INTERNATIONAL MONETARY FUND

IMF Survey

OCTOBER 2, 2006 VOL. 35, NO. 18

Annual Meetings Singapore 2006

www.imf.org/imfsurvey

IMF quota reform gets nod in Singapore

page 275

At an Annual Meetings dominated by reform, the IMF won resounding support for what Managing Director Rodrigo de Rato termed "tremendously important" proposals to better align members' quotas with changes in the world economy and to protect the participation and voice of low-income countries. Also receiving strong backing were elements of the IMF's medium-term strategy, including sharpened surveillance and a possible new liquidity instrument.

Stephen Jaffe/IMF

Resilient global economy faces uncertainties

page 281

The global economy is expected to record a fourth straight year of strong growth, with dynamic Chinese and Indian economies helping offset an expected slowing in the U.S. economy. Outgoing IMF Economic Counsellor Raghuram Rajan, presenting the latest *World Economic Outlook* projections, said strong world growth of 5.1 percent in 2006 is expected to moderate slightly to 4.9 percent in 2007, but risks to the outlook are clearly tilted to the downside.

Stephen Jaffe/IMF

Asia takes lead as regional outlooks remain strong

page 284

Singapore showcased several of the IMF's Regional Economic Outlooks. David Burton and Wanda Tseng said that Asia's growth is expected to reach 7.3 percent in 2006 and dip slightly in 2007. Over the same period, sub-Saharan African growth is projected to slow to 4.8 percent but then pick up to almost 6 percent. Latin America and the Caribbean are expected to again see robust growth, averaging about 4¾ percent in 2006 and in the 4 percent range in 2007.

Stephen Jaffe/IMF

Prospects of Asian monetary integration

page 292

Would a single currency be right for Asia? In his Per Jacobsson Foundation lecture, Singapore's Tharman Shanmugaratnam argued that the European Monetary Union model is not applicable. He was also unconvinced by arguments for a basket against which countries would manage their currencies or for a parallel composite currency that could promote a regional capital market. He envisaged a continuation of the recent shift toward managed floats and inflation targeting, which would entail increasing monetary policy coordination.

Michael Spilotro/IMF

IN THIS ISSUE

What's on

October

11–12 8th Roundtable on Capital Market Reform in Asia, Organization for Economic Cooperation and Development (OECD)/Asian Development Bank, Tokyo, Japan

18–20 Asian Regional Forum on Aid Effectiveness, Asian Development Bank headquarters, Manila, Philippines

23–27 IMF High-Level Seminar on Current Issues in Monetary and Financial Law, Washington, D.C., United States

November

6–7 IMF Symposium on Integrity Supervision of Financial Sector Firms, Washington, D.C., United States

6–7 OECD Policy Dialogue with Nonmembers on Aid for Trade: From Policy to Practice, Doha, Qatar

9–10 Jacques Polak 7th Annual Research Conference, IMF, Washington, D.C., United States

11–15 Energy Future in an Interdependent World, 20th World Energy Congress, World Energy Council, Rome, Italy

17–18 Rio 6: World Climate and Energy Event, Rio de Janeiro, Brazil

18–19 14th Asia-Pacific Economic Cooperation Economic Leaders' Meeting, Hanoi, Vietnam

23–24 World Economic Forum, "Connecting Regions—Creating New Opportunities," Istanbul, Turkey

26–28 World Economic Forum, "India: Meeting New Expectations," New Delhi, India

December

7–8 1st Meeting of the OECD Forum on African Public Debt Management, Amsterdam, Netherlands

14 143rd (Extraordinary) Meeting of the OECD Conference, Abuja, Nigeria

January 2007

5–7 Annual Meeting, American Economic Association, Chicago, Illinois, United States

24–28 World Economic Forum Annual Meeting, Davos, Switzerland

IMF Executive Board
For an up-to-date listing of IMF Executive Board meetings, see *www.imf.org.external/np/sec/bc/eng/index.asp*.

New Perspectives on Financial Globalization
Call for Papers
IMF, Washington, D.C., April 26–27, 2007

The conference, sponsored by the IMF's Research Department and Cornell University, aims at providing a forum to present recent theoretical and empirical research on the macroeconomic implications of financial globalization.

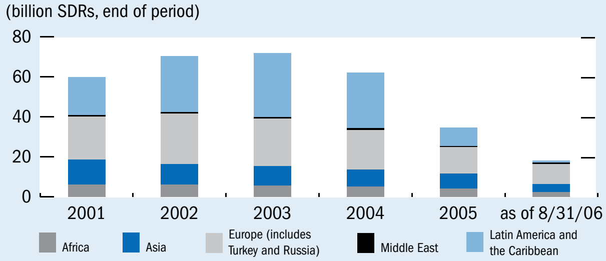
Interested authors should submit either a draft of the paper or a detailed abstract by December 1, 2006, to *globconf@imf.org*.

For details, see *www.imf.org.external/np/seminars/eng/2007/finglo/042607.htm*.

IMF financial data

Total IMF credit and loans outstanding, by region

(billion SDRs, end of period)

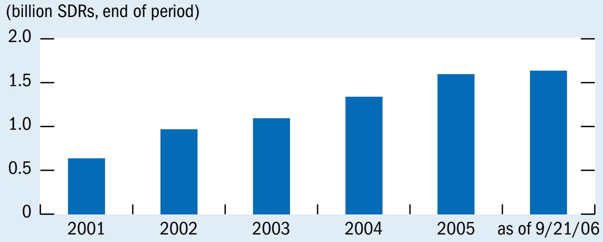


Major currencies, rates per SDR

	September 26, 2006	Year ago (September 26, 2005)
Euro	1.167	1.204
Japanese yen	172.390	163.799
U.K. pound	0.781	0.820
U.S. dollar	1.482	1.449

HIPC debt relief[1]

(billion SDRs, end of period)

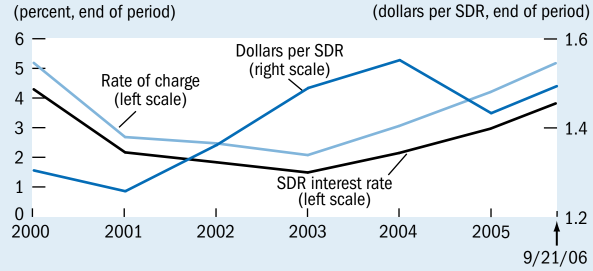


[1]Cumulative disbursements under the Heavily Indebted Poor Countries Initiative.

Related rates

SDR interest rate, rate of charge on IMF nonconcessional loans outstanding, and dollars per SDR

(percent, end of period) (dollars per SDR, end of period)



Note: Special Drawing Rights (SDRs) are an international reserve asset, created by the IMF in 1969 to supplement the existing official reserves of member countries. SDRs are allocated to member countries in proportion to their IMF quotas. The SDR also serves as the unit of account of the IMF and some other international organizations. Its value is based on a basket of key international currencies.

Stephen Jaffe/IMF

The International Monetary and Finance Committee strongly backed key elements of the IMF's medium-term strategy.

Governors back two-year IMF quota reform package

At the recently concluded IMF–World Bank Annual Meetings in Singapore, the IMF won overwhelming endorsement of a package of measures designed to better align members' quotas with changes in the world economy and to protect the participation and voice of its low-income members. IMF Managing Director Rodrigo de Rato told the world's top financial leaders that these governance reforms "are tremendously important for the future of our institution. They will enhance our effectiveness and add legitimacy to all of the other reforms that we are implementing."

The IMF also received strong support from its policy advisory group—the International Monetary and Finance Committee (IMFC)—for other key elements of its medium-term strategy, including sharpened economic surveillance, a possible new liquidity instrument for emerging market members, and a renewed push to help low-income countries reach the 2015 Millennium Development Goals, foremost among them cutting poverty in half from its 1990 level.

The meetings took place amid a global economic environment that continues to demonstrate remarkable resilience but is increasingly surrounded by uncertainties, according to the IMF's latest *World Economic Outlook (WEO)* (see page 281). The stalled Doha Round trade talks prompted deep concern and gave rise to broader questions about whether the world's commitment to multilateralism may be faltering in the face of rising economic nationalism.

The Annual Meetings were attended by the world's central bankers and finance ministers, along with thousands of others from the news media, the financial sector, the private sector, and civil society organizations (CSOs). For the first few days of the meetings, tensions surrounded the Singapore government's decision to refuse entry to some CSO representatives who had been accredited by the IMF and the World Bank. After strong protests from the heads of the two organizations, the Singapore government agreed to allow most of the representatives in question to attend. But for many of them, this was too little too late, and their boycott of many CSO events held fast. Even so, about 250 CSO representatives did register and attend events, giving some of them—especially those from Asia—a first chance to engage with the Fund and the Bank.

A rebalancing of voice

When votes were tallied on September 18, the Resolution on Quota and Voice Reform in the IMF had received the support of 156 member countries, representing 90.6 percent of the total voting power—well in excess of the 85 percent required for passage. The two-year reform program begins with an ad hoc quota increase for the four most underrepresented countries: China, Korea, Mexico, and Turkey. It also includes a plan of action for more fundamental reforms, starting with an agreement on a simpler and more transparent quota formula and at least a doubling of basic votes that would, at a minimum, protect the existing voting share of low-income

Stephen Jaffe/IMF

Rodrigo de Rato said the Fund should be in a position to provide financial support that is "sufficiently predictable, flexible, and substantial" to allow emerging market countries to meet the challenges they could face.

countries as a group. The IMF was asked to report on its progress at the April 2007 IMFC meeting and to complete the reforms by the 2008 Annual Meetings.

IMFC Chair Gordon Brown, the U.K. Chancellor of the Exchequer, said at a news conference that these steps, when implemented, will constitute "the biggest reform" of the IMF's governance structure since its inception after World War II. De Rato stressed in his remarks to delegates that the overwhelming support for the reform was a tribute to the members' vision "in recognizing that preparing the Fund for the future is in every country's interests." At the same time, however, he acknowledged the concerns that India and Brazil—and others who had voted against the resolution—had expressed about ad hoc quota increases for four countries when the thorny issue of revising the quota formula remained to be worked out.

Beefing up economic surveillance

Another major outcome of the Singapore meetings was the IMFC's strong backing, on September 17, of the Fund's ongoing efforts to strengthen the IMF surveillance framework. The monitoring of the global economy and the advice that the Fund offers to individual members is, de Rato noted, "perhaps the greatest single service that the Fund provides." Consistent with this view, the IMFC welcomed the ongoing review of the 1977 Decision on Surveillance over Exchange Rate Policies. The 1977 decision has provided the basis for the IMF's oversight of its members' economic policies since the breakdown of the Bretton Woods system of fixed exchange rates. The goal of the current review is to update that framework to secure a common understanding and consensus on the IMF's key responsibilities under Article IV of its Articles of Agreement and the foundations and objectives of surveillance, covering monetary, fiscal, financial, and exchange rate policies. A preliminary discussion of these issues took place in the IMF's Executive Board in July, and a staff paper is expected to put forth proposals to update the guidance provided by the decision for further Board discussion in the next few months.

The committee also gave strong backing to the stepped-up focus of IMF surveillance on financial and capital market issues, and welcomed the multilateral consultation approach, which seeks to foster greater discussion and cooperation on common economic and financial issues. It looked forward to the conclusions of the first multilateral consultation on global imbalances, which has been under way in recent months with China, the euro area, Japan, Saudi Arabia, and the United States.

The IMFC also supported "the strengthening of IMF policies to better assist its *emerging market members*." Emerging market economies, de Rato noted, have taken steps to lower their public debt, strengthen their financial systems, and increase their flexibility. But financial crises have not disappeared, and the world community, through the Fund, should be in a position to provide financial support that is, he said, "sufficiently predictable, flexible, and substantial" to allow emerging market countries to meet the challenges they could face. The Fund's Executive Board was asked to continue its work on "the necessary design features of a new instrument while paying due regard to the interaction with existing IMF facilities," and de Rato was invited to present a concrete proposal for a new liquidity instrument at the April 2007 IMFC meeting.

As for *low-income countries*, the IMFC asked the IMF to focus on sustainable growth and critical macroeconomic areas to help them achieve the Millennium Development Goals. It welcomed implementation of the Multilateral Debt Relief Initiative and underscored how critical it is that countries avoid a new buildup of unsustainable debt. In this context, the committee saw the joint IMF–World Bank debt sustainability framework as the primary tool that borrowers and creditors should use to assess alternative financing strategies, identify emerging debt-related vulnerabilities, and develop coherent lending practices. It urged all creditors and borrowers to use this framework to inform their decisions and said all creditors should work with the IMF and the World Bank to practice responsible lending.

The Development Committee "supported the World Bank's engagement in governance and anticorruption." World Bank President Paul Wolfowitz told the committee that "we have an obligation to the poor people of the world . . . that all of our funds go—as our Articles of Agreement specify—for the purposes intended." The committee also strongly endorsed the Bank's strategy for reducing poverty in middle-income countries. Committee Chair Alberto Carrasquilla, Colombia's finance minister, emphasized to reporters that these countries are still home to 70 percent of the world's poor and are thus crucial players in the global effort to meet the Millennium Development Goals.

Still growing strong

Commenting on the prospects for the global economy in a press conference on September 14, outgoing IMF Economic Counsellor Raghuram Rajan observed that this is "really the fourth year of very strong global growth, and growth which has been maintained in the face of headwinds, such as strong commodity prices." Drawing on the latest *WEO* forecasts, he predicted global growth of 5.1 percent in 2006, slowing slightly to 4.9 percent in 2007.

At the same time, however, he noted that this strong central forecast is surrounded by "more uncertainty than usual." Among the short-term risks that will keep policymakers on their toes are the possibility of a sharper-than-projected slowdown in the U.S. economy (with still-to-be-answered questions about whether global growth really is independent of such a development), a further increase in global inflationary pressures, and the specter of a more abrupt unwinding of global imbalances than expected.

Earlier, on September 12, IMF Counsellor and head of the newly formed Monetary and Capital Markets Department Jaime Caruana briefed the press on the findings of the latest *Global Financial Stability Report*, which also saw continued resilience amid rising risks. He urged more cooperation among country authorities and steps, in emerging markets, to reduce vulnerabilities and improve regulatory and prudential frameworks. Caruana also counseled financial institutions to continue improving risk management practices, make sure they had enough shock absorbers, and consider the implications for financial soundness and for debt liquidity of less benign scenarios.

Given the challenges and opportunities implicit in the current global economic and financial environment, the IMFC called on the IMF to support members' pursuit of policies that reduce global imbalances while sustaining global growth; address high oil prices, particularly in vulnerable countries; manage the likely transition to less generous liquidity conditions; and ensure medium-term fiscal sustainability and financial stability.

Multilateralism on the cusp?

Despite the global economy's plucky performance, the suspension of Doha Round trade negotiations in July cast a long shadow in Singapore. Brown expressed optimism that "there is a way forward," but he, too, viewed a breakdown of trade talks as the "most worrying" risk for world growth over the long term. He urged "all nations and all members of the World Trade Organization to resist protectionist calls" and appealed to the leaders of the major trading nations to work out an early resumption of the Doha negotiations. Cautioning that the stakes are high, de Rato called on major advanced and emerging market countries to move quickly to preserve the gains already made and put the Doha Round back on track. There is no comfortable middle ground on trade, he said: "the world will either go forward to greater growth and broader opportunities or go backward to narrow nationalism."


Stephen Jaffe/IMF

IMF First Deputy Managing Director John Lipsky (left) and Deputy Managing Director Takatoshi Kato with former First Deputy Managing Director Anne Krueger, who delivered a farewell address on multilateralism.

In remarks to the press, Rajan expressed concern that the suspended Doha talks reflected a larger trend of short-sighted "me first" economic nationalism that flies in the face of the kind of policies that have sustained growth—namely, enhanced competition and greater economic flexibility. But the most detailed and impassioned defense of multilateralism and its contribution to the global good came from recently retired IMF First Deputy Managing Director Anne Krueger, who raised the issue in a farewell address to the Board of Governors.

She warned that multilateralism's role in underpinning the huge economic successes of the past half century is increasingly being underappreciated—ironically while "the need for a well-functioning multilateral international economic system is greater than ever as globalization proceeds." Looking ahead, she pointed to three major trends that are a cause for concern: an increased reliance on preferential trade arrangements (with their implied discrimination); private capital flows, which, despite their increased importance, do not yet fall into any coherent multilateral regime; and the tendency of individual countries, which is likely to increase, to emphasize their own position vis-à-vis the system "without regard for the extent to which their desired outcome may weaken the institutional underpinning of the very institutions they are trying to influence." Multilateralism, she argued, has been a "success that must be fought for and preserved." ■

Sheila Meehan
IMF External Relations Department

IMFC communiqué

Ministers stress need for orderly unwinding of imbalances

Following is the communiqué issued by the International Monetary and Financial Committee (IMFC) of the IMF's Board of Governors after its fourteenth meeting, held in Singapore on September 17. Gordon Brown, U.K. Chancellor of the Exchequer, chaired the session.

Quota and voice reform in the IMF

Following the call at our last meeting to safeguard and enhance the IMF's effectiveness and credibility, the committee stresses the importance of IMF quota and voice reforms. The Executive Board has submitted a comprehensive two-year program of quota and voice reforms in a draft resolution to the Board of Governors. Subject to the adoption of the resolution, the September 2006 meetings would initiate an integrated set of reforms, to be completed no later than by the 2008 Annual Meetings. Starting with initial quota increases for China, Korea, Mexico, and Turkey, this package of reforms, when implemented, would make significant progress in realigning quota shares with members' relative positions in the world economy and, equally important, in enhancing the participation and voice of low-income countries in the IMF as set out in the resolution. The committee urges the Executive Board to work constructively and expeditiously on all elements of the reforms so as to garner the broadest possible support, underlines the importance of timely implementation of the program, and calls on the Managing Director to provide a status report at its next meeting.

Global economy and financial markets

The committee welcomes the ongoing strong and broad-based global economic expansion. Growth is expected to remain robust in 2007. However, there are downside risks from the possibility of a continued buildup of inflationary pressures, a slowdown in consumption in a number of countries, continuing high and volatile energy prices, and the spread of protectionism. The committee agrees that, in the period ahead, the IMF should focus on supporting its members in promoting policies for reducing global imbalances while sustaining global growth; addressing the impact of high oil prices, in particular on the most vulnerable countries; managing the likely transition to less generous liquidity conditions; and ensuring medium-term fiscal sustainability and financial stability. The committee underscores that reinvigorating the momentum of multilateral trade liberalization is critical so as to sustain and strengthen the foundations of global growth.

In the advanced economies, monetary policy will need to continue solidly anchoring inflation expectations and to balance the relative risks to price stability and growth. The current favorable economic environment provides an opportunity for ambitious fiscal consolidation, backed up with credible policy measures to put social security and health care systems on sounder footings to cope with the challenges of population aging. Growth prospects should be bolstered by structural reforms needed in many countries to improve the business environment and product market flexibility, enhance the capacity of labor to adapt to globalization, and spur productivity advances.

In emerging market and other developing countries, improved fundamentals have underpinned the resilience of growth to high oil prices and tighter global financial conditions. Growth performance, especially in emerging Asia, has benefited from market-oriented reforms, open trade, and competition. In countries where vulnerabilities remain, further efforts are needed to strengthen public sector balance sheets, anchor inflation expectations, improve the functioning of financial sectors, and ensure the sustainability of external positions.

Growth in low-income countries overall, including in sub-Saharan Africa, remains strong. The committee emphasizes the importance of a strong partnership between poor countries and donors to underpin further efforts to accelerate growth to help achieve the Millennium Development Goals (MDGs). Countries should persevere with sound macroeconomic policies, strengthening institutions, and growth-critical reforms. The international community should also support countries'

Stephen Jaffe/IMF

Gordon Brown and Rodrigo de Rato. The IMFC saw multilateral trade liberalization as crucial for sustained global growth.


Stephen Jaffe/IMF

Chairman of the U.S. Federal Reserve Ben Bernanke with central bank governors Stanley Fischer (Israel) and Guillermo Ortiz (Mexico).

own poverty reduction efforts with increased and more effective aid, agreed debt relief, and bold market-opening initiatives.

The committee calls for sustained actions to implement the agreed policy strategy to underpin an orderly unwinding of global imbalances. The strategy involves steps to boost national saving in the United States, including fiscal consolidation; further progress on growth-enhancing reforms in Europe; further structural reforms, including fiscal consolidation, in Japan; reforms to boost domestic demand in emerging Asia, together with greater exchange rate flexibility in a number of surplus countries; and increased spending consistent with absorptive capacity and macroeconomic stability in oil-producing countries. The committee welcomes the multilateral consultation by the IMF, which provides an opportunity to support the agreed policy strategy.

The committee remains concerned about high and volatile prices in world energy markets. It welcomes the actions taken to address capacity constraints in oil production and calls for continued measures from all sides to improve the supply-demand balance in oil markets over the medium term. This will involve increased investment to build up adequate production and refining capacity, incentives to encourage energy conservation by consumers, steps to improve the quality and transparency of oil data, and closer dialogue among oil producers and consumers. The committee also calls on the IMF to continue to provide advice and support—in particular, to its low-income members—to help countries adjust to high oil prices.

Following our meeting with business leaders, we reconfirm our shared commitment to strengthen the foundations of a globalized economic and financial system that promotes growth and poverty reduction and provides equitable opportunities for all. The committee also received a report on the current status of the multilateral trade negotiations under the Doha Round from Pascal Lamy, Director-General of the World Trade Organization (WTO). The committee expresses its deep disappointment that the trade negotiations have been suspended. It urges all WTO members to maintain their commitment to the rules-based multilateral trading system, resist protectionist calls, and preserve progress that has already been made. The committee calls for leadership from the major trading nations to work urgently toward an early resumption of the negotiations and an ambitious, successful outcome by the end of the year, based on a commitment to a comprehensive package on agriculture, industrial products, and services, to which all countries will need to contribute.

The committee recognizes the importance of achieving the MDGs. In this context, it also stresses the importance of implementing aid for trade assistance, which is firmly grounded in national development strategies, independent of progress on the Doha Round. We welcome the reports of the task forces on the Integrated Framework and on aid for trade and the financing commitments by donors for the enhanced Integrated Framework.

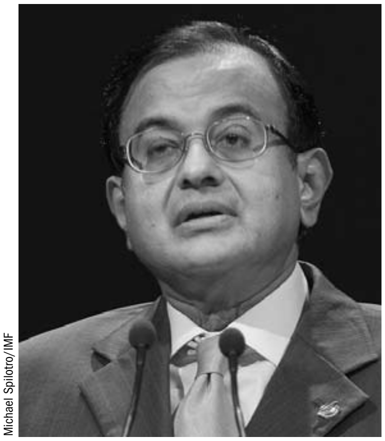
Implementation of the IMF's medium-term strategy

Following the agreement at its last meeting, the committee welcomes the progress made in the reform of the IMF surveillance framework. It welcomes the steps to put greater focus on financial and capital market issues in the IMF's work. The committee welcomes the multilateral consultation approach, which aims at fostering discussion and cooperation on common economic and financial issues. The committee looks forward to the conclusions of the first multilateral consultation on global imbalances, and proposals by the Managing Director for possible further consultations and work on issues of multilateral concern. The committee welcomes the ongoing review with a view to updating the 1977 Decision on Surveillance over Exchange Rate Policies to secure a common understanding and consensus on the responsibilities under Article IV and the foundations and objectives of surveillance, covering monetary, fiscal, financial, and exchange rate policies. The committee takes note of the work to date by the Board on a remit for surveillance, which would provide a statement of objectives, priorities, and responsibilities for the medium term, and it looks forward to further work as part of the wider program to improve the effectiveness of surveillance. The committee will discuss progress on the remit at its spring meeting.

The committee supports the strengthening of IMF policies to better assist its emerging market members. The committee welcomes the recent discussion in the Executive Board on a new liquidity instrument for countries that are active in international capital markets, aimed at supporting these countries' own strong policies and ensuring that substantial financing will be available if needed while safeguarding IMF resources.

The committee calls on the Executive Board to continue its work on the necessary design features of a new instrument while paying due regard to the interaction with existing IMF facilities, and invites the Managing Director to present a concrete proposal by the time of its next meeting. The committee also looks forward to the upcoming review of the IMF's policy on lending into arrears.

The committee considers that the IMF should give priority to enhancing the effectiveness of its work in low-income countries by focusing on sustainable growth and macro-critical areas that support the achievement of the MDGs. It welcomes implementation of the Multilateral Debt Relief Initiative by the IMF, the World Bank, and the African Development Bank; the provision of debt relief under the Heavily Indebted Poor Countries (HIPC) Initiative to two further countries (Cameroon and Malawi); and the decision to grandfather all eligible HIPCs when the sunset clause of the HIPC Initiative takes effect at end-2006.


Michael Spilotro/IMF

Indian Finance Minister Palaniappan Chidambaram told the IMFC that there was a need for a new, simple, transparent, and linear quota formula.

The committee underscores the importance of helping countries reap the benefits of higher aid and debt relief and avoid a new buildup of unsustainable debt. The committee stresses that the debt sustainability framework jointly developed by the IMF and the World Bank is the primary tool to be used by borrowers and creditors in assessing alternative financing strategies, identifying emerging debt-related vulnerabilities, and developing coherent lending practices, and urges all creditors and borrowers to use the framework in their lending and borrowing decisions. The committee urges all creditors to work with the IMF and the World Bank to adhere to responsible lending. The committee looks forward to further refinements to the framework and the development of practical guidelines for borrowers and creditors.

At its next meeting, the committee will consider further work on ways to enhance collaboration and clarify the division of responsibilities and accountabilities between the IMF and the World Bank, taking account of the work of the External Review Committee on World Bank–IMF collaboration.

The committee looks forward to the development of proposals for more predictable and stable sources of IMF income in the context of the IMF's overall budgetary position. It looks forward to the recommendations of the Committee of Eminent Persons appointed by the Managing Director.

Other issues

The committee calls for closer cooperation between the IMF and the Financial Action Task Force in promoting stronger implementation of international anti–money laundering and combating terrorist financing (AML/CFT) standards and encourages publication of comprehensive country evaluations.

The committee recommends members' acceptance of the Fourth Amendment of the Articles of Agreement.

The committee welcomes the external evaluation of the Independent Evaluation Office (IEO). The IEO is continuing to make a valuable contribution to the IMF's learning culture and facilitating oversight and governance.

Stephen Jaffe/IMF

After the IMFC meeting, finance ministers (from left) Abdoulaye Diop (Senegal), Amos Kimunya (Kenya), and John Benjamin (Sierra Leone) spoke to the press about, among other topics, the impact of high oil prices in Africa.

The committee expresses its heartfelt appreciation to Anne Krueger for her exceptional contributions to a shared vision of a globalized economy providing equitable opportunities for all and for serving the IMF and its membership with unwavering dedication and decisive intellectual leadership. It extends a warm welcome to John Lipsky, who has succeeded her as First Deputy Managing Director. The committee also expresses its appreciation of the work of Raghuram Rajan as Economic Counsellor. The next meeting of the IMFC will be held in Washington, D.C., on April 14, 2007. ■

World Economic Outlook

Global growth remains strong, but uncertainties multiply

The September 2006 *World Economic Outlook* (*WEO*) projects strong global growth of 5.1 percent in 2006, slowing slightly to 4.9 percent in 2007, both numbers up from the *WEO*'s spring forecast. Growth is becoming more balanced, Raghuram Rajan, Director of the IMF's Research Department, said when presenting the *WEO* projections at a press conference on September 14 during the Annual Meetings in Singapore. The U.S. economy is beginning to slow; emerging markets and developing markets, led by China at 10.0 percent and India at 8.3 percent, are delivering impressive growth rates; the euro area has gained momentum; and Japan's expansion continues. However, after four years of strong growth, risks to the outlook are clearly tilted to the downside.

Stephen Jaffe/IMF

Research Director Raghuram Rajan (between Deputy Director of Research Charles Collyns and Graham Hacche, Deputy Director, External Relations) responds to questions about the Doha trade talks, U.S. housing, and Asia.

Sustaining productivity

Rajan, who has announced that he will return to the University of Chicago in early 2007, took the opportunity of his final *WEO* press conference to talk about the main medium-term risk to growth: not enough is being done to support the worldwide growth in productivity (see chart). The information technology revolution and increased global competition fostered productivity growth in the past, but now political support is fading in the face of popular discontents, strengthened by rising inequality.

"The collapse of the Doha Round, the rising tide of economic nationalism coming in the way of cross-border mergers, and the strengthening of resistance to immigration," Rajan said, all point in the same direction. "In the name of national advantage—an attitude of me, my, mine," Rajan cautioned, "politicians are once again ensuring collective disadvantage. The strong world economy we enjoy today is because policies to enhance competition, economic sustainability, and flexibility were implemented in the past. For the good times to continue, today's leaders should refocus from spending the dividend to reinvesting for the future."

Asked by a reporter whether a sense of growing income inequality in the United States might also be fueling discontent, Rajan observed that people look at relative incomes rather than absolute, and many feel they are being left behind. U.S. protectionism is due partly to a growing uncertainty in large segments of the workforce about whether they will remain prosperous even though the economy has been growing fairly strongly over the past few years. This has become an important issue in the political arena, and Rajan considered it a useful debate.

Rajan also warned of short-term risks—which are to some degree related—to projected growth of the global economy:

- a sharper-than-projected slowdown in the United States, driven by a cooling of the housing sector, coupled with uncertainty about the extent to which growth in the rest of the world relies on U.S. growth;
- a further increase in global inflationary pressures, stemming from tightening labor and commodities markets, which could induce central banks to tighten more than now envisaged, disrupting currently benign conditions in financial markets; and
- an abrupt unwinding of global imbalances.

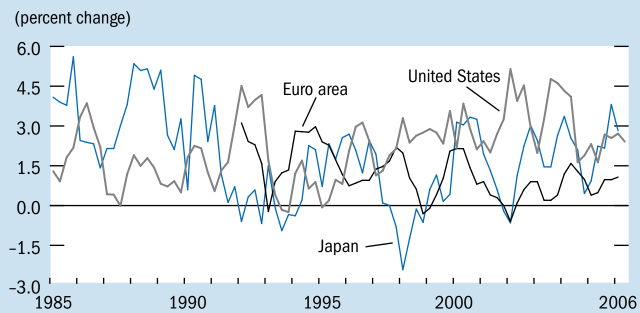
Buoyant emerging markets

Overall growth in emerging markets has remained very strong, with good short-term prospects.

Emerging Asia was once again the world's most dynamic region in the first half of 2006, driven by buoyant China and India (see

The productivity factor

In recent years, productivity growth has been strong in the United States and Japan, but it has lagged in the euro area.



Note: Estimates are for the nonfarm business sector in the United States and for the whole economy in the euro area and Japan.
Data: Haver Analytics; Organization for Economic Cooperation and Development; IMF, *World Economic Outlook* and staff calculations.

China and India top the charts

Global economic growth has become more balanced, but developing Asia continues to dazzle.

	2005	Proj. 2006	Proj. 2007
(annual percent change)			
World growth	**4.9**	**5.1**	**4.9**
United States	3.2	3.4	2.9
Euro area	1.3	2.4	2.0
Japan	2.6	2.7	2.1
United Kingdom	1.9	2.7	2.7
Canada	2.9	3.1	3.0
Other advanced economies	3.7	4.1	3.7
Africa	5.4	5.4	5.9
Central and Eastern Europe	5.4	5.3	5.0
Commonwealth of Independent States	6.5	6.8	6.5
Developing Asia	9.0	8.7	8.6
China	10.2	10.0	10.0
India	8.5	8.3	7.3
Middle East	5.7	5.8	5.4
Western Hemisphere	4.3	4.8	4.2

Data: IMF, *World Economic Outlook*, September 2006.

table). China's economy continues to rely heavily on fixed asset investment, however, and excess liquidity is exacerbating the problem. China is fast becoming a market economy, and the IMF, Rajan said, has counseled for some time that the best means of managing a market economy is to rely more on market incentives by moving all prices, including the exchange rate and interest rates, progressively to market levels. This may cause short-term pain, he said, but it is ultimately the only way to go, and it is best to take such steps when growth is strong.

In India, expansion is led more by domestic demand. The authorities should be commended for seeking to spread the benefits of growth, but that job is better done by expanding opportunity through improvements in education, health care, finance, and infrastructure than by offering often-misdirected subsidies, guarantees, and tax sops that a stretched budget can ill afford.

Growth in ***emerging Europe*** is still robust. In many countries, growth is fueled by external private sector borrowing and rapid growth of bank credit; many of these countries have wide current account deficits and must take care to limit vulnerabilities to a possible deterioration in global financing conditions.

In ***Latin America***, growth picked up in 2006 but is still modest compared with that in other developing country regions. Macroeconomic management has taken commendable advantage of a supportive global environment to reduce vulnerabilities, but spending pressures must be resisted to ensure resilience if the environment deteriorates.

For oil producers in the ***Middle East, Africa, and the Commonwealth of Independent States***, the challenge is to manage the current high level of export earnings carefully, spending to boost oil-related capacity while improving the economy's ability to diversify into new areas. Metals producers, including those in sub-Saharan Africa, must be careful about committing to hard-to-reverse long-term public expenditures since prices are unlikely to persist at current levels.

While in the advanced economies . . .

Overall, the *WEO* projects 3.4 percent growth for the ***United States*** in 2006 and 2.9 percent next year. The housing market is clearly cooling, with house price appreciation close to zero. Rising inventories of unsold houses suggest things will get worse before they get better.

But the slowdown in housing has not yet translated into significantly lower consumption, and robust labor income growth and lower gasoline prices are likely to buffer the effect on consumption. But the usual lags—from interest rates to housing activity and from housing activity to consumption—complicate the interpretation of the picture. The U.S. Federal Reserve has a tough task in deciding whether further interest rate hikes are needed to cool down activity. "The Fed may soon be on the horns of a dilemma," Rajan commented, "and monetary policy will need to be skillfully managed if the economy is not to be gored."

In the ***euro area***, the *WEO* projects growth of 2.4 percent in 2006, slowing modestly to 2 percent in 2007. Investment is now the main driver of the recovery, but consumption will have to pick up, especially if the U.S. economy slows sharply. Over the medium term, Europe needs to improve its growth potential through greater labor market flexibility and increased competition in the services sector, including in finance. Europe's leaders have to find the will to take on vested interests in both the labor market and the corporate sector simultaneously. "This necessary but difficult domestic battle is constantly postponed till after the next election," Rajan noted, "but the next election will never come."

In ***Japan***, the economy looks likely to grow at 2.7 percent this year, despite mixed incoming data, and to moderate to 2 percent next year. Consumption is still lagging, but investment by small firms is picking up. Consumer price inflation has recently turned positive, ending an extended period of deflation, and a modest further increase in inflation is projected.

Japan is facing rapid population aging, and the rest of the world is counting on it to set an example others can follow. Its strategy must include fiscal rectitude, greater workforce participation by women and the elderly, some immigration, and, above all, greater productivity growth. Improving service sector productivity, which has been decreasing—by opening services to foreign and domestic competition—will be essential. ■

Marina Primorac
IMF External Relations Department

Copies of the *World Economic Outlook*, September 2006, are available for $57.00 ($54.00 academic rate) each from IMF Publication Services. See page 292 for ordering details. The full text is also available on the IMF's website (*www.imf.org*).

Policymakers face new challenges as financial systems evolve

Financial systems in advanced countries have undergone remarkable changes in recent years, driven primarily by improved technology and deregulation. But considerable differences remain across countries, and these differences have important effects on economic cycles, according to the IMF's September 2006 *World Economic Outlook (WEO).*

The study, published as Chapter IV of the *WEO,* uses a unique new index (see chart) to distinguish between financial systems that rely heavily on arm's length transactions (in which the parties rely on publicly available information) and traditional arrangements that depend on longer-term borrower-lender relationships. In general, financial intermediation is now driven more by arm's-length transactions, but there are important differences in the pace at which changes are taking place.

Financial systems in Australia, Canada, the Netherlands, the United Kingdom, and the United States are increasingly characterized by arm's length transactions, whereas relationship-based finance continues to play a key role in most of Europe and Japan.

Implications for economic cycles

The *WEO* analysis shows that households and firms react differently to changes in the economic environment depending on the type of financial system. Their different reactions have important implications for economic cycles, asset price changes, and economies' responses to opportunities created by globalization and to new technology.

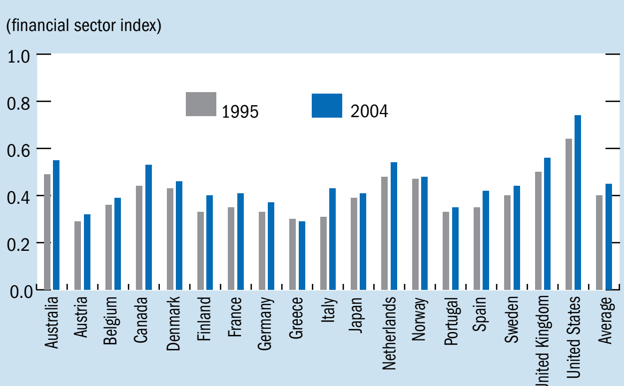
Households in countries with more arm's length systems, for example, have easier access to financing and are better able to smooth consumption spending, but they are also more vulnerable to asset price declines. For example, U.K. and U.S. households can borrow against the rising value of their homes—thus boosting consumption and supporting strong growth. But this borrowing also increases debt and leaves these households more vulnerable to rising interest rates and a downturn in asset prices.

There are clear differences, too, in how the two types of financial systems respond to technological innovation and globalization pressures. Financial systems that depend on relationship-based transactions are slower to respond to new growth opportunities and tend to favor existing industries. Arm's length systems find it easier to reallocate resources to new and more vibrant industries, with substantial benefits for productivity growth. This finding has particularly telling implications for Europe, whose labor productivity growth has significantly lagged behind that of Australia, the United Kingdom, and the United States over the past decade.

Differences in financial systems may also help explain widening global imbalances. U.S. households, for example, have been able to borrow far more than those in other countries—reducing saving at the same time that sophisticated and liquid U.S. financial markets have attracted foreign investors, who have helped finance the current account deficit. If other systems catch up, however, the U.S. deficit may be harder to finance.

An uneven pace of change

Arm's length transactions increasingly characterize the financial sectors of advanced economies, but the pace of change has been uneven.



Note: Index reflects an average of 27 variables that measure a financial sector's dependence on publicly available—that is, arm's length—information.
Data: IMF, September 2006 *World Economic Outlook.*

Maximizing benefits

How can policymakers maximize the benefits of the continuing shift toward arm's length finance? The *WEO* offers three pertinent policy conclusions:

Monetary policy. With households using their assets as collateral for borrowing, interest rate changes are likely to become an increasingly important channel through which monetary policy affects the economy. As monetary policy is tightened, central banks will need to carefully assess whether rising interest rates are having a larger effect on household spending.

Regulatory and supervisory policies. As financial systems change, so do the risks. Financial regulators and supervisors must adapt, as the proliferation of innovative financial instruments exposes holders of these instruments to new risks.

Complementary reforms. The full benefit of changes in financial systems will be realized only if there are complementary changes. This is particularly true in Europe, where more flexible labor markets and bankruptcy reforms will be crucial in allowing countries to use resources more efficiently. ■

Subir Lall, Roberto Cardarelli, and Irina Tytell
IMF Research Department

Regional Economic Outlook

Asia, facing continued strong growth, should rebalance economies

Asia, in the fifth year of an economic boom, is expected to post overall growth of 7.3 percent in 2006, up slightly from the previous year's 7.2 percent, before declining to 7.1 percent in 2007, according to the IMF's Regional Economic Outlook (see Table 1). The projected moderation next year reflects some modest easing of export performance because of slowing growth in industrial countries. David Burton, Director of the IMF's Asia and Pacific Department, told a briefing in Singapore on September 16 that domestic demand in the region should hold up well, thanks to peaking interest rates and the expected stabilization of oil prices. Inflation appears to be well under control because many countries have been proactive in monetary tightening. Prospects for capital flows to emerging Asia remain good, as evidenced by the region's resilience in the face of the global financial market volatility in May and June.

The most important downside risk for Asia, the IMF said, could be a more-rapid-than-expected slowdown in the U.S. economy—particularly a sharp cooling of the U.S. housing market—which could affect U.S. demand and Asia's exports, indirectly dampening domestic demand in Asia. If these risks materialize, investors may turn away from emerging markets, slowing growth and weakening regional financial markets. Despite the risks, Asia is well placed to weather any difficulties.

Although the strategy of export-led growth has long been a successful one for Asia, sustained success will mean shifting away from a heavy dependence on exports and more toward domestic demand. "We think some rebalancing of growth would make the region less vulnerable to shifts in the global economy and would allow people in the region to begin to benefit more from the rapid growth," Burton said.

He said that consumption as a share of GDP is quite low by global standards and has not really kept up with GDP growth. The prospective aging of Asia—which will bring its own challenges—will likely increase consumption. But policies can also help boost domestic consumption, particularly those that ensure provision of education, health care, and social safety nets, he argued. In addition, further financial sector development is one key to continued success, particularly in advancing intraregional financial integration to provide added stimulus for capital market development. This allows more people in the region to share in Asia's rapidly growing corporate profits and increases access by the poor to financial markets.

According to the *WEO,* the economic outlook for the region's low-income countries is generally good, particularly in Vietnam, where growth is projected at 7.8 percent in 2006, declining slightly to 7.6 percent in 2007 (see Table 2). While the Pacific islands have potential for more rapid growth—particularly in tourism, fisheries, forestry, mining, and agriculture—structural impediments remain. Emerging Asia is expected to post 8.3 percent growth in 2007, and the Pacific islands are expected to boost growth slightly to 3.1 percent in 2007 from 2.8 percent in 2006 (see Table 3).

Table 1
Continuing success
Asia's strong growth performance is expected to last through 2007.

	2004	2005	Proj. 2006	Proj. 2007
	(real GDP, year-on-year percent change)			
Industrial Asia	**2.5**	**2.6**	**2.7**	**2.3**
Japan	2.3	2.6	2.7	2.1
Australia	3.5	2.5	3.1	3.5
New Zealand	4.3	1.9	1.3	1.7
Emerging Asia	**8.4**	**8.5**	**8.5**	**8.3**
Hong Kong SAR	8.6	7.3	6.0	5.5
Korea	4.7	4.0	5.0	4.3
Singapore	8.7	6.4	6.9	4.5
Taiwan POC	6.1	4.0	4.0	4.2
China	10.1	10.2	10.0	10.0
India	7.3	8.2	8.3	7.3
Indonesia	5.1	5.6	5.2	6.0
Malaysia	7.2	5.2	5.5	5.8
Philippines	6.2	5.0	5.0	5.4
Thailand	6.2	4.5	4.5	5.0
Asia	**7.1**	**7.2**	**7.3**	**7.1**

Data: IMF, Asia and Pacific Department, World Economic Outlook database, and staff estimates.

Table 2
Sharing in the boom
Growth in Asia's low-income countries remains strong.

	2004	2005	Proj. 2006	Proj. 2007
	(real GDP, year-on-year percent change)			
Low-income countries in Asia	**7.5**	**7.8**	**6.5**	**6.5**
Bangladesh	6.1	6.2	6.2	6.2
Bhutan	7.5	7.4	12.7	14.3
Cambodia	10.0	13.4	5.0	6.5
Lao PDR	6.4	7.0	7.3	6.6
Mongolia	10.7	6.2	6.5	5.5
Myanmar	13.6	13.2	7.0	5.5
Nepal	3.8	2.7	1.9	4.2
Sri Lanka	5.4	6.0	5.6	6.0
Timor-Leste	0.3	2.3	0.9	4.6
Vietnam	7.8	8.4	7.8	7.6

Data: IMF, Asia and Pacific Department, World Economic Outlook database, and staff estimates.

Table 3
Exposed islands

Structural problems are holding back the Pacific island economies.

	2004	2005	Proj. 2006	Proj. 2007
	(real GDP, year-on-year percent change)			
Pacific islands	**2.6**	**2.9**	**2.8**	**3.1**
Fiji	4.1	1.6	2.5	2.5
Kiribati	–3.7	0.3	0.8	0.8
Marshall Islands	4.7	1.4	0.9	3.5
Micronesia	–4.4	1.5	–0.7	3.0
Palau	4.9	5.5	5.7	5.0
Papua New Guinea	2.9	3.1	3.7	4.0
Samoa	2.8	5.4	4.6	3.5
Solomon Islands	8.0	5.0	5.3	4.3
Tonga	1.4	2.3	1.9	0.6
Vanuatu	4.8	2.6	3.0	3.5

Data: Country authorities and IMF staff estimates.

Table 4
Less imbalanced?

While China's current account surplus is still growing, balances in most of Asia are moderating.

	2004	2005	Proj. 2006	Proj. 2007
	(current account balance, billion dollars)			
Industrial Asia	**125.4**	**114.0**	**116.1**	**111.2**
Japan	172.1	165.7	167.3	162.9
Australia	–40.1	–42.1	–41.4	–42.3
New Zealand	–6.5	–9.7	–9.8	–9.3
Emerging Asia	**183.7**	**254.6**	**269.9**	**288.1**
excluding China	115.1	93.8	85.8	81.7
China	68.7	160.8	184.2	206.5
India	1.4	–11.9	–17.6	–25.1
NIEs[1]	88.7	86.1	78.5	80.1
ASEAN-4[2]	24.9	19.6	24.8	26.7
Asia	**309.2**	**368.5**	**386.0**	**399.3**

[1]NIEs = newly industrialized economies.
[2]ASEAN-4 = Indonesia, Malaysia, the Philippines, and Thailand.
Data: IMF, Asia and Pacific Department, World Economic Outlook database, and staff estimates.

Current account balances are expected to remain broadly stable in most of Asia, except for China and Korea, the IMF said. Emerging Asia (excluding China) is likely to see its current account surplus decline modestly in 2006 and then stabilize in 2007. China's surplus is projected to rise even further with strong exports, reaching over $200 billion in 2007 (see Table 4). In contrast, Korea's current account surplus is expected to fall sharply, to less than ½ of 1 percent of GDP in 2006 and 2007, because of higher imports and a rising oil import bill. India's current account deficit is forecast to widen in 2006–07 amid vibrant domestic demand, and Thailand's deficit is expected to expand next year with infrastructure megaprojects. ■

China: more flexible exchange rate could assist monetary policy

China is continuing to grow rapidly, according to the IMF's recent review of the economy. GDP growth reached 10 percent in 2005, roughly the same as in 2004, and is projected to grow at that level in 2006 and 2007. Net exports and investment continue to expand rapidly, and strong world demand and China's increasing role in global processing trade drove export growth. A slowdown in import growth resulted in a current account surplus of more than 7 percent of GDP, up from 3½ percent in 2004. Despite some tightening of monetary policy and administrative controls, investment growth continued to be strong. The recapitalization of three large state-owned commercial banks has improved bank operations. State-owned enterprises have become more market oriented, and corporate and management restructuring has continued.

China	2003	2004	2005	Proj. 2006
	(percent of GDP)			
Real GDP	10.0	10.1	10.2	10.0
Consumer prices[1]	1.2	3.9	1.8	1.5
	(billion dollars)			
Exports	438	593	762	937
Current account balance	46	69	161	179
Gross official reserves[2]	412	619	826	1,046

[1]Period average.
[2]Includes gold, SDR holdings, and reserve position in the IMF.
Data: Chinese authorities and IMF staff estimates and projections.

Discussing the IMF review, Executive Directors commended the authorities for sustaining high economic growth. They broadly supported the government's medium-term economic reform strategy, particularly the need to rebalance the economy away from heavy dependence on investment and exports for growth, and toward consumption. Additional monetary policy actions are needed, particularly by stepping up open market operations to drain liquidity from the banking system. Directors emphasized the importance of improving monetary policy effectiveness, noting that, although moral suasion and administrative steps to restrain credit and investment growth are necessary, such measures can make it difficult for banks to operate fully on a commercial basis. Early reform of the Agricultural Bank of China, the last of four large state banks, is needed to further improve overall banking operations.

Greater exchange rate flexibility would enable the People's Bank of China to use its monetary policy instruments more effectively. Many Directors consider it appropriate for China to increase exchange rate flexibility in a gradual and controlled manner, understanding that acceleration could adversely affect macroeconomic stability. A number of other Directors stressed that the flexibility afforded by the current exchange rate system should be used more extensively because the current strength of the Chinese economy provides a favorable context for adjustment. ■

Regional Economic Outlook

African growth projected stronger in 2007

Growth in real GDP in sub-Saharan Africa is projected to slow to 4.8 percent in 2006 from 5.6 percent in 2005, but to pick up to almost 6.0 percent the following year, according to the IMF's economic outlook for the region, released in Singapore on September 16. The brief slowdown is largely the result of a temporary fall in oil production in oil-exporting countries like Equatorial Guinea, Chad, and Nigeria and a moderation of growth in South Africa to more sustainable levels (see table). Inflation (excluding in Zimbabwe) is projected to drop to 6.9 percent in 2006 from 8.2 percent the previous year, particularly because of the fall in inflation in oil-producing countries (see chart).

Growth in oil-importing countries as a whole is expected to decline to 4.5 percent from 5 percent in 2005, though 17 of these countries—about the same number as in 2005—are expected to experience growth of 5 percent or more. In many oil-importing countries, the impact of persistently high petroleum prices has been mitigated by rising export prices for nonfuel commodities. "This growth performance demonstrates the growing robustness of economic growth in sub-Saharan Africa," Abdoulaye Bio-Tchané, Director of the IMF's African Department, told reporters.

He stressed, however, that there were several factors that could tarnish this favorable picture. "Export demand could be lower if activity in the rest of the world slows from the impact of the unwinding of global imbalances and tighter monetary policies. Growth and inflation could also be adversely affected by further increases in oil prices and a larger-than-expected fall in nonfuel commodity prices. And there are still political risks in a number of countries in the region," he stated.

Bio-Tchané said that the scaling up of aid, promised by the international community at the Gleneagles Summit a year ago, has yet to materialize, but private capital inflows are rising in some countries as surging commodity prices and debt relief make the region a more attractive place to invest. "Still, countries in sub-Saharan Africa will have to do much more to lower the costs of doing business if private sector activity is to flourish," he added. ■

Encouraging performance

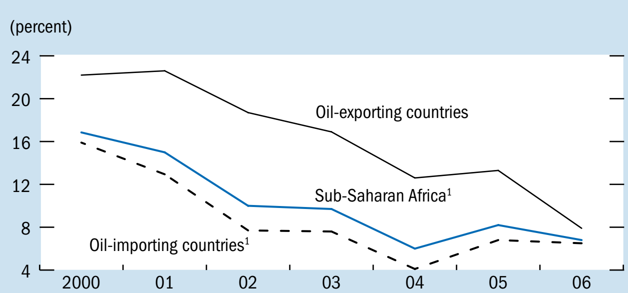
African countries will see robust growth in both 2006 and 2007.

	1997–2001	2004	2005	2006	2007
		(real GDP growth, percent)			
Oil-exporting countries	**4.2**	**8.3**	**7.8**	**5.6**	**10.1**
Angola	3.0	11.2	20.6	14.3	31.4
Cameroon	4.6	3.7	2.6	4.2	4.3
Chad	4.5	31.3	12.2	0.1	2.5
Congo, Rep. of	2.4	3.6	7.9	7.4	2.1
Côte d'Ivoire	1.7	1.8	1.9	1.9	3.0
Equatorial Guinea	57.7	32.4	6.0	–1.0	9.4
Gabon	0.1	1.4	2.9	2.2	2.5
Nigeria	2.7	6.0	6.9	5.2	6.4
Oil-importing countries	**2.8**	**4.9**	**5.0**	**4.5**	**4.6**
Benin	5.2	3.1	2.9	4.5	5.1
Botswana	8.2	6.0	6.2	4.2	4.3
Burkina Faso	5.9	4.0	7.1	5.6	5.8
Burundi	1.1	4.8	0.9	6.1	6.6
Cape Verde	8.3	4.4	5.8	5.5	6.0
Central African Republic	3.4	1.3	2.2	3.2	3.8
Comoros	2.4	–0.2	4.2	1.2	3.0
Congo, Dem. Rep. of	–4.1	6.6	6.5	6.5	7.2
Eritrea	1.2	3.5	4.8	2.0	4.0
Ethiopia	3.9	12.3	8.7	5.4	5.5
Gambia, The	6.0	5.1	5.0	4.5	5.0
Ghana	4.2	5.8	5.8	6.0	6.0
Guinea	4.1	2.7	3.3	5.0	5.4
Guinea-Bissau	–1.1	2.2	3.2	4.6	5.2
Kenya	2.3	4.6	5.7	5.4	5.2
Lesotho	0.9	2.7	1.3	1.6	1.4
Liberia	n.a.	–5.2	9.5	7.0	8.1
Madagascar	4.6	5.3	4.6	4.7	5.6
Malawi	1.6	5.1	2.1	8.4	5.6
Mali	5.1	2.4	6.1	5.1	5.4
Mauritius	5.4	4.5	3.4	3.4	3.4
Mozambique	9.2	7.5	7.7	7.9	7.0
Namibia	3.4	5.9	3.5	4.5	4.5
Niger	3.7	–0.6	7.0	3.5	4.2
Rwanda	8.6	4.0	6.0	3.0	4.3
São Tomé and Príncipe	2.6	3.8	3.8	5.5	5.5
Senegal	4.6	5.6	5.5	4.0	5.3
Seychelles	3.7	–2.0	–2.2	–1.4	–1.6
Sierra Leone	–0.9	7.4	7.2	7.4	6.5
South Africa	2.5	4.5	4.9	4.2	4.0
Swaziland	2.8	2.1	1.9	1.2	1.0
Tanzania	4.4	6.7	6.8	5.9	7.3
Togo	1.0	3.0	0.8	4.2	4.5
Uganda	5.5	5.7	6.0	5.5	6.0
Zambia	2.4	5.4	5.1	6.0	6.0
Zimbabwe	–2.4	–3.8	–6.5	–5.1	–4.7
Sub-Saharan Africa	**3.1**	**5.7**	**5.6**	**4.8**	**5.9**
Excluding Nigeria and South Africa	3.6	6.5	5.9	5.1	7.2

Data: IMF, African Department database (August 30, 2006), and World Economic Outlook database (August 30, 2006).

Curbing African inflation

Inflation is moderating, particularly in the oil-producing nations.



[1]Excluding Zimbabwe.
Data: IMF, African Department database.

Regional Economic Outlook

IMF revises Latin America growth forecast up to 4¾ percent

Latin America and the Caribbean are expected to enjoy robust growth for the third successive year, helping achieve further reductions in unemployment and poverty, according to Anoop Singh, Director of the IMF's Western Hemisphere Department. Real growth in 2006 is now projected to average about 4¾ percent—about ½ of 1 percentage point higher than the IMF forecast in the spring—and to stay in the 4 percent range in 2007, Singh told reporters in Singapore on September 16 (see table). The moderating trend over the next 12 months reflects the more measured global expansion, the projected easing of commodity prices, and the maturing of strong recoveries in several countries.

"The favorable global environment and sustained economic recovery provide the region with a rare historical opportunity."

—Anoop Singh

Singh, who mentioned that a fuller briefing on the region's outlook would be presented at the Latin American and Caribbean Economic Association meeting in Mexico City in early November, said the region continued to benefit from a favorable global environment, including strong commodity prices. Between 2002 and 2006, primary fuel and nonfuel commodity prices have risen by some 170 and 70 percent, respectively. Although higher world oil prices have placed a difficult burden on a number of countries, the broad-based boom in commodity prices has helped many countries in the region achieve large trade and current account surpluses and accumulate external reserves, he stated. Favorable global financing conditions and continuing record-low sovereign spreads have also sustained the growth momentum, notwithstanding some bouts of financial market volatility in the first half of the year.

"Encouragingly, growth has generally been quite broad-based, and domestic demand is expected to remain the main driver of the expansion in the near term. Private consumption is projected to account for more than two-thirds of regional growth in 2006 and 2007, and private investment ratios are set to increase further," Singh said.

Hard-won improvements in macroeconomic stability have provided an important foundation for the continued economic expansion and placed the region in a much better position to take advantage of global growth, he added. Inflation has remained subdued during the upswing, despite sustained increases in commodity prices. After dropping to 6 percent in 2005, inflation is projected to decline further in 2006 and drop to about 5 percent in 2007.

The favorable macroeconomic performance has been generally well grounded in better fiscal policy and declining public debt ratios. However, government spending increases have recently begun to accelerate in a number of countries, in a trend that needs to be monitored, Singh noted.

He identified several factors that could adversely affect the outlook, including a possible future tightening of global financial market conditions; a sharper-than-forecast slowdown in the U.S. economy; volatility in commodity prices; and the risk that governments in the region might not stick to macroeconomic policy discipline, potentially undermining the current economic stability.

"In this regard," Singh added, "a key risk is whether governments will be able to rein in the growth of public spending, especially if commodity-based revenues decline."

The key challenge for the region, he said, continues to be to raise growth on a sustainable basis and to share its benefits broadly to reduce poverty and improve living standards across the board. "The favorable global environment and sustained economic recovery provide the region with a rare historical opportunity to reduce resolutely its macroeconomic vulnerabilities and emerge from its history of macroeconomic volatility," Singh said. ■

Sustained expansion

Domestic demand has fueled robust growth in Latin America.

(annual percent change, unless noted)

	Real GDP				Consumer Prices[1]			
	2004	2005	2006	2007	2004	2005	2006	2007
Western Hemisphere	**5.7**	**4.3**	**4.8**	**4.2**	**6.5**	**6.3**	**5.6**	**5.2**
Mercosur[2]	**6.0**	**4.2**	**4.8**	**4.5**	**5.7**	**7.1**	**6.2**	**5.6**
Argentina	9.0	9.2	8.0	6.0	4.4	9.6	12.3	11.4
Brazil	4.9	2.3	3.6	4.0	6.6	6.9	4.5	4.1
Chile	6.2	6.3	5.2	5.5	1.1	3.1	3.5	3.1
Uruguay	11.8	6.6	4.6	4.2	9.2	4.7	5.9	4.3
Andean region	**8.0**	**6.3**	**5.7**	**4.1**	**8.4**	**6.4**	**5.7**	**6.1**
Colombia	4.8	5.1	4.8	4.0	5.9	5.0	4.7	4.2
Ecuador	7.9	4.7	4.4	3.2	2.7	2.1	3.2	3.0
Peru	5.2	6.4	6.0	5.0	3.7	1.6	2.4	2.5
Venezuela	17.9	9.3	7.5	3.7	21.7	15.9	12.1	15.4
Mexico, Central America, and Caribbean	**4.0**	**3.5**	**4.3**	**3.8**	**7.0**	**4.9**	**4.5**	**4.0**
Mexico	4.2	3.0	4.0	3.5	4.7	4.0	3.5	3.3
Central America	3.9	4.3	4.8	4.4	7.4	8.4	7.4	6.3
The Caribbean	2.6	6.1	5.6	4.8	26.5	6.7	8.3	5.8

[1]Annual averages.
[2]Argentina, Bolivia, Brazil, Chile, Paraguay, Uruguay.
Data: IMF, September 2006 *World Economic Outlook*.

How low-income countries are weathering high oil prices

With oil prices at record highs recently in nominal terms, it is perhaps surprising that countries that import oil have not come under greater macroeconomic pressure and that the demand for IMF resources has not been greater. In a new Working Paper, a team in the IMF's Policy Development and Review Department examined the effect of the recent rise in oil prices on the balance of payments and fiscal positions of oil-importing low-income countries that are eligible for IMF assistance under its Poverty Reduction and Growth Facility (PRGF). The authors found that more favorable global economic and financial conditions, strong capital inflows, and lower oil import volumes—a response to the high pass-through of world prices to domestic prices—have helped countries cope with the higher prices.

Global output and trade have been much more vigorous in the current period of high petroleum prices than they were in earlier such periods. And although nominal oil prices reached new highs in 2005–06, real prices have remained below their 1980 peak. Moreover, consistent with demand-side pressures from global growth—in contrast to the sharp supply-side shocks of the 1970s—the price rise over 2003–05 occurred relatively gradually, allowing countries more time to adjust. Low-income countries were better positioned to absorb the shock because they entered the most recent period with larger reserves—at roughly double the import-cover ratios of the late 1970s.

Strong exports and capital inflows

The current account balances of low-income oil importers declined, on average, between 2003 and 2005, although, interestingly, the decline was driven in large part by increased non-oil imports. These countries' oil import bills rose, but the increase was attenuated by a small contraction in oil import volumes. Moreover, their exports increased in response to strong world demand and fully offset the impact of higher oil prices (see table). Expressed as a share of GDP, official transfers remained largely unchanged.

During 2003–05, the capital account of the typical low-income oil-importing country registered a strong improvement that, in turn, more than offset the current account deterioration. Higher official borrowing does not explain the capital account improvement, given that averages for both new borrowing and debt stocks fell. Although greater debt relief contributed to the improvement, the main factor was an improvement in private sector transactions. Because of data weaknesses, the sources of these flows are not completely clear, but it appears that some unidentified private transfers and remittances may be included in the capital flow figures. The foreign reserve positions of oil-importing PRGF countries, on average, improved in absolute terms, although import-cover ratios fell from 4.7 to 4.2 months, on average, reflecting the spike in oil imports.

To see beyond the average figures, which mask country variations, the study divided low-income oil importers into groups based on whether oil-import volume reductions diminished their overall oil import bill, the current account improved or deteriorated, and the capital account offset any deterioration in the current account. The results suggest that low-income countries relied heavily on oil-import volume reductions to adjust to the higher prices and that other current and capital account items helped determine whether a country experienced overall reserve losses. On average, the growth rate in these countries rose from 4.2 percent in 2003 to 4.5 percent in 2005 and does not appear to have been affected by the degree of adjustment in oil imports.

Limited fiscal impact

In terms of the budget, the effect of the oil shock either was small or was offset by other fiscal developments. The average overall fiscal balance improved by more than ½ of 1 percent of GDP a year in 2003–05. The average primary deficit—which excludes interest payments and, thus, the impact of debt relief during this period—also improved moderately.

One important factor contributing to the positive fiscal outcome seems to be that most low-income oil-importing countries—which largely tax fuels and do not explicitly subsi-

On an even keel

Initially, slightly lower import volumes and increased exports helped low-income oil importers fully offset the effect of higher oil prices.

	Average changes between 2003 and 2005 (percent of GDP)		Average changes between 2003 and 2005 (percent of GDP)
Current account	–2.3	Capital account	3.0
Oil imports	–1.4	By type of flow	
Exports	1.7	Foreign direct investment	0.5
Non-oil imports	–3.6	Other investment, net	2.6
Other current account items	1.0	Other capital flows	0.0
Grants	–0.2	By recipient	
		Official sector	0.1
		Private sector	3.0
		Reserves/overall balance of payments	0.7

Note: Negative sign represents adverse balance of payments impact.

Data: IMF Working Paper No. 06/171, "Weathering the Storm So Far: The Impact of the 2003–05 Oil Shock on Low-Income Countries."

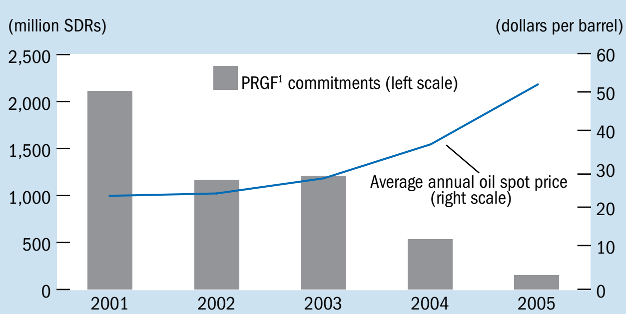
Emile Kouton/AFP

Low-income oil-importing countries, like Benin, could face more serious pressures if world oil prices continue to rise above the 2005 average price.

dize domestic retail fuel prices—passed through the increase in world oil prices to domestic prices. Domestic retail gasoline prices (in U.S. dollar terms) remained above both the world market price for crude oil and the U.S. retail price for gasoline between end-2002 and mid-2005 and, over this period, rose above the U.S. equivalent in more than three-fourths of the countries in the sample. However, regional differences remain, with African countries exhibiting the highest degree of pass-through and countries in the Commonwealth of Independent States, the lowest. High pass-through ratios for U.S. dollar prices of gasoline are largely mirrored for diesel fuel but less so for kerosene. Governments, on average, chose to soften price increases for kerosene because it is disproportionately consumed by poorer households.

Price shock

Despite sharply higher oil prices, the demand for IMF resources from low-income oil-importing countries has dropped.



[1]Poverty Reduction and Growth Facility.
Data: IMF, April 2006 *World Economic Outlook* and Finance Department.

Although fiscal balances have not, on average, been hurt by the oil price shock, quasi-fiscal liabilities may accumulate. This is especially true in the public enterprise sector, which is often not captured in central government fiscal indicators. For example, the financial balances of public utilities will deteriorate if their prices and tariffs are not adjusted as petroleum product input prices rise.

Not lining up at the IMF

The muted impact of the recent rise in oil prices is demonstrated by the low number of requests the IMF has received for new loans or augmentations of existing loans (see chart). The IMF has also seen no increase in waivers for performance criteria set under IMF programs, which countries would have requested if they had missed key financial targets because of higher oil prices. The factors described above go a long way toward explaining the limited external financing needs of low-income countries despite the oil shock.

Other broader factors may also be relevant. As is true of other forms of IMF lending, loan commitments to low-income countries have been on a downward trend in recent years, partly reflecting global economic conditions, successive rounds of debt relief, and improved country policies in some cases, as well as some countries' shift to PRGF arrangements with low levels of financing. It is also possible that some countries do not have strong enough policies to secure financial support from the IMF.

However, with world oil prices continuing to rise substantially above the average price for 2005, a number of low-income oil importers could face more serious pressures. In particular, they may have little scope to further compress the volume of petroleum imports without dampening growth. At the same time, if countries do not adjust, and higher imports of petroleum products lead to a loss of reserves, their financing needs could increase. For example, assuming an average oil price of $66.50 a barrel in 2006 and no further reduction in oil import volumes (as well as a reversal in capital flows to low-income oil importers, consistent with projections in the IMF's *World Economic Outlook*, April 2006), average reserves would be expected to fall by an additional 0.5 percent of GDP, or 1.3 percent of GDP in total. If such a scenario came to pass, more countries might turn to the IMF for financial support. ■

This article is based on IMF Working Paper No. 06/171, "Weathering the Storm So Far: The Impact of the 2003–05 Oil Shock on Low-Income Countries," by Paolo Dudine, James John, Mark Lewis, Luzmaria Monasi, Helaway Tadesse, and Joerg Zeuner. Copies are available for $15.00 each from IMF Publication Services; see page 292 for ordering information. The full text is also available on the IMF's website (*www.imf.org*).

From oil to aging: seminars tackle economic challenges

The IMF–World Bank Annual Meetings in Singapore offered more than 30 forums at which delegates and representatives of civil society organizations and private companies, as well as IMF and World Bank officials, debated a number of thorny economic and social issues. The 2006 Program of Seminars, September 16–18, covered such topics as oil prices, aging populations, Asian integration, and corporate governance. Highlights of some of the seminars follow:

Asia: trade and financial integration. Over the past decade, greater integration of trade and investment has helped Asia reestablish itself as the most dynamic and rapidly growing region in the world. But its capital markets remain fragmented: Asian companies still raise capital and invest their surplus savings in industrial countries rather than in the region.

Session moderator John Lipsky (IMF First Deputy Managing Director) noted that the "tipping point" had been reached for closer regional integration of domestic financial sectors. Among the benefits of greater financial integration, said Governor Zeti Akhtar Aziz (Bank Negara Malaysia) and Vice Minister Hiroshi Watanabe (Japanese finance ministry), are improved growth prospects through the two-way links between integration of financial and production sectors, more efficient funding and lower transaction costs, and lower risk through more stable access to capital and more diverse allocation. But, to realize these benefits, Asia needs to strengthen and harmonize financial infrastructures and strengthen arrangements for regional surveillance and liquidity support to maintain economic stability and minimize the risks of cross-border spillovers and contagion.

From a policy practitioner's standpoint, Governor Pridiyathorn Devakula (Bank of Thailand) noted the need for regional financing mechanisms, including, in the short term, efficient payments and settlements systems and trade financing instruments, and a larger role for regional banks. Watanabe stressed the importance of regional coordination but advised against efforts to standardize the systems. Zeti cautioned that the diverse region must move at its own pace, a view shared by Joaquín Almunia, European Commissioner for Economic and Monetary Affairs. He noted that closer European financial and monetary integration had spurred corporate reforms and innovation, but the process had been technically demanding and also reflected the political will for compromise and appreciation of different domestic and socioeconomic contexts.

Asia's lessons for Latin America. Asia's growing presence on the world stage has benefited the Latin American region by boosting demand for commodity exports, increasing access to low-cost capital equipment, providing important new markets, and helping lower the cost of capital in global markets. But there are also broader lessons, panelists said, noting that trade openness had contributed to Asia's success and that effective public investment in education and infrastructure had been critical in boosting growth and reducing poverty.

Encouragingly, the panelists agreed that a broad social and political consensus had emerged in Latin America and the Caribbean on the importance of safeguarding the macroeconomic stability that the region has enjoyed since the 1990s. The challenge now will be to use the currently favorable global environment wisely. Governments in countries that are benefiting from the global boom in commodity prices should save some of the windfall for when the economic climate is less favorable. The region also needs to pursue trade openness, regulatory reform, and sound macroeconomic policy frameworks.

Domestic petroleum pricing. Countries cannot assume that higher oil prices will go away—they must adjust. Boediono (Indonesia's Coordinating Minister for Economic Affairs) stressed that adjustment should be recognized as a social and political issue as well as an economic matter. Indonesia responded to the price hikes by adopting well-publicized, targeted measures to mitigate their effect on the poor.

Rodrigo Valdés (Central Bank of Chile) said that price smoothing was possible but only with carefully designed mechanisms to avoid long-term subsidies, which would result if prices were continually set too low. Chile tried various designs to stabilize domestic oil prices and now has weekly adjustments and stop-loss mechanisms that limit fiscal costs. Its efforts highlight the importance of good institutions and a strong political and social consensus for fiscal discipline.

Problems of plenty? Another side to high oil prices is that they have almost doubled Mexico's foreign exchange reserves over the past four years and have provided Norway with windfall revenues. As official assets grow to levels exceeding traditional adequacy benchmarks—"the new reality," according to Y.V. Reddy (Reserve Bank of India)—a reevaluation of the choice of the investment portfolio risk-return trade-off becomes important. He noted that the more comfort reserves provide, the greater the focus on returns. One difficulty is determining the level at which reserves are adequate and can be invested differently. For India, a key concern is the magnitude of reserve cover needed for the general external liabilities that are at the origin of India's reserves buildup.

For Mexico, the large reserves signal a comfortable financial position and offer the central bank greater flexibility, but excess liquidity must be sterilized. Mexico's main challenge, according to Governor Guillermo Ortiz (Banco de Mexico), has been the carrying costs. Governor Svein Gjedrem (Norges Bank) said that Norway, whose fiscal surplus was the largest with respect to its economy and pension needs, had created a wealth fund to distribute the windfall oil revenues to future generations.

Asia and the fiscal challenges of aging. Singapore and Korea highlight dramatically different strategies for dealing with the rising demand for pensions and medical care. Korea has introduced a European-style universal social insurance system, whereas Singapore has long mandated the use of household savings for pensions and catastrophic medical care, with the private sector principally financing health outlays. Yet neither system appears to be financially sustainable.

In Korea, the tax burden will need to rise sharply to finance the cost of pensions and medical care. In Singapore, retirees are unlikely to have accumulated enough assets to finance their retirement, let alone the costs of medical and long-term care. Thailand is moving to adopt the Korean approach but still has gaps in coverage in the rural sector. China, whose social insurance system broke down with the implementation of market reforms in the early 1980s, is only beginning to address the challenges of an aging population.

Asset management. What is the future of institutional managed money? Offering the views of a regulator and an investor of central bank reserves, Philipp Hildebrand (Swiss National Bank) said that the managed money industry was becoming bifurcated because of the low returns in today's markets. Sophisticated technology, cost considerations, and improved know-how will increasingly drive investors toward either more indexation or a high-end segment of exceptionally talented money managers—a transition that will take time because people are reluctant to admit that money managers are generally not exceptional and that investing in index products meets their investment goals more efficiently and effectively.

Fixed-income money manager Chow Kiat Lim (Government of Singapore Investment Corp. Pte Ltd.) acknowledged the low-return environment but argued that opportunities were still available in emerging market economies. Local markets with relatively liquid products and average returns will attract the interest of money managers, and opportunities will be available in less liquid products for investors with longer-term perspectives. In the long run, correlations across markets will increase, requiring more surveillance because of the potential for contagion. More controversially, money manager Marc Faber (Marc Faber Ltd.) claimed that, along with the U.S. current account deficit, low real rates and external liabilities predominantly denominated in U.S. dollars would hurt the global economy and require the U.S. Federal Reserve to monetize the external liabilities, which could lead to hyperinflation.

Global statistical challenges. To what extent have statistical initiatives contributed to financial stability, and what more needs to be done? Andrew Sheng (China Banking Regulatory Commission) and panelists agreed that the establishment in the mid-1990s of IMF data dissemination standards and subsequent improvements expanding data coverage on international reserves and external debt had boosted global financial stability. They also supported the current focus on internationally comparable sectoral balance sheet data. As for the future, Martin Parkinson (Australian Treasury) suggested improving the measurement of trade in services; Ian Ball (International Federation of Accountants) made the case for adding public sector accounting to the Financial Stability Forum's core standards; and José Manuel González-Páramo (European Central Bank) recommended developing an international standard for macroprudential indicators.

Corporate governance. What is the effect of good corporate governance in Asia? Laura Kodres (IMF), presenting an IMF study that constructed an index from accounting and market data and applied it to 41 developing and emerging market countries, found that GDP growth and productivity growth were significantly and positively related to improvements in corporate governance.

Lian Sim Yeo (Singapore Exchange Limited), offering a regulator's view, said that Singapore's corporate governance is excellent, in part, because rules and regulations are clear and enforcement is swift. But she stressed that ethical standards and leadership from the top were the keys to true corporate governance. Jose Alberto Velez (Grupos Argos), providing a firm's perspective, explained that his corporation had initially been unable to obtain external financing because of its complex governance structure and inadequate disclosure policies, which hampered accountability. After streamlining its governance structure, making accounting statements clearer, and requiring employees and corporate board members to sign ethics statements, the firm is now listed on the New York Stock Exchange and welcome in many countries. ■

Contributors: John Cady, Laura Kodres, Kanitta Meesook, Marina Primorac, and Christopher Towe. For more information about the Program of Seminars, see *http://www.worldbank.org/poss/home.htm*.

Per Jacobsson lecture

Will Asian monetary integration ever happen?

Is there a single currency in Asia's near future? Tharman Shanmugaratnam, Singapore's Minister for Education and Second Minister for Finance, weighed the prospects for Asian monetary integration in the September 17 Per Jacobsson Foundation lecture and concluded that continuing evolution toward managed floats with inflation targeting, rather than pursuit of the European model, is likely to hold the answer for Asia.

Shanmugaratnam first took stock of trade and financial integration in the region, where intraregional trade already constitutes 50 percent of total trade. And, unlike in Europe, trade integration in Asia has been a bottom-up, supply-driven process linked to the region's (and, more specifically, China's) integration with the world economy. Ten years from now—given increased foreign direct investment within Asia, a growing middle class, and development of free trade associations—60 percent of Asian trade will likely be intraregional.

Financial market integration, however, has lagged. Asian financial markets outside Tokyo are small and ill equipped, especially bond markets, and equity markets are less liquid than those in developed markets, causing Asians to look elsewhere to invest. But Shanmugaratnam expressed optimism that several complementary financial hubs may emerge as the region benefits from an easing of capital controls, more flexible exchange rates, and harmonized regulations and improved infrastructure for cross-border trading, clearing, and settlement systems.


Michael Spilotro/IMF

Shanmugaratnam supported a continued shift toward managed floats for Asia.

Alternatives to the European model

Could a common currency or pegging to a common basket foster intraregional trade, investment, and financial flows? In Shanmugaratnam's view, the European model, which started with trade and moved on to monetary integration, is not appropriate for Asia. He stressed that "Asia's strength is its diversity." The continent is diverse in income and economic structures, he said, and "this diversity is what makes intraregional trade so attractive, such a compelling economic proposition. It is also what helps the diversification of financial portfolios across Asia—but it is the same diversity that militates against monetary integration, that raises the costs of monetary integration and the risks of destabilization arising from monetary integration."

Shanmugaratnam noted that two alternatives that had been proposed each had drawbacks. Asian countries could manage their currencies against a common *currency basket*, but the transition to this system would be challenging because the loss of independent monetary policy among the diverse economies of the region would likely be destabilizing and because there is no political commitment to union, as there was in Europe. The stresses would risk not only destabilizing monetary integration but also eroding confidence in Asian trade and finance.

The second possibility was a *parallel currency*—an Asian currency unit (ACU)—that could promote a regional capital market in Asia but not represent monetary integration. It would, however, be a slow process for an ACU to be accepted in the market.

Shanmugaratnam believed the solution lay in a continuation of the evolution already under way: "a shift toward managed floats as the dominant regime in Asia," together with a movement toward low and stable inflation as the clear objective of monetary policy. This de facto move toward monetary policy coordination "is not a bad way to go," he observed. It preserves flexibility when required; allows effective exchange rates to diverge over time, reflecting countries' different rates of productive growth; and retains national ownership of policies and the agenda for change—which is essential for such change to occur. ■

Marina Primorac
IMF External Relations Department

INTERNATIONAL MONETARY FUND

Laura Wallace
Editor-in-Chief

Sheila Meehan
Managing Editor

Elisa Diehl
Production Manager

Jeremy Clift
James Rowe
Senior Editors

Ina Kota
Assistant Editor

Maureen Burke
Lijun Li
Senior Editorial Assistants

Kelley McCollum
Senior Production Assistant

Julio Prego
Graphic Artist

Graham Hacche
Senior Advisor

The *IMF Survey* (ISSN 0047-083X) is published in English, French, and Spanish by the IMF 22 times a year, plus *IMF in Focus.* Opinions and materials in the *IMF Survey* do not necessarily reflect official views of the IMF. Any maps used are for the convenience of readers, based on *National Geographic's Atlas of the World,* Sixth Edition; the denominations used and the boundaries shown do not imply any judgment by the IMF on the legal status of any territory or any endorsement or acceptance of such boundaries. Text from the *IMF Survey* may be reprinted, with due credit given, but photographs and illustrations cannot be reproduced in any form. Address editorial correspondence to Current Publications Division, Room 7-106, IMF, Washington, DC 20431 U.S.A.
Tel.: (202) 623-8585; or e-mail any comments to imfsurvey@imf.org.

To request an *IMF Survey* subscription ($120.00 annually for private firms and individuals) or IMF publications, please contact IMF Publication Services, Box X2006, IMF, Washington, DC 20431 U.S.A.
Tel.: (202) 623-7430;
fax: (202) 623- 7201;
e-mail: publications@imf.org.
The *IMF Survey* is mailed first class in Canada, Mexico, and the United States, and by airspeed elsewhere.