint IMF-World Bank HIPC Initiative—which involves all the other multilateral institutions as well—to provide debt-servicing relief to heavily indebted poor countries. We have had Board discussions aimed at improving the effectiveness of both the ESAF and the HIPC Initiative in helping poor countries grow and attain external viability, and particularly in reducing poverty. I think we see the balance among the objectives of the ESAF and the HIPC Initiative moving in the direction of a greater emphasis on poverty reduction.

As of April 1999, the Executive Boards of the IMF and the World Bank had reviewed the eligibility for the HIPC Initiative of 12 heavily indebted poor countries, and work was under way on others. Seven countries had qualified for debt relief and three others were expected to follow. Debt relief totaling $6 billion in nominal terms—$3 billion in 1998 net-present-value terms—had been committed, and assistance for Uganda and Bolivia had been released.

That was the position as of April, but responding to widespread concerns on the part of nongovernmental organizations, the media, and religious groups, as well as governments and international organizations that the HIPC Initiative did not provide enough debt relief for poor countries, the IMF and the World Bank have considered further changes to strengthen it.

In April 1999, to solicit public feedback, the staffs of the IMF and the Bank posted on both our websites estimates of the costs of various proposals from member governments and civil society for amending the HIPC Initiative, together with the summaries of Board discussions and the reports on which they were based. We hope to reach decisions to strengthen the HIPC Initiative and to find a method of financing the ESAF—which is how we finance our participation in the HIPC Initiative—for endorsement by the Annual Meetings in just under three weeks. ■

Key economic indicators: Indonesia, Korea, and Thailand

	Average 1990–95	1996	1997	1998 Estimate
		(percent change)		
Real GDP at market prices				
Indonesia	8.0	8.0	4.6	–15.3
Korea	7.8	6.8	5.0	–5.8
Thailand	9.0	5.5	–0.4	–8.0
Inflation (consumer price index)				
Indonesia	8.7	7.9	6.6	61.1
Korea	6.6	4.9	4.4	7.5
Thailand	5.0	5.9	5.6	8.0
		(percent of GDP)		
Current account				
Indonesia	–2.5	–3.3	–1.8	3.0
Korea	–1.2	–4.7	–1.8	13.3
Thailand	–6.6	–7.9	–2.0	11.4
		(billion U.S. dollars; end of period)		
Reserves				
Indonesia	...	...	21.5	23.8
Korea	...	29.4	9.1	48.5
Thailand	...	38.7	27.0	29.5

Note: All data are on a calendar-year basis, except as indicated.

Data: IMF, *Annual Report 1999*

Selected IMF rates

Week beginning	SDR interest rate	Rate of remuneration	Rate of charge
September 13	3.37	3.37	3.83
September 20	3.33	3.33	3.79

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

Data: IMF Treasurer's Department

International Capital Markets

Report sees global financial system making fragile recovery in wake of recent crises

After some of the most severe financial turbulence in post–World War II history in 1998, the global financial system is pursuing a still fragile recovery and beginning to turn its attention to implementing the lessons learned from the crises of the past year. The IMF's annual survey of global markets, *International Capital Markets: Developments, Prospects, and Policy Issues,* notes that timely action by a number of central banks and the international community defused a potential global crisis and that relative stability returned to financial markets in 1999. Significant risks remain, however—notably those associated with the ongoing global reappraisal of risk. In the mature markets, there are questions about U.S. equity prices and the sustainability of a strong dollar. In emerging markets, risks arise from the size of the investor base, which, despite some rebound in "quality" markets, remains relatively small; the level and structure of external financing; and cutbacks in external debt markets.

The IMF's yearly report on capital markets, which is based on staff discussions with private market participants as well as national authorities, also spotlights key issues in market behavior. The recent crises pointed to critical weaknesses in private risk management, bank supervision, and financial market surveillance. The 1999 report addresses the need to better manage global finance and gain a deeper understanding of the ramifications of high levels of leverage for systemic risk.

Adams: This year's International Capital Markets *report specifically examines how small and medium-sized capital markets were affected by the turbulence.*

In a September 8 press conference on the report's findings, Charles Adams, Assistant Director of the IMF Research Department and head of the staff team that prepared the report, also notes that the study specifically examines how small and medium-sized capital markets have been affected by the turbulence and how nonstandard policy interventions have been employed in Brazil, Hong Kong SAR, and Malaysia to cope with the crisis. Given the increasingly important role of major credit-rating agencies in determining market access, the IMF took a closer look at these agencies, Adams explains, both to gain a more in-depth understanding of how these agencies worked and to determine what lessons they were drawing from the crisis of 1998.

Mature markets

Over the past year, according to the report, the behavior of mature markets continued to be shaped by sharply divergent macroeconomic performances and policies—notably, the strong performance of the U.S. economy and the negative or low growth recorded in Japan and Europe. Mature markets were also affected by emerging market spillovers to banking systems and a low-inflation environment. On the structural side, a number of important steps took place, principally the successful launch of the euro, Japan's steps to address its financial sector problems, and stepped-up mergers and acquisitions among major banks.

But notwithstanding a return to greater stability and crucial structural changes, significant risks persist. A key risk is the possibility of a large correction in the U.S. equity market. Uncertainty about the outlook for corporate earnings, the advanced stage of the U.S. business cycle, and the recent reversal of the decline in U.S. interest rates all underscore the potential for a substantial correction, the study cautions. Also, in the absence of comprehensive information about the extent of leverage in the major financial systems, the vulnerability of these systems—and emerging market systems—to a correction may be considerable.

Also of potential concern, the report notes, are a sudden—and sharp—weakening of the dollar (with the related risk of exchange rate volatility and spillovers to other markets) and risks related to the Y2K problem. In the run-up to the millennium, market liquidity and the willingness to bear risk may decline, and liquidity "may command an increasing premium," the study suggests. A fairly wide range of market reactions is conceivable, including an extreme flight to cash and large cutbacks in emerging market exposure. The study commends financial institutions for the emphasis they have recently given to contingency planning.

Emerging markets

Despite access largely restricted to sovereign issuers and a still shrunken investor base, the first half of 1999 saw a pickup in emerging market asset prices. Overall external financing for emerging market borrowers remains weak, however. Offsetting improved macroeconomic conditions, particularly in Asia, are a number of risks. Chief among them is the prospect of tighter monetary conditions in the United States. Such a tightening has traditionally been accompanied by a slowdown in capital flows to emerging markets and wider interest rate spreads on emerging market securities. Similarly, a sharp adjustment in equity prices in mature markets, such as the United States, could strongly, and negatively, affect emerging equity markets.

The report also highlights concerns about the corporate sector, where restructuring efforts in a number of

Asian countries are moving slowly, if at all, and the position of Latin American corporate sectors is deteriorating in line with the economic slowdown there. Another concern is the decision, by some investment banks, to shut down their emerging market trading desks, with attendant declines in investors and liquidity, and increased asset price volatility.

Managing global finance

The three lines of defense against systemic risk—market discipline, prudential supervision and regulation, and macroprudential surveillance—failed to prevent excessive leverage in 1998 and have been the focus of subsequent reform efforts. The new proposals stress the need to tighten bank controls on their exposure to hedge funds and increase significantly the amount of information that financial institutions, including hedge funds, provide to their counterparties and to the markets.

The IMF study welcomes these steps but emphasizes the important challenges that remain. In particular, it urges that attention be given to the absence of an analytical framework to determine when leverage reaches unsustainable levels; the need to develop incentives to improve risk management in private firms; and the importance of improving both the types and the frequency of market information.

In the area of macroprudential oversight, the report cites the need to monitor global liquidity more closely, explore the synergies between prudential macrosurveillance and supervision of individual financial institutions, and improve regulators' understanding of risk control mechanisms within firms. Another question in need of greater attention, according to the report, is whether firms' heavy reliance on modern risk management practices may be exacerbating financial turbulence.

The systemic issues raised by highly leveraged institutions and activities are currently the subject of a number of international studies, including one by the Financial Stability Forum. The staff report argues that systemic issues can be addressed through significant enhancements in market discipline, supported by improved disclosure and transparency, more rigorous creditor and country assessments of exposure, and stronger private risk management and control systems. But further work needs to be done, it contends, on the impact of the activities of highly leveraged institutions on small and medium-sized countries.

Nonstandard policy responses

In the face of extreme financial pressures, some countries last year opted for nonstandard policy responses. The Hong Kong Monetary Authority intervened in domestic equity and derivative markets to address concerns about a "double play" by highly leveraged speculators; Malaysia implemented capital controls to bolster its domestic monetary independence and effectively halt offshore operations in its currency; and Brazil intervened in its external debt market.

Malaysia, as Donald J. Mathieson, chief of the IMF's Emerging Markets Study Division, notes at the press conference, had a very high ratio of corporate bank debt to GDP and the corporate sector was thus highly sensitive to interest rate changes. Malaysian authorities used capital controls in part to segment domestic and international financial markets and to allow them to sustain lower interest rates. The controls also were implemented after most of the external pressures had been felt and, as a result, were never fully tested. It is difficult to speculate on how effective they would have been in a period of intense pressure, Mathieson notes, but the study finds no significant evasion for the period they were in force.

Mathieson: It is difficult to speculate on how effective capital controls would have been in a period of intense pressure.

The authorities also pursued several key reforms—particularly in banking and the corporate sector—that improved the country's economic situation.

Credit-rating agencies

As capital markets have taken on a larger role in funding, major credit-rating agencies have assumed a key task in providing standardized assessment of credit risks. These agencies identified weak financial systems in a number of Asian countries before the crisis, but the report argues that the maintenance of investment-grade ratings for many countries and the sharp downgrades during the crisis contributed to the procyclical nature of capital flows.

Major rating agencies are now moving to strengthen their analyses, and the Basel Committee proposals, which base banks' capital risk weights on external credit rating, lend even more urgency to their efforts. A more effective rating process could help moderate the boom-bust cycles that have characterized international capital flows.

The IMF study concludes that lessons from 1998's extraordinary turbulence have given shape to a long and ambitious agenda for the public and private sectors. While financial crises will never be eliminated, the report suggests that these efforts can help reduce the frequency and severity of financial crises and help ensure that all countries—including emerging markets—participate in capital markets without exposure to high risks. ■

Copies of *International Capital Markets: Developments, Prospects, and Policy Issues*, by an IMF staff team led by Charles Adams, Donald J. Mathieson, and Garry Schinasi, are available for $36.00 ($25.00 academic rate) from IMF Publication Services. See page 297 for ordering information. The full text of the September 8 press conference is available on the IMF's website: www.imf.org.

Macroprudential indicators

Seminar discusses ways to assess soundness of financial system to improve surveillance

As countries in East Asia and elsewhere weigh far-reaching measures to strengthen their financial systems, increase transparency, and address systemic issues affecting their financial sectors, a number of critical questions arise. How can the IMF strengthen its surveillance over countries' financial systems in the context of Article IV consultations? What indicators of the soundness and vulnerabilities of financial systems (that is, macroprudential indicators) can be used most effectively to monitor financial system stability? Should the international community establish guidelines and standards for the compilation of such indicators and, in general, aim for harmonization of efforts in this area?

Ingves: Stress testing is important in forward-looking approaches to macroprudential analysis.

To tackle these questions, the IMF organized a consultative meeting on September 10–11 at IMF headquarters. The meeting, hosted by the IMF's Monetary and Exchange Affairs and Statistics Departments, elicited a wide range of private and official opinions from outside the IMF. Participants included high-level experts from central banks and bank supervisory agencies, banking and investment officials from the private sector, academicians, and representatives from other international organizations. IMF senior staff, management, and Executive Board members also participated.

Carson: National authorities should be encouraged to compile and disseminate macroprudential indicators.

How to strengthen surveillance

In his opening statement, IMF Managing Director Michel Camdessus emphasized the role of IMF surveillance over countries' financial systems and the role of improved monitoring of financial systems by the countries themselves in strengthening the international financial architecture. The IMF is reinforcing its financial sector surveillance through the Financial Sector Assessment Program, which it is jointly developing with the World Bank. The objective of the program is to recognize potential problems at an early stage and develop responses promptly to avoid costly systemic crises. Identification of a core set of macroprudential indicators will support these efforts.

The main issues were whether it would be possible to define a core set of macroprudential indicators that the IMF could use in its surveillance work and whether macroprudential indicators could be included in the IMF's Special Data Dissemination Standard or alternative vehicles. In the individual presentations, participants reported their experiences in identifying, collecting, using, and disseminating macroprudential indicators. The private sector participants contributed valuable insights drawn from their work in monitoring systemic financial sector risks as a basis for investment decisions.

Assessing financial sector soundness

There was broad agreement among participants that knowledge in the area of macroprudential indicators is still limited. In particular, there is no consensus yet on a model for determining the vulnerability of a financial system or on a set of universally accepted macroprudential indicators. Using a single composite indicator was considered simplistic and even potentially misleading. Furthermore, analyses of financial sector vulnerability cannot rely on quantitative indicators alone. Qualitative information on institutional circumstances and informed judgments are also essential.

The meeting highlighted several important considerations that national authorities should bear in mind when monitoring and assessing financial sector vulnerabilities. These include the relative importance of macroeconomic variables and aggregated macroprudential data as well as the role of cyclical factors in interpreting changes in macroprudential conditions. Participants also emphasized that financial institutions tend to exhibit herding behavior based on bail-out expectations and tend to underestimate the likelihood of shocks.

Selecting and measuring indicators

On specific issues related to the selection and measurement of macroprudential indicators, participants broadly agreed on the need to improve the quality of accounting practices in many countries, assess nonbank financial institutions and the health of the corporate sector, address the limitations of aggregating microprudential information to obtain macroprudential indicators, and develop benchmarks and norms for the indicators. In light of the complex questions raised about defining the scope of the work on macroprudential indicators and ascertaining the technical feasibility of compiling them, the group supported undertaking a survey of national supervisors, statistical authorities, and data users.

In his summary, Stefan Ingves, Director of the Monetary and Exchange Affairs Department, noted that macroprudential analysis requires well-developed linkages between theory and practice, between supervisors responsible for individual institutions and central banks responsible for systemic stability, and between a wide variety of backward- and forward-looking indicators for financial sector health. He emphasized the importance of stress testing in forward-looking approaches to macroprudential analysis. He also underscored the need for better indicators of asset price booms and cycles in order to understand their role in causing financial distress, the need for improved availability of data on corporate and household indebtedness and balance sheets, and the need for a better understanding of contagion issues.

Carol Carson, Director of the Statistics Department, indicated in her summing up that, given the substantial work that would be required to craft a core set of macroprudential indicators, it was premature to include the indicators within the Special Data Dissemination Standard. In light of a consensus that the public needs better access to information on financial sector soundness, Carson noted that consideration should be given to creating incentives for national authorities to compile and disseminate macroprudential indicators. Private sector participants favored the compilation of internationally comparable sets of data to facilitate cross-country comparisons. In this connection, they agreed on the need to establish a process leading to greater harmonization of data over time.

The comments received during this consultative meeting will be incorporated in a paper on macroprudential indicators and data dissemination issues that will be presented to the Executive Board for discussion in October 1999. ■

Paul Hilbers and Marina Moretti,
IMF Monetary and Exchange Affairs Department
Russell Krueger, IMF Statistics Department

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Press releases

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

Cameroon: ESAF

The IMF approved the third annual loan under the Enhanced Structural Adjustment Facility (ESAF) to support Cameroon's economic and financial program. The three-year ESAF loan was approved on August 20, 1997, in an original amount of SDR 162.12 million (about $221.24 million), of which SDR 108.08 million (about $147.49 million) has been disbursed. The decision provides Cameroon with another SDR 54.04 million (about $73.75 million) to be disbursed during the third year of the ESAF, with SDR 18.01 million (about $24.58 million) available immediately.

Cameroon: selected economic and financial indicators

	1995/96	1996/97	1997/98	1998/99		1999/00	2000/01	2001/02
			Estimate	Revised program	Estimate	Program	Projections	
				(percent change)				
GDP at constant prices	5.0	5.1	5.0	4.4	4.4	4.8	5.3	5.5
Consumer prices (end of period)[4]	4.6	7.0	2.2	2.0	2.2	2.0	2.0	2.0
				(percent of GDP)				
Overall fiscal deficit (excluding grants)	–1.8	–1.0	–1.7	–3.6	–3.4	–2.9	–2.6	–2.4
Current account balance (including grants)	–4.1	–2.8	–2.7	–4.4	–4.4	–3.2	–3.0	–2.4
				(million SDRs)				
Net international reserves (end of period)	–409.0	–286.0	–312.0	–313.0	–286.0	–228.0	–129.0	–14.0

Note: Fiscal year begins in July.
[1]Estimate.
[2]Revised program.
[3]Projections.
[4]Starting in 1994/95, inflation reflects an updated basket of goods and services in the calculation of the consumer price index.
Data: Cameroonian authorities and IMF staff estimates and projections

Following are excerpts from IMF First Deputy Managing Director Stanley Fischer's statement on the Executive Board discussion.

"Directors commended the authorities for their good performance in implementing the first two annual ESAF-supported programs. Despite the adverse impact of the deterioration in the terms of trade in the first half of 1998/99, economic activity remains buoyant, and inflation has declined to a low level, owing to appropriate macroeconomic policies.

"Directors noted the progress made in the past two years in strengthening public finances through a regular transfer of oil revenues to the budget, the successful introduction of the value-added tax (VAT), and the adoption of an action plan aimed at improving expenditure management. Directors stressed, however, the importance of further strengthening the fiscal position in the medium term.

"Directors noted the progress made in implementing structural reforms, including the rehabilitation of the banking system, the large-scale privatization of public enterprises, and the significant actions to liberalize the energy and transport sectors. They stressed the need to improve transparency and fight corruption to enhance the effectiveness of government operations and stimulate private investment.

"Directors urged the authorities to continue to demonstrate strong program performance and prepare well-defined spending plans in the social sectors to ensure efficient utilization of the additional resources in the priority sectors of health, education, and poverty alleviation. In sum, Directors hoped that steadfast implementation of structural reform and well-targeted spending on the social sector would make Cameroon eligible under the HIPC Initiative."

IMF lifts declaration of noncooperation from Sudan

In a news brief issued on August 31, the IMF announced that Sudan has committed since February 1997 to a schedule of payments to the IMF and has made progress in implementing macroeconomic and structural policies. In view of this, as well as the prospects for continued cooperation with the IMF, the IMF's Executive Board lifted on August 27, 1999, its declaration of noncooperation from Sudan, which had been in place since September 14, 1990. Additionally, the Board decided that it could consider lifting the suspension of Sudan's voting and related rights following satisfactory performance regarding economic policies and payments to the IMF during an evaluation period of approximately 12 months from the date of the Board decision.

The Board's decision is the first step in a process of deescalation of the remedial measures that were applied earlier to Sudan. The deescalation process is designed to encourage members with protracted arrears to the IMF to establish a solid record of policy performance and payments to the IMF. Ultimately, the objective is full clearance of arrears and the ability to regain access to IMF financial resources.

After the Executive Board discussion, IMF Deputy Managing Director Shigemitsu Sugisaki made the following statement: "Sudan has established an encouraging track record of economic performance and payments to the IMF under the 1997 and 1998 staff-monitored programs and has laid a solid foundation for continued good performance under the 1999–2001 medium-term staff-monitored program. However, in view of the structural weaknesses in the Sudanese economy, it is critical that the authorities remain vigilant and keep the program on track, in terms of both macroeconomic and structural policies. Payments to the IMF and other creditors need to be made as committed by Sudan. This would allow the IMF to give consideration to further deescalation of the remedial measures and, eventually, to the possibility of a Rights Accumulation Program."

The full text of News Brief 99/52 is also available on the IMF's website: www.imf.org.

Program summary

Cameroon's good record of performance under the first annual ESAF program continued under the second, despite the adverse impact of a sharp deterioration in the terms of trade in the first half of 1998/99. Almost all quantitative and structural performance criteria and benchmarks for the year were met.

The medium-term strategy aims to restore external and internal viability, bring the economy onto a sustainable growth path, and substantially reduce poverty. Within this framework, the main macroeconomic objectives for 1999/2000 are to limit inflation to 2 percent and contain the external current account deficit to 3½ percent of GDP.

The key budgetary objectives are to achieve a primary surplus of 5.2 percent of GDP and thereby reduce the overall fiscal deficit to 2.9 percent of GDP, excluding grants. The authorities intend to strengthen non-oil revenue by improving the customs and tax administration, combat fraud, broaden the tax base, and strengthen VAT collection. At the same time, all export taxes have been eliminated except those on forestry products.

Structural reforms will focus on consolidating and deepening the ongoing reforms in agro-industry, public utilities, and the petroleum, transport, and financial sectors.

Improving transparency and fighting corruption are indispensable in enhancing the effectiveness of government operations and in stimulating private investment.

Cameroon's objectives in the social area are to be achieved through higher economic growth combined with improvements in quality and volume of spending in the primary health and education sectors, and through policies to ensure access to safe water and generic drugs.

Cameroon joined the IMF on July 10, 1963, and its quota is SDR 185.70 million (about $253.41 million). Its outstanding use of IMF financing currently totals SDR 128.17 million (about $174.91 million).

Press Release No. 99/40, September 7

Burkina Faso: ESAF

The IMF approved a three-year loan for Burkina Faso under the Enhanced Structural Adjustment Facility (ESAF), equivalent to SDR 39.12 million (about $53.79 million) to support the government's 1999–2002 economic program. The first annual loan will be disbursed in two installments, the first of which, equivalent to SDR 5.59 million (about $7.69 million), will be available shortly.

Excerpts from IMF Deputy Managing Director Shigemitsu Sugisaki's statement on the Executive Board discussion follow:

"Directors welcomed the progress made in reducing macroeconomic imbalances and implementing structural reforms under Burkina Faso's previous ESAF-supported programs. They were encouraged by the economic and financial developments in 1998 and the favorable prospects for 1999 in terms of economic growth, continued low inflation, and the further increase in the current primary budgetary surplus. They endorsed the focus of the new ESAF-supported program on completing the reform agenda, which should help reduce the economy's vulnerability to external shocks and achieve the high economic growth necessary to reduce poverty and improve key social indicators.

"In the fiscal area, Directors noted that a main policy objective is to widen the tax base, through improved taxation of the informal sector and a curtailment of exemptions, to offset the potential revenue shortfall arising from the implementation of the common external tariff (CET) of the West African Economic and Monetary Union (WAEMU). Expenditure policy is to remain prudent while providing additional room for higher expenditure on economic infrastructure and priority in social sectors, including health and education. In this context, Directors welcomed the work under way to enhance the transparency and medium-term focus of the budget through multiyear program budgets in key ministries. They also welcomed the government's commitment to further strengthen its policy in the key social sectors and to allocate to these sectors the resources that will be freed as a result of the HIPC Initiative.

"Directors emphasized the need to carry out with determination the ongoing structural reforms. In particular, they urged the authorities to press ahead with diversification of the economy, privatization of the telecommunication and energy sectors, opening up of the cotton sector to private operators, further strengthening of the legal and judicial system, and improving the overall environment for private sector development. Directors attached importance to the recent progress made in attracting a growing domestic consensus in support of the economic reform strategy."

Program summary

The medium-term strategy is to ensure the economy's high growth by improving its overall competitiveness, expanding the export base, and tackling the remaining reform agenda. Fiscal policy in 1999 and 2000 will aim at offsetting in part revenue losses caused by the introduction of the CET and the

Burkina Faso: selected economic and financial indicators

	1996	1997 Est.	1998 Prog.	1998 Est.	1999 Est.	1999 Prog.	2000 Program	2001 Program	2002 Program
	(percent change)								
GDP at constant prices	6.0	4.8	6.2	6.2	5.7	5.3	5.7	6.5	6.6
Consumer prices (end of period)	6.9	–0.1	2.5	1.0	2.5	2.3	1.5	2.0	2.0
Overall fiscal balance, excluding grants	–9.0	–10.2	–10.3	–9.8	–10.1	–10.0	–10.4	–9.9	–8.8
Current account balance (excluding current official transfers)	–14.7	–13.9	–10.9	–13.8	–10.2	–15.0	–12.8	–11.5	–10.8
	(months of imports)								
Net official reserves	10.7	10.6	9.8	8.7	9.7	8.5	8.3	8.2	8.3

Data: Burkinabé authorities and IMF staff estimates and projections

Members' use of IMF credit
(million SDRs)

	Aug. 1999	Jan.– Aug. 1999	Jan.– Aug. 1998
General Resources Account	451.72	7,820.91	12,569.17
Stand-By Arrangements	70.67	5,541.17	6,657.74
SRF	0.00	3,636.09	4,650.00
EFF	367.27	1,599.34	3,754.88
SRF	0.00	0.00	675.02
CCFF	13.78	680.40	2,156.55
ESAF	69.43	571.68	580.50
Total	521.15	8,392.59	13,149.67

Note: SRF = Supplemental Reserve Facility
EFF = Extended Fund Facility
CCFF = Compensatory and Contingency Financing Facility
ESAF = Enhanced Structural Adjustment Facility
Figures may not add to totals shown owing to rounding.

fall of profitability in the cotton sector by improving tax administration and widening the tax base. The main objective of monetary policy, which is conducted at the regional level in the framework of the WAEMU, is to preserve the peg to the euro and strengthen the union's foreign reserve position.

Structural reforms will focus on widening public enterprise privatization to include utilities and hotels, enlarging the private sector's involvement in the cotton sector, and facilitating the role of the private sector—in particular, strengthening the judiciary.

The debt relief to be obtained under the Heavily Indebted Poor Countries (HIPC) Initiative will boost resources for the social sector. Improving key social indicators is a central objective of the medium-term program. In the health sector, a main objective is to ensure that the network of health centers is fully operative, adequately staffed, and supplied with

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

Stand-By, EFF, and ESAF arrangements as of August 31

Member	Date of arrangement	Expiration date	Amount approved	Undrawn balance
			(million SDRs)	
Stand-By		39,577.64	13,951.81	
Bosnia and Herzegovina	May 29, 1998	April 28, 2000	77.51	24.24
Brazil[1]	December 2, 1998	December 1, 2001	13,024.80	5,969.70
Cape Verde	February 20, 1998	December 31, 1999	2.50	2.50
El Salvador	September 23, 1998	February 22, 2000	37.68	37.68
Korea[1]	December 4, 1997	December 3, 2000	15,500.00	1,087.50
Mexico	July 7, 1999	November 30, 2000	3,103.00	2,585.80
Philippines	April 1, 1998	March 31, 2000	1,020.79	475.13
Romania	August 5, 1999	March 31, 2000	400.00	347.00
Russia	July 28, 1999	December 27, 2000	3,300.00	2,828.57
Thailand	August 20, 1997	June 19, 2000	2,900.00	400.00
Uruguay	March 29, 1999	March 28, 2000	70.00	70.00
Zimbabwe	August 2, 1999	October 1, 2000	141.36	123.69
EFF			11,749.03	6,790.76
Argentina	February 4, 1998	February 3, 2001	2,080.00	2,080.00
Azerbaijan	December 20, 1996	December 19, 1999	58.50	5.26
Bulgaria	September 25, 1998	September 24, 2001	627.62	418.42
Croatia, Republic of	March 12, 1997	March 11, 2000	353.16	324.38
Indonesia	August 25, 1998	November 5, 2000	5,383.10	1,585.40
Jordan	April 15, 1999	April 14, 2002	127.88	117.22
Moldova	May 20, 1996	May 19, 2000	135.00	47.50
Pakistan	October 20, 1997	October 19, 2000	454.92	341.18
Panama	December 10, 1997	December 9, 2000	120.00	80.00
Peru	June 24, 1999	May 31, 2002	383.00	383.00
Ukraine	September 4, 1998	September 3, 2001	1,919.95	1,342.50
Yemen	October 29, 1997	October 28, 2000	105.90	65.90
ESAF			3,902.61	2,021.47
Albania	May 13, 1998	May 12, 2001	45.04	23.69
Armenia	February 14, 1996	December 20, 1999	109.35	20.93
Azerbaijan	December 20, 1996	January 24, 2000	93.60	11.70
Benin	August 28, 1996	January 7, 2000	27.18	14.50
Bolivia	September 18, 1998	September 17, 2001	100.96	67.31
Burkina Faso	June 14, 1996	September 13, 1999	39.78	0.00
Cameroon	August 20, 1997	August 19, 2000	162.12	54.04
Central African Republic	July 20, 1998	July 19, 2001	49.44	32.96
Côte d'Ivoire	March 17, 1998	March 16, 2001	285.84	161.98
Ethiopia	October 11, 1996	October 22, 1999	88.47	58.98
The Gambia	June 29, 1998	June 28, 2001	20.61	17.18
Ghana	May 3, 1999	May 2, 2002	155.00	132.84
Guinea	January 13, 1997	January 12, 2000	70.80	23.60
Guyana	July 15, 1998	July 14, 2001	53.76	35.84
Haiti	October 18, 1996	October 17, 1999	91.05	75.88
Honduras	March 26, 1999	March 25, 2002	156.75	96.90
Kyrgyz Republic	June 26, 1998	June 25, 2001	73.38	43.00
Macedonia, FYR	April 11, 1997	April 10, 2000	54.56	27.28
Madagascar	November 27, 1996	July 27, 2000	81.36	40.68
Malawi	October 18, 1995	December 16, 1999	50.96	7.64
Mali	August 6, 1999	August 5, 2002	46.65	39.90
Mauritania	July 21, 1999	July 20, 2002	42.49	36.42
Mongolia	July 30, 1997	July 29, 2000	33.39	21.89
Mozambique	June 28, 1999	June 27, 2002	58.80	50.40
Nicaragua	March 18, 1998	March 17, 2001	148.96	67.27
Pakistan	October 20, 1997	October 19, 2000	682.38	417.01
Rwanda	June 24, 1998	June 23, 2001	71.40	47.60
Senegal	April 20, 1998	April 19, 2001	107.01	57.07
Tajikistan	June 24, 1998	June 23, 2001	100.30	53.34
Tanzania	November 8, 1996	February 7, 2000	181.59	0.00
Uganda	November 10, 1997	November 9, 2000	100.43	43.52
Yemen	October 29, 1997	October 28, 2000	264.75	114.75
Zambia	March 25, 1999	March 24, 2002	254.45	244.45
Total			55,229.28	22,883.12

[1]Includes amounts under the 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

key medicines. In the education sector, the government intends to devote additional resources to school construction and adequate teaching materials.

Burkina Faso joined the IMF on May 2, 1963, and its quota is SDR 60.20 million (about $82.77 million). Its outstanding use of IMF financing currently totals SDR 84.74 million (about $116.51 million).

Press Release No. 99/42, September 10

Guinea-Bissau: Postconflict emergency assistance

The IMF approved SDR 2.13 million (about $3 million) in postconflict emergency assistance for Guinea-Bissau to support the government's reconstruction and economic recovery program in the aftermath of the 1998 armed conflict. The amount will be available immediately.

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

"Directors regretted that the 1998–99 civil conflict in Guinea-Bissau had inflicted grave suffering on the population and caused severe damage to the economy and infrastructure. They were encouraged by the determination shown by the government to redress the disruptions caused by the conflict, restore basic services, and rehabilitate the administrative structures. They expressed the hope that the institutional situation would consolidate rapidly and that the scheduled elections would be held in an orderly manner so as to give confidence to the international community and help create an environment conducive to economic development.

"Directors welcomed the adoption by the government of a program to be supported by the IMF under its guidelines on emergency assistance to postconflict countries. This program appropriately focuses on reconstruction, the demobilization of combatants, the restoration of key social and administrative services, and the strengthening of private sector operations. Directors stressed the importance of ensuring a prompt restoration of a functioning tax and customs administration and implementing rigorous controls in the expenditure process. They also urged that a plan of settlement of arrears to the private sector be speedily finalized and implemented with external financial assistance.

"Directors stressed the need to resume the restructuring and privatization of public enterprises and to strengthen the banking sector through the recapitalization of the main bank accompanied by the government's divestiture of its minority participation.

"Directors considered that the satisfactory implementation of this IMF-supported program could pave the way for the preparation of a program that could be supported by a new ESAF arrangement; they hoped that, at the time of Board agreement on such a program, the country could be in a position to reach the decision point under the HIPC Initiative, which is essential to reduce the extremely heavy debt-service burden."

Program summary

Following the intense warfare in mid-1998, the government is tackling the most urgent problems in the economic, humanitarian, and political areas. With elections set for November 28, 1999, preparations have to start without delay to ensure a peaceful and democratic vote. In the energy sector, electricity and water production and distribution have to be brought back to satisfactory levels. Occupants of homes destroyed or damaged during the conflict need assistance, and food provisions to certain parts of the country have to be ensured.

In addition to alleviating the immediate effects of the conflicts on the population, the government's priorities include rehabilitating the social sector, providing support for the private sector, making repayments of arrears, and establishing law and order. The government has initiated private sector funding at highly concessional rates to foster renewed enterprise activity, has committed to settling its arrears at mid-1998, and is planning accelerated reimbursements of obligations for goods and services used during the time of the conflict, including for electricity and petroleum. By the end of July 1999, the government was current on its wage and pension payments for the first six months of the year.

On fiscal matters, the finance ministry has taken measures to reactivate the key budget and revenue services, notably the budget and treasury directorates, customs, and domestic taxation office. There is an urgent need to restore the computerized taxpayers' database and begin the assessment of medium-scale taxpayers. For the 1999 budget, tax revenue will mainly come from customs tariffs and indirect taxes, as the yield from profit taxes will remain very low because of business losses suffered in 1998. The primary 1999 budget deficit is targeted at 4.2 percent of GDP, the same level as in 1997.

Monetary policy, conducted at the regional level by the Central Bank of West African States (BCEAO), will continue to aim at strengthening the foreign reserves of the West African Economic and Monetary Union (WAEMU) and at containing inflation at levels consistent with the exchange rate peg with the euro. Credit to the economy is projected to remain broadly stable, while bank credit to the government is expected to increase.

Guinea-Bissau: selected economic and financial indicators

	1996	1997		1998	1999
	Est.	Prog.	Est.[1]	Est.	Proj.
	(percent change)				
Real GDP at market prices	4.6	5.1	5.4	–28.1	7.5
Consumer price index (end of period)	65.6	10.3	16.8	7.9	6.0
	(months of imports of goods and services)				
Gross official reserves	1.6	2.7	4.5	6.0	3.1
	(percent of GDP)				
External current account (excluding current official transfers)	–27.4	–18.0	–23.4	–19.3	–38.4

[1]On May 2, 1997, the CFA franc (CFAF) replaced the Guinea-Bissau peso (PG) as legal tender, at a conversion rate of CFAF 1 = PG 65.

Data: Guinea-Bissau authorities and IMF staff estimates and projections

IMF announces conclusion of staff negotiations with Ecuador

In a news brief issued on August 31, Claudio Loser, Director of the IMF's Western Hemisphere Department, announced that agreement had been reached between the Ecuadoran authorities and the IMF staff mission in Quito on an economic policy program that could be supported by the IMF with a Stand-By Arrangement through the end of 2000. The draft Memorandum of Economic Policies will be submitted shortly to the IMF management for endorsement and, following the implementation of agreed actions in the fiscal and banking areas and the receipt of adequate financing assurances, will be presented to the IMF Executive Board for approval.

The full text of News Brief 99/53 is also available on the IMF's website: www.imf.org.

The government is determined to resume the structural reform program, including rapidly strengthening the banking system and ensuring its full compliance with the central bank's prudential criteria. Furthermore, it is proceeding with the privatization of the water and electricity company and is planning to conclude the privatization of the ceramics, timber, shipyard, and semi-industrial fisheries industries in the coming months.

Social indicators in Guinea-Bissau remain weak. The conflict severely disrupted social services despite a strong increase in social spending in the previous years. However, the authorities are keen to restore social services. This requires rapid rehabilitation of schools and health centers and the return of personnel who left the country during the conflict.

Guinea-Bissau joined the IMF on March 24, 1977, and its quota is SDR 14.2 million (about $19 million). Its outstanding use of IMF financing currently totals SDR 11 million (about $14 million).

Press Release No. 99/43, September 14

Nicaragua: ESAF

The IMF approved the second annual arrangement for Nicaragua under the Enhanced Structural Adjustment Facility (ESAF), equivalent to SDR 33.6 million (about $46.1 million), to support the country's economic program. The Executive Board of the IMF also had a preliminary discussion of the HIPC document for Nicaragua and considered the country eligible, in principle, for assistance under the Initiative. Nicaragua's three-year ESAF Arrangement was approved on March 18, 1998 (see Press Release 98/7, *IMF Survey*, April 8, 1998, page 107), in the amount of SDR 100.9 million (about $138.3 million), and in February 1999 was augmented by SDR 48 million (about $65.8 million).

Commenting on the Executive Board discussion on Nicaragua, IMF First Deputy Manager Director Stanley Fischer said:

"Executive Directors expressed their satisfaction with Nicaragua's macroeconomic, structural, and social policies in 1998 and thus far in 1999, which were broadly in line with the objectives of the ESAF-supported program. Despite the adverse impact of Hurricane Mitch in late 1998, economic performance had strengthened in 1999, with more rapid GDP growth, a decline in inflation, an increase in net international reserves, and a further drop in unemployment.

"Directors endorsed the authorities' new three-year program for 1999–2001, which aims at further fiscal consolidation and places renewed emphasis on structural reforms and improved governance. Directors supported the fiscal objectives of mobilizing domestic and external resources to meet priority spending needs while improving the overall public sector balance on a durable basis. They stressed that the success of the program would depend heavily on increasing public revenue and shifting spending priorities from unproductive areas to the social sector.

"Directors endorsed the authorities' strategy for poverty alleviation and social development, which focused on reforms of the public health and education systems, the strengthening of the social safety net, and the promotion of rural development. Reflecting additional international aid in the wake of Hurricane Mitch and donor support for the Supplementary Social Fund, total social expenditures are expected to rise to over 15 percent of GDP during the next two years.

"Directors welcomed the authorities' intention to give renewed emphasis to structural reforms, including the privatization program in the telecommunications and electricity sectors, as well as the reforms of the financial and social security systems. They strongly endorsed the authorities' intention to improve governance.

Program summary

Over the past several years, Nicaragua has made substantial progress toward macroeconomic stabilization, external viability, and the restoration of a market-based economy. Notwithstanding improvements in social conditions, poverty remains widespread in a fragile macroeconomic context where the external position is weak.

In 1998, under the ESAF-supported program, the fiscal position improved more than envisaged, credit policy was tightened, and progress was made in reforming the financial system, streamlining the public sector, and setting the legal framework for the privatization of public enterprises.

Medium-term strategy

The government's medium-term strategy for the remainder of 1999 and 2000–01 attaches priority to the reconstruction and expansion of public spending in the social areas. The program aims at further progress toward sustainability of the public finances and the external sector and at strengthening structural reforms and governance. The macroeconomic objectives of the program include limiting the 12-month inflation rate to 7 percent by end-2001, raising GDP growth to 6.5 percent in 2000–01, and strengthening the net international reserves position.

To these ends, the fiscal program seeks to mobilize domestic and external resources toward priority spending sectors, while improving the public finances on a sustained basis. Achievement of the fiscal targets is based on expenditure restraint and the strengthening of tax administration. The monetary program is based on an increase in currency in line with nominal GDP growth.

Structural reforms

During 1999–01, the government's structural and social policies agenda contemplates the consolidation of the reforms of the financial and public sectors, while "second-generation reforms" are introduced in the areas of social security and governance. A major reform of the social security system is planned to strengthen the financial position of the existing pension system and to introduce a fully funded system of individual, privately managed capitalized accounts.

Nicaragua joined the IMF on March 14, 1946; its quota is SDR 130 million (about $178.2 million). Its outstanding use of IMF financing currently totals SDR 101.7 million (about $139.4 million).

Press Release No. 99/44, September 16

Nicaragua: selected economic and financial indicators

	1994–96	1997	1998		1999		2000	2001
	Average	Actual	Prog.	Actual	Proj.[1]	New program	New program	
	(percent change)							
GDP at constant prices	4.1	5.1	4.8	4.0	6.0	6.3	6.5	6.5
Consumer prices (end of period)	11.9	7.3	8.0	18.5	12–14	10.0	8.0	7.0
Unemployment rate (percent)	16.7	14.3	...	13.2	…	10.5	9.0	8.0
	(percent of GDP)							
External current account balance	–39.6	–30.3	–23.2	–32.9	–31.4	–33.9	–31.7	–29.1
	(months of imports)							
Adjusted official reserves (end of period)[2]	1.4	0.2	1.8	1.0	2.7	2.5	3.1	3.5

[1]Presented to IMF Executive Board, January 28, 1999, as posthurricane projection.
[2]Gross reserves net of outstanding stock of CENIS.

Data: Nicaragua Central Bank and Ministry of Finance and IMF staff estimates

Study recommends ways to enhance surveillance over members' policies, increase transparency

The IMF released on September 14 the report of a group of independent experts: *External Evaluation of IMF Surveillance*. At a press conference accompanying the release of the report—whose conclusions were broadly welcomed by the IMF Executive Board, management, and staff—the chair of the Board's Evaluation Group, Thomas Bernes of Canada, said that in selecting the topic of IMF surveillance, the Board "wanted to look at what is at the heart of the IMF's mandate." The aim was not to look at individual country programs, he said, but to examine how the whole process of surveillance was carried out—both bilateral reviews of individual economies and multilateral surveillance (as in the case of the IMF's World Economic Outlook exercise).

The chair of the external evaluation team, John Crow, highlighted three central sets of issues for IMF surveillance over the macroeconomic policies of its members:

• *Scope of surveillance*. What should surveillance focus on and is it in danger of becoming unfocused? The external evaluation team concluded, he said, that the IMF "should focus above all on the important systemic and international issues in the world financial picture—those matters where the IMF has a significant comparative expertise." There was a risk, the team felt, that, as the IMF was asked to do more and to cover a broader set of issues, this focus might be lost without much being gained in compensation.

• *Transparency and confidentiality*. Crow said that on grounds of principle, such considerations as accountability; peer review, which is at the heart of surveillance and therefore its political legitimacy; and practicality argue for the publication of the IMF staff's Article IV consultation reports with member countries. At the same time, he emphasized that this did not mean there should be no confidential exchanges between a member and the IMF.

• *Methods and governance*. Crow said that the team had addressed a range of issues in staff surveillance practice and the role of the Executive Board. Regarding the Board, there were two issues, he said: how to lessen the Board's excessive workload by making its oversight more focused through efficient and effective committee work; and the governance question of "how the Board might best exercise ownership of the process and thereby ensure that each consultation exercise covers what is truly important."

Focus and impact of surveillance

In reviewing IMF surveillance, Crow said, the external evaluation team had examined the policy advice that the IMF provided to member countries rather than its program lending. In its work, the team had full access to a wide sample of countries, to IMF staff, and to internal IMF documents. In explaining the team's key recommendation that bilateral surveillance should focus as much as possible on the core issues of exchange rate policy and directly associated macroeconomic policies—including financial sector, capital account, and vulnerability issues—he emphasized that the IMF had a clear and underexploited advantage in three areas. These were in relating a country's position to the international economic situation and prospects; analyzing the experiences of other countries encountering similar policy problems; and discussing the likelihood of, and possible responses to, significant negative external shocks.

IMF advice could often be significant, Crow said. The external evaluation team had looked at IMF surveillance advice to four countries that subsequently experienced economic crises. "At the end of the day, however, it was not clear to us that the authorities really paid that much attention to the IMF's advice, whether they wanted to or not," he said. "They were all in rather difficult political situations, and the domestic politics overrode the IMF advice." This, he said, pointed to the need to make IMF advice more transparent; publication of staff reports would enhance the weight and influence of IMF advice.

The report also recommends that the IMF curtail the expansion of surveillance into nonfinancial structural areas and emphasize more continuous surveillance. It recommends reducing the resources devoted to the surveillance of small and medium-sized industrial countries and argues that the surveillance of the major industrial countries should focus more on the interna-

Surveillance external evaluation team

John Crow
former Governor, Bank of Canada

Ricardo Arriazu
Bansud, Buenos Aires, and former IMF Alternate Executive Director

Niels Thygesen
Danske Bank Professor of International Economics, University of Copenhagen

IMF releases *External Evaluation of Economic Research Activities*

External Evaluation of IMF Economic Research Activities—a report by another group of independent experts—was also released by the IMF to the public on September 14. The evaluation was chaired by Professor Frederic S. Mishkin of Columbia University, New York. The other members of the evaluation team were Professor Francesco Giavazzi of Bocconi University, Italy, and Professor T.N. Srinivasan of Yale University.

The full text of this report, together with the conclusions of the IMF Executive Board's consideration of the evaluation, the comments by the Managing Director, and the IMF staff's response, is available on the IMF website: www.imf.org

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John Crow (left) and Thomas Bernes discuss evaluation report at the press conference.

tional aspects of policy. This point was also stressed at the press conference by Niels Thygesen, who said that the IMF should be more reticent about taking on additional responsibilities. Some issues, such as labor standards, he said, could be left to other institutions.

Leslie Lipschitz, Deputy Director of the IMF's Policy Development and Review Department, concurred with the report's message that the IMF should not be asked to do everything with no more resources. But he did emphasize that the IMF could be neither relevant nor responsive to members' demands if it focused only on a few small, traditional areas. "There are issues beyond the conventional core topics that are nevertheless core to the set of considerations within the IMF's mandate," he said. "As long as the case for relevance can be made on each of these issues, they ought to be brought to the table."

On the issue of publishing staff reports, Lipschitz pointed out that the IMF had been publishing an increasing number of Public Information Notices (PINs) and also had a pilot project on publishing staff reports (*IMF Survey*, August 2, 1999, page 247). He added: "the critical question that we were trying to evaluate in this pilot project was whether, if authorities know that this report will be published, the discussions will be a great deal less candid....We have to see fully the results of this pilot project before we decide which way to go."

Next steps

Many of the key themes of the report of the external evaluators will be considered again by the IMF Executive Board in the context of an internal review of IMF surveillance later this year. In addition, the Board will consider an action plan prepared by management in response to the recommendation proposed by the evaluators for improving the internal organization of the IMF.

External evaluations of IMF activities

The external evaluation of IMF surveillance is the second of three independent external evaluations that have been conducted since late 1996. The first, an external evaluation of the Enhanced Structural Adjustment Facility, was conducted by a team of experts led by Kwesi Botchwey, former finance minister of Ghana (*IMF Survey*, March 23, 1998, page 81). The third external evaluation covers the IMF's economic research activities (see box, page 303). ■

The full texts of the press conference and the report, External Evaluation of IMF Surveillance, *together with the conclusions of the IMF Executive Board's discussion and the responses of IMF management and staff, are available on the IMF website: www.imf.org.*

Available on the web (www.imf.org)

News Briefs

99/51: IMF Launches Country Pages on Website, August 27
99/52: IMF Lifts Declaration of Noncooperation from Sudan, August 31
99/53: IMF Announces Conclusion of Staff Negotiations with Ecuador, August 31
99/54: IMF Launches Home Pages in French and Spanish, September 3
99/55: IMF Compiles Reviews and Approves $184 Million for Ukraine, September 8
99/56: Chile's Aninat Named IMF Deputy Managing Director, September 13
99/57: IMF Completes Review and Approves $72 Million Credit Tranche for Bulgaria, September 15
99/58: IMF Releases Second Round of Experimental Reports on the Observance of Standards and Codes, September 21

Public Information Notices (PINs)

99/85: The Bahamas, August 27
99/86: Equatorial Guinea, August 30
99/87: Sweden, September 2
99/88: Malaysia, September 8
99/89: New Zealand, September 15
99/90: Tunisia, September 17
99/91: Kiribati, September 22

Letters of Intent and Memorandums of Economic and Financial Policies

Uganda, August 26
Brazil, September 2
Cameroon, September 9
Ukraine, September 10

Policy Framework Papers

Cameroon, September 10
Bulgaria, September 15
Nicaragua, September 16
Burkina Faso, September 17
Guinea-Bissau, September 20

Notes: PINS are IMF Executive Board assessments of members' economic prospects and policies issued following Article IV consultations—with the consent of the member—with background on the members' economies, and following policy discussions in the Executive Board at the decision of the Board.

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

Policy Framework Papers are prepared by the member country in collaboration with the staffs of the IMF and the World Bank. These documents, which are updated annually, describe the authorities' economic objectives and macroeconomic and structural policies for three-year adjustment programs supported by Enhanced Structural Adjustment Facility resources.