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### Business Council Address

## Camdessus Assesses Prospects for Recovery In Emerging Market Economies

On September 15, IMF Managing Director Michel Camdessus addressed the European-American Business Council in New York on the prospects for emerging markets in the wake of the Asian financial crisis. Following are edited excerpts of his remarks.

We are witnessing wave upon wave of tensions in global financial markets, turbulence that spreads like wildfire from one part of the world to another. Have economic fundamentals changed so suddenly, so substantially, and simultaneously throughout the world? Or is the loss of confidence that was understandable in some—I repeat, some—countries being transferred indiscriminately to all markets, emerging and established alike?

In this volatile situation, calm analysis is more important than ever. Not all markets, economies, or crises are the same; nor will the path to recovery be the



Michel Camdessus

same in each case. Market participants need to be discerning, capable of discriminating among economies, aware that when risks turn to reality in one economy, the same course of events does not need to unfold elsewhere, but that all countries—and institutions—must read the markets' messages properly.

Not all the news of the day is gloomy. Although downside risks have increased in recent weeks in so many places, the fundamentals of the

European and North American industrial economies remain sound. These economies offer a powerful message to the rest of the world that remains valid even in turbulent times. Fiscal discipline, supported by a responsive monetary policy within a sound financial system, works. *(Please turn to the following page)*

### Annual Meetings Preview

## Governors to Discuss Global Policy Challenges, Architecture of International Monetary System

The economic crises affecting Asia and Russia and their global repercussions will dominate deliberations at the Fifty-Third Annual Meetings of the Boards of Governors of the IMF and the World Bank, which will formally open in Washington on Tuesday, October 6. The meetings will be chaired by Wolfgang Ruttensstorfer, Secretary of State in the Austrian Finance Ministry.

The Annual Meetings will be preceded on October 4 by the meeting of the IMF's principal advisory body, the Interim Committee of the Board of Governors on the

International Monetary System (Interim Committee). This meeting will be followed on October 5 by that of the Joint Bank and Fund Committee on the Transfer of Real Resources to Developing Countries (Development Committee).

Deliberating against the background of the continuing turmoil in world financial markets, the Interim Committee will assess the outlook for the world economy and global policy challenges, as well as developments in international capital markets and policy responses to the ongoing crisis. As background to its discussions, the Interim Committee will have before it summaries of the IMF Executive Board's discussions of the *World Economic Outlook* and *International Capital Markets* reports and of the *(Continued on page 288)*



Wolfgang Ruttensstorfer

(Continued from front page) By recognizing that the balance of risks has shifted from inflation to slowdown in demand, the Group of Seven industrial countries, in the context of a declaration, have pledged their commitment to preserve or create conditions for sustainable domestic growth and financial stability—so critical in today's world environment.

Asia offers the first rays of hope for resolving the economic crises that now threaten so many countries. In Asia, we find the first countries to experience crisis in 1997, the first to respond, and, although it is not yet widely recognized, the first to be showing some positive results—however tentative and incomplete. The experience of these countries holds out clear hope that serious problems can be avoided in most countries and that seemingly intractable problems, even in Russia, can be resolved, given commitment, sound policies, and a steady nerve.

### Asia and the Three Tiers of Recovery

Reflection on the precrisis situation in the Asian countries in mid-1997 points to the buildup of serious structural problems in the financial and corporate sectors and inadequate macroeconomic policies. Overheating, arising from surging private sector demand, was reflected in real estate and stock market bubbles and, in Thailand particularly, in large trade deficits. Pegged exchange rate regimes had been maintained for too long, encouraging heavy external borrowing, including increasing amounts of short-term credit, which created excessive exposure to foreign exchange risk in both the financial and the corporate sectors. Inadequate prudential rules and supervision allowed the quality of banks' loan portfolios to degenerate quickly.

It would not be appropriate, nevertheless, to attribute the financial crisis in Asia, or indeed in other regions, solely to their policy shortcomings. Private investors were attracted by the high returns in these countries and perhaps less inclined to assess the risks carefully. This led many to lose sight of the fact that the steady appreciation of the dollar against the Japanese yen from mid-1995 was contributing to a loss of export competitiveness in countries whose currencies were tightly linked to the U.S. dollar. Then the Thailand crisis blew up, and its depth led the markets to reassess emerging markets' risks—a major factor in the broadening of the crisis.

The policy programs to respond to the crisis had to be speedily designed to emphasize the immediacy of macroeconomic adjustment and to recognize the sheer magnitude of the structural reforms that had to be ini-

tiated from the outset. The programs supported by the IMF in Indonesia, Korea, and Thailand comprised three “tiers of recovery”: restore stability, improve soundness, and boost efficiency.

**Restore Stability.** Immediate action is needed for countries faced with sudden acute pressure on their balance of payments. There have been setbacks, however, to the initial stabilization. Economic activity in the crisis countries has contracted sharply, more so than was expected at first. With these contractions have come the social costs: an increasing incidence of poverty, rising unemployment, and steeply rising food prices. The programs adopted in response have not relied primarily on “traditional” prescriptions of budgetary austerity. Except in Thailand, the initial fiscal adjustment called for was quite small, to leave room for financial sector restructuring. Moreover, where necessary, the IMF has been perfectly ready to alter—and to relax—targets to allow room within public expenditure for targeted programs of poverty alleviation and to stimulate the economy.

In Thailand and Korea, the external position has strengthened decisively, currencies are rebounding, interest rates are easing, and inflation has not risen as much as had been feared. These developments point to the return of more stable financial conditions that are essential prerequisites for resumed growth, although undoubtedly new risks could arise from the recent weakening of the external environment.

**Improve Soundness.** The objective of the second tier of recovery is to promote the changes that would justify renewed confidence in the soundness of both financial and corporate systems. In the financial sector, banks were brought under greater scrutiny, with the weakest being closed or restructured, sometimes with public funds. Prudential regulations are being strengthened as are standards for accounting, auditing, and disclosure.

The problems of financial systems were in very large measure an outgrowth of fundamental weaknesses in the corporate sector, especially the excessively close relationship between banks, corporations, and the state. Concepts such as transparency, governance in both public and private sectors, and the fight against corruption have therefore come to center stage. Early on, steps were taken to work out the massive debt obligations of corporations in a way that is fair to both domestic and foreign creditors. The next stages, already under way, will consist of liberalizing domestic markets, lowering trade barriers, privatization, easing restrictions on entry by foreign investors, and strengthening bankruptcy laws and procedures.

**Boost Efficiency.** Basic changes in the policymaking approach, allowing market forces to operate more freely, will be essential. This tier has perhaps been more controversial than the others due to many misunderstandings about the parameters of the “Asian miracle.”

**It would not be appropriate to attribute the crisis in Asia solely to policy shortcomings.**

For years, the Asian tigers' growth was driven by the massive flow of investment, supported by the impetus from an expanding and increasingly educated labor force. Looking to the future, we can be certain that it will not be back to "business as usual." True, many familiar features will still be there: the dynamism, the skilled workforce, the traditional Asian propensity to work and save. Nevertheless, capital may well be less abundant or more costly so that, to restore growth to sustainable levels, investment will have to become much more efficient.

Despite the sharp decline in output, there are promising signs of a good start to the first tier of policies. Indeed, if the IMF's mandate were interpreted in a very narrow, traditional sense, as some have suggested it should be, could we not count our task as largely complete? After all, external reserves have been rebuilt, exchange rate stability is being restored, and inflation is at quite low levels. But to stop at this point would not discharge our responsibilities to the countries in crisis or to the world. Only by implementing policies at the second and third tiers—structural and institutional reforms—will it be possible to ensure that the prospects for sustained high-quality growth are restored, that sound institutions and practices are in place, and that the external position remains viable in the medium to long term.

### Recovery in Other Countries

As the second largest industrial economy, *Japan* plays a pivotal role in the world economy, especially in supporting recovery in Asia. At present, the Japanese economy is wracked with financial and corporate sector problems that are not so different from those elsewhere in Asia. But the current recession stands in contrast to the imbalances created by years of fever-pitched activity in the Asian tigers. In that sense, Japan's task is clearer: the first urgent order of business is prompt, resolute action to get its financial system in order. That confidence-building step is essential to underpin the strong fiscal action Japan should take to stimulate its economy, while pushing its agenda for deregulation, openness, and structural reform.

In *Russia*, the problems are profound; they have origins far beyond the purely economic domain. In economic terms, the principal causes of the Russian crisis relate to domestic fundamentals; contagion from crises elsewhere—including the impact of lower oil and gas prices—is only part of the story.

The path to recovery in Russia, which will need programs at least as comprehensive as those in Asia, is likely to be quite difficult, since Russia needs to restore the confidence severely weakened by its decision to unilaterally restructure its domestic debt obligations. Nevertheless, if Russia, like Asia, can begin again to help itself—and do so convincingly—then the IMF stands ready to help. Russia has achieved a lot during

the last six years; most of the basic elements of its transformation are still in place. Let us hope that the new government will soon be able to start building on these foundations and assembling the broad support that the needed changes will require.

Emerging markets in *Latin America* have been particularly affected by market turbulence since the Russian crisis. This region responded strongly to the Mexican crisis in 1995 and made significant progress with structural reforms, especially in the area of public finance and the financial system. The region had generally been coping well with the contagion that followed the Asian crisis in 1997. But with global market volatility in recent weeks, coincident with declining oil and primary commodity prices, a number of these economies have come under renewed pressure.

The countries' response to these developments illustrates two points: first, their determination to undertake appropriate policies; and second, the role that the IMF can play in assisting countries on a regional basis through its policy advice, even before proffering financial assistance. At a regional surveillance meeting in Washington [see page 303], Western Hemisphere policymakers stressed that they were not seeking additional financial assistance. They reaffirmed their commitment to sustaining growth through the pursuit of macroeconomic stability, maintaining open capital markets, and deepening reform efforts.

In contrast with this policy stance, there are still voices that recommend to countries confronting a difficult external environment that they yield to the temptation of superficially attractive, populist options, such as unilaterally restructuring debt, imposing new payments restrictions, increasing government intervention in markets, or trying to stimulate expansion by printing money. We know too well that such a retrograde approach would reverse years of progress toward more open economic management and would quickly undermine countries' capacity to reap the benefits of the global economy.

This being said, it is remarkable to see how limited is the impact of these so-called alternatives. A growing majority of countries is striving in the opposite direction, to implement more promising programs based on sound money, budget discipline, state restraint in economic intervention, structural adjustment, strengthened financial systems, and good corporate and public sector governance, in a context of orderly integration in the world economy. These are the only programs the IMF supports. More than 80 countries—emerging, transition, and those among the poorest, particularly in Africa—are implementing or actively negotiating such programs with us.

**Yielding to populist options would reverse progress toward open economic management.**

## The New Architecture

What concerns us now is the future of the international monetary system. Thus, looking to the longer term, we have been working with our member governments on proposals to strengthen the architecture of the international financial system, identifying steps that can be taken to minimize the risks of crises in the future. This work aims to create a global system that is stable, sound, open, transparent, and fair.

The agenda brings together roles, rights, and obligations for the different constituents of the global economy: governments, citizens, private corporations, and international organizations. Work in progress includes:

- strengthening the IMF's surveillance of its members' policies, especially with respect to financial sector issues and capital flows;
- improving the soundness of financial systems through widespread adoption of consistent standards and practices for regulating and supervising banking systems, securities markets, and other financial institutions;
- strengthening the financial infrastructure through more uniform standards for auditing, accounting, bankruptcy procedures, and payments systems;
- providing for timely and accurate information in the form of data and more open communication to the markets about economic policy formulation and results;
- defining the principles of good governance in both the public and private sectors;
- continuing firm but orderly progress toward freeing capital flows;

- developing ways to involve the private sector in forestalling financial crises and resolving them if they do occur; and

- promoting a permanent dialogue with governments to ensure that economic and social policies contribute to improving opportunities for all citizens to participate in and benefit from economic progress. This is the ultimate aim of all our efforts.

Even as the architecture is being reinforced, one urgent task needs attention to enable us to continue with our work. The IMF's tasks are to offer policy advice to all members and to provide financial support to those members that need it and are prepared to make the necessary policy changes. The IMF needs to be able to remain an effective partner with its members as they confront these challenges of increased market turbulence. This has a name: it is the increase of our quotas—a decision involving our 182 members. It is still pending, particularly in the United States. I have no doubt that this decision will be taken promptly, as has always been the case in our history, enabling the IMF not to save the world—this is not its mission—but to help effectively those who strive to save themselves. ■

The full text of this speech is available on the IMF's web site at <http://www.imf.org>.

## Annual Meetings to Review Demands on IMF Resources

(Continued from front page) economic policy challenges facing the euro area.

A key item on the agenda will be a discussion on strengthening the architecture of the international monetary system, as a means of forestalling or lessening the impact of crises. This discussion is likely to include consideration of ways to strengthen financial systems and promote the orderly liberalization of capital markets; the strengthening of IMF surveillance and the functioning of markets; transparency; international financial standards; data availability, dissemination, and provision to the IMF; and the involvement of the private sector in forestalling and resolving financial crises.

The Interim Committee will also discuss the following issues of direct concern to IMF operations:

- *IMF resources.* At the 1997 Annual Meetings in Hong Kong SAR, agreement in principle was reached on a

45 percent increase in IMF quotas. The recent demands on the IMF's financial resources have given a special urgency to this issue. The Interim Committee will review the IMF's liquidity situation and progress toward both formal ratification of the quota increase by the IMF's membership and adherence to the New Arrangements to Borrow (NAB) by potential participants. The committee will also review progress toward an amendment of the IMF Articles that would provide for a onetime equity allocation of SDRs, totaling SDR 21.4 billion, which would equalize all members' ratios of SDRs to quotas at 29.3 percent.

- *Assistance to heavily indebted countries.* The Enhanced Structural Adjustment Facility (ESAF) is the main mechanism for the IMF's support for poor countries. The Initiative for the Heavily Indebted Poor Countries (HIPC Initiative) is the lead element in the



**Photo Credits:** Denio Zara, Padraic Hughes, and Pedro Marquez for the IMF, pages 285, 296, 303, and 304.

effort to reduce the debt burden of the poorest of these countries to sustainable positions over the medium term. Both the Interim Committee and the Development Committee will discuss the progress that has been made toward full financing for the Initiative and in implementing it. In addition, the Interim Committee will have available the Executive Board's report on progress in the area of post-conflict assistance.

- *IMF-World Bank collaboration.* Both the Interim Committee and the Development Committee will discuss ways to enhance collaboration between the two institutions.

- *EMU and the IMF.* The Interim Committee will also discuss a range of operational issues concerning relations between the IMF and members of the European Economic and Monetary Union (EMU) after January 1, 1999, when the third and final stage of EMU is to commence.

The Annual Meetings will be preceded by meetings of the ministers of the Group of 10 industrial countries, ministers of the Group of 24 developing countries, and deputies of the Group of 24. On September 30, Michael Mussa, Economic Counsellor of the IMF and Director of the Research Department, will brief the press on the October 1998 edition of the IMF's *World Economic Outlook*.

The opening ceremonies of the Annual Meetings on Tuesday, October 6, will be followed by the addresses of the Chairman of the Boards of Governors, Wolfgang Rutenstorfer, Secretary of State in the Austrian Finance Ministry; IMF Managing Director Michel Camdessus; and World Bank President James Wolfensohn. The annual discussions, which will continue on Wednesday, October 7, and Thursday, October 8, will provide an opportunity for governors representing both industrial and developing countries and regional groupings to address major issues affecting the world economy and the operations of the IMF and the World Bank.

In addition, a series of IMF and World Bank seminars on a wide range of topics under the general theme of "The Knowledge Economy" will be held before and

during the Annual Meetings. 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 affecting the global economy. This year's program will focus on the topic of how information and the technologies that deliver it are transforming economic development. ■

The schedule for the Annual Meetings, fact sheets, and related documents are available on the IMF's web site: <http://www.imf.org>.

## International Monetary Fund World Bank Group Annual Meetings Schedule of Events

### Friday, October 2

*Group of 24 Deputies*  
Chairman, Mohamed Terbéche,  
Advisor, Ministry of Finance of Algeria

### Saturday, October 3

*Group of 24 Ministers*  
Chairman, Abdelkrim Harchaoui,  
Minister of Finance of Algeria

### Sunday, October 4

*Group of 10 Ministers*  
Chairman, Gordon Brown,  
Chancellor of the Exchequer of the  
United Kingdom  
*Interim Committee*  
Chairman to be announced

### Monday, October 5

*Development Committee*  
Chairman, Tarrin Nimmanahaeminda,  
Finance Minister of Thailand

### Tuesday, October 6

*Opening Ceremonies*  
Address by the Chairman of the Boards of  
Governors of the International Monetary Fund and  
the World Bank Group, Wolfgang Rutenstorfer,  
Secretary of State in the Federal Ministry of  
Finance of Austria

Annual Address, Michel Camdessus,  
Managing Director, International Monetary Fund

Annual Address, James Wolfensohn,  
President, World Bank Group

*Annual Discussions*

### Wednesday, October 7

*Annual Discussions*

### Thursday, October 8

*Annual Discussions*  
*Closing Ceremonies*



## HIPC Documents Available On IMF Web Site

Documents prepared by the IMF and the World Bank staffs at the decision and completion points for the Heavily Indebted Poor Countries (HIPC) Initiative are being released for the first time and will be available on the IMF's Internet web site ([www.imf.org](http://www.imf.org)). The first group, posted September 22, includes documents prepared at the decision point for Benin, Burkina Faso, Guyana, Mozambique, and Senegal. Documents for other countries that have reached the decision or completion points (Bolivia, Côte d'Ivoire, Mali, and Uganda) will be available shortly.

## Asian Crisis Dominates Developments in International Capital Markets

Rocked by turbulence in Asian emerging markets unmatched since the early 1980s debt crisis, international capital markets face a daunting prospect of damage control and prevention. In the wake of the Asian crisis and the more recent Russian crisis, the international community, including the IMF, has been undertaking a far-reaching reassessment of the international architecture for crisis prevention and resolution. *International Capital Markets: Developments, Prospects, and Policy Issues*, the IMF staff's annual review of financial market activity, focuses on various issues surrounding the behavior of financial markets during the Asian crisis and the policy lessons to be drawn for dealing with volatility in capital flows. The report also reviews recent financial market and banking sector developments in the developed and emerging markets, developments and initiatives in banking system supervision and regulation, and the financial infrastructure for managing systemic risk in the European Economic and Monetary Union (EMU).

### Capital Market Dynamics

The Asian crisis, according to the IMF staff report, is notable both for the severity and the virulence with which it has affected not only countries within Asia but also emerging markets in other regions, necessitating extensive official financial support and assistance, especially from the IMF. Following the July 1997 devaluation of the Thai baht, the currencies of other Southeast Asian countries experienced severe pressures in foreign exchange markets and began to depreciate. Several emerging markets outside the region—notably, Brazil and Russia—were also adversely affected by a shift in sentiment about emerging market vulnerabilities.

The currency weakness was further compounded by market concerns about the implementation of the first round of IMF programs in the region and the degree of domestic political commitment to reform. These concerns were based in part on the slow progress in dealing with financial sector and other problems and, in some cases, reversals in the reform program.

The spillovers during the Asian crisis were particularly virulent and exceeded those normally associated with macroeconomic and trade linkages. Incomplete information about key financial variables and a “wake-up” call about the worsening regional situation appear to have contributed, as well as growing financial linkages among Asian emerging markets. Financial linkages also help explain the emergence of pressures in Brazil and Russia.

The extent and depth of the crisis exceeded expectations, inside or outside the Asian region. The study suggests that because no one expected the highly successful

economies of Southeast Asia to suffer such catastrophes, government authorities focused inadequate attention on growing vulnerabilities before the crisis started. Once the crisis was under way, policymakers were generally unprepared to recognize these vulnerabilities and to act decisively and credibly. Further, there was little recognition of the need in a crisis for an appropriately firm monetary policy to resist a collapse of the exchange rate.

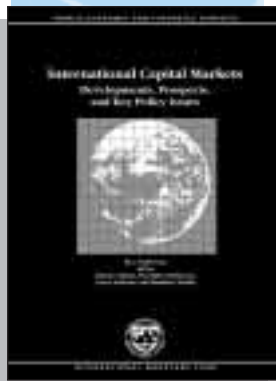
### Implications for Emerging Markets

The Asian financial crisis shares several similarities with the two most recent emerging market crises—the debt crisis of the 1980s and the 1994–95 Mexican crisis, the study notes. Each crisis was preceded by a surge of capital into the affected countries, access to international markets at favorable terms, and rapid growth of external debt combined with increased exposure to movements in interest and exchange rates; and each crisis was unanticipated by most observers right up to when it occurred. When the crises broke, there was an abrupt loss of market access as well as spillover effects to other similarly placed economies. In all three crises, contagion across countries was worsened by weak banking systems and weak, nontransparent, and inadequately supervised financial systems.

Several features of the Asian crisis, however, differentiate it from earlier episodes. Monetary and fiscal policies in all the crisis countries had not been judged to be seriously out of line before the crises, and macroeconomic performance, as measured by growth and inflation, was generally strong. Also, compared with earlier crises, the external liabilities acquired by the Asian emerging markets were largely in the private rather than the official sector.

The Asian financial crisis has raised questions about the factors underlying large surges in capital flows to emerging markets and the reasons for the abrupt and sharp reversals. To the extent that surges are fueled by moral hazard or imperfect information, the IMF staff study suggests that policymakers in emerging markets need to take steps to reduce expectations of bailouts and to improve transparency in government decision making and in the operation of the banking and corporate sectors. It is important to remember, however, that the market dynamics of surges and reversals are not peculiar to emerging markets, and it is unrealistic to think that they will ever be completely eliminated. If, as seems likely, they are to be a recurrent feature of the global financial system, the study suggests, it is necessary to put in place institutions and policies to manage and reduce the macroeconomic and financial risks associated with these flows.

A resilient financial sector is clearly required for coping with abrupt changes in asset prices and capital



flows. Countries need to have effective regulatory and supervisory controls, so that financial institutions have the ability and incentives—perhaps, including higher capital requirements—to price and manage the risks associated with volatile capital flows. This requires effective market discipline whereby the use of the safety net is costly, so that management and owners have an incentive to maintain the health of their institutions.

Given the limits to the pace at which financial sectors can be strengthened, policymakers need to undertake an orderly opening of their financial systems and may need to consider imposing temporary measures to restrain certain types of inflows. These would include various prudential controls that attempt to increase the cost of using external debt, thereby internalizing some of the moral hazard and discouraging some of the “hot” inflows. Prudential regulations that limit the amount of inflows intermediated through the banking system may also be appropriate.

### Mature Markets

At the time the IMF staff study was being prepared, the performance of mature financial markets in North America and Europe had remained favorable, despite the Asian crisis, with only limited negative spillovers and a modest pickup in volatility. The favorable performance reflects relatively strong macroeconomic conditions and policies in many countries, an environment of low and stable inflation, and generally relatively small and well-provisioned bank exposure to the Asian emerging markets. Among the major advanced countries, performance in the United States has been especially strong, with inflation remaining low even though unemployment has fallen to rates that in the past have been associated with growing price pressures. Following cyclical weakness, economic activity has begun to strengthen in continental Europe as confidence has grown in the period leading to the launch of the euro at the beginning of 1999.

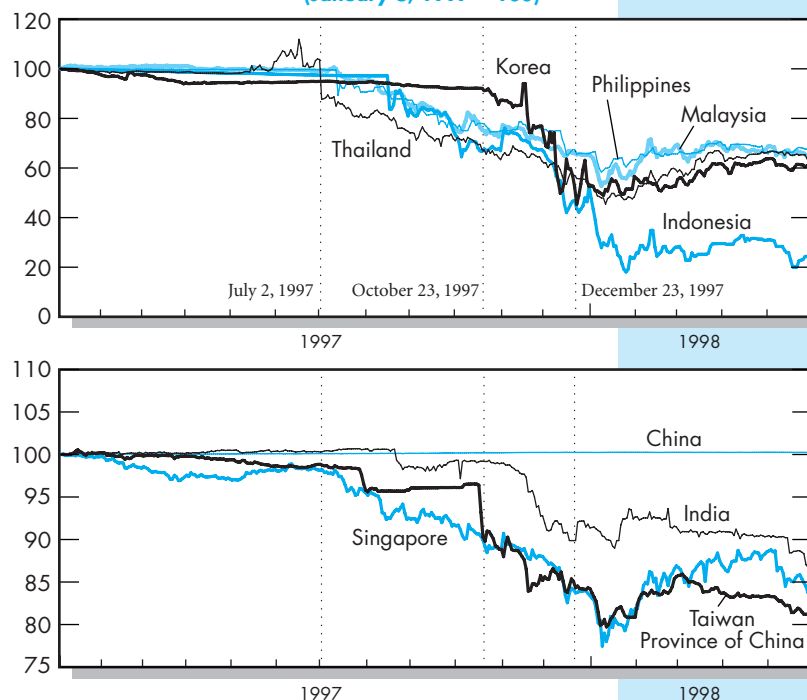
**EMU.** The May 1998 EMU decisions on the 11 countries that will participate in the first round of EMU represents a further important step toward the goal of a European currency area. The potential benefits to European financial markets are far-reaching and include the development of EMU-wide capital markets, creation of a European payments system, and the restructuring and consolidation of national banking systems. Nonetheless, there is uncertainty among market participants about several aspects of EMU, including the role that will be played by the TARGET real-time payments system in reducing systemic risk, the organization and structure of pan-European interbank and money markets, and policymakers’ and institutions’ handling of EMU-wide crisis management.

**Japan.** The main exception among the mature markets to the generally favorable situation has been Japan, where recession and severe domestic banking problems have con-

tributed to, and been aggravated by, the crisis in the rest of Asia. Seven years after the bursting of the asset price bubble, Japan’s financial system problems have not been resolved, even as “big bang” financial sector reforms get under way. While asset quality in the banking system has continued to deteriorate, new problems have emerged, reflecting Japanese bank exposures to the crisis countries in Asia, worsening financial conditions in Japan’s nonfinancial corporate sector, and emerging problems in the nonbank sector. The authorities have announced a new

## Exchange Rates of Selected Emerging Markets

(January 6, 1997 = 100)



Data: Bloomberg and the WFEA Group

strategy to resolve financial system problems, including the commitment of public funds to recapitalize and restructure large and small banks (see *IMF Survey*, August 17, page 253). Although the proposed measures and blueprints are promising, the first-round implementation of bank recapitalization and restructuring raised concerns in the markets about the authorities’ commitment to the new approach, according to the study.

**Supervision and Regulation.** The structure of supervision and regulation in the advanced countries has been undergoing evolutionary change in response to the increasing conglomeration and internationalization of financial institutions, advances in private risk management, and the proliferation of new financial instruments. According to the study, reforms are being discussed or adopted in four main areas:

- On January 1, 1998, the Basle Committee on Banking Supervision (consisting of representatives from the Group of 10 industrial countries, which, since 1974, has served as the focal point for issues relating to

the supervision of international banks) introduced new guidelines on market risk requirements.

- Consideration has been given to changing the Basle credit risk weights to address concerns about sovereign and interbank lending.

- A number of countries have been adapting their supervisory and regulatory frameworks to enhance their ability to conduct effective supervision on a consolidated basis.

- Efforts are continuing to strengthen the framework for the supervision of globally active financial institutions.

### Risks and Vulnerabilities

The current situation in the international capital markets contains several significant risks and uncertainties, and there is the possibility of heightened volatility and large asset price corrections in the period ahead. Most important, Japan's failure to deal promptly and more forcefully with its banking and financial sector problems is contributing to significant domestic economic weakness and downward pressure on the yen, risking significant spillovers and another round of Asian currency turmoil.

Within the mature markets in North America and Europe, the main risks, according to the study, are related to potential further spillovers from Asia, especially from Japan, and the current high valuations in equity markets. Because the report was prepared before the financial crisis in Russia and the fallout in Latin

America, certain factors—for example, corrections in mature equity markets—that the report flags as risks have since materialized. Such corrections risk adversely affecting the advanced economies and spilling over to the international financial markets, further complicating the situation in the Asian emerging markets. More positively, much of the immediate uncertainty about the EMU convergence process has been removed by the recent decisions concerning participation in the first round of currency union and the high degree of macroeconomic convergence.

For emerging markets, a key risk is that the Asian crisis may continue to deepen as a result of either a deterioration in the external situation or a failure of the crisis countries to make substantial further progress in financial and corporate restructuring. Another risk is that the current reevaluation of emerging market vulnerabilities has not run its course and that the terms and conditions of external financing will worsen further, leading to a broadening of the crisis to emerging markets outside Asia. ■

*International Capital Markets: Developments, Prospects, and Key Policy Issues*, by a staff team from the IMF's Research Department, is part of the IMF's World Economic and Financial Surveys series. Copies will be available in early October for \$25.00 (academic rate: \$20.00) from IMF Publication Services (see page 295 for ordering information). The full text and the transcript of a press briefing held by IMF staff on September 21 are also available on the IMF's web site: <http://www.imf.org>.

### Origins of Crisis

## Range of Elements Led to Buildup of Pressures, Spillover onto Global Financial Markets

The dynamics of the Asian crisis and the spillover across countries and regions have been the subject of much speculation among market participants and analysts. What led to the enormous pressures in foreign exchange markets? What role did different investor groups play? And how were these disturbances channeled rapidly and forcefully across markets?

Chapter 2 of the IMF's *International Capital Markets* report (see page 290) examines the buildup and spread of the crisis and suggests several elements that played prominent roles:

- Forward foreign exchange market intervention at modest interest differentials—essentially the offering of cheap one-way bets by the Bank of Thailand—fueled the attack on the baht and precipitated the subsequent tumble of other regional currencies.

- The unwinding of “carry trades” (by which international commercial and investment banks borrowed fixed-rate funds in dollar and yen markets and on-lent them in higher-yielding Asian local currency instru-

ments), the rush by domestic banks and corporations to hedge their substantial on- and off-balance sheet exposures, and the thinness of foreign exchange markets magnified the initial depreciations.

- The bulk of outflows followed rather than led the initial currency depreciations. The ensuing liquidity squeeze created a downward spiral of exchange rate depreciations and credit quality that fed on one another, magnifying price movements relatively long after the initial depreciations.

- The form and structure of international finance had a direct bearing on the dynamics of the crisis and its spillover. Leveraged positions on emerging market instruments—particularly debt and foreign exchange but also equity—and the margin calls in response to price movements in emerging market instruments, the subsequent rapid deleveraging, and the substantial size of financial flows and linkages within emerging markets all played critical roles in propagating and transmitting the crisis across markets. The “contagion” was



thus not merely a manifestation of the souring of mature market investors' sentiment but also a direct result of the nature of financial linkages across markets.

### Growth of Investment Banking in Asia

Commercial and investment banks aggressively expanded into Asia in the 1990s. The search for higher yields led to strong growth in bank lending flows and a spectacular growth of Asian fixed-income and foreign exchange markets during the 1990s. The treasuries of commercial and investment banks resorted to carry trades as part of their regular funding operations. The carry trade took a number of forms, with flows invested in, first, sovereign credit, then the top-tier domestic commercial banks, followed by the lower-tier commercial banks and finance companies, gradually becoming more and more aggressive, moving into the corporate sector and then down the corporate credit spectrum. The due diligence performed by international lenders was conditional on the implicit and explicit guarantees offered by the authorities. The behavior of domestic entities also reflected a firm belief in the official stances on exchange rates. Hedge funds played a very limited role in the fixed-income carry trade, focusing instead on more traditional long equity investments.

### Dynamics of the Currency Crisis

Episodes of notable pressure on the Thai baht occurred as early as July 1996, but the most severe attack came on Wednesday, May 7, 1997, when reports circulated that the Hong Kong SAR branch of a major Thai bank had become a large seller of baht for dollars and that the Bank of Thailand was offering to sell forward dollars in exchange for baht. In the subsequent days, most Bank of Thailand interventions were reportedly carried out in the forward market. During this period, three- and six-month interest differentials vis-à-vis U.S. dollar rates were less than 3 percent, so that the cost of taking a short position against the baht for three months was a mere  $\frac{3}{4}$  of 1 percentage point. On Wednesday, May 14, the speculative attack reached its peak, with the Bank of Thailand estimated to have sold over \$10 billion on that day alone. This—almost a week after the attack had begun—is when the bulk of positions, including those of hedge funds, were reportedly taken.

The following day, the Bank of Thailand stopped intervening, let interest rates rise, and instituted capital controls segmenting the on- and offshore markets. The subsequent squeeze drastically raised the cost of carrying positions overnight, and the scramble for baht caused an increase in the Bank of Thailand's reserves. The squeeze was felt more by those proprietary trading desks of commercial and investment banks that had taken shorter-dated positions than by the hedge funds whose longer-dated positions were well funded.

While initial reactions to the float were favorable, market sentiment quickly deteriorated due to concerns about the impact of the devaluation and high interest rates on the financial sector and the view that the Bank of Thailand's massive buildup of forward foreign exchange liabilities had limited its ability to intervene further in support of the baht. By the time the baht was floated, the foreign exchange and proprietary trading desks of the commercial and investment banks reportedly had short foreign exchange positions on the baht and so profited from its devaluation, as did several macro hedge funds. Commercial and investment banks, however, incurred losses on their inventories of fixed-income instruments as spreads deteriorated.

With the float of the baht, market participants perceived a need for competitive devaluations among regional currencies and prompted investors to take a closer look at the similar, albeit to different degrees, financial sector weaknesses elsewhere. Most hedge fund positions appear to have been taken only when other major investor groups had already begun to get out of the baht and when the Bank of Thailand began offering large positions against the currency. The one other simultaneous buildup of hedge fund positions appears to have been long positions on the Indonesian rupiah, taken after its initial depreciation, reflecting the view that the rupiah had overshot. Apparently, only a few hedge funds took modest positions for short periods, at differing points in time, on the Malaysian ringgit.

### Turbulence in Hong Kong SAR

Following the initial depreciations of the baht, peso, ringgit, and rupiah, pressures intensified, attributable to mostly country-specific factors. In the week preceding October 20, 1997, the Taiwan Province of China authorities decided to stop intervening in support of their currency, leading to speculation that the Hong Kong Monetary Authority (HKMA) might do likewise. Initial sales of Hong Kong dollars were broad based and included domestic residents, although the importance of foreign investors increased over time. A popular account of the turmoil was that a number of large investors—in particular, the macro hedge funds—took small short positions against the Hong Kong dollar, “attacking it a little”; aware, however, of the HKMA's commitment to the peg, they predicted a sharp increase in interest rates and took much larger short positions in interest-rate-sensitive instruments—in particular, the equity market. But there appears to be no evidence of a concerted strategy to short the Hong Kong dollar and equity markets simultaneously, something referred to in more recent discussions as a “double play.”

### Spillover Effects

Brazil was perhaps the most severely affected by the turbulence in Hong Kong SAR. In the week following

October 24, Brazilian Brady bonds fell by 18 percent, the stock market index fell by 22 percent, and the real came under severe pressure. Market participants unanimously reported that the exchange rate pressures were generated predominantly by domestic entities.

Market participants estimated that margin calls on highly leveraged positions of Brazilian financial institutions, particularly investment banks, on Brazilian Brady bonds with the major international investment houses accounted for 40–50 percent or more of the capital outflows during the period. These outflows and the effects of deleveraging sparked a wave of pressure on equity, futures, and foreign exchange markets. Deleveraging through sales of existing holdings exacerbated price pressures on the Brady market, while the liquidation of their domestic equity holdings pushed down the stock market. Increased margin requirements resulted in still further margin calls. The lack of Chinese and fire walls (precautions taken to prevent market-sensitive information reaching traders from other parts of a financial institution that may have confidential contracts with client companies) between the investment banks' proprietary and fund management desks caused clearing banks in New York to reduce their credit lines, thus adding further pressures for deleveraging. Substantial Korean holdings of Brazilian Brady bonds, and their anticipated "dumping" in response to pressures at home also aggravated the downward spiral in prices.

In defense of the real, the central bank doubled its basic lending rates and conducted spread auctions of foreign exchange on the spot market. Market participants also reported that, on the currency futures market, the federally owned Banco do Brasil took substantial positions against prevailing market sentiment, and the central bank increased the sale of dollar-linked bonds, with the explicit intention of providing a hedge to those seeking one. In a key contrast with the Bank of Thailand's forward market intervention in May 1997, Brazil substantially raised interest rates. Market participants perceived significantly increased two-way risk from taking positions at these rates. Even if the real were to devalue, a short real futures contract would not necessarily yield a positive return. And as settlement was in local currency, these liabilities were not perceived to be a claim on reserves, and market reaction was not particularly negative.

Though Korea succumbed to the crisis only in the period following the turbulence in Hong Kong SAR's financial markets in late October, pressures had begun to build much earlier in 1997 amid concerns about Hanbo Steel's bankruptcy, the placement of Kia under bankruptcy protection, and the government announcement that it would provide liquidity support to troubled merchant banks. In response to large capital inflows in the 1990s, as part of a program of gradual capital account liberalization, the government of Korea had liberalized

regulations on capital outflows. The high returns available in Korea relative to world capital markets meant, however, that Korean capital outflows systematically sought out high-yield, high-risk investments.

The deterioration in sentiment against the emerging markets that accompanied the turbulence in Hong Kong SAR's financial markets, compounded by the downgrading of Thailand and Korea's sovereign credit ratings on October 24, and the consequent widening of spreads resulted in margin calls to Korean financial institutions. While these margin calls were in themselves not large, when combined with the liquidity pressures that Korean banks already faced, they created substantial pressures on them to deleverage and liquidate their foreign assets. This exacerbated price pressures on emerging market debt instruments held by Korean banks. The turmoil in emerging debt market during the period was thus magnified by the size and composition of Korean financial institutions' foreign assets.

International investors' awareness of Korean financial institutions' losses on these assets heightened concerns and encouraged the subsequent rapid retrenchment of international bank claims—in large part, extensive credit lines extended to Korean banks. As the won began to depreciate, highly indebted domestic corporations rushed to hedge, exacerbating the downward pressure. With pressures being felt on the exchange rate, uncertainty about the "usable" reserves of the central bank, and the large demand for hedging and covering of margins by domestic entities, market participants were operating in an environment with great uncertainty and lack of information. The ensuing panic-driven rush by domestic entities into the foreign exchange market exacerbated price pressures on Korea in November and December.

## Conclusions

Ultimately, Thailand, which effectively offered cheap one-way bets against the Thai baht in the forward markets, fueled the attack on its currency. In contrast, the reported intervention by the Banco do Brasil in the futures market in support of the real was perceived to hold significant two-way risks for speculators and helped mitigate speculative pressures. The attack on the real also demonstrated that capital outflows need not derive from a loss of confidence by domestic residents or short position-taking by foreign investors.

With regard to hedge funds, the dynamics of the Asian crisis appear to offer little evidence of concerted action in either instigating attacks on currencies or generating subsequent massive depreciations. The chain of events in Asia, and elsewhere, also suggests that contagion across emerging markets is frequently reflective of actual underlying financial market linkages rather than of a collective loss of confidence. ■

Bankim Chadha and Subir Lall  
IMF Research Department

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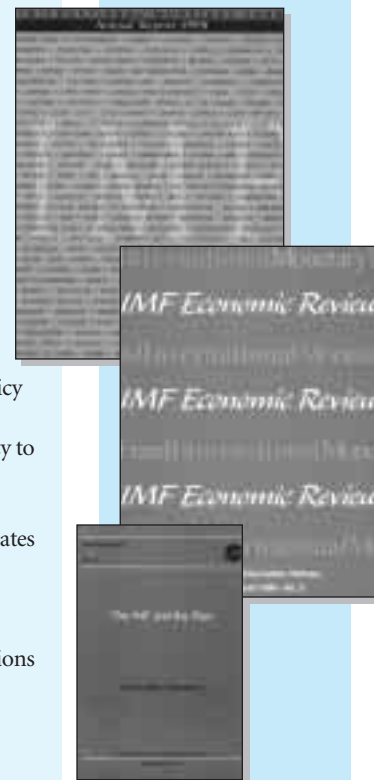
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## Fischer Underscores Need to Strengthen IMF Resources to Meet Demand for Financial Support

On Friday, September 11, IMF First Deputy Managing Director Stanley Fischer held a press briefing to present the IMF's Annual Report 1998, which covers developments from May 1, 1997, to April 30, 1998—the IMF's financial year. Following are edited excerpts of his opening statement.

This *Annual Report* describes a financial year that has been truly momentous for the IMF, one that confronted us and the entire global system with major challenges. In the period covered by the report, the

Asian crisis and its reverberations around the global system dominated our work and led to a record level of IMF lending.

In the past financial year, member countries borrowed \$26 billion from the IMF—nearly four times as much as in the previous year; and from the end of April through the end of August, the IMF disbursed a further \$11 billion. During financial year 1997/98, the IMF also committed \$43 billion, some of which has not been drawn. An additional

\$10 billion has been committed since the end of the financial year. These are very large sums relative to the lending base of the IMF.

As a result of these activities, the IMF's stock of net uncommitted usable resources—adjusted because we need to maintain working balances—fell to \$30 billion at the end of the financial year from about \$59 billion a year earlier; since the end of the financial year, that \$30 billion has fallen to about \$28 billion. The IMF's liquidity ratio—the ratio of net uncommitted usable resources to liquid liabilities—was 45 percent at the end of the fiscal year and is now about 36 percent, compared with 121 percent at the end of fiscal year 1996/97 and a general average over the past several years of 70 percent.

Why does the IMF need this liquidity? The answer is that the IMF is a bank, not a fund. Member countries make deposits—that is, their currencies—into the IMF, and the IMF then lends out these deposits. Just as with a bank, member countries have the right to withdraw their deposits—or currencies; and the IMF therefore needs to maintain sufficient liquid assets in case its members want to draw. That is why the IMF needs a liquidity ratio.

We regard 25–30 percent—about \$19–23 billion—as a reasonable liquid assets ratio. Maintaining such a

ratio means that the IMF now has \$5–9 billion available for lending. We could imagine going below the 30 percent liquidity ratio on a very temporary basis and doing some additional lending—but only if we knew that additional resources would be available soon.

These data underscore the need to strengthen our financial resources, through approval of both the quota increase and of the New Arrangements to Borrow because, as is clear, demands on the IMF's resources are not declining.

The *Annual Report* includes an overview; a summary of Executive Board discussions on general issues, such as international capital markets, the World Economic Outlook, and European Economic and Monetary Union; and activities over the past financial year, including surveillance, financial support for members, the debt initiative for heavily indebted poor countries (HIPC), and capital account liberalization.

The *Annual Report* also provides a broad description of the IMF's response to the Asian financial crisis and includes a chronology of developments—updated through July—to supplement the summary of Board discussions. Some of the tentative conclusions that the Board has drawn from the Asian crisis include the importance of timely and accurate information. The Board and the IMF have also been broadening their reviews of individual economies, particularly with regard to financial sector issues. Contagion and interdependence are also compelling issues.

The Board is moving steadily toward becoming more transparent while at the same time grappling with the question of how to remain transparent and still get full information from members on very sensitive issues. Finally, recognition is growing that, for IMF surveillance to be effective, member countries have to take the IMF's advice seriously and implement recommended measures when the IMF has made a convincing case for them.

These are early and obvious lessons. I am sure we will continue to draw further lessons as each country's program continues.

The Asian crisis—reinforced by the recent Russian devaluation—has focused attention on ways to strengthen the architecture of the international system. This issue will feature prominently in discussions during the Annual Meetings. These discussions will most likely point in roughly the same direction—that the IMF needs to help members strengthen their financial systems; strengthen its surveillance; provide better information about what countries are doing; grapple with the question of reconciling the IMF's role in crisis management



IMF First Deputy Managing Director Stanley Fischer at the Annual Report press briefing.

with the recognition of the moral hazard issues created by IMF and other official sector financing; and come to grips with the extraordinarily difficult issue of the private sector's role in resolving financial crises.

Although this year's focus is on Asia, it should not be forgotten that the great majority of the IMF's programs are outside Asia, including programs with low-income members. This year, the Board undertook an internal and an external review of the Enhanced Structural Adjustment Facility—the IMF's concessional lending facility to its poorest member countries, which constitute the bulk of the programs the IMF supports. We have also begun the process, together with the World Bank and other lenders, of providing debt relief to six heavily indebted low-income countries under the HIPC Initiative.

The IMF's surveillance activities this year have included clarifying our role on governance issues, providing clear guidance to members on increasing the transparency of fiscal policymaking, furthering our work on the principles of monetary policymaking, and helping members strengthen their financial systems.

The IMF has continued discussions of a possible amendment to the Articles of Agreement that would make the orderly liberalization of capital flows one of the purposes of the IMF and possibly extend IMF jurisdiction in this area.

I hope, as you go through this report, visit our web site, and attend the increasingly frequent briefings by

IMF staff, that you will realize that the IMF is moving steadily, if gradually—as befits an organization with 182 members, not all of whom have the same views—in the direction of greater transparency and greater clarity about what it does. ■

Copies of the *IMF Annual Report 1998* are available free of charge from IMF Publication Services. See page 295 for ordering information. The full text of the *IMF Annual Report 1998* is also available on the IMF's web site at <http://www.imf.org>.

Members' Use of IMF Credit (million SDRs)			
	Aug. 1998	Jan.–Aug. 1998	Jan.–Aug. 1997
General Resources Account	990.82	12,569.17	4,012.88
Stand-By Arrangements	250.00	6,657.74	1,857.08
Supplemental Reserve Facility	250.00	4,650.00	0.00
EFF Arrangements	740.82	3,754.88	2,048.20
Supplemental Reserve Facility	675.02	675.02	0.00
CCFF	0.00	3,156.55	107.60
SAF and ESAF Arrangements	73.79	580.50	378.40
<b>Total</b>	<b>1,064.61</b>	<b>13,149.67</b>	<b>4,391.28</b>

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

Data: IMF Treasurer's Department

## From the Executive Board

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

### Niger: ESAF

The IMF has approved the third annual loan for Niger under the Enhanced Structural Adjustment Facility (ESAF), equivalent to SDR 19.3 million (about \$26 million) in support of the government's program for 1998–99. The loan is available in two equal semiannual installments, the first of which is available immediately.

### Medium-Term Strategy and Program for 1998–2001

The government's adjustment strategy is designed to establish conditions necessary for sustainable economic growth and a significant reduction in poverty. The principal macroeconomic

### Niger: Selected Economic and Financial Indicators

	1995	1996		1997		1998 <sup>1</sup>	1999	2000	2001	
		Program Estimate	Program Estimate	Program Estimate	Program Estimate					
(annual percent change)										
GDP at constant prices	2.6	3.6	3.3	4.5	3.4	4.4	4.5	4.5	4.5	
Consumer price index										
Annual average	10.9	4.7	5.3	3.0	2.9	4.8	...	...	...	
End of period	5.5	3.0	3.6	3.0	4.1	3.4	2.9	2.9	2.9	
(percent of GDP)										
Overall budgetary balance (excluding grants)										
Commitment basis	-8.0	-8.0	-7.4	-9.1	-7.5	-7.3	-6.1	-5.2	-4.6	
Overall balance (including grants)										
Commitment basis	-3.9	-4.1	-0.4	-3.8	-2.9	-3.7	-3.2	-2.3	-1.7	
External current account balance										
Including official transfers	-4.7	-6.0	-3.3	-4.4	-4.0	-4.6	-5.2	-3.9	-3.7	
Excluding official transfers	-11.1	-11.4	-9.2	-11.1	-10.1	-9.4	-9.2	-7.9	-7.5	
External public debt (end of period) <sup>2,3</sup>	75.0	69.3	66.0	62.3	61.0	61.0	59.0	56.0	52.0	
Debt-service ratio in percent of :										
Exports of goods and nonfactor services <sup>3</sup>	32.3	28.2	23.8	24.4	24.6	27.4	26.0	26.2	25.6	
Government revenue <sup>3</sup>	76.6	50.8	51.9	41.2	55.2	50.5	43.5	38.4	34.8	

<sup>1</sup>Projected.

<sup>2</sup>Including obligations to IMF.

<sup>3</sup>Before debt relief.

Data: Nigerien authorities and IMF staff estimates and projections

objectives for 1998–2001 are to achieve real GDP growth of 4–5 percent a year, maintain inflation in the 2–4 percent range, and reduce the overall fiscal deficit to 5.2 percent of GDP in 2000 from 7.5 percent in 1997.

Within this medium-term strategy, Niger's program for 1998–99, supported by the third annual ESAF arrangement, projects real GDP growth of 4.5 percent, maintaining year-end inflation at about 3 percent, and an external current account deficit at 9.4 percent of GDP in 1998.

The authorities are also committed to implementing structural reforms in a diverse range of areas, including restructuring and privatization of state enterprises, streamlining of the public administration, and improving the management of rural development and natural resources.

### Social Issues

Niger's social indicators are among the lowest of developing countries. It has a high level of adult illiteracy, low school enrollment rates, high infant mortality, and severe deficiencies in basic health and hygiene. Hence, the fundamental objective of the government is to improve the standard of living by reducing the gap between the demand for and supply of basic education and health services.

Niger joined the IMF on April 24, 1963. Its quota is SDR 48.3 million (\$64 million). As of end-June 1998, Niger's outstanding use of IMF resources totaled SDR 49 million (around \$64 million).

Press Release No. 98/36, August 31

## Ukraine: Stand-By Arrangement

The IMF approved a three-year credit for Ukraine, equivalent to SDR 1.6 billion (about \$2.2 billion) under the Extended Fund Facility (EFF) to support the government's

1998–2001 economic program. Of the total, SDR 190 million (about \$257 million) is available immediately.

### Medium-Term Strategy

The key objectives of Ukraine's program are to strengthen public finances and implement ambitious structural reforms to promote economic growth and improve the population's living standard. At the same time, measures are being taken to counter the negative effect of the recent regional shocks. The macroeconomic objectives during 1998–2001 are expected to achieve 4 percent growth in GDP by 2001 from –0.3 percent in 1997, to bring inflation down to 7 percent by 2001 from 10 percent in 1997, and to achieve gross international reserves equivalent to 7 weeks of import cover in 2001 from 6.3 weeks in 1997.

### Structural Reforms

Structural reforms envisaged under the program are far-reaching. Strengthening of fiscal and monetary institutions, especially the ministry of finance and the tax and customs administration, is necessary to enhance the authorities' implementation capacity. Reductions in the size of the government and its intervention in economic activities, as well as progress in privatization, deregulation, and administrative reforms, and reforms in the energy and agricultural sectors are essential for promoting private investment and economic growth, and will be vigorously pursued.

### Addressing Social Costs

The social protection system will be rationalized and streamlined to eliminate general subsidies and to improve targeting of assistance to the truly needy. The authorities aim to establish a pension system that will be financially sustainable and provide adequate social protection, to include the introduction of personal savings accounts and nonstate pensions.

Ukraine joined the IMF on September 3, 1992; its quota is SDR 997.3 million (about \$1.3 billion). Its outstanding use of IMF credit currently totals SDR 1.8 billion (about \$2.4 billion).

Press Release No. 98/38, September 4

## Ukraine: Selected Economic and Financial Indicators

	1997 Actual	1998				1999		2000 <sup>3</sup>	2001 <sup>3</sup>
		Original <sup>1</sup>	New <sup>2</sup>			Original <sup>1</sup>	New <sup>2</sup>		
			Year	Q3	Q4				
Real GDP <sup>4</sup>	–3	0	0	...	...	3	1	3	4
Consumer prices									
Percent change, period average <sup>4</sup>	16	9	15	3	21	8	23	8	7
Percent change, end of period <sup>4</sup>	10	10	29	11	13	7	7	7	7
				(percent change)					
General government budget balance	–5.6	–3.3	–2.8	–2.4	–0.5	–2.0	–1.0	–2.0	–2.0
Underlying balance <sup>5</sup>	–5.2	–2.3	–1.9	–1.1	2.4	–0.5	0.3	...	...
Primary balance	–3.8	–0.3	0.0	0.8	2.0	2.1	2.6	...	...
Current account balance	–1,288	–1,741	–1,182	–531	235	–1,775	–679	–806	–822
				(weeks of current year imports of goods)					
Net international reserves (end period)	6.3	4.0	3.5	3.6	3.5	5.3	3.8	5.90	7.0
				(percent of exports of GNFS)					
Debt-service ratio <sup>6,7</sup>	9.4	20.0	19.9	...	...	11.6	11.4	17.6	19.4
Interest payments <sup>6</sup>	3.2	5.9	5.9	...	...	4.4	4.1	4.3	4.0

<sup>1</sup>Original proposed program.

<sup>2</sup>New proposed program.

<sup>3</sup>Projection.

<sup>4</sup>Changes from the previous period.

<sup>5</sup>Balance adjusted for the net accumulation of arrears on wages, pensions, and benefits.

<sup>6</sup>Excluding Black Sea fleet arrangements.

<sup>7</sup>The increase in 2001 reflects the redemption of the bonds issued in 1998.

Data: Ukrainian authorities and IMF staff estimates

## Burkina Faso: ESAF

The IMF approved the third annual arrangement for Burkina Faso under the Enhanced Structural Adjustment Facility (ESAF), equivalent to SDR 13.26 million (about \$18 million) to support the government's economic program covering July 1998–June 1999. The loan is available in two equal semi-annual installments, the first of which can be drawn on September 30, 1998.

### 1998–99 Program

The economic program focuses on the completion of the core reform agenda, defined in the context of Burkina Faso's eligibility for the Initiative for Heavily Indebted Poor Countries (HIPC).

The key macroeconomic goals are designed to achieve real GDP growth of about 6 percent in 1998 and 1999, an average annual inflation rate of 2.5 percent over the two years, and a

narrowing of the external current account deficit to 10.2 percent of GDP in 1999. To achieve these objectives, fiscal policy will aim at achieving a primary budget surplus of 0.8 in 1998 and 0.5 in 1999. Expenditure policy will remain prudent, with a gradual increase in the share of expenditures allocated to the health and education sectors.

### Structural Reforms

The program focuses on widening the program of public enterprise privatization while completing the second phase of privatization, which includes, among others, the sale of sugar, fruit juice, and textile enterprises. Reforms in agriculture focus on strengthening farmers' organizations, continuing the withdrawal of the public sector from rice marketing, reinforcing the role of farmers' cooperatives in the cotton sector, and opening up new cotton regions to private operators. Civil service reform involves, among other things, creating a merit-based promotion system and appropriate human resources directorates in all main ministries, and implementing measures to improve governance and the responsiveness of the civil service to the demands of the public.

### Addressing Social Needs

In the education sector, the primary school enrollment ratio is expected to reach 48 percent and 40 percent for girls in 1999/2000, representing a significant improvement, although still low by regional standards. In the health sector, objectives for 1997–2000 include increasing vaccination rates and the number of health centers meeting minimum operating standards, as well as providing a minimum package of activities and services.

Burkina Faso joined the IMF on May 2, 1963; its quota is SDR 44.2 million (about \$60 million). Its outstanding use of IMF financing currently totals SDR 74.5 million (about \$102 million).

Press Release No. 98/39, September 15

## Mali: HIPC

The World Bank and the IMF agreed to provide Mali a total of \$250 million in nominal debt-service relief under the Heavily Indebted Poor Countries (HIPC) Initiative. The Bank's contribution to this relief amounts to \$95 million, with the IMF providing about \$18 million, and the remainder

### Burkina Faso: Selected Economic and Financial Indicators

Estimate	1994	1995	1996		1997		1998	1999	2000
			Program	Estimate	Program	Revision			
			(annual percent changes)						
GDP at constant prices	1.2	4.0	6.0	6.6	5.5	6.1	6.2	5.7	5.6
Consumer prices									
Annual average	24.7	7.8	6.1	3.0	2.3	2.5	2.5	2.5	
End of period	29.1	3.9	6.9	3.0	-0.1	2.5	2.5	2.5	2.5
Overall fiscal balance <sup>1</sup>	-11.0	-9.4	-9.0	-8.2	-10.1	-11.6	-10.3	-10.1	-9.9
Primary balance <sup>2</sup>	-0.9	1.0	1.7	1.9	1.1	1.4	0.8	0.5	0.2
Current primary balance <sup>2</sup>	0.0	1.9	3.0	4.0	3.9	4.2	3.5	3.2	2.9
Current account balance									
Excluding official transfers	-8.7	-11.3	-13.4	-11.5	-12.6	-12.8	-10.9	-10.2	-9.5
Including current official transfers	-1.8	-5.7	-10.0	-9.6	-10.2	-11.6	-9.7	-9.1	-8.2
Debt-service ratio <sup>3</sup>	24.7	22.9	18.3	15.8	15.2	14.4	12.6	11.9	12.1
Debt-service ratio <sup>4</sup>	29.5	25.6	18.2	16.2	16.2	14.6	15.5	16.0	17.0
Net official reserves (in months of imports)	11.2	12.5	10.7	9.2	10.0	6.6	9.8	9.7	9.9

<sup>1</sup>Commitment basis, excluding grants.

<sup>2</sup>Commitment basis, excluding grants and foreign-financed projects.

<sup>3</sup>In percent of exports of goods and nonfactor services, excluding IMF.

<sup>4</sup>Ratio of public external debt service to government revenue, excluding grants.

Data: Burkina Faso authorities and IMF staff estimates and projections

being provided by other multilateral and bilateral creditors. In terms of the net present value of assistance to be provided at the completion point in December 1999, HIPC assistance for Mali will be \$128 million. The stock of debt in net-present-value terms will be reduced to a target of 200 percent of exports, which implies a reduction of 10 percent.

This assistance would be additional to the debt relief provided by bilateral creditors under traditional debt-relief

### Camdessus Says IMF Will Work with Brazil to Support a Strong Program

In a statement following a speech given by Brazilian President Fernando Cardoso on September 23, IMF Managing Director Michel Camdessus said the IMF was prepared to cooperate with the Brazilian authorities in support of a credible economic program. "The recent turbulence in international financial markets," Camdessus said, "which has adversely impacted emerging market economies worldwide, has hit Brazil especially hard. The Brazilian authorities have already responded to these external pressures with a sharp increase in interest rates and significant fiscal measures, including substantial spending cuts and the strengthening of institutional mechanisms to monitor developments in the public finances and take further timely corrective actions, if needed.

"I am very encouraged by President Cardoso's speech today and in particular by his firm determination to give high

priority in the immediate future to securing a further strong improvement in Brazil's public finances, with a sizable primary surplus already in 1999, and the acceleration of the congressional approval of the structural fiscal reforms, including a legal framework mandating the balancing of the budget over the medium term.

"Brazil's success in this effort is very important not only for the Brazilian people, but also for its partners in Latin America and for the international community at large. In recent weeks, the authorities have intensified their open and constructive dialogue with the IMF, with a view to ensuring that adequate financial support could be quickly arranged, if needed. For its part, the IMF will not spare any effort to reach with the Brazilian authorities the understanding mentioned by President Cardoso. In such a framework, the IMF would be ready to provide appropriate financing to support a strong and credible Brazilian program."

mechanisms. It will provide Mali with further relief on its external debt burden and reduce the strain on national budgetary resources, thus freeing up resources to help accelerate structural reforms and finance needed social programs.

The HIPC debt relief committed by the Bank and the IMF will be delivered at a completion point in December 1999, based on Mali's continued good progress in implementing its macro-economic and structural reform program and subject to assurances from Mali's other creditors that they will also provide the necessary assistance.

The HIPC Initiative was approved in September 1996 as a means of dealing comprehensively with the debt burdens of the world's poorest countries. Mali is the seventh country to qualify for assistance under the Initiative after Uganda, Burkina Faso, Bolivia, Guyana, Côte d'Ivoire, and Mozambique. Total debt relief for all seven countries is expected to amount to almost \$6 billion in nominal terms.

Press Release No. 98/40, September 16

### Bolivia: ESAF

The IMF approved a three-year loan under the Enhanced Structural Adjustment Facility (ESAF) equivalent to SDR 100.96 million (about \$138 million), to support Bolivia's 1998–2001 economic program. The first annual loan of SDR 33.65 million (about \$46 million) will be disbursed in two equal semiannual installments, the first of which is available immediately.

The Executive Board of the IMF also agreed today that Bolivia has met the requirements for receiving from the IMF \$29 million out of a total package of \$448 million in debt relief from its official external creditors, under the Initiative for Heavily Indebted Poor Countries (HIPC).

#### Medium-Term Strategy

The government's program for 1998–2001 seeks to reduce poverty significantly through faster economic growth and stronger social programs. Economic growth under the program should increase from 4.5–5.0 percent in 1998 to 5.5–6.0 percent by 2000, while gross international reserves

should remain at about 6½ months of imports, and inflation should decline to 6 percent in 1999 and 5.5 percent in 2000.

The combined public sector deficit is expected to rise to 4.1 percent of GDP in 1998 because of the high costs of structural reforms as well as unexpected temporary expenditures for disaster relief (the El Niño phenomenon and an earthquake in May

### Bolivia: Selected Economic Indicators

	1994	1995	1996	1997	1998
	(annual percent change)				
Real GDP	4.7	4.7	4.1	4.2	4.7
External current account balance					
Million U.S.dollars	-219.0	-335.0	-385.0	-647.0	-702.0
Percent of GDP	-3.7	-5.0	-5.1	-8.1	-8.2
Overall balance	123.0	123.0	342.0	103.0	0.0
Gross official reserves <sup>1</sup>	5.7	5.6	7.3	7.5	6.8
Public sector external debt (billion U.S. dollars)	4.7	4.8	4.6	4.5	4.3
Debt-service ratio <sup>2, 3</sup>	35.3	42.2	25.6	26.1	23.0

<sup>1</sup>In months of imports.

<sup>2</sup>After HIPC assistance.

<sup>3</sup>In percent of exports of goods and nonfactor services.

Data: Central Bank of Bolivia, Ministry of Finance, and IMF staff estimates

1998). It should decline, however, to 3.6 percent of GDP in 1999 and 2 percent of GDP by 2002. The nonpension fiscal balance should benefit substantially from improved tax administration and expenditure restraint. The external current account deficit is projected to remain above 8 percent of GDP in 1998 and then, reflecting a surge in foreign direct investment in the export sector, to decline to 7 percent in 1999 and 4 percent in 2002.

#### Structural Reforms

The cornerstone of the authorities' program emphasizes improvements in social expenditure, fiscal decentralization, and governance. In addition, while financial supervision has improved considerably in recent years, the authorities want to complete their reforms to create full confidence in the financial system.

Other reforms will include deepening the domestic capital markets and making labor markets more flexible through changes in the labor law that eliminate disincentives to employment in the formal sector.

### IMF Board Completes Thailand Review, Commends Thai Authorities

On September 11, IMF Managing Director Michel Camdessus announced that the IMF's Executive Board had approved the completion of the fourth review of Thailand's stand-by credit with the IMF. "As a result," Camdessus said, "bilateral and multilateral contributors will disburse an additional \$500 million under Thailand's financing package. Of this, the IMF will contribute SDR 100 million (about \$135 million).

"In approving completion of the fourth review, Executive Directors commended the Thai authorities on further consolidating their stabilization gains. Thus, broad exchange rate stability has

been maintained, net foreign exchange reserves have increased further, and inflation has fallen, which have allowed significant reductions in interest rates. These achievements have been secured despite a more difficult regional and international economic environment, making Thailand's record all the more impressive.

"Directors believed that the program has been well adapted to resist contagion from a more difficult international environment and to lay the foundation for economic recovery. In particular, Directors strongly supported the decisive and comprehensive actions that have been taken to advance financial and corporate restructuring and the flexible adaptation of fiscal policies (including through increased social safety net expenditures) to cushion the recession."



Improvements in governance are also being sought through the establishment of three legal institutions—the Judicial Council, the Ombudsman, and the Constitutional Court—and through a comprehensive customs reform, among other actions.

### Addressing Social Needs

The government observed the social policy targets monitored under the HIPC Initiative and intends to adhere to the target established through 2000. In education, the government plans to increase the responsibility of local governments for education, and reward good teaching through a merit pay system, rehabilitate schools, and ensure an adequate supply of learning materials.

Increased spending on basic health care is included in the government's five-year national plan, with expanded access to primary and preventive care for the poor and improved coordination in services provided across different levels of government.

Bolivia joined the IMF on December 27, 1945; its quota is SDR 126.2 million (about \$173 million). Bolivia's outstanding use of IMF credits totals SDR 181 million (about \$248 million).

Press Release No. 98/41, September 18

### Cameroon: ESAF

The IMF has approved the second annual loan for Cameroon under the Enhanced Structural Adjustment Facility (ESAF), equivalent to SDR 54.04 million (about \$74 million), in support of the government's program for 1998/99 (July/June). The loan is available in two equal semiannual installments, the first of which is available immediately.

### Medium-Term Strategy and 1998/99–2000/01 Program

The key objectives of Cameroon's medium-term development strategy are to restore external and internal viability, steer the economy onto a path of sustainable growth, and substantially reduce poverty. The principal macroeconomic objectives for 1998/99–2000/01 are to achieve an average annual GDP growth of at least 5 percent, maintain inflation below 2 percent, and stabilize the external current account deficit to below 2½ percent of GDP. The government's strategy will be to continue the implementation of appropriate macroeconomic policies, reinforce structural reforms, and build up the country's economic and social infrastructure.

Within this medium-term strategy, Cameroon's program for 1998/99, which is supported by the second annual ESAF loan, seeks to achieve real GDP growth of 5.2 percent, limit inflation to 2 percent, and contain the external current account deficit at 2½ percent of GDP.

### Structural Reforms

Cameroon's structural reform program will focus mainly on the agro-industry, public utilities, petroleum, transport,

and financial sectors, with a view to privatizing or placing under private management more than half of the assets of the public enterprise sector.

### Social Issues

Cameroon's objective in the social arena is to achieve broad-based improvement in living standards through the

### Cameroon: Selected Economic and Financial Indicators

	1993/94	1994/95	1995/96	1996/97 <sup>1</sup>	1997/98 Revised Estimate program (annual percent changes)		1998/99 <sup>2</sup>	1999/2000 <sup>3</sup>	2000/01 <sup>3</sup>
GDP at constant prices	-2.5	3.3	5.0	5.1	5.0	5.0	5.2	5.3	5.3
Consumer prices									
Twelve-month average <sup>4</sup>	12.7	25.8	6.6	5.2	2.1	2.8	2.0	2.0	2.0
End of period <sup>4</sup>	33.8	16.2	4.3	9.6	2.0	-1.6	2.0	2.0	2.0
Total revenue	-20.2	55.2	22.4	14.1	9.3	12.3	6.7	12.7	10.2
Overall fiscal balance	-9.2	-3.3	-1.8	-1.0	-2.1	-1.9	-2.7	-2.7	-2.9
Primary balance <sup>5</sup>	0.8	3.8	5.4	5.8	5.6	5.8	5.0	4.8	4.7
External current account balance (including grants)	-4.2	-0.8	-2.4	-1.3	-2.4	-2.4	-2.5	-2.3	-2.3
External public debt	122.7	97.4	89.0	83.5	65.9	73.7	59.3	55.4	45.3
	(million SDRs)								
Current account balance	-234	-41	-148	-78	-156	-152	-172	-173	-187
Net international reserves (end of period)	-445	-454	-409	-286	-217	-256	-161	-43	105

<sup>1</sup>Estimate.

<sup>2</sup>Program.

<sup>3</sup>Projections.

<sup>4</sup>Starting in 1994/95, inflation reflects an updated basket of goods and services in the calculation of CPI; there is a break in the series with respect to the past.

<sup>5</sup>Excluding foreign-financed investment. In addition, the primary expenditure excludes restructuring expenditure.

Data: Cameroonian authorities and IMF staff estimates and projections

implementation of well-targeted poverty-reduction programs and sustained economic growth. The authorities are placing renewed emphasis on improvements in primary health care and education and policies to ensure access to clean drinking water and generic drugs.

### Public Information Notices

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

Federated States of Micronesia, No. 64, August 27

Rwanda, No. 65, September 1

South Africa, No. 66, September 2

Finland, No. 67, September 10

Haiti, No. 68, September 10

Georgia, No. 69, September 11

Vanuatu, No. 70, September 16

Uruguay, No. 71, September 18

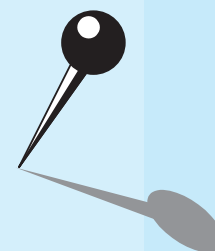
Germany, No. 72, September 18

Dominica, No. 73, September 21

Belize, No. 74, September 22

India, No. 75, September 22

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



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Cameroon joined the IMF on July 10, 1963. Its quota is SDR 135.1 million (about \$185 million). At the end of June 1998, Cameroon's outstanding use of IMF resources totaled SDR 88 million (about \$121 million).

Press Release No. 98/42, September 18

**Correction:** In the September 1998 *IMF Survey Supplement*, section on Income and Charges, page 27, final paragraph, the figure given for the amount added to IMF reserves after retroactive reductions of the rate of charge should be SDR 164 million.

### Stand-By, EFF, and ESAF Arrangements as of August 31

Member	Date of Arrangement	Expiration Date	Amount Approved	Undrawn Balance
			(million SDRs)	
<b>Stand-By Arrangements</b>			<b>20,067.89</b>	<b>5,049.13</b>
Bosnia & Herzegovina	May 29, 1998	May 28, 1999	60.60	36.36
Cape Verde	February 20, 1998	April 19, 1999	2.10	2.10
Djibouti	April 15, 1996	March 31, 1999	8.25	2.93
Egypt	October 11, 1996	September 30, 1998	271.40	271.40
Estonia	December 17, 1997	March 16, 1999	16.10	16.10
Indonesia	November 5, 1997	November 4, 2000	8,338.24	4,669.12
Korea <sup>1</sup>	December 4, 1997	December 3, 2000	15,500.00	2,650.00
Latvia	October 10, 1997	April 9, 1999	33.00	33.00
Philippines	April 1, 1998	March 31, 2000	1,020.79	1,020.79
Thailand	August 20, 1997	June 19, 2000	2,900.00	800.00
Uruguay	June 20, 1997	March 19, 1999	125.00	125.00
Zimbabwe	June 1, 1998	June 30, 1999	130.65	91.45
<b>EFF Arrangements</b>			<b>22,141.09</b>	<b>15,000.81</b>
Argentina	February 4, 1998	February 3, 2001	2,080.00	2,080.00
Azerbaijan	December 20, 1996	December 19, 1999	58.50	17.56
Croatia, Republic of	March 12, 1997	March 11, 2000	353.16	324.38
Gabon	November 8, 1995	November 7, 1998	110.30	49.63
Indonesia	August 25, 1998	November 5, 2000	4,669.10	3,935.30
Jordan	February 9, 1996	February 8, 1999	238.04	35.52
Kazakhstan	July 17, 1996	July 16, 1999	309.40	309.40
Moldova	May 20, 1996	May 19, 1999	135.00	97.50
Pakistan	October 20, 1997	October 19, 2000	454.92	398.06
Panama	December 10, 1997	December 9, 2000	120.00	90.00
Peru	July 1, 1996	March 31, 1999	300.20	139.70
Russian Federation	March 26, 1996	March 25, 1999	13,206.57	7,426.86
Yemen	October 29, 1997	October 28, 2000	105.90	96.90
<b>ESAF Arrangements</b>			<b>4,580.98</b>	<b>2,360.06</b>
Albania	May 13, 1998	May 12, 2001	35.30	29.42
Armenia	February 14, 1996	February 13, 1999	101.25	33.75
Azerbaijan	December 20, 1996	December 19, 1999	93.60	23.40
Benin	August 28, 1996	August 27, 1999	27.18	18.12
Bolivia	December 19, 1994	September 9, 1998	100.96	0.00
Burkina Faso	June 14, 1996	June 13, 1999	39.78	13.26
Cameroon	August 20, 1997	August 19, 2000	162.12	108.08
Central African Republic	July 20, 1998	July 19, 2001	49.44	41.20
Chad	September 1, 1995	April 28, 1999	49.56	8.26
Congo, Republic of	June 28, 1996	June 27, 1999	69.48	55.58
Côte d'Ivoire	March 17, 1998	March 16, 2001	285.84	202.47
Ethiopia	October 11, 1996	October 10, 1999	88.47	73.73
The Gambia	June 29, 1998	June 28, 2001	20.61	17.18
Georgia	February 28, 1996	February 27, 1999	166.50	27.75
Ghana	June 30, 1995	June 29, 1999	164.40	68.50
Guinea	January 13, 1997	January 12, 2000	70.80	35.40
Guyana	July 15, 1998	July 14, 2001	53.76	44.80
Haiti	October 18, 1996	October 17, 1999	91.05	75.88
Kenya	April 26, 1996	April 25, 1999	149.55	124.63
Kyrgyz Republic	June 26, 1998	June 25, 2001	64.50	53.75
Macedonia, FYR	April 11, 1997	April 10, 2000	54.56	27.28
Madagascar	November 27, 1996	November 26, 1999	81.36	54.24
Malawi	October 18, 1995	October 17, 1998	45.81	15.27
Mali	April 10, 1996	April 9, 1999	62.01	10.34
Mauritania	January 25, 1995	July 13, 1998	42.75	0.00
Mongolia	July 30, 1997	July 29, 2000	33.39	27.83
Mozambique	June 21, 1996	June 20, 1999	75.60	25.20
Nicaragua	March 18, 1998	March 17, 2001	100.91	84.09
Niger	June 12, 1996	June 11, 1999	57.96	19.32
Pakistan	October 20, 1997	October 19, 2000	682.38	454.92
Rwanda	June 24, 1998	June 23, 2001	71.40	59.50
Senegal	April 20, 1998	April 19, 2001	107.01	89.18
Tajikistan	June 24, 1998	June 23, 2001	96.00	78.00
Tanzania	November 8, 1996	November 7, 1999	161.59	38.76
Uganda	November 10, 1997	November 9, 2000	100.43	60.26
Yemen	October 29, 1997	October 28, 2000	264.75	220.75
Zambia	December 6, 1995	December 5, 1998	701.68	40.00
<b>Total</b>			<b>46,789.96</b>	<b>22,410.00</b>

<sup>1</sup>Includes amounts under Supplemental Reserve Facility.

EFF = Extended Fund Facility

ESAF = Enhanced Structural Adjustment Facility

Figures may not add to totals owing to rounding.

Data: IMF Treasurer's Department

**Extended Arrangements**  
are designed to rectify  
balance of payments  
problems that stem  
from structural  
problems.

## Camdessus Affirms International Support for Economic Reforms in Latin America

On September 3 and 4, the IMF convened a meeting of Western Hemisphere finance ministers and central bank governors to discuss recent global economic developments and regional prospects. On September 4, following the meeting, IMF Managing Director Michel Camdessus, World Bank President James Wolfensohn, and Inter-American Bank President Enrique Iglesias held a press briefing. (The full transcript of this press briefing is available on the IMF's web site: <http://www.imf.org>.) On September 11, Camdessus spoke of recent market developments in Latin America.

"Building on the conclusions of the regional surveillance meeting of economic policymakers in the Western Hemisphere, held in Washington on September 3 and 4, and after the discussion today of the World Economic Outlook by the Executive Board of the IMF, I wish to reaffirm the strong support of the international community for the economic reforms being pursued by the major countries of the region, and in particular for their recent policy responses to the ongoing turmoil in financial markets.

"As noted in the communiqué of the regional surveillance meeting [see below], Latin American economies have made substantial progress in macroeconomic performance and structural reform in recent years. This has been rewarded by sustained growth of output and employment, low inflation, and large capital inflows, including direct investments, in most countries of the region.

"Nevertheless, Latin America has been hit hard by the crises in other emerging markets, and in particular market volatility and contagion phenomena. The capi-



IMF Managing Director Michel Camdessus (right), World Bank President James Wolfensohn, and Inter-American Bank President Enrique Iglesias at a press conference following the meeting of Western Hemisphere policymakers.

tal outflows and massive risk premia that have affected, in different degrees, the major countries of the region do not appear to take sufficient account of either the progress achieved in these economies or their future prospects. However, their policymakers have promptly reacted with important and courageous steps to defend their economies. In this context, it is essential for the efficient operation of the international financial system that private sector investors recognize the important differences among emerging market economies, price their risks appropriately, and avoid overreactions.

"The IMF already has financial arrangements with several countries in Latin America, and, according to its mandate, it stands ready to strengthen its financial support and broaden it to other countries, if necessary, to back strong economic programs." ■

### Text of Communiqué

## Western Hemisphere Policymakers Discuss Latin American Prospects at Regional Meeting

Following is the communiqué of Western Hemisphere policymakers issued September 3, in Washington, following the first day of a two-day meeting.

Building upon earlier meetings of hemispheric ministers of finance and the Interim Committee's call to strengthen regional surveillance, and in response to the recent turbulence in international financial markets, IMF management convened a regional surveillance meeting of finance ministers and central bank governors of the countries in the Western Hemisphere with the greatest interaction with international financial markets (namely, Argentina, Brazil, Canada, Chile, Colombia, Ecuador, Mexico, Peru, United States, Uruguay, and

Venezuela). The World Bank and the Inter-American Development Bank also attended the meeting.

The purpose of the meeting was to discuss recent global economic developments and current prospects, their impact on the Western Hemisphere, and the strategies of the countries in the region to adapt to the more difficult external environment.

The officials met in Washington on September 3. The meeting will continue on September 4. They heard presentations of the management and staff of the IMF on

**Officials discussed strategies for adapting to the difficult external environment.**



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The next issue of the *IMF Survey*, covering the Annual Meetings, will appear on October 19.

the recent evolution of the world economy, and discussed regional developments and cooperation, as well as each country's current policies and prospects.

They noted that in recent years the economies of the Western Hemisphere had in general considerably strengthened their macroeconomic performance and made significant progress in structural reforms, notably in the public finances, the financial system, labor markets, social policies and social safety nets, trade regimes, the reform of the state, privatization, and the promotion of competition in domestic markets.

Over the past year, however, the economies of the region have been affected to different degrees by adverse shocks—namely, the sharp decline in commodity prices, particularly oil; the downturn in demand from Asian countries; the volatility of capital flows; and adverse weather conditions.

The countries in the region had made efforts to adjust to the changed external environment, with policy responses varying in speed and content, reflecting individual economic, political, and social circumstances. These efforts were seen by the participants as critical to preserve the progress the region had made in macroeconomic performance and structural reform, a fact that should be reflected in market assessment. Therefore, it was expected that most countries in the region would continue to show positive output growth and low or declining inflation.

The authorities noted that the external environment had deteriorated further in recent weeks, especially reflecting market reactions to the crisis in Russia. Against this background, they reaffirmed their commitment to promote sustained growth through:

- the pursuit of continued macroeconomic stability through sound fiscal policies, appropriate monetary management, and the maintenance of their current exchange rate policies and regimes;
- the maintenance of open capital markets; and
- the continuation and deepening of their structural reform efforts.

Participants discussed each country's main current macroeconomic and structural policies and indicated that if pressures were to intensify, they stood ready to adapt them, especially in the monetary and fiscal areas, as needed to preserve overall macroeconomic stability.

Authorities agreed on the importance of strategies to better manage risks associated with the volatility of international capital flows. In this regard, they called upon the international financial institutions to continue to look at possible ways to respond to such volatility and



*At ministerial meeting: (left to right) Eduardo Aninat, Chile's Minister of Finance; Luis Mosca, Uruguay's Minister of Economy and Finance; and Carlos A. Massad, President of the Chilean Central Bank.*

to report back on possible strategies and mechanisms.

IMF management expressed support for the policies outlined by the authorities and confidence in their determination to carry out these policies in a timely fashion. The IMF is already supporting a number of the countries in the Western Hemisphere region with ongoing arrangements, and IMF management stands ready to recommend the strengthening and broadening of this support, if necessary. Participants welcomed this indication and urged a prompt replenishment of the IMF's resources through the early completion of the pending increase in quotas and the ratification of the New Arrangements to Borrow.

Authorities concluded by affirming the value of ongoing regional surveillance and joint consultation. They agreed that this process should be continued in the period ahead and that a further regional surveillance meeting would be held in October in Washington at the time of the forthcoming Annual Meetings of the IMF and the World Bank. ■

**Selected IMF Rates**

Week Beginning	SDR Interest Rate	Rate of Remuneration	Rate of Charge
August 31	4.18	4.18	4.47
September 7	4.13	4.13	4.42
September 14	4.05	4.05	4.33
September 21	3.95	3.95	4.23

The SDR interest rate and the rate of remuneration are equal to a weighted average of interest rates on specified short-term domestic obligations in the money markets of the five countries whose currencies constitute the SDR valuation basket (the U.S. dollar, weighted 39 percent; deutsche mark, 21 percent; Japanese yen, 18 percent; French franc, 11 percent; and U.K. pound, 11 percent). The rate of remuneration is the rate of return on members' remunerated reserve tranche positions. The rate of charge, a proportion (currently 107 percent) of the SDR interest rate, is the cost of using the IMF's financial resources. All three rates are computed each Friday for the following week. The basic rates of remuneration and charge are further adjusted to reflect burden-sharing arrangements. For the latest rates, call (202) 623-7171 or check the IMF web site (<http://www.imf.org/external/np/tre/sdr/sdr.htm>).

Data: IMF Treasurer's Department